œrlikon

Interim Report **HY2020**

Chairman and CEO Letter

Dear Shareholders

2020 has so far – in many ways – been challenging. In this difficult economic and business climate, we have demonstrated our resilience and ability to act quickly. The Covid-19 pandemic dictated our reality around the globe and we have responded well. We ensured the safety of our employees, served our customers and protected our strong balance sheet position. We are proud of the entire Oerlikon team for addressing these unprecedented challenges with courage and decisiveness.

In order to mitigate the pandemic's impacts, we accelerated our optimization and restructuring programs in the Surface Solutions Segment and are ahead of schedule. We have significantly reduced costs and are putting in place a more flexible cost structure, while deepening market penetration with our solutions.

Short-term measures, such as short-time work and reducing discretionary spend and capital expenditures have been implemented. In the first half of 2020, we have reduced operating expenses by more than CHF 90 million and capital expenditure by CHF 18 million compared to the preceding year.

We sped up the execution of the structural and cost-out programs that were already launched in 2019. The programs include optimizing support functions and our global footprint, leveraging synergies in procurement and in the equipment business and rightsizing of additive manufacturing.

As part of these programs, more than 400 of the targeted 800 headcount reduction was completed by the end of June 2020. At the end of the year, we expect more than 700 headcount reductions to be concluded. We expect to realize an annual run rate of savings of around CHF 60 million. These programs will strengthen our cost and competitive market position and enable us to face further challenges in the markets.

We are a technology leader in our markets, and we continued to invest in sustainable innovations. Our manmade fibers business is at the edge of technology development to improve energy efficiency and sustainable yarn production. As natural fibers use too many resources, for example water, for their production, or cannot offer the functionality needed, manmade fibers are the sustainable solution now and for the future. A further sustainable initiative in this business is that we are developing recycling solutions for filament materials.

Our surface solutions technologies offer many environmentally friendly solutions, such as our pulsed-plasma diffusion technologies that are excellent alternatives to the hazardous chrome-plating process. Our protective coatings are also used in water, wind and gas turbines – all of which are eco-friendlier methods to generate energy. An example is BALINIT PROTEC – a REACH-compliant coating that we launched in the first half of the year for industrial gas turbines compressors. We also introduced new abrasion-resistant materials that will significantly increase the lifetime of components for ground-engaging tools (GETs) and mining components.

In recognition of the quality of our technologies, we continued to receive industry-required qualifications, such as those from Airbus for our high-end coating system using BALINIT C to coat components. We were also awarded the Merit Status with the Nadcap (National Aerospace and Defense Contractors Accreditation Program) accreditation for our fourth (out of five) powder-manufacturing facility in the U.S. The Merit Status is given to acknowledge superior performance and subsequently, reduced audit frequency.

In our surface solutions business, we received further affirmation from customers. With their support, some of our business areas were assessed as critical and system relevant, allowing us to continue serving customers in many countries during the lockdowns.

Our technology and market leader position were key factors in enabling our manmade fibers business to deliver resilient performance despite the pandemic.

In March, we succeeded in winning three large filament equipment orders in China, with a total value of over CHF 600 million. A very small proportion of these projects will be recognized in order intake in 2020, and the majority will be accounted for in 2021 and 2022. We also recorded a significant increase in orders in the second quarter, driven by the growing demand for our nonwoven meltblown systems used in face mask production. We anticipate this market to continue developing positively as many countries strive to become more self-sufficient in items deemed critical. The success of our nonwoven business confirms our diversification strategy of balancing filament equipment with technologies for carpet yarn, nonwovens, polycondensation and smart factory solutions.

For the half-year, the manmade fibers business booked more than CHF 500 million in order intake and is on track to fulfill its delivery schedules for 2020.

We will continue to invest in our manmade fibers business and its technologies to sustain our leadership position. Digital solutions, such as new secured remote services to increase system productivity and shorten downtime, were introduced to the market in the first half of the year. In Germany, we celebrated the topping-out ceremony for a new pump production building at Remscheid and for a new technology center in Neumünster, which is dedicated to future-oriented R&D work for nonwoven solutions.

During the pandemic, protecting the health and safety of our employees remained our top priority. We adhered strictly to the local health authority and government guidelines. More than 2600 of our employees worked from home during the lockdowns and every employee has been given two reusable face masks. Employees were constantly reminded via posters and screensavers to practice social distancing and follow the health guidelines. Fortunately, only a few of our employees were infected and we are happy to report that all of them have recovered.

We are also implementing further measures to protect employees worldwide. In Switzerland and Germany, we have piloted a sensor-based technology, SafeZone, from Kinexon. This technology alerts employees when they breach the predefined safety zone of another employee. SafeZone also records contact data anonymously, making it fully compliant with data protection regulations while enabling contact tracing, if needed. We intend to implement this technology at dedicated sites worldwide.

In the past six months, we have acted swiftly and decisively to manage the challenges. We have also reinforced our cash position by proactively drawing down on our existing revolving credit facilities. As of June 30, 2020, we have CHF 600 million of cash and cash equivalents available. Our strong liquidity position will enable us to meet ongoing challenges and give us the flexibility to execute on opportunities as they arise.

There is still uncertainty as to how the pandemic will develop in the upcoming months and to what extent the development will impact the economy and markets, and their recovery. We will continue to execute our programs to strengthen our cost and competitive market position and further invest in our sustainable technologies. We have the technology, liquidity and talents to take advantage of the upswing when markets turn around.

We would like to thank our employees for their collective efforts and dedication in implementing these programs to overcome the unprecedented challenges we are facing. We also want to thank our customers and shareholders for your continued support and trust in us.

