

oerlikon

**Annual
Report 2006
Living High
Technology**

oerlikon

Oerlikon stands for high-tech machine and plant construction. We offer leading solutions for thin-film coating, vacuum technology, textile production, drive systems and precision technology.

With numerous innovations and new products, a uniform market presence and a new, efficient corporate structure, we have reestablished Oerlikon – and laid the foundations for long-term, sustainable growth.

Oerlikon is back on the road to success with excellent opportunities and potential. Oerlikon has a bright future.

Living high technology

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Key figures 2006*

(in CHF)

2.29 billion	sales	+ 42.7%
2.63 billion	orders	+ 80.9%
329 million	EBIT	+ 859.3%
302 million	net profit	+ 1 311.0%

Key figures Oerlikon Group¹

in CHF million	January 1 to December 31 2006	January 1 to December 31 2005
Orders received	2 631	1 455
Orders on hand	1 557	355
Sales	2 291	1 605
EBITDA	423	128
– as % of sales	18%	8%
EBIT	329	34
– as % of sales	14%	2%
Net profit	302	21
– as % of sales	13%	1%
– as % of equity attributable to shareholders of the parent	20%	2%
Cash flow from operating activities ²	355	84
Capital expenditure for fixed and intangible assets	237	91
Total assets	6 034	1 979
Equity attributable to shareholders of the parent	1 482	1 001
– as % of total assets	25%	51%
Net liquidity including marketable securities ³	–589	706
Net assets ⁴	3 001	510
EBIT as % of net assets (RONA)	11%	7%
Number of employees	19 267	6 434
Personnel expenses	737	600
Research and development expense ⁵	162	148

¹ A multiple year comparison of key figures 2002–2006 may be found on page 126.

² Before changes in net current assets.

³ Net liquidity includes marketable securities and treasury shares at market value as at December 31, 2006.

⁴ Net assets include operating assets fixed and current, (excluding cash and financial assets) less operating liabilities (excluding financial liabilities and tax provisions).

⁵ Research and development expense includes expenses recognized as intangible assets CHF 49 million (prior years: CHF 0 million).

* Including Saurer figures of November to December 2006.

Highlights 2006

2006 was a year full of highlights: growth and income were sustainably increased; the organization was structured; visibility under the new name "Oerlikon" was strengthened; ground-breaking innovations were established and new future markets opened up; Oerlikon's size, importance and future potential were given new dimensions through the acquisition of Saurer.



P3e™ revolutionized coating

Oerlikon Balzers Coating introduces the new P3e™ system at the JIMTOF trade fair in Tokyo. Experts are confident that this will revolutionize the coating market. For the first time, the hardest aluminium oxide coats can be physically applied in low temperatures of about 500 degrees Celsius and coating features adjusted selectively.

Coating reinvented

Energy for satellites

Galileo

Oerlikon Space receives the order to deliver key components for the European space project Galileo to assemble a new satellite navigation system.

Vacuum without vibration

Leading vacuum technology

With the launch of the new MAG W 300 vacuum pump, Oerlikon Leybold Vacuum well and truly forges ahead and demonstrates renewed technology leadership with control engineering and pump integration.



oerlikon

One Company

Renaming to Oerlikon

Unaxis is renamed Oerlikon. For the first time in its 100-year history, all business units appear under the "Oerlikon" brand name. The renaming was announced with a large-scale campaign. Public, investor, analyst and staff reactions have been extremely positive.

New segment structure

The new segment structure and allocation of business units according to key technologies thin-film coating, vacuum technology, textile production, drive systems and precision technology sees an end to the extensive company restructuring which started with the change in management in mid-2005.

Oerlikon Solar

Oerlikon makes thin-film solar engineering productive, and establishes the business unit "Solar" (Coating). Oerlikon is the only global provider of ideal solutions for thin-film solar module production. Oerlikon technology uses 200 times less silicon than conventional solar cells and it is up to 30 percent more efficient in its electricity production.

A breakthrough for solar energy



Blu-ray

Oerlikon Balzers Coating, Systems supplies Philips with the first industrial production solution for Blu-ray-discs under the product name INDIGO. Blu-ray-discs can save up to 50 GB of data and will supersede the conventional DVDs in the next few years.



KATRIN

Oerlikon Leybold Vacuum supplies the Karlsruhe research center with evacuation technology for the largest vacuum chamber in the world. At this center, basic physical experiments are carried out (KArlsruhe TRitium Neutrino Experiment). The vacuum system performance exceeded all expectations during the first test runs.

Ten times more storage

World record with Vacuum



A new plant in China

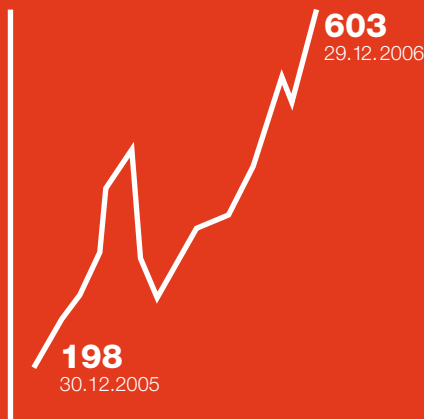
With the opening of its worldwide most modern production facility in Suzhou, Southern China, and a further four sales locations, Oerlikon Saurer Textile has considerably expanded its market presence all over China, currently one of the most important textiles markets.

No.1 worldwide

Acquisition of Saurer

At September 6, 2006, Oerlikon acquired 24.1 percent of Saurer AG as a first portion and publicised the bid for all remaining Saurer shareholders. After adjusting the price to CHF 135 per share, the Saurer Board of Directors agreed to the acquisition. At the end of the tendering period, Oerlikon holds 99.45 percent of Saurer shares and can integrate the company fully.

New dimension by Saurer



STOXX 600

Oerlikon is included in the STOXX 600 due to the excellent rise in value of over 200 percent and a market capitalization of over CHF 8.5 billion. It is in this index the most successful European share of 2006.

Images of the future

Laser projection systems

Oerlikon Optics invests in new laser-based projection technology and collaborates with the Californian technology supplier Novalux. The first prototypes will be supplied to leading manufacturers of consumer electronics at the end of the year.

Production in Asia

Global footprint also in production

The successful move to Asia has assisted Oerlikon Assembly Equipment in reaching a competitive position with locations in Cham/Switzerland and Singapore.



Oerlikon celebrates its centenary and a century of innovations at the old company site near Zurich.

Creation of substantial value

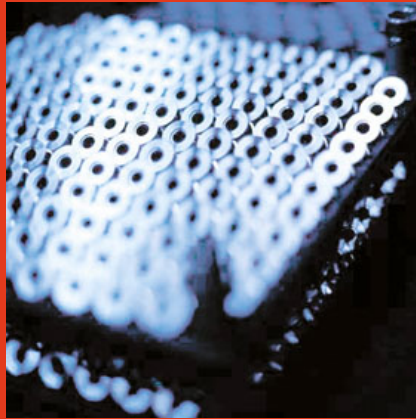
100-year anniversary

The leader in five high-tech markets

The five segments are classified according to key technologies. Knowledge transfer, flexibility and efficiency within the business units are thus optimized.

Invisible and yet omnipresent

Oerlikon products are not visible to end consumers, however the products and applications realized with our manufacturing solutions or special components are found everywhere: as coated motor parts, gearboxes, solar modules, clothing, nappies or technical fiber, CD-Rom, Blu-ray-disc, mobile phone, TV, hard disk, projector, biosensor, satellite or carrier rockets such as Ariane 5.



Segments

oerlikon
balzers coating

oerlikon
leybold vacuum

Core competencies

Coating Technologies

Oerlikon Balzers Coating operates in the coating sector and has a prominent role in the world market in many of its fields of activity. These include equipment and processes for coating tools and construction units (Business Unit Services), production plants for thin-section solar modules (Business Unit Solar) and also complete production lines and coating plants for data storage devices such as hard disks or DVDs.

Vacuum Technologies

Oerlikon Leybold Vacuum offers a broad range of ultramodern vacuum components, which are used in both analysis and manufacturing and for research purposes. The development of customer-specific systems for vacuum production and processed gas delivery are amongst the strengths of Oerlikon Vacuum Systems. Comprehensive after-sales service and training complete the range offered by Oerlikon Leybold Vacuum.

Applications & products

Systems

- DVD formats
- CD formats
- Hard disks
- Blue-ray/HD formats
- Spin coating
- Vacuum bonding
- Thin-film deposition
- Advanced packaging
- Thin wafer and multi-level metallization
- Photomask etching
- Compound semi, MEMS & nano-technology

Solar

- Thin-film silicon solar modules

Services

- Cutting tools
- Precision tools
- Precision components
- Cutting tools
- Forming tools
- Moulding
- Die casting
- Engine technology
- Fluid technology
- Mechanical drives
- Fuel injection

Systems

- Fore vacuum pumps
- High vacuum pumps
- Consulting and engineering of vacuum solutions
- Vacuum gauges
- Leak detecting instruments
- Flanges
- Fittings and valves

Services

- After-sales services and training

Clients & collaborations (selection)

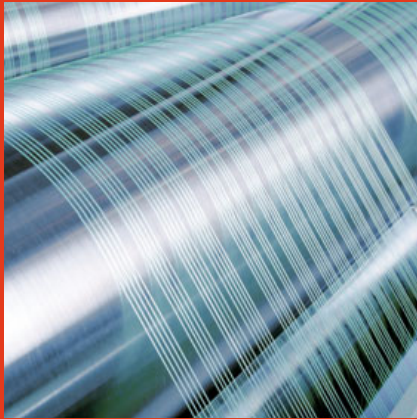
Systems: Philips, Sony, Infineon, CREE, Ricoh, ST, IBM, Samsung, AMD, Seagate, Technicolor. **Solar:** ersol Thin Film, SCHOTT Solar, Interstaatliche Hochschule für Technik Buchs (NTB), Ecole Polytechnique Fédérale de Lausanne (EPFL). **Services:** Sandvik, Kennametal, Iscar, OSG, Hitachi, Siemens, Bosch, Audi, SKF, VW, ABB, Ford, Samputensili.

Systems/Services: Western Precooling Systems, Seagate Technology, Emerson Processing Rosemount, Eaton Electrical, Angelantoni Industrie S.P.A., Surface Engineering Group, Kraft Foods, Vacuumet, Cincinnati Test Systems, CIRA research institute (Aerospace Research; Italy), Development of the World's Strongest Lasers with Laser Energetics (USA).

Key data

in CHF million	2006	2005
Orders received	1195	642
Sales	816	806
Employees	3463	3363

in CHF million	2006	2005
Orders received	444	390
Sales	430	383
Employees	1378	1479



oerlikon saurer textile

Textiles Technologies

Oerlikon Saurer Textile is a total solutions provider in the field of textile machines and equipment, and so meets the needs of the whole supply chain. From plant design for chemical fiber or nonwoven manufacture, to equipment for ring spinners, rotor spinners, winding, twisting or embroidery, the products from Oerlikon Saurer Textile offer innovative and economical solutions.

Fibers & Nonwoven

- Staple fiber plants
- Non woven plants
- Carpet yarn plants

Filaments

- Filament yarn plants
- Texturing systems

Staple Yarn

- Spinning preparation systems
- Rotor spinning systems
- Ring spinning systems
- Winding systems

Fibers & Nonwoven: Albis S.P.A., Mohawk, Sansangxiang, Shaw Industries, Oriental Weavers. **Filaments:** Reliance, Michelin, Shaw Industries, Hyosung, DuPont Nanya Plastics. **Staple Yarn:** Fruit of the Loom, Frontier Sanko, Parkdale, Vardhmann Group, Coteminas.

Twisting & Embroidery: Michelin, KordSA, Vardhmann, Pirelli, Shaw Industries.

in CHF million	2006	2005
Orders received	2 257	1 815
Sales	2 044	1 651
Employees	7 822	7 099



oerlikon graziano drive systems

oerlikon fairfield drive systems

Drive Technologies

Oerlikon Graziano Drive Systems is a worldwide leading provider of complete drive systems as well as gearing parts and single components for gearboxes. Thanks to the high reliability of its products, Oerlikon Graziano Drive Systems counts internationally recognized automobile manufacturers among its customers.

Gears & Components

- Agricultural vehicles
- Construction machinery

Automotive Transmissions

- High-performance cars
- All-wheel vehicles

Off-Highway Drivelines

- Construction machinery

- Agricultural vehicles
- Transportation of materials
- Coaches
- Commercial vehicles

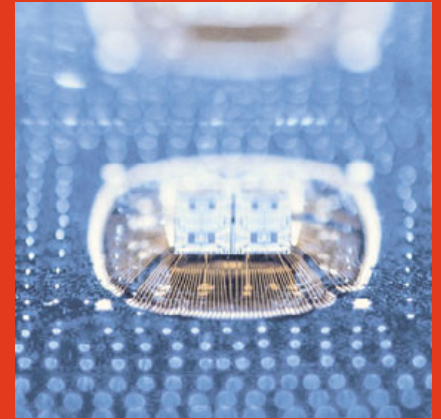
Oerlikon Fairfield Drive Systems

- Mining and surface mining
- Railways
- Marine applications
- Industrial and specialist applications

Gears & Components: Caterpillar, AGCO, Mahindra, CNH, JCB. **Automotive Transmissions:** Alfa Romeo, Audi-Lamborghini, VW, Aston Martin, Ferrari.

Off-Highway Drivelines: Club Car, JCB, Manitou, CNH, Irisbus. **Oerlikon Fairfield Drive Systems:** Allison, Hydraquip, SPX, Gusto, JLG.

in CHF million	2006	2005
Orders received	936	615
Sales	936	615
Employees	4 759	2 905



oerlikon components

Precision Technologies

The business activities of Oerlikon Components include applications and technologies, from which the highest precision and accuracy is required. Oerlikon Components makes a significant contribution to technological progress in projection technology, space exploration and the semiconductor industry.

Optics

- Projection displays
- Life science
- Laser material processing
- Optical packaging
- Automotive
- Lighting

Space

- Payload fairings
- Spacecraft structures
- Scientific instruments
- High-precision mechanisms
- Electro-Optical Systems

- Optical satellite communication

Solutions

- Customized plants, machines and components for Oerlikon business units and external customers

Assembly Equipment

- Die attach
- Wire bonding

Optics: Texas Instruments, Samsung, Sony, Martin Professional. **Space:** Arianespace, EADS, ESA, Lockheed Martin. **Solutions:** SMT/NTS. **Assembly Equipment:** Infineon, Spansion, ASE, Greatek, SPIL, Qimonda, Micronas.

in CHF million	2006	2005
Orders received	436	423
Sales	450	416
Employees	1 620	1 526

**In customer service:
reliability**

Quality is the major priority in everything we do

We can only generate success for our customers and growth for ourselves if we deliver outstanding products and services. Therefore, we put our know-how and our pooled expertise to good use to develop customer-oriented, innovative solutions. This makes us a reliable partner for our customers.



excellence



= growth

Expanding

The Oerlikon Group is a growth company. Outstanding, often ground-breaking innovations open new applications and markets; extensive services and solutions generate additional revenue; ongoing geographic expansion opens access to additional customer groups, and strengthens existing relationships. Maximum levels of excellence ensure the sustainability of this course.

President's Statement

The strategy we decided on mid-2005 is taking hold. Once again, Oerlikon is well and truly on the road to success.

Dear shareholders,

You have before you the first Annual Report of the Oerlikon Group in its new design. This is an appropriate symbol for a radical change completed by the company in 2006. Oerlikon was redesigned in every way: organizationally, with a clear, focused segment structure; technologically, with countless innovations and new products; strategically, with the objective of building up a global high-tech corporation, focusing on machines and plants.

Overall, it is fair to say that the turnaround in restructuring, which was instituted in the second half of 2005 by the Board and the management, was a great success upon its completion in 2006. The financial figures show that the strategy we decided upon has taken hold:

- Operating profit rose in 2006 from CHF 34 million to CHF 329 million.
- Net profit achieved an increase from CHF 21 million to CHF 302 million; this is equivalent to a net profit margin of 13 percent.
- Sales rose by 42.7 per cent from CHF 1.6 billion to CHF 2.3 billion.

The acquisition of Saurer was the high point in a year of new departures. For future business development, the takeover will be a decisive step with wide-ranging effects and great potential for the future. Just like Oerlikon, Saurer is also a traditional business with 150 years of history and an excellent reputation. Worldwide, the core fields of business activity of the company are the production of textile machines and drive systems. Economically and technologically, it is a world leader.

Oerlikon's business volume and staff numbers were tripled overnight by the acquisition of Saurer; this year, more than 19 000 people will generate sales in excess of CHF 5 billion. Our global market position and customer proximity have been greatly reinforced as a result of the acquisition. The Oerlikon Group is now active at 170 sites in 35 countries. In particular, our presence has been strengthened substantially in the up and coming markets of Asia, by the integration of the Saurer branches. The integration of Saurer into the Oerlikon group started according to plan and will be one of the central tasks of the year. Early in 2007, Dr. Uwe Krüger and Björn Bajan joined the ranks of the Board, which is adapting to the new challenges in the management of the Group.

Constant growth levels

Oerlikon was thus able to extend its business profile considerably in 2006. The takeover of Saurer is, moreover, proof positive of the future-oriented strategy of expansion being pushed forward and implemented by the Board and the management, constantly and decisively. The objective is to further consolidate Oerlikon's position as a world-leading

With the acquisition of Saurer, Oerlikon has achieved a new order of magnitude.

high-tech industrial corporation in the field of plant and machine, with a diversified product portfolio. Against the backdrop of an accelerated and global race for innovation, this kind of "Multi-Business Group" offers the ideal environment for efficient innovation management, to enable the company to position new products and processes successfully on the market, by means of the best possible development lead times and costs. Strategically important technological areas can also either be developed or acquired on the market and integrated. Furthermore, the business areas will balance out differing market cycles, which means that the development of the corporation as a whole can be stabilized and made easier to plan.

Share of the year 2006

The long-term development potential that is currently associated with the Oerlikon Group was acknowledged by the capital market in 2006. As a result of their excellent progress, Oerlikon shares were included in the Dow Jones STOXX 600 Index of Europe's largest companies. Of all those companies, Oerlikon was awarded most successful European share of the year. The stock market capitalization of the group has more than trebled in the space of one year to over CHF 8.5 billion. This has enabled us to create significant value for our shareholders and to further strengthen the capital assets of the company.

Following the acquisition of Saurer, Oerlikon still has great financial strength. The sale of treasury shares amounting to CHF 188.9 million helped to increase equity from CHF 1.0 to 1.5 billion. Operating cash flow grew from CHF 84 million in 2005 to CHF 355 million in 2006. A high level of liquidity and extensive equity capital make for a healthy balance sheet and open up a range of options for us regarding the company's development.

Transparency and sustainability are core values

Transparency and sustainability are of great significance in this development. They are the only way to maintain the trust that we have built up with our investors, customers, suppliers and employees. As an international company, therefore, we not only fully meet our obligations to disclose financial data and transactions – we also take our social and ecological responsibilities seriously. Oerlikon is a signatory to the UN Global Compact Initiative for promoting sustainable and socially responsible development, which was launched by former Secretary-General of the United Nations, Kofi Annan. At the same time, Oerlikon is developing comprehensive sustainability reporting, in order to account for the ecological and social aspects and progress of the company. To facilitate this, a stock check was carried out in 2006 on a sustainability inventory. In 2007, we will be replacing the missing elements so that we will be able to produce a sustainability report along with the next annual report.

Thanks for hard work and trust

In 2006, Oerlikon was able to achieve an excellent position in all business areas and to increase its technological advantage. This has created significant value for all stakeholders. Excellent stock market performance, a high level of customer satisfaction and the creation of jobs are all evidence of this. It has all been made possible by the incredible performance of our employees, in particular during a period of rapid change and renewal. Without their tireless efforts and extensive skills, these results would have been inconceivable. On behalf of the Board of Directors, I thank them for their hard work. Our thanks also go to our customers and suppliers for the trust they have shown in us and for their cooperation as partners, as well as to all our shareholders for their support in this successful breakthrough year.

Georg Stumpf
Chairman of the Board of Directors



Georg Stumpf
Chairman of the Board of Directors

Report of the CEO

We have completely renewed the company. We completed the restructuring process in 2006 and created substantial value. Through its acquisition of Saurer, Oerlikon has become one of the world's most forward looking high-tech companies.

Oerlikon, once again “One Company” under central management

Dear Shareholders

2006 has been a successful year for Oerlikon. We saw the continuance of an upward trend that began in mid-2005 and have been able to translate it into sustained growth in both sales and profit. The net profit we achieved of CHF 302 million with a net profit margin of 13 percent illustrates the new-found efficiency of the Oerlikon Group.

And that's not all. Following the fundamental modernization of all aspects of the company, Oerlikon once again has good long-term future prospects. The acquisition of Saurer is a clear sign of Oerlikon's return to strength. Through this acquisition, we have accelerated our progress along our growth path and taken it to a new level. This is particularly well illustrated by the above-average increase in orders received with growth of 80.8 percent from CHF 1.5 billion to CHF 2.6 billion.

The successes of 2006 are the results of the strategy we pursued, which was to turn Unaxis and its subsidiaries into an integrated high-tech corporation and to ensure the consistent operational implementation of the necessary measures:

- The restructuring and integration of the company following the “One Company” idea and grouping according to five core technologies
- Orientation towards customers, markets and technologies
- The improvement of our operating profit margins through effective cost management, new pricing strategies, increased efficiency and internally centralized services (“shared services”)
- The expansion of our regional presence and customer proximity, in particular in Asia and America
- Targeted innovation management, which led to the market launch of ground-breaking innovations and various new products
- The rebranding of Unaxis as Oerlikon and the unified presence of all business units under one brand.

For the first time in its 100-year history, the company is being centrally managed, has a uniform presence and is now developing a general culture and identity. Our strategic focus on key segments has proved its worth. Oerlikon Balzers Coating, Services achieved growth of 11 percent, which is considerably above the market average. Oerlikon Leybold Vacuum succeeded in turning the tide and through targeted innovations and a consistently implemented efficiency program managed to achieve a profitability rate of 11 percent with growth of 12 percent. Oerlikon Solar made its breakthrough with a number of major orders. Overall, the Oerlikon Group is today more efficient, more innovative and more attractive than it has ever been in recent times.

Textiles and drive technologies expand the services portfolio

As the world leader in comprehensive product solutions in the textile industry and drive technologies, Saurer fits perfectly into the Group's portfolio. This acquisition has expanded our product and service portfolio in the related technology areas of machine

and plant engineering. The resources and competencies of the two companies in engineering, software, mechanics and manufacture have been expanded and they strengthen the ability of all business units to innovate. The Oerlikon Group, including Saurer, now has access to over 1 500 researchers, developers and engineers and, considering 2006 as a whole, invests a total of more than CHF 260 million¹ in research and development.

The integration process started in a "Global Leadership Meeting" held at the beginning of the year, which brought together around 150 managers from both companies. Joint teams are now working hard to unify the business processes and systems, to rebrand Saurer segments and to implement a comprehensive transition program.

Diversified high-tech corporation strategy

The integration was supported by the corporate structure introduced in the middle of 2006 by Oerlikon, which brings the organization into line with the requirements of a high-tech supplier. Our strategy focuses on developing and expanding as a diversified high-tech corporation.

This entails classifying areas into general segments according to key competencies, combining some smaller units and central management by an operational holding company, all of which bring a number of benefits.

- Through systematic knowledge transfer between related fields of technology, we are strengthening the power to innovate and the speed of innovation in the individual business units
- Central management, standardized business processes and integrated internal services increase the efficiency of the entire Group and have a positive effect on profit margins
- Organization into segments leads to greater customer and market proximity.

With this clear structure, we have created a forward-thinking, flexible platform, which is perfectly designed for our growth path. This enables us to realize optimum synergy potential and knowledge transfer.

Innovations a factor in success

In 2006, this company structure also led to major advances in innovation management in the Oerlikon Group. Through market- and customer-focused research and development, targeted acquisitions of technology suppliers and strategic partnerships, we have succeeded in developing and presenting to our customers all-in-one manufacturing solutions with comprehensive service concepts. In this way, Oerlikon Solar was able to successfully position itself in the internationally fast-growing market of solar energy within a short space of time. Oerlikon Balzers Coating, Services redefined the coatings market with its P3e™ technology; Oerlikon Optics supplied the first prototypes of laser-based projection technology, laying the foundations for new pico projectors

and laser TV; Oerlikon Leybold Vacuum launched a new generation of pumps (MAG W 300) on the market; and Oerlikon Balzers Coating, Systems supplied the first manufacturing systems for Blu-ray-discs that are suitable for the industrial market. All this shows how Oerlikon set the technological standards in its markets in 2006.

Outlook

Oerlikon will continue to pursue its chosen growth path vigorously. The opportunities for future growth in existing segments and for making gains in market share are far from exhausted. Further organic growth will feed off:

- new, innovative products
- the expansion of key technical competencies into total application solutions
- the expansion of the service business
- further regional expansion.

Committed and competent staff and strong partners enable us to take these opportunities. The acquisition of Saurer has generated further positive stimulus in all aspects of the business, through technology and engineering know-how, a successful business model and existing market access.

I look forward to following this path towards growth with you.

Thomas Limberger
Chief Executive Officer and
Member of the Board of Directors



Thomas Limberger
Chief Executive Officer

¹ Aggregate expense for research and development over whole year 2006, Saurer and Oerlikon.

Reorganized management structure

Our centralized, across-the-board senior management set-up aims to ensure that operational measures are implemented rapidly and knowledge is exchanged between business units.

Behind Oerlikon's success stands a strong management team

“One Company” begins at the top

A key factor in the success of Oerlikon is concentrating and grouping skills and resources. This is particularly true at top management level, where life is breathed into the integrative management structure under the leadership of the Executive Board.



Thomas Limberger
Chief Executive Officer

“As an integrated high-tech company, we focus on customers, markets and technologies. With leading products and services, we will continue our above-average growth.”



Dr. Uwe Krüger¹
Chief Operating Officer

“Through knowledge transfer, efficient production and consistent pursuit of synergies we offer our customers exceptional added value.”



Dr. Jörg Eichkorn
Chief Financial Officer

“Oerlikon's growth trend is built on solid financing. We are exploiting our liquid assets in order to use commercial trade to further increase the value of the company.”



Björn Bajan²
General Counsel

“Transparency and sustainability are absolute conditions for any further expansion of the Oerlikon Group. We want to be reliable and trusty partners to our stakeholders.”

¹ Since March 1, 2007

² Since February 1, 2007

1 Dr. Hans Brändle

Head of Oerlikon
Balzers Coating,
Executive
Vice President

**2 Thomas Babacan**

Head of Oerlikon
Leybold Vacuum,
Senior Vice President

3 Dr. Carsten Voigtländer

Head of Oerlikon
Saurer Textile,
Executive
Vice President

**4 Dr. Marcello Lamberto**

Head of Oerlikon
Graziano Drive
Systems,
Senior Vice President

5 Gary Lehman

Head of Oerlikon
Fairfield Drive Systems,
Senior Vice President

**6 Kurt Trippacher**

Head of Oerlikon
Components,
Senior Vice President

7 Dr. Andreas Widl

Regional Executive Asia,
Senior Vice President

8 Eran Rosenzweig

Regional Executive
Americas,
Senior Vice President

**9 Mark Hashemi**

Regional Executive
EMEA,
Senior Vice President

**Cooperation and synergies**

In order to exploit opportunities for cooperation and synergies in the development of the various markets, a matrix structure with segmental and regional responsibilities was introduced in 2006. Wherever possible segments work together, present themselves to customers together and develop strategies for further growth together.

The Oerlikon Operating System

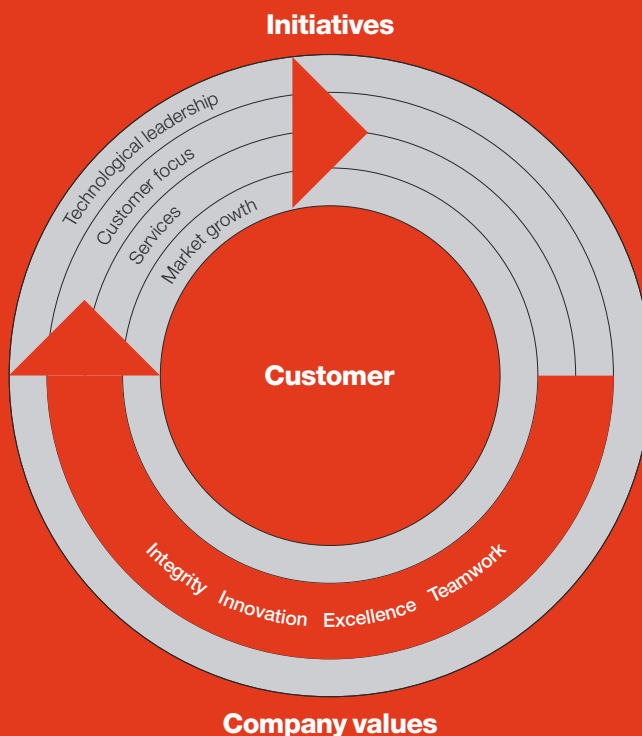
The success of a diversified high-tech group depends mainly on the efficient control of business processes. That's why Oerlikon has developed and implemented a systematic, detailed Operating System which records all procedures and synchronizes them.

We develop our business tactically and for the long-term according to our customer and market needs

Higher performance and speed

The Oerlikon Operating System's aim is to continually increase the Group's productivity. Through networking of initiatives and business units based on corporate values, the boundaries of own units and regions are overcome, synergies developed and a self-learning organization generated. The Operating System thus produces a performance level and speed for the Group, that the individual business units could not achieve.

The driving forces of the Operating System are simple factors like trust, teamwork, enthusiasm for change and desire for peak performances. That's how corporate culture and corporate development are harmonized.



Living corporate values

“Oerlikon” is more than just a new name and logo. Part of the rebranding is the implementation of a new performance-oriented corporate culture based on explicit values.

Discussion of values at grass-roots level

What do the four core values mean to us? How do we translate teamwork, excellence, innovation and integrity into our daily life? Once the terms and definitions were decided, several colleagues spontaneously got together at the Oerlikon Leybold Vacuum headquarters in Cologne to finalize the values through explanation. The results are documented here – a good example of a living corporate culture.



Excellence

Exceptional performance at all times and all places; innovative products and services with outstanding quality; in all processes and across all structures.
Aim: to achieve a noticeable increase in value for our customers.

Integrity

Transparent and open communication with our customers, suppliers and colleagues; adherence to ethical principles; strong commitment to promises with our customers.
Aim: responsible dealings with our enterprise, society and the environment.

Innovation

To transform new ideas into profitable, valuable products and services; stemming from creativity and enthusiasm.
Aim: development of leading global products through the most advanced technologies, management processes and a pooled know-how.

Teamwork

Excellent cooperation and teamwork exist across the segments and business units; imagination and exceptional performance make for innovations; partners for our customers.
Aim: to pool knowledge and establish future markets together.

Niki Lauda is Oerlikon's most famous brand ambassador

Top performance, speed and passion connect the racing driver and the high-tech company

Mr. Lauda, you receive numerous offers concerning which brands to represent and which logos should decorate your famous cap. Why did you decide to represent Oerlikon?

Oerlikon is a fascinating company. When I looked into the offer to represent the company, I quickly discovered that Oerlikon's values and mentality correspond 100 percent with my own ideas. As such I can act credibly as a representative for the company. In addition Oerlikon is an important supplier for the automotive industry and also for Formula 1. When I heard that Oerlikon supplies the coatings for all of the Formula 1 motors I pricked up my ears and became curious. Oerlikon and Lauda – that is a conclusive, convincing combination. I really enjoy doing this. In the meantime I have become an Oerlikon fan.

How would you describe the Oerlikon mentality from your perspective?

Absolutely success-oriented. Regardless of whom I have spoken to at Oerlikon up until now and which location I have visited: You can feel the strong will and passion everywhere to deliver outstanding performance, to win and to stand on the winner's podium. The atmosphere that I have encountered is at once emotional and professional. They fight, wrestle, swear, laugh and cheer – and at the same time they work professionally and extremely competently.

... that sounds like motor racing ...

Yes, it does. That's why Oerlikon's involvement in Formula 1 and the technology partnership with Red Bull also makes so much sense. There is no sport more appropriate for Oerlikon than Formula 1. Innovation, speed, efficiency, passion and peak performance characterize motor racing – and Oerlikon.



**Racing legend
Niki Lauda:**
"We must never stop
trying to learn."

But isn't the racing driver sitting in the car rather lonely? How does that fit with the teamwork mentality which is so important to Oerlikon?

The racing driver alone achieves nothing. Without his team he can simply pack up and go home. Today, how well the drivers communicate with the engineers and pass on their impressions and experience is a critical factor for success in Formula 1. The drivers not only have to perfectly implement the possibilities the vehicle offers but, in addition to all the technology, they are also the most important sensor. Basically, the drivers work like members of the sales force, representing the interface with the customer. The driver puts the horsepower on the road and provides feedback about requirements. The sales force brings the product to the customer and provides feedback about their requirements. When this works well, you have a great product.

But that also means that the human factor remains a decisive factor – despite all the technology? Is that still true today? In Formula 1 and in the high-tech business?

Yes, I am convinced it is. And for a number of reasons. Firstly, because technology is still operated by people and people still form organizations. I have never seen a

company which functions completely automatically or a racing car which drives itself. Nor will this ever happen. This means that we are responsible for the way we provide the technical opportunities and the corporate options and not some machine. Oerlikon itself is the best example. The company's substance has not suddenly changed. Nevertheless, the company took off again about a year and a half ago. This shows how much freedom we have and the importance people's actions have.

But isn't the best driver stuck – to keep with the sport metaphor – if they have a bad vehicle?

Definitely. Up to a critical point the driver can compensate for technical disadvantages. But if the gap is too large, then there is nothing he can do. Yet this poses the second fundamental question: How do we develop cutting-edge technologies? The best vehicle and the best technology don't grow on trees. Why is a company like Oerlikon a technological leader, why does a racing team win the World Championship? Because they have more competent employees, are more efficiently organized, more motivated, more courageous, more closely connected with their customers and so forth. And once again these are human factors.

What role does funding play?

Money is an important factor, of course. But only up to a certain point. If you can't afford a wind tunnel, have to make do with fewer test runs or do without modern simulation technology, then your possibilities are limited. However you cannot buy creativity, passion or intuition. There are enough examples where a large amount of money was spent without any real success and where newcomers with low budgets have prevailed.

What is your most important experience for securing long-term success?

You have to celebrate your victories. But despite the euphoria of victory you can't afford to become arrogant or complacent. In both sports and the business world highly successful phases are generally followed by a crisis. At some stage those involved begin to think that they have the right to win the medal or earn the contract. Eventually reality strikes back mercilessly. Complacency is the best recipe for disaster. To avoid that you always have to be prepared to question yourself – like an artist who stands before a blank canvas or sits before a blank sheet of paper. We always have to be prepared to start all over again from the beginning. And you must never stop wanting to learn. Then you will remain successful for a long time.



With Oerlikon, you can also feel the passion and desire to win

innovation



**Innovative advantage:
success**

**Our leading technologies and solutions ensure our
customers' success**

The 1500+ researchers and developers at Oerlikon have one common goal: to break through the boundaries of what is technically possible and create new solutions that give our customers a competitive advantage. By integrating different fields of technology and key skills in one organization, we provide the ideal environment for this.



= breakthroughs

Breakthroughs into new markets

Our aim is not only to optimize existing products, but also to venture into new markets with pioneering discoveries and developments or to develop new markets from scratch. Being a high-tech industrial corporation and making use of the driving force of technical progress, we generate growth and corporate value.

Annual Report 2006

The positive business trend for Oerlikon Group continued in 2006. The acquisition of Saurer represents a milestone for the expansion of the company and significantly increases the Group's potential for growth. The acquisition trebled the number of employees in the Oerlikon Group to more than 19 000, with sales of CHF 4.7 billion (consolidated annual sales in 2006 of Oerlikon [CHF 1.7 billion] and Saurer [CHF 3.0 billion]). In addition, the acquisition led to a significant expansion of its regional presence and manufacturing capacity, in particular in Asia. Oerlikon is now represented in around 170 locations in 35 countries.

The new segmental structure has considerably increased Oerlikon's efficiency and innovative strength

Corporate key figures

in CHF billion	2006 (incl. Saurer)	Change	2006 (excl. Saurer)	Change adjusted	2005
Orders received	2.63	80.9%	2.08	42.9%	1.46
Orders on hand	1.56	338.4%	0.73	106.1%	0.36
Sales	2.29	42.7%	1.70	5.8%	1.61
EBIT (in CHF million)	329	859.3%	303	792.2%	34

“We have been able to grow above market average, particularly in those segments with strong sales. We expect to continue these positive trends in 2007.”

Thomas Limberger
CEO



“Clear structures and responsibilities together with maximum customer orientation are key to exceptional growth in all our business areas.”

Dr. Uwe Krüger
COO





Thin-film coating for solar panels

A new focus for research and development is part of the realignment of Oerlikon. In 2006 a large number of innovative products and technologies were brought to market.

The full effects of the reorganization introduced in 2005 came to bear in 2006 with an increase in net profit of CHF 21 million to CHF 302 million, and an increase in EBIT from CHF 34 million to CHF 329 million. With an equity ratio of 25 percent, and an operating cash flow of CHF 355 million, Oerlikon continues to have a solid financial base. The share market reacted to this positive development with a 204 percent increase in share price to CHF 603.

Sales of the Oerlikon Group increased, including the consolidated values for Saurer for the months of November and December 2006, by 42.7 percent from CHF 1.6 billion in 2005 to CHF 2.3 billion in 2006. Orders received improved by 80.9 percent from CHF 1.5 billion to CHF 2.6 billion. Excluding the consolidated figures for Saurer, the orders received increased by 42.9 percent to CHF 2.1 billion. Together with a high stock of orders for the new Oerlikon Saurer Textile segment worth CHF 825 million, the stock of orders of the

Oerlikon Group in 2006 increased by 338.4 percent to CHF 1.6 billion.

