

**œrlikon**

**Annual  
Report 2008**

**INNOVATE**

**Oerlikon stands for innovation in machinery and plant engineering. With high-tech components and engineered solutions we are leaders in global growth markets.**

**With technology tailored to their needs we enable our customers to achieve sustainable competitive advantages.**

**Enabling High Technology.**

## Key figures 2008<sup>1</sup>

(in CHF)

Year-on-year

<b>4.8</b>	<b>billion</b>	<b>sales<sup>2</sup></b>	<b>-12.1%</b>
<b>4.3</b>	<b>billion</b>	<b>orders received<sup>2</sup></b>	<b>-25.7%</b>
<b>281</b>	<b>million</b>	<b>operating result<sup>2,3</sup></b>	<b>-40.3%</b>
<b>-37</b>	<b>million</b>	<b>EBIT<sup>2</sup></b>	
<b>411</b>	<b>million</b>	<b>operating cash flow<sup>4</sup></b>	<b>-39.4%</b>

### Key figures Oerlikon Group<sup>1,2</sup>

in CHF million	January 1 to December 31 2008	January 1 to December 31 2007 restated
Orders received <sup>2</sup>	4 319	5 811
Orders on hand <sup>2</sup>	1 318	1 821
Sales <sup>2</sup>	4 750	5 404
EBITDA <sup>2</sup>	495	688
– as % of sales	10%	13%
EBIT <sup>2,3</sup>	-37	467
– as % of sales	-1%	9%
Net result	-422	319
– as % of sales	-9%	6%
– as % of equity attributable to shareholders of the parent	-39%	17%
Cash flow from operating activities <sup>4</sup>	411	678
Capital expenditure for fixed and intangible assets <sup>2</sup>	335	325
Total assets	5 476	6 290
Equity attributable to shareholders of the parent	1 093	1 858
– as % of total assets	20%	30%
Net liquidity <sup>5</sup>	-1 586	-794
Net assets <sup>6</sup>	2 919	3 266
EBIT as % of net assets (RONA)	-1%	14%
Number of employees <sup>2</sup>	18 385	18 711
Personnel expenses <sup>2</sup>	1 323	1 355
Research and development expenses <sup>2,7</sup>	247	245

<sup>1</sup> A five-year summary of key figures may be found on page 132.

<sup>2</sup> 2008 continued operations, 2007 restated.

<sup>3</sup> For 2008, continued operations of Oerlikon Group report an EBIT of CHF 281 million (before restructuring and impairment of goodwill). The Group EBIT including discontinued operations amounted to CHF 203 million (before restructuring and impairment of goodwill).

<sup>4</sup> Before changes in net current assets.

<sup>5</sup> Net liquidity includes marketable securities, treasury shares at market value as per December 31 as well as short term and long term debt.

<sup>6</sup> Net assets include current and non-current operating assets excluding cash, financial assets, current tax receivables and assets classified as held for sale less operating liabilities excluding financial liabilities, tax provisions and liabilities classified as held for sale.

<sup>7</sup> Research and development expenses include expenses recognized as intangible assets in the amount of CHF 31 million (previous year: CHF 34 million).

### Key share-related figures<sup>8</sup>

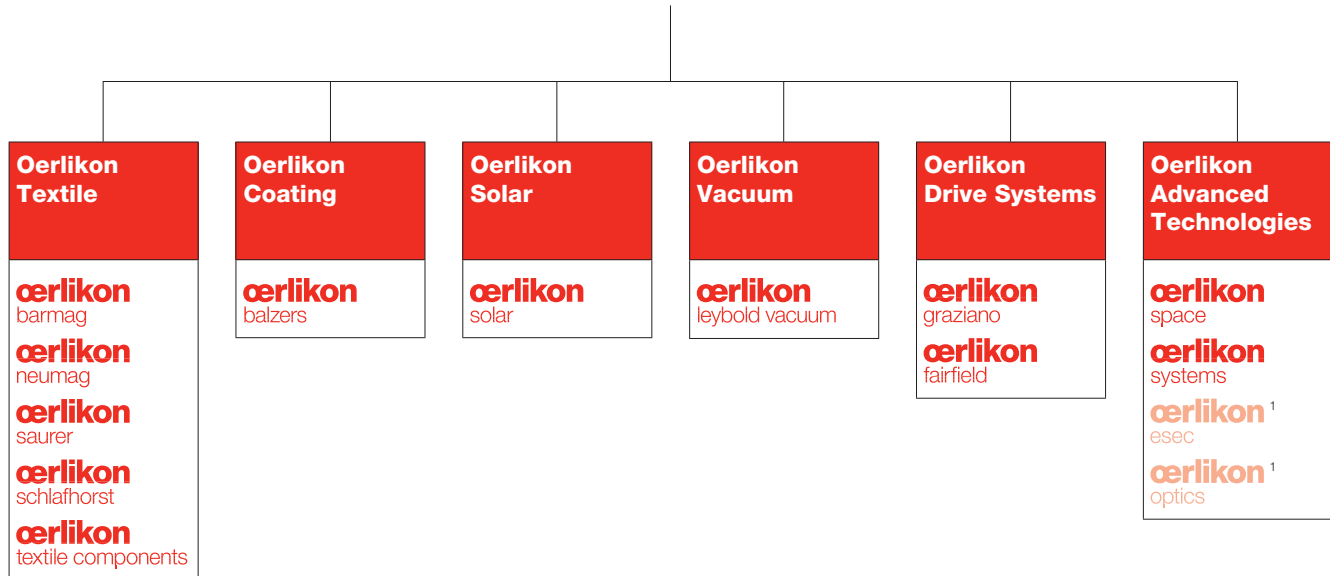
in CHF	January 1 to December 31 2008	January 1 to December 31 2007 restated
Share price		
High	472	795
Low	67	337
Year-end	69	473
Total shares outstanding	14 142 437	14 142 437
Market capitalization in millions	976	6 693
EBIT	-2.90	35.64
Net result for the period	-33.13	24.00
Net cash flow	32.06	51.78
Shareholders' equity	85.25	142.01
Dividend <sup>9</sup>	0.00	0.00

<sup>8</sup> Average number of shares with voting and dividend rights.

<sup>9</sup> Dividend 2008: proposal of the Board of Directors.

## Group structure

# oerlikon



<sup>1</sup> Discontinued operations.

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# “We remain convinced that Oerlikon has considerable medium- and long-term growth and earnings potential.”

Dear Shareholders,

For Oerlikon, 2008 was one of the most challenging years in the company's recent history. We had to face two challenges, which aggravated each other: first, a strong decline in the textile and semiconductor market over the whole year; second, the global financial crisis which induced a recession in most major markets as of the fourth quarter 2008. The resilience of our core businesses – particularly in Oerlikon Coating, Solar, and Vacuum – softened the blow from the dramatic downturns. As a result of market trends, restructuring costs and goodwill write-offs adversely affected profits. With sales of CHF 4.8 billion (–12.1 percent) and an EBIT of CHF –37 million (2007: CHF 467 million), the Group's results are disappointing. In general, we did not succeed in realizing our corporate objectives in 2008.

## Oerlikon businesses still in leading market positions

However, these results primarily reflect the general business environment and not the leading and competitive position of the Oerlikon business units. The innovative product portfolio and the broad international footprint provided risk mitigation and stabilized the operating performance. Hence, the operating result (before impairment and restructuring costs) amounted to CHF 281 million (prior year: CHF 471 million).

Developments in 2008 prompted us to first step up efforts to reposition Oerlikon group around its core business of interface and surface technologies. Progress was made in this area with the sale of Oerlikon Optics as well as the Etch, Blu-ray Line and magnetic media business of Oerlikon Systems. These divestments were a result of the refocusing of this business unit on future growth markets for advanced nanotechnology. Decision was also reached at the end of 2008 to seek divestment of the business unit Oerlikon Esec, the sale of which was signed in January 2009.

Second, ongoing restructuring and cost-cutting programs were expanded promptly and implemented rigorously, particularly at Oerlikon Textile. Overall, Oerlikon has taken precautionary measures to protect its financial position. The positive effects of these measures total approximately CHF 100 million, fully effective from 2010 onwards. In addition, our focus is on net working capital reduction and cash flow optimization.

Third, we have accelerated our efforts to enhance our market position with innovative products and solutions and bolstered the company's innovative power with long-term R&D projects. Clean technologies are taking on an important role in this field.

Customers from Oerlikon Solar began industrial production of micromorph® tandem solar modules; Oerlikon Fairfield ramped up its wind turbine gear components manufacturing; Oerlikon Coating successfully put the new, clean PPD™ coating into operation in Asia; Oerlikon Vacuum continued its product offensive with two new pump generations.

“Innovate and change” is the guiding principle for the current business year. Given the current high level of volatility in the markets, concrete forecasts seem to lack sustainability. Overall, we cannot exclude the possibility that ongoing market weaknesses will lead to a further decline in sales in 2009. All business units have taken preventive steps to adapt to deteriorating market conditions and to concentrate on profitability and cash flow. In these challenging times it is of utmost importance to ensure that Oerlikon's financial basis remains solid and sound. The company's actions in 2008 have reflected this priority and we are committed to preserving financial stability in 2009.


We remain convinced that Oerlikon has considerable medium- and long-term growth and earnings potential. We are positioning ourselves in the current phase to fully leverage this potential when the markets begin to recover. To enhance and develop this potential, the Group is facing a fundamental repositioning and restructuring, encompassing both portfolio structure and operational set-up. We will not hesitate to embark on all necessary measures – timely and consequently – in order to first rebuild and then sustain shareholder value. With a complemented and highly dedicated Executive Board, an experienced Board of Directors as well as a committed strategic shareholder, we face the future with cautious optimism.

## Thanks to employees, investors and partners

At this point we would like to express our thanks to our employees for their commitment and their hard work, especially in this difficult market environment. We would also like to thank all our business partners for their loyalty and cooperation. You can be reassured that we will do everything in our power to lay new foundations for the future prosperity of Oerlikon, sustaining the long-lasting tradition as a leading high-tech group.



**Vladimir Kuznetsov**  
Chairman of the Board of Directors



**Dr. Uwe Krüger**  
Chief Executive Officer



**Vladimir Kuznetsov** Chairman of the Board of Directors

**Dr. Uwe Krüger** Chief Executive Officer

Core business of Oerlikon proves resilient in 2008. Focus in 2009 on further streamlining portfolio, innovation and cost management.

# Repositioning to tackle market challenges.

As a result of external market influences, the Group was unable to continue the strong growth of recent years and reported a loss for the year due to restructuring expenses and goodwill write-offs. Sales fell by 12.1 percent from CHF 5.4 billion to CHF 4.8 billion; EBIT was CHF –37 million (previous year: CHF 467 million) and the net loss amounted to CHF –422 million.

The Group's operating activities in 2008 nevertheless remained positive overall as a result of its robust core business, albeit at a lower level than in the previous year. Adjusted for one-off restructuring costs (CHF –66 million) and goodwill write-offs (CHF –252 million), the Group's operating result amounted to CHF 281 million (previous year: CHF 471 million). The position of the business areas as technology and market leaders in their respective industries was maintained in 2008 and even expanded in some areas.

The diversified Group structure with a broad portfolio comprising various high-tech and environmental technology (clean technologies) areas mitigated the impact of the overall market decline. The slowdown in textiles and semiconductors was partially compensated by the other business areas, in particular by the strong growth in Oerlikon Solar. Despite the need to sharpen its focus and restructure operations, the Group has the strength to pursue its forward-looking key projects and invest-

ments. This will enable the company to identify and seize the opportunities that present themselves in this difficult economic situation and to enter the next upswing in a stronger position.

## Deteriorating market conditions

The primary reasons for the Group's difficulties are the unprecedented historic decline in the global textile machinery market and the persistent weakness in the market for semiconductors. Following a record year in 2007, the key textile markets of China, India and Turkey found themselves in a downturn of exceptional magnitude from the beginning of the year. The German Engineering and Machinery Association (VDMA) puts the decline in order intake for textile machinery at more than 60 percent in 2008. Even in this cyclical market, the scale of volatility was previously unheard-of and has taken all market players by surprise. The combined losses experienced by those Oerlikon business units affected, namely Textile, Esec and Systems, amounted to lower sales of CHF 1 105 million and a drop in EBIT of CHF 563 million.

The global financial crisis aggravated the situation greatly as of the fourth quarter of 2008. Within just a few weeks, the collapse of the global financial system impacted the real economy and triggered a dramatic downturn in the global economy towards year-end. The largest economies, the US, Japan and Germany,

## Key figures Oerlikon group 2008<sup>1</sup>

in CHF million	2008	2007	Δ (%)
Orders received	<b>4 319</b>	5 811	–25.7
Orders on hand	<b>1 318</b>	1 821	–27.6
Sales	<b>4 750</b>	5 404	–12.1
EBIT	<b>–37</b>	467	

<sup>1</sup> 2008 continued operations, 2007 restated.



have been in recession since the fourth quarter of 2008; growth in the emerging BRIC countries of China, India, Russia and Brazil has slowed down considerably. Even though almost every industry sector is affected, it is the automotive and its supplier industries that have hardest been hit. In addition, the appreciation of the Swiss Franc against other currencies and increases in raw material prices had a negative effect, putting pressure on sales and earnings mainly during the first half of the year. However, this effect leveled out considerably by year-end.

This overarching development has two implications for Oerlikon. First, the downward trend in the textile machinery and semiconductor markets, which were already in severe decline at the beginning of the year, has further worsened. Cautious spending among end consumers has resulted in low capacity utilization among Oerlikon Textile customers, as well as in the semiconductor business. Any continued willingness to invest was further curbed by difficulties in obtaining credit and by deteriorating borrowing terms.

Second, growth in the core businesses, Oerlikon Coating, Solar and Vacuum, which were expanding and were stable up to this point, came to a standstill at the end of the year. The same was true for Oerlikon Drive Systems. Due to difficult project financing Oerlikon Solar experienced a slowdown in orders received in the second half of 2008.

In line with this development, the Group's orders received fell by 25.7 percent from CHF 5.8 billion to CHF 4.3 billion. The orders on hand at the end of the year were CHF 1.3 billion, minus 27.6 percent compared to the previous year.

### Consistent implementation of corporate program

Oerlikon responded both quickly and rigorously to the change in market conditions that occurred over the course of the year. Overall, the three components of the corporate program "Portfolio", "Performance" and "People" were implemented at an accelerated pace in 2008.

**Portfolio:** The Oerlikon portfolio with its core competence in coating and surface/interface technologies can be broken down into three groups. At the center are Oerlikon Balzers, Oerlikon Solar, Oerlikon Systems and Oerlikon Vacuum. The products and services of Balzers, Systems and Solar are based directly on these technologies, while Vacuum represents a key enabling technology. Closest to this core business are Oerlikon Drive Systems and Oerlikon Space, both business units with a wide range of technological synergies; third in line is Oerlikon Textile. Synergies can be found in administrative, purchasing, competence and site areas.

With this positioning as a starting point, it is Oerlikon's goal to sharpen the focus of its portfolio further and strengthen its core business. The implementation of the portfolio strategy was

determined by the respective market conditions and in consideration of all stakeholder interests.

Considerable progress was made in 2008:

- In February, the Blu-ray Line business of Oerlikon Systems was sold to the German company Singulus.
- In June, the American company Intevac bought the hard disk product group (magnetic media equipment) of Oerlikon Systems.
- The key elements of the Oerlikon Optics business were sold off in October and November; discussions are ongoing for the Optics site in Shanghai.

The rationale for the partial divestment of Oerlikon Systems was a fundamental strategic reorientation of this business unit. It will focus on new applications in nanotechnology and clean technologies in the years ahead in addition to semiconductors and optical disc metallizer, assuring its position to develop the markets of the future. As a consequence, the wafer etch business at the St. Petersburg location, Florida (US) was sold to the management in January 2009.

Negotiations were initiated at the end of 2008 for the sale of the Oerlikon Esec business unit, which experienced a sharp decline in sales due to a weak semiconductor market and reported an operating loss. The sale to the Dutch BE Semiconductor Industries was signed at the end of January 2009 and the transaction is expected to be completed in April 2009. Oerlikon Esec is accounted as "discontinued operations".

The progress achieved in the portfolio composition has necessitated changes to the Group structure. Since Oerlikon Balzers passed the threshold of CHF 500 million in sales for the first time, it has been given the status of a segment in its own right. The Oerlikon Systems business unit has been realigned as an "innovation incubator" and was moved to the Oerlikon Advanced Technologies segment (previously: Oerlikon Components), which now comprises Oerlikon Space and Systems. The role of Oerlikon Balzers' coating business as the sole business unit in the segment is much more clearly defined and its performance can be more directly assessed in the future.

**Performance:** In line with the different developments in each market, the core business areas focused on growth management while those business units experiencing a downturn were dominated by rigorous restructuring and capacity adjustments. At the end of the year, the units that had previously continued to expand also started gearing up themselves for stagnating business or even a downturn.

Overall, 2008 was marked by:

- A highly profitable growth spurt at Oerlikon Solar. The new segment was able to more than double its sales by 124.8 percent to CHF 598 million (including intercompany sales the

segments volume amounted CHF 628 million) and posted an EBIT of CHF 107 million (corresponding to an EBIT margin of 18 percent). The strategy of expansion was successfully put into practice with the enlargement of the Truebbach site, the opening of the pilot line and a strategic partnership with Flextronics. Oerlikon Solar is the only supplier in the market with customers who produce thin-film silicon panels on an industrial scale. More than 700 000 panels were produced with Oerlikon equipment by the end of the year. The installed capacity of Oerlikon Solar customers, who are either in full production or in the ramp-up phase, totals approximately 350 MWp.

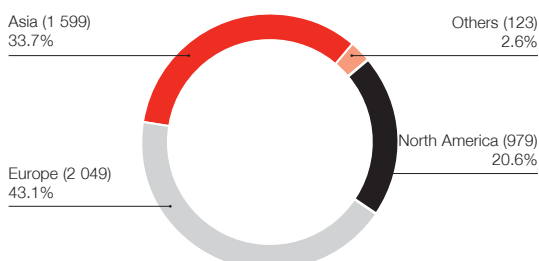
- **Strong growth for Oerlikon Coating, Vacuum, Drive Systems and Space:** Up until the fourth quarter of 2008, the markets for these businesses were intact with strong demand. Through regional expansion like the opening of five new coating centers in Asia and innovative products, such as the market launch of new pump generations like TRIVAC NT, these areas were able to achieve growth of up to 6.8 percent. High prices for energy and raw materials put pressure on earnings during the first half of the year, particularly for Vacuum and Drive Systems.
- **Tough restructuring at Oerlikon Textile, Esec and Systems:** As early as the end of 2007, Oerlikon Textile began preparing for a slowdown with its "Simplify Oerlikon Textile" restructuring program. This program was expanded and accelerated several times during 2008. "Simplify Oerlikon Textile" aims to lower the break-even point by CHF 300 million and to reduce fixed costs by more than 20 percent by 2010 (compared to 2007). To achieve these goals, half of the production sites will be consolidated by 2010, the product range will be streamlined and the workforce was reduced by over 1 000 employees. Most of these measures – primarily the staff reductions – were implemented in 2008, with CHF 66 million of restructuring costs. The ongoing restructuring program at Oerlikon Textile also comprises targeted investments in research and development and expansion of the Chinese site in Suzhou.

- **Across-the-board cost optimization:** To further reduce the variable costs throughout the entire Group, the global, cross-segment sourcing team was realigned. A second set of measures in the centrally coordinated supply chain management project brought cost savings of nearly CHF 70 million. Key measures here were tighter integration with suppliers, consolidation of purchasing volumes and increased sourcing from low-cost countries, which had the additional positive effect of containing the negative consequences of exchange rate fluctuations ("natural hedging"). The percentage of shipments from low-cost countries was increased from 16 percent in 2007 to 18 percent in 2008. The streamlining of Group headquarters also contributed to cost optimization with savings of more than CHF 30 million. These efforts will continue in 2009.

**People:** In 2008, Oerlikon introduced fundamental changes and implemented far-reaching measures in its management structures and HR development.

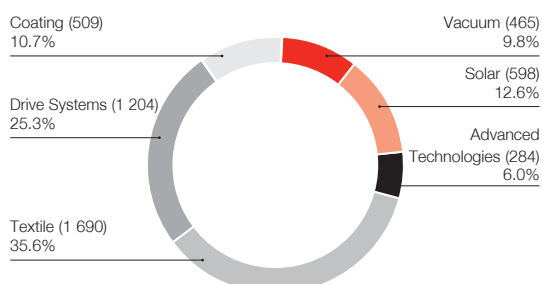
- **Leaner and more efficient management structures:** The realignment of Group headquarters was accompanied by the introduction of a decentralized management philosophy with a clear division of responsibilities between the segments and headquarters. This initiative, which was launched in 2007, was completed in 2008. Operational functions were shifted from headquarters to the business units and are today performed by the Segment CEOs with group-wide responsibility. Headquarters concentrates on strategic tasks and management of the Group, while the responsibility for profit and loss lies 100 percent with the Segments. The specialized areas have thus been brought closer to the operational processes they support, ensuring a higher level of efficiency and more relevance in actual day-to-day business. This affects IT, sourcing, trade control and quality management in particular.
- **New and expanded Board of Directors:** A change in the Group's major investor triggered the expansion of the Oerlikon Board of Directors and reelection of its members. Since May 8, 2008, Vladimir Kuznetsov has presided over

**Sales 2008 by region<sup>1</sup>** in CHF million



<sup>1</sup> Continued operations.

**Sales 2008 by segment<sup>1</sup>** in CHF million



<sup>1</sup> Continued operations.

the Board of Directors as Chairman; he had been a board member for one year prior to his appointment. Newly elected members of the Board of Directors are Kurt J. Hausheer, Hans Ziegler, Carl Stadelhofer and Dr. Urs Andreas Meyer. These additions gave the supreme governing body in the company an infusion of competence, experience and independence. A Strategy Committee was formed by the new Board of Directors to further improve and guide the overall planning processes of the Group.

- Expansion of the Executive Board: Thomas Babacan, with Oerlikon for more than ten years, was appointed Chief Operating Officer (COO). Jürg Fedier, with a wealth of international experience, joined Oerlikon from the chemical group Ciba at the beginning of 2009 as new corporate CFO.
- Ongoing investments in training: In 2008, special attention was once again focused on fostering talents. The trainee program was continued. The training facilities at the Balzers/Truebbach site were grouped together to form a modern training center. Also the apprentice program remained stable with nearly 100 new participants.
- Capacity adjustments: Despite the increase in growing businesses, the necessary restructurings have caused the workforce of the Group to decline from 18 711 to 18 385 (based on continued operations). Including discontinued operations the workforce fall from 19 896 (2007) to 19 142 (2008).

### Financial situation of the Group

Business developments in 2008 strained the financial situation of the Group. Total equity in Oerlikon group was CHF 1.1 billion (previous year: CHF 1.9 billion), which represents 20.4 percent of total assets.

The equity of 2008 was impacted by the impairment of goodwill in the amount of CHF 345 million, thereof CHF 252 million relate to continued operations.

Cash flow from operating activities (before change in net current assets) in 2008 totaled CHF 411 million (previous year: CHF 678 million). This drop can primarily be attributed to the slump in operating performance of the textile machinery and semiconductor businesses. Working capital declined by 5.2 percent to CHF 1 099 million in 2008. Nevertheless, due to decreased sales months of stocks on hand rose, mainly driven by Oerlikon Solar. For 2009, a set of measures has been defined to reduce working capital significantly.

The Group's net debt rose from CHF 1 298 million to CHF 1 681 million in 2008. With a ratio of net debt to adjusted, normalized EBITDA below 3, the obligations of the syndicated loan of CHF 2.5 billion were satisfied.

### Economic success based on innovation

Against this backdrop, investments primarily in research and development continued and were even increased despite restructuring and streamlining measures. Investments in R&D totaled CHF 247 million in 2008. The share of research as a percentage of sales rose from 4.5 percent to 5.2 percent, confirming Oerlikon as a research-intensive company. Future-oriented projects were identified and initiated with the support of the newly formed Scientific Advisory Board (SAB), made up of five internationally renowned top researchers who advise Oerlikon. The focus here is on basic research in advanced nanotechnology and clean technologies with a special focus on energy storage, conversion and transport. These projects, which are geared towards the long-term, contribute to safeguarding Oerlikon group's innovative power for the future.

The ability to consistently develop new innovative technologies – the DNA of the company – is demonstrated in a number of new products with which the company was able to reinforce and expand its leading position in its respective markets in 2008.

At the forefront is Oerlikon Solar. In 2007, the company was the first supplier to launch the micromorph® tandem technology. This breakthrough technology has an efficiency of roughly 50

### Sales 2008 by region and segment<sup>1</sup>

in CHF million	2008	Europe	Asia	North America	Others
Textile	1 690	411	893	277	109
Coating	509	298	106	102	3
Solar	598	260	334	4	0
Vacuum	465	263	126	73	3
Drive Systems	1 204	679	73	450	2
Advanced Technologies	284	138	67	73	6
<b>Total</b>	<b>4 750</b>	<b>2 049</b>	<b>1 599</b>	<b>979</b>	<b>123</b>

<sup>1</sup> Continued operations.

percent higher than the previous amorphous technology as a result of the two-layer coating – a milestone towards reaching grid parity, where the production costs of solar power equal those of conventional power production. At the end of 2008, two customers – the German company Inventux, and Auria Solar of Taiwan – are starting production of micromorph® tandem solar modules. At the same time, Oerlikon Solar has further developed the basic technology with Amorph High Performance, and in doing so increased production capacity by 50 percent and the efficiency of the modules by 16 percent. The economic success of Oerlikon Solar would not be possible without these innovative and practicable processes and the technological edge they give the company.

The same applies to Oerlikon Coating. The segment introduced P3e™, a revolutionary coating technology. P3e™ was the first technology to enable extremely hard layers to be deposited using a physical process at relatively low temperatures of up to 600 degrees Celsius, with unprecedented scope for new design options. The economic success of Oerlikon Coating in 2008 and the resilience of the segment in the current economic conditions are largely based on this new technology – primarily on record sales of the related INNOVA equipment.

Each business unit of Oerlikon group can provide similar examples: In 2007, Oerlikon Barmag presented WINGS, a totally new winding technology for the production of chemical fibers – in the meantime, more than 1 600 units have been sold, primarily in India; Oerlikon Space was awarded the contract to develop and build a new Interstage Adapter for the Atlas V 400 launcher, which connects the main and the upper stage, built by United Launch Alliance (ULA); Oerlikon Esec introduced the new Die Bonder platform 2100 xP last year and was subsequently awarded the highly regarded Swiss Technology Award 2008.

### Clean technology increases share of sales

Clean technologies are playing an increasing role in Oerlikon's innovations. Oerlikon is developing a number of these applica-

tion fields as the most pressing environmental challenges can only be solved through clean technologies. Major new markets will emerge in these areas in the future.

The percentage of Oerlikon's sales accounted for by clean technology products – i.e. products that have a direct environmental benefit – rose from 8 percent in 2007 to 18 percent in 2008. These include, in addition to production facilities for thin film silicon solar modules, transmissions for electric vehicles and wind power systems and vacuum pumps for the solar market. If the products that indirectly benefit the environment are also included – for example, those that lower energy consumption by thin film coating or energy-efficient applications – the percentage of sales accounted for by clean/efficient products would be even higher.

### Renova as a strategic investor

Renova, the Group's major investor, stands behind this investment and innovation strategy and actively supports it. In the forefront of the Annual General Meeting of Shareholders on May 8, 2008, Renova increased its investment and today holds more than 40 percent of Oerlikon shares. This far-reaching commitment, particularly in light of the current market situation, gives Oerlikon the stability it needs to pursue its long-term strategy of becoming a world leader in interface/surface technologies, nanotechnology and clean technologies.

Renova Group also represents an important link to the Eastern European market for Oerlikon. With sales in this region accounting for 2 percent, there is further potential for Oerlikon to grow. Besides expanding the existing business – this year a first coating center will be opened near Moscow – the company shows additional linking factors in new technology, particularly in nanotechnology. The Russian government has launched a state-funded program totaling up to EUR 5.6 billion to put Russian nanotechnology research and industry among the global leaders within the next few years. Oerlikon has signed a cooperation agreement with the Russian agency Rusnano and has already launched the first projects. To coordinate market

#### R&D expenses<sup>1, 2</sup> in CHF million

2008	247
2007	245
2006 <sup>3</sup>	260

<sup>1</sup> Research and development expenses (continued operations) include expenses recognized as intangible assets in the amount of CHF 31 million (2007: CHF 34 million, 2006: CHF 49 million).

<sup>2</sup> Continued operations.

<sup>3</sup> Aggregated figures for Saurer and Oerlikon for full-year.

#### Equity<sup>1</sup> in CHF million

2008	1 093
2007 <sup>2</sup>	1 858
2006	1 488

<sup>1</sup> Attributable to shareholders of the parent.

<sup>2</sup> Restated.

#### Operating cash flow<sup>1</sup> in CHF million

2008	411
2007	678
2006	372

<sup>1</sup> Before changes in net current assets.

development in Russia and Eastern Europe, Oerlikon opened its first office in Moscow in mid-2008.

In general, Oerlikon continues to demonstrate its strategy in regional expansion as one of the Group's central growth engines. The expansion of business in Asia – both as a market for Oerlikon products and as a production site – has a key role to play in this strategy.

### Outlook for 2009

At the end of 2008, the overall business environment declined even further than anticipated. The key industrial countries are currently in the midst of a full-fledged recession; the most important emerging countries that were an engine for growth in the global economy are losing momentum on a large scale. Despite its leading products and market positions, the Group cannot escape this environment.

The current economic situation is characterized by high volatility, which makes it difficult to give a reliable outlook. As a result, Oerlikon is refraining for the time being from making any forecasts with specific figures for the current business year and beyond. In the current situation, the company will limit itself to statements on current trends and will only return to its usual practice of providing specific estimates when confidence and predictability have returned to the markets.

Oerlikon does not expect the textile machinery market to recover before 2010. The possibility that it will decline further cannot be ruled out. The recently approved support measures such as those of the Chinese government have not yet had any visible effect, but are expected to support Oerlikon Textile in the medium-term. For Oerlikon Coating, Vacuum and Drive Systems, which until now have experienced solid growth, we expect markets to be flat or in decline. Even Oerlikon Solar is preparing itself for a temporary halt in growth. Oerlikon Space will continue to grow in its heavily regulated market.

Overall, Oerlikon group will face a difficult and challenging 2009.

All business units have adjusted to these scenarios and have introduced or planned respective recovery and sustaining measures. The focus in all areas is on cost and cash flow management, improving operating efficiency to sustain profitability. With extended vacation, short-time work, capacity adjustments, a hiring and salary freeze, etc., the business areas had already adjusted to the changed conditions by year-end.

However, Oerlikon group is not only undertaking responsive measures to overcome the challenges of this phase. With strong pressure, work is being done to further align the portfolio around the core competencies of surface/interface technology and to develop the markets of the future with applications in nanotechnology and clean technologies. Investments in

research and development and major product innovations thus remain at a high level. With this realignment, Oerlikon group is facing a fundamental restructuring and repositioning scheduled to last for two to three years.

With both – increases in efficiency and productivity as well as continued innovation – Oerlikon is taking steps to ensure it can master the current challenges and emerge from the crisis in a stronger position.

# Oerlikon Textile

Since late 2007, the market for textile machinery has been experiencing a downturn of unprecedented proportions. Even before this steep decline, Oerlikon Textile moved to implement an extensive restructuring program. Segment sales fell to CHF 1 690 million (–37.8 percent) with an EBIT of CHF –281 million. This includes non-curring charges of CHF 255 million (goodwill impairment and restructuring costs). The volume of new orders fell by 48.6 percent to CHF 1 364 million. An upturn in the textile machinery market is currently not expected before 2010.

## Key figures Oerlikon Textile

in CHF million	2008	2007	Δ (%)
Orders received	1 364	2 655	–48.6
Orders on hand	443	821	–46.0
Sales	1 690	2 719	–37.8
EBIT	–281	208	



**“With our Simplify Oerlikon Textile restructuring program, we have geared ourselves up rigorously for the future. When the next upswing comes, we will be ready to consolidate and further expand our market leadership in all technological areas.”**

**Dr. Carsten Voigtländer, CEO Oerlikon Textile**



## Overview

After more than two years of continuous growth and record sales in 2007, demand slumped in early 2008. A historically unprecedented downtrend emerged in the space of just a few months. The German Engineering and Machinery Association (VDMA) reported that the volume of new orders for textile machinery dropped by over 60 percent in 2008. Factors driving this trend included the accumulation of overcapacities in the chemical and staple fiber market, the high level of raw materials and energy prices, the expiry of and changes in subsidy programs in China and India and unfavorable currency exchange rates. By year-end, the sharp drop in demand had made itself felt in all areas of Oerlikon Textile, dramatically aggravated by the worldwide financial crisis. Despite all this, Oerlikon Textile succeeded in maintaining its position as market and technology leader, even expanding its standing in some areas.

Anticipating a cyclical economic downturn, management was early in initiating a thorough and comprehensive restructuring project named "Simplify Oerlikon Textile" at the end of 2007, and budgeted some CHF 20 million in restructuring costs for 2008. Then, owing to worsening developments in 2008, the program was substantially broadened and its implementation accelerated with the aim of reducing the break-even level by more than CHF 300 million and lowering fixed costs by over 20 percent by 2010 (compared to 2007 levels).

To achieve these goals, the following key actions were launched:

- Halve the number of production locations worldwide by 2010; nine sites have already been consolidated or closed since 2007.
- Focus the product portfolio on textile machines that ensure long-term profitability.
- Further optimization of business processes and stronger utilization of the synergies of the textile technologies within the segment.
- Headcount reduction in Europe by more than 1 000; these cuts have already been completed in 2008.
- Introduce targeted investments in research and development that will expand our technological leadership. 2008 saw about CHF 100 million injected into efforts to develop new products and further advance existing ones.
- Modernize production facilities.

This constitutes the most extensive restructuring program undertaken at Oerlikon Textile in the enterprise's recent history.

Oerlikon Textile does not foresee a market recovery until 2010 at the earliest. The course set by our Simplify Oerlikon Textile initiative will be consistently pursued throughout 2009. Currently a further decline in the textile machinery business cannot be ruled out. Oerlikon Textile will react to market developments in a highly flexible, thorough and consistent manner.

## Business development

2008 witnessed a sharp contraction in the international market for chemical fibers and chemical fiber plants, machinery and components. The extremely high prices of raw materials and the prevailing overcapacity were just two reasons why business volume in certain product lines declined by up to 60 percent. Virtually all technological areas saw customer orders being postponed on a daily basis, brought on by the dearth of credit being granted in the lending markets.

Yet, the business unit still proved capable of asserting itself on the market, in particular with its new concept for the chemical fiber spinning system WINGS (Winder INtegrated Godet Solution). This product, presented for the first time at the end of 2007, increases efficiency by more than 30 percent thanks to its innovative thread guidance mechanism. WINGS is an excellent example of how innovative products strengthen market positions during market downswings. More than 1 600 WINGS spinning units were sold in 2008, of which 1 400 alone went to India.

Thanks to continual product innovation with the focus on energy savings (e-save) and consistent strategy orientation towards key products, the business unit was able to further improve its margin.

## Key topics

**Greater market penetration with WINGS:** The market and application potential of the new WINGS concept first introduced at the International Exhibition of Textile Machinery (ITMA) in Munich in 2007 is far from exhausted. WINGS will continue to revolutionize worldwide chemical fiber fabrication in 2009.

**Simplify Oerlikon Barmag:** The project "Barmag Kompakt" has already succeeded in redesigning virtually all relevant business processes at company headquarters in Remscheid. The company invested in a modern and flexible winder production line, which will contribute towards lowering the break-even threshold from 2009 onwards.

## Outlook

The financial and banking crisis will presumably continue to dampen the ability of customers in the chemical fiber market to invest until 2010. One recent positive side effect, however, is that the prices of raw materials have fallen back to 2007 levels, allowing customers of Oerlikon Barmag to return to profitability.



Despite its difficult business environment, Oerlikon Neumag almost succeeded in maintaining its order volume for nonwoven plants. At mid-year, the spunbond laboratory facility at Neumuenster was expanded by adding two extra spinning beams. Orders included a major contract with the German company Concert for a new product line to be erected at a company location in Germany. This new equipment configuration enables fulfillment of virtually all development requirements for hygiene applications. Moreover, a number of innovations in the details of spunbond machine design have markedly improved performance parameters.

As for carpet yarn plants, although business figures did not quite match last year's levels, actual orders and sales clearly exceeded expected levels, a development mainly attributable to the American and European markets.

The market for polyester staple fibers, a sector characterized in the two previous fiscal years by overcapacity and consolidations in China showed the first signs of a slight recovery in 2008. Nevertheless, the continuing restraint in capital investment has had a significantly negative impact on financial performance.

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**Further extension of nonwovens specialities:** In 2008, Oerlikon Neumag successfully concluded projects at virtually all of the world's ten major producers of carded nonwovens. Thus, Oerlikon Neumag became firmly established among the "Top 3" providers of total solutions. Contrary to the falling market demand, more follow-up orders had been concluded by year-end.

**Carpet yarns achieve greater market penetration:** In 2008, Oerlikon Neumag brought to market its new generation of bulked continuous filament (BCF) machines for carpet yarn plants (SYTEC ONE). The first production plant has successfully begun operation. In 2008, the business unit sold over 100 units of this new generation of machines. Further rollout is a priority for 2009.

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In 2009, business volume for nonwoven plants is expected to remain on par with 2008. There will be a tendency towards better margins. Innovations in the carding lines introduced to the market last year will contribute to the positive development of this business unit. Demand for carpet yarn is expected to decline in 2009 to a more average level. The markets for synthetic staple fibers are expected to continue their recovery.

Oerlikon Saurer, producer of twisting and embroidery machinery, experienced a difficult business year in 2008. Further weakening of demand led to a contraction in market volume of up to 35 percent, to which the business unit reacted by swiftly implementing headcount cuts in the second half of 2008. Despite these trying conditions, Oerlikon Saurer succeeded in winning additional market share of up to 5 percent with its innovative products and attractive services.

In its twisting machinery business, the tire cord and industrial yarn product segments recorded a positive development thanks to growing demand in Asia and Eastern Europe. Demand for twisting machines for staple fiber yarns has dropped dramatically due to the financial crisis in the United States and sharp declines in the main markets of China, India and Turkey. Original parts business weakened in the final quarter of the year, in line with the general trend.

Demand in the embroidery machine business had already been very low, and dropped off even further in 2008. Thanks to strongly improved product performance, Oerlikon Saurer was able to win prestigious new key customers from its market competitors. The first embroidery machine employing a swivel-type soutache and sequins system completed successful field testing.

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**Concentrating on core business:** Oerlikon Saurer streamlined its product portfolio in 2008 with an eye on profiting from the coming market upswing by offering innovative, market-driven products and services in its core business area. For example, the company's WINPRO (long staple spinning and twisting system) technology was discontinued in 2008.

**Developing sustainable solutions:** The e-save strategy strongly pushed by Oerlikon Textile with the aim of reducing the electric power consumption of its products – or alternatively increasing productivity without increasing power demands – has met with positive feedback from the market. Customers are readily willing to invest in these new technologies and apply their processes. Oerlikon Saurer is working intensively to develop such sustainable energy-saving solutions.

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The market for twisting and embroidery machinery is not expected to experience any significant recovery in 2009. Orders will not increase until general consumer sentiment has improved, which is not envisaged before 2010. In 2009 additional restructuring measures are likely to be implemented.

## oerlikon schlafhorst

### Business development

In 2008, the staple fiber yarn market was hit by an unprecedented downswing that clearly exceeded all cyclical downturns to date in speed and scope. Demand worldwide plummeted by more than 50 percent depending on the given technology. Initially, Oerlikon Schlafhorst was able to cushion the downturn somewhat compared to the general market trend through its three technology fields of rotor spinning, ring spinning and winding machines. The package winding business recorded solid orders well into the year, however, with a decline towards year-end. The demand for rotorspinning machines was on a low level. Ringspinning machines were under high price pressure.

Facing this advancing downswing, Oerlikon Schlafhorst set about implementing an extensive restructuring campaign on fast-track. Substantial adjustments to production capacity and headcount were already undertaken in the first half-year, particularly in Germany. All told, the company laid off 400 employees. In the second half of the year, the business unit announced it would be consolidating its three production sites in Germany. This will lead to further job cuts in 2009, reducing the workforce by more than 15 percent. Once implemented, the effects of this restructuring will start to kick in the latest in 2010, helping to lower the break-even threshold by 20 percent (compared to 2007).

### Key topics

**Expanding the company's Asian locations:** Preparation of the new production site in the Indian city of Halol was completed in 2008, so that production can begin in 2009. Measures were likewise initiated in 2008 to transfer the production of manual and semi-automatic rotor spinning machines from the Czech Republic to Suzhou, China, where this product line will be delivered starting in 2009.

**Further strengthening our market position:** With its new AUTOCONER 5 and AUTOCONER 5S winding machines, as well as the ZINSER 360 ring spinning machine, Oerlikon Schlafhorst will win further share of the high-end and mid-range markets as well as in niche applications for dye packages.

### Outlook

Oerlikon Schlafhorst anticipates a further decline in sales in 2009. The implemented restructuring measures will lead to fewer company locations with greater centralization of processes and considerably lower costs. It will also be vital to win additional market share in all technology areas, particularly in the mid-range segment of ring spinning machines. Furthermore, additional efforts will be made to lower the break-even threshold by reducing the manufacturing costs of all products.

## oerlikon textile components

At Oerlikon Textile Components the sharp decline in the machinery business, particularly in the second half of the year, in all technological areas of chemical fiber, staple fiber yarn and nonwoven fabric production, led to a severe market downswing towards the end of the year.

Nevertheless, the measures initiated by the Simplify project in 2008 helped the business unit to achieve a positive financial result. This was accomplished primarily by cutting the number of sales agents, consolidating sales units and reducing the number of production sites.

A significant event in 2008 was the fire at the Singapore production facility. Thanks to excellent cooperation from all employees and sites, the business unit was able to make up for the resulting production losses within only a few weeks of the incident.

**Achieving even greater flexibility:** The business unit is optimizing its business processes to react faster and more effectively to future market fluctuations. Central processes simultaneously ensure maximum utilization of synergies within Oerlikon Textile Components, e.g. between production, purchasing, controlling and product management.

**Modernizing production processes:** The business unit will improve cost-effectiveness even further by modernizing its production sites, such as the facility in Muenster, Germany. Re-definition of the production processes applied by the Accotex and Daytex product lines harbors great potential for improving product quality while simultaneously optimizing production sequences.

By decommissioning numerous machines and plants, customers can fall back on an adequate supply of most spare parts from their own machines. In 2009, the business unit expects new investments in premium components from Oerlikon Textile Components to be lower than in 2008.



### A top player in India

As one of the leading producers of air textured yarn (ATY) and draw textured yarn (DTY), Wellknown Polyester received the first pre-oriented yarn (POY) production plant equipped with 12 new WINGS machine units from Oerlikon Barmag. The Indian manufacturer offers a uniquely broad range of specialty yarns, and focuses on innovation and top quality. The company's machinery is equipped with the latest technology.

Of this machinery, virtually all of its equipment for POY and fully drawn yarn (FDY) production was supplied by Oerlikon Barmag, as was a poly-condensation plant currently being erected. Wellknown Polyester has also declared its trust and confidence in the ability of Oerlikon Barmag as a longstanding business partner to support Wellknown's pursuit of ambitious growth plans. As Anil Gupta, Managing Director of Wellknown Polyesters, says: "In the coming years, we want to become one of India's three top players in our market segment. To achieve this goal, we need pioneering machine concepts like WINGS."

### Trendsetter WINGS saves space and time

The acronym WINGS stands for Wind-ing INtegrated Godet Solution. As a complete winding machine for fabricating POY yarns, this innovative solution integrates the godets and winding unit into one system for the first time. Its user-friendly design, ingenious thread guidance system and simplified setup procedures not only save space and time, but also permit faster production of extremely uniform quality yarn. "The machine is truly a trendsetter and makes our POY production even more efficient", emphasizes Anil Gupta. Thanks to the high POY quality, the DTY texturizing process that follows downstream of the POY spinning process can run at higher process speeds. At the same time there are fewer process interruptions. "We thus have a trump card in a challenging market where margins pose ever greater challenges," says Mr. Gupta.

**"Our vision lives through innovation, quality and differentiation. To this end, we need international partners like Oerlikon Barmag."**

Anil Gupta, Managing Director of Wellknown Polyesters Limited, India



# Oerlikon Coating

To further increase transparency, starting in 2008 Oerlikon Balzers is the only business unit reporting in the segment Oerlikon Coating. Oerlikon Systems, which was part of Oerlikon Coating, is now reported in the Oerlikon Advanced Technologies segment (formerly Oerlikon Components).

Oerlikon Coating reports excellent results for 2008. The business unit Balzers surpassed the CHF 500 million threshold for the first time. Sales grew by 2.4 percent to CHF 509 million. Before restructuring costs and impairment of tangible assets of CHF 6 million EBIT grew to CHF 84 million, marking the best result ever achieved by Oerlikon Balzers. The profit margin slightly decreased before restructuring costs and impairment of tangible assets to 16.5 percent in 2008, compared to 16.7 percent in 2007.