Best regards

Prof. Dr. Michael Süss Chairman of the Board of Directors	**Dr. Roland Fischer** Chief Executive Officer

Half-Year 2020 at a Glance

Manmade Fibers On Track
The segment saw a strong increase in order intake in the second quarter, driven by the recovery in demand in China and the higher demand for meltblown systems used in face mask production. Order intake for the half-year was CHF 510 million and the segment is on track to fulfill its delivery schedule for 2020.

Surface Solutions Impacted
The segment's key markets were adversely impacted by the pandemic, which affected the segment's orders, sales and profitability for the second quarter and half-year.

Ahead of Schedule With Programs
The implementation of the structural and cost-out programs is ahead of schedule. An annual run-rate of savings of around CHF 60 million is expected to be realized. The structural and short-term measures are expected to yield further margin benefits in the second half of the year and in 2021.

Benefits From Short-Term and Structural Measures
Short-term measures, including short-time work and reducing discretionary spend and capital expenditures, have been implemented. In the first half of 2020, operating expenses have been reduced by more than CHF 90 million and capital expenditure has been reduced by CHF 18 million compared to the preceding year.

Affirm Mid-Term Margin Commitment
Oerlikon remains committed to achieve a mid-term target of 16% to 18% for the Group EBITDA margin.

Order Intake (CHF)
1081 million

Sales (CHF)
1039 million

Operational EBITDA Margin
10.9%

EBITDA Margin
8.9%

Net Results (CHF)
-32 million

Key Figures

	Order Intake	Sales	Operational EBITDA Margin	EBITDA Margin	Net Result
Group	-20.1% to CHF 1 081 million	-21.5% to CHF 1 039 million	10.9%	8.9%	+67.7% to CHF -32 million
Surface Solutions Segment	-24.7% to CHF 571 million	-21.8% to CHF 587 million	9.5%	6.0%	
Manmade Fibers Segment	-14.1% to CHF 510 million	-21.2% to CHF 452 million	12.4%	12.3%	

Comprehensive Actions

Emerging Stronger From the COVID-19 Pandemic

The COVID-19 pandemic has affected every facet of business, social and daily lives worldwide in unprecedented ways. Businesses and manufacturing went into lockdown in a large number of countries, resulting in severe challenges in the supply chain and the decline and/or postponement of investments in equipment and services.

Oerlikon took swift action to protect employees and business continuity in these extraordinary times. The program that was started in February 2020 was extended and deepened with aggressive cost-cutting targets to increase the company's efficiency and agility.

The action plan is ahead of schedule, and the measures are supporting resilient earnings and cash performance. Oerlikon will continue executing on these measures, which are expected to yield an annual run-rate of savings of around CHF 60 million and further margin benefits in the second half of 2020 and in 2021.

Accelerated and deepened measures to protect employees, customers and liquidity so as to emerge as a stronger company.

1. Protect Employees

- Following strict health authority and local government guidelines.
- ~2600 employees were working from home.
- Provided two face masks to every employee.
- Implementing further measures like the SafeZone technology to ensure a safe working environment at company locations.

1

2. Preserve Strong Liquidity

- Reduced capital expenditure in the first half of the year by CHF 18 million.
- CHF 600 million of cash and cash equivalents as of June 30, 2020.
- Net debt of CHF 156 million as of June 30, 2020.

2

3. Ensure Business Continuity

- Manmade fibers business ramped up operations in the second quarter to meet the recovered filament demand in China and increasing orders for nonwoven solutions.
- Surface solutions products and solutions were assessed as critical and system relevant in a number of countries and continued to serve customers during lockdowns.

3

4. Emerge Stronger

- Operating expenses in Surface Solutions reduced in first half-year by more than CHF 90 million year-over-year.
- Annual run-rate of savings: CHF ~60 million.
- Further margin benefits expected in second half of 2020 and in 2021.
- Affirm mid-term Group EBITDA margin target: 16% to 18%.

4

Strengthening the Core

Benefits From Optimization and Restructuring Programs

Oerlikon is a technology and market leader with sustainable innovations. To further strengthen the company in face of the pandemic, the optimization and restructuring programs were accelerated and extended. The programs are already delivering significant benefits in the first half of 2020 and further benefits are expected to be realized in the second half of 2020 and in 2021.

With these programs, Oerlikon will strengthen its market position in the surface solutions business and improve its resilience to manage potential pandemic-induced impacts, as well as cement Oerlikon's role as the reliable partner of choice for customers.

SHORT-TERM & STRUCTURAL PROGRAM FOCUS

- Implemented short-time work; cut discretionary spend.
- Optimizing HQ and support functions.
- Optimizing global footprint and legal entities.
- Rightsizing additive manufacturing.
- Leveraging synergies in procurement and equipment business.

PROGRAM COST

- One-time implementation cost of CHF ~60 million.
  CHF 25 million in 2019; CHF 35 million in 2020.

REALIZED IN FIRST HALF OF 2020

- Reduced operating expenses in Surface Solutions Segment by more than CHF 90 million year-over-year.
- Reduced capital expenditure in Group by CHF 18 million year-over-year.
- Completed more than 400 of the targeted 800 headcount reduction.

EXPECTED TO BE REALIZED BY END OF 2020

- More than 700 of the targeted 800 headcount reduction to be completed.
- Total program annuity run-rate savings of CHF ~60 million.
- Program to yield further margin benefits in the second half of the year and in 2021.