Central segmental organization and management

These results have been brought about by a fundamental reorganization of the company into central corporate units, major parts of which were completed in 2006. The most important elements of this were the centralization of the company management through an operational holding company, the introduction of standardized, binding processes and the combination of business units into segments according to specific key competencies and technologies. This new central management is underpinned by the group-wide consolidation of SAP systems which was started in 2006 and will be completed in the first quarter of 2008.

The segmental organization is as follows:

Oerlikon Balzers Coating

- Systems
- Solar
- Services

Oerlikon Leybold Vacuum

- Systems
- Services

Oerlikon Saurer Textile

- Fibers and Nonwoven
- Filaments
- Staple Yarn
- Twisting and Embroidery
- Special Parts

Oerlikon Graziano Drive Systems

- Gears and Components
- Automotive Transmissions
- Off-Highway Drivelines
- Oerlikon Fairfield Drive Systems

Oerlikon Components

- Optics
- Space
- Solutions
- Assembly Equipment

The segments combine specific technologies, machine and plant engineering and related services into one key competence. As a "coating powerhouse", Oerlikon Balzers Coating contains all business units whose key competencies lie in thin film coating. Oerlikon Leybold Vacuum includes all vacuum technologies, from individual pumps all the way up to comprehensive vacuum systems with a significant engineering requirement, and maintenance services. The Oerlikon Saurer Textile segment includes an integrated portfolio of high-tech systems, technological know-how and services, which covers the entire value-added chain of the textile industry. This organization exemplifies Oerlikon's strategy as a total solution supplier. The Oerlikon Graziano Drive Systems segment develops among others leading drive technologies for the automobile and energy industries and therefore offers excellent synergy potential for existing Oerlikon key markets, in particular in the Oerlikon Balzers Coating segment. Oerlikon Components focuses on the development and construction of precision components.

This reorganization has resulted in the previous business units of Wafer Processing and Data Storage being merged into the Oerlikon Balzers Coating, Systems business unit and the previous Oerlikon Esec Semiconductor being incorporated in the Oerlikon Components segment as business unit Assembly Equipment.

Transformation program

All the specific measures making up the company's realignment were consolidated into one strategic initiative, collected into one Transformation Program and controlled by the Project Management Office (PMC) software tool (see page 52). In this way the realignment was implemented in a very short time for our customers, our markets and our technologies. A specific action plan was defined for every company, to improve efficiency in production and administration, to open new sales opportunities, to strengthen the sales force or pursue regional expansion. The effects were felt particularly strongly in the business unit Displays, which was transformed in 2006 into the new business unit Solar. The move out of the display market and further development of the technology for the solar products market led from a 2005 loss in double figures of CHF millions to a positive EBIT, also in double figures of CHF millions, in 2006. Other areas where the positive effects of the transformation were strongly felt were the reorganization of production at Leybold Vacuum, resolution of quality problems in turbomolecular pumps, and reintegration of wafer processing production at St. Petersburg, USA.

Rebranding to Oerlikon

The decision taken at the General Meeting of May 23, 2006 with a large majority to change the name of the company from Unaxis to Oerlikon is an expression of the integration and unity of the company. The name is also a clear indication of the industrial tradition of the company and is associated with the Swiss values of quality, reliability, precision and creativity. The rebranding of all business units was

implemented worldwide in the second half of the year. For the first time in its 100-year history, the company has a standard external appearance under the brand name "Oerlikon" and internally is creating a common group-wide identity and culture.

The reorganization and new market appearance have created a flexible platform which promotes organic growth and facilitates the integration of acquired companies.

Acquisition of Saurer

The positive effects of this can already be seen in the integration that is underway of recently acquired Saurer. The acquisition of Saurer is a decisive step on the chosen growth path of the Oerlikon Group. This traditional company with over 150 years of history had an excellent reputation in all regions. Saurer is a world leader in its business fields of textile machinery and drive systems, both from a technological and economic perspective. The deal went through exceptionally quickly and smoothly. The Board of Directors of Saurer recommended that its shareholders accept the increased offer of CHF 135 per share and then actively supported the acquisition process and the initial stages of integration. As a result, we can now derive the maximum benefits and synergies. Saurer was a well-managed company with a decentralized organization and management structure. Embedded in the management and organization of Oerlikon, the synergies of related key competencies in high-tech machine and plant construction are showing their effectiveness.

oerlikon

oerlikon
balzers coating

oerlikon
leybold vacuum

oerlikon
components

oerlikon
saurer textile

oerlikon
graziano drive systems

Systems

Systems

Optics

Fibers & Nonwoven

Gears & Components

Solar

Services

Space

Filaments

Automotive Transmissions

Services

Solutions

Staple Yarn

Off-Highway Drivelines

Assembly Equipment

Twisting & Embroidery

oerlikon
fairfield drive systems

Special Parts

The integration of staff and business activities in the Oerlikon Group is in full swing. The starting point for this was a Global Leadership Meeting held at the beginning of the year and involving over 150 managers. The individual integration projects are operationalized and implemented in joint teams.

Above-average market growth

The positive results in the 2006 business year were boosted in particular by Oerlikon Balzers Coating, Services, Oerlikon Leybold Vacuum and Oerlikon Assembly Equipment, which had above-average development in their markets. Oerlikon Balzers Coating, Services grew by 11 percent, which was more than double the figure for the international coatings market. In 2006 an additional 8 coating centers were opened in Japan, China, Korea, India, the Czech Republic, Germany and the USA. The acquisition of American company Gold Star Coating, Services significantly improved our position on the US market. With 77 coating centers, Oerlikon Balzers Coating, Services currently has the world's most consolidated network of coating centers. Oerlikon Leybold Vacuum was also able to expand its business with a growth in sales of 12 percent, which is around three times the figure for the market in general. Oerlikon's position in the process industry was particularly strengthened. Extensive restructuring in this segment led to an increased EBIT margin of 11 percent. Another major contributor to sales was the Oerlikon Assembly Equipment business unit, which was able to increase its market share.

In only its first year, Oerlikon Solar was able to post received orders worth hundreds of millions. It was not possible to completely convert these orders into sales at the planned level, because changes to customer requirements postponed some deliveries to the current business year. These sales will now be realized in 2007.

Trading for Oerlikon Balzers Coating, Systems and Oerlikon Component, Optics was a little more restrained. The markets for both business units are undergoing a period of transition; in the optical data carriers sector from conventional CD formats to Blu-ray-discs with high storage volumes; in the projection systems sector from conventional video projectors to laser based light sources.

It is pleasing to note, however, that even in these areas, it was still possible to increase profit margins. The positive effects of the efficiency enhancement measures and the new pricing strategies can clearly be seen here.

Oerlikon Saurer Textile continued to expand its market position in the 2006 business year. Orders received rose by 37 percent (excluding acquisitions and currency effects 25 percent) to CHF 2.3 billion, and sales by 13 percent (excluding the above 3 percent) to CHF 2.0 billion. Orders on hand at year-end was at its highest ever level at CHF 825 million. Following the acquisition of Fairfield Manufacturing Inc. in February 2006, Oerlikon Graziano Drive Systems became the international market leader for special transmissions, complete drive systems, gears and loose gears, with locations in Western and Eastern Europe, the USA, India and China.

Leading position in technology further expanded

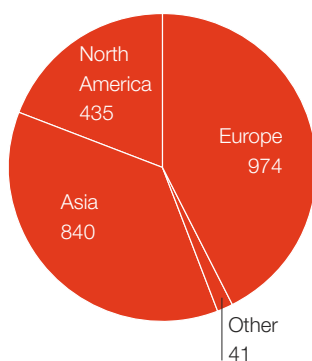
In the 2006 business year, Oerlikon further expanded its leading position in technology and invested CHF 260 million¹ in research and development. Including the employees of Saurer, there are over 1 500 researchers, developers and engineers currently working for Oerlikon.

The reorganized structure of segmentation according to key competencies has given a major boost to the group's innovative strength. Innovation management has been integrated and is centrally led, enabling research and development projects to be tightened and focused and ground-breaking technologies to be brought to market faster and with greater success. Some examples of this are:

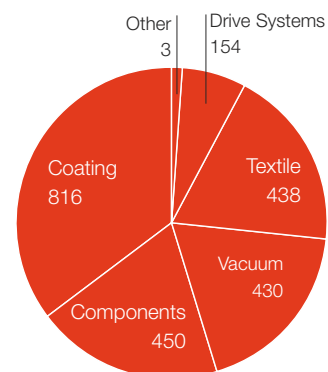
Thin-film solar modules

The biggest success story of the Oerlikon Group has been the Oerlikon Solar business unit. Oerlikon is the world's only supplier of production facilities for the manufacture of thin-film solar modules in amorphous silicon. The technological advantage over the competition is around 12 months. Through internal development and targeted acquisitions, such as UK-based laser specialist Exitech, it is now possible to carry out the entire manufacturing process of solar modules in one automated workflow and with proprietary technology.

Sales by region 2006 in CHF million



Sales by segment 2006 in CHF million



¹ Aggregate expense for research and development over whole year 2006, Saurer and Oerlikon.

This enables Oerlikon Solar to offer an integrated turn-key total solution from one source. Major orders, such as those from SCHOTT Solar and ErSol Thin Film, led to increased sales and orders received and confirmed the industrial maturity of the Oerlikon process. The next generation of technology is already on its way from the laboratory to production: facilities for the manufacture of double-coated solar modules which, through an additional coating of crystalline silicon, better utilize the light spectrum, thereby increasing efficiency from about 6.5 percent to over 10 percent and so achieving a similar magnitude to conventional solar cells. This new type of facility will be launched on the market in the second half of 2007.

P3e™ coating process

With P3e™, Oerlikon Balzers Coating, Services has brought a forward-looking coating technology to the market, which combines a number of coating processes and enables Oerlikon to tap into new areas of application in the medium term. For the first time, P3e™ enables the hardest coatings to be produced using the Physical Vapour Deposition (PVD) process. Up to now, this has required Chemical Vapour Deposition (CVD) technology, which, with temperatures in excess of 1 000 degrees Celsius, has severely limited the possible applications. Oerlikon Balzers Coating has developed and launched both the technology and the facilities for this (INNOVA), many of which have already been supplied to customers. Feedback from customers and the response in professional circles has been incredibly positive.

Hard disk manufacture with RACETRACK

With completely newly developed production facilities for the coating of hard disks (RACETRACK), Oerlikon Balzers Coating, Systems has achieved a leading technological position in this growth market. These facilities use forward-looking PMR technology (Perpendicular Magnetic Recording), which increases the storage capacity of hard disks tenfold.

New MAG W 300 vacuum pumps

At the end of the year, Oerlikon Leybold Vacuum started to supply a new platform for turbomolecular pumps in the form of the MAG W 300. These pumps have a new drive system and magnetic bearing, which enables high pumping speeds to be achieved with the smallest dimensions and minimum vibration. Through this, Oerlikon Leybold Vacuum will be able to further strengthen its market position, in particular in research and the process industry.

Textile fiber manufacture with 7-meter spunbond

With a 7-meter spunbond line, Oerlikon Neumag is setting a new industry standard for the manufacture of artificial fibers. Using specially developed technology for joining and separating synthetics, systems with this width can produce the same quality as smaller systems. This new technology not only means lower investment costs and very low energy consumption, but also significantly less waste.

Laser projection

By acquiring a holding in Californian company Novalux Inc. in the middle of 2006, Oerlikon Optics received access

to a new laser technology and is using it to develop new kinds of projection systems. This new technology has impressive brightness and true color. Laser chips render the installation of multiple components, less components results in less production cost for projection systems. Initial prototypes were supplied to customers at the end of 2006 and the first products with these new light sources should come onto the market during the course of the current business year. The first models of pico projectors and televisions to use this new laser technology have already been on display at this year's Consumer Electronics Show in Las Vegas.

Dual Clutch

Oerlikon Graziano Drive Systems is developing prototypes for a new, automatic dual clutch transmission. This new type of transmission enables automatic gear changing without loss of power, resulting in faster, jolt-free acceleration. In the current business year, Oerlikon Graziano Drive Systems will present this forward-looking transmission technology to a number of vehicle manufacturers and it is so far the only independent transmission manufacturer that can produce a power train of this kind.

Efficient semiconductor assembly

Oerlikon Assembly Equipment increased its production performance by up to 40 percent with the new Die Bonder 2008 hS^{plus}. A new pick & place module was developed and a faster vision system was integrated.

Sales by region and segment 2006

in CHF million	2006	Europe	Asia	North America	Other
Coating	816	405	249	154	8
Vacuum	430	219	110	98	3
Textile	438	118	237	56	28
Drive Systems	154	85	8	62	0
Components	450	144	237	66	2
Other & Consolidation	3	3	0	0	0
Total	2 291	974	840	435	41

Entry into fundamental research

In order to retain and further develop a lasting technological advantage with such innovations, Oerlikon decided in 2006 to invest in fundamental research and to construct a new international research center for this purpose. So far, R&D activities have been predominantly product-focused – fundamental research in the real sense exists only rudimentarily. In these new facilities, additional scientists and developers will be employed to work centrally on a number of areas of research, including nanotechnology, intelligent materials and surfaces and mechatronics. This center is planned to go into operation in 2008 and a location study is currently underway.

Massive increase in share value

The capital market reacted positively to developments in the Group's key data, which led to a significant increase in the share price. As a result of a major increase in value of more than 200 percent and a stock market capitalization of over CHF 8.5 billion, Oerlikon was included in the STOXX 600 and was recognized as the most successful European share in 2006 there in. The share price rose from CHF 198 (closing price on December 30, 2005) by 204 percent to CHF 603 (closing price on December 29, 2006). Market capitalization increased in the twelve months of the reporting period from CHF 2.8 billion to CHF 8.5 billion.

Capital base with strong growth

At December 31, 2006, the balance sheet total of the Oerlikon Group stood at CHF 6 billion compared with CHF 2 billion at the end of 2005. Net liquidity inclusive of marketable securities stood at CHF –589 million at December 31, 2006. Following a figure of CHF 706 million for the 2005 reporting period, this represents a CHF 1.3 billion decrease. The increase in inventories by CHF 733 million to CHF 970 million arises mainly from the acquisition of Saurer.

Investment in fixed assets at CHF 161 million was significantly higher than the level of the previous year (2005: CHF 88 million). Equity at the year end amounted to CHF 1.5 billion, which corresponds to an equity ratio of 25 percent.

Outlook

The Oerlikon Group will continue along its growth path in the current business year. Its global footprint has been significantly strengthened by the acquisition of Saurer. Following the corporate reorganization, the regional expansion and globalization of the business will be pursued vigorously. At the same time, a number of new products are only at the very beginning of their marketing campaigns and product lifecycles.

Overall, we are optimistic that we will be able to continue to achieve above-average growth in our markets and to realize profit margins above average through efficient management of the Group. Orders received of CHF 2.6 billion, which increased by 81 percent in 2006, is a good indicator for strong organic growth of the business in 2007.

Equity	in CHF million
1215	2004
1001	2005
1482	2006

Operating cash flow	in CHF million
114	2004
84	2005
355	2006

R & D expense	in CHF million
180	2004
148	2005
162 ¹	2006*

¹ Research and development expense includes CHF 49 million.

* Aggregated figures for Saurer and Oerlikon for the full year 2006: CHF 260 million.

Oerlikon Balzers Coating

The Oerlikon Balzers Coating segment recorded excellent operating results in 2006. Strong demand was reflected in a marked increase in orders to CHF 1 195 million, an increase of 86 percent compared to the previous year. Successful product innovation enabled Oerlikon to extend its leading position in all business units on the international coating market and a strategic service initiative also had positive effects on margins. The biggest increase in sales came in the Solar unit.

Increased order intake and expansion of technological leadership

Applications & products

Systems

- DVD formats
- CD formats
- Hard disks
- Blu-ray-/HD formats
- Spin coating
- Vacuum bonding
- Thin-film deposition
- Advanced packaging
- Thin wafer and multi-level metallization
- Photomask etching
- Compound semi, MEMS & nanotechnology

Solar

- Thin-coating solar modules

Services

- Cutting tools
- Precision tools
- Precision components
- Chipping tools
- Remodelling tools
- Synthetics treatment
- Die casting
- Engine technology
- Fluid technology
- Drive technology
- Fuel injections

→ www.oerlikon.com/coating

Key figures of Oerlikon Balzers Coating

in CHF million	2006	2005	Change
Orders received	1 195	642	86%
Orders on hand	478	100	377%
Sales	816	806	1%
EBIT	135	-20	

“In 2006 we managed to considerably improve our market position in all business units with new technologies and products and have thereby created an excellent starting point for further growth during 2007.”

Dr. Hans Brändle
Head of Oerlikon Balzers Coating
Executive Vice President





Hitachi achieves a quantum leap with new INNOVA coating equipment

Hitachi Tool Engineering Ltd.

Hitachi Tool Engineering Ltd. was the first customer to use the new INNOVA coating equipment. Mr. Nobuhiko Shima, President and Representative Director of Hitachi Tool

Engineering Ltd., commented as follows: "Even our first tests with INNOVA have clearly shown its advantages. Extensive benchmark tests have then confirmed that the new

Oerlikon processes represent a quantum leap for tool efficiency. We think the INNOVA coating equipment is currently the best on the market for tool coatings."

Coating Services

In a stable economic climate, the market volume for coating services was around CHF 1.4 billion in 2006. There was continued moderate growth in Europe compared with growth rates of up to 42 percent in emerging regions in Asia and America. Oerlikon Balzers Coating, Services clearly exceeded the market's growth rate with an increase in sales of around 12 percent compared with the previous year. There were positive developments in demand for coating services for tools and precision components as well as for turn-key coating systems. Oerlikon Balzers Coating, Services is the clear market leader with a market share of 30 percent and it was able to increase its lead over the competition in 2006. With 77 current locations, Oerlikon Balzers Coating, Services has access to the largest network of coating centers in the world.

Milestones in 2006

- Oerlikon acquires tool coater Gold Star Coating, the third largest in the USA, enabling it to optimize logistics and productivity in North American business and to sustainably strengthen its position as market leader.
- Oerlikon sets a new standard with the development of the revolutionary P3e™ coating process. P3e™ combines the advantages of the current PVD (Physical Vapour Deposition) and CVD (Chemical Vapour Deposition) processes and opens up completely new market potential in the design of high-performance tools.
- New locations: Oerlikon opens eight new coating centers in six countries, including its first center in the Czech Republic as well as two motor sport centers in England and the USA.
- Breakthrough in automotive sector: Oerlikon wins large orders for series production coating of diesel engine components (fuel injectors, piston pins) with diamond-like carbon coatings (DLC) and builds an in-house coating center on the customer's premises in Brazil.

Outlook

The market for coating services should continue to develop favorably over the course of the current year. All the signs point to further positive developments in existing areas of application. In particular, the strong growth in Asia will continue. Oerlikon Balzers Coating, Services is again predicting growth rates above the market average and an increase in market share. In order to meet the requirements of proximity to the customer, Oerlikon Balzers Coating, Services will increase its current presence in various countries and also open up new countries. The business unit is also developing products that will enable it to tap into new areas of application. For example, with the new P3e™ technology, it will be possible in the medium term to re-coat certain tools using the PVD process and in doing so replace CVD coating.

Coating Systems

The Oerlikon Balzers Coating, Systems business unit – previously the Wafer Processing and Data Storage units – is excellently positioned from a technological perspective. Oerlikon provides the leading products in all market sectors – optical storage media, hard disks, mask etching systems and wafer coating. However, the markets for optical media in particular are undergoing a period of change to new high-performance formats (Blu-ray), meaning that customers are currently postponing their investments.

In coating systems for rewriteable optical data storage Oerlikon has confirmed its worldwide leadership with a market share of over 90 percent. Competition between the HD-DVD and Blu-ray storage formats meant that the DVD market only grew slowly by 10 percent and was subject to strong price competition. Operating results improved significantly compared to the previous year as a result of major cost savings.

Following an excellent start in the global coating market for Blu-ray-discs, Oerlikon has already captured a 30-percent market share. Leading suppliers in the USA and Asia have been equipped with the first facilities (INDIGO).

In the hard disk sector, Oerlikon Systems is well-placed with market-leading production facilities (RACETRACK) for the next generation of hard disks (Perpendicular Magnetic Recording, PMR).

In a stable environment, the Wafer business had a good overall sales and revealed product solutions for forward-looking 300 mm wafers, among other things. Versaline etching systems for connective semiconductors, MEMS and thin-film heads showed significant increases in margin. The positive response to the new GEN V mask etching system leads us to expect that we will gain market share in the photomask sector in the current year.

Milestones in 2006

- Oerlikon introduces the first production facilities in the world (INDIGO) to meet the needs of industry for the mass production of Blu-ray-discs and agrees cooperation agreements with major Blu-ray manufacturers. The first systems are delivered to key clients in the USA and Asia and prove their worth with high levels of efficiency and process stability.
- In the hard disks sector, Oerlikon introduces the innovative RACETRACK coating system using new PMR recording technology, which will increase the data density of future hard disks tenfold. RACETRACK sets new standards in technology and productivity; the first facilities were supplied to a leading customer in the industry at the beginning of 2006 and proved to be a success.
- Oerlikon launches the new Mask Etcher GEN V mask etching system for the next generation of high-performance computer chips with nanostructures. The market response is very positive; following successful beta tests, orders have already been received from market-leading semiconductor manufacturers.

Ricoh

In a strategic partnership, Ricoh (Japan) and Oerlikon Balzers Coating, Systems jointly develop and market the next generation of optical disc technology. In 2007, the Ricoh production process for Blu-ray-discs will be available together with Oerlikon's INDIGO replication system as a turn-key solution. Katsunori

Nakata, General Manager of Ricoh's optical disc business: "Oerlikon has a unique technology platform and a leading market position. We look forward to a long and successful cooperation to develop the Blu-ray-disc market."

Unique technology platform and leading market position at Blu-ray



Outlook

The outlook for Oerlikon Balzers Coating, Systems is generally very promising. The attractive Blu-ray market, re-equipment in the hard disk industry with PMR technology, the advance of the Solid State Lighting (SSL) LED lighting technology, and increased demand in the MEMS sector (telecommunications, optical sensors), mean that we can expect increased profitability and solid growth in all units in 2007.

Solar

The global photovoltaic market continues to prosper with growth rates of over 40 percent. By the year 2010, it is expected that global solar energy production will quadruple (10 gigawatts) with a sales volume of more than CHF 90 billion. Oerlikon Solar established itself in 2006 with an innovative advantage of around 12 months as the world's only supplier of turn-key production facilities for the mass production of large-surface thin-film solar modules made from amorphous silicon. Within a short period of time, Oerlikon Solar achieved a leading position in this future market and is best-placed in the most important sales territories of Europe, the

USA and Asia. With a high level of orders and high double-digit profit margins, this new business unit has far exceeded the expectations placed on it.

Oerlikon's production technology is the industry leader owing to its efficiency and wide range of application options for large-surface modules.

The acquisition of the UK-based laser specialist Exitech Ltd. and targeted technology cooperation has enabled Oerlikon to integrate important process stages and we can now offer the whole value-added chain – from untreated glass sheets to fully functioning solar modules – in one step.

Milestones in 2006

- With a new TCO (Transparent Conductive Oxide) system, Oerlikon Solar for the first time covers the whole production process from untreated glass sheets through to finished solar modules and further increases efficiency.
- Oerlikon Solar receives large orders totalling CHF 120 million from the leading European solar suppliers, SCHOTT Solar and ErSol Thin Film. The first fully integrated Kai 1200 PECVD coating systems are delivered at the end of December – two weeks before the agreed delivery date.

- Oerlikon develops the next generation of thin-film solar cells to production level: the tandem cell made of amorphous and crystalline silicon ($\mu\text{-Si}$) which has an efficiency of 10 percent. Market entrance is targeted for the second half of 2007.

- The staff of Oerlikon Solar increases from 32 (at the end of 2005) to 103 (at the end of 2006).

Outlook

In the 2007 business year, Oerlikon Solar is expecting to increase its order volume to a capacity of over 300 megawatts. The further development of Oerlikon Solar's thin-film technology will reduce the cost of electricity generation from solar energy significantly in the coming year. The introduction of the next generation of products will further enhance Oerlikon's market position for thin-film solar modules.

SCHOTT Solar

As one of the world's leading companies, SCHOTT Solar provides forward-looking solutions in photovoltaics and solar thermal energy. Alexander Berg, Managing Director of SCHOTT Solar GmbH, says, "We do not

compromise on our quality requirements. Oerlikon sets clear benchmarks within the solar industry – we are pleased to continue our successful partnership with them."

Oerlikon sets clear benchmarks in the solar industry



Oerlikon Leybold Vacuum

The segment Oerlikon Leybold Vacuum was able to achieve excellent results in every respect in 2006. Sales increased by 12 percent to CHF 430 million, thereby achieving more than three times the general market growth of around 4 percent. Orders received grew by 14 percent to CHF 444 million and orders on hand by 32 percent to CHF 59 million. EBIT grew from CHF -4 million to CHF 47 million compared to the previous year.

Growth clearly above market average and expansion of solutions business

Applications & products

Systems

- Fore vacuum pumps
- High vacuum pumps
- Consultancy and development of vacuum solutions
- Vacuum measurement Equipment
- Leak detectors
- Flanges
- Valves and fittings

Services

- After-sales services and training

→ www.oerlikon.com/vacuum

Key figures of Oerlikon Leybold Vacuum

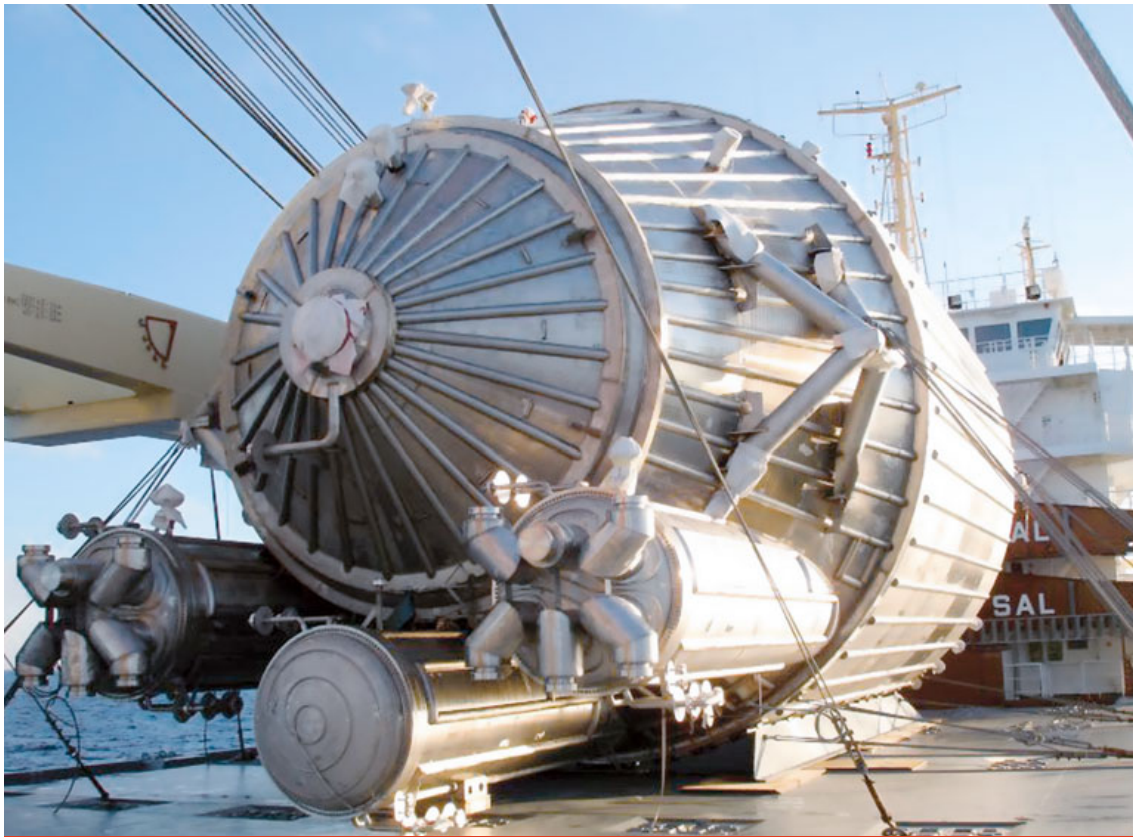
in CHF million	2006	2005	Change
Orders received	444	390	14%
Orders on hand	59	45	32%
Sales	430	383	12%
EBIT	47	-4	

“When it comes to winning new market potential in Europe, the USA and Asia, it is of prime importance to accelerate development and launch technology and product innovations.”

Thomas Babacan

Head of Oerlikon Leybold Vacuum
Senior Vice President





World's largest vacuum chamber

KATRIN

The Karlsruhe (Germany) research center is currently home to the most precise scales in the world. KATRIN (Karlsruher Tritium Neutrino Experiment) will for the first time determine the mass of the neutrinos created when an atomic

nucleus decays. The scale of this, the largest ultra-high vacuum chamber in the world, is enormous. Using a main spectrometer 10 meters in diameter and 24 meters long, measurements are to be taken under vacuum

conditions in a measurement range of 3×10^{-34} grams. Oerlikon Leybold Vacuum has developed the vacuum technology that this requires.

With highly specialized engineering expertise and far-reaching service know-how, Oerlikon sets new standards in the world of vacuum. A strong market revival, particularly in the process industry, successful implementation of programs to increase efficiency in customer support, and consistent pursuit of product innovation – these are the cornerstones of the above-average growth and high profitability in this segment.

Oerlikon Leybold Vacuum, Systems

The efficiency enhancement program that was launched in 2005, referred to as "Operational Excellence", came to a conclusion in the middle of 2006. The aim was to improve the cost structure and increase efficiency and the results are there for all to see. The break-even point was lowered significantly by a comprehensive series of measures covering marketing and sales, administration and product development. Productivity was increased by improved utilization of capacity, combined with beneficial effects from

global sourcing. Improved processes and a respectable increase in profitability enabled the Systems business to greatly strengthen its position in all regions and areas of application in 2006. The SCREWLINE range of oil-free pumps was, as before, one of the biggest selling products with which Oerlikon Leybold Vacuum was able to tap into new areas of application, in the process industry in particular, and to achieve significant market shares, especially in Asia and the USA. Sales for this product range were more than doubled in 2006.

Oerlikon Leybold Vacuum was able to develop its technological position through a range of innovations. The Phoenix L leak detector, newly launched on the market, has had great success; in the measuring sector, the segment introduced a combined measuring instrument which brings together two different measuring principles; the tried-and-trusted RUVAC fore vacuum pump range has been completed by the addition of explosion-protected versions (ATEX).

The market launch of the MAG W 300 turbomolecular pump in the fourth quarter marked the successful beginning of a wide-ranging product offensive with a completely newly developed, revolutionary generation of magnetically levitated turbo pump systems. The pumps in the MAG W 300 range are particularly suitable for oscillation-sensitive applications of analysis technology, thin-film technology, electron microscopes, research, development and similar technically demanding and forward-thinking applications. Its stable operation provides the highest pumping speeds and excellent compression rates in a compact design and in any installation position. Additional flexibility is provided by the option to install the pumps with an integrated converter or to choose a separate converter as a table-top unit.

On the basis of these leading products, Oerlikon was able to win and advance significant major orders for research and development projects from leading institutions in fundamental, laser and space flight research.

Milestones in 2006

- Oerlikon Leybold Vacuum achieves market leadership in Taiwan in vacuum solutions for display assembly (back-light projection)
- Major market success in Asia through several large orders for the SCREWLINE SP630 oil-free screw pump for glass coating
- Successful market launch of the magnetically levitated MAG W 300 turbomolecular pump as the first system in a completely newly developed generation of pumps
- Realizing new potential in the solar industry through the expansion and specification of the product portfolio
- Order from the CIRA (Italian Aerospace Research Center) major research institute in Italy to develop a vacuum chamber for space flight simulations

- Order from the CERN research institute in Switzerland for the vacuum systems of the world's largest particle accelerator (Large Hadron Collider)
- Supply of the evacuation technology for the world's largest vacuum chamber to the fundamental research center in Karlsruhe

Outlook

Oerlikon Leybold Vacuum expects continued stable growth for 2007. Key to winning new market potential in Europe, the USA and Asia is the accelerated development and launch of leading technologies and product innovations. So for example, the platform for the MAG molecular pumps is being expanded with additional systems for analysis and research. New product lines will also provide a powerful sales impetus in ultra-high vacuums and cryotechnology (low-temperature technology). Increasing industrial investment in analysis, research and development continues to have a positive effect on the demand for innovative vacuum solutions.

Oerlikon Leybold Vacuum, Services

In order to further develop and permanently expand its Service and Consulting business, Oerlikon Leybold Vacuum launched an international Customer Care Program in the first half of 2006 for the individual care of complete vacuum systems ("service all under one roof").

For customers who have a significant base of vacuum pumps installed, this involved identifying the actual need for service and maintenance using a customer-specific analysis. The result is that customers receive a maintenance package tailored to their needs, which may also include the maintenance of third-party products.

Increased investment and innovation in tailored after-sales services and training led to excellent results in the second half of the year. We were able to agree long-term contracts with big-name clients such as Seagate (storage media), Osram and Sylvania (lighting systems) and ABC Fuel (automotive).

CERN

CERN in Geneva is the world's largest research institute for particle physics. The Large Hadron Collider (LHC) is currently under construction. This is a so far unique particle accelerator. As from the beginning of 2007, within a circumference of 27 kilometers, proton rays will be

accelerated to nearly the speed of light by means of supra-conductive magnets and will then be caused to collide. Such tests will require a high vacuum and without suitable vacuum technology, the particles which have been accelerated to top energy levels cannot reach their target. With the

use of vane type rotary pumps, leak detectors, valves and tailor-made, partially mobile pump systems, Oerlikon is involved in the search for the very smallest of particles.

World's largest particle accelerator with Oerlikon vacuum pump



High level of utilization and efficiency in the production sites

Operational Excellence

In 2006, Oerlikon Leybold Vacuum introduced a cost reduction program under the name of "Operational Excellence", which also included

a reorganization of its manufacturing and led to a considerably improved level of utilization and efficiency of all production sites.

SCREWLINE pump

The SCREWLINE screw type vacuum pump is among the most successful products of Oerlikon Leybold Vacuum. It requires no greasing and very little maintenance.

The sales and service support in the growth market of Asia was also expanded by the addition of new maintenance lines in China, Taiwan, Japan and Korea as well as the opening of a service center in India. The creation of a new competence center for cryotechnology in Dresden (Germany) enabled us to provide a location close to the customer with a comprehensive service range. With 23 service locations of its own as well as a network of qualified agents, Oerlikon Leybold Vacuum currently has access to the world's largest sales and advice network in this sector.

Milestones in 2006

- Introduction of the Customer Care Program and its first successes in contractual agreements with big-name clients
- Expansion of service competence in Asia through additional capacity and locations
- New competence center for cryotechnology in Dresden with proximity to key customers and comprehensive services

Outlook

Oerlikon expects the service business to continue to grow in 2007. We aim to win new customers through increased sales campaigns and by adding service for third-party products to our range.

Oerlikon Saurer Textile

In the financial year 2006, this segment, with its five Business Units, achieved new orders of CHF 2.3 billion. This is 37 percent higher than the prior year total of CHF 1.7 billion (adjusted for acquisitions and currency effects plus 25 percent). At CHF 2 billion, sales were 13 percent (adjusted 3 percent) over the prior year. At the end of the year, orders on hand stood at CHF 825 million, the highest level ever achieved.

Oerlikon Saurer Textile is a worldwide total solutions provider in the field of textile machines and equipment

Applications & products

Fibers & Nonwoven

- Staple fiber plants
- Nonwoven plants
- Carpet yarn plants

Filaments

- Filament yarn plants
- Texturing systems

Staple Yarn

- Spinning preparation systems
- Rotor spinning systems
- Ring spinning systems
- Winding systems

→ www.oerlikon.com/textile

Twisting & Embroidery

- Twisting systems
- Embroidery systems

Special Parts

- Components for the textile industry

Key figures of Oerlikon Saurer Textile

in CHF million	2006	2005	Change	11-12/2006*
Order intake	2 257	1 651	37%	398
Orders on hand	825	611	35%	825
Sales	2 044	1 815	13%	438
EBIT	76	97	-22%	24

* The data for November/December 2006 is consolidated in the figures of the Oerlikon Group.

“The high level of orders on hand, the consistently good state of the most important textile markets and the increasing effects of the Oerlikon Saurer Textile growth program, all mean that we can expect to see a higher sales in 2007. By continued integration in the Oerlikon Organization, technological and economic synergies will continue to exploit the potential of the Oerlikon Saurer Textile business segment.”



Dr. Carsten Voigtländer
Head of Oerlikon Saurer Textile
Executive Vice President



A rapidly developing market in China

New premises in China

In Suzhou, southern China, Oerlikon Saurer Textile has opened its largest site in the world. At more than 120 000 square meters in size,

it employs around 1 000 people to produce machines from the whole product range. Suzhou also provides a base for sales, service and administration for the whole of the region,

with over 1 800 employees in China. With the opening of four further sales offices, Oerlikon Saurer Textile is making swift progress with market development in China.

Oerlikon Saurer Textile's customers benefit from a life-cycle partnership along the entire value-added chain, from plant design, via start-up, to a comprehensive after-sales service. The high number of orders on hand, the consistently good state of the most important textile markets with the announced extension of the State program of support for investments in India and Turkey, and the increasing effects of the Oerlikon Saurer Textile growth program, all mean that we can expect to see a higher sales in 2007. By continued integration in the Oerlikon Organization, technological and economic synergies will continue to exploit the potential of the Oerlikon Saurer Textile business segment.

Fibers and Nonwoven

The Oerlikon Fibers and Nonwoven Business Unit, with the product brand Oerlikon Neumag, is market leader for production plant for BCF carpet yarn and synthetic staple fibers and offers the world's largest technology portfolio for nonwoven production. With sales of 2006 the sector just failed to match the excellent level of the prior year.