## Key figures Oerlikon Coating

in CHF million	2008	2007 <sup>1</sup>	Δ (%)
Orders received	509	497	2.4
Orders on hand	–	–	–
Sales	509	497	2.4
EBIT	78	83	–6.0

<sup>1</sup> Pro forma.



**“Our ability to continuously set new industrial standards in advanced surface technology is a key driver for our sustainable and profitable growth.”**

**Dr. Hans Brändle, CEO Oerlikon Coating**



## Business development

For the first time Oerlikon Balzers surpassed the CHF 500 million mark in sales – a milestone in its 30 years history of sustainable growth. Overall, the business grew in 2008 by 2 percent at current exchange rates and by 8 percent in local currencies. 2008 was characterized by a strong upswing of 12 percent for the first six months compared to the same period in 2007, a reduced growth rate of 6 percent in the third quarter, followed by a distinct slowdown of –16 percent in the fourth quarter due to the automotive crisis. Without exchange rate impact the growth was 19 percent in the first half-year, 10 percent in the third quarter and –12 percent in the fourth quarter. Both coating services, representing about 90 percent of the Oerlikon Balzers sales, and coating equipment sales to the tooling industry, contributed to the growth in 2008 at stable exchange rates.

A driver for profitability was an operational excellence program: a newly developed business warehouse allowing increased transparency and consistent benchmarking of almost 90 coating centers. One major result was improved asset utilization achieved by moving a substantial number of coating equipment units to other sites. Due to this operational excellence program the gross profit margin of the top 50 centers improved by more than 3 percentage points in the last two years. The impact was

even larger on the next 25 coating centers, which improved by about 9 percentage points in the same time period.

The integration of former VST Keller into Oerlikon Balzers was successfully completed. From the beginning, the leader in plasma treatments for large dies achieved a comparably high profitability level, as did the rest of Oerlikon Balzers. The expansion of the global footprint was continued. With the acquisition of Suomen Plasmapiinta Oy (SPP) Oerlikon Balzers stepped into Finland with one coating center. Five other new centers were opened in the fast growing Asian market.

2008 was a record year for coating equipment sales to the tooling industry. In particular, the INNOVA coating system, based on the innovative P3e™ technology, was a frontrunner.

Due to the looming slowdown in the second half of 2008, management decided to reduce the number of temporary staff. In the fourth quarter a further headcount reduction was initiated. The guideline for all of these actions was maintaining profitability at a high level while keeping the necessary resources for the next upswing. The restructuring cost and the impairment of tangible assets for 2008 amounted to CHF 6 million.

## Key topics

**Expansion:** The expansion of Oerlikon Balzers in Asia is a strategic focus and continues at a fast pace. In 2008, three additional coating centers took up production in China, one more followed at the beginning of 2009. In total, Oerlikon Balzers now operates seven coating centers in China, which grew in 2008 well in excess of 30 percent. With the joint venture PT Oerlikon Balzers Artoda Indonesia in Jakarta, Indonesia, Oerlikon Balzers is the first mover into this emerging market. With additional coating centers opened in 2008 and at the beginning of 2009 in Asia, Oerlikon Balzers now operates four coating centers in Korea, five in Japan and India, respectively. On the other hand, the change in demand required the consolidation of two coating centers in the northern part of the US and one in Brazil. At the beginning of March 2009 Oerlikon Balzers was operating a total of 87 coating centers in 31 countries.

**Innovation:** High power pulse technology becomes the basis for pushing the envelope in technology more and more. Oerlikon Balzers sets new industrial standards with PPD™ and P3e™. Pulsed Plasma Diffusion (PPD™) will replace the traditional hard chrome plating for medium and large punching and forming tools. With this new solution by-products such as hexavalent chromium, which is harmful to health and the environment, will be eliminated.

The Pulse Enhanced Electron Emission (P3e™) technology is a breakthrough within the thin film processes. Installed on the latest coating equipment INNOVA, P3e™ enables the deposition of advanced oxide-based coatings and therefore offers a completely new range of possibilities in the design and performance of cutting tools. All global leaders in tool manufacturing have opted for this innovative coating system.

## Outlook

In light of an expected two-digit drop in sales, managing profitability by executing appropriate contingency plans will be a top priority for 2009.

Additionally, innovation, business excellence and the expansion into untapped geographical markets will continue. A first coating center will be established in Elektrostal, Russia, in mid-2009 to supply the steadily increasing demand for advanced coatings in Russia. Including Russia, Oerlikon Balzers will be present in 32 countries.

Shaping the organization for continued substantial growth is the second priority for 2009. This will put Oerlikon Balzers in a position to profit overproportionally from the next upswing and will be a prerequisite for continued profitable and sustainable growth above market average.



**KIA MOTORS**  
The Power to Surprise™

### 25 percent higher productivity

The plant of the Korean automotive manufacturer, Hyundai/Kia, located in the Slovakian city of Zilina, is a record breaker in every respect. The best example: it only takes 18 hours to manufacture a vehicle – from forming the metal all the way to the test drive. Some car manufacturers need more than twice as long. When In-Kyu Bae, President and CEO of Kia Motors Slovakia, presented production figures like these to his management colleagues in Korea they were excited. The Eastern European plant is currently the benchmark within the Group.

One key factor in its outstanding performance is called “Pulsed Plasma Diffusion” (PPD™). Oerlikon Balzers applied this technology to treat the forming tools for Kia Motors Slovakia, thereby replacing conventional hard chromium plating. According to Kia Motors Slovakia President Bae, the surface treatment solution from Oerlikon Balzers has four major advantages: first, PPD™ is completely environmentally friendly – unlike toxic hard chromium plating, it is a “clean technology” par excellence. Second, PPD™ treatments for the tools of Kia Motors Slovakia last a complete car model life. Tools with hard chrome plating have to be recoated every six months. Third, the PPD™ technology eliminates the problem of tiny particles embedded in hard chrome coatings, leading to surface defects on the produced parts. “In the past we had spent a lot of time maintaining the forming tools”, says Mr. Bae. With PPD™ treated tools the high maintenance costs are avoided. And fourth, the most important reason of all: “We manufactured 400 parts per hour using hard-chrome-plated forming tools – with PPD™ treated tools, it is 500.” Productivity is 25 percent higher. “Thanks to the high quality of the surface treatment used for our forming tools, we are able to produce the best quality vehicles”, says Mr. Bae.

These reasons make it easy for Kia Motors Slovakia President Bae to present a convincing case. PPD™ will be introduced throughout the entire Hyundai/Kia Group over the coming months. “PPD™ from Oerlikon Balzers is now,” according to Mr. Bae, “our new global standard.”

**“We make the technology of Oerlikon Balzers the standard in the Kia Motors Group.”**

In-Kyu Bae, President and CEO of Kia Motors Slovakia, Slovakia



# Oerlikon Solar

In 2008, the new Solar segment demonstrated the ability to leverage its technological competencies to achieve strong, profitable growth. However, new solar projects in the second half of 2008 were postponed as a result of the global financial crisis. These delays led to lower sales than targeted and a reduction in orders received. Orders received amounted to CHF 566 million (–12.9 percent), sales increased by 124.8 percent to CHF 598 million. Including intercompany sales the segment's turnover amounted to CHF 628 million. EBIT reached CHF 107 million (+69.8 percent).

## Key figures Oerlikon Solar

in CHF million	2008	2007 <sup>1</sup>	Δ (%)
Orders received	566	650	–12.9
Orders on hand	429	460	–6.7
Sales	598	266	124.8
EBIT	107	63	69.8

<sup>1</sup>Pro forma.





**"Today, Oerlikon Solar is the established market leader providing the fastest time to market for manufacturers of thin film silicon PV modules."**

**Jeannine Sargent, CEO Oerlikon Solar**



## Business development

In 2008, Oerlikon Solar clearly demonstrated the competitiveness of its equipment and end-to-end solutions. Five new customers were contracted in the course of the year under review: Tianwei and Chint (China), HelioSpera (Greece), PRAMAC (Switzerland) and Gadir Solar (Spain).

All projects were delivered on schedule and all performance and output guarantees were met. Record time-to-revenue (less than nine months from contract signing to volume production) and the stability of its mass manufacturing solutions set new standards in the industry. The company actually overperformed in the first half-year, but the financial crisis impacted orders received in the second half. Due to a requested shipment delay of a follow-up order by an Asian customer at the end of 2008, the annual sales target of CHF 700 million was not achieved. The customer expects this project to be realized in 2009.

In 2008, Oerlikon Solar implemented a comprehensive growth strategy. Manufacturing capacity was significantly expanded both by internal site expansion and by a strategic manufacturing outsourcing partnership with the global EMS company Flextronics. Doubling the capacity of Oerlikon Solar's R&D center in Neuchâtel, Switzerland is also underway. In August, a pilot line was officially opened in Truebbach and the company announced with CMC Sunwell, Taiwan, its first Asian customer entering mass production. In November, Oerlikon Solar

launched Amorph High Performance, which enables a 50 percent increase in capacity, 16 percent increase in panel power output and a stabilized efficiency of 7 percent. This product now serves as a low-cost entry point for mass producers that can be subsequently upgraded to micromorph®.

In late 2008, TÜV Rhineland announced that Oerlikon Solar had passed all tests required for the IEC certification of its Amorph and Amorph High Performance thin film silicon panels, having satisfied all panel performance and panel safety criteria. Issued as a master certificate, this allows Oerlikon Solar to offer all end-to-end production line customers reduced time-to-market with guaranteed performance and lifetime.

In December, the first micromorph® production started at Inventux, Germany and Auria Solar, Taiwan. Additional customers are ramping up in the first half of 2009.

In 2008, more than 700 000 panels were manufactured using Oerlikon Solar's thin film silicon solutions while a growing number of new customer sites were in the ramp-up process. In early 2009, Oerlikon Solar took a major step to strengthen its market presence in parts of Asia and Oceania by establishing a long term cooperation agreement with Tokyo Electron (TEL) of Japan.

## Key topics

**Road map to grid parity:** Oerlikon Solar has made solid progress on an ambitious road map to grid parity. Amorph High Performance has already shown the company's ability to effectively drive down the panel cost. At the same time a new zinc oxide TCO technology was proven in mass production resulting in new records for panel efficiencies. In general, grid parity should be achieved by the end of 2010 with costs down to USD 0.70/Wp.

**Further market penetration:** As the global market expands and photovoltaics (PV) increasingly gain acceptance, we are witnessing a clear shift in regional focus from Europe to Asia and North America. Asia, in particular China and Taiwan, is developing rapidly, with the US expected to follow by 2010. Renewable energy initiatives in both China and the US are ex-

pected to spur on the market in the medium- to long-term, with slower growth expected in 2009 due to the global economic situation. Oerlikon Solar is aligning its sales and customer support organization to these market shifts.

**Record cell efficiencies:** Oerlikon Solar's extensive R&D led to further edge product improvements. In autumn 2008, Oerlikon Solar presented internationally recognized record cell efficiencies on amorphous silicon. These breakthroughs are already in the process of transformation to mass production. Additional advances in both amorphous and micromorph silicon are planned in 2009.

## Outlook

In 2009, the global economic crunch will cause overall demand in the PV market and the thin film sector to remain flat or slightly down compared to 2008. As a result, Oerlikon Solar's orders received is expected to be on the same level as 2008. Since the fundamentals underpinning the long-term growth prospects have not changed, the company expects a return to double-digit market growth by early 2010. Oerlikon Solar will use the interim period to accelerate investment in R&D, improve solution performance and align the organization to regional market shifts. Marketing and sales efforts will be intensified

and focused to secure leading market share in Oerlikon Solar's market sector. At the same time, non-essential capital programs and growth plans will be suspended or delayed. Over all, we are convinced that we will come out ahead of the current market situation as we are strengthening and expanding our position.



### More than 1 000 panels per day

To see one of Europe's largest production facilities for thin film silicon solar panels, you have to visit the city of Erfurt. ersol Thin Film, a subsidiary of the Bosch Group, operates a 40-megawatt-capacity production line there. ersol and Oerlikon Solar began the production ramp-up about a year ago and the plant is now operating at full speed. Approximately 1 000 panels leave the factory every day and more than 250 000 panels have been manufactured since production started. This is the second thin film silicon plant in the world that manufactures panels using Oerlikon Solar equipment. "The fact that we were able to ramp-up production so quickly and today are producing at such a high level of efficiency and stability is a great achievement by ersol and Oerlikon Solar" says Peter Schneidewind, Executive Board member of ersol Solar Energy AG responsible for the thin film business.

ersol uses Oerlikon Solar's KAI coating systems and laser scribing technology. An amorphous silicon coating is applied to the panes of glass. The panels attain a stabilised output of more than 80 watts per panel. The Nova®-T panels from ersol have been technically certified by TÜV Rheinland since July 2008.

Effective Oerlikon Solar systems have helped ersol to successfully enter the market for thin film technology. And this is just the beginning. "We want to be one of the world's leading providers of thin film solar panels," says Schneidewind. ersol aims to expand its capacity in the years ahead. The plans for constructing another factory are already in the pipeline. And the decision has already been made to start developing micromorph®-technology with a 50 percent higher efficiency rate.

**"The quick ramp-up of our production was a joint achievement by ersol and Oerlikon Solar."**

Peter Schneidewind, Executive Board member ersol Solar Energy AG, Germany



# Oerlikon Vacuum

Due to an excellent performance in the first nine months of 2008, Oerlikon Vacuum recorded solid results for the full year. The segment achieved an increase of 1.5 percent in sales to CHF 465 million, with orders received of CHF 460 million (-3.6 percent) with an EBIT of CHF 49 million (-10.9 percent). Oerlikon Vacuum expects a declining market in 2009.

## Key figures Oerlikon Vacuum

in CHF million	2008	2007	Δ (%)
Orders received	460	477	-3.6
Orders on hand	68	78	-12.8
Sales	465	458	1.5
EBIT	49	55	-10.9



**“We have a solid market and product portfolio and offer innovative vacuum solutions for almost all technologies. However, we constantly strive to exceed our performance in order to meet our customer demands on cost of ownership. We will react faster and align our organization to adjust to the economic challenges.”**

**Dr. Andreas Widl, CEO Oerlikon Vacuum**



## Business development

Oerlikon Leybold Vacuum showed a high resistance against the upcoming global recession. In 2008, sales rose by 1.5 percent to CHF 465 million, orders received decreased by 3.6 percent to CHF 460 million. Changes in currency exchange rates with adverse effects, especially Euro versus US-Dollar and Yen, lead to a negative EBIT effect of 4 percent (CHF –18 million) compared to 2007. The EBIT reached CHF 49 million (–10.9 percent).

Process industries recorded solid development in all regions, triggered by high capital investments in many industrial sectors around the world. The same was true for many coating and display vacuum technologies, as well as for R&D. Growth in analytics showed a certain weakness, which was also influenced by reduced public spending worldwide and highly price-aggressive competition. The figures for energy applications such as solar, wind or even conventional energy sources showed double-digit growth. Once more, structural measures aimed at value engineering, streamlining processes and rigorous cost control substantially contributed to limiting the impact on earnings.

From a regional point of view, Asia, and in particular China, continued to be a strong growth driver, but Europe also enjoyed three excellent quarters – especially Germany with its

strong machinery, coating and solar industries. Since October, however, nearly all applications for vacuum technology have given way to a recession scenario, with only the renewable energy fields continuing to show some development.

**Solutions:** The Solutions business of Oerlikon Leybold Vacuum has seen a year of extraordinary growth. Apart from successes in the coating applications area such as architectural glass, the emerging demand for solar equipment for various manufacturing methods contributed to this success. With a view to remaining close to customers around the world, a strategy for providing the requisite know-how was implemented in Asia and the US and is already producing positive results.

**Services:** Oerlikon Leybold Vacuum initiated a solar service concept to provide more efficient vacuum services around photovoltaics. In 2008, further investments were made to strengthen the maintenance network, for example in India. New services like a calibration service for the pharmaceutical industry completed the portfolio.

## Key topics

**Product rollout:** 2008 saw the market launch of TRIVAC NT, TURBOVAC SL and the ATEX certified fore vacuum pumps. Introduction of these new pump lines for fore and high vacuum offers new sales opportunities for 2009. Additional new products to complement the portfolio will be launched in 2009.

**Global production footprint:** Production capacities were increased worldwide to meet market demand, in particular for fore vacuum products such as ROOTS and SOGEVAC for the Asian market. Driven by the growth in the solar and process industries, there was also an associated rise in demand for SOGEVAC and SCREWLINE pump lines. Aligning manufacturing capacities to make the best possible use of the global footprint in the declining market will be one of the major tasks in 2009.

**Sales push:** Oerlikon Leybold Vacuum has entered into a cooperation agreement with a customer offering facility management for large customers (e.g. CERN), including individual full range vacuum technology service packages. Local telesales teams and new sales support structures have been set up for the diffuse markets to further enhance the ability to react and respond to customer and market demands.

**Customer training:** The LEYBOLD ACADEMY will gain further importance in 2009. Training customers and staff is an essential factor for increasing the benefit of technologically superior components and solutions for customers.

## Outlook

For 2009, Oerlikon Leybold Vacuum anticipates a global recession and expects the size of the global market to shrink accordingly. Most investment activities throughout the world have already slowed down. The vacuum market is expected to follow this development, with only the Asian markets showing a low growth rate. Prognoses will remain difficult, as economic development may widely dissipate in the various market segments and global regions.

Due to a stable market portfolio and new product lines with enhanced customer benefits, Oerlikon Leybold Vacuum is well positioned to master the challenges on the economic horizon and intends to achieve its goals for above-market performance in 2009.



### World record with factor 40 000

Oerlikon Leybold Vacuum engineers demonstrated their exceptional engineering expertise at the Institute for Energy and Environmental Technology (IUTA) in Duisburg, Germany. With its new synthetic reactor, IUTA has teamed up with the University of Duisburg-Essen to achieve the next step in the large-scale commercialization of nanotechnology. The reactor includes a vacuum system from Oerlikon Leybold Vacuum that sets a world record in terms of the ratio of pressure to gas flow, using sophisticated measurement and control technology. The characteristic field of the suction capacity control ranges from the lowest pressure (10 mbar) with the largest gas flow (200 nl per minute) to the highest pressure (1 000 mbar) with the smallest gas flow (0.5 nl/min). The dynamic factor is therefore 40 000.

This range is necessary because the pressure and gas flow parameters determine the size of the nanoparticles. "Research reactors only provide a few grams of material. Large reactors, on the other hand, cannot be adjusted for further experiments," says Dr. Hartmut Wiggers from the Institute for Combustion and Gas Dynamics at the University of Duisburg-Essen. The new reactor at IUTA fills this gap and can be used to produce the highly prized nanoparticles by the kilo, with great flexibility.

Off-the-shelf vacuum systems cannot fulfill the special standards that the inside of the synthetic reactor is required to meet. "An enormous amount of engineering expertise was needed to guarantee extreme flexibility in the process design and optimization," said Dr. Stefan Heap, Managing Director of IUTA. Following an intensive selection process, Oerlikon Leybold Vacuum was the only supplier left in the running. "Only Oerlikon Leybold was able to show us a convincing turn-key system that included the measurement and control technology," recalls Heap. The secret: four different mechanisms connected in series ensure that conditions on the inside of the reactor are always right. Thus Oerlikon Leybold Vacuum ranks among the companies who are paving the way for the next generation of nanoparticles.

**"Oerlikon Leybold Vacuum totally convinced us with its engineering expertise."**

Dr. Hartmut Wiggers, University of Duisburg-Essen, Germany  
 Dr.-Ing. Sophie Marie Schnurre, Institute for Energy and Environmental Technology Duisburg, Germany



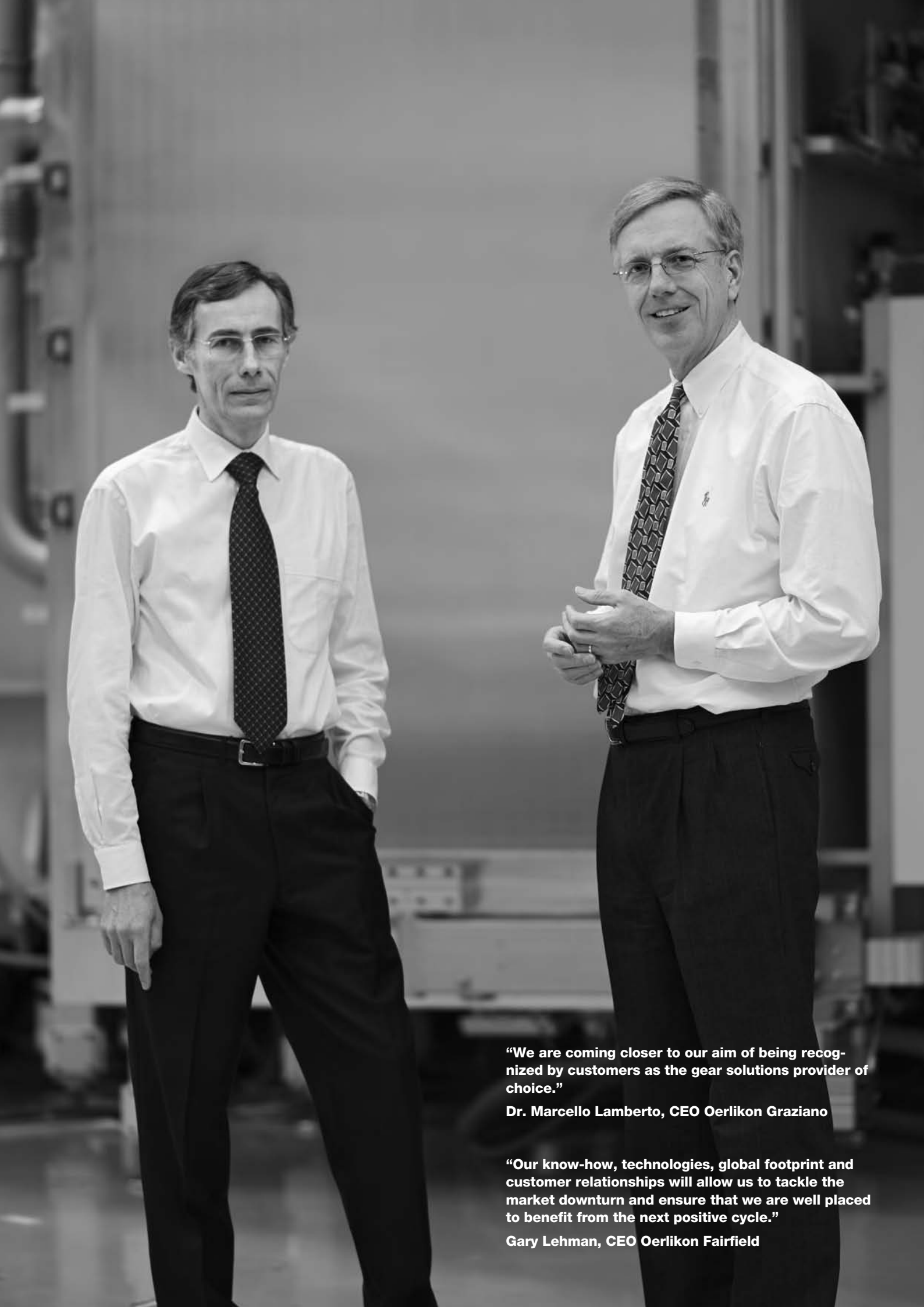
# Oerlikon Drive Systems

The consistently solid financial performance of Oerlikon Drive Systems reflects a long-standing relationship with key customers and its ability to continually identify new market opportunities. Despite a challenging global economic environment, sales increased by 8.2 percent in 2008 to a record CHF 1 204 million. Both business units – Oerlikon Fairfield and Oerlikon Graziano – contributed in equal measure to the results.

## Key figures Oerlikon Drive Systems

in CHF million	2008	2007	Δ (%)
Orders received	1 171	1 185	-1.2
Orders on hand	183	231	-20.8
Sales	1 204	1 113	8.2
EBIT	65	83	-21.7





**“We are coming closer to our aim of being recognized by customers as the gear solutions provider of choice.”**

**Dr. Marcello Lamberto, CEO Oerlikon Graziano**

**“Our know-how, technologies, global footprint and customer relationships will allow us to tackle the market downturn and ensure that we are well placed to benefit from the next positive cycle.”**

**Gary Lehman, CEO Oerlikon Fairfield**



## Business development

2008 can best be described as a “downshift” for Oerlikon Drive Systems. While the first half of 2008 was marked by growth in many market segments at a faster rate than expected, the second half of 2008 saw a slowdown in general industrial markets, particularly in the construction machinery sector. Despite the challenging global economic environment, Oerlikon Drive Systems posted a sales increase of 8.2 percent in the year under review, generating record sales of CHF 1 204 million for the segment.

Oerlikon Graziano experienced some slowdown in the specialty automotive segment and at the close of 2008 a softening of its agricultural machinery business. Profitability was negatively impacted by higher raw material and energy costs. Furthermore, inefficiencies based on the unexpected boost in order volumes and negative currency effects strained the result in the first half-year. Oerlikon Graziano’s efforts to develop a third product line targeted at both hybrid and electric drive line systems progressed well in 2008. Following the production start of the Norwegian manufacturer THINK, two additional OEM customers ordered prototypes for a new generation of transfer case products designed by Oerlikon Graziano.

While Oerlikon Fairfield experienced severe softening in the construction and aerial platform business sectors, other markets also showed slight downturns in order activity by the close of 2008. The agricultural machinery sector in North America remained active, albeit at a slower pace than the first half-year. The energy market remained very active, with Oerlikon Fairfield winning additional orders in the offshore oil and wind markets, both for shipment in 2009. The global rail market was extremely active throughout 2008, as was large electric wheeled haul truck production.

Oerlikon Fairfield developed additional products for the energy market with new drive developments for larger jacking leg drives for offshore rig platforms, and a new drive for tubing injectors used in land-based oil exploration. Both of these programs are expected to go into full production in 2009.

## Key topics

**Margin strengthening:** The business units Oerlikon Graziano and Fairfield are working on a stronger integration with the aim to raise efficiency and productivity and at the same time lowers working capital. Thus, a production of different components from Italy (Graziano) have been transferred to US (Fairfield), to supply a customer in North America in order to reduce logistic costs and generate tax savings.

**Combined purchasing:** Another contributor to further cost reduction is to leverage its combined purchasing power for raw materials through its global supply chain network and the ongoing shift to low-cost country sources.

**Innovation:** Aggressive new product development programs will open up new business opportunities in the economic slowdown, specifically through new developments in hybrid and electric drives, innovative CVT transmission technology, as well as high-efficiency gears and gear products for the wind power and agricultural industries.

**Global network:** The production footprint and sales network of Oerlikon Drive Systems have generated business opportunities in North America, India and China, bringing additional business for 2009 in the agricultural, construction, utility and other off-highway sectors.

## Outlook

For 2009, sales are expected to decline significantly, particularly in the first half. The impact of lower sales on the profit margin will be reduced by the ongoing rationalization of production facilities and their realignment to market demand, as well as the globalization of the segment’s footprint. Further localization of products and facilities in China and India will help to sustain margin and add new customers and applications to the portfolio.

The softening in the premium car market experienced by Oerlikon Graziano is expected to be only partially offset by other platforms. The agricultural and rail segments of the off-highway market are expected to remain flat. The energy market is expected to remain buoyant through 2009. Oerlikon Drive Systems has a number of initiatives planned and some are already in place to capitalize on these opportunities in other geographic regions.



# THINK

## A great future with zero emissions

If you didn't know there was an electric motor under the bonnet, you would think this was just another normal mid-size car. That is not a surprise. The THINK is currently the only vehicle in its class that was designed and developed from the outset to be a mass-produced, battery-driven electric car. With a vehicle body that withstands industry crash tests, a radius per charge cycle of up to 180 kilometers, a maximum speed of more than 110 km/h and a special transmission from Oerlikon Graziano, the electric car has come of age.

Alongside the battery, the electric motor and the safety frame, the transmission plays a key role. The power transmission system must waste no energy and run as quietly as possible. This component is a completely new development. "We opted for Oerlikon Graziano because of its superior technical expertise as a development partner and system supplier," said Richard Canny, CEO of THINK.

Despite its modest beginnings, the future of the electric car is bright. If electricity can be produced without CO<sub>2</sub> – as is the case in Norway or Switzerland – the emissions that would impact climate change would be zero. An electric motor offers much more efficient net energy consumption and is much quieter. And, at the cost of EUR 2 per recharging, the operating costs are virtually negligible.

The long-term opportunities for this forward-looking market are also promising. "We will expand production to more than 10 000 units by 2010," says CEO Richard Canny. These efforts will be supported by Kleiner Perkins and Rockport, two clean technology investors from California – another clear sign that the industrialization of this new, clean class of vehicle is in full swing.

**"It was Oerlikon Graziano's competence as a development partner and systems supplier that really won us over."**

Richard Canny, CEO THINK Global AS, Norway



# Oerlikon Advanced Technologies

The segment Oerlikon Components was renamed Oerlikon Advanced Technologies in the course of streamlining the portfolio. This segment contains Oerlikon Space and Oerlikon Systems as active business units and Oerlikon Esec and Oerlikon Optics as discontinued operations.

In 2008, sales of Oerlikon Advanced Technologies were at CHF 284 million (–18.4 percent), orders received reached CHF 250 million (–27.1 percent) and EBIT amounted to CHF –66 million (2007: CHF 5 million) due to one time charges related to the reorientation of Oerlikon Systems.

## Key figures Oerlikon Advanced Technologies<sup>1</sup>

in CHF million	2008	2007 <sup>2</sup>	Δ (%)
Orders received	250	343	–27.1
Orders on hand	194	230	–15.7
Sales	284	348	–18.4
EBIT	–66	5	

<sup>1</sup> 2008 continued operations, 2007 continued operations, restated.

<sup>2</sup> Pro forma.

## Business development

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Oerlikon Space significantly increased sales and earnings in 2008. The business unit, which is the largest aerospace company in Switzerland, benefited from continued strong demand for commercial rocket launches. Oerlikon Space supplies the world leader Arianespace with payload fairings for the Ariane 5 and Vega launch vehicles. In fall 2008, Oerlikon Space concluded a framework agreement with Arianespace for the supply of another 35 payload fairings, thus securing its market position in this segment until the middle of the next decade.

Oerlikon Space also strengthened its position in the institutional European aerospace market. The first successful flight of the unmanned European ATV (Automated Transfer Vehicle) space transporter paved the way for at least four other ATV missions with a significant contribution from Oerlikon. In 2008, Oerlikon Space also successfully acquired a series of new contracts for satellite structures and mechanisms, including for the ExoMars and BepiColombo (Mercury) planet missions as well as for the European environment and security program known as GMES. In addition, Oerlikon Space strengthened its partnership with Carl Zeiss SMT. Oerlikon supplies Zeiss with mechanisms for lithography systems used in microchip production. Carl Zeiss SMT named Oerlikon Space its best supplier with the 2007 Supplier Award.

## Key topics

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**Market share gains outside Europe:** The commercial aerospace markets outside of Europe offer opportunities for organic growth. Commissioned by United Launch Alliance (ULA), the leading US manufacturer of rocket launch systems, Oerlikon Space is currently developing a new interstage adapter for the Atlas V 400 rockets.

**Commercialization of laser communication:** Over the last few years, Oerlikon Space has undertaken enormous efforts to develop laser communication to the point where it is ready for use in space. The first terminals are scheduled to be launched into space in 2009. More opportunities to develop this technology within the framework of institutional programs are offered by the future Sentinel environment satellites of the ESA as well as the European Data Relay Satellite System (EDRS).

## Outlook

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The global aerospace market is expected to continue to grow in the coming years. Driving this growth will be, in part, the persistent high demand for communications satellites, the development of new applications for navigation and earth observation and ambitious programs for space research and exploration. All of these factors will create opportunities for Oerlikon Space to grow both in the institutional European market as well as in commercial markets inside and outside Western Europe.

Oerlikon Systems offers production equipment with PVD, PECVD and etch processes for the semiconductor industry, as well as metallizers for the optical media storage industry (Blu-ray).

In 2008, the contraction of the semiconductor market was far more severe than anticipated. Sales declined due to the market down-turn in the range of 30 percent. In the year under review, both the Blu-ray optical disc line business and the hard disk activities (magnetic media equipment) were divested. The same was true for the wafer etch business in St. Petersburg, Florida (US) with closing in January 2009. The Business Unit result was, therefore, impacted by asset adjustments from portfolio changes (CHF 21 million) and an overall goodwill impairment of CHF 52 million.

The emerging business unit strategy focuses on advanced nanotechnology, semiconductors and optical disc metallizers. Nanotechnology is considered a key enabling manufacturing technology that will make products lighter, stronger, cleaner, less expensive and more precise. Realignment our semiconductor and data storage know-how will help us to better generate a pipeline of innovative, cost-saving nanotechnology solutions. Our superior thin film processes are now also being adapted to clean technologies that enhance energy conversion and efficiency management.

**Nanotechnology:** In 2008, an innovative PVD thin film deposition tool was developed with optimized throughput and versatile processing capabilities for the crystalline solar cell/energy storage markets. This tool will be launched in the course of 2009.

**Leveraging thin film know-how:** Oerlikon Systems has maintained and even gained strength in core market segments (advanced packaging, solid state lighting and microsystems) by consistently delivering effective thin film applications.

Oerlikon Systems expects to see further contraction in the semiconductor market in 2009. Trends in our core markets promise less volatility and an earlier return on investments than in the general semiconductor markets. As a recognized "innovation hub" for thin film applications across all markets, Oerlikon Systems will draw on its considerable technology know-how to emerge stronger from the current downward cycle. The recent realignment has set the business unit free to focus on emerging nanotechnologies and clean-tech applications.

## oerlikon esec

In 2008, the semiconductor industry was severely affected by the developments of the global economy. The worldwide financial crisis had a significant impact on capital spending. As a consequence, activity in the semiconductor assembly & packaging equipment market in 2008 dropped to its lowest level in the last five years, leading to an overall market decline of more than 25 percent compared to 2007.

Oerlikon Esec experienced a sharp downturn in business in the second half of 2008 following the anticipated slowdown in the first half-year. The decline in demand has spread to geographical regions such as South Korea and Taiwan, which showed active demand throughout the first half of 2008.

On the positive side, Oerlikon Esec strengthened its position in the die bonder market despite a difficult market environment by successfully launching its new Die Bonder 2100 xP in May 2008. An innovative concept was developed for the new die attach platform, Die Bonder 2100 xP, to overcome the typical conflict between speed (productivity) and accuracy (process capability). The new pick & place was hailed as a pioneering innovation in robotics and in November 2008 was presented with the Swiss Technology Award. Even in a challenging market environment Oerlikon Esec was able to succeed in the wire bonder segment. Oerlikon Esec also started to penetrate new markets and segments such as automotive and medical.

Consistent with Oerlikon's strategy of focussing its portfolio, a decision was made end of 2008 to sell Oerlikon Esec. The backend semiconductor business does not offer any synergies with the Group's core technological competences in the coating/thin film sector. In January 2009, Oerlikon signed an agreement to sell the Esec business unit to BE Semiconductor Industries NV of the Netherlands (Eurotext: BES1). The closing of this transaction with BES1 is scheduled for April 2009. Since this business is to be divested, Oerlikon has treated the Esec business unit as a discontinued operation in the financial year. Esec's result for the year was affected by non-recurring charges of CHF 126 million (restructuring costs and goodwill impairment). This is reflected in the result for discontinued operations and the net result of the Group.

## oerlikon optics

Oerlikon group followed up on its commitment to sell Oerlikon Optics, as announced at the 2008 Annual Media and Analyst Conference. The divestment is proceeding in line with expectations, with all but one business sold off within the 2008 financial year.

Oerlikon Optics is a leading global provider of custom optical components and subassemblies. In view of its size and focus on niche markets, the optical coating business in Balzers, Liechtenstein, and Golden, Colorado (US), no longer fit the Oerlikon business strategy.

In October 2008, the Optics business unit at Balzers was sold in a management buyout, supported by local private investors. The optical coating business, including relevant technical plant and equipment, customer and supplier relationships, was transferred to the new company. The newly constituted business posts annual sales in the region of CHF 35 million and has a workforce of some 160, all of whom were transferred to the new company. Since January 1, 2009, it has been trading under the new name Optics Balzers AG.

The optical coating business based in Golden, including relevant technical plant and equipment, customer and supplier relationships, was transferred to Ocean Optics Inc., an affiliated company of Halma plc, London. The transaction was closed on November 24, 2008.

Discussions concerning the remaining Optics business in Shanghai, China, are still under way.

Since this business is to be divested, Oerlikon has treated the Oerlikon Optics business unit as a discontinued operation in the 2007 and 2008 financial years.



### Maintenance-free

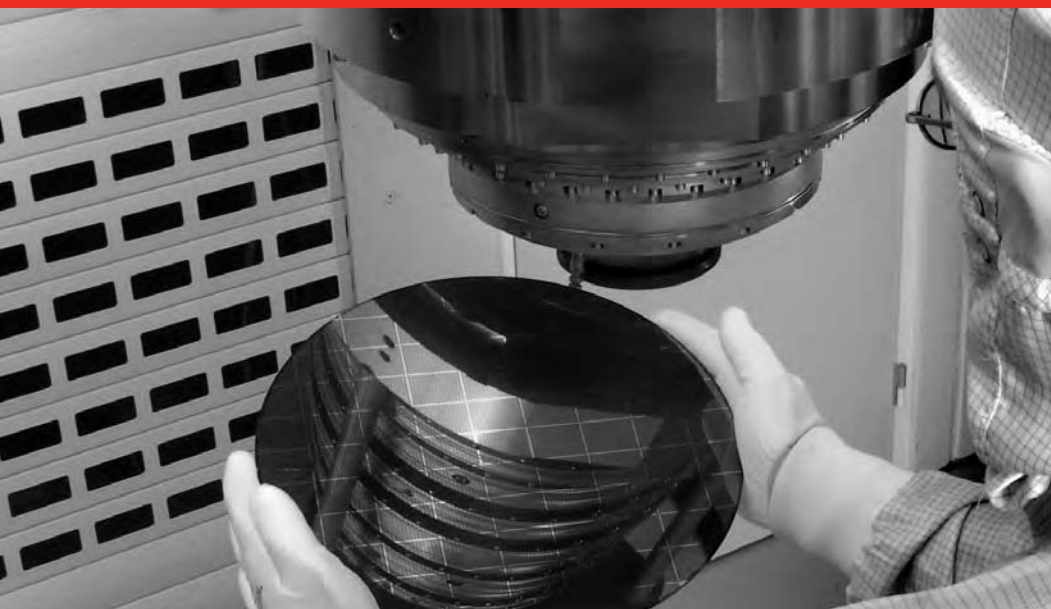
Carl Zeiss SMT supports the global chip industry with a wide range of products and solutions. Key products are the lithography optics for wafer steppers and scanners from ASML. Similar to an oversized slide projector, the wafer stepper delicately images the patterns, which will later become semiconductor components onto the resist-coated wafer – where a decrease in size to a scale 1:4 takes place. The heart of the wafer stepper contains the optical systems for lighting and projection. Carl Zeiss SMT's "Starlith" systems are the world's leading wafer steppers and scanner optics products.

The mechatronic components of Oerlikon Space used in Zeiss optics enable the extremely fine structures to be exposed on the wafers with optimum sharpness. Therefore, the components must meet very special requirements due to the usage in clean rooms as well as the specific requirements of the lithographic process of the chip production, which is especially minted by precision in nanometer range. With the know-how in space technology, these requirements were solved by the Oerlikon engineers by developing components which are completely maintenance- and emission-free. This constitutes an essential competitive advantage for the optics of Carl Zeiss.

Since the beginning of the cooperation in 2003, Oerlikon Space has produced several hundreds of these mechanisms for Carl Zeiss SMT. In 2008, Oerlikon Space was named Supplier of the Year 2007 by the German optics group, receiving the Carl Zeiss SMT Supplier Award.

**“The high-precision technology of Oerlikon Space significantly supports innovation leadership.”**

Peter Schlindwein, Head of Supply Chain Management, Carl Zeiss SMT, Germany



## Management organization realigned

To enhance customer focus and streamline internal workflows, management structures were redefined. Group headquarters defines the overall strategy, while the segments carry full responsibility for the operational business.



1 **Dr. Andreas Widl**  
CEO Oerlikon Vacuum

2 **Hansjörg Jaussi**  
Head of Human Resources

3 **Jürg Fedier**  
Chief Financial Officer

4 **Gary Lehman**  
CEO Oerlikon Fairfield

5 **Thomas Babacan**  
Chief Operating Officer

6 **Jeff Herriman**  
Head of Corporate  
Development  
Executive Vice President

7 **Jeannine Sargent**  
CEO Oerlikon Solar

8 **Björn Bajan**  
General Counsel and  
Corporate Secretary

9 **Dr. Uwe Krüger**  
Chief Executive Officer

10 **Daniel Lippuner**  
Head of Corporate Controlling  
Executive Vice President





### Senior Leadership Team (SLT)

Executive Board and top management form the Senior Leadership Team. Working together closely, they discuss and decide on key issues of the Oerlikon group. This ensures that the decisions by Group headquarters reflects the concerns of the business units.

11 **Peter Tinner**  
Head of Global Sales & Marketing  
Executive Vice President

12 **Kurt Trippacher**  
CEO Components  
(until 31.12.2008)

13 **Dr. Hans Brändle**  
CEO Oerlikon Coating

14 **Dr. Marcello Lamberto**  
CEO Oerlikon Graziano

15 **Dr. Carsten Voigtländer**  
CEO Oerlikon Textile

## Employees

The battle for talent goes on. Oerlikon puts great effort into attracting new talents and developing its people.

# Innovation results from dedicated employees.

Oerlikon's ability to create successful technological innovations and sustain its technological leadership position results from the creativity and dedication of its employees. Their contribution to the development and delivery of products and solutions are key to our customers' success, and hence to the success of Oerlikon. At the end of 2008, Oerlikon employed over 18 000 people at 180 locations in 37 countries worldwide.

Working across different businesses in many locations is enabled by the core values of innovation, teamwork, excellence and integrity. They form the cultural framework, which allows Oerlikon to discover new frontiers, enter new markets and continuously reinvent itself. These values are reflected not only in the way Oerlikon attracts fresh minds, promotes its Employer Brand, develops its talents, manages performance and pays, communicates and socializes, but also in the way the company tackles difficult restructuring projects.

### Attracting fresh minds

Despite current economic conditions, the "battle for talent" goes on, especially in the engineering sector. To safeguard the Group's technological edge, the company continues to integrate students and graduates. To attract talented graduates, we attend job fairs and career guidance events, advertise, and work with student organizations. In 2008, Oerlikon cooperated with universities in Germany, Switzerland, China and the US. To identify and attract fresh minds even before graduation, internships were offered as an integral component of our recruitment strategy. Oerlikon Space has been most successful at implementing this strategy. Every year some 35 students complete an internship at Space to gain practical experience while providing valuable support to the core technology teams. More than a third of the current employees at Oerlikon Space started out as interns.

In 2008, Oerlikon was represented at more than 20 career fairs in Europe and Asia. Besides the long-lasting relationships with regional universities and institutes in Switzerland, the company has extended its network to include leading institutes in China. Fostering young talent is a major success factor for the

sustained technological leadership position, and is strongly supported by the Executive Board and the Senior Leadership Team. In 2008, the Chief Executive Officer (CEO), Dr. Krüger, initiated a program where each segment CEO sponsors marketing events at designated universities. The initial results include programs launched by the CEO of Oerlikon Textile, Dr. Carsten Voigtländer, at the RWTH Aachen (Germany) and by the CEO of Oerlikon Vacuum Leybold, Dr. Andreas Widl, at Fudan University, China and the Hefei University of Technology, China.

The efforts in promoting the Oerlikon Employer Brand were rewarded with the Swiss Employer Branding Award 2008 for the "Best image change" category, presented by the "trendence" Institute. Based on a survey of over 5 000 Swiss students, Oerlikon advanced 14 places in the ranking in only one year, demonstrating the significant improvement in the awareness and image of Oerlikon as an employer of choice.

### Global Trainee Program

Every year talented university graduates are selected for the Global Trainee Program. Lasting 15 months, the program aims to place engineers and economists in one of the segments where they can grow to occupy a key function. Trainees typically complete four assignments in different segments and countries, where they learn about Oerlikon's technologies, products and markets while actively contributing to their assigned teams. Trainee contributions in 2008 include patents registered by two trainees for technologies they developed at Oerlikon Solar and Oerlikon Textile, respectively. An alumni network enables former trainees to share knowledge and provide support for the third-generation trainees who entered the program in October 2008.

More recently, Oerlikon Textile has launched a trainee program for textile engineering graduates in China. Following a competitive selection process, with an assessment center as a last step, four Chinese university graduates were hired for the program. During the course of the program the trainees support various teams across Oerlikon Textile business units and aim to find the best match for a job following the completion of the

program. The trainees are accompanied by the local management team through a mentoring program in order to guarantee a smooth integration at Oerlikon.