Financial Report

Interim Financial Report 2020

Key Figures Oerlikon Group

in CHF million	**January 1 to June 30, 2020, unaudited**	January 1 to June 30, 2019, unaudited
Order intake[1]	1 081	1 352
Order backlog	647	619
Sales[1]	1 039	1 324
EBITDA[1]	92	214
- as % of sales[1]	8.9 %	16.2 %
Operational EBITDA[1, 2]	114	218
- as % of sales[1]	10.9 %	16.4 %
EBIT[1]	–16	115
- as % of sales[1]	–1.5 %	8.7 %
Operational EBIT[1, 3]	11	118
- as % of sales[1]	1.1 %	8.9 %
Result from continuing operations	–32	80
Result from discontinued operations, net of income taxes	–	–179
Net result	–32	–99
– as % of equity attributable to shareholders of the parent	–2 %	–6 %
Cash flow from operating activities[4]	–5	–11
Capital expenditure for property, plant and equipment and intangible assets[1]	48	66
Total assets (June 30, 2020/December 31, 2019)	3 612	3 647
Equity attributable to shareholders of the parent (June 30, 2020/December 31, 2019)	1 307	1 756
– as % of total assets	36 %	48 %
Net debt/ net cash (June 30, 2020/December 31, 2019)[5]	–156	333
Net operating assets (June 30, 2020/December 31, 2019)[6]	1 832	1 826
Number of employees (full-time equivalents) (June 30, 2020/December 31, 2019)	10 963	11 134
Research and development expenditure[1, 7]	62	60

[1] Continuing operations.

[2] Operational EBITDA is defined as EBITDA, adjusted by expenses directly related to restructuring activities as well as effects from discontinued activities not qualifying as discontinued operations.

[3] Operational EBIT is defined as EBIT, adjusted by expenses and impairments directly related to restructuring activities, effects from discontinued activities not qualifying as discontinued operations as well as impairments on associates, goodwill and intangible assets acquired in a business combination.

[4] Cash flow from operating activities before changes in net current assets amounts to CHF 59 million (previous year: CHF 194 million).

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

[6] Net operating assets are defined as operating assets (total assets without cash and cash equivalents, current financial investments, current income tax receivables and deferred tax assets) less operating liabilities (total liabilities without financial and lease liabilities, current income taxes payable, non-current post-employment benefit liabilities and deferred tax liabilities).

[7] Research and development expenditure includes expenses recognized as intangible assets in the amount of CHF 12 million (previous year: CHF 13 million).

Consolidated Income Statement

in CHF million	January 1 to June 30, 2020, unaudited	January 1 to June 30, 2019, unaudited
Sales of goods	655	817
Services rendered	384	508
Total sales	**1 039**	**1 324**
Cost of sales	–807	–934
Gross profit	**232**	**390**
Marketing and selling	–89	–93
Research and development	–61	–65
Administration	–113	–129
Other income	27	23
Other expense	–13	–11
Result before interest and taxes (EBIT)	**–16**	**115**
Financial income	6	8
Financial expense	–14	–15
Result before taxes (EBT)	**–24**	**107**
Income taxes	–9	–28
Result from continuing operations	**–32**	**80**
Result from discontinued operations, net of income taxes	–	–179
Net result	**–32**	**–99**
Attributable to:		
Shareholders of the parent	–33	–101
Non-controlling interests	1	1
Earnings per share in CHF	**–0.10**	–0.31
Diluted earnings per share in CHF	**–0.10**	–0.31
Earnings per registered share continuing operations in CHF	**–0.10**	0.24
Diluted earnings per registered share continuing operations in CHF	**–0.10**	0.24
Earnings per registered share discontinued operations in CHF	**0.00**	–0.55
Diluted earnings per registered share discontinued operations in CHF	**0.00**	–0.55
EBITDA	**92**	**214**
Operational EBIT	**11**	**118**
Operational EBITDA	**114**	**218**

Consolidated Statement of Comprehensive Income

in CHF million	**January 1 to June 30, 2020, unaudited**	January 1 to June 30, 2019, unaudited
Net result	–32	–99
Other comprehensive income		
Items that will never be reclassified to the income statement		
Remeasurement of defined benefit plans[1]	7	–36
Income taxes on items that will never be reclassified to the income statement	–1	10
	6	**–26**
Items that are or may be reclassified subsequently to the income statement		
Gains and losses from hedging	–1	3
Conversion differences[2]	–48	279
Income taxes on items that are or may be reclassified subsequently to the income statement	–	–11
	–49	**271**
Other comprehensive income for the period, net of taxes	**–43**	**244**
Total comprehensive income for the period	**–75**	**145**
Attributable to:		
Shareholders of the parent	–75	143
Non-controlling interests	–	1

[1] 2019: Thereof CHF 3 million relating to discontinued operations.

[2] 2019: Includes mainly reclassification of translation differences on the sale of the Drive Systems Segment.