Based on increased demand from Turkey and the USA, the business unit was, however, able to maintain a high market share of 75 percent and to increase its sales for BCF plant. In the field of staple fiber plant, a fall in investments, particularly in the primary market of China, led to substantial drops in sales, as against an increase in sales for nonwoven plant.

Milestones in 2006

- Oerlikon Neumag acquired projects in the important nonwoven production processes Spunbond, Airlaid and Carding and successfully positioned itself as a total solutions provider.
- At the end of July, Oerlikon Neumag opened the applications technology College in Linz, Austria with a full range of nonwoven production plant, bringing together the technologies of the acquired companies FOR, Autefa and Fehrer for the first time.
- With the Italian nonwovens producer Albis, Oerlikon Neumag concluded a contract for the world's largest nonwoven spinning plant (production width: 7 meters). This innovative plant complex sets new technological standards for productivity and efficiency.

- At the German site of Neumünster, Oerlikon Neumag opened a fully integrated development center for carpet production (Carpet Competence Center), in which it works on its own and custom-specific product developments.

Outlook

Overall in 2007, increased sales is expected. Low levels of demand for BCF plants is likely to be compensated by a slight increase in demand for specialty fibers. The new plant technology in the field of nonwoven will have a positive impact on demand and market position in this segment, as will the continuing integration of the technologies of FOR, Autefa and Fehrer.

Filaments

With a market share of 40 percent, the Filaments business unit, which includes the brand Oerlikon Barmag, is world leader for the spinning plant markets for nylon, polyester and polypropylene, and for texturing machines. In the texturing business, the focus was on China, as per the prior year. With new sites in China and other important Asian markets, the service infrastructure was given a considerable boost.

Milestones in 2006

- Advances in the mid range segment: the new COCOON texturing machine from Oerlikon Barmag has gone down particularly well on the Asian market, and has already been delivered to leading customers.
- Pioneering work in FDY (Fully Drawn Yarn) production technology: Oerlikon Barmag presents the first ever 24-end technology for filament spinning, recording a high share of the market.
- Oerlikon Barmag was able to offer completely new solutions in the technical yarns field, which open up new dimensions in the processing of filaments with ultra-coarse yarn structures in particular.

The high number of orders on hand and an expected investment boost in the Chinese market give rise to expectations of an increased sales in both the spinning segment and in the market for texturing plant, and of an increased market share for the year. In the Technical Yarns business, the product strategy brought in 2006 offers immense potential, particularly in western markets. Oerlikon Barmag's total solutions competence in the process chain is a particular unique selling point.

Chil-Sung FiberTech (CSFT):

The South Korean textile producer Chil-Sung FiberTech (CSFT), with sites in Asia and America, is a specialist in polyester and nylon texturing. When putting together a new site in South America, CSFT decided to invest in new COCOON texturing machinery from Oerlikon Barmag. The machinery won them over

Staple Yarn

The Staple Yarn business unit, with the brands Oerlikon Schlafhorst, Oerlikon Zinser and Oerlikon Jinsheng, is the world leader in the production of staple fiber yarns. High demand for exacting technology solutions generated a very high volume in the financial year 2006, particularly in the winding machines segment. After the demise of the Multifiber Arrangement, which set export quotas for textiles and yarns, increasing quality requirements for plant, particularly in China and India, led to high levels of investment in modern ring spinning and winding systems. In the second half of the year, demand for rotor spinning machines also increased substantially in Asia, particularly in India and Turkey.

Milestones in 2006

- A record year for winding machines: with its "Autoconer" plant, Oerlikon Schlafhorst set the world-wide benchmark once again and broke its 2005 record volumes for order intake and sales.
- Success through efficiency: Oerlikon Zinser's newly developed ring spinning machine, Zinser 360, was launched successfully, thanks to its excellent price-performance ratio.

with its low energy output and excellent price-performance ratio in the mid range field. I.T. Joo, Chairman of CSFT, says: "The introduction of COCOON is an important step forward for Oerlikon Barmag. The plant is ideal for our requirements and has enabled us to move forward efficiently in building our new premises."

- With the launch of the Autocoro 360-408, Oerlikon Schlafhorst offers the world's longest automatic rotor spinning machine.
- The launch of the new semi-automatic rotor spinning machine BD 380 made a substantial contribution to success in 2006.

Outlook

With a healthy order book and high levels of new orders, the Staple Yarn business unit is looking forward to the year 2007 with great positivity. The continuation of state support programs, such as the TUF (Technology Upgrading Fund) Program in India, are also promising for a sustained high level in the second half of the year. The consolidation of the former Saurer business to the newly-formed Staple Yarn business unit will serve to improve Oerlikon Saurer Textile's market presence and customer orientation still further.

Twisting and Embroidery

The Twisting and Embroidery business unit, with the brands Oerlikon Allma, Oerlikon Volkmann, Oerlikon Melco and Oerlikon Saurer, covers the process of yarn twisting and the processing of yarn into textile works of art (Embroidery).

Both areas returned positive results in the financial year 2006.

COCOON – Oerlikon Saurer Textile sets new quality standards



Milestones in 2006**Twisting**

- With the launch of the highly efficient cabling machine, Oerlikon Allma CC-Easy, which is predestined for use in mass markets, the position of world market leader in the tire-cord fabric segment was achieved. It has already attracted an initial bulk order for 40 machines.
- Thanks to a breakthrough in the specific motor spindle technology, Oerlikon was able to increase its market share for motor spindles to 30 percent in the carpet market.
- In the clothing staple market segment, Oerlikon succeeded in winning back the leading position in the primary markets of India and China from the local competition.
- With a new glass filament ring twisting machine, Oerlikon Volkmann managed to enter the attractive glass filament market and has already finished its first bulk order.

Embroidery

- Successful business development in the field of embroidery received significant support from the entry of the Oerlikon Saurer Epoca 05 2-1, which is up to 20 percent more efficient onto the market.

- Particularly worthy of mention is the newly launched laser technology, which, in combination with the embroidery process, takes the customers' design options into new dimensions.
- With the introduction of the Oerlikon Melco AMAYA XT modular multi-head embroidery machine with optimized application, double-figure growth rates were achieved both in the USA and on the international markets.

Thanks to innovative and market-driven products, solutions and services, Oerlikon Saurer Textile has been able to consolidate and build upon its leading market position, also in the current financial year.

Special Parts

The Special Parts Business Unit consists of Oerlikon Brands which are active and successful internationally: Accotex, Daytex, Enka Tecnica, Heberlein, TEMCO and TEXParts, which specialize in the development, production and sales of high-tech components and systems for textile machines. Through extensive knowledge and understanding of the yarn manufacturing process, Oerlikon Special Parts is extremely well-positioned to serve OEMs and end customers alike. The business area is present worldwide through exclusive agency representation, and the principal markets are Europe and Asia.

Milestones in 2006

- Extension of the product portfolio, with the acquisition of the leading component manufacturer TEMCO (February 1, 2006) and Accotex (July 1, 2006).
- In response to competition from Asian component manufacturers in particular, Oerlikon Special Parts was obliged to make concessions in the report year. Despite strong pressure on price, it was still possible to increase sales, mainly in China, India and Switzerland.

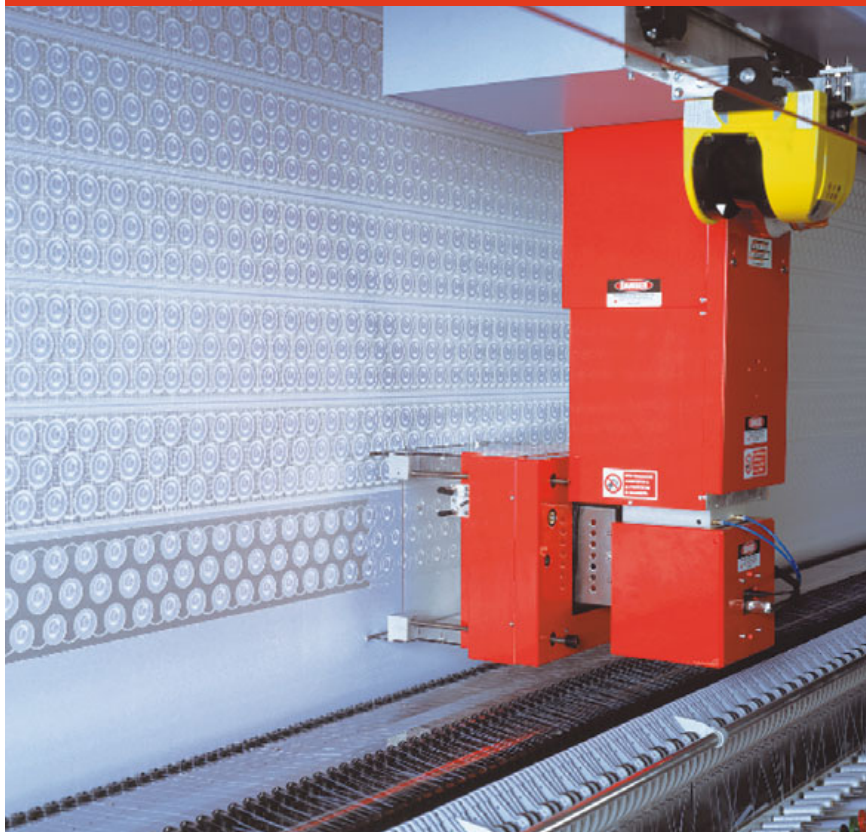
Outlook

According to our forecast, the sales for 2007 in the first half of the year will be similar to levels of the last few months, with a slowdown in demand likely in the second half of 2007. With its individual total solutions, Oerlikon Special Parts will increase its customer proximity and customer loyalty; here again, the greatest growth markets will be China and India.

Leemann Stickerei AG, Switzerland

The use of laser technology in embroidery used to be limited to particular work processes. By integrating lasers in embroidery machines and processes, Oerlikon Saurer Textile has managed to tap the full potential of speed and design. Thomas Leemann, the owner of

Switzerland's Leemann Stickerei AG: "First of all, we only thought about specific individual advantages, such as complex contour cutting. Since then, we have discovered undreamt-of possibilities, and so have our designers."

Laser technology opens new dimensions in embroidery

Oerlikon Graziano Drive Systems

Following the acquisition of Fairfield Manufacturing Inc. in February 2006, Oerlikon Graziano Drive Systems is now the international market leader for special transmissions, complete drive systems, planetary gears and loose gears, with sites in Western and Eastern Europe, the USA, India and China. Sales increased by 52 percent to 936 million CHF.

International market leader through the acquisition of Fairfield Manufacturing Inc.

Applications & Products

Gears & Components

- Agricultural vehicles
- Construction machinery

Automotive Transmissions

- High-performance cars
- All-wheel vehicles

Off-Highway Drivelines

- Construction machinery
- Agricultural vehicles
- Material handling
- City buses
- Commercial vehicles

Oerlikon Fairfield Drive Systems

- Mining and surface mining
- Railway
- Marine applications
- Industrial and special applications

→ www.oerlikon.com/drivesystems

Key figures of Oerlikon Graziano Drive Systems

in CHF millions	2006	2005	Change	11-12/2006 ¹
Orders received	936	615	52%	154
Orders on hand	–	–	–	–
Sales	936	615	52%	154
EBIT	81	49	67%	14

¹ The data for November/December 2006 is consolidated in the figures of the Oerlikon Group.

“We are now a global player, undisputable world market leader in the gearing components field, by size and volume, by range of technologies and solutions, by manufacturing presence.”

Dr. Marcello Lamberto

Head of Oerlikon Graziano Drive Systems
Senior Vice President



“Oerlikon is like a catalyst for us. Its worldwide presence, extensive and varied know-how and the strong brand identity have clearly strengthened our opportunities.”

Gary Lehman

Head of Oerlikon Fairfield Drive Systems
Senior Vice President





Oerlikon Graziano Drive Systems supplies top-performance transmission systems for luxury and sports cars

Aston Martin Lagonda Ltd.

Aston Martin Lagonda Ltd. is one of the most renowned sports car manufacturers. The vehicles developed by the company are legendary and enjoy cult status. Oerlikon Graziano Drive Systems is supplying the

transmission components for the latest generation of these high-performance cars (DB9 and V8 Vantage). "In just 14 months – from the assignment of the order to production – Oerlikon Graziano developed

the rear differential for the DB9. An excellent performance, which was a major contributing factor in realising our objectives", says Dr. Brian Fitzsimons, Chief Engineer, Aston Martin Powertrain.

Due to an expanded product range and the combined know-how in research and development, Oerlikon Graziano Drive Systems is well prepared for strong organic growth in specific segments of the automobile sector, in particular also in the off-highway market. The key figures for the 2006 financial year show sales of CHF 936 million. This represents an increase in sales of 52 percent over the previous year.

Oerlikon Gears & Components

In 2006, the Oerlikon Gears & Components unit was able to further consolidate its leading position in the agriculture and construction industry markets and at the same time gain shares in the mining and surface mining, construction equipment, rail systems and aerial work platforms sectors. A decisive factor in this was the development of customer-specific all-in-one solutions and successful positioning in countries with strong growth. For example, sales in core business on the Indian market increased by more than 10 percent. Promising opportunities also opened up as a result of a push into new customer segments, such as maritime drive systems and transmission components for motorcycles.

Milestones in 2006

- Signing of important long-term contracts with leading manufacturers in the agriculture, mining and surface mining industries, such as General Electric, CNH and JCB.
- Orders to develop prototypes for potential customers in the growth markets of Russia, Belarus and Turkey.
- Decisive extension of production and market position in Asia through the expansion of the plant in Delhi (India) and a new manufacturing site in Suzhou (China).

Outlook

In 2007, the Oerlikon Gears & Components business unit expects continued sustainable and increasing growth in the key markets of agriculture and construction industries, mining and surface mining, construction machinery and rail drive systems. The targeted strengthening and development of the market position in existing and new customer segments through innovative, complete product and engineering solutions form a sound basis for continued successful business development.

Oerlikon Automotive Transmissions

The Automotive Transmissions unit develops and produces top-quality transmissions and drive systems for the specific submarkets of luxury vehicles, sports cars and all-wheel vehicles in the global automobile industry. Following a period of consolidation and process optimization in 2005, this business unit was able to successfully position itself in 2006 as a supplier of key systems for complex, electronically controlled transmissions.

Milestones in 2006

- Successful start to transmission production for the new Aston Martin V8 – which is already registering great success on the market.
- Completion of important development programs, including those for the automatic and manual transmission of the new high-performance Audi R8 sports car and for the rear differential of the Maserati Quattroporte Automatica.
- Signing of a contract with a leading automobile manufacturer to develop a transmission system for all-wheel vehicles.

- Further progress in the construction of prototypes for a global all-wheel drive platform for General Motors.
- Development of a continuously variable transaxle for the Ferrari 599 GTB.

Outlook

The positive market trend in luxury and sports cars as well as in all-wheel drive vehicles will continue in 2007. Oerlikon Automotive Transmissions will push on with technological advances in these segments through a strong commitment to innovation and expects to see clear growth in sales in the coming business year.

Oerlikon Off-Highway Drivelines

In the Oerlikon Off-Highway Drivelines unit, Oerlikon focuses on leading expertise in drive technology for special commercial vehicles for the agricultural and construction industries as well as goods and passenger transport. The targeted development of the product and service portfolio into a comprehensive supply structure for all-in-one solutions led to very good operating results in 2006 and opened up access to new market sectors. Against the backdrop of favorable economic development and by winning new project orders, this unit achieved significant increases in sales in the 2006 reporting year.

Milestones in 2006

- Important development and supply orders from Terex, the global market leader in excavators and cranes.
- Long-term contract with Club Car (Ingersoll Rand) to supply transmission systems for gas-driven golf and transport vehicles.
- Decisive extension of production and market presence in Asia through the expansion of the plant in Delhi (India) and a new manufacturing site in Suzhou (China).
- Significant increase in margins through the successful transfer of the large-scale production of drive units to India.
- Conclusion of a contract with JCB for the long-term supply of drive technologies for construction machinery.

Outlook

Growth in the sectors of construction and earth-moving machinery as well as agricultural commercial vehicles and material handling will remain stable in 2007. In Asia, there is noticeable growing demand, in particular for drive systems for low-floor buses. Here too Oerlikon Off-Highway Drivelines is developing and exploiting market opportunities through leading technology and comprehensive service solutions.

CNH

The CNH Group is the world leader in the manufacture of agricultural and construction machines. When it comes to developing drive systems, CNH has demanding requirements of its supplier partners with regard to capacity, productivity and quality. Alberto Leonardi, CNH Senior Director Purchasing, says:

"Even when we make complex major orders for transmission systems, Oerlikon Graziano Drive Systems ensures that we have the highest levels of productivity and quality and with comprehensive service – and that's anywhere in the world!"

Highest level of productivity and quality



Oerlikon Fairfield Drive Systems

Oerlikon Fairfield Drive systems is a world leader in the manufacture of planetary gears, loose gears and custom designed transmission systems. Its major end markets include construction, agriculture, mining and surface mining, railway, offshore drilling, and aerial work platforms. In 2006 the business unit made a major advancement in business development becoming a provider of "total engineering solutions". Its merger with Oerlikon Graziano Drive Systems opened new market opportunities in Eastern and Western Europe as well as in Asia. As a result, in 2006 new orders received rose by 313 percent, sales increased by 94 percent in the oil and energy market segment, and by 31 percent in railway drive components.

Milestones in 2006

- Major expansion of its position in the oil and energy market as the preferred supplier of gear products to the off-shore drilling segment through a supply and development contract with Gusto MSB for high quality drive systems for oil drilling platforms.
- Supply orders from Haulotte, Europe's leading manufacturer of aerial work platforms. The decisive factor in winning this order was the European presence of Fairfield since 2006.
- Establishment and implementation of a sales office in the Asia-Pacific region.
- Agreement of long-term contracts with companies such as SPX and Sauer-Danfoss.

Outlook

In 2007, Oerlikon Fairfield Drive Systems expects continued and sustainable growth in the energy sector, in mining and surface mining and in drive components for rail systems. The consistent strengthening of its market position in existing and new sectors through a broad range of new, highly specialized products and total engineering solutions forms a stable platform for continued successful business development.

Hydraquip

Innovative Oerlikon Fairfield planetary drive systems are used to raise and lower oil drilling and exploration platforms out at sea. Mr. Mel Victory of Hydraquip Corporation states: "Oerlikon Fairfield Drive Systems meets the demanding performance needs of the lift- and

workboat industry. Fairfield's S60 planetary drive offers improved operating performance and longer life. Knowing that the experienced, expert team of Oerlikon Fairfield Drive Systems is available at all times provides the lift boat owners and operators with a strong sense of security".

High performance by Oerlikon Fairfield Drive Systems



Oerlikon Components

With an 8 percent increase in sales from CHF 416 million (2005) to CHF 450 million (2006), an operating profit of CHF 59 million and an EBIT margin of 13 percent, the Oerlikon Components segment achieved good results in 2006. This includes the operating figures of the former Oerlikon Esec Semiconductor segment (now Assembly Equipment).

Winning customers and expanding market segments with new innovative solutions

Applications & Products

Optics

- Projection displays
- Live science
- Laser material processing
- Optical packaging
- Automotive
- Lighting

Space

- Payload fairing
- Satellite structures
- Scientific instruments
- High-precision mechanisms
- Electro-optical systems

Solutions

- Customized plants, machines and components for Oerlikon business units and external customers

Assembly Equipment

- Die Attach
- Wire Bonding

Key figures of Oerlikon Components

in CHF million	2006	2005	Change
Orders received	436	423	3%
Orders on hand	195	210	-7%
Sales	450	416	8%
EBIT	59	-8	

→ www.oerlikon.com/components

“In the newly formed Oerlikon Components segment we as technology leader combine our proven know-how in several disciplines such as project management, operations and supply chain management. This is a good basis for growth, customer focus and at the same time improves our customer support levels.”

Kurt Trippacher
Head of Oerlikon Components
Senior Vice President





Precision components made by Oerlikon Space

Payload Fairings made by Oerlikon Space

Oerlikon Space supplies payload fairings for all Ariane-5 rockets. These protect the satellite during launch and are later jettisoned at a height of 100 km, a process calling for extreme precision. NASA has also started to use payload fairings from Oerlikon Space, for example on its recent Pluto mission.

Within the Oerlikon Components segment the two business units Oerlikon Assembly Equipment and Oerlikon Solutions shared above average growth throughout the year. All the business units managed to improve their market positions with innovative new solutions.

Oerlikon Optics

The business development of Oerlikon Optics was on the one hand characterised by intense price pressure in the Projection Display sector, which led to a decrease in sales; on the other hand, there was strong growth in Advanced Components in the important sub-markets of Consumer Electronics (MEMS), Life Sciences (Biochips) and Automotive (night vision systems). With a view to creating new prospects for Oerlikon Optics in the medium and long term, the acquisition of UK company Exitech further expanded our know-how in laser technology and it was incorporated from an organizational perspective in this business unit. Oerlikon Optics also makes this competence available to other business units, such as Oerlikon Solar. Together with our holding strategic investment in Novalux (USA), which develops innovative laser based light sources for projection systems, this has given birth to a new area of competence within Oerlikon, simply called "Laser".

The development of the next generation of laser-based projection systems is all going according to plan.

Milestones in 2006

- By acquiring shares in its American technology partner Novalux, Oerlikon invests in the future market for laser-based projection technology, which is gaining ground in the Consumer Electronics unit (pico projectors, Laser TVs) and in the automobile industry (head-up displays). Further development of Novalux technology by Oerlikon Optics reduces the production costs of laser-based projection systems by up to 20 percent. Initial prototypes were supplied at the end of 2006.
- Oerlikon acquires UK-based laser specialist Exitech and thereby gains leading knowledge in the growing laser micro-material processing sector. Organizationally, Exitech is part of the business unit Optics, but one of its main areas of application is the manufacture of solar cells (Oerlikon Solar).
- Sales in life science substrates (biochips) increases by 33 percent compared to the previous year.

- Oerlikon expands its production site in Shanghai, where key components for the series production of MEMS-based microdisplays are produced.

Outlook

2007 will see the decisive impetus for the success of laser-based projection systems, when the first products (Laser TVs, pico projectors) come onto the market. In the Advanced Components segment, Oerlikon is concentrating on the Optical Packaging, Imaging and Automotive sectors, where sustainable double-digit growth rates are expected. There will be high organic growth from using Exitech laser technology on the photovoltaic market – both for Oerlikon Solar and in third-party customer business. In the projection display market, which continues to be subject to pressure on price and margins, Oerlikon aims to stand out from the competition through targeted innovations and increased service initiatives.

Oerlikon Assembly Equipment

In 2006, the market for Assembly Equipment had a volume of CHF 4.4 billion, corresponding to an increase of 16 percent compared with the previous year. A considerable improvement in the economic climate led to increased demand in the semiconductor industry. Oerlikon Assembly Equipment benefited from this development in 2006 and achieved an increase in sales of 23 percent from CHF 192 million to CHF 236 million. This growth in sales clearly exceeded the market average. Orders received increased from CHF 206 million to CHF 222 million. The reasons behind these excellent operating results are, in addition to strong market demand, excellent ability to supply, short lead times and the successful market launch of new products. Optimized manufacturing processes and improved flexibility at the Cham site as well as the transfer of Wire Bonder production to Singapore resulted in improved efficiency and, combined with a strong increase in sales, in higher yields.

Milestones in 2006

- The Die Bonder 2008 hS^{plus} platform introduced in 2005 is a resounding success on the market. With an increased production output of up to 40 percent owing to a new pick & place module and the integration of a new, faster vision system, it provides considerable added value for the customer. Further innovative solutions, in particular in the sector for thin chips for the production of stacked die, confirm Oerlikon's market leading position in the die bonder sector.
- In the second quarter, Oerlikon Assembly Equipment introduces the Wire Bonder 3100^{optima} with new high-performance technology (double-gripper indexer) and the world's fastest changeover time. This increases productivity by up to 30 percent. This is a perfect complement to the existing Wire-Bonder product family which is now in excellent shape for 2007.
- Oerlikon Assembly Equipment transfers Wire Bonder production to Singapore with great success and in doing so continues to expand its global presence.

Outlook

Based on a growth forecast for the chip market, Oerlikon Assembly Equipment expects a seasonal weakening of the back-end equipment market in the first half of 2007. As the maximum output of chip manufacturers is always in the fourth quarter as a result of Christmas trading, major investment in systems is expected from the semiconductor industry in the second half of the year.

Oerlikon Solutions

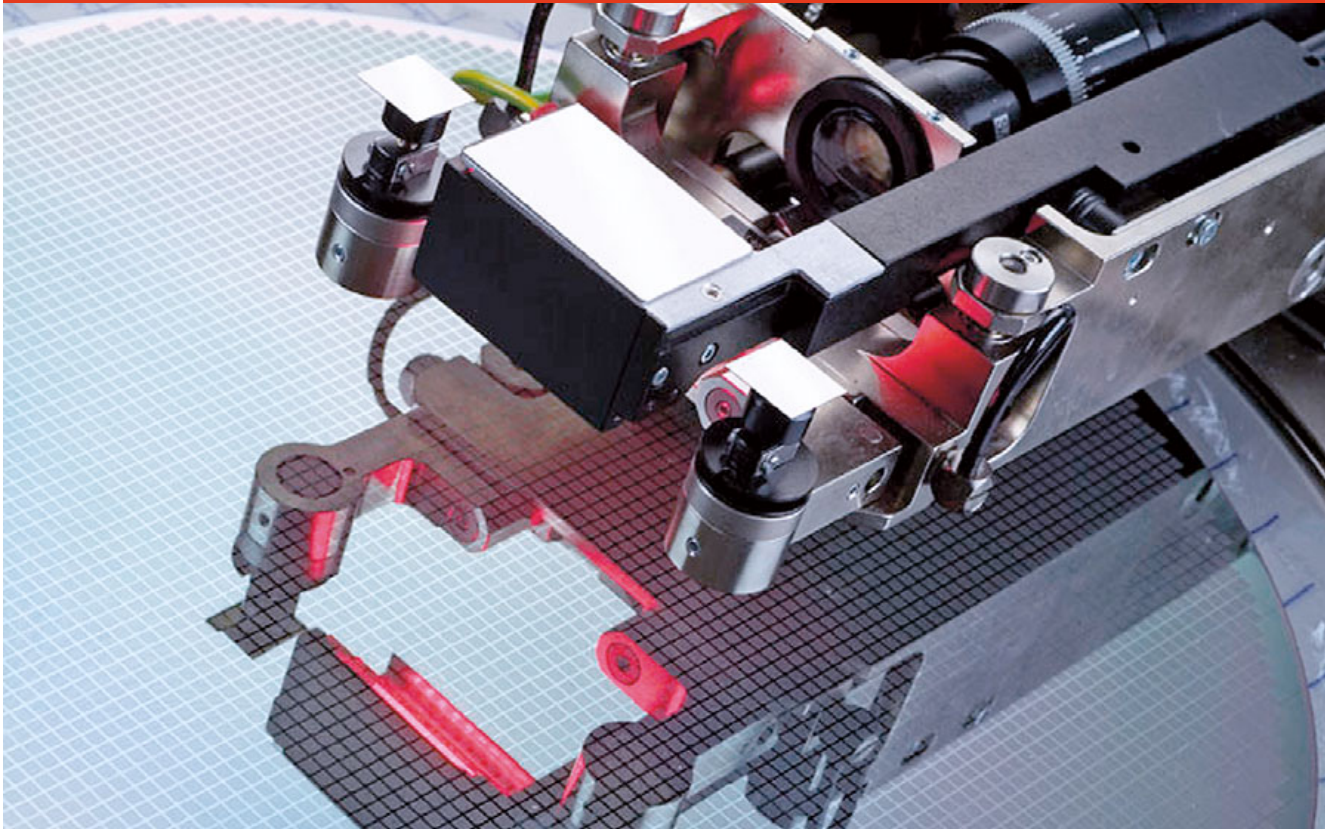
Oerlikon Solutions (formerly Mecanovis) is engaged in the specialist construction of turn-key systems, mechanical components and high-vacuum systems is on internal supply to Oerlikon business units. A main focus of Oerlikon Solutions is the supply of Oerlikon business units. The strategy of also positioning this unit as an outsourcing service provider in third-party customer business paid dividends in 2006, and it was able to win several major customers among them a leading producer of optoelectronic systems. Orders received showed a marked increase in comparison with the previous year. Among the reasons for these excellent results was a greater than proportional increase in business activity for Oerlikon Solar and improved diversification in the customer portfolio.

Micronas

A fruitful relationship has been ongoing between Micronas, the worldwide producer of semiconductors and Oerlikon Assembly Equipment – both companies derive long-term benefits from each other's know-how. Oerlikon develops solutions to match its customers' needs closely. "It is in particular those revolutionary developments which assist us greatly with

the achievement of continuous improvements in terms of quality and cost efficiency and thus with securing the sustainable competitiveness of our European manufacturing sites", says W. Lowinski, General Manager and Vice President Operations Backend, when explaining the high customer benefits.

Oerlikon Assembly Equipment supports its customers' sustainable success



Milestones in 2006

- Integration of Mecanovis in the new Oerlikon group and renaming as Oerlikon Solutions AG.
- On-time delivery of the first turn-key production facilities for thin-film solar modules (KAI 1200).
- Successful start to strategic cooperation with Oerlikon Solar as a system supplier (sourcing, manufacture, assembly, function tests).
- Increasing business development with a key customer in the vacuum chambers, cooling plates and fasteners sector.

Outlook

Business development for 2007 shows a very positive trend. Group-internal orders from Oerlikon Solar and from third-party customers provide continued high-capacity utilization and a continuation of the growth trend.

Oerlikon Space

In the commercial space industry, the Space business unit is a world leader in the development and manufacture of payload

fairings for launch vehicles. Oerlikon Space saw increased demand in this key market by the end of 2006. The order to supply key components for the Galileo European Satellite Navigation System and the development partnership in the Small Geo space project for telecommunication satellites contributed to a stable business trend. In contrast however, in the institutional space market, various ESA programs were delayed. In the non-space sector, the market position was improved through mechanisms for lithography applications.

Milestones in 2006

- Following the successful launch of the Pluto mission, NASA also decides to use Oerlikon payload fairings for the transport of the Mars Science Laboratory planetary mission.
- Oerlikon Space wins the order for the solar array drive mechanisms (SADM) for supplying solar power to the first four Galileo navigation satellites.
- Successful launch of the first of three European METOP climate research satellites with leading technology from Oerlikon on board.

- Oerlikon Space becomes a syndicate partner in the Small GEO space project to develop small satellites in the telecommunications sector.

Outlook

In the institutional space market, Oerlikon Space expects stabilization of its market share at a high level in 2007. The Space unit also expects to see increased returns in the commercial space industry, in particular with market entry in European satellite communication, a marketing initiative for SADM solar technology in the USA and the Far East as well as the general expansion of business activities on the American space market. The non-space sector will receive positive growth impetus from the strategic partnership with Carl Zeiss SMT AG and an increased commitment in the aerospace industry.

Texas Instruments

High-tech corporation Texas Instruments produces MEMS-based microdisplays for the latest TV and projection technologies. Oerlikon Optics supplies key components for the new cost-efficient series production ("wafer level packaging"): coated glass panes with the highest precision surface structure, which seal the high-performance chips free of particles.

Vacuum chambers for various applications

In addition to leading suppliers of optical precision systems, global machine and plant engineering companies also use the know-how of Oerlikon Solutions for the production of high vacuum chambers. Subject to customer requirements, the services supplied by Solutions include the engineering and manufacturing sectors, from surface processing to vacuum cleaning and customer specific testing.

Coated glass panes with high precision surface structure**Longtime now-how from Oerlikon Solutions**

Employees

They are the driving force behind our innovation and growth, the foundation on which Oerlikon's leading position in the international high-tech industry is built. With passion, courage and flexibility of thought and deed, they develop products and solutions that shape the success of our customers. They march to the beat of the market and their common base is the Oerlikon corporate values: Excellence, Innovation, Teamwork, Integrity.

Oerlikon employs over 19 000 people from 48 cultures in 35 countries at 170 locations across the world

Development of employees

6434	2005
19267	2006



The successful development of the company led to an increase in staff in 2006. At the same time, with the successful restructuring of the company, 2006 saw the creation of around 200 new jobs. Oerlikon ensures the efficiency and performance of the global organization by centralizing the global function of Human Resources Management and by using targeted measures to recruit and develop employees.

The rebranding as Oerlikon and the reorganization of the company laid the foundations in 2006 for realizing our full potential. On the labour market, Oerlikon has a highly visible presence as a high-tech leader and is a very attractive employer for all job categories, whether technical or sales. The introduction of a common performance culture based on corporate values has quickly led to employees being able to identify more with the company and to better motivation. Tremendous synergy and inspiration resulted from cross-segment and supra-regional cooperation and knowledge networking.

The acquisition of Saurer has almost trebled the workforce to 19 000 employees. At the Global Leadership Meeting in January 2007, the senior management of

Oerlikon and of former company Saurer adopted the operational plan for the cultural and organizational consolidation of the company. A committed project team is coordinating the integration.

Corporate Human Resources

Human Resources Management was reorganized at group level in 2006, in order to manage efficiently the global transformation process of the Oerlikon Group and to ensure the sustainable efficiency of the company. The main tasks of Corporate HR are primarily the generation of added value in organizational performance in cooperation with our segments, the operational establishment and implementation of the HR business model taking into account our corporate values, the harmonization of organizational structures and working procedures, systematic employee development and the realization of staff potential including variable remuneration systems, as well as integration management following strategic acquisitions. Around 200 HR specialists around the world handle local implementation and support at segment and regional level. Leading systems for human resources management (SAP) and talent management (ExecuTrack) increase

the efficiency and transparency of the Group-wide HR organization.

Promoting technical apprenticeship and training

One of Oerlikon's clear aims is the development of technical occupational training in order to ensure the long-term availability of skilled employees. By 2009, the number of those undergoing training will increase by 20 percent. This year, Oerlikon Balzers Coating is offering 27 new apprenticeships. Major investment is expanding the technical infrastructure of the apprentice workshops in Trübbach.

At the Cham site, an occupational analysis has been carried out and the results confirm the effectiveness of the skilled training carried out so far. The number of apprentices to be recruited per year and profession remains constant – irrespective of significant market fluctuations. The number of trainees is set to rise again in the coming years to 30 (2007: 22). The excellent cooperation with Oerlikon Balzers occupational training is being extended.

Once again a trainee will be representing Oerlikon at this year's World Skills Competition in Japan. Oerlikon has a tradition of close cooperation with

recognized training institutes. That's why the German Chamber of Industry and Commerce carries out final examinations for the new Machine and Equipment Operator certifiable profession at Oerlikon Balzers Coating in Bingen, Germany.

Oerlikon Leybold Vacuum offers training at the Vacuum Academy at the Cologne site, where employees and customers can receive practical training in the different areas of application of vacuum technology.

Also Oerlikon Leybold Vacuum provides at the Vacuum Academy, Cologne, educational and professional development where employees and customers receive trainings in line with the stand usage in different ranges of application of vacuum technology.

The training center in Switzerland at the Balzers/Trübbach site last year trained over 2 000 employees at specialist technical courses and seminars. It should be emphasized that all these training activities are geared towards a needs-oriented and integral approach.

Systematic employee development

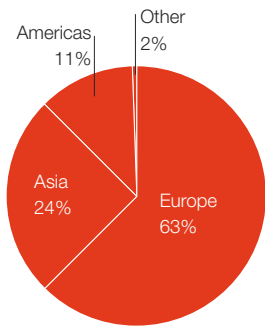
The Group-wide competence model, which was developed in 2006 on the basis of the corporate strategy, is at the same time the basis for almost all employee development measures – such as the Oerlikon Leadership Challenge Program for our operational and management talent. This program, along with the Global Oerlikon Trainee Program, serves as a recruitment pool. Here we recruit our management trainees for our enterprises worldwide.

Employee Management System (EMS)

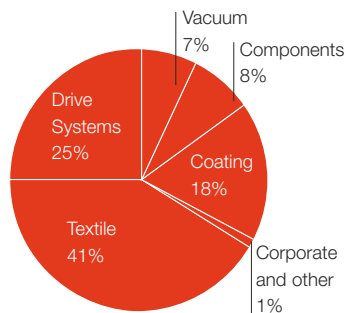
A web-based performance tool (Employee Management System) was introduced in 2006 to systematically record staff competencies and performance targets and combine them in a practical process. In a discussion between the employee and his/her manager, agreed targets, based on corporate aims, are made for the coming year, individual development

plans are drawn up and support measures (training, coaching, etc.) are defined. The performance documented in the EMS forms the basis for the management review at the end of the year. This enables the management to gain a transparent overview of the competencies and development potential of employees – vital data for the global deployment of staff, for fostering talent and for succession planning. Employees can make applications via the EMS or communicate their career needs and so manage their professional development towards their own aims. The first cycle started in 2006 and involved 600 management staff around the world.

Employee by region 2006



Employee by segment 2006





Oerlikon Leadership Challenge Program

Oerlikon Leadership Challenge Program is one of the central measures for the Group-wide development of our talented employees. Based on the Oerlikon competence model and corporate values, this enables us to develop a worldwide network of leaders, who all speak the same language when it comes to leadership and people management. Around 150 participants with leadership potential have gone through this very challenging program in the last three years. Mobilization is the key here – whereby we pay a great deal of attention not only to the transfer of knowledge and the provision of training platforms, but also to the application of the topics in practice. The success of the measure is assessed by a presentation to management at the end of the course by the participant.

Systematic employee recruitment

Employee marketing is becoming increasingly important. In 2006 our team was represented across the world at numerous important (university) fairs. Global online platforms enabled us to make contact with an international target audience.

Activities range from the presentation of the company in international job guides and relevant career magazines for those completing their studies through to partnership with important universities and institutes. The focus is on technology-oriented universities in each of our markets or growth regions, in order to meet the group's need for well-educated specialists.

