Media Release

Second quarter and half-year 2016 results

Surface solutions business sustained operating profitability in demanding market environment

- **Surface Solutions Segment with solid second quarter results**
- **Drive Systems Segment with new customer wins and sequential sales growth in Q2**
- **Group EBITDA margin in the second quarter at 13.9 %**
- **Group book-to-bill ratio for the second quarter is over 1**
- **Net profit of CHF 43 million for the first half of 2016**
- **Full-year guidance for 2016 confirmed**
- **Strategic transformation toward a surface solutions and advanced materials powerhouse is progressing well; organizational structure being simplified to place stronger focus on customers and markets and to become more agile**

Key figures of the Oerlikon Group as of June 30, 2016 (in CHF million)

	Q2 2016	**Q2 2015**[2]	Δ	**H1 2016**	**H1 2015**[2]	Δ
Order intake[1]	594	639	-7.0 %	1 181	1 332	-11.3 %
Order backlog[1]	401	540	-25.7 %	401	540	-25.7 %
Sales[1]	577	689	-16.3 %	1 169	1 380	-15.3 %
EBITDA[1]	80	123	-35.0 %	157	242	-35.1 %
EBITDA margin[1]	13.9 %	17.8 %	–	13.4 %	17.5 %	–
EBIT[1]	36	81	-55.6 %	68	157	-56.7 %
EBIT margin[1]	6.2 %	11.7 %	–	5.8 %	11.4 %	–
Result from continuing operations[2,3]	–	–	–	31	98	-68.4 %
Net income[1,3]	–	–	–	43	87	-50.6 %
ROCE (rolling 12-month)	6.9 %[4]	10.4 %[5]	–	6.9 %[4]	10.4 %[5]	–

[1] Continuing operations. [2] Restated for announced divestment of the Vacuum Segment. [3] Reported annually and semi-annually only. [4] Normalized. [5] Reported

Pfäffikon SZ, Switzerland – August 2, 2016 – "In the second quarter, the Group's performance was in line with our expectations, considering the broad geopolitical uncertainties and developments in the global economy and end markets. The Surface Solutions Segment has steadfastly delivered a solid performance and strong profitability in a challenging market environment, confirming the market potential and growth opportunities of the Segment. The Drive Systems Segment made progress in expanding its technology offering into existing markets and managed to win some promising new customers. However, the market weakness in the manmade fibers filaments equipment business could not be compensated by the quarter-on-quarter improvements in the Surface Solutions and Drive Systems Segments," said Dr. Roland Fischer, CEO of the Oerlikon Group.

"In addition, we have launched a set of initiatives to improve sales effectiveness and our customer and market proximity, and to better capitalize on market opportunities. In the coming months, we will also be progressing toward a simpler and more agile organization to accelerate decision-making and business growth," added Dr. Fischer.

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Oerlikon Group second quarter review

The macroeconomic and geopolitical atmosphere in the second quarter of 2016 remained difficult, with uncertainty heightened at the end of the quarter following the vote in the UK to leave the European Union. In this environment, Oerlikon delivered an overall fair performance in the second quarter and for the half year.

The Surface Solutions Segment continued to see a gradual improvement in momentum in some of its markets, which is reflected in positive developments in the top-line and profitability both quarter-on-quarter and year-on-year. This is a notable achievement, particularly considering the current challenging market climate, where the Segment saw optimization of working capital in the materials services business and a conservative investment attitude in the US energy sector. The Manmade Fibers Segment still had to contend with declining demand in the China-driven filaments equipment market in the second quarter. Positive signs in the staple fibers and nonwovens markets continued though into the second quarter. By virtue of the nature of project businesses and the positive trend outside of the filaments equipment market, it is conceivable that the Segment might see an improvement in the second half of 2016. For the Drive Systems Segment, lingering weakness was seen in all four of its key sectors – agriculture, construction, transportation and energy/mining. However, the Segment succeeded in gaining new customers and new projects with existing customers, resulting in the positive quarter-on-quarter development in sales.

As a whole, Group orders for the second quarter decreased year-on-year by 7.0 % to CHF 594 million and sales by 16.3 % to CHF 577 million. At constant exchange rates, sales stood at CHF 562 million. Following the decline in the top line, the Group's EBITDA came in lower year-on-year at CHF 80 million, or 13.9 % of sales. EBIT for Q2 2016 stood at CHF 36 million, correlating to a margin of 6.2 % (Q2 2015: CHF 81 million, 11.7 %). The second quarter performance resulted in the rolling 12-month Oerlikon Group return on capital employed (ROCE) of 6.9 % (normalized; excluding the restructuring and impairment effects in Q4 2015) versus 10.4 % (reported) in the same period in 2015.