Consolidated Balance Sheet

Assets

in CHF million	**June 30, 2020, unaudited**	December 31, 2019
Cash and cash equivalents	600	658
Current financial investments and derivatives	35	41
Trade and trade note receivables	291	309
Current contract assets	42	12
Other receivables	101	96
Current income tax receivables	18	16
Inventories	359	338
Prepaid expenses and accrued income	32	20
Current assets	**1 479**	**1 490**
Loans and other non-current financial receivables	13	15
Non-current financial investments	28	29
Property, plant and equipment	591	634
Right-of-use assets	217	211
Goodwill and intangible assets	1 131	1 117
Post-employment benefit assets	12	10
Deferred tax assets	142	142
Non-current contract assets	–	1
Non-current assets	**2 133**	**2 158**
Total assets	**3 612**	**3 647**

Liabilities and equity

in CHF million	**June 30, 2020, unaudited**	December 31, 2019
Trade payables	228	264
Current contract liabilities	361	313
Current lease liabilities	31	30
Current financial liabilities and derivatives	422	6
Other current payables	65	60
Accrued liabilities	170	189
Current income taxes payable	51	66
Current post-employment benefit liabilities	14	14
Other current provisions	75	54
Current liabilities	**1 417**	**997**
Non-current lease liabilities	186	178
Non-current loans and borrowings	154	154
Other non-current liabilities	14	16
Non-current post-employment benefit liabilities	332	347
Deferred tax liabilities	125	128
Other non-current provisions	57	58
Non-current liabilities	**867**	**881**
Total liabilities	**2 284**	**1 878**
Share capital	340	340
Treasury shares	–105	–63
Retained earnings and reserves	1 072	1 479
Equity attributable to shareholders of the parent	**1 307**	**1 756**
Non-controlling interests	21	13
Total equity	**1 328**	**1 769**
Total liabilities and equity	**3 612**	**3 647**

Consolidated cash flow statement[1]

in CHF million	**January 1 to June 30, 2020, unaudited**	January 1 to June 30, 2019, unaudited
Net result	–32	–99
Income taxes	9	35
Interest expense (net)	5	6
Depreciation of property, plant and equipment	49	49
Depreciation of right-of-use assets	18	18
Amortization of intangible assets	35	33
Addition to other provisions (net)	30	20
Impairment losses on property, plant and equipment	1	–
Impairment losses on intangible assets	5	–
Decrease in post-employment benefit liabilities	–5	–6
Gain on equity interests in newly consolidated companies	–11	–
Loss on sale of discontinued operations, net of income taxes	–	165
Income taxes paid	–38	–27
Share based payments	2	6
Other non-cash items	–9	–6
Cash flow from operating activities before changes in net current assets	59	194
Increase in receivables, contract assets, prepaid expenses and accrued income	–32	–58
Increase in inventories	–26	–40
Decrease in payables, accrued liabilities and use of other provisions	–52	–38
Increase/decrease in contract liabilities	48	–73
Non-cash impact on net current assets due to hedge accounting	–2	3
Cash flow from changes in net current assets	–64	–206
Cash flow from operating activities	**–5**	**–11**
Purchase of property, plant and equipment	–24	–54
Proceeds from sale of property, plant and equipment	1	2
Purchase of intangible assets	–24	–17
Disposal of Group companies, net of cash disposed	–	549
Acquisition of subsidiaries, net of cash acquired[2]	–15	–26
Investments in associates	–1	–1
Proceeds from/investments in marketable securities	2	–2
Purchase of financial investments	–	–9
Proceeds from repayment of financial investments	2	101
Interest received	3	4
Cash flow from investing activities	**–57**	**547**
Dividends paid	–330	–341
Purchase of treasury shares	–46	–8
Repayment of financial debt	–43	–301
Principal elements of lease payments	–16	–18
Proceeds from financial debt	458	–
Interest paid	–9	–9
Cash flow from financing activities	**14**	**–678**
Conversion adjustments to cash and cash equivalents	–10	–1
Decrease in cash and cash equivalents	**–57**	**–142**
Cash and cash equivalents at the beginning of the period[3]	658	858
Cash and cash equivalents at the end of the period	600	717
Decrease in cash and cash equivalents	**–57**	**–142**

[1] 2019: The cash flow statement is presented including cash effects from discontinued operations as well as assets and liabilities held for sale.

[2] 2020: Includes settlement of contingent consideration and deferred payments relating to acquisitions made in previous periods in the amount of CHF 2 million and cash consideration for current-period acquisitions net of cash acquired of CHF 13 million.