Candidates have the opportunity to take up important positions in the medium term either via direct entry or the Global Trainee Program. Highly-qualified talent develops into its target position through on- and off-the-job training.

In the Global Trainee Program, selection is made using an Internet-based process, which includes a virtual team project, and finally leads to an international assessment center in Switzerland. Here around 50 graduates from 22 countries were assessed in person. Ten people undergo a 15-month long program, during which they support the different business segments of Oerlikon across the globe.

Growth and flexibility

At the end of the year 2006, Oerlikon had a stable and positive staff situation in all segments. Approximately 200 new jobs have been created. The Solar unit saw the strongest growth, where the number of employees increased by 60 percent to 130. Many units are still looking to recruit staff – some 250 new positions for scientists and assisting personell will need to be filled by 2008 in the Oerlikon research center alone.

**Knowledge transfer and cooperation:
real partnership**

**Together we achieve peak performance – internally and
with our customers**

Every day Oerlikon employees give their best in order to achieve outstanding performance. Mutual respect and cooperation form the fundamental elements of our corporate culture. This environment enables our employees to exchange knowledge and experience and efficiently utilize the synergies between the business units.



teamwork



= performance

Increasing value

Increasing share prices express a company's success. In 2006 we were able to more than triple the value of our company's shares.

Our employees' outstanding motivation and their close cooperation, both internally and with customers, represented a central factor in achieving this success.

Higher sales and lower costs led to a clear increase in EBIT in 2006.

Comprehensive transformation program successfully implemented.

With successful company development in 2006, the Oerlikon Corporation was also able to achieve substantial gains for its investors. Over the year, Oerlikon shares grew 204 percent from CHF 198 to CHF 603 and the market capitalization reached a level in excess of CHF 8.5 billion. Earnings per Share (EPS) also increased from 2005 levels, from CHF 1.43 for 2005 to CHF 23.44 for 2006. With the acquisition of Saurer, Oerlikon consolidated its position as one of the world's largest high tech corporation, and boosted its powers of innovation and growth rate with an extended portfolio.

In many ways, 2006 gave Oerlikon new direction: first of all, operating results have confirmed the merits of the strategy adopted of a centrally led, integrated high-tech industrial corporation; the implementation of the corresponding transformation program was a success (see also page 22). Secondly, the acquisition of Saurer increased the growth dynamic of the entire Group of companies. 2007 is set to see this above-average growth in sales and profit continue.

In order to achieve this goal, Oerlikon will use the following strategy:

- Growth through technological leadership and the development of innovative new solutions.
- Increased customer focus through regional expansion, expansion of services and close cooperations.
- High profitability through cost management with centrally managed businesses and efficient business processes.
- A single-entity approach as a globally integrated, transparent and efficiently organized corporation.

Successful implementation of transformation program

In order to implement the fundamental change in direction and restructuring of the former Unaxis into the new Oerlikon systematically and promptly, an extensive transformation program was set in place in the third quarter of 2005. More than 180 individual measures were centralized in four major areas (see diagram).



For the Corporate Headquarter and for each Business Unit alike, a detailed action program was developed, to increase margins, boost sales and reduce administrative costs. All of these measures were IT-supported, time-managed and steered by a Program Management Office (PMO). In 2006, all of the major component parts of the transformation program were completed. This gave Oerlikon the central foundation on which to adopt and pursue its new business strategy. In connection with the acquisition of Saurer AG, the transformation program was extended and re-implemented.

Innovative solutions

For Oerlikon as a high-tech industrial group, it is vitally important to differentiate itself from the competition with leading technological solutions and to provide its customers with economic advantages. This is the only way we can continue to generate sustained growth. In 2006, Innovations Management was streamlined to concentrate only on the projects with the best prospects. This led to drastically reduced lead times for product development and many new products on the market, many of which are revolutionary. These include manufacturing systems for thin-film solar modules (KAI 1200), the new P3e™ coating technology including the "INNOVA" equipment, production lines for Blu-ray-discs (INDIGO) or the new vacuum pump platform MAG W 300. In order to perfect its own developments, strategic investments or acquisitions were also entered into, such as the investment in the Californian

Novalux for the development of laser-based projection systems, and the acquisition of the UK laser specialist Exitech, for the processing of solar modules.

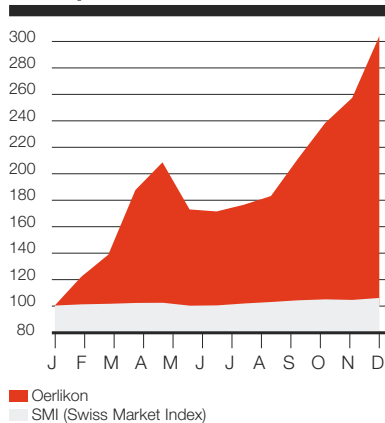
Strong customer focus and regional expansion

Oerlikon has increased its focus on its customers and their needs through numerous measures in 2006; the customer's voice continues to take top priority with Oerlikon. Oerlikon Balzers Coating was able to cement customer relations by creating specific in-house coating centers and expand its position on the American market with the acquisition of the US coating company Gold Star. The regional expansion of Oerlikon Balzers Coating and Oerlikon Leybold Vacuum through new coating and service centers also bring proximity to customers into the foreground. Oerlikon Saurer Textile has opened a new production site in the southern Chinese city of Suzhou and a further four sales locations throughout China, thereby strengthening its presence on the world's most important textile market. By moving production for Wire Bonder to Singapore, Oerlikon Assembly Equipment is now also within easy reach of its biggest customers. Another important instrument in increasing customer focus is joint development projects. This is another area in which Oerlikon started a range of initiatives in 2006, such as Oerlikon's cooperation with Philips and Sony in optimizing the production line for Blu-ray-discs (INDIGO).

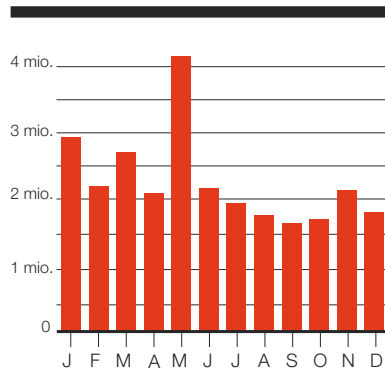
Higher margins through cost-efficiency and strategic pricing

A high level of profitability is important to Oerlikon not only in order to increase the company value, but also because as a high-tech provider it is important that we are able to make the necessary investments in new developments. In 2006 all of our segments increased in profitability – Oerlikon Leybold Vacuum was a particularly clear example of this, with an EBIT increase from CHF –4 million in 2005 to CHF 47 million in 2006. The corporation's EBIT rose in total from CHF 34 million in 2005, to CHF 329 million in 2006, which is equivalent to an EBIT-margin of 14 percent. Earnings per Share (EPS) thereby achieved an increase of CHF 1.43 to CHF 23.44, and the Free Cash Flow per Share (FCF) rose from CHF –9.6 to CHF 12.8. Major factors in this were the tight rein kept on the segments by the Corporate Headquarter, the introduction of central services, for example for IT and human resources, and the implementation of detailed efficiency programs in the business units. In various coating centers, for instance, productivity was increased by up to 30 percent. With the introduction of global sourcing, purchase volumes were centralized and better conditions could be negotiated with suppliers. Individual measures such as the reintegration of manufacturing in the area of wafer processing in Rochester, USA, also brought substantial cost savings. Strategic pricing according to specific customer needs also had a positive effect on margins.

Share performance 2006 in %



Trade volume 2006 number of shares



Common corporate identity increases transparency and visibility

The former eight units of Unaxis were rearranged into three segments according to key technology in 2006 and classified according to their system and service activities. They were augmented by the newly acquired Saurer Segments Textile and Graziano Drive Systems. This new segment structure, with its focus on customers, technology and markets, increases transparency and creates synergies among the business units. It thereby supports company growth and provides a flexible platform for the integration of companies acquired and for active portfolio management. This new management approach was embodied in the rebranding of Unaxis to Oerlikon. The new brand, with its core values of teamwork, excellence, innovation and integrity, stands for both tradition as a Swiss high-tech provider and for the new central tenet of "One Company". The individual business units mutually strengthen their visibility and the effectiveness of their marketing and distribution through a common corporate identity under a common label. Internally, Oerlikon acts as an integration point for employees and encourages cooperation across borders between units and countries.

Saurer AG

As a top worldwide provider of high-tech textile machinery and drive systems, Saurer AG fits perfectly into the Oerlikon Group. The takeover was an important milestone in the development of a technology-leading industrial corporation. There is potential for synergy in the areas of administration, research and development, and production, as well as market access. Saurer strengthens Oerlikon's worldwide customer base; particularly on the Asian market, where Saurer is established as a leading provider, with production sites in China and India. Saurer also brings an increase in resources and know-how, which will strengthen Oerlikon's potential for innovation in the longer term. Altogether there are now over 1 500 engineers and scientists working on the products of the future in the Oerlikon Corporation, with a budget of over CHF 260 million. Immediate positive effects can be seen in, for example, the coating of various Oerlikon Graziano Drive Systems automobile components by Oerlikon Balzers Coating. Saurer's knowledge of magnetic bearings for fast-spinning components (spindles) is directly applicable for business units such as Oerlikon Leybold Vacuum. By integrating the Saurer segments, Oerlikon is expanding the scope of its portfolios with technology-leading products in markets with varying macro-economic dynamics, and is thereby better protected from market cycles.

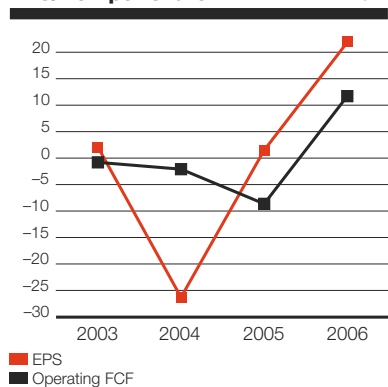
Investor relations: a transparent information policy

In order to keep the capital markets and the financial community comprehensively and swiftly informed about Group developments, Oerlikon has standardized and systemized its financial reporting across the whole Corporation. Equality of treatment for all capital market participants and legally compatible reporting are of central importance to Oerlikon. The Investor Relations segment guarantees both the quarterly publication of the financial figures and up-to-the-minute reporting on relevant company developments, as well as ad hoc announcements. The corporate website, www.oerlikon.com, also serves as a central platform for information. On page 63 of the Corporate Governance report, further information about Oerlikon's information policy can be found.

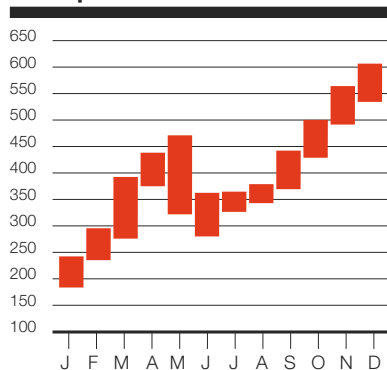
Share performance

In 2006, the performance of Oerlikon shares recorded an increase of 204 percent. With this impressive performance, it outperformed the SMI by 163.5 percent and was included in the Dow Jones STOXX 600 Index, where it was the most successful European share of 2006. Oerlikon's market value increased over the whole year from CHF 2.8 billion at the beginning of the year to CHF 8.5 billion at the end, with an average trading volume of 109 955 shares in 251 trading days.

EPS/FCF per share in CHF



Share performance 2006 in CHF



The positive development of share prices was due in large part to the successes of the transformation program, which led to the steady improvement of the company figures, with high profitability at the same time. Further impetus was provided by the ground-breaking development of the fledgling Oerlikon Solar business unit and strategic acquisitions. The profitable operating results of the fourth quarter of 2005 and further increases in the first quarter of 2006, together with its first bulk orders in the solar business, all contributed to a share price which rose to a level in excess of CHF 450 in the first half of the year. The positive half-year figures gave fresh momentum to share prices in June 2006. The capital market reacted to this continual operative growth and the takeover of Saurer with constant share price rises. At the end of 2006, Oerlikon shares closed at CHF 603 and at the time of going to press CHF 764 (appointed date March 23, 2007).

Stock market valuation and shareholder structure

The registered shares of OC Oerlikon Corporation AG, Pfäffikon (stock exchange symbol: OERL, bond security number 081682) are quoted on SWX Swiss Exchange and will be traded on the virt-x in London. The largest shareholder in OC Oerlikon Corporation AG, Pfäffikon, according to the stock exchange announcement of March 16, 2007, is Victory Industriebeteiligung AG, with headquarters in Vienna, (Austria), with a total shareholding of 34.2 percent. In July 2006 the investment was reported of Renova Holding Ltd. with headquarters in Nassau, (Bahamas), which acquired shares of 13.8 percent, as per stock exchange announcement of January 17, 2007. A stake of 7.4 percent of the shares was kept by OC Oerlikon Corporation AG itself. More than 1.1 million shares were repurchased for an average price of CHF 173 in the framework of a share buy-back program. In 2006,

351 040 of these shares were sold at an average price of CHF 538, which amounts to a total of CHF 189 million.

Outlook

With the takeover of Saurer AG, the core portfolio of the Oerlikon Group has been extended outward. By its future acquisitions, Oerlikon will continue to optimize added value across all segments, continue steadily with its plans to consolidate into complete solutions and systems and sustainably increase its regional presence. We are optimistic that we will be able to continue our above-average growth in sales and profit. The positive state of the most important markets, our leading positions in the fast-growing solar market, consistent innovation management focusing on the market and the customers and the continued initiative on margins and cost optimization have all helped to achieve an excellent starting point for Oerlikon.

Oerlikon share data

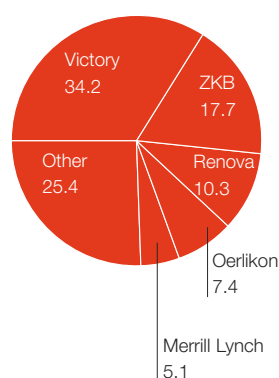
	2006	2005	2004	2003	2002
Number of shares					
Par value per share	20	20	20	20	20
Voting rights per share	1	1	1	1	1
Total outstanding shares	14 142 437	14 142 437	14 142 437	13 170 092	13 170 092
Treasury shares	1 050 012	1 412 694	223 581	220 443	213 360
Shares with voting/dividend right	13 092 425	12 729 743	13 918 856	12 949 649	12 956 732
Conditional shares for convertible and warrant bonds	2 000 000	2 000 000	2 000 000	2 000 000	2 000 000
– of which reserved	0	0	0	0	0
Conditional shares for employee stock ownership plans	360 000	360 000	360 000	360 000	360 000
– of which reserved	0	0	0	0	0
Authorized shares	–	–	–	2 000 000	2 000 000
Per-share data (in CHF)¹					
Net profit	23.44	1.43	-27.68	2.5	-3
Equity	116.01	73.47	89	115	114
Dividend ²	0	0	0	2	2
Share price					
High	605	198	200	184	207
Low	191	114	98	74	66
Year-end	603	198	113	175	93
Market capitalization (in CHF million)					
High	8 556	2 799	2 829	2 423	2 726
Low	2 701	1 610	1 386	975	869
Year-end	8 521	2 799	1 598	2 305	1 225

¹ Based on average number of shares with voting and dividend rights.

² 2006 dividend: Proposal of the Board of Directors.

Shareholder structure as at December 31, 2006

in %



integrity



**Economy, society, environment:
responsibility**

**Clear ethical guidelines and binding procedures lead to
integrity and sustainability**

Oerlikon recognizes its global responsibility to the various stakeholders and to the environment. We meet our obligations by ensuring a great degree of transparency in our business processes, by applying legal and ethical codes of practice and by going beyond them. Integrity is an important part of our business activities.



= trust

Based on trust

In a complex and fast-paced business world where there is a great deal of dependency between the parties involved, reliability is of the utmost importance. That's why we want our partners to see us as a trustworthy partner. To make sure they do, we not only work to the highest ethical standards, but we also generate security and stability through a differentiated risk management system and detailed continuity planning.

Sustainability is of utmost importance

Long-term plans and decisions are particularly important in fast-paced times with rapid changes – supporting our customers, employees, investors, partners and the environment.

It is our aim to apply consistent principles to the economy, the environment and social issues

Oerlikon, a responsible global citizen

Oerlikon is a global player whose aim is, as a responsible global citizen, to generate sustainable corporate value that goes beyond successful business activity. Consequently Oerlikon sees itself as part of the solution for capturing the future challenges of an increasingly globalizing business environment.

Therefore, in 2003 the former Unaxis Holding signed Kofi Annan's, ex-Secretary-General of the United Nations, international initiative: the UN Global Compact (UNGC). The vision of the initiative is to realize a more sustainable and inclusive global economy. In 2006 Unaxis' legacy was transferred to the new Oerlikon endorsing the ten principles set out by the UN. Oerlikon will build on this external framework offering general guidelines for economically, environmentally and socially sound growth. This framework supports Oerlikon in promoting a business climate of respect and trust. Oerlikon is convinced that trust can only be earned through upright relationships with all its relevant stakeholders.

Management approach

At Oerlikon we insist that all employees comply with national and international laws and ethical standards. All employees shall be an example to Oerlikon's business, signalling to Oerlikon's stakeholders that we are a trustworthy partner they can rely on. Oerlikon's commitment to the Global Compact comprises actively going beyond the legal regulations by integrating the UNGC principles into Oerlikon's management system; proactively combating corruption, upholding human rights, ensuring good labor practices, and last but not least protecting the environment in Oerlikon's sphere of influence.

In 2006 the shifting of Oerlikon's decentralized organization towards a more centralized one made a general overhaul of the corporate management system with all its policies & directives essential. Next to centralizing operational responsibilities, particular focus was given to addressing compliance issues such as improper payments, conflict of interest, intellectual property rights, employment, and money laundering. New policies on environment, health and safety management and trade control were released, and a Group-wide integrated management system was installed. In 2007 Oerlikon's revised Code of Corporate Business Ethics and a Code of Conduct are to be released.



Environmentally sustainable solar energy from Oerlikon

Oerlikon does everything in its power to achieve environmental sustainability and not only in its own production processes. In addition, with new technologies such as thin-film solar technology, we also make our own contribution towards aligning rising energy consumption with environmental demands.

In order to track and control the implementation of the principles and directives, the Group management has instigated several initiatives to ensure an accurate realization of its commitment. In 2007 an ombudsman on corporate level will be implemented, where dubious conduct and violations are to be reported by our employees and external stakeholders, also anonymously. Once reported, the ombudsman is obliged to handle the issue responsibly and take corrective actions such as: providing assistance to the employees, or notifying the authorities when a violation has been identified.

Earning trust

Trust can only thrive when both partners treat each other with mutual respect and integrity. Transferring this assurance to the operational level, Oerlikon places its stakeholders' concerns in the center of its activities, anxious to offer the optimum win-win situation to its customers, suppliers, employees, as well as coming generations in an open dialogue.

Oerlikon is intensively working on harmonizing its central management processes on a new corporate SAP platform. At present we are unable to

document our ecological and social progress with consolidated data on the corporate level. So here are a few examples of how Oerlikon sees its future as a responsible world citizen:

Customers

Long-term relationships between Oerlikon and its customers rely to a large extent on delivering top quality. By keeping an open dialogue with our customers we aim to continuously improve our quality and grow together with our customers, creating a common understanding and added value. Oerlikon understands quality as controlled processes, certifications, continuous improvements, and products and services that exceed customer expectations.

ISO certification

For a modern high-tech company such as Oerlikon, third-party quality and environmental management certifications have become an implicitness. Certification serves as a quality seal for customers and is an indication of good management practice. Consequently, all legal entities will be third-party certified according to ISO 9001 (Quality management) by the end of 2007. This includes the new facilities in China (Oerlikon Leybold Vacuum in Tianjin as well as Oerlikon Saurer in Suzhou).

Additionally, all units supplying the automotive industry have received the ISO 16949 certification, an extended certification focusing on the strict technological requirements of the automotive industry. In 2006 Oerlikon achieved the ISO14001 group certification (Environmental Management), including all our major operating units. True to the aspiration of "One Company" the Oerlikon management has decided that all future third-party certifications will be carried out in cooperation with one auditing partner, assuring uniformity.

Complaint management

In order to exceed its own quality standards, Oerlikon will install a corporate customer complaint management system in 2007, covering the whole organization. Here, the customer can file a complaint or a question of any nature, be it technical or order-based. Once a complaint is registered, corrective measures will be taken. We welcome our customers to report all questions or complaints, allowing us to offer satisfactory solutions.

Export control

Europe, several states in Asia and the USA in particular, have been engaged in introducing widely harmonized and continuously intensified export control regulations to counteract the efforts of various countries, to realize the acquisition programs for weapons of mass destruction. As a globally active supplier of vacuum technology, coating plants, space components, solutions and services, Oerlikon has the potential to supply customers in a wide range of industries. Although not producing weapons, experience has shown that especially vacuum technology is an indispensable medium for many state-of-the-art production processes, including weapons.

Consequently, recognizing its responsibility before the law and its customers, Oerlikon issued the Corporate Guidelines Governing Export Compliance. The following points are of particular importance:

- Oerlikon pledges its unequivocal and emphatic support for a policy of non-proliferation; this corporate goal has priority over commercial interest.
- All employees are obligated to actively participate towards achieving this corporate goal in their field of work.
- It is the duty of managing staff to ensure that employees have adequate knowledge of all relevant regulations, by means of trainings and access to regulations.
- In order to ascertain which countries and entities should be regarded as sensitive for the purpose of this policy, Oerlikon will maintain contact with the responsible agencies.
- If Oerlikon has continued concerns regarding the end use, it will terminate the transaction immediately.

During 2006 Oerlikon carried out a number of employee training events in Asia and Europe, as well as specialized training for the newly appointed regional Trade Control Managers. Given the responsibility to ensure uniformity and compliance with national and international laws, these managers will be the multipliers of the corporate directives. Access to up-to-date information on laws and corporate procedures is assured by our Intranet. As a next step Oerlikon is implementing a new SAP product "Global Trade Service" facilitating the information exchange and supporting the efforts for compliance processes.

No doubt the key to success is the risk awareness of the employees. If the country of purchase or destination is defined as sensitive, or if the inquiry looks suspicious for other reasons, the case is reviewed by a member of the Corporate Trade Control. The review is thorough, including the involvement of the authorities if necessary. Accordingly, in 2007 Oerlikon will intensify the training for its employees primarily in sales/services, order management, and logistics to improve risk awareness among these crucial employee categories.

Fighting corruption

Believing in the idea of good governance, and recognizing corruption to be a main reason keeping certain economies from developing into democratic markets, Oerlikon endorses the UN Global Compact. Oerlikon pledges a pro-active approach against corrupt behavior on a corporate as well as public level. Oerlikon puts its trust in competing on an open and fair market, based on the quality of its products rather than by using unfair business practices for personal gain. Oerlikon does not use funds or assets for any unethical purpose or to purchase privileges or special benefits by any form of improper payment. Neither does Oerlikon engage in any direct or indirect payments, granting advantages to officials, civil servants, or other private or public decision-makers. Guidelines on this sensitive issue are integrated in the revised Corporate Code of Business Ethics and the new Code of Conduct, which will be released in 2007.

Suppliers

Oerlikon's recent expansion and the centralization of its processes allows to unite our buying power in its corporate global sourcing strategy. This position on the world market grants Oerlikon worldwide accessibility to resources and suppliers at competitive costs. With standardized sourcing practices Oerlikon can offer its suppliers uniform and simplified procedures.

Long-term relationships depend on personal interaction, which is only possible if Oerlikon keeps its footing in the local markets. Moreover, Oerlikon can act as a responsible partner, creating a trustful relationship. Oerlikon selects our suppliers according to fair business principles and foster a fair pricing policy. Furthermore, we only engage with suppliers, who are certified according to international standards.

Employees

We at Oerlikon believe that true innovation can only be accomplished by people who trust in our company. To ensure the well-being of all our people, Oerlikon invests considerable human and financial resources to create a safe work environment and a healthy work climate.

Organizational change

In the course of the takeover and integration process of the Saurer Group Oerlikon gave example for the high expectations to its own integrity through fair, open and timely dialogue. Oerlikon has found the ideal partner in Saurer for designing its expansion strategy and creating sustainable value. With a highly efficient organization and a unique position on the market, there are no better preconditions for continued growth ensuring the jobs of our employees.

As the Annual Report goes into print, the assigned integration team including Saurer and Oerlikon will be fully occupied handling this complex integration process. The integration is to be completed with a final integration of all employees in the new SAP system by 2008. The management recognizes that the situation must be handled openly and fully transparent towards all employees, in order to avoid uncertainty.

A practical implication is the intensified transcending activities among our locations – worldwide. The exchange of ideas and the development of common goals contribute to a closer collaboration and mutual understanding. This is facilitated by job rotation, regionally and internationally.

Work-life balance

Work-life balance is the management of the relationship between the period of time an employee spends on the job and its spare time. An important aspect is employee attraction and retention. Oerlikon employs highly skilled people, with plenty of talent and expertise, and is looking for more every day. Such employees are wanted on a competitive market, allowing them to be particular about their choice of employer. Consequently, next to competitive salaries and benefit packages Oerlikon offers flexible working hours and part-time employment. When the basic conditions fit, the prospect for a positive work environment increases, clearing the road for creativity and innovation.

Diversity and equal opportunity

At Oerlikon, employees from 48 nationalities and as many cultures unite under the umbrella "One Culture". With such a diverse team Oerlikon is confident in being well-represented in all ends of the world, keeping up the pace with its international customers' needs.

Being an international company with more than 170 locations around the globe, Oerlikon believes in the strength of locality. The majority of the employees, including management, are locally hired reflecting the demography of the market. By developing technologies and educating employees locally Oerlikon keeps the know-how close to its core. A regular exchange of know-how between the different segments improves the cooperation and supports the utilization of synergies. The Asia Support Team initiated by Oerlikon Leybold Vacuum is one example thereof. Experts from China, Taiwan, Japan and Korea have come together to form a technical support team for the Asian market. During a five-week intensive training in Cologne the experts had the possibility to exchange and extend know-how.

Technology-driven companies such as Oerlikon traditionally have a strong engineering culture, rendering an imbalance in the male-female ratio. Knowing that a diverse team often displays a higher level of creativity, Oerlikon recognizes the need for improvement. Therefore, increasing efforts are made, e.g. in the recruitment processes, to boost the numbers of female employees in technical positions.

Non-discrimination

As a responsible employer active in a global, multicultural environment Oerlikon is sensitive to the problem of discrimination. Therefore, Oerlikon has implemented a corporate-wide policy on non-discrimination incorporating the UN Guidelines. No form of discrimination on the basis of ethnical heritage, skin color, religion, nationality, gender, sexual orientation, age, or disability is tolerated.

Health and safety

Oerlikon is committed to an integrated management system, covering health and safety standards. All Oerlikon units and affiliated companies define goals for major health and safety issues.

The 2006 corporate health and safety objective was to increase the health and safety at the workplace. The business units installed awareness programs and offered on-site first aid and general safety courses focusing on e.g. cardiac attacks. As a result, several business units acquired defibrillators, whereas its responsible handling was part of the on-site safety trainings.

The main objective for 2007 will be the harmonization of all EHS (Environmental Health and Safety) management systems worldwide. With the acquisition of Saurer, Oerlikon will benefit from additional EHS know-how, which will be necessary to consolidate these sometimes hardly compatible systems.

Future generations

Oerlikon is convinced that the main challenges our society faces today are to reduce the world's energy demand, its dependency on non-renewable energy sources, and tackle global warming.

With sharply rising energy prices that e.g. account for up to 20 percent of operating cost for spinning mills, energy efficiency has become an important purchasing factor. Oerlikon Saurer Textile took up this challenge and improves energy and resource efficiencies of its products and services. When buying e-save[®] certified products, customers can realize energy savings of over 15 percent on average, and generate cost savings while reducing their impact on climate change.

Even though energy and resource efficiency is the cheapest, fastest, and most environmentally friendly way to meet future energy demands, on the supply side research needs to focus on technologies capitalizing the use of renewable and pollution free energy sources at competitive costs.

Oerlikon Solar is well-positioned at the forefront of seminal photovoltaic research, giving it the unique prospect of commercializing photovoltaic energy at reasonable cost. Oerlikon's PEVCD technology allows Oerlikon to deposit thin films from a gas to a solid state on some substrate, which substantially lowers the amount of silicone required for cell design, leading to lower production cost. Although the efficiency of thin-film solar cells are generally lower compared to wafer-based ones, the achieved 30-percent efficiency increase combined with the higher resource efficiency significantly lowers the price of solar energy in terms of cost per watt of electrical output. By further improving the production processes a 20-percent cost reduction at triennial intervals is within reach.

Oerlikon does not only provide energy-efficient products and state-of-the-art solar technology to its customers. With joining the UN Global Compact, Oerlikon actively endorses the so-called precautionary approach (principle 15 of the Rio Declaration) requiring a systematic reduction of the environmental footprint. Oerlikon puts this commitment into practice by continuously improving its products, services and manufacturing processes. A first milestone for the new management in 2006 was the ISO 14001 Group certification, which is a clear statement to further improvements of Oerlikon's environmental performance. Optimizing waste management systems of the worldwide business units was Oerlikon's 2006 corporate environmental objective. Employee awareness programs targeted at waste cutbacks and separation, have resulted in a lower environmental impact. Moreover, the disposal of hazardous waste will be in the spotlight in 2007, whereas intensified safety inspections will trigger the safe handling of hazardous materials.

Risk management/business continuity

Risk management further optimized

The successfully negotiated strategic reorientation towards a leading global high-tech industry group opens up trendsetting growth and development opportunities for Oerlikon. At the same time, clearly enhanced business activity, as well as strengthened inward and outward networking, mean this transformation process involves operative risks. That is why in the 2006 financial year, Oerlikon adapted and accordingly expanded the integrated control system for the preventive risk monitoring of the current group development. The objective is to achieve continuous transparency optimization in all corporate units and along the entire value chain. Possible risks can thus be detected, analyzed, assessed and objectively incorporated into business decisions. The targeted control and minimizing of risks is not only of substantial importance from a Group perspective, but also meets the demand for operational sustainability from the perspective of legislators, customers and market partners.

The Group functions of risk management, internal revision, controlling and business excellence form the central control and monitoring body of the integrated control system. In addition, for specific risk assessments, experts from legal and IT departments or external review areas are called in, depending on the task.

Risk management is a continuous process on all Group levels. In periodic assessments and workshops, risk potentials of individual business units are determined, recorded and prioritized. The results form the basis for establishing risk strategies and developing appropriate measures, the implementation and control of which is the business unit's responsibility. Every quarter, as part of the Business Review, the risk situation evaluation is reassessed and adapted if necessary.

In mid-2005, Oerlikon implemented an electronic information system for risk management and further improved this during the year under review. The specialized R2C software maps the entire process and enables automatic reporting as a central data platform. The responsible function levels and Group management are thus always informed of the risk situation in the collective enterprise and are always in a position to introduce important counteractive measures.

Continuity plan successfully implemented

During the 2006 financial year, Oerlikon agreed to establish and promote extensive Business Continuity Planning (BCP) as an integral component of the internal risk management. The BCP objective is to set up effective emergency and crisis management as systematic preparation to cope with damages caused by, for example, natural hazards, malfunctions and accidents during the operating process or human irregularity. The main BCP requirements are to uphold the running of important business processes in critical situations, thus ensuring the company's economic existence. BCP develops, realizes and implements concepts, strategies and concrete measures to counteract and neutralize crises, limit damages to the company and return to normal business processes as quickly as possible.

A continuity plan specifically and individually co-ordinated for all corporate units and locations is required, as well as making collaborators receptive to the idea of securing company existence.

In 2006, Oerlikon took important steps towards the introduction and implementation of the BCP, some of which have already been implemented:

- Development of BCP organization structure and integration in the collective group.
- Establishment of management and control levels with BCP unit management.
- Definition and establishment of specific responsibility units within the corporate organization.
- Implementation of BCP teams in the individual corporate sectors and important corporate locations.
- Incorporation of objectives as well as task and responsibility areas in the Group's rules and regulations.
- Preparation for incorporation of BCP database and reporting system into the R2C information software.
- Initiation and execution of periodic BCP audits and assessments.

On these grounds, Oerlikon will develop and implement advanced, extensive concepts and packages of measure in the continuity plan. The definition and development of rules of conduct in crises will be the particular focus, customized to meet the individual demands of the individual business units, as well as a dedicated BCP for the Group's IT headquarters.

Corporate Governance

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

Oerlikon feels a strong sense of obligation to uphold the recognized principles of good corporate governance as laid out in the “Swiss Code of Best Practice for Corporate Governance” propounded by “Economiesuisse”. By addressing this justified concern, Oerlikon aims to sustain and increase the trust placed in it by the company’s present and future shareholders, providers of funding, employees and business partners, as well as the general public.

Responsible corporate governance requires transparency with regard to the organization of management and control mechanisms at the uppermost echelons of the enterprise. Therefore, the “Directive on Information Relating to Corporate Governance” (DCG), enacted by the SWX Swiss Exchange and effective since July 1, 2002, 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 press have been taken into account.

Further information regarding Corporate Governance can be found on the company’s website www.oerlikon.com

Group structure



¹Europe, Middle East, Africa

²From March 1, 2007

³From February 1, 2007

⁴The name Oerlikon Fairfield Drive Systems applies only in the USA

Group structure and Group companies

Operational Group structure:

Management of the Group is carried out at the behest of the Board of Directors by the CEO and the Board of Directors and the operational business units. The Board of Directors, Executive Board and the company's business units are supported in their work by centralized Corporate Functions offices and regional organizations.

Listed Group companies:

OC Oerlikon Corporation AG, Pfäffikon is listed on the SWX Swiss Exchange (Symbol: OERL; security number: 081682; ISIN number: CH0000816824). On 31 December 2006, the company's stock market capitalization totaled CHF 8 521 million. For further information on OC Oerlikon Corporation AG, Pfäffikon see page 127 et seqq.

Saurer AG, headquartered in Arbon, is listed on the SWX Swiss Exchange (Symbol: SAUN, security number: 1234514; ISIN number: CH0012345143). As of the end of February 2007, OC Oerlikon Corporation AG, Pfäffikon holds 99.45 percent of the company. On December 31, 2006, Saurer AG's stock market capitalization totaled CHF 1 954 million. Saurer has been fully consolidated by OC Oerlikon Corporation AG, Pfäffikon since November 2006. Saurer AG has indirect interests in two companies which are listed on foreign stock exchanges: Fairfield Atlas Limited, India, and Schlafhorst Engineering, India Ltd. Both companies are listed on the Bombay Stock Exchange Limited.

Unlisted 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 page 135 in their legal structure, then on page 122 et seqq. they are listed by country together with each company's share capital, percentage of shares owned and workforce.

Significant shareholders (as at 31 December 2006)

	Shareholdings as per official disclosure	
	No. of shares	in percent ¹
Victory Industriebeteiligung AG, Vienna ²	4 831 192	34.16
Zürcher Kantonalbank, Zurich	2 506 601	17.72
Renova Holding Ltd., Nassau, Bahamas ³	1 450 000	10.25
OC Oerlikon Corporation AG, Pfäffikon ⁴	1 050 010	7.42
Merrill Lynch Group, New York	716 023	5.06

¹ Basis: issued shares (14 142 437)

² Beneficial ownership:

- 50% Millennium Privatstiftung, Praterstrasse 62-64, 1020 Vienna, Austria
- 50% RPR Privatstiftung, Seilerstätte 18-20, 1010 Vienna, Austria

³ Beneficial ownership: Victor F. Vekselberg, Moscow and Zurich

⁴ Actual shareholding as at December 31, 2006

Cross-shareholdings

There are no cross-shareholdings.

Capital structure

Capital

The share capital of OC Oerlikon Corporation AG, Pfäffikon totals 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 ownership 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 two 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, (2) to issue warrant and convertible bonds on international capital markets. In as far as preemptive subscription rights are excluded, (1) the bonds are to be made public under market conditions, (2) the exercise period for the option and conversion rights may not exceed seven years from the date the bond was issued and (3) the exercise price for the new shares must at least correspond to the market conditions at the time the bond was issued.

Conditional capital for employee stock ownership plans: Pursuant to Art. 6b of the Articles of Association, the company's share capital shall, to the exclusion of the preemptive subscription rights of current shareholders, be increased by a maximum aggregate amount of CHF 7.2 million through the issuance of a maximum of 360 000 fully paid-in registered shares with a par value of CHF 20 each, by exercising the option rights granted to the employees of the company or one of its Group companies according to an employee stock ownership 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 certificate on page 132, note 17, 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 in the inventory of SIS SegalnterSettle 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 where printing of certificates has been deferred). 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 are also entered in the share register.

Convertible bonds and options

As at December 31, 2006 there were no outstanding convertible bonds or warrant bonds. In conjunction with share ownership programs, members of the Board of Directors and employees held a total of 47 508 options (cf. page 115 et seqq., note 28) on December 31, 2006, each of which entitles the holder to acquire one registered share in OC Oerlikon Corporation AG, Pfäffikon. These option rights are covered in full by shares that have been 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 by means of the outstanding options is CHF 950 160.

Competent and lean The Oerlikon Board of Directors



Georg Stumpf

Has been Chairman of the Board of Directors of OC Oerlikon Corporation AG, Pfäffikon since February 2006, after having been elected to the Board in 2005. The Millennium Privatstiftung, Vienna, which was founded by Georg Stumpf, owns 50 percent of Victory Industriebeteiligung AG, the largest shareholder in Oerlikon. Georg Stumpf has been successfully managing investment projects in Europe since 1995 via his own company, Stumpf AG, which has offices in Vienna, London and Budapest. Prior to that he was Managing Director of the Stumpf family business, which for the past 50 years has owned an array of financial interests in industrial companies and in the field of commercial real estate development. Georg Stumpf graduated summa cum laude from the Vienna University of Economics and Business Administration and has an educational background in structural and civil engineering.



