Annual Report 2017

Leading technology & engineering Group

Oerlikon

Oerlikon engineers materials, equipment and surfaces to enable customers' products to have high-performance functions and an extended lifespan. The Group is committed to continually investing and delivering valued technologies, products and services for customers to meet challenges in their markets. For instance, Oerlikon helps cars and airplanes use less fuel, makes tools last longer and saves energy in the manufacturing of textiles.

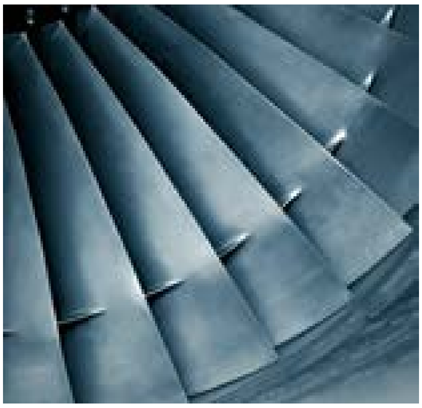
A Swiss company with over 100 years of tradition, Oerlikon operates its business in three Segments – Surface Solutions, Manmade Fibers and Drive Systems. It has a global footprint of around 15 000 employees at 186 locations in 37 countries and sales of CHF 2.8 billion in 2017.

Segments

Surface Solutions

A world-leading supplier of advanced materials and surface technologies. Over 80 years of know-how in advanced materials and surface solutions engineering for components, tools and parts used in a wide range of industrial applications where superior materials and surface performance are required.

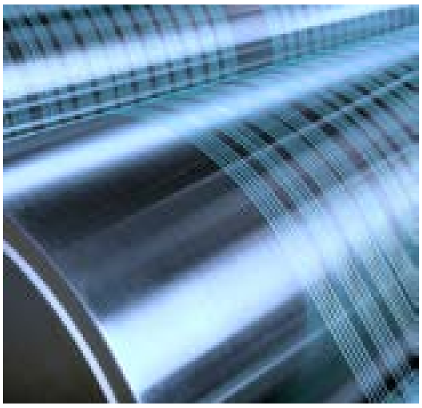
Sales (in CHF)	EBITDA margin
1 377 million	**20.0 %**



Manmade Fibers

A world market leader for solutions and systems used to manufacture manmade fibers. Over 95 years of competence in enabling customers to produce synthetic fibers, which are processed into clothing, carpets, furnishings, airbags, safety belts, industrial textiles and geotextiles.

Sales (in CHF)	EBITDA margin
740 million	**7.7 %**



Drive Systems

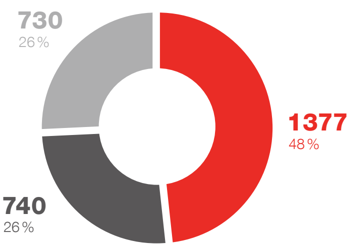
A leading global provider of high-precision gear, drives and shifting solutions. Over 95 years of experience in developing power transmission solutions for electric, mechanical and hydraulic drive applications and one of the world's largest independent full-service gear suppliers.

Sales (in CHF)	EBITDA margin
730 million	**10.6 %**

Contents

2017 at a glance

- Strong increase in Group orders and sales
- Improved Group EBITDA margin after offsetting investments in additive manufacturing
- Growth in surface solutions business: organically and through four technology-strengthening acquisitions
- Building up additive manufacturing business: added new production and R&D sites and signed new partnerships
- Substantial top-line improvement in manmade fibers business and improved operating profitability
- Significantly improved top line and operating profitability with double-digit EBITDA margin for drive systems business
- Group net income: CHF 152 million
- Raising dividend payout to CHF 0.35 per share



Sales 2017 by Segment
in CHF million

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

Share price development in 2017

- Oerlikon

Order intake (in CHF)
3.0 billion
24.5 % above prior year

Sales (in CHF)
2.8 billion
22.1 % above prior year

EBITDA margin
14.6 %
0.3 % points above prior year

Result from continuing operations (in CHF)
146 million
78.0 % above prior year

Operating cash flow[1] (in CHF)
[1] Before changes in net current assets.
405 million
50.6 % above prior year

Net cash (in CHF)
499 million
24.4 % above prior year

Earnings per share (in CHF)
0.44
61.4 % below prior year

Dividend proposal (in CHF)
0.35
16.7 % above prior year

Letter from the Chairman

Dear Shareholders

2017 was a successful year with strong results for Oerlikon. The ongoing expansion in global economic activity provided a favorable backdrop for growth in all our end markets. Our strategy and technology leadership enabled Oerlikon to take advantage of market opportunities by increasing both orders and sales, as well as improving operating profitability.

Thanks to our strong performance, we raised our financial guidance twice during the year. Our share price positively reflected our progress and development, and we outperformed both Swiss and industrial indices. While we plan to continue investing in our core areas to ensure mid- and long-term growth, we also remain committed to returning value to our shareholders. Based on the performance we delivered in 2017, the Board of Directors will recommend a dividend payout of CHF 0.35 per share at the upcoming Annual General Meeting of Shareholders (AGM), an increase of 16.7 % over the prior year.

Strong fundamentals
Oerlikon has been providing advanced materials, surface technologies and services for more than 80 years. As a technology leader with exceptional engineering skills, we are adapting to a broad range of industry and market changes and challenges. The business strategy that we introduced two years ago is starting to pay off, and we are well positioned to serve our key industrial sectors and growth markets, as well as better meet customers' needs. Today, Oerlikon is in good shape with strong financial and market fundamentals and a strategy that will enable us to sustain performance and profitability over the mid- and long-term. But, there are always areas of improvement and untapped opportunities that can drive further growth.

We are building the future of Oerlikon on its unique competencies and well-established competence brands. As an industry leader in surface solutions worldwide, we offer one of the most complete portfolios of surface technology, ranging from standard to tailored solutions. We have an in-depth understanding of the properties of materials, such as powders and wires, down to the smallest detail. They are used in many industries to strengthen, protect and improve surfaces. We are now bringing our comprehensive know-how in these fields to the additive manufacturing (AM) market. With many years of experience in advanced materials and surface engineering, we thoroughly understand the needs of our customers and enjoy trusted relationships with many of the world's largest industrial leaders. All major aero engine manufacturers and over half of the world's largest automotive brands trust Oerlikon's technologies.

Engineering expertise in materials processing is another key competence for Oerlikon; that is, in the design and development of high-performance industrial components and processing systems. For our AM business, we have made important steps to strengthen our position as a market leader in delivering end-to-end services along the entire value chain — from design and prototyping to production and post processing. We are a market leader in polymer processing systems used by our customers to manufacture, spin and texturize manmade fibers.

Drawing on our unique competencies, we are executing on three growth drivers: we target attractive growth markets and industries; we establish Oerlikon as a structural growth company; and we expand our offerings through M&A opportunities.

Targeting attractive markets and industries
Over the past two years, we have closely aligned our technology offerings with our customers' needs in all identified core growth industries: aerospace, automotive, tooling, general industries, energy, apparel and industrial textiles, and agriculture.

Our key markets are expected to grow over the next five years. The automotive industry, for instance, will be undergoing significant and disruptive changes in the years to come. Worth more than CHF 4 billion at present, the automotive market targeted by Oerlikon is estimated to have a compounded average growth rate (CAGR) of around 4 % to reach over CHF 5 billion by 2022. To seize these growth opportunities, we are partnering closely with customers to engineer next-generation components and solutions to meet the challenges ahead. This industry needs advanced materials and coatings to help reduce weight, fuel consumption and emissions, while facilitating new design solutions — all areas where Oerlikon excels.

In addition to our core markets, we will focus our business development efforts on eight key geographical regions: We will increase our engagement in China, France, Germany, India, Japan, Russia, South Korea, and the USA.

Focus on structural growth
At Oerlikon, we will generate structural growth through closer collaboration with our customers and markets, enhancing our technology leadership, strengthening regional footholds, expanding our value chain, improving operational excellence and entering new markets such as AM.

In 2017, we made four acquisitions to add promising technologies to our portfolio and reinforce our position in attractive markets. For instance, Scoperta, a highly innovative materials development company. This acquisition enables us to develop new customized industrial materials with proprietary technologies at faster speed to market. To further cultivate innovation capabilities across the Group, we have created a Group CTO (Chief Technology Officer) position as a member of the Executive Committee. I am particularly pleased that Dr. Helmut Rudigier, our long-standing CTO of the Surface Solutions Segment, agreed to take on this important role.

Being closer to customers means short response times, rapid delivery and close cooperation, which, in turn, speeds up our customers' time to market. Today, we operate 186 sites in 37 countries — including 58 R&D and production sites and 180 sales and services sites. We will continue expanding our footprint and presence in key markets and regions to provide services to customers right on their doorstep.

In today's digitalization-driven era, manufacturing companies are exposed to many advanced technology developments such as big data, automation, robotics and additive manufacturing. We regard AM as a central factor and physical arm of Industry 4.0. For Oerlikon, AM represents the logical step from surface to structure, where we are leveraging our core competencies and technologies in advanced materials, surface engineering and materials processing. AM offers numerous advantages in component design, lower design cost, lead time reduction and performance enhancement. AM is set to become an important technology for increasing productivity and raising manufacturing competitiveness, opening up the possibility of retaining or even strengthening manufacturing in engineering-driven regions such as Europe and the USA. For us, AM is an investment in the mid- and long-term future of Oerlikon, and we will continue to build up our AM business via investments in new research, materials and production centers, technology acquisitions, and by establishing partnerships with other leading AM industrial players, academia, governments and industry associations.

We will accompany our market initiatives with improvements in our business and operations. Our restructuring efforts and effective cost management over the past two years have enabled us to successfully turn around our business. Going forward, we will continue to exercise care and discipline in managing cost while improving our operational excellence.

Key success factor: One Oerlikon team

The success of a company is all about people. I would like to thank every employee, team and our leaders for their dedication and strong performance in 2017. We have greatly raised our HR standards, processes and know-how under Anna Ryzhova, Chief HR Officer. The HR team accelerated talent management systems to advance expert careers. We launched fast track programs and created a more involved work culture that fosters employees' personal growth. The result was visible in the employee engagement survey, in which almost 80 % of our staff participated. This is a clear indication of our people's motivation and eagerness to contribute to Oerlikon's bright future.

Building on success drivers for mid-term growth

Oerlikon is well positioned to build further value by capitalizing on its strong financial, technological and market foundations. We have set our strategic course for growth and will continue leveraging our key competencies and success drivers to ensure ongoing expansion.

For our surface solutions business, we expect to deliver 4-6 % revenue CAGR and an attractive EBITDA margin of 20-22% over the next five years. Moreover, and as communicated in 2016, we will continue to establish our AM business as a core pillar in our portfolio in the years to come. We also see growth opportunities in our Manmade Fibers and Drive Systems Segments. 2017 was a turnaround year for both Segments, as repositioning and restructuring measures enabled them to occupy stronger market positions and secure wins in their respective recovering end markets. Overall, we are building a strong company — one that can deliver mid- and long-term value to our employees, our customers and other stakeholders.

To conclude, I would like to once again thank all employees at Oerlikon, the management team and my colleagues on the Board for their hard work and strong commitment. In particular, I would like to thank Dr. Roland Fischer, for building an excellent team and leading Oerlikon to its successful performance in 2017. I would also thank our customers and business partners for their loyalty and close ties. And, finally, I would like to thank you, our shareholders and investors, for placing your trust in Oerlikon and for supporting us as we execute the next steps in our strategy and focus resolutely on ensuring that Oerlikon reaches its next level.

March 6, 2018

Best regards

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

Letter from the CEO

Dear Shareholders

2017 was a year of significant progress and profitable growth for Oerlikon, in which all our Segments contributed to our strong performance. Our strategy execution gained solid traction as world economies and most of our end markets strengthened with expanding global trade and growing confidence, which led to more investments in capital goods, machinery and services. The increase in demand for our technology resulted in a substantial increase in our 2017 orders and sales.

In 2017, Oerlikon's orders increased by 24.5 % to CHF 3.0 billion (FY2016: CHF 2413 million), while Group sales improved by 22.1 % to CHF 2847 million (FY2016: CHF 2331 million). At constant exchange rates, Group sales in 2017 was CHF 2829 million. Group EBITDA was higher at CHF 415 million, corresponding to an improved operating profitability margin of 14.6 %, even taking into account and absorbing our significant investments for the ramp-up of our additive manufacturing (AM) business. The net income for 2017 amounted to CHF 152 million and earnings per share was CHF 0.44. Compared to 2016, where the net income was positively impacted by the divestment of the Vacuum Segment and stood at CHF 388 million, the net result was around 60 % lower. Excluding the divestment, the 2017 result from continuing operations improved by 78.0 % year-on-year to CHF 146 million. With an equity ratio of 45 %, the Group's financial position remained strong in 2017. The net cash position at the end of the year amounted to CHF 499 million and cash flow from operating activities before changes in net current assets was CHF 405 million. The Group's return on capital employed (ROCE) was at 8.2 %. In December 2017, we exercised the optional one-year extension of our five-year unsecured syndicated credit facility of CHF 600 million. In doing so, we maintain a strong financial base to further invest in our core strategic businesses and new technologies, such as AM, and to support our future growth.

Strengthening technology leadership

In 2017, we continued to invest in our growth. Two key areas of focus in that respect are innovation and R&D. We further strengthened our technology leadership through targeted acquisitions that enhanced our portfolio in the field of advanced materials, surface technologies and materials processing. By acquiring Scoperta and Primateria, as well as the assets of Recentis Advanced Materials, DiaPac and Diamond Recovery Services (DRS), we gained strong complementary expertise for materials software development, materials manufacturing and processing, application and recovery/recycling. Additionally, we benefited from an expansion of market access in the oil & gas, metal matrix composites and US powdered metals industries. The acquisition of Scoperta, for instance, gives us the ability to develop materials in a fraction of the time as compared to conventional methods. DiaPac provides us with high performing metal powders, wear-resistant surface coatings and cemented carbides for use in oil & gas, mining, construction, agricultural and manufacturing operations. DRS adds hard materials and environmentally complementary recovery services that are applied across a broad spectrum of applications. Finally, Recentis Advanced Materials from Canada enables us to manufacture materials at high temperatures and purity, opening up new applications in key markets such as oil & gas, mining, steel, power generation and aviation. The acquired companies and technologies provide us with important know-how to more effectively address needs from customers and in promising markets.

The continuous efforts to develop our technologies have resulted in a leading metal- and ceramic-based materials portfolio, as well as a highly comprehensive portfolio of surface technologies. In 2017, we filed 91 patents and invested 4 % of our total sales in R&D. With Dr. Helmut Rudigier joining the Executive Committee as Group Chief Technology Officer (CTO), we ensure that innovation and R&D remain of highest importance in the future development of the company.

Continued growth in surface solutions

The Surface Solutions Segment continued to be the main revenue and income generator for the Group, and delivered strong results in 2017. The double-digit top-line growth and an EBITDA margin of 20.0 % was attributed to both organic growth in strong end markets, such as automotive, aerospace, general industries and tooling, and targeted acquisitions that strengthened our competitiveness. In addition, we expanded our partnership network. The main focus here was on building up a powerful AM network that closely collaborates in order to advance the industrialization of AM. Partners who joined forces with Oerlikon in 2017 included the Technical University of Munich in Germany and the Skolkovo Institute of Science and Technology in Russia. Additionally, a five-year collaboration agreement was signed with GE Additive, whereby GE will provide additive machines and services to Oerlikon, while Oerlikon becomes a preferred AM component manufacturer and materials supplier to GE Additive and its affiliated companies. Furthermore, GE and Oerlikon agreed to collaborate on research and development of additive machines and materials. To discuss and interact with leading experts in AM, Oerlikon hosted the 1st Munich Technology Conference on AM, where over 600 participants and more than 30 top speakers from industry, academia and governments came together to discuss key trends and developments in AM and its industrialization.

Our leading global service network is built on customer proximity, and we are continuously expanding our presence in core markets and industries. In 2017, we started constructing the new materials manufacturing facility in Plymouth Township, Michigan, USA, dedicated to producing advanced materials for additive manufacturing and high-end surface coatings. In addition, we are building an R&D and production facility for AM components in Charlotte, North Carolina, USA, and an automotive and tooling competence center in Nagoya, Japan, for a new automotive customer and to provide the latest surface solutions to the Japanese automotive industry. Other site additions in 2017 included the opening of the Technology & Innovation Center for AM in Munich, Germany, an in-house coating center at IMCO Carbide Tool's facility in Perrysburg, Ohio, USA, and a customer center in Malaysia. The Pune India plant was also expanded and upgraded to offer the latest generation of tool coating technology.

In 2017, we also launched promising new technologies and products. The Surface Solutions Segment introduced, among others, BALIQ® UNIQUE to provide color-coding functions for the tooling market, and BALIFOR™, the smart solution for high-performance automotive applications, as well as new coating solutions for heating devices and brake disks for electric cars. For the aerospace market, BALINIT® TURBINE PRO, a coating to provide a high degree of hardness and tenacity against abrasive wear and erosion even under high thermal conditions (e.g. in aircraft turbines) was also brought to the market. In addition, Surface ONE™, Oerlikon's latest, industry 4.0 and IIoT-ready (industrial internet of things) thermal spray coating system was launched. With Surface ONE, customers can significantly boost process efficiency and productivity thanks to the machine's improved usability, standardized design, compact and mobile construction, and excellent safety features.

Substantial increase in top-line in manmade fibers

The Manmade Fibers Segment saw substantial recovery in sales and orders in 2017 and improved the EBITDA margin. The top-line improvement was largely driven by the strong recovery in the China-led filament equipment market, but also supported by increased business in staple fibers, texturing (DTY) and bulked continuous filaments systems (BCF – carpet yarn). The Segment's improvement in operating profitability has come about as a result of its strong sales development, as well as its initiatives to improve flexibility, the quality of work, processes and customer projects, while maintaining strict cost discipline. The improvement in operating profitability was achieved despite the increased costs from ramping up production, capacities and investments in a turnaround year. In 2017, the Segment secured a large order for building a filament spinning plant for special yarns, including polycondensation equipment technology. We also opened a service center in India to better serve local customers' needs, and a branch in Neumünster, Germany, focused on developing the nonwovens business globally. Building for the future, the Segment entered into a strategic partnership in 2017 with the Italian company Teknoweb Materials, in order to extend our nonwovens production systems portfolio into the attractive high-growth market for disposable nonwovens.

Improved top-line and double-digit EBITDA margin

The Drive Systems Segment successfully turned its business around in 2017 thanks to its repositioning efforts. It achieved a noteworthy and substantial increase in orders and sales, and improved its operating profitability to a double-digit EBITDA margin for the year. The results are supported by the gradual recovery in most of the Segment's end markets. The Segment was able to gain new customers and projects in agriculture, its most important market, with new wins in Brazil and India. Demand for our technologies also increased in construction and in transportation. In the China public transportation sector in particular, the Segment managed to gain market share and is becoming a market leader for low-floor city-bus axles in China. In automotive, the Segment introduced new technologies to reinforce its position in e-drives, such as its modular dedicated hybrid transmission systems. The Segment won in 2017 key automotive e-drive projects and is partnering with leading automotive brands in Asia on electric drive projects for passenger cars.

Deliver further profitable growth

Looking ahead, we expect the positive momentum in global economies and end markets to continue in 2018, while recognizing that certain risks remain, including political changes in the EU, uncertainty about US interests and politics, and questions about economic growth in Asia. Even so, the macroeconomic outlook is generally favorable. As our strategic initiatives bear fruit, resulting in profitable growth and allowing us to capture new opportunities for our business, we are convinced that we can build on this successful development to deliver further profitable growth in 2018. We expect order intake in 2018 to increase up to CHF 3.4 billion, sales to be around CHF 3.2 billion, and EBITDA margin, after investments, to improve to around 15 % .

In 2018, we will continue to take further steps in executing our strategic focus areas. We will work at extending our market leadership based on our unique competencies, strengthening our presence in attractive end markets and industries, pursuing technological leadership and innovation, and achieving business and operational excellence. This will help us to strengthen the value we provide to customers and drive profitable growth.

In closing, I would like to personally thank each of our employees for their ongoing dedication and efforts; our customers for the trust they place in us to deliver value-added technologies and services, and also to thank you, our shareholders, for your continued support of Oerlikon.

March 6, 2018

Best regards

Dr. Roland Fischer
Chief Executive Officer

Key competencies

Advanced materials

Broad portfolio of advanced materials

Oerlikon understands the properties of materials at the smallest scale and is a world-class materials manufacturer of metal- and ceramic-based powders and wires for coatings and other industrial applications. Oerlikon provides hundreds of diverse products, including thermal spray coating materials, auxiliary products and materials specifically for additive manufacturing.

Competence areas

- An industry leader in abradable materials.
- A broad range of metals, composites, carbides, cermets and ceramics.
- Computational designed metal alloys.
- Extensive in-house materials manufacturing expertise and technologies.
- R&D facilities for rapid tailoring:
  - Novel materials for new applications
  - Materials with improved performance
- Materials optimized for various surface technologies, AM and other industrial processes.
- Standardized and customized materials.

Surface solutions

A market and technology leader in surface solutions

Oerlikon offers one of the most comprehensive portfolios of surface technologies. Together with customers, Oerlikon develops customized solutions for multiple industries from the coating of large components to high-precision tools. Customers can choose from a standard portfolio or order customized materials and surface solutions for their specific applications.

Competence areas

- Comprehensive surface solutions portfolio including PVD, PACVD, thermal spray, thermal diffusion, cladding, weld overlay, nitriding, frictions systems, reconditioning and additive manufacturing.
- Enabling more than 20 coating functionalities such as thermal, wear and environmental protection, clearance control, scratch resistance, thermal stability, chemical stability, anti-sticking, anti-reflection, decorative enhancement, protection against surface fatigue, conductivity, insulation, permeability control, capacity sensing, radar transparency, etc.

Materials processing

Unique engineering expertise in materials processing

Oerlikon offers comprehensive know-how in the design and engineering of high-performance industrial components and processing systems. In surface solutions, Oerlikon delivers leading coating and surface treatment systems. For AM, Oerlikon offers end-to-end services: from design and prototyping to production and post-processing. The additively designed and manufactured products can be individualized components, prototypes or series production parts. In polymer processing, Oerlikon provides an extensive range of products and engineering solutions for the entire manmade fibers' value-added chain.

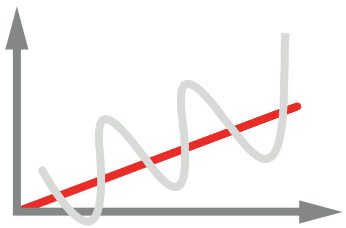
Competence areas

- Leading portfolio of thin-film, such as INAURA, INLENIA, INNOVENTA mega, INNOVA, INGENIA, METAPLAS. DOMINO, INUBIA, RS 90 and thermal spray systems and spray guns.
- Integrated AM solutions along the entire AM value chain: from atomization and applications engineering to additive production, testing and quality assurance. Backed by a strong portfolio of surface technologies, advanced AM-tested materials, deep expertise in the design and engineering of industrial, metal-based components, and a global service network.
- A world market leader in the development and production of spinning, winding and texturing systems and equipment for manmade fibers such as polyester, nylon and polypropylene.

Mid-term growth strategy

Advanced materials, surface solutions and materials processing remain key enablers for productivity and efficiency gains in many industries and for a broad range of applications. Building on Oerlikon's broad and versatile portfolio of advanced materials, surface technologies, processing equipment and services, as well as its global footprint, the growth opportunities for Oerlikon technologies are extensive. In order to propel and sustain profitable growth, the company focuses on three key growth drivers: addressing growth markets and industries, becoming a structural growth company and expanding through targeted M&A.

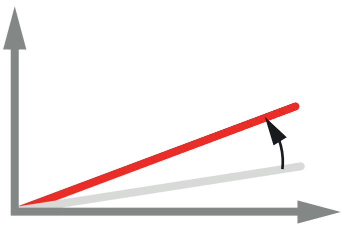
Three key drivers of profitable growth



Mid-term market growth CAGR 2018–2022*

Addressing growth markets and industries
Oerlikon targets markets with attractive opportunities and growth potential. Despite the challenging and, to a certain extent, cyclical nature of some of the industrial markets, the overall development of these markets depicts an upward trend. By addressing the needs of these markets, Oerlikon provides technologies and solutions to address structural, societal and industrial trends such as the increasing demand for mobility, energy and infrastructure.

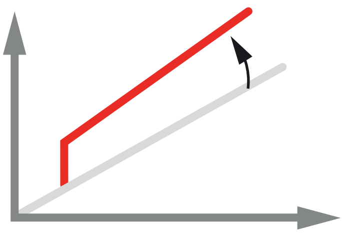
- **4–5 % Aerospace**
- **2–3 % Automotive**
- **~3 % General industry**
- **~3 % Tooling**
- **~1–2 % Energy**



A structural growth company

Securing steady growth as a structural growth company
In order to secure stable performance and minimize the impact of challenging developments in certain end markets, Oerlikon needs to secure structural growth. The Group will realize this by focusing on six areas: closer alignment with and improving value propositions for customers, developing new and better technologies and products through R&D and innovations, strengthening foothold in regional markets, extending expertise along the value chain, improving excellence in operations, and transferring technologies into other new attractive markets.

- **Align solutions to customer & market needs**
- **Expand technology leadership**
- **Strengthen foothold in regions**
- **Value chain expansion**
- **Improve operational excellence**
- **Enter new markets: additive manufacturing**



M&A Opportunities

Expanding through targeted M&A
Oerlikon is using its solid financial foundation (unlevered balance sheet, strong net cash position and continued free cash flow generation) to support its structural growth by financing targeted M&A activities. The M&As will add new and innovative technologies to Oerlikon's portfolio, strengthen its market position, increase its market share in attractive regional markets or allow it to enter promising new industries.

- **Access new customers & industries**
- **New & adjacent materials & technologies**
- **Geographical expansion**
- **Value chain integration**
- **Thermal spray service business**

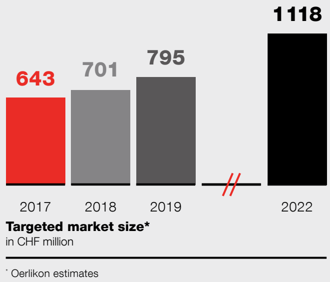
*These are projected industry growth rates from sources including company reports, Bloomberg, Thomson Reuters, McKinsey and others.

Industrial markets

The demand for Oerlikon technologies is fueled by the need for better performance, efficiencies and sustainability. In the mid term, Oerlikon's key markets are expected to grow. To seize growth opportunities, Oerlikon is addressing engineering, technology and service challenges in each market in close cooperation with customers.

Aerospace

Every major aero engine manufacturer trusts Oerlikon technologies to boost performance, improve safety and fuel efficiency and control emissions.



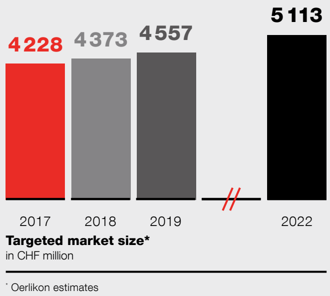
5%

Thermal spray abradable coatings applied as clearance control solutions increase engine safety and boost efficiency by up to 5%

The commercial aerospace market is driven by passenger traffic growth that has exceeded 6% year-on-year for the past five years. Improved global economic conditions, income growth and strong MRO demand are supporting that trend. Boeing recently forecast that revenue passenger kilometers will grow 4.7% per year over the next 20 years, requiring 41000 new airplane deliveries to support market growth and aging aircraft replacement.

Automotive

More than half of the world's top ten car manufacturers use Oerlikon technologies to increase component lifetime and reduce fuel consumption.



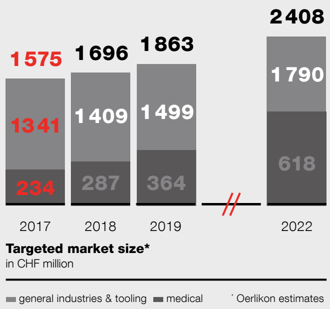
2% to 4%

Coatings applied to cylinder bores result in low friction, low oil and fuel consumption (2% to 4% savings), reduced wear and increased corrosion resistance

Industry analysts forecast that global light vehicle sales could total 93.5 million units in 2017, representing a 1.5% increase over 2016. Yet, even with continued growth, there is little room for complacency in the automotive industry, as it contends with profound disruptive forces including rigorous emission standards, the move to lighter, more efficient vehicles, the need for diverse powertrain solutions including for battery and fuel cell electric vehicles, and the demand for connectivity and digitalization – all adding to the cost of manufacturing cars for OEMs and suppliers.

General industries and tooling

The world's leading and most respected tool manufacturers apply Oerlikon technologies to improve tool productivity and lifetime.



50×

Coated punch and die tools to produce safety belt latches have an extended lifetime of up to 50 times longer and provide perceptibly better surface and cut quality than non-coated tools

Size estimates for the global machine tool market in 2020 are as high as USD 120 billion, suggesting a CAGR of more than 6%. While that view appears to be high, the recent pickup in industrial production across a number of industries in 2017 lends support to that optimism. The category of general industries encompasses a broad range, including consumer goods, medical, food packaging and engineering. Overall CAGR for general industries from 2018 to 2020 is estimated at 3.4%.

Industry challenges
- Improve engine performance and efficiency to reduce fuel consumption and meet CO_2 emission standards
- Enable hot engine components to operate at higher temperatures to improve efficiency and extend lifespan
- Meet demanding landing gear requirements for new-generation aircraft, while replacing noxious hard chromium process
- Reduce weight and production cost of complex engine parts, structural components and replacement parts

Solutions
- Oerlikon's abradable coatings are used in engines to seal the gas path, improving performance, increasing safety and decreasing fuel consumption. Thereby, reducing CO_2 generation and NO_2 emissions
- Thermal barrier coatings used in combustor and turbine sections of engines protect underlying materials from temperatures that these substrates could otherwise not tolerate
- The noxious hard chromium process for plating landing gears can be replaced by Oerlikon's high-velocity oxygen fuel thermal spray coatings, while delivering superior performance and safety
- Additive manufacturing has been identified as the technology ideally suited to achieve weight reduction and to increase design complexity of aerospace parts for improved functionality
- Decorative coatings and color coatings for cockpit components are offered by Oerlikon

Industry challenges
- Reduce fuel consumption, emissions and vehicle weight, for example, using smaller, lighter engines
- Smaller engines improve fuel efficiency but their fewer cylinders are under higher pressure and cause stress on smaller parts, while exhaust gas recycling, start-stop systems and turbo chargers create engine corrosion issues
- Modern, higher torque transmission systems offer increased performance but have more gears, presenting synchronization and friction challenges
- An emerging issue is the environmental impact from the high level of fine dust caused by brake discs
- The look of chrome appeals to customers but chromium plating is noxious and environmentally damaging
- Increasing demand for e-mobility and battery solutions

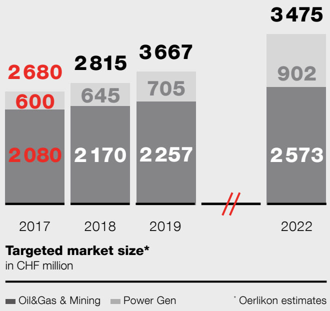
Solutions
- Oerlikon coatings improve the performance and durability of engine components by reducing friction and wear, thereby improving fuel and oil efficiency and lowering emissions
- For smoother-shifting transmissions, Oerlikon offers synchronizer and friction reduction technologies that increase performance, lower weight, improve wear resistance and lower costs
- Using Oerlikon coating technologies can strongly reduce air pollution while increasing the durability of brake discs
- Oerlikon's ePD technology provides environmentally friendly, eye-pleasing and chrome-look plastic metallization
- Oerlikon offers coating solutions for new parts and components (e.g. molds) required for e-mobility

Industry challenges
- In tooling, stable tool life is a critical aspect of a stable production process to ensure quality, performance, productivity and the overall factory output
- In manufacturing, there is an overall need to minimize friction, reduce wear and enhance reliability across a range of products, equipment and machinery
- In the medical (including dental) market, biocompatibility are essential for positive outcomes

Solutions
- Standardized and customized coatings from Oerlikon can help increase the hardness and strength of the underlying material, and at the same time provide wear, friction and corrosion protection. Coatings are thus highly effective for preserving and extending the useful life of tools and components, and for improving the performance, reliability and throughput of machine tools, even those that need to withstand high temperatures and pressures
- Coatings can overcome the challenge of mechanically engineered components that operate under extreme conditions such as high loads, rapid sliding speeds or poor lubrication
- Oerlikon coatings on surgical tools and parts increase survival and success rates by enabling critical functions such as antiglare and improved biocompatibility and durability of in-body parts and implants

Energy

The world's largest energy turbine producers improve the efficiency of their products while reducing negative environmental impact with Oerlikon technologies.



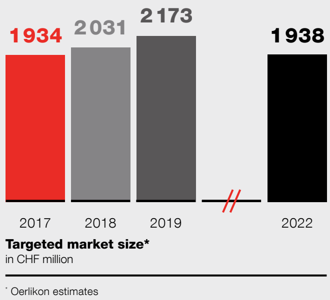
2×

PVD-coated compressor blades last twice as long as uncoated versions

In their World Energy Outlook 2017, the International Energy Agency forecasts that global energy needs will expand 30 % by 2040, or on average 3.4 % annually, based on existing energy policies and announced plans, given the assumptions that the world population grows to 9+ billion by 2040, and that urbanization adds a Shanghai-sized city every four months. They also project that natural gas will lead in meeting these needs, with natural gas use rising 45 %, while oil demand grows at a decreasing pace, and coal consumption stays flat.

Apparel & industrial textiles

22 of world's 25 largest manmade fibers producers trust Oerlikon technologies.



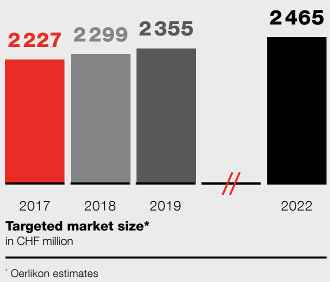
30 %

Energy savings of up to 30 % is possible in manmade fibers production compared to competing systems

In its World Survey, The Fiber Year reported that the world fiber market reached 101.4 million tons in 2016, with manmade fibers at 71 million tons. This is an impressive growth from 14 million in 1980 and reflects a 4.6 % annual growth rate. Apparel, home textiles and technical textiles are end markets for manmade fibers and served by Oerlikon. Within the overall market, nonwovens and staple fibers are expected to see the best growth rates through 2022 – with CAGRs of 17 % for nonwovens and 5 % for staple fibers.

Agriculture

Approximately 70 % of all agricultural machinery manufactured worldwide contains Oerlikon's Shifting Solutions.



1 million

Synchronizers are produced annually by Oerlikon for use in tractors, construction equipment, passenger cars and trucks

In their 2017 Agricultural Outlook, the UN and OECD projected that the world population will reach 8.2 billion by 2026. At the same time, they expect agricultural markets to face flat or declining commodity prices and remain weak, while future growth in crop production will be attained mostly by increasing yields. To achieve this, the agriculture industry is pressured to be more efficient and productive, leading Grand View Research to project that the agriculture equipment market will reach USD 243 billion in 2025, suggesting a robust CAGR of 7 %.

Industry challenges
- Increase turbine efficiency and reduce maintenance intervals in gas turbines, hydropower and oil & gas plants
- Protect vital oil & gas exploration components operating in the harshest environments including maintenance-free solutions and also extending the life and efficiency of gas and steam turbine components
- Reduce corrosion and erosion in turbine components caused by silt, sand and gravel in hydropower projects
- Prevent wind turbine standstills caused by wear, corrosion and fatigue resulting from extreme weather conditions and offshore challenges such as salt buildup
- Prepare for the future by improving the efficiency of technologies for nonrenewables like oil & gas and promoting renewable energy technologies

Solutions
- Oerlikon's customized solutions of coatings, materials and equipment are tailored for gas, steam, hydro and wind turbines, as well as for oil & gas applications. They help preserve equipment, increase energy efficiency and extend the useful lifespan of components, parts and tools
- In collaboration with researchers and universities around the world, Oerlikon is working to create advanced solutions for the new future of energy and to develop products with superior functionalities

Industry challenges
- Fulfill the growing need for apparel and home textiles that comes with population growth
- Meet the increasing demand for functional and industrial textiles as well as geotextiles in a broad range of industries, such as electronics, food packaging, functional wear, infrastructure and transportation. The use of manmade fibers is on the rise as they are gaining recognition as a more environmentally friendly fiber alternative that can also provide better features such as elasticity and heat retention, as well as new functionalities such as water resistance
- Improve quality and increase efficiency in production while reducing labor costs and maintenance downtimes
- Reduce space and use of energy in production

Solutions
- As a world market leader for systems used in the manufacture of manmade fibers, Oerlikon is the only company with the know-how to offer a complete manmade fiber spinning system from a single source – from melt to yarn, fibers and nonwovens
- Oerlikon's optimally designed equipment supports the balance between cost reduction, production efficiency and consistent quality while enabling the reduction of energy consumption and a smaller equipment footprint
- Oerlikon's engineers offer decades of experience with technologies used in filament and fiber production worldwide

Industry challenges
- At a time of reduced labor availability and higher labor costs, farmers must improve crop production and yields to compete effectively and ensure a return for their business
- Farm equipment manufacturers must continue to innovate to remain competitive (reduce operating and maintenance costs of agriculture equipment)

Solutions
- Oerlikon's coatings are relied on to coat differential housings and bevel sets to improve the mechanical features of components used in agricultural machinery
- The latest technologically advanced farm equipment is more productive, energy efficient and cost-effective; Oerlikon's in-house engineering and manufacturing expertise in developing innovative drive technologies for the propulsion or rotation of mobile vehicles and industrial equipment have led to safe and efficient drive solutions, such as Shifting Solutions™ and hydrostatic drives for self-propelled spray tractors

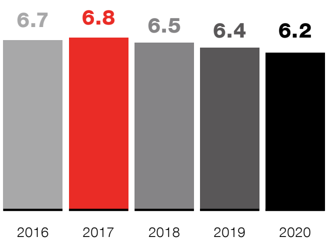
Geographical regions

Global economic acceleration has surpassed forecasters' expectations — and in 2017 was more broad-based than at any time since the start of the decade. In its World Economic Outlook report, the International Monetary Fund raised its widely referenced forecast for world economic growth to 3.6 % in 2017 and 3.7 % in 2018, a meaningful acceleration from 3.2 % growth in 2016. The favorable economic climate is consistent across developed and emerging economies alike. Among the world's ten largest economies, forecasters expect only the United Kingdom to endure slowing growth in 2017 and 2018 as inflation rises and the pound depreciates, triggered by Brexit.

Oerlikon is favorably positioned to take advantage of growth opportunities across key end markets worldwide. Attractive opportunities abound in the automotive and heavy machinery sectors globally. Aerospace is particularly strong in France, Germany, Japan and South Korea. In India, growth remains on the upswing. Although the economy in China may slow modestly in 2018, the government is investing further in infrastructure, aerospace and automotive industries, among others, while supporting development in innovation and services.

China

China continues to progress along a positive economic trajectory, with private consumption driving a higher share of growth than government spending and investment. Despite bureaucratic complexities and insufficient protections for intellectual property, most business condition indicators in China have improved and key end markets important to the Group remain attractive. China is the world's largest market and production site for manmade fibers, a market that is expected to grow at a compound annual growth rate (CAGR) of 5 % from 2018 to 2022. Foreign investment in China has also been extended into the aviation sector, which is projected to grow at a 6 % CAGR. In addition to aerospace, potential strong areas of growth include automotive, where an increasing number of top-tier producers are either starting or expanding production, and e-mobility, which is expected to grow because of environmental pressures and government incentives.

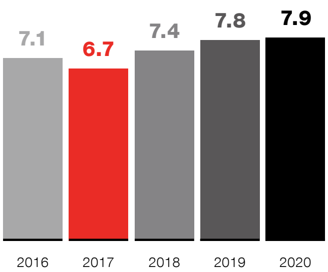


China's GDP development*
in %

* Reported and estimated by the IMF.

India

Against the backdrop of India's continued transformation from an agricultural to a manufacturing and serviced-based economy, business conditions have largely stabilized despite ongoing challenges posed by complex tax regulations and corruption. Historically high inflation rates are expected to remain moderate, terms of trade have shifted favorably as the Indian rupee has steadied, and India's current account deficit is declining as the country's exports become more competitive internationally. The Group anticipates an 11 % CAGR in the automotive market, with local producers becoming more competitive. The market for polyester fibers is poised to grow by 10 % over the next five years. Bolstered by increasing efficiency in the agriculture sector, the market for heavy equipment machinery is projected to grow at an 8 % CAGR over the next five years.

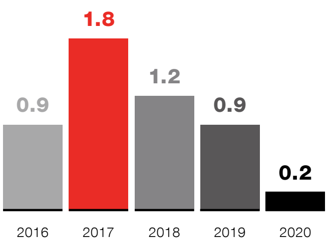


India's GDP development*
in %

* Reported and estimated by the IMF.

Japan

Japan has exited its recession and there are signs for economic optimism. Although taxes and labor regulation remain as challenges, a current account surplus, high foreign exchange reserves and solid import coverage are contributing to a strong external position. Boosted by increased travel, for example, the MRO segment of the aerospace market is forecast to grow by a CAGR of 5 % through 2022. Following a sharp contraction in 2014 and 2015, the industrial and machinery tooling market is expected to grow at a CAGR of 2 % over the next five years as Japan's manufacturing industries recover from years of declining demand both at home and abroad. Following global economic recovery, the Japanese automotive industry, one of the largest in the world, recorded production growth for cars in 2017, and is expected to remain an attractive automotive manufacturing and export market.

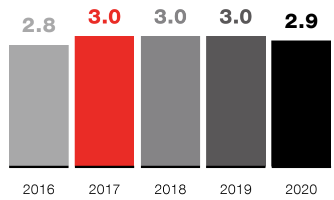


Japan's GDP development*
in %

* Reported and estimated by the IMF.

South Korea

With strong real economic growth, high consumer confidence, low unemployment and domestic-driven demand, South Korea is both an attractive market and a stable environment for conducting business. South Korea possesses a large, diverse and growing manufacturing sector. Despite a recent decline in net exports to China, the country's strong manufacturing base is poised to grow and is projected to contribute to an estimated 2 % CAGR in the market for industrial and machinery tooling over the next five years. New emission regulations for heavy machinery will drive demand for replacement equipment.

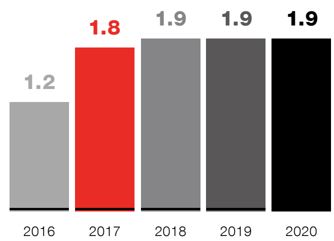


South Korea's GDP development*
in %

* Reported and estimated by the IMF.

France

France enjoys a largely diversified economy and stable market conditions. Several of the Group's priority industries are expected to grow in the coming years, especially aerospace, which is buoyed by an expected 3 % increase in passenger travel over the next decade and France's status as one of the world's top ten clusters for maintenance, repair and operations (MRO). In addition, France is the second largest European market for medical devices, but at half the size of market leader Germany there is strong growth potential. Similarly, the Group expects strong growth in heavy machinery demand to create additional market opportunities, driven by strong exports and construction demand.

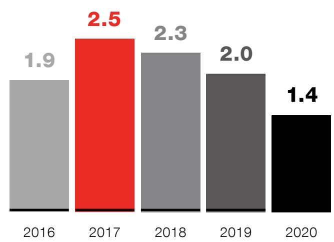


France's GDP development*
in %

* Reported and estimated by the IMF.

Germany

With low and falling unemployment rates, cuts in government spending contributing to a more balanced budget and GDP growth that is broad-based across many sectors of the economy, Germany's sustainable economic outlook has created a compelling environment for business. All industries important to the Group are poised for growth. The German automotive market, the fourth largest in the world, is supported by government incentives for electric vehicles. The market for industrial and machinery tooling is expected to grow by a CAGR of 2 %, bolstered by Germany's position as the third largest machine tool producer in the world and a global leader in machine tool exports.

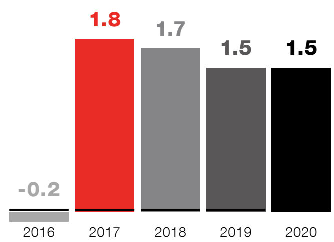


Germany's GDP development*
in %

* Reported and estimated by the IMF.

Russia

Low oil prices and economic sanctions have strained the Russian economy, which is heavily reliant on natural resources and currently suffers from both high inflation and low real GDP growth. Nonetheless, the government is addressing the country's challenges by establishing industrial capabilities domestically and is investing in energy production and infrastructure. These steps should yield benefits across specific industries. Bolstered by the government's announcement that it would build up domestic power capacity in response to economic sanctions, the power generation market is forecast to grow at a 1 % CAGR over the next five years. Furthermore, the government's interest in advanced manufacturing technologies, such as additive manufacturing, has been increasing.