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

Consolidated Statement of Changes in Equity

in CHF million	Share capital[1]	Additional paid-in capital	Treasury shares	Conversion differences	Retained earnings	Hedge accounting	Income taxes	**Total equity attributable to shareholders**	Non-controlling interests	**Total share-holders' equity**
Balance at January 1, 2019, as reported	**340**	**895**	**–13**	**–436**	**1 117**	**–2**	**99**	**2 001**	**21**	**2 021**
Adjustment on initial application of IFRS 16 (net of tax)	–	–	–	–	–6	–	–	–6	–	–6
Adjusted balance at January 1, 2019	**340**	**895**	**–13**	**–436**	**1 111**	**–2**	**99**	**1 995**	**21**	**2 015**
Net result	–	–	–	–	–101	–	–	–101	1	–99
Gains and losses from hedging	–	–	–	–	–	3	–1	2	–	2
Remeasurement of defined benefit plans	–	–	–	–	–36	–	10	–26	–	–26
Conversion differences	–	–	–	279	–	–	–10	268	–	268
Other comprehensive income for the period	**–**	**–**	**–**	**279**	**–36**	**3**	**–1**	**244**	**–**	**244**
Total comprehensive income for the period	**–**	**–**	**–**	**279**	**–137**	**3**	**–1**	**143**	**1**	**145**
Dividend distributions	–	–338	–	–	–	–	–	–338	–1	–339
Share-based payments	–	–	13	–	–7	–	–	6	–	6
Purchase of treasury shares	–	–	–8	–	–	–	–	–8	–	–8
Contributions and distributions	**–**	**–338**	**5**	**–**	**–7**	**–**	**–**	**–340**	**–1**	**–341**
Disposal of subsidiaries with non-controlling interests	–	–	–	–	–	–	–	–	–8	–8
Changes in ownership interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–8**	**–8**
Total transactions with owners of the company	**–**	**–338**	**5**	**–**	**–7**	**–**	**–**	**–340**	**–8**	**–348**
Balance at June 30, 2019	**340**	**558**	**–7**	**–157**	**967**	**–**	**97**	**1 798**	**14**	**1 812**
Balance at January 1, 2020	**340**	**558**	**–63**	**–185**	**1 008**	**–**	**98**	**1 756**	**13**	**1 769**
Net result	–	–	–	–	–33	–	–	–33	1	–32
Gains and losses from hedging	–	–	–	–	–	–1	–	–1	–	–1
Remeasurement of defined benefit plans	–	–	–	–	7	–	–1	6	–	6
Conversion differences	–	–	–	–48	–	–	–	–48	–	–48
Other comprehensive income for the period	**–**	**–**	**–**	**–48**	**7**	**–1**	**–1**	**–43**	**–**	**–43**
Total comprehensive income for the period	**–**	**–**	**–**	**–48**	**–26**	**–1**	**–1**	**–75**	**–**	**–75**
Dividend distributions	–	–	–	–	–328	–	–	–328	–2	–330
Share-based payments	–	–	5	–	–2	–	–	2	–	2
Purchase of treasury shares[2]	–	–	–46	–	–	–	–	–46	–	–46
Contributions and distributions	**–**	**–**	**–42**	**–**	**–330**	**–**	**–**	**–372**	**–2**	**–374**
Acquisition of subsidiaries with non-controlling interests	–	–	–	–	–	–	–	–	10	10
Changes in ownership interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**10**	**10**
Total transactions with owners of the company	**–**	**–**	**–42**	**–**	**–330**	**–**	**–**	**–372**	**7**	**–365**
Balance at June 30, 2020	**340**	**558**	**–105**	**–233**	**651**	**–1**	**97**	**1 307**	**21**	**1 328**

[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.

[2] OC Oerlikon Corporation Inc., Pfäffikon, informed on November 5, 2019, that the Board of Directors has approved to buy back own shares for up to a maximum of 10% of the share capital. The effective size of the buyback program depends, among other things, on the number of treasury shares held and the market situation. The repurchased registered shares shall be used as a reserve for future M&A transactions and employee benefit plans. The program started in November 2019 and will run up to 36 months. In the first half of 2020, 6 129 008 shares were repurchased as part of the share buyback program for a consideration of CHF 46 million. Together with last year's purchases (4 830 000 shares for CHF 54 million), a total 10 959 008 shares have been bought for CHF 100 million.

Significant Accounting Principles

Company operations
OC Oerlikon Corporation AG, Pfäffikon is a Swiss public company located in Churerstrasse 120, Pfäffikon, canton of Schwyz, Switzerland. It is the ultimate parent company of the Oerlikon Group, a leading high-tech industrial Group which provides innovative industrial solutions and cutting-edge technologies for surface solutions and manmade fibers manufacturing.

Basis of preparation
The unaudited consolidated interim financial statements of OC Oerlikon Corporation AG, Pfäffikon for the first half of 2020 are presented in a condensed form and have been prepared in accordance with IAS 34 Interim Financial Reporting and Swiss company law. These accounting standards have been applied consistently in all periods presented in this report. The reporting period is six months. The consolidated income statement shows operating costs grouped by function. Assets and liabilities in the consolidated balance sheet are classified as current or non-current. The consolidated interim financial statements do not include all the details contained in the consolidated annual financial statements and should therefore be read in conjunction with the annual consolidated financial statements as of December 31, 2019. The consolidated interim financial statements were approved by the Board of Directors on August 3, 2020.

All amounts in the consolidated interim financial statements are presented in millions of Swiss francs (CHF million) and all amounts (including totals and subtotals) have been rounded according to normal commercial practice. Thus, an addition of the figures presented can result in rounding differences.

The accounting policies in the consolidated interim financial statements match those applied in the audited annual consolidated financial statements as of December 31, 2019, with the exception of the changes shown under “New and revised accounting standards”.

New and revised accounting standards
With respect to the new and revised accounting standards applicable as of January 1, 2020, the following two amendments have relevance to the Oerlikon Group:

Interest Rate Benchmark Reform (Amendment to IFRS 9, IAS 39 and IFRS 7):
The amendments provide targeted relief for financial instruments qualifying for hedge accounting and address issues affecting financial reporting in the period leading up to IBOR reform.

COVID-19-Related Rent Concessions (Amendments to IFRS 16):
The amendments allow lessees to recognize rent concessions as income and not as lease modifications if they are a direct consequence of COVID-19 and meet certain conditions. This amendment has been early adopted. The income recognized in this respect was less than CHF 1 million in the first half of 2020.

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

Segment information
The Group consists of the following reportable Segments:
- Surface Solutions Segment is a world-leading supplier of advanced materials and surface technologies for components and tools used in a wide range of industrial applications where superior materials and surface performance are required.
- Manmade Fibers Segment is a world market leader for solutions and systems used to manufacture manmade fibers that enable customers to produce high-quality synthetic fibers.

The Segment reporting of the Oerlikon Group is in accordance with the “management approach” and is based on the internal structure and reporting. The Chief Executive Officer (CEO) performs the function of the Chief Operating Decision Maker (CODM), assesses performance and makes resource allocation decisions. The CODM receives information at 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 CODM 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.