Thomas Limberger

Has been a member of the Board of Directors of OC Oerlikon Corporation AG, Pfäffikon since 2004 and is Vice Chairman since February 2006. He has headed Oerlikon since August 1, 2005 as Chief Executive Officer. Prior to that, Thomas Limberger was CEO of General Electric Germany, Austria and Switzerland, and in this position was responsible for 11 000 employees and an annual sales of over EUR 6 billion. From 1996 to 2002 he held various management positions with healthcare company Fresenius and Fresenius Medical Care. Thomas Limberger is a Board member of the American Chamber of Commerce in Germany and the Central Association of the Electrical Engineering and Electronics Industry Germany. He holds a Master of Business Administration degree (MBA) in Finance & Strategic Management.



Günther Robol

Has been a member of the Board of Directors of OC Oerlikon Corporation AG, Pfäffikon since 2005. He is an independent management consultant who specializes in auditing, corporate financial examination and insolvency law. Prior to that, Günther Robol headed the Austrian affiliate of Price Waterhouse as the President of its management committee. From 1965 to 1991 he worked for a number of auditing firms. Günther Robol is a director of several other companies and a lecturer at the Innsbruck University of Applied Sciences. He has also been Vice President of the Austrian Institute of Auditors and a member of various professional associations. Günther Robol completed his studies in economics and sociology in Vienna with a degree in business management.



Christian Schmidt

Has been a member of the Board of Directors of OC Oerlikon Corporation AG, Pfäffikon since 2005. He is co-owner and Executive Board member of a number of industrial companies and holds various directorships in Switzerland and elsewhere: he is chairman of Board of Von Roll Inova Holding AG, Zurich. Christian Schmidt completed studies in the field of geotechnics and water resource planning at the University of Natural Resources and Applied Life Sciences in Vienna, as well as in technical management sciences at the Swiss Federal Institute of Technology (ETH) in Zurich.

Mirko Kovats

(not pictured) held the post of Chairman of the Board of OC Oerlikon Corporation AG, Pfäffikon from June 2005 to January 2006. Until January 2006 he was co-owner of Victory Industriebeteiligung AG. Mirko Kovats is the largest shareholder of A-Tec Industries AG and Chairman of the Board of ATB Austria Antriebstechnik AG. He studied commercial sciences at the Vienna School of Economics.

Board of Directors

The basis for the organization and duties of the Board of Directors of OC Oerlikon Corporation AG, Pfäffikon is anchored in the Swiss Code of Obligations and the Articles of Association of OC Oerlikon Corporation AG, Pfäffikon and its Rules of Organization.

Members of the Board of Directors

In this financial year, the Board of Directors of OC Oerlikon Corporation AG, Pfäffikon was composed of Mirko Kovats (Chairman up to January 31, 2006), Georg Stumpf (Vice Chairman), Thomas Limberger, Günther Robol and Christian Schmidt. Mirko Kovats stepped down from the Board of Directors as of January 31, 2006. Effective from February 1, 2006, Georg Stumpf was elected Chairman of the Board and Thomas Limberger Vice Chairman.

In the three financial years up to the reporting period, the non-executive members of the Board of Directors were not involved in the upper management of OC Oerlikon Corporation AG, Pfäffikon or any other Group company. They do not have any material business dealings with the Oerlikon Group.

Composition of the Board of Directors

Name (Nationality)	Residency	Position	Age	Elected	Term expires	Executive/ Non-executive
Georg Stumpf (A)	A	Chairman since 1.2.2006 Vice Chairman until 31.1.2006	34	2005	2008	Non-executive
Thomas Limberger (D)	CH	Vice Chairman since 1.2.2006	39	2004	2007	Executive since 1.8.2005
Günther Robol (A)	CH	Member	66	2005	2008	Non-executive
Christian Schmidt (A)	CH	Member	49	2005	2008	Non-executive
Mirko Kovats (A)	A	Member and Chairman until 31.1.2006	58	2005	–	Non-executive

Other activities and vested interests

See page 67.

Cross-involvement

There are no cross-involvements.

Elections and terms of office

Board members are elected by the General Meeting of shareholders for a term of three years. They may be re-elected for a new three-year term of office prior to the expiration of their current term. The schedule of elections is where possible set in such a way that the term of office of about one-third of the members expires each year. Pursuant to the Rules of Organization, the mandate of Board members expires – the current term of office notwithstanding – at the next Ordinary General Meeting of shareholders after a given Board member reaches the age of 70.

Internal organizational structure

Allocation of tasks within the Board of Directors: The Board of Directors is the ultimate management body of the Group. It is empowered to rule on all matters not by law, statutes or regulations reserved for, or otherwise delegated to, some other corporate body (see also page 70, Definition of Areas of Responsibility). Implementation of the Board's resolutions is the responsibility of the Executive Board.

The Chairman of the Board of Directors presides over the Board and is the immediate superior of the Chief Executive Officer (CEO) and the other members of the Executive Board. The Chairman convokes, prepares and chairs meetings of the Board. He also represents the corporation vis-à-vis shareholders, chairs the General Meeting of the shareholders and supervises the internal audit in conjunction with the Audit Committee. If the Chairman is prevented from performing his duties due to illness, accident or extended absence, those duties are assumed by the Vice Chairman of the Board for the duration of any such absence or, should he also be unavailable, by some other member to be designated by the Board.

Committees of the Board of Directors: two permanent committees exist to assist the Board of Directors or prepare for important decisions:

Audit Committee (AC) and Human Resources Committee (HRC).

Membership of these committees in 2006 was as follows:

Composition of committees of the Board of Directors

Name	Audit Committee (AC)	Human Resources Committee (HRC)
Georg Stumpf	Member	Chairman from 1.2.2006
Thomas Limberger	Member	Member
Günther Robol	Chairman	–
Christian Schmidt	–	Member
Mirko Kovats	–	Chairman until 31.1.2006

Mirko Kovats stepped down from the Board of Directors as of 31 January 2006; since that time the Human Resources Committee has been chaired by Georg Stumpf.

Audit Committee (AC)

The responsibilities of the former Audit and Finance Committee were reduced during the reporting year – as was the norm internationally – to just audit-related matters, and the name of the committee therefore changed to Audit Committee. Finance matters are now dealt with directly by the full Board. The AC comprises at least three and a maximum of six preferably non-executive, independent members of the Board of Directors. The majority of its members, including its Chairman, must be experienced in the fields of finance and accounting. At least one member should have experience of financial reporting. The AC advises and supports the Board of Directors primarily in the areas of accounting and financial reporting, internal and external audit, internal control systems, corporate governance and compliance.

Its responsibilities include:

- examining and reviewing financial reporting, in particular the individual financial statements of the holding and consolidated financial statements and the publication of certain intermediate financial reports,
- deciding whether the individual financial statements of the holding and the consolidated financial statements be recommended to the Board of Directors for presentation to the General Meeting,
- examining and approving instruments, entities and processes for monitoring and managing risks in the corporation, i.e. business risk management, external and internal audit,
- examining and approving the work, compensation and independence of external auditors,
- examining and approving the effectiveness of the monitoring system to ensure compliance with legal and regulatory provisions.

Human Resources Committee (HRC)

The HRC comprises at least three individuals, the majority of whom are non-executive, independent members of the Board of Directors. It primarily advises the Board in the following areas:

- composition of the Board of Directors, Executive Board and other key corporate positions,
- compensation of Board members, the Executive Board and other key corporate positions,
- planning for successors to the members of the Board of Directors, the Executive Board, heads of segments and business units and other important corporate positions,
- introduction of employee stock ownership programs,
- management development measures.

The HRC has decision-making powers concerning the introduction of and changes to compensation schemes for the Executive Board and senior management.

Work methods of the Board of Directors and its committees

The Board of Directors meets at the invitation of its Chairman as often as business matters require, or at the request of one of its members. In 2006, seven Board meetings were held, two of them in the form of telephone conferences. Meetings lasted on average around two hours. Additionally, many decisions were taken by circular.

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 are entitled to take part in committee meetings in an advisory capacity. As a general rule, members of the Executive Board and, as required, individual experts also take part in such meetings in an advisory capacity. Where necessary, representatives of auditors or external consultants take part in committee meetings. Minutes are kept of the meetings. The committees meet at the invitation of their respective chairmen as often as business matters require, but at least four times (AC) or three times (HRC) annually.

In 2006 there were four meetings of the AC, lasting between one and four hours. In addition to the official meetings of the AC, there were frequent information meetings between the Chairman of the AC and the CFO as well as representatives of the corporate areas concerned (in particular Corporate Accounting and Internal Audit). The Chairman of the AC also met regularly with representatives of KPMG (External audit) and Ernst & Young (Internal audit). As three out of four members of the Board of Directors are also members of the HRC (and the Chairman of the Board is also Chairman of the HRC), that committee's responsibilities in this reporting period were undertaken directly by the full Board of Directors.

Definition of areas of responsibility

Pursuant to Art. 17 Para. 3 of the Articles of Association, the Board of Directors has essentially delegated the business management of OC Oerlikon Corporation AG, Pfäffikon and the Group as a whole to the Executive Board. The scope of tasks for which the Board bears responsibility essentially encompasses those inalienable and non-delegable tasks defined by law. These include the overall management of OC Oerlikon Corporation AG, Pfäffikon and the Group as a whole, the determination of the company's strategic orientation, the appointment and dismissal of the CEO and other members of the Executive Board and heads of the business units, as well as the overall supervision of those individuals entrusted with managing and representing the company.

Information and control instruments vis-à-vis 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 developments.

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 CEO must keep the Chairman constantly informed and the Board of Directors periodically informed about the current course of the business. He must also bring any extraordinary incidents which could have considerable impact to the immediate attention of the Board. The Board of Directors also has comprehensive right of access to the CEO and the other members of the Executive Board.

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 corporation and all relevant elements are included in its decision-making. Additionally, heads of business units and specialist areas or other members of the Group may be consulted on a case-by-case basis in order to gain detailed and comprehensive information on complex matters.

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) along with monthly controlling reports with budgeted/actual analyses to assist in the assessment of the Group's operations.

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

Internal Audit: Oerlikon Group has had an internal audit function since 2003, originally outsourced to Ernst & Young, but since 2006 co-sourced by an internal department. With the focus on the primary risks identified by the company's Business Risk Management, past experience and current group requirements, the internal audit department checks critical processes with a view to improving security and efficiency. Compliance issues are also audited. The audit plan for the coming year addresses Oerlikon's strategic goals of the next years and has been defined in agreement with the external auditors. The internal audit plan for the year 2007 was approved by the Audit Committee in November 2006.

External Audit: The external auditor reports primarily to the Audit Committee, then to the Board of Directors, and lastly to the shareholders. Since 2003 external audit has been carried out by KPMG AG. The external auditor's plans are coordinated with those of internal audit. On completion of the audit, the Group auditor reports his findings in detail to the Audit Committee.

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.

Executive Board

Management philosophy

The Executive Board, supported by the corporate functions and regional offices, manage the company centrally as a unit. The overriding Group strategy and a shared corporate culture form the basis for this collaboration. Within those guidelines, the business units bear responsibility for the day-to-day operational activities. Clearly defined, binding goals and regular monitoring of the achievement of those goals ensure a high level of transparency throughout the Group.

Composition of the Executive Board

On December 31, 2006, Thomas Limberger (CEO) and Dr. Jörg Eichkorn (CFO) were members of the Executive Board. Siegfried Lamprecht (Head of Corporate Human Resources) and Rainer Mück (CFO) stepped down from the Executive Board at the end of June 2006 and on December 12, 2006 respectively.

Composition of the Executive Board

Name	Nationality	Age	Position	Joined	In position since	Stepped down
Thomas Limberger	D	39	CEO	2004	01.08.2005	–
Dr. Jörg Eichkorn	D	41	CFO	2006	12.12.2006	–
Rainer Mück	D	40	CFO	2005	01.10.2005	12.12.2006
Siegfried Lamprecht	D	47	Head of Corporate Human Resources	2005	01.08.2005	03.06.2006

Education and professional background of Board members

Thomas Limberger, Chief Executive Officer

See page 67 of this Annual Report.

Dr. Jörg Eichkorn, Chief Financial Officer

Dr. Jörg Eichkorn (1966, German citizen) is Chief Financial Officer of Oerlikon. He was in charge of Corporate Controlling from February 1, 2006 and became deputy CFO in June 2006. On December 12, 2006 he was appointed CFO of Oerlikon. Jörg Eichkorn is well-experienced and knowledgeable in international financial management. He studied Business Management at the University of St. Gallen, and took his degree there in 1996. After studying law in Konstanz (first examinations) he spent six years as a consultant with Boston Consulting Group in Munich and two and a half years as COO for taxes and balance sheet preparation with Commerzbank in Frankfurt.

Other activities and interests of Board members

No member of Oerlikon's Executive Board is a member of management or supervisory boards of any significant Swiss or foreign corporation, institution or foundation other than Oerlikon and Saurer. Members of corporate management 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, 2006

Dr. Uwe Krüger (42) and Björn Bajan (47) were appointed as new members of the Executive Board, Dr. Uwe Krüger as Chief Operating Officer (COO) and Björn Bajan as General Counsel. The appointments were made by the Board of Directors on January 31, 2007. Björn Bajan took up office on February 1, 2007, Dr. Uwe Krüger on March 1, 2007.

Management contracts

As of December 31, 2006, OC Oerlikon Corporation AG, Pfäffikon and its Group companies had no material third-party management contracts.

Remuneration, shareholdings and loans

Content and method of determining the compensation and share ownership programs

In a normal year, about half of the value of remuneration received by members of the Board of Directors is paid in cash and half in the form of stock options and/or shares. The amount of remuneration for Board members is proposed by the Human Resources Committee and set by the Board of Directors.

Members of the Executive Board receive remuneration composed of a fixed base salary and a variable component generally amounting to about 30 percent of total remuneration if goals are met. The amount of the variable component is based on attainment of individual (30 percent) and financial (70 percent) goals, with the financial goals measured against the operating profit. Additionally, Executive Board members receive shares and/or options as a long-term bonus. The Board of Directors approves remuneration plans for Executive Board members at the proposal of the Human Resources Committee. The option plan for members of the Executive Board was established by the Board of Directors on December 15, 2005.

Compensation for acting members of governing bodies

The total of all compensation that was conferred by OC Oerlikon Corporation AG, Pfäffikon or one of its Group companies for the financial year 2006 and directly or indirectly benefited non-executive members of the Board of Directors, amounted to CHF 795 000.

The total of all compensation that was conferred by OC Oerlikon Corporation AG, Pfäffikon or one of its Group companies for the financial year 2006 and directly or indirectly benefited executive members of the Board of Directors, amounted to CHF 4 198 332.

Compensation for former members of governing bodies

In the financial year 2006, CHF 1 228 706 was paid to former executive members of the governing bodies. No payments were made to former non-executive Board members.

Share allocations

For the financial year 2006 a total of 1 169 shares were allotted to non-executive members of the Board of Directors (and parties closely linked to such persons), and a total of 7 000 shares to executive members of the Board of Directors and members of the Executive Board.

Share ownership

As at 31 December 2006, non-executive members of the Board of Directors (and parties closely linked to such people) held, by their own declaration, no registered shares in OC Oerlikon Corporation AG, Pfäffikon. The executive members of the Board of Directors who were active on December 31, 2006 and members of the Executive Board (and parties closely linked to such people) held, according to their own declarations, a total of 13 027 registered shares in OC Oerlikon Corporation AG, Pfäffikon.

Options

As at December 31, 2006, non-executive members of the Board of Directors held no options on equity securities in OC Oerlikon Corporation AG, Pfäffikon. The executive members of the Board of Directors and the members of the Executive Board on December 31, 2006 held a total of 40 000 options, which were allocated January 1, 2006. These options are blocked until December 31, 2008 and have an exercise price of CHF 250. The exercise period runs from January 1, 2009 to December 31, 2009. Options not exercised expire if the beneficiary leaves the company. Each option grants entitlement to a single registered share in OC Oerlikon Corporation AG, Pfäffikon.

Additional fees and remunerations

The members of the Board of Directors and Executive Board and parties closely related to those individuals received no fees or other remuneration for additional services rendered to OC Oerlikon Corporation AG, Pfäffikon or its Group companies in the financial year 2006.

Loans to members of governing bodies

As at December 31, 2006, OC Oerlikon Corporation AG, Pfäffikon and its Group companies had not granted any guarantees, loans, advances or credits to members of the Board of Directors, the Executive Board or and party related to those individuals.

Highest total compensation

The highest total compensation paid to a member of the Board of Directors in the financial year 2006 was as follows:

■ Compensation:	CHF 1 954 982
■ Shares:	5 000 shares
■ Options:	40 000 options*

* The options were granted in December 2005 to take effect from January 1, 2006. These options are blocked until December 31, 2008. The exercise price is CHF 250. The exercise period runs from January 1, 2009 to December 31, 2009. Options not exercised expire if the beneficiary leaves the company. Each option grants entitlement to a single registered share in OC Oerlikon Corporation AG, Pfäffikon.

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 shareholders' General Meeting

Supplemental to the provisions of corporate law, the company's Articles of Association provide for the convocation of a General Meeting of the shareholders via 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 2007 General Meeting of shareholders will be held on May 8, 2007 in the Lucerne Culture and Convention Center (KKL). Shareholders who are already registered in the share register or will be registered by April 12, 2007 will receive, along with their invitation, a registration form for participation at the General Meeting with which an admission card, including voting materials, can be requested. Changes to the share register after April 12, 2007 will only be taken into account provided it is possible to do so from an organizational standpoint and the equal treatment of other shareholders can be ensured.

The status of the share register as at May 4, 2007 determines the right to vote at the General Meeting. Shareholders are not entitled to vote on shares listed on an admission card which they have subsequently sold. In such cases previously issued admission cards will be exchanged at the entrance to the General Meeting.

Right to inspect the minutes of the General Meeting

The minutes of the 33rd Ordinary General Meeting of shareholders held on May 23, 2006 can be read on the Internet at www.oerlikon.com and shareholders may also inspect the minutes at the headquarters of the corporation upon prior notice. The minutes of the Ordinary General Meeting 2007 will be published on the Oerlikon website as soon as they are 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 clause

In the event of a change of control at OC Oerlikon Corporation AG, Pfäffikon OC Oerlikon Management AG, Pfäffikon is obliged to make a severance payment to any members of the Executive Board active on December 31, 2006 who have been dismissed other than for cause within the context of Art. 337 of the Swiss Code of Obligation, within a period of two years from the effective date of the change of control, or who themselves resign within one month subsequent to the effective date of a change of control. The amount of such severance payment is equal to one annual base salary at the time of termination plus one yearly target achievement bonus and all the employer contributions to the pension fund paid in the twelve-month period preceding the date of termination of the contract.

A change of control is deemed to be the direct or indirect acquisition of at least 50 percent of the voting shares in OC Oerlikon Corporation AG, Pfäffikon by any person or entity who, at the time the contract with a given Executive Board member was signed, held no more than 5 percent of the company's shares, in combination with the replacement of the Chairman of the Board of Directors.

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 33rd General Meeting of May 23, 2006, they were confirmed in that role for a further year. For the audit of the 2005 financial year, Mr. Herbert Bussmann was, for the first time, auditor in charge at Oerlikon.

Auditing fees

In the calendar year 2006, KPMG AG invoiced the company for CHF 2.3 million for global auditing fees.

Additional fees

In the calendar year 2006, KPMG AG invoiced the company for CHF 1.0 million for additional services.

Supervisory and control instruments pertaining to audit

The Audit Committee of the Board of Directors conducts a thorough annual assessment of the performance, remuneration and independence of the auditors and Group auditors (see also page 71) and submits a proposal to the Board of Directors for the election of external auditors by the General Meeting of shareholders. On the basis of an integrated strategic audit plan that encompasses both the internal and external audit, the Audit Committee conducts an annual examination of the auditing plan for the upcoming annual financial statements. Once the auditing work has been completed, the results are analyzed and discussed with the external auditors through a comprehensive management letter. The results of this constitute the basis for determining the following year's audit plan.

The Chairman of the Audit Committee meets regularly with the lead auditor and other representatives of the audit company. They also participate in meetings of the Audit Committee dealing with the relevant agenda points.

In the reported year, KPMG AG participated in one meeting of the Audit Committee.

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, orders on hand and EBIT) and a related commentary for the first and third quarters of its financial year. Additionally, media releases keep shareholders and the capital market abreast of significant changes and developments in the company. The company's website, www.oerlikon.com, is a permanently accessible platform for information concerning the company.

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

Corporate notifications

The corporate notifications published in 2006, along with all notifications dating back to March 2004, can be accessed on the website www.oerlikon.com.

Agenda

March 27, 2007

Media and analysts' conference on the 2006 annual results, Park Hyatt, Zurich

April 24, 2007

Key figures for the first quarter of 2007

May 8, 2007

General Meeting of shareholders, Lucerne Culture and Convention Center (KKL)

August 28, 2007

Publication of the mid-year report 2007

October 23, 2007

Key figures for the third quarter of 2007

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**Pioneering
Innovations**
**This is how
we ensure
our Customers'
Success**

Our innovations give our customers a clear competitive edge.

Based on core technologies, we develop comprehensive solutions that are further enhanced by a range of complementary services.

Breakthrough in solar energy: Thin-film solar technology



The new thin-film solar technology offers numerous advantages over conventional solar technology. The thin-film process requires no expensive silicon wafer, but instead, it uses the process gas silane. Moreover, the 0.002 millimetre thin silicon film that is applied to a float glass uses approx. 200 times less raw material. The module costs and therefore the energy costs are approx. 30 percent lower than with conventional solar cells. In addition, solar modules with a surface area of 1.4 square meters and a homogeneous design are much better suited for installation on buildings.

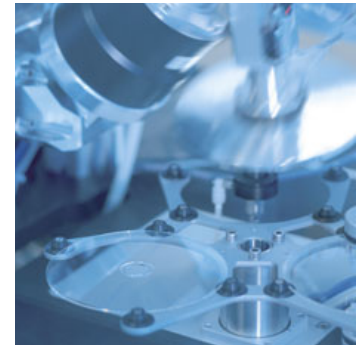
The professional world agrees that thin-film solar technology will grow much faster than conventional solar technology and that it will surpass conventional technology in the long term. At present, Oerlikon Solar is the only supplier of production lines in the world for the production of thin-film solar modules on the basis of amorphous silicon. Within a seven-step process, a viable solar module is created from an untreated glass top. Through own developments as well as specific acquisitions, Oerlikon Solar controls the whole process and can supply fully automated turnkey production lines.

A revolution in coating: P3e™

“P3e” stands for “Pulsed Enhanced Electron Emission” and is pronounced “P Triple E”. Behind it lies a technological breakthrough: for the first time, oxide coatings can be produced in the required corundum structure at temperatures around 500°C. After diamonds, corundum is the second-hardest mineral in the world. Previously, such incredibly resilient coatings could only be produced at high temperatures, with all the disadvantages that this involves for the carrier materials. Using P3e™ technology, important coating properties can be influenced in a more direct and targeted manner. This opens up whole new perspectives for coating developers, by enabling the use of materials that could not previously be processed and by giving them more scope in terms of the composition and thickness of coatings. Alongside this technology, Oerlikon has developed its new INNOVA coating system, which can already be used with P3e™. It is also equipped with a new etching technology, which makes the pre-treatment of tools even more efficient and reliable. The first focus area for the P3e™ technology is indexable inserts for milling and turning. These small precision tools are produced in vast quantities. Scientists have been searching for a process like this for more than a decade: now Oerlikon has found the solution.



Data galore: Blu-ray



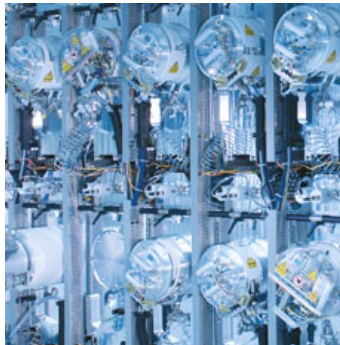
With the advent of high-definition television (HDTV), plasma screens and home cinema, home entertainment electronics are becoming more and more data intensive. The capacity of current optical storage media, such as DVDs, is no longer enough for such vast data volumes. That's why the leading manufacturers of drives, media and production lines have spent years developing the next generation: the new Blu-ray format. These discs, which look similar to DVDs, can store up to 50 Gigabytes. Just one disc with a diameter of only 12 centimetres can store up to 12 hours of high-definition film, 24 hours of standard DVD picture quality or 36 hours of music. Oerlikon Coating Systems is leading the way in this market of the future through its Data Storage division. As one of the first suppliers in this field, Oerlikon Balzers Coating is launching the INDIGO R/RE production line, which can be used to manufacture Blu-ray discs and has been developed with the close cooperation of Philips. A cooperation that is about to be taken one stage further. Philips OM&T is going to introduce the INDIGO R/RE product line for the production of its Blu-ray storage media. Besides this, Sony and Oerlikon have signed a contract for joint development of the production technology for 50 Gigabytes Blu-ray-discs. Oerlikon is integrating Sony's proven processes into its INDIGO equipment and will supply this to Blu-ray-discs manufacturers worldwide.

Nanotechnology for semiconductors: GEN V

With the MASK ETCHER V™ (GEN V), Oerlikon Coating Systems has made the next technological leap in the semiconductor industry. Mask Etcher is used to create the stencils (photomasks) necessary for the exposure and production of wafers. The aim of this development is to make the structures of these stencils even smaller, in order to be able to accommodate more and higher performance components on one chip. This in turn will increase the performance of processors and memory. With GEN V, these structures can now be reduced in size to 32 nanometres – with further development potential for 22 nanometres. The individual lines of the stencils must therefore be accurate to better than two nanometres. Here, Oerlikon technology is operating at the very limits of optical physics. In order to achieve this level of precision, the Oerlikon Mask etcher hardware and process technology have been completely redeveloped and use nanotechnology processes. Leading semiconductor manufacturers have already opted for GEN V and others are currently evaluating the system. The mass production of chips with 32 nanometre technology is already at the preparation stage and is expected to begin in two years time.



10 times more storage capacity for hard disks



RACETRACK makes use of this so-called perpendicular magnetic recording technology (PMR). To understand the advantages PMR offers, you have to look at the memory coating on a hard disk using a magnifying glass. It consists of a more or less large collection of data bits. A data bit is a micromagnet shaped like a rod. It is 40 nanometers in size, about one 50th of the thickness of a human hair. In the longitudinal magnetic recording technique used until now (abbreviated: LMR), the micromagnets were aligned horizontally on the hard disk. In PMR they stand upright next to each other, like tin soldiers; in other words they are perpendicular to the surface of the hard disk. This creates more space. In fact, this approach can increase the storage density ten-fold and enable tiny high performance hard disks to be made with a diameter of only a few centimeters. To make hard disks with PMR technology, new coating equipment is needed. Oerlikon's RACETRACK offers a whole list of superlatives:

- Highest output on the market: 1,000 hard disks coated in an hour
- Shortest processing time: 2.9 seconds per hard disk
- Ultra-fast transport: 0.3 seconds from chamber to chamber
- Great diversity: suitable for hard disks ranging in diameter from 20 to 95 mm
- Maximum flexibility: modular concept with as many as 24 coating chambers
- Optimum maintenance: open design for problem-free service

No vibrations: MAG W 300

The requirements of high-tech production and modern science are becoming ever more demanding in terms of purity and nanometre-level precision. Vacuum pumps play a key role in many applications of advanced technology and fundamental research. Thin film coatings and experiments with particle accelerators need a vacuum. As a supplier of these components, Oerlikon Leybold Vacuum is providing a new generation of high-tech turbomolecular vacuum pumps, which will be able to better meet the increased demands placed upon them. The pump design – realised for the first time with the launch of the MAG W 300 – has been completely revised. A new drive system and an active magnetic bearing enables these pumps to operate at speeds of up to 70,000 revolutions per minute with virtually no vibration. Their extremely compact design, modular construction and innovative interface design make system integration easy. Another special feature is the ability to choose any installation position.



Seven-metre spunbond range sets new industry standard



With its seven-metre spunbond range, Oerlikon Neumag is setting a new standard in the textile industry. Thanks to a unique solution for separating synthetic fibres, systems with this width can produce the same quality that was previously only possible with smaller production systems. This new technology not only means lower investment costs and very low energy consumption, but also significantly less waste. This all makes production considerably more efficient.

The drawing off of the curtain of filaments using a compressed air system enables high drawing off speeds of up to 8,000 metres per minute. Together with setting parameters for cooling time, plaiting height and, above all, spin speed, this enables fine filaments under 1 dtex to be produced from standard polymers without special accessories. In addition to PP and PET, which are the main polymers used in the fleece industry, many other spinnable polymers are being introduced which previously had little application in the fleece industry. The modular system construction of all Oerlikon Neumag fleece spinning systems enables problem-free upgrading and retrofitting with innovative system components. This allows customers to always keep their systems up-to-date at the latest levels of technology with only small investments.

COCOON – new manual texturing concept

The new Oerlikon Barmag COCOON, a manual texturing machine, is characterized by innovative, new components such as ATT and gadgets, efficient texturing using, for example, higher speeds and respecting natural resources by saving energy with the Oerlikon Saurer Textile energy efficiency programme e-save®. That means also more freedom in influencing the DTY process with the 240-position machine and producing premium yarn qualities.

Background material

Push into the mid-range sector: The new COCOON mid-range texturing machine from Oerlikon Barmag has received a very positive response, in particular on the Asian market, and has already been supplied to leading customers.

More freedom in influencing the DTY process, significantly lower energy consumption, premium yarn qualities. As the manual "sibling" of the MPS, COCOON combines sturdy technology with groundbreaking high tech.



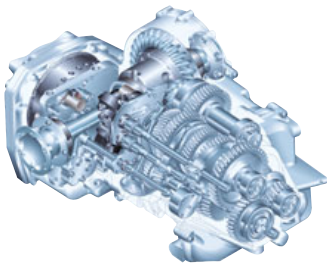
New laser cutting and engraving technology



Oerlikon Saurer's new laser technology enables the efficient production of cutting patterns, entirely new pattern creations and a considerable increase in productivity. This new cutting and engraving technology sets new standards in terms of precision, productivity and flexibility. The laser system moves across the length of the stitching with tremendous speed and is accurate to within 0.5 millimetre. The operating area of the laser is set to 30 x 30 centimetres.

New generation in transmission systems: “Dual Clutch”

A dual clutch consists of two interconnecting clutches. When selecting a higher gear, the components are so finely tuned that the higher gear is selected in milliseconds. When a higher gear is automatically selected, jerks and delays cannot be felt. Changing gears within the optimum torque range enables rapid acceleration, optimum road performance and efficient fuel consumption. Although this technology had in principle already been invented in 1940, it is only now becoming more popular. Thanks to sophisticated sensor technology, integrated processors and intelligent software, the mechanical systems can now be used in everyday applications. A control unit calculates the ideal switching point based on the signals from the sensor, torque, speed and transmission load, whereby different driving characteristics may be selected by the software – from sporty to relaxed drives. Oerlikon Graziano Drive Systems is the first independent gear manufacturer to produce a prototype, which has already been presented to different automobile manufacturers.



Ultra-thin chips

Enabling semiconductor components to have continually increasing functionality in ever smaller space, requires the stacking of increasing numbers of very thin chips. The latest generation of these “Thin Dies”, ultra-thin chips, is only around 50 micrometres “thick”. Thin chips like these are extraordinarily delicate and place particular demands on the production process. The biggest challenge in processing these thin chips is picking them from the carrier foil. The usual procedure up until now of removing the chips from the foil using steel needles would

destroy them. So Oerlikon Assembly Equipment has developed a totally new solution: the “Advanced Thin Die Pick Up” (ATD). Here, the microchip is transported on a ramp, which is raised as soon as the chip is on it. A vacuum is created underneath the ramp, which lifts the chip from the foil and removes it. Once it has been removed, the microchip is placed on a system of smooth vacuum grooves. This system prevents the chip from coming into contact with the foil again and sticking to it. At the same time, it can be positioned to within one thousandth of a millimetre for further processing. With this innovation, Oerlikon Assembly Equipment has made the mass production of ultra-thin chips possible for the first time.



Energy for satellites

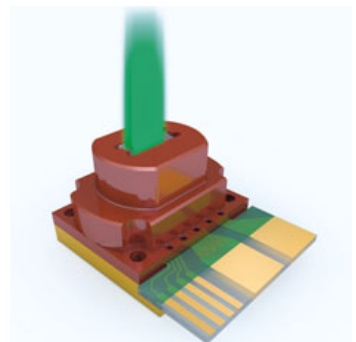
Galileo is the European satellite navigation system, which is due to be ready for operation at the end of 2011. It is based on 30 satellites and a network of earth stations that control the satellites. Galileo will provide more precise and reliable data than current systems. Economic experts predict that Galileo will create a new market worth billions. The energy for satellites is produced by solar generators, which convert the sun’s rays into electrical energy. In order to obtain the highest yield possible, the solar modules must always be optimally positioned in regard to the sun, which is exactly what is ensured by Solar Array Drive Mechanisms (SADM). Without these high-precision, complex components, satellites would not be able to function. In

recent years, Oerlikon Components Space has therefore developed and extensively tested its own targeted products, as well as taking over the SADM activities of other companies.



New laser projection

Although lasers are already being used as a light source in projectors because of their high level of colour quality, they have not been suitable until now for mass production. Laser-based projection displays did not have the energy they needed, took up too much space and drove production costs up to dizzying heights. This is not true of the NECSEL (Novalux Extended Cavity Surface Emitting Laser) laser technology developed by Novalux, for which Oerlikon has secured marketing rights through the acquisition of a holding in the company. This new laser technology fits inside a matchbox and has impressive brightness and true colour. NECSEL chips render the installation of multiple components unnecessary. Using this base technology, Oerlikon Optics is developing its own modules for series production and opens up new markets, such as small LCD projectors, (‘pico projectors’), laser TV and 3-D applications.



Unique through innovative solutions

Innovations are the core competence of Oerlikon. With unique processes and innovative solutions we rise above the competition. With an investment of CHF 260 million, we are among the most research-intensive industrial companies. By long-term and efficient innovation management we ensure that significant technological trends, for example in nanotechnology, are turned into new products and solutions for our customers and ourselves.

Our aim: To go beyond the limits of what is technically possible

1 500 Oerlikon R&D specialists do not only work on the optimization of current products, they also endeavor to open up completely new applications and markets with the help of technological advances. In the past, we repeatedly demonstrated this skill with the invention of thin-film coating, pioneering work in vacuum technology or in textile-machine construction. Today, we are reaching new horizons, for example in the fields of thin-film solar technology or laser-projection systems.

Technology for the benefit of our customers

For us, innovations are a means to an end. In close cooperation with our customers, we develop new processes and products and turn these into comprehensive solutions. It is our aim to provide users of leading technologies with a competitive edge.

We ensure our customers' sustainable success through the use of innovative solutions.

Research emphasis

- Material sciences
- Surface physics – PVD
- Surface physics – CVD, plasma physics
- Solid-state & surface chemistry
- Mechatronics
- Optics, laser physics
- Electronics
- Simulation



**Hard disk coating with RACETRACK:
innovative solutions for our customers.**

Oerlikon customers*

ABB, AGCO, Albis, Alfa Romeo, Allison, AMD, Angelantoni Industrie, Arianespace, ASE, Aston Martin, Audi, Audi-Lamborghini, Bosch, Caterpillar, Cincinatti Test Systems, CIRA research institute, Club Car, CNH, Coteminas, CREE, DuPont Nanya Plastics, EADS, Eaton Electrical, Ecole Polytechnique Fédérale de Lausanne (EPFL), Emerson Processing Rosemount, ersol Thin Film, ESA, Ferrari, Ford, Frontier, Fruit of the Loom, Greatec, Gusto, Hitachi, Hydraquip, Hyosung, IBM, Infineon, Irisbus, Iscar, JCB, JLG, Kennametall, KordSA, Kraft Foods, Laser Energetics, Lockheed Martin, Mahindra, Manitou, Martin Professional, Michelin, Micronas, Mohawk, Nanja Plastics, Oriental Weavers, OSG, Parkdale, Philips, Pirelli, Quimonda, Reliance, Ricoh, Samputensili, Samsung, Sandvik, Sanko, Sansangxiang, SCHOTT Solar, Seagate Technology, Shaw Industries, Siemens, SKF, SMT/NTS, Sony, Spansion, SPIL, SPX, ST, Surface Engineering Group, Technicolor, Texas Instruments, Vacumet, Vardhmann Group, VW, Western Precooling Systems

1853

Franz Saurer starts up a small foundry in a suburb of St. Gallen (Switzerland). This marks the start of 150 years' history of the company which bears his name.



1869

With the delivery of the first embroidery machine made in Arbon (Switzerland) the long success story of Saurer textile machine production has begun.

1907

In September the Swiss Power Tool factory Oerlikon (SWO) is founded, with 150 employees in a factory in Zürich-Oerlikon (Switzerland).



1919

Fairfield Manufacturing Corporation Inc. is founded by David Ross as a subsidiary of Ross Gear and Tool Company with the aim of supplying proprietary differential gear systems to the still young automobile industry.

1946

Saurer Cottonmachines, manufactured from 1946, knit ladies' stockings in all commercially available designs, from nylon, perlon, artificial and natural silk. A wide range of products with many and varied designs can now be offered to the market.



1946

Balzers machine factory is founded, with the aim of exploiting the still little-known thin-film technology and making it available to industry.

1951

Graziano, a family business, starts in Turin with 15 employees.



1957

Oerlikon's entry into the vacuum business. The group makes early investments in this future-oriented technology and today is among the market leaders in the sector.



1968

Contraves' know-how, gathered over decades, is made available to the European space industry for the first time. With the launch of the ESRO-1 research satellite, equipped with Contraves parts, a lucrative market is opened which continues today. One of the first official tests of the ESRO-1 satellite structure is carried out in a forest near Kloten (Switzerland).

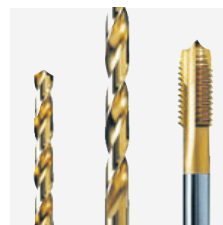


1973

By now the group numbers over 100 companies and is collected under the mantle of Oerlikon-Bührle Holding (OBH) which goes public with a share capital of 590 million Swiss francs.