### Developing talents

Oerlikon's apprenticeship programs continue to represent a major investment in meeting the demand for skilled employees. In 2008, Oerlikon once more trained over 450 apprentices in 20 different professions at 18 locations throughout the world. At Balzers/Truebbach, 15 percent of the workforce graduated from the local apprenticeship program. The enduring quality of Oerlikon's apprenticeship programs was again recognized in 2008, when for the fourth consecutive time, an apprentice from Oerlikon Esec was awarded the best final grade in the canton of Zug.

At Oerlikon, Talent Management is a systematic process for identifying and assessing internal and external talent to fill key positions at all levels of the organization. To promote the development of internal talents, we started to systematically set up talent pools within and across segments as well as across organizational levels. New and existing development programs are directly linked to the various talent pools, creating greater transparency in terms of our talents and enabling more targeted career and development programs. Noteworthy examples are the leadership challenge and management development programs.

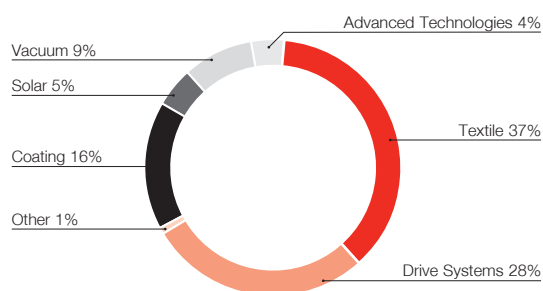
### Leadership Challenge Program

The Leadership Challenge Program focuses on first line and middle management and comprises a comprehensive curriculum ranging from communication to business administration and leadership skills, spread over 21 training days in the course of one year. Participants are nominated by their superiors and selected by the segment management team based on their ambition and aptitude for filling a challenging leadership position. The program is held in Switzerland for employees in Europe, and in China for employees in Asia. Some 80 employees have successfully completed the program over the past two years. One of our Asian participants summarized the program concisely as "opening a door into an exciting new world".

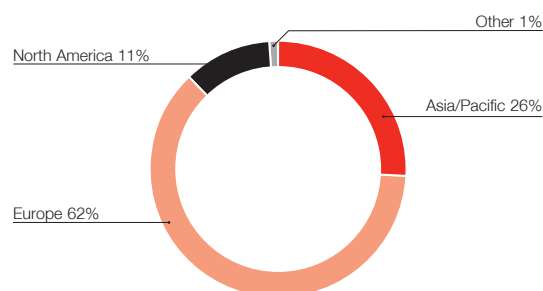
### Employees

2008	18 385 <sup>1</sup>	19 142 <sup>2</sup>
2007	18 711 <sup>1</sup>	19 896 <sup>2</sup>
2006	18 735 <sup>1</sup>	19 267 <sup>2</sup>

### Employees 2008 by segment<sup>1</sup>



### Employees 2008 by region<sup>1</sup>



<sup>1</sup> Continued operations.

<sup>2</sup> Total Group.



### Management development

To foster potential executives from within our own ranks, segment management follows a process of carefully identifying middle managers with high leadership potential, evaluating their potential in an assessment center, and defining their development and career plans for the next two years. Segments maintain an international talent platform to bring these individuals together with a view to exchanging ideas, collaborating on joint projects and contributing to the growth of the respective business.

### Rewarding performance

At Oerlikon we believe that pay must be attractive, motivating and fair. The remuneration systems aims to provide competitive base salaries and attractive incentive schemes. They take into account individual and corporate performance, reward excellence, and promote an entrepreneurial attitude of sharing opportunities and risks (see also the remuneration report, page 71).

To determine competitive and fair compensation packages, external equity is established by continuously monitoring the relevant markets of Oerlikon. Internal equity is established by following a performance management process. Performance management is a crucial element in setting expectations and aligning targets, and in assessing achievement on the basis of individual and business results. At Oerlikon, compensation, performance, and talent management form the most important leadership tools for successfully developing talents, teams, and business units.

### Coping with restructuring

The past year has been characterized by a series of restructuring projects, which in many cases resulted in redundancies. Whenever market and/or technological developments requires Oerlikon to relocate, divest, re-size or re-engineer businesses, jobs may be at stake – even if other jobs are created elsewhere. As an employer Oerlikon has a responsibility to mitigate the effects of restructuring projects. The prior aim is to place employees in other business units where their skills and experience match the requirements of the new job. In some smaller restructuring projects, the company has successfully placed some or all of the affected employees in other business units. If redundancies are unavoidable, the company mitigates the consequences with a host of measures such as social plans, hardship funds, outplacement or job application support. Although these measures can never be a substitute for employment, they can help employees to find another job and continue their career elsewhere.

### Talking business

One of the challenges facing a global company is to talk business across different business units and management levels. To reach across real or imagined organizational, hierarchical and cultural boundaries, Dr. Krüger has established a communication platform in the form of a CEO Letter, which is sent to all Oerlikon employees twice a month in several languages and covers topics of current interest or importance. These letters prompt a host of reactions, ranging from suggestions and support to complaints and concerns. This exchange has served as a model to encourage employees on all levels to not only talk about their work, but also to act on their business needs. This, in turn, is a crucial factor in the bid to develop new technologies, new business models and better business processes.

## Research and Development

With 5.2 percent of its sales spent on research, Oerlikon is one of the most research-intensive industrial groups in its markets. Oerlikon plans to stake out markets of the future with innovation projects in the areas of clean technologies and applied nanotechnology.

# Leading market positions thanks to innovative technologies.

Oerlikon's competitiveness and future rely on research and development (R&D) and on the innovations it produces. The Group has thus made this area one of its top priorities. The company stands out in all business areas for leading technologies and products that offer customers and users added value in the form of higher efficiency, productivity, and quality. In many cases, Oerlikon has unique and unrivaled technologies that the competition cannot offer in the same form. For example, application-ready thin film silicon solar technology, the P3e™ coating technology with previously unattained levels of hardness and flexibility in the coating design, and the TRIVAC NT, the first practically oil-free vacuum rotary vane pump. An example of the innovation success of Oerlikon is Oerlikon Esec's Die Bonder 2100xP – a high-precision machine for chip assembly in the semiconductor industry, which was honoured with the prestigious Swiss Technology Award for being the most innovative Swiss product in 2008.

The goal of our higher-than-average investments on R&D and intensive links to cutting-edge research worldwide is to maintain and widen our technological and competitive edge. CHF 247 million was spent on R&D in 2008 (2007: CHF 245 million). This represents 5.2 percent of total sales (2007: 4.5 percent), which, compared to international industrial groups, is an outstanding figure. Around 1 500 scientists and engineers are working on the solutions of tomorrow in Oerlikon group, who registered a total of 2 228 patents in 2008. The R&D resources at Oerlikon Solar were considerably expanded, the laboratory capacity in Neuchâtel, Switzerland doubled, and a pilot line was put into operation at the Truebbach site in Switzerland.

### Realignment of innovation management

In 2008, a new kind of innovation management was introduced that expands the horizon of research projects in terms of both time invested and focus. Product-specific and application-oriented projects continue to be planned and carried out decentrally in the business units. A new idea is planning and implementing long-term projects that will lay the physical and technical foundation for the Group's future areas of growth. To identify these types of projects, Oerlikon can for the first

time call on the Scientific Advisory Board (SAB) formed in early 2008. Oerlikon is proud that well-known scientists have joined this committee, chaired by Professor Werner Martienssen. The SAB makes a vital contribution to linking Oerlikon to cutting-edge research worldwide. Working with this committee, Oerlikon is initiating medium- and long-term innovation projects with a time frame of three to seven years, which, if successful, will lead to entirely new product solutions or even new business areas for the company. Playing a key role in this process will be research and development into new types of clean technologies and, in particular, resource conservation, and the switch to renewable energy.

Oerlikon's endowment of a university chair for an up-and-coming professor of terahertz (THz) photonics at the Goethe University in Frankfurt am Main, advertised in August 2008, serves the same purpose. Terahertz photonics could well prove to be a key technology, particularly for surface technology and quality control. Another project that also underscores Oerlikon's efforts to finance research at universities is the Gaede Foundation, which funds outstanding achievements in vacuum-based sciences and technologies, and was generously supported by Oerlikon in 2008.

### Nanotechnology ready for industry

Nanotechnology is playing an ever growing role in group-wide R&D, thereby becoming a key technology. The thin film products and solutions from Oerlikon Balzers, Solar and Systems, with coating thicknesses of 1 to 1 000 nanometers, represent the first-generation industrial application of this fascinating technology. Oerlikon is thus already a leading supplier and user of nanotechnology. This is also reflected in the partnership between the Russian promotion agency Rusnano and Oerlikon, reached in November 2008.

The next evolutionary phase of nanotechnology ("advanced nanotech") will focus on refining the properties of surfaces and materials using nanotech structures or nanoparticles and taking mass production to the next level using nano machine and plant designs. Assuming a leadership role in this right from the

start is the stated goal of Oerlikon's realignment of the Oerlikon Systems business unit. Oerlikon Systems will concentrate on future growth markets, primarily in solar technology, new types of thin film battery systems and thermoelectric generators.

Energy storage is one area where new approaches to solutions are particularly promising. Despite considerable progress over the last few years, wet chemical battery systems are only suitable for use in vehicles or as storage for solar energy to a limited extent. In contrast, electronic batteries based on thin films – known as supercapacitors – offer clear advantages with their short charging time and long lifespans. However, all efforts so far to develop these kinds of supercaps to the stage where they are ready for commercial use have failed. The most recent basic research indicates that it will be possible to create these new types of electronic battery systems in the future using advanced nanotech. To this end, Oerlikon has formed a research team that is exploring the basic material properties, industrial production and potential fields of application.

It will certainly take a few years until these types of electron batteries are launched commercially, but meanwhile Oerlikon is on the verge of a breakthrough with new production equipment for other nanotechnology applications. One example is a new type of machine used to make nanocoatings. The first prototypes are now available and are being further optimized for mass production. This machine is adjusted for the highest throughput and the most efficient production – welcome to the nanoindustry made by Oerlikon.

#### R&D expenses <sup>1,2</sup>

2008	247
2007	245
2006 <sup>3</sup>	260

<sup>1</sup> Research and development expenses (continued operations) include expenses recognized as intangible assets in the amount of CHF 31 million (2007: CHF 34 million, 2006: CHF 49 million).

<sup>2</sup> Continued operations.

<sup>3</sup> Aggregated figures for Saurer and Oerlikon for full-year.

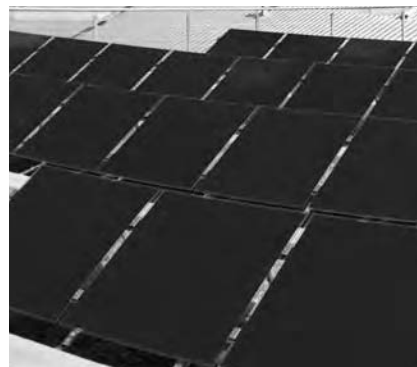
#### R&D employees <sup>1</sup>

2008	1 463
2007	1 332
2006	1 510

<sup>1</sup> Continued operations.

## Innovation highlights

In 2008, the Oerlikon segments introduced several innovations to the market and strengthened their market position.



### Oerlikon Textile WINGS

Oerlikon Textile triumphed with the launch of its completely new concept for a chemical fiber spinning line at the International Exhibition of Textile Machinery (ITMA) at the end of 2007. The new WINGS (Winding INtegrated Godet Solution) POY machine saw sales of over 1 600 units in 2008. In a single blow, WINGS seized a global market share of over 50 percent. WINGS is thus one of the most successful innovations and product launches ever seen in the history of Oerlikon Textile.

WINGS is truly revolutionizing the production of chemical fibers. A particularly low-stress thread guiding system that was previously not considered feasible and the integration of functions in the machine head opens up whole new possibilities in structural design. WINGS requires up to 35 percent less space than traditional spinning lines and reduces the spreading of the yarn by 50 percent. As a "Plug & Play" unit, the start of production can be reached much faster.

The first installations this year have already shown that Oerlikon Textile can more than keep its promises. The last time a plant was put into operation for a customer, it only took 18 days.

### Oerlikon Coating P3e™

P3e™, the groundbreaking coating technology from Oerlikon Coating, made its commercial breakthrough in 2008. The most important tool manufacturers around the world have opted for P3e™ and have ordered the equipment INNOVA, making a significant contribution to record sales in the Coating segment.

Until now, thermodynamically stable metal oxide coatings could only be produced at temperatures above 1 000 degrees Celsius and were hence in the domain of chemical vapor deposition (CVD) coatings. Oerlikon Coating has made a quantum leap with P3e™: oxide-based coatings can now be produced with physical vapor deposition (PVD) processes at well below 600 degrees Celsius. The properties of these coatings can now be finetuned to a previously unknown degree. All in all, this will substantially enhance cutting performance while significantly increasing productivity.

### Oerlikon Solar Amorph & micromorph® high performance

Oerlikon Solar has again accomplished an industrial milestone in the development of thin film silicon PV technologies.

Oerlikon's Transparent Conductive Oxide (TCO) technology has been greatly improved resulting in increased efficiency levels in the mass production of both, Amorphous and micromorph® cells. The TCO coating layer determines among other things, the light transmission resulting in substantially increased module performance. The Oerlikon record cells have achieved results of over 13 percent.

These results are only possible because of Oerlikon Solar's proprietary TCO technology allowing overall system improvements. The plant productivity is increased by 50 percent by further optimizing key process steps in the end-to-end solution. Overall, it was possible to significantly lower the module price, taking another step towards grid parity in lowering the total cost of ownership. Oerlikon Solar expects to reach grid parity with costs down to 0.70 USD/Wp in 2010. More than 700 000 thin film solar modules have been produced on Oerlikon Solar equipment in industrial manufacturing conditions.



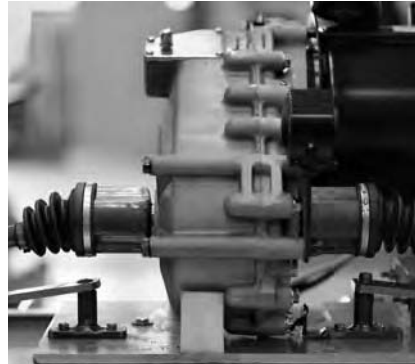


### Oerlikon Vacuum TRIVAC NT

Oerlikon Vacuum has achieved the impossible with TRIVAC NT with the first “practically dry” oil-sealed vacuum rotary vane pump in the world. The quantities of oil that diffuse in the process chamber are so small that they are (almost) negligible.

The TRIVAC NT series, which was launched to the market in 2008 in three different sizes, was completely rebuilt with a smart design to achieve this goal. The pumps are more compact, quieter and operate at much lower temperatures because of intelligent cooling. This considerably lowers the operating costs because oil change intervals are much longer than before. Well-known customers attest to the new TRIVAC NT’s excellent performance and extremely low oil vapor emission.

This opens up fields of application for the new pump generation both in the laboratory and in analyses that were previously closed to Oerlikon rotary vane pumps. This pump type is one of the sales drivers of Oerlikon Vacuum. The initial success of the TRIVAC NT leads the group to expect that this generation will also be a business success globally.



### Oerlikon Drive Systems Electric drives

Oerlikon Drive Systems is currently developing new electric drive units for off-highway four-wheel drive machinery. The initial development programs include AC electric drive technology for lift applications. This new drive system is scheduled to be used on both light duty and heavy duty versions in a full range of rough terrain construction lifts. This will be the first machine of its type to utilize AC electric drive technology and the various benefits will include higher drive system efficiencies and longer battery life.

In addition to the electric lift project, Oerlikon Drive Systems is also working with a major producer of light and medium duty earthmoving machinery to develop an electric hybrid drive system. This machine will also be the first of its kind to be offered with a high efficiency hybrid drive system which will result in significant fuel savings and economy without sacrificing performance and reliability in the field.

The current product development plan calls for extensive developmental testing and subsequent market introduction in late 2011.



### Oerlikon Space ExoMars Rover

As part of its ExoMars scientific mission in 2018, the European Space Agency ESA plans to land an autonomous robot – the ExoMars Rover – on the Red Planet to look for signs of life. Oerlikon Space is responsible for developing the sophisticated locomotion system, which incorporates a whole range of different components. This includes the motors and transmissions as well as the special wheels and their suspension along with the electronic control system and software. To satisfy the requirements in space and on Mars, the experts have to fully exploit all of their expertise in engineering, precision technology, materials and software.

The first full-scale mock-up of the Mars Rover was completed and tested in April 2008. To complete the test, Oerlikon Space specialists set up a special site to simulate the conditions on the surface of Mars as realistically as possible. The first series of tests were very successful. Oerlikon Space has already received the funding for the next development phase and is building a second test model this year.

## Transparent and continuous communication

In 2008, more than 7 000 new shareholders invested in the company's stock. Oerlikon will continue to serve these important stakeholders with timely updates on its progress.

# Increasing shareholder base.

## Capital market and share performance in 2008

Over the past twelve months, financial markets have experienced turbulence of historic proportions. The global banking and financial crisis caused a major downturn in stock markets around the world. Share prices declined even faster in the second half-year in the wake of growing signs of a severe recession in most economies. The European Dow Jones STOXX 600 Index closed at 196.90 on December 30, 2008, representing a total loss of 46 percent compared to the 2007 year-end close. The turmoil also affected Switzerland. At no time did the Swiss Leader Index SLI pass its 2007 closing level of 1 296.41, ending 2008 at 789.67, a loss of more than 39 percent.

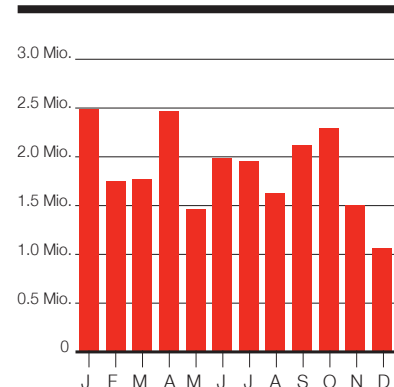
Following the publication of strong sales and earnings for 2007, Oerlikon shares recovered around half of the loss experienced in the first three months of 2008 to almost close the gap versus major indices, which since then had lost about 14 percent. The Oerlikon Q1 2008 trading update published on April 23 revealed sharp declines in the textile and semiconductor

businesses, which required an adjustment of the guidance for 2008. Oerlikon's share price had declined by almost 9 percent that day. The stock regained some ground in the first half of May after Renova became the main shareholder and the shareholders present at the Annual General Meeting followed the Board of Directors' proposal to elect a new and extended Board. As global stock markets continued to weaken during the summer months, Oerlikon shares continued to trade slightly lower. Since neither the half-year results nor the Q3 trading update showed any improvements in the ailing textile and semiconductor markets, but instead pointed to a cooling-off of additional business activities (including those related to Oerlikon's core businesses), pressure on shares increased further. Nor was the presentation of a sound mid-term business outlook at Oerlikon's Capital Market Days able to reverse this trend. Significantly lower expectations from financial market participants due to the massive curtailment of credit financing availability as a consequence of the banking crisis coupled with doubts about the financial health of Oerlikon and its anchor

Share performance 2008



Monthly trading volume in 2008 (SWX Europe) in number of shares



shareholder, drove Oerlikon shares down to a yearly low of CHF 66.50 on November 20, 2008. Following a slight recovery, the share price closed on December 30, 2008, at CHF 69.00. Market capitalization amounted to CHF 976 million.

### Trading volume and liquidity

On 251 trading days in 2008, an average of 89 878 shares (0.64 percent of the share capital) were traded on the SWX Europe trading platform. This represents a decrease of 20 percent over the previous year, following an increase of 2.2 percent in 2007. The monthly trading volume varied between a high of 2.47 million in January and a low of 1.1 million in December.

### Oerlikon as a member of important indices

Although Oerlikon exited the Dow Jones STOXX 600 Index on September 22, 2008 following the reduction in market capitalization, the company remains a member of important indices such as the Swiss Leader Index (SLI).

### Share buyback program/treasury shares

On August 8, 2007, the Board of Directors of OC Oerlikon Corporation AG, Pfäffikon approved a share buyback program for a maximum of 2.59 percent of the share capital. The program, which was launched on August 9, 2007, is scheduled to run until the 2009 Annual General Meeting at the latest. The purpose of the share buyback is to finance acquisitions and an employee stock option program. The company reserves the right to use the repurchased shares for other financing purposes. In 2008, Oerlikon repurchased a total of 287 309 shares under the program. As of December 31, 2008, the company held a total of 1 329 164 own shares (9.40 percent of issued shares).

### Financing strategy

Oerlikon is firmly committed to strengthening its financial position and to secure timely financing for foreseeable needs at the most favorable conditions available to the company. Evaluating additional financing alternatives provided by the capital markets will remain an important ongoing task in 2009. In this context Oerlikon may, if required, consider raising additional funds to finance its business expansion.

In 2008, Oerlikon also ensured its ability to benefit from the very attractive conditions offered by the CHF 2.5 billion syndicated credit facility placed in 2007. In light of the current market envi-

ronment, Oerlikon has decided to adopt an even more stringent allocation and financial resource management system for capital investments and acquisitions within the Group. This will not slow down Oerlikon's ongoing investments for the future in the form of research and development. Furthermore, Oerlikon has increased its efforts to optimize operating cash flow by implementing a working capital task force headed by the Chief Operating Officer and the Corporate Controlling department. This ensures the attractiveness of Oerlikon as a candidate for equity and debt capital investors.

As announced earlier in 2007, Oerlikon used certain funds to repurchase more than 95 percent of the outstanding CHF 200 million bond issued by Saurer AG, Arbon, as part of a cash tender offering. On June 10, 2008, following the positive court ruling, Oerlikon prematurely and fully redeemed the remaining outstanding portions of the bond.

### Dividend policy

In 2008, Oerlikon made significant progress in streamlining its portfolio and at the same time grow its core businesses. Oerlikon will continue to concentrate its activities and further strengthen those businesses that offer sustainable above-average growth and earnings prospects, specifically in the area of clean technologies.

In addition, the increasingly challenging market environment makes it essential to further strengthen the Group's balance sheet. The Board of Directors accordingly recommends that profits and proceeds from divestitures be initially reinvested in the company instead of used to pay a dividend.

### Stock exchange listing/additional information

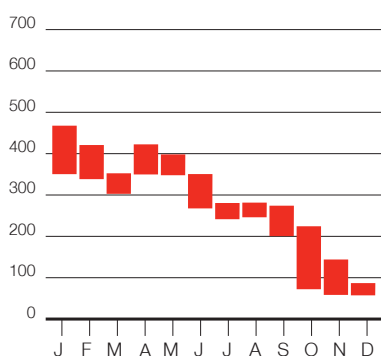
Registered shares in OC Oerlikon Corporation AG, Pfäffikon have been listed on the SIX since December 22, 1975, and are traded on the SWX Europe in London. However, SIX has announced that it will relocate trade in all Swiss shares back to the stock exchange in Zurich effective on July 1, 2009.

### Shareholder structure

In the weeks prior to the Annual General Meeting on May 13, 2008, Renova Industries Ltd, with its registered office in Nassau, Bahamas, disclosed increases in their holdings in Oerlikon from 13.79 percent to 39.13 percent of total shares outstand-

#### Trading range 2008

in CHF



#### Weighting of the Oerlikon share in important indices on December 31, 2008

in %

SLI	0.13474
SPI	0.04314
SMIM	0.50144

#### Listing on the stock exchange

The registered shares of OC Oerlikon Corporation AG, Pfäffikon have been listed on the SIX since December 22, 1975, and are traded on the SWX Europe in London.

Securities symbol	OERL
Securities number	081682
Security type	Registered share
ISIN International Stock Identification Number	CH0000816824
Settlement currency/ stock exchange	CHF/XVTX
Traded on	SWX Europe
First trading day	22.12.1975
Bloomberg ticker symbol	OERL.VX
Reuters ticker symbol	OERL.VX

ing. During this period, Victory Industriebeteiligung AG of Vienna reported a reduction in its holding from 27.57 percent to 12.20 percent. These changes resulted in Renova becoming the largest shareholder.

On May 9, 2008, Renova and Victory entered into an agreement governing the formation of a group pursuant to Art. 15 and 17 BEHV-EBK (Swiss Federal Banking Commission Ordinance on Stock Exchanges and Trading). As a consequence they have since then made joint disclosures of further changes in their holdings. The last such announcement, made on September 3, 2008, disclosed a total holding of 52.52 percent.

Deutsche Bank Group and Merrill Lynch, the two other shareholder groups, which disclosed a share of more than 3 percent at the end of 2007, both reduced their holding to below the lowest notification threshold in the course of 2008.

Up to December 31, 2008, Oerlikon itself increased its treasury share holdings by 2.0 percent to 9.4 percent of total shares outstanding in the course of its share buyback program.

### Enhanced investor communication and services

Equal treatment of all capital market participants, coupled with reporting and communication in compliance with legal requirements and regulations, are accorded major importance at Oerlikon. Respecting these principles is our top priority and is achieved through regular open dialogue with institutional investors, private investors and financial analysts.

Our Investor Relations team provided timely information to the capital market on the portfolio enhancement measures executed in 2008, namely the divestment of the Blu-ray, Magnetic Media Equipment and Optics businesses as well as the progress made in expanding our core businesses, especially Solar.

### Investor Relations webpage

At the end of February 2008, Oerlikon launched its significantly enhanced Investor Relations webpage, specifically in response to the growing information needs of retail investors.

With its new structure and expanded content, the IR website jumped from position 21 to the top 10 websites in Switzerland in the 2008 global Hallvarsson & Halvarsson web ranking.

### Capital Market Days

For the first time, Oerlikon invited institutional investors and research analysts to its Capital Market Days. During the two-day event, each segment provided detailed information about current market developments and strategies. In 2008, Investor Relations activities included roadshows in the key financial markets. Participation at various banking conferences, tradeshows, numerous one-on-one discussions with investors and analysts, and joint visits to Oerlikon's manufacturing locations rounded off the program.

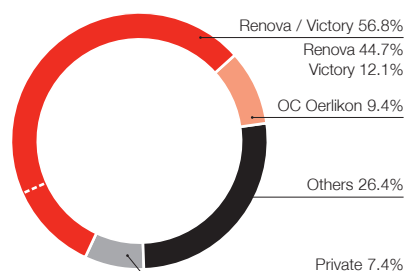
### Conferences

In addition to the Annual General Meeting and the semi-annual media and analyst conferences, Oerlikon management also discussed our interim-quarter trading updates with interested participants via conference calls. After Oerlikon Solar, Oerlikon further enhances the transparency with reporting the Oerlikon Balzers activities as a separate segment. The business unit Oerlikon Systems is now a part of the newly named segment Oerlikon Advanced Technologies (previously: Oerlikon Components).

Coverage by financial analysts increased further in the year 2008. Investors can now find comments on OC Oerlikon in research notes e.g. from JP Morgan Cazenove, Helvea, NZB or UBS. Additional information can be obtained at [www.oerlikon.com/ir](http://www.oerlikon.com/ir).

### Shareholder structure as of 31.12.2008

in %



### Distribution of Oerlikon shares

As of 31.12.2008	Shareholders registered/identified		Shares registered/identified	
	Number	in percent	Number	in percent
> 5%	3	0.02	9 364 910	66.22
3-5 %	0	0.00	0	0.00
1-3%	3	0.02	722 009	5.11
10 001-140 000	28	0.21	883 054	6.24
1 001-10 000	207	1.52	622 703	4.40
501-1 000	250	1.84	186 872	1.32
1-500	13 131	96.40	1 192 652	8.43
Unidentified/unregistered			1 170 237	8.27
<b>Total shares issued</b>	<b>13 622</b>	<b>100.00</b>	<b>14 142 437</b>	<b>100.00</b>

## Key share-related figures

		2008	2007	2006	2005	2004
<b>Share trading</b>						
Price at year-end	in CHF	69.00	473.25	602.50	197.90	113.00
High	in CHF	472.00	794.50	605.00	198.80	199.75
Low	in CHF	66.50	336.50	191.00	112.30	95.60
Average trading volume SWX Europe (12 months)	in thousands	90	112	181	304	114
Shares outstanding	number	14 142 437	14 142 437	14 142 437	14 142 437	14 142 437
Stock market capitalization at year-end	in CHF million	976	6 693	8 521	2 799	1 598
<b>Per share data</b>						
Earnings per registered share (diluted) <sup>1</sup>	in CHF	-16.36	23.00	23.44	1.43	-27.68
Earnings per registered share (undiluted) <sup>1</sup>	in CHF	-16.36	23.00	23.49	1.43	-27.68
Dividend <sup>3</sup>	in CHF	0.00	0.00	0.00	0.00	0.00
Payout ratio	in percent					
Ex-dividend day						
Equity per share	in CHF	85.25	142.01	116.48	73.47	88.87
Cash flow per share <sup>2</sup>	in CHF	32.06	51.78	29.06	6.17	8.34

<sup>1</sup> Continued operations.

<sup>2</sup> Before changes in net current assets.

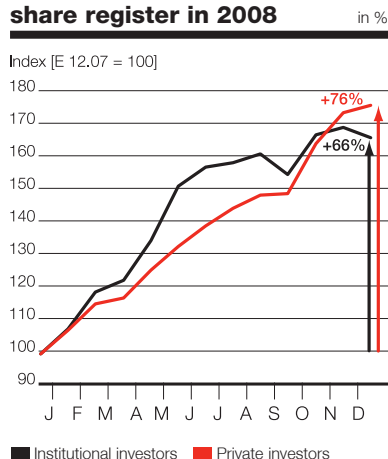
## Shareholder structure

Shareholder	Dec. 2008		Dec. 2007		Dec. 2006	
	No. of shares	in percent <sup>1</sup>	No. of shares	in percent <sup>1</sup>	No. of shares	in percent <sup>1</sup>
Group Renova / Victory <sup>2</sup>	8 035 746	56.82				
Victory Industriebeteiligung AG			3 898 644	27.57	4 831 192	34.16
Renova Industries Ltd.			1 950 000	13.79	1 450 000	10.25
OC Oerlikon Corporation AG, Pfäffikon	1 329 164	9.40	1 046 146	7.41	1 050 113	7.43
Deutsche Bank Group	n/a		2 209 744	15.62	77 899	0.55
Merrill Lynch Group	n/a		884 858	6.26	716 023	5.06
ZKB	n/a		n/a	17.72	2 506 601	17.72
Other	4 777 527	33.78	4 153 088	29.37	3 510 609	24.82

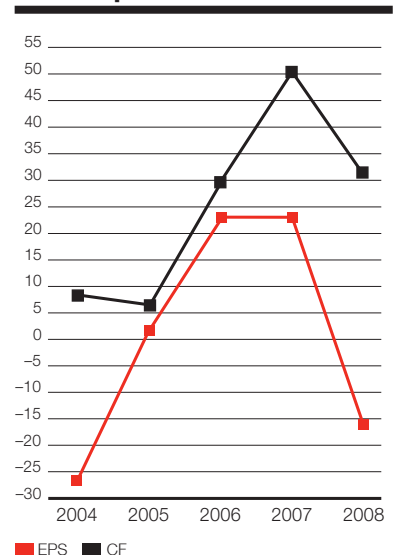
<sup>1</sup> Based on shares outstanding.

<sup>2</sup> Renova Industries Ltd (6 317 392 shares, 44.67 percent) and Victory Industriebeteiligung AG (1 718 354 shares, 12.15 percent) have been forming a group according to Art. 15 and 17 BEHV-EBK since May 2008.

## Shareholder base in the share register in 2008



## EPS/CF per share



Within Oerlikon's corporate policy, sustainability is consistently accorded a high priority. It is a responsibility borne by employees as well as management at all levels of the organization, in the interests of the Group's customers, employees, investors, partners and the environment.

# Anticipating the future – establishing sustainability.

In the bid to remain competitive over the long term, sustainable development is critical to future and long-term business success. Against the backdrop of a global economic crisis and uncertainty with respect to market trends, 2008 proved to be a challenging year for Oerlikon. Nevertheless, we are convinced that by continuing to run our operations in a responsible manner we can ensure the sustainable development that is critical to our corporate future and business success.

To improve business performance, Oerlikon honors its responsibility to society and the environment by delivering innovative solutions that address the future challenges inherent in a continuously changing environment. In so doing the Group not only focuses on retaining the trust of customers, shareholders and other stakeholders on what our future success rests, but also devotes itself to tackling environmental challenges such as climate change. Such issues are now essential for a forward-looking multinational enterprise to address and Oerlikon generates business opportunities out of these. Accordingly a strong focus of the company is on clean technology.

Oerlikon requires all employees to comply with national and ethical standards that not only reflect the company's business ethos, but also build confidence in us as a reliable company in our dealings with different partners. As a commitment to the Global Compact, we not only comply with legislation but also enshrine the UNGC principles in our management philosophy and to combat corruption, respect human rights, guarantee good working conditions, and implement a wide range of measures within our sphere of influence to protect the environment. Measures implemented in earlier years by the Group Executive Board are aimed at supporting our commitment to ethical conduct in our day-to-day business and to admit to its social responsibility.

One of the forms this took in 2008 was our donation to reconstruction efforts following the earthquake that shook China's Sichuan province earlier in the year. The aim was to support the construction of schools and housing for the earthquake victims. The shared basic values and principles that Oerlikon follows are

contained in a Code of Conduct that was renewed and issued at the end of 2008. It embodies our commitments and defines clear rules of conduct for employees, ensures that information is communicated at all hierarchical levels and supports our pledge to the principle of sustainability. In addition, it complies with the laws, rules, regulations and internal directives governing all business activities. The underlying aim for the organization is to fulfill its ethical and legal responsibilities, with honesty and integrity informing all aspects of employee behavior.

## Future generations

Oerlikon's strong focus on renewable energies and energy-efficient products attests to the seriousness with which the company views the challenges of climate change. For Oerlikon, this challenge at the same time opens new markets. This environmental "challenge" was also addressed at the last G8 annual summit, which introduced a more "environmentally effective and economically efficient" long-term policy framework to succeed the Kyoto Accord, which is already paid close heed by Oerlikon.

Today's global environmental challenges call for product solutions that require careful management of our natural resources. Oerlikon publicly declares itself to be a provider of clean technology ("clean tech") and is currently positioned in a few clean technology markets with solutions that help customers to cut costs, reduce the strain on the environment, and support the productive and responsible management of natural resources.

With its clean tech strategic approach, Oerlikon has taken several steps towards more sustainable business operations. This approach, which the Group intends to continue in the future, includes the production of clean tech products that are specifically designed to use renewable energy sources, and focuses on efficient products that reduce the negative impact on the environment. Oerlikon's innovations for the clean tech market include products such as drives for hybrid and electric vehicles, fibers for advanced water-filtering technology, gears and shafts for large windmills, non-woven fibers for clean tech markets, as well as solutions for more energy-efficient vacuum

systems and enhanced fuel efficiency systems for conventional drives, to name but a few.

Clean tech products accounted for approximately 8 percent of Oerlikon's revenue in 2007, and by the end of 2008 this proportion had increased by up to 18 percent. We aim to increase this share of revenue even more in the future and make further improvements in our clean tech products.

### ISO certification

ISO 14001 – the international standard for environmental management systems – is of high importance to Oerlikon in its role as a global clean tech company. ISO certification represents a seal of quality for our customers and attests to our good management practices. With just a few exceptions Oerlikon group received ISO 14001 certification back in 2007. By the end of 2008, all legal entities were ISO 9001 certified (quality management) and all business units that supply the automotive market were awarded ISO 16949 certification, which meets the strict technical requirements of the automotive industry.

### Earning trust

Oerlikon's core values of innovation, teamwork, excellence and integrity influence all the strategic actions that the company takes. Keeping those values and in line with our respect for our partners, we aim to gain mutual trust in all our dealings by placing the needs of every stakeholder and business partner at the center of all of our activities. In the future, as in previous years, the bottom line will be to create a win-win situation for everyone involved – customers, partners, investors and other stakeholders.

To gain trust and be responsible as a corporation, Oerlikon will not only comply with laws, ethical standards or its corporate vision, but also intends to maintain the high quality and justified costs for all its products.

### Our customers

It is the responsibility of each and every Oerlikon employee to act professionally and to deliver prompt and excellent service to our customers. Our long-standing successful relationships with customers are based on the high quality of our services. We have appointed first-class executive staff to manage our various business areas and products and ensure that the agreed high standards are met. In 2008, Oerlikon received awards from several customers, for example the "Supplier Award 2007" from Carl Zeiss SMT (Oerlikon Space) and the "Spansion Spotlight Award 2007" for exceptional support from Spansion (Oerlikon Esec). Oerlikon Vacuum has received the "Gold Award" for successfully designing and installing the two vacuum systems at the worldwide reputed research institute CERN in Switzerland.

As part of our commitment to continuous product improvement, Oerlikon maintains an open dialogue with customers, not merely in order to stay abreast of customers' changing requirements but also to ensure a common understanding and add sustainable value to our business. Oerlikon will continue to deliver on its promise to provide products and services that not only meet customer expectations but exceed them. By applying the Six Sigma management methodology, the company is continually simplifying and stabilizing its organizational structure and processes in order to further enhance quality.

### Trade controls

Europe, along with many Asian countries and the US, is currently introducing stricter, harmonized export control regulations in response to international terrorism and plans by certain countries to manufacture weapons of mass destruction. As a global supplier of high-technology solutions, Oerlikon serves customers in a diverse range of industries. While we do not manufacture weapons, we are aware that vacuum and coating technology in particular play an important role in modern weaponry production. Mindful of the ethical and legal responsibility it bears in this respect, Oerlikon has issued Group-wide guidelines governing export controls. The following points are of central importance:



- Oerlikon pledges its unequivocal and emphatic support for a policy of non-proliferation. This corporate goal takes precedence over business interests.
- All employees are obliged to contribute actively to achieving this goal in their own area.
- It is management's responsibility to ensure that all employees are adequately informed of all the relevant regulations by providing them with training and access to the guidelines.
- In order to ascertain, which countries and organizations are to be judged as sensitive in the context of this policy, Oerlikon maintains ongoing contact with the responsible agencies.
- If concerns arise about the end use for our products and services, Oerlikon will immediately terminate the business transaction.

In 2008, Oerlikon successfully implemented a variety of additional compliance measures and conducted a number of assessments/audits in the US, Asia and Europe. With full support from the Executive Board and the Senior Leadership Team, a cross-segmental Compliance Council was set up, and the segments began to introduce or improve Internal Control Programs (ICP). Operational excellence was further boosted by some notable enhancements in the IT support area, and a supply chain security pilot project was launched by Oerlikon Vacuum.



Oerlikon experts are much in demand around the world as speakers on the subject of "Global Trade Controls". In 2008, we supported the EU and US export control outreach programs through presentations in the Ukraine, Russia, Thailand and China. In 2009, we plan to take the organization further towards trade compliance excellence.

### Addressing corruption

Oerlikon believes that there are two main criteria essential to the development and growth of democracy and market economies: good governance and the fight against corruption. The Group is committed to actively combating corrupt behavior wherever it occurs.





Any kind of unethical objective or exploitation of advantages and privileges is prohibited. Nor does the company engage in direct or indirect payments to any private or public decision-makers. The Group is against the use of any kind of unfair business practices whatsoever to achieve short-term competitive advantages.

Suppliers and business partners in business operations are selected on the basis of fair business principles. Oerlikon supports fair pricing policies and cooperation with companies who are certified according to international norms.

In 2008, no legal cases of corruption were brought against the company or its employees, nor were there any instances of contracts with business partners failing to be renewed on the grounds of contractual violations related to corruption. In addition, no corruption or fraud-related fines were imposed on Oerlikon in 2008.

### Diversity and equal opportunity

In 2008, Oerlikon made further progress in building an even more diversified workforce. With a workforce composed of over 50 different nationalities from a wide range of cultures, Oerlikon is effectively represented everywhere in the world. With such a diverse team we endeavor to address our international customers' varying needs at our main sites around the world. As a global company operating at 180 locations, we believe in the benefits of acting locally, which is why the majority of employees including those at management level are often hired locally.

By developing technology and training employees at the local level, knowledge remains closely linked to the local markets, enabling us to build up a strong base in the respective regions. A regular exchange of ideas, experiences and knowledge between the different business segments improves Group cooperation and enables synergies to be leveraged globally.

### Non-discrimination

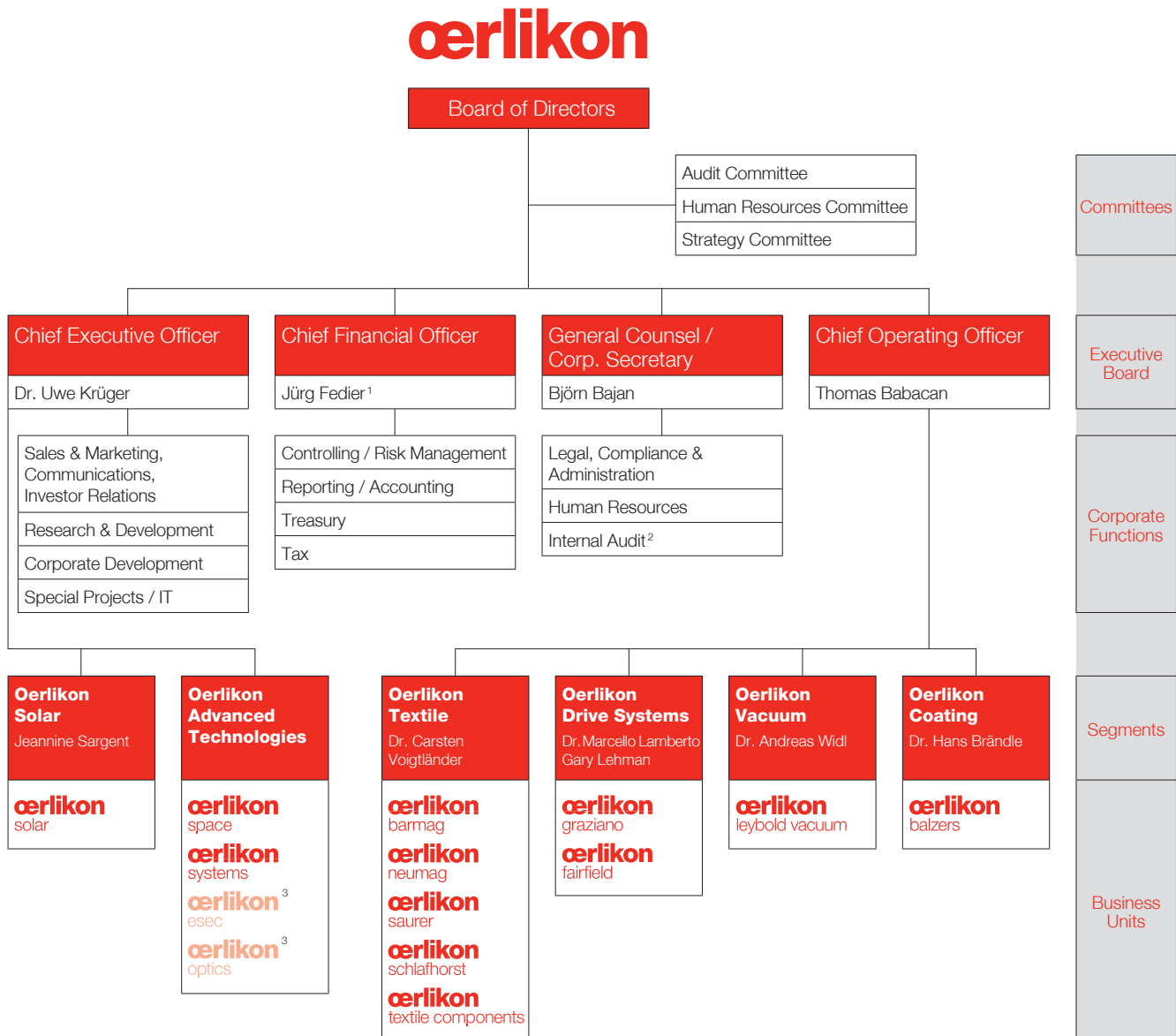
Oerlikon is committed to equal opportunity and against any kind of discrimination. Operating as it does in a multicultural environment, the Group insists on a harassment-free working environment and does not tolerate any form of discrimination based on ethnic origin, skin color, religion, nationality, gender, sexual orientation, age or disability.

### Health and safety

Oerlikon strongly believes that the health and safety of employees is part of management responsibility. The Group is committed to an integrated management system that covers the full range of health and safety standards. All business units and Group companies define their specific goals in this context. Continuous improvement of occupational safety, taking into account the respective country-specific regulations, is an important priority at Oerlikon.

In the interests of sustaining and further developing the company, Oerlikon believes that "safety first" is a fundamental maxim that must be observed by each and every employee. Cooperation between business segments is strongly encouraged in order to optimize employee safety and health. To ensure sustainable development well into the future, the company is systematically improving the entire process, and continues to support efforts to share knowledge on ways of handling resources, such as energy and consumer goods within the Group in an environmentally friendly manner.

## Group structure



<sup>1</sup> Since 01.01.2009.

<sup>2</sup> Reporting directly to the Audit Committee.

<sup>3</sup> Discontinued operations.

## Corporate Governance

Oerlikon corporate governance follows the Swiss Code of Best Practice for Corporate Governance as well as internationally recognized standards.