Alternative performance measures
The Oerlikon Group uses the following alternative performance measures:

- **Operational EBIT**

Operational EBIT is defined as EBIT, adjusted by expenses and impairments directly related to restructuring activities, effects from discontinued activities not qualifying as discontinued operations as well as impairments on associates, goodwill and intangible assets acquired in a business combination.

- **Operational EBITDA**

Operational EBITDA is defined as EBITDA, adjusted by expenses directly related to restructuring activities as well as effects from discontinued activities not qualifying as discontinued operations.

Significant events
The COVID-19 pandemic significantly impacted the Oerlikon Group during the first half of 2020, leading to lower revenue and earnings. In this context, the Oerlikon Group assessed in detail the impact of the adverse economic effects from COVID-19 on its assets and liabilities (e.g. with regard to the recoverability of assets). The analysis showed that no additional adjustments due to COVID-19 (e.g. impairments or value adjustments) were necessary.

Based on the ongoing business restructuring initiatives, the Oerlikon Group recognized expenses from restructuring activities in the amount of CHF 21 million. In the same context, an intangible asset classified as other intangible asset with a book value of CHF 5 million needed to be fully impaired as it could not be used anymore. The impairment charge is recognized in other expense.

Segment Information

in CHF million		Surface Solutions Segment 2020	Surface Solutions Segment 2019	Manmade Fibers Segment 2020	Manmade Fibers Segment 2019	Total Segments 2020	Total Segments 2019
Order intake		**571**	**759**	**510**	**593**	**1 081**	**1 352**
Order backlog		**161**	**200**	**486**	**419**	**647**	**619**
Sales							
Sales to third parties		587	750	452	574	1 039	1 324
Sales to other segments		3	3	–	–	3	3
Eliminations		–3	–3	–	–	–3	–3
		587	**750**	**452**	**574**	**1 039**	**1 324**
Sales to third parties by market region							
Asia/Pacific		169	213	356	384	525	597
Europe		267	350	67	129	333	479
North America		130	153	19	42	149	195
Other regions		21	34	11	20	32	54
		587	**750**	**452**	**574**	**1 039**	**1 324**
Sales to third parties by location							
Asia/Pacific		159	188	136	169	295	357
thereof	China	49	56	131	165	180	221
Europe		290	379	308	394	598	773
thereof	Switzerland	58	72	–	–	58	72
	Germany	142	176	298	394	441	571
North America		125	161	9	11	133	172
thereof	USA	113	142	9	11	122	153
Other regions		13	22	–	–	13	22
		587	**750**	**452**	**574**	**1 039**	**1 324**
Timing of revenue recognition							
At a point in time		587	750	149	191	736	941
Transferred over time		–	–	303	383	303	383
		587	**750**	**452**	**574**	**1 039**	**1 324**
Capital expenditure for property, plant and equipment and intangible assets[1]							
Asia/Pacific		3	16	–	1	3	16
Europe		17	22	11	9	29	31
North America		5	12	–	–	5	12
Other regions		1	2	–	–	1	2
		26	**51**	**11**	**10**	**37**	**61**
Operational EBITDA[2]		**56**	**126**	**56**	**91**	**112**	**217**
Operational EBIT[2]		**–29**	**42**	**41**	**78**	**13**	**120**
Other material items							
Research and development expense		–45	–50	–14	–15	–60	–65
Depreciation and amortization		–84	–84	–15	–13	–99	–97
Impairment of property, plant and equipment		–1	–	–	–	–1	–
Impairment of intangible assets		–5	–	–	–	–5	–
Restructuring expense		–21	–1	–	–	–21	–1
Net operating assets		**30.06.20**	31.12.19	**30.06.20**	31.12.19	**30.06.20**	31.12.19
Operating assets[3]		1 968	2 062	754	641	2 722	2 703
Operating liabilities[4]		–276	–291	–650	–611	–926	–903
		1 691	**1 771**	**104**	**30**	**1 795**	**1 800**
Number of employees (full-time equivalents)		**30.06.20**	31.12.19	**30.06.20**	31.12.19	**30.06.20**	31.12.19
Asia/Pacific		1 822	1 854	1 111	1 106	2 933	2 960
Europe		4 079	4 220	1 885	1 819	5 964	6 040
North America		1 344	1 411	54	61	1 398	1 472
Other regions		339	356	–	–	339	356
		7 584	**7 840**	**3 050**	**2 986**	**10 634**	**10 827**

Group/ Eliminations		Total from continuing operations	
2020	2019	**2020**	2019
–	**–**	**1 081**	**1 352**
–	**–**	**647**	**619**
–	–	1 039	1 324
–3	–3	–	–
3	3	–	–
–	**–**	**1 039**	**1 324**
–	–	525	597
–	–	333	479
–	–	149	195
–	–	32	54
–	**–**	**1 039**	**1 324**
–	–	295	357
–	–	180	221
–	–	598	773
–	–	58	72
–	–	441	571
–	–	133	172
–	–	122	153
–	–	13	22
–	**–**	**1 039**	**1 324**
–	–	736	941
–	–	303	383
–	**–**	**1 039**	**1 324**
–	–	3	17
11	4	40	35
–	–	5	12
–	–	1	2
11	**5**	**48**	**66**
2	**–**	**114**	**218**
–2	**–2**	**11**	**118**
–1	–	–61	–65
–3	–3	–102	–100
–	–	–1	–
–	–	–5	–
–	–	–21	–1
30.06.20	31.12.19	**30.06.20**	31.12.19
91	84	2 813	2 787
–55	–59	–981	–962
36	**26**	**1 832**	**1 826**
30.06.20	31.12.19	**30.06.20**	31.12.19
–	–	2 933	2 960
323	302	6 287	6 342
–	–	1 398	1 472
6	6	345	361
329	**308**	**10 963**	**11 134**

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

[2] The measure of profit or loss used by the CODM has changed from EBIT and EBITDA to operational EBIT and operational EBITDA. The prior year figures have been adjusted accordingly.