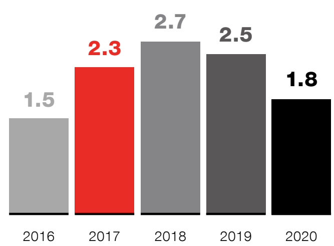


Russia's GDP development*
in %

* Reported and estimated by the IMF.

USA

The USA will continue to be a key market for high-tech offerings such as additive manufacturing and medical devices, with the latter market projected to deliver 4 % CAGR from 2018 to 2022. The federal government's plan for increased infrastructure spending should benefit heavy equipment and machinery sales. Demand for tooling is expected to grow 3–4 % over the next five years, contributing to a 2.5 % CAGR in the market during that period. Although climate policy is in flux under the current US administration, by 2025 the USA will seek to reduce its emission levels by 28 %. That should drive the replacement of conventional coal power plants with gas power plants, fostering both new plant investment and the replacement of parts in gas turbines. The recent reform of the US Federal tax code is poised to make the USA an even more attractive market in which to conduct business operations.

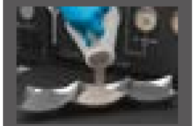
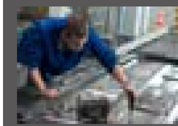
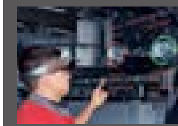


USA's GDP development*
in %

* Reported and estimated by the IMF.

Standard and customized solutions

Oerlikon is a market leader in advanced materials, surface solutions and materials processing. The solutions offerings from Oerlikon encompass materials, equipment and services, ranging from engineering the surface solution that the customer needs and a full scope of coatings to project managing the installation of entire plants and after-sales support. Oerlikon builds its business on technology competencies, a global footprint and trusted customer relations in highly demanding industries.

	Solutions				
	Materials	**Equipment and components**	**Engineering**	**Services**	**After-sales services**
Core business activities	 Standardized and customizable metal- and ceramic-based materials (such as powders and wires) for surface coatings, surface treatments and additive manufacturing.	 Highly productive and reliable systems and products for coatings, surface treatments, fibers production, spinning and texturing, as well as drives, axles and transmission.	 A team of over 1 000 engineers working closely with customers to develop new and innovative equipment, solutions and materials.	 180 sales and service centers spread across 37 countries to provide a fast response time and on-time delivery to customers.	 Service sites worldwide ensure ready and on-hand support, combined with digital remote monitoring and consultation services.
Unique value proposition	Oerlikon has one of the broadest portfolios of advanced materials and surface technologies. Oerlikon's IP sits in the specific surface solutions process know-how and advanced materials development competence. Oerlikon is a leading integrated producer of both equipment and materials for coatings and surface treatment.		Oerlikon delivers engineering expertise to develop standardized and customized high-performance components, since its client relationships often have an R&D character. Oerlikon's global production and service network gives customers fast access and quick response time for deliveries, repairs and maintenance support. Digitalization enables improved services such as e-commerce, remote monitoring and augmented-reality glasses for real-time connectivity to service experts worldwide. Oerlikon has the know-how to scale (up or down) production and service sites flexibly and at a low investment cost.		
2017 revenue	CHF 1.89 billion		CHF 0.96 billion		
CAGR 2015-2017	3 %		4 %		
Strategic priorities	Expand materials and surface technologies portfolio as well as their applications in existing markets and regions. Reduce time-to-market for existing and new products and solutions. Launch of new and next-generation coating systems. Increase offering of tailored and integrated solutions consisting of materials and equipment.		Strengthen leading positions by expanding network, applications and product range. Expand global network and leverage proximity to customers to enhance customer relations and extend engineering, solutions and service offerings. Accelerate growth of services by leveraging current momentum in improving and extending service offering.		

Strategic AM business

A promising new business area as defined in Oerlikon's strategy is additive manufacturing (AM). Today, the AM market is growing rapidly with a compound annual growth rate of more than 30 %[1] expected over the next five years. As a company that has the combined expertise in materials, surface treatments, engineering and services for high-performance components, Oerlikon is well positioned to lead the industrialization of metal- and ceramic-based AM. Oerlikon offers a comprehensive set of AM services to industrial companies, covering the entire value chain – from initial 3D design and development of AM-tested alloys to component production and post-processing.

Engineering and design

Oerlikon has the application design and engineering expertise that is required to take full advantage of the design freedom offered by AM in creating parts and components.

Materials

Oerlikon leverages its in-depth know-how in metallurgy to design and tailor alloys to ensure that industrial AM components are produced with the desired structure and final mechanical properties.

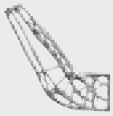
Additive production

Oerlikon has extensive experience in product development and manufacturing of high-performance industrial components and equipment, which are essential in end-to-end advanced component manufacturing.

Postprocessing

Oerlikon has in-depth knowledge in surface engineering that is crucial in the processing stage to give parts and components the protection, end functionality, geometric accuracy or final mechanical characteristics.

AM in industries

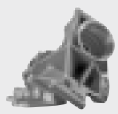


Aerospace
Typical aerospace applications are complex engine parts, structural components and replacement parts. Additive manufacturing enables the production of such parts with reduced weight and cost of ownership.

Automotive
Additive manufacturing allows customers the design freedom to consolidate several parts into one to reduce weight and supplier count and to create new parts. Reducing weight helps car manufacturers meet legislation targets for fuel efficiency.

Energy
Additive manufacturing enables the production of highly complex fluid flow- and corrosion-resistant components from superalloys that can operate in demanding environments. Customers benefit from the extension of useful life and higher performance from Oerlikon's in-house coatings.

Tooling
The use of additive manufacturing to produce tools and tooling components increases efficiency, performance and lifespan while reducing lead time and cost of ownership. Additionally, it provides design freedom to customize products.



General industries
From prototype applications and on-demand parts to the manufacture of small batches or mass customization, additive manufacturing allows companies from all industries to design and manufacture products in a way that perfectly meet their needs.

Medical
Since every patient is unique, additive manufacturing offers a solution to highly personalize medical treatments with customized devices such as implants, instruments and models for high precision, high quality, and a resulting positive impact on health.

Targeted AM market
The global metal-based additive manufacturing market targeted by Oerlikon is estimated to reach over CHF 2 billion by 2021. Over the coming years, Oerlikon plans to continue investing in the development of this business and to achieve this by increasing the engineering and design of AM applications, expanding the high-volume manufacturing of specialized powders and alloys and growing the AM service business.

[1] Source: Wohlers Report 2017

Oerlikon's investment proposition

A unique proposition with two attractive investment pillars

Oerlikon provides customers with a competitive edge through advanced materials, surface technology and materials processing. The Group has a proven track record of innovation, quality and reliability, as well as long-standing customer relationships in demanding industries such as aerospace, automotive, energy, tooling and textiles. Across these industries, customers use Oerlikon technologies to improve performance, reliability and operational efficiency, as well as to enable new designs, features or functionalities of their industrial components and parts.

1. Enable organic growth at attractive margins in surface solutions

A leader with unique competencies	Hold leading market positions in advanced materials, surface solutions and materials processing	▪ Presence across entire surface solutions value chain ▪ Dedicated business models to match customer needs
Attractive end markets	> Diversified industry exposure – ~2–3 % premium to global GDP	▪ Aerospace, automotive, energy, general industry
Build on trusted customer relations	> 30 000 customers	▪ Global OEMs and tier 1 clients in all end markets ▪ Top ten customers: ~17 % of 2017 sales
Technological leadership & innovation	> 41 R&D sites > 50 global partnerships	▪ Widest-ranging portfolio of surface technologies, advanced materials, coating equipment and services
Proven and diversified business model with global network	> 60 % service revenue 156 sites in 37 countries	▪ Client-facing model offering services, solutions (materials, equipment), engineering

4–6 % revenue CAGR with sustainable EBITDA margin profile of 20 % to 22 %* for surface solutions business

* excl. investments in Additive Manufacturing

Additional growth opportunities: recovery in Manmade Fibers Segment and successful repositioning of Drive Systems Segment

2. Oerlikon's strategic portfolio transformation

Oerlikon will continue transforming its portfolio, with the clear focus on making Oerlikon a global advanced materials and surface solutions powerhouse. The Group will achieve this by further investing in and developing the surface solutions business through the three growth drivers: growth markets, structural growth and M&A. In order to make Oerlikon a structural growth company, the Group will be establishing a stronger alignment with customer and market needs, expanding technology leadership, product applications, market penetration and reach, improving operational excellence and developing new businesses such as AM.

Oerlikon will continue to manage the market cycle of its manmade fibers business. On the one hand, managing the ramp-up in capacities yet maintaining flexibility and cost discipline in handling the significant increase in orders. On the other hand, continuing to develop its non-filament equipment businesses (e.g. staple fibers and nonwovens).

Furthermore, Oerlikon will continue to strengthen its drive systems business to benefit further from its repositioning measures and positive end markets' development.

Business report

Oerlikon Group

Corporate structure
Oerlikon is a leading global technology and engineering Group providing market-leading solutions and services for surfaces, manmade fiber production and drive technologies in diverse industries. The Group is structured into three Segments[1]: Surface Solutions, Manmade Fibers and Drive Systems. Each Segment offers technologies and solutions under well-established industry competence brands and adopts strategies specific to customers' needs and requirements in the respective market.

Globally, Oerlikon operates 186 of its own sites in 37 countries. Publicly listed on the SIX Swiss Exchange, the Group has a solid innovation culture and long-standing customer relations and market presence in Europe, the US and Asia, in particular China and India. Globally, the Group serves core end markets from key locations through innovation and production hubs, as well as service centers. Going forward, the Group will be strengthening its focus and engagement in the key industries of aerospace, automotive, tooling, general industries, energy and textile (apparel & industrial), as well as eight key countries (China, France, Germany, India, Japan, Russia, South Korea, and the USA).

Sustainability and key Group developments
Oerlikon is committed to adhering to the principles of good corporate governance; in particular, the guidelines defined in the Swiss Code of Best Practice for Corporate Governance by economiesuisse. Apart from the Articles of Association, in which the purpose of the company, the corporate bylaws and statutes are officially filed, the Group has a clearly defined Code of Conduct covering the ethical and legal framework for all its business activities. Sustainability at Oerlikon cuts across all areas of the business, from customer service, R&D, innovation and operational excellence (covering manufacturing, supply chain, health and safety and environment) to HR policy, risk management and compliance with legal, regulatory, ethical and internally-defined requirements.

In 2017, Oerlikon conducted a range of initiatives to improve business and operational excellence, and also took steps to further streamline the organization in order to make it more efficient.

Customer service
Closely partnering with customers to understand their complex production processes and systems, and to jointly engineer and develop solutions that they need, is key to Oerlikon's successful long-term working relationships with customers worldwide. Reflecting Oerlikon's commitment to customers, the Group continued to optimize its global network to improve proximity, strengthen key account management and improve customer services in 2017. Services represented 33.7 % of the Group's total revenue in 2017.

The Surface Solutions Segment increased its focus on improving customer services. For instance, it introduced the shop-in-shop concept in the USA and has placed a stronger focus on field service agreements and the cross selling of components and spare parts in China and the USA. It has also built up key account management in promising fields such as semiconductors and the high-end deco market. The Manmade Fibers Segment relaunched its webshop, which provides customers with comprehensive online services including latest product specifications, processing and tracking orders online, as well as checking processes relating to maintenance, updates and supply of original parts. The Drive Systems Segment has also launched an online customer service – SparePartsShop

Group structure and competence brands[1]

oerlikon

Surface Solutions Segment	Manmade Fibers Segment	Drive Systems Segment
oerlikon balzers	oerlikon barmag	oerlikon graziano
oerlikon metco	oerlikon neumag	oerlikon fairfield
oerlikon am		

– which gives customers easy-to-use access to its online catalogue for its extensive range of replacement components such as gears, components, Shifting Solutions™, automotive transmissions and on/off-highway drivelines.

In 2017, the Surface Solutions Segment opened and expanded, also through acquisitions, 11 new production and services sites, including in France, Germany, USA, Japan, Malaysia, India and Sweden. The Manmade Fibers Segment opened a new service station in India to provide innovative and sustainable solutions to customers, and also won new long-term maintenance contracts, including agreements to run maintenance workshops at three customers' production sites (in China and India). As per end of December 2017, Oerlikon operates a global network of surface solutions sites at more than 156 sites in 37 countries.

In order to foster closer cooperation with customers, Oerlikon also held numerous customer technology or innovation days. For instance, the Surface Solutions Segment conducted Tech Days with Renault (France), Cummins (USA), Meusburger (Austria) and Groupe PSA (France). The Drive Systems Segment organized Tech Days with TAFE (India) and CNH (USA) for agriculture drive technologies and with Maserati (Italy) for electromechanical, electrical and hybrid propulsion systems. Furthermore, Oerlikon continues to receive awards in recognition of its technologies and customer services. Among others, the A3TS innovation award for BALIFOR M, the Bosch "Preferred Supplier" award for the third consecutive year, the THK Rhythm Award, the Cummins supplier award and the Delphi Pinnacle Award for its surface solutions business, as well as new product development awards from Volvo and John Deere for its drive systems business.

Oerlikon has also strengthened its additive manufacturing service offering by adding two EOS M400 metal AM printers in Atlanta, which have the largest build envelope of any existing powder bed fusion printers. In doing so, Oerlikon is able to offer a highly differentiated service in the AM industry and can cater for a broader portfolio of components for AM production. In addition, Oerlikon has developed an aerospace qualification program for aerospace OEMs, and aims to become a partner of choice for OEMS from the beginning of their journey in developing technological solutions for deployment in aircraft.

R&D and innovation

In 2017, the Group continued to invest 4% of its annual total sales in R&D, corresponding to CHF 107 million, and filed 91 patents worldwide. The innovation pipeline is fed by a distinctive research and engineering approach that addresses customer needs and market potential. Through collaborations with academia and industry experts, Oerlikon's R&D aims to contribute to the development of advanced science and technology projects that can also meet the requirements of larger technological, social and environmental needs such as energy savings and improved environmental sustainability.

Oerlikon brought numerous technologies and solutions to the market in 2017. Some examples of products introduced by the Surface Solutions Segment include BALIFOR M – a molybdenum nitride coating that is highly compatible with lubricants and additives for automotive applications; BALIQ UNIQUE – a palette of unique coating colors to differentiate and distinguish tools while also enabling early recognition of wear; BALINIT DIAMOND – coatings designed for tools used in machining challenging aerospace alloys, like titanium and nickel, to improve the cutting parameters for aerospace applications; a new Friction Systems solution in the S3-family; coating solutions for heating devices used in electric cars and for brake disks in cars; insulation-bearing coatings for high speed trains; semiconductor coating specification and application, and MultiCoat-Pro – a new coating system platform that can control a number of thermal spray processes simultaneously. In addition to equipment and technologies, Oerlikon also launched five new alloys for the AM market in 2017.

In 2017, the Manmade Fibers Segment introduced the new WINGS FDY 1800 to the market, which can boost yarn production by another 20%, and has optimized the process for synthetic staple fiber spinning solutions to enable more efficient spinning production and better fiber quality. In 2017, the Drive Systems Segment launched the new synchroniser for the new CNH Dual Clutch Transmission in partnership with customer CNH to reduce shifting time and improve the durability of driveline technologies for premium agricultural tractors. In addition, it introduced the single-speed transmission for battery electric vehicles – EMR3 – and a new scalable hybrid rear axle module (HRAM) with a fully integrated electric motor directly connected via two gear ratios to the wheels.

Operational excellence

Centrally led by the Group Business Services function, the Oerlikon Operational Excellence (OOE) program is designed to optimize the Group's operational performance in the areas of manufacturing, procurement, health, safety & environment (HSE). The goal of the program is for Oerlikon to achieve a world-class level in all these areas. Since the inception of the program, the ongoing initiatives have been gaining traction, delivering material results including improvements in efficiency and productivity in production and supply chain processes, raising safety awareness and lowering accident frequency rates. Ultimately, the OOE program supports the creation of a safer workplace while generating cost savings for the Group.

World-class manufacturing

Under Oerlikon's Operational Excellence program, in 2017, manufacturing processes led to innovation, efficiency gains and cost savings. These included:

- A large number of Oerlikon sites worldwide conducted value-stream-analysis projects, delivering improvements in areas such as working capital, lead time and cross-departmental communication.
- The Surface Solutions Segment conducted extensive operational excellence training in 2017, which will continue into 2018 in order to improve productivity and efficiency. Due to the large number of locations worldwide, a global project monitoring tool has been introduced. This allows the status of the project and implementation steps to be recorded and checked. As part of the program, the management team and employees identified a number of optimization options in 2017, which will be successively implemented in the following years.
- At an Oerlikon Metco site in the Netherlands, the programs for machining of next-generation turbine blades were optimized and a new generation of machines with automatic process control functions were installed.
- At the Oerlikon Metco Salzgitter site, workflows were optimized both in production and in the areas adjacent to production, creating the prerequisites needed to produce for the aviation industry.
- The Business Unit Automotive Solutions of the Surface Solutions Segment is developing a concept for the automated handling of parts to improve efficiency and use of resources, while easing strain from repetitive work on employees.

- The Manmade Fibers Segment developed a software in Remscheid, Germany, to improve existing communications and manufacturing processes and to make them more comprehensible.
- The Manmade Fibers and Drive Systems Segments both expanded shop floor management to all of their production sites. Line managers use this tool to make the production processes and manufacturing status transparent to their employees. This transparency, in turn, makes it possible to introduce and solve problems using an integrative bottom-up approach.
- New value stream optimizations in the Drive Systems Segment led to the production processes being optimized to the extent that new customer orders could be generated after customer audits.
- Three-quarters of the employees in the operational and service teams of the Manmade Fibers and Drive Systems Segments worldwide were involved in ongoing process improvement activities. In order to facilitate the continuous improvement of processes in the organization, employees were dedicated to this task. Weekly meetings ensure that suggestions for improvement from the teams are implemented directly on the shop floor.

World-class supply chain management

Further efforts were made in 2017 to bring supply chain management to the world-class level:

- Savings were achieved with increased supply chain management efforts being applied in the Surface Solutions Segment and proactive support of the newly established Additive Manufacturing Business Unit.
- The integration of Corporate HQ with the Surface Solutions Segment also brought further alignment and benefits from synergies in supply chain management.
- Further benefits were achieved through the maintained focus on implementing supply chain initiatives and programs in the two Segments (Manmade Fibers and Drive Systems).
- The supply chain academy was enhanced to ensure that all procurement employees worldwide have received the relevant ad hoc training (conducted both via e-learning and face-to-face classes).
- The implementation of eProcurement was continued to take advantage of opportunities in an increasingly digitalized world in order to attain the excellence level for procurement.
- Regional councils are running and a new regional shared services concept for procurement will be implemented so as to leverage local synergies.
- Supplier process performance level and value-add levels were maintained or increased through engagement programs and quality and development activities.

Health and safety

In 2017, Oerlikon continued to make the occupational health and safety of employees a priority, with the vision of achieving “zero harm to people”. Health and Safety remains an integral part of the Group’s business processes, and further initiatives have been launched to reduce both the frequency and severity of accidents, as well as improve the health and wellbeing of employees.

Aiming to reach the next level of safety performance, Oerlikon introduced the total accident frequency rate (TAFR) as the leading safety KPI of the Group. In comparison to the lost time accident frequency rate (LTAFR), which only considers accidents with lost time (i.e. causing absence of one or more days), the TAFR includes, in addition, medical treatment accidents such as lighter accidents (i.e. injuries requiring the treatment of a medically qualified person such as a physician but not causing absence). The TAFR was reduced to 0.86 in 2017 compared with 1.33 in 2016 (a reduction of 35 %). At the same time, the LTAFR was further reduced to 0.36 from 0.39 in the previous year.

The health and safety organization has been streamlined through merging the former HSE committees of the Group and that of the Surface Solutions Segment, and is led by the Head of Group HSE. The definition of HSE guidelines and processes, as well as the monitoring of the implementation of the programs and performance, are coordinated by the HSE committee. Its members are in direct contact with the legal entities or sites within their scope, which allows for better top-down, bottom-up and interdepartmental communication and collaboration. The milestones achieved in 2017 include:

- In order to raise awareness of the importance of health and wellbeing, the motto of the third annual global HSE day was “Fit4Life”. The focus was on five contributing factors to health and wellbeing, and what should be done and not done in order to stay fit. These factors were: physical activity, eating, sleep, stress and toxins (such as alcohol and drugs).

HSE Event
To raise the awareness of health and safety, “Fit4life” was selected as the theme for Oerlikon’s global 2017 Health & Safety day. Employees were encouraged to take on healthier eating, working and exercising habits.

- The implementation of Oerlikon’s “Health & Safety management system”, launched in 2013 and updated in 2015, was completed at all sites according to plan, which was by the end of 2017.
- The Safety Observation Tours were improved through training and coaching for supervisors with the focus on safety behavior.
- Working instructions on the safe use of cutters and knives including guidance on which kind of equipment is allowed or forbidden were prepared and provided to increase safety.
- Personnel received training on the simplified risk assessment process so that each individual knows what they should do if a situation that appears to contain risks occurs; this included the right and obligation to stop work and to seek expert support if situation is considered unsafe. Furthermore, a process and training for last-minute risk assessment has been rolled out.
- The HSE balanced scorecard (BSC), which was already implemented in Oerlikon’s thin-film business lines, was rolled out to the entire Group. This scorecard allows factual tracking of the implementation of preventive action tasks

and provides a score per site, with a target to be achieved set at 100.
- A change in process management and a specific program for chemical safety were rolled out at the Balzers Industrial Solutions Business Unit.
- The Oerlikon Balzers site in Pune was awarded the silver prize in the medium-sized (Low-Hazardous) category in the manufacturing sector of the 6th FICCI Safety Systems Excellence Awards for Industry. The selection was based on a rigorous three-stage process, i.e. application evaluation, on-site audit and final presentation to the Hon'ble Jury.
- Oerlikon Metco Friction System Italy was one of two companies which received an award for developing a consistent Safety Management System and reaching continuous improvements in health and safety aspects. The award was given after passing three different levels of evaluation and after an audit check by experienced HSE auditors.
- The Manmade Fibers Segment trained almost 300 temporary workers in order to manage the fast ramp-up in operations to handle orders, while still managing to reduce the TAFR by 30%.
- The Drive Systems Segment won the annual safety excellence award for the "Global alignment within the Drive Systems Segment HSE community" and achieved an outstanding reduction of the TAFR by 57% as compared with the previous year.

Reduction in lost-time accidents
In line with Oerlikon's efforts to create a safe work environment for employees, Oerlikon Graziano reduced its lost-time accidents from 188 to 6 from 2011 to 2017.

Environment
As part of Oerlikon's efforts to contribute to environmental sustainability, Oerlikon's technologies and solutions are designed to help reduce energy consumption and emissions and to save resources. Within Oerlikon, the Group also takes steps to advance these goals. In 2017, some milestones achieved were:
- A Group-wide environmental incidents database was implemented.
- Almost all Metco sites, one third of the thin-film sites and 80% of the Drive Systems Segment's sites have been certified for an environmental management system according to ISO 14001. These concerned sites also successfully passed the recertification or monitoring audits.
- All German sites of the Manmade Fibers Energy Management System were successfully recertified according to DIN EN ISO 50001.
- The first year of operation of the new thermal power station (Blockheizkraftwerk) at the Manmade Fibers Segment's site in Remscheid successfully registered a sustainable saving of energy (approximately 90% degree of efficiency). The performance of the thermal power station is comparable to the energy demand of 1500 households.

Employees
Oerlikon's code of conduct and core values of Integrity, Team Spirit, Excellence and Innovation are the backbone of the type of behavior encouraged by Oerlikon to create an inclusive and respectful working environment for all employees. Aiming to be a preferred employer of choice for current and potential new employees, Oerlikon took in 2017 further steps to create a more cohesive and conducive workplace that facilitates diversity, engagement and development.

Employee engagement
To foster stronger inclusiveness and engagement of employees, a company-wide, multi-Segment and global "Employee Engagement Survey" was conducted with the support of external consultants to facilitate confidentiality and openness. The survey was provided in 26 languages to around 13500 permanent employees across all three Segments at all sites.

A high participation rate of just under 80% was achieved, which is a strong indication of the energy and willingness of Oerlikon's employees to share their thoughts. The initial results provided encouraging feedback and presented opportunities in areas on which Oerlikon can focus in order to make the company a great place to work and one that employees are proud of.

Employee growth and diversity
With the clear aim of being an employer of choice, Oerlikon has taken action to facilitate employee growth and diversity both in terms of age and gender.

In 2017, 1640 new employees were hired, of which 34% were sourced in China and India. Just under 60% of the new hires were under the age of 35, reflecting Oerlikon's drive to introduce young talents into the workforce and to create a more balanced age diversity within the Group. Furthermore, approximately one fifth were female.

Culture and transformation
The culture of a company plays a key role in how teams cooperate and work together, and the level of efficiency and productivity in a company. To cultivate a more collaborative culture within Oerlikon, the following initiatives were conducted in 2017:
- Launched in 2016, Oerlikon's "Leadership Principles" were implemented in 2017 through four individually-themed workshops, targeted at all hierarchical levels across Segments. The rollout of the "Leadership Principles" program began with the Manmade Fibers Segment and then at Oerlikon's global headquarters in Switzerland, and was swiftly followed by key front-line and management staff in Asia, Europe and the Americas.
- A Head of Transformation was appointed, reporting directly to the CEO, to manage and drive the cultural transformation across the global organization.
- The "High Performance Team Culture" development program was introduced. This is aimed at engaging the entire organization and fostering stronger collaborative teams, motivated to achieve higher performance. The program started with the Executive Committee and their teams in summer 2017. It will run for at least 18 months to ensure that the respective management teams and culture-change champions are able to cut across and reach all levels of the organization.

Young and fast-track programs
In order to attract, identify and enable talent to develop and contribute to the growth of the Group, Oerlikon has initiated a fast-track program for young talents.

Under the name of "Oerlikon Horizons", this global fast-track program is designed to groom the next generation of talents for leadership positions. It is open to nominees across all Segments.

The first candidates will be welcomed into the two-year program in May 2018. In the Manmade Fibers Segment, a second intake of candidates for the young leaders program was concluded. The program attracts candidates from the whole Segment, and this year included more than 15 employees.

Learning and development

To support the learning and career development of employees, Oerlikon runs training and development programs and also offers online training for employees. In 2017:

- "LeaD", the cross-Segment middle management course, attracted 50 managers from Asia (40 %), Europe (40 %) and the Americas (20 %). LeaD is a 7-day intensive leadership development program, covering experiential learning over three separate modules. Such programs are run globally, to facilitate and cover the geographical scope of the participants.
- In the Surface Solutions Segment, 19 sales training sessions were run worldwide. Over 300 individual sales employees and sales managers took part in the training, which provided them with support, tools and skillsets to grow and spearhead our sales efforts.
- In the Drive Systems Segment, the "Enablers of Change" program enjoyed continued success. This is a program aimed at transforming mindsets and attitudes toward change, personal power and accountability. About 130 employees were trained as facilitators, and by the end of 2017, more than 1 300 employees had concluded the program.

Leadership and succession

Placing a greater focus on internal promotion and knowledge retention, Oerlikon introduced a revised process to calibrate and recognize its highest and best performers in the summer of 2017.

The company gradually rolled out a series of pilots across the Segments. The new approach allows for a more robust analysis of the succession pipelines and succession risk, especially for white collar employees. This will enable the organization to be better prepared for future growth and place a greater focus on internal promotion and knowledge retention, supplemented by the buy-in of external talent only when strategically necessary, for example when expanding into new markets or product lines.

Recognition

As Oerlikon strives to create a better workplace for employees, it has received external recognition in the form of certifications and awards.

In 2017, the Drive Systems Segment in India received a certification from the Great Place to Work® Institute – a global authority in building, sustaining and recognizing high-trust, high performing workplace cultures. The Great Place to Work Institute's methodology is recognized as rigorous and objective and considered the gold standard for defining great workplaces across business, academia and government organizations. The findings are published annually in prestigious media channels across the globe, such as Fortune, Handelsblatt, The Economic Times and Le Figaro Economie. Organizations that are great workplaces perform three times better than the general market indices and experience up to 50 % less employee turnover.

The certification reflected and confirmed the result from the "Speak Up" survey conducted in the Segment, in which a high engagement indicator with a "Net Promotor Score" of 64 % was achieved.

Risk management

Oerlikon takes a comprehensive approach to risk management that identifies, assesses and monitors all corporate risks relevant throughout the Group, including market, credit and operational risks. The risk management system is integrated throughout the company from an operational and management perspective. Further information on risk management can be found on pages 62 and 63.

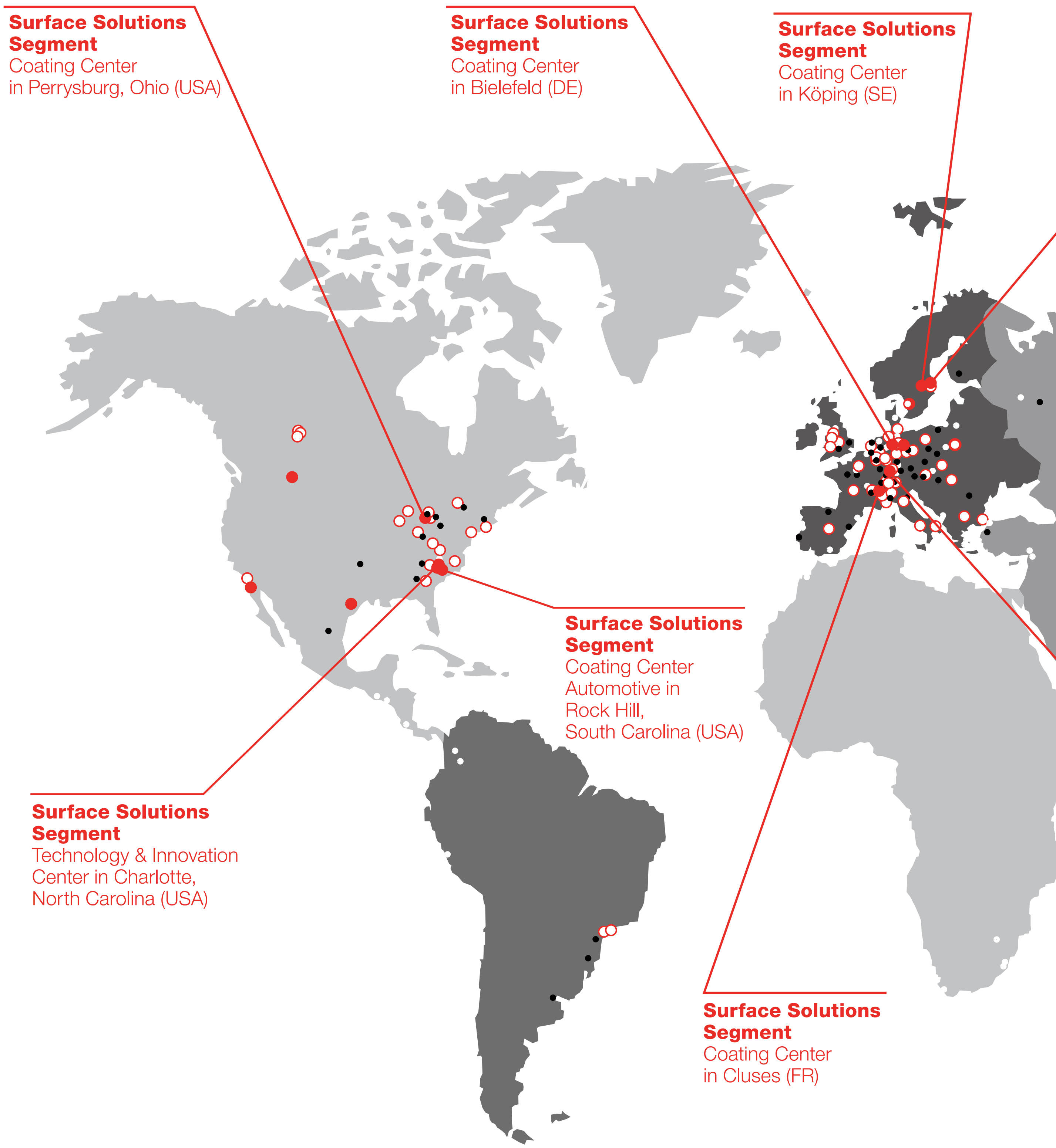
Compliance

Business practices worldwide are conducted in line with Oerlikon's Code of Conduct, internal regulations as well as legal and regulatory requirements. Compliance is monitored at Group level, where standards are set, preventive measures are recommended, and information, training and consultation are provided. Listed on the SIX Swiss Exchange (SIX), Oerlikon complies with the legal and regulatory requirements specified by SIX and the Swiss laws.

In accordance with Schedule 19 of the UK Finance Act 2016, the tax strategy of the group of companies of OC Oerlikon Corporation AG, Pfäffikon, Switzerland, can be found on and downloaded from its website (www.oerlikon.com) .

Further details on compliance can be found on page 63.

Serving our customers locally



Oerlikon has a strong global footprint with 186 sites in 37 countries. The Group is strongly committed to research and development, which is reflected by its 58 production and R&D sites worldwide. Together with its sales and services network of 180 sites, Oerlikon operates in close proximity to its customers, improving customer interaction, response times and satisfaction.

186 sites globally

43	in the Americas
58	in Asia
85	in Europe

180 sales and services sites

153	Surface Solutions Segment
12	Manmade Fibers Segment
15	Drive Systems Segment

58 production and R&D sites

41	Surface Solutions Segment
5	Manmade Fibers Segment
12	Drive Systems Segment

- Production and R&D sites
- New sites in 2017 (incl. production)
- Other Oerlikon sites (incl. production)
- Partners (distributors, representatives)

Group business review

The year 2017 was a period of profitable growth for Oerlikon, in which all Segments delivered improvements in the top line and operating profitability. The execution of strategic initiatives enabled the Group to capture the momentum and opportunities in its industrial and regional markets. That momentum was driven by improving global economic conditions that bred confidence and increased global trade, resulting in expanded investment in capital goods, machinery and services, which drove the demand for Oerlikon's technologies and services.

Reflecting that progress and ongoing positive market conditions, the Oerlikon Group's order intake increased 24.5 % in 2017 to CHF 3 005 million (including a positive currency impact of 0.7 %) compared with CHF 2 413 million in 2016, while order backlog went up by 52.8 % to CHF 683 million at year-end 2017 versus CHF 447 million at year-end 2016. Group sales in 2017 grew 22.1 % to CHF 2 847 million (including a positive currency impact of 0.8 %) from CHF 2 331 million in 2016. The ratio of Group service sales to total Group sales was 33.7 % in 2017 versus 36.6 % in 2016.

Oerlikon Group achieved strong year-on-year growth in operating profitability in all four quarters and for the full year, as measured by both EBITDA and EBIT. For the full year 2017, Group EBITDA increased 24.3 % to CHF 415 million, yielding a margin of 14.6 %. That compares with Group EBITDA of CHF 334 million and a margin of 14.3 % for the full year 2016. Full-year Group EBIT for 2017 increased 38.6 % to CHF 219 million, yielding a margin of 7.7 %, versus EBIT of CHF 158 million and an EBIT margin of 6.8 % in 2016.

Oerlikon Group was solidly profitable in 2017, with income from continuing operations of CHF 146 million compared with CHF 82 million in 2016, an increase of 78.0 %. After including net results of discontinued operations of CHF 6 million in 2017, net income totaled CHF 152 million in 2017, or earnings per share of CHF 0.44, versus CHF 388 million, including the positive impact from the divestment of the Vacuum Segment, or earnings per share of CHF 1.14 in 2016. The tax expense for 2017 was CHF 64 million, while in 2016, it was CHF 53 million.

Cash flow from operating activities before changes in net current assets increased 50.6 % to CHF 405 million in 2017 compared with CHF 269 million in 2016. The Group's return on capital employed (ROCE) was 8.2 % in 2017 versus 5.7 % in 2016.

Surface Solutions Segment

The Surface Solutions Segment remained the largest contributor to Oerlikon's sales and profits in 2017, representing 48 % of total Group sales and 66% of total Group EBITDA. Its performance in 2017 demonstrates its central role in the Group and further validates Oerlikon's strategy to become a global leader in advanced materials, surface solutions and materials processing. The Segment's order intake increased 14.6 % in 2017 to CHF 1 417 million (including a positive currency impact of 0.3 %) compared to CHF 1 236 million in 2016. Order backlog climbed 55.0 % to CHF 124 million from CHF 80 million in the previous year. The Segment's sales increased 11.2 % in 2017 to CHF 1 377 million (including a positive currency impact of 0.3 %) from CHF 1 238 million in 2016. Sales growth was seen in all regions and across industries, particularly notable in aerospace and general industries, as well as in Asia.

The Surface Solutions Segment achieved an EBITDA margin of 20.0 % for 2017, even after offsetting the Segment's substantial investments especially in additive manufacturing during the year. For 2017, EBITDA for the Segment totaled CHF 276 million, which was roughly level with CHF 277 million in 2016. The EBITDA margin in 2016 was 22.2 %. The Segment's EBIT in 2017 declined 7.5 % to CHF 149 million, or 10.8 % of Segment sales, from CHF 161 million, or 13.0 % of Segment sales, in 2016.

In 2017, the Segment completed four strategic acquisitions aimed at adding technologies and expertise in advanced materials and surface solutions, thereby expanding its business offering and gaining further market access. They included the assets of Recentis Advanced Materials, Canada, to strengthen its competency in high-temperature manufacturing; Scoperta, USA, for its computational software enabling rapid identification and development of innovative and disruptive material solutions; Primateria, Sweden, which is strengthening its foothold in the gear cutting market; and the assets of DiaPac LLC and Diamond Recovery Services (DRS), USA, for complementary knowledge in manufacturing, processing, application, recovery and recycling of advanced materials.

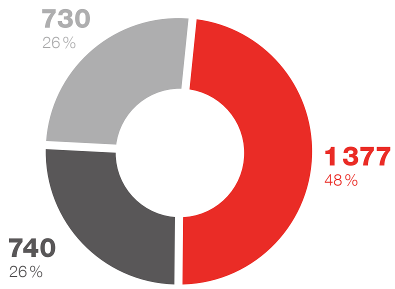
To intensify its focus on the additive manufacturing market, Oerlikon AM was established as a competence brand of the Surface Solutions Segment in 2017. In addition to acquisitions, the AM Business Unit moved forward in its strategy to play a leading role in the industrialization of that market in 2017 through initiatives such as partnerships with GE, TU Munich and Skoltech, as well as opening the Innovation & Technology Center for AM in Munich and moving forward with the construction of an R&D and production facility in Charlotte, North Carolina, USA.

Manmade Fibers Segment

The Manmade Fibers Segment saw a significant and positive turnaround in market demand in 2017 after two years of challenging conditions. The growth was mainly driven by a few key players in the China manmade fiber industry, but at the same time larger projects in Turkey and India could be secured as well. With its leading market position, among others, for POY and FDY filament equipment, the Segment was able to capture a healthy share of market opportunities.

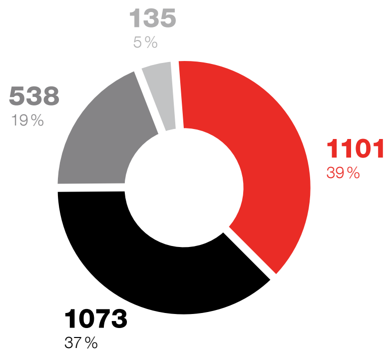
For 2017, Segment order intake increased 40.4 % to CHF 810 million (including a positive currency impact of 1.0 %) compared with CHF 577 million in 2016. Segment order backlog increased 32.2 % to CHF 357 million at year-end 2017 versus CHF 270 million at year-end 2016. Sales jumped 53.8 % in 2017 to CHF 740 million (including a positive currency impact of 1.3 %) from CHF 481 million in 2016.

Segment profitability also improved substantially in 2017 with EBITDA more than tripling (up 256 %) to CHF 57 million, or 7.7 % of sales, versus CHF 16 million, or 3.3 % of sales, in 2016. There



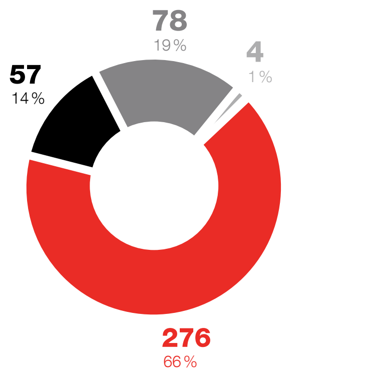
Sales 2017 by Segment
in CHF million

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



Sales 2017 by region
in CHF million

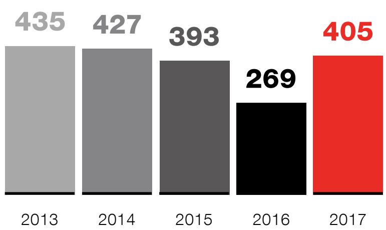
- Europe
- Asia Pacific
- North America
- Other regions



EBITDA 2017 by Segment[1]
in CHF million

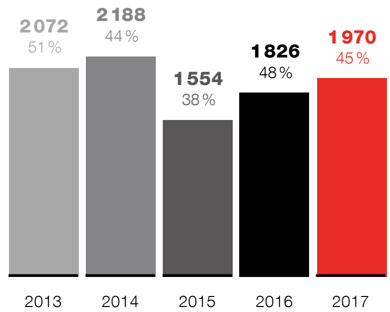
- Surface Solutions Segment
- Manmade Fibers Segment
- Drive Systems Segment
- Others

[1] Continuing operations.



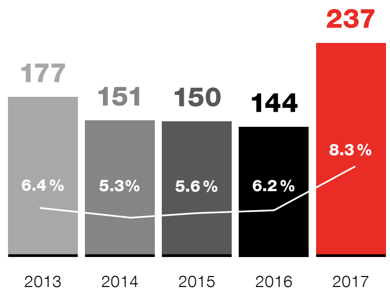
Operating cash flow[1]
in CHF million

[1] Before changes in net current assets.



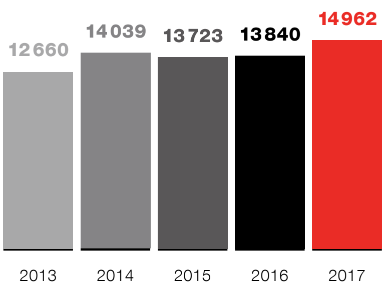
Equity[1]
in CHF million (as % of assets)

[1] Attributable to shareholders of the parent.

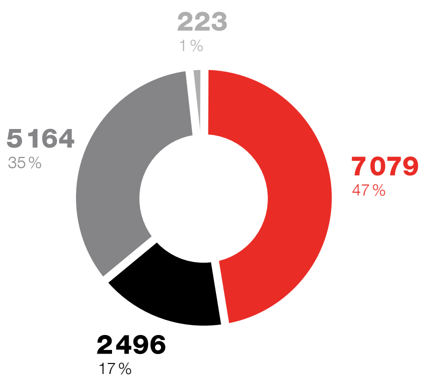


Capital expenditure
in CHF million

— In % of sales.

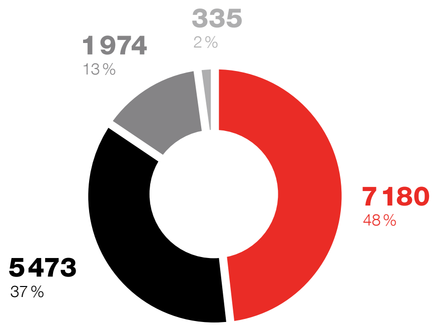


Employees



Employees 2017 by Segment

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



Employees 2017 by region

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

was a turnaround in EBIT in 2017, which totaled CHF 34 million, or 4.6 % of sales, compared with negative EBIT in 2016, which totaled minus CHF 3 million, or -0.6 % of sales.

In addition to recovery in the filament equipment market in 2017, the Segment's growth was complemented by a notable increase in global demand for staple fibers machinery and in texturing, including the delivery of its first DTY machines eAFK HQ to a key customer in China. Good demand for bulked continuous filament (BCF) plant solutions for the production of carpet yarns was also seen in the USA and Turkey. In addition, a strong increase in sales was noted in polymer processing, driven mainly by Oerlikon's joint venture with Huitong in this market. To position itself for future growth, the Segment has been ramping up its production capacity in all business areas. Additionally, the Segment created a separate business unit to capture opportunities in the attractive and growing nonwovens market and entered into a partnership agreement with Teknoweb Materials in Italy to add disposable nonwoven solutions to its offering.