# Orientation to international standards.

Oerlikon is committed to the principles of good corporate governance as defined by Economiesuisse in the Swiss Code of Best Practice for Corporate Governance of March 25, 2002 (as amended on September 6, 2007). Through this commitment Oerlikon aims to 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 "Directive on Information Relating to Corporate Governance" (DCG), enacted by the SIX Swiss Exchange on July 1, 2002 and revised on May 29, 2006, requires issuers of securities to make available to investors certain key information pertaining to corporate governance.

In this annual report the corporate governance information is once again presented in a separate section, as prescribed by DCG. The framework of the directive has been adopted. References to other portions of the annual report are included in certain instances in an effort to avoid redundancies and enhance readability. All material changes between the balance sheet date and the time this annual report went to print have been taken into account.

Further information regarding corporate governance can be found on the company website [www.oerlikon.com](http://www.oerlikon.com).

## Group structure and shareholders

### Operational group structure

The Board of Directors is responsible for the strategic management of the group. Pursuant to Art. 17 of the Articles of Association, the Board of Directors has delegated corporate management in principle to the Executive Board. Operational responsibility lies with the individual segments, each of which is overseen by its own segment CEO. The Board of Directors, the Executive Board and the business units are supported by centralized corporate functions. A graphical presentation of the operational group structure can be found on page 56.

### Listed group companies

OC Oerlikon Corporation AG, Pfäffikon is listed on the SIX Swiss Exchange (Symbol: OERL; securities number: 081682; ISIN: CH0000816824). On December 31, 2008 the company's market capitalization totaled CHF 975.8 million. For further information on OC Oerlikon Corporation AG, Pfäffikon see pages 133 et seq. Fairfield Atlas Limited, India, and Schlafhorst Engineering Ltd., India, both indirect holdings of OC Oerlikon Corporation AG, Pfäffikon are listed on the Bombay Stock Exchange.

### 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 percent interest. The local companies included in the scope of consolidation are shown on pages 141–142 in their legal ownership structure, and on pages 128–130 they are listed by country together with each company's share capital, percentage of shares owned and number of employees.

### Significant shareholders (as of December 31, 2008)

	Shareholdings <sup>1</sup>	
	No. of shares	in percent <sup>2</sup>
Group composed of the Renova group (Renova Industries Ltd., Nassau/Bahamas <sup>3</sup> and Beregan Holding AG, Zurich <sup>3</sup> ) and Victory Industriebeteiligung AG, Vienna <sup>4</sup>	8 035 746 <sup>5</sup>	56.82
OC Oerlikon Corporation AG, Pfäffikon	1 329 164	9.40

<sup>1</sup> Actual shareholdings as of December 31, 2008 according to information provided by the shareholders. The shareholdings disclosed pursuant to the Swiss Stock Exchange Law are published on the SIX Swiss Exchange website: [www.six-swiss-exchange.com/marketpulse/shares/companies/major\\_shareholders\\_en.html](http://www.six-swiss-exchange.com/marketpulse/shares/companies/major_shareholders_en.html).

<sup>2</sup> Basis: shares issued (14 142 437).

<sup>3</sup> Beneficial owner (as per disclosure notification of September 9, 2008): Viktor F. Vekselberg, Zurich and Moscow.

<sup>4</sup> Beneficial owner (as per disclosure notification of September 9, 2008): RPR Privatstiftung, Vienna.

<sup>5</sup> Renova group: 6 317 392 shares (44.67 percent); Victory Industriebeteiligung AG: 1 718 354 shares (12.15 percent).

### Cross-shareholdings

There are no cross-shareholdings.

## Capital structure

### Capital

The share capital of OC Oerlikon Corporation AG, Pfäffikon amounts to CHF 282 848 740 composed of 14 142 437 registered shares, each with a par value of CHF 20. The company also has conditional capital in the amount of CHF 40 million for convertible and warrant bonds, etc., and CHF 7.2 million for employee stock option plans.

### Authorized capital and conditional capital

**Authorized capital:** The company has no authorized capital.

**Conditional capital for warrant and convertible bonds:** Pursuant to Art. 6a of the Articles of Association, the company's share capital can be increased by a maximum aggregate amount of CHF 40 million through the issuance of a maximum of 2 million registered shares with a par value of CHF 20 per share, 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 and convertible bonds, the Board of Directors can limit or exclude the preemptive subscription rights of shareholders (1) to finance or refinance the acquisition of enterprises, units thereof or equity interests, or 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 terms at the time the bond was issued.

**Conditional capital for employee stock option plans:** Pursuant to Art. 6b of the Articles of Association, the company's share capital will be increased by a maximum aggregate amount of CHF 7.2 million, excluding the preemptive subscription rights of current shareholders, through the issuance of a maximum of 360 000 fully paid-in registered shares with a par value of CHF 20 each, through the exercise of option rights granted to the employees of the company or one of its group companies under a stock option plan to be approved by the Board of Directors. The issuance of shares at less than the market price is permissible. The details shall be determined by the Board of Directors.

### Changes in capital

The share capital of OC Oerlikon Corporation AG, Pfäffikon has remained unchanged since the capital increase of 2004. Detailed information on changes in the equity capital of OC Oerlikon Corporation AG, Pfäffikon over the last three years can be found in the holding company's equity capital statement on page 138, note 18, of the annual report.

### Shares and participation certificates

The equity securities of OC Oerlikon Corporation AG, Pfäffikon consist exclusively of 14 142 437 fully paid-in registered shares with a par value of CHF 20, 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 are registered solely as book-entry securities with SIX SIS AG. 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 print certificates for non-certificated shares (registered shares with deferred printing of certificates). 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 registration

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, 2008 there were no convertible bonds or warrant bonds outstanding. In conjunction with stock option plans, employees held a total of 6 788 options (cf. page 122, note 23) on December 31, 2008, each of which entitles the holder to subscribe one registered share in OC Oerlikon Corporation AG, Pfäffikon. These option rights are covered in full by shares acquired in the open market, such that their exercise will not result in any change in share capital. The aggregate par value of the shares purchasable via the outstanding options is CHF 135 760.

## Stability and competence

### The Oerlikon Board of Directors

#### 1 Kurt J. Hausheer

Member of the Board of Directors  
Chairman of the Audit Committee  
Member of the Strategy Committee

Kurt J. Hausheer (1947; Swiss citizen) started his professional career in 1969 in the audit practice of Coopers & Lybrand, qualifying as a Certified Public Accountant (CPA) in 1976, and completed several courses at IMD, INSEAD and Harvard. In 1979, he became a partner at Coopers & Lybrand. He was the Lead Auditor for many global clients and has more than 25 years experience in advising international clients on M&A transactions and restructuring. Kurt J. Hausheer was Managing Partner of the advisory practice at PwC, responsible for performance management, finance and accounting, M&A, risk and compliance as well as strategy. Until June 30, 2008, he was a member of the Management Board and the Board of Directors of PwC Switzerland.

#### 2 Dr. Urs Andreas Meyer

Member of the Board of Directors  
Chairman of the Strategy Committee  
Member of the Audit Committee

Dr. Urs Andreas Meyer (1964; Swiss citizen) is Chief Executive Officer of Venetos Management AG in Zurich, a 100 percent subsidiary of Renova Group, and entrusted with managing its industrial investments. He earned a PhD in Engineering at the Swiss Federal Institute of Technology Zurich (ETH) in 1993, and completed a Harvard Advanced Management Program in Boston, USA, in 2004. Dr. Urs Andreas Meyer joined Rieter Spinning Systems in 1990, where he held several management positions until 1997. He served as Managing Director of Otto Suhner AG, Brugg (Switzerland) from 1997 to 2001. Before joining Renova he was CEO of Satisloh, Baar (Switzerland), a division



of Schweiter Technologies, Switzerland. Since 2007, Dr. Urs Andreas Meyer has been a member of the Board of Directors of Sulzer, Winterthur (Switzerland).

#### 3 Hans Ziegler

Member of the Board of Directors  
Member of the Human Resources Committee  
Member of the Audit Committee

Hans Ziegler (1952; Swiss citizen) earned a degree as business economist (KSZ) and completed a post-graduate course in business administration and IT information technology at TCU in Dallas-Fort Worth,

USA. After holding a number of positions at SBG and Ericsson, he joined Alcon Pharmaceuticals Cham, Fort Worth, USA, as CFO/Controller. From 1988 to 1991 Hans Ziegler was CFO at Usego Trimercerco group and from 1991 to 1995 CFO at Globus group. In 1996, he founded a consultancy operating in Switzerland and abroad, specializing in corporate restructuring, turnaround management and repositioning. He is Chairman of the Board of Swisslog Holding AG, Buchs, and Schlatter Holding AG, Schlieren, as well as a member of the Board of Directors of Elma Electronics AG, Wetzikon and Charles Vögele Holding AG in Pfäffikon Schwyz (all Switzerland).



#### 4 **Vladimir Kuznetsov**

Chairman of the Board of Directors  
Chairman of the Human Resources  
Committee

Vladimir Kuznetsov (1961; Russian citizen) was born in Moscow and has been living in Zurich since 2004. He has been involved with Renova group since 2001, and in 2004, he was appointed Chief Investment Officer of Renova Management AG, Zurich. In December 2007, he was appointed member of the Board of Directors of Sulzer AG, Winterthur. Still incumbent as a Renova executive, he became Chairman of the Board of Venetos Management AG in Zurich in

October 2008 – a subsidiary of Renova Management AG. Before joining the Renova group Vladimir Kuznetsov held several management positions at Goldman Sachs, Moscow, and at Salomon Brothers, Moscow and London, and in 1998, was appointed Managing Director of Financial Advisory Services, Moscow. Vladimir Kuznetsov graduated in economics from the State University of Moscow in 1984, and holds a Master degree in International Affairs from Columbia University, New York.

#### 5 **Carl Stadelhofer**

Member of the Board of Directors  
Member of the Human Resources  
Committee  
Member of the Strategy Committee

Carl Stadelhofer (1953; Swiss citizen) is a Senior Partner at Klein Attorneys in Zurich, Switzerland. He graduated in law from the University of Berne in 1979, and specializes in banking and finance law as well as the resource and commodity business, including M&A. In 1982, he was admitted to the Bar of the Canton of Zurich. Carl Stadelhofer is Chairman of Renova Industries and Renova Holding, and Vice President of Renova Management. He is also the Chairman of NZB Neue Zürcher Bank and NZB Holding. Carl Stadelhofer is Chairman of several other organizations including JTE Finanz, LogObject and Calle Services Management. Besides these chairing mandates, he is a member of a number of boards such as Conrad Electronic, Stadelhofer Enterprises, Terraco Holding, Valamur Enterprise Ltd., Widex Hörgeräte and Wincap. He is also actuary of the International Brachet Foundation, Vice-President of the Foundation Jean-Pascal Imsand and Chief Legal Counsel of Renova group.

## Board of Directors

The 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 (last revised on August 25, 2008 and published on the Oerlikon website: [www.oerlikon.com/corporate\\_governance/regulations](http://www.oerlikon.com/corporate_governance/regulations)).

### Members of the Board of Directors

In the year under review, the Board of Directors of OC Oerlikon Corporation AG, Pfäffikon was composed of Vladimir Kuznetsov (Chairman since May 13, 2008), Dr. Urs Andreas Meyer (starting May 13, 2008), Carl Stadelhofer (starting May 13, 2008), Hans Ziegler (starting May 13, 2008), Kurt J. Hausheer (starting July 1, 2008), Dr. Hanno Bästlein, who resigned from the Board of Directors effective October 31, 2008, as well as Georg Stumpf (Chairman until May 13, 2008) and Günther Robol, whose statutory terms of office expired on May 13, 2008 and who decided not to run for re-election.

In the three financial years preceding the reporting period, the afore mentioned 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 material business dealings with companies of the Oerlikon group.

### Composition of the Board of Directors

Name (Nationality)	Domicile	Position	Age	Joined	Term expires	Executive/ Non-executive
Vladimir Kuznetsov (RUS)	CH	Chairman since 13.05.2008 Vice Chairman until 13.05.2008	48	2007	2009	Non-executive
Dr. Urs Andreas Meyer (CH)	CH	Member since 13.05.2008	44	2008	2009	Non-executive
Carl Stadelhofer (CH)	CH	Member since 13.05.2008	55	2008	2009	Non-executive
Hans Ziegler (CH)	CH	Member since 13.05.2008	56	2008	2009	Non-executive
Kurt J. Hausheer (CH)	CH	Member since 01.07.2008	61	2008	2009	Non-executive
Georg Stumpf (A)	A	Member and Chairman until 13.05.2008	36	2005	–	Non-executive
Günther Robol (A)	A	Member until 13.05.2008	68	2005	–	Non-executive
Dr. Hanno Bästlein (D)	A	Member until 31.10.2008	45	2007	–	Non-executive

### Other activities and vested interests

See pages 60–61.

### Elections and terms of office

Board members are elected annually by the General Meeting of Shareholders for a term of one year. They are eligible for re-election; a “year” means the period from one ordinary General Meeting of Shareholders to the next. In the event of elections for replacement or elections of additional members during the year, the period until 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. The Board of Directors shall not propose persons who are 70 years of age or older for election or re-election to the Board of Directors. Such members shall retire from office not later than on the occasion of the Annual General Meeting of the calendar year in which they celebrate their 70th birthday.



### Internal organizational structure

The Board of Directors is the supreme supervisory body of the Oerlikon group. It is responsible for the overall management, oversight and control of the Oerlikon group, determines the group strategy and oversees the Executive Board. 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 consists of at least three but not more than nine members. Their majority shall 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 Board, nor a member of the executive management of an Oerlikon group company or an audit firm of any of them, nor close to any of the latter, and had no significant business relation, whether directly or indirectly, with the Oerlikon group.

The Board of Directors is self-constituting, appointing from amongst its members the Chairman, a member to act as the Chairman in the event of incapacity or absence of the Chairman, and the members of the Board Committees.

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 Chief Executive Officer (CEO), to provide to the Board of Directors optimal information regarding 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 with the general public.

The Chairman shall convene, prepare and chair Board meetings, may convene meetings of the Board Committees and shall coordinate the work of the Board of Directors and the Board Committees. In cases of uncertainty, he shall delineate authorities between the Board of Directors, its Committees and the Executive Board, unless the entire Board of Directors intends to address the matter.

The Board of Directors may at any time create committees from amongst 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. 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 make decisions themselves besides recommendations, proposals or motions to be submitted to the Board of Directors.

Currently there are three permanent committees of the Board of Directors, namely the Audit Committee (AC), 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	Audit Committee (AC)	Human Resources Committee (HRC)	Strategy Committee (SC)
Vladimir Kuznetsov (RUS)	Member until 13.05.2008	Chairman and member since 13.05.2008	
Dr. Urs Andreas Meyer (CH)	Member since 13.05.2008		Chairman and member since 13.05.2008
Carl Stadelhofer (CH)		Member since 13.05.2008	Member since 13.05.2008
Hans Ziegler (CH)	Member since 13.05.2008	Member since 13.05.2008	
Kurt J. Hausheer (CH)	Chairman and member since 01.07.2008		Member since 01.07.2008
Georg Stumpf (A)	Member until 13.05.2008	Chairman and member until 13.05.2008	
Günther Robol (A)	Chairman and member until 13.05.2008	Member until 13.05.2008	
Dr. Hanno Bästlein (D)		Member until 13.05.2008	

### Audit Committee (AC)

As a rule, the AC shall be composed of at least three members of the Board of Directors. Members of the AC are not eligible if they perform any executive management duties within the Oerlikon group whilst in office, or have significant business relations with a company of the Oerlikon group, or have been members of the Executive Board 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 AC members, including its Chairman, must be experienced in the fields of finance and accounting and be familiar with internal and external auditing. As a separate advisory group, independent from the Executive Board and the CEO, the AC shall advise the Board of Directors and exclusively follow the Board of Directors' instructions.

The AC monitors group-wide with a view to providing a basis for assessment to the Board of Directors

- in relation to external audits: the relevance of the audit work plan and the price/performance ratio;
- in relation to internal audits: the relevance of the engagement of internal auditors and the professional performance of the auditors;
- in relation to the accounting and internal control systems: the relevance of the accounting system, financial strategy and planning, as well as financial risk control;
- in relation to annual and interim reports: the preparation of Oerlikon's financial statements and consolidated financial statements, annual business report, specific interim financial statements for publication, and the financial reports on operating results and cash flows of the Oerlikon group; and
- in relation to corporate governance and compliance: the reasonableness of Oerlikon's corporate governance and compliance, the relevant guidelines and organization, particularly as instruments to ensure group-wide compliance with relevant applicable laws and regulations.

### 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 whilst in office, or have significant business relations with OC Oerlikon Corporation AG, Pfäffikon or Oerlikon group, or have been members of the Executive Board 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 HRC supports the Board of Directors with regard to personnel related matters, in particular

- the compensation policies for the members of the Board of Directors, the Executive Board, the Senior Leadership Team and the group-wide managerial and non-managerial staff;
- the succession planning related to members of the Board of Directors and the Executive Board;
- the performance management of the members of the Board of Directors and the Executive Board;
- the appointment of the Chairman and the Vice Chairman of the Board of Directors;
- the appointment of Board members to the Committees; and
- the appointment and dismissal of the Executive Board members.

The HRC approves the appointment and dismissal of Segment CEOs by the Chief Executive Officer and sets, subject to the approval of the Board of Directors, the individual compensation packages of the Executive Board members.

### Strategy Committee (SC)

As a rule, the SC shall be composed of at least three members of the Board of Directors. Only one member of the SC is also eligible if performing any executive management duties within the Oerlikon group whilst in office, or having significant business relations with Oerlikon or Oerlikon group, or having been a member of the Executive Board in the preceding three years.

The SC monitors that Oerlikon's strategy is properly established, implemented and complied with by the Executive Board 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.

### 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, or more often if necessary. Each Board member and each member of the Executive Board may request the Chairman to convene a Board meeting by stating the reasons for such a request. In 2008, 16 Board meetings were held, 5 of them in the form of telephone conferences. 13 meetings were attended by all Board members. The meetings lasted on average around three and a half hours.

The members of the committees, 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 Director. Those Board members who are not members of the committees have the right to attend committee meetings with consultative vote. As a rule, the CEO, the CFO and, where necessary, the Head of Internal Audit should attend the meetings of the AC, the CEO, the Head of Corporate Human Resources and the Corporate Secretary the meetings of the HRC,

and the CEO the meetings of the SC. Additional persons (e.g. representatives of the external auditors) may be invited, if required.

In 2008, there were nine meetings of the AC (one of them in the form of a telephone conference), lasting between two and seven hours. The members of the AC participated in these meetings along with other Board members, members of the Executive Board and representatives of the corporate functions concerned (in particular, Corporate Accounting and Reporting and Internal Audit). The external auditors (KPMG AG) took part in five AC meetings. The HRC held four meetings in 2008 lasting between two and five hours, the SC held five meetings lasting between three and eight hours. In addition to the official meetings of the Board Committees, numerous work group meetings comprised of different participants were held.

### Definition of areas of responsibility

Pursuant to Art. 716b CO and Art. 17 Para. 3 of the Articles of Association, the Board of Directors has in principle delegated the operational management of the business of the corporation to the Executive Board. 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 management of the corporation, the determination of the strategic direction and of the organization of the corporation, the structuring of the accounting system, the financial controls and the financial planning, the appointment and removal of the persons entrusted with the management and representation of the corporation, as well as the ultimate supervision of those individuals entrusted with the management of the corporation.

The Executive Board is as a collegial body 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 such decisions are not expressly reserved to the Board of Directors or delegated to individual group companies. The Executive Board is chaired by the CEO, who has a right of veto against all resolutions of the Executive Board. The CEO heads and oversees the operational management of OC Oerlikon Corporation AG, Pfäffikon and the Oerlikon group in accordance with any directives of the Executive Board.

More information regarding the areas of responsibility of the Board of Directors and the Executive Board can be found in the company's Organizational and Governance Rules published on the Oerlikon website: [www.oerlikon.com/corporate\\_governance/regulations](http://www.oerlikon.com/corporate_governance/regulations)

### Information and control instruments vis-à-vis the senior management

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 Executive Board's duty of information:**

The Executive Board reports at Board of Directors meetings on its day-to-day operations, operating results and important business matters. Extraordinary occurrences must be immediately notified to the Chairman of the Board of Directors and to the Chair of the relevant committee, if any. 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 Board 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, Segment CEOs, 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.

**Corporate Accounting and Reporting:** The group-wide Corporate Accounting and Reporting function prepares monthly group financial statements for the Executive Board and the Board of Directors. These show the performance of each business unit and the Group, the reasons for any deviations as well as graphs of the key performance indicators. The Board of Directors may demand access to the relevant details at any time.

**Controlling:** With regard to strategic controlling, the key instruments are strategic analyses prepared by the group's individual business units, as well as an annually revised strategic plan. In terms of operational controlling, the Board of Directors receives the annual financial plan (budget) as well as periodic financial forecasts for both profit and loss and cash flow statement. The Executive Board receives a monthly actual/target analysis of the key performance indicators to assist in the assessment of the business units' performance.

**Business risk management:** A key component of business risk management (BRM) is the generation of a risk matrix for the group as a whole, as well as for its individual business units. This overview, which is closely reviewed on a quarterly basis, enables monitoring of ongoing risk developments and exposure and constitutes the basis for measures aimed at managing those risks. BRM is integrated into the strategic planning and budgeting processes.

**Internal Audit:** Internal Auditing 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 Audit Committee of the Board of Directors and administratively to the General Counsel. The Audit Committee approves the budget, the resources and the internal audit plan for the following year every autumn. Internal audit closely coordinates their plans and activities with External Audit. Internal Audit projects are selected on the basis of a group-wide risk assessment in coordination with Business Risk Management. The annual audit plan has the appropriate balance between operational, financial, compliance, information technology and follow-up reviews. The results of internal audits are communicated to the management team responsible, the Executive Board, the Audit Committee, the Chairman of the Board and the external auditors through formal audit reports. During 2008 more than 70 internal audits were conducted.

**External Audit:** The external auditor examines the books and accounts of OC Oerlikon Corporation AG, Pfäffikon and those of Oerlikon group, coordinating his audit plan with that of Internal Audit. On completion of the audit the external auditor prepares a detailed Memorandum on Examination for discussion with the Audit Committee and the Board of Directors, and a summary thereof for the General Meeting of Shareholders, detailing the findings of the audit. Since 2003 the external audit has been carried out by KPMG AG.

The continued independence of the group auditors is ensured by written representations provided by the auditors and also by 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 Board

#### 1 **Thomas Babacan** Chief Operating Officer

Thomas Babacan (1969; German citizen) joined the Corporate Treasury unit of Balzers & Leybold Deutschland Holding in Hanau in 1999. From January 2000 he was also responsible for special projects in Corporate Finance (M&A) and for setting up the Greater China project. In 2002 he took over as Regional Executive Europe and member of the Extended Executive Board. In addition, he served as Managing Director of various European Oerlikon companies. At the beginning of 2005 he was appointed CFO of Leybold Vacuum, and since September 2005 has held the position of CEO of Oerlikon Vacuum. In October 2008, Thomas Babacan became COO of Oerlikon group. Thomas Babacan holds a degree in business from the Johann Wolfgang Goethe University, Frankfurt.



#### 2 **Björn Bajan** General Counsel and Corporate Secretary

Björn Bajan (1960; Swiss citizen) has been General Counsel and Corporate Secretary of Oerlikon group since February 1, 2007. He is a lawyer specializing in commercial law, banking and stock exchange law, as well as international procedural law, and prior to joining the Oerlikon group was a partner at a reputable legal firm in Zurich. Björn Bajan graduated from the University of Zurich in 1986 and completed post-graduate studies at Queen Mary College, London, in 1994. He has been a member of the

Zurich Bar since 1989. During his private practice he also held directorships at various Swiss companies. From 2005 until his appointment to the Executive Board, Björn Bajan was an external legal adviser for various companies of the Oerlikon group.



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### 3 Dr. Uwe Krüger

Chief Executive Officer

Dr. Uwe Krüger (1964; German citizen) has been a member of the Executive Board since March 1, 2007, and Chief Executive Officer of Oerlikon since May 8, 2007. From March 1 to May 8, 2007, he held the post of Chief Operating Officer (COO). Before joining Oerlikon, Dr. Uwe Krüger was Chairman of Turner International, a member of the HOCHTIEF group, and Senior Vice President of Turner Corporation, Dallas, USA, where he was responsible for strategic corporate development, new business areas and M&A projects. Dr. Uwe Krüger

studied physics, mathematics and economics at the University of Frankfurt and completed research internships at the Physikalisch-Technische Bundesanstalt in Braunschweig, Columbia University, New York, and the École Normale Supérieure in Paris. He began his professional career as a consultant with A.T. Kearney, working on projects in the automotive and high-tech industries. In 1997, he moved to HOCHTIEF group, where his main positions included Senior Vice President Corporate Development and CEO Central Eastern Europe.

### 4 Jürg Fedier

Chief Financial Officer

Jürg Fedier (1955; Swiss citizen) was appointed Chief Financial Officer of Oerlikon effective on January 1, 2009. He joined the Dow Chemical Company in Horgen, Switzerland, in 1978. Over the following years, he held various managerial positions in treasury operations in Europe, the Middle East and Africa. Jürg Fedier was appointed Treasurer of Dow Germany in 1987 and Assistant Treasurer USA in 1993. Two years later he became Treasurer of Dow Japan, subsequently establishing and managing the Financial Risk Center in Singapore for Dow Chemical Asia Pacific. In 1998, Jürg Fedier became Global Business Finance Director of the Epoxy Products and Intermediates division in Horgen, Switzerland, before being appointed Global Business Finance Director of Thermosets, USA, in 2000. Before returning to Switzerland in March 2006 as Head of Finance of Dow Europe and a member of the Executive Board, Jürg Fedier served as Vice President Finance for Performance Chemicals. In March 2007 he took over as CFO of Ciba in Basel, Switzerland. Over the course of his career, Jürg Fedier has served on several Boards of Directors.

## Executive Board

### Management philosophy

Oerlikon group works with a decentralized management structure. This means that corporate headquarters determines strategic guidelines and sets targets, monitoring these with effective controlling; segments and business units are then fully responsible for operations and for implementing the agreed strategy within given guidelines. Additionally, segments also perform functions on behalf of the Group as a whole, such as sourcing or information technology. This ensures that processes and structures comply with the needs of the operating units and that all decisions taken by corporate headquarters give due consideration to the requirements of the segments.

### Members of the Executive Board

On December 31, 2008 Dr. Uwe Krüger (CEO and CFO a.i.), Thomas Babacan (COO) and Björn Bajan (General Counsel and Corporate Secretary) were members of the Executive Board. Jürg Fedier (CFO) joined the Executive Board on January 1, 2009.

### Composition of the Executive Board

Name	Nationality	Age	Position	Joined	In position since	Stepped down
Dr. Uwe Krüger	D	44	CEO <sup>1</sup>	2007	08.05.2007 <sup>2</sup>	–
Björn Bajan	CH	48	General Counsel and Corporate Secretary	2007	01.02.2007	–
Thomas Babacan	D	39	COO	2008	01.10.2008	–
Jürg Fedier	CH	53	CFO	2009	01.01.2009	–
Dr. Jörg Eichkorn	D	43	CFO	2006	12.12.2006	31.08.2008

<sup>1</sup> and CFO ad interim from 01.09.2008 until 31.12.2008.

<sup>2</sup> COO from 01.03.2007 until 08.05.2007.

### Other activities and vested interests of Executive Board members

No member of Oerlikon's Executive Board holds a position in management or on the supervisory board of any significant Swiss or foreign corporation, institution or foundation outside of the Oerlikon group other than Björn Bajan, who has represented OC Oerlikon Corporation AG, Pfäffikon on the Board of Directors of Pilatus Flugzeugwerke AG, Stans since the end of June 2006. Members of the Executive Board do not carry out permanent consulting or management functions for any significant Swiss or foreign companies, nor do they have responsibilities in government service or politics.

### Important changes since December 31, 2008

On January 1, 2009, Jürg Fedier joined the Oerlikon group as CFO.

### Management contracts

As of December 31, 2008, OC Oerlikon Corporation AG, Pfäffikon and its group companies had no material third-party management contracts.



## Remuneration Report

The purpose of this remuneration report is to inform Oerlikon shareholders and interested members of the general public about the remuneration paid to the company's directors and senior executives. Oerlikon thus complies with the Swiss Code of Obligations (CO) – Art. 663b<sup>bis</sup> and Art. 663c Para. 3 – and Sec. 5.1 of the Annex to the Corporate Governance Directive (RLCG) of the SIX Swiss Exchange for disclosing the compensation policy and remuneration paid to the Board of Directors and the Executive Board. Moreover, as regards remuneration reporting, Oerlikon complies with the Swiss Code of Best Practice for Corporate Governance of Economiesuisse. The consolidated financial statements are prepared in accordance with IFRS (International Financial Reporting Standards). These regulations may at times require different interpretations and presentations. See also note 23 (Participation plans) and note 24 (Related party transactions) of the consolidated financial statements.

### Compensation Policy

Oerlikon believes that compensation must be attractive, motivating and fair. The compensation systems provide competitive base salaries and attractive incentive schemes. They take into account individual and company performance, reward excellence and promote an entrepreneurial attitude.

To determine competitive and fair compensation packages, external equity is established by continuously surveying the markets in which Oerlikon operates and internal equity is established by following a performance management process. Performance management is a crucial element in setting expectations aligning targets and assessing their achievement against individual and business results.

### Determining Compensation

The Human Resources Committee advises the Board of Directors in all matters relating to the compensation and performance management at Oerlikon, in particular:

- the compensation policies for members of the Board of Directors, the Executive Board, the Senior Leadership Team and the group-wide managerial and non-managerial staff;
- the objectives for the CEO and assessing their achievement;
- the performance assessment of Executive Board members by the CEO.

The compensation policies for the Board of Directors, the Executive Board and the Senior Leadership Team require a continuous review of whether or not the compensation is:

- competitive, transparent and fair by analyzing comparable companies and salary trends in the markets;
- aligned with the consolidated profit and individual performance;
- consistent with the values and long-term strategy of Oerlikon.

This review is the basis for the Board of Directors to decide in:

- December on the target compensation of the members of the Board of Directors, the Executive Board and the Senior Leadership Team for the following year;
- February on the target achievement and variable compensation of members of the Board of Directors and the Executive Board for the past year.

## Compensation Systems

### Board of Directors

As of May 2008, the compensation of Directors consists of cash compensation and restricted stock units (RSU). The cash compensation is defined by the responsibility, complexity and requirements for the tasks assumed. Each task is valued differently and depending on the number of tasks assumed by each member, the values are cumulated.

#### Cash Compensation per Task

in 000 CHF	Fee	Expense Allowance
Board member	75	5
Chairman of the Board of Directors		10
Chairman of a Committee	70	
Member of a Committee	50	

Every board member receives restricted stock units (RSU) in the amount of CHF 125 000 – the Chairman of the Board of Directors receives additional RSU in the amount of CHF 155 000 – which are blocked from their granting at the Annual General Meeting of Shareholders until either the following Annual General Meeting of Shareholders or the departure of the Board member, at which time they are converted into Oerlikon shares.

The total compensation for all non-executive members of the Board of Directors in 2008 was CHF 1.0 million.

#### Compensation of non-executive board members

in 000 CHF	Board of Directors	Strategy Committee	Audit Committee	HR Committee	Cash Compensation	Restricted Stock Units RSU <sup>4</sup>	Other Compensation <sup>6</sup>	Total Compensation 2008	Total Compensation 2007 <sup>7</sup>
Vladimir Kuznetsov	C		M <sup>1</sup>	C	91	0 <sup>5</sup>	16	107	0
Dr. Hanno Bästlein	M <sup>3</sup>			M <sup>1</sup>	63	76	4	143	284 <sup>8</sup>
Kurt J. Hausheer	M <sup>2</sup>	M <sup>2</sup>	C <sup>2</sup>		98	76	11	185	0
Dr. Urs A. Meyer	M	C	M		123	76	13	212	0
Carl Stadelhofer	M	M		M	110	76	12	198	0
Hans Ziegler	M		M	M	110	76	12	198	0
Georg Stumpf	C <sup>1</sup>		M <sup>1</sup>	C <sup>1</sup>				0	0
Günther Robol	M <sup>1</sup>		C <sup>1</sup>	M <sup>1</sup>				0	619 <sup>9</sup>
<b>Total</b>					<b>595</b>	<b>380</b>	<b>68</b>	<b>1 043</b>	<b>903</b>

C(hairman), M(ember)

<sup>1</sup> Until May 13, 2008.

<sup>2</sup> As of July 1, 2008.

<sup>3</sup> Until October 31, 2008. Payment was made to a related party.

<sup>4</sup> Accounting value for 1 712 restricted stock units (RSU) per year end based on a share price of CHF 378.50 (grant date). The share price at year-end was CHF 69.00 which reduced the total value of the RSU for 2008 to less than CHF 100 000.

<sup>5</sup> Vladimir Kuznetsov waived his RSU for 2008/09.

<sup>6</sup> Other compensation consists of social security contributions and an expense allowance which are paid by the OC Oerlikon Corporation AG.

<sup>7</sup> In 2007, Georg Stumpf and Vladimir Kuznetsov waived their compensation for 2007.

<sup>8</sup> The compensation for Dr. Hanno Bästlein were mainly shares and options in 2007.

<sup>9</sup> The compensation for Günther Robol included CHF 600 000 cash and CHF 19 000 other compensations.

In 2008, no payment was made to former non-executive members of the Board of Directors.

### Executive Board

Members of the Executive Board receive compensation consisting of a base salary, expense allowances, a performance-related annual bonus and a performance-related long-term bonus.

The base salary is determined primarily by the executive's tasks, responsibilities, skills, managerial experience and market conditions.

Members of the Executive Board receive an expense allowance of CHF 18 000 and a car allowance of CHF 24 000. Other allowances which had been paid in 2007 were included in the base salary in 2008.

The performance-related bonus paid to Executive Board members is dependent on their achievement of individual performance objectives, which are directly linked to the business success of the Oerlikon group. While the CEO receives his annual performance-related bonus in shares, other members of the Executive Board receive their performance-related annual bonus in cash. The performance-related annual bonus cannot exceed 150 percent of the target amount.

As of 2008, the CEO participates in a long-term stock appreciation rights (SAR) program while other members of the Executive Board participate in a long-term performance share program. The variable portion of their total target compensation (short- and long-term bonus) is on average 60 percent.

Dr. Krüger waived his rights under the annual bonus and the long-term bonus plans for the year 2008.

The total compensation paid to all Executive Board members for the year 2008 was CHF 5.1 million. The highest compensation paid to an individual board member was CHF 2.1 million.

### Compensation of members of the Executive Board

in 000 CHF	Salary	Bonus <sup>1</sup>	Performance Shares <sup>2</sup>	Pension	Other Compensation <sup>3</sup>	Total Compensation 2008	Total Compensation 2007 <sup>4</sup>
Total compensation of the Executive Board	3 871	616	2	507	149	5 145	15 273
thereof highest paid: Dr. Uwe Krüger (CEO)	1 940	0	0	146	42	2 128	7 771

<sup>1</sup> Dr. Uwe Krüger waived his annual bonus and allocation of stock appreciation rights for 2008.

<sup>2</sup> Performance share awards were allocated to members of the Executive Board (except the CEO). Their value per year-end is based on a weighted average share price of CHF 92.66 (grant date).

<sup>3</sup> The other compensation includes expenses and car allowances.

<sup>4</sup> In 2007, the former CEO received the highest compensation (CHF 7 771 000).

The total compensation paid directly or indirectly to former members of the Board of Directors or the Executive Board for the year 2008, either by OC Oerlikon Corporation AG, Pfäffikon or by any other company of the Oerlikon group, was CHF 0.9 million.

The following payments were made in 2008 to a former member of the Executive Board.

#### Payments to a former member of the Executive Board

in 000 CHF	Shares <sup>1</sup>	Severance Payment	Total Compensation 2008
Total compensation	446	476	922

<sup>1</sup> 4 000 shares were paid at a price of CHF 111.50 on November 7, 2008.

#### Senior Leadership Team

The Senior Leadership Team is comprised of the Segment CEOs and the heads of specific corporate functions. Their compensation system is composed of base salary and a performance-related annual cash bonus. As of 2008, they participate in a long-term performance share plan.

The base salary is determined by the executive's tasks, responsibilities, skills, managerial experience and market conditions. In view of the difficult market conditions, the Executive Board decided to freeze the salaries of the Senior Leadership Team and all other senior managers in 2009.

The Senior Leadership Team participates in the Corporate Short-Term Incentive (STI) program, which applies to all senior managers in the Corporation. The program consists of financial targets (gross sales, operating profit, operating free cash flow) and individual objectives. The financial targets reflect the budget of the individual's own area of responsibility and the budget of the next level up. Financial targets account for 70 percent of the target bonus. Each target has a lower threshold below which no bonus for this target is paid and an upper threshold above, which no additional bonus is paid. Individual targets are defined at the beginning of the year and evaluated at the beginning of the following year, and account for 30 percent of the target bonus. The performance-related annual bonus cannot exceed 205 percent of the target bonus.

In view of the difficult market conditions, the Executive Board decided to adjust the STI program in 2009. Financial and individual objectives will be weighted equally to take account of the difficulties of financial planning in this year and to provide more flexibility for individual target definitions. In addition, seasonal financial targets (EBITDA, operating free cash flow) will be defined, the achievement of which will be measured at mid-year and year-end in order to provide incentives for reaching imminent financial targets.

#### Equity plans

The following equity plans are in existence, pursuant to which the holder is entitled to shares of OC Oerlikon Corporation AG, Pfäffikon:

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 earlier of either the next Annual General Meeting of Shareholders or the departure of the Board member, at which time they are converted into Oerlikon shares.

#### Restricted Stock Units (RSU)

Year of allocation	Outstanding on 1.1.	Granted in 2008	Forfeited in 2008	Exercised in 2008	Outstanding on 31.12.	Average share price	Expenses recognized	Vesting Period
2008		2 479	767		1 712	378.5	0.38	14.05.08–12.05.09

As of 2008, members of the Executive Board (except the CEO), the Senior Leadership Team and other senior managers may receive as a portion of their compensation a long-term bonus in the form of awards for OC Oerlikon Corporation AG, Pfäffikon shares based on performance and vesting conditions. Upon vesting, the performance share awards (PSA) are converted into shares.

The performance conditions are defined for a performance period of typically 3 years and the metrics reflect the nature of the respective business, e.g. RONO for steadily growing businesses in stable market conditions or EV for the Executive Board (except the CEO) and corporate functions. Each target has a lower threshold below which no PSA are converted into shares and an upper threshold above which no additional shares are granted. The number of performance share awards cannot exceed 200 percent of the target number.

#### Performance Share Awards (PSA)

Year of allocation	Outstanding on 1.1.	Granted in 2008	Forfeited in 2008	Exercised in 2008	Outstanding on 31.12.	Average share price	Expenses recognized	Vesting Period
2008		46 365			46 365	93	0.53	01.05.08–30.04.11

In previous years, employees could receive a portion of their compensation as options for OC Oerlikon Corporation AG, Pfäffikon with a blocking period of 1, 2, 3 or 4 years. Holders of these options are entitled to purchase one share for each option held. The Oerlikon Options Plan (OOP) launched in 2007 was discontinued in 2008.

#### Share Options

Year of allocation	Outstanding on 1.1.	Granted in 2008	Forfeited in 2008	Exercised in 2008	Outstanding on 31.12.	Average share price	Expenses recognized	Vesting Period
2001	265		-109	-156	-	315	0.00	29.05.03–28.05.08
	269		-113	-156	-	315	0.00	29.05.04–28.05.08
2002	472		-87	-16	369	190	0.00	14.05.04–13.05.09
	479		-89	-16	374	190	0.00	14.05.05–13.05.09
2003	321				321	110	0.00	24.05.05–23.05.10
2007	1 725		-294		1 431	603	0.00	01.01.08–31.12.13
	1 725		-294		1 431	603	0.00	01.01.09–31.12.13
	1 725		-294		1 431	603	0.00	01.01.10–31.12.13
	1 725		-294		1 431	603	0.00	01.01.11–31.12.13
<b>Total</b>	<b>8 706</b>		<b>-1 574</b>	<b>-344</b>	<b>6 788</b>		<b>0.00</b>	

For options exercised in 2008, the weighted average share price upon exercise amounted to CHF 369 (2007: CHF 682).

## Other Conditions and Payments

The employment contracts of Executive Board members are of unlimited duration and terminate automatically upon a member reaching the age of 62.

**Notice Period:** The contracts provide for a notice period of twelve months.

**Severance payment:** In case of termination by OC Oerlikon Management AG, Pfäffikon (other than for cause within the meaning of article 337 of the Swiss Code of Obligations or other than in case of a change of control) prior to 2011, the Executive is entitled to a severance payment. The severance payment is equal to an annual compensation and the market value of the existing LTI plan.

In case of termination by OC Oerlikon Management AG, Pfäffikon or the Executive within a period of 12 months from the effective date of a Change of Control regarding OC Oerlikon Corporation AG, Pfäffikon (hereinafter "OC Oerlikon") the Executive is entitled to a severance payment. The severance payment is equal to an annual compensation and the market value of the existing LTI plan.

**Change of Control:** A change of control shall mean (summarized) one of the following events:

- A person, group of persons or entity becomes the beneficial owner of voting securities representing 33.33 percent or more, of the combined voting power of all outstanding securities of OC Oerlikon or, in the event of a merger, of the outstanding voting securities of the surviving or resulting entity, while at the same time no other present shareholder of OC Oerlikon, who disposed of more than 10 percent of this combined voting power on October 1, 2008, disposes of a higher voting power in OC Oerlikon or, in the event of a merger, in the surviving or resulting entity.
- The shareholders of OC Oerlikon approve the sale of substantially all the business and/or assets of OC Oerlikon to a person or entity of which OC Oerlikon, directly or indirectly, controls 50 percent or less of all outstanding securities.

**Additional fees:** Members of the Board of Directors, the Executive Board or related parties did not receive any fees or other remuneration for additional services to OC Oerlikon or one of its subsidiaries in the 2008 business year.

**Loans:** In 2008, neither OC Oerlikon nor its subsidiaries granted any guarantees, loans, advances or credit facilities to members of the Board of Directors, the Executive Board or related parties.

## Shareholder participation rights

### Voting right restrictions and representation

There are no restrictions on voting rights. Each shareholder may be represented at the General Meeting by means of a written proxy issued to some other registered shareholder, by the institutional representative (OC Oerlikon Corporation AG, Pfäffikon) or by the company-appointed independent voting rights representative.

### 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 General Meeting of Shareholders

Supplemental to the provisions of corporate law, the company's Articles of Association provide for the convocation of a General Meeting of Shareholders by a one-off announcement in the Swiss Commercial Gazette.

### Agenda

Supplemental to the provisions of corporate law, the company's Articles of Association provide that the inclusion of an item in the agenda can be requested at the latest ten weeks prior to the date of the General Meeting of Shareholders.

### Share register entries and related deadlines

The 2009 General Meeting of Shareholders will be held on May 12, 2009 in the KKL Luzern (Culture and Convention Center), Lucerne. Entitled to vote in the General Meeting of Shareholders are the shareholders whose names are entered in the share register as registered shareholders with voting rights at the cut-off date to be determined by the Board of Directors.

### Right to inspect the minutes of the General Meeting

The minutes of the 35th Ordinary General Meeting of shareholders held on May 13, 2008 can be viewed on the Internet at [www.oerlikon.com](http://www.oerlikon.com) and shareholders may also read the minutes at the headquarters of the corporation upon prior notice. The minutes of the 2009 Ordinary General Meeting 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 Articles 32 and 52 of the Federal Act on Stock Exchanges and Securities Trading (opting out).

### Change of control clauses

Please see under Remuneration Report – Other conditions and payments.

## Auditors

### Duration of mandate and lead auditor's term of office

KPMG AG was elected as auditor by the General Meeting of May 23, 2003 for the first time. At the 35th General Meeting of May 13, 2008, it was confirmed in that role for an additional year. For the audit of the 2005 financial year, Mr. Herbert Busmann was auditor in charge at Oerlikon for the first time.

### Auditing fees

In the calendar year 2008, KPMG AG invoiced the company for CHF 4 554 693 in global auditing fees.

### Additional fees

In the calendar year 2008, KPMG AG invoiced the company for CHF 546 947 in additional services.

### Information tools pertaining to the external audit

In accordance with Art. 728 b Para. 1 of the Swiss Code of Obligations, the external auditors issue to the Board of Directors on an annual basis a comprehensive report including statements pertinent to bookkeeping and company reporting, the internal controlling system, and the implementation, and the result of the audit. If interim audits are conducted during the year, the external auditors issue comprehensive interim audit reports to the Board of Directors.

Once the auditing work has been completed the Audit Committee 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, the Audit Committee submits proposals in response to the external auditors' recommendations, objections and other discovered deficiencies, if any, to the Board of Directors for deliberation and monitors the implementation of any relevant action decided upon by the Board of Directors.