[3] Operating assets include total assets without cash and cash equivalents, current financial investments, current income tax receivables and deferred tax assets.

[4] Operating liabilities include total liabilities without financial and lease liabilities, current income taxes payable, non-current post-employment benefit liabilities and deferred tax liabilities.

Reconcilation of Operational Figures

2020

in CHF million		Operational figures	Restructuring[1]	Discontinued activities[2]	Impairments[3]	Unadjusted figures
Surface Solutions Segment	**Sales**	**587**	–	–	–	**587**
	EBIT	**–29**	–21	–	–5	**–55**
	EBITDA	**56**	–21	–	–	**35**
Manmade Fibers Segment	**Sales**	**452**	–	–	–	**452**
	EBIT	**41**	–	–	–	**41**
	EBITDA	**56**	–	–	–	**56**
Total Segments	**Sales**	**1 039**	–	–	–	**1 039**
	EBIT	**13**	–21	–	–5	**–14**
	EBITDA	**112**	–21	–	–	**91**
Group / Eliminations	**Sales**	**–**	–	–	–	**–**
	EBIT	**–2**	–	–	–	**–2**
	EBITDA	**2**	–	–	–	**2**
Total from continuing operations	**Sales**	**1 039**	–	–	–	**1 039**
	EBIT	**11**	–21	–	–5	**–16**
	EBITDA	**114**	–21	–	–	**92**

2019

in CHF million		Operational figures	Restructuring[1]	Discontinued activities[2]	Impairments[3]	Unadjusted figures
Surface Solutions Segment	**Sales**	**750**	–	–	–	**750**
	EBIT	**42**	–1	–	–	**41**
	EBITDA	**126**	–1	–	–	**125**
Manmade Fibers Segment	**Sales**	**574**	–	–	–	**574**
	EBIT	**78**	–	–1	–	**78**
	EBITDA	**91**	–	–1	–	**91**
Total Segments	**Sales**	**1 324**	–	–	–	**1 324**
	EBIT	**120**	–1	–1	–	**118**
	EBITDA	**217**	–1	–1	–	**215**
Group / Eliminations	**Sales**	**–**	–	–	–	**–**
	EBIT	**–2**	–1	–	–	**–4**
	EBITDA	**–**	–1	–	–	**–1**
Total from continuing operations	**Sales**	**1 324**	–	–	–	**1 324**
	EBIT	**118**	–2	–1	–	**115**
	EBITDA	**218**	–2	–1	–	**214**

[1] Expenses related to restructuring mainly include personnel costs.

[2] Effects from discontinued activities not qualifying as discontinued operations.

[3] Impairments related to restructuring.

Acquisitions

Acquisitions in the first half of 2020

On January 31, 2020, Oerlikon took over the majority stake in **Teknoweb Materials s.r.l.**, which was established in 2017 as a joint venture (Oerlikon's share 49.9%) to extend the nonwoven production system portfolio in the Manmade Fibers Segment to include the attractive market for disposable nonwovens. In the transaction, an additional 17% share was acquired, increasing Oerlikon's total share to 66.9% and with the gaining of control resulting in the full consolidation of the company.

The purchase consideration for the additional 17% share amounts to CHF 14 million, all of which was paid as cash in the reporting period.

The previously held equity interest and the non-controlling interest in Teknoweb are measured at fair value at the acquisition date. The fair value was determined with a discounted cash flow analysis with adjustments for control premium and marketability. Significant inputs in the discounted cash flow analysis include a discount rate of 22% based on the weighted average cost of capital (WACC) and a growth rate of the terminal value of 1%.

The remeasuring of the equity interest held in the acquiree immediately before the acquisition to its fair value resulted in a gain of CHF 11 million, which was recognized under other income in the consolidated income statement for the period ended June 30, 2020.

The goodwill of CHF 19 million arising from the acquisition is mainly attributable to a strengthening of the market position, the expertise of the workforce and the expected synergies from combining the operations of the acquired businesses with the Oerlikon Group. None of the goodwill is expected to be deductible for income tax purposes.

The following table summarizes the fair values of consideration paid, previously held equity interests and non-controlling interests as well as assets acquired and liabilities assumed at the date of the acquisition:

in CHF million	2020
Consideration for acquisition of additional 17 % share (paid in cash)	14
Previously held equity interest (revalued)	15
Non-controlling interest	10
Total	**38**

Recognized amounts of identifiable assets acquired and liabilities assumed

in CHF million	2020
Cash and cash equivalents	1
Trade and other receivables, prepaid expenses and accrued income	2
Current contract assets	5
Inventories	3
Non-current financial investments	2
Property, plant and equipment	3
Right-of-use assets	3
Intangible assets	26
Deferred tax assets	1
Trade payables	–7
Current contract liabilities	–7
Current and non-current lease liabilities	–3
Current financial liabilities	–1
Deferred tax liabilities	–8
Identifiable assets acquired, net	**19**
Goodwill	19
Net assets acquired	**38**

The business combination was recognised on a provisional basis in the interim consolidated financial statements as of and for the period ended June 30, 2020, since not all necessary information for the purchase price allocation was available at the date of preparation of the interim consolidated financial statements.