Drive Systems Segment
The Drive Systems Segment continued its noteworthy turnaround in 2017 as it further executed its repositioning strategy. Initiated in 2016, the Segment streamlined its product portfolio, improved production efficiency through a focused factory approach, and increased its emphasis on higher-value projects and quality orders. That has led to the Segment's ability to capture business and profit in 2017 in agriculture, construction, transportation and automotive markets globally. In particular, the Segment recorded a significant increase in sales in the China transportation market.

Segment order intake increased 29.7 % in 2017 to CHF 778 million (including a positive currency impact of 1.3 %) compared to CHF 600 million in 2016, while order backlog more than doubled to CHF 202 million at year-end 2017 compared with CHF 97 million at year-end 2016. Segment sales totaled CHF 730 million in 2017 (including a positive currency impact of 1.3 %), an increase of 19.3 % from CHF 612 million in 2016.

Reflecting the continued benefits of its restructuring and process optimization measures, the Segment delivered a 52.9 % increase in EBITDA in 2017, which amounted to CHF 78 million, or 10.6 % of sales, compared with CHF 51 million, or 8.4 % of sales in 2016. EBIT for 2017 tripled to CHF 36 million, or 4.9 % of sales, from CHF 12 million, or 2.0 % of sales, in 2016.

A globally balanced business
A major pillar of Oerlikon's strategy is to maintain a balanced portfolio of market-leading technologies, a global presence and a broad range of comprehensive services. By Segment – the Surface Solutions Segment contributed 48 % to total Group sales in 2017, while the Manmade Fibers Segment and the Drive Systems Segment each accounted for approximately 26 % of Group sales. With a strong global footprint, Oerlikon operates over 186 sites in 37 countries, with 85 sites in Europe, 58 sites in Asia-Pacific and 43 sites in the Americas. In 2017, Europe continued to account for the largest proportion of Group sales. Sales amounted to CHF 1 101 million, or 39 % of Group sales, versus CHF 973 million, or 42 % of Group sales, in 2016. Asia Pacific remained the second largest regional contributor to Group sales in 2017, with sales totaling CHF 1 073 million, or 37 % of sales, compared with CHF 751 million, or 32 % of sales, in 2016. Group sales in North America totaled CHF 538 million, or 19 % of Group sales, in 2017, versus CHF 496 million, or 21 % of Group sales, in 2016. Sales in other regions remained at 5 % of Group sales in 2017 at CHF 135 million compared with CHF 111 million in 2016.

Increased balance sheet strength with equity ratio of 45 %
As of December 31, 2017, Oerlikon's balance sheet totaled CHF 4 352 million, compared to CHF 3 825 million at year-end 2016. The Oerlikon Group had equity (attributable to shareholders of the parent) of CHF 1 970 million, representing an equity ratio of 45 %, compared to CHF 1 826 million, or an equity ratio of 48 % as at December 31, 2016. The year-on-year increase in the total balance sheet and continued strong equity ratio primarily reflected the improved cash and cash equivalent positions due to higher customer advances. Net cash amounted to CHF 499 million at year-end 2017, compared with CHF 401 million at year-end 2016.

Credit facility extension
In December 2017, Oerlikon exercised the optional one-year extension of its five-year unsecured syndicated credit facility of CHF 600 million, and thereby has maintained a strong financial base for further investment in core strategic businesses and new technologies, including additive manufacturing, and to support future growth.

Strong operating cash flow
Cash flow from operating activities before changes in net current assets increased 50.6 % in 2017 to CHF 405 million compared with CHF 269 million in 2016. Net working capital, defined as trade and trade note receivables plus inventories minus trade payables and current customer advances, totaled CHF 147 million, corresponding to 5 % of Group sales in 2017 versus CHF 316 million, or 14 % of Group sales in 2016.

Capital expenditure (CAPEX) amounted to CHF 237 million, compared to CHF 144 million in 2016. Excluding amortization of acquired intangible assets, the CAPEX-to-depreciation ratio was 1.52 times, which is higher than the Group's target of between 1.0 to 1.2 times due to investments in additive manufacturing, as well as for building up the e-mobility business and repositioning of the Drive Systems Segment.

Cash flow from investing activities was minus CHF 237 million in 2017 compared with CHF 57 million in 2016 (mainly attributable to proceeds from the sale of the vacuum business less capital expenditure and short-term deposits investments). Cash flow from financing activities amounted to minus CHF 132 million in 2017, mainly for dividend payments of CHF 104 million, compared with minus CHF 448 million in 2016, mainly reflecting dividend payments of CHF 104 million, repayment of financial debt of CHF 301 million and interest paid of CHF 38 million. Primarily reflecting the Group's operating cash flow, Oerlikon reported a cash and cash-equivalent position at the end of 2017 of CHF 871 million compared with CHF 751 million at the end of 2016. Oerlikon continued to invest approximately 4 % of its revenues in research and development (R&D). In 2017, R&D expenditure was CHF 107 million, or 4 % of Group sales, compared with CHF 94 million, or 4 % of Group sales, in 2016.

Oerlikon believes that dividend payout is an important means of returning value to shareholders. Based on the strong performance in 2017, the Board of Directors will recommend an increased dividend payout of CHF 0.35 per share at its 45th Annual General Meeting (AGM) of Shareholders on April 10, 2018.

2017 key Group figures at a glance

- Order intake totaled CHF 3 005 million versus CHF 2 413 million in 2016, an increase of 24.5 %.
- Order backlog increased 52.8 % in 2017 to CHF 683 million versus CHF 447 million in 2016.
- Sales increased 22.1 % in 2017 to CHF 2 847 million from CHF 2 331 million in 2016.
- 2017 EBITDA increased 24.3 % to CHF 415 million, or 14.6 % of sales, versus CHF 334 million, or 14.3 % of sales, in 2016.
- EBIT increased 38.6 % in 2017 to CHF 219 million, or 7.7 % of sales from CHF 158 million, or 6.8 % of sales, in 2016.
- The result from continuing operations increased to CHF 146 million from CHF 82 million in 2016, an increase of 78.0 %.
- Net income totaled CHF 152 million, or earnings per share of CHF 0.44, versus net income of CHF 388 million, or earnings per share of CHF 1.14 in 2016, which included income from discontinued operations, net of income taxes, of CHF 306 million (CHF 304 million for Vacuum Segment).
- Headcount (FTEs) totaled 14 962 in 2017 compared with 13 840 employees worldwide in 2016.
- ROCE stood at 8.2 % in 2017, compared with 5.7 % in 2016.
- The Board of Directors will recommend at the 2018 AGM a dividend payout of CHF 0.35 per share, an increase of 16.7 % over the prior year.

Segment reports

Surface Solutions Segment

	Order intake	Sales	EBITDA margin	Sites	Employees	R&D expenses
Surface Solutions Segment	+14.6% CHF 1417 million	+11.2% increase to CHF 1377 million	20.0%	156	7079	CHF 80 million

The Surface Solutions Segment's combined served market totaled CHF 6.5 billion in 2017. Over the next five years, the Segment's addressable market is expected to grow to nearly CHF 9.0 billion, reflecting a compound annual growth rate of 6.7%. In 2017, the Segment had an extensive list of accomplishments, which powered continued strong order and sales growth. The Segment's most important markets are automotive, aerospace, general industries, tooling and energy.

Automotive

Automotive was the Segment's largest market in 2017 in terms of sales. Driven by strengthening emissions standards, the European automotive sector has a need for solutions such as surface technologies, and is thus a key market for Oerlikon's Automotive Solutions unit, which offers physical vapor deposition (PVD) coatings, among others, in this market. German, French and Italian auto makers are also important customers for nitriding solutions. Among the 2017 automotive market highlights were the strong entry of Oerlikon Metco Frictions Systems into Japan and growth in special coating applications in Asia and in Europe. Adding to its comprehensive coating portfolio for automotive components, the Segment introduced in 2017, under its Oerlikon Balzers brand and among others, BALIFOR M and BALIFOR T, as well as coating solutions for heating devices and brake disks of electric cars. BALIFOR M is a molybdenum-nitride coating with excellent compatibility with lubricants and additives that can degrade in high temperatures. BALIFOR T is ideal for high-temperature and low-lubrication applications for longer periods and in aggressive additive environments. Under the Oerlikon Metco Brand, the RotaPlasma™ HS1, a unique, continuous, rotating spray gun was launched in 2017. The RotaPlasma HS1 is an integral part of the SUMEBore coating solution, which helps reduce friction, oil and fuel consumption and wear in automotive cylinder bores.

General industries and tooling

In the general industries market, the Segment's 2017 sales included winning precision component and equipment orders in Northern Europe, China and the USA. In addition, sales in Europe were also driven by the off-highway diesel market and the demand for elevator and pump applications. Oerlikon Balzers also noted a strong year in the semiconductor business, which it has served for more than 20 years with customized surface technologies for optimized semiconductor manufacturing solutions. In the medical market, sales increased in dental applications in Europe, Korea and Brazil. The Segment also launched several products specifically for customers in the tooling and general industries, for instance, the color-coding enabler BALIQ UNIQUE as well as INLENIA pica and INLENIA kila. INLENIA is the coating system leveraging Oerlikon Balzers S3p® technology to produce coatings with exceptional surface smoothness and a long service life. In particular, cutting tool applications with high demands on precision and surface quality (microtools, taps and reamers, inserts for finishing) and applications in difficult-to-cut materials (stainless steel, titanium) can benefit from S3p. INLENIA pica is the compact and flexible solution for highly precise tools, while INLENIA kila is designed to handle large batch loads of tools for high-volume production needs. The Segment also expanded its thermal spray and other surface enhancement technologies including laser-based coatings and hard facing technologies for industrial applications, including novel carbides products.

Aerospace

The aerospace market continued on its growth trajectory in 2017 due to the ramp-up of new engine programs. This resulted in increased demand for materials and for Oerlikon Metco solutions, including bond coats, gas path seals and thermal barrier coatings, while Oerlikon Balzers' solutions saw higher demand driven by the A320neo production and its first North American National Aerospace and Defense Contractors Accreditation Program certification. Among the 2017 wins in this market are an important new aero engine customer and new five-year contracts with two existing Tier 1 customers. For aerospace customers, Oerlikon Balzers introduced in 2017 its new BALINIT DIAMOND coatings designed for tools used to machine challenging aerospace components made of alloys, such as titanium and nickel, to improve the cutting parameters for aerospace tooling applications. The new MetcoAdd™ alloys, which are next-generation materials for coating and additive manufacturing (AM) processes to improve aircraft engine efficiency, were also launched. With Surface One, Oerlikon Metco's latest thermal spray coating system, customers can significantly boost process efficiency and productivity thanks to the improved usability, standardized design, compact construction, enhanced mobility and safety features. Following its launch, Surface One has already received positive interest from aerospace customers.

Energy

In the energy market, Oerlikon's coatings enable turbines, hydroelectric plants and drilling equipment to withstand extreme temperature, pressure and friction. Demand in this market in 2017 was strong in the UK oil & gas market, while the general engineering business was supported by GDP growth in Germany, the USA and the rest of Europe. The Segment secured many wins in 2017 in this market, such as with Dongfang Turbine Company in China for abradables technology used for steam turbines, surface coatings for industrial turbines in Korea, bearings and gears for windmills, as well as hydro power installations in China and other Asian markets. Diverse surface technologies were introduced for this market in 2017, for instance BALINIT TURBINE PRO multilayer coatings, which offer longer blade life for turbine compressor stage blades as compared to conventional coatings due to their high hardness and tenacity.

Additive Manufacturing

In the AM market, the technology is being recognized as increasingly suitable for series production of advanced industrial components, allowing for the customization of products, the decentralization of production, change in design methodology and efficiency in material usage. While most current opportunities are in prototyping, Oerlikon AM is working with customers to expand prototyping work into more comprehensive industrial production. Also supporting this objective, Oerlikon AM's Barleben, Germany, facility is being transformed from a main prototyping service bureau to a qualified series production plant for large OEMs, including through AS9100 certification for aerospace, as well as SAP and other software implementation. Plans also are under way to scale-up the AM facilities in Magdeburg to include certifications for aerospace applications. As part of Oerlikon's investment strategy in AM, new types of AM machines were introduced to the portfolio, including: Carbon, a novel machine that uses digital light synthesis technology to cure a liquid polymer; Xjet, machines that use NanoParticle Jetting™ (NPJ) to spray a fine dispersion of ceramic powders suspended in a fluid, allowing 3D printing of ceramics with fine details; and a new industrial metal AM printer, for which Oerlikon has completed beta testing with a German manufacturer, allowing Oerlikon to customize the development path of such machines. Moreover, Oerlikon hosted in 2017 the 1st Munich Technology Conference on AM and inaugurated its Technology & Innovation Center for AM in Munich.

Development in regions

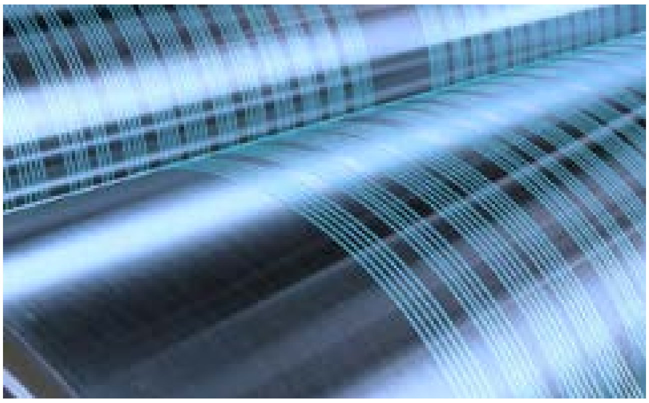
The Segment experienced steady growth in China and generated 14 % of its sales in this market. Oerlikon Balzers received new orders for its INNOVA and INGENIA PVD coating systems. Oerlikon Metco saw demand for product innovations such as its carbide application with high-velocity air fuel (HVAF) coating process, and has successfully sold its first SUMEBore system in China. Oerlikon's AM business established a local team in Shanghai in mid-2017 to help reduce time to market on orders of popular alloys. In India, where the Segment generated 4 % of its 2017 sales, the Segment focused on expanding its distribution channels in the industrial sector and on growing automotive and aerospace market share. Growth initiatives include: Oerlikon Balzers' introduction of its RS 90 DLC (diamond-like carbon) coating system in late 2017 in India and plans to expand its Chennai coating facility's capacity to serve automotive, aerospace, power generation, oil & gas and general industrial customers in this region. In North America, the Segment derived 18 % of its 2017 sales. Oerlikon Metco is gaining market share in industrial equipment and among aerospace OEMs in the USA. Oerlikon Balzers saw strong interest among tooling customers for innovations such as the BALIQ solutions and BALINIT DIAMOND coatings. Europe continued to be the largest market for the Segment, with 46 % of its sales made in this region.

Strengthening the technology portfolio

To further strengthen its advanced materials technologies and competencies, the Segment completed four acquisitions in 2017. By acquiring Scoperta and Primateria, as well as the assets of Recentis Advanced Materials, DiaPac and DRS, the Segment gained strong complementary knowledge for pretreatment and posttreatment of tools, and for software development, manufacturing, processing, application and recovery/recycling of advanced materials. Leveraging synergies, Oerlikon Metco and AM teams collaborated in 2017 using the acquired Scoperta technology to identify narrower chemistry windows within the standard alloy classification for better 3D printing results. As a result, a new improved version of Hastelloy X, a well-known nickel-based superalloy, specifically for the AM market was developed and launched. This improved material can be offered for applications in the aerospace and power generation industries, where high temperature corrosion resistance and strength are required.

Manmade Fibers Segment

	Order intake	Sales	EBITDA margin	Sites	Employees	R&D expenses
Manmade Fibers Segment	+40.4 % increase CHF 810 million	+53.8 % increase to CHF 740 million	7.7 %	13	2 496	CHF 22 million



The apparel and industrial textile market was a CHF 12.6 billion market in 2017. Within this broad market, Oerlikon's Manmade Fibers Segment's targeted market totaled 1.9 billion in 2017, which includes textile filaments, staple fibers, bulked continuous filament (BCF – carpet yarn), nonwovens and polycondensation solutions, centering in regions including China, India, Bangladesh, Western Europe, Turkey, the Americas, Middle East and CIS (Commonwealth of Independent States). In addition to manufacturing systems (including spinning and texturizing) and the full-scale design and project management of polycondensation plants, the Segment also offers engineering solutions and comprehensive customer services. The overall filament equipment market is expected to experience growth over the next two to three years. Looking at it from a five-year perspective, the market should see some consolidation and adjustments as a result of the ramp-up in equipment and production capacity. To address this, the Segment will continue to strengthen its market and technology leadership through innovations and improved products, while building up its customer services and leveraging digital Industry 4.0 technologies. In addition, it will continue to expand its market share in its other product lines such as staple fibers and BCF, while establishing a stronger foothold in growth businesses such as nonwovens.

Development in industrial markets

The Segment holds a leading technology and market position in the filament equipment market, with a market share approximating 45 %. It derives most of its revenue from China, where its largest filament customers are based. Following two challenging years and exacerbated by China's economic slowdown, market dynamics changed in 2017. Key market players consolidated and positioned themselves to meet future demand, which translated to investments. As a result, the Segment saw its textile filament equipment orders and sales increase substantially in 2017, mainly in China, and supported by large customer orders in India and Turkey, as well as new customer wins in South America. Sales in the other manmade fiber markets also experienced strong growth in 2017, with BCF equipment seeing good demand in the USA and Turkey and healthy demand was noted for staple fibers globally. To capture exciting growth opportunities in the nonwoven market, the Segment has created a dedicated nonwoven business unit and entered a partnership with Teknoweb Materials in Italy to add disposable nonwovens solutions to its offering.

Development in regions

China remains the largest market for the Manmade Fibers Segment, with 45 % of its 2017 sales generated in China. The Segment achieved strong growth in China due to close customer relationships and the recovery in demand for filament equipment. During the year, the Segment delivered its first DTY (Drawn Texturized Yarn) machine, eAFK HQ, to a key customer in China and secured an order for a filament spinning plant for special yarns, including polycondensation equipment. India accounted for 15 % of Manmade Fibers Segment sales in 2017. The sizeable local textile industry is an important source of business for the Segment, which is focused on increasing customer service activities at customers' plants. Europe remained a stable contributor to the Manmade Fibers Segment's sales, accounting for 20 % of the Segment's sales in 2017. Business was mainly driven by filaments, nonwovens and customer services, as well as good demand in Turkey for filaments, staple fibers and BCF. The Manmade Fibers Segment saw a positive trend in texturing technologies (DTY) for installed-based partially oriented yarn (POY) systems and for bulked continuous filaments systems (BCF) for carpet yarn applications in the USA. North America accounted for 7 % of the Segment's 2017 sales.

Strengthening technology portfolio

Among the many 2017 technological innovations are WINGS POY 1800, which boosts productivity of yarn production by 20 % using the same production space, and has already recorded first wins of large orders in several markets. For synthetic stable fiber spinning for polyester, the Segment developed and introduced a process optimization solution that is more efficient and helps improve fiber quality. The Segment also introduced several new polyester staple (PSF) solutions, a new electro-charging unit for meltblown systems, which offers high flexibility when charging fibers and has lower basis weights and tenacities, and a new FAUS system control operating unit that enables comprehensive automation of meltblown systems.

Drive Systems Segment

	Order intake	Sales	EBITDA margin	Sites	Employees	R&D expenses
Drive Systems Segment	+29.7 % increase CHF 778 million	+19.3 % increase to CHF 730 million	10.6 %	15	5 164	CHF 12 million

In 2017, the Drive Systems Segment delivered its technologies to an addressable market of CHF 11.4 billion, encompassing agriculture, construction, transportation, automotive, energy (oil & gas) and mining markets worldwide. These markets combined have an expected CAGR of 3.6 % through 2022. The Segment is targeting a growth rate that exceeds growth in each of its markets over the same period.

Development in industrial markets

The agriculture market is the Segment's most important sales market in 2017. Although the market continued to be challenged by weak commodity prices, which impacted US equipment sales, Segment sales were up in Canada, Brazil and India. The business climate was also positive in China and in Europe as farming strives to become more efficient. In 2017, the Segment partnered with its customer, CNH, to develop the new synchronizers for the CNH APH dual clutch transmission for premium agricultural tractors – the first dual clutch transmission in the agricultural market that offers more durability and reduces shifting time.

Sales in the construction market were strong in 2017, led primarily by the USA, due to much-improved and growing construction equipment gear demand. The spending on construction increased in Western Europe due to infrastructure investments. In India, a temporary slowdown in growth for construction equipment was noted in the second half of 2017, mainly due to the increase in tax rates.

In the transportation market, sales were also strong in 2017. Favorable market dynamics were noted in North America, where demand was high for both medium and heavy duty trucks, and in China, where commercial vehicle units volume was up 76 % from 2016. Through the joint venture with Kenway, the Segment doubled its sales to the China transportation sector, where it is becoming a market leader in city bus low-floor axles.

Sales to the automotive market, where the Segment delivers technologies for AWD and high-performance cars, as well as for electric and hybrid vehicles, also increased in 2017. Globally, e-drives and hybrid automotive markets are developing positively, as reflected by the 48 % increase in sales of global plugin vehicles in 2017. In China, the Segment is seeing a sharp increase in demand for electric vehicles due to the China government's subsidies and regulations, mandating more measures, such as electric and hybrid powertrains, so as to reduce pollution. In 2017, e-vehicles sales volumes in China jumped more than 70 % in 2017, albeit starting from a low level. The trend is also noticeable in Europe, where alternative solutions are sought after in order to reduce emissions. Additionally, high-performance sports car drivelines also contributed to Segment growth in 2017, which were up 7 % from 2016.

In the energy market, the Segment saw some improvement in sales, driven by the slight increase in activity and investments in the US energy market, particularly for shale oil and gas.

Development in regions

Europe remained the largest market in terms of sales for the Segment, representing 44 % of 2017 Segment sales. North America followed, generating 32 % of its 2017 sales. In China, the Segment increased its sales significantly compared to the previous year, mainly propelled by business in the transportation market. China contributed 10 % of the 2017 Segment sales. The Segment derived 10 % of its sales in India partly due to the introduction of new products for agriculture and automotive markets, while extending product applications from agriculture into commercial vehicles. The Segment plans to expand the Sanand facility in India for agriculture and leisure vehicles customers and is also ramping up production for electric vehicles applications.

Strengthening technology portfolio

In 2017, the Segment launched diverse innovative technologies and solutions. Among them is the EMR3, an innovative single-speed transmission for battery electric vehicles, and the HRAM (hybrid rear axle module), which is a scalable rear differential module primarily conceived for high performance RWD/AWD cars and allowing hybridization in P3 configuration. Another market introduction was the new Compact Slotless Synchronizer – an innovative shifting solution for passenger cars, trucks, and agricultural, industrial and construction equipment that improves overall transmission performance and efficiency.

Corporate governance report

Corporate governance

Oerlikon is committed to the principles of good corporate governance as they are defined, in particular, in the Swiss Code of Best Practice for Corporate Governance of economiesuisse. Through this commitment, Oerlikon aims to sustainably reinforce the trust placed in it by the company's present and future shareholders, lenders, employees, business partners and the general public.

Responsible corporate governance requires transparency with regard to the organization of management and control mechanisms at the uppermost level of the enterprise. Therefore, the SIX Swiss Exchange's "Directive on Information relating to Corporate Governance" (DCG) requires issuers to make available to investors certain key information, in an appropriate form, pertaining to corporate governance.

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

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

Group structure and shareholders

Operational Group structure

The Oerlikon Group is divided into the following three Segments: Surface Solutions, Manmade Fibers and Drive Systems. The operational responsibility lies with the Segments, each of which is overseen by its own Segment CEO, whereby Dr. Roland Fischer took on the added role of CEO of Surface Solutions. Business performance is reported according to this operational Group structure. For further information regarding the operational Group structure, see page 28 et seqq. ("Group business review") and page 72 et seqq. (Financial report: "Figures Oerlikon Group").

Listed Group company

OC Oerlikon Corporation AG, Pfäffikon is listed on the SIX Swiss Exchange (symbol: OERL; securities number: 81682; ISIN: CH0000816824). On December 31, 2017, the company's market capitalization totaled CHF 5589 million. Its registered office is in Freienbach (Canton of Schwyz, Switzerland). For further information on OC Oerlikon Corporation AG, Pfäffikon see page 135 et seqq.

Non-listed Group companies

OC Oerlikon Corporation AG, Pfäffikon as parent company of the Group, owns all of the Group companies either directly or indirectly, mostly with a 100% interest. The local companies included in the scope of consolidation are shown on page 148 et seqq. in their legal ownership structure, and on page 126 et seqq., they are listed by country together with each company's place of registered office, share capital, percentage of shares owned and number of employees.

Significant shareholders

	Shareholdings[1]	
	Number of shares	In percent[2]
Renova Group[3] (composed of Liwet Holding AG, Zurich, Switzerland, and Renova Innovation Technologies Ltd., Nassau, Bahamas)	146222889[4]	43.04
Baillie Gifford Life Limited, Edinburgh[5]	1603498[6]	0.47
Black Creek Investment Management Inc., Toronto	556984[7]	0.16

[1] As of December 31, 2017. Source: disclosure notifications pursuant to Art. 120 et seqq. of the Federal Act on Financial Market Infrastructures and Market Conduct in Securities and Derivatives Trading (Financial Market Infrastructure Act, FMIA) and share register.
[2] Basis: shares issued (339758576).
[3] Beneficial owner (as per disclosure notification): Viktor F. Vekselberg, Zug and Moscow.
[4] Source: disclosure notification by Renova Group (published by SIX Exchange Regulation on November 15, 2017).
[5] Beneficial owner (as per disclosure notification): Baillie Gifford & Co, Edinburgh.
[6] According to the disclosure notification by Baillie Gifford & Co., Edinburgh (published by SIX Exchange Regulation on July 28, 2017), Baillie Gifford Life Limited holds a purchase position of 4.01% (0.47% in shares and 3.54% voting rights, which were delegated by a third party and can be exercised by Baillie Gifford Life Limited at its own discretion).
[7] According to the disclosure notification by Black Creek Investment Management Inc., Toronto (published by SIX Exchange Regulation on April 19, 2017), the Black Creek Focus Fund, Toronto, holds a purchase position of 3.2% (0.16% in shares and 3.04% voting rights, which were delegated by a third party and can be exercised by Black Creek Investment Management Inc. at its own discretion). After December 31, 2017, Black Creek Investment Management Inc., Toronto, reduced its shares and voting rights below 3%. For more information, see disclosure notification by Black Creek Investment Management Inc., Toronto (published by SIX Exchange Regulation on January 20, 2018).

The disclosure notifications pursuant to Art. 120 et seqq. of the Financial Market Infrastructure Act (FMIA) that were submitted during the year under review are published on the electronic publication platform of SIX Swiss Exchange Ltd, Disclosure Office (www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html).

Cross-shareholdings

There are no cross-shareholdings.

Capital structure

Capital

The share capital of OC Oerlikon Corporation AG, Pfäffikon amounts to CHF 339758576, composed of 339758576 registered shares, each with a par value of CHF 1.00. The company also has conditional capital amounting to CHF 40 million for convertible and warrant bonds, etc., and CHF 7.2 million for employee stock option plans.

Authorized capital and conditional capital in particular

Authorized capital: The company has no authorized capital.

Conditional capital for warrant and convertible bonds: Pursuant to Art. 11a of the Articles of Association, the company's share capital shall be increased by a maximum aggregate amount of CHF 40 million (corresponding to 11.77% of the current share capital) through the issuance of a maximum of 40 million registered shares with a par value of CHF 1.00 each, by exercising the option and conversion rights granted in connection with bonds of the company or one of its Group companies. The subscription rights of shareholders are excluded in this regard. Current holders of option certificates and/or convertible bonds are entitled to acquire the new shares. When issuing warrant or convertible bonds, the Board of Directors can limit or exclude the preemptive subscription rights of shareholders (1) to finance and refinance the acquisition of enterprises, divisions thereof, or of participations, or of newly planned investments of the company, and (2) to issue warrant and convertible bonds on international capital markets. Insofar as preemptive subscription rights are excluded, (1) the bonds are to be placed publicly on market terms, (2) the exercise period for the option and conversion rights may not exceed seven years from the date the bond was issued, and (3) the exercise price for the new shares must at least correspond to the market conditions at the time the bond was issued.

Conditional capital for employee stock option plans: Pursuant to Art. 11b of the Articles of Association, the company's share capital will be increased by a maximum aggregate amount of CHF 7.2 million (corresponding to 2.12% of the current share capital), excluding the preemptive subscription rights of current shareholders, through the issuance of a maximum of 7.2 million fully paid-in registered shares with a par value of CHF 1.00 each, by the exercise of option rights granted to the employees of the company or one of its Group companies under a stock option plan yet to be approved by the Board of Directors. The issuance of shares at less than the stock exchange price is permissible; further details shall be determined by the Board of Directors.

Changes in capital

In the years 2015, 2016 and 2017, there were no changes in capital.

Detailed information on changes in the total equity of OC Oerlikon Corporation AG, Pfäffikon can be found in the holding company's equity capital statement on page 142 of the Annual Report.

Shares and participation certificates

The equity securities of OC Oerlikon Corporation AG, Pfäffikon consist exclusively of 339 758 576 fully paid-in registered shares with a par value of CHF 1.00 each, all of which are equal with respect to their attendant voting rights, dividend entitlement and other rights. The registered shares of OC Oerlikon Corporation AG, Pfäffikon are in principle not certificated but instead issued as uncertificated securities within the meaning of the Swiss Code of Obligations and as intermediated securities in terms of the Intermediated Securities Act, respectively. Shareholders may at any time request that the company print and deliver their shares in certificate form free of charge, and the company may, at any time and without shareholders' approval, convert the uncertificated securities into share certificates, global certificates or collectively deposited securities. If registered shares are to be printed, OC Oerlikon Corporation AG, Pfäffikon may issue certificates covering multiples of registered shares. The share certificates bear the facsimile signatures of two members of the Board of Directors.

Profit-sharing certificates

OC Oerlikon Corporation AG, Pfäffikon has not issued any profit-sharing certificates.

Limitations on transferability and nominee registrations

There are no restrictions on the transfer of OC Oerlikon Corporation AG, Pfäffikon shares. The company recognizes only those parties entered in the share register as shareholders or usufructuaries. Fiduciary shareholders and nominees will also be entered in the share register.

Convertible bonds and options

As at December 31, 2017, there were neither convertible bonds nor options outstanding.

Stability and competence

The Oerlikon Board of Directors

Prof. Dr. Michael Süss
1963, German citizen
Chairman of the Board of Directors
Chairman of the Human Resources Committee
Chairman of the Strategy Committee

Professional background and education
Prof. Dr. Michael Süss was elected to the Board of Directors and as Chairman of the Board at the 2015 Annual General Meeting. From 2015 to 2016, Prof. Dr. Süss held the position of CEO at Georgsmarienhütte Holding, a traditional German steel company. Prior to that, he was a member of the Managing Board of Siemens AG and CEO of the Siemens Energy Sector. From 2008 to 2011, he served as CEO of the Fossil Power Generation Division of the Energy Sector and was a member of the Group Executive Management of the Siemens AG Power Generation Group from October 2006 to December 2007. From 2001 to 2006, Prof. Dr. Süss was COO at MTU Aero Engines, where he was significantly involved in the initial public offering of the company. Before joining MTU, he worked in the automotive industries, holding various management and Board positions at BMW and Porsche. Prof. Dr. Süss graduated with a degree in Mechanical Engineering from the Technical University of Munich, Germany, and completed his doctorate in 1994 at the Institute for Industrial Science/Ergonomics at the University of Kassel (Dr. rer. pol.), Germany. On October 29, 2015, Prof. Dr. Michael Süss was awarded the honorary professorship of the TU Munich.

Other activities and vested interests
Prof. Dr. Süss is a Director of Renova Management AG, First Deputy Chairman of the Supervisory Board of Verbund AG and a member of the Supervisory Board of Herrenknecht AG.

Gerhard Pegam
1962, Austrian citizen
Vice Chairman of the Board of Directors
Member of the Human Resources Committee (since April 11, 2017)
Member of the Strategy Committee
Member of the Audit & Finance Committee (Chairman until April 11, 2017)

Professional background and education
Gerhard Pegam was elected to the Board of Directors at the 2010 Annual General Meeting. In 2012, he founded his own consulting firm. From June 2011 until June 2012, he was a Corporate Officer of TDK Corporation, Japan. From 2001 until 2012, he was CEO of EPCOS AG, Germany, and from 2009 until 2012, he additionally served as a board member of TDK-EPC Corp., the parent company of EPCOS AG. From 1982 to 2001, he held several management positions with EPCOS AG, the Siemens Group and Philips. Gerhard Pegam graduated from the Technical College Klagenfurt, Austria, with a diploma in Electrical Engineering.

Other activities and vested interests
Gerhard Pegam is a Board member of Süss MicroTec AG and Schaffner Holding AG.

Dr. Jean Botti
1957, French citizen
Member of the Board of Directors
Member of the Strategy Committee

Professional background and education
Dr. Jean Botti was elected to the Board of Directors at the 2016 Annual General Meeting. He is currently CEO of VoltAero SA, an aircraft company. From April 2016 through March 2017 he was Chief Innovation and Strategy Officer at Royal Philips. Prior to Philips, Dr. Botti was the Airbus Group's Chief Technical Officer for ten years. From 1997 to 2006, he served in diverse management roles at Delphi, including in customer solutions, as CTO and as Business Line Executive for the powertrain product line. Before joining Delphi, Dr. Botti held various management positions at General Motors and Renault, mostly in the area of chassis engineering, drivelines and automotive components. Dr. Botti holds 31 patents. He has two Master's degrees: one in Mechanical Engineering from the Institute National des Sciences Appliquées of Toulouse, France, and the other in Science Administration from the Central Michigan University, USA. In addition he has a PhD in Mechanical Engineering from the Conservatoire national des Arts et Métiers, Paris, France. He also completed the Research and Innovation Program at the Massachusetts Institute of Technology (MIT), Cambridge, USA. Dr. Botti is a member of the French Academy of Technologies. He is a recipient of the French Legion d'Honneur and of the French Medal of Aeronautics.

Other activities and vested interests
Dr. Botti is a Board Member of Inventys, an oil and gas company in Canada.

Geoffery Merszei
1951, Canadian citizen
Member of the Board of Directors
(since April 11, 2017)
Chairman of the Audit & Finance Committee
(since April 11, 2017)

Professional background and education
Geoffery Merszei was elected to the Board of Directors at the 2017 Annual General Meeting. He is Chairman and Chief Executive of Zolenza AG, an investment and advisory firm based in Zug, Switzerland. He brings with him over 40 years of experience in corporate governance and finance. For over 30 years, Geoffery Merszei served in a number of senior management positions at The Dow Chemical Company, the last being Executive Vice President (EVP) of The Dow Chemical Company, President of Dow EMEA and Chairman of Dow Europe before retiring in 2013. From 2001 to 2005, Geoffery Merszei left Dow to be the EVP and CFO of Alcan Inc., and returned to Dow in 2005 as EVP, CFO and a member of the Board of Directors of The Dow Chemical Company. Geoffery Merszei previously served as a Board member of the Chemical Financial Corporation and Chemical Bank and the Swiss American Chamber of Commerce. Geoffery Merszei holds a Bachelor of Arts degree in Economics from Albion College, Michigan, USA.

Other activities and vested interests
Geoffery Merszei is a Board Member of ICL Chemicals Ltd.

David Metzger
1969, Swiss and French citizen
Member of the Board of Directors
Member of the Audit & Finance Committee

Professional background and education
David Metzger was elected to the Board of Directors at the 2016 Annual General Meeting. He serves as Managing Director Investments of the Renova Management AG, Zurich, Switzerland. Since 2011, he has held various positions at Renova, initially as CFO of Venetos, and later as Deputy Managing Director Strategy and M&A. Prior to Renova, David Metzger worked for Good Energies, a highly renowned renewable energy fund, where he was an investment manager for four years during which he also served as CFO and Board Member of several investments. Before Good Energies, he was a Senior Manager at Bain & Company, focusing on strategy and private equity. David Metzger holds a Master's degree in Business Economics from the University of Zurich, Switzerland, and an MBA from INSEAD, Fontainebleau, France.

Other activities and vested interests
David Metzger is a Board member of Octo Telematics Ltd.

Alexey V. Moskov
1971, Cypriot and Russian citizen
Member of the Board of Directors
Member of the Human Resources Committee
Member of the Audit & Finance Committee
(until April 11, 2017)

Professional background and education
Alexey V. Moskov was elected to the Board of Directors at the 2016 Annual General Meeting. In 2004, he was appointed Chief Operating Officer of Renova Management AG, Zurich, Switzerland. Prior to Renova, he served on the Board of Directors of OAO NGK Slavneft and worked in diverse managerial positions at Tyumen Oil Company TNK-BP. Alexey V. Moskov holds a Master's degree in Engineering and Development from the Moscow State Railway University (Technical Cybernetics Department), Moscow, Russia.

Other activities and vested interests
None.

Board of Directors

The rules and regulations governing the organization and duties of the Board of Directors of OC Oerlikon Corporation AG, Pfäffikon are to be found in the Swiss Code of Obligations, the Articles of Association of OC Oerlikon Corporation AG, Pfäffikon and the Organizational and Governance Rules of OC Oerlikon Corporation AG, Pfäffikon.

Members of the Board of Directors

In the year under review, the Board of Directors of OC Oerlikon Corporation AG, Pfäffikon was composed of Prof. Dr. Michael Süss (Chairman), Gerhard Pegam (Vice Chairman), Dr. Jean Botti, Geoffery Merszei (since April 11, 2017), David Metzger and Alexey V. Moskov. The five previous Board members who remained on the Board of Directors and the new Board member were all reelected and elected, respectively, by the Annual General Meeting of Shareholders on April 11, 2017, for a term of office of one year.

In the three financial years preceding the reporting period, the members of the Board of Directors were not involved in the executive management of OC Oerlikon Corporation AG, Pfäffikon or any other Group company. They also do not have any significant business connections with companies of the Oerlikon Group. However, Prof. Dr. Süss, David Metzger and Alexey V. Moskov also hold senior positions at Renova Group, Oerlikon's largest shareholder. Prof. Dr. Süss is a Director of Renova Management AG, Zurich, Mr. Metzger is Managing Director Investments at Renova Management AG, Zurich, and Mr. Moskov is Chief Operating Officer of Renova Management AG, Zurich). As to Oerlikon's business relationships with companies that are directly or indirectly controlled by the Renova Group, see "Financial Report" section, Note 22 on pages 119 et seqq.

Other activities and vested interests

Regarding the activities of the members of the Board of Directors in governing and supervisory bodies of important Swiss and foreign organizations, institutions and foundations under private and public law, permanent management and consultancy functions for important Swiss and foreign interest groups, and official functions and political posts, see page 40 et seqq.

Number of permitted mandates

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

Elections and terms of office

Board members are elected annually by the General Meeting of Shareholders for a term of one year and are eligible for reelection; a "year" means the period from one ordinary General Meeting of Shareholders to the completion of the next. In the event of elections for replacement or elections of additional members during the year, the period until the completion of the next ordinary General Meeting of Shareholders shall be deemed to constitute a year. Each member of the Board of Directors shall be elected individually. Only persons who have not completed their 70th year of age on the election date are eligible. The General Meeting of Shareholders may, under special circumstances, grant an exception to this rule and may elect a member of the Board of Directors for one or several terms of office provided that the total number of these additional terms of office does not exceed three.

Composition of the Board of Directors

Name (nationality)	Domicile	Position	Age	Joined	Term expires	Executive / non-executive
Prof. Dr. Michael Süss (DE)	DE	Chairman	54	2015	2018	Non-executive
Gerhard Pegam (AT)	DE	Vice Chairman	55	2010	2018	Non-executive
Dr. Jean Botti (FR)	US	Member	60	2016	2018	Non-executive
Geoffery Merszei (CAN)	CH	Member since April 11, 2017	66	2017	2018	Non-executive
David Metzger (CH/FR)	CH	Member	48	2016	2018	Non-executive
Alexey V. Moskov (CY/RU)	CH	Member	46	2016	2018	Non-executive

Internal organizational structure

The Board of Directors is the ultimate supervisory body of OC Oerlikon Corporation AG, Pfäffikon and the Oerlikon Group. It is responsible for the overall management, oversight and control of OC Oerlikon Corporation AG, Pfäffikon and the Oerlikon Group, determines the Group strategy and oversees the CEO. It sets forth guidelines on the general and strategic direction of OC Oerlikon Corporation AG, Pfäffikon and the Oerlikon Group and periodically reviews their implementation.

The Board of Directors shall consist of at least three but not more than seven Board members, the majority of whom should be independent. In general, a Board member shall be deemed to be independent if, during the three years immediately prior to taking up office, he was neither a member of the executive management of OC Oerlikon Corporation AG, Pfäffikon, the Oerlikon Group, an Oerlikon Group company or an audit firm of any of them, nor close to any of the latter, and had no significant business relations, whether directly or indirectly, with the Oerlikon Group. Should the Board of Directors exceptionally assign certain executive tasks for a limited period of time to one of its Board members, such assignment alone shall as a rule not by itself qualify such Board member as a dependent member of the Board of Directors.

The Chairman of the Board of Directors shall ensure that the Board of Directors may and does effectively carry out its superintendence and oversight role on an informed basis. He shall endeavor, in close contact with the CEO, to provide the Board of Directors with optimal information regarding the operating activities of OC Oerlikon Corporation AG, Pfäffikon and the Oerlikon Group. Together with the CEO, the Chairman shall perform a leadership role in the implementation of the strategic orientation of the Group, as set out by the Board of Directors on a collegial basis, and shall represent OC Oerlikon Corporation AG, Pfäffikon and the Oerlikon Group in relations with important shareholders, clients, further stakeholders and the general public.

The Chairman shall convene, prepare and chair Board meetings and may convene meetings of the Board of Directors Committees. He shall coordinate the work of the Board of Directors and the Board of Directors Committees and shall ensure that Board members receive in a timely manner all information necessary to perform their duties. In cases of uncertainty, he shall delineate authorities between the Board of Directors, its Committees and the CEO, unless the entire Board of Directors intends to address the matter.

The Board of Directors may at any time create committees from among its members to assist it in the performance of its duties. These committees are permanent advisory groups supporting the Board of Directors with their particular expertise. Unless expressly stated in the Organizational and Governance Rules, the Chart of Competences or the relevant committee's rules and regulations, they shall not have any authority to decide matters in lieu of the Board of Directors. All cases in which the currently existing committees do in fact have authority to decide matters in lieu of the Board of Directors will be specified hereinafter. They may prepare, review and investigate matters of relevance within their field of expertise and submit proposals to the Board of Directors for deliberation, but must not themselves take resolutions beyond recommendations, proposals or motions to be submitted to the Board of Directors for deliberation.

There are currently three permanent Committees of the Board of Directors, namely the Audit & Finance Committee (AFC), the Human Resources Committee (HRC) and the Strategy Committee (SC).

Membership of these Committees in the year under review was as follows:

Composition of Committees of the Board of Directors

Name (nationality)	Audit & Finance Committee (AFC)	Human Resources Committee (HRC)	Strategy Committee (SC)
Prof. Dr. Michael Süss (DE)		Chairman	Chairman
Gerhard Pegam (AT)	Member (Chairman until April 11, 2017)	Member since April 11, 2017	Member
Dr. Jean Botti (FR)			Member
Geoffery Merszei (CA)	Chairman since April 11, 2017		
David Metzger (CH/FR)	Member		
Alexey V. Moskov (CY/RU)	Member until April 11, 2017	Member	

Audit & Finance Committee (AFC)

The AFC is a permanent committee of the Board of Directors within the meaning of Art. 716a Para. 2 of the Swiss Code of Obligations. As a rule, the AFC shall be composed of at least three members of the Board of Directors. Members of the AFC are not eligible if they perform any executive management duties within the Oerlikon Group while in office, or have significant business relations with OC Oerlikon Corporation AG, Pfäffikon or the Oerlikon Group, or have been members of the Executive Committee in the preceding three years. They must by all means have the degree of independence required by the Swiss Code of Best Practice for Corporate Governance, as amended from time to time. The majority of AFC members, including its Chairman, shall have experience in finance and accounting and be familiar with internal and external auditing. As a separate advisory group, independent from the Executive Committee and the CEO, the AFC shall advise the Board of Directors and exclusively follow the Board of Directors' instructions.