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

The Audit Committee monitors on behalf of the Board of Directors the qualification, independence, performance and fees of the external auditors. It submits a proposal to the Board of Directors for the election of external auditors by the General Meeting of Shareholders.



## Information policy

### General

Oerlikon provides its shareholders and the capital market with transparent, comprehensive and timely information on facts and developments of relevance to them, and in a manner that is in keeping with the principle of equal treatment of all capital market participants. Apart from its detailed annual report and mid-year report, which are prepared in accordance with International Financial Reporting Standards (IFRS, formerly IAS), Oerlikon publishes key financial figures (sales, orders received and orders on hand) and a related commentary for the first and third quarters of its financial year. Additionally, press releases keep shareholders and the capital market informed of significant changes and developments in the company. The company's website, [www.oerlikon.com](http://www.oerlikon.com), is a permanently accessible platform for 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 (ad hoc publicity obligation).

### Press releases

Press releases published in 2008, along with all others dating back to March 2004, can be accessed on our website at [www.oerlikon.com/ir](http://www.oerlikon.com/ir). Those interested in receiving our press releases regularly by e-mail can register at [www.oerlikon.com/ir](http://www.oerlikon.com/ir).

### Important dates

March 26, 2009

Media and analyst conference on the 2008 annual results,  
SIX Swiss Exchange Convention Point, Zurich

April 23, 2009

Key figures for the first quarter of 2009

May 12, 2009

Ordinary General Meeting of Shareholders,  
KKL Luzern (Culture and Convention Center), Lucerne

August 27, 2009

Media and analyst conference on the half-year report 2009  
SIX Swiss Exchange Convention Point, Zurich

October 22, 2009

Key figures for the third quarter of 2009

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## Key figures Group

Key figures Oerlikon Group <sup>1</sup>		
in CHF million	<b>January 1 to December 31 2008</b>	January 1 to December 31 2007 restated
Orders received <sup>2</sup>	4 319	5 811
Orders on hand <sup>2</sup>	1 318	1 821
Sales <sup>2</sup>	4 750	5 404
EBITDA <sup>2</sup>	495	688
– as % of sales	10%	13%
EBIT <sup>2,3</sup>	–37	467
– as % of sales	–1%	9%
Net result	–422	319
– as % of sales	–9%	6%
– as % of equity attributable to shareholders of the parent	–39%	17%
Cash flow from operating activities <sup>4</sup>	411	678
Capital expenditure for fixed and intangible assets <sup>2</sup>	335	325
Total assets	5 476	6 290
Equity attributable to shareholders of the parent	1 093	1 858
– as % of total assets	20%	30%
Net liquidity <sup>5</sup>	–1 586	–794
Net assets <sup>6</sup>	2 919	3 266
EBIT as % of net assets (RONA)	–1%	14%
Number of employees <sup>2</sup>	18 385	18 711
Personnel expenses <sup>2</sup>	1 323	1 355
Research and development expenses <sup>2,7</sup>	247	245

<sup>1</sup> A five-year summary of key figures may be found on page 132.

<sup>2</sup> 2008 continued operations, 2007 restated.

<sup>3</sup> For 2008, continued operations of Oerlikon Group report an EBIT of CHF 281 million (before restructuring and impairment of goodwill). The Group EBIT including discontinued operations amounted to CHF 203 million (before restructuring and impairment of goodwill).

<sup>4</sup> Before changes in net current assets.

<sup>5</sup> Net liquidity includes marketable securities, treasury shares at market value as of December 31 as well as short-term and long-term debt.

<sup>6</sup> Net assets include current and non-current operating assets excluding cash, financial assets, current tax receivables and assets classified as held for sale less operating liabilities excluding financial liabilities, tax provisions and liabilities classified as held for sale.

<sup>7</sup> Research and development expenses include expenses recognized as intangible assets in the amount of CHF 31 million (previous year: CHF 34 million).

Key share-related figures <sup>8</sup>

in CHF	<b>January 1 to December 31 2008</b>	January 1 to December 31 2007 restated
Share price		
High	472	795
Low	67	337
Year-end	69	473
Total shares outstanding	14 142 437	14 142 437
Market capitalization in million	976	6 693
EBIT	–2.90	35.64
Earnings per registered share	–33.13	24.00
Net operating Cash Flow	32.06	51.78
Shareholders' equity	85.25	142.01
Dividend <sup>9</sup>	0.00	0.00

<sup>8</sup> Average number of shares with voting and dividend rights.

<sup>9</sup> Dividend 2008: proposal of the Board of Directors.

## Key figures by segment

Key figures by segment<sup>1</sup>

in CHF million	January 1 to December 31 2008	January 1 to December 31 2007 restated
<b>Oerlikon Group</b>		
Orders received	4 319	5 811
Orders on hand	1 318	1 821
Sales	4 750	5 404
EBITDA	495	688
EBIT	-37	467
- as % of sales	-1%	9%
Net assets <sup>3</sup>	2 919	3 266
Employees	18 385	18 711
<b>Oerlikon Textile</b>		
Orders received	1 364	2 655
Orders on hand	443	821
Sales	1 690	2 719
EBITDA	-9	276
EBIT	-281	208
- as % of sales	-17%	8%
Net assets <sup>2</sup>	1 197	1 453
Number of employees	7 008	7 753
<b>Oerlikon Coating</b>		
Orders received	509	497
Orders on hand	-	-
Sales	509	497
EBITDA	134	129
EBIT	78	83
- as % of sales	15%	17%
Net assets <sup>2</sup>	352	387
Number of employees	2 892	2 747
<b>Oerlikon Solar</b>		
Orders received	566	650
Orders on hand	429	460
Sales	598	266
EBITDA	128	68
EBIT	107	63
- as % of sales	18%	24%
Net assets <sup>2</sup>	247	-24
Number of employees	868	451
<b>Oerlikon Vacuum</b>		
Orders received	460	477
Orders on hand	68	78
Sales	465	458
EBITDA	63	64
EBIT	49	55
- as % of sales	11%	12%
Net assets <sup>2</sup>	68	-40
Number of employees	1 583	1 436
<b>Oerlikon Drive Systems</b>		
Orders received	1 171	1 185
Orders on hand	183	231
Sales	1 204	1 113
EBITDA	126	143
EBIT	65	83
- as % of sales	5%	7%
Net assets <sup>2</sup>	1 076	1 097
Number of employees	5 080	5 048
<b>Oerlikon Advanced Technologies<sup>3</sup></b>		
Orders received	250	343
Orders on hand	194	230
Sales	284	348
EBITDA	18	24
EBIT	-66	5
- as % of sales	-23%	1%
Net assets <sup>2</sup>	59	412
Number of employees	805	979
<b>Other</b>		
Orders received	0	3
Sales	0	3
EBITDA	35	-17
EBIT	10	-29
Net assets <sup>2</sup>	-81	-20
Number of employees	149	297

<sup>1</sup> Continued operations.<sup>2</sup> Net assets include current and non-current operating assets (excluding cash, financial assets, current tax receivables and assets classified as held for sale) less operating liabilities (excluding financial liabilities, tax provisions and liabilities classified as held for sale).<sup>3</sup> The segment Oerlikon Components was renamed to Oerlikon Advanced Technologies at the end of 2008. It includes Oerlikon Systems and Oerlikon Space.

## Consolidated income statement

## Consolidated income statement

in CHF million	Notes	January 1 to December 31 2008	January 1 to December 31 2007 restated
Sales of goods		4 132	4 765
Services rendered		618	639
<b>Total sales</b>		<b>4 750</b>	<b>5 404</b>
Cost of sales		-3 631	-4 065
<b>Gross profit</b>		<b>1 119</b>	<b>1 339</b>
Marketing and selling		-316	-328
Research and development		-237	-215
Administration		-311	-375
Impairment of goodwill	12	-252	0
Restructuring costs	3	-66	-2
Other income and expenses	2	26	48
<b>EBIT</b>		<b>-37</b>	<b>467</b>
Result from associated companies		0	-15
Financial income	4	14	17
Financial expenses	4	-123	-145
<b>Result before taxes (EBT)</b>		<b>-146</b>	<b>324</b>
Income taxes	5	-61	-18
<b>Result from continued operations</b>		<b>-207</b>	<b>306</b>
Result from discontinued operations	22	-215	13
<b>Net result</b>		<b>-422</b>	<b>319</b>
Attributable to:			
Shareholders of the parent		-425	314
Minority interests		3	4
Earnings per registered share in CHF	6	<b>-33.13</b>	24.00
Diluted earnings per registered share in CHF	6	<b>-33.13</b>	24.00
Earnings per registered share continued operations in CHF		<b>-16.36</b>	23.00
Diluted earnings per registered share continued operations in CHF		<b>-16.36</b>	23.00
Earnings per registered share discontinued operations in CHF	6	<b>-16.77</b>	1.00
Diluted earnings per registered share discontinued operations in CHF	6	<b>-16.77</b>	1.00

## Consolidated statement of recognized income and expenses

in CHF million		January 1 to December 31 2008	January 1 to December 31 2007 restated
Fair value adjustments IAS 39		12	3
Realization under IAS 39 transferred to profit or loss		-3	-2
Defined benefit plan actuarial (losses) / gains IAS 19	13	-70	99
Economic benefit available as a contribution reduction IAS 19 – IFRIC 14		0	1
Income taxes on income and expenses recognized directly in equity		17	-39
Conversion differences		-192	-5
Net (loss) / gain recognized directly in equity		-236	58
Net result		-422	319
<b>Total recognized income and expenses for the period</b>		<b>-658</b>	<b>377</b>
Attributable to:			
Shareholders of the parent		-658	373
Minority interests		0	4

## Consolidated balance sheet at December 31

Assets			
in CHF million	Notes	2008	2007 restated
Cash and cash equivalents	7	393	484
Current financial investments and derivatives	8	43	25
Trade receivables	9	534	794
Other receivables	9	340	268
Current tax receivables		16	27
Inventories	10	901	814
Prepaid expenses and accrued income		34	25
Assets classified as held for sale	22	60	65
<b>Current assets</b>		<b>2 321</b>	<b>2 501</b>
Loans and other long-term financial receivables	9	15	15
Non-current financial investments	8	33	34
Property, plant and equipment	11	1 278	1 394
Intangible assets	12	1 696	2 170
Post-employment benefit assets	13	0	23
Deferred tax assets	5	133	154
<b>Non-current assets</b>		<b>3 155</b>	<b>3 789</b>
<b>Total assets</b>		<b>5 476</b>	<b>6 290</b>
Liabilities and equity			
in CHF million	Notes	2008	2007 restated
Trade payables	14	455	587
Loans and borrowings	14	56	40
Other liabilities	14	91	121
Accrued liabilities	15	373	408
Current customer advances		143	249
Current income taxes payable		130	139
Current post-employment benefit provisions	13	15	17
Other current provisions	16	152	167
Liabilities classified as held for sale	22	67	27
<b>Current liabilities</b>		<b>1 482</b>	<b>1 756</b>
Loans and borrowings	14	2 039	1 748
Non-current customer advances		40	48
Non-current post-employment benefit provisions	13	525	539
Deferred tax liabilities	5	198	222
Other non-current provisions	16	74	93
<b>Non-current liabilities</b>		<b>2 876</b>	<b>2 649</b>
<b>Total liabilities</b>		<b>4 358</b>	<b>4 404</b>
Share capital		283	283
Treasury shares		-294	-184
Reserves and retained earnings		1 104	1 759
<b>Equity attributable to shareholders of the parent</b>		<b>1 093</b>	<b>1 858</b>
Minority interests		25	28
<b>Total equity</b>		<b>1 118</b>	<b>1 886</b>
<b>Total liabilities and equity</b>		<b>5 476</b>	<b>6 290</b>



## Consolidated cash flow statement

## Consolidated cash flow statement

in CHF million	Notes	January 1 to December 31 2008	January 1 to December 31 2007 restated
Net result		-422	319
Tax expenses (+) / tax income (-)		61	18
Interest expense (+) / interest income (-) from financial liabilities and assets		64	73
Depreciation of property, plant and equipment	11	205	205
Amortization of intangible assets	12	48	30
Impairment losses on property, plant and equipment	11	1	7
Impairment losses on intangible assets	12	410	1
Losses (+) / gains (-) from investments in associated companies		0	15
Addition to (+) / release of (-) other provisions	16	101	41
Increase (+) / decrease (-) in post-employment benefit provisions	13	4	-29
Losses (+) / gains (-) from sale of non-current assets		0	2
Gain on sale of discontinued operations, net of income tax		-4	0
Income taxes paid		-51	-40
Other non-cash expenses (+) / income (-)		-4	34
<b>Cash flow from operating activities before changes in net current assets</b>		<b>411</b>	<b>678</b>
Decrease (+) / increase (-) in receivables / accrued assets		178	-24
Decrease (+) / increase (-) in inventories	10	-87	-6
Increase (+) / decrease (-) in payables / accrued liabilities and use of other provisions		-291	22
Increase (+) / decrease (-) in customer advances		-106	20
Non-cash impact on net current assets due to hedge accounting		18	-7
<b>Cash flow from changes in net current assets</b>		<b>-288</b>	<b>4</b>
<b>Cash flow from operating activities</b>		<b>123</b>	<b>682</b>
Capital expenditure for property, plant and equipment	11	-278	-273
Capital expenditure for intangible assets	12	-74	-80
Disposal of discontinued operations, net of cash disposed of		11	0
Purchase of financial investments		-1	-4
Sale of financial investments		2	0
Proceeds from sale of intangible assets		1	0
Decrease in loans receivable	9	0	5
Decrease in marketable securities	8	5	87
Acquisition of group companies	1	-2	-371
Proceeds from sale of property, plant and equipment		27	47
Interest received		9	10
<b>Cash flow from investing activities</b>		<b>-300</b>	<b>-578</b>
Dividends paid		-2	-1
Purchase of treasury shares		-111	-2
Sale of treasury shares		1	1
Increase of financial debt	14	318	1 706
Repayment of financial debt	14	-28	-1 732
Interest paid		-62	-83
<b>Cash flow from financing activities</b>		<b>116</b>	<b>-111</b>
Conversion adjustments to cash and cash equivalents		-30	5
<b>Increase (+) / decrease (-) in cash and cash equivalents</b>		<b>-91</b>	<b>-2</b>
Cash and cash equivalents at the beginning of the year	7	484	486
Cash and cash equivalents at the end of the year	7	393	484
<b>Increase (+) / decrease (-) in cash and cash equivalents</b>		<b>-91</b>	<b>-2</b>

## Consolidated statement of changes in shareholders' equity

## Consolidated statement of changes in shareholders' equity

in CHF million	Share capital <sup>1</sup>	Additional paid-in capital <sup>2</sup>	Treasury shares	Conversion differences	Retained earnings	Hedge accounting	Deferred taxes	Total equity attributable to shareholders	Minority interests <sup>3</sup>	Total shareholders' equity
<b>Balance at January 1, 2007 (before restatement IFRIC 14)</b>	<b>283</b>	<b>622</b>	<b>-183</b>	<b>-56</b>	<b>806</b>	<b>2</b>	<b>14</b>	<b>1 488</b>	<b>24</b>	<b>1 512</b>
First application IFRIC 14					-2			-2	0	-2
<b>Balance at January 1, 2007 (after restatement)</b>	<b>283</b>	<b>622</b>	<b>-183</b>	<b>-56</b>	<b>804</b>	<b>2</b>	<b>14</b>	<b>1 486</b>	<b>24</b>	<b>1 510</b>
Total recognized income and expenses				-5	415	1	-39	373	4	377
Dividend distributions								0	-1	-1
Changes in the scope of consolidated companies								0	1	1
Share-based payments					-2			-2		-2
Purchase of treasury shares			-2					-2		-2
Sale of treasury shares			1		3			4		4
<b>Balance at December 31, 2007 (after restatement)</b>	<b>283</b>	<b>622</b>	<b>-184</b>	<b>-61</b>	<b>1 220</b>	<b>3</b>	<b>-25</b>	<b>1 858</b>	<b>28</b>	<b>1 886</b>
Total recognized income and expenses				-188	-496	9	17	-658	0	-658
Dividend distributions								0	-3	-3
Changes in the scope of consolidated companies								0		0
Share-based payments					1			1		1
Purchase of treasury shares			-111					-111		-111
Sale of treasury shares			1		1			2		2
<b>Balance at December 31, 2008</b>	<b>283</b>	<b>622</b>	<b>-294</b>	<b>-249</b>	<b>727</b>	<b>12</b>	<b>-8</b>	<b>1 093</b>	<b>25</b>	<b>1 118</b>

<sup>1</sup> The share capital of OC Oerlikon Corporation AG, Pfäffikon consists of 14 142 437 registered shares of nominal value CHF 20.

<sup>2</sup> Additional paid-in capital includes CHF 57 million which are not distributable for legal reasons.

<sup>3</sup> The minority interest in recognized income and expense amounts to CHF 3 million, compensated by conversion differences of CHF 3 million.

Treasury Shares	Number of shares	Price per share in CHF	Cost in CHF million	Fair value in CHF million	Result in CHF million
<b>Balance at January 1, 2007</b>	<b>1 050 012</b>	<b>174</b>	<b>183</b>		
Sale 2007	-1	175	0	0	0
Sale 2007 due to employee purchase plan	-6 130	175	-1	-4	3
Purchase 2007	2 660	395	1	1	0
Repurchase of employee shares	1 605	663	1	1	0
<b>Balance at December 31, 2007</b>	<b>1 048 146</b>	<b>175</b>	<b>184</b>		<b>3</b>
Sale 2008	-2	175	0	0	0
Sale 2008 due to employee purchase plan	-6 319	203	-1	-2	1
Purchase 2008	287 294	388	111	111	0
Repurchase of employee shares	45	268	0	0	0
<b>Balance at December 31, 2008</b>	<b>1 329 164</b>	<b>221</b>	<b>294</b>		<b>1</b>

## Share buyback program

The Board of Directors of OC Oerlikon Corporation AG, Pfäffikon, approved a share buyback program for a maximum of 2.59 percent of the share capital on August 8, 2007. The program, which started on August 9, 2007, is scheduled to run until the General Meeting of Shareholders in 2009. The purpose of the share buyback program is financing of acquisitions and the employee share option program. The Company reserves the right to use the shares repurchased for other financing purposes.

In 2008, Oerlikon repurchased 287 294 shares in total under this program, at an average price of CHF 388.

As of December 31, 2008, the Company held a total of 1 329 164 shares (9.40 percent of the shares issued).

## Summary of significant accounting principles

### Company operations

OC Oerlikon Corporation AG, Pfäffikon is a Swiss public company located in Freienbach SZ, Churerstrasse 120, Pfäffikon SZ. It is the ultimate parent company of the Oerlikon group, a globally leading supplier of production systems, transmission technology, yarn processing solutions (textile machinery), components and services for selected information technology market segments and industrial applications. The growing importance of the solar panel business has led to its recognition as a separate business segment, from January 1, 2008. As a part of a revised segment structure effective as of the year-end 2008, sub-segment Oerlikon Systems, a former part of Oerlikon Coating, was absorbed into Advanced Technologies (formerly Oerlikon Components). The ESEC business unit was sold in 2009 and is therefore shown as discontinued operations in the financial statements.

Apart from its activities in Switzerland, the Oerlikon group operates in the EU region, North America and Asia, and employs some 18 385 individuals (excluding discontinued operations).

### 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 reporting period is twelve months. The consolidated financial statements are prepared and presented in Swiss francs (CHF). 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 financial statements were approved by the Board of Directors on March 10, 2009 and will be submitted to the annual general meeting of shareholders on May 12, 2009, for approval. All standards issued by the IASB and all interpretations of the International Financial Reporting Interpretations Committee (IFRIC) effective at the date of the consolidated financial statements have been taken into account. The consolidation is based on audited annual individual company accounts of the Group's subsidiaries, prepared according to uniform Group accounting principles. 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 and financial assets available for sale or 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 annual 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 cost of the acquisition is allocated to the assets, liabilities and contingent liabilities of the acquired business, with any residual recorded as goodwill. This process calls for an assessment by management of the fair values of these items. Management's judgment is particularly involved in recognition and measurement of patents, licenses and trademarks, scientific knowledge associated with research projects, recoverability of tax losses accumulated in the acquired company and contingencies such as legal and environmental matters. In all cases management makes an assessment based on the underlying economic substance of the items concerned, not only on the contractual position. The aim is to present all values fairly in economic terms.

### Discontinued businesses and non-current assets held for sale: In

compliance with IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations), a distinction is made between continuing operations and discontinued operations or assets held for sale. The discontinued operations and assets held for sale are recognized as separate line items in the balance sheet and discontinued operations in the income and cash flow statements. Depreciation of non-current assets allocable to discontinued operations ceases when the respective divestment is announced. All data in these notes refer to continuing operations, except where otherwise indicated. Discontinued operations are described in Note 22.

**Impairment of value: Fixed assets, goodwill and intangibles:** A detailed test for impairment of value is carried out for goodwill and other intangible assets of infinite 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) or groups of CGUs, insofar as there are significant interdependences between individual CGUs. The recoverable amount of the CGUs is determined based on the higher of either value-in-use or fair value less cost to sell calculations. 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, if such is intended. 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.

**Provisions:** 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. 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 set up. These are based on management's estimates. Restructuring provisions are built up in accordance with IAS 37.

**Pensions:** The estimates and assumptions used are based on future projections and actuarial calculations which have been determined together with the actuaries.

**Taxes on income:** 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 regulation. 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.

### Adoption of new and revised accounting standards

The International Accounting Standards Board (IASB) has published the following new or revised standards adopted by Oerlikon as of January 1, 2008:

- IFRIC 11 Group and Treasury Share Transactions
- IFRIC 12 Service Concession Arrangements

The adoption of IFRIC 11 and IFRIC 12 has no effect on Oerlikon Group's consolidated financial statements.

- IFRIC 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.

IFRIC 14 provides guidance on how the limit on the amount of a surplus that is recognized as an asset is to be defined according to IAS 19. It also determines how the valuation of assets and provisions relating to defined benefit plans is affected by a statutory requirement to pay minimum contributions. As a result of the transition to IFRIC 14, a restatement in the consolidated statement of changes in shareholders' equity in the position retained earnings as of January 1, 2007 (CHF –2 million) was required.

## Accounting principles

**Standards and interpretations (in issue) not yet adopted**

The International Accounting Standards Board (IASB) has published a number of new and revised standards and interpretations, which come into force on or after January 1, 2009 and have not been implemented ahead of their effective dates in the attached accounts. Their effects on Oerlikon Group's financial statements have not yet been fully analyzed, but a first review has been conducted and the expected effects of each standard and interpretation are presented at the end of the table below:

Standard / Interpretation	Impact Level	Effective date	Planned application by Oerlikon
IFRS 1 rev. – First-time Adoption of International Financial Reporting Standards and the amended IAS 27 – Consolidated and Separate Financial Statements	*	1 January 2009	Reporting year 2009
IFRS 2 amended. – Share-based Payment: Vesting conditions and cancellations	**	1 January 2009	Reporting year 2009
IFRS 3 rev. – Business Combinations	***	1 July 2009	Reporting year 2010
IFRS 8 – Operating Segments	**	1 January 2009	Reporting year 2009
IAS 1 rev. – Presentation of Financial Statements	**	1 January 2009	Reporting year 2009
IAS 23 rev. – Borrowing Costs	**	1 January 2009	Reporting year 2009
IAS 27 rev.– Consolidated and Separate Financial statements	***	1 July 2009	Reporting year 2010
IAS 28 rev.– Accounting for Investments in Associates	***	1 July 2009	Reporting year 2010
IAS 31 rev.– Financial Reporting of Interest in Joint Ventures	***	1 July 2009	Reporting year 2010
IAS 32 rev. – Financial Instruments: Presentation of puttable instruments and obligations arising on liquidation	*	1 January 2009	Reporting year 2009
IAS 39 rev.– Financial Instruments: Recognition and Measurement – Eligible Hedge Items	***	1 July 2009	Reporting year 2010
IFRIC 13 – Customer Loyalty Programmes	*	1 July 2008	Reporting year 2009
IFRIC 16 – Hedges of a Net Investment in a Foreign Operation	**	1 October 2008	Reporting year 2009
IFRIC 17 – Distributions of Non-cash Assets to Owners	***	1 July 2009	Reporting year 2010
IFRIC 15 – Agreements for the Construction of Real Estate	*	1 January 2009	Reporting year 2009
Improvements to IFRS (amendments as part of IASB's annual improvement project)	*	1 January 2009	Reporting year 2009
	***	1 July 2009	Reporting year 2010

\* No impact or no significant impact is expected on the consolidated financial statements of Oerlikon.

\*\* The impact on the consolidated financial statements of Oerlikon is expected to result in additional disclosures or changes in valuation or presentation.

\*\*\* The revised standards are only effective as of reporting year 2010.

**Principles of consolidation****Method and scope of consolidation**

December 31 is the uniform closing date for all companies included in the consolidated financial statements. All companies in which OC Oerlikon Corporation AG, Pfäffikon has either a direct or indirect interest exceeding 50 percent of the shareholders' voting rights and companies over which control is assured through contractual arrangements are consolidated. Using the full consolidation method the assets, liabilities, income and expenses of these consolidated subsidiaries are included in their entirety.

Minority interests are recorded separately under equity in the consolidated financial statements. Group companies acquired or sold during the course of the financial year are included in or, respectively, eliminated from the consolidated financial statements as of the date of purchase or sale. All consolidated investments held are shown in the listing at the end of this report.

**Changes in scope of consolidation and Group structure****Acquisitions**

There were no significant acquisitions during 2008 (Note 1).

**Business combinations and goodwill**

The equity consolidation follows the 'Purchase method of Accounting'. At the time of their initial consolidation the identifiable assets, liabilities and contingent liabilities of subsidiaries are restated to fair value. The difference between the purchase price and the net assets of the acquired company at fair value is capitalized as goodwill in the year of acquisition. Goodwill denominated in foreign currencies is translated into Swiss francs at the rates prevailing at the balance sheet date. Capitalized goodwill is not amortized, but instead is tested annually for possible value impairment.

**Translation of foreign currencies**

The accounts of foreign subsidiaries 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 as defined within the Oerlikon group. 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 added to or deducted from equity with no impact on the income statement. 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 inter-company monetary items that form part of the net investment in a foreign subsidiary, whose exchange translation differences are also credited or charged directly to equity. In the year that a foreign company is divested, the cumulative translation differences recorded directly in equity are included in the income statement as part of the gain or loss on sales of investments.

**Elimination of inter-company profits**

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

**Valuation principles**

The Group accounts are prepared on a historical cost basis, with the exception of monetary assets available for sale and certain financial assets and liabilities, which are stated at fair values (in particular financial instruments).

## Accounting principles

**Segment reporting**

The Group consists of the following business segments:

- Textile segment develops and manufactures textile machinery.
- Coating segment supplies metal coatings that improve the performance of tools and precision components, offering coating services at over 80 centers worldwide. As from December 31, 2008, Oerlikon Balzers Coating is shown as an independent segment.
- Solar segment supplies equipment for mass production of solar panels.
- Vacuum segment develops application- and customer-specific systems for the creation of vacuums and extraction of processing gases.
- Drive Systems segment manufactures gears and other components for power transmission, mainly in motor vehicles.
- Advanced Technologies (formerly Oerlikon Components) segment develops applications and technologies, from which the highest precision and accuracy is required. In the field of space travel, payload fairings and satellite structures are manufactured (Business Unit Space). Oerlikon Systems is mainly specialized in nanotechnology and was regrouped at the end of 2008 to the newly founded Segment 'Advanced Technologies' which integrates the Advanced Technologies Business Units of Oerlikon group.

**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.

**Short-term deposits and derivative financial instruments:** Marketable securities are held at fair value, with their values adjusted as required through profit and loss. Gains or losses are measured by reference to fair value. Unquoted securities are valued by standard methods, with value adjustments also through profit and loss.

Financial instruments are recorded at fair value on their respective settlement dates. Exceptions to this are financial investments held to maturity as well as receivables and credits, which are carried at amortized cost using the effective interest method. Gains and losses from changes in the fair value of financial investments available for sale are temporarily recorded in equity 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 equity 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.

**Investments in associated companies:** Investments in associated companies (20 to 50 percent ownership of voting rights) are accounted for in accordance with IAS 28 (Accounting for Investments in Associates) using the equity method. The book value of the investment, initially its acquisition cost, is increased or reduced in response to the development in equity value of the associate, in proportion to the percentage held by Oerlikon group. Unrealized changes in fair value of other investments (under 20 percent ownership of voting rights) that have been classified as available for sale are recorded in equity and transferred to financial income/loss upon the sale or disposal of the given investment.

**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	Duration of rental contract (max. 20 years) or, if shorter, individual useful life
Plant and administrative buildings – used operationally	20–60 years

Estimated useful life and residual values are examined annually.

Fixed assets under financial leasing agreements are treated identically to fixed assets owned. Non-operating properties available for sale are carried at the lower of their net book value or fair value less costs to sell.

**Intangible assets:** Intangible assets are identifiable non-monetary 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, where these can be clearly determined, for example software over two to three years, development costs over five 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.

**Discontinued operations and assets held for sale:** A business unit or segment is reclassified into 'discontinued operations' if its divestment is intended and if it fulfills the criteria for being classified as 'held for sale'.

Non-current assets 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 profit or loss.

## Liabilities

**Short and long-term financial liabilities:** Short and long-term 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 loans raised for past acquisitions.

**Short and long-term provisions:** Provisions are set up if the future outflow of resources is more likely than not and can be estimated reliably, for obligations arising from past events. In this regard, the 'more likely than not' principle is applied. Other provisions represent uncertainties, for which a best estimate is made in arriving at the amount reserved. The value of provisions whose expected maturity exceeds one year is discounted at normal market rates.

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 customer contracts: provisions are established when estimated costs to fulfill a contract exceed the related contract revenues. The difference between the two is calculated and 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 so-called '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.

**Provisions for pensions and other post-employment benefits:** The net obligation for defined benefit and other postretirement benefit plans have been calculated for each plan according to IAS 19 using the projected unit credit method as of the balance sheet date. The way these benefits are provided varies according to the legal, fiscal and economic conditions of each country, the benefits generally being based on the employees' remuneration and years of service. The obligations relate both to existing retirees' pensions and to pension entitlements of future retirees.

Actuarial gains and losses from defined benefit plans and deductions in connection with asset limitation are recognized directly in equity, so they have no impact on profit or loss, and are presented in the statement of recognized income and expense (SORIE).

Service costs for pensions and other post-retirement obligations are recognized as an expense in income from operations, while interest costs and the expected return on plan assets recognized as components of net periodic pension costs are included in net financial income/expense in the consolidated statement of income.

The Group obligations for contributions to defined contribution plans are recognized as expense in income from operations as incurred.

**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 shareholders' 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 Oerlikon group. Sales are booked net of credits for returns and rebates 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 segments Oerlikon Solar and Oerlikon Textile the percentage of completion is determined by measuring costs incurred to date as a proportion of extrapolated total contract cost (cost to cost method).

The Oerlikon Space business unit (Advanced Technologies segment) uses the 'milestone' method. Under this method, project milestones are defined for each individual contract. The milestones determine the timing of progress billings to the customer, and, thus, offer a recognition point for measuring the progress of the contract and taking profit accordingly.

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. A system for control of development costs has been introduced throughout Oerlikon group, under which development costs may be recognized as assets when it can be shown that all IAS 38 criteria have been met. The cost thus 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, licences, patents and non-operating assets. Other expense consists of non-operating expenses and taxes not based on income.

**Financial expenses:** Interest expense is charged to the income statement without restriction. Borrowing costs are not capitalized, but are charged to income in the period in which they fall.

**Current year income taxes:** Current year income taxes (Note 5) 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. 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 two or three years, by offset against taxable profits of Group companies individually or in tax pools. 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 taxes:** Wherever local company tax values differ from Group values (temporary differences), deferred taxes are determined and recorded by applying expected future local tax rates to the differences (liability method). Taxes on dividends from subsidiaries are only accrued when distributions are contemplated. In the case of goodwill, investments in subsidiaries, or other assets and liabilities which do not affect taxable profits, no temporary difference is recognized and no deferred taxes are set up (IAS 12.39).

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

## Risks

**Financial risk management / financial instruments:** Due to its international activities, the Group is exposed to various financial risks, such as foreign exchange risk, interest rate risk, pricing risks, 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 pre-approved 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 Corporate Treasury, who identify and evaluate 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:** The Group's consolidated financial statements are reported in Swiss francs. Due to its most significant markets, the Group is primarily exposed to exchange risks versus the US dollar and Euro. If costs and revenues of Group companies are incurred or earned in differing or non-local currencies, the underlying business transactions are hedged on a centrally coordinated basis by means of commonly used financial instruments (see 'Derivative financial instruments'). Group companies make regular plans for receipt or payment of cash in foreign currencies and either advise these to Corporate Treasury, who hedge the related exchange risks using internal hedging contracts with the companies concerned, and external contracts with first-class banks or the Group companies hedge directly with banking institutions. 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. Every month a check is made 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 which do not fall into either category – routine or project – the hedging strategy can be determined for individual cases.

**Interest rate risks:** Risks related to fluctuations in interest rates are monitored by Corporate Treasury and in certain instances hedged at Group level (see 'Financial instruments').

**Credit risks:** As a fundamental principle, the Group places funds only with first-rate domestic and foreign banking institutions. The credit or default risk associated with operating receivables is monitored locally by the individual Group companies (see 'Receivables'). Generally, these risks are reduced by means of customer prepayments, letters of credit and other instruments.

**Liquidity risks:** On the basis of a consolidated, rolling liquidity plan, Corporate Treasury determines the Group's required liquidity. They then arrange to make this liquidity available in the financial markets (see 'Financial liabilities'). Group companies are financed primarily on a central basis by Corporate Treasury, or where justified, by local bank credits.

## Contingent liabilities

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

## Participation plans / Share based payments

OC Oerlikon Corporation AG offers members of the Board of Directors and Executive Board, as well as senior managers, options to purchase shares of the company under various participation 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 when the option vests. The fair value is recorded as personnel expense, with a corresponding increase in equity (equity settlement), or as financial debt (cash settlement). The company holds treasury shares that were acquired in accordance with a share buyback program and may be used in the future for employee option plans and potential acquisitions. The acquisition cost of these treasury shares is deducted directly from equity.

## Related-party transactions

Members of the Board of Directors or Executive Board, significant shareholders and companies controlled by any of those individuals are deemed to be related parties.

### Presentation of Group accounts

To enhance comparability, the Group has made the following changes in the manner of presentation. Certain comparative figures have been reclassified or supplemented to conform to the current year.

**Discontinued Operations:** Following a realignment of strategy in the Segment Advanced Technologies, the business unit ESEC was sold in 2009. As a consequence, the business unit ESEC is shown as discontinued operations in accordance with IFRS 5 as well as the remaining part of Optics which is also to be sold in 2009.

**Reclassification of prepayments to suppliers:** Prepayments to suppliers were previously included with inventories for reporting purposes. However, such prepayments do not fulfil the criteria set forth in IAS 2.6 for inclusion with inventory, so they have been reclassified to other receivables (notes 9 and 10).

**Reclassification of accrued sales under POC:** Accrued sales under the POC method for orders without customer advances were previously included with inventories for reporting purposes. In accordance with IAS 11.40(a) and IAS 1.75(b), these accrued sales are now disclosed as other receivables.

As of December 31, 2007, a restatement was made in accordance with IFRIC 14. In the profit and loss statement 2007, a restatement was made based on discontinued operations and assets held for sale (see Note 22 'Discontinued operations and assets held for sale'). Furthermore, in 2008 for the first time the restructuring costs (see Note 3 'Expenses included in EBIT') and the impairment of goodwill were shown separately in the profit and loss statement.

**Finalization of purchase price allocations:** Purchase price allocations for Silas GmbH and for VST Keller GmbH & Co. KG were finalized. At the time of their initial acquisition, these companies were included in the Oerlikon consolidation at provisional values, because the fair values of identifiable assets, liabilities and contingent liabilities had not yet been determined. Both purchase price allocations were completed in the first half-year of 2008, and showed no material effects relating to the accounts of 2007.

### Effects of adjustments to profit and loss

in CHF million	2007 Annual Report	Others	Discontinued operations	January 1 to December 31 2007 restated
Sales of goods	4 967		-202	4 765
Services rendered	662		-24	639
<b>Total sales</b>	<b>5 629</b>	<b>0</b>	<b>-226</b>	<b>5 404</b>
Cost of sales	-4 214		150	-4 064
<b>Gross profit</b>	<b>1 415</b>	<b>0</b>	<b>-76</b>	<b>1 339</b>
Marketing and selling	-354		26	-328
Research and development	-230		15	-215
Administration	-384	2	7	-375
Impairment of goodwill				0
Restructuring costs		-2		-2
Other income and expenses	48			48
<b>EBIT</b>	<b>496</b>	<b>0</b>	<b>-28</b>	<b>467</b>
Result from associated companies	-15			-15
Financial income	17			17
Financial expenses	-145			-145
<b>Result before taxes (EBT)</b>	<b>353</b>	<b>0</b>	<b>-28</b>	<b>324</b>
Income taxes	-18			-18
<b>Result from continued operations</b>	<b>335</b>	<b>0</b>	<b>-28</b>	<b>306</b>
Result from discontinued operations	-16		29	13
<b>Net result</b>	<b>319</b>	<b>0</b>	<b>1</b>	<b>319</b>



## Effects of adjustments to balance sheet

Assets				
in CHF million	2007 Annual Report	IFRIC 14	Transfer	2007 restated
Cash and cash equivalents	484			484
Current financial investments	25			25
Trade receivables	794			794
Other receivables	96		172	268
Current tax receivables	27			27
Inventories	985		-172	813
Prepaid expenses and accrued income	25			25
Assets classified as held for sale	65			65
<b>Current assets</b>	<b>2 501</b>	<b>0</b>	<b>0</b>	<b>2 501</b>
Loans and other financial receivables	15			15
Non-current financial investments	34			34
Property, plant and equipment	1 394			1 394
Intangible assets	2 170			2 170
Post-employment benefit assets	23			23
Deferred tax assets	154			154
<b>Non-current assets</b>	<b>3 789</b>	<b>0</b>	<b>0</b>	<b>3 789</b>
<b>Total assets</b>	<b>6 290</b>	<b>0</b>	<b>0</b>	<b>6 290</b>
Liabilities and equity				
in CHF million	2007 Annual Report	IFRIC 14	Transfer	2007 restated
Trade payables	587			587
Loans and borrowings	40			40
Other liabilities	121			121
Accrued liabilities	408			408
Current customer advances	249			249
Current income tax provisions	139			139
Current post-employment benefit provisions	16	1		17
Current other provisions	167			167
Liabilities classified as held for sale	27			27
<b>Current liabilities</b>	<b>1 755</b>	<b>1</b>	<b>0</b>	<b>1 756</b>
Loans and borrowings	1 748			1 748
Non-current customer advances	48			48
Non-current post-employment benefit provisions	539			539
Deferred tax liabilities	222			222
Non-current other provisions	93			93
<b>Non-current liabilities</b>	<b>2 649</b>			<b>2 649</b>
<b>Total liabilities</b>	<b>4 403</b>	<b>1</b>	<b>0</b>	<b>4 404</b>
Share capital	283			283
Treasury shares	-184			-184
Reserves and retained earnings	1 760	-1		1 759
<b>Equity attributable to shareholders of the parent</b>	<b>1 859</b>	<b>-1</b>		<b>1 858</b>
Minority interests	28			28
<b>Total equity</b>	<b>1 887</b>	<b>-1</b>	<b>0</b>	<b>1 886</b>
<b>Total liabilities and equity</b>	<b>6 290</b>	<b>0</b>	<b>0</b>	<b>6 290</b>

## Notes to the consolidated financial statements

**Changes in scope of consolidation**

Note 1

The Oerlikon Group made no significant acquisitions, company formations or divestments in 2008.

Oerlikon Group increased its investment in Fibrevison Ltd., Macclesfield, UK, from 25 percent to 78 percent. The purchase price was CHF 5.1 million. This investment is now fully consolidated.

**Other income and expenses**

Note 2

in CHF million	2008	2007 restated
Licensing, patent and know-how income	5	1
Change in post-employment benefit plan accruals	8	5
Gain on sale of securities	0	2
Rental income from non-operating real estate	21	24
Gain on sale of non-operating real estate	4	1
Other income <sup>1</sup>	69	49
<b>Other income</b>	<b>107</b>	<b>82</b>
Taxes not based on income	-5	-7
Impairment of non-current assets <sup>2</sup>	-28	-1
Expense of non-operating real estate	-1	-1
Depreciation on non-operating real estate	0	-1
Other expenses <sup>1</sup>	-47	-24
<b>Other expenses</b>	<b>-81</b>	<b>-34</b>
<b>Other income and expenses</b>	<b>26</b>	<b>48</b>

<sup>1</sup> In April 2008, a serious fire took place on the premises of Oerlikon Textile Components in Singapore. Attributable costs of CHF 20 million (damage to fixed assets and inventory, site clearance and personnel costs) are included in other expenses above, and the total insurance recovery of CHF 39 million is included in other income above. The excess of income over expense represents the insured loss of business.

<sup>2</sup> The impairment mainly relates to Wafer Etch (CHF 12 million) and other intangible assets (CHF 12 million).

Note 3

**Expenses included in EBIT**

in CHF million	2008	2007 restated
<b>Personnel expense <sup>1</sup></b>		
Salaries and wages	1 020	1 047
Social security and other employee benefits <sup>2</sup>	303	308
<b>Total</b>	<b>1 323</b>	<b>1 355</b>
<b>Depreciation and amortization <sup>3</sup></b>		
– operating property, plant and equipment	200	195
of which in:		
Cost of sales	152	149
Marketing and selling	5	5
Research and development	14	16
Administration	29	25
– intangible assets (excluding goodwill)	44	25
of which in:		
Cost of sales	3	1
Marketing and selling	6	6
Research and development	29	9
Administration	6	9
<b>Total</b>	<b>244</b>	<b>220</b>
<b>Restructuring costs <sup>4</sup></b>	<b>66</b>	<b>2</b>
<b>Total</b>	<b>66</b>	<b>2</b>

<sup>1</sup> Discontinued operations are excluded from personnel expense. Personnel expense for these operations amounts to CHF 65 million in 2008 (Previous year: CHF 104 million).

<sup>2</sup> Included in the CHF 303 million expense for social security and other benefits is CHF 27 million (previous year: CHF 29 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.

<sup>3</sup> Depreciation of property plant and equipment of discontinued operations amounts to CHF 5 million (previous year: CHF 10 million) and amortization amounts to CHF 4 million (previous year: CHF 6 million). These expenses are excluded from the depreciation and amortization above.

<sup>4</sup> Of the total restructuring cost of CHF 66 million in 2008, CHF 55 million relates to the Textile segment incurred in connection with the project "Simplify Oerlikon Textile". Within the Textile segment the restructuring costs are divided as follows:

Restructuring Textile segment	Personnel costs	Infrastructure measures
Barmag	0	3
Neumag	8	2
Saurer	2	0
Schlafhorst	29	6
Textile Components	2	0
Other	0	3
<b>Total</b>	<b>41</b>	<b>14</b>

The other restructuring costs of CHF 11 million relate mainly to the Coating segment (CHF 5 million), the Wafer Etch business (CHF 2 million), the Drive Systems segment (CHF 1 million) and the Solar segment (CHF 1 million).

**Finance cost, net**

Note 4

in CHF million	2008	2007 restated
Interest income	9	10
Other financial income	5	4
Net gain on hedging transactions recognized in profit and loss	0	3
<b>Financial income</b>	<b>14</b>	<b>17</b>
Interest on financial debt	-73	-83
Interest on provisions for post-employment benefit plans	-24	-20
Other financial expenses	-12	-35
Foreign currency loss, net	-14	-7
<b>Financial expense</b>	<b>-123</b>	<b>-145</b>
<b>Total</b>	<b>-109</b>	<b>-128</b>

**Income taxes**

Note 5

in CHF million	2008	2007 restated
Current income taxes	-58	-60
Deferred taxes	-12	42
<b>Total</b>	<b>-70</b>	<b>-18</b>

**Analysis of tax expense**

in CHF million	2008	2007 restated
Result before taxes from continued operations	-146	324
Result before taxes from discontinued operations	-206	13
<b>Total</b>	<b>-352</b>	<b>337</b>
Tax expense from continued operations	-61	-18
Tax expense from discontinued operations	-9	0
<b>Total</b>	<b>-70</b>	<b>-18</b>
Expected tax income / (tax expense) <sup>1</sup>	35	-79
Difference between actual and expected tax expense	<b>-105</b>	<b>61</b>

The difference between the tax rate calculated using the weighted average tax rate of Oerlikon group of 9.9 percent (previous year: 21,5 percent) and the effective tax rate arises from the following factors:

Unrecognized deferred taxes on current-year losses	-57	-18
Adjustment of tax losses capitalized	-51	0
Non-taxable income and expenses	-18	2
Recognition of unrecognized tax loss carryforwards from previous periods	0	47
Offset of unrecognized tax loss carryforwards from previous periods	5	16
Release of accruals for prior periods	22	0
Other effects	-6	14
<b>Non-taxable income and expenses</b>	<b>-105</b>	<b>61</b>

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

## Notes to the consolidated financial statements

**Deferred taxes**

Note 5 (cont.)