Oerlikon Group half-year overview

For the first half of 2016, order intake decreased by 11.3 % to CHF 1 181 million, while sales reduced by 15.3 % to CHF 1 169 million year-on-year. EBITDA came in at CHF 157 million, corresponding to a margin of 13.4 %, while EBIT stood at CHF 68 million, that is, 5.8 % of sales. Net income amounted to CHF 43 million.

In the first six months of 2016, Oerlikon's service business contributed to 36.1 % of total Group sales.

CHF 300 million Swiss bond fully repaid

On July 13, 2016, Oerlikon redeemed its matured CHF 300 million Swiss bond at nominal value. The bond, issued on June 13, 2012, with a coupon rate of 4.25 %, was repaid with liquid funds and the repayment reduces annual interest expenses by nearly CHF 13 million. Oerlikon continues to have an unlevered balance sheet.

Strategic divestment of Oerlikon's vacuum business

As announced on July 15, 2016, the divestment of the Vacuum Segment to Atlas Copco has received all required regulatory approvals. The divestment, based on an enterprise value of CHF 525 million, was publicly disclosed in November 2015 and planned to close at the end of August 2016.

Oerlikon transforms organizational structure and adjusts the composition of the Executive Committee

As part of its strategy to become a global powerhouse in surface solutions and advanced materials, Oerlikon is taking a next step by forming a more market-focused and agile organization. The Oerlikon Group's headquarters and the Surface Solutions Segment will be integrated into one single organization, and the focus on surface solutions markets and industries will be sharpened. Effective immediately, Dr. Roland Fisher takes on the added role of CEO of the Surface Solutions Segment, and the business units of the Segment will report directly to him. Dr. Roland Herb has been appointed Chief Commercial Officer of the surface solutions business, effective August 1, 2016, and is responsible for accelerating growth and strategic partnership with key customers. Following the organizational change, Dr. Herb has decided to relinquish his role as CEO of the Surface Solutions Segment and as a member of the Executive Committee. The leaner and aligned organization enables Oerlikon to increase the overall speed in decision making, more effectively respond to market needs, foster innovation and form a stronger basis for further development to drive growth. The new organization is expected to be in place effective January 2017.

2016 outlook unchanged

The developments on the global economic and geopolitical scene and the ensuing impact on markets since the beginning of the year have been challenging and are expected to remain so. However, based on the company’s performance in the first half of 2016 and the initial positive signals in surface solutions, non-filaments and drive systems businesses, Oerlikon confirms its outlook for 2016. The Group will continue to focus on safeguarding its operating profitability, and expects to deliver order intake and sales between CHF 2.3 billion and CHF 2.5 billion and an EBITDA margin in the mid-teens for the full year 2016.

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Segment overview

Surface Solutions Segment

Key figures of Surface Solutions Segment as of June 30, 2016 (in CHF million)

	Q2 2016	Q2 2015	Δ	H1 2016	H1 2015	Δ
Order intake	311	299	4.0 %	617	616	0.2 %
Order backlog	91	81	12.3 %	91	81	12.3 %
Sales (to third parties)	315	309	1.9 %	609	609	0 %
EBITDA	71	69	2.9 %	133	130	2.3 %
EBITDA margin	22.4 %	22.2 %	–	21.7 %	21.3 %	–

The positive momentum seen in the surface solutions markets at the end of the first quarter of 2016 continued into the second quarter. Demand from the automotive and aviation sectors remained intact while softness was seen in the materials and equipment business, as well as in the US power generation industry. In the current market climate and despite ongoing weaknesses in general industrial production, the Segment performed solidly, with a slight increase in orders year-on-year and quarter-on-quarter (Q1 2016: CHF 306 million, up 1.6 %) and higher sequential sales (up 7.1 %) compared to CHF 294 million in Q1 2016. Organic growth is expected to continue in the second half of the year.

The Segment sustained its operating profitability, with a higher EBITDA and EBITDA margin in the second quarter than the prior year's level. The margin of 22.4 % represents an EBITDA margin of over 20 % for seven consecutive quarters. EBIT for Q2 2016 stood at CHF 43 million (Q2 2015: CHF 42 million). The positive results from the Surface Solutions Segment endorse the strategic direction and course of the Group.