The AFC's purpose is to facilitate the Board's ability to fulfill its duties regarding OC Oerlikon Corporation AG, Pfäffikon and all its subsidiaries. Its responsibilities include assisting the Board in monitoring the adequacy of processes and the integrity of:

- OC Oerlikon Corporation AG, Pfäffikon's financial statements
- OC Oerlikon Corporation AG, Pfäffikon's internal controls
- OC Oerlikon Corporation AG, Pfäffikon's compliance with legal and regulatory requirements
- OC Oerlikon Corporation AG, Pfäffikon's External Auditor's performance, qualification and independence (incl. review of the audit work plan and the compensation)
- OC Oerlikon Corporation AG, Pfäffikon's internal audit department's performance
- OC Oerlikon Corporation AG, Pfäffikon's risk management policies, capital structure and funding requirements.

The AFC may prepare, review or investigate matters of relevance within its responsibilities and submit relevant proposals to the Board of Directors for deliberation, but must not itself take resolutions beyond recommendations, proposals or motions to be submitted to the Board of Directors for deliberation. The AFC has no authority to decide matters in lieu of the Board of Directors.

The organization, detailed responsibilities, functioning and reporting of the AFC are stipulated in the Rules and Regulations of the AFC published on the Oerlikon website at www.oerlikon.com/en/investor-relations/corporate-governance/investor-relations-new-statutes/.

Human Resources Committee (HRC)

As a rule, the HRC shall be composed of at least three members of the Board of Directors. Members of the HRC are not eligible if they perform any executive management duties within the Oerlikon Group while in office, or have significant business relations with OC Oerlikon Corporation AG, Pfäffikon or the Oerlikon Group, or have been members of the Executive Committee in the preceding three years. In all cases, they must have the degree of independence required by the Swiss Code of Best Practice for Corporate Governance, as amended from time to time.

The HRC supports the Board of Directors with regard to matters related to human resources, including compensation policies, performance assessment, appointments and succession planning and other general topics related to human resources.

The HRC shall in particular support the Board of Directors in establishing and reviewing the Group's compensation strategy and in preparing the proposals to the General Meeting of Shareholders regarding compensation of the members of the Board of Directors and of the Executive Committee, and may submit proposals to the Board of Directors in other compensation-related issues. Furthermore, the HRC approves the Annual Pay Plan for the Group (including general salary increases), the Group-wide compensation policies for nonmanagerial staff, the objectives and performance contracts of all members of the Executive Committee other than the CEO, the eligibility in equity programs and the allocation of equity instruments. Other than that, the HRC has no authority to decide matters in lieu of the Board of Directors.

The organization, detailed responsibilities, functioning and reporting of the HRC are stipulated in the Rules and Regulations of the HRC published on the Oerlikon website at www.oerlikon.com/en/investor-relations/corporate-governance/investor-relations-new-statutes/.

Strategy Committee (SC)

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

The SC monitors that Oerlikon's strategy is properly implemented and complied with by the Executive Committee and all other management levels of the Oerlikon Group. Furthermore, it ensures that the Board of Directors becomes aware on a timely basis of changing trends, technologies, markets, habits, and terms of trade that could jeopardize Oerlikon's strategy.

The SC may prepare, review or investigate matters of relevance within its responsibilities and submit relevant proposals to the Board of Directors for deliberation, but must not itself take resolutions beyond recommendations, proposals or motions to be submitted to the Board of Directors for deliberation. The SC has no authority to decide matters in lieu of the Board of Directors.

The organization, detailed responsibilities, functioning and reporting of the SC are stipulated in the Rules and Regulations of the SC published on the Oerlikon website at www.oerlikon.com/en/investor-relations/corporate-governance/investor-relations-new-statutes/.

Work methods of the Board of Directors and its Committees

The Board of Directors meets at the invitation of its Chairman at least four times a year (usually once in February/March, once in June/July, once in September/October and once in November/December) or more often if necessary. The members of the Executive Committee attend the Meetings of the Board of Directors by invitation. Each Board member and the CEO may request the Chairman to convene a Board meeting by stating the reasons for such a request.

In 2017, six physical Board meetings (average duration: seven hours and twenty minutes) and three Board workshops were held (average duration: ~2.5 days). The main topics of the workshops were strategy, human resources, and business excellence/innovation. In addition, the Board held four telephone conferences (average duration: eighteen minutes). The members of the Executive Committee were invited to all meetings, workshops and conference calls of the Board of Directors; external advisors participated in two workshops.

The members of the HRC are elected by the General Meeting of Shareholders, whereas the Chairman of the HRC is appointed by the Board of Directors at the proposal of the Chairman of the Board. The members of the other Committees, i.e., the AFC and the SC, as well as their respective Chairmen, are elected by the Board of Directors at the proposal of the Chairman of the Board. Their respective terms of office correspond to their term of office as a Board member. Those Board members who are not members of a Committee have the right to attend Committee meetings with consultative vote. As a rule, the Company's CFO, External Auditor, Head of Group Accounting & Reporting, and Head of Internal Audit (who is also the secretary of the AFC) should attend the meetings of the AFC, the CEO and the CHRO the meetings of the HRC, and the CEO the meetings of the SC. Additional persons (e.g., other members of the Executive Committee or Heads of Corporate Functions) may be invited, if required. At every Board meeting, each Committee Chairman provides the Board of Directors with an update on the current activities of his Committee and important Committee issues.

The AFC and the SC convene by invitation of their respective Chairmen as often as business requires, but at least four times annually (meetings of the SC can be replaced by strategy meetings of the full Board, if appropriate). The HRC meets at the invitation of its Chairman at least three times a year, or more often if necessary.

In 2017, there were seven meetings of the AFC, lasting on average three hours. The members of the AFC participated in the meetings along with the CFO, representatives of the Corporate Functions concerned (in particular Group Accounting & Reporting and Group Internal Audit). The external auditors (PricewaterhouseCoopers AG) took part in five AFC meetings. In 2017, the HRC held three meetings, lasting on average four hours. The meetings of the SC were replaced by strategy sessions and a strategy workshop of the full Board of Directors.

Definition of areas of responsibility

Pursuant to Art. 716b of the Swiss Code of Obligations and Art. 22 para. 3 of the Articles of Association, the Board of Directors has in principle delegated the operational management of the business of OC Oerlikon Corporation AG, Pfäffikon and of the Oerlikon Group to the CEO. The scope of tasks for which the Board of Directors bears responsibility essentially encompasses those inalienable and non-delegable duties defined by law. These include:

- the ultimate direction of the business of OC Oerlikon Corporation AG, Pfäffikon and issuing of the relevant directives;
- laying down the organization of OC Oerlikon Corporation AG, Pfäffikon;
- formulating accounting procedures, financial controls and financial planning;
- nominating and removing persons entrusted with the management and representation of OC Oerlikon Corporation AG, Pfäffikon and regulating the power to sign for OC Oerlikon Corporation AG, Pfäffikon;
- the ultimate supervision of those persons entrusted with management of OC Oerlikon Corporation AG, Pfäffikon with particular regard to adherence to law, to the Articles of Association and to the regulations and directives of OC Oerlikon Corporation AG, Pfäffikon;
- issuing the Annual Report and the Compensation Report, preparing for the General Meeting of Shareholders and carrying out its resolutions;
- informing the court in case of indebtedness;
- determining the strategic direction and to approve the strategy for the Oerlikon Group and its Segments.

According to the company's Organizational and Governance Rules, it is also incumbent upon the Board of Directors to decide on (1) overall budget planning and capital expenditures off budget of at least CHF 100 million, (2) acquisitions and divestments of strategic relevance or such transactions involving an enterprise value of at least CHF 25 million or a series of such transactions involving an enterprise value of at least CHF 100 million on an aggregated basis. (3) the establishment, liquidation or restructuring of strategy-relevant companies or businesses, (4) the purchase and sale of real estate with a financial value exceeding CHF 10 million, (5) extraordinary business transactions of Group wide importance or with a financial value exceeding CHF 10 million and (6) the initiation and settlement of legal proceedings of Group wide relevance.

The CEO is responsible for all issues relating to the operational management of the business of OC Oerlikon Corporation AG, Pfäffikon and the Oerlikon Group, to the extent that such decisions are not expressly reserved for the Board of Directors or delegated to individual Group companies. The Executive Committee is the supreme advisory body advising the CEO with respect to the management of the business of OC Oerlikon Corporation AG, Pfäffikon and the Oerlikon Group. The Executive Committee is chaired by the CEO. In the case of an Executive Committee member dissenting from a decision of the CEO, such member may immediately request the CEO to submit such matter to the Chairman of the Board of Directors for his recommendation. However, the CEO will take the final decision on all issues relating to the operational management.

More information regarding the areas of responsibility of the Board of Directors, the CEO and the Executive Committee can be found in the company's Organizational and Governance Rules published on the Oerlikon website at www.oerlikon.com/en/investor-relations/corporate-governance/investor-relations-new-statutes/.

Information and control instruments vis-à-vis the Executive Committee

The Board of Directors has a wide array of instruments that enable it to perform the tasks of monitoring strategic and operational progress as well as risk exposure. The instruments at its disposal include the following elements:

The Board of Directors' right of access to and the CEO's duty of information: Each member of the Board of Directors receives a copy of the monthly report, which includes i.a. an overview of the Group performance, the financials of the Group, the Segments, and the Business Units, as well as an M&A project update. The CEO reports at Board of Directors meetings on the day-to-day operations, operating results and important business matters. Extraordinary occurrences (if any) must be immediately notified to the Chairman of the Board of Directors and to the Chairman of the relevant Committee. With the approval of the Chairman, members of the Board of Directors may also access specific business records and/or obtain information from any employees of the Oerlikon Group. The Board of Directors and its Committees regularly take advice from members of the Executive Committee in order to ensure that the most comprehensive and up-to-date information on the state of the company and all relevant elements are included in its decision making. Additionally, Heads of Business Units and Corporate Functions or other experts may be consulted on a case-by-case basis in order to gain detailed and comprehensive information on complex matters.

Accounting & reporting: The Group Accounting & Reporting function is responsible for the Group's Management Information System (MIS), which links all major Group companies and production sites directly with Group Headquarters to provide the Executive Committee and the Board of Directors with an institutionalized Group reporting on a monthly basis. This is consolidated to show the performance of each Business Unit and the Group and explains the reasons for any deviations from the key performance indicators. The Board of Directors may demand access to the relevant details at any time. Furthermore, Group Accounting & Reporting ensures compliance with International Financial Reporting Standards (IFRS).

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

Risk management: Oerlikon has a a risk management system in place with which the enterprise-wide risk management is centrally managed and decentrally implemented. A key component of it is the generation and semi-annual update of risk profiles for the Group as a whole, as well as for its individual Business Units. All types of risks, internal and external, such as market, credit and operational risks are considered, including compliance and reputational aspects, and actions are defined in order to mitigate the risk exposure. Internal risk reporting to the Executive Committee, the Audit & Finance Committee and the Board of Directors is performed semi-annually based on consolidated risk reports. On this basis, the Board of Directors monitors the risk profile of the Group and the risk mitigation actions. For further information regarding risk management, see page 62 et seqq. ("Risk management and compliance") and page 110 et seqq. ("Note 19 to the consolidated financial statements").

Compliance: There is a Group-wide compliance function in order to ensure compliance with legal, regulatory and internal regulations as well as the Group's ethical standards, in particular by preventive measures, training, information and consulting. The foundation of this program was laid and enhanced between 2009 and 2012, with a focus on key elements of a state-of-the-art compliance program, such as the Code of Conduct, risk assessment and an anticorruption program. Between 2013 and today, the focus was on behavioral aspects of leadership awareness while dealing with integrity issues, on implementing and revising the business partner integrity screening process and on establishing Oerlikon's Anti-Trust program. In 2015 and 2016, the main emphasis was on defining and implementing a data compliance program to enhance all aspects of dealing with data privacy and information security, in 2017 in particular on preparing the implementation of the EU's General Data Protection Regulation (GDPR), which will become effective on May 25, 2018. For further information regarding compliance, see page 62 et seqq. ("Risk management and compliance").

Internal audit: Internal Audit is an independent and objective assurance activity that assists Oerlikon in accomplishing its objectives by bringing a systematic and disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes. The Head of Internal Audit reports functionally to the Chairman of the AFC and administratively to the CFO. The AFC approves the budget, the resources and the internal audit plan for the following year every fall. Internal Audit closely coordinates its plans and activities with the external auditor. Internal Audit projects are selected on the basis of a Group-wide risk assessment in coordination with Group Risk Management. The annual audit plan strikes the appropriate balance between operational, financial, compliance and follow-up reviews. The results of internal audits are communicated to the responsible management team, the Executive Committee, the AFC, the Chairman of the Board and the external auditors through formal audit reports. In 2017, Internal Audit conducted 27 internal audits.

External audit: The external auditor examines the books and accounts of OC Oerlikon Corporation AG, Pfäffikon and those of the Oerlikon Group, coordinating its audit plan with that of Group Internal Audit. On completion of the audit, the external auditor prepares a comprehensive auditor's report to inform the Audit & Finance Committee and the Board of Directors about the detailed findings of the audit, and prepares a summary thereof for the Annual General Meeting of Shareholders. In 2017 the external auditors participated in five Audit & Finance Committee Meetings. Since 2016, the external audit is carried out by PricewaterhouseCoopers AG. For further information regarding auditors, see page 51.

The continuing independence of the external auditors is ensured by written representations provided by the auditors and also by the monitoring of audit fees in relation to total fees for all services paid by Oerlikon to the audit firm.

Leadership and accountability

The Oerlikon Executive Committee

Dr. Roland Fischer
1962, German citizen
Executive Committee Member
Chief Executive Officer (CEO)*
Segment CEO Surface Solutions*

Professional background and education
Dr. Roland Fischer was appointed Chief Executive Officer of Oerlikon Group, effective March 1, 2016. Prior to Oerlikon, Dr. Fischer held senior management positions at Siemens AG, the most recent as CEO of the Power and Gas Division from 2013 to 2015. Between 2011 and 2012, Dr. Fischer served as CEO of the Fossil Power Generation Division, and from 2008 to 2011, he was CEO of the Business Unit Fossil Power Generation – Products, Siemens, Germany. Before joining Siemens, Dr. Fischer was 18 years at MTU Aero Engines AG in diverse management positions in Germany and Malaysia, lastly serving as Senior Vice President, Defence Programs in Germany. Dr. Fischer graduated from the University of Stuttgart, Germany, with a degree in Aeronautical Engineering, and holds a PhD (Dr.-Ing.) in Aeronautical Engineering from the University of Karlsruhe, Germany.

Other activities and vested interests
None.

Anna Ryzhova
1979, Russian citizen
Executive Committee Member
Chief Human Resources Officer (CHRO)*

Professional background and education
Anna Ryzhova was appointed Chief Human Resources Officer effective October 10, 2016. Anna Ryzhova has over 15 years of experience in leading HR functions, 13 of which were at the Renova Group in senior HR executive roles. Most recently, Anna Ryzhova was Chief Human Resources Officer at Renova Management AG, Zurich, Switzerland. From 2010 to 2015, she served as HR and Corporate Relations Director at the Renova Group Corporate Center in Moscow, Russia. Anna Ryzhova holds a Master's degree in Economics from the National Research University Higher School of Economics in Moscow and an Executive MBA from IMD, Lausanne, Switzerland.

Other activities and vested interests
None.

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

Professional background and education
Jürg Fedier was appointed Chief Financial Officer effective January 1, 2009. From 2007 to 2008, he acted as CFO of Ciba, Switzerland. Between 2006 and 2007, he was Head of Finance of Dow Europe and a member of the Executive Board. From 2002 to 2006, Jürg Fedier served as Vice President Finance for Dow Chemical, Performance Chemicals, USA, and between 2000 and 2002 as Global Business Finance Director for Dow Chemical, Thermosets. From 1978 to 2000, he filled several management positions with Dow Chemical in the USA and in Asia. Jürg Fedier holds a Commercial Diploma from the College of Commerce in Zurich, Switzerland, and completed international executive management programs at the IMD, Lausanne, Switzerland, and the University of Michigan, USA.

Other activities and vested interests
Jürg Fedier is a member of the Boards of Directors of Dätwyler Holding Inc. and Ascom Holding Inc.

Dr. Helmut Rudigier
1955, Austrian citizen
Executive Committee Member
(since November 1, 2017)
Chief Technology Officer (CTO)*

Professional background and education
Dr. Helmut Rudigier was appointed Chief Technology Officer of the Oerlikon Group, effective November 1, 2017. Dr. Rudigier joined Oerlikon Balzers in 1986 as R&D Project Manager after completing his post doctorate research on low temperature physics at the ETH Zurich. Since then, he has built his career within Oerlikon in diverse research and management roles, including Manager R&D Balzers Thin Films, Manager Production Site Balzers, Manager R&D Division Optics, Business Development Telecommunication (fiber optics), CTO Oerlikon Balzers, and most recently as the CTO of the Surface Solutions Segment. Dr. Rudigier represents Oerlikon on the Committee for Research and Technology of the Liechtenstein Chamber of Commerce and Industry (LIHK). He holds a PhD from the Institute of Solid State Physics at the ETH Zurich, Switzerland, and has completed executive management programs at the University of California, Los Angeles, USA, and at IMD, Lausanne, Switzerland.

Other activities and vested interests
Dr. Rudigier is a member of the Industrial Advisory Board of SFB TR 87 (Transregional Collaborative Research Center), a DFG (German Research Foundation) funded collaboration between RWTH Aachen, Ruhr University Bochum and University of Paderborn. He is also a lecturer at the NTB Interstate University of Applied Sciences of Technology in Buchs, St. Gallen, Switzerland.

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

Executive Committee

Management philosophy

The Oerlikon Group's strategy is to become a powerhouse in surface solutions and advanced materials. In line with the strategy, the Group has started its transformation process by streamlining and centralizing relevant and specific management and operational functions, particularly between the Group Headquarters and the Surface Solutions Segment. Group Headquarters still determines strategic guidelines and sets operational targets, and monitors these with effective management processes and controlling; while the Segments and Business Units continue to be responsible for operations and for delivering on the agreed strategy and targets within given guidelines.

Members of the Executive Committee

On December 31, 2017, the Executive Committee consisted of Dr. Roland Fischer, CEO (since March 1, 2016) and Segment CEO of Surface Solutions (since August 2, 2016), Jürg Fedier, CFO (since January 1, 2009), Anna Ryzhova, CHRO (since October 10, 2016) and Dr. Helmut Rudigier, CTO (since November 1, 2017). Dr. Bernd Matthes, Segment CEO Drive Systems (Executive Committee member since April 1, 2014) and Georg Stausberg, Segment CEO Manmade Fibers (Executive Committee member since January 1, 2015) decided to relinquish their role in the Executive Committee and continue contributing as members of the Managing Board. The latter is reporting to the Executive Committee and was formed to strengthen the operational business and improve the Group's focus on its key markets and customers. Its members consist of the Segment CEOs, Surface Solutions Business Unit Heads, and specific Function Heads.

With the exception of Dr. Helmut Rudigier, the members of Oerlikon's Executive Committee did not previously carry out tasks for OC Oerlikon Corporation AG, Pfäffikon or any other Group company. For further information, see page 49 et seqq.

Other activities and vested interests

Regarding the activities of the members of the Executive Committee in governing and supervisory bodies of important Swiss and foreign organizations, institutions and foundations under private and public law, as well as permanent management and consultancy functions for important Swiss and foreign interest groups and official functions and political posts, see page 49 et seqq.

Number of permitted mandates

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

Management contracts

There are no management contracts with third parties.

Composition of the Executive Committee

Name	Nationality	Age	Position	Joined	In position since	Stepped down
Dr. Roland Fischer	DE	55	CEO	2016	01.03.2016	
Jürg Fedier	CH	62	CFO	2009	01.01.2009	
Anna Ryzhova	RU	38	CHRO	2016	10.10.2016	
Dr. Helmut Rudigier	AT	62	CTO	2017	01.11.2017	
Dr. Bernd Matthes	DE/USA	57	Segment CEO Drive Systems	2014	01.04.2014	31.10.2017
Georg Stausberg	DE	54	Segment CEO Manmade Fibers	2015	01.01.2015	31.10.2017

Shareholders' participation

Voting rights restrictions and representation

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

Statutory quorums

The Articles of Association of OC Oerlikon Corporation AG, Pfäffikon provide for no specific quorums that go beyond the provisions of corporate law.

Convocation of the Annual General Meeting of Shareholders

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

Inclusion of items on the agenda

The Articles of Association provide that shareholders with a holding of CHF 1 000 000 nominal value are entitled to request that an item be included on the agenda, provided that their requests are submitted in writing and include the actual agenda item and the actual motions; this request is to be made at the latest ten weeks prior to the date of the General Meeting of Shareholders.

Inscriptions into the share register

The 45th General Meeting of Shareholders will be held on April 10, 2018, in the KKL Luzern (Culture and Convention Center), Lucerne. Entitled to vote in the General Meeting of Shareholders are those shareholders whose names are inscribed into the share register as shareholders with voting rights at the cut-off date to be determined by the Board of Directors.

Right to inspect the minutes of the Annual General Meeting

The minutes of the 44th General Meeting of Shareholders held on April 11, 2017, can be viewed on the Internet at www.oerlikon.com/en/investor-relations/investor-relations-new-generalmeeting/ and shareholders may also read the minutes at Group Headquarters upon prior notice. The minutes of the 2018 Annual General Meeting of Shareholders will be published on the Oerlikon website as soon as they have been compiled.

Changes of control and defense measures

Duty to make an offer

In accordance with the Articles of Association of OC Oerlikon Corporation AG, Pfäffikon a person who acquires shares in the company is not required to make a public purchase bid pursuant to Art. 125 para. 3 of the Financial Market Infrastructure Act (opting-out).

Clauses on changes of control

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

Auditors

Duration of the mandate and term of office of the lead auditor

PricewaterhouseCoopers AG was elected by the 43rd Annual General Meeting of Shareholders of April 5, 2016, as auditor of OC Oerlikon Corporation AG, Pfäffikon and the Group for the first time. The auditor is elected by the Annual General Meeting of Shareholders for a one-year term of office. The lead auditor responsible for the mandate, Mr. Stefan Räbsamen, has served in this function since the financial year that ended on December 31, 2016. In accordance with Art. 730a para. 2 of the Swiss Code of Obligations, the lead auditor's term of office is a maximum of seven years.

Auditing fees

In the calendar year 2017, PricewaterhouseCoopers invoiced the company for CHF 2.7 million in global auditing fees.

Additional fees

In the calendar year 2017, PricewaterhouseCoopers invoiced the company for CHF 1.0 million in additional services. The additional fees were mainly invoiced for worldwide general and project-specific tax consultancy services.

Informational instruments pertaining to an external audit

In accordance with Art. 728b para. 1 of the Swiss Code of Obligations, the external auditors provide the Board of Directors, on an annual basis, with a comprehensive report with conclusions on the financial reporting and the internal controlling system as well as the conduct and the result of the audit. Furthermore, the external auditors conduct interim audits during the year, on which they report their findings to the Executive Committee and the AFC.

Once the auditing work has been completed, the AFC assesses the results and findings of the external audit, discusses its assessment with the lead auditor in charge and reports the relevant findings to the Board of Directors. Further to this, the AFC submits proposals in response to the external auditors' recommendations, objections and other discovered deficiencies, if any, to the Board of Directors for consideration and monitors the implementation of any relevant action decided upon by the Board of Directors.

The Chairman of the AFC meets regularly with the lead auditor and other representatives of the auditing firm. The latter also participate in meetings of the AFC dealing with the relevant agenda points. In the reporting year, PricewaterhouseCoopers AG participated in five meetings of the AFC.

On behalf of the Board of Directors, the AFC evaluates the work done by the external auditors and the lead auditor, based on the documents, reports and presentations issued by them as well as on the materiality and objectivity of their statements. For this, the AFC consults with the CFO and the Head of Group Internal Audit. On an annual basis, the AFC recommends to the Board of Directors the external auditors to be proposed to the General Meeting of Shareholders for election or re-election based on their performance, qualifications and independence. Once per year, the external auditors provide a formal written confirmation that they fulfil the requirements with regard to registration and independence as required by Swiss law and Swiss auditing standards. The assignment of non-audit services to the external auditors which are potentially in conflict with their role and responsibility has to be approved by the Board of Directors based on a recommendation of the AFC.

The fees paid to the external auditors are reviewed on a regular basis and compared with the auditing fees paid by other comparable listed Swiss companies. Auditing fees are negotiated by the CFO, evaluated by the AFC and subject to the approval of the Board of Directors.

Material changes since balance sheet date

There were no material changes since the balance sheet date.

Information policy

General

Oerlikon provides its shareholders and the capital markets with transparent, comprehensive and timely information on relevant facts and developments, and in a manner that is in line with the principle of equal treatment of all stakeholders, including the public and all actual and potential market participants.

Apart from its detailed Annual Report and Half-Year Report, which are prepared in accordance with International Financial Reporting Standards (IFRS), Oerlikon publishes its key financial figures and a related commentary for the first and third quarters of its financial year. In this way, Oerlikon increases its communication and transparency. Additionally, Oerlikon issues press releases on key company news during the year to ensure that shareholders and market participants are informed of significant changes and developments in the company. The company's website, www.oerlikon.com, offers a permanently accessible platform for all current information concerning the company.

As a company listed on the SIX Swiss Exchange, OC Oerlikon Corporation AG, Pfäffikon is subject to the obligation to disclose price-sensitive information to the public, including all market participants (ad hoc publicity obligation).

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

Press releases

Press releases published in 2017, along with previous releases dating back to January 2004, can be accessed on Oerlikon's website at www.oerlikon.com/pressreleases. Those interested in receiving the company's press releases regularly by e-mail can subscribe to the service at www.oerlikon.com/en/media/press-releases/registration-for-corporate-news/.

Financial calendar

For the financial calendar with Oerlikon's 2018 key financial disclosure events, please refer to page 71 under the "Financial report" section of this Annual Report. The financial calendar, including further details on dates of roadshows, conferences and events, can be found at www.oerlikon.com/en/investor-relations/investor-relations-new-financialcalendar/.

Contact

Please refer to page 71 under the "Financial report" section of this Annual Report for contact information of the Oerlikon Group, Investor Relations and Corporate Communications.

Remuneration report

Shareholder letter

Dear Shareholders

It is my pleasure as Chairman of the Human Resources Committee (HRC) to present to you the 2017 remuneration report of OC Oerlikon Corporation AG, Pfäffikon.

In 2017, the work of the HRC was mainly characterized by further streamlining the Executive Committee and fine-tuning compensation plans to support the implementation of the business strategy.

The Executive Committee (EC) was further streamlined by separating strategic from operational topics. While the Executive Committee remains focused on the execution of the Group's strategic key priorities and the development of the Group's finance, technology, HR and talents, the Managing Board, reporting to the EC, aims to strengthen the operational business and improve the Group's focus on its key markets and customers. Consequently, as per November 1, 2017, Dr. Helmut Rudigier, took on the role of Group CTO and joined the EC, while Georg Stausberg, CEO of the Manmade Fibers Segment, and Dr. Bernd Matthes, CEO of the Drive Systems Segment, relinquished their role in the EC and continued contributing as members of the Managing Board. Therefore, the Group's EC consists of Dr. Roland Fischer (CEO), Jürg Fedier (CFO), Anna Ryzhova (Chief HR Officer) and Dr. Helmut Rudigier (CTO).

Already in 2016, the Board of Directors had confirmed the compensation strategy and the design of compensation plans (STI and LTI) were adjusted. In 2017, only small adjustments were made to better align the STI with the new organizational setup and business plan execution.

In 2017, the HRC selected and proposed new members to replace Hans Ziegler who had resigned in November 2016. Geoffery Merszei was elected as a member of the Board of Directors and Gerhard Pegam was elected as a member of the HRC at the 2017 Annual General Meeting of Shareholders (AGM).

The remuneration report for 2017 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 2017, the forward-looking target value amounts that have been granted in 2017 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. In addition, a reconciliation between approved and effective remuneration is provided.

The proposals of the Board of Directors for the binding votes on remuneration will be published with the invitation to the 2018 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 2017:

- General principles of the compensation policy
- Setting and approving compensation
- Compensation systems and compensation paid or granted to the Board of Directors in 2017
- Compensation systems and compensation paid or granted to the Executive Committee in 2017

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 and takes into account data from benchmark providers but no other external consultants. HRC activities are reported to the Board of Directors following each meeting, HRC minutes are shard with all Board members and form 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
Maximum aggregate amounts of – total compensation of the Board of Directors – fixed compensation of the Executive Committee – variable compensation of the Executive Committee	Chairman	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.

Based on an analysis by PwC of 7 SMI, 9 SMIM and 16 small caps companies in the basic materials, industry and technology sectors, the HRC confirmed the compensation levels to be appropriate. PwC also provides other compensation services to the Oerlikon Group and its subsidiaries.

No changes to the compensation of the Board of Directors were made in 2017.

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 2017

No member of the Board of Directors served in an executive role in 2017. The Board of Directors consists of six members, of which one joined in April 2017 filling a vacancy. Total compensation paid to the six non-executive members of the Board of Directors in 2017 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 & finance Committee	HR Committee	Cash	RSU[1]	Other[2]	Total compensation 2017	Market value per Dec 31, 2017[3]	Total compensation 2016
Prof. Dr. Michael Süss	C	C		C	375	280	10	665	810	615
Gerhard Pegam	M	M	C[4] M[5]	M[5]	162	125	24	312	376	274
David Metzger	M		M		105	125	21	251	316	213
Alexey V. Moskov	M		M[4]	M	113	125	21	259	324	216
Dr. Jean Botti	M	M			105	125	21	251	316	213
Geoffery Merszei	M[5]		C[5]		90	125	9	224	289	–
Total[6]					951	905	107	1 962	2 429	1 904
Mandatory Employer Contributions[7]								104	129	101

C(hairperson), M(ember)

[1] The fair value at grant date of RSU was CHF 10.85.
[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 16.45.
[4] Until April 11, 2017.
[5] As of April 11, 2017.
[6] The total compensation of 2016 includes also the fees for Directors whose term ended in April 2016 in the amount of CHF 373 thousand.
[7] 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 2017 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 2017 or 2016.

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 2017 or 2016.

The Annual Shareholder Meeting on April 5, 2016 approved a maximum aggregate amount of compensation of the Board of Directors for the term of April 6, 2016 until April 11, 2017 of CHF 2.2 million. The following table shows the reconciliation between the effective Board Compensation and the amount approved for this period.

April 6, 2016–April 11, 2017

in CHF 000	Cash compensation	RSU[1]	Other	Total	Approved amount 2016–2017
	938	905	80	1 924	2 200
Full Year 2016				1 904	
Full Year 2017				1 962	
Total 2016/2017				3 866	
Mandate 2015/16 – Jan 16 – Apr 16				206	
Mandate 2016/17 – Apr 16 – Apr 17				1 924	
Mandate 2017/18 – Apr 17 – Dec 17				1 736	
Total 2016/2017				3 866	

[1] This amount includes the grant of kCHF 125 provided to Hans Ziegler who resigned his mandate in November 2016 and which has not yet been vested.

Management

Compensation system

The compensation system for the Executive Committee conists 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 2017, the proportion of variable compensation of members of the Executive Committee was between 50 % and 100 % of base salary for the target STI and between 34 % and 150 % 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 Willis 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. Willis 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, operating free cash flow and return on net assets (RONA) and account for 80 % and individual objectives for 20 % of the target bonus.

Financial objectives are set for each organizational level (Group, Segment, Business Unit, etc.) and are aimed at increasing the growth, profitability and cash efficiency of the respective business. Measurements are made in equal parts on the own and next level. The weighted result is multiplied with a modifier of 0.9, 1.0 or 1.1 depending on whether the RONA of the Oerlikon Group is within a competitive range.

Individual objectives focus on medium- and longer-term business objectives such as inorganic growth or people development. The weighted result is multiplied with a modifier of 0.9, 1.0 or 1.1 depending on whether the safety targets of the respective business is within a competitive range.

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

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

Slight amendments to the previous year include the increase of individual objectives to allow for more focus on strategic objectives, the use of a modifier to place operational business results in the context of efficient use of the Group's capital and individual achievements in the context of a continuously safer working environment. Also the review of payout levels by the HRC was expanded to larger deviations from target in both directions.

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 both for levels exceeding 100% as well as for levels between 50-90% 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 2017 is 140 %. The average payout of the STI 2016 reached 85 %.

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.

The LTI program is based on 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 received a two year blocking period applies which is waived if the employment ends earlier.

In cases of termination by mutual agreement (unless the BoD, at its discretion, decides otherwise), expiration of employment contract (retirement, death, disability) or due to dismissal for reasons other than for cause or performance, grants vest at the next regular vesting date.

The BoD is authorized to amend, supplement, suspend or terminate the Plan at its discretion and at any point in time, including corporate events affecting the underlying shares.

In 2017, 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 under the LTI program 2017. The LTI program is financed with treasury shares.

Benefits

The primary purpose of pension and insurance plans is to establish a level of security for employees and their dependents with respect to age, disability and death. The level and scope of pension and insurance benefits provided are country-specific, influenced by local market practices and regulations.

OC Oerlikon may provide other benefits in a specific country, such as a company car or a car allowance, or in case of an international hire also temporary housing or tax planning services.

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 an annual base salary.

Compensation 2017

Effective compensation

The following section discloses the pay components actually received in 2017, 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 2017 which amounted to CHF 8.4 million. The highest compensation effectively received by an individual member of the Executive Committee in 2017 was CHF 2.9 million.

Effective Compensation of members of the Executive Committee

	Fixed compensation			Variable compensation			
in CHF 000	Base salary	Pension	Other[1]	Bonus[2]	LTI 2014–17 (effective value at vesting date)[3]	Total effective compensation 2017	Total compensation 2016
Total compensation to members of the Executive Committee[4]	3 142	804	201	3 948	302	8 397	6 993
Thereof highest paid to one individual: Dr. Roland Fischer (CEO)[5]	1 000	234	132	1 430	73	2 869	2 097

[1] Other compensation includes fringe benefits such as company car, car allowance or housing.
[2] The bonus is determined on Group, Segment and individual level and depends on business and individual performance. The average STI 2017 payout is 140%.
[3] The LTI plan 2014 is based on RSU and vested in 2017 with a share price at vesting of CHF 11.95.
[4] The Executive Committee changed during the year with Dr. Helmut Rudigier joining and Dr. Bernd Matthes and Georg Stausberg leaving the Executive Committee per November 1, 2017.
[5] The highest paid active individual in 2016 was Jürg Fedier (CFO).

Granted compensation

The following section discloses the granted pay components in 2017, 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 2017 which amounted to CHF 12.0 million. The highest compensation granted to an individual member of the Executive Committee in 2017 was CHF 4.6 million.

The target compensation of members of the Executive Committee was not adjusted in 2017. Differences to the previous year stem from a change in the composition of the Executive Commitee, a higher bonus payout and a higher fair value of the LTI grants.

Granted Compensation of members of the Executive Committee (audited)

	Fixed compensation			Variable compensation				
in CHF 000	Base salary	Pension	Other[1]	Bonus[2]	LTI 2017-20 (target value at grant date)[3]	Total granted compensation 2017	Total granted compensation (market value per Dec 31, 2017)[4]	Total granted compensation 2016
Total compensation to members of the Executive Committee[5]	3 142	804	201	3 948	3 890	11 985	16 889	10 956
Thereof highest paid to one individual: Dr. Roland Fischer (CEO)[6]	1 000	234	132	1 430	1 765	4 560	6 785	3 276
Estimated Mandatory Employer Contributions[7]						635	883	627

[1] Other compensation includes fringe benefits such as company car, car allowance or housing.
[2] The bonus is determined on Group, Segment and individual level and depends on business and individual performance. The average STI 2017 payout is 140 %.
[3] The share price at grant date in 2017 was CHF 11.95. The performance of the LTI plan per December 31, 2017 is 193.2%. The effective performance of the plan will be determined per December 31, 2019 and the effective value at the time of vesting on April 30, 2020 and disclosed as effective compensation in the remuneration report the following year.
[4] The market value per year-end is based on a share price on Dec 31, 2017 of CHF 16.45 and a performance of 193.2 %.
[5] The Executive Committee changed during the year with Dr. Helmut Rudigier joining and Dr. Bernd Matthes and Georg Stausberg leaving the Executive Committee per November 1, 2017.
[6] The highest paid active individual in 2016 was Jürg Fedier (CFO).
[7] The Compensation Ordinance requires the disclosure of estimated employer contributions to social security.

The Annual Shareholder Meeting on April 5, 2016 approved a maximum aggregate amount of the fixed compensation of the Executive Committee from Jul 1, 2016 until Jun 30, 2017 of CHF 6.9 million. The following table shows the reconciliation between the effective Executive Committee Compensation and the amount approved for this period. The difference between approved and effective compensation stems from changes in the composition of the Committee.

July 1, 2016 – June 30, 2017

in CHF 000	Base salary	Pension	Other	RSU	Total	Approved amount 2016–17
	3833	929	244	199	5205	6900
Full year 2016					4398	
Full year 2017					4147	
Total 2016/2017					8545	
Period Jan 16 – Jun 16					1368	
Period Jul 16 – Jun 17					5205	
Period Jul 17 – Dec 17					1972	
Total 2016/2017					8545	

During 2017, no compensation was paid to former members of the Executive Committee or related parties, either by OC Oerlikon Corporation AG, Pfäffikon, or by any other company of the Oerlikon Group.

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 2017 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 2017 or 2016.

During 2017, 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 2017. 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" of the board of directors on page 56 and section "Granted compensation" of the executive committee labeled 'audited' on page 59 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 2017 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG

Stefan Räbsamen	Blaženka Kovács-Vujević
Audit expert Auditor in charge	Audit expert

Zürich, 2 March 2018

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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 Manage ment 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

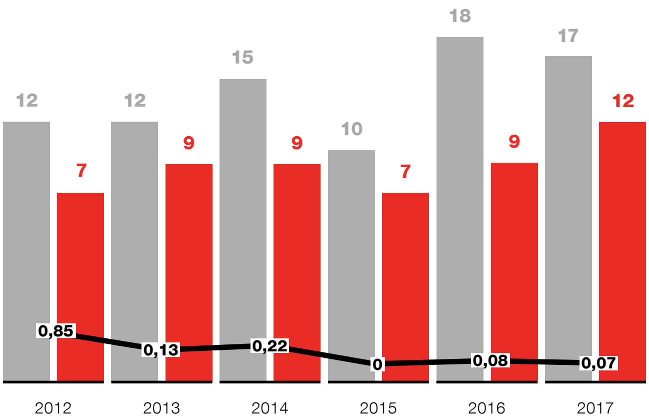
- Economic slowdown and business cycles: as a result, order intake, sales and profitability could decrease.
- Competition: Competition and overcapacity in various markets could exert pressure on prices or trigger a decline in orders. As a result, order intake, sales and profitability could decrease.
- 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.

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.



Compliance cases 2012–2017 ytd

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

In 2017, Oerlikon was able to maintain its established line of defense, a state of the art compliance program with implementing quarterly regulatory updates and automated smart controls within our eLearning processes.

An important enhancement with regards to future growth activities was the establishment of a robust post merger integration compliance onboarding process for new targets into Oerlikon's compliance system.

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.
- **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.

Financial report

Information for shareholders

2017 capital market development
Overall, 2017 was characterized by a general upswing in global economic data. The growth momentum in the world economy, which picked up at the end of 2016, continued and broadened in 2017. The German Dax, US Dow Jones and Nasdaq and UK FTSE 100 went from one record high to the next in 2017. For the first time ever, the Dow Jones reached four 1 000 point milestones in one year. In April 2017, the Swiss Performance Index (SPI) jumped above the 10 000 points for the first time. The Swiss Market Index (SMI) closed out the year at 9 382 points, an increase of 14 % compared to 2016 (8 220 points), while the SMI Mid (SMIM) increased by 30 % in 2017 to 2 592 points (2016: 1 991 points).

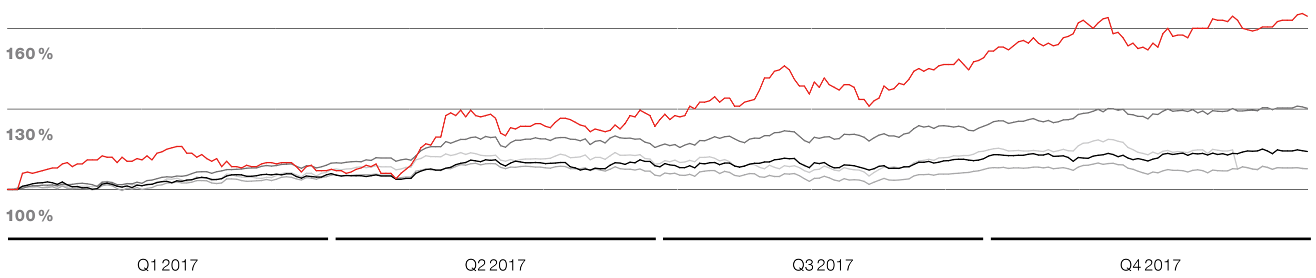
Oerlikon share performance in 2017
Oerlikon shares had a good start into the year 2017 following January broker conferences and supported by general industrial performance and the continuation of expansive monetary policy. The opening price of CHF 10.05 on January 3, 2017, marked the lowest level for the entire year. The full-year earnings announcement, an adjustment to the consensus, and positive market sentiment in the US after the 45th president took office set a new floor and concluded the first quarter of 2017. The second quarter started with a sturdy increase for Oerlikon's shares, backed by strong first-quarter results and a guidance increase. Global geopolitical developments impacted global markets and also affected the Oerlikon share price, resulting in a period of decline toward the end of the second quarter. Continued underlying performance improvement and reporting of a strong third quarter with a second guidance increase, as well as good overall economic data, continued the positive share development in the third quarter of 2017. Maintaining its elevated levels in the fourth quarter, the share price closed out 2017 at CHF 16.45 (2016 closing price: CHF 10.00), an increase of 64.5 %. In intraday trading, the share price reached its annual high on October 31, 2017, at CHF 16.95. Average daily trading volume on the 251 trading days in 2017 slightly decreased to around 0.8 million shares (2016: 1.1 million shares).

Analyst recommendations
Fourteen financial analysts covered Oerlikon in 2017 and published performance estimates and recommendations based on their analysis. Oerlikon provides analysts and investors with market consensus figures in order to facilitate an independent and transparent assessment of performance. This consensus is based purely on analyst estimates and in no way reflects the opinion of Oerlikon.

Delivering on its strategy, i.e. focus on Surface Solutions, managing Manmade Fibers and repositioning the Drive Systems Segment, together with a positive market environment led to an increase in the analysts' average target price of 54 %, from CHF 10.48 to CHF 16.15 during 2017 (with a range from CHF 13.15 to CHF 18.80 at year-end). As of December 31, 2017, six out of fourteen analysts recommended the purchase of Oerlikon shares (buy/outperform). There were eight neutral (hold/neutral) and no negative (sell/underperform) recommendations.

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

New entry in indices
As of March 20, 2017, Oerlikon entered the SPI Select Dividend 20 Index. The index includes the 20 stocks which represent the highest-yielding companies with a stable dividend-paying record and solid profitability from all stocks in the SPI index. The index is calculated by the SIX Swiss Exchange. Oerlikon's entry in the SPI Select Dividend 20 Index is a result of its financial strength and cash flow generation abilities.



Development of the Oerlikon share price
Indexed; 100 % = closing price as of December 31, 2017

- OERL
- SMI
- SMIM
- STOXX Europe 600
- STOXX Europe 600 Industrial Goods & Services

Shareholder earnings

In 2017, Oerlikon paid a dividend to its shareholders amounting to CHF 0.30 per share for the financial year 2016. Based on a strong underlying performance improvement and solid financial position, the Board of Directors of Oerlikon will propose an increased dividend of CHF 0.35 per share from the capital contribution reserves for the financial year 2017 at the Annual General Meeting of Shareholders scheduled for April 10, 2018. This will be equivalent to a payout ratio of 70 % based on underlying earnings per share (EPS) of CHF 0.50 (reported EPS: CHF 0.44). In December 2017, Oerlikon's Board of Directors reviewed and amended the company's dividend policy. The proposed dividend payout can be based on up to 50 % of the Group's underlying net result and beyond after considering the Group's financial position and affordability from the balance sheet. Based on the year-end closing price of CHF 16.45, Oerlikon shares yielded a return of 2.1 % in 2017.