**Composition of deferred taxes**

in CHF million	2008		2007 restated	
	Deferred tax balances Assets	Liabilities	Deferred tax balances Assets	Liabilities
Cash, cash equivalents and securities	0	3	0	2
Trade accounts receivable	1	3	2	3
Other receivables and accruals	13	6	16	2
Inventories	20	10	19	20
Post-employment benefit assets	0	0	0	7
Financial assets	1	3	1	5
Property, plant and equipment	16	68	17	84
Intangible assets	3	130	32	169
<b>Assets</b>	<b>55</b>	<b>223</b>	<b>87</b>	<b>292</b>
Trade accounts payable	0	0	0	2
Other current and long-term liabilities	48	12	41	19
Financial liabilities	3	1	4	2
Provisions	30	5	41	7
<b>Liabilities</b>	<b>82</b>	<b>19</b>	<b>85</b>	<b>31</b>
Of which, unrecognized deferred tax assets	0	0	0	43
Tax loss carryforwards recognized <sup>1</sup>	40	0	125	0
Netting	-43	-43	-144	-144
<b>Total</b>	<b>133</b>	<b>198</b>	<b>154</b>	<b>222</b>

<sup>1</sup> Total of timing differences based on tax losses recognized as assets in 2008: CHF -142 million (previous year: CHF -550 million)

Deferred tax income of CHF 17 million has been recognized directly in equity (previous year: deferred tax expense of CHF 39 million).

Tax losses are available for offsetting against taxable profits as follows:

in CHF million	Tax losses not capitalized as deferred tax assets	Total tax loss carryforwards
1 year	62	70
2 years	95	108
3 years	105	119
4 years	122	139
5 years	13	15
over 5 years	648	736
<b>Total</b>	<b>1 045</b>	<b>1 187</b>

The deferred tax on unrecognized tax losses carryforwards would amount to CHF 178 million in 2008 (previous year: CHF 107 million).

**Earnings per share**

Note 6

in CHF million	2008	2007 restated
Result from continued operations	-207	306
Result from discontinued operations	-215	13
<b>Net result</b>	<b>-422</b>	<b>319</b>
Minority interests	3	4
<b>Net result attributable to shareholders</b>	<b>-425</b>	<b>314</b>
Earnings per registered share in CHF <sup>1</sup>	-33.13	24.00
Diluted earnings per registered share in CHF <sup>1</sup>	-33.13	24.00
Earnings per registered share continued operations in CHF	-16.36	23.00
Diluted earnings per registered share continued operations in CHF	-16.36	23.00
Earnings per registered share discontinued operations in CHF	-16.77	1.00
Diluted earnings per registered share discontinued operations in CHF	-16.77	1.00

<sup>1</sup> Earnings per share of CHF -33.13 has been calculated on the basis of a net profit of CHF -425 million attributable to shareholders (previous year: CHF 314 million) and the average weighted number of outstanding shares (issued shares less treasury shares). In 2008, the average weighted number of shares entitled to vote and receive dividends amounted to 12 819 504 (previous year: 13 093 428). Diluted earnings per share amounted to CHF -33.13. The average weighted number of shares used in the calculation of diluted earnings per share amounted to 12 819 504 (previous year: 13 094 423).

Number of outstanding shares:	2008	2007 restated
Total shares issued at year-end	14 142 437	14 142 437
Weighted average number of shares outstanding at year-end	12 819 504	13 093 428
Effect of potential exercise of option rights	0	995
Weighted average number of shares diluted at year-end	12 819 504	13 094 423

**Cash and cash equivalents**

Note 7

in CHF million	2008	2007
Cash, postal and bank current accounts	366	440
Time deposits	27	44
<b>Total</b>	<b>393</b>	<b>484</b>

CHF 58 million (previous year: 87 million) of total cash and cash equivalents are held in countries in which prior approval is required to transfer funds abroad. Nevertheless, if the Group complies with these requirements, 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	2008	2007
CHF	114	132
EUR	164	199
USD	54	64
Others	61	89
<b>Total</b>	<b>393</b>	<b>484</b>

**Financial investments**

Note 8

in CHF million	2008	2007
<b>Total current</b> <sup>1</sup>	3	8
<b>Total non-current</b>	0	0
<b>Available-for-sale financial assets, carried at fair value</b>	<b>3</b>	<b>8</b>
Total current	0	0
Total non-current <sup>2</sup>	33	34
<b>Available-for-sale financial assets, carried at cost</b>	<b>33</b>	<b>34</b>
Total current	40	18
Total non-current	0	0
<b>Derivatives used for hedging</b>	<b>40</b>	<b>18</b>
Total current financial investments	43	25
Total non-current financial investments	33	34
<b>Total</b>	<b>76</b>	<b>59</b>

<sup>1</sup> In 2008, marketable securities were held mainly as funding for the provision for partial retirement.

<sup>2</sup> Non-current financial investments include Pilatus Flugzeugwerke AG with a book value of CHF 28 million. The investment remains unchanged at 13.97 percent. The investment is valued at cost due to lack of information regarding fair values. The company's shares are not publicly traded. Oerlikon has access only to financial information available in the public domain, which is not sufficient to determine the fair value of the investment. Other investments consist of several small investments, which are not publicly traded and for which no financial information is available. These investments are held at cost. Currently, Oerlikon has no intention to sell these investments.

**Loans and receivables**

Note 9

in CHF million	2008	2007 restated
<b>Current</b>		
Trade receivables	520	768
Trade notes receivable	14	26
Other receivables <sup>1</sup>	340	268
<b>Non-current</b>		
Loans receivable <sup>2</sup>	15	15
<b>Total</b>	<b>889</b>	<b>1 077</b>

<sup>1</sup> Other receivables include:

- Receivables from Swiss and foreign tax authorities and insurance companies.
- Prepayment to suppliers (IAS 1.78b) reclassified from inventories to other receivables.
- Reclassified accrued sales under the POC method for orders without customer advances.

<sup>2</sup> Loans receivable include reimbursement rights for pensions in the amount of CHF 6 million. The expected interest rate is 4 percent. Further loans in the amount of CHF 9 million were granted to various third parties. These loans will be paid back in the years 2009, 2011 and 2012 and the interest rates are between 3 and 7 percent.

**Inventories**

in CHF million	2008			2007 restated		
	Gross value	Value adjustment	Net value	Gross value	Value adjustment	Net value
Raw material and components	363	-51	<b>312</b>	385	-57	<b>328</b>
Work in progress	385	-14	<b>371</b>	257	-18	<b>239</b>
Finished goods	225	-44	<b>181</b>	267	-52	<b>215</b>
Trade merchandise	47	-10	<b>37</b>	43	-11	<b>32</b>
<b>Total</b>	<b>1 020</b>	<b>-119</b>	<b>901</b>	<b>952</b>	<b>-138</b>	<b>814</b>

Amounts charged to the income statement for write-downs of inventories in the reporting year were CHF 13 million (previous year: CHF 43 million).

**Construction contracts according to the percentage of completion method (POC)**

The accrued sales under the POC method pertain to customer orders in the Oerlikon Solar, Oerlikon Textile and Oerlikon Advanced Technologies segments, summarized as follows:

in CHF million	2008	2007
Realized POC sales	<b>934</b>	605
Realized POC project costs	<b>-699</b>	-449
<b>Realized contribution from POC projects</b>	<b>235</b>	<b>156</b>
<b>POC project costs included in work in progress at December 31</b>	<b>10</b>	<b>7</b>
	<b>2008</b>	<b>2007</b>
Customer advances received for POC projects	<b>745</b>	496
Offset with POC revenue accruals (orders with customer advances)	<b>-602</b>	-210
<b>Net amount of customer advances for POC projects <sup>1</sup></b>	<b>143</b>	<b>286</b>

<sup>1</sup> This amount is included in the short-term and long-term customer advances totaling CHF 183 million (previous year: CHF 297 million).

Project costs incurred and contract revenues realized to date amount to CHF 944 million (previous year: CHF 612 million).



## Notes to the consolidated financial statements

**Property, plant and equipment**

Note 11

in CHF million	Plant, Production and equipment and furniture	administration buildings <sup>1</sup>	Developed land	Facilities under construction	Non-operating real estate	2008 Total
<b>Cost</b>						
Balance at January 1, 2008	1 482	717	122	70	32	2 424
Conversion differences	-146	-42	-10	-6	-1	-205
Changes in the scope of consolidated companies						0
Additions	171	13	2	91	1	278
Disposals	-96	-7	-1	-3	-2	-109
Reclassifications to / from assets held for sale	-49	18 <sup>2</sup>	-1			-32
Transfers	66	23	2	-73	-11	7
Balance at December 31, 2008	1 429	722	114	79	20	2 364
<b>Accumulated depreciation and impairment losses</b>						
Balance at January 1, 2008	-791	-217	0	0	-21	-1 030
Conversion differences	76	5				81
Changes in the scope of consolidated companies						0
Depreciation	-173	-32				-205
Impairment losses	-1					-1
Disposals	40				1	41
Reclassifications to / from assets held for sale	43	-13 <sup>2</sup>				30
Transfers	2	-9			7	0
Balance at December 31, 2008	-805	-266	0	0	-15	-1 086
Net Group values at December 31, 2007	691	500	122	70	11	1 394
<b>Net Group values at December 31, 2008</b>	<b>624</b>	<b>456</b>	<b>114</b>	<b>79</b>	<b>5</b>	<b>1 278</b>
Of which assets held under finance leases	1	41				42
Insured values in event of fire	3 110	1 747		17	30	4 904
Estimated fair value					29	29

Open purchase commitments for property, plant and equipment at the end of 2008 amounted to CHF 37 million (previous year: CHF 17 million).

<sup>1</sup> Oerlikon owns a number of industrial sites and office buildings, or parts of larger sites, which are no longer necessary for its operations. The value of these properties is largely dependent on their future use, and for this reason it is not possible to make a reliable estimate of their fair value.

<sup>2</sup> Through the management buy out which took place for the Balzers Optics business, their building was reclassified to the continued operations.

**Property, plant and equipment**

Note 11 (cont.)

in CHF million	Plant, Production and equipment and furniture and furniture	administration buildings	Developed land	Facilities under construction	Non-operating real estate	<b>2007 Total</b>
<b>Cost</b>						
Balance at January 1, 2007	1 457	742	124	24	32	2 380
Conversion differences		4	4	1		8
Changes in the scope of consolidated companies	9	3				12
Additions	173	19	1	80		273
Disposals	-76	-27	-4	-2		-109
Reclassifications to assets held for sale	-115	-24		-1		-140
Transfers	33		-2	-32		0
Balance at December 31, 2007	1 482	717	122	70	32	2 424
<b>Accumulated depreciation and impairment losses</b>						
Balance at January 1, 2007	-756	-223	0	0	-20	-999
Conversion differences	5	2				6
Changes in the scope of consolidated companies						0
Depreciation	-178	-27			-1	-205
Impairment losses reversed	-7					-7
Disposals	46	14				60
Reclassifications to assets held for sale	98	17				115
Balance at December 31, 2007	-791	-217	0	0	-21	-1 030
Net Group values at December 31, 2006	701	519	124	24	12	1 380
<b>Net Group values at December 31, 2007</b>	<b>691</b>	<b>500</b>	<b>122</b>	<b>70</b>	<b>11</b>	<b>1 394</b>
Of which assets held under finance leases	1	48				49
Insured values in event of fire	3 152	1 549		19	48	4 768
Estimated fair value					32	32

**Intangible assets**

in CHF million	Goodwill	Software	Technology and Development costs <sup>2,3</sup>	Other intangible assets <sup>1</sup>	2008 Total
<b>Cost</b>					
Balance at January 1, 2008	1 532	49	120	525	2 226
Conversion differences	-34	-3	-5	-44	-87
Changes in the scope of consolidated companies					0
Additions	1	15	42	16	74
Disposals		-4	-4		-8
Reclassifications to assets held for sale	-93	-5	-47		-145
Transfers	-27		18	2	-7
Balance at December 31, 2008	1 379	51	124	499	2 053
<b>Accumulated amortization and impairment losses</b>					
Balance at January 1, 2008		-36	-9	-11	-56
Conversion differences	-1	2	2	1	4
Changes in the scope of consolidated companies					0
Amortization		-8	-25	-15	-48
Impairment losses	-345	-1	-52	-12	-410
Disposals		4	4		8
Reclassifications to assets held for sale	93	5	47		145
Transfers		5		-5	0
Balance at December 31, 2008	-253	-29	-33	-42	-357
Net Group values at December 31, 2007	1 532	13	111	514	2 170
<b>Net Group values at December 31, 2008</b>	<b>1 126</b>	<b>22</b>	<b>91</b>	<b>457</b>	<b>1 696</b>

<sup>1</sup> Other intangible assets include brands of CHF 395 millions (previous year CHF 438 million) with infinite life and are tested for impairment on a regular basis. The brands are mainly allocated to the business segment Oerlikon Textile (CHF 294 million, previous year CHF 328 million) and Oerlikon Drive Systems (CHF 88 million, previous year CHF 95), which only changed due to conversion differences.

<sup>2</sup> Additions to capitalized development costs are costs incurred in internal development projects and acquired technology. Development costs are recognized as intangible assets if they meet the criteria for such recognition set forth in IAS 38. After the development phase is complete the asset is amortized over 5 years.

The capitalized development costs pertain to the segments as follows:

**Capitalized development costs for the period**

in CHF million	2008	2007 restated
Oerlikon Textile	14	16
Oerlikon Coating	5	6
Oerlikon Solar	5	4
Oerlikon Vacuum	4	3
Oerlikon Drive Systems	1	2
Oerlikon Advanced Technologies	13	22
<b>Total</b>	<b>42</b>	<b>52</b>

<sup>3</sup> The impairment in the amount of CHF 52 million mainly relates to the business unit ESEC as well as the Wafer Etch business.

## Intangible assets

Goodwill is attributed to the segments as follows:

### Goodwill (net)

in CHF million	2008	2007 restated
Oerlikon Textile	494	707
Oerlikon Coating	13	29
Oerlikon Solar	2	0
Oerlikon Drive Systems	573	588
Oerlikon Advanced Technologies	44	208
<b>Total</b>	<b>1 126</b>	<b>1 532</b>

Goodwill and other intangible assets with infinite useful life are allocated to the Group of Cash-Generating Units (CGUs), which is expected to benefit from the business combination. Goodwill and intangible assets with infinite useful life are tested annually for possible impairment of value, using discounted cash flow analysis. The recoverable amount of the CGUs is determined based on fair value less costs to sell and the latest plan approved by management or budget information available, in this case covering the years 2009 to 2013. 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).

As of June 30, 2008, impairment tests were carried out for the Textile segment as well as for the business unit Systems (Advanced Technologies segment) and the business unit ESEC. The triggering event for this were mainly a significant deterioration in market conditions and economic outlook in the textile and semiconductor industries.

From the total impairment of CHF 345 million, CHF 200 million belong to the Textile segment, CHF 93 million belong to the Business Unit ESEC (Advanced Technologies segment), the remaining amount of CHF 52 million relates to the Wafer Etch business (Advanced Technologies segment). As of December 31, 2008 the impairment of ESEC was reclassified to discontinued operations. Based on the new impairment test carried out by the end of the year, no further need for an impairment was given.

The following pre-tax discount rates were used for the main segments:

### Discount rates per segment

Oerlikon Textile	9.5%
Oerlikon Drive Systems	10.1%
Oerlikon Advanced Technologies (Systems)	12.1%

For periods following the five-year plan period 2009 to 2013, the cash flows of the two segments Oerlikon Drive Systems and Oerlikon Textile were extrapolated with a growth rate of 2.5 and 2 percent respectively, whereas for the Systems business unit (Advanced Technologies segment) a growth rate of one percent was used. The annualized impairment was carried out by the end of the year based on revised business plans and updated weighted average costs of capital (WACC).

For the sensitivity analysis a growth rate of 1.5 percent for Drive Systems and 1 percent for Textile, while for Systems (Advanced Technologies segment) a rate of zero percent was assumed. In the case of Drive Systems and Textile, a reduction of the growth rate of the terminal value of 1 percent would not give rise to an impairment of the value of goodwill, and the same is true for a reduction of the growth rate of the terminal value to zero percent in the case of the Systems business unit (Advanced Technologies segment).

For Drive Systems, Textile and the Systems business unit (Advanced Technologies segment), an increase in the discount rate of 0.5 percent would also not give rise to an impairment of the value of goodwill.

### Previous year

in CHF million	Goodwill	Software	Technology and Development costs	Other intangible assets	2007 Total
<b>Cost</b>					
Balance at January 1, 2007	1 522	44	49	495	2 110
Conversion differences	-16			9	-6
Changes in the scope of consolidated companies	37		23		60
Additions		6	52	22	80
Disposals	-10	-1		-1	-12
Reclassifications to assets held for sale		-1	-4	-1	-6
Balance at December 31, 2007	1 532	49	120	525	2 226

### Accumulated amortization and impairment losses

Balance at January 1, 2007		-26	0	-3	-29
Conversion differences					0
Changes in the scope of consolidated companies					0
Amortization		-12	-8	-9	-30
Impairment losses			-1		-1
Disposals		1			1
Reclassifications to assets held for sale		1	1	1	3
Balance at December 31, 2007		-36	-9	-11	-56
Net Group values at December 31, 2006	1 522	18	49	492	2 081
<b>Net Group values at December 31, 2007</b>	<b>1 532</b>	<b>13</b>	<b>111</b>	<b>514</b>	<b>2 170</b>

## Notes to the consolidated financial statements

**Post-employment benefit provisions and pension surplus**

Note 13

in CHF million	2008	Due		2007 restated	Due	
		within 1 year	beyond 1 year		within 1 year	beyond 1 year
<b>Total</b>	<b>540</b>	15	525	556	17	539

Post-employment benefit provisions are related to the following plans:

in CHF million	2008 Total	2008		2007 Total	2007	
		Defined benefit	Defined contribution		Defined benefit	Defined contribution
<b>Number of plans</b>						
Funded plans <sup>1</sup>	<b>38</b>	27	11	52	36	16
Unfunded plans	<b>21</b>	21	0	19	16	3
<b>Number of insured members</b>						
Active members <sup>2</sup>	<b>13 874</b>	11 911	1 963	13 651	11 457	2 194
Retired members	<b>9 788</b>	9 476	312	10 358	10 355	3
<b>in CHF million</b>						
Pension cost (operative)	<b>27</b>	23	4	29	23	5
Pension cost (financial)	<b>24</b>	24	0	20	20	0
Total post-employment benefit plan cost	<b>51</b>	47	4	49	44	5
Post-employment benefit provisions	<b>540</b>	539	1	554	553	1
Post-employment benefit assets	<b>0</b>	0	0	23	23	0

<sup>1</sup> In 2008 a number of plans were combined.

<sup>2</sup> Of which 301 active members from companies which are held as discontinued operations.

in CHF million	2008			2007		
	Total	Funded	Unfunded	Total	Funded	Unfunded
Plan assets at market value <sup>3</sup>	<b>861</b>	861	0	1 028	1 028	0
Projected benefit obligation (PBO)	<b>-1 335</b>	-931	-404	-1 471	-991	-479
Assets in excess of / below PBO	<b>-474</b>	-70	-404	-442	37	-479
Post-employment benefit provisions	<b>539</b>	135	404	553	74	479
Post-employment benefit assets	<b>0</b>	0	0	-23	-23	0
Unrecognized surplus (+) / underfunding (-)	<b>64</b>	64	0	88	88	0
of which:						
- Past service costs	<b>5</b>	5	0	6	6	0
- Unrecognized assets (effect of capitalization limit IAS 19.58(b))	<b>59</b>	59	0	82	82	0

<sup>3</sup> Plan assets include:

	2008		2007	
Equity instruments	<b>185</b>	21%	291	28%
Bonds and other obligations	<b>375</b>	44%	347	34%
Real estate <sup>4</sup>	<b>115</b>	13%	116	11%
Other	<b>186</b>	22%	274	27%
Total plan assets	<b>861</b>	100%	1 028	100%

<sup>4</sup> Plan assets include real estate in Germany with a fair value of CHF 20 million (previous year: CHF 22 million); the property is rented by a Group company, with an annual rent of CHF 1 million (previous year: CHF 1 million).

<b>Funded status and experience adjustments</b>	2008	2007	2006
Projected benefit obligation (PBO)	<b>-1 335</b>	-1 471	-1 566
Plan assets at market value	<b>861</b>	1 028	1 008
Assets below PBO	<b>-474</b>	-442	-559
Experience adjustments			
- to obligations	<b>-7</b>	-43	-2
- to plan assets	<b>-147</b>	-8	1

### Post-employment benefit provisions and pension surplus

in CHF million	2008	2007
<b>Plan assets at market value at January 1</b>	<b>1 028</b>	<b>1 008</b>
Expected return on plan assets	48	48
Employee contributions	15	14
Employer contributions	41	64
Actuarial gains / (losses)	-152	-4
Curtailments / settlements	11	0
Amounts paid out	-96	-90
Changes in the scope of consolidated companies	-2	0
Conversion differences	-32	-12
<b>Plan assets at market value at December 31</b>	<b>861</b>	<b>1 028</b>
<b>Present value of projected benefit obligation (PBO) at January 1</b>	<b>1 471</b>	<b>1 566</b>
Service cost	45	52
Interest cost	64	61
Plan extensions / (curtailments)	-14	-8
Actuarial (gains) / losses	-56	-117
Amounts paid out	-96	-90
Changes in the scope of consolidated companies	2	0
Conversion differences	-81	6
<b>Present value of projected benefit obligation (PBO) at December 31</b>	<b>1 335</b>	<b>1 471</b>
<b>Pension cost – defined benefit plans</b>		
Current service costs	-48	-52
Employee contributions	15	14
<b>Current service costs after deduction of employee contributions</b>	<b>-33</b>	<b>-38</b>
Interest costs	-64	-61
Expected return on plan assets	48	48
Effect of plan mutations	1	1
Gains / (losses) from terminations and curtailments	1	7
<b>Total pension costs</b>	<b>-47</b>	<b>-44</b>

#### Assumptions used in actuarial calculations

in %	2008	2007
(weighted average rates)		
Discount rate	5.0	4.7
Salary progression	2.0	2.1
Benefit progression	1.0	1.2
Return on plan assets	4.8	4.9

The expected return on funded plan assets is based on the long-term historical performance of the separate categories of plan assets for each funded pension plan. The calculation includes assumptions concerning expected income and realized or unrealized gains on plan assets. The expected return on plan assets included in the income statement is calculated by multiplying the expected rate of return by the fair value of plan assets. The difference between the expected return and the actual return in any twelve month period is an actuarial gain/loss and is recorded directly in equity. In 2008, the actual return on plan assets was CHF -105 million (previous year: CHF 44 million).

#### Actuarial losses / (gains) recognized in equity

in CHF million	2008	2007
<b>Accumulated values at January 1</b>	<b>-50</b>	<b>49</b>
Actuarial losses / (gains) recognized during year	70	-99
<b>Accumulated values at December 31</b>	<b>20</b>	<b>-50</b>
Effect of capitalization limit IAS 19.58(b)	-1	14

The employer contributions for 2009 are expected to be approximately CHF 39 million (previous year: CHF 65 million).

**Liabilities**

Note 14

in CHF million	2008	2007
<b>Current</b>		
Short-term bank debts	23	22
Short-term financial leases	7	7
Short-term loans payable	4	6
Trade payables	451	583
Trade notes payable	4	4
Other payables, excluding derivatives	91	121
<b>Total</b>	<b>580</b>	<b>743</b>
Derivatives used for hedging	22	5
<b>Total current financial liabilities</b>	<b>602</b>	<b>748</b>
<b>Non-current</b>		
Long-term loans payable	2 028	1 715
Bonds	0	9
Long-term financial leases	11	19
Mortgages	0	3
<b>Total</b>	<b>2 039</b>	<b>1 747</b>
Derivatives used for hedging	0	1
<b>Total non-current financial liabilities</b>	<b>2 039</b>	<b>1 748</b>

**Accrued liabilities**

Note 15

in CHF million	2008	2007
Accrued personnel costs	130	178
Accrued cost of sales	77	76
Other accrued liabilities	166	154
<b>Total</b>	<b>373</b>	<b>408</b>

## Notes to the consolidated financial statements

Note 16

**Provisions**

in CHF million	Product warranties	Onerous contracts <sup>1</sup>	Long-term employee benefits	Restructuring <sup>2</sup>	Other provisions <sup>3</sup>	2008 Total
Balance at January 1, 2008	97	33	41	16	73	<b>260</b>
Conversion differences	-5	-2	-3	-3	-6	<b>-19</b>
Additions	40	7	10	52	28	<b>137</b>
Amounts used	-33	-14	-9	-17	-21	<b>-94</b>
Amounts reversed	-15	-3	-9	-4	-5	<b>-38</b>
Liabilities classified as held for sale	-5	0	0	-7	-10	<b>-22</b>
<b>Balance at December 31, 2008</b>	<b>78</b>	<b>21</b>	<b>30</b>	<b>37</b>	<b>59</b>	<b>226</b>
Of which:						
Due within 1 year	73	4	3	35	37	<b>152</b>
Due beyond 1 year <sup>4</sup>	5	17	27	2	22	<b>74</b>

<sup>1</sup> Provisions are made for cases where the costs of fulfilling contractual obligations (e.g. projects) are higher than their expected economic benefit. During the preparation of the financial statements, a systematic reassessment of the project risks was conducted and appropriate adjustments made to the cost estimates for the projects underway in the individual business units. The basis for such was the so-called "most likely outcome". This requires estimates to be made with regard to the technical and time-related realization of those projects, and also includes a quantification of the relevant risks.

<sup>2</sup> Restructuring provisions amounted to CHF 37 million as at December 31, 2008, of which CHF 31 million relate to the Textile segment. Within the Textile segment the provisions are divided as follows:

in CHF million	Restructuring
Barmag	2
Neumag	2
Saurer	1
Schlafhorst	23
Textile Components	3
<b>Total</b>	<b>31</b>

The restructuring provisions in the Textile segment relate primarily to the project "Simplify Oerlikon Textile" which aims to reduce the break-even point across all business units.

<sup>3</sup> Other provisions cover various risks which occur in the normal course of business. They consist mainly of provisions for pending litigation, technical risks and product anomalies.

<sup>4</sup> For the long-term provisions the cash outflow is assumed to be within the next two to three years.



**Financial instruments**

in CHF million	2008			2007		
	Contract volume	Fair value positive	Fair value negative	Contract volume	Fair value positive	Fair value negative
<b>Forward exchange contracts</b>	<b>1 088</b>	<b>40</b>	<b>22</b>	<b>1 072</b>	<b>17</b>	<b>6</b>
<b>Interest-rate derivatives</b>	<b>1 011</b>	<b>0</b>	<b>0</b>	<b>1 218</b>	<b>1</b>	<b>0</b>
Interest-rate swaps	11	0	0	18	0	0
Interest caps <sup>1</sup>	1 000	0	0	1 200	1	0
<b>Total</b>	<b>2 099</b>	<b>40</b>	<b>22</b>	<b>2 290</b>	<b>18</b>	<b>6</b>

Based on the Group's business activities, the main currencies USD and EUR are hedged. Positive and negative changes in fair values of currency derivatives are offset by the corresponding gain or loss on the underlying hedged transactions. The maximum risk of counterparty non-performance is equal to the positive deviation from fair value. In view of the reputation of the counterparties, this risk is deemed to be minimal.

In principle, the maturities of currency and interest-rate hedges correspond to the maturity of the underlying base transaction. 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 synchronised with the impact of the base transaction in the income statement. The hedging transactions are first recorded in equity, then recycled to the income statement when the base transaction is recorded in the balance sheet. 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
<b>Forward exchange contracts</b>							
2008	17	<b>1 088</b>	955	118	14	0	0
2007	11	<b>1 072</b>	809	214	49	0	0
<b>Interest-rate swaps<sup>2</sup></b>							
2008	0	<b>11</b>	3	3	5	0	0
2007	0	<b>18</b>	0	0	0	18	0

<sup>1</sup> As a hedge against the interest rate risk inherent in the variable interest rates of the syndicated loan, two interest caps were taken out in August 2007 for a nominal amount of CHF 1 200 million. The interest caps run to 2011, and over that period they compensate for any excess of the 6-month-CHF-LIBOR over 4 percent by paying out the difference. The nominal amount is reduced over the period of the loan in accordance with the planned repayment. The nominal amount at December 31, 2008 was CHF 1 000 million.

Every 6 months a comparison is made between current 6-month-CHF-LIBOR and the interest rate upper limit of 4 percent. If 6-month-LIBOR exceeds 4 percent, Oerlikon receives a payment in compensation.

The total premiums of CHF 2 million payable at the inception of this contract were capitalized and were remeasured to fair value in the balance sheet at December 31, 2008. The interest cap is booked through the income statement.

<sup>2</sup> Interest-rate swaps are used in connection with a "sale and leaseback" real estate transaction for an Italian subsidiary.

## Liquidity risk

Note 18

Liquidity risk is the risk that Oerlikon may be unable to discharge its financial liabilities in a timely manner or at an acceptable cost. 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. Corporate 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 a rolling liquidity plan, about which senior management are kept informed. On the basis of this plan, Oerlikon mobilizes the necessary liquid funds and takes any further steps necessary on a timely basis.

### Terms and debt repayment schedule

in CHF million	Carrying amount	Contractual cash flow				2008
			within 1 year	1 to 5 years	more than 5 years	of which secured
Bank overdrafts	14	14	14			
Fixed advances	9	9	9			
Trade payables	455	455	455			
Loans and borrowings	2 032	2 048	5	2 041	3	8
Bond	0	0	0	0	0	0
Gross finance lease obligation	18	18	8	10	0	14
Accrued liabilities	207	207	207			
<b>Non-derivative financial liabilities</b>	<b>2 735</b>	<b>2 750</b>	<b>698</b>	<b>2 051</b>	<b>3</b>	<b>23</b>
Forward exchange contracts used for hedging	18	1 088	1 074	14		
– Cash outflow	–11	352	346	6		
– Cash inflow	29	736	728	8		
<b>Derivative financial instruments</b>	<b>18</b>	<b>1 088</b>	<b>1 074</b>	<b>14</b>	<b>0</b>	<b>0</b>
<b>Total</b>	<b>2 753</b>	<b>3 838</b>	<b>1 772</b>	<b>2 065</b>	<b>3</b>	<b>23</b>

in CHF million	Carrying amount	Contractual cash flow				2007 restated
			within 1 year	1 to 5 years	more than 5 years	of which secured
Bank overdrafts	18	18	18			
Fixed advances	4	4	4			
Trade payables	587	587	587			
Loans and borrowings	1 724	1 784	6	1 776	2	6
Bond	9	11	0	11		
Gross finance lease obligation	26	28	9	17	2	22
Accrued liabilities	154	154	154			
<b>Non-derivative financial liabilities</b>	<b>2 523</b>	<b>2 587</b>	<b>779</b>	<b>1 804</b>	<b>4</b>	<b>28</b>
Forward exchange contracts used for hedging	11	1 072	1 023	50	0	0
– Cash outflow	–6	509	502	7		
– Cash inflow	17	563	520	43		
<b>Derivative financial instruments</b>	<b>11</b>	<b>1 072</b>	<b>1 023</b>	<b>50</b>	<b>0</b>	<b>0</b>
<b>Total</b>	<b>2 534</b>	<b>3 659</b>	<b>1 801</b>	<b>1 854</b>	<b>4</b>	<b>28</b>

**Terms and debt repayment schedule**

Note 18 (cont.)

in CHF million	Currency	Nominal interest rate	Year of maturity	2008		2007	
				Face value	Carrying amount	Face value	Carrying amount
Syndicated loan / term loan (facility A) <sup>1</sup>	CHF	Libor+0.55%	2010	600	584	600	578
Syndicated loan / revolving facility (facility B)	CHF	Libor+0.60%	2012	600	600	600	600
Syndicated loan / revolving facility (facility B)	CHF	Libor+0.60%	2012	440	440	410	410
Syndicated loan / revolving facility (facility B)	CHF	Libor+0.60%	2012	200	200		
Syndicated loan / revolving facility (facility B)	USD	Libor+0.60%	2012	121	121	116	116
Syndicated loan / revolving facility (facility B)	EUR	Libor+0.60%	2012	75	75		
Finance lease	EUR	4.48%–4.98%	2010–2011	16	16	25	25
Finance lease	var.	var.	var.	2	2	1	1
Saurer AG Bond <sup>2</sup>	CHF	3.5%	2013			9	9
Various short- and long-term liabilities <sup>3</sup>	var.	1.28%–13.25%	2009–2014	36	36	42	42
<b>Total interest-bearing liabilities</b>					<b>2 074</b>		<b>1 782</b>

<sup>1</sup> Face value differs from book value in respect of term loan (facility A) because CHF 22 million of directly attributable transaction costs were deducted from the loan and are being expensed over the term of the loan. As at December 31, 2008 the amount of transaction costs deducted from the loan was CHF 16 million.

<sup>2</sup> On June 10, 2008 the Saurer AG bond in the amount of CHF 9 million was duly repaid at 100.25 percent of the nominal value, together with accrued interest at 3.5 percent p.a. (less 35 percent Swiss transfer tax). The last trading day of the Saurer bond was June 5, 2008.

<sup>3</sup> Various currencies including: BRL, CHF, CNY, EUR, INR, JPY, SEK, TWD, USD.

Most of the financial liabilities were unsecured at December 31, 2008. The finance leases are secured by contract provisions normal for such leases.

Oerlikon is financed primarily by a syndicated loan of CHF 2 500 million, provided at present by 23 first-class financial institutions. This loan was taken up by OC Oerlikon Corporation AG, Pfäffikon. The syndicated loan is divided into a 3-year term loan of CHF 600 million and a 5-year revolving facility of CHF 1 900 million. The loan was used to repay existing credit facilities and also for general business purposes. The interest rates of the loans are LIBOR plus a margin set out in a leverage pricing grid; these terms are reviewed every six months. As at December 31, 2008 the margin was 55 to 60 basis points.

No assets were pledged as collateral for the syndicated loan. The credit facility is subject to a financial covenant which is based on a leverage ratio, being the ratio of net debt to normalized EBITDA, which is measured semi-annually and which should not exceed 3.5:1 (3.25:1 as from December 31, 2009). Exceeding the ratio could result in a breach of the covenant. The ratio was fully covered at December 31, 2008.

It is Management's and the Board's intention to strengthen the capital base of the Group and to maintain the syndicated credit facility. For this purpose Management and Board are in the process to explore options, and initiated actions, which apart from operational efficiency improvements, include an amendment of the syndicated facility, and may include asset divestures or capital/equity market transactions. As of today management and Board are confident that the above actions will be successful.

**Credit risk**

Note 19

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, and arises principally from the Group's receivables from customers and investment securities.

The credit or default risk associated with operating receivables is monitored locally by the individual Group companies. These companies follow an established group wide credit policy under which each new customer is analysed individually for creditworthiness before payment and delivery terms and conditions are offered. Credit ratings are reviewed regularly and defined country credit limits are set and monitored on an ongoing basis. "High risk" customers are placed on a restricted customer list, and future sales with them are made on a prepayment basis only. Letters of credit and other instruments are also used to reduce credit risk. Goods are sold subject to retention of title clauses, so that in the event of non-payment the Group may have a secured claim.

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 first-rate domestic and foreign banking institutions. As of December 31, 2008, the Group had no treasury or derivative transactions that represented a significant concentration of credit risk.

Oerlikon group's maximum credit risk from financial instruments is reflected in the book values of the individual financial assets. 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	2008	2007 restated
Cash and cash equivalents	393	484
Available-for-sale financial assets, carried at fair value	3	8
Available-for-sale financial assets, carried at cost	33	34
Derivatives used for hedging	40	18
Trade receivables	534	794
Accrued sales under percentage of completion (POC) method for orders without customer advances	178	121
Loans and other financial receivables	15	15
<b>Total</b>	<b>1 196</b>	<b>1 474</b>

Trade receivables are distributed geographically as follows:

in CHF million	2008	2007
Asia	65	44
Europe	384	693
USA	81	50
Other	4	8
<b>Total</b>	<b>534</b>	<b>794</b>

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

**Aging of trade receivables**

Note 19 (cont.)

in CHF million	2008		2007	
	Gross amount	Value adjustment	Gross amount	Value adjustment
<b>Current (not due)</b>	<b>416</b>		<b>657</b>	
<b>Total past due</b>	<b>142</b>	<b>-24</b>	<b>162</b>	<b>-25</b>
0-30 days	48	-2	79	-3
31-60 days	38	-3	27	-3
61-90 days	13	-1	17	-2
91-120 days	7	-1	9	-3
over 120 days	35	-17	31	-15
<b>Total</b>	<b>558</b>	<b>-24</b>	<b>819</b>	<b>-25</b>

Provisions 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, which 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	2008		2007
Balance at the beginning of the period		-25	-28
Changes in the scope of consolidated companies		0	0
Additional impairment losses charged to income		-9	-9
Reversal of impairment losses		5	9
Write-off		1	-2
Conversion differences		4	5
<b>Balance at the end of the period</b>		<b>-24</b>	<b>-25</b>

**Market risk**

Note 20

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. Oerlikon 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.

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 pre-approved 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 Corporate Treasury, who 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.

**Currency risk****Foreign exchange transaction risk**

The Group has adopted the Swiss franc as its reporting currency. Due to its most significant markets, the Group is primarily exposed to exchange risks versus the US dollar and Euro. If costs and revenues of Group companies are incurred or earned in differing or non-local 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 Corporate Treasury, who hedges the related exchange risks using internal hedging contracts with the companies concerned and external contracts with first-class 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. Every month a check is made 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, which 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 risk arising from foreign subsidiary balance sheets – the effect of which is a currency impact on consolidated Group equity – is partially hedged, in that the Group raises foreign currency debt to manage this exposure.

**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:

	2008	Average rates 2007	Change 07/08	2008	Year-end rates 2007	Change 07/08
1 USD	1.08	1.20	-9.8%	1.06	1.13	-6.3%
1 EUR	1.59	1.64	-3.4%	1.49	1.66	-10.1%
100 CNY	15.60	15.80	-1.3%	15.50	15.50	0.0%
100 HKD	13.90	15.40	-9.7%	13.60	14.40	-5.6%
100 JPY	1.05	1.02	3.1%	1.17	1.00	16.7%
1 SGD	0.77	0.80	-4.0%	0.74	0.78	-5.6%

**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 10.48 percent (USD/CHF) and 6.12 percent (EUR/CHF) a corresponding change in exchange rates at December 31, 2008 would have increased the equity and decreased profit or loss by the amounts listed below.

Effect in CHF million	2008		2007	
	Equity	Profit or loss	Equity	Profit or loss
USD	5	4	23	11
EUR	9	2	184	2

A 10.48 percent (USD/CHF) and 6.12 percent (EUR/CHF) weakening of the Swiss francs against the above currencies at December 31 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 were calculated for a 10 percent change in exchange rates.

**Exposure to currency risk**

Note 20 (cont.)

The Group's exposure to foreign currency risk was as follows based on nominal amounts as of December 31, 2008:

in million	2008			2007		
	EUR	USD	CHF	EUR	USD	CHF
Trade receivables	25	54	1	29	118	1
Trade payables	-25	-12	-2	-14	-24	-8
Net financial position	35	11	-2	294	53	-230
<b>Gross exposure consolidated balance sheet</b>	<b>35</b>	<b>53</b>	<b>-3</b>	<b>309</b>	<b>147</b>	<b>-237</b>
<b>Foreign currency risk in business operations</b>	<b>30</b>	<b>148</b>	<b>5</b>	<b>65</b>	<b>121</b>	<b>6</b>
<b>Open foreign exchange forward contracts</b>	<b>-20</b>	<b>-152</b>	<b>-3</b>	<b>-61</b>	<b>-183</b>	<b>-3</b>
<b>Net exposure</b>	<b>45</b>	<b>49</b>	<b>-1</b>	<b>313</b>	<b>85</b>	<b>-234</b>

**Interest rate risk**

Oerlikon is exposed to interest rate risk mainly from its financial debt, which is placed at variable interest rates, but also on a much smaller scale from its liquid funds, which are also placed at variable rates or held as short-term investments. Amounts drawn down from the syndicated loan are subject to interest rate fluctuations.

Corporate 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.

At the reporting date December 31, 2008, the interest rate profile of the Group's interest-bearing financial instruments was:

in CHF million	2008 Net carrying amount	2007 Net carrying amount
<b>Fixed rate interest</b>		
Financial assets	11	0
Financial liabilities	-17	-34
<b>Total</b>	<b>-6</b>	<b>-34</b>
<b>Variable rate interest</b>		
Financial assets	383	484
Financial liabilities	-2 058	-1 747
<b>Total</b>	<b>-1 675</b>	<b>-1 263</b>

**Cash flow sensitivity analysis for variable rate instruments**

A change of 100 basis points 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.

Effect in CHF million	Profit or loss	
	100 bp increase	100 bp decrease
<b>2008</b>		
Cash flow sensitivity	-21	21
<b>2007</b>		
Cash flow sensitivity	-14	14

The cash flow sensitivity analysis for variable rate instruments is based on the average interest rate applicable for the Group for variable financial assets and financial liabilities.

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

## Capital management

Note 20 (cont.)

The current capital base has been impacted during 2008 due to the weakened operating performance and the write-downs of goodwill and intangible assets.

It is management's intention to reinforce the capital base to secure the trust of investors, suppliers and other shareholders, thus ensuring its longer-term financial flexibility. Oerlikon's senior financial management uses the equity ratio (equity as a percentage of total assets) and the debt-to-equity ratio (relationship of interest-bearing debt to equity) and the return on equity to monitor the adequacy of its equity capitalization.

The ratios are shown in the table below:

in CHF million	2008	2007
Total assets	5 476	6 290
Equity	1 118	1 887
<b>Equity ratio in %</b>	<b>20%</b>	<b>30%</b>
Interest-bearing debt	2 074	1 782
Equity	1 118	1 887
<b>Debt-to-equity ratio</b>	<b>1.9</b>	<b>0.9</b>
Average equity	1 503	1 699
Net result attributable to the shareholders of the parent	-425	314
<b>Return on equity</b>	<b>-28%</b>	<b>18%</b>

Oerlikon strives to maintain an adequate equity base, in order to preserve its investment grade in the capital markets. As a guide, Oerlikon management keeps watch on the net debt to EBITDA ratio.



**Fair values versus carrying amounts at December 31**

Note 21

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

in CHF million	2008		2007 restated	
	Carrying amount	Fair Value	Carrying amount	Fair Value
Cash and cash equivalents	393	393	484	484
Available-for-sale financial assets	3	3	8	8
Loans and receivables	889	889	1 077	1 077
Interest rate derivatives				
– Assets	0	0	1	1
– Liabilities	0	0	0	0
Forward exchange contracts				
– Assets	40	40	17	17
– Liabilities	-22	-22	-6	-6
Secured bank loans	0	0	0	0
Unsecured bank loans	-2 055	-2 055	-1 747	-1 747
Bonds	0	0	-9	-9
Finance lease liabilities	-18	-18	-26	-26
Trade payables	-455	-455	-587	-587
<b>Total</b>	<b>-1 226</b>	<b>-1 226</b>	<b>-789</b>	<b>-789</b>
<b>Unrecognized gains / (losses)</b>		<b>0</b>		<b>0</b>

### Discontinued operations and assets held for sale

Note 22

As at January 26, 2009, Oerlikon Group sold the ESEC business unit to the Dutch company BE Semiconductor Industries NV. As of December 31, 2008 the assets and the liabilities relating to the disposal are shown at fair value less costs to sell.

In October 2008 OC Oerlikon sold the Optics business located at Balzers to its local management (MBO). This included the whole optical coating business together with relevant technical equipment and customer and supplier relations.

As at November 26, 2008 OC Oerlikon sold the Optics business located at Golden, Colorado, USA, to Ocean Optics, Inc. This included the whole optical coating business.

There are plans to sell the remaining Optics business in Shanghai (China) during 2009.

In January 2009 Oerlikon Group sold the Wafer Etch business of the Segment Advanced Technologies through a management buyout.

As of December 31, 2008 the assets and the liabilities relating to the disposal are shown at fair value less costs to sell.

In the Oerlikon Coating segment the business Blu-ray / DVD was sold to Singulus Technologies AG as at January 31, 2008.

The Magnetic Media Equipment Business was sold in 2008.