1978

Green light for development and sale of PVD hard coatings for tools with BALINIT® A. This innovative Balzers coating technology appreciably lengthens the useful life of tools subject to mechanical wear and tear.



1983

First coating center opens in Italy. Many more centers are opened in subsequent years, within reach of customers' production facilities. Today a network of 77 centers spans the globe and offers all Oerlikon customers know-how and service on their doorstep.



1988

Launch of the first European carrier rocket Ariane 4, equipped with a payload fairing made from compound material by Oerlikon Space. Since then, all Ariane rockets are equipped with Oerlikon Space payload fairings.

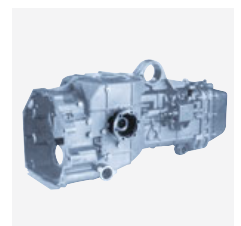


1992

Graziano joins Saurer, world leader in textile machine manufacturing, and forms Saurer's Transmission Systems division.

1996

Graziano starts manufacturing components for the automobile market. An agreement is signed with Ferrari for development and supply of a new generation of complete gearboxes, which are fitted first to the Ferrari Modena. Development and production of transmissions continues for electric vehicles and agricultural applications.



Oerlikon has been driving technical progress for 101 years; newly acquired Saurer for even longer – 154 years.

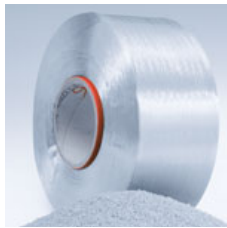
In all this time we have been setting new standards in technology for coating, vacuum, textiles, transmissions and precision components – a tradition to which we are committed and which moves us constantly to seek new solutions and innovations for our customers.

1998

Leybold opens a branch in Tianjin (China). Leybold Vacuum recognizes the huge potential of the growing Chinese economy and makes an early move to enter this important new market and benefit from proximity to its new customers.

2000

Saurer acquires Barmag and Neumag and thereby enters the fast-growing and profitable market for synthetic fibres.



2000

Renaming to Unaxis and restructuring of the group.

2000

BALINIT®-coated components are used for the first time in a mass-produced car (VW Lupo 3L TDI). The coatings reduce friction and heat generation in engine and gearbox.

2001

Acquisition of Magnetto Group Gear Division – Graziano Trasmissioni group becomes world market leader in transmission components.

2004

Integration of ESEC into Unaxis is concluded.



2004

Oerlikon Leybold Vacuum opens a new production facility in Cologne (Germany). In close cooperation with research and development, modern vacuum solutions are developed to meet customer needs with innovative products.



2005

Change of ownership. Victory Industriebeteiligungs AG acquires a majority shareholding

in Unaxis Holding AG. The new Board of Directors and a new management team immediately got to work on the realignment and turnaround of the company.

2005

Neumag enters the Nonwoven business and offers solutions for all important fleece manufacturing processes.



2006

With the establishment of a new business unit Solar the company enters the future-oriented solar energy market. This important move results from a promising R&D project and the successful transformation of the previous Display business unit into the new business area of thin-film solar panels. Oerlikon is the only company in the world offering production equipment for thin-film solar panels.



2006

With the renaming to Oerlikon the company opens a new chapter in its successful hundred-year history. The name reflects the company's history and tradition and stands for the typically Swiss values of quality, reliability, precision and innovation.

2006

Saurer demonstrates its strength in the Chinese market by opening a new plant in Suzhou (China), with over 1 000 employees.



2006

Graziano starts production in Cerveny Kostelec (Czech Republic), mainly of transmission components and automatic all-wheel drives. Saurer's transmission systems division is expanded by acquisition of Fairfield Manufacturing, US market leader in specialist gearboxes and transmissions for industrial and agricultural heavy vehicles.

2006

Acquisition of Saurer. Oerlikon takes over operative management of Saurer and optimizes the group structure, as part of the integration process. The Oerlikon group will now consist of five segments, including the new business units from Saurer. With over 19 000 people in 170 locations in 35 countries, Oerlikon is now a global player in the high-tech marketplace.



2006

A successful year of high growth, high profitability and a tripling of the share price. The Oerlikon share was quoted on the Dow Jones Index STOXX 600, where it was praised as best-performing European share of 2006. The company's market capitalization grew within a year to CHF 8.5 billion.

œrlikon

255 Years **History of** **Innovation**

OC Oerlikon Corporation AG, Pfäffikon
Churerstrasse 120
CH-8808 Pfäffikon SZ

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Key figures¹

Key figures Oerlikon Group		
in CHF million	January 1 to December 31 2006	January 1 to December 31 2005
Orders received	2 631	1 455
Orders on hand	1 557	355
Sales	2 291	1 605
EBITDA	423	128
– as % of sales	18%	8%
EBIT	329	34
– as % of sales	14%	2%
Net profit	302	21
– as % of sales	13%	1%
– as % of equity attributable to shareholders of the parent	20%	2%
Cash flow from operating activities ²	355	84
Capital expenditure for fixed and intangible assets	237	91
Total assets	6 034	1 979
Equity attributable to shareholders of the parent	1 482	1 001
– as % of total assets	25%	51%
Net liquidity ³	–589	706
Net assets ⁴	3 001	510
EBIT as % of net assets (RONA)	11%	7%
Number of employees	19 267	6 434
Personnel expenses	737	600
Research and development expenses ⁵	162	148

¹ A multiple year comparison of key figures 2002–2006 may be found on page 126.

² Before changes in net current assets.

³ Net liquidity includes marketable securities and treasury shares at market value as per December 31, 2006.

⁴ Net assets include operating assets fixed and current, (excluding cash and financial assets) less operating liabilities (excluding financial liabilities and tax provisions).

⁵ Research and development expenses include expenses recognized as intangible assets CHF 49 million (prior year: CHF 0 million)

Key share-related figures ⁶		
CHF	January 1 to December 31 2006	January 1 to December 31 2005
Share price		
High	605	198
Low	191	114
Year-end	603	198
Total shares outstanding	14 142 437	14 142 437
Market capitalization in millions	8 521	2 799
EBIT	25.75	2.52
Net income for the period	23.44	1.43
Net cash flow	12.73	–22.51
Shareholders' equity	116.01	73.47
Dividends ⁷	0.00	0.00

⁶ Average number of shares with voting and dividend rights.

⁷ Dividend 2006: proposal of the Board of Directors.

Business development by segment

in CHF million	January 1 to December 31 2006	January 1 to December 31 2005
Oerlikon Balzers Coating		
Orders received	1 195	642
Orders on hand	478	100
Sales	816	806
EBITDA	176	35
EBIT	135	-20
- as % of sales	17%	-3%
Net assets	592	444
Number of Employees	3 463	3 363
Oerlikon Leybold Vacuum		
Orders received	444	390
Orders on hand	59	45
Sales	430	383
EBITDA	56	5
EBIT	47	-4
- as % of sales	11%	-1%
Net assets	-72	-92
Number of Employees	1 378	1 479
Oerlikon Saurer Textile¹		
Orders received	398	
Orders on hand	825	
Sales	438	
EBITDA	35	
EBIT	24	
- as % of sales	6%	
Net assets	535	
Number of Employees	7 822	
Oerlikon Graziano Drive Systems¹		
Orders received	154	
Orders on hand	0	
Sales	154	
EBITDA	24	
EBIT	14	
- as % of sales	9%	
Net assets	615	
Number of Employees	4 759	
Oerlikon Components		
Orders received	436	423
Orders on hand	195	210
Sales	450	416
EBITDA	75	14
EBIT	59	-8
- as % of sales	13%	-2%
Net assets	199	197
Number of Employees	1 620	1 526
Others		
Orders received	3	0
Sales	3	0
EBITDA	57	73
EBIT	51	68
Net assets	1 132	-39
Number of Employees	225	66

¹ Because the Saurer Group was consolidated for the first time as from November 1, 2006, no comparative figures for 2005 are shown.

Net assets include operating current and non-current assets (excluding cash, cash equivalents and financial assets), less operating liabilities (excluding financial liabilities and tax provisions).

Consolidated income statement

in CHF million	Note	January 1 to December 31 2006	January 1 to December 31 2005 restated ¹
Sales of goods		1 781	1 137
Services rendered		510	469
Total sales	3	2 291	1 605
Cost of sales		-1 517	-1 104
Gross profit		773	501
Marketing and selling		-198	-215
Research and development		-113	-148
Administration		-223	-189
Other income and expenses	5	90	85
EBIT	4, 6	329	34
Result from associated companies		-2	0
Finance cost, net	7	-24	12
Profit before taxes (EBT)		303	46
Income taxes	9	-1	-25
Net profit		302	21
Attributable to:			
Shareholders of the parent		300	20
Minority interests		2	2
Earnings per registered share in CHF	11	23.49	1.43
Fully diluted earnings per registered share in CHF	11	23.44	1.43

¹ For restatement 2005 see page 90.

Consolidated Balance Sheet as at December 31

Assets

in CHF million	Note	2006	2005 restated ¹
Cash and cash equivalents	12	486	324
Marketable securities	13	95	106
Receivables	14	867	377
Current tax receivables		38	11
Inventories	15	970	237
Prepaid expenses and accrued income	16	34	22
Current assets		2 490	1 076
Loans receivable		20	0
Investments in associated companies		12	0
Other investments	8	34	28
Property, plant and equipment	17	1 336	567
Intangible assets	18	1 949	214
Post-employment benefit assets		22	10
Deferred tax assets	20	171	83
Non-current assets		3 544	903
Total assets		6 034	1 979

Equity and liabilities

in CHF million	Note	2006	2005 restated ¹
Payables	22	854	130
Accrued liabilities	23	386	188
Current customer advances	24	222	56
Current financial debt	25	1 548	1
Current income tax provisions	10	174	21
Current post-employment benefit provisions	19	15	15
Current other provisions	26	202	133
Current liabilities		3 400	545
Non-current customer advances	24	46	34
Non-current financial debt	25	256	2
Non-current post-employment benefit provisions	19	629	286
Deferred tax provisions	21	96	23
Other non-current provisions	26	102	82
Non-current liabilities		1 128	426
Total liabilities		4 528	971
Share capital		283	283
Treasury shares		-183	-244
Reserves and retained earnings		1 382	962
Equity attributable to shareholders of the parent		1 482	1 001
Minority interests		24	7
Total equity		1 506	1 008
Total equity and liabilities		6 034	1 979

¹ For restatement 2005 see page 90.

Consolidated Cash Flow Statement

in CHF million	Note	January 1 to December 31 2006	January 1 to December 31 2005 restated ¹
Net profit		302	21
Depreciation of property, plant and equipment	17	98	89
Amortization of intangible assets	18	6	3
Impairment losses on property, plant and equipment	17	-11	0
Addition to (+) / release of (-) other provisions	26	-7	54
Increase (+) / decrease (-) in post-employment benefit provisions	19	-5	-4
Expense (+) / income (-) from deferred taxes	9, 21	-30	8
Losses (+) / gains (-) from investment in associated companies		2	0
Losses (+) / gains (-) from sale of non-current assets		-2	-73
Other non-cash income/expense		4	2
Conversion losses (+) / gains (-) on intercompany positions		-2	-18
Cash flow from operating activities (before change in net current assets)		355	84
Decrease (+) / increase (-) in receivables / accrued assets		86	-30
Decrease (+) / increase (-) in inventories	15	-54	195
Increase (+) / decrease (-) in payables / accrued liabilities and use of other provisions		-62	-167
Increase (+) / decrease (-) in customer advances	24	44	-104
Non-cash impact on net current assets due to hedge accounting		4	-12
Cash flow from changes in net current assets		18	-117
Cash flow from operating activities		373	-34
Capital expenditure for property, plant and equipment	17	-161	-88
Investment in non-consolidated subsidiaries	8	0	-26
Investment in associated companies	1	-14	0
Capital expenditure for intangible assets	18	-76	-3
Decrease (+) / increase (-) in loans receivable		-9	21
Decrease (+) / increase (-) in marketable securities	13	59	-104
Increase (+) / decrease (-) in cash from purchase/sale of subsidiaries		-1 534	86
Proceeds from sales of property, plant and equipment		22	25
Cash flow from / used by investing activities		-1 713	-89
Dividends paid		-1	-1
Sale (+) / purchase (-) of treasury shares		189	-202
Increase in financial debt	25	1 317	6
Cash flow from / used by financing activities		1 505	-197
Conversion adjustments to cash and cash equivalents	12	-2	13
Increase (+) / decrease (-) in cash and cash equivalents	12	163	-307
Cash and cash equivalents at the beginning of the year		324	630
Cash and cash equivalents at the end of the year		486	324
Increase (+) / decrease (-) in cash and cash equivalents		163	-307
Additional information: Interest paid		11	0
Interest received		6	5
Taxes paid		28	27

¹ For restatement 2005 see page 90.

Statement of recognized income and expenses

in CHF million	2006	2005
Fair value adjustments IAS 39		23
Realization under IAS 39		-68
Actuarial gains / losses under IAS 19		-10
Conversion differences		60
Net result recognized directly in equity		5
Group net profit		21
Total recognized income and expenses in equity	292	27
- of which attributable to group shareholders	289	25
- of which attributable to minority interests	3	2

Consolidated statement of changes in shareholders' equity

in CHF million	Share capital ²	Additional paid-in capital ³	Treasury shares ⁴	Conversion differences	Retained earnings	Hedge accounting	Fair value adjustments	Deferred taxes	Total equity allocable to shareholders	Minority interests	Total shareholder's equity
Balance at January 1, 2005	283	622	-42	-98	406	9	41	-6	1215	6	1221
Restatement of pension liabilities (IAS 19) ¹					-40			9	-31		-31
Balance at Jan 1, 2005 after restatement	283	622	-42	-98	366	9	41	3	1184	6	1 190
Total recognized income and expenses				60	-2	-12	-39	18	25	2	27
Dividend distributions									0	-1	-1
Share-based compensation					2				2		2
Purchase of treasury shares			-248						-248		-248
Sale of treasury shares			46		-8				39		39
Balance at December 31, 2005	283	622	-244	-38	359	-3	1	22	1 001	7	1 008
Balance at January 1, 2006	283	622	-244	-38	359	-3	1	22	1001	7	1008
Total recognized income and expenses				-19	312	5	-1	-8	289	3	292
Dividend distributions									0	-1	-1
Change in scope of consolidation									0	16	16
Share-based compensation					-				0		0
Purchase of treasury shares			-3						-3		-3
Sale of treasury shares			65		130				195		195
Balance at December 31, 2006	283	622	-183	-58	802	2	0	14	1 482	24	1 506

¹ Restatement 2005 see page 90.

² The share capital of OC Oerlikon Corporation AG, Pfäffikon consists of 14 142 437 registered shares of nominal value CHF 20.

³ Additional paid-in capital includes CHF 57 million which are not distributable for legal reasons.

⁴ Treasury shares held at cost in coverage of potential obligations associated with stock option plans of OC Oerlikon Corporation AG, Pfäffikon:

Detail of footnote 4	Number of shares	Price per share in CHF	Cost in CHF million	Fair value in CHF million	Result in CHF million
Balance at December 31, 2004	223 581	189	42		-3
Exercise of employee share options	-239 366	187	-45	-37	-7
Sale 2005 due to employee share purchase plan	-7 530	187	-1	-1	0
Purchase 2005	1 343 917	173	232	232	0
Repurchase of employee shares	92 092	178	16	16	0
Balance at December 31, 2005	1 412 694	173	244		-8
Sale 2006	-351 040	173	-61	-187	126
Sale 2006 due to employee purchase plan	-21 243	173	-4	-7	4
Repurchase of employee shares	9 601	350	3	3	0
Balance at December 31, 2006	1 050 012	174	183		130

Introduction

OC Oerlikon Corporation AG, Pfäffikon, previously Unaxis Holding AG, 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, components and services for selected information technology market segments and industrial applications. The recent acquisition of Saurer has added two new business activities: transmission technology and yarn solutions (textile machinery). Apart from its activities in Switzerland, the Oerlikon Group operates in particular in the EU region, North America and Asia, and employed some 19 200 individuals at the balance sheet date, 6 600 with Oerlikon and 12 600 with Saurer.

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 with Swiss company law. These accounting standards have been consistently applied in all periods represented herein. The consolidated financial statements were approved by the Board of Directors on March 22, 2007 and will be submitted to the annual general meeting of shareholders on May 8, 2007 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 was based on audited annual individual company accounts of the Group's subsidiaries, and prepared according to uniform Group accounting principles. The reporting currency of the Group is Swiss franc (CHF). All line item amounts in the consolidated financial statements are reflected 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 amounts can result in rounding differences. All assets and liabilities have been determined in accordance with the historical cost principle, with the exception of derivative financial instruments and financial assets available for sale or held for trading purposes, which are stated at fair value.

Judgements, estimates and assumptions

Preparation of the annual financial statements in accordance with IFRS requires that management makes estimates and assumptions that may have an impact on the level of the reported revenues, expenses, assets, liabilities and contingent liabilities at the time of accounting. These estimates and assumptions are constantly being revised. Depending on the issues involved, adjustment of such basic presumptions can have an effect on the current period as well as potentially on future periods. The estimates, judgements and assumptions are based on historical experience and other factors that are believed to be reasonable and justified. However, actual results can differ from these estimates. Moreover, application of the 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, the assessment of business cases that involve complex structures or legal forms call for decisions on management's part. The most important accounting estimates are to be found in:

- Property, plant and equipment, goodwill and other intangible assets
- Provisions
- Pension plans
- Income taxes

New and revised accounting principles

The International Accounting Standards Board (IASB) has published a number of new and revised standards that Oerlikon has adopted as of January 1, 2006. The effects of these adjustments on the Group's consolidation principles are discussed below.

IAS 19 Employee Benefits: since January 1, 2006, actuarial gains and losses may be recognized directly in equity in a Statement of Recognized Income and Expenses (SoRIE). Oerlikon has elected to adopt this reporting option for the

first time in 2006, and has therefore provided all additional information required, including restatement of the year 2005. The effect on the income statement and the balance sheet is shown in the attached table.

IAS 21 The Effects of Changes in Foreign Exchange Rates: foreign exchange differences pertaining to a company's net investment in a foreign entity, including equity loans between group companies, should be reported in equity regardless of the currency in which they arise.

Adoption of this standard has no significant effect on Oerlikon Group's business result, nor on the disclosed values of its assets and liabilities.

IAS 39 Financial Instruments – Recognition and Measurement: a group transaction affecting profit or loss may be covered by a cash flow hedge, if it is incurred in a currency other than that of the reporting company.

Such hedging, with recognition of assets and liabilities at fair values, is permitted only in certain circumstances. Adoption of this standard has no significant effect on Oerlikon Group's business result, nor on the disclosed values of its assets and liabilities.

Beside the above, the following additional standards and interpretations came into effect in 2006:

Effective date January 1, 2006:

- IFRS 6 Exploration for and evaluation of mineral resources
- IFRIC 4 Determining whether an arrangement contains a lease according to IAS 17

Effective date March 1, 2006:

- IFRIC 7 Applying the restatement approach under IAS 29, Financial Reporting in Hyperinflationary Economies

Effective date May 1, 2006:

- IFRIC 8 Scope of IFRS 2 share-based payment

Adoption of these standards has no effect on Oerlikon Group's business result, nor on the disclosed values of its assets and liabilities

Presentation of group accounts

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

Balance Sheet

- In 2006 the reporting of pension obligations no longer follows the 'corridor' method of IAS 19. Instead, actuarial gains and losses are recognized directly in equity. The prior year comparative figures have been adjusted in accordance with IAS 8 (see also Note 19 Post-employment Benefits).

Income Statement

- In 2006, transactions involving securities, investments and gains from dividends are recognized in other income and expenses as these transactions are determined by the parent company. Interest and foreign currency effects are shown below operating profit. If the same accounting treatment were applied to 2005, the CHF 62 million gain on sale of one investment would increase the EBIT from CHF –34 million as disclosed, to CHF 28 million. A further change results from adopting the equity option for recognition of certain pension costs (IAS 19). This increases the EBIT in 2005 by CHF 5 million. Details of this IAS 19 option are shown in Note 19 Post-employment Benefits.

Effect of adjustments

Income statement

in CHF million	2005 Annual report	IAS 19 Employee benefits	Adjustment of EBIT definition	2005 restated
Sale of goods	1 137			1 137
Sale of services	469			469
Sales	1 605			1 605
Cost of sales	-1 105	1		-1 104
Gross profit	500	1		501
Marketing and sales	-215			-215
Research and development	-148			-148
Administration	-192	3		-189
Other income and expences	21	2	62	85
EBIT	-34	5	62	34
Net financial expense	11		1	12
Gain on sale of investments	62		-62	0
Earnings before tax (EBT)	40	6	0	46
Taxes on income	-21	-3		-25
Net profit	18	3		21
Earnings per share in CHF	1.21	0.22		1.43
Diluted earnings per share in CHF	1.21	0.22		1.43

Balance sheet

in CHF million	2005 Annual report	IAS 19 Employee benefits	2005 restated
Current assets	1 076		1 076
Non-current assets	907	-4	903
Total assets	1 983	-4	1 979
Short-term liabilities	544	1	545
Long-term liabilities	393	33	426
Total liabilities	937	34	971
Equity	1 046	-38	1 008
Total equity and liabilities	1 983	-4	1 979

Accounting standards issued but not yet implemented

- IFRS 8 Operating segments (effective date January 1, 2007)
- IFRIC 9 Reassessment of embedded derivatives (effective date June 2006)
- IFRIC 10 Interim reporting and impairment (effective date November 2006)

No effects for Oerlikon Group accounts are expected.

Future developments in IFRS accounting principles

The International Accounting Standards Board (IASB) has published a number of new and revised standards and interpretations which come into force from January 1, 2007 and have not been implemented in the attached accounts:

- IFRS 7 Financial Instruments: Disclosures (effective date January 1, 2007)¹
- IAS 1 Presentation of Financial Statements: Capital disclosures (effective date January 1, 2007)¹
- IFRIC 11 IFRS2 – Group and treasury share transactions (effective date March 1, 2007)²
- IFRIC 12 Service Concession Arrangements (effective date January 1, 2008)²

It is planned to implement these new standards in the years in which they come into force.

¹ Additional disclosure requirements expected in consolidated financial statements.

² No significant effects for Oerlikon Group accounts are expected.

Consolidation Principles

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 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 organization chart at the end of this report.

Changes in scope of consolidation and group structure

Acquisition of the Saurer Group, Switzerland

The Saurer group was included in the consolidation as from November 1, 2006. As at December 31, 2006 Oerlikon Group held 85.9% of the shares of Saurer AG, Arbon. A liability has been recognized in respect of the outstanding shares to be acquired after the year-end under the terms of the public tender offer. This acquisition adds two new segments: Oerlikon Saurer Textile and Oerlikon Graziano Drive Systems. The Oerlikon Saurer Textile segment is a provider of yarn processing solutions for the textile industry - natural and synthetic fibers. The Oerlikon Graziano Drive Systems segment develops and manufactures transmission systems for motor vehicles (see also Note 1).

Oerlikon Balzers Coating segment

Acquisition of Gold Star Coatings, USA

On May 1, 2006 Oerlikon Group acquired the assets and the PVD coating business of Gold Star Coatings (see also Note 1).

Oerlikon Components segment, business unit Space

Acquisition of Snecma Moteurs, France

On January 23, 2006 Oerlikon Group acquired from the French Snecma Moteurs their business in developing and manufacturing high-precision machinery for use in spacecraft. Their main activity is manufacture of Solar Array Drive Mechanisms (SADM), a key component of energy provision for spacecraft (see also Note 1).

Oerlikon Components segment, business unit Optics

Acquisition of Exitech Ltd., GB

On November 14, 2006 Oerlikon Group acquired the assets of Exitech Ltd. Exitech specializes in sale of nano and micro laser systems worldwide (see also Note 1).

Acquisition of associated company

On June 13, 2006 Oerlikon Group acquired 21% of the shares of Novalux Inc., USA. Novalux specializes in development of semiconductor laser technology. With this contract Oerlikon acquired two non-exclusive worldwide trading licenses, and agreement was reached on joint future development of Novalux's solid state laser technology.

Business combinations and goodwill

The equity consolidation follows the purchase method. At the time of their initial consolidation the assets, liabilities and contingent liabilities of subsidiaries are restated to fair value. The difference between the purchase price and the equity of the acquired company at fair value is capitalized in the books of the subsidiary company. Goodwill denominated in foreign currencies is translated into Swiss francs at the rates prevailing on the balance sheet date. Since January 1, 2005, capitalized goodwill may no longer be systematically amortized, but instead is tested annually for possible value impairment.

Translation of foreign currencies

Assets and liabilities of foreign subsidiaries are translated into Swiss francs at the exchange rate prevailing on the balance sheet date; income and expenses of foreign subsidiaries are translated into Swiss francs 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 cred-

ited 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 held at market values (in particular financial instruments).

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.

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.

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, credits and financial liabilities, 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 dis-posed 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.

Derivative financial instruments: 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 values. 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, i. e. 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.

Securities: these are assets of high price volatility. They are held at fair values, with their values adjusted as required through profit and loss. For the valuation of unquoted securities, standard methods are used, with value adjustment also through profit and loss.

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 overhead. Recognizable reductions in value resulting from excess inventory, declines in replacement cost or sales price and the like are taken into account through appropriate write-downs of inventory items. Customer advances are credited proportionally to inventory.

Investments: 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 OC Oerlikon Corporation AG, Pfäffikon. 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: 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 electrically powered 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 the rental contract (max. 20 years) or, if shorter, individual useful life
– Plant and administrative buildings used in Group operations	20–60 years

Estimated useful life and residual worth are examined annually.

Fixed assets under financial lease 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 estimated net realizable value (less sale-related costs).

Intangible assets (excluding goodwill): 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, when the useful lives can be clearly determined. For example software over two to three years, development costs generally over five years. If the useful life cannot be determined, an annual impairment test of the intangible asset is conducted as at the balance sheet date.

Impairment of assets: assets are tested for potential impairment of value at least once per annum, to establish whether a value impairment is indicated. Should this be the case, possibly as a result of a triggering event, and regarding assets of significant value, an impairment test is carried out in order to determine if and to what extent an adjustment might be needed to reduce the asset to its value in use. The test uses estimates of future cash flows to be expected from use of the assets concerned, or from their possible sale, if such is intended. If a value adjustment is called for, the impairment loss is recorded against the assets concerned and charged to the income statement. In cases where a previously recorded impairment loss is no longer justified (with the exception of impairment losses on goodwill), it is reversed and credited to the income statement.

Goodwill and other intangible assets with an indeterminate useful life are subjected to an annual impairment test as at the balance sheet date.

Discontinued operations and long-term assets held for sale: a business unit or segment is reclassified into “discontinued operations” if it is sold, or at an earlier date, if it fulfills the criteria for being classified as “held for sale”. Long-term 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 booked to the income statement.

Provisions: provisions are set up if the future outflow of resources is likely and reliably predictable 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 is discounted at normal market rates.

– Restructuring provisions: provisions are set up 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 set up 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 set up for known customer claims and also for latent warranty exposure.
- Product liability: provisions are set up for known claims; latent exposure is not provided.
- Employee Benefits: provisions are set up in accordance with IAS 19. The interest component of pension costs for unfunded plans is shown as financial expense.

Contingent liabilities: these 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. IAS 37 states that such obligations should not be set up as liabilities on the balance sheet.

Participation plans: OC Oerlikon Corporation AG, Pfäffikon 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 until 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.

Post-employment benefit plans: Oerlikon companies operate various plans for providing employees with post-employment benefits, which conform to local circumstances and practice in the countries concerned. These include defined benefit and defined contribution plans, under which benefits are provided through separate funds, insurance plans or unfunded arrangements. For defined benefit plans, the amount charged to the income statement consists of current service cost, which includes the normal cost of financing benefits in respect of future years of service, as well as net interest on the assets or obligations. Contributions to defined contribution pension schemes are charged to the income statement as incurred. For funded plans, plan assets are held separately from those of the group in independently administered funds. The group's liability to pay future post-employment benefits is determined using the “projected unit credit method” in accordance with IAS 19 (revised), and is provided in the Group's balance sheet.

As from 2006, all actuarial gains and losses (and the related deferred income taxes) are recognized immediately in the balance sheet and reported as an equity movement in the statement of recognized income and expenses. The restatement of opening balances as at January 1, 2005 called for recognition of actuarial losses for defined benefit plans in the amount of CHF 38 million, increasing the provision for post-employment benefits and reducing equity. The related deferred taxes amounted to CHF 9 million. In the 2006 income statement a cost reduction of CHF 6 million was recorded (2005: CHF 6 million), with a deferred tax expense of CHF 3 million (2005: CHF 2 million). In accordance with IAS19 §58(b) the amount of net assets from pension plans recognized in the balance sheet may not exceed the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The effect of this limit in IAS19 §58(b) is also recorded as an equity movement in the statement of recognized income and expenses. Previously it was recorded in the income statement.

Assets and liabilities shown in the balance sheet for defined-benefit pension plans are based on statistical and actuarial calculations. The present value of the future benefit obligation depends on assumptions concerning the discount rate used to arrive at the present value, future salary expectations and possible increases in social costs of employment. Other factors included in the calculation are statistical data for employee turnover and life expectancy. These actuarial assumptions can vary substantially from reality as a result of market forces (e.g. higher or lower turnover rates or life expectancy of employees, changes in the economic or regulatory environment etc.). Such variances could affect the assets and liabilities shown in the balance sheet for defined-benefit pension plans in future periods. Actuarial calculations are performed generally on an annual basis.

Financial Liabilities: the financial liabilities consist mainly of loans with floating interest rates. Bonds are valued at cost, whereby the difference between the nominal amount repayable on maturity and the fair value less transaction costs of the bond when issued is recognized over the life of the bond as additional interest expense.

Income statement

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.

Operating expenses are recognized as a charge to income as they are incurred.

Sales of goods: sales of goods, after deduction of sales taxes and credits for returns and rebates, are recorded when the utility and risks of the sold goods have essentially transferred to the customer. In the business unit Oerlikon Solar (Oerlikon Balzers Coating segment) and the business unit Oerlikon Space (Oerlikon Components segment) revenue accruals for long-term manufacturing and services contracts are accomplished via the percentage of completion method. For Oerlikon Solar, the percentage of completion is determined on the basis of direct contract-related costs, after factoring out cost of materials. The Oerlikon Space business unit uses the milestone method.

Services rendered: revenues from services that have been rendered are recorded on the income statement according to the level of completion at the balance sheet date.

Interest on financial debt: interest expense is charged to the income statement without restriction. Borrowing costs of construction are not capitalized.

Research and development: development costs are recognized as intangible assets if they meet the criteria for such recognition set forth in IAS 38. A new 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.

Taxes: current-year income taxes (Note 9) 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 judgement 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 few years, by offset against taxable profits of group companies individually or in tax pools. In countries or companies where realization of the losses is not probable, 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.

Wherever local company tax values differ from Group values (temporary differences), deferred taxes are determined and recorded by applying current effective 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, and other assets and liabilities which do not affect taxable profits, no deferred taxes are set up.

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 takes into account additionally all potential equity securities that could have come into existence as the result of an exercise of option rights.

Financial risk management/financial instruments

Due to its international activities, the Group is faced with various financial risks, such as those associated with fluctuations in foreign exchange and interest rates. Management continuously monitors and steers such risks with the support of Corporate Treasury. As a fundamental rule, no speculative transactions are conducted in the areas of foreign exchange or interest rates.

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 price risks versus the US dollar and Euro. When the expenses and revenues of Group companies are incurred 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").

Liquidity risks: on the basis of a consolidated, rolling liquidity plan, Corporate Treasury determines the Group's required liquidity and is responsible for ensuring its availability as well as the centralized financing of Group companies.

Interest rate risks: risks related to fluctuations in interest rates are monitored by Corporate Treasury and in certain instances hedged at the Group level.

Default 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.

Related-party transactions

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

Segment reporting

The primary segment reported corresponds to the operational and management-related structure of the Group. Secondary segment reporting is geographic, based on the group's principal locations and markets. The segments were realigned in 2006 as part of the Oerlikon Group re-branding program and also to integrate Saurer. These changes led to a re-grouping of core competencies and business units into five segments. Group reporting has been adjusted to reflect the new structure.

The individual segments of the Group are managed separately because the products they produce and market are clearly distinct from one another.

Intersegment sales are transacted at normal market conditions, and the related cost allocations are made systematically to the Group company that incurred the costs. The net operating assets of the business units consist of the operating assets such as receivables, inventories, PP&E and intangible assets, less any operating liabilities.

Oerlikon Balzers Coating: this segment consists of the business units Coating Services, Coating Systems and Solar. Coating Services (Balzers) is a global leader in the coating of precision components, especially for the automotive industry, as well as tools used in metal and plastics processing. The most important business field for Coating Services is contract coating services, which are offered via a continually growing network of coating centers in Europe, the Americas and Asia. Coating Services also operates in-house coating centers at customer sites and markets coating equipment. Coating Systems includes the previous business units Data Storage and Wafer Processing. These cover the market sectors optical storage media, hard discs, mask etching and wafer coating. The business unit Solar is active in the photovoltaic market and among other things is the only global provider of turnkey production equipment for volume manufacture of large surface thin-film coated solar panels made from amorphous Silizium.

Oerlikon Leybold Vacuum: the segment is divided into the two business units Oerlikon Leybold Vacuum Systems and Oerlikon Leybold Vacuum Services. Systems offers vacuum solutions used in a broad range of modern production and analytical processes as well as for research purposes. Services offers consulting services and individual service for complete vacuum systems. The segment's core competency lies in the development of systems for making vacuum and conveying process gases.

Oerlikon Components: is a segment comprising Oerlikon Optics, Oerlikon Assembly Equipment (previously Oerlikon ESEC Semiconductor), Oerlikon Solutions (previously Mecanovis) and Oerlikon Space. Oerlikon Optics is specialized in the area of optical components and modules. Highly precise optical thin film depositions, as well as complex optomechanical and optoelectronic modules, represent the business unit's core competencies. Oerlikon Assembly Equipment offers chip bonding equipment and system solutions for the semiconductor industry. Their machines are used in the back-end area of chip manufacturing. Oerlikon Solutions builds specialized turnkey equipment, mechanical component and high-vacuum systems, with the main focus on supplies to other business units within Oerlikon. Space Technology is the world's leading provider of payload fairings made of composite materials for space launch vehicles. Additional products produced by the unit are structures and precision mechanisms for satellites, instruments used in space exploration, and laser terminals for optical data transmission between telecommunications satellites.

Oerlikon Saurer Textile: this segment offers total solutions in the area of textile machinery and equipment, covering the complete textile value chain. The range of products and services offered includes plant design, equipment for manufacture of chemical fibers and non-wovens, ring-spinning, rotor-spinning and winding.

Oerlikon Graziano Drive Systems: this segment develops and manufactures transmission systems for motor vehicles. Oerlikon Graziano Drive Systems offers complete transmission systems, synchronizer units and gearboxes all over the world. Its product portfolio includes gearboxes for high-performance cars, components for all-wheel drive transmissions and agricultural vehicles and also heavy-duty planetary transmissions.

Changes in scope of consolidation and group structure

Note (1)

Acquisition of Saurer AG, Schweiz

On November 1, 2006, Oerlikon Group held over 50% of the shares of Saurer AG, Arbon, and by December 31, 2006 had acquired a total of 85.9%, for a price of CHF 1 635 million. A liability of CHF 277 million has been set up to cover the cost of acquiring the remaining shares outstanding under the public tender offer.

Saurer consists of two divisions, Textile Solutions and Transmission Systems. Textile Solutions is a provider of yarn processing solutions for the textile industry – natural and synthetic fibers. Transmission Systems develops and manufactures transmission systems for motor vehicles.

in CHF million	Acquired book values	Adjustments to fair values	Fair values
Cash and cash equivalents	127	0	127
Inventories	739	12	751
Other current assets	685	0	685
Deferred taxes	77	0	77
Other non-current assets	818	54	872
Total assets	2 446	66	2 512
Liabilities	848	0	848
Financial debt	496	0	496
Provisions	580	83	663
Provisions for deferred taxes	66	16	83
Total liabilities	1 990	99	2 090
Minority interests	17		17
Identifiable assets and liabilities	439	-33	405
Goodwill			1 507
Acquisition cost			1 912
Cash or cash equivalents acquired			127
Outstanding shares per public tender offer			277
Net cash outflow			1 508

The acquisition cost is made up as follows:

in CHF million	31.12.2006
Purchase price	1 567
Transaction costs	68
	1 635
Outstanding shares per public tender offer	277
Total acquisition cost	1 912

The goodwill arising from this acquisition represents the expected potential for synergies deriving from the combination of Saurer with Oerlikon, the merging of the two workforces and all other intangible assets which could not be separately identified.

The newly acquired group contributed CHF 26 million in 2006 to the consolidated result of Oerlikon Group. Had the acquisition occurred on January 1, 2006, combined total sales of CHF 4 678 million and a profit of CHF 360 million would have been reported for the year 2006.

The assets and liabilities of Saurer AG are included in the consolidated financial statements of Oerlikon Group at provisional values, because the process of determining fair values for Saurer's identifiable assets, liabilities and contingent liabilities is not yet complete. The provisional purchase accounting gives rise to a goodwill figure of CHF 1 507 million. However, both the goodwill itself and also the extent and value of the identified assets, liabilities and contingent liabilities included in the purchase accounting, are subject to change. The purchase accounting process is expected to be concluded during 2007.

Other acquisitions

Note (1 cont.)

The acquisition costs are made up as follows:

in CHF million	Acquired book values	Adjustment to fair values	Fair values
Inventories	9	-7	2
Property, plant and equipment	6	0	6
Intangible assets	3	2	5
Total assets	18	-5	13
Total liabilities	0	0	0
Identifiable assets and liabilities	18	-5	13
Goodwill			11
Acquisition cost			24
Net cash outflow			24

As at November 14, 2006 Oerlikon acquired the assets of **Exitech Ltd.** (GB) for CHF 6 million. Exitech specialises in manufacturing and sale of nano and micro laser systems, worldwide. Exitech will be integrated into the Oerlikon Optics business unit.