Key share-related figures[1]

		2017	2016	2015	2014	2013
Year-end	in CHF	16.45	10.00	8.95	12.50	13.35
Year high	in CHF	16.95	10.10	12.70	15.65	13.70
Year low	in CHF	10.05	7.76	8.42	10.60	9.91
Year average	in CHF	13.18	9.26	11.02	13.20	11.86
Average daily trading volume (SIX)	in thousands	831	1 107	1 226	1 039	1 236
Average daily trading volume (SIX)	in CHF thousands	11 054	10 217	13 103	13 615	14 566
Shares outstanding at year-end	number	339 758 576	339 758 576	339 758 576	339 758 576	334 633 258
Market capitalization at year-end	in CHF million	5 589	3 398	3 041	4 247	4 467
Earnings per share (undiluted)	in CHF	0.44	1.14	-1.24	0.59	0.60
Earnings per share (diluted)	in CHF	0.44	1.14	-1.24	0.59	0.59
Price-earnings ratio		37.39	8.77	n/a	21.19	22.25
Payout ratio		70 %[2]	97 %[3]	49 %[4]	42 %[5]	36 %[6]
Dividend per share	in CHF	0.35[7]	0.30[8]	0.30[9]	0.30[10]	0.27[11]
Dividend yield		2 %	3 %	3 %	2 %	2 %
Equity per share[12]	in CHF	5.80	5.38	4.58	6.50	6.27
Cash flow from operating activities per share	in CHF	1.41	0.86	0.85	0.76	1.11

[1] Average number of shares with voting and dividend rights.
[2] Based on underlying EPS of CHF 0.50.
[3] Based on underlying EPS of CHF 0.31.
[4] Based on underlying EPS of CHF 0.61.
[5] Based on underlying EPS of CHF 0.72.
[6] Based on underlying EPS of CHF 0.76.
[7] Dividend proposed for financial year 2017, to be paid in 2018.
[8] For financial year 2016, paid in 2017.
[9] For financial year 2015, paid in 2016.
[10] For financial year 2014, paid in 2015.
[11] For financial year 2013, paid in 2014.
[12] Attributable to shareholders of the parent.

Listing on the stock exchange

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

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

Weighting of the Oerlikon share in indices

as of December 31, in %	2017	2016
SMIM	1.90844	1.34585
SMI Expanded	0.25345	0.16909
SPI	0.23534	0.15846
SPI Extra	1.20843	0.87736
SPI ex SLI	1.67437	1.24905
SPI Select Dividend 20	0.48051	n.a.
STOXX Europe 600	0.03257	0.02351
Swiss All Share	0.23284	0.15695
UBS 100 Index	0.24010	0.16130

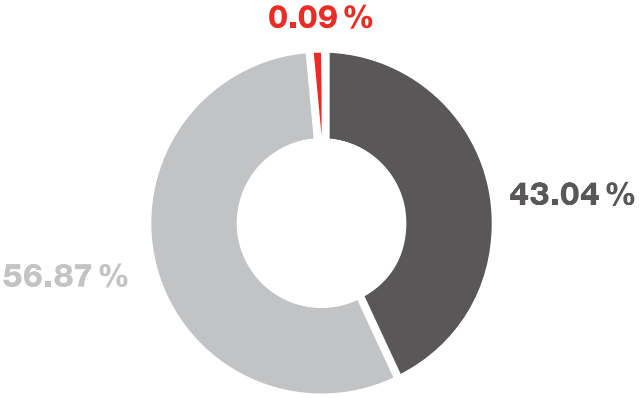
Shareholder structure

Under the terms of the Financial Market Infrastructure Act (FMIA) shareholders whose holdings reach or exceed/fall short of a certain percentage of the share capital are required to disclose their holdings. There were no changes in the holdings of the Renova Group, which remained Oerlikon's principal shareholder with 43.04 % of outstanding shares at the end of the year (2016: 43.04 %). On April 19, 2017, Black Creek Investment Management Inc. disclosed that their voting rights exceeded the threshold of 3 % of outstanding shares. On July 25, 2017, Baillie Gifford & Co. reported a further increase resulting in their voting rights exceeding the threshold of 4 % of outstanding shares. At the end of December 2017, Oerlikon held 322 194 treasury shares (0.09 % of the share capital), which are intended to be used, among other things, as incentive instruments as part of the company's long-term compensation policy (2016: 465 473). The free float totaled 56.96 % (2016: 56.96 %) as of December 31, 2017. The number of registered shareholders decreased from around 14 500 in 2016 to about 13 300 in 2017.

Oerlikon regularly commissions an analysis of its shareholder base in order to track the composition of registered shareholders as well as that of nonregistered investors. The latest study from January 2018 shows that the share capital held by private investors slightly decreased to 7 % (January 2017: 9 %), the vast majority of whom are based in Switzerland. The other 83 % is owned by professional investors, which include financial investors such as the Renova Group and institutional investors (investment funds), insurance companies and pension funds.The percentage of shares from institutional investors shares was at 40 % compared to 41 % a year ago.

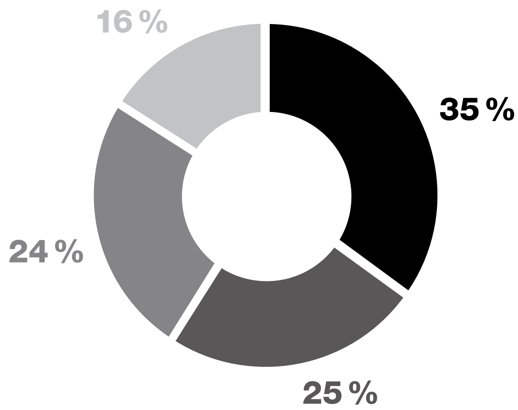
Oerlikon saw ongoing endorsement of institutional investors to take larger positions in the company. The 10 largest positions all exceed 1 % of the shares outstanding as investors value the execution of Oerlikon's strategy as well as the underlying performance improvement and disciplined use of cash. The 25 largest shareholders beside the Renova Group kept their proportion of the shares outstanding around prior year's levels at 30 %, compared to 32 % in 2017.

The regional distribution of the institutional holdings was also balanced at the beginning of 2018. The majority of institutional holdings remains in Switzerland, making up 35 % of all institutional shareholders. One year ago, this percentage was 39 %. The percentage of institutional investors from North America strongly increased to 25 % (January 2017: 19 %). Institutional shareholders from the UK and Ireland slightly decreased to 24 % (January 2017: 26 %). The portion of institutional investors from the rest of the world remained at 16 %, the same level as last year. These investors were mainly domiciled in Italy, France, Germany and Scandinavia.



Shareholder structure
as of December 31, 2017

- OC Oerlikon
- Renova Group
- Others



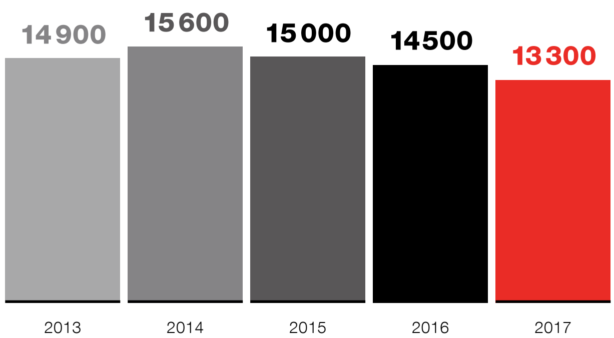
Regional distribution of institutional investors
as of December 31, 2017

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

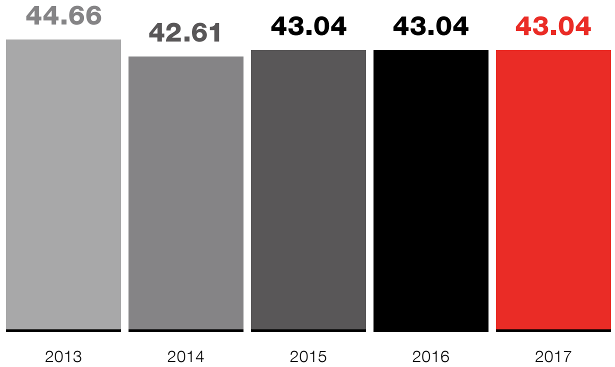
Shareholder structure

Shareholder	Dec. 2017 No. of shares	in %[3]	Dec. 2016 No. of shares	in %[3]	Dec. 2015 No. of shares	in %[3]
Renova Group[1] (composed of Liwet Holding AG, Zurich, Switzerland, and Renova Innovation Technologies Ltd., Nassau, Bahamas)	146 222 889[2]	43.04	146 222 889[2]	43.04	146 222 889[2]	43.04
OC Oerlikon Corporation AG, Pfäffikon	322 194	0.09	465 473	0.14	497 116	0.15
Others	193 213 493	56.87	182 743 744	53.78	193 038 571	56.81

[1] Beneficial owner (as per disclosure notification): Viktor F. Vekselberg, Zug and Moscow.
[2] Source: disclosure notification published by SIX Exchange Regulation on November 15, 2017.
[3] Basis: shares issued (339 758 576).



Number of registered shareholders
at year-end



Renova- a long-term-oriented main shareholder
holding in % at year-end

External financing

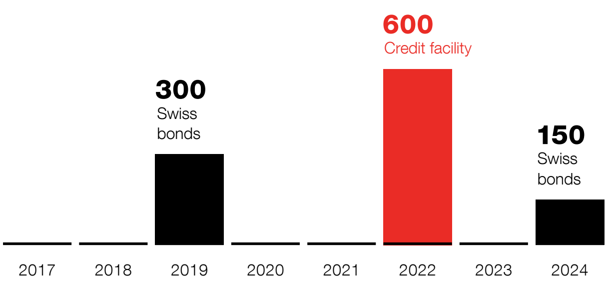
Syndicated credit facility agreement
On December 7, 2016, Oerlikon signed an agreement for an unsecured syndicated revolving credit facility amounting to CHF 600 million. The facility comprises a revolving credit facility and an ancillary credit facility with a five-year term and two optional one-year extensions. The first option was successfully concluded in November 2017, extending the maturity by one year to 2022. No liquidity was drawn from the cash facility at the balance sheet date.

Cash and cash equivalents amounted to CHF 871 million at the balance sheet date. The Group had total net cash of CHF 499 million, as of December 31, 2017.

At the 2017 balance sheet date, the Group had non-current loans and borrowings amounting to CHF 463 million, attributable primarily to the two outstanding domestic bonds. The credit-worthiness of the domestic bonds was BBB– as assessed by UBS AG, BBB as assessed by the Zürcher Kantonalbank, and low BBB as assessed by Credit Suisse (all investment grade); all three assessments remain unchanged with a stable outlook. In 2017 fedafin AG also initiated coverage of Oerlikon's bonds.

Financing instruments
as of December 31, 2017

- Credit facility CHF 600 million
  [1] No liquidity was drawn as of balance sheet date.
- Swiss bonds CHF 450 million



Maturity of financing instruments

- Credit facility CHF 600 million
- Swiss bonds CHF 450 million

Outstanding bonds as of December 31, 2017

ISIN	Coupon	Maturity	Volume	Issue price	Price as of Dec. 31, 2017	Price as of Dec. 31, 2016
CH0244692528	1.25 %	June 17, 2019 Redemption at par	CHF 300 million	100 %	101.755 %	102.547 %
CH0244692536	2.625 %	June 17, 2024 Redemption at par	CHF 150 million	100 %	113.883 %	114.749 %

Financial calendar and contacts

Financial calendar

March 6, 2018
Q4/FY 2017 results and publication of Annual Report 2017

April 10, 2018
2018 Annual General Meeting, KKL Lucerne

May 2, 2018
Q1 2018 results

August 7, 2018
Q2/HY 2018 results and publication of Interim Report 2018

October 30, 2018
Q3/9M 2018 results

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

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Key figures Oerlikon Group

Key figures Oerlikon Group

in CHF million	**January 1 to December 31, 2017**	January 1 to December 31, 2016
Order intake[1]	3005	2413
Order backlog[1]	683	447
Sales[1]	2847	2331
EBITDA[1]	415	334
– as % of sales	14.6%	14.3%
EBIT[1]	219	158
– as % of sales	7.7%	6.8%
Result from continuing operations	146	82
Result from discontinued operations, net of income taxes[2]	6	306
Net income	152	388
– as % of equity attributable to shareholders of the parent	8%	21%
Cash flow from operating activities[3]	478	293
Capital expenditure for property, plant and equipment and intangible assets[1]	237	144
Total assets	4352	3825
Equity attributable to shareholders of the parent	1970	1826
– as % of total assets	45%	48%
Net cash[1, 4]	499	401
Net operating assets[1, 5]	1949	1867
Number of employees (full-time equivalents)[1]	14962	13840
Personnel expense[1]	877	796
Research and development expenditure[1, 6]	107	94

[1] Continuing operations.

[2] Includes reclassification of translation differences and other items of other comprehensive income amounting to CHF 0 million (previous year: CHF -29 million).

[3] Cash flow from operating activities before changes in net current assets amounts to CHF 405 million (previous year: CHF 269 million).

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

[5] Net operating assets include current and non-current operating assets (including goodwill and brands and excluding cash and cash equivalents, current financial investments, current income tax receivables and deferred tax assets) less operating liabilities (excluding current loans and borrowings, non-current financial liabilities, current income tax payables, non-current post-employment benefit liabilities and deferred tax liabilities).

[6] Research and development expenditure includes expenses recognized as intangible assets in the amount of CHF 25 million (previous year: CHF 22 million).

Key share-related figures[1]

in CHF	**January 1 to December 31, 2017**	January 1 to December 31, 2016
Share price		
Year high	16.95	10.10
Year low	10.05	7.76
Year-end	16.45	10.00
Shares outstanding at year-end	339758576	339758576
Market capitalization at year-end in CHF million	5589	3398
EBIT per share[2]	0.65	0.47
Earnings per share	0.44	1.14
Cash flow from operating activities per share	1.41	0.86
Equity per share[3]	5.80	5.38
Dividend per share	0.35[4]	0.30[5]

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

[2] Continuing operations.

[3] Attributable to shareholders of the parent.

[4] Dividend proposal for 2017, to be paid in 2018.

[5] For financial year 2016, paid in 2017.

Key figures by Segment

in CHF million	January 1 to December 31, 2017	January 1 to December 31, 2016
Oerlikon Group[1]		
Order intake	3005	2413
Order backlog	683	447
Sales	2847	2331
EBITDA	415	334
– as % of sales	14.6%	14.3%
EBIT	219	158
– as % of sales	7.7%	6.8%
Net operating assets[2]	1949	1867
Number of employees (full-time equivalents)	14962	13840
Surface Solutions Segment		
Order intake	1417	1236
Order backlog	124	80
Sales	1383	1243
– thereof sales to third parties	1377	1238
EBITDA	276	277
– as % of sales	20.0%	22.2%
EBIT	149	161
– as % of sales	10.8%	13.0%
Net operating assets[2]	1519	1372
Number of employees (full-time equivalents)	7079	6528
Manmade Fibers Segment		
Order intake	810	577
Order backlog	357	270
Sales	740	481
– thereof sales to third parties	740	481
EBITDA	57	16
– as % of sales	7.7%	3.3%
EBIT	34	–3
– as % of sales	4.6%	–0.6%
Net operating assets[2]	69	163
Number of employees (full-time equivalents)	2496	2278
Drive Systems Segment		
Order intake	778	600
Order backlog	202	97
Sales	730	612
– thereof sales to third parties	730	612
EBITDA	78	51
– as % of sales	10.6%	8.4%
EBIT	36	12
– as % of sales	4.9%	2.0%
Net operating assets[2]	383	360
Number of employees (full-time equivalents)	5164	4819

[1] Continuing operations.

[2] Net operating assets include current and non-current operating assets (including goodwill and brands and excluding cash and cash equivalents, current financial investments, current income tax receivables and deferred tax assets) less operating liabilities (excluding current loans and borrowings, non-current financial liabilities, current income tax payables, non-current post-employment benefit liabilities and deferred tax liabilities).

Consolidated income statement

in CHF million	Notes	**January 1 to December 31, 2017**	January 1 to December 31, 2016
Sales of goods		1 887	1 479
Services rendered		960	852
Total sales		**2 847**	**2 331**
Cost of sales		– 2 074	– 1 699
Gross profit		**773**	**632**
Marketing and selling		–175	–164
Research and development		–114	–100
Administration		–263	–224
Other income	3	32	46
Other expense	3	–34	–32
Result before interest and taxes (EBIT)		**219**	**158**
Financial income	5	13	11
Financial expense	5	–22	–34
Result before taxes (EBT)		**210**	**135**
Income taxes	6	–64	–53
Result from continuing operations		**146**	**82**
Result from discontinued operations, net of income taxes	2	6	306
Net income		**152**	**388**
Attributable to:			
Shareholders of the parent		149	387
Non-controlling interests		3	1
Earnings per share in CHF	7	**0.44**	1.14
Diluted earnings per share in CHF	7	**0.44**	1.14
Earnings per registered share continuing operations in CHF		**0.42**	0.24
Diluted earnings per registered share continuing operations in CHF		**0.42**	0.24
Earnings per registered share discontinued operations in CHF	2	**0.02**	0.90
Diluted earnings per registered share discontinued operations in CHF	2	**0.02**	0.90

Consolidated statement of comprehensive income

in CHF million	Notes	**January 1 to December 31, 2017**	January 1 to December 31, 2016
Net income		152	388
Other comprehensive income			
Items that will never be reclassified to the income statement			
Remeasurement of defined benefit plans	14	39	–64
Income taxes on items that will never be reclassified to the income statement		–16	22
		23	–42
Items that are or may be reclassified subsequently to the income statement			
Effective portion of changes in fair value of hedges		6	4
Conversion differences		70	21
Income taxes on items that are or may be reclassified subsequently to the income statement		–1	–1
		75	24
Other comprehensive income for the period, net of taxes		**98**	**–18**
Total comprehensive income for the period		**250**	**370**
Attributable to:			
Shareholders of the parent		246	370
Non-controlling interests		4	–

Consolidated balance sheet at December 31

Assets

in CHF million	Notes	**2017**	2016
Cash and cash equivalents	8	871	751
Current financial investments and derivatives	9	101	121
Trade and trade notes receivable	10	447	369
Other receivables	10	172	85
Current tax receivables		28	41
Inventories	11	431	353
Prepaid expenses and accrued income		16	16
Current assets		**2 066**	**1 736**
Loans and other non-current financial receivables	10	23	22
Non-current financial investments	9	18	6
Property, plant and equipment	12	845	745
Goodwill and intangible assets	13	1 229	1 154
Post-employment benefit assets	14	20	3
Deferred tax assets	6	151	159
Non-current assets		**2 286**	**2 089**
Total assets		**4 352**	**3 825**

Liabilities and equity

in CHF million	Notes	**2017**	2016
Trade payables	15	365	239
Current financial liabilities and derivatives	15	5	6
Other current payables	15	57	60
Accrued liabilities	16	203	178
Current customer advances		366	167
Current income taxes payable		65	44
Current post-employment benefit liabilities	14	17	18
Other current provisions	17	76	71
Current liabilities		**1 154**	**783**
Non-current loans and borrowings	18	463	466
Other non-current liabilities	19	37	–
Non-current post-employment benefit liabilities	14	419	436
Deferred tax liabilities	6	165	159
Other non-current provisions	17	126	141
Non-current liabilities		**1 210**	**1 202**
Total liabilities		**2 364**	**1 985**
Share capital		340	340
Treasury shares		–4	–5
Retained earnings and reserves		1 634	1 491
Equity attributable to shareholders of the parent		**1 970**	**1 826**
Non-controlling interests		18	14
Total equity		**1 988**	**1 840**
Total liabilities and equity		**4 352**	**3 825**

Consolidated cash flow statement[1]

in CHF million	Notes	**January 1 to December 31, 2017**	January 1 to December 31, 2016
Net income		152	388
Income taxes		63	55
Interest expense (net)		11	25
Depreciation of property, plant and equipment	12	130	120
Amortization of intangible assets	13	61	55
Impairment losses on property, plant and equipment	12	5	1
Addition to other provisions (net)		26	12
Decrease in post-employment benefit liabilities		–18	–23
Gain on sale of discontinued operations, net of income taxes	2	–6	–291
Income taxes paid		–41	–69
Other non-cash items		22	–4
Cash flow from operating activities before changes in net current assets		405	269
Increase/decrease in receivables, prepaid expenses and accrued income		–140	31
Increase/decrease in inventories		–59	7
Increase/decrease in payables, accrued liabilities and use of other provisions		91	–54
Increase in customer advances		181	37
Non-cash impact on net current assets due to hedge accounting		–	3
Cash flow from changes in net current assets		73	24
Cash flow from operating activities		**478**	**293**
Purchase of property, plant and equipment		–202	–112
Purchase of intangible assets	13	–35	–40
Acquisition of subsidiaries/business, net of cash acquired	2	–26	–45
Proceeds from sale of discontinued operations, net of cash disposed of		–	356
Repayment of liabilities relating to acquisition of subsidiaries		–	–4
Acquisition of associates		–11	–
Proceeds from sale of property, plant and equipment		5	5
Purchase of financial investments		–14	–114
Proceeds from sale of financial investments		40	4
Interest received		6	7
Cash flow from investing activities		**–237**	**57**
Dividends paid		–104	–104
Repayment of financial debt		–6	–301
Acquisition of non-controlling interests		–9	–5
Proceeds from foundation of subsidiaries with non-controlling interests		5	–
Interest paid		–18	–38
Cash flow from financing activities		**–132**	**–448**
Conversion adjustments to cash and cash equivalents		11	–2
Increase (+)/ decrease (–) in cash and cash equivalents		**120**	**–100**
Cash and cash equivalents at the beginning of the year	8	751	851
Cash and cash equivalents at the end of the year	8	871	751
Increase (+)/ decrease (–) in cash and cash equivalents		**120**	**–100**

[1] The cash flow statement includes effects from discontinued operations as well as assets and liabilities held for sale. Refer to Note 2 for cash flow from discontinued operations.

Changes in liabilities from financing activities can be attributed to cash flow (CHF -6 million), additional financial lease liabilities (CHF 3 million) and increased contingent considerations (CHF 34 million) from different acquisitions closed in 2017.

Consolidated statement of changes in equity

in CHF million	Share capital[1]	Additional paid-in capital[2]	Treasury shares[3]	Conversion differences	Retained earnings	Hedge accounting	Income taxes	**Total equity attributable to shareholders**	Non-controlling interests	**Total share-holders' equity**
Balance at January 1, 2016	**340**	**1 217**	**–6**	**–453**	**370**	**–5**	**91**	**1 554**	**18**	**1 572**
Net income	–	–	–	–	387	–	–	387	1	388
Changes in fair value of hedges	–	–	–	–	–	2	–1	1	–	1
Net change in fair value of hedges reclassified to the income statement	–	–	–	–	–	2	–	2	–	2
Remeasurement of defined benefit plans	–	–	–	–	–64	–	22	–42	–	–42
Conversion differences	–	–	–	22	–	–	–	22	–1	21
Other comprehensive income for the period	**–**	**–**	**–**	**22**	**–64**	**4**	**21**	**–17**	**–1**	**–18**
Total comprehensive income for the period	**–**	**–**	**–**	**22**	**323**	**4**	**21**	**370**	**–**	**370**
Dividend distributions	–	–102	–	–	–	–	–	–102	–2	–104
Share-based payments	–	–	1	–	6	–	–	7	–	7
Contributions and distributions	**–**	**–102**	**1**	**–**	**6**	**–**	**–**	**–95**	**–2**	**–97**
Acquisition of non-controlling interests without a change in control	–	–	–	–	–3	–	–	–3	–2	–5
Changes in ownership interests	**–**	**–**	**–**	**–**	**–3**	**–**	**–**	**–3**	**–2**	**–5**
Total transactions with owners of the company	**–**	**–102**	**1**	**–**	**3**	**–**	**–**	**–98**	**–4**	**–102**
Balance at December 31, 2016	**340**	**1 115**	**–5**	**–431**	**696**	**–1**	**112**	**1 826**	**14**	**1 840**
Net income	–	–	–	–	149	–	–	149	3	152
Changes in fair value of hedges	–	–	–	–	–	6	–1	5	–	5
Remeasurement of defined benefit plans	–	–	–	–	39	–	–16	23	–	23
Conversion differences	–	–	–	69	–	–	–	69	1	70
Other comprehensive income for the period	**–**	**–**	**–**	**69**	**39**	**6**	**–17**	**97**	**1**	**98**
Total comprehensive income for the period	**–**	**–**	**–**	**69**	**188**	**6**	**–17**	**246**	**4**	**250**
Dividend distributions	–	–102	–	–	–	–	–	–102	–2	–104
Share-based payments	–	–	1	–	5	–	–	6	–	6
Contributions and distributions	**–**	**–102**	**1**	**–**	**5**	**–**	**–**	**–96**	**–2**	**–98**
Foundation of subsidiaries with non-controlling interests	–	–	–	–	–	–	–	–	5	5
Acquisition of non-controlling interests without a change in control	–	–	–	–	–6	–	–	–6	–3	–9
Changes in ownership interests	**–**	**–**	**–**	**–**	**–6**	**–**	**–**	**–6**	**2**	**–4**
Total transactions with owners of the company	**–**	**–102**	**1**	**–**	**–1**	**–**	**–**	**–102**	**–**	**–102**
Balance at December 31, 2017	**340**	**1 013**	**–4**	**–362**	**883**	**5**	**95**	**1 970**	**18**	**1 988**

[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. On December 31, 2017, conditional capital amounted to CHF 47 200 000 (previous year: CHF 47 200 000).

[2] As of December 31, 2017, additional paid-in capital includes CHF 787 million (previous year: CHF 889 million) of legal reserves in OC Oerlikon Corporation AG, Pfäffikon.

[3] As of December 31, 2017, the Group held 322 194 own shares (previous year: 465 473).

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, manmade fibers manufacturing and drive systems.

Apart from its activities in Switzerland, the Oerlikon Group operates primarily in EU member states, North America and Asia, and has a workforce of 14 962 employees (full-time equivalents).

Basis of preparation

The consolidated financial statements of OC Oerlikon Corporation AG, Pfäffikon, have been prepared in accordance with International Financial Reporting Standards (IFRS) and Swiss company law. These accounting standards have been applied consistently in all periods presented in this report. The consolidated financial statements are presented in Swiss francs (CHF). The consolidated financial statements were approved by the Board of Directors on March 2, 2018, and will be submitted to the Annual General Meeting of Shareholders on April 10, 2018, for approval. All standards issued by the International Accounting Standards Board (IASB) and all interpretations of the IFRS Interpretations Committee (IFRIC) effective at the date of the consolidated financial statements have been taken into account. All line item amounts in the consolidated financial statements are presented in millions of Swiss francs, and all such amounts (including totals and subtotals) have been rounded according to normal commercial practice. Thus, an addition of the figures presented can result in rounding differences. Values of assets and liabilities have been determined in accordance with the historical cost convention, with the exception of derivative financial instruments, contingent considerations and financial assets held for trading purposes, which are stated at fair value. These consolidated financial statements are published in English and German. If there is any divergence in the wording, the English original text is authoritative.

Judgments, estimates and assumptions

Preparation of the consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the values of reported revenues, expenses, assets, liabilities and contingent liabilities at the reporting date. These estimates and assumptions are constantly being revised. Depending on the issues involved, revision of such assumptions can have an effect on the current period, as well as potentially on future periods. These estimates, judgments and assumptions are based on historical experience and other factors that are believed to be reasonable and justified as expectations of future events.
However, actual results can differ from these estimates. Moreover, consistent application of the chosen accounting principles can require management to make decisions that may have a material impact on the amounts reported in the annual financial statements. Above all, assessment of business transactions that involve complex structures or legal forms calls for decisions on management's part. The most important accounting estimates are to be found in:

Business combinations: Where the Group acquires control of another business, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquired business shall be recognized, separately from goodwill.
This process involves management making an assessment of the fair value of these items. Management judgment is particularly involved in the recognition and measurement of the following items:

- Intellectual property. This may include technologies, patents, licenses, trademarks and similar rights for currently marketed products.
- Customer relationships.
- Contingencies such as legal, tax and environmental matters.
- The recoverability of any accumulated tax losses previously incurred by the acquired company.

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

Impairment of value: At December 31, 2017, the Group had CHF 845 million in property, plant and equipment, CHF 537 million in goodwill and CHF 692 million in intangible assets other than goodwill. A detailed test for impairment of the carrying amount is carried out for goodwill and other intangible assets with indefinite useful life annually or, as for all other assets, if there is any indication of a loss of value. Goodwill is allocated to the cash-generating units (CGUs) that are expected to benefit from the synergies of the business combination which gave rise to the goodwill. The recoverable amount of the CGUs is determined based on the value in use. In the same way, future cash flows from the use of tangible fixed assets can be estimated and the carrying value tested, using the same rules. These tests use estimates of future cash flows to be expected from use of the assets concerned, or from their possible sale. Actual cash flows may vary significantly from these estimates following changes of plan for the use of assets such as land and buildings, technological obsolescence or market changes (refer to Note 12 for impairment of property, plant and equipment and Note 13 for impairment of goodwill and intangible assets).

Provisions and contingent liabilities: At December 31, 2017, the Group had CHF 202 million in provisions and CHF 6 million in contingent liabilities. In the ordinary course of their business, companies of the Group may become involved in litigious conflict or disagreement with third parties. Provisions are made to cover the Group's exposure in such matters, based on a realistic estimate of the economic outflow that may result. However, the ultimate resolution of such disputes can give rise to claims against the Group, which may not be fully covered by provisions or insurance. Specific warranty provisions are set up for known warranty claims as required, and also for situations where it is known from recent experience that the company is exposed to claims, usually for technical reasons. Besides this, a general provision is made for other possible claims, based on experience and linked to sales volumes. In cases where the company has entered into contractual obligations whose cost exceeds the economic benefit to be expected, corresponding provisions are made. These are based on management's estimates (refer to Note 17 for provisions and Note 23 for contingent liabilities).

Pensions: At December 31, 2017, the carrying amount of the Group's defined benefit obligations is CHF 1 081 million. The estimates and assumptions used are based on future projections and actuarial calculations that have been determined together with the actuaries (refer to Note 14 for details).

Taxes on income: At December 31, 2017, the Group had a current tax receivable of CHF 28 million, a current income tax liability of CHF 65 million, a deferred tax asset of CHF 151 million and a deferred tax liability of CHF 165 million. Estimates are used initially to determine amounts receivable and payable in respect of current and deferred taxes on income. These estimates are based on interpretation of existing tax law and regulations. Many internal and external factors can influence the final determination of amounts receivable or payable, such as changes in tax law, changes in tax rates, the level of future profits and fiscal audits carried out by the tax authorities (refer to Note 6 for details).

Adoption of new and revised accounting standards

The adoption of new or amended standards and interpretations which are effective for the financial year beginning on January 1, 2017, did not have a material impact on the Group's consolidated financial statements.

Newly published accounting standards not early adopted

The IASB has published a number of new and revised standards and interpretations that will come into force later and have not been implemented ahead of their effective dates. The Oerlikon Group has analyzed the expected effects of IFRS 15 (Revenue from Contracts with Customers) and IFRS 9 (Financial Instruments) on the financial reporting and summarized them below. The effects of these other standards on the Oerlikon Group's financial statements have not yet been fully analyzed, but an initial review has been conducted and expected effects are summarized below. All standards with an expected effect on the Group's financial statements are summarized in the following table:

Standard/interpretation	Impact level	Effective date	Planned application by Oerlikon
IFRS 15 – Revenue Recognition	1)	January 1, 2018	Reporting year 2018
IFRS 9 – Financial Instruments	2)	January 1, 2018	Reporting year 2018
IFRS 16 – Leases	3)	January 1, 2019	Reporting year 2019

1) The Group applies the percentage of completion method in accordance with IAS 11 for certain construction projects in the Manmade Fibers Segment. This standard can no longer be applied anymore as of January 1, 2018. However, the Group will apply revenue recognition over time for the respective projects. IFRS 15 requires to recognize revenue in a pattern that reflects the transfer of control of the promised good or service to the customer. Progress of the "Manmade Fibers construction projects" will be measured towards satisfaction of the performance obligation and revenue is recognized accordingly. The application of the new guidance results in a slightly deferred commencement when revenue is recorded. Besides of that, we do not expect any other significant impact from the new standard. If we would have applied the new standard already in 2017, our sales would have been approximately CHF -52 million and our net income would have been approximately CHF -1 million lower. Most of this effect will be recognized at a later stage. We will apply IFRS 15 retrospectively using the practical expedient in paragraph IFRS 15.C5C, under which Oerlikon does not disclose the amount of consideration allocated to the remaining unsatisfied performance obligations or an explanation of when we expect to recognize the amount as revenue for all reporting periods presented before the date of initial application.

2) The application of the new Expected Credit Loss model will increase our allowance for doubtful debt by about CHF 0.2 million as of January 1, 2018. Based on the new standard, an allowance on not yet due trade receivables needs to be made as well. The Group does not expect any other recognition or measurement impacts from the new IFRS 9 standard.

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

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

Principles of consolidation

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

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

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

Disposal of subsidiaries
When the Group ceases to have control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary and any related non-controlling interests and other components of equity. Any resulting gain or loss is recognized in the income statement. Amounts previously recognized in other comprehensive income that may be reclassified to the income statement are reclassified to the income statement. Any retained interest in the former subsidiary is remeasured to its fair value at the date when control is lost.

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

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

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

Translation of foreign currencies
The accounts of foreign entities are prepared in the relevant functional currency and translated into Swiss francs in accordance with IAS 21. An entity's functional currency is the currency of the primary economic environment in which the entity operates, or its local currency. In the consolidation, assets and liabilities of foreign subsidiaries are translated into Swiss francs at the exchange rate prevailing on the balance sheet date, while income, expenses and cash flows are translated using average rates for the year. Differences resulting from the application of different exchange rates are recognized in other comprehensive income. Exchange gains and losses, as recorded in the individual company accounts of subsidiaries, are included in the income statement. Excluded from this rule are specific long-term intercompany monetary items that form part of the net investment in a foreign subsidiary, whose exchange translation differences are recognized in other comprehensive income. In the year that a foreign entity is divested, the cumulative translation differences recorded in other comprehensive income are reclassified to the income statement as part of the gain or loss upon disposal.

Elimination of intercompany profits
Profits on intercompany sales not yet realized through sales to third parties, as well as profits on transfers of fixed assets and investments in subsidiaries, are eliminated.

Segment information
The Segment reporting of the Oerlikon Group is in accordance with the "management approach" and based on the internal structure and reporting. The Executive Committee is an advisory body to the Chief Executive Officer (CEO). The CEO performs the function of the Chief Operating Decision Maker (CODM), assesses performance and makes resource allocation decisions. Following the reorganization of the Surface Solutions Segment, the CODM receives information on Business Unit level for the Surface Solutions Segment. In accordance with the aggregation criteria of IFRS 8, these Business Units have been aggregated to one reportable Segment. The internal reporting to the Executive Committee and the Board of Directors is based on uniform Group accounting principles, which correspond to those used in the consolidated financial statements. Intersegment pricing is determined on an arm's length basis.

The Group consists of the following reportable Segments:
- Surface Solutions Segment supplies PVD coatings that increase the performance of tools and precision components and offers specialized components and innovative surface engineering products and services.

- Manmade Fibers Segment develops and manufactures textile machinery.
- Drive Systems Segment manufactures gears and other components for power transmission, mainly in motor vehicles.

Assets

Cash and cash equivalents are placed with various financial institutions with top-quality international ratings. Time deposits included therein mature in three months or less from the date of acquisition. Cash and cash equivalents are stated at nominal value.

Financial assets and derivative financial instruments: Marketable securities are held at fair values, with their values adjusted as required through the income statement. Gains or losses are measured by reference to fair value.

Regular-way purchases or sales of financial assets are recognized at settlement date. Gains and losses from changes in the fair value of financial investments available for sale are temporarily recorded in other comprehensive income until such investments are sold or disposed of, at which time the gains or losses are transferred to the income statement. Any loss from value impairment is immediately recorded in the income statement.

Forward contracts and options are utilized systematically and mainly for the purpose of reducing business-related foreign currency and interest rate risks. These transactions are concluded with first-rate financial institutions and, as a general rule, have a term to maturity of up to 12 months. These derivative financial instruments are stated at fair value. If all requirements are fulfilled with regard to documentation, probability of occurrence, effectiveness and reliability of valuation, hedge accounting is applied in accordance with IAS 39. Until the hedged underlying business transactions are accounted for, the unrealized profits and losses resulting from the valuation of derivative financial instruments at fair value are recorded in other comprehensive income, with no impact on the income statement.

Trade receivables: Receivables are stated at the original invoiced amount less any necessary value adjustments for default risks. These risks are insured with third parties only in exceptional cases. Value adjustments are set at varying levels corresponding to risks recognized in the different Business Units.

Inventories: Inventories of raw materials, purchased components and trade merchandise are carried at the lower of cost or net realizable value, using FIFO and weighted average cost valuation methods. Self-made components, work in progress and finished goods are carried at production cost. This includes all related material and labor costs, as well as a reasonable allocation of indirect production costs. Recognizable reductions in value resulting from excess inventory, reduced replacement cost or sales price and similar are taken into account through appropriate write-downs of inventory items.

Property, plant and equipment: Tangible fixed assets are recorded at historical purchase or production costs, less necessary depreciation. Components of PP&E that have a differing useful life are recorded separately and depreciated accordingly (component approach). Depreciation is calculated on a straight-line basis according to the expected useful life of the asset, as follows:

IT hardware	3–7 years
Company cars	4–7 years
Trucks and electric vehicles	5–10 years
Technical installations and machines	5–15 years
Other operating and business equipment	3–15 years
Central building installations	10–25 years
Leasehold improvements	2–20 years
Plant and administrative buildings – used operationally	20–60 years

Estimated useful lives and residual values are examined annually.

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

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

Intangible assets and goodwill: Intangible assets are identifiable nonmonetary assets without physical substance from which future economic benefits are expected to flow to the Group. Intangible assets are amortized on a straight-line basis over their useful lives.

Software	2–3 years
Development costs	5 years
Acquired technologies	5–10 years
Acquired customer relationships	16–23 years

In the case of intangible assets with indefinite useful lives, an impairment test of the asset value is conducted annually at the balance sheet date, or earlier on the occurrence of a triggering event. Goodwill and brands are not amortized, but instead tested annually for possible value impairment.

Liabilities

Current and non-current financial liabilities: Current and non-current financial liabilities are initially valued at fair value less directly attributable costs. Subsequent valuation is at amortized cost adjusted using the effective interest rate method. The financial liabilities consist mainly of two unsecured bonds.

Current and non-current provisions: Provisions are set up for obligations arising from past events if the future outflow of resources is more likely than not and can be estimated reliably. Other provisions represent uncertainties, for which a best estimate is made in arriving at the amount reserved. Non-current provisions are discounted at a pretax rate that reflects the current market assessments of the time value of money.

Restructuring provisions: Provisions are established in cases where a detailed restructuring plan exists and the Group has informed those concerned, or the restructuring process has started.

Onerous contracts: Provisions are established when unavoidable estimated costs to fulfill a contract exceed the related contract revenues. The difference is provided against income in the current period. When accounts are prepared, the related risks are reassessed systematically by all Business Units and all costs are adjusted as required. This reassessment is based on the "most likely outcome", which uses assumptions regarding technical feasibility and timely realization of the projects and includes a quantification of the risks. The actual future obligation can vary from these estimates.

Warranty provisions: Provisions are established for known customer claims and also for potential warranty exposure.

Product liability: Provisions are established for known claims; potential exposure is not provided for.

Acquirees' contingent liabilities: In a business combination, a contingent liability of the acquiree is recognized in acquisition accounting if it is a present obligation that arises from past events and its fair value can be measured reliably. The probability of payment being required is not relevant in determining whether a contingent liability that is a present obligation should be recognized in a business combination, but this probability will impact its fair value. A contingent liability recognized is initially measured at its fair value. Subsequently, it is measured at the higher of its acquisition-date fair value and the amount that would be recognized in accordance with the requirements for provisions above. A contingent liability initially recognized in a business combination is not derecognized until it is settled, cancelled or it expires.

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

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

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

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

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

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

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

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

Treasury shares: Treasury shares are shown as a reduction of shareholders' equity. Gains or losses arising from the sale of treasury shares are also shown in the consolidated statement of changes in equity, in retained earnings.

Income statement

Sales of goods and services:
Sales of goods and services are recognized when the transaction occurs, when the amounts involved are reliably known and when it is considered likely that the related economic benefit will flow to the Oerlikon Group. Sales of goods are booked at such time as the risk and reward of ownership of the goods passes to the customer.

Long-term contracts are accounted for under the “Percentage of Completion” (POC) method. In the Manmade Fibers Segment, the percentage of completion is determined by measuring costs incurred to date as a proportion of extrapolated total contract cost (cost-to-cost method).

Revenues from services that have been rendered are recorded in the income statement, according to the level of completion at the balance sheet date.

Research and development: Development costs are recognized as intangible assets if they meet the criteria for such recognition set forth in IAS 38. The cost capitalized comprises all costs directly attributable to the development process. After the development phase is complete, the asset is amortized over its estimated useful life, usually five years.

Other income and expenses:
Other income consists of income from real estate, investments, licenses, patents, income from a risk and revenue share agreement and non-operating assets. Other expense consists of non-operating expenses, taxes not based on income, expenses related to a risk and revenue share agreement and integration and acquisition costs.

Financial expenses: Interest expense is charged to the income statement without restriction. In principle, borrowing costs are recognized in the income statement by using the effective interest rate method. Borrowing costs that can be directly allocated to the construction, build-up or purchase of a qualified asset are capitalized through the costs of the assets.

Current income taxes: Current income taxes are accrued on the basis of income reported locally for the financial year by the individual Group companies in keeping with the current year taxation principle. The valuation of assets and liabilities pertaining to both current and deferred taxation calls for extensive use of judgment and estimation.

Deferred taxes:
Wherever local company tax values differ from Group values (temporary differences), deferred taxes are determined and recorded by applying tax rates enacted or substantially enacted at the balance sheet date to the differences (balance sheet liability method). Taxes on dividends from subsidiaries are only accrued when distributions are contemplated. The value of deferred tax assets deriving from tax losses carried forward is subject to annual review. Tax losses are only recognized as assets if they are expected to be realized within the next five years, offset against taxable profits of Group companies individually or in tax groups. In countries or companies where realization of the losses cannot be foreseen, no asset is recognized. Management believes that its estimates are appropriate and that uncertainties in the valuation of tax assets and liabilities have been appropriately addressed. Deferred tax is not recognized for: a) temporary differences arising on the initial recognition of assets or liabilities in a transaction that is not a business combination, and that affects neither accounting profit nor taxable profit or loss; b) temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and c) taxable temporary differences arising on the initial recognition of goodwill.

Earnings per share:
Earnings per share (EPS) is based on the portion of consolidated net profit attributable to shareholders of OC Oerlikon Corporation AG, Pfäffikon, divided by the weighted average number of shares outstanding during the reporting period. Diluted earnings per share additionally take into account all potential equity securities that could have come into existence as the result of an exercise of option rights.

Discontinued operations and assets and liabilities classified as held for sale

A component of the Group is reclassified into “discontinued operations” if its divestment is intended, and if it fulfills the criteria for being classified as “held for sale” and for being presented as discontinued operations. Non-current assets and disposal groups held for sale are carried at the lower of their carrying amount or fair value less cost to sell, and any value impairments are recognized in the income statement. Depreciation of non-current assets ceases when the respective qualification as assets held for sale is met.

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

Risks

Financial risk management/financial instruments: Due to its international activities, the Group is exposed to various financial risks, such as market risks (including foreign exchange risk, interest rate risk and pricing risk), credit risk and liquidity risk. The Group's financial risk management aims to limit any adverse effects that the markets may have on the Group's financial health, at an acceptable hedging cost. Risk limitation does not mean complete exclusion of financial risks, rather it means following a policy of economically sensible management of the Group's finances within an agreed framework of documented authority. The Group uses derivative financial instruments to hedge certain risks. Only preapproved instruments are used, and as a fundamental rule, no speculative transactions are conducted in the areas of foreign exchange or interest rates. No hedges are entered into without a corresponding base transaction. Management monitors and steers such risks continuously with the support of Group Treasury, which identifies and evaluates all financial risks, working with the Group's operating companies and hedging the risks as appropriate. The Group has documented guidelines for financial risk management, covering the use of derivative and non-derivative financial instruments and policies for use of surplus funds.

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

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

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

Liquidity risks: The Oerlikon Group supervises and manages the Group's liquidity centrally to ensure that outstanding financial liabilities can at all times be met within their maturity period and at an acceptable financing cost (refer to Note 19 "Financial instruments").

Contingent liabilities

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

Participation plans/share-based payments

Members of the Executive Committee and senior management may receive a portion of their compensation as a long-term bonus in the form of awards for OC Oerlikon Corporation AG, Pfäffikon, shares under various plans. The fair value is determined on the day such share-based remuneration is granted and charged to the income statement on a straight-line basis over the vesting period within operating results, with a corresponding increase in equity (equity settled plans).

Related party transactions

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

Notes to the consolidated financial statements

Group structure

Note 1

Subsidiaries

A list of Oerlikon's subsidiaries can be found on pages 126 and 127.