Assets in CHF million	2008 Total	Assets held for sale		
		ESEC	Oerlikon Optics	Wafer Etch
Receivables	29	17	7	5
Inventories	13	11	2	0
Other assets	1	1	0	0
<b>Current assets</b>	<b>43</b>	<b>29</b>	<b>9</b>	<b>5</b>
Property, plant and equipment	17	4	6	7
<b>Non-current assets</b>	<b>17</b>	<b>4</b>	<b>6</b>	<b>7</b>
<b>Total assets</b>	<b>60</b>	<b>33</b>	<b>15</b>	<b>12</b>
Liabilities in CHF million	Total	ESEC	Oerlikon Optics	Wafer Etch
Trade payables	10	8	1	1
Other liabilities	27	19	5	3
Current other provisions	23	16	4	3
<b>Current liabilities</b>	<b>60</b>	<b>43</b>	<b>10</b>	<b>7</b>
Non-current post-employment benefit provisions	1	1	0	0
Non-current other provisions	6	6	0	0
<b>Non-current liabilities</b>	<b>7</b>	<b>7</b>	<b>0</b>	<b>0</b>
<b>Total liabilities</b>	<b>67</b>	<b>50</b>	<b>10</b>	<b>7</b>

Assets in CHF million	2007 Total	Assets held for sale	
		Oerlikon Optics	Blu-ray / DVD
Receivables	19	15	4
Inventories	18	8	10
Other assets	1	1	0
<b>Current assets</b>	<b>38</b>	<b>24</b>	<b>14</b>
Property, plant and equipment	24	24	0
Intangible assets	4	2	2
<b>Non-current assets</b>	<b>27</b>	<b>25</b>	<b>2</b>
<b>Total assets</b>	<b>65</b>	<b>49</b>	<b>16</b>
Liabilities in CHF million	Total	Oerlikon Optics	Blu-ray / DVD
Trade payables	9	6	2
Other liabilities	11	9	2
Current other provisions	6	6	1
<b>Current liabilities</b>	<b>26</b>	<b>21</b>	<b>5</b>
Non-current post-employment benefit provisions	1	1	0
Non-current other provisions	0	0	0
<b>Non-current liabilities</b>	<b>1</b>	<b>1</b>	<b>0</b>
<b>Total liabilities</b>	<b>27</b>	<b>22</b>	<b>5</b>

**Further details of discontinued operations**

Note 22 (cont.)

in CHF million	January 1 to December 31, 2008			January 1 to December 31, 2007		
	Total	ESEC	Optics	Total	ESEC	Optics
Orders received	191	115	76	327	231	96
Orders on hand	20	10	10	39	20	19
Sales of goods	181	105	76	297	202	95
Services rendered	29	21	8	32	24	8
<b>Total sales</b>	<b>210</b>	<b>126</b>	<b>84</b>	<b>329</b>	<b>226</b>	<b>103</b>
Cost of sales	-149	-87	-62	-231	-150	-81
<b>Gross profit</b>	<b>61</b>	<b>39</b>	<b>22</b>	<b>98</b>	<b>76</b>	<b>22</b>
Marketing and selling	-36	-27	-9	-37	-26	-11
Research and development	-60	-55	-5	-23	-15	-8
Administration	-17	-10	-7	-17	-7	-10
Impairment of goodwill	-93	-93	0	0	0	0
Restructuring costs	-35	-33	-2	0	0	0
Other income and expenses	11	4	7	-8	0	-8
(Loss) / gain on sale of discontinued operation	-37	-41	4	0	0	0
<b>EBIT from discontinued operations</b>	<b>-206</b>	<b>-216</b>	<b>10</b>	<b>13</b>	<b>29</b>	<b>-16</b>
Net financing costs	0	0	0	0	0	0
<b>Result before taxes (EBT) from discontinued operations</b>	<b>-206</b>	<b>-216</b>	<b>10</b>	<b>13</b>	<b>29</b>	<b>-16</b>
Income tax from discontinued operations	-9	-9	0	0	0	0
<b>Net result from discontinued operations</b>	<b>-215</b>	<b>-225</b>	<b>10</b>	<b>13</b>	<b>29</b>	<b>-16</b>
Attributable to:						
Shareholders of the parent	-215	-225	10	13	29	-16
<b>Minority interests</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Cash flow from operating activities in CHF million	<b>10</b>	<b>-1</b>	<b>11</b>	<b>56</b>	<b>48</b>	<b>8</b>
Cash flow from investing activities in CHF million	<b>-4</b>	<b>-13</b>	<b>9</b>	<b>-26</b>	<b>-21</b>	<b>-5</b>
Cash flow from financing activities in CHF million	<b>17</b>	<b>27</b>	<b>-10</b>	<b>-19</b>	<b>-14</b>	<b>-5</b>

## OC Oerlikon participation plans

Note 23

On December 31, 2008 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 in the form of restricted stock units (RSU) which are allocated on the day of the annual general shareholders meeting and vest upon the earlier of either the next annual general shareholders meeting or the departure of the Board member at which time they are converted into Oerlikon shares. The value of the RSU per year end is based on a weighted average share price of CHF 378.50.

Year of allocation	Outstanding on 1.1.	Granted in 2008	Forfeited in 2008	Exercised in 2008	Outstanding on 31.12.	Average share price in CHF	Expenses recognized in 2008 in MCHF	Vesting period
2008	–	2 479	767	–	1 712	378.5	0.38	14.05.08–12.05.09

### Performance share awards (PSA)

Members of the Executive Board (except of the CEO) 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 based on performance and vesting conditions ranging from 2 to 3 years. Performance conditions consist of individual and financial objectives. Their achievement determines the effective number of total Performance Share Awards (PSA). Upon vesting, the effective number of PSA are converted into shares.

Year of allocation	Outstanding on 1.1.	Granted in 2008	Forfeited in 2008	Exercised in 2008	Outstanding on 31.12.	Average share price in CHF	Expenses recognized in 2008 in MCHF	Vesting period
2008	–	46 365	–	–	46 365	93	0.53	01.05.08–30.04.11

### Share options

Employees may receive a portion of their compensation as options for OC Oerlikon Corporation AG, Pfäffikon with a blocking period of 1, 2, 3 or 4 years. The Oerlikon Options Plan (OOP) launched in 2007 was discontinued and no options have been granted in 2008. Holders are entitled to purchase one share for each option held. The value at year-end is based on a Black-Scholes valuation including a weighted average share price of CHF 534.

Year of allocation	Outstanding on 1.1.	Granted in 2008	Forfeited in 2008	Exercised in 2008	Outstanding on 31.12.	Exercise price in CHF	Expenses recognized in 2008 in MCHF	Exercise period
2001	265	–	–109	–156	–	315	0.00	29.05.03–28.05.08
	269	–	–113	–156	–	315	0.00	29.05.04–28.05.08
2002	472	–	–87	–16	369	190	0.00	14.05.04–13.05.09
	479	–	–89	–16	374	190	0.00	14.05.05–13.05.09
2003	321	–	–	–	321	110	0.00	24.05.05–23.05.10
2007	1 725	–	–294	–	1 431	603	0.00	01.01.08–31.12.13
	1 725	–	–294	–	1 431	603	0.00	01.01.09–31.12.13
	1 725	–	–294	–	1 431	603	0.00	01.01.10–31.12.13
	1 725	–	–294	–	1 431	603	0.00	01.01.11–31.12.13
<b>Total</b>	<b>8 706</b>	<b>–</b>	<b>–1 574</b>	<b>–344</b>	<b>6 788</b>		<b>0.00</b>	

For options exercised in 2008, the weighted average share price upon exercise amounted to CHF 369 (previous year: CHF 682).

## Related party transactions

Note 24

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 OC Oerlikon Corporation AG, Pfäffikon consists of 14 142 437 shares. At December 31, 2008 the following primary shareholders were:

Shareholder	Share ownership	
	Number of shares	in %
Group composed of the Renova Group (Renova Industries Ltd., Nassau/Bahamas <sup>1</sup> and Beregan Holding AG, Zurich <sup>1</sup> ) and Victory Industriebeteiligung AG, Vienna <sup>2,3</sup>	8 035 746	56.82
OC Oerlikon Corporation AG, Pfäffikon <sup>4</sup>	1 329 164	9.40

<sup>1</sup> Beneficial owner (as per disclosure notification of September 9, 2008): Viktor F. Vekselberg, Zurich and Moscow.

<sup>2</sup> Beneficial owner (as per disclosure notification of September 9, 2008): RPR Privatstiftung, Vienna.

<sup>3</sup> Source: Information provided by the shareholders, according to which the Renova Group held 6 317 392 shares (44.67 percent) and Victory Industriebeteiligung AG held 1 718 354 shares (12.15 percent).

<sup>4</sup> Actual shareholdings as of December 31, 2008.

### Compensation of non-executive Board Members

Members of the Board of Directors receive a cash compensation and restricted stock units (RSU). The cash compensation consists of a Board member fee, a fee for Committee Chairmen, a fee for Committee members and a fee for the Chairman of the Board of Directors. In addition, a cash allowance is paid to all Board members. Board members receive restricted stock units (RSU) which are blocked from their granting at the annual general meeting of shareholders until either the following annual general meeting of shareholders or the departure of the Board member at which time they are converted into Oerlikon shares.

The compensation is proposed by the Human Resources Committee and set by the Board of Directors after the annual general meeting of shareholders.

The total of all compensation of non-executive members of the Board of Directors in 2008 was CHF 1 million.

in CHF 000	Board of Directors	Strategy Committee	Audit Committee	HR Committee	Cash compensation	Restricted stock units (RSU) <sup>1</sup>	Other compensation <sup>6</sup>	Total compensation 2008	Total compensation 2007
Vladimir Kuznetsov	C		M <sup>1</sup>	C	91	0 <sup>5</sup>	16	107	0
Dr. Hanno M. Bästlein	M <sup>3</sup>			M <sup>1</sup>	63	76	4	143	284 <sup>8</sup>
Kurt J. Hausheer	M <sup>2</sup>	M <sup>2</sup>	C <sup>2</sup>		98	76	11	185	0
Dr. Urs Andreas Meyer	M	C	M		123	76	13	212	0
Carl Stadelhofer	M	M		M	110	76	12	198	0
Hans Ziegler	M		M	M	110	76	12	198	0
Georg Stumpf	C <sup>1</sup>		M <sup>1</sup>	C <sup>1</sup>				0	0
Günther Robol	M <sup>1</sup>		C <sup>1</sup>	M <sup>1</sup>				0	619 <sup>9</sup>
<b>Total</b>					595	380	68	<b>1 043</b>	<b>903</b>

C(hairman), M(ember)

<sup>1</sup> Until May 14, 2008.

<sup>2</sup> As of July 1, 2008.

<sup>3</sup> Until October 31, 2008. Payment was made to a related party.

<sup>4</sup> Accounting value for 1 712 restricted stock units (RSU) at year-end based on a share price of CHF 378.50 (grant date). The share price at year-end was CHF 69.00 which reduced the total value of the RSU for 2008 to less than CHF 100 000.

<sup>5</sup> Vladimir Kuznetsov waived his RSU for 2008/9.

<sup>6</sup> Other compensation consists of social security contributions and an expense allowance which are paid by the OC Oerlikon Corporation.

<sup>7</sup> In 2007 Georg Stumpf and Vladimir Kuznetsov waived their compensation for 2007.

<sup>8</sup> The compensation for Dr. Hanno M. Bästlein were mainly shares and options in 2007.

<sup>9</sup> The compensation for Günther Robol included TCHF 600 cash and TCHF 19 other compensations.

On December 31, 2008 the following members of the Board of Directors and related parties held registered shares of OC Oerlikon Corporation AG, Pfäffikon:

Member of Board of Directors	Number of shares	in %
Kurt J. Hausheer, Board Member	10 000	0.07
Carl Stadelhofer, Board Member	10	0.00
Hans Ziegler, Board Member	600	0.00
Dr. Hanno M. Bästlein, Board Member (till October 31, 2008)	730	0.01

Vladimir Kuznetsov is an executive of the Renova Group. Dr. Urs Meyer is the CEO of Venetos Management AG, a subsidiary of the Renova Group. Carl Stadelhofer is a board member of the Renova Group. His shares are held by a related party. The Renova Group holds 6 317 392 shares.

### Compensation of Members of the Executive Board

Members of the Executive Board receive a compensation consisting of a base salary and a bonus. While the CEO receives his bonus in shares, other members of the Executive Board receive their bonus in cash. In addition, the CEO participates in a long-term stock appreciation rights (SAR) plan while other members of the Executive Board participate in a long-term performance share awards (PSA) plan. Dr. Uwe Krüger waived his rights under the annual bonus and the long-term bonus plans for the year 2008.

The compensation for the members of the Executive Board is proposed by the Human Resources Committee and set by the Board of Directors at the end of the year. The achievement of targets defined for the annual short-term bonus are reviewed by the Human Resources Committee at the end of the year and the bonus is usually paid in April of the following year.

The total compensation paid to all members of the Executive Board for the year 2008 was CHF 5.1 million. The highest compensation paid to an individual Board member was CHF 2.1 million.

Compensation was paid to the Executive Board as follows:

in CHF 000	Salary	Bonus <sup>1</sup>	Performance share awards <sup>2</sup>	Pension	Other compensation <sup>3</sup>	Total compensation 2008	Total compensation 2007 <sup>4</sup>
Total compensation to members of the Executive Board	3 871	616	2	507	149	5 145	15 273
Of which highest paid to one individual: Dr. Uwe Krüger (CEO)	1 940	0	0	146	42	2 128	7 771

<sup>1</sup> Dr. Uwe Krüger waived his annual bonus and allocation of stock appreciation rights for 2008.

<sup>2</sup> Performance share awards were allocated to members of the Executive Board (except the CEO). Their value at year-end is based on a weighted average share price of CHF 92.66 (grant date).

<sup>3</sup> The other compensation includes expense and car allowances.

<sup>4</sup> In 2007, the former CEO received the highest paid compensation (CHF 7.771 million).

On December 31, 2008 members of the Executive Board held the following shares, share options and performance share awards (PSA):

Member of Executive Board	Number of shares	Number of options	Number of PSA
Dr. Uwe Krüger, CEO	2 041		
Björn Bajan, General Counsel & Corporate Secretary	2 005		2 055
Thomas Babacan, COO		627	897

### Compensation paid to former related parties

The total of compensation paid directly or indirectly to former members of the Board of Directors or the Executive Board for the year 2008, either by OC Oerlikon Corporation AG, Pfäffikon or by any other company of the Oerlikon Group, was CHF 0.9 million.

No payment was made to former non-executive members of the Board of Directors.

The following payments were made in the year under report to a former member of the Executive Board:

in CHF 000	Shares <sup>1</sup>	Severance Payment	Total Compensation
Total compensation	446	476	922

<sup>1</sup> 4 000 shares were paid at a price of CHF 111.50 on November 7, 2008.

### Loans and other payments to members of the Board of Directors and the Executive Board

No loans were granted and no other payments were made to current or former members of the Board of Directors or the Executive Board during 2008. No such loans or payments were outstanding as of December 31, 2008.

### Group and associated companies

An overview of the Group subsidiary companies can be found on pages 128–130. 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 20 million and the annual rent is CHF 1 million.

Participation plans are disclosed separately in note 23.

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

**Contingent liabilities**

Note 25

in CHF million	2008	2007
Debt guarantees	9	8
Discounted bills of exchange	2	7
<b>Total</b>	<b>11</b>	<b>15</b>

The contingent liabilities under debt guarantees are mainly guarantees debt to banks.

**Payments under non-cancellable leases**

Note 26

in CHF million	2008	2007
Due in 1st year	31	33
Due in 2nd year	24	27
Due in 3rd year	19	21
Due in 4th year	16	16
Due in or beyond 5th year	45	43
<b>Total</b>	<b>135</b>	<b>138</b>

These amounts primarily relate to rental contracts for buildings. The largest amounts pertain to the facilities of Oerlikon Textile Components GmbH, Germany (CHF 23 million), Oerlikon Balzers Coating USA Inc. (CHF 11 million), Oerlikon Assembly Equipment AG in Steinhäusen, Switzerland (CHF 9 million) and Oerlikon Balzers Coating Germany in Bingen (CHF 10 million).

The expenses of operating leases charged to the income statement amount to CHF 21 million (previous year: CHF 25 million).

**Pledged assets**

Note 27

The following assets shown on the balance sheet were pledged as security:

in CHF million	2008	2007
Property, plant and equipment	59	65
<b>Total</b>	<b>59</b>	<b>65</b>

A significant part (CHF 39 million) of the above mentioned pledged property, plant and equipment relates to a single sale-and-leaseback contract of an Italian subsidiary.

**Risk assessment disclosure required by Swiss law**

Note 28

The Corporate Risk Management function coordinates and aligns the risk management processes, and reports to the Board and the Audit Committee on a regular basis on risk assessment and risk management. Organizational and process measures have been designed to identify and mitigate risks at an early stage and these have been approved by the Board of Directors. In terms of organization, the responsibility for risk assessment and management is allocated to the Segments, with specialized Corporate Functions such as Corporate Accounting & Reporting, Treasury and Internal Audit providing support and controlling the effectiveness of the risk management by the Segments.

Financial risk management is described in more detail in notes 18, 19 and 20 of the Group's consolidated financial statements.

**Events subsequent to the balance sheet date**

Note 29

**Sale of ESEC Business Unit**

On January 26, 2009, Oerlikon Group sold the ESEC business unit to the Dutch company BE Semiconductor Industries NV

**Sale of St. Petersburg / Wafer Etch**

In January 2009 Oerlikon Group sold the Wafer Etch business of Oerlikon Systems as a management buyout.

## Segment information 2008–2007

in CHF million	Oerlikon Textile		Oerlikon Coating <sup>2</sup>		Oerlikon Solar <sup>2</sup>		Oerlikon Vacuum		Oerlikon Drive Systems	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
<b>Orders received</b>	1 364	2 655	509	497	566	650	460	477	1 171	1 185
<b>Orders on hand</b>	443	821	–	–	429	460	68	78	183	231
<b>Sales</b>										
Sales to third parties	1 690	2 719	509	497	598	266	465	458	1 204	1 113
Sales to group companies	0	0	1	1	29	38	30	7	0	0
	<b>1 690</b>	<b>2 719</b>	<b>510</b>	<b>498</b>	<b>628</b>	<b>304</b>	<b>495</b>	<b>464</b>	<b>1 204</b>	<b>1 113</b>
<b>Sales by market region to third parties</b>										
Japan and Asia / Pacific	893	1 453	106	98	334	111	126	121	73	54
Europe	411	788	298	292	260	155	263	244	679	645
North America	277	299	102	105	4	0	73	89	450	413
Other regions	109	179	3	2	0	0	3	3	2	2
	<b>1 690</b>	<b>2 719</b>	<b>509</b>	<b>497</b>	<b>598</b>	<b>266</b>	<b>465</b>	<b>458</b>	<b>1 204</b>	<b>1 113</b>
<b>Sales by location to third parties</b>										
Japan and Asia / Pacific	238	374	75	73	5	5	104	94	61	56
Europe	1 333	2 207	322	303	589	261	294	283	806	731
North America	103	134	60	69	4	0	68	80	338	326
Other regions	16	3	52	52	0	0	0	0	0	0
	<b>1 690</b>	<b>2 719</b>	<b>509</b>	<b>497</b>	<b>598</b>	<b>266</b>	<b>466</b>	<b>458</b>	<b>1 204</b>	<b>1 113</b>
<b>Capital expenditure for fixed and intangible assets</b>										
Japan and Asia / Pacific	22	14	24	17	0	0	3	3	10	11
Europe	66	69	32	44	35	29	28	14	53	48
North America	1	1	7	5	0	0	1	0	24	15
Other regions	0	0	14	14	0	0	0	0	0	0
	<b>89</b>	<b>84</b>	<b>77</b>	<b>80</b>	<b>35</b>	<b>29</b>	<b>32</b>	<b>18</b>	<b>87</b>	<b>74</b>
<b>Number of employees</b>										
Japan and Asia / Pacific	2 579	2 652	581	505	98	31	277	244	949	1 158
Europe	4 141	4 736	1 665	1 545	762	420	1 207	1 101	2 917	2 731
North America	227	332	263	324	8	0	89	82	1 214	1 159
Other regions	61	33	383	373	0	0	10	9	0	0
	<b>7 008</b>	<b>7 753</b>	<b>2 892</b>	<b>2 747</b>	<b>868</b>	<b>451</b>	<b>1 583</b>	<b>1 436</b>	<b>5 080</b>	<b>5 048</b>
<b>Assets (only third-party)</b>										
Japan and Asia / Pacific	210	261	108	94	10	1	50	43	86	89
Europe	1 574	2 083	228	271	511	143	231	159	1 024	961
North America	36	40	47	54	2	0	19	22	310	388
Other regions	7	5	55	84	0	0	0	0	0	0
	1 828	2 389	438	503	524	144	300	223	1 420	1 438
Liabilities (only third-party)	–630	–936	–86	–116	–277	–168	–232	–263	–344	–341
<b>Net assets (only third-party)<sup>1</sup></b>	<b>1 197</b>	<b>1 453</b>	<b>352</b>	<b>387</b>	<b>247</b>	<b>–24</b>	<b>68</b>	<b>–40</b>	<b>1 076</b>	<b>1 097</b>
Assets including intercompany relationships	1 828	2 391	441	505	525	160	307	231	1 420	1 439
Liabilities including intercompany relationships	–633	–944	–89	–122	–284	–182	–235	–267	–350	–353
Net assets including intercompany relationships <sup>1</sup>	<b>1 195</b>	<b>1 447</b>	<b>352</b>	<b>383</b>	<b>241</b>	<b>–22</b>	<b>72</b>	<b>–36</b>	<b>1 070</b>	<b>1 086</b>
Research and development expenses	–96	–103	–23	–17	–50	–21	–25	–25	–15	–14
Earnings before deprecation and amortization (EBITDA)	–9	276	134	129	128	68	63	64	126	143
Depreciation and amortization	–69	–69	–54	–47	–21	–6	–14	–9	–61	–60
Impairment / Reversal of impairment on property, plant and equipment and intangible assets	0	0	–1	0	0	0	0	0	0	0
Impairment of goodwill	–200	0	0	0	0	0	0	0	0	0
<b>EBIT</b>	<b>–281</b>	<b>208</b>	<b>78</b>	<b>83</b>	<b>107</b>	<b>63</b>	<b>49</b>	<b>55</b>	<b>65</b>	<b>83</b>

<sup>1</sup> Net assets include all current and non-current operating assets (excluding cash and financial assets), less operating liabilities (excluding financial liabilities and tax provisions). Net assets do not include current and non-current non-operating assets and financial assets and liabilities including cash and cash equivalents (CHF 396 million), long-term financial debt (CHF 2 039 million), current (CHF 16 million) and deferred (CHF 133 million) tax receivables, current (CHF 130 million) and deferred (CHF 198 million) tax payables, and other non-operating receivables, payables and accruals (net CHF 27 million).

<sup>2</sup> Restated.



## Segment information 2008–2007

Oerlikon Advanced Technologies <sup>2</sup>		Other		Oerlikon Group Continued operations		Discontinued operations		Elimination		Oerlikon Group Total	
2008	2007	2008	2007	2008	2007 <sup>2</sup>	2008	2007	2008	2007	2008	2007
250	343	0	3	4 319	5 811	191	327			4 511	6 137
194	230	0	0	1 318	1 821	20	39			1 337	1 860
284	348	0	3	4 750	5 404	210	329			4 960	5 732
0	50	0	0	60	96			-60	-96	0	0
<b>284</b>	<b>398</b>	<b>0</b>	<b>3</b>	<b>4 810</b>	<b>5 499</b>	<b>210</b>	<b>329</b>	<b>-60</b>	<b>-96</b>	<b>4 960</b>	<b>5 732</b>
67	80	0	0	1 599	1 917	147	254			1 746	2 171
138	170	0	3	2 049	2 295	44	27			2 093	2 322
73	89	0	0	979	995	17	44			996	1 039
6	10	0	0	123	197	2	4			125	200
<b>284</b>	<b>348</b>	<b>0</b>	<b>3</b>	<b>4 750</b>	<b>5 404</b>	<b>210</b>	<b>329</b>			<b>4 960</b>	<b>5 732</b>
41	50	0	0	524	651	5	6			528	657
144	154	0	3	3 488	3 942	164	268			3 652	4 209
98	144	0	0	671	755	41	54			712	809
0	0	0	0	68	56	0	1			68	56
<b>284</b>	<b>348</b>	<b>0</b>	<b>3</b>	<b>4 750</b>	<b>5 404</b>	<b>210</b>	<b>329</b>			<b>4 960</b>	<b>5 732</b>
0	0	0	0	60	46	1	2			60	47
1	5	15	29	229	238	15	24			244	263
0	5	0	0	32	26	0	2			32	28
0	0	0	0	14	14					14	14
<b>1</b>	<b>10</b>	<b>15</b>	<b>29</b>	<b>335</b>	<b>325</b>	<b>16</b>	<b>28</b>			<b>351</b>	<b>353</b>
514	105	0	0	4 997	4 695	444	487			5 442	5 182
139	713	140	287	10 972	11 533	299	591			11 270	12 124
152	161	3	4	1 956	2 062	14	107			1 970	2 169
0	0	6	6	460	421					460	421
<b>805</b>	<b>979</b>	<b>149</b>	<b>297</b>	<b>18 385</b>	<b>18 711</b>	<b>757</b>	<b>1 185</b>			<b>19 142</b>	<b>19 896</b>
6	43	0	0	470	531	22	13			493	544
152	429	45	134	3 766	4 180	21	42			3 788	4 223
54	164	1	13	469	680	17	10			486	690
0	0	0	0	63	89					63	89
212	636	46	147	4 768	5 481	60	65			4 829	5 547
-153	-224	-127	-168	-1 849	-2 215	-67	-28			-1 917	-2 243
<b>59</b>	<b>412</b>	<b>-81</b>	<b>-20</b>	<b>2 919</b>	<b>3 266</b>	<b>-7</b>	<b>38</b>			<b>2 912</b>	<b>3 305</b>
211	641	60	194	4 792	5 561	63	67	-26	-81	4 829	5 547
-154	-248	-130	-178	-1 875	-2 293	-70	-30	26	81	-1 917	-2 243
<b>57</b>	<b>393</b>	<b>-70</b>	<b>16</b>	<b>2 917</b>	<b>3 268</b>	<b>-7</b>	<b>37</b>	<b>0</b>	<b>0</b>	<b>2 912</b>	<b>3 305</b>
-28	-35	0	0	-237	-215	-60	-23			-297	-239
18	24	35	-17	492	688	-57	36			435	724
-12	-16	-13	-12	-244	-220	-9	-17			-253	-235
-21	-1	-12	0	-34	-1	-47	-6			-81	-7
-52	-2	0	0	-252	-2	-93	0			-345	-2
<b>-66</b>	<b>5</b>	<b>10</b>	<b>-29</b>	<b>-37</b>	<b>467</b>	<b>-206</b>	<b>13</b>			<b>-243</b>	<b>480</b>

## Companies by country

## Companies by country

Country	Production				Name, registered office	Currency	Share Capital	Group owns %	Number of employees
	Distribution	R&D	Service						
Austria	■	■			Oerlikon Balzers Coating Austria GmbH, Kapfenberg/AT	EUR	350 000	100.00	89
Austria	■	■	■	■	Oerlikon Neumag Austria GmbH, Leonding/AT	EUR	600 000	100.00	104
Austria				■	Saurer Holding GmbH, Leonding/AT	EUR	35 000	100.00	0
Belgium	■	■			Oerlikon Balzers Coating Benelux N.V., St. Truiden/BE	EUR	620 000	100.00	52
Brazil	■	■			Oerlikon Balzers Revestimentos Metálicos Ltda., Jundiá, SP/BR	BRL	30 662 100	100.00	153
Brazil			■	■	Oerlikon Textile do Brasil Máquinas Ltda., São Leopoldo, RS/BR	BRL	9 384 968	100.00	36
Cayman Islands				■	Saurer Group Investments Ltd., George Town/KY	CHF	474 469 300	100.00	0
China	■	■			SE Oerlikon (Shanghai) Trading Co. Ltd., Shanghai/CN	USD	1 100 000	100.00	0
China	■	■			Oerlikon (Shanghai) Co. Ltd., Shanghai/CN	USD	12 000 000	100.00	272
China	■	■			Oerlikon Balzers Coating (Suzhou) Co. Ltd., Suzhou/CN	USD	6 150 000	100.00	170
China	■	■			Oerlikon Leybold Vacuum (Tianjin) Co. Ltd., Tianjin/CN	USD	4 960 000	100.00	110
China			■	■	Oerlikon Leybold Vacuum (Tianjin) International Trade Co. Ltd., Tianjin/CN	USD	200 000	100.00	69
China	■	■			Jintan Texparts Components Co. Ltd., Jintan/CN	USD	5 062 288	70.00	189
China				■	Saurer China Equity Ltd., Hongkong/CN	HKD	253 910 000	100.00	0
China				■	Saurer China Financial Ltd, Hongkong/CN	HKD	8 525 000	100.00	0
China				■	Oerlikon Textile China Investments Ltd., Hongkong/CN	HKD	266 052 505	100.00	0
China	■	■	■	■	Oerlikon (China) Technology Co. Ltd., Suzhou/CN	USD	30 000 000	100.00	801
China		■	■	■	Oerlikon Textile Far East Ltd., Hongkong/CN	HKD	100 000	100.00	28
China	■	■	■	■	Saurer Jintan Textile Machinery Co. Ltd., Jintan/CN	USD	22 482 422	70.00	618
China	■	■	■	■	Oerlikon Textile Technology (Beijing) Co. Ltd., Beijing/CN	USD	1 112 220	100.00	183
China			■		Oerlikon Textile Trading and Services Ltd., Hongkong/CN	HKD	275 200	100.00	1
China	■	■	■	■	Oerlikon Textile Machinery (Wuxi) Co. Ltd., Wuxi/CN	USD	7 000 000	100.00	149
China				■	Oerlikon Textile Components Far East Ltd., Hongkong/CN	HKD	10 000	100.00	0
Czech Republic	■	■			Graziano Trasmissioni Czech s.r.o., Praha, CZ	CZK	110 000 000	100.00	182
Czech Republic	■	■	■	■	Oerlikon Czech s.r.o., Cerveny Kostelec/CZ	CZK	30 000 000	100.00	210
Denmark	■	■	■	■	Neumag Denmark a/s, Horsens/DK	DKK	42 000 000	100.00	0
Finland	■	■			Oerlikon Balzers Sandvik Coating Oy, Helsinki/SF	EUR	2 500	51.00	6
France				■	Oerlikon France Holding SAS, St. Thibault des Vignes/FR	EUR	4 000 000	100.00	0
France	■	■			Oerlikon Balzers Coating France SAS, St. Thibault des Vignes/FR	EUR	3 150 000	100.00	190
France	■	■	■		Oerlikon Leybold Vacuum France SAS, Villebon sur Yvette/FR	EUR	3 095 750	100.00	203
Germany				■	Oerlikon Deutschland Vertriebs GmbH, Aschheim/DE	EUR	26 000	100.00	38
Germany	■	■	■		Oerlikon Laser Systems GmbH, Krailling/DE	EUR	5 150 000	100.00	50
Germany	■	■			Oerlikon Balzers Coating Germany GmbH, Bingen/DE	EUR	511 300	100.00	530
Germany				■	Oerlikon Vermögens-Verwaltungs GmbH, Köln/DE	EUR	25 000	100.00	0
Germany				■	Oerlikon Deutschland Holding GmbH, Köln/DE	EUR	30 680 000	100.00	0
Germany				■	Oerlikon Vacuum Holding GmbH, München/DE	EUR	25 000	100.00	0
Germany	■	■			Oerlikon Leybold Vacuum Dresden GmbH, Dresden/DE	EUR	100 000	100.00	74
Germany	■	■	■		Oerlikon Leybold Vacuum GmbH, Köln/DE	EUR	1 200 000	100.00	845
Germany				■	Oerlikon Real Estate GmbH, Köln/DE	EUR	50 000	100.00	8
Germany				■	Oerlikon Vermietungs- und Verwaltungsgesellschaft mbH, Köln/DE	EUR	25 000	100.00	0
Germany				■	Oerlikon IT Solutions GmbH, Alzenau/DE	EUR	25 000	100.00	0
Germany				■	Oerlikon Balzers VST Tribotechnik GmbH, Schopfheim/DE	EUR	600 000	100.00	0
Germany				■	Oerlikon Balzers VST Verwaltungsgesellschaft mbH, Schopfheim/DE	EUR	23 000	100.00	0
Germany	■	■	■	■	Oerlikon Balzers VST GmbH & Co KG, Schopfheim/DE	EUR	850 000	100.00	0
Germany	■	■	■	■	AUTEFA automation GmbH, Friedberg/DE	EUR	25 000	63.00	90
Germany	■	■	■	■	Oerlikon Textile GmbH & Co. KG, Remscheid/DE	EUR	41 000 000	100.00	2 817
Germany				■	Barmag Liegenschaften GmbH & Co. KG, Remscheid/DE	EUR	5 000 000	100.00	0
Germany	■	■			Oerlikon Enka Tecnica GmbH, Übach-Palenberg/DE	EUR	511 300	100.00	120
Germany				■	W. Reiners Verwaltungs-GmbH, Remscheid/DE	EUR	38 346 900	100.00	0
Germany				■	Saurer Beteiligungs AG, Mönchengladbach/DE	EUR	250 000	100.00	0
Germany				■	Oerlikon Textile Verwaltungs GmbH, Remscheid/DE	EUR	250 000	100.00	0
Germany	■	■	■	■	Oerlikon Textile Components GmbH, Fellbach/DE	EUR	51 400	100.00	440
Great Britain	■	■			Oerlikon Balzers Coating UK Ltd., Milton Keynes/UK	GBP	2 000 000	100.00	62
Great Britain				■	Unaxis IT (UK) Ltd., Monmouth/UK	GBP	1 000	100.00	0
Great Britain				■	Oerlikon Leybold Vacuum UK Ltd., London/UK	GBP	300 000	100.00	27
Great Britain				■	Oerlikon Optics UK Ltd., London/UK	GBP	1	100.00	0
Great Britain				■	Graziano Trasmissioni UK Ltd., St. Neots/UK	GBP	40 000	100.00	7
Great Britain	■	■	■	■	Oerlikon Fibrevision Ltd., Macclesfield/UK	GBP	3	78.00	13
Great Britain				■	Vocis Limited, Warwick/UK	GBP	200 000	51.00	17
India	■	■			Oerlikon Balzers Coating (India) Ltd., Pune/IN	INR	70 000 000	100.00	163
India				■	Oerlikon Leybold Vacuum India Pvt. Ltd., Pune/IN	INR	2 000 000	100.00	10
India	■	■	■	■	Fairfield Atlas Ltd., Kolhapur/IN	INR	273 205 400	83.87	661
India	■	■			Graziano Trasmissioni India Pvt. Ltd., New Delhi/IN	INR	267 124 880	100.00	240
India	■	■			Oerlikon Textile Components India Pvt. Ltd., Mumbai/IN	INR	30 000 000	100.00	20
India	■	■	■	■	Peass Industrial Engineers Ltd, Gujarat/IN	INR	15 000 000	51.00	158
India	■	■	■	■	Oerlikon Textile India Pvt. Ltd., Mumbai/IN	INR	57 360 000	100.00	277

## Companies by country

Country	Production	Distribution	R&D	Service	Name, registered office	Currency	Share Capital	Group owns %	Number of employees
India	■	■	■	■	Zinser Textile Systems Pvt. Ltd., Ahmedabad/IN	INR	45 500 000	70.00	39
Italy	■	■			Oerlikon Balzers Coating Italy S.p.A., Milano/IT	EUR	130 000	100.00	100
Italy		■			Oerlikon Leybold Vacuum Italia S.R.L., Milano/IT	EUR	110 000	100.00	13
Italy	■	■	■		Oerlikon Graziano S.p.A., Cascine Vica Rivoli/IT	EUR	58 697 357	100.00	2 709
Italy	■	■	■	■	Oerlikon Neumag Italy S.p.A., Biella/IT	EUR	1 500 000	100.00	99
Italy		■			Oerlikon Graziano Group S.p.A., Torino/IT	EUR	50 725 138	100.00	0
Japan	■	■			Oerlikon Nihon Balzers Coating Co. Ltd., Hiratsuka/JP	JPY	100 000 000	100.00	155
Japan		■	■		Oerlikon Japan Co. Ltd., Tokyo/JP	JPY	450 000 000	100.00	22
Japan		■			Oerlikon Leybold Vacuum Japan Co. Ltd., Yokohama/JP	JPY	450 000 000	100.00	38
Liechtenstein	■	■	■	■	OC Oerlikon Balzers AG, Balzers/FL	CHF	30 000 000	100.00	1 099
Luxembourg	■	■			Oerlikon Balzers Coating Luxembourg S.A.R.L., Differdange/LU	EUR	1 000 000	60.00	14
Mexico	■	■			Oerlikon Balzers Coating Mexico S.A. de C.V., Querétaro/MX	MXN	71 458 000	100.00	67
Netherlands		■			Oerlikon Nederland B.V., Utrecht/NL	EUR	37 000	100.00	7
Netherlands		■			Oerlikon Leybold Vacuum Nederland B.V., Utrecht/NL	EUR	463 000	100.00	9
Netherlands			■		SAC Saurer Automotive Components B.V., Rotterdam/NL	EUR	11 344 500	100.00	0
Philippines		■			Unaxis (Philippines) Inc., Manila/PH	PHP	5 250 000	100.00	0
Poland	■	■			Oerlikon Balzers Coating Poland Sp.z o.o., Polkowice-Dolne/PL	PLZ	5 000 000	100.00	46
Russia		■			OOO Oerlikon Rus, Moskwa/RU	RUB	7 790 760	100.00	6
Singapore	■	■			Oerlikon Balzers Coating Singapore Pte. Ltd., Singapore/SG	SGD	6 000 000	100.00	42
Singapore		■	■		Oerlikon Solar Singapore Pte. Ltd., Singapore/SG	SGD	16 900 000	100.00	37
Singapore		■			Oerlikon Leybold Vacuum Singapore Pte. Ltd., Singapore/SG <sup>1</sup>	EUR		100.00	7
Singapore		■			Oerlikon SEA Pte. Ltd., Singapore/SG	SGD	100 000	100.00	0
Singapore	■	■	■	■	Oerlikon Assembly Equipment Pte. Ltd., Singapore/SG <sup>2</sup>	USD		100.00	150
Singapore	■	■	■		Oerlikon Textile Components Singapore Pte. Ltd., Singapore/SG	SGD	1 000 000	100.00	154
South Korea	■	■			Oerlikon Balzers Coating Korea Co. Ltd., Pyongtaek/KR	KRW	6 300 000 000	89.90	173
South Korea		■	■		Oerlikon Korea Ltd., Seoul/KR	KRW	1 220 000 000	100.00	33
South Korea		■			Oerlikon Leybold Vacuum Korea Ltd., Cheonan/KR	KRW	7 079 680 000	100.00	21
Spain	■	■			Oerlikon Balzers-ELAY Coating S.A., Antzuola/ES	EUR	150 000	51.00	73
Spain		■			Oerlikon Leybold Vacuum Spain S.A., Cornellà de Llobregat/ES	EUR	168 283	100.00	10
Sweden	■	■			Oerlikon Balzers Sandvik Coating AB, Stockholm/SE	SEK	11 600 000	51.00	56
Sweden		■			Oerlikon Leybold Vacuum Skandinavia AB, Göteborg/SE	SEK	800 000	100.00	12
Switzerland	■	■	■		Oerlikon Mechatronics AG, Trübbach, Trübbach/CH	CHF	100 000	100.00	216
Switzerland		■			Oerlikon Solar-Lab SA, Neuchâtel, Neuchâtel/CH	CHF	1 000 000	100.00	16
Switzerland			■		Oerlikon Trading AG, Trübbach, Trübbach/CH	CHF	8 000 000	100.00	3
Switzerland	■	■			Oerlikon Balzers Coating SA, Brügg, Brügg/CH	CHF	2 000 000	100.00	36
Switzerland		■			Oerlikon Leybold Vacuum Schweiz AG, Zürich/CH	CHF	300 000	100.00	7
Switzerland	■	■	■		Oerlikon Solar AG, Trübbach, Trübbach/CH	CHF	100 000	100.00	0
Switzerland			■		Oerlikon IT Solutions AG, Pfäffikon, Pfäffikon SZ/CH	CHF	500 000	100.00	66
Switzerland		■			OC Oerlikon Corporation AG, Pfäffikon, Pfäffikon SZ/CH	CHF	282 848 740	100.00	0
Switzerland		■			OC Oerlikon Management AG, Pfäffikon, Pfäffikon SZ/CH	CHF	2 000 000	100.00	74
Switzerland		■			Oerlikon Solar Holding AG, Trübbach, Trübbach/CH	CHF	100 000	100.00	0
Switzerland		■			Oerlikon Aerospace AG, Zürich/CH	CHF	100 000	100.00	0
Switzerland		■			OT Textile Verwaltungs GmbH, Arbon/CH	CHF	20 000	100.00	0
Switzerland	■	■	■	■	Oerlikon Space AG, Zürich/CH	CHF	15 000 000	100.00	346
Switzerland	■	■	■	■	Oerlikon Assembly Equipment AG, Steinhausen, Steinhausen/CH	CHF	2 400 000	100.00	294
Switzerland		■			InnoDisc AG, Windisch/CH	CHF	100 000	100.00	0
Switzerland		■			Aktiengesellschaft Adolph Saurer, Arbon/CH	CHF	10 000 000	100.00	2
Switzerland		■			Oerlikon Licensing Arbon GmbH, Arbon/CH	CHF	20 000	100.00	0
Switzerland		■			GTG-Graziano Trasmissioni Group AG, Arbon/CH	CHF	250 000	100.00	2
Switzerland		■			Oerlikon Heberlein Temco Wattwil AG, Wattwil/CH	CHF	1 000 000	100.00	13
Switzerland		■			Saurer AG, Arbon/CH	CHF	112 019 600	100.00	0
Switzerland	■	■	■	■	Oerlikon Saurer Arbon AG, Arbon/CH	CHF	14 160 000	100.00	243
Switzerland		■			Oerlikon SB Holdings Arbon AG, Arbon/CH	CHF	100 000	100.00	0
Switzerland		■			Saurer Management AG, Pfäffikon SZ/CH	CHF	100 000	100.00	0
Switzerland		■			Unaxis GmbH, Pfäffikon SZ/CH	CHF	20 000	100.00	0
Taiwan		■			Oerlikon Leybold Vacuum Taiwan Ltd., Hsinchu/TW	TWD	20 000 000	100.00	32
Taiwan		■			Oerlikon Taiwan Ltd., Hsinchu/TW	TWD	20 000 000	100.00	73
Taiwan		■			Oerlikon Assembly Equipment (Taiwan) Ltd, Hsinchu/TW	TWD	5 000 000	100.00	25
Thailand	■	■			Oerlikon Balzers Coating (Thailand) Co. Ltd., Chonburi/TH	THB	80 000 000	100.00	27
Turkey	■	■			Oerlikon Balzers Kaplama Sanayi ve Ticaret Limited Sirketi, Bursa/TR	TRY	2 500 000	100.00	14
Turkey		■	■		Saurer Middle East Tekstil Makinalari Dis Ticaret A.S., Istanbul/TR	TRY	1 964 960	100.00	25
USA	■	■	■		Oerlikon USA Inc., St. Petersburg, FL/US	USD	14 730 000	100.00	148
USA	■	■			Oerlikon Balzers Coating USA Inc., Elgin, IL/US	USD	25 000	100.00	263
USA	■	■	■		Oerlikon Leybold Vacuum USA Inc., Export, PA/US	USD	1 375 000	100.00	89
USA	■	■			Oerlikon Optics USA Inc., Golden, CO/US	USD	1 000	100.00	5
USA		■			Oerlikon Solar USA Inc., Wilmington, DE/US	USD	1	100.00	7
USA		■			Oerlikon USA Holding Inc., Pittsburgh, PA/US	USD	24 980 000	100.00	0
USA		■			Oerlikon Space Inc., Pittsburgh, PA/US	USD	500 000	100.00	3
USA	■	■	■		Oerlikon Accotex Texparts Inc., Greenville, SC/US	USD	100	100.00	7
USA	■	■	■		Fairfield Manufacturing Company Inc., Lafayette, IN/US	USD	10 000	100.00	1 207
USA		■			Graziano Trasmissioni North America Inc., Duluth, GA/US	USD	1	100.00	7

## Companies by country

Country	Production Distribution R&D Service			Name, registered office	Currency	Share Capital	Group owns %	Number of employees
USA	■	■	■	Melco Industries Inc., Denver, CO/US	USD	2 407 000	100.00	103
USA				Saurer Financing LP, Charlotte, NC/US	USD	2 000 000	100.00	1
USA				Saurer Holding Inc., Denver, CO/US	USD	5 058 000	100.00	0
USA	■			Oerlikon Textile Inc., Charlotte, NC/US	USD	3 000 000	100.00	117

<sup>1</sup> Shares have no par value. Share capital amounts to EUR 187 441.

<sup>2</sup> Shares have no par value. Share capital amounts to USD 8 747 797.

## Report of the Statutory Auditor

### Report of the Statutory Auditor on the Consolidated Financial Statements to the General Meeting of OC Oerlikon Corporation AG, Pfäffikon, Freienbach SZ

As statutory auditor, we have audited the consolidated financial statements of OC Oerlikon Corporation AG, Pfäffikon, which are presented on pages 85 to 130 and comprise the consolidated income statement, consolidated balance sheet, consolidated cash flow statement, consolidated statement of changes in equity and notes for the year ended December 31, 2008.