The acquisition cost is made up as follows:

in CHF million	14.11.2006
Purchase price, paid in cash	6
Transaction costs	0
Total acquisition cost	6

If the acquisition of Exitech had occurred as at January 1, 2006, the Group's consolidated sales would have been CHF 15 million higher and the consolidated profit CHF 4 million lower. The attributable loss since the date of acquisition is immaterial.

On January 23, 2006 Oerlikon Group acquired from the French **Snecma Moteurs** (F) their business in developing and manufacturing high-precision machinery for use in spacecraft, for a price of CHF 8 million.

Their main activity is the manufacturing of Solar Array Drive Mechanisms (SADM).

The acquisition cost is made up as follows:

in CHF million	23.01.2006
Purchase price, paid in cash	8
Transaction costs	0
Total acquisition cost	8

The business activities acquired contributed CHF 4 million to the consolidated total sales of Oerlikon Group for the year 2006, and CHF 1 million to the consolidated profit.

On May 1, 2006 Oerlikon Group acquired the assets and the PVD coating business of **Gold Star Coatings**, (USA) for a price of CHF 10 million.

The acquisition cost is made up as follows:

in CHF million	01.05.2006
Purchase price, paid in cash	10
Transaction costs	0
Total acquisition cost	10

The goodwill arising from this acquisition represents the expected potential for synergies deriving from the combination of the Coating businesses involved, the merging of the two workforces and all other intangible assets which could not be separately identified.

In the period from May 1 to December 31, 2006 the acquired coating business had a negative impact on the group result of CHF 0.2 million. Had the acquisition occurred on January 1, 2006, management estimate that Gold Star Coatings would have contributed CHF 1 million to the Group's profit and CHF 11 million. to the consolidated Oerlikon Group sales.

Acquisition of associated companies

Note (1 cont.)

On June 13, 2006 Oerlikon Group acquired 21% of the shares of **Novalux Inc.**, USA, for a price of CHF 14 million. Novalux specializes in the development of semiconductor laser technology. With this acquisition Oerlikon acquired two options for global, non-exclusive trading licences.

Conversion rates

Note (2)

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

in CHF	Average rates		Change 05/06	Year-end rates		Change 05/06
	2006	2005		2006	2005	
1 USD	1.25	1.25	0.6%	1.22	1.31	-6.8%
1 EUR	1.57	1.55	1.6%	1.61	1.56	3.1%
1 GBP	2.31	2.27	1.9%	2.40	2.27	5.6%
100 JPY	1.08	1.13	-4.8%	1.03	1.12	-7.9%
100 CNY	15.70	15.20	3.3%	15.70	16.30	-3.7%
100 HKD	16.10	16.00	0.6%	15.70	16.90	-7.1%
1 SGD	0.79	0.75	5.5%	0.80	0.79	1.1%

Impact of conversion rates on sales

Note (3)

in %	Change versus previous year			
	Actual	Excluding conversion impact	Impact of conversion rates	
Oerlikon Balzers Coating		1.2	0.3	0.9
Oerlikon Leybold Vacuum		12.2	10.8	1.4
Oerlikon Components		8.2	7.0	1.2
Others		0	0	0
Total		5.8	4.7	1.1

Impact of conversion rates cannot be shown for the segments Saurer Textile and Graziano Drive Systems because there are no prior year values.

Impact of conversion rates on EBIT

Note (4)

in CHF million	Change versus previous year			
	Actual	Excluding conversion impact	Impact of conversion rates	
Oerlikon Balzers Coating		153	153	0
Oerlikon Leybold Vacuum		51	51	0
Oerlikon Components		70	70	0
Others		-18	-18	0
Total		256	255	1

Impact of conversion rates cannot be shown for the segments Oerlikon Saurer Textile and Oerlikon Graziano Drive Systems because there are no prior year values.

Other income and expenses¹

Note (5)

in CHF million	2006	2005
Licensing, patent and know-how income	2	2
Gain from sale of operating real estate	4	6
Change in post-employment benefit plan accruals	1	1
Gain on sale of securities	76	62
Gain on sale of business activities and investments	12	23
Impairment reversal operating real estate	6	0
Impairment reversal property, plant & equipment	5	0
Rental income from investment property	2	3
Gain on sale of investment property	4	1
Other income and expenses	15	11
Other income	126	110
Taxes not based on income	-15	-7
Restructuring costs	0	-9
Expense of investment property	-1	-2
Depreciation of investment property	-1	-1
Additional expenses	-19	-5
Other expenses	-36	-25
Other income and expenses	90	85

¹ For disclosure details see page 89.**Expenses included in EBIT**

Note (6)

in CHF million	2006	2005
Salaries and wages	593	487
Social security and other employee benefits ¹	143	113
Personnel expense	737	600
Depreciation and amortization of		
– operating property, plant and equipment	98	89
– intangible assets (excluding goodwill)	6	3
Depreciation and amortization of operating assets	105	93

¹ Included in the CHF 143 million expense for social security and other employee benefits is CHF 20 million (previous year: CHF 19 million) attributable to specific post-retirement benefit plans of the individual companies. The remainder includes the legally required benefit contributions of Group companies as well as other social security expenses.

Finance cost, net

Note (7)

in CHF million	2006	2005
Interest income	6	5
Other financial income	4	19
Foreign currency gains, net	4	1
Financial income	14	25
Interest on financial debt	-14	0
Interest on provisions for post-employment benefit plans	-13	-11
Value adjustments to financial investments	0	-1
Other financial expenses	-12	-2
Financial expenses	-39	-14
Total	-24	12

Other investments

Note (8)

in CHF million	2006	2005
Pilatus Flugzeugwerke AG, Stans ¹	28	28
Others ²	6	
Total	34	28

¹ The investment in Pilatus Flugzeugwerke AG remains unchanged at 13.97%. The investment is valued at cost due to lack of information regarding fair values.

² Other investments are consolidated for the first time in connection with the acquisition of Saurer AG. Because Saurer was consolidated for the first time as at November 1, 2006, no comparative values are shown.

Income taxes

Note (9)

in CHF million	2006	2005
Current income taxes	30	17
Deferred taxes ¹	-29	8
Total	1	25

¹ The deferred tax credit results in part from recognition of tax losses as deferred tax assets and also from changes in the accounting treatment of pensions.

Analysis of tax expense

in CHF million

	2006 Pretax result	Tax expense	2005 Pretax result	Tax expense
Group total (actual)	303	1	46	25
Expected tax expense based on weighted average expected tax rates: ¹		64		32
Difference between actual and expected tax expense		-63		-8
The difference between the tax rate calculated using the weighted average tax rate of Oerlikon Group of 22.5% and the effective tax rate arises from the following factors:				
Unrecognized deferred taxes on current-year losses		7		40
Recognition/offset of unrecognized tax loss carryforwards from previous periods		-76		-18
Other effects		5		7
Non-taxable income and expenses		1		-37
Non-taxable income and expenses		-63		-8

Note (9 cont.)

¹ 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. In 2005 the relatively high losses provoked a shift in tax expense as compared with the pre-tax result. Also, in 2005, substantial non-taxable income was generated from restructuring contributions made within the group. These were reduced to a minimum in 2006.

Current income tax provisions

in CHF million	2006	Due within 1 year	beyond 1 year	2005
Total	174	174	0	21

Note (10)

Earnings per share

in CHF million	2006	2005
Net profit	302	21
Minority interests	2	2
Net profit attributable to shareholders	300	20
Earnings per registered share in CHF ¹	23.49	1.43
Diluted earnings per registered share in CHF ¹	23.44	1.43

Note (11)

¹ Earnings per share of CHF 23.49 has been calculated on the basis of a net profit of CHF 300 million attributable to shareholders (previous year: CHF 20 million) and the average weighted number of outstanding shares (issued shares less treasury shares). In 2006, the average weighted number of shares entitled to vote and receive dividends amounted to 12 773 290 (previous year: 13 622 057). Fully diluted earnings per share amounted to CHF 23.44. The average weighted number of shares used in the calculation of fully diluted earnings per share amounted to 12 801 455 (previous year: 13 628 356).

Number of outstanding shares	2006	2005
Total shares outstanding at year-end	14 142 437	14 142 437
Weighted annual average number of shares outstanding ²	12 773 290	13 622 057
Effect of potential exercise of option rights	28 165	6 299
Weighted average number of shares outstanding on December 31	12 801 455	13 628 356

² The change results from repurchase of treasury shares.

Cash and cash equivalents

Note (12)

in CHF million	2006	2005
Cash, postal and bank current accounts	431	257
Time deposits	55	66
Total	486	324

CHF 61 million (previous year: 25 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	2006	2005
CHF	170	157
EUR	182	89
USD	68	32
Others	66	46
Total	486	324

Securities

Note (13)

in CHF million	2006	2005
Total	95	106

The securities consist almost entirely of short-term investments.

Receivables

Note (14)

in CHF million	2006	2005
Trade accounts receivable ¹	774	349
Trade notes receivable	21	18
Other receivables	100	28
Allowance for doubtful accounts	-28	-18
Total	867	377

¹ Breakdown of trade receivables by currency:

in CHF million	2006	2005
CHF	54	54
USD	153	140
EUR	496	109
Other	70	46
Total	774	349

No clustered risks to the Group are anticipated from the outstanding receivables.

Inventories

Note (15)

in CHF million	2006			2005		
	Gross value	Value adjustment	Net value	Gross value	Value adjustment	Net value
Raw materials and components	362	-53	309	87	-20	67
Work in progress	386	-19	367	97	-5	92
Finished goods	266	-59	207	82	-30	52
Trade merchandise	43	-11	32	29	-10	19
Advances paid for inventories	39	0	39	7	0	7
Accrued sales under percentage of completion (POC) method	16	0	16	0	0	0
Total	1 112	-142	970	301	-65	237

Amounts charged to income for write-down of inventories in the reporting year were CHF 19 million (prior year CHF 142 million.)

The accrued sales under the POC method pertain to customer orders in the segment Oerlikon Balzers Coating (business unit Oerlikon Solar) and the segment Oerlikon Components (business unit Oerlikon Space), which can be summarised as follows:

in CHF million	2006	2005
Realised POC sales	222	173
Realised POC project costs	-109	-137
Realised contribution from POC projects	113	36
POC project costs included in work-in-progress as at December 31	5	22
Customer advances received for POC projects	128	137
Offset with POC revenue accruals ¹	-60	-53
Net amount of customer advances for POC projects	68	84

¹ See note 24.

Prepaid expenses and accrued income

Note (16)

in CHF million	2006	2005
Derivative financial instruments	7	2
Other prepaid expenses and accrued income	26	20
Total	34	22

In accordance with hedge accounting as per IAS 39, the non-cash gains/losses on derivative hedges of underlying business transactions that have been recorded in shareholders' equity but have yet to be recognized are reflected in the statement of recognized income and expenses.

Property, plant and equipment

Note (17)

in CHF million	Plant, equipment and furniture	Production and administration	Developed land	Advances and facilities under construction	Non-operating real estate	2006 Total
Cost						
Balance at January 1, 2006	1 019	422	32	10	43	1 525
Conversion differences	2	6	1			9
Changes in Group companies	337	262	87	22		708
Additions	114	8	1	44		167
Disposals	-48	-8	-3		-11	-70
Transfers	36	10	2	-52		-3
Balance at December 31, 2006	1 460	699	120	24	32	2 336
Accumulated depreciation and impairment losses						
Balance at January 1, 2006	714	216	0	0	28	958
Conversion differences	2	2				4
Changes in Group companies						0
Depreciation	84	14			1	98
Impairment losses reversed ¹	-5	-6				-11
Disposals	-39	-3			-9	-51
Transfers						0
Balance at December 31, 2006	755	223	0	0	20	999
Net Group values as at December 31, 2005	304	206	32	9	15	567
Net Group values as at December 31, 2006	705	476	119	24	12	1 336
Of which, assets held under finance leases	2	44				47
Insured values in the event of fire	3 091	1 636		6	47	4 780
Estimated fair value					33	

¹ In the segments Oerlikon Balzers Coating and Oerlikon Components, certain operating assets were brought back into service and previously recognized value impairments could be reversed.

Open purchase commitments for property, plant and equipment at the end of 2006 amounted to CHF 15 million (prior year: CHF 2 million).

Property, plant and equipment

Note (17 cont.)

in CHF million

	Plant, equipment and furniture	Production and administration	Developed land	Advances and facilities under construction	Non-operating real estate	2005 Total
Cost						
Balance at January 1, 2005	936	423	33	15	70	1 477
Conversion differences	40	8	1	1	1	51
Changes in Group companies					-22	-22
Additions	45	4		39		88
Disposals	-45	-14	-3		-5	-67
Transfers	43	1	1	-45		0
Balance at December 31, 2005	1 019	422	32	10	43	1 525
Accumulated depreciation and impairment losses						
Balance at January 1, 2005	655	209	0	0	46	910
Conversion differences	23	2				26
Changes in Group companies					-17	-17
Depreciation	77	11			1	89
Impairment losses	0					0
Disposals	-42	-6			-3	-51
Transfers	1					1
Balance at December 31, 2005	714	216	0	0	28	958
Net Group values as at December 31, 2004	281	214	33	14	24	566
Net Group value as at December 31, 2005	304	206	32	9	15	567
Of which, assets held under finance leases		1				1
Insured values in the event of fire	1 030	552		6	66	1 654
Estimated fair value					50	

Intangible assets

in CHF million	Purchased goodwill of Group companies	Purchased Software	Purchased ¹ other intangible assets	Development costs	2006 Total
Cost					
Balance at January 1, 2006	209	32	2	0	243
Conversion differences	-8		-3		-11
Changes in Group companies	1 518	8	146		1 672
Additions		9	23	49	81
Disposals		-6			-6
Balance at December 31, 2006	1 719	44	167	49	1 979
Accumulated amortization and impairment losses					
Balance at January 1, 2006	0	28	1	0	29
Amortization		4	2		6
Impairment losses					0
Disposals		-6			-6
Balance at December 31, 2006	0	26	3	0	30
Net Group values as at December 31, 2005	209	4	0	0	214
Net Group values as at December 31, 2005	1 719	18	164	49	1 949

¹ Other intangible assets include brands with unlimited life in the amount of CHF 18 million.

The increase in goodwill arises mainly from the Saurer acquisition.

Goodwill is attributed to the segments as follows:

Segment in CHF million	2006	2005
Oerlikon Balzers Coating	112	116
Oerlikon Components	100	93
Other ²	1 507	
Total	1 719	209

² Final allocation of goodwill to the segments will follow when the purchase accounting for the Saurer acquisition is finalised.

Testing for potential impairment of other intangible assets with unlimited life and of goodwill values is based on the value in use. To assess the sustained values, the revised year-end budget and strategy plans approved by management for the years 2007 to 2009 were examined. As part of this analysis, future segment cash flows were discounted with an average pre-tax cost of capital of 12 to 18.4%. This capital cost was determined via the Capital Asset Pricing Model (CAPM). The test indicated that no impairment of goodwill values was necessary for the year 2006; this was further confirmed by sensitivity analysis using a very conservative growth rate of 0%.

In 2006 the criteria set forth in IAS 38 for recognition of development costs as intangible assets were met for the first time. The development costs so recognized are incurred over a variety of technology-related projects and products. A new system for control of development costs was introduced throughout Oerlikon group in the first half of 2006, 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.

Intangible assets

Note (18 cont.)

in CHF million	Purchased goodwill of Group companies	Purchased Software	Purchased other intangible assets	Development costs	2005 Total
Cost					
Balance at January 1, 2005	739	32	1	0	772
Conversion differences	15				15
Additions		2			2
Disposals		-2			-2
Transfers ¹	-545	1			-545
Balance at December 31, 2005	209	32	2	0	242
Accumulated amortization and impairment losses					
Balance at January 1, 2005	545	27	1	0	573
Amortization		3			3
Impairment losses					0
Disposals		-2			-2
Transfers ¹	-545				-545
Balance at December 31, 2005	0	28	1	0	28
Net Group values as at December 31, 2004	193	5	1	0	199
Net Group values as at December 31, 2005	209	4	0	0	214

¹ IFRS 3 requires to net the cumulative amortization of goodwill and the residual value. The corresponding adjustment is shown in the row transfers.

Post-employment benefit provisions

Note (19)

in CHF million	2006	Due		2005
		within 1 year	beyond 1 year	
Total	644	15	629	301

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

Summary of post-employment benefit plans	2006			2005		
	Total	Defined benefit	Defined contribution	Total	Defined benefit	Defined contribution
Number of plans						
Funded plans	46	35	11	23	12	11
Unfunded plans	21	18	3	11	8	3
Number of insured members						
Active members	13 608	11 741	1 961	6 014	4 799	1 349
Retirees	11 259	11 256	3	2 161	2 156	5
in CHF million						
Pension cost (operative)	20	17	3	19	16	3
Pension cost (financial)	13	13	0	11	11	0
Total post-employment benefit plan cost	32	29	3	30	27	3
Post-employment benefit provisions	644	643	1	301	300	2
Post-employment benefit assets	22	22	0	10	10	0

Defined benefit plans	2006			2005		
	Total	Plan assets		Total	Plan assets	
in CHF million		Funded	Unfunded		Funded	Unfunded
Plan assets at market values ¹	1 010	1 010	0	508	508	0
Present benefit obligation (PBO)	-1 556	-1 015	-541	-781	-501	-280
Assets in excess of/below PBO	-546	-5	-541	-273	7	-280
Post-employment benefit provisions	643	102	541	300	19	280
Post-employment benefit assets	-22	-22	0	-10	-10	0
Unrecognized gains/losses	75	75	0	16	16	0
of which:						
- Past service costs	8	8	0	9	9	0
- Actuarial gains/losses (effect of capitalisation limit IAS 19.58 b)	67	67	0	7	7	0

¹ Plan assets include:

Equity instruments	280	280
Bonds and other obligations	320	320
Real estate	106	106
Other	304	304
Total plan assets	1 010	1 010

Following revisions to IAS19 the plan assets are shown at fair values by asset category for the first time in 2006.

in CHF million

	2006	2005
Plan assets at market value as at January 1	508	481
Return on plan assets	30	41
Employee contributions	12	12
Employer contributions	34	31
Conversion differences	-15	10
Amounts paid out	-73	-68
Changes in Group companies	515	0
Plan assets at market value as at December 31	1 010	508
Present value of benefit obligation (PBO) as at January 1	781	748
Service cost	36	34
Interest cost	33	28
Actuarial (gains) losses	-15	35
Plan extensions (curtailments)	2	-11
Conversion differences	-6	13
Amounts paid out	-73	-68
Changes in Group companies	798	0
Present value of benefit obligation (PBO) as at December 31	1 556	781
Current service cost after deduction of employee contributions		
Pension cost – defined benefit plans	24	22
+ Interest costs	33	28
- Expected return on plan assets	-26	-22
- Effect of plan mutations	-1	-1
+/- (Gains) / losses from terminations and curtailments	0	-1
Total pension cost	29	27
Actuarial (gains)/losses recognized in equity		
Accumulated values as at January 1	62	40
Actuarial (gains)/losses recognized during year	-13	22
Accumulated values as at December 31	49	62
Effect of capitalisation limit IAS 19 58(b)	4	6

Note (19 cont.)

Actuarial assumptions

in %	2006	2005
(weighted average rates)		
Discount rate	4.0	3.7
Salary progression	2.1	2.1
Benefit progression	1.0	0.9
Return on plan assets	4.8	4.6

Note (19 cont.)

Development of plan assets

in CHF million	2006	2005
Plan assets at market value	1 010	508
Present value of benefit obligation (PBO)	-1 556	-781
Experience adjustments to obligations	-2	
Experience adjustments to plan assets	1	

Experience adjustments are shown for the first time in 2006, following IAS 19 revisions.

Deferred tax assets

Note (20)

in CHF million	2006	2005
Total	171	83
Unrecognized deferred tax assets resulting from tax loss carryforwards of CHF 942 million (previous year: CHF 1 013 million)	174	183
Unrecognized deferred tax assets resulting from negative timing differences of CHF 3 million (previous year: CHF 5 million)	0	1

The composition of deferred tax assets is shown in Note 21. Reference is also made to the comments in Note 9.

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

in CHF million	Tax losses not capitalised as deferred tax assets	Total tax loss carryforwards
1 year	7	7
2 years	89	89
3 years	236	236
4 years	147	147
5 years	193	193
over 5 years	271	605
Total	942	1 276

Deferred tax provisions

Note (21)

in CHF million	2006		2005	
		Due within 1 year		beyond 1 year
Total	96	0	96	23
Composition of deferred taxes (including deferred tax assets; see note 20)				
in CHF million	2006		2005	
	Deferred tax balances Assets	Deferred tax balances Liabilities	Deferred tax balances Assets	Deferred tax balances Liabilities
Cash, cash equivalents and securities	0	0	0	1
Trade accounts receivable	12	2	2	1
Other receivables and accruals	12	4	0	1
Inventories	10	9	4	3
Post-employment benefit assets	0	5	0	4
Financial assets	2	8	4	4
Property, plant and equipment	22	83	7	33
Intangible assets	50	104	3	0
Assets	108	216	20	48
Trade accounts payable	0	2	0	0
Other current and long-term liabilities	65	9	9	3
Financial debt	3	0	4	0
Provisions	49	3	44	1
Liabilities	118	14	57	5
Subtotal	226	230	77	53
Netting within each subsidiary company	-52	-52	-8	-8
Subtotal	174	178	69	45
Of which, unrecognized deferred tax assets	0	0	-1	0
Tax loss carryforwards recognized ¹	79	0	37	0
Netting within tax group	-83	-83	-23	-23
Total (net)	171	96	83	23
Of which, deferred taxes recognized in equity	-16	1	-23	0

¹ Total of timing differences based on tax losses recognized as assets in 2006: CHF -334 million (prior year: -CHF 101 million)

Payables

Note (22)

in CHF million	2006	2005
Trade accounts payable ¹	455	92
Trade notes payable	4	3
Outstanding shares of Saurer AG ²	277	0
Other payables	118	35
Total	854	130

¹ Breakdown of trade payables by currency:

in CHF million	2006	2005
EUR	299	34
CHF	50	34
USD	37	14
Others	69	10
Total	455	92

² A liability of CHF 277 million was set up at December 31, 2006, to cover payment for outstanding shares of Saurer AG under the terms of the public tender offer.

Accrued liabilities

Note (23)

in CHF million	2006	2005
Derivative financial instruments	6	9
Accrued personnel costs	167	70
Accrued cost of sales	56	39
Other accrued liabilities	157	70
Total	386	188

The statement of recognized income and expenses reflects the results from derivative hedges on underlying business transactions that have yet to be entered in the balance sheet and, in accordance with hedge accounting, have been recorded in shareholders' equity with no effect on the income statement (IAS 39).

Customer advances

Note (24)

in CHF million	2006	Due within 1 year	1 to 5 years	beyond 5 years	2005
Total	267	222	46	0	90

In the period under review, customer advances received at the project level have been offset against POC revenue accruals. This reclassification amounted to CHF 60 million as at December 31, 2006 (prior year: CHF 53 million).

Financial debt/net liquidity

Note (25)

in CHF million	2006 total	Due			2005
		within 1 year	1 to 5 years	beyond 5 years	
Bank current accounts	7	7			1
Other financial liabilities	1	1			0
Loans payable ¹	1 566	1 532	32	2	2
Mortgages	3	1	2	0	0
Financial lease obligations	29	7	22	0	1
Bonds ²	198	0	0	198	0
Total financial debt	1 803	1 548	56	200	3
- Less cash and cash equivalents	-486				-324
Net liquidity	-1 317				320
Future financial lease payments	32				1
- of which, financial costs	3				0

¹ Loans payable includes CHF 1 268 million pertaining to the financing of the Saurer acquisition. The total credit available for this transaction amounts to CHF 1 525 million, at a floating interest rate and valid until June 30, 2007. The average interest rate for financing drawn down within this credit line was 3.2% for the year ended December 31, 2006. Various securities, treasury shares and subsidiary companies are pledged as collateral for these loans. The company was in compliance with covenants relating to this financing as at December 31, 2006.

² On August 28, 2006, Saurer AG issued a 3.5% Bond 2006–2013 for a nominal value of CHF 200 million, valued on the amortized cost basis. On December 31, 2006 the market value of the loan was quoted at 100.75% of the nominal value.

81.4% of the total financial debt is denominated in CHF, 11.1% in USD, 7.1% in EUR and 0.3% in JPY. 88.9% of the financial debt is owed to banks; the remainder consists of the Saurer bond with a fixed coupon. 88.6% of the financial debt is at variable interest rates. Across all currencies, interest rates vary from 0.9 to 5.85% per annum.

Other provisions

Note (26)

in CHF million	2006	Due		2005
		within 1 year	beyond 1 year	
Total	303	202	102	215

Other Provisions in CHF million	Product warranties	Product liability	Onerous contracts	Long-term employee benefits	Restructuring	Other provisions ¹	2006 Total
Balance at January 1, 2006	45	4	53	20	33	61	215
Conversion differences			1	1	1	1	3
Changes in Group companies	43		37	16	21	47	164
Additions	20		5	8	12	20	65
Amounts used	-24		-10	-6	-20	-12	-72
Amounts reversed	-12	-3	-18	-1	-14	-24	-72
Balance at December 31, 2006	72	0	68	38	32	93	303
Of which:							
Due within 1 year	66		52	2	29	52	202
Due beyond 1 year	5		16	36	3	41	102

¹ 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. The reversal of CHF 24 million arises from a legal settlement, and various smaller reversals spread among a number of companies.

Changes in provisions arise mainly from the increase in consolidation scope pertaining to the acquisition of Saurer.

During preparation of the financial statements, a systematic reassessment of the project risks was conducted and appropriate changes 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". That 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.

Financial instruments

Note (27)

in CHF million	2006			2005		
	Contract amounts	Fair value positive	negative	Contract amounts	Fair value positive	negative
Currency derivatives	1 048	7	6	445	2	9
Interest-rate derivatives	28	0	0	50	0	0
Total	1 076	7	6	495	2	9

Based on the business activities, the following main currencies are hedged: USD, EUR and JPY. Positive and negative changes in fair values of currency derivatives (see Notes 16 and 23) 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.

The reported fair value amount of net CHF 1 million, CHF 2 million was recorded directly in equity with no effect on net income, and CHF -1 million was recorded in the income statement.

Maturity structure of open foreign exchange contracts as at December 31 (in CHF million):

Interest-rate derivatives ¹	2006		2005	
	Contract amounts in CHF million	in %	Contract amounts in CHF million	in %
Up to 3 months	4	14.3	0	0.0
3 to 12 months	0	0.0	50	100.0
Beyond 12 months	24	85.7	0	0.0

Currency derivatives	2006		2005	
	Contract amounts in CHF million	in %	Contract amounts in CHF million	in %
Up to 3 months	833	79.4	254	57.0
3 to 12 months	195	18.6	177	39.7
Beyond 12 months	20	1.9	14	3.1

¹ Interest-rate derivatives are used by Saurer in connection with a "sale and leaseback" real-estate transaction for an Italian subsidiary.

Amounts shown in the balance sheet for receivables and payables, loans receivable and short-term financial debt correspond to fair values. Risks associated with interest rate changes on financial debt can be assessed from the information in Note 25.

In 2005 Saurer acquired a call option to acquire a 75% holding in a company in the textile components business in 2009 or 2010, at a price based on the higher of a multiple of the company's EBITDA in 2008 or 2009 and GBP 4 million. At the same time Saurer granted a put option which obliges it to acquire a 75% holding in the company at a price based on the lower of a multiple of the company's EBITDA in 2008 or 2009 and GBP 6 million. The multiple is considered to be a reasonable estimation of the fair value. Therefore, neither option has a value, and hence no asset or liability was recognized.

Oerlikon participation plans

Note (28)

The following plans are in existence, pursuant to which the holder is entitled to purchase one share of OC Oerlikon Corporation AG, Pfäffikon for each option held:

- Since 1998, members of the Board of Directors of OC Oerlikon Corporation AG, Pfäffikon receive a portion of their compensation by means of a stock option plan (exercise period: 3 to 4 years). Since 2004, Board members may opt to take a part or all of their compensation in the form of shares. Such shares are subject to a blocking period of 2 years. Members of the Board have a choice as to the type of compensation they receive (cash or equity settlement). No such plan existed in 2006.
- As a long-term bonus, members of the Executive Board and senior management may receive a portion of their compensation in the form of options on OC Oerlikon Corporation AG, Pfäffikon shares (exercise period: 4 or, as the case may be, 7 years). For employees who are still employed by the Company, a blocking period of 2, 3 or 4 years may apply.

The income statement for the reporting period has been charged with CHF 1 million (previous year: CHF 1 million)

As at December 31, 2006, the following outstanding options had been issued under these plans:

Board of Directors								
Allotment	Options outstanding at 1.1.	Additions in 2006	Exercised in 2006	Expired in 2006 ^{1,2}	Options outstanding at 31.12.	Exercise price in CHF	Exercise period from to	
2002	1 144			-1 144	0	225	13.5.04	12.5.06
2004	20 807		-20 807		0	150	6.6.06	3.6.08
Total	21 951		-20 807	-1 144	0			

¹ Options granted to employees in 2002 and not exercised expired on May 13, 2006.

² A number of options granted to employees in the years 2001 through 2004 expired in 2006 when the relevant employees left the company.

For those options exercised in the 2006 financial year, the weighted average share price upon exercise amounted to CHF 338.

Non-executive Board Members were granted 1 169 shares at a price of CHF 750. The shares have no blocking period.

Employees

Note (28 cont.)

Allotment	Options outstanding at 1.1.	Additions in 2006	Exercised in 2006	Expired in 2006 ^{1,2}	Options outstanding at 31.12.	Exercise price in CHF	Exercise period from to	
2001	3 770		-2 485	- 247	1 038	315	29.5.03	28.5.08
	911			- 911	0	315	1.4.05	31.3.06
	634		- 634		0	315	1.1.04	31.12.06
	3 783		-2 489	- 249	1 045	315	29.5.04	28.5.08
	911			- 911	0	315	1.4.05	31.3.06
	634		- 634		0	315	1.1.04	31.12.06
2002	2 777			-2 777	0	225	13.5.04	12.5.06
	9 079		-5 012	-1 710	2 357	189.5	14.5.04	13.5.09
	444		- 444		0	189.5	1.4.05	31.3.06
	1 853			-1 853	0	189.5	1.4.05	31.3.06
	818		- 818		0	189.5	1.1.04	31.12.06
	9 103		-5 025	-1 711	2 367	189.5	14.5.05	13.5.09
	444		- 444		0	189.5	1.4.05	31.3.06
	1 853			-1 853	0	189.5	1.4.05	31.3.06
	818		- 818		0	189.5	1.1.04	31.12.06
2003	321				321	110	24.5.05	23.5.10
2004	380		- 380		0	176	7.1.06	7.1.11
	380				380	176	7.1.07	7.1.11
2006		40 000			40 000	250	1.1.09	31.12.09
Total	38 913	40 000	-19 183	-12 222	47 508			

¹ Options granted to employees in 2002 and not exercised expired on May 13, 2006.

² A number of options granted to employees in the years 2001 through 2004 expired in 2006 when the relevant employees left the company.

Members of the Executive Board were granted a total of 7 000 Oerlikon shares in the 2006 financial year (5 000 shares as at January 1, 2006, at a price of CHF 198, and 2 000 shares on November 21, 2006, at a price of CHF 528), and 40 000 options valid for four years at an exercise price of CHF 250. The options were granted on January 1, 2006, and are subject to a blocking period of 3 years.

In addition, on November 21, 2006, Executive Board Members were granted 6 000 shares at a price of CHF 528 for the 2007 business year.

The shares have no blocking period.

The employee stock options are valued based on the Black-Scholes option pricing model. For the calculation volatility rates were based on historically observed prices of the underlying equity, and risk-free interest rates were based on Swiss Government bonds with similar maturities.

The employee options plan entitles the beneficiary to acquire shares (equity settlement). The expense booked in 2006 amounted to CHF 0 million (previous year: CHF 2 million). Shareholders' equity was charged accordingly.

For options exercised in the 2006 financial year, the weighted average share price upon exercise amounted to CHF 359.

The potential obligation to issue shares to cover the exercise of outstanding options is covered exclusively through the purchase of Oerlikon shares in the open market. Social security contributions related to options are chargeable only as of the exercise date. The social security expense recorded in the income statement in 2006 as the result of the exercise of options amounts to CHF 0 million.

Other option plans

Beside Oerlikon's own option plans, the following plans exist for Saurer AG.

Saurer maintains a long-term program for employee stock options. The shares required to cover this program were purchased on the market. As at December 31, 2006 the total number of treasury shares reserved for this purpose was 81 250. The conditional capital, which is also available for this program, has not been used to date. The options outstanding as at December 31, 2006 have exercise prices of CHF 19.45 and CHF 48.45. The exercise prices correspond to the market prices at the time of issue. They are not adjusted (no repricing), except for reductions equal to the reductions of the nominal share value (dilution protection). When issued, half of the options are blocked for 2 and the other half for 3 years. All options expire after 5 years.

Each option entitles the owner to cash compensation for the difference between the market price of one Saurer share and the exercise price. The Board of Directors of Saurer agreed with OC Oerlikon Corporation AG, Pfäffikon to tender all underlying Saurer shares held to hedge the employee stock options in the public tender offer process on January 4, 2007, at the official offer price of CHF 135. Employees were compensated accordingly in January 2007 (CHF 7 million).

Contingent liabilities

Note (29)

in CHF million	2006	2005
Debt guarantees	8	2
Discounted bills of exchange	8	3
Total	16	6

The contingent liabilities from guarantee of debt are mainly guarantees of debt to banks. In addition, bills of exchange discounted with banks amounted to CHF 1 million.

Payments under non-cancellable leases

Note (30)

in CHF million	2006	2005
Due in 1st year	34	19
Due in 2nd year	28	16
Due in 3rd year	22	12
Due in 4th year	17	10
Due in or beyond 5th year	46	33
Total	148	90

These amounts primarily relate to rental contracts for buildings. The largest amounts pertain to the facilities of Oerlikon Holding in USA (CHF 23 million), Oerlikon Balzers Coating USA Inc. (CHF 15 million), Oerlikon Assembly Equipment AG in Steinhausen (CHF 11 million) and Oerlikon Holding in Germany (CHF 8 million).

The expense of operating leases charged to the income statement amounted to CHF 24 million (prior year: CHF 21 million).

Related party transactions

Note (31)

Primary shareholder

The share capital of OC Oerlikon Corporation AG, Pfäffikon consists of 14 142 437 shares. As at December 31, 2006, the following primary shareholder is entered in the share register:

Shareholder	Share ownership as per mandatory disclosure	
	Number of shares	In % ¹
Victory Industriebeteiligung AG, Vienna, Austria ²	4 831 192	34.16

¹ Basis: 14 142 437 outstanding shares

² Beneficial ownership as at December 31, 2006:

- 50% Millennium Privatstiftung, Praterstrasse 62-64, 1020 Vienna, Austria
- 50% RPR Privatstiftung, Seilerstätte 18-20, 1010 Vienna, Austria

Compensation of non-executive board members

In a normal year, non-executive members of the Board of Directors receive compensation in roughly equal portions of cash and options and/or shares.

In the 2006 financial year, the total compensation paid to non-executive members of the Board of Directors (excluding employer contributions to social security) amounted to CHF 1.67 million, including 1 169 shares granted at a price of CHF 750. Non-executive Board members were granted no options.

Compensation of members of the Executive Board

The compensation paid to members of the Executive Board consists of a fixed base salary and a variable component. In addition, members of the Executive Board receive shares and/or options in the sense of a long-term bonus.

Total compensation (including all employer pension fund contributions, but excluding employer social security contributions) paid in the 2006 financial year to members of the Executive Board amounted to CHF 4.2 million, of which CHF 2.6 million was in the form of base salary, CHF 0.9 million as bonus, CHF 0.4 million as pension fund contributions, and CHF 0.3 million as expense reimbursements.

Members of the Executive Board were granted a total of 7 000 Oerlikon shares with a value of CHF 2 million in the 2006 financial year and 40 000 options with a value of CHF 0.9 million. In addition, on November 21, 2006, Executive Board Members were granted 6 000 shares at a price of CHF 528 for the 2007 business year.

Compensation paid to former related parties

In 2006 a total of CHF 1.2 million was paid to former members of management. Of this, CHF 1.1 million was in the form of base salary, with CHF 0.1 million as bonus.

No severance payments were made to former Board members.

Group and associated companies

An overview of the Group subsidiary companies can be found on page 122. 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.

Participation plans: see Note 28.

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

Pledged assets

Note (32)

The following assets shown on the balance sheet were pledged as security:

in CHF million	2006	2005
Property, plant & equipment	49	1
Securities	48	0
Other financial assets	33	
Total	130	1

Assets are pledged as security for bank loans. A major part of Property, plant & equipment pledged relates to a sale-and-leaseback transaction.

Events subsequent to the balance sheet date

Note (33)

Following the completion of the acquisition of Saurer by OC Oerlikon Corporation AG, Pfäffikon on January 10, 2007 Oerlikon held 99.45% of all Saurer Shares. Oerlikon is in the process of suing for the invalidation of the remaining publicly held Saurer Shares. Only until the completion of the invalidation process Saurer remains listed on the SWX Swiss Exchange. Saurer's Board of Directors has assigned the operating management of Saurer Ltd. to OC Oerlikon from January 2007 on and has therefore regulated various aspects in a mandate contract between the new controlling shareholder and each Member of the Board of Directors.

No further significant events occurred after the balance sheet date, which could be important in evaluating these accounts.