During the financial year 2017, the following significant changes in the Group structure have occurred:

Acquisitions
On May 1, 2017, the Oerlikon Group acquired all outstanding equity interests of Scoperta Inc.
On September 29, 2017, the Oerlikon Group acquired all outstanding equity interests of Primateria AB.
Further information can be found in Note 2 "Acquisitions and Divestments".

Foundation of subsidiaries
As of February 20, 2017, GK Drive Systems (Suzhou) Co. Ltd. was founded (Oerlikon's share being 51 %).
As of July 19, 2017, Oerlikon AM US Inc. was founded.
As of September 20, 2017, Oerlikon AM GmbH and AM Munich Research Institute GmbH were founded.

Acquisition of non-controlling interests
During 2017, the Oerlikon Group purchased non-controlling interests in Oerlikon Balzers Sandvik Coating Oy and Oerlikon Balzers Sandvik Coating AB, increasing the ownership from 51 % to 100 % in both cases.

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

		Non-controlling interests in %	
Company	**Country**	**2017**	2016
GK Drive Systems (Suzhou) Co. Ltd.	China	49.00	–
Oerlikon Barmag Huitong (Yangzhou) Engineering Co. Ltd.	China	40.00	40.00
Zigong Golden China Speciality Carbides Co., Ltd.	China	40.00	40.00
Oerlikon Balzers Coating Finland Oy	Finland	–	49.00
Fairfield Atlas Ltd.	India	1.63	1.63
Oerlikon Balzers Coating Luxembourg S.à r.l.	Luxemburg	40.00	40.00
Oerlikon Balzers Coating Philippines Inc.	Philippines	0.01	0.01
Oerlikon Balzers Coating Korea Co. Ltd.	South Korea	10.10	10.10
Oerlikon Balzers Coating Sweden AB	Sweden	–	49.00
Oerlikon Balzers Coating (Thailand) Co. Ltd.	Thailand	0.01	0.01
Oerlikon Balzers Kaplama Sanayi ve Ticaret Limited Sirketi	Turkey	0.01	0.01

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

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

Significant prior-year changes in Group structure

Acquisitions
On December 28, 2016, the Oerlikon Group completed the acquisition of all outstanding equity interests of DMX and on December 30, 2016, of the citim Group. The following companies were acquired as part of these two transactions: DMX SAS, citim GmbH and citim AM Inc. Further information can be found in Note 2 "Acquisitions and Divestments".

Acquisition of non-controlling interests
During 2016, the Group purchased non-controlling interests in Fairfield Atlas Ltd., increasing the ownership from 98.19 % to 98.37 %. The Oerlikon Group also purchased all non-controlling interests in Vocis Limited, increasing the ownership from 51 % to 100 %.

Divestments
On November 20, 2015, the Oerlikon Group signed an agreement with Atlas Copco to divest the Vacuum Segment. The transaction was closed on August 31, 2016. The following companies were sold as part of this transaction: Oerlikon Leybold Vacuo do Brasil Ltda., Oerlikon Leybold Vacuum Schweiz AG, Oerlikon Leybold Vacuum (Tianjin) Co. Ltd., Oerlikon Leybold Vacuum (Tianjin) International Trade Co. Ltd., Oerlikon Leybold Vacuum Dresden GmbH, Oerlikon Leybold Vacuum GmbH, Oerlikon Real Estate GmbH, Oerlikon Leybold Vacuum Spain S.A., Oerlikon Leybold Vacuum France SAS, Oerlikon Leybold Vacuum UK Ltd., Oerlikon Leybold Vacuum India Pvt. Ltd., Oerlikon Leybold Vacuum Italia S.r.l., Oerlikon Leybold Vacuum Japan Co. Ltd., Oerlikon Leybold Vacuum Korea Ltd., Oerlikon Leybold Vacuum Nederland B.V., Oerlikon Leybold Vacuum Singapore Pte. Ltd., Oerlikon Leybold Vacuum Taiwan Ltd. and Oerlikon Leybold Vacuum USA Inc. Further information can be found in Note 2 "Acquisitions and Divestments".

Acquisitions and Divestments

Note 2

Acquisitions in 2017

On February 10, 2017, Oerlikon acquired the carbide technology business from **Recentis** Advanced Materials Canada Inc., Quebec, Canada. The acquisition expands the technology portfolio of Oerlikon's Surface Solutions Segment.

On May 1, 2017, Oerlikon acquired all equity interests of **Scoperta** Inc., California, USA. Scoperta is an innovative solution provider in advanced materials development. With the acquisition, Oerlikon gains for its Surface Solutions Segment unique and proprietary process technology and expertise in rapidly designing and developing materials using computational software, which enables a fast identification of innovative material solutions.

On September 29, 2017, Oerlikon acquired all equity interests of **Primateria** AB, Sweden. Primateria is a provider of surface engineering services in Sweden, specializing in pre- and post-treatment solutions for tool optimization. With the acquisition, the Surface Solutions Segment strengthens its foothold in the gear cutting market, especially in Sweden, and will be able to provide even greater know-how and a broader portfolio of surface treatments to its customers worldwide.

On October 31, 2017, Oerlikon acquired certain assets of **DiaPac** LLC and **Diamond** Recovery Services Inc (DRS) in the US. DiaPac LLC is an internationally recognized leader in providing high-performance powdered metals, wear resistant surface coatings and cemented carbides for use in oil & gas, mining, construction, agricultural and manufacturing operations. Diamond Recovery Services (DRS) specializes in providing hard materials and environmentally complementary reclamation services that are applied across a broad spectrum of applications. With the acquisition, Oerlikon gains for its Surface Solutions Segment strong complementary knowledge for the manufacturing, processing, application and recovery/recycling of advanced materials, especially tungsten carbide. It will also benefit from an expansion of market access in the oil & gas, metal matrix composites and US powdered metals industries.

The purchase consideration for the acquisitions of CHF 60 million includes CHF 27 million paid in cash in the reporting period and contingent consideration of CHF 33 million. The contingent consideration relates to earnout arrangements that are based on financial metrics (achievement of certain predefined sales targets) as well as non-financial metrics (operational targets and employee retention targets). The potential undiscounted amount payable under the agreements is between CHF 0 million and CHF 43 million. The fair value of the contingent consideration was estimated by calculating the present value of the future expected cash flows. The calculations are based on the current estimates of the fulfillment of the conditions on which the payment of the earnouts depends and discount rates between 2.2 % and 3.3 %. A further expense of CHF 5 million will be incurred mainly in the next two years for future services to be rendered.

The goodwill of CHF 23 million arising from the acquisitions is mainly attributable to the strengthening of the market position, the expertise of the workforce and the expected synergies from combining the operations of the acquired businesses with the Oerlikon Group. Goodwill in the amount of CHF 6 million is expected to be deductible for income tax purposes.

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

Consideration at the date of acquisition

in CHF million	2017
Cash	27
Contingent consideration	33
Total consideration	**60**

Recognized amounts of identifiable assets acquired and liabilities assumed

in CHF million	2017
Cash and cash equivalents	1
Trade receivables	1
Inventories	5
Property, plant and equipment	4
Intangible assets	31
Trade payables	–1
Deferred tax liabilities	–4
Total identifiable net assets	**37**
Goodwill	23
Total	**60**

Acquisitions and Divestments

Note 2 (cont.)

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

Acquisition-related costs of CHF 1 million have been recognized under other expense in the consolidated income statement for the year ended December 31, 2017.

Since their acquisition, the acquired businesses have contributed CHF 3 million to total sales and CHF -4 million to the net income of the Oerlikon Group. Had the transactions taken place at January 1, 2017, the Group's total sales and net income for the year ended December 31, 2017 would have amounted to approximately CHF 2 865 million and CHF 151 million, respectively. These amounts have been determined based on the assumption that the fair-value adjustments at the acquisition date would have been the same at January 1, 2017.

Acquisitions in 2016

On April 1, 2016, Oerlikon acquired the distribution and after-sales business of **I.W.S.** Co., LTD., Seoul, South Korea. The Surface Solutions Segment has been previously utilizing I.W.S. as distributor for its materials business as well as after-sales service provider for its equipment business in South Korea. As a step of forward integration into the market the acquisition opens up additional margin and growth potential.

On April 7, 2016, Oerlikon acquired the entire staple fibers technology portfolio of **Trützschler** Nonwovens & Man-Made Fibers GmbH, Egelsbach, Germany. This portfolio was part of the German Trützschler Group, which is a specialist in fiber preparation for the yarn spinning and nonwovens industries. The acquisition expands the Manmade Fibers Segment’s technology portfolio and opens up access to new customers in the market for synthetic staple fibers.

On December 28, 2016, Oerlikon acquired all equity interests of **DMX** SAS, Cluses, France. DMX is active in PVD coating. The acquisition strengthens Oerlikon's position in key market segments.

On December 30, 2016, Oerlikon acquired all equity interests of **citim** GmbH, Barleben, Germany. Citim is a leading company in the design and additive manufacturing of metal components for small-series production and rapid prototyping. The acquisition expands Oerlikon's additive manufacturing technology and service portfolio with established 3D printing capabilities in Europe and in the USA (through its subsidiary citim AM Inc.).

The total consideration for the acquisitions amounted to CHF 51 million, all of which was paid in cash in 2016. A further expense of CHF 1 million is incurred in the three years 2017 to 2019 for post-acquisition services to be rendered.

The goodwill of CHF 25 million arising from the acquisitions is mainly attributable to the value of expected synergies and economies of scale expected from combining the operations of the acquired businesses with the Oerlikon Group. Goodwill in the amount of CHF 4 million is expected to be deductible for income tax purposes.

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

Consideration at the date of acquisition

in CHF million	**2016**
Cash	51
Total consideration	**51**

Recognized amounts of identifiable assets acquired and liabilities assumed

in CHF million	**2016**
Cash and cash equivalents	6
Trade receivables	2
Other receivables, prepaid expenses and accrued income	2
Inventories	2
Property, plant and equipment	15
Intangible assets	16
Trade payables	–1
Current financial liabilities and derivatives	–2
Other current payables and accrued liabilities	–3
Non-current loans and borrowings	–7
Deferred tax liabilities	–4
Total identifiable net assets	**26**
Goodwill	25
Total	**51**

Acquisition-related costs of CHF 1 million have been recognized under other expense in the consolidated income statement for the year ended December 31, 2016.

From the date of acquisition until December 31, 2016, the acquired businesses have contributed CHF 2 million to total sales and CHF 1 million to the net income of the Oerlikon Group. Had the transactions taken place at January 1, 2016, the Group's total sales and net income for the year ended December 31, 2016, would have amounted to approximately CHF 2 349 million and CHF 390 million, respectively. These amounts have been determined based on the assumption that the fair-value adjustments at the acquisition date would have been the same at January 1, 2016.

Acquisitions and Divestments

Note 2 (cont.)

Divestment of the Vacuum Segment in 2016
On November 20, 2015, the Oerlikon Group signed an agreement with Atlas Copco to divest the Vacuum Segment. Consequently, the Vacuum Segment was presented as a disposal group held for sale and as discontinued operations as per December 31, 2015, comprising assets of CHF 290 million and liabilities of CHF 233 million. The transaction closed on August 31, 2016, resulting in the derecognition of assets of CHF 386 million and liabilities of CHF 345 million.

The total consideration amounted to CHF 437 million (including CHF 66 million for the settlement of pre-existing intragroup financing), all of which was received as cash and cash equivalents in 2016.

The Oerlikon Group incurred a gain on disposal from this transaction in the amount of CHF 289 million in 2016, 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 29 million. The gain is fully attributable to the shareholders of the parent.

In the second half of 2017, the reassessment of liabilities related to the sale resulted in an income of CHF 6 million.

Acquisitions and Divestments

Note 2 (cont.)

Result from discontinued operations

in CHF million	**January 1 to December 31, 2017** Vacuum Segment	January 1 to December 31, 2016 Advanced Technologies Segment	Vacuum Segment	Total
Total sales	**–**	**–**	**240**	**240**
Total expenses	**–**	–	–223	**–223**
Result before taxes (EBT) from operating activities	**–**	**–**	**17**	**17**
Income taxes	**–**	–	–2	**–2**
Result from operating activities	**–**	**–**	**15**	**15**
Gain on sale of discontinued operations before reclassification of translation differences and other items of other comprehensive income	**5**	3	326	**329**
Reclassification of translation differences and other items of other comprehensive income[1]	**–**	–	–29	**–29**
Income tax on sale of discontinued operations	**1**	–1	–8	**–9**
Gain on sale of discontinued operations, net of income taxes	**6**	**2**	**289**	**291**
Result from discontinued operations, net of income taxes	**6**	**2**	**304**	**306**
Attributable to:				
Shareholders of the parent	**6**	2	304	**306**
Earnings per share in CHF	**0.02**	0.01	0.90	**0.90**
Diluted earnings per share in CHF	**0.02**	0.01	0.90	**0.90**

[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 December 31, 2017** Vacuum Segment	January 1 to December 31, 2016 Advanced Technologies Segment	Vacuum Segment	Total
Cash flow from operating activities	**–5**	–	20	**20**
Cash flow from investing activities[1]	**–**	–	–7	**–7**
Cash flow from financing activities	**–**	–	–2	**–2**
Net cash flows from discontinued operations	**–5**	**–**	**11**	**11**

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

Other income and expense

Note 3

in CHF million	2017	2016
Licensing, patent and know-how income	2	2
Restructuring income[1]	–	9
Other income	30	35
Other income	**32**	**46**
Taxes not based on income	–12	–7
Restructuring expense[1]	–	–5
Other expense	–22	–20
Other expense	**–34**	**–32**
Other income and expense, net	**–2**	**14**

[1] 2017: Restructuring expenses of CHF -2 million are presented within cost of sales.

Expenses included in EBIT

Note 4

in CHF million	**2017**	2016
Personnel expense		
Salaries and wages	699	616
Social security and other employee benefits[1]	178	180
Total	**877**	**796**
Depreciation and amortization		
– Property, plant and equipment	130	120
of which in:		
Cost of sales	112	103
Marketing and selling	2	1
Research and development	5	5
Administration	11	11
– Intangible assets	61	55
of which in:		
Cost of sales	1	–
Marketing and selling	17	17
Research and development	32	28
Administration	11	10
Total	**191**	**175**

[1] Included in the expense for social security and other employee benefits is CHF 22 million (previous year: CHF 21 million) attributable to specific post-employment benefit plans of the individual companies. The remainder includes the legally required benefit contributions of Group companies, as well as other social security expenses.

Financial income and expense

Note 5

in CHF million	2017	2016
Interest income	6	6
Other financial income	1	3
Foreign currency gain, net	5	1
Net gain on hedging transactions recognized in the income statement	1	1
Financial income	**13**	**11**
Interest on financial debt	–10	–18
Interest on liabilities for defined benefit plans, net	–8	–10
Other financial expense	–4	–6
Financial expense	**–22**	**–34**
Financial expense, net	**–9**	**–23**

Income taxes

Note 6

in CHF million	2017 Continuing operations	2017 Discontinued operations	2017 Total	2016 Continuing operations	2016 Discontinued operations	2016 Total
Current income tax expense (-)/ income (+)	–75	1	**–74**	–65	–6	**–71**
Deferred tax income (+)/ expense (-)	11	–	**11**	12	–5	**7**
Total	**–64**	**1**	**–63**	**–53**	**–11**	**–64**

Analysis of tax expense

in CHF million	2017	2016
Result before taxes from continuing operations	210	135
Result before taxes from discontinued operations	5	317
Total	**215**	**452**
Tax expense from continuing operations	–64	–53
Tax income (+)/ expense (-) from discontinued operations	1	–11
Total	**–63**	**–64**
Expected tax expense (-)[1]	–67	–140
Difference between actual and expected tax expense	**4**	**76**

The difference between the tax expense is calculated using the weighted average tax rate of Oerlikon Group (expected tax expense) of 31 % (previous year expected tax rate: 31 %) and the effective tax expense arises from the factors mentioned below:

Non-taxable income and non-deductible expenses	34	87
Unrecognized deferred taxes on current-year losses	–9	–5
Non-refundable withholding tax	–10	–12
Utilization of not recognized tax loss carry forwards from previous periods	5	6
Income tax for prior years	–6	–3
(Reversal)/ Recognition of previously (recognized)/ not recognized tax losses	–8	2
Other effects	–2	1
Difference between actual and expected tax expense	**4**	**76**

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

Deferred taxes

Note 6 (cont.)

Composition of deferred taxes

in CHF million	2017 Deferred tax balances Assets	2017 Deferred tax balances Liabilities	2016 Deferred tax balances Assets	2016 Deferred tax balances Liabilities
Trade receivables	1	1	2	–
Other receivables and accruals	–	24	–	2
Inventories	48	–	24	–
Post-employment benefit assets	–	3	–	–
Financial assets	–	8	–	7
Property, plant and equipment	27	31	24	35
Intangible assets	11	176	11	186
Assets	**87**	**243**	**61**	**230**
Trade payables	2	–	–	–
Other current and non-current liabilities	11	15	13	11
Financial liabilities	1	–	1	–
Provisions	121	3	130	2
Liabilities	**135**	**18**	**144**	**13**
Deferred tax asset from recognized tax loss carry forwards[1]	25	–	38	–
Offsetting	– 96	– 96	– 84	– 84
Total	**151**	**165**	**159**	**159**

[1] As per end of 2017 tax loss carry forwards of CHF 93 million for federal taxes and CHF 38 million for state/local taxes were recognized (previous year: CHF 205 million for federal taxes and CHF 16 million for state/local taxes).

Movement in deferred tax balances during the year

in CHF million	2017	2016
Balance at January 1	**–**	**15**
Recognized in profit or loss	11	7
Recognized in other comprehensive income	–18	21
Divested in divestment (see Note 2)[1]	–	–40
Acquired in acquisitions (see Note 2)[2]	–4	–4
Other	–3	1
Balance at December 31	**–14**	**–**

[1] 2016: Effect of disposal of the Vacuum Segment.
[2] Deferred tax liabilities due to acquisitions.

Unrecognized deferred tax liabilities:

At December 31, 2017, there are temporary differences of CHF 408 million (previous year: CHF 382 million) with regard to investments in subsidiaries for which no deferred tax liabilities with a potential tax effect of CHF 52 million (previous year: CHF 50 million) were recognized since the Group controls the timing of the reversal of the related taxable temporary differences and management is convinced that they will not reverse in the foreseeable future.

Deferred taxes

Note 6 (cont.)

Utilization of tax loss carry forwards is limited as follows:

	2017		2016		**2017**		2016	
	Tax losses not recognized as deferred tax assets		Tax losses not recognized as deferred tax assets		**Total tax loss carry forwards**		Total tax loss carry forwards	
in CHF million	**federal tax**	**state/local tax**	federal tax	state/local tax	**federal tax**	**state/local tax**	federal tax	state/local tax
1 year	2	26	1	1	8	26	3	1
2 years	–	6	1	29	6	6	9	29
3 years	11	5	4	13	13	5	18	13
4 years	13	14	7	19	14	14	24	19
5 years	170	159	9	19	170	159	10	19
Over 5 years	198	150	334	280	276	188	497	296
Total	**394**	**360**	**356**	**361**	**487**	**398**	**561**	**377**

Compared to previous year tax loss carry forwards not recognized increased on federal level (increase of CHF 38 million) and decreased for state/local level (decrease of CHF 1 million). This is mainly due to business outlook of single legal entities which led to adjustments on the amount of recognized tax loss carry forwards.

The deferred tax on not recognized tax loss carry forwards would amount to CHF 84 million in 2017 (previous year: CHF 64 million).

Earnings per share

Note 7

Earnings per share of CHF 0.44 (previous year: CHF 1.14) have been calculated on the basis of a net income of CHF 149 million (previous year: CHF 387 million), attributable to shareholders of the parent, and the average weighted number of outstanding shares (issued shares less treasury shares). In 2017, the average weighted number of shares entitled to vote and receive dividends amounted to 339 391 124 (previous year: 339 270 948). Diluted earnings per share amounted to CHF 0.44 (previous year: CHF 1.14). The average weighted number of shares used in the calculation of diluted earnings per share amounted to 339 391 124 (previous year: 339 270 948).

Number of outstanding shares	2017	2016
Total shares issued at year-end	339 758 576	339 758 576
Weighted average number of shares outstanding for the year	339 391 124	339 270 948
Effect of potential exercise of option rights	–	–
Weighted average number of shares diluted for the year	339 391 124	339 270 948

Cash and cash equivalents

Note 8

in CHF million	2017	2016
Cash, postal and bank current accounts	517	221
Time deposits	284	462
Money market funds[1]	70	68
Total	**871**	**751**

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

CHF 249 million (previous year: CHF 191 million) of total cash and cash equivalents are held in countries in which local exchange control regulations with regards to capital export exist. If the Group complies with legal and tax regulations, such liquid funds are at its disposition within a reasonable period of time.

Cash and cash equivalents are held in the following currencies:

Currency

in CHF million	2017	2016
CHF	312	253
EUR	266	249
USD	39	28
CNY	180	116
Other	74	105
Total	**871**	**751**

Financial investments

Note 9

in CHF million	2017	2016
Deposits	69	108
Debt and equity securities	25	10
Derivatives used for hedging	7	3
Current financial investments and derivatives	**101**	**121**
Investments in associates and joint arrangements	17	5
Other investments	1	1
Non-current financial investments	**18**	**6**
Total	**119**	**127**

Loans and receivables

Note 10

in CHF million	2017	2016
Current		
Trade receivables	401	349
Trade notes receivable	46	20
Other receivables[1]	172	85
Non-current		
Loans and other non-current financial receivables	23	22
Total	**642**	**476**

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

Inventories

Note 11

	2017			2016		
in CHF million	Gross value	Value adjustment	Net value	Gross value	Value adjustment	Net value
Raw material and components	166	–14	**152**	117	–15	**102**
Work in progress	148	–9	**139**	144	–8	**136**
Finished goods and trade merchandise	172	–32	**140**	148	–33	**115**
Total	486	–55	**431**	409	–56	**353**

Amounts charged to the income statement for write-downs of inventories in the reporting year were CHF 2 million (previous year: CHF 7 million). In 2017, inventories of CHF 1 077 million (previous year: CHF 808 million) were recognized as an expense during the period and included in cost of sales.

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

in CHF million	2017	2016
POC sales recognized as revenue in the period	382	150
Aggregate contract costs incurred and recognized contract profits to date	120	31
Gross amount due from customers for contract work as an asset	58	5
Net amount of customer advances for POC projects[1]	98	26

[1] This amount is included in the current customer advances totaling CHF 366 million (previous year: CHF 167 million).

Property, plant and equipment

Note 12

in CHF million	Plant, equipment and furniture	Production and administration buildings	Developed land	Facilities under construction	**2017 Total**
Cost					
Balance at January 1, 2017	1 489	394	58	23	1 964
Conversion differences	82	18	3	–	103
Changes in the scope of consolidated companies	4	–	–	–	4
Additions	129	10	3	62	204
Disposals	–7	–	–	–	–7
Transfers	19	4	2	–26	–1
Balance at December 31, 2017	1 716	426	66	59	2 267
Accumulated depreciation and impairment losses					
Balance at January 1, 2017	–1 021	–197	–1	–	–1 219
Conversion differences	–62	–9	–	–	–71
Depreciation	–116	–14	–	–	–130
Impairment losses	–3	–2	–	–	–5
Disposals	3	–	–	–	3
Balance at December 31, 2017	–1 199	–222	–1	–	–1 422
Net Group values at January 1, 2017	468	197	57	23	745
Net Group values at December 31, 2017	**517**	**204**	**65**	**59**	**845**
Of which assets held under finance leases	6	3	7	–	16

At the end of 2017 open purchase commitments for property, plant and equipment amounted to CHF 23 million (previous year: CHF 21 million) and for finance leasing to CHF 84 million.

Property, plant and equipment

in CHF million	Plant, equipment and furniture	Production and administration buildings	Developed land	Facilities under construction	**2016 Total**
Cost					
Balance at January 1, 2016	1 381	392	58	24	1 855
Conversion differences	–2	–2	–	–	–4
Changes in the scope of consolidated companies	7	8	–	–	15
Additions	70	3	–	35	108
Disposals	–5	–4	–	–	–9
Transfers	38	–3	–	–36	–1
Balance at December 31, 2016	1 489	394	58	23	1 964
Accumulated depreciation and impairment losses					
Balance at January 1, 2016	–917	–186	–1	–	–1 104
Conversion differences	1	–	–	–	1
Depreciation	–106	–14	–	–	–120
Impairment losses	–1	–	–	–	–1
Disposals	2	3	–	–	5
Balance at December 31, 2016	–1 021	–197	–1	–	–1 219
Net Group values at January 1, 2016	464	206	57	24	751
Net Group values at December 31, 2016	**468**	**197**	**57**	**23**	**745**
Of which assets held under finance leases	2	3	7	–	12

Goodwill and intangible assets

Note 13

in CHF million	Goodwill	Brands	Development costs	Other intangible assets[1]	**2017 Total**
Cost					
Balance at January 1, 2017	1 168	212	116	566	2 062
Conversion differences	44	13	4	19	80
Changes in the scope of consolidated companies	23	–	–	31	54
Additions	–	–	25	10	35
Disposals	–	–	–1	–3	–4
Transfers	–	–	–	–	–
Balance at December 31, 2017	1 235	225	144	623	2 227
Accumulated amortization and impairment losses					
Balance at January 1, 2017	–673	–	–54	–181	–908
Conversion differences	–25	–	–2	–6	–33
Amortization	–	–	–13	–48	–61
Disposals	–	–	–	4	4
Balance at December 31, 2017	–698	–	–69	–231	–998
Net Group values at January 1, 2017	495	212	62	385	1 154
Net Group values at December 31, 2017	**537**	**225**	**75**	**392**	**1 229**

[1] Contains mainly acquired technologies and customer relationships.

The capitalized development costs pertain to the Segments as follows:

Capitalized development costs for the period

in CHF million	**2017**	2016
Surface Solutions Segment	17	15
Manmade Fibers Segment	7	6
Drive Systems Segment	1	1
Total	**25**	**22**

Goodwill and intangible assets

Note 13 (cont.)

Goodwill and brands are attributed to the Segments and Business Units as follows:

Goodwill and brands

in CHF million	Goodwill		Brands	
	2017	2016	**2017**	2016
Surface Solutions Segment	**421**	**388**	**22**	**22**
- Balzers Industrial Solutions	254	245	2	3
- Metco Aero & Energy	93	72	20	19
- Automotive Solutions	56	54	–	–
- Additive Manufacturing	18	17	–	–
Manmade Fibers Segment	**116**	**107**	**133**	**124**
Drive Systems Segment	**–**	**–**	**70**	**66**
Total	**537**	**495**	**225**	**212**

Goodwill and other intangible assets with indefinite useful life are allocated to those cash–generating units (CGUs) that are expected to benefit from the relevant business combination. The Manmade Fibers and Drive Systems Segment correspond to CGUs and are the lowest level at which goodwill is monitored by management. Following the re-organization of the Surface Solutions Segment in 2016, the Chief Operation Decision Maker (CODM) receives information for the businesses Balzers Industrial Solutions, Metco Aero & Energy, Automotive Solutions and Additive Manufacturing on Business Unit level.

Goodwill and intangible assets with indefinite useful life are tested annually for possible impairment, using discounted cash flow analysis. Asset values used in the impairment testing are based on value in use and on the latest forecasts approved by management. The fair value measurement was categorized as a Level 3 based on the inputs in the valuation technique used. The forecast period used for future cash flows covers the years 2018 to 2022. The discount rates used are based on the weighted average cost of capital (WACC), derived from peer groups adjusted to specific risks of the businesses concerned and the countries in which they operate. The capital costs were determined using the capital asset pricing model (CAPM).

The annual goodwill and brand impairment test carried out at Segment level for Manmade Fibers and Drive Systems and on Business Unit level for Surface Solutions, supported the carrying amounts and therefore, no need for impairment was identified.

Detailed results of the impairment testing are presented below for goodwill and brands allocated to the Surface Solutions Business Units, the Manmade Fibers Segment and to the Drive Systems Segment.

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

Growth and discount rates per Segment and Business Unit

	Growth rates[1]		Discount rates	
	2017	2016	**2017**	2016
Surface Solutions Segment				
- Balzers Industrial Solutions	2.0 %	2.0 %	9.6 %	9.7 %
- Metco Aero & Energy	2.0 %	2.0 %	9.1 %	10.4 %
- Automotive Solutions	2.0 %	2.0 %	9.4 %	10.2 %
Manmade Fibers Segment	**2.0 %**	**2.0 %**	**10.1 %**	**10.0 %**
Drive Systems Segment	**2.0 %**	**2.0 %**	**12.5 %**	**15.8 %**

[1] For periods following the five-year plan period 2018 to 2022 (previous year: 2017 to 2021).

For the Surface Solutions Business Units as well as the Manmade Fibers Segment, neither a reduction of the growth rate of the terminal value to 0.5 % (previous year: 0.5 %), nor an increase in the discount rate by 1.5 % (previous year: 1 %) would give rise to an impairment of goodwill. The same applies for the brands of the Drive Systems Segment.

Goodwill and intangible assets

Note 13 (cont.)

Previous year

in CHF million	Goodwill	Brands	Development costs	Other intangible assets[1]	**2016 Total**
Cost					
Balance at January 1, 2016	1 138	212	94	550	1 994
Conversion differences	5	–	–	–	5
Changes in the scope of consolidated companies	25	–	–	16	41
Additions	–	–	22	14	36
Disposals	–	–	–	–15	–15
Transfers	–	–	–	1	1
Balance at December 31, 2016	1 168	212	116	566	2 062
Accumulated amortization and impairment losses					
Balance at January 1, 2016	–669	–	–44	–151	–864
Conversion differences	–4	–	–	–	–4
Amortization	–	–	–10	–45	–55
Disposals	–	–	–	15	15
Balance at December 31, 2016	–673	–	–54	–181	–908
Net Group values at January 1, 2016	469	212	50	399	1 130
Net Group values at December 31, 2016	**495**	**212**	**62**	**385**	**1 154**

[1] Contains mainly acquired technologies and customer relationships.

Post-employment benefits

Note 14

in CHF million	2017 Total	2017 due within 1 year	2017 due beyond 1 year	2016 Total	2016 due within 1 year	2016 due beyond 1 year
Net defined benefit liability[1]	**403**	16	387	**436**	17	419
Other employee benefit liabilities	**13**	1	12	**15**	1	14
Total on the balance sheet	**416**	**17**	**399**	**451**	**18**	**433**
Post-employment benefit assets	**20**	–	20	**3**	–	3
Post-employment benefit liabilities	**436**	17	419	**454**	18	436

[1] In 2017, net defined benefit liability related to funded plans was CHF 155 million and CHF 248 million related to unfunded plans (previous year: funded CHF 194 million and unfunded CHF 242 million).

Post-employment benefit expense

in CHF million	2017 Total	2017 Defined benefit	2017 Defined contribution	2016 Total	2016 Defined benefit	2016 Defined contribution
Pension cost (operating)[1]	**22**	9	13	**25**	6	19
Pension cost (financial)[2]	**8**	8	–	**13**	13	–
Total post-employment benefit plan cost in the income statement	**30**	17	13	**38**	19	19

[1] 2016: Pension cost (operating) of CHF 4 million was included in result of discontinued operations.

[2] 2016: Pension cost (financial) of CHF 3 million is included in result of discontinued operations.

Post-employment benefits

Note 14 (cont.)

Defined benefit plans

The Group’s material defined benefit pension plans are located in Germany, the USA, and Switzerland and account for 93 % of the Group's net defined benefit liability (previous year: 94 %). Usually, the plans are established as trusts independent of the Group and are funded by payments from Group companies and by employees. The cash funding of these plans is designed to ensure that present and future contributions should be sufficient to meet future liabilities. The funding requirements are based on the pension fund’s actuarial measurement framework set out in the funding policies of the plan. Most of the major plans in Germany are unfunded and, as the result the Group pays pensions to retired employees directly from its own financial resources.

Pension plans in Germany

12 unfunded and 6 funded defined benefit plans existed in 2017 (previous year: 12 and 6 respectively). These pension arrangements are governed by the German Occupational Pensions Act (BetrAVG). The employer is required by German law to increase pension payments every three years according to price inflation, as measured by the Consumer Price Index (“Verbraucherpreisindex – VPI”) or according to comparable pay grades. In case of unfunded pension plans, the Group pays pensions to retired employees directly from its own financial resources. Funded pension plans are administered through a Contractual Trust Agreement (CTA). In a CTA arrangement, the assets are outsourced to an independent entity (e.g. a trust), which has the sole purpose of financing, paying out and ensuring benefits. The transferred assets are completely segregated from the employer’s assets to protect these assets against the risk of the employer’s insolvency. The employer is free to determine the scope and the kinds of assets that are to be transferred to the Trust and used for funding the pension liabilities. No minimum funding requirements or regular funding obligations apply to CTAs. Based on a special trust agreement between the employer and the Trust, the Trust acquires legal title in the transferred assets while the economic benefit rests with the employer. By creating the CTA, the employer creates additional insolvency protection for the beneficiaries.

Pension plans in the USA

2 funded and 2 unfunded defined benefit plans existed in 2017 (previous year: 2 and 2 respectively). The pension plan for members of Fairfield Manufacturing Company hired prior to March 2004 is non-contributory for the employees. The plan is a final-average-pay-design defined benefit plan. A member's benefit is based on a percentage of their final average pay multiplied by service and payable as a monthly life annuity. A lump sum payment is generally not available. The plan does not provide for automatic pension increases. This plan has been closed to new members since 2004 and benefit accruals under the plan have ceased in January 2018. The Oerlikon USA Holding, Inc. Pension Plan is non-contributory for the employees. The plan uses a final-average-pay-based formula, with benefits based on members’ years of service and final average pay earned while in the employ of a participating company. This plan has been closed to new members since 2006 and benefit accruals under the plan ceased in January 2010. Participants receive their benefits in the form of monthly annuities, which are actuarially reduced for early retirement and/or election of a form of payment providing for continued payments after the participant’s death to a surviving beneficiary. Some participants have the option of receiving their benefits in a single lump-sum payment in lieu of an annuity. The plan does not provide for automatic pension increases. The companies' contributions to the defined benefit plan are made based on US pension funding regulations, in the form of cash. Employees joining Fairfield Manufacturing Company and Oerlikon USA Holding after specified dates participate in a defined contribution pension plan.

Pension plans in Switzerland

7 funded defined benefit plans existed in 2017 (previous year: 7 plans). These plans are governed by the Swiss Federal Law on Occupational Retirement, Survivors' and Disability Pension Plans (BVG), which stipulates that pension plans are to be managed by independent, legally autonomous units. The pension plan assets are held within a separate foundation and cannot revert to the employer. The Board of Trustees, the most senior governing body of the collective foundation, is responsible for investment strategy and policy. This Board is composed of equal numbers of employees and employer representatives. The plans provide old-age, disability and death-in-service (survivors') benefits to plan participants, their spouses and children, as defined in pension plan rules compliant with the BVG, which specifies the minimum benefits to be provided. Pension funds are financed according to a level premium system, which means that every insured person directly finances his/her own retirement benefits and saves up for his/her retirement. The insured and the employer usually pay equal contributions to the pension fund in case of retirement benefits. The employer must contribute an amount that equals at least the contributions of all employees together. Disability and survivors' benefits are funded via risk contributions; the corresponding benefits are defined based on the current salary.

The following risks arise from the 7 funded defined benefit plans (5 autonomous and 2 partly-autonomous):

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

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

Post-employment benefits

Note 14 (cont.)

Movement in net defined benefit liability

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

	Defined benefit obligation		Fair value of plan assets		Adjustment to asset ceiling		Net defined benefit liability	
in CHF million	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Balance at January 1	**1 085**	**1 249**	**–656**	**–652**	**7**	**10**	**436**	**607**
Included in the income statement								
Current service cost (employer)	19	24	–	–	–	–	19	24
Past service cost[1]	–8	–18	–	–	–	–	–8	–18
Gains on settlement	–9	–	7	–	–	–	–2	–
Interest expense on defined benefit obligation	18	25	–	–	–	–	18	25
Interest income on plan assets	–	–	–10	–12	–	–	–10	–12
Administration cost (excl. cost for managing plan assets)[2]	–	–	–	–	–	–	–	–
Total in the income statement[3]	**20**	**31**	**–3**	**–12**	**–**	**–**	**17**	**19**
Included in other comprehensive income								
Remeasurement gain (-)/ loss (+) arising from:	–3	82	–40	–15	4	–3	–39	64
– Actuarial gain (-)/ loss (+) arising from:								
– demographic assumptions	–12	3	–	–	–	–	–12	3
– financial assumptions	18	81	–	–	–	–	18	81
– experience adjustments	–9	–2	–	–	–	–	–9	–2
– Return on plan assets excluding interest income	–	–	–40	–15	–	–	–40	–15
– Change in effect of asset ceiling excluding interest expense/income	–	–	–	–	4	–3	4	–3
Effect of movements in exchange rates	24	6	–	–4	–	–	24	2
Total in other comprehensive income	**21**	**88**	**–40**	**–19**	**4**	**–3**	**–15**	**66**
Other								
Employer contributions[4]	–	–	–18	–20	–	–	–18	–20
Employee contributions[5]	9	8	–7	–7	–	–	2	1
Benefits paid/deposited	–54	–61	35	36	–	–	–19	–25
Effect of business combination and disposal	–	–230	–	18	–	–	–	–212
Total in other	**–45**	**–283**	**10**	**27**	**–**	**–**	**–35**	**–256**
Balance at December 31	**1 081**	**1 085**	**–689**	**–656**	**11**	**7**	**403**	**436**

of which:

in CHF million								
– Germany	394	378	–65	–62	–	–	329	316
– USA	245	256	–186	–178	–	–	59	78
– Switzerland	408	420	–431	–411	11	7	–12	16

[1] 2017: Plan curtailment in the USA and reduction of conversion rate for Swiss plans. 2016: Reduction of conversion rates for Swiss plans.

[2] Administration costs are less than CHF 1 million (previous year: less than CHF 1 million).

[3] 2016: Pension costs of CHF 6 million are included in result of discontinued operations.

[4] Employer contributions to defined benefit plans for 2018 are expected to be approximately CHF 23 million.

[5] Including employee contributions in unfunded plans in the USA.

Post-employment benefits

Note 14 (cont.)

The plan assets consist of the following:

in CHF million	2017 Total	2017 Quoted	2017 Unquoted	2017 %	2016 Total	2016 Quoted	2016 Unquoted	2016 %
Equity instruments, of which in:	**141**	**139**	**2**	**20 %**	**133**	**132**	**1**	**20 %**
– Consumer markets	18	18	–	3 %	28	28	–	4 %
– Energy	–	–	–	0 %	9	9	–	1 %
– Financial services	78	78	–	11 %	24	24	–	4 %
– Industrial and manufacturing	24	24	–	3 %	27	27	–	4 %
– Information technology	1	1	–	0 %	25	25	–	4 %
– Pharmaceuticals and health care	18	18	–	3 %	14	14	–	2 %
– Other	2	–	2	0 %	6	5	1	1 %
Debt instruments, of which in:	**145**	**145**	**–**	**21 %**	**158**	**158**	**–**	**24 %**
– Government bonds	44	44	–	6 %	48	48	–	7 %
– Corporate bonds - investment grade	101	101	–	15 %	110	110	–	17 %
Real estate, of which in:	**121**	**61**	**60**	**18 %**	**90**	**53**	**37**	**14 %**
– Germany[1]	9	–	9	1 %	7	–	7	1 %
– Switzerland	112	61	51	17 %	83	53	30	13 %
Cash and cash equivalents	**18**	**18**	**–**	**3 %**	**24**	**24**	**–**	**4 %**
Investment funds	**207**	**42**	**165**	**30 %**	**201**	**47**	**154**	**31 %**
Other	**57**	**43**	**14**	**8 %**	**50**	**37**	**13**	**7 %**
Total plan assets	**689**	**448**	**241**	**100 %**	**656**	**451**	**205**	**100 %**

[1] Real estate in Germany with a fair value of CHF 9 million (previous year: CHF 8 million) is rented by a Group company, with an annual rent of CHF 1 million (previous year: CHF 1 million).

Plan assets

In the Group's financial statements, the difference between the actual return on plan assets and interest income is as remeasurement recorded directly to other comprehensive income. During 2017, the actual return on plan assets was a gain of CHF 50 million (previous year: gain of CHF 27 million). The recognition of a net defined benefit asset is limited to the present value of any economic benefits available out of refunds from the plans or reductions in future contributions to the plans.

Post-employment benefits

Note 14 (cont.)

Actuarial assumptions

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

Assumptions used in actuarial calculations			2017			2016
in percentage	Germany	USA	Switzerland	Germany	USA	Switzerland
Discount rate	1.5	3.6	0.5	1.4	4.0	0.7
Future salary increases	0.1	2.4	1.0	0.1	2.4	1.2
Future pension increases	1.6	–	–	1.6	–	–

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

Longevities

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

Longevities			2017			2016
in years	Germany	USA	Switzerland	Germany	USA	Switzerland
Retiring at the end of the reporting period:						
– Males	20.6	19.9	22.4	20.5	20.0	22.3
– Females	24.7	22.2	25.4	24.7	22.4	25.3
Retiring 20 years after the end of the reporting period:						
– Males	23.3	21.5	22.9	23.3	21.7	22.8
– Females	27.3	23.8	26.3	27.3	24.0	26.2

			2017			2016
Weighted average duration of the defined benefit obligation	Germany	USA	Switzerland	Germany	USA	Switzerland
Number of years	10.7	12.4	14.5	10.7	12.4	15.0

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

Sensitivity analysis

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

						Defined benefit obligation in 2017
			Increase			Decrease
Sensitivity analysis	Germany	USA	Switzerland	Germany	USA	Switzerland
Discount rate (0.5 % movement)	–20	–14	–28	21	15	32
Future salary (0.5 % movement)	–	–	3	–	–	–3
Future pension (0.5 % movement)	18	–	23	–13	–	–21
Future mortality (1 year movement)	–23	–8	–13	18	8	13

						Defined benefit obligation in 2016
			Increase			Decrease
Sensitivity analysis	Germany	USA	Switzerland	Germany	USA	Switzerland
Discount rate (0.5 % movement)	–19	–15	–29	21	16	34
Future salary (0.5 % movement)	–	2	3	–	–2	–3
Future pension (0.5 % movement)	18	–	–	–13	–	–
Future mortality (1 year movement)	–22	–8	–14	20	7	14

Current financial liabilities

Note 15

in CHF million	**2017**	2016
Finance lease liabilities	2	–
Current loans and borrowings	1	2
Derivatives used for hedging	2	4
Total current financial liabilities and derivatives	**5**	**6**
Trade payables	365	239
Other payables	57	60
Total current financial liabilities	**427**	**305**

Accrued liabilities

Note 16

in CHF million	**2017**	2016
Accrued personnel expenses	115	86
Accrued material expenses	29	28
Other accrued liabilities	59	64
Total accrued liabilities	**203**	**178**

Provisions

Note 17

in CHF million	Product warranties	Acquiree's contingent liabilities[1]	Restructuring[2]	Other provisions[3]	**2017 Total**
Balance at January 1, 2017	29	69	82	32	**212**
Conversion differences	2	–2	6	–	**6**
Additions[4]	23	2	7	24	**56**
Amounts used	–8	–	–19	–13	**–40**
Amounts reversed	–9	–9	–5	–9	**–32**
Balance at December 31, 2017	**37**	**60**	**71**	**34**	**202**
of which:					
Due within 1 year	34	–	23	19	**76**
Due beyond 1 year	3	60	48	15	**126**

[1] Acquiree's contingent liabilities pertain to the Surface Solutions Segment. Contingent liabilities have been recognized primarily due to environmental liabilities as well as certain litigation and potential tax risks. Any potential cash outflow is estimated to occur during the next 10-15 years. The selling 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 Drive Systems (CHF 44 million), Manmade Fibers (CHF 20 million) and Surface Solutions (CHF 7 million) Segments. The restructuring of the Manmade Fibers Segment is due to a need to adapt the Segment's structure and lower its cost base measurably. The Drive Systems Segment reorganization includes mainly the resizing of the organization. The restructuring provision 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.