Acquisition-related costs of below CHF 1 million have been recognized under other expense in the consolidated income statement for the period ended June 30, 2020.

Since its acquisition, the acquired business has contributed CHF 10 million to total sales and less than CHF -1 million to the net result of the Oerlikon Group. Had the transaction taken place at January 1, 2020, the Group's total sales and net result for the period ended June 30, 2020, would have amounted to approximately CHF 1 039 million and CHF -33 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, 2020.

Revenue

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

in CHF million	Surface Solutions Segment January 1 to June 30, 2020	Surface Solutions Segment January 1 to June 30, 2019	Manmade Fibers Segment January 1 to June 30, 2020	Manmade Fibers Segment January 1 to June 30, 2019	Total January 1 to June 30, 2020	Total January 1 to June 30, 2019
Automotive	139	194	–	–	139	194
Aviation	97	113	–	–	97	113
General Industry	147	191	–	–	147	191
Plant engineering	–	–	45	95	45	95
Power Generation	34	35	–	–	34	35
Special Filaments	–	–	69	81	69	81
Textile applications	–	–	338	399	338	399
Tooling	170	218	–	–	170	218
Total revenue from contracts with customers	**587**	**750**	**452**	**574**	**1 039**	**1 323**

Financial instruments

The carrying amounts and fair values of financial assets and liabilities as of June 30, 2020, including their levels in the fair value hierarchy, are as follows:

	Carrying amount				Fair value			
in CHF million	Fair value – through other comprehensive income	Fair value – through profit & loss	Amortized cost[1]	**Total**	Level 1	Level 2	Level 3	**Total**
Financial assets								
Foreign exchange contracts	1	3	–	**4**	–	4	–	**4**
Debt and equity securities	–	26	–	**26**	26	–	–	**26**
Other investments	19	–	–	**19**	–	–	19	**19**
Cash and cash equivalents	–	–	600	**600**				
Deposits	–	–	6	**6**				
Trade and trade notes receivables	–	–	291	**291**				
Contract assets	–	–	42	**42**				
Loans and other non-current financial receivables	–	–	1	**1**				
Total	**20**	**29**	**941**	**990**				
Financial liabilities								
Foreign exchange contracts	2	2	–	**4**	–	4	–	**4**
Other liabilities	–	16	2	**19**	–	–	16	**16**
Bonds	–	–	150	**150**	155	–	–	**155**
Lease liabilities	–	–	217	**217**				
Trade payables	–	–	228	**228**				
Accrued liabilities	–	–	100	**100**				
Other loans and borrowings	–	–	421	**421**				
Total	**2**	**18**	**1 118**	**1 138**				

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

Financial instruments

The carrying amounts and fair values of financial assets and liabilities as of December 31, 2019, including their levels in the fair value hierarchy, are as follows:

	Carrying amount				Fair value			
in CHF million	Fair value – through other comprehensive income	Fair value – through profit & loss	Amortized cost[1]	**Total**	Level 1	Level 2	Level 3	**Total**
Financial assets								
Foreign exchange contracts	1	2	–	**3**	–	3	–	**3**
Debt and equity securities	–	30	–	**30**	30	–	–	**30**
Other investments	19	–	–	**19**	–	–	19	**19**
Cash and cash equivalents	–	–	658	**658**				
Deposits	–	–	7	**7**				
Trade and trade notes receivables	–	–	309	**309**				
Current contract assets	–	–	12	**12**				
Loans and other non-current financial receivables	–	–	3	**3**				
Total	**20**	**32**	**990**	**1 042**				
Financial liabilities								
Foreign exchange contracts	1	4	–	**5**	–	5	–	**5**
Other liabilities	–	19	2	**22**	–	–	19	**19**
Bonds	–	–	150	**150**	167	–	–	**167**
Lease liabilities	–	–	208	**208**				
Trade payables	–	–	264	**264**				
Accrued liabilities	–	–	108	**108**				
Other loans and borrowings	–	–	4	**4**				
Total	**1**	**23**	**737**	**762**				

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

Provisions

in CHF million	Product warranties	Acquiree's contingent liabilities[1]	Restructuring[2]	Other provisions[3]	**Total**
Balance at January 1, 2020	26	27	21	38	**113**
Conversion differences	1	–	–	–1	**–2**
Additions[4]	7	–	20	4	**32**
Amounts used	3	–	–4	–2	**–9**
Amounts reversed	1	–	–	–1	**–2**
Balance at June 30, 2020	**29**	**27**	**37**	**39**	**132**
of which:					
Due within 1 year	27	–	34	13	**75**
Due beyond 1 year	2	27	2	25	**57**

[1] Acquiree's contingent liabilities pertain to the Surface Solutions Segment. Contingent liabilities have been recognized primarily due to several environmental liabilities and potential tax risks. Any potential cash outflow is estimated to occur during the next 10-15 years. The selling shareholder (Sulzer AG) has contractually agreed to indemnify Oerlikon for certain of these environmental liabilities. The related indemnification asset amounts to CHF 10 million.

[2] The restructuring provision pertains mainly to the Manmade Fibers Segment (CHF 3 million) and Surface Solutions Segment (CHF 32 million) and relates mostly to personnel expenses. The additions in the period are related to a productivity program, primarily aimed at reducing structural costs in the Surface Solutions Segment.

[3] Consists mainly of provisions for pending litigation, technical risks, onerous contracts as well as environmental and tax risks.

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

Subsequent Events

No events occurred between the balance sheet date and the date on which this report was approved by the Board of Directors that could have a significant impact on the consolidated financial statements as of June 30, 2020.

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

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