Segment Information 2006–2005

in CHF million	Oerlikon Balzers Coating		Oerlikon Leybold Vacuum		Oerlikon Saurer Textile ²	
	2006	2005	2006	2005	2006	2005
Order intake	1 195	642	444	390	398	
Orders on hand	478	100	59	45	825	
Sales						
Sales to third parties	816	806	430	383	438	
Sales to group companies	1	1	5	4	0	
	816	807	434	387	438	
Sales by market region						
Japan and Asia/Pacific	249	309	110	93	237	
Europe	405	319	219	205	118	
North America	154	173	98	83	56	
Other regions	8	5	3	2	28	
	816	806	430	383	438	
Sales by location						
Japan and Asia/Pacific	143	119	84	78	56	
Europe	499	501	258	234	359	
North America	131	150	88	71	21	
Other regions	43	37	0	0	2	
	816	806	430	383	438	
Capital expenditure for fixed and intangible assets						
Japan and Asia/Pacific	19	11	3	2	4	
Europe	57	29	10	6	28	
North America	16	14	0	0	0	
Other regions	7	14	0	0	0	
	100	69	12	8	32	
Number of employees						
Japan and Asia/Pacific	568	546	219	203	2 389	
Europe	1 987	2 035	1 075	1 189	5 054	
North America	551	462	78	82	304	
Other regions	357	319	6	5	75	
	3 463	3 363	1 378	1 479	7 822	
Assets (only third-party)						
Japan and Asia/Pacific	106	89	39	41	206	
Europe	445	393	143	129	1 223	
North America	214	205	27	21	55	
Other regions	53	51	0	0	7	
	819	739	209	191	1 491	
Liabilities (only third-party)	226	295	281	283	955	
Net Assets (only third-party)¹	592	444	-72	-92	535	
Assets including intercompany relationships	820	740	210	194	1 491	
Liabilities including intercompany relationships	240	299	284	283	955	
Net assets including intercompany relationships¹	580	441	-74	-90	535	
Research and development expenses	44	71	23	31	20	
Earnings before depreciation and amortization (EBITDA)	176	35	56	5	35	
Depreciation and amortization	-50	-56	-9	-9	-11	
Reversal of impairment on Property, Plant & Equipment	9	0	0	0	0	
EBIT	135	-20	47	-4	24	

¹ Net assets include all current and non-current operating assets (excluding cash and financial assets), less operating liabilities (excluding financial liabilities and tax provisions).

² Because Saurer was included in the consolidation as from November 1, 2006 for the first time, no comparative values for 2005 are shown.

Oerlikon Graziano Drive Systems ²		Oerlikon Components		Others and consolidation		Elimination		Total Oerlikon Group	
2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	154	436	423	3	0			2 631	1 455
	0	195	210	0	0			1 557	355
	154	450	416	3	0			2 291	1 605
	0	52	37	0	0	-58	-41	0	0
	154	502	453	3	0	-58	-41	2 291	1 605
	8	237	210	0	0			840	611
	85	144	133	3	0			974	657
	62	66	72	0	0			435	329
	0	2	1	0	0			41	8
	154	450	416	3	0			2 291	1 605
	6	76	89	0	0			365	286
	105	297	247	3	0			1 521	982
	43	76	80	0	0			360	301
	0	0	0	0	0			45	37
	154	450	416	3	0			2 291	1 605
	1	5	4	0	0			32	17
	5	27	8	45	0			173	44
	3	1	1	5	0			25	15
	0	0	0	0	0			7	14
	10	33	13	50	0			237	91
	1 102	414	369	0	0			4 692	1 118
	2 616	1 110	1 074	221	63			12 062	4 362
	1 041	97	83	4	3			2 075	630
	0	0	0	0	0			438	324
	4 759	1 620	1 526	225	66			19 267	6 434
	72	36	47	0	0			459	177
	447	330	317	1 344	98			3 932	938
	388	16	23	17	10			716	260
	0	0	0	0	0			60	51
	906	382	387	1 361	109			5 167	1 425
	292	182	191	229	148			2 166	915
	615	199	197	1 132	-39			3 001	510
	906	388	391	1 373	111	-21	-9	5 167	1 425
	292	185	192	231	150	-21	-9	2 166	915
	615	203	198	1 142	-40	0	0	3 001	510
	4	23	47	0	0			113	148
	24	75	14	57	73			423	128
	-10	-18	-22	-7	-6			-105	-93
	0	2	0	0	0			11	0
	14	59	-8	51	68			329	34

Companies by country

Country	Production Distribution R&D Service			Name, registered office	Share capital in local currency	Group owns %	Number of employees
Austria	■ ■			Oerlikon Balzers Coating Austria GmbH, Kapfenberg	EUR 350 000	100	62
	■ ■ ■ ■			Neumag Saurer Austria GmbH, Leonding	EUR 600 000	100	139
			■	Saurer Holding GmbH, Leonding	EUR 35 000	100	0
Belgium	■ ■			Oerlikon Balzers Coating Benelux N.V., St. Truiden	EUR 620 000	100	53
Brazil	■ ■			Oerlikon Balzers Revestimentos Metálicos Ltda., Jundiaí-São Paulo	BRL 15 358 000	99	156
	■ ■			Saurer do Brasil Máquinas Ltda., São Leopoldo	BRL 18 588 000	100	41
Cayman Islands			■	Saurer Group Investments Ltd., George Town, Grand Cayman	CHF 474 469 301	100	0
China	■ ■			Oerlikon (Shanghai) Co. Ltd., Shanghai	CNY 99 321 000	100	201
	■ ■			Balzers Coating (Suzhou) Co., Ltd., Suzhou	CNY 49 087 000	100	50
	■ ■			Oerlikon Leybold Vacuum (Tianjin) Co. Ltd., Tianjin	CNY 41 026 000	100	89
	■			Oerlikon Leybold Vacuum (Tianjin) International Trade Co. Ltd., Tianjin	CNY 1 656 000	100	47
	■ ■			Jintan Texparts Component Company Ltd., Jintan	USD 5 062 289	70	200
	■ ■ ■ ■			Saurer (China) Technology Co. Ltd., Suzhou	USD 23 908 500	100	886
				■ Saurer China Equity Ltd.; Hong Kong	HKD 253 910 000	100	0
				■ Saurer China Investments Ltd., Hong Kong	HKD 266 052 000	100	0
				■ ■ Saurer Far East, Hong Kong	HKD 100 000	100	28
	■ ■ ■ ■			Saurer Jintan Textile Machinery Company Ltd., Jintan	USD 22 482 422	70	493
	■ ■ ■ ■			Saurer Textile Machinery (Beijing) Co. Ltd., Beijing	CNY 6 619 000	60	152
	■ ■ ■ ■			Saurer Textile Machinery (Wuxi) Co. Ltd., Wuxi	CNY 58 059 000	100	167
				■ Saurer Trading and Services Ltd., Hong Kong	HKD 275 200	100	0
				■ Textile Components Far East Ltd., Hong Kong	HKD 10 000	100	7
Czech Republic	■ ■			Graziano Trasmissioni Czech s.r.o., Prag	CZK 110 000 000	100	62
				Saurer Czech Republic s.r.o., Cerveny Kostelec	CZK 30 000 000	100	514
Denmark	■ ■ ■ ■			Neumag Denmark a/s, Horsens	DKK 42 000 000	100	28
France			■	Oerlikon France Holding SAS, St. Thibault des Vignes	EUR 4 000 000	100	0
			■ ■	Oerlikon France SAS, Palaiseau	EUR 762 000	100	12
			■ ■	Oerlikon Balzers Coating France SAS, St. Thibault des Vignes	EUR 7 108 000	100	204
			■ ■ ■ ■	Oerlikon Leybold Vacuum France SAS, Courtabœuf	EUR 3 095 000	100	189
Germany			■	Oerlikon Deutschland Holding GmbH, Munich	EUR 30 680 000	99.5	10
			■	Oerlikon Deutschland Vertriebs GmbH, Munich	EUR 26 000	99.5	39
			■ ■ ■ ■	Unaxis Optics Deutschland GmbH, Geisenheim	EUR 5 150 000	99.5	0
			■ ■	Oerlikon Balzers Coating Germany GmbH, Bingen	EUR 511 000	99.5	413
			■	Oerlikon Real Estate GmbH, Cologne	EUR 50 000	99.5	6
			■	Oerlikon Vermietungs- und Verwaltungs- Gesellschaft mbH, Cologne	EUR 25 000	99.5	0
			■	Halde 189 Vermögens-Verwaltungs GmbH, Ulm	EUR 25 000	100	0
			■ ■	Oerlikon Leybold Vacuum Dresden GmbH, Dresden	EUR 100 000	99.5	88
			■ ■ ■ ■	Oerlikon Leybold Vacuum GmbH, Cologne	EUR 1 200 000	99.5	737
			■	Oerlikon IT Solutions GmbH, Cologne	EUR 25 000	99.5	56
			■ ■ ■ ■	Accotex-TEXParts GmbH, Fellbach	EUR 51 400	100	312
			■ ■ ■ ■ ■	Autefa automation GmbH, Friedberg	EUR 25 000	60	90
			■	Barmag Liegenschaften GmbH & Co. KG, Remscheid	EUR 5 000 000	100	0
			■ ■ ■ ■	Enka tecnica GmbH, Heinsberg	EUR 511 300	100	184
			■ ■ ■ ■	ERMAFA Kunststofftechnik Chemnitz GmbH, Chemnitz	EUR 50 000	100	41
			■	Saurer Beteiligungs AG, Mönchengladbach	EUR 250 000	49	0
			■ ■ ■ ■ ■	Saurer GmbH & Co. KG, Mönchengladbach	EUR 41 000 000	100	3 253
		■	Saurer IP GmbH, Remscheid	EUR 250 000	100	0	
		■	Saurer Verwaltungs GmbH, Mönchengladbach	EUR 250 000	49	0	
		■ ■ ■ ■	Temco Components GmbH, Hammelburg	EUR 25 000	100	95	
		■	W. Reiners Verwaltungs GmbH, Mönchengladbach	EUR 75 000 000	100	0	
Great Britain	■			Unaxis IT (UK) Ltd., Monmouth	GBP 1 000	100	4
	■ ■			Oerlikon Balzers Coating UK Ltd., Milton Keynes	GBP 2 000 000	100	62
	■			Oerlikon Leybold Vacuum UK Ltd., London	GBP 300 000	100	21
	■			Oerlikon Optics UK Ltd., London	GBP 1	100	32
	■ ■ ■ ■			Fibrevision Ltd., Macclesfield	GBP 3	25	14
		■	Graziano Trasmissioni UK Ltd., Cambridge	GBP 40 000	100	6	

Country	Production Distribution R&D Service	Name, registered office	Share capital in local currency	Group owns %	Number of employees
India	■ ■	Balzers (India) Ltd., Bhosari, Pune	INR 70 000 000	100	123
	■	Leybold Vacuum India Pte. Ltd.	INR 2 000 000	100	6
	■ ■ ■	Fairfield Atlas Ltd., Belgaum	INR 273 205 400	76	665
	■ ■	Graziano Trasmissioni India Ltd., New Delhi	INR 280 000 000	100	408
	■ ■ ■	Saurer India (Private) Ltd., Mumbai	INR 57 360 000	100	223
	■ ■ ■	Saurer Precicomp Private Ltd., Bangalore	INR 16 000 000	76	18
Italy	■ ■ ■ ■	Zinser Textile Systems Private Ltd., Ahmedabad	INR 45 500 000	70	33
		Oerlikon Balzers Coating Italy S.p.A., Brugherio, Milan	EUR 130 000	100	105
	■	Oerlikon Leybold Vacuum Italy S.p.A., Milan	EUR 1 041 000	100	14
	■ ■	Graziano Trasmissioni Engineering S.p.A., Cascine Vica Rivoli	EUR 1 500 000	100	62
	■	Graziano Trasmissioni Group S.p.A., Cascine Vica Rivoli	EUR 50 000 000	100	2
	■ ■ ■	Graziano Trasmissioni S.p.A., Cascine Vica Rivoli	EUR 44 300 000	100	2 306
Japan	■ ■	I.T.T. Industria Trattamenti Termici S.r.l., Cervere	EUR 2 600 000	100	175
	■ ■ ■ ■	Neumag Italy S.p.A., Biella	EUR 1 609 758	100	106
	■ ■	Oerlikon Japan Co. Ltd., Tokyo	JPY 450 000 000	100	36
Liechtenstein	■ ■ ■ ■	Oerlikon Nihon Balzers Coating Co. Ltd., Hiratsuka	JPY 100 000 000	100	127
	■ ■ ■ ■	Oerlikon Leybold Vacuum Japan Co. Ltd., Yokohama	JPY 450 000 000	100	31
Luxembourg	■ ■ ■ ■	OC Oerlikon Balzers AG, Balzers	CHF 30 000 000	100	1 100
Mexico	■ ■	Oerlikon Balzers Coating Luxembourg S.A.R.L., Differdange	EUR 1 000 000	60	13
The Netherlands	■ ■	Oerlikon Balzers Coating Mexico S.A. de C.V., Querétaro	MXN 71 458 000	100	78
Panama	■	Oerlikon Nederland B.V., Utrecht	EUR 37 000	100	7
	■	Oerlikon Leybold Vacuum Nederland B.V., Utrecht	EUR 463 000	100	8
	■	SAC Saurer Automotive Components BV, Rotterdam	EUR 11 344 505	100	0
Philippines	■ ■	S.B. Holding Inc., Panama	USD ¹	100	0
Poland	■ ■	Unaxis (Philippines) Inc., Manila	PHP 5 250 000	100	0
Singapore	■ ■ ■ ■	Oerlikon Balzers Coating Poland Sp.z.o.o., Polkowice-Dolne	PLZ 5 000 000	100	34
	■ ■ ■ ■	Unaxis Singapore Pte. Ltd., Singapore	SGD 15 000 000	100	179
	■ ■	Oerlikon Balzers Coating Singapore Pte.Ltd., Singapore	SGD 6 000 000	100	44
	■	Oerlikon Leybold Vacuum Singapore Pte. Ltd., Singapore	SGD 300 000	100	
	■	Oerlikon SEA Pte. Ltd., Singapore	SGD 250 000	100	0
South Korea	■ ■ ■ ■	Texparts Manufacturing Singapore Pte. Ltd., Singapore	SGD 1 000 000	100	187
	■ ■	Oerlikon Korea Ltd., Seoul	KRW 1 220 000 000	100	32
	■ ■	Oerlikon Balzers Coating Korea Co. Ltd., Pyong Taek, Kyonggi-Do	KRW 6 000 000 000	89.9	198
Spain	■	Oerlikon Leybold Vacuum Korea Ltd., Seoul	KRW 7 080 000 000	100	21
	■ ■	Oerlikon Balzers-ELAY Coating S.A., Antzuola	EUR 150 000	51	69
Sweden	■	Leybold Vacuum Spain S.A., Sant Feliu de Llobregat	EUR 168 000	100	6
	■ ■	Oerlikon Balzers Sandvik Coating AB, Stockholm	SEK 11 600 000	51	55
Switzerland	■	Oerlikon Leybold Vacuum Scandinavia AB, Göteborg	SEK 800 000	100	10
	■	OC Oerlikon Corporation AG, Pfäffikon	CHF 282 849 000	100	0
	■	OC Oerlikon Management AG, Pfäffikon	CHF 2 000 000	100	86
	■ ■ ■	Oerlikon Assembly Equipment AG, Steinhausen	CHF 2 400 000	100	338
	■	Oerlikon Solar-Lab SA, Neuchâtel	CHF 1 000 000	100	10
	■	Oerlikon Trading AG, Trübbach	CHF 8 000 000	100	0
	■ ■	Oerlikon Balzers Coating SA, Brügg	CHF 2 000 000	100	36
	■	Oerlikon Leybold Vacuum Schweiz AG, Zürich	CHF 300 000	100	7
	■	Oerlikon IT Solutions AG, Pfäffikon	CHF 500 000	100	43
	■	Unaxis Corporation AG, Pfäffikon	CHF 100 000	100	0
	■	Contraves Space AG, Zürich	CHF 100 000	100	0
	■ ■ ■ ■	Oerlikon Space AG, Zürich	CHF 15 000 000	100	278
	■ ■ ■	Oerlikon Solutions AG, Trübbach	CHF 100 000	100	152
	■	InnoDisc AG, Windisch	CHF 100 000	100	0
	Spain	■	Aktiengesellschaft Adolph Saurer, Arbon	CHF 10 000 000	100
■		GTG-Graziano Trasmissioni Group AG, Arbon	CHF 250 000	100	2
■		Heberlein Fasertechnologie AG, Wattwil	CHF 1 000 000	100	17
■ ■ ■ ■		Saurer Arbon AG, Arbon	CHF 14 160 000	100	297
■		Saurer Ltd., Arbon	CHF 112 019 600	85.3	0
	■	Saurer Management AG, Winterthur	CHF 100 000	100	18

¹ No par stock

Country	Production Distribution R&D Service	Name, registered office	Share capital in local currency	Group owns %	Number of employees
Taiwan	■	Oerlikon Taiwan Ltd., Hsin Chu	TWD 20 000 000	100	65
	■	Oerlikon Leybold Vacuum Taiwan Ltd., Hsin Chu	TWD 20 000 000	100	26
	■	ESEC Pacific North (Taiwan) Ltd., Hsin Chu Sein	TWD 5 000 000	100	29
Thailand	■ ■	Oerlikon Balzers Coating (Thailand) Co. Ltd., Chonburi	THB 80 000 000	100	21
Turkey	■ ■	Saurer Middle East Tekstil Makinalari A.S., Istanbul	TRY 650 000	100	34
USA	■	Oerlikon USA Holding Inc., New York, NY	USD 24 980 000	100	1
	■ ■ ■	Oerlikon USA Inc., St. Petersburg, FL	USD 14 730 000	100	198
	■ ■	Oerlikon Optics USA Inc., Golden, CO	USD 1 000	100	85
	■ ■	Oerlikon Balzers Coating USA Inc., Elgin, IL	USD 20 000	100	365
	■ ■ ■	Oerlikon Leybold Vacuum USA Inc., Export, PA	USD 1 375 000	100	78
	■	Contraves Inc. (CINC), Pittsburgh, PA	USD 500 000	100	3
	■ ■ ■	Accotex Inc., Greenville, SC	USD 100	100	58
	■ ■ ■	Fairfield Manufacturing Company Inc., Lafayette, IN	USD 10 000	100	1033
	■	Graziano Trasmissioni North America Inc., Duluth, GA	USD 1	100	8
	■ ■ ■ ■	Melco Industries Inc., Denver, CO	USD 2 407 000	100	108
	■	Saurer Financing LP, Charlotte, NC	USD 2 000 000	100	1
	■	Saurer Holding Inc., Denver, CO	USD 5 058 000	100	0
	■ ■	Saurer Inc., Charlotte, NC	USD 3 000 000	100	138

Report of the Group Auditors

Report of the Group Auditors to the General Meeting of

OC Oerlikon Corporation AG, Pfäffikon, Pfäffikon SZ

(formerly known as Unaxis Holding AG, Pfäffikon SZ)

As group auditors, we have audited the consolidated financial statements (income statement, balance sheet, statement of recognised income and expense, statement of changes in equity, cash flow statement and notes on pages 85 to 124) of OC Oerlikon Corporation AG, Pfäffikon for the year ended 31 December 2006.

These consolidated financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards and with the International Standards on Auditing (ISA), which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

We recommend that the consolidated financial statements submitted to you be approved.

KPMG Ltd



Herbert Bussmann
Swiss Certified Accountant
Auditor in Charge



Thomas Affolter
Swiss Certified Accountant

Zurich, 22 March 2007

Key figures 2006–2002

in CHF million	2006	2005	2004	2003	2002
Order intake	2 631	1 455	1 778	1 788	1 494
Orders on hand	1 557	355	494	575	409
Sales	2 291	1 605	1 850	1 610	1 490
EBITDA	423	128	-3	157	71
- as % of sales	18%	8%	0%	10%	5%
EBIT	329	34	-329	16	-83
- as % of sales	14%	2%	-18%	1%	-6%
Net profit	302	21	-372	32	-39
- as % of sales	13%	1%	-20%	2%	-3%
- as % of equity attributable to shareholders of the parent	20%	2%	-31%	2%	-3%
Cash flow from operating activities ¹	355	84	114		
Capital expenditure for fixed and intangible assets	237	91	240	98	77
Total assets	6 034	1 979	2 411	2 550	2 525
Equity attributable to shareholders of the parent	1 482	1 001	1 215	1 488	1 476
- in % of total assets	25%	51%	50%	58%	58%
Net liquidity ²	-589	706	669	728	734
Net assets ³	3 001	510	488	1 032	1 075
EBIT as % of net assets (RONA)	11%	7%	-67%	2%	-8%
Number of employees	19 267	6 434	6 844	6 456	6 544
Personnel expenses	737	600	629	595	634
Research and development expense ⁴	162	148	180	154	157

¹ Before change in net current assets.

² Net liquidity includes marketable securities and treasury shares at market values as at December 31, 2006.

³ Net assets include all current and non-current operating assets (excluding cash and financial assets), less operating liabilities (excluding financial liabilities and tax provisions).

⁴ Research and development 2006 expense includes CHF 49 million recognized as intangible assets (prior years: CHF 0 million).

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**OC Oerlikon
Corporation AG, Pfäffikon**

Income Statement of OC Oerlikon Corporation AG, Pfäffikon

in CHF	Note	2006	2005
Income from investments in subsidiaries	2	4 524 862	61 175 552
Financial income	3	228 460 130	31 891 120
Other income		4 091 739	2 314 187
		237 076 731	95 380 859
Financial expense	4	-39 815 822	-10 884 814
Other expense		-32 641 936	-32 468 819
		164 618 973	52 027 226
Gain on sale of investments		0	112 242 454
Change in value adjustments to loans and investments in subsidiaries	5	-63 210 195	-159 838 822
Net income		101 408 778	4 430 858

Assets

in CHF	Note	2006	%	2005	%
Cash and cash equivalents	6	226 993 998	7.9	212 321 481	16.8
Marketable securities	7	48 963 600	1.7	103 248 047	8.2
Treasury shares	8	182 932 007	6.4	245 471 728	19.4
Receivables					
– from third parties		1 060 242	0.0	762 573	0.1
– from affiliated companies		3 309 698	0.1	4 995 402	0.4
Prepaid expenses and accrued income		12 946	0.0	62 130	0.0
Current Assets		463 272 491	16.2	566 861 361	44.8
Investments	9	1 998 259 828	69.7	359 848 166	28.4
Loans to affiliated companies	10	393 139 487	13.7	338 452 467	26.8
Loans to third parties		12 490 000	0.4	0	0.0
Non-current assets		2 403 889 315	83.8	698 300 633	55.2
Total assets		2 867 161 806	100.0	1 265 161 994	100.0

Equity and liabilities

in CHF	Note	2006	%	2005	%
Current payables					
– to third parties		3 489 300	0.1	329 373	0.0
– to affiliated companies		19 765 949	0.7	17 423 595	1.4
Accrued liabilities		15 965 300	0.6	550 000	0.0
Short-term deposits from affiliated companies	11	384 520 426	13.4	204 512 600	16.2
Short-term bank loans	12	1 316 612 165	45.9	0	0.0
Provisions	13	115 727 409	4.0	132 673 946	10.5
Liabilities		1 856 080 549	64.7	355 489 514	28.1
Share capital	14	282 848 740	9.9	282 848 740	22.4
Legal reserve		197 587 992	6.9	136 361 129	10.8
Free reserve		235 000 000	8.2	235 000 000	18.6
Reserve for treasury shares	15	182 932 007	6.4	244 158 871	19.3
Retained Earnings					
– Balance brought forward		11 303 740	0.4	6 872 882	0.5
– Net income		101 408 778	3.5	4 430 858	0.4
Total equity	17	1 011 081 257	35.3	909 672 480	71.9
Equity and liabilities		2 867 161 806	100.0	1 265 161 994	100.0
Contingent liabilities	16	58 211 000		47 554 947	

General**Reporting basis (1)**

The financial statements of OC Oerlikon Corporation AG, Pfäffikon, formerly Unaxis Holding AG, are prepared in compliance with Swiss Corporate Law. They are a supplement to the consolidated financial statements (pages 85 through 124) 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 (pages 128 through 129) 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 foreign subsidiaries.

Financial income (3)

Financial income includes the profit on sale of treasury shares, dividends received from marketable securities and interest income from intercompany loans.

Financial expense (4)

Financial expense includes interest expense and foreign exchange losses. The increase over the prior year results mainly from increased bank charges relating to the Saurer acquisition.

Change in value adjustments to loans and investments in subsidiaries (5)

Restructuring contributions of CHF 60 million were made to OC Oerlikon Balzers AG. Further restructuring contributions were made to subsidiary companies in Shanghai, China and in Brazil.

Balance sheet**Cash and cash equivalents (6)**

This item consists of current balances denominated in CHF and EUR and held with European banks.

Marketable securities (7)

Marketable securities are short-term money market securities. They are reported at market value.

Treasury shares (8)

The number of treasury shares fell from 1 412 694 to 1 050 012 (7.4% of the share capital). At year-end the shares had a market value of approximately CHF 633 million (2005: CHF 280 million).

During 2006, a total of 351 040 shares were sold (2005: purchase of 1 104 551 and 21 243 shares were given to employees. 9 601 shares (2005: 92 092) were repurchased from employees. The purchase prices ranged from CHF 190.00 to 529.00. No shares were offered to employees at preferential prices (2005: 7 530). Further information on treasury share transactions can be found in the consolidated statement of changes in equity.

Investments (9)

The significant equity interests in subsidiary companies listed on page 131 were included in the investment portfolio of OC Oerlikon Corporation AG, Pfäffikon as at December 31, 2006. An overview of all companies in which OC Oerlikon Corporation AG, Pfäffikon has either 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. The increase of CHF 1 638 million versus the prior year results mainly from the acquisition of Saurer AG.

Loans to affiliated companies (10)

These loans are granted at prevailing market conditions and are denominated mainly in USD, EUR, CHF and GBP.

Short-term deposits from affiliated companies (11)

These are short-term deposits made with OC Oerlikon Corporation AG by affiliated companies.

Bank loans (12)

In 2006, bank loans amounting to CHF 1 317 million were taken up to finance the acquisition of Saurer AG. As collateral for these loans the investment in Saurer itself has been pledged, together with treasury shares having a book value of CHF 123 million and various consolidated subsidiaries having a book value of CHF 1 635 million.

Provisions (13)

The reduction versus prior year arises from a reduced requirement for provisions combined with usage of provisions set up previously.

Share capital (14)

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% as at December 31, 2006 were: 28.6% (published shareholding 34.2%) Victory Industriebeteiligung AG, Vienna (2005: 46.5%) and 5.2% Bank Austria Creditanstalt. Further shareholders holding over 5% known to the company from official notices were: Zürcher Kantonalbank 17.7%, Renova Holding Ltd., 10.3% and Merrill Lynch Group 5.1%.

Reserve for treasury shares (15)

This reserve represents the acquisition cost of 1 050 012 (2005: 1 412 694) treasury shares (see also Note 8).

Contingent Liabilities (16)

Contingent liabilities relate primarily to performance guarantees and guarantees for bank loans of affiliated companies.

Changes in shareholders' equity (17)

See table on page 132.

Net release of hidden reserves

No hidden reserves were released in 2006 (2005: CHF 78 million).

Investments

Company	Currency	Share capital 2006	Investment in % 2006
Balzers (India) Ltd., Bhosari, Pune/IN		INR 70 000 000	78.00
Balzers Coating (Suzhou) Co. Ltd., Suzhou/CN		CNY 49 087 000	100.00
Contraves Space AG, Zürich/CH		CHF 100 000	100.00
InnoDisc AG, Windisch/CH		CHF 100 000	100.00
OC Oerlikon Balzers AG, Balzers/LI		CHF 30 000 000	100.00
OC Oerlikon Management AG, Pfäffikon, Freienbach SZ/CH		CHF 2 000 000	100.00
Oerlikon (Shanghai) Co. Ltd., Shanghai/CN		CNY 99 321 000	100.00
Oerlikon Assembly Equipment AG, Steinhausen/CH		CHF 2 400 000	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., Brugherio, Milan/IT		EUR 130 000	100.00
Oerlikon Balzers Coating Korea Co. Ltd., Pyong Taek, Kyonggi-Do/KR		KRW 6 000 000 000	89.90
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 bei Biel/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/GB		GBP 2 000 000	100.00
Oerlikon Balzers Revestimentos Metálicos Ltda., Jundiaí-São Paulo/BR		BRL 15 358 000	99.00
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, Munich/DE		EUR 30 680 000	99.50
Oerlikon France Holding SAS, St. Thibault des Vignes/FR		EUR 4 000 000	100.00
Oerlikon IT Solutions AG, Pfäffikon, Freienbach 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., Hsin Chu/TW		TWD 20 000 000	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., Oxford/GB		GBP 1	100.00
Oerlikon SEA Pte. Ltd., Singapore/SG		SGD 250 000	100.00
Oerlikon Solar-Lab SA, Neuchâtel/CH		CHF 1 000 000	100.00
Oerlikon Solutions AG, Trübbach/CH		CHF 100 000	100.00
Oerlikon Space AG, Zürich/CH		CHF 15 000 000	100.00
Oerlikon Trading AG, Trübbach/CH		CHF 8'000 000	100.00
Oerlikon USA Holding Inc., New York/NY		USD 24 980 000	100.00
Pilatus Flugzeugwerke AG, Stans/CH		CHF 10 000 000	13.97
Saurer AG, Arbon/CH		CHF 112 019 600	85.92
Unaxis Corporation AG, Freienbach SZ/CH		CHF 100 000	100.00
Unaxis IT (UK) Ltd., Monmouth/GB		GBP 1 000	100.00
Unaxis Singapore Pte. Ltd., Singapore/SG		SGD 15 000 000	100.00

Changes in shareholders' equity

in CHF million	Share capital	Legal reserve	Free reserve	Reserve for treasury shares	Retained earnings	Total shareholders' equity
Balance at January 1, 2004	263.4	133.5	345.0	44.0	338.8	1 124.7
Capital increase	19.4					19.4
Merger loss (ESEC)			-52.0			-52.0
Allocation to free reserve			305.0		-305.0	0.0
Payment of dividend for financial year 2003					-27.7	-27.7
Elimination of reserve for treasury shares		2.8		-2.8		0.0
Net loss 2004					-159.2	-159.2
Balance at December 31, 2004	282.8	136.3	598.0	41.2	-153.1	905.2
Transfer from free reserve			-160.0		160.0	0.0
Elimination of reserve for treasury shares			-203.0	203.0		0.0
Net profit 2005					4.4	4.4
Balance at December 31, 2005	282.8	136.3	235.0	244.2	11.3	909.6
Elimination of reserve for treasury shares		61.3		-61.3		0.0
Net profit 2006					101.4	101.4
Balance at December 31, 2006	282.8	197.6	235.0	182.9	112.7	1 011.0

Proposal of the Board of Directors

The Board of Directors proposes to the General Meeting to be held on May 8, 2007, that the available earnings from the financial year namely:

in CHF	2006	2005
Net profit	101 408 778	4 430 858
Balance brought forward from previous year	11 303 740	6 872 882
Available earnings	112 712 518	11 303 740

be appropriated as follows:

Balance to be carried forward	112 712 518	11 303 740
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Pfäffikon SZ, March 22, 2007

On behalf of the Board of Directors
Chairman

Georg Stumpf

Report of the Statutory Auditors to the General Meeting of

OC Oerlikon Corporation AG, Pfäffikon, Pfäffikon SZ

(formerly known as Unaxis Holding AG, Pfäffikon SZ)

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement and notes on pages 128 to 133) of OC Oerlikon Corporation AG, Pfäffikon for the year ended 31 December 2006.

These financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards, which require audit be planned and performed to obtain reasonable assurance about whether the statements are free from material misstatement. We have examined on a test basis supporting the amounts and disclosures in the financial statements. We have also assessed accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements and the proposed appropriation of available earnings comply with Swiss law and the company's articles of incorporation.

We recommend that the financial statements submitted to you be approved.

KPMG Ltd



Herbert Bussmann
Swiss Certified Accountant
Auditor in Charge



Thomas Affolter
Swiss Certified Accountant

Zurich, 22 March 2007

As at December 31, 2006

OC Oerlikon Corporation AG, Pfäffikon SZ/CH

- OC Oerlikon Management AG, Pfäffikon SZ/CH
- Oerlikon Assembly Equipment AG, Steinhausen/CH
- Oerlikon IT Solutions AG, Pfäffikon/CH
- Oerlikon Solar-Lab SA, Neuchâtel/CH
- Oerlikon Solutions AG, Trübbach/CH
- Oerlikon Space AG, Zurich/CH
- Oerlikon Trading AG, Trübbach/CH
- Contraves Space AG, Zurich/CH
- InnoDisc AG, Windisch/CH
- Saurer AG, Arbon/CH
- Unaxis Corporation AG, Pfäffikon/CH
- Oerlikon Deutschland Holding GmbH, Munich/DE
 - Oerlikon Deutschland Vertriebs GmbH, Munich/DE
 - Unaxis Optics Deutschland GmbH, Geisenheim/DE
 - Oerlikon Balzers Coating Benelux N.V., St. Truiden/BE
 - Oerlikon Balzers Coating Germany GmbH, Bingen/DE
 - Oerlikon Vermietungs- und Verwaltungsgesellschaft mbH, Cologne/DE
 - Oerlikon Real Estate GmbH, Cologne/DE
 - Oerlikon Leybold Vacuum GmbH, Cologne/DE
 - Oerlikon Leybold Vacuum Schweiz AG, Zurich/CH
 - Oerlikon Leybold Vacuum Dresden GmbH, Dresden/DE
 - Leybold Vacuum Spain S.A., Sant Feliu de Llobregat/ES
 - Oerlikon Leybold Vacuum France SAS, Courtabœuf/FR
 - Oerlikon Leybold Vacuum UK Ltd., London/GB
 - Oerlikon Leybold Vacuum Italy S.p.A., Milan/IT
 - Oerlikon Leybold Vacuum Nederland B.V., Utrecht/NL
 - Oerlikon Leybold Vacuum Scandinavia AB, Göteborg/SE
 - Oerlikon Leybold Vacuum (Tianjin) Co. Ltd., Tianjin/CN
 - Oerlikon Leybold Vacuum (Tianjin) International Trade Co. Ltd., Tianjin/CN
 - Leybold Vacuum India Pte. Ltd., Maharashtra/IN
 - Oerlikon Leybold Vacuum Japan Co. Ltd., Yokohama/JP
 - Oerlikon Leybold Vacuum Singapore Pte. Ltd., Singapore/SG
 - Oerlikon IT Solutions GmbH, Cologne/DE
 - Halde 189 Vermögens-Verwaltungs GmbH, Ulm/DE
 - Oerlikon Leybold Vacuum Korea Ltd., Seoul/KR
- Oerlikon France Holding SAS, St. Thibault des Vignes/FR
 - Oerlikon France SAS, Palaiseau/FR
 - Oerlikon Balzers Coating France SAS, St. Thibault des Vignes/FR
- Unaxis IT (UK) Ltd., Monmouth/GB
- Oerlikon Optics UK Ltd., Oxford/GB
- OC Oerlikon Balzers AG, Balzers/LI
- Oerlikon (Shanghai) Co. Ltd., Shanghai/CN
- Oerlikon Japan Co. Ltd., Tokyo/JP
- Oerlikon Korea Ltd., Seoul/KR
- Unaxis Singapore Pte. Ltd., Singapore/SG
 - Unaxis (Philippines) Inc., Manila/PH
- Oerlikon SEA Pte. Ltd., Singapore/SG
- Oerlikon Balzers Coating SA, Brügg bei Biel/CH
- Oerlikon Balzers Coating Austria GmbH, Kapfenberg/AT
- Balzers Coating (Suzhou) Co., Ltd., Suzhou/CN
- Oerlikon Balzers-ELAY Coating S.A., Antzuola/ES
- Oerlikon Balzers Coating UK Ltd., Milton Keynes/GB
- Oerlikon Balzers Coating Italy S.p.A., Brugherio, Milan/IT
- Oerlikon Balzers Coating Luxembourg S.A.R.L., Differdange/LU
- Oerlikon Nederland B.V., Utrecht/NL
 - Oerlikon Taiwan Ltd., Hsin Chu/TW
 - ESEC Pacific North (Taiwan) Ltd., Hsin Chu Sein/TW
- Oerlikon Balzers Coating Poland Sp. z o.o., Polkowice-Dolne/PL
- Oerlikon Balzers Sandvik Coating AB, Stockholm/SE
- Balzers (India) Ltd., Bhosari, Pune/IN
- Oerlikon Nihon Balzers Coating Co. Ltd., Hiratsuka/JP
- Oerlikon Balzers Coating Korea Co. Ltd., Pyong Taek, Kyonggi-Do/KR
- Oerlikon Balzers Coating (Thailand) Co. Ltd., Chonburi/TH
- Oerlikon Balzers Coating Singapore Pte. Ltd., Singapore/SG
- Oerlikon Balzers Revestimentos Metálicos Ltda., Jundiá-São Paulo/BR
- Oerlikon Balzers Coating Mexico S.A. de C.V., Querétaro/MX
- Oerlikon Leybold Vacuum Taiwan Ltd., Hsin Chu/TW
- Oerlikon USA Holding Inc., New York/NY
 - Oerlikon USA Inc., St. Petersburg, FL/US
 - Oerlikon Optics USA Inc., Golden, CO/US
 - Oerlikon Balzers Coating USA Inc., Elgin, IL/US
 - Oerlikon Leybold Vacuum USA Inc., Export, PA/US
 - Contraves Inc. (CINC), Pittsburgh, PA/US

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March 27, 2007
Media and analysts' conference on 2007 annual results,
Park Hyatt, Zurich

April 24, 2007
Key figures for the first quarter 2007

May 8, 2007
General meeting of shareholders 2007
Lucerne Culture and Convention Center (KKL)

August 28, 2007
Publication of the 2007 semi-annual report

October 23, 2007
Key figures for the third quarter 2007

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**This financial report is a translation from the original German version.
In case of inconsistencies the German version prevails.**