Loans and borrowings

Note 18

in CHF million	2017	2016
Current		
Finance lease liabilities	2	–
Loans and borrowings	1	2
Total current loans and borrowings	**3**	**2**
Non-current		
Bonds	450	449
Finance lease liabilities	8	7
Other loans and borrowings	5	10
Total non-current loans and borrowings	**463**	**466**
Total loans and borrowings	**466**	**468**

The terms and conditions of outstanding loans are as follows:

in CHF million	Currency	Nominal interest rate	Year of maturity	Face value	Carrying amount
					2017
Syndicated loan/Revolving Credit Facility	CHF	Libor + 0.60%	2022	–	–
Bond[1]	CHF	1.25%	2019	300	300
Bond[1]	CHF	2.625%	2024	150	150
Finance lease liabilities[2]	var.	var.	2018–2034	10	10
Various current and non-current liabilities[3]	var.	var.	var.	6	6
Total loans and borrowings					**466**

in CHF million	Currency	Nominal interest rate	Year of maturity	Face value	Carrying amount
					2016
Syndicated loan/Revolving Credit Facility	CHF	Libor + 0.60%	2021	–	–
Bond[1]	CHF	1.25%	2019	300	299
Bond[1]	CHF	2.625%	2024	150	150
Finance lease liabilities[2]	var.	var.	2017–2027	7	7
Various current and non-current liabilities[3]	var.	var.	var.	12	12
Total loans and borrowings					**468**

[1] CHF 1 million of directly attributable transaction costs related to the financing of the bonds were deducted and are being expensed over the term of the bonds.

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

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

Loans and borrowings

Note 18 (cont.)

Syndicated loan facility
In 2016, Oerlikon signed an agreement for a new unsecured syndicated credit facility, comprising of a revolving credit facility and an ancillary credit facility, amounting to CHF 600 million. The initial maturity was in 2021, and in 2017, Oerlikon successfully extended the facility by one year to 2022. An additional one-year extension option and an accordion feature exist, at the full discretion of the lenders. As of December 31, 2017, the drawn revolving credit facility balance was zero, and out of CHF 225 million allocated to the ancillary credit facility, the amount of CHF 123 million was used for issuing guarantees.

As per December 31, 2017, the interest rate of the loan under the syndicated credit facility is defined as Libor plus a margin of 0.60 % per year, subject to a margin grid based on the ratio of Net Debt to EBITDA (within a range of 0.60 % and 1.40 %).

As of December 31, 2017, the syndicated credit facility contains the following financial covenants, which are tested quarterly:

– Total Equity
– Total Borrowings/EBITDA

In 2017, the Group was in compliance with all covenants.

Bonds
On June 17, 2014, the Oerlikon Group issued a 5 year CHF 300 million straight bond with a nominal interest of 1.25 % (effective interest: 1.33 %) and a 10 year CHF 150 million straight bond with a nominal interest of 2.625 % (effective interest: 2.625 %).

Financial instruments

Note 19

The carrying amounts and fair values of financial assets and liabilities as of December 31, 2017, including their levels in the fair value hierarchy, are as follows:

	Carrying amount						Fair value			
in CHF million	Fair value – held for trading	Fair value – hedging instruments	Fair value – through profit & loss	Loans and receivables	Other financial liabilities	**Total**	Level 1	Level 2	Level 3	**Total**
Financial assets measured at fair value										
Foreign exchange contracts	–	7	–	–	–	**7**	–	7	–	**7**
Debt and equity securities	25	–	–	–	–	**25**	25	–	–	**25**
Total	**25**	**7**	**–**	**–**	**–**	**32**	**25**	**7**	**–**	**32**
Financial assets not measured at fair value[1]										
Cash and cash equivalents	–	–	–	871	–	**871**				
Deposits	–	–	–	69	–	**69**				
Trade and other financial receivables	–	–	–	505	–	**505**				
Loans and other non-current financial receivables	–	–	–	23	–	**23**				
Total	**–**	**–**	**–**	**1 468**	**–**	**1 468**				
Financial liabilities measured at fair value										
Foreign exchange contracts	–	2	–	–	–	**2**	–	2	–	**2**
Other non-current liabilities	–	–	34	–	–	**34**	–	–	34	**34**
Total	**–**	**2**	**34**	**–**	**–**	**36**	**–**	**2**	**34**	**36**
Financial liabilities not measured at fair value[1]										
Bonds	–	–	–	–	450	**450**	476	–	–	**476**
Finance lease liabilities	–	–	–	–	10	**10**				
Trade payables	–	–	–	–	365	**365**				
Accrued financial liabilities	–	–	–	–	88	**88**				
Other loans and borrowings	–	–	–	–	6	**6**				
Other non-current liabilities	–	–	–	–	3	**3**				
Total	**–**	**–**	**–**	**–**	**922**	**922**				

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

Financial instruments

Note 19 (cont.)

The carrying amounts and fair values of financial assets and liabilities as of December 31, 2016, including their levels in the fair value hierarchy, are as follows:

	Carrying amount						Fair value			
in CHF million	Fair value – held for trading	Fair value – hedging instruments	Fair value – through profit & loss	Loans and receivables	Other financial liabilities	**Total**	Level 1	Level 2	Level 3	**Total**
Financial assets measured at fair value										
Foreign exchange contracts	–	3	–	–	–	**3**	–	3	–	**3**
Debt and equity securities	10	–	–	–	–	**10**	10	–	–	**10**
Total	**10**	**3**	**–**	**–**	**–**	**13**	**10**	**3**	**–**	**13**
Financial assets not measured at fair value[1]										
Cash and cash equivalents	–	–	–	751	–	**751**				
Deposits	–	–	–	108	–	**108**				
Trade and other financial receivables	–	–	–	374	–	**374**				
Loans and other non-current financial receivables	–	–	–	22	–	**22**				
Total	**–**	**–**	**–**	**1 255**	**–**	**1 255**				
Financial liabilities measured at fair value										
Foreign exchange contracts	–	4	–	–	–	**4**	–	4	–	**4**
Total	**–**	**4**	**–**	**–**	**–**	**4**	**–**	**4**	**–**	**4**
Financial liabilities not measured at fair value[1]										
Bonds	–	–	–	–	449	**449**	480	–	–	**480**
Finance lease liabilities	–	–	–	–	7	**7**				
Trade payables	–	–	–	–	239	**239**				
Accrued financial liabilities	–	–	–	–	91	**91**				
Other loans and borrowings	–	–	–	–	12	**12**				
Total	**–**	**–**	**–**	**–**	**798**	**798**				

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

Measurement of fair values

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

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

Level 1 fair values

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

Level 2 fair values

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

Type of financial instruments	Valuation technique
Foreign exchange contracts	The fair values of foreign exchange hedging contracts are based on broker quotes. Similar contracts traded in an active market and the quotes reflect the actual transactions in similar instruments.

Financial instruments

Note 19 (cont.)

Level 3 fair values

The following table shows the valuation technique used in measuring level 3 fair values:

Type of financial instruments	Valuation technique
Other non-current liabilities	The valuation of the contingent considerations is based on the current estimate of the fulfillment of the conditions on which the payment of the earnout depends. The fair value is based on various unobservable inputs. A change in these inputs may result in a significantly higher or lower fair value.

Transfers between level 1 and 2

There were no transfers between level 1 and 2 during the year.

Financial risk management

The Group has exposure to the following risks arising from financial instruments:

- credit risk
- liquidity risk
- market risk

Credit risk

Credit risk is the risk of financial loss to the Group, if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises principally from the Group's customer receivables, investment securities and cash placed with banks.

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

Trade receivables are valued at the original invoiced amount less any necessary value adjustments for default risks. These risks are insured with third parties only in exceptional cases.

As a fundamental principle, the Group places funds only with investment grade rated domestic and foreign banking institutions, and Group Treasury periodically assesses the relevant ratings and credit default spreads of these banking institutions.

The Oerlikon Group's maximum credit risk from financial instruments is reflected in the book values of the individual financial assets as per year-end. There are no commitments or obligations which might lead to an exposure exceeding these book values. The maximum credit risk is therefore:

in CHF million	**2017**	2016
Cash and cash equivalents	871	751
Deposits	69	108
Debt and equity securities	25	10
Derivatives used for hedging	7	3
Trade and other financial receivables	505	374
Loans and other non-current financial receivables	23	22
Total	**1 500**	**1 268**

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

in CHF million	**2017**	2016
Asia	176	128
Europe	201	172
North America	62	62
Other	8	7
Total	**447**	**369**

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

Financial instruments

Note 19 (cont.)

At December 31, the aging of trade and trade notes receivable was as follows:

in CHF million	2017 Gross amount	2017 Value adjustment	2016 Gross amount	2016 Value adjustment
Current (not due)	**378**	**–**	**290**	**–**
Total past due	**79**	**–10**	**92**	**–13**
0–30 days	48	–1	55	–1
31–60 days	12	–	14	–
61–90 days	6	–1	6	–1
91–120 days	2	–	3	–
Over 120 days	11	–8	14	–11
Total	**457**	**–10**	**382**	**–13**

Allowance for doubtful debts are based on the difference between the nominal value of receivables and the amounts considered collectible. Amounts considered collectible are developed from experience. A receivable is considered to be doubtful if certain facts are known that suggest that a debtor is in significant financial difficulty and that amounts receivable from that source are unlikely to be received at all, or only in part.

Reconciliation of changes in allowance accounts for credit losses:

in CHF million	2017	2016
Balance at January 1	–13	–10
Additional impairment losses charged to income	–2	–6
Reversal of impairment losses	5	3
Balance at December 31	**–10**	**–13**

Financial instruments

Note 19 (cont.)

Liquidity risk
Liquidity risk is the risk that the Oerlikon Group may be unable to discharge its financial liabilities in a timely manner or at an acceptable cost. Oerlikon supervises and manages the Group's liquidity centrally, in order to ensure that outstanding financial liabilities can at all times be met within their maturity period and at an acceptable financing cost. Group Treasury prepares and provides the relevant decision support and arranges for the availability of the relevant funds once approval is given.

Oerlikon's liquidity is monitored using short-, medium- and long-term rolling forecasts, about which senior management is kept informed. On the basis of these plans, Oerlikon mobilizes the necessary liquid funds and takes any further steps necessary in a timely manner.

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

						2017
in CHF million	**Carrying amount**	**Contractual cash flow**	**within 1 year**	**1 to 5 years**	**more than 5 years**	**of which secured**
Trade payables	365	365	365	–	–	–
Loans and borrowings[1]	456	498	11	329	158	–
Finance lease liabilities	10	10	2	4	4	–
Accrued financial liabilities	88	88	88	–	–	–
Other non-current liabilities	37	39	–	36	3	–
						–
Non-derivative financial liabilities	**956**	**1 000**	**466**	**369**	**165**	**–**
Foreign exchange contracts used for hedging	–	754	741	13	–	–
– thereof: for hedging fx-outflows (notional value)	–	262	261	1	–	–
– thereof: for hedging fx-inflows (notional value)	–	492	480	12	–	–
Derivative financial instruments[2]	**–**	**754**	**741**	**13**	**–**	**–**
Total	**956**	**1 754**	**1 207**	**382**	**165**	**–**

[1] Loans and borrowings mainly include two Swiss franc bonds of CHF 450 million, maturing in June 2019 and June 2024, with capitalized transaction costs of CHF 0 million. The contractual cash flows include mainly future interest payments of the Swiss franc bonds until maturity and commitment fees of the syndicated credit facility.

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

						2016
in CHF million	Carrying amount	Contractual cash flow	within 1 year	1 to 5 years	more than 5 years	of which secured
Trade payables	239	239	239	–	–	–
Loans and borrowings[1]	461	522	12	333	177	–
Finance lease liabilities	7	7	–	2	5	–
Accrued financial liabilities	91	91	91	–	–	–
Non-derivative financial liabilities	**798**	**859**	**342**	**335**	**182**	**–**
Foreign exchange contracts used for hedging	–	423	423	–	–	–
– thereof: for hedging fx-outflows (notional value)	–	121	121	–	–	–
– thereof: for hedging fx-inflows (notional value)	–	302	302	–	–	–
Derivative financial instruments[2]	**–**	**423**	**423**	**–**	**–**	**–**
Total	**798**	**1 282**	**765**	**335**	**182**	**–**

[1] Loans and borrowings mainly include two Swiss franc bonds of CHF 450 million, maturing in June 2019 and June 2024, with capitalized transaction costs of CHF 1 million. The contractual cash flows include mainly future interest payments of Swiss franc bond until maturity and commitment fees of the syndicated credit facility.

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

Financial instruments

Note 19 (cont.)

Market risk

Market risk is the risk that the fair value or the future cash flows of a financial instrument may change as a result of fluctuations in market prices. The Oerlikon Group is exposed in particular to fluctuations in foreign exchange and interest rates. The Group also has a minor risk from exposure to fluctuations in raw material prices.

Foreign exchange risk

Foreign exchange transaction risk

Due to its most significant markets, the Group is primarily exposed to exchange risks versus the USD and EUR. If costs and revenues of Group companies are incurred or earned in differing or in non-functional currencies, the underlying business transactions are hedged on a centrally coordinated basis by means of commonly used financial instruments. Group companies make regular plans for receipt or payment of cash in foreign currencies and advise these to Group Treasury, which hedges the related exchange risks using external contracts with investment grade rated banks.

The Group's hedging strategy for exchange risks distinguishes between the routine business of supplying components or spare parts and the Group's project activities. For the routine business, cash flows in foreign currencies are hedged for a whole year in advance, based on the annual budget. The hedging quota, i.e. the percentage of the base volume to be hedged, is set forth in the related guidelines. Periodically, a check is performed as to whether the latest forecast of business volumes calls for an increase or a reduction in the hedging volume. For projects, the exchange risks are hedged when the contract is entered into. For special transactions that do not fall into either category – routine or project – the hedging strategy can be determined for individual cases.

Foreign exchange translation risk

Translation exposure arises from consolidation of foreign currency denominated financial statements of the Group's subsidiaries. The Group's consolidated financial statements are reported in Swiss francs. The translation risk arising from foreign subsidiary balance sheets that affects the consolidated Group equity is not hedged.

Long-term Foreign exchange economic risk

The Group policy is not to hedge long-term foreign exchange risk.

The following rates were used to convert the most important foreign currencies in the financial statements:

	Average rates		Change	**Year-end rates**		Change
	2017	2016	16/17	**2017**	2016	16/17
1 USD	0.984	0.985	–0.1 %	0.976	1.016	–3.9 %
1 EUR	1.110	1.090	1.9 %	1.168	1.075	8.7 %
100 CNY	14.570	14.840	–1.8 %	14.990	14.630	2.5 %
100 HKD	12.630	12.690	–0.5 %	12.490	13.100	–4.7 %
100 JPY	0.878	0.907	–3.3 %	0.867	0.870	–0.3 %
1 SGD	0.713	0.714	–0.1 %	0.731	0.704	3.8 %

Sensitivity analysis

For the sensitivity analysis, the two most important currencies were selected in which the Group holds significant amounts of receivables and payables. Based on a two-year volatility of 6.11 % (USD/CHF) and 4.75 % (EUR/CHF), a corresponding change in exchange rates at December 31, 2017, would have changed the equity and the income statement by the amounts listed below.

December, 31		**2017**		2016
Effect in CHF million	**Equity**	**Income statement**	Equity	Income statement
USD	3	3	–2	4
EUR	1	1	–1	2

A 6.11 % (USD/CHF) and 4.75 % (EUR/CHF) weakening of the Swiss franc against the above currencies would have had the same but opposite effect on the above currencies to the amounts shown above, assuming all other variables remain constant. In the previous period, the sensitivity analysis was calculated with 9.01 % (USD/CHF) and 9.79 % (EUR/CHF).

Financial instruments

Note 19 (cont.)

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

			2017			2016
in million	**EUR**	**USD**	**CHF**	EUR	USD	CHF
Trade receivables	12	31	1	15	34	–
Trade payables	5	5	3	8	7	–
Net financial position	17	35	–	27	35	–
Gross exposure consolidated balance sheet	**34**	**71**	**4**	**50**	**76**	**–**
Gross foreign exchange risk in business operations	**66**	**137**	**–24**	**–3**	**16**	**–13**
Open net foreign exchange forward contracts	**–66**	**–138**	**16**	**–16**	**–45**	**10**
Net exposure	**34**	**70**	**–4**	**31**	**47**	**–3**

Interest rate risk

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

Group Treasury prepares and provides the relevant decision support for senior management (Board of Directors, senior financial management) and arranges for hedging against interest rate fluctuations once approval is given. Such hedging is carried out using derivative financial instruments, such as interest rate swaps and interest rate caps.

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

	2017	2016
in CHF million	**Net carrying amount**	Net carrying amount
Fixed rate interest		
Financial assets	3	2
Financial liabilities	–464	–466
Total	**–461**	**–464**
Variable rate interest		
Financial assets	962	867
Financial liabilities	–2	–2
Total	**960**	**865**

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points (bp) in interest rates at the reporting date would have decreased (increased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Income statement	
Effect in CHF million	**100 bp increase**	**100 bp decrease**
2017		
Cash flow sensitivity	7	–7
2016		
Cash flow sensitivity	5	–5

The assumption in the underlying sensitivity analysis is that an increase as well as a decrease by 100 bp has a full impact on interest income and expense. Due to the overall low interest rate environment, a decrease by 100 bp would lead to a negative average interest rate. The tax impact has been included in all figures regarding interest sensitivity.

A change of 100 basis points in interest rates would have no impact on Group equity.

Financial instruments

Note 19 (cont.)

Derivative assets and liabilities

in CHF million	2017 Contract volume	2017 Fair value positive	2017 Fair value negative	2016 Contract volume	2016 Fair value positive	2016 Fair value negative
Foreign exchange contracts	**754**	**7**	**2**	**423**	**3**	**4**

Based on the Group's business activities, the following main currency pairs are hedged: EUR/USD, EUR/CHF, EUR/CNY, USD/CHF, USD/INR, EUR/INR and USD/CNY. Positive and negative changes in fair values of foreign exchange contracts are offset by the corresponding gain or loss on the hedged transactions. The maximum risk of counterparty non-performance is equal to the positive deviation from fair value as per year-end. In view of the reputation of the counterparties, this risk is deemed to be minimal. In principle, the maturities of currency hedges correspond to the maturity of the hedged transactions. If the maturity of the base transaction shifts, the maturity of the hedge contract will be shifted correspondingly (roll-over/swaps). Thus, the cash flows deriving from the hedge contracts are synchronized with the impact of the base transaction in the income statement. The hedging transactions are first recorded in other comprehensive income, then released to the income statement when the base transaction is recorded. For this reason, there is no need for a separate presentation of the maturities of hedge contracts and their underlying transactions.

Maturity structure of open foreign exchange contracts at December 31:

in CHF million	Carrying amount	Expected cash flows	6 months or less	6-12 months	1-2 years	2-5 years	more than 5 years
Foreign exchange contracts							
2017	–	**754**	541	200	13	–	–
2016	–	**423**	359	64	–	–	–

Netting of financial assets and liabilities
No significant netting of financial assets and liabilities occurred in 2017 and 2016.

Capital management

Note 20

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

The Group monitors capital using the ratios shown below:

in CHF million	2017	2016
Total assets	4352	3825
Equity attributable to shareholders of the parent	1970	1826
Equity ratio in %	**45%**	**48%**
Interest-bearing debt	466	468
Total equity	1988	1840
Debt-to-equity ratio	**0.2**	**0.3**
Average equity attributable to shareholders of the parent	1898	1690
Net income attributable to shareholders of the parent	149	387
Return on equity	**8%**	**23%**

With an equity ratio of 45% (previous year: 48%), the Oerlikon Group is above the target range of its financial strategy. The current outstanding bonds have an investment grade rating.

OC Oerlikon participation plans

Note 21

On December 31, 2017, the following equity-settled plans were open, pursuant to which the holder is entitled to shares of OC Oerlikon Corporation AG, Pfäffikon:

Restricted Stock Units (RSU)
Members of the Board of Directors of OC Oerlikon Corporation AG, Pfäffikon, receive a portion of their compensation by means of Restricted Stock Units (RSU) which are allocated on the day of the Annual General Meeting of Shareholders and vest upon the next Annual General Meeting of Shareholders, at which time they are converted into Oerlikon shares. For Directors resigning their mandate prior to the end of the term, the number of RSU converted into shares is determined at the sole discretion of the Board of Directors. The fair value for the 2017 plan is based on the stock price at grant date of CHF 10.85.

A small number of additional RSU grants was made in 2017 to selected members of senior management. They were allocated as of May 1, 2017. The fair value for these grants is based on the stock price at grant date of CHF 11.95.

Year of allocation	Outstanding on 1.1.	Granted in 2017	Forfeited in 2017	Exercised in 2017	Outstanding on 31.12.	Fair Value at grant date in CHF[1]	Expense 2017 in CHF million	Vesting period[2]
2016	438476	–	32604	158340	247532	n.a.	0.6	06.04.16-01.05.19
2017	–	99847	–	5556	94291	11.03	0.8	12.04.17-01.05.20
Total	**438476**	**99847**	**32604**	**163896**	**341823**		**1.4**	

[1] The fair values relate to the units granted in 2017.

[2] RSU allocated to the Board of Directors on April 12, 2017, will vest on April 11, 2018. RSU allocated to selected members of senior management in 2017 will vest on May 1, 2019 and 2020.

Performance Share Awards (PSA)
Members of the Executive Committee and senior management may receive a portion of their compensation as long-term bonus in the form of awards for OC Oerlikon Corporation AG, Pfäffikon, shares that are based on performance conditions and a vesting period of three years. Their achievement determines the effective number of total Performance Share Awards (PSA). Upon vesting, the effective number of PSA is converted into shares.

Performance conditions for the 2016 and 2017 plans are based on the absolute and relative Total Shareholder Return (TSR) of Oerlikon over a three-year period. 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 peer group of 11 companies for each of the three years. 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. The shares received are subject to a two-year blocking period.

For the 2017 plan, the fair value at grant date is CHF 14.06 and it was calculated using a Monte Carlo Simulation. Main assumptions include a valuation date stock price of CHF 11.95 and an average expected volatility of the peer group of 33.98 %. Dividend equivalents to which award holders are entitled are reflected in the fair value at grant date.

Year of allocation	Outstanding on 1.1.	Granted in 2017	Forfeited in 2017	Exercised in 2017	Outstanding on 31.12.	Fair Value at grant date in CHF[1]	Expense 2017 in CHF million[2]	Vesting Period[3]
2014	–	–	–	–	–	–	0.5	01.05.14-30.04.17
2015	–	–	–	–	–	–	1.2	01.05.15-30.04.18
2016	658620	210	53708	17402	587720	11.58	2.0	01.05.16-30.04.19
2017	–	576385	–	–	576385	14.06	1.8	01.05.17-30.04.20
Total	**658620**	**576595**	**53708**	**17402**	**1164105**		**5.5**	

[1] The fair values relate to the awards granted in 2017.

[2] The total expense of CHF 5.5 million (previous year: CHF 6.2 million) includes no income or expense related to discontinued operations (previous year: income of below CHF 0.1 million).

[3] PSA grants issued under the 2014 and 2015 plans were converted into a pro-rated number of RSU for the remaining vesting period in 2016. Their fair value at grant date continues to be expensed over the respective vesting periods in line with the requirements for the accounting for plan modifications.

Related party transactions

Note 22

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

Primary shareholder
The share capital of CHF 339 758 576 consists of 339 758 576 registered shares, each with a par value of CHF 1.00. On December 31, 2017, conditional capital amounted to CHF 47 200 000.

The shareholders registered as holding more than 5 % of the shares as at December 31, 2017, were:

	Share ownership[1]	
Shareholder	Number of shares	in %
Renova Group[2]	146 222 889[3]	43.04 %

[1] Source: Disclosure notification by Renova Group (published by SIX Exchange Regulation on November 15, 2017).

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

[3] At the end of 2016, the Renova Group held (as per disclosure notification) 146 222 889 shares (43.04 % of the issued Oerlikon shares).

Share ownership, options and related instruments
The disclosure below follows Art. 663c Para. 3 of the Swiss Code of Obligations, which requires disclosure of share ownership, options and related instruments individually for each member of the Board of Directors and Executive Committee, including shares, options and related instruments held by persons closely related to, and by companies controlled by members of the Board of Directors and Executive Committee.

Members of the Board of Directors	Number of shares	Number of Restricted Stock Units (RSU)
Prof. Dr. Michael Süss	41 877	25 807
Gerhard Pegam	none	11 521
Dr. Jean Botti	10 515	11 521
Geoffery Merszei (since April 11, 2017)	none	11 521
David Metzger	13 144	11 521
Alexey V. Moskov	13 144	11 521
Total	**78 680**	**83 412**

Prof. Dr. Michael Süss (Chairman), David Metzger (Board Member) and Alexey V. Moskov (Board Member) are also in senior positions at Renova Group. Prof. Dr. Süss is a Director of Renova Management AG. David Metzger is Managing Director Investments of the Renova Management AG. Mr. Moskov is Chief Operating Officer of Renova Management AG.

Members of the Executive Committee	Number of shares	Number of Performance Share Awards (PSA)	Number of Restricted Stock Units (RSU)
Dr. Roland Fischer	3 066	253 336	38 786
Jürg Fedier	459 970	185 932	46 544
Anna Ryzhova	none	27 608	none
Dr. Helmut Rudigier (since November 1, 2017)	6 443	16 363	4 096
Dr. Bernd Matthes (until October 31, 2017)	20 403	74 373	18 617
Georg Stausberg (until October 31, 2017)	40 258	44 343	10 964
Total	**530 140**	**601 955**	**119 007**

Related party transactions

Note 22 (cont.)

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

	Executive Committee		Board of Directors	
in CHF thousand	**2017**	2016	**2017**	2016
Short-term employee benefits	7291	6130	1057	999
Post-employment benefits	804	863	–	–
Share-based payments	3890	3962	905	905
Total	**11985**	**10955**	**1962**	**1904**

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

Group and associated companies
An overview of all Group subsidiary companies can be found on pages 126 and 127. Transactions between the parent company and its subsidiaries as well as between the Group subsidiaries themselves have been eliminated in the consolidated annual financial statements.

In Germany, a Group company rents property from its pension fund. The fair value of the real estate included in the fair value of the assets of the pension fund is CHF 9 million (previous year: CHF 8 million) and the annual rent is CHF 1 million (previous year: CHF 1 million).

In 2017, OC Oerlikon sold goods and services to other related parties in the amount of CHF 4 million (previous year: CHF 13 million), from these transactions accounts receivables in the amount of CHF 1 million (previous year: CHF 3 million) were outstanding as of December 31, 2017.

Participation plans: see Note 21.

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

Contingent liabilities

Note 23

Contingent liabilities as of December 31, 2017, amount to CHF 6 million (previous year: CHF 6 million) mostly for excise duties and debt guarantees.

Payments under non-cancellable operating leases

Note 24

in CHF million	**2017**	2016
Due in 1st year	30	28
Due in 2nd year	22	19
Due in 3rd year	19	14
Due in 4th year	16	11
Due in or beyond 5th year	49	49
Total	**136**	**121**

The expenses of operating leases charged to the income statement amount to CHF 34 million (previous year: CHF 28 million).

Pledged assets

Note 25

As of December 31, 2017, CHF 9 million assets were pledged as a security (previous year: CHF 9 million).

Subsequent events

Note 26

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 2017.

Segment information

in CHF million	Surface Solutions Segment 2017	Surface Solutions Segment 2016	Manmade Fibers Segment 2017	Manmade Fibers Segment 2016	Drive Systems Segment 2017	Drive Systems Segment 2016	Total Segments 2017	Total Segments 2016
Order intake	**1 417**	**1 236**	**810**	**577**	**778**	**600**	**3 005**	**2 413**
Order backlog	**124**	**80**	**357**	**270**	**202**	**97**	**683**	**447**
Sales								
Sales to third parties	1 377	1 238	740	481	730	612	2 847	2 331
Sales to other segments	6	5	–	–	–	–	6	5
Eliminations	–6	–5	–	–	–	–	–6	–5
	1 377	**1 238**	**740**	**481**	**730**	**612**	**2 847**	**2 331**
Sales by market region to third parties								
Asia/Pacific	438	364	486	287	149	100	1 073	751
Europe	630	582	149	102	322	289	1 101	973
North America	247	236	55	59	236	201	538	496
Other regions	62	56	50	33	23	22	135	111
	1 377	**1 238**	**740**	**481**	**730**	**612**	**2 847**	**2 331**
Sales by location to third parties								
Asia/Pacific	391	334	205	181	195	126	791	641
thereof China	140	109	197	175	71	33	408	317
Europe	672	613	513	279	339	299	1 524	1 191
thereof Switzerland	101	87	–	–	–	–	101	87
Germany	335	322	513	275	–	–	848	597
Italy	37	37	–	–	333	292	370	329
North America	270	253	22	21	196	187	488	461
thereof USA	241	226	22	21	196	187	459	434
Other regions	44	38	–	–	–	–	44	38
	1 377	**1 238**	**740**	**481**	**730**	**612**	**2 847**	**2 331**
Capital expenditure for property, plant and equipment and intangible assets[4]								
Asia/Pacific	35	19	1	2	30	12	66	33
Europe	74	58	17	14	30	15	121	87
North America	37	15	–	–	8	4	45	19
Other regions	2	4	–	–	–	–	2	4
	148	**96**	**18**	**16**	**68**	**31**	**234**	**143**
EBITDA	**276**	**277**	**57**	**16**	**78**	**51**	**411**	**344**
EBIT	**149**	**161**	**34**	**–3**	**36**	**12**	**219**	**170**
Other material items								
Research and development expense	–80	–69	–22	–19	–12	–12	–114	–100
Depreciation and amortization	–125	–115	–21	–19	–41	–39	–187	–173
Impairment of property, plant and equipment	–2	–1	–2	–	–1	–	–5	–1
Restructuring expense/income	–6	–4	–	3	4	5	–2	4
Net operating assets	**31.12.17**	31.12.16	**31.12.17**	31.12.16	**31.12.17**	31.12.16	**31.12.17**	31.12.16
Operating assets[2]	1 829	1 641	659	515	683	578	3 171	2 734
Operating liabilities[3]	–310	–269	–590	–352	–300	–218	–1 200	–839
	1 519	**1 372**	**69**	**163**	**383**	**360**	**1 971**	**1 895**
Number of employees (full-time equivalents)	**31.12.17**	31.12.16	**31.12.17**	31.12.16	**31.12.17**	31.12.16	**31.12.17**	31.12.16
Asia/Pacific	1 787	1 646	956	858	2 730	2 398	5 473	4 902
Europe	3 740	3 486	1 481	1 366	1 745	1 782	6 966	6 634
North America	1 226	1 094	59	54	689	639	1 974	1 787
Other regions	326	302	–	–	–	–	326	302
	7 079	**6 528**	**2 496**	**2 278**	**5 164**	**4 819**	**14 739**	**13 625**

[1] Discontinued operations in 2017 include the Vacuum Segment. In 2016, discontinued operations include the Vacuum Segment and the Advanced Technologies Segment.

[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.

[3] Operating liabilities include current and non-current operating liabilities, whereas current loans and borrowings, non-current financial liabilities, current income tax payables, non-current post-employment benefit liabilities and deferred tax liabilities are not included.

	Group/Eliminations		**Total from continuing operations**		**Discontinued operations[1]**		**Total incl. discontinued operations**	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
	–	**–**	**3 005**	**2 413**	**–**	**252**	**3 005**	**2 665**
	–	**–**	**683**	**447**	**–**	**–**	**683**	**447**
	–	–	2 847	2 331	–	240	2 847	2 571
	–6	–5	–	–	–	–	–	–
	6	5	–	–	–	–	–	–
	–	**–**	**2 847**	**2 331**	**–**	**240**	**2 847**	**2 571**
	–	–	1 073	751	–	83	1 073	834
	–	–	1 101	973	–	103	1 101	1 076
	–	–	538	496	–	46	538	542
	–	–	135	111	–	8	135	119
	–	**–**	**2 847**	**2 331**	**–**	**240**	**2 847**	**2 571**
	–	–	791	641	–	75	791	716
	–	–	408	317	–	37	408	354
	–	–	1 524	1 191	–	114	1 524	1 305
	–	–	101	87	–	–	101	87
	–	–	848	597	–	114	848	711
	–	–	370	329	–	–	370	329
	–	–	488	461	–	50	488	511
	–	–	459	434	–	50	459	484
	–	–	44	38	–	1	44	39
	–	**–**	**2 847**	**2 331**	**–**	**240**	**2 847**	**2 571**
	–	–	66	33	–	1	66	34
	3	1	124	88	–	7	124	95
	–	–	45	19	–	–	45	19
	–	–	2	4	–	–	2	4
	3	**1**	**237**	**144**	**–**	**8**	**237**	**152**
	4	**–10**	**415**	**334**	**5**	**323**	**420**	**657**
	–	**–12**	**219**	**158**	**5**	**323**	**224**	**481**
	–	–	–114	–100	–	–13	–114	–113
	–4	–2	–191	–175	–	–	–191	–175
	–	–	–5	–1	–	–	–5	–1
	–	–	–2	4	–	–	–2	4
	31.12.17	31.12.16	**31.12.17**	31.12.16	**31.12.17**	31.12.16	**31.12.17**	31.12.16
	34	17	3 205	2 751	–	–	3 205	2 751
	–56	–45	–1 256	–884	–	–	–1 256	–884
	–22	**–28**	**1 949**	**1 867**	**–**	**–**	**1 949**	**1 867**
	31.12.17	31.12.16	**31.12.17**	31.12.16	**31.12.17**	31.12.16	**31.12.17**	31.12.16
	–	–	5 473	4 902	–	–	5 473	4 902
	214	209	7 180	6 843	–	–	7 180	6 843
	–	–	1 974	1 787	–	–	1 974	1 787
	9	6	335	308	–	–	335	308
	223	**215**	**14 962**	**13 840**	**–**	**–**	**14 962**	**13 840**

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

Reconciliation to the consolidated income statement and balance sheet

in CHF million	**2017**	2016
EBIT	219	158
Financial income	13	11
Financial expense	–22	–34
EBT	**210**	**135**
Operating assets (continuing operations)	3 205	2 751
Non-operating assets	1 147	1 074
Total assets	**4 352**	**3 825**
Operating liabilities (continuing operations)	1 256	884
Non-operating liabilities	1 108	1 101
Total liabilities	**2 364**	**1 985**

Geographical information on non-current assets

in CHF million		**2017**	2016
Asia/Pacific		**294**	**269**
thereof	China	92	99
Europe		**1 532**	**1 401**
thereof	Switzerland	907	849
	Germany	335	309
	Italy	149	125
North America		**278**	**245**
thereof	USA	264	234
Other regions		**11**	**12**
Total		**2 115**	**1 927**

Non-current assets as shown in the table above do not include deferred tax assets and post-employment benefit assets.

Information about major customers

In 2017 and 2016, no customer represented 10 % or more of the company's third-party sales.

Companies by country

Country	Name, registered office of consolidated companies by country	Currency	Share capital[1]	Group owns %	Number of employees
Australia	Oerlikon Metco Australia Pty Ltd., Bella Vista, NSW/AU	AUD	500 000	100.00	4
Austria	Oerlikon Balzers Coating Austria GmbH, Kapfenberg/AT	EUR	350 000	100.00	139
Belgium	Oerlikon Balzers Coating Benelux N.V., St.-Truiden/BE	EUR	620 000	100.00	54
Brazil	Oerlikon Balzers Revestimentos Metálicos Ltda., Jundiaí, SP/BR	BRL	30 662 100	99.99	114
Brazil	Oerlikon Friction Systems do Brasil Ltda., Diadema, SP/BR	BRL	4 418 300	100.00	35
Brazil	Oerlikon Textile do Brasil Máquinas Ltda., Porto Alegre, RS/BR	BRL	16 385 000	100.00	–
Canada	Oerlikon Metco (Canada) Inc., Fort Saskatchewan, AB/CA	CAD	100	100.00	78
China	GK Drive Systems (Suzhou) Co. Ltd., Suzhou/CN	USD	10 000 000	51.00	63
China	Oerlikon (China) Technology Co. Ltd., Suzhou/CN	USD	30 000 000	100.00	359
China	Oerlikon Balzers Coating (Suzhou) Co. Ltd., Suzhou/CN	USD	6 150 000	100.00	438
China	Oerlikon Barmag Huitong (Yangzhou) Engineering Co. Ltd., Yangzhou/CN	CNY	100 000 000	60.00	33
China	Oerlikon China Equity Ltd., Hong Kong/CN	HKD	253 910 000	100.00	–
China	Oerlikon Drive Systems (Suzhou) Co. Ltd., Suzhou/CN	USD	41 492 700	100.00	66
China	Oerlikon Metco Surface Technology (Shanghai) Co. Ltd., Shanghai/CN	CHF	9 500 000	100.00	322
China	Oerlikon Textile China Investments Ltd., Hong Kong/CN	HKD	266 052 500	100.00	–
China	Oerlikon Textile Far East Ltd., Hong Kong/CN	HKD	100 000	100.00	2
China	Oerlikon Textile Machinery (Wuxi) Co. Ltd., Wuxi/CN	USD	7 000 000	100.00	178
China	Oerlikon Textile Systems Far East Ltd., Hong Kong/CN	HKD	250 000	100.00	–
China	Oerlikon Textile Technology (Beijing) Co. Ltd., Beijing/CN	USD	1 112 200	100.00	231
China	Transmission Trading Limited, Hong Kong/CN	HKD	94 380 000	100.00	–
China	Zigong Golden China Specialty Carbides Co., Ltd., Zigong/CN	CNY	10 000 000	60.00	18
Finland	Oerlikon Balzers Coating Finland Oy, Helsinki/FI (formerly: Oerlikon Balzers Sandvik Coating Oy)	EUR	2 500	100.00	7
France	DMX SAS, Cluses/FR	EUR	450 000	100.00	20
France	Oerlikon Balzers France SAS, Ferrières-en-Brie/FR	EUR	4 000 000	100.00	176
Germany	AM Munich Research Institute GmbH, Feldkirchen/DE	EUR	25 000	100.00	–
Germany	citim GmbH, Barleben/DE	EUR	51 000	100.00	140
Germany	Dr. Schippers Unterstützungskasse GmbH, Remscheid/DE	EUR	26 000	100.00	–
Germany	Oerlikon AM GmbH, Feldkirchen/DE	EUR	25 000	100.00	30
Germany	Oerlikon Balzers Coating Germany GmbH, Bingen/DE	EUR	511 300	100.00	827
Germany	Oerlikon Business Services GmbH, Remscheid/DE	EUR	25 000	100.00	9
Germany	Oerlikon Deutschland Holding GmbH, Remscheid/DE	EUR	30 680 000	100.00	–
Germany	Oerlikon Friction Systems (Germany) GmbH, Bremen/DE	EUR	1 000 000	100.00	107
Germany	Oerlikon Metaplas GmbH, Bergisch Gladbach/DE	EUR	1 000 000	100.00	131
Germany	Oerlikon Metco Coatings GmbH, Salzgitter/DE	EUR	1 000 000	100.00	64
Germany	Oerlikon Metco Europe GmbH, Kelsterbach/DE	EUR	1 000 000	100.00	117
Germany	Oerlikon Metco WOKA GmbH, Barchfeld/DE	EUR	1 000 000	100.00	130
Germany	Oerlikon RS GmbH, Remscheid/DE	EUR	25 000	100.00	–
Germany	Oerlikon Surface Solutions Holding GmbH, Kelsterbach/DE	EUR	17 345 100	100.00	–
Germany	Oerlikon Textile GmbH & Co. KG, Remscheid/DE	EUR	41 000 000	100.00	1481
Germany	Oerlikon Vermögens-Verwaltungs GmbH, Remscheid/DE	EUR	25 000	100.00	–
Germany	W. Reiners Verwaltungs-GmbH, Remscheid/DE	EUR	38 346 900	100.00	–
Great Britain	Graziano Trasmissioni UK Ltd., St. Neots/GB	GBP	40 000	100.00	8
Great Britain	Oerlikon Balzers Coating UK Ltd., Milton Keynes/GB	GBP	2 000 000	100.00	52
Great Britain	Oerlikon Metco (UK) Ltd., Cwmbran/GB	GBP	500 000	100.00	22
Great Britain	Oerlikon Metco Coatings Ltd., Dukinfield/GB	GBP	57 100	100.00	42
Great Britain	Oerlikon Neomet Ltd., Stockport/GB	GBP	292 700	100.00	42
Great Britain	Vocis Limited, Warwick/GB	GBP	200	100.00	26
Hungary	Oerlikon Eldim (HU) Kft, Debrecen/HU	HUF	161 000 000	100.00	130
India	Fairfield Atlas Ltd., Kolhapur/IN	INR	273 205 400	98.37	1039
India	Graziano Trasmissioni India Pvt. Ltd., New Delhi/IN	INR	267 124 900	100.00	1562
India	Oerlikon Balzers Coating India Ltd., Pune/IN	INR	70 000 000	100.00	271
India	Oerlikon Friction Systems (India) Ltd., Chennai/IN	INR	7 100 000	100.00	112
India	Oerlikon Textile India Pvt. Ltd., Mumbai/IN	INR	57 360 000	100.00	153
Italy	Oerlikon Balzers Coating Italy S.p.A., Brugherio/IT	EUR	129 100	100.00	85
Italy	Oerlikon Friction Systems (Italia) S.r.l., Caivano/IT	EUR	250 000	100.00	44
Italy	Oerlikon Graziano S.p.A., Cascine Vica Rivoli/IT	EUR	58 697 400	100.00	1704
Japan	Oerlikon Metco (Japan) Ltd., Tokyo/JP	JPY	180 000 000	100.00	39
Japan	Oerlikon Nihon Balzers Coating Co. Ltd., Hiratsuka/JP	JPY	100 000 000	100.00	170
Liechtenstein	OC Oerlikon Balzers AG, Balzers/LI	CHF	1 000 000	100.00	80
Liechtenstein	Oerlikon (Liechtenstein) Holding AG, Balzers/LI	CHF	120 000	100.00	–
Liechtenstein	Oerlikon Balzers Coating AG, Balzers/LI	CHF	1 000 000	100.00	201
Luxembourg	Oerlikon Balzers Coating Luxembourg S.à.r.l., Differdange-Niederkorn/LU	EUR	1 000 000	60.00	22

Country	Name, registered office of consolidated companies by country	Currency	Share capital[1]	Group owns %	Number of employees
Malaysia	Oerlikon Balzers Coating Malaysia Sdn. Bhd., Kuala Lumpur/MY	MYR	2000000	100.00	39
Mexico	Oerlikon Balzers Coating Mexico S.A. de C.V., Querétaro/MX	MXN	71458000	100.00	136
Netherlands	Oerlikon Eldim (NL) B.V., Lomm/NL	EUR	396400	100.00	255
Netherlands	SAC Oerlikon Automotive Components B.V., Amsterdam/NL	EUR	11500000	100.00	–
Philippines	Oerlikon Balzers Coating Philippines Inc., Muntinlupa/PH	PHP	15000000	99.99	13
Poland	Oerlikon Balzers Coating Poland Sp. z o.o., Polkowice Dolne/PL	PLN	5000000	100.00	114
Russia	Oerlikon Metco Rus LLC, Lyubertsy/RU	RUB	18600000	100.00	24
Russia	Oerlikon Rus LLC, Moscow/RU	RUB	1700000	100.00	9
Russia	OOO Oerlikon Balzers Rus, Elektrostal/RU	RUB	1000000	100.00	12
Singapore	Oerlikon Balzers Coating Singapore Pte. Ltd., Singapore/SG	SGD	6000000	100.00	19
Singapore	Oerlikon Metco (Singapore) Pte. Ltd., Singapore/SG	SGD	600000	100.00	21
Slovakia	Oerlikon Balzers Coating Slovakia s.r.o., Bratislava/SK	EUR	11060000	100.00	154
South Korea	Oerlikon Balzers Coating Korea Co. Ltd., Pyongtaek/KR	KRW	6300000000	89.90	201
Spain	Oerlikon Balzers Coating Spain S.A.U., Antzuola/ES	EUR	150300	100.00	80
Sweden	Oerlikon Balzers Coating Sweden AB, Stockholm/SE (formerly: Oerlikon Balzers Sandvik Coating AB)	SEK	11600000	100.00	50
Sweden	Primateria AB, Uppsala/SE	SEK	137000	100.00	11
Switzerland	InnoDisc AG, Windisch/CH	CHF	100000	100.00	–
Switzerland	OC Oerlikon Corporation AG, Pfäffikon, Freienbach SZ/CH	CHF	339758600	100.00	–
Switzerland	OC Oerlikon Management AG, Pfäffikon, Freienbach SZ/CH	CHF	2000000	100.00	95
Switzerland	OC Oerlikon Textile Holding AG, Pfäffikon, Freienbach SZ/CH	CHF	112019600	100.00	–
Switzerland	OC Oerlikon Textile Schweiz AG, Pfäffikon, Freienbach SZ/CH	CHF	14160000	100.00	–
Switzerland	Oerlikon Balzers Coating SA, Brügg, Brügg/CH	CHF	100000	100.00	28
Switzerland	Oerlikon Drive Systems GmbH, Pfäffikon, Freienbach SZ/CH	CHF	20000	100.00	7
Switzerland	Oerlikon IT Solutions AG, Pfäffikon, Freienbach SZ/CH	CHF	500000	100.00	31
Switzerland	Oerlikon Metco AG, Wohlen, Wohlen/CH	CHF	5000000	100.00	202
Switzerland	Oerlikon Surface Solutions AG, Pfäffikon, Freienbach SZ/CH	CHF	10000000	100.00	264
Switzerland	OT Textile Verwaltungs GmbH, Freienbach SZ/CH	CHF	20000	100.00	–
Switzerland	Unaxis GmbH, Freienbach SZ/CH	CHF	20000	100.00	–
Thailand	Oerlikon Balzers Coating (Thailand) Co. Ltd., Chonburi/TH	THB	80000000	99.99	65
Turkey	Oerlikon Balzers Kaplama Sanayi ve Ticaret Limited Sirketi, Bursa/TR	TRY	2500000	99.99	59
USA	citim AM LLC, Atlanta, GA/US	USD	1000	100.00	8
USA	Fairfield Manufacturing Company Inc., Wilmington, DE/US	USD	10000	100.00	689
USA	Melco Industries Inc., Denver, CO/US	USD	2407100	100.00	–
USA	Oerlikon AM US Inc., Wilmington, DE/US	USD	2000	100.00	–
USA	Oerlikon Balzers Coating USA Inc., Wilmington, DE/US	USD	20000	100.00	417
USA	Oerlikon Friction Systems (US) Inc., Dayton OH/US	USD	1000	100.00	213
USA	Oerlikon Management USA Inc., Pittsburgh, PA/US	USD	500000	100.00	–
USA	Oerlikon Metco (US) Inc., Westbury NY/US	USD	1000	100.00	501
USA	Oerlikon Textile Inc., Charlotte, NC/US	USD	3000000	100.00	59
USA	Oerlikon USA Holding Inc., Wilmington, DE/US	USD	40234000	100.00	–
USA	Scoperta Inc., Wilmington, DE/US	USD	1600	100.00	9
USA	TH Licensing Inc., Wilmington, DE/US	USD	10	100.00	–

[1] Share capital partly rounded to full hundred. Some articles of association and trade registers still contain old European currencies that are converted to EUR.