#### *Board of Directors' Responsibility*

The board of directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The board of directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards as well as International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the consolidated financial statements for the year ended December 31, 2008 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with International Financial Reporting Standards and comply with Swiss law.

### Report on Other Legal Requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

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.

KPMG AG



Herbert Bussmann  
Licensed Audit Expert  
Auditor in Charge



Thomas Affolter  
Licensed Audit Expert

Zurich, March 10, 2009

## Five-year summary of key figures

Five-year summary of key figures <sup>1</sup>

in CHF million	2008	2007 restated	2006	2005	2004
Orders received <sup>1</sup>	<b>4 319</b>	5 811	2 491	1 455	1 778
Orders on hand <sup>1</sup>	<b>1 318</b>	1 821	1 706	355	494
Sales <sup>1</sup>	<b>4 750</b>	5 404	2 206	1 605	1 850
EBITDA <sup>1</sup>	<b>495</b>	688	408	128	-3
- as % of sales	<b>10%</b>	13%	18%	8%	0%
EBIT <sup>1,2</sup>	<b>-37</b>	467	325	34	-329
- as % of sales	<b>-1%</b>	9%	15%	2%	-18%
Net result	<b>-422</b>	319	306	21	-372
- as % of sales	<b>-9%</b>	6%	14%	1%	-20%
- as % of equity attributable to shareholders of the parent	<b>-39%</b>	17%	21%	2%	-31%
Cash flow from operating activities <sup>3</sup>	<b>411</b>	678	372	84	114
Capital expenditure for fixed and intangible assets <sup>1</sup>	<b>335</b>	325	227	91	240
Total assets	<b>5 476</b>	6 290	6 189	1 979	2 411
Equity attributable to shareholders of the parent	<b>1 093</b>	1 858	1 488	1 001	1 215
- as % of total assets	<b>20%</b>	30%	24%	51%	50%
Net liquidity <sup>4</sup>	<b>-1 586</b>	-794	-592	706	669
Net assets <sup>5</sup>	<b>2 919</b>	3 266	3 114	510	488
EBIT as % of net assets (RONA)	<b>-1%</b>	14%	10%	7%	-67%
Number of employees <sup>1</sup>	<b>18 385</b>	18 711	18 735	6 434	6 844
Personnel expense <sup>1</sup>	<b>1 323</b>	1 355	693	600	629
Research and development expense <sup>1,6</sup>	<b>247</b>	245	149	148	180

<sup>1</sup> 2008 continued operations, 2007 restated.

<sup>2</sup> For 2008, continued operations of Oerlikon Group report an EBIT of CHF 281 million (before restructuring and impairment of goodwill). The Group EBIT including discontinued operations amounted to CHF 203 million (before restructuring and impairment of goodwill).

<sup>3</sup> Before changes in net current assets.

<sup>4</sup> Net liquidity includes marketable securities, treasury shares at market value as of December 31 as well as short-term and long-term debt.

<sup>5</sup> Net assets include current and non-current operating assets excluding cash, financial assets, current tax receivables and assets classified as held for sale less operating liabilities excluding financial liabilities, tax provisions and liabilities classified as held for sale.

<sup>6</sup> Research and development expenses include expenses recognized as intangible assets of CHF 31 million (previous year: CHF 34 million, 2006 total group: CHF 49 million).

# OC Oerlikon Corporation AG, Pfäffikon

**Income statement of OC Oerlikon Corporation AG, Pfäffikon**

in CHF	Notes	2008	2007
Income from investments in subsidiaries	2	16 325 823	23 901 585
Financial income	3	527 719 885	208 199 296
Other income	5	70 144 421	38 730 063
<b>Total income</b>		<b>614 190 129</b>	<b>270 830 944</b>
Financial expense	4	-487 212 157	-102 842 291
Other expense	6	-68 304 860	-70 523 391
<b>Total expense</b>		<b>58 673 112</b>	<b>97 465 262</b>
Change in value adjustments to loans and investments in subsidiaries	7	-45 248 621	-6 093 986
<b>Net income</b>		<b>13 424 491</b>	<b>91 371 276</b>



## Balance sheet at December 31 of OC Oerlikon Corporation AG, Pfäffikon

**Assets**

in CHF	Notes	2008	in %	2007	in %
Cash and cash equivalents	8	142 819 037	3.7	210 152 590	5.7
Treasury shares	9	91 712 316	2.4	343 267 815	9.2
Receivables					
– from third parties		725 554	0.0	871 329	0.0
– from affiliated companies		23 959 424	0.6	27 844 358	0.7
Prepaid expenses and accrued income		2 611 049	0.1	0	0.0
<b>Current assets</b>		<b>261 827 380</b>	<b>6.8</b>	<b>582 136 092</b>	<b>15.7</b>
Investments	10	2 330 738 098	60.2	2 446 279 638	65.8
Loans to affiliated companies	11	1 234 797 936	31.9	630 255 868	17.0
Loans to third parties		1 500 000	0.0	0	0.0
Intangible assets	12	45 212 832	1.2	56 516 041	1.5
<b>Non-current assets</b>		<b>3 612 248 866</b>	<b>93.2</b>	<b>3 133 051 547</b>	<b>84.3</b>
<b>Total assets</b>		<b>3 874 076 246</b>	<b>100.0</b>	<b>3 715 187 639</b>	<b>100.0</b>

**Liabilities and equity**

in CHF	Notes	2008	in %	2007	in %
Current payables					
– to third parties		1 230 086	0.0	1 544 242	0.0
– to affiliated companies		27 582 237	0.7	122 309 782	3.3
Accrued liabilities		25 769 725	0.7	37 158 610	1.0
Short-term deposits from affiliated companies		600 491 904	15.5	647 501 302	17.4
Short-term bank loans	13	2 035 990 000	52.6	1 725 742 900	46.5
Provisions	14	67 101 020	1.7	78 444 020	2.1
<b>Liabilities</b>		<b>2 758 164 972</b>	<b>71.2</b>	<b>2 612 700 856</b>	<b>70.3</b>
Share capital	15	282 848 740	7.3	282 848 740	7.6
Legal reserve		196 814 878	5.1	196 814 878	5.3
Free reserve		235 000 000	6.1	235 000 000	6.3
Reserve for treasury shares	16	294 090 827	7.6	183 739 370	4.9
Retained earnings		107 156 829	2.8	204 083 794	5.5
<b>Total equity</b>	18	<b>1 115 911 274</b>	<b>28.8</b>	<b>1 102 486 783</b>	<b>29.7</b>
<b>Equity and liabilities</b>		<b>3 874 076 246</b>	<b>100.0</b>	<b>3 715 187 639</b>	<b>100.0</b>
Contingent liabilities	17	221 983 376		55 558 000	

## Notes to the financial statements of OC Oerlikon Corporation AG, Pfäffikon

### General

#### Reporting basis (1)

The financial statements of OC Oerlikon Corporation AG, Pfäffikon, are prepared in compliance with Swiss Corporate Law. They are a supplement to the consolidated financial statements prepared according to International Financial Reporting Standards (IFRS). While the consolidated financial statements reflect the economic situation of the Group as a whole, the information contained in the financial statements of OC Oerlikon Corporation AG, Pfäffikon relates to the ultimate parent company alone. The retained earnings reported in these financial statements provide the basis for the decision regarding the distribution of earnings to be made during the annual general meeting of shareholders.

### Income Statement

#### Income from investments in subsidiaries (2)

The income from investments in subsidiaries consists mainly of dividend income from subsidiary companies.

#### Financial income (3)

Financial income includes interest income, dividends received from marketable securities and from the sale of subsidiary companies. The increase over last year arose from the sale of a subsidiary company.

#### Financial expense (4)

Financial expense includes interest expense and foreign exchange losses. The increased expense over the prior year results mainly from the negative value adjustment for treasury shares which are valued at the year-end closing price of CHF 69.00 per share.

#### Other income (5)

Other income consists mainly of trade mark fees. These are higher than in the prior year following inclusion of the Saurer trademarks.

#### Other expense (6)

Other expense consists mainly of management fees charged by OC Oerlikon Management AG, Pfäffikon, and amortization of capitalized brands.

#### Change in Valuation Allowance for loans and investments (7)

The increase in the valuation allowance arose in connection with the expected divestment of a subsidiary company.

### Balance sheet

#### Cash and cash equivalents (8)

This item consists of current balances denominated in CHF and EUR and held with European banks.

#### Treasury shares (9)

The company's holding of treasury shares increased from 1 048 146 to 1 329 164 (9.4 percent of the share capital). At year-end the shares had a market value of CHF 92 million (2007: CHF 496 million).

The treasury shares were valued at their market value at close of business on December 31, 2008 (CHF 69.00), giving a total value of CHF 91 712 316. This represents a change in the valuation of treasury shares, which are valued at the lower at cost or market. In the prior year the treasury shares were valued at current market value in accordance with the stipulation in article 667 of the Swiss Code of Obligations.

During 2008, 2 shares were sold (2007: 1 share) and 6 319 (2007: 6 130) shares were given to employees. 45 shares (2007: 1 605) were repurchased from employees and 287 294 (2007: 2 660) purchased on the stock exchange. The shares were purchased at prices between CHF 89.30 and CHF 406.91 and sold or given at prices between 305.25 and 494.00. Further information on treasury share transactions can be found in the consolidated statement of changes in shareholders' equity.

#### Investments (10)

The significant equity interests in subsidiary companies listed on page 137 were included in the investment portfolio of OC Oerlikon Corporation AG, Pfäffikon as at December 31, 2008. A list of the more important companies in which OC Oerlikon Corporation AG, Pfäffikon has a direct or indirect equity interest is shown at the end of this report. These investments are recorded at historical cost less any value adjustments.

#### Loans to affiliated companies (11)

These loans are granted at prevailing market conditions and are denominated mainly in USD, EUR, and CHF. The increase in these loans arose from a change in ownership of a company within the Oerlikon Group.

#### Intangible assets (12)

These include mainly trademarks of Oerlikon and Saurer and are amortized over 5 years on a straight-line basis.

#### Bank loans (13)

Bank loans amounting to CHF 2 036 million have been taken up to finance the acquisition of Saurer AG, and also for general business purposes. Additional information related to the terms and conditions of the syndicated loan, the financial covenant and management's assessment thereon, is included in note 18 to the consolidated financial statements on page 112 to 113.

#### Provisions (14)

Provisions cover mainly risks related to investments, but also other risks.

#### Share capital (15)

The share capital of CHF 282 848 740 consists of 14 142 437 registered shares, each with a par value of CHF 20. On the balance sheet date, conditional capital amounted to CHF 47 million.

Shareholders registered as holding more than 5 percent as at December 31, 2008 were<sup>1</sup>:

– 56.82 percent<sup>2</sup> (2007: <sup>3</sup>) Group composed of Renova Group (Renova Industries Ltd.<sup>4</sup>, Beregan Holding AG<sup>4</sup>) and Victory Industriebeteiligung AG,<sup>5</sup>

– 9.4 percent (2007: 7.4 percent) OC Oerlikon Corporation AG, Pfäffikon

#### Reserve for treasury shares (16)

This reserve represents the acquisition cost of 1 329 164 (2007: 1 048 146) treasury shares.

#### Contingent Liabilities (17)

Contingent liabilities relate primarily to performance guarantees and guarantees for bank loans of affiliated companies.

#### Release of hidden reserves (18)

Hidden reserves were released in the amount of CHF 33 million (2007: 36 million).

#### Disclosure of directors' remunerations (19)

The disclosure of directors' remunerations as required by Swiss Corporate Law may be found in Note 24 on pages 123 to 124.

#### Risk assessment disclosures (20)

OC Oerlikon Corporation AG, Pfäffikon, as the ultimate parent company of the Oerlikon Group, is fully integrated into the Group-wide internal risk assessment process.

The Group-wide internal risk assessment process consists of regular reporting to the Board of Directors of OC Oerlikon Corporation AG, Pfäffikon on identified risks and management's reaction to them. The procedures and actions to identify the risks, and where appropriate remedy them, are performed by specific corporate functions (e.g. Treasury, Legal, Internal Audit), as well as by the Segments of the Oerlikon Group.

These functions and Segments have the responsibility to support and monitor the Group-wide procedures and processes to ensure their effective operation.

The risk assessment also covers the specific risks related to OC Oerlikon Corporation AG, Pfäffikon. The Group-wide risk assessment procedures are described in more detail in Note 28 on page 125 to the Group's consolidated financial statements.

<sup>1</sup> Actual shareholdings as of December 31, 2008 according to information provided by the shareholders.

<sup>2</sup> Renova Group: 44.67 percent; Victory Industriebeteiligung AG: 12.15 percent.

<sup>3</sup> In 2007 the holding of Victory Industriebeteiligung AG was 27.6 percent and that of Renova Industries Ltd. was 13.8 percent.

<sup>4</sup> Beneficial owner (as per disclosure notification of September 9, 2008): Victor F. Vekselsberg, Zurich and Moscow

<sup>5</sup> Beneficial owner (as per disclosure notification of September 9, 2008): RPR Privatstiftung, Seilerstätte 18–20, 1010 Vienna, Austria

## Investments

Company	Currency	Share Capital	Investment in %
AKTIENGESELLSCHAFT ADOLPH SAURER, Arbon/CH	CHF	10 000 000	100.00
InnoDisc AG, Windisch/CH	CHF	100 000	100.00
OC Oerlikon Balzers AG, Balzers/FL	CHF	30 000 000	100.00
OC Oerlikon Management AG, Pfäffikon, Pfäffikon SZ/CH	CHF	2 000 000	100.00
Oerlikon (Shanghai) Co. Ltd., Shanghai/CN	USD	12 000 000	100.00
Oerlikon Aerospace AG, Zürich/CH	CHF	100 000	100.00
Oerlikon Assembly Equipment AG, Steinhausen, Steinhausen/CH	CHF	2 400 000	100.00
Oerlikon Assembly Equipment Pte. Ltd., Singapore/SG <sup>1</sup>	USD		100.00
Oerlikon Balzers Coating (India) Pvt. Ltd., Pune/IN	INR	70 000 000	78.40
Oerlikon Balzers Coating (Suzhou) Co. Ltd., Suzhou/CN	USD	6 150 000	100.00
Oerlikon Balzers Coating (Thailand) Co. Ltd., Chonburi/TH	THB	80 000 000	100.00
Oerlikon Balzers Coating Austria GmbH, Kapfenberg/AT	EUR	350 000	100.00
Oerlikon Balzers Coating Italy S.p.A., Milano/IT	EUR	130 000	100.00
Oerlikon Balzers Coating Korea Co. Ltd., Pyongtaek/KR	KRW	6 300 000 000	89.10
Oerlikon Balzers Coating Luxembourg S.A.R.L., Differdange/LU	EUR	1 000 000	60.00
Oerlikon Balzers Coating Mexico S.A. de C.V., Querétaro/MX	MXN	71 458 000	100.00
Oerlikon Balzers Coating Poland Sp. z o.o., Polkowice-Dolne/PL	PLZ	5 000 000	100.00
Oerlikon Balzers Coating SA, Brügg, Brügg/CH	CHF	2 000 000	100.00
Oerlikon Balzers Coating Singapore Pte. Ltd., Singapore/SG	SGD	6 000 000	100.00
Oerlikon Balzers Coating UK Ltd., Milton Keynes/UK	GBP	2 000 000	100.00
Oerlikon Balzers Kaplama Sanayi ve Ticaret Limited Sirketi, Bursa/TR	TRY	2 500 000	100.00
Oerlikon Balzers Revestimentos Metálicos Ltda., Jundiá, SP/BR	BRL	30 662 100	100.00
Oerlikon Balzers Sandvik Coating AB, Stockholm/SE	SEK	11 600 000	51.00
Oerlikon Balzers-ELAY Coating S.A., Antzuola/ES	EUR	150 000	51.00
Oerlikon Deutschland Holding GmbH, München/DE	EUR	30 680 000	100.00
Oerlikon France Holding SAS, St. Thibault des Vignes/FR	EUR	4 000 000	100.00
Oerlikon IT Solutions AG, Pfäffikon, Pfäffikon SZ/CH	CHF	500 000	100.00
Oerlikon Japan Co. Ltd., Tokyo/JP	JPY	450 000 000	100.00
Oerlikon Korea Ltd., Seoul/KR	KRW	1 220 000 000	100.00
Oerlikon Leybold Vacuum Taiwan Ltd., Hsinchu/TW	TWD	20 000 000	100.00
Oerlikon Licensing Arbon GmbH, Arbon/CH	CHF	20 000	100.00
Oerlikon Mechatronics AG, Trübbach, Trübbach/CH	CHF	100 000	100.00
Oerlikon Nederland B.V., Utrecht/NL	EUR	37 000	100.00
Oerlikon Nihon Balzers Coating Co. Ltd., Hiratsuka/JP	JPY	100 000 000	100.00
Oerlikon Optics UK Ltd., London/UK	GBP	1	100.00
Oerlikon SEA Pte. Ltd., Singapore/SG	SGD	100 000	100.00
Oerlikon Solar Holding AG, Trübbach, Trübbach/CH	CHF	100 000	100.00
Oerlikon Solar-Lab SA, Neuchâtel, Neuchâtel/CH	CHF	1 000 000	100.00
Oerlikon Solar Singapore Pte. Ltd., Singapore/SG	SGD	16 900 000	100.00
Oerlikon Space AG, Zürich/CH	CHF	15 000 000	100.00
Oerlikon Trading AG, Trübbach, Trübbach/CH	CHF	8 000 000	100.00
Oerlikon USA Holding Inc., Pittsburgh, PA/US	USD	24 980 000	62.00
Oerlikon Vermögens-Verwaltungs GmbH, Köln/DE	EUR	25 000	100.00
OOO Oerlikon Rus, Moskwa/RU	RUB	7 790 760	100.00
OT Textile Verwaltungs GmbH, Arbon/CH	CHF	20 000	100.00
Saurer AG, Arbon/CH	CHF	112 019 600	100.00
Saurer Management AG, Pfäffikon SZ/CH	CHF	100 000	100.00
Unaxis GmbH, Pfäffikon SZ/CH	CHF	20 000	100.00
Unaxis IT (UK) Ltd., Monmouth/UK	GBP	1 000	100.00
Vocis Limited, Warwick/UK	GBP	200 000	51.00

<sup>1</sup> Shares have no par value. Share capital amounts to USD 8 747 797.

**Changes in shareholders' equity**

Note 18

in CHF million	Share capital	Legal reserve	Reserve for treasury shares	Free reserve	Retained earnings	Total shareholders' equity
<b>Balance at 01.01.2006</b>	<b>282.8</b>	<b>136.3</b>	<b>244.2</b>	<b>235.0</b>	<b>11.3</b>	<b>909.6</b>
Changes in reserves for treasury shares		61.3	-61.3			0
Net profit 2006					101.4	101.4
<b>Balance at 31.12.2006</b>	<b>282.8</b>	<b>197.6</b>	<b>182.9</b>	<b>235.0</b>	<b>112.7</b>	<b>1 011.0</b>
Changes in reserves for treasury shares		-0.8	0.8			0
Net profit 2007					91.4	91.4
<b>Balance at 31.12.2007</b>	<b>282.8</b>	<b>196.8</b>	<b>183.7</b>	<b>235.0</b>	<b>204.1</b>	<b>1 102.4</b>
Changes in reserves for treasury shares			110.4		-110.4	0
Net profit 2008					13.4	13.4
<b>Balance at 31.12.2008</b>	<b>282.8</b>	<b>196.8</b>	<b>294.1</b>	<b>235.0</b>	<b>107.1</b>	<b>1 115.9</b>

## Proposal of the Board of Directors

The Board of Directors proposes to the General Meeting to be held on May 12, 2009, that the available earnings from the financial year namely:

in CHF	2008
Net profit	13 424 491
Balance brought forward from previous year after allocation to reserve for treasury shares	93 732 338
Available earnings	107 156 829
be appropriated as follows:	
Balance to be carried forward	107 156 829

Pfäffikon SZ, March 10, 2009

On behalf of the Board of Directors  
Chairman

Vladimir Kuznetsov

## Report of the Statutory Auditor

### Report of the Statutory Auditor on the Financial Statements to the General Meeting of OC Oerlikon Corporation AG, Pfäffikon, Freienbach SZ

As statutory auditor, we have audited the financial statements of OC Oerlikon Corporation AG, Pfäffikon, which are presented on pages 134 to 139 and comprise the income statement, balance sheet and notes for the year ended December 31, 2008.

#### *Board of Directors' Responsibility*

The board of directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The board of directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the financial statements for the year ended December 31, 2008 comply with Swiss law and the company's articles of incorporation.

#### **Report on Other Legal Requirements**

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

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.

KPMG AG



Herbert Bussmann  
Licensed Audit Expert  
Auditor in Charge



Thomas Affolter  
Licensed Audit Expert

Zurich, March 10, 2009

## Legal structure

as at December 31, 2008

**OC Oerlikon Corporation AG, Pfäffikon, Pfäffikon SZ/CH**

-AKTIENGESELLSCHAFT ADOLPH SAURER, Arbon/CH
-InnoDisc AG, Windisch/CH
-OC Oerlikon Balzers AG, Balzers/FL
· Oerlikon Solar AG, Trübbach, Trübbach/CH
-OC Oerlikon Management AG, Pfäffikon, Pfäffikon SZ/CH
-Oerlikon (Shanghai) Co. Ltd., Shanghai/CN
-Oerlikon Aerospace AG, Zürich/CH
-Oerlikon Assembly Equipment AG, Steinhausen, Steinhausen/CH
-Oerlikon Assembly Equipment Pte. Ltd., Singapore/SG
· Unaxis (Philippines) Inc., Manila/PH
-Oerlikon Balzers Coating (India) Pvt. Ltd., Pune/IN
-Oerlikon Balzers Coating (Suzhou) Co. Ltd., Suzhou/CN
-Oerlikon Balzers Coating (Thailand) Co. Ltd., Chonburi/TH
-Oerlikon Balzers Coating Austria GmbH, Kapfenberg/AT
-Oerlikon Balzers Coating Italy S.p.A., Milano/IT
-Oerlikon Balzers Coating Korea Co. Ltd., Pyongtaek/KR
-Oerlikon Balzers Coating Luxembourg S.A.R.L., Differdange/LU
-Oerlikon Balzers Coating Mexico S.A. de C.V., Querétaro/MX
-Oerlikon Balzers Coating Poland Sp. z o.o., Polkowice-Dolne/PL
-Oerlikon Balzers Coating SA, Brügg, Brügg/CH
-Oerlikon Balzers Coating Singapore Pte. Ltd., Singapore/SG
-Oerlikon Balzers Coating UK Ltd., Milton Keynes/UK
-Oerlikon Balzers Kaplama Sanayi ve Ticaret Limited Sirketi, Bursa/TR
-Oerlikon Balzers Revestimentos Metálicos Ltda., Jundiáí, SP/BR
-Oerlikon Balzers Sandvik Coating AB, Stockholm/SE
· Oerlikon Balzers Sandvik Coating Oy, Helsinki/SF
-Oerlikon Balzers-ELAY Coating S.A., Antzuola/ES
-Oerlikon France Holding SAS, St. Thibault des Vignes/FR
· Oerlikon Balzers Coating France SAS, St. Thibault des Vignes/FR
-Oerlikon IT Solutions AG, Pfäffikon, Pfäffikon SZ/CH
-Oerlikon Japan Co. Ltd., Tokyo/JP
-Oerlikon Korea Ltd., Seoul/KR
-Oerlikon Leybold Vacuum Taiwan Ltd., Hsinchu/TW
-Oerlikon Licensing Arbon GmbH, Arbon/CH
-Oerlikon Mechatronics AG, Trübbach, Trübbach/CH
-Oerlikon Nederland B.V., Utrecht/NL
· Oerlikon Assembly Equipment (Taiwan) Ltd., Hsinchu/TW
· Oerlikon Taiwan Ltd., Hsinchu/TW
-Oerlikon Nihon Balzers Coating Co. Ltd., Hiratsuka/JP
-Oerlikon Optics UK Ltd., London/UK
-Oerlikon SEA Pte. Ltd., Singapore/SG
-Oerlikon Solar Holding AG, Trübbach, Trübbach/CH
-Oerlikon Solar-Lab SA, Neuchâtel, Neuchâtel/CH
-Oerlikon Solar Singapore Pte. Ltd., Singapore/SG
-Oerlikon Space AG, Zürich/CH
-Oerlikon Trading AG, Trübbach, Trübbach/CH
-Oerlikon USA Holding Inc., Pittsburgh, PA/US
· Oerlikon Balzers Coating USA Inc., Elgin, IL/US
· Oerlikon Leybold Vacuum USA Inc., Export, PA/US
· Oerlikon Optics USA Inc., Golden, CO/US
· Oerlikon Solar USA Inc., Wilmington, DE/US
· Oerlikon Space Inc., Pittsburgh, PA/US
· Oerlikon USA Inc., St. Petersburg, FL/US
· Saurer Holding Inc., Denver, CO/US
· Fairfield Manufacturing Company Inc., Lafayette, IN/US
· Fairfield Atlas Ltd., Kolhapur/IN
· Graziano Trasmissioni North America Inc., Duluth, GA/US
· Melco Industries Inc., Denver, CO/US
· Oerlikon Accotex Texparts Inc., Greenville, SC/US
· Oerlikon Textile Inc., Charlotte, NC/US
-Oerlikon Vermögens-Verwaltungs GmbH, Köln/DE
-OOO Oerlikon Rus, Moskwa/RU
-OT Textile Verwaltungs GmbH, Arbon/CH
-Saurer AG, Arbon/CH
· GTG-Graziano Trasmissioni Group AG, Arbon/CH
· Neumag Denmark a/s, Horsens/DK
· Oerlikon Czech s.r.o., Cerveny Kostelec/CZ
· Oerlikon Fibrevision Ltd., Macclesfield/UK

## Legal structure

as at December 31, 2008

· Oerlikon Saurer Arbon AG, Arbon/CH
· Oerlikon Heberlein Temco Wattwil AG, Wattwil/CH
Oerlikon Textile China Investments Ltd., Hongkong/CN
· Oerlikon (China) Technology Co. Ltd., Suzhou/CN
· Oerlikon Textile Machinery (Wuxi) Co. Ltd., Wuxi/CN
Saurer China Equity Ltd., Hongkong/CN
· Jintan Texparts Components Co. Ltd., Jintan/CN
· Saurer Jintan Textile Machinery Co. Ltd., Jintan/CN
· Saurer China Financial Ltd., Hongkong/CN
· SE Oerlikon (Shanghai) Trading Co. Ltd., Shanghai/CN
· Oerlikon SB Holdings Arbon AG, Arbon/CH
· W. Reiners Verwaltungs-GmbH, Remscheid/DE
· Barmag Liegenschaften GmbH & Co. KG, Remscheid/DE
· Oerlikon Balzers VST GmbH & Co. KG, Schopfheim/DE
· Oerlikon Balzers VST Tribotechnik GmbH, Schopfheim/DE
· Oerlikon Balzers VST Verwaltungsgesellschaft mbH, Schopfheim/DE
· Oerlikon Textile GmbH & Co. KG, Remscheid/DE
· AUTTEFA automation GmbH, Friedberg/DE
· Oerlikon Deutschland Holding GmbH, Köln/DE
· Oerlikon Balzers Coating Benelux N.V., St. Truiden/BE
· Oerlikon Balzers Coating Germany GmbH, Bingen/DE
· Oerlikon Deutschland Vertriebs GmbH, Köln/DE
· Oerlikon IT Solutions GmbH, Alzenau/DE
· Oerlikon Laser Systems GmbH, Krailling/DE
· Oerlikon Leybold Vacuum GmbH, Köln/DE
· Oerlikon Leybold Vacuum (Tianjin) Co. Ltd., Tianjin/CN
· Oerlikon Leybold Vacuum (Tianjin) International Trade Co. Ltd., Tianjin/CN
· Oerlikon Leybold Vacuum Dresden GmbH, Dresden/DE
· Oerlikon Leybold Vacuum France SAS, Villebon sur Yvette/FR
· Oerlikon Leybold Vacuum India Pvt. Ltd., Pune/IN
· Oerlikon Leybold Vacuum Italia S.R.L., Milano/IT
· Oerlikon Leybold Vacuum Japan Co. Ltd., Yokohama/JP
· Oerlikon Leybold Vacuum Nederland B.V., Utrecht/NL
· Oerlikon Leybold Vacuum Schweiz AG, Zürich/CH
· Oerlikon Leybold Vacuum Singapore Pte. Ltd., Singapore/SG
· Oerlikon Leybold Vacuum Skandinavien AB, Göteborg/SE
· Oerlikon Leybold Vacuum Spain S.A., Cornellà de Llobregat/ES
· Oerlikon Leybold Vacuum UK Ltd., London/UK
· Oerlikon Leybold Vacuum Korea Ltd., Seoul/KR
· Oerlikon Real Estate GmbH, Köln/DE
· Oerlikon Vermietungs- und Verwaltungsgesellschaft mbH, Köln/DE
· Oerlikon Enka Tecnica GmbH, Übach-Palenberg/DE
· Oerlikon Textile Components GmbH, Fellbach/DE
· Oerlikon Textile Far East Ltd., Hongkong/CN
· Oerlikon Textile Technology (Beijing) Co. Ltd., Beijing/CN
· Oerlikon Textile India Pvt. Ltd., Mumbai/IN
· Oerlikon Textile Components India Pvt. Ltd., Mumbai/IN
· Zinser Textile Systems Pvt. Ltd., Ahmedabad/IN
· Peass Industrial Engineers Ltd., Gujarat/IN
· Oerlikon Vacuum Holding GmbH, München/DE
· Oerlikon Textile Components Far East Ltd., Hongkong/CN
· Oerlikon Textile Components Singapore Pte. Ltd., Singapore/SG
· Oerlikon Textile do Brasil Máquinas Ltda., São Leopoldo, RS/BR
· Oerlikon Textile Trading and Services Ltd., Hongkong/CN
· SAC Saurer Automotive Components B.V., Rotterdam/NL
· Oerlikon Graziano Group S.p.A., Torino/IT
· Oerlikon Graziano S.p.A., Cascine Vica Rivoli/IT
· Graziano Trasmissioni Czech s.r.o., Praha/CZ
· Graziano Trasmissioni India Pvt. Ltd., New Delhi/IN
· Graziano Trasmissioni UK Ltd., St. Neots/UK
· Oerlikon Neumag Italy S.p.A., Biella/IT
· Saurer Beteiligungs AG, Mönchengladbach/DE
· Oerlikon Textile Verwaltungs GmbH, Remscheid/DE
· Saurer Financing LP, Charlotte, NC/US
· Saurer Group Investments Ltd., George Town/KY
· Saurer Holding GmbH, Leonding/AT
· Oerlikon Neumag Austria GmbH, Leonding/AT
· Saurer Middle East Tekstil Makinalari Dis Ticaret A.S., Istanbul/TR
-Saurer Management AG, Pfäffikon SZ/CH
-Unaxis GmbH, Pfäffikon SZ/CH
-Unaxis IT (UK) Ltd., Monmouth/UK
-Vocis Limited, Warwick/UK



## Agenda, Contact

### Important dates

March 26, 2009

Media and analyst conference on the 2008 annual results,  
SIX Swiss Exchange Convention Point, Zurich

April 23, 2009

Key figures for the first quarter of 2009

May 12, 2009

Ordinary General Meeting of Shareholders,  
KKL Luzern (Culture and Convention Center), Lucerne

August 27, 2009

Media and analyst conference on the half-year report 2009  
SIX Swiss Exchange Convention Point, Zurich

October 22, 2009

Key figures for the third quarter of 2009

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pr@oerlikon.com

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Churerstrasse 120  
CH-8808 Pfäffikon SZ

### Index of pictures

All pictures were taken by: Michael Reinhard, Michael Reinhard Photography, Zurich (CH), except:  
p. 29 OC Oerlikon (bottom), p. 37 Carl Zeiss SMT (bottom), p. 42 OC Oerlikon (top, third from above, bottom), p. 46 OC Oerlikon (middle, right), p. 47 OC Oerlikon (left, right), p. 54 Getty Images (top), p. 54 Knut Bry (middle), p. 54 OC Oerlikon (bottom).

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This annual report is also available in German.  
The master language is English.

# Oerlikon business units in brief

## Oerlikon Textile

### Key figures

in CHF million	2008	2007
Orders received	1 364	2 655
Orders on hand	443	821
Sales	1 690	2 719
EBIT	-281	208
Employees	7 008	7 753

### oerlikon barmag

Oerlikon Barmag is the global market leader in the production of texturing machines as well as spinning lines for nylon, polyester and polypropylene fibers. In addition to plant design and spinning and texturing systems, its core competencies include the production of associated components such as pumps, winders and godets.

### oerlikon neumag

Oerlikon Neumag is the market leader in plants for the production of BCF carpet yarn and synthetic staple fibers. The business unit also offers the widest range of technologies for the production of nonwoven products of any company in the world.

### oerlikon saurer

As a supplier of innovative system solutions and service packages, the Oerlikon Saurer business unit, with its Allma and Volkmann brands of twisting systems and the Saurer and Melco brands of embroidery systems, is characterized by its commitment to quality, spirit of innovation and close market proximity.

### oerlikon schlafhorst

The Oerlikon Schlafhorst business unit is the global market leader in machine and system solutions for the production of staple fiber yarns. The company dominates the global market for rotor-spinning equipment, offers an extensive range of ringspinning products and sets the benchmark in the package winding sector.

### oerlikon textile components

Oerlikon Textile Components is the global market leader in premium components. Its product portfolio includes quality-determining components for all spinning applications and the nonwoven industry. All of its products are of the highest quality and reliability.

### Applications and products

- Filament yarn plants
- Staple fiber plants
- Twisting systems
- Spinning preparation systems
- Components for the textile machine industry
- Texturizing systems
- Nonwoven plants
- Embroidery systems
- Rotor spinning systems
- Ring spinning systems
- Winding systems
- Carpet yarn plants

### Clients and partners (selection)

DuPont, Hyosung, Michelin, Nanya Plastics, Reliance, Shaw Industries, Technofibres

Albis, Mohawk, Oriental Weavers, Sanfangxiang, Shaw Industries

Kordsa, Michelin, Pirelli, Shaw Industries, Vardhmann

Coteminas, Frontier, Fruit of the Loom, Parkdale, Sanko, Vardhmann

n.s.

### Competitors

TMT Machinery  
Chonglee  
Jiangsu Hongyuan  
Himson  
Alidhra

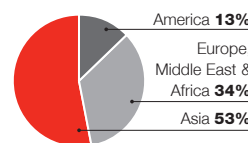
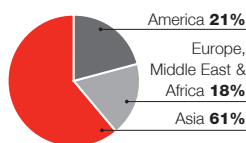
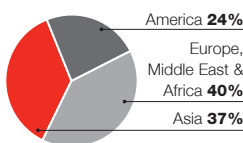
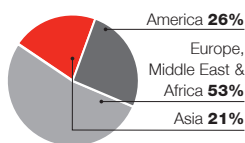
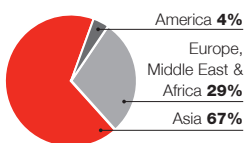
Reifenhäuser  
Swisstex  
Dilo  
Rieter/NSC  
CTMC

Savio  
Murata Textile Machinery  
Lässer  
Tajima  
Barudan

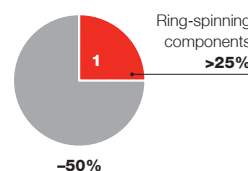
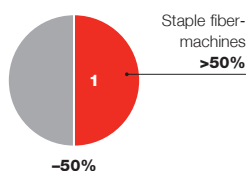
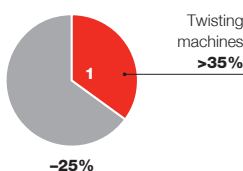
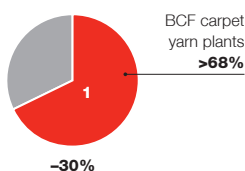
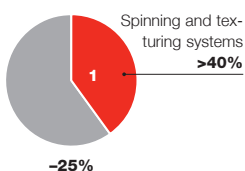
Rieter Textile  
Murata Textile Machinery  
Savio  
Lakshmi  
CTMC

Rieter/TCC  
Tonghe  
Precitex  
Aircomponents  
Kasen

### 2008 sales by region



### Selected market share, growth and position in 2008



## Oerlikon Coating

in CHF million	2008	2007
Orders received	509	497
Orders on hand	-	-
Sales	509	497
EBIT	78	83
Employees	2 892	2 747

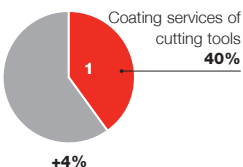
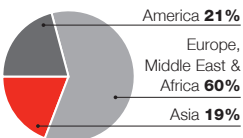
### oerlikon balzers

Oerlikon Balzers is the world's leading supplier of plasma-enhanced coatings for tools and precision components. The coatings – deposited with state-of-the-art coating equipment from Oerlikon Balzers – increase performance and therefore productivity. The coating service is offered at a network of almost 90 coating centers in 31 countries throughout the world.

- High performance coatings for:
- Cutting tools
  - Punching and forming tools
  - Dies and molds
  - Precision components for engine and fluid technology and mechanical drives

ABB, Audi, Bosch, Ceratizit, Ford, Hitachi, Iscar, Kennametal, Mahle, OSG, Samputensili, Sandvik, Siemens, SKF, VW

Ionbond  
Eifeler  
Cemecon  
Kobelco  
Hauzer  
Platit



## Oerlikon Solar

in CHF million	2008	2007
Orders received	566	650
Orders on hand	429	460
Sales	598	266
EBIT	107	63
Employees	868	451

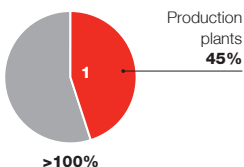
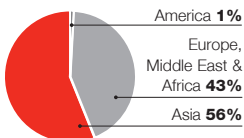
### oerlikon solar

Oerlikon Solar offers cost-effective, field proven end-to-end solutions for the mass production of thin-film silicon solar modules. These fully automated manufacturing solutions are focused on reducing device cost and maximizing productivity. They are available as modular end-to-end solutions with metrology and upgradeability in throughput and process technology.

- End-to-end solutions for the mass production of thin-film silicon solar modules
- Amorphous silicon PV technology
  - Micromorph PV technology
  - High-precision laser scribing
  - Transparent Conductive Oxide (TCO)
  - Special metrology and encapsulation machinery

Auria Solar, CMC Sun Well, ersol Thin Film, Tianwei, Inventux, PRAMAC, SCHOTT Solar, Gadir Solar, HelioSphere

Applied Materials  
Ulvac



## Oerlikon Vacuum

in CHF million	2008	2007
Orders received	460	477
Orders on hand	68	78
Sales	465	458
EBIT	49	55
Employees	1 583	1 436

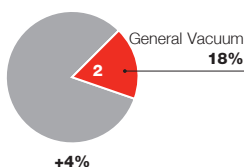
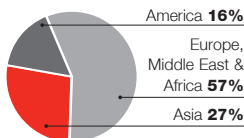
### oerlikon leybold vacuum

Leybold Vacuum offers a broad range of modern vacuum components, for industrial manufacturing and analytical technology, but also for research & development applications. Consulting, engineering and design of customer specific solutions for highly demanding processes are as essential as the matching after sales services.

- Fore and high vacuum pumps
- Consulting and engineering of vacuum solutions
- Vacuum gauges
- Leak detecting
- Instruments
- Fittings and valves
- After-sales services and training

Bystronic Laser AG, JEOL, LOT Vacuum, MDS Analytical Technologies, Advanced Sterilization Products

Edwards  
Pfeiffer Vacuum  
Busch  
Adixen  
Ulvac



## Oerlikon Drive Systems

in CHF million	2008	2007
Orders received	1 171	1 185
Orders on hand	183	231
Sales	1 204	1 113
EBIT	65	83
Employees	5 080	5 048

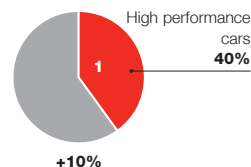
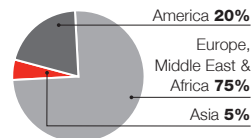
### oerlikon graziano

Oerlikon Graziano is a global player in the power transmission field with more than 80 years of experience. Today, the company is focused on the major markets Automotive, Off-Highway and Industrial and also the zero emission sector, providing complete mechatronic driveline systems as well as single gearing components.

- Agricultural equipment
- Construction equipment
- Passenger cars
- High-performance cars
- All-wheel vehicles
- Material handling
- City buses
- Utility and zero emission vehicles

AGCO, Aston Martin, Audi, Club Car, CNH, Fiat Auto, GM, JCB, John Deere, Lamborghini, Maserati, Thnk, VW

ZF  
Getrag  
Carraro  
Gear World  
Aisin  
Cattini



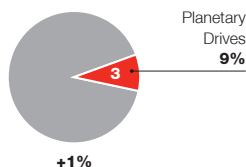
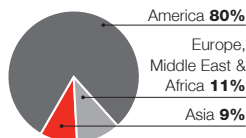
### oerlikon fairfield

Oerlikon Fairfield is a leading provider of engineered gear and drive solutions for off-highway and industrial original equipment manufacturers throughout the world. With 90 years in the gearing and drive system industry, experience, dependability and reliability are what make Oerlikon Fairfield a global leader in today's market.

- Construction and mining
- Agricultural equipment
- Rail and transportation
- Off-shore Oil and Gas
- Windpower
- Specialty industrial

Allison, EMD, General Electric, Genie, Gusto MSC, Hitachi, JLG, Marley-SPX

Bosch Rexroth (L&S)  
Bonfiglioli Transmittal  
Brad Foote  
Brevini  
Columbia Gears  
Comer



# Oerlikon Advanced Technologies

in CHF million	2008	2007
Orders received	250	343
Orders on hand	194	230
Sales	284	348
EBIT	-66	5
Employees	805	979

## oerlikon space

Some 360 highly-qualified employees at Oerlikon Space develop and manufacture high-tech subsystems for use in space. Oerlikon Space supplies payload fairings for the European Ariane 5 and Vega launchers, spacecraft structures, precision mechanisms, and innovative products such as laser terminals for inter-satellite communications.

- Launcher structures
- Spacecraft structures
- Precision mechanisms
- Optical satellite communication
- Scientific instruments

Arianespace, EADS, Thales Alenia Space, ESA, United Launch Alliance (ULA), Lockheed Martin, Zeiss

Sener  
Moog  
MT Aerospace  
CASA (EADS)

## oerlikon systems

Oerlikon Systems is focusing on production equipment for advanced nanotechnology, semiconductors and deposition equipment for the optical disc industry. Together with leading manufacturers, the company develops production techniques for future attractive and profitable nano-technology applications – enabling clean technologies.

- Thin-film heads
- Wafer production equipment
- Advanced packaging / 3D
- Thin wafer and multi-level metallization
- Compound Semi, MEMS and nanotechnology

AMD, Amkor, CREE, IBM, Infineon, NXP, Osram, Samsung, Seagate, Sony, ST, Panasonic

Aviza  
Applied Materials  
Nexx  
Ulvac

## oerlikon<sup>1</sup> esec

Oerlikon Esec is a leading supplier of systems and solutions for the semiconductor and micro-technology industry. Its main products include die bonder (for affixing exposed, unprotected semiconductors to substrate material) and wire bonder (for establishing an electrical connection between the semiconductors and contacts on the substrate).

- Die attach
- Wire bonding
- Flip chip bonding

ASE, Gretek Electronics, Infineon, Micronas, Qimonda, SPIL

ASM Pacific Technology  
Kulicke & Soffa  
Renesas (Hitachi)  
Shinkawa  
Canon Machinery

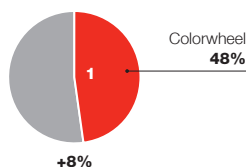
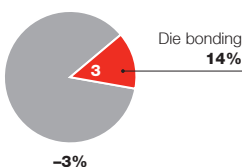
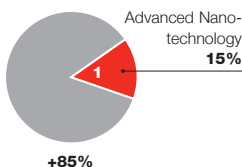
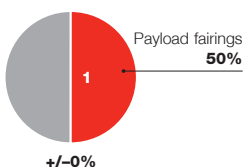
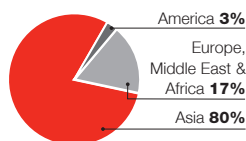
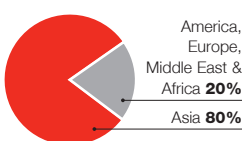
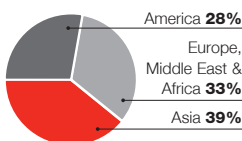
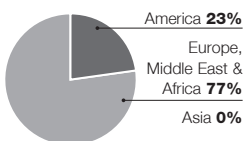
## oerlikon<sup>1</sup> optics

Oerlikon Optics is a leading global provider of custom optical components and subassemblies. The business unit is mainly active in such markets as life science, optical packaging and in the automotive industry.

- Optical components and systems for:
- Life science
- Optical packaging
- Automotive industry
- Lighting industry

Martin Professional, Samsung, Sony, Texas Instruments

Delta  
Young Optics  
Prodisc



<sup>1</sup> Discontinued operations.



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**oerlikon**

**CHANGE**