OC Oerlikon Corporation AG, Pfäffikon

Freienbach

Report of the statutory auditor to the General Meeting

on the consolidated financial statements 2017

pwc

Report of the statutory auditor

to the General Meeting of OC Oerlikon Corporation AG, Pfäffikon

Freienbach

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of OC Oerlikon Corporation AG, Pfäffikon and its subsidiaries (the "OC Oerlikon Group"), which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet as at 31 December 2017, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements (pages 74 to 127) give a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview

Overall Group materiality: CHF 10'000'000

- We concluded full scope audit work at 24 reporting units across 10 countries
- Our audit scope addressed over 75% of the Group's revenue and 80% of the Group's total assets

As key audit matter the following area of focus has been identified:

- Impairment assessment of goodwill and intangible assets with indefinite useful lives

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Audit scope
We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group financial statements are a consolidation of over 120 reporting units, each of which is considered to be a component. We identified 24 reporting units across 10 countries that, in our view, required a full scope audit due to their size or risk characteristics. This addressed over 75% of the Group's revenue and 80% of the Group's total assets. The remaining 25% of the Group's revenue and 20% of the Group's total assets was represented by a large number of smaller reporting units. None of these reporting units individually contributed more than 2% to consolidated revenue or total assets.

Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting units. This year 2 components were visited by senior members of the group audit team in Germany and the United Kingdom. In addition, 4 components in Germany, China and the United States were visited during the initial audit year 2016. These visits included discussing the risks identified and any issues arising from our work, challenging the audit approach on significant risk areas as well as meeting local management. In addition to this, the group audit team attended clearance meetings either in person or by call.

For those components in Group audit scope where a site visit was not undertaken, our involvement included review of the component auditors' work and results and attendance of clearance calls and meetings.

Further specific audit procedures over central functions, the Group consolidation and areas of significant judgement (including M&A transactions, goodwill, intangible assets, taxation, post-retirement benefits and litigations) were directly led by the Group audit team.

Not considered in above coverage is our audit evidence from performing audit work at the Group and Segment levels, including testing of monitoring controls and disaggregated analytical review procedures, which covers a significant portion of the Group's smaller and lower risk components that were not directly included in our Group audit scope. In addition, we obtained audit evidence over certain out-of-scope components as part of our group analytical procedures.

Materiality
The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the consolidated financial statements are free from material misstatements. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

Overall Group materiality	CHF 10'000'000
How we determined it	5% of the average profit before tax for the last 4 years, adjusted for 2015 impairment and restructuring.
Rationale for the materiality benchmark applied	We have applied this benchmark, which is a generally accepted auditing practice, based on our analysis of the common information needs of users of the financial statements. We believe the 4 year average is the appropriate benchmark given the fluctuations in the Company's performance.

We agreed with the Audit Committee that we would report to them misstatements above CHF 500'000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment assessment of goodwill and intangible assets with indefinite useful lives

Key audit matter	*How our audit addressed the key audit matter*
The impairment assessment for goodwill and intangible assets with indefinite useful lives is considered as a key audit matter due the size of balance (goodwill: CHF 537 million; brands: CHF 225 million) and the significant estimates required of management. The main estimate relates to the future cash flows of the underlying businesses as well as the discount rates applied to perform the necessary impairment tests. Refer to page 100 and 101 (note 13). Goodwill and other intangible assets with indefinite useful life are allocated to the operating segments that are expected to benefit from the acquisitions. These operating segments correspond to the cash-generating units (CGUs). Refer to page 101 (note 13). Goodwill and intangible assets with indefinite useful life are tested annually for possible impairment whereby the carrying value is compared to the recoverable amount (which in turn is the higher of the net selling price or value in use).	We have obtained all impairment analyses from management and performed following tests: • We ensured that the value in use calculations are based on the latest business plans. Management follows a clearly documented process for estimating future cash flow. The forecast period used for future cash flows covers the years 2018 to 2022. The 5 year business plan used to determine the recoverable amount is approved by the Board of Directors. • We have assessed the reasonableness of the business plan by comparing the implicit growth rates to the market and analyst forecasts. • We have further compared the current year actual results with the forecast figures included in the prior year impairment tests to obtain comfort on the Groups forecasting accuracy. • We assessed the extent to which management has reflected the result from the comparison of budgeted versus actual numbers in its current assessment and adjusted to actual revenue growth rates and operating margins in this year’s model.

	• We performed procedures to ensure that model inputs such as the weighted average cost of capital, the long term growth rate and other assumptions are consistent with observable market data. • We re-performed thorough sensitivity analyses on the key assumptions to ascertain the extent of change in those assumptions that would be required for the goodwill to be impaired. Overall, based on our review of the impairment testing model, the supporting evidence consulted as well as our own sensitivity analyses we conclude that the results of the impairment tests are reasonable.

Other information in the annual report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements and the remuneration report of OC Oerlikon Corporation AG, Pfäffikon and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the website of EXPERTsuisse: http://expertsuisse.ch/en/audit-report-for-public-companies. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Stefan Räbsamen	Blaženka Kovács-Vujević
Audit expert Auditor in charge	Audit expert

Zürich, 2 March 2018

Enclosure:

- Consolidated financial statements (consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated statement of cash flows and notes)

Five-year summary of key figures

in CHF million	**2017**	2016	2015	2014	2013
Order intake[1]	3005	2413	2537	2647	2779
Order backlog[1]	683	447	431	643	800
Sales[1]	2847	2331	2671	2825	2770
EBITDA[1, 2]	415	334	338	475	483
– as % of sales	15 %	14 %	13 %	17 %	17 %
EBIT[1, 3]	219	158	–306	323	359
– as % of sales	8 %	7 %	–11 %	11 %	13 %
Net result	152	388	–418	202	201
– as % of equity attributable to shareholders of the parent	8 %	21 %	–27 %	9 %	10 %
Cash flow from operating activities[4]	405	269	393	427	435
Capital expenditure for property, plant and equipment and intangible assets[1]	237	144	150	151	177
Total assets	4352	3825	4097	4966	4094
Equity attributable to shareholders of the parent	1970	1826	1554	2188	2072
– as % of total assets	45 %	48 %	38 %	44 %	51 %
Net cash[1, 5]	499	401	79	114	981
Net operating assets[1, 6]	1949	1867	1875	2486	1586
Number of employees[1]	14962	13840	13723	14039	12660
Personnel expense[1]	877	796	785	780	737
Research and development expenditure[1, 7]	107	94	103	96	101

[1] 2016 continuing operations, 2015, 2014 and 2013 as reported.

[2] 2015 includes one-time effects of CHF -112 million (restructuring).

[3] 2015 includes one-time effects of CHF -588 million (restructuring expenses of CHF -112 million and impairment losses of CHF -476 million).

[4] Before changes in net current assets.

[5] Net cash includes cash and cash equivalents, deposits and marketable securities less current and non-current debt.

[6] Net operating assets include current and non-current operating assets (including goodwill and brands and excluding cash and cash equivalents, current financial investments, current income tax receivables and deferred tax assets) less operating liabilities (excluding current loans and borrowings, non-current financial liabilities, current income tax payables, non-current post-employment benefit liabilities and deferred tax liabilities).

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

OC Oerlikon Corporation AG, Pfäffikon

Income statement of OC Oerlikon Corporation AG, Pfäffikon

in CHF	Notes	**2017**	2016
Income from investments	2.1	18 235 378	44 941 353
Financial income	2.2	65 250 869	25 710 200
Other income	2.3	39 303 316	37 818 356
Total income		**122 789 563**	**108 469 909**
Financial expense	2.4	–10 293 852	–21 600 669
Personnel expense		–2 580 932	–1 763 648
Other expense	2.5	–29 264 711	–35 682 793
Result before taxes and adjustment on loans and investments		**80 650 068**	**49 422 799**
Valuation adjustments on loans and investments		–2 306 348	11 665 449
Result before taxes		**78 343 720**	**61 088 248**
Direct taxes		–123 474	–76 307
Result for the year		**78 220 246**	**61 011 941**

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

Assets

in CHF	Notes	2017	%	2016	%
Cash and cash equivalents	3.1	548 621 478	15.2	454 570 343	13.3
Receivables					
- from third parties		144 425	0.0	119 940	0.0
- from companies in which the entity holds an investment	3.2	409 196 023	11.3	462 366 863	13.5
Other current receivables	3.3	35 040 000	1.0	107 460 000	3.1
Prepaid expenses and accrued income		510 169	0.0	328 596	0.0
Current assets		**993 512 095**	**27.5**	**1 024 845 742**	**29.9**
Non-current financial assets					
- from third parties		126 091	0.0	217 883	0.0
- from companies in which the entity holds an investment	3.4	778 898 733	21.5	645 491 533	18.9
Investments	3.5	1 843 676 219	51.0	1 755 240 745	51.2
Non-current assets		**2 622 701 043**	**72.5**	**2 400 950 161**	**70.1**
Total assets		**3 616 213 138**	**100.0**	**3 425 795 903**	**100.0**

Liabilities and equity

in CHF	Notes	2017	%	2016	%
Current interest-bearing payables					
- due to companies in which the entity holds an investment	3.6	766 235 906	21.2	589 380 401	17.2
Current payables					
- due to third parties		305 728	0.0	215 483	0.0
- due to companies in which the entity holds an investment		203 049	0.0	99 911	0.0
Accrued liabilities and deferred income		13 582 965	0.4	9 947 728	0.3
Current liabilities		**780 327 648**	**21.6**	**599 643 523**	**17.5**
Non-current interest-bearing payables					
- due to third parties	3.7	450 000 000	12.4	450 000 000	13.1
- due to companies in which the entity holds an investment	3.8	294 016 073	8.1	255 602 385	7.5
Provisions	3.9	34 099 785	0.9	40 826 971	1.2
Non-current liabilities		**778 115 858**	**21.4**	**746 429 356**	**21.8**
Total liabilities		**1 558 443 506**	**43.0**	**1 346 072 879**	**39.3**
Share capital	3.10	339 758 576	9.4	339 758 576	9.9
Legal capital reserves					
– Reserves from capital contributions	3.11	716 209 224	19.8	818 018 416	23.9
Legal retained earnings					
– General legal retained earnings		70 593 765	2.0	70 593 765	2.1
Voluntary retained earnings					
– Free reserves and statutory reserves		293 910 850	8.1	293 910 850	8.6
– Available earnings					
- Profit brought forward		562 803 374	15.6	501 812 956	14.6
- Result for the year		78 220 246	2.2	61 011 941	1.8
Treasury shares	3.12	–3 726 403	–0.1	–5 383 480	–0.2
Total equity		**2 057 769 632**	**57.0**	**2 079 723 024**	**60.7**
Total liabilities and equity		**3 616 213 138**	**100.0**	**3 425 795 903**	**100.0**

Notes to the financial statements of OC Oerlikon Corporation AG, Pfäffikon

Principles (1)
General aspects (1.1)
These financial statements were prepared according to the provisions of the Swiss Law on Accounting and Financial Reporting (32nd title of the Swiss Code of Obligations). Where not prescribed by law, the significant accounting and valuation principles applied are described below.

Financial assets (1.2)
Financial assets include non-current loans from third parties and from companies in which the entity holds an investment. Loans granted in foreign currencies are translated at the rate at the balance sheet date, whereby unrealized losses are recorded but unrealized profits are not recognized.

Treasury shares (1.3)
Treasury shares are recognized at acquisition cost and deducted from shareholders' equity at the time of acquisition. In case of a resale, the gain or loss is recognized directly in equity in the position profit brought forward.

Non-current interest-bearing payables (1.4)
Interest-bearing payables are recognized in the balance sheet at nominal value.

Foregoing a cash flow statement and additional disclosures in the notes (1.5)
As OC Oerlikon Corporation AG, Pfäffikon, has prepared its consolidated financial statements in accordance with a recognized accounting standard (IFRS), it has decided to forego presenting additional information on interest-bearing payables and audit fees in the notes, as well as a cash flow statement, in accordance with the law.

Information on income statement items (2)
Income from investments (2.1)
The income from investments consists only of dividend income from companies in which the entity holds an investment.

Financial income (2.2)
Financial income mainly includes interest income from loans from companies in which the entity holds an investment as well as net exchange gains.

Other income (2.3)
Other income consists mainly of trademark fees.

Financial expense (2.4)
Financial expense includes interest expenses due to companies in which the entity holds an investment and due to third parties.

Other expense (2.5)
Other expense consists mainly of management service fees charged by OC Oerlikon Management AG, Pfäffikon.

Information on balance sheet items (3)
Cash and cash equivalents (3.1)
This item consists of current balances denominated in Swiss francs, Euros and US dollars and is held with European banks.

Current receivables from companies in which the entity holds an investment (3.2)
The current receivables from companies in which the entity holds an investment consists mainly of cash pool deposits in Swiss francs, Euros and US dollars.

Other current receivables (3.3)
The other current receivables consist mainly of deposits in Euros with European banks.

Non-current financial assets from companies in which the entity holds an investment (3.4)
The non-current financial assets from companies in which the entity holds an investment consist mainly of non-current deposits in Swiss francs, Euros and US dollars. A subordination agreement in the amount of CHF 88.8 million has been issued to a Group company.

Investments (3.5)
OC Oerlikon Corporation AG, Pfäffikon, holds on the balance sheet date significant investments which are listed in the table on page 141. These investments are recorded at historical costs less any valuation adjustments.

Current interest-bearing payables due to companies in which the entity holds an investment (3.6)
The current interest-bearing payables due to companies in which the entity holds an investment contains mainly cash pool debts in Swiss francs, Euros, US dollars, British pound and Japan yen.

Notes to the financial statements of OC Oerlikon Corporation AG, Pfäffikon

Non-current interest-bearing payables due to third parties (3.7)

The non-current interest-bearing payables due to third parties contains the following non-current bonds:

Conditions on outstanding bonds:

	CHF thousand	CHF thousand
	2014–2019	**2014–2024**
Nominal value at December 31, 2017	300 000	150 000
Nominal value at December 31, 2016	300 000	150 000
Interest	1.250 %	2.625 %
Duration in years	5	10
Maturity	**June 17, 2019**	**June 17, 2024**

Additional information about the bonds can be found in Note 18 of the Group's consolidated financial statements on pages 109 and 110.

Non-current interest-bearing payables due to companies in which the entity holds an investment (3.8)

The non-current interest-bearing payables due to companies in which the entity holds an investment contains long-term loans mainly in Swiss francs, Euros, US dollars and Hong Kong dollars.

Provisions (3.9)

Provisions cover mainly risks related to investments and other risks.

Share capital (3.10)

The share capital of CHF 339 758 576 (previous year: CHF 339 758 576) consists of 339 758 576 registered shares (previous year: 339 758 576), each with a par value of CHF 1.00. On December 31, 2017, conditional capital amounted to CHF 47 200 000 (previous year: 47 200 000).

Reserves from capital contributions (3.11)

As of December 31, 2017, OC Oerlikon Corporation AG, Pfäffikon, shows reserves from capital contributions of CHF 716 209 224. Thereof CHF 268 706 303 are not yet available for distribution due to the current practice of the Swiss Federal Tax Authorities. Dividend distributions can be done out of available reserves from capital contribution first. Available reserves from capital contributions amount to CHF 447 502 921. In 2017, the value of available reserves from capital contributions has changed due to dividend payment of CHF 101 809 192.

Reserves from capital contributions:

in CHF	available	not available yet	**Total**
Balance at January 1, 2017	549 312 113	268 706 303	818 018 416
Dividend payment	–101 809 192	–	-101 809 192
Balance at December 31, 2017	**447 502 921**	**268 706 303**	**716 209 224**

Treasury shares (3.12)

Treasury shares are shown directly in equity.

in CHF	Amount	Number of treasury shares	Lowest rate	Highest rate	Average rate of treasury shares
Balance at January 1, 2017	5 383 480	465 473	–	–	–
Acquisitions	285	22	12.950	12.950	12.950
Allocation to Board members	-819 677	-70 872	–	–	11.566
Allocation to management	-837 685	-72 429	–	–	11.566
Balance at December 31, 2017	3 726 403	322 194	–	–	–

in CHF	Amount	Number of treasury shares	Lowest rate	Highest rate	Average rate of treasury shares
Balance at January 1, 2016	5 874 501	497 116	–	–	–
Acquisitions	496 724	53 760	8.313	9.917	9.115
Allocation to board members	-721 596	-62 391	–	–	11.566
Allocation to management	-266 149	-23 012	–	–	11.566
Balance at December 31, 2016	5 383 480	465 473	–	–	–

Other information (4)

Joint and several liability in favor of group companies (4.1)

VAT group

OC Oerlikon Corporation AG, Pfäffikon, belongs to a VAT group and therefore all participants are jointly liable to the Swiss Federal Tax Administration for the value added tax debts of the whole group.

Cash Pooling group

All participants are jointly liable for any liabilities related to the Cash Pooling.

Full-time equivalents (4.2)

OC Oerlikon Corporation AG, Pfäffikon, does not have any employees.

Contingent liabilities (4.3)

The contingent liabilities relate primarily to corporate guarantees and bank guarantees in favor of companies in which the entity holds an investment and amount to CHF 452 million (previous year: CHF 216 million).

Notes to the financial statements of OC Oerlikon Corporation AG, Pfäffikon

Significant shareholders (4.4)

Significant shareholders registered as holding more than 5 % of the shares as at December 31, 2017, were:

Share ownership[1]

	2017		2016	
Shareholder	**Number of shares**	**in %**	Number of shares	in %
Renova Group[2]	146 222 889	43.04 %	146 222 889	43.04 %

[1] Source: disclosure notification by Renova Group (published by SIX Exchange Regulation on November 15, 2017).

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

Equity owned by Executive Committee and the Board of Directors, including any related parties (4.5)

Members of the Board of Directors:

	2017	2016
	Number of shares	Number of shares
Prof. Dr. Michael Süss	41 877	18 323
Gerhard Pegam	–	11 407
Dr. Jean Botti	10 515	–
Geoffery Merszei (since April 11, 2017)	–	–
David Metzger	13 144	–
Alexey V. Moskov	13 144	–
Mikhail Lifshitz (until April 5, 2016)	–	23 407
Johan Van de Steen (until April 5, 2016)	–	7 855
Hans Ziegler (until November 29, 2016)	–	204 609[1]
Total	**78 680**	**265 601**

[1] In addition, Mr. Ziegler holds 100 000 options (ratio 5:1).

Prof. Dr. Michael Süss (Chairman), David Metzger (Board Member) and Alexey V. Moskov (Board Member) are also in senior positions at Renova Group. Prof. Dr. Süss is a Director of Renova Management AG, David Metzger is Managing Director Investments of the Renova Management AG and Mr. Moskov is Chief Operating Officer of Renova Management AG.

Members of the Executive Committee:

	2017	2016
	Number of shares	**Number of shares**
Dr. Roland Fischer	3 066	–
Jürg Fedier	459 970	450 270
Anna Ryzhova	–	–
Dr. Helmut Rudigier (since November 1, 2017)	6 443	–
Dr. Bernd Matthes (until October 31, 2017)	20 403	16 709
Georg Stausberg (until October 31, 2017)	40 258	39 694
Dr. Brice Koch (until February 29, 2016)	–	130 473
Dr. Martin Füllenbach (until August 31, 2016)	–	2 594
Dr. Roland Herb (until August 1, 2016)	–	13 001
Total	**530 140**	**652 741**

Shares or options on shares for members of the Board of Directors, Executive Committee and Senior Management (4.6)

Shares or options on shares are used for share-based compensation of members of the Board of Directors compensated by OC Oerlikon Corporation AG, Pfäffikon, as well as of the Executive Committee and Senior Management employed by other companies of the Group. The number of Restricted Stock Units (RSU) and Performance Share Awards (PSA) is calculated based on fair value at grant date. The allocation was as follows:

	2017		2016	
in CHF thousand	**Number of RSU and PSA**	**Amount**	Number of RSU and PSA	Amount
Allocated to authorized members	676 442	9 208	1 309 543	10 774

In 2017, a total of 676 442 Restricted Stock Units (RSU) and Performance Share Awards (PSA) are allocated and the total granted value for share-based-programms amounts to CHF 9.2 million. Thereof, 83 412 allocated Restricted Stock Units (RSU) and a granted value of CHF 0.9 million relates to the Board of Directors. Another 276 694 allocated Restricted Stock Units (RSU) and Performance Share Awards (PSA) and a granted value of CHF 3.9 million is attributed for the Executive Committee.

In 2016, a total of 1 309 543 Restricted Stock Units (RSU) and Performance Share Awards (PSA) are allocated and the total granted value for share-based-programms amounts to CHF 10.8 million. Thereof, 95 163 allocated Restricted Stock Units (RSU) and a granted value of CHF 0.9 million relates to the Board of Directors. Another 501 879 allocated Restricted Stock Units (RSU) and Performance Share Awards (PSA) and a granted value of CHF 4 million is attributed for the Executive Committee.

Significant events after the balance sheet date (4.7)

There were no significant events after the balance sheet date that could impact the book value of the assets or liabilities or that should be disclosed here.

Investments

Company	Place of business	Currency	Share Capital 2017	Share Capital 2016	Capital and share of votes in % 2017	Capital and share of votes in % 2016
InnoDisc AG	Windisch AG/CH	CHF	100 000	100 000	100.00	100.00
OC Oerlikon Management AG, Pfäffikon	Freienbach SZ/CH	CHF	2 000 000	2 000 000	100.00	100.00
OC Oerlikon Textile Holding AG, Pfäffikon	Freienbach SZ/CH	CHF	112 019 600	112 019 600	100.00	100.00
Oerlikon Balzers Coating (Thailand) Co. Ltd.	Chonburi/TH	THB	80 000 000	80 000 000	99.99	99.99
Oerlikon Balzers Coating India Ltd.	Pune/IN	INR	70 000 000	70 000 000	78.40	78.40
Oerlikon Balzers Coating Korea Co. Ltd.	Pyongtaek/KR	KRW	6 300 000 000	6 300 000 000	89.10	89.10
Oerlikon Balzers Coating Luxembourg S.à.r.l.	Differdange-Niedercorn/LU	EUR	1 000 000	1 000 000	60.00	60.00
Oerlikon Balzers Coating Sweden AB	Stockholm/SE	SEK	11 600 000	11 600 000	100.00	51.00
Oerlikon Balzers France SAS	Ferrières-en-Bris/FR	EUR	4 000 000	4 000 000	100.00	100.00
Oerlikon Balzers Kaplama Sanayi ve Ticaret Limited Sirketi	Bursa/TR	TRY	2 500 000	2 500 000	99.99	99.99
Oerlikon Deutschland Holding GmbH	Remscheid/DE	EUR	30 680 000	30 680 000	6.00	6.00
Oerlikon Drive Systems GmbH, Pfäffikon	Freienbach SZ/CH	CHF	20 000	20 000	100.00	100.00
Oerlikon Graziano S.p.A.	Cascine Vica Rivoli/IT	EUR	–	58 697 400	0.00	16.34
Oerlikon IT Solutions AG, Pfäffikon	Freienbach SZ/CH	CHF	500 000	500 000	100.00	100.00
Oerlikon Surface Solutions AG, Pfäffikon	Freienbach SZ/CH	CHF	10 000 000	10 000 000	100.00	100.00
Oerlikon USA Holding Inc.	Wilmington DE/USA	USD	40 234 000	40 234 000	62.00	62.00
Oerlikon Vermögens-Verwaltungs GmbH	Remscheid/DE	EUR	25 000	25 000	100.00	100.00
OOO Oerlikon Balzers Rus	Elektrostal/RU	RUB	1 000 000	1 000 000	100.00	100.00
OT Textile Verwaltungs GmbH	Freienbach SZ/CH	CHF	20 000	20 000	100.00	100.00
Primateria AB	Uppsala/SE	SEK	137 000	–	100.00	0.00
PT Oerlikon Balzers Artoda Indonesia	Bekasi/ID	IDR	18 000 000 000	18 000 000 000	42.00	42.00
Unaxis GmbH	Freienbach SZ/CH	CHF	20 000	20 000	90.00	90.00

Changes in equity of OC Oerlikon Corporation AG, Pfäffikon

in CHF million	Share capital	Reserves from capital contributions	General legal retained earnings	Free reserves and statutory reserves	Available earnings	Treasury shares	Total equity
Balance at January 1, 2016	**339.8**	**919.8**	**70.6**	**293.9**	**502.0**	**–5.9**	**2 120.2**
Changes in treasury shares	0.0	0.0	0.0	0.0	–0.2	0.5	0.3
Dividend payment	0.0	–101.8	0.0	0.0	0.0	0.0	–101.8
Result for the year	0.0	0.0	0.0	0.0	61.0	0.0	61.0
Balance at December 31, 2016	**339.8**	**818.0**	**70.6**	**293.9**	**562.8**	**–5.4**	**2 079.7**
Changes in treasury shares	0.0	0.0	0.0	0.0	0.0	1.7	1.7
Dividend payment	0.0	–101.8	0.0	0.0	0.0	0.0	–101.8
Result for the year	0.0	0.0	0.0	0.0	78.2	0.0	78.2
Balance at December 31, 2017	**339.8**	**716.2**	**70.6**	**293.9**	**641.0**	**–3.7**	**2 057.8**

Proposal of the Board of Directors

The available earnings amount to:

in CHF	**2017**
Retained earnings brought forward	562 824 897
Loss on Treasury Shares	–21 523
Result for the year	78 220 246
Available earnings	641 023 620

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

Balance to be carried forward	641 023 620

The Board of Directors proposes to the Annual General Meeting of Shareholders a distribution of a dividend, distributed from reserves from capital contributions:

Dividend from reserves from capital contributions (without withholding tax) of CHF 0.35 on dividend bearing shares with a nominal value of CHF 1.00 each	119 000 000

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

Pfäffikon SZ, March 2, 2018

On behalf of the Board of Directors
Chairman

Prof. Dr. Michael Süss

OC Oerlikon Corporation AG, Pfäffikon

Freienbach

Report of the statutory auditor to the General Meeting

on the financial statements 2017

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Report of the statutory auditor

to the General Meeting of OC Oerlikon Corporation AG, Pfäffikon

Freienbach

Report on the audit of the financial statements

Opinion

We have audited the financial statements of OC Oerlikon Corporation AG, Pfäffikon (following "Oerlikon" or "the Company"), which comprise the balance sheet as at 31 December 2017, income statement and notes for the year then ended, including a summary of significant accounting policies.

In our opinion, the financial statements (pages 136 to 142) as at 31 December 2017 comply with Swiss law and the company's articles of incorporation.

Basis for opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report.

We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview

Overall materiality: CHF 36'160'000

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the entity, the accounting processes and controls, and the industry in which the entity operates.

As key audit matter the following area of focus has been identified:

- Valuation of investments

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Audit scope
We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality
The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall materiality	CHF 36'160'000
How we determined it	1% of total assets
Rationale for the materiality benchmark applied	We chose total assets as the benchmark because OC Oerlikon Corporation AG, Pfäffikon is a holding company that mainly holds investments in subsidiaries. The profit of the holding company fluctuates from year to year depending on whether investees pay dividends. Furthermore total assets is a generally accepted benchmark for determining the materiality according to auditing standards. We chose 1% which is within the range of acceptable quantitative materiality thresholds in auditing standards. However, because the materiality allocated as part of the group audit (CHF 2'020'000) was lower, certain audit procedures were performed using this lower materiality threshold.

We agreed with the Audit Committee that we would report to them misstatements above CHF 500'000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Valuation of investments

Key audit matter	*How our audit addressed the key audit matter*
The valuation of investments is considered a key audit matter due the size of the balance (CHF 1'844 million) as well as the significant estimates involved in the valuation process and around the future profitability of the individual investments held as well as the Group as a whole. The company performs an impairment test in order to assess if the statutory book values of the investments are supported by sufficient substance. For this purpose, certain investments are assessed together as a group.	We have tested material movements in the investment balance by agreeing the underlying transactions to relevant supporting documentation such as share purchase agreements, share certificates and bank advices. We have further reperformed the valuation assessment prepared by Oerlikon. This assessment included the evaluation of the investments' intrinsic value as well as, in some cases, their capitalized earnings value and the appropriateness of the discount rates applied. We also considered the results of the Goodwill impairment testing performed at the level of the Oerlikon group. Overall, and based on our procedures performed, we have not identified a requirement for a valuation adjustment and determined the different groups of the investments to be appropriate.

Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the website of EXPERTsuisse: http://expertsuisse.ch/en/audit-report-for-public-companies. This description forms part of our auditor's report.

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Report on other legal and regulatory requirements

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Stefan Räbsamen	Blaženka Kovács-Vujević
Audit expert Auditor in charge	Audit expert

Zürich, 2 March 2018

Enclosures:

- Financial statements (balance sheet, income statement and notes)
- Proposed appropriation of the available earnings

Legal structure

Legal structure of consolidated companies as per December 31, 2017

OC Oerlikon Corporation AG, Pfäffikon, Freienbach SZ/CH

- InnoDisc AG, Windisch/CH
- OC Oerlikon Management AG, Pfäffikon, Freienbach SZ/CH
- OC Oerlikon Textile Holding AG, Pfäffikon, Freienbach SZ/CH
  - OC Oerlikon Textile Schweiz AG, Pfäffikon, Freienbach SZ/CH
    - Oerlikon China Equity Ltd., Hong Kong/CN
    - Oerlikon Textile China Investments Ltd., Hong Kong/CN
      - Oerlikon (China) Technology Co. Ltd., Suzhou/CN
        - Oerlikon Metco Surface Technology (Shanghai) Co. Ltd., Shanghai/CN
      - Oerlikon Textile Machinery (Wuxi) Co. Ltd., Wuxi/CN
  - Oerlikon Barmag Huitong (Yangzhou) Engineering Co., Ltd, Yangzhou/CN
  - Oerlikon Textile do Brasil Máquinas Ltda., Porto Alegre, RS/BR
  - Oerlikon Textile Systems Far East Ltd., Hong Kong/CN
  - SAC Oerlikon Automotive Components B.V., Rotterdam/NL
  - W. Reiners Verwaltungs-GmbH, Remscheid/DE
    - Dr. Schippers Unterstützungskasse GmbH, Remscheid/DE
    - Oerlikon RS GmbH, Remscheid/DE
    - Oerlikon Textile GmbH & Co. KG, Remscheid/DE
      - Oerlikon Deutschland Holding GmbH, Remscheid/DE
        - Oerlikon Balzers Coating Benelux N.V., St.-Truiden/BE
        - Oerlikon Business Services GmbH, Remscheid/DE
        - Oerlikon Surface Solutions Holding GmbH, Kelsterbach/DE
          - AM Munich Research Institute GmbH, Feldkirchen/DE
          - citim GmbH, Barleben/DE
          - Oerlikon AM GmbH, Feldkirchen/DE
          - Oerlikon Balzers Coating Germany GmbH, Bingen/DE
          - Oerlikon Friction Systems (Germany) GmbH, Bremen/DE
          - Oerlikon Metaplas GmbH, Bergisch Gladbach/DE
          - Oerlikon Metco Coatings GmbH, Salzgitter/DE
          - Oerlikon Metco Europe GmbH, Kelsterbach/DE
          - Oerlikon Metco WOKA GmbH, Barchfeld/DE
      - Oerlikon Textile Far East Ltd., Hong Kong/CN
        - Oerlikon Textile Technology (Beijing) Co. Ltd., Beijing/CN
      - Oerlikon Textile India Pvt. Ltd., Mumbai/IN
- Oerlikon Balzers Coating India Pvt. Ltd., Pune/IN
  - Oerlikon Friction Systems (India) Ltd., Chennai/IN
- Oerlikon Balzers Coating (Thailand) Co. Ltd., Chonburi/TH
- Oerlikon Balzers Coating Korea Co. Ltd., Pyongtaek/KR
- Oerlikon Balzers Coating Luxembourg S.à r.l., Differdange-Niedercorn/LU
- Oerlikon Balzers Coating Sweden AB, Stockholm/SE
  - Oerlikon Balzers Coating Finland Oy, Helsinki/FI
- Oerlikon Balzers France SAS, Ferrières-en-Brie/FR
- Oerlikon Balzers Kaplama Sanayi ve Ticaret Limited Sirketi, Bursa/TR
- Oerlikon Drive Systems GmbH, Pfäffikon, Freienbach SZ/CH
  - GK Drive Systems (Suzhou) Co., Ltd., Suzhou/CN
  - Oerlikon Drive Systems (Suzhou) Co. Ltd., Suzhou/CN
  - Oerlikon Graziano S.p.A., Cascine Vica Rivoli/IT
    - Graziano Trasmissioni India Pvt. Ltd., New Delhi/IN
    - Graziano Trasmissioni UK Ltd., St. Neots/GB
    - Oerlikon Balzers Coating Italy S.p.A., Brugherio/IT
    - Oerlikon Friction Systems (Italia) S.r.l., Caivano/IT
    - Vocis Limited, Warwick/GB
  - Transmission Trading Ltd., Hong Kong/CN
- Oerlikon IT Solutions AG, Pfäffikon, Freienbach SZ/CH
- Oerlikon Surface Solutions AG, Pfäffikon, Freienbach SZ/CH
  - DMX SAS, Cluses/FR
  - Oerlikon (Liechtenstein) Holding AG, Balzers/LI
    - OC Oerlikon Balzers AG, Balzers/LI
    - Oerlikon Balzers Coating AG, Balzers/LI
  - Oerlikon Balzers Coating (Suzhou) Co. Ltd., Suzhou/CN
  - Oerlikon Balzers Coating Austria GmbH, Kapfenberg/AT
  - Oerlikon Balzers Coating SA, Brügg, Brügg/CH

Legal structure of consolidated companies as per December 31, 2017

· Oerlikon Balzers Coating Singapore Pte. Ltd., Singapore/SG
· Oerlikon Balzers Coating Spain S.A.U, Antzuola/ES
· Oerlikon Balzers Coating Poland Sp.z o.o., Polkowice Dolne/PL
· Oerlikon Balzers Coating Mexico S.A. de C.V., Querétaro/MX
· Oerlikon Balzers Coating Malaysia Sdn. Bhd., Kuala Lumpur/MY
· Oerlikon Balzers Coating Philippines, Inc., Muntinlupa/PH
· Oerlikon Balzers Coating Slovakia s.r.o., Bratislava/SK
· Oerlikon Balzers Coating UK Ltd., Milton Keynes/GB
· · Oerlikon Metco Coatings Ltd., Dukinfield/GB
· Oerlikon Balzers Revestimentos Metálicos Ltda., Jundiaí, SP/BR
· · Oerlikon Friction Systems do Brasil Ltda., Diadema, SP/BR
· Oerlikon Eldim (NL) B.V., Lomm/NL
· · Oerlikon Eldim (HU) Kft., Debrecen/HU
· Oerlikon Metco (Canada) Inc., Fort Saskatchewan, AB/CA
· Oerlikon Metco (Japan) Ltd., Tokyo/JP
· Oerlikon Metco (UK) Ltd., Cwmbran/GB
· Oerlikon Metco (Singapore) Pte. Ltd., Singapore/SG
· · Zigong Golden China Speciality Carbides Co. Ltd., Zigong/CN
· Oerlikon Metco AG, Wohlen, Wohlen/CH
· Oerlikon Metco Australia Pty Ltd., Bella Vista, NSW/AU
· Oerlikon Metco Rus LLC, Lyubertsy/RU
· Oerlikon Neomet Ltd., Stockport/GB
· Oerlikon Nihon Balzers Coating Co. Ltd., Hiratsuka/JP
– Oerlikon USA Holding Inc., Wilmington, DE/US
· citim AM LLC, Atlanta, GA/USA
· Oerlikon AM US Inc., Wilmington, DE/US
· Oerlikon Balzers Coating USA Inc., Wilmington, DE/US
· Oerlikon Metco (US) Inc., Westbury NY/US
· Oerlikon Friction Systems (US) Inc., Dayton OH/US
· Oerlikon Management USA Inc., Pittsburgh, PA/US
· Oerlikon Textile Inc., Charlotte, NC/US
· Fairfield Manufacturing Company Inc., Wilmington, DE/US
· · TH Licensing Inc., Wilmington, DE/US
· · · Fairfield Atlas Ltd., Kolhapur/IN
· Melco Industries Inc., Denver, CO/US
· Scoperta Inc., Wilmington, DE/US
– Oerlikon Vermögens-Verwaltungs GmbH, Remscheid/DE
– OOO Oerlikon Balzers Rus, Elektrostal/RU
– OT Textile Verwaltungs GmbH, Freienbach/CH
– Primateria AB, Uppsala/SE
– Unaxis GmbH, Freienbach SZ/CH
· Oerlikon Rus LLC, Moscow/RU

Glossary

Corporate

AGM	Annual General Meeting
BSC	Health & safety and environment scorecard. This scorecard allows factual tracking of implementation of preventive action tasks and provided a score per site, which has a target setting of 100 as achievement.
CAGR	Compound Annual Growth Rate
CAPEX	Capital expenditure
EBIT(DA)	Earnings before interest and tax (depreciation and amortization)
HSE	Health, Safety and Environment
KPI	Key performance indicator
LeaD	Cross Segment middle management course. 7-day intensive leadership development program, covering experiential learning over three seperate modules.
LTAFR	Lost time accidents frequency rate
OOE	Oerlikon Operational Excellence
ROCE	Return on capital employed
SMI	Swiss Market Index: Switzerland's blue-chip stock market index. It is made up of 20 of the largest and most liquid Swiss Performance Index (SPI) large- and mid-cap stocks.
SMIM	Swiss Market Index Mid: consists of 30 biggest mid-cap Swiss companies which are not already covered in the SMI.
TAFR	Total Accident Frequency Rate

Surface Solutions Segment

AM	Additive Manufacturing: the process of joining materials to make objects, usually layer by layer. A common subtype of AM is 3D printing.
BALIFOR	Smart solution for high performance automotive applications
BALIFOR M	A molybdenum-nitride coating with excellent compatability with lubricants and additives that can degrade in high temperatures.
BALIFOR T	Ideal for high temperature applications, low lubircation applications for longer periods and in aggressive additive environments.
BALINIT DIAMOND	Coatings designed for the tools used for machine challenging aerospace alloys, like titanium and nicks, and to improve the cutting parameters for aerospace applications.
BALIQ UNIQUE	Provide color-coding functions for the tooling market
Composite material	A material made from two or more constituent materials with significantly different physical or chemical properties that, when combined, produce a material with characteristics different from the individual components.
ePD	Embedded PVD for Design Parts: an environmentally friendly coating technology for metallization of plastic.
HRAM	Hybrid Rear Axle Module
INAURA	The INAURA coating system of Oerlikon Balzres can accommodate components up to 10 m (32.8 ft) long, 3 m (9.8 ft) in diametre and weighing up to 40 t (36.29 short tons). The fully automated PPD® process ensures a stable and controlled wear-protection coating. PPD® is eco-friendly operating entirely without the use of toxic gases and chemicals.
INGENIA	INGENIA is a compact coating system of Oerlikon Balzers for small batch sizes and the ideal PVD coating system for frequently processed small quantities of tools per batch. With its short turnaround times it is perfect for running eight batches per day, which assures great flexibility in terms of processes, coatings and products being run during a day.
INLENIA	A coating system of Oerlikon Balzers using the cost-efficient S3p® technology producing ultra-smooth surfaces which are resistant to adhesive and abrasive wear; in particular, perfectly suited for cutting tool applications with high demands on precision and surface quality (microtools, taps, reamers).
INLENIA killa	The extremely versatile “workhorse” coating system of Oerlikon Balzers to handle large batch loads of tools for high volume production needs.
INLENIA pica	Is the compact and flexible coating system of Oerlikon Balzers for dedicated batches of the most precise tools or to enable a fast ramp up of a new product line with very short lead time.
INNOVENTA mega	INNOVENTA mega is the largest coating system within the Oerlikon Balzers PVD equipment portfolio and the ideal platform to process large size metal-forming tools, die casting moulds and saw blades with batch weights of up to 3000 kg (6614 lbs).
INNOVA	INNOVA is flexible all-round coating system of Oerlikon Balzers with the preferred coating system size for most production requirements and perfectly masters smaller to larger quantities.
INUBIA I (ePD)	Oerlikon Balzers' coating system INUBIA I is a fully integrated and automated solution for high-volume plastic metallisation providing ePD coatings in accordance with automotive specifications. ePD represents an environment-friendly and future-oriented coating procedure.
METAPLAS. DOMINO	The modular METAPLAS.DOMINO coating system of Oerlikon Balzers allows individual surface solutions to be developed for both current and future trends and those modules required for specific needs to be precisely selected. The system can be individually upgraded at any time and is available in 4 sizes.
MetcoAdd alloy	Next-generation materials for coating and additive manufacturing processes to improve aircraft engine efficiency, were also launched.

PACVD	Plasma Assisted (Enhanced) Chemical Vapour Deposition: A deposition technology where the film forming materials are generated from gaseous precursors which are decomposed by means of an electrical discharge. PACVD is used to produce metal-free carbon coatings.
RS 90 DLC	Diamond-like-carbon coating system.
PVD	Physical vapor deposition: a variety of methods used to deposit thin films onto various workpiece surfaces through condensation of the desired thin film material vapourized in vacuum.
SUMEBore system	Thermal spray coating technology for cylinder liner surfaces.
Surface ONE	Thermal spray coating system

Manmade Fibers Segment

BCF	Bulked Continuous Filament: yarn for carpet production, usually polypropylene or polyester.
DTY	Drawn Textured Yarn
Manmade Fibers	Chemical or synthetic fibers
POC	Plant operation center, a complete software solution that manages the entire spinning and texturing production process.
Polyester Staple (PSF)	A new electro-charging unit for meltblown systems.
POY	Pre-oriented yarn: spun yarn that is not completely drawn.
RoTac³	Rotating tangle unit: an energy-saving yarn component used in the tangling or intermingling step in the production of BCF yarn.
WINGS	Winding INtegrated Godet Solution: a family of winder technology by Manmade Fibers Segment.
WINGS POY XS	Latest winder technology for partially oriented yarn.

Drive Systems Segment

CNH APH dual clutch transmission	First dual clutch trasmission in the agricultural market that offers more durability and reduces shifting time.
Compact Slotless Synchronizer (CSS)	An advanced and innovative shifting solution for a range of vehicles used also inagriculture to improve overall transmission performance and efficiency through improved shiftability, increased powerder density and use of innovative friction materials specifically developed for heavy duty usage.
P3 technology	The configuration in which the electric motor of the hybrid module is placed downstream of the transmission: the advantage is transmission remains exactly as one of conventional car and must not be oversized to withstand even the torque supplied by the electric motor added to that supplied by the combustion engine.
Torque Hub	Drive for industrial machinery and off-highway mobile equipment.
SparePartsShop	Drive Systems Segment online customer service. Gives customers easy-to-use access to it s online catalogue for it s extensive range of replacement components.

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

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