In the additive manufacturing (AM) business, the Segment further developed strategic partnerships. It joined America Makes to partner with AM industry leaders and experts and be at the forefront of AM R&D and testing. It also entered a partnership with the Shanghai Additive Manufacturing Association to establish business opportunities as well as an AM network in China's AM market. In addition, the Segment is running an R&D project on the qualification of AM technology in solar turbine applications for a US energy company, and has started looking into investing in greenfield sites in the USA at locations near potential key AM customers. Within the Group, the Segment is utilizing its 3D technology to print components for spray guns, which are used for anti-corrosion coatings and surface restorations.

In this quarter, the Segment launched a new thermal spray system platform that delivers improvements in reliability and ease of use and a powder feeder for automated powder-fed AM and coating processes. It also received certification from Airbus for its surface coating center in the UK and further optimized its footprint in Bielefeld, Germany, through merging the competences of three sites.

Manmade Fibers Segment

Key figures of Manmade Fibers Segment as of June 30, 2016 (in CHF million)

	Q2 2016	Q2 2015	Δ	H1 2016	H1 2015	Δ
Order intake	125	197	-36.5 %	249	401	-37.9 %
Order backlog	209	315	-33.7 %	209	315	-33.7 %
Sales (to third parties)	98	209	-53.1 %	237	417	-43.2 %
EBITDA	-2	37	<-100 %	7	73	-90.4 %
EBITDA margin	-1.6 %	17.6 %	–	3.0 %	17.6 %	–

The filaments equipment market's downward trend persisted, as expected, in the second quarter, impacting the Segment's performance substantially. The promising signs noted in the staple fibers and plant engineering (CP, tape lines, nonwovens) businesses in the first quarter continued into the second quarter. The Segment succeeded in taking advantage of this and grew its business in those markets, thereby mitigating some of the downturn in the filaments market. Subsequently, orders were more than one-third lower, and sales declined by more than half year-on-year.

Due to the lower top line and product mix, EBITDA fell considerably to minus CHF 2 million and the margin to a negative 1.6 %. EBIT for Q2 2016 stood at minus CHF 6 million (Q2 2015: CHF 32 million).

In the second quarter, the Segment increased the ratio of its service business to 21.3 % of total Segment sales (Q2 2015: 10.5 %). In relation to the significantly lower sales, the improvement in the share of services underscores the Segment's efforts in increasing its services business and making it more resilient to market developments. The Segment will continue to focus on implementing its restructuring measures and developing its business in services and other markets.

The increase in the staple fiber business in particular also resulted in the Segment restoring some of Oerlikon Neumag's operations to full capacity to meet customer demands. Based on the positive trend outside of Chinese filament equipment market and depending on the development of specific projects, the Segment envisages that it might see some upturn in business in the second half of the year.

Drive Systems Segment

Key figures of Drive Systems Segment as of June 30, 2016 (in CHF million)

	Q2 2016	Q2 2015	Δ	H1 2016	H1 2015	Δ
Order intake	158	143	10.5 %	315	315	0 %
Order backlog	101	144	-29.9 %	101	144	-29.9 %
Sales (to third parties)	164	171	-4.1 %	323	354	-8.8 %
EBITDA	12	17	-29.4 %	21	35	-40.0 %
EBITDA margin	7.1 %	10.0 %	–	6.4 %	10.0 %	–

Four key markets of the Drive Systems Segment – agriculture, construction, transportation and energy/mining – are still facing challenging conditions with ongoing declines, only partially offset by increased sales in automotive. The market development impacted second quarter sales and profitability of the Segment. In spite of a highly competitive market environment, the Segment won new customers and incremental projects with existing customers, such as in the U.S. automotive business, the U.S. and European construction and transportation sectors, and in the Asian commercial vehicle and public transportation sectors.

Order intake increased by 10.5 % while sales decreased by 4.1 % year-over-year. Quarter-on-quarter sales was up 3.1 % from CHF 159 million. The lower levels of higher profit margin business, such as in the oil & gas sector, continued to put pressure on the EBITDA margin. EBIT for Q2 2016 stood at CHF 1 million (Q2 2015: CHF 7 million). Sequentially, the Segment improved its EBITDA margin from 5.8 % in Q1 2016 to 7.1 % in Q2 2016 and EBITDA from CHF 9 million to CHF 12 million for the same periods.

Additional information
Oerlikon will present its results in English during its conference call today beginning at 14:00 hrs CEST. To participate, please dial the following numbers a few minutes before the start of the conference call:

Country	Toll-local:
Switzerland	+41 (0)58 310 50 00
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The accompanying presentation can be viewed simultaneously by clicking here.

The interim (half-year) report 2016 can be downloaded at www.oerlikon.com/interimreport-2016 and the media release including a full set of tables can be found at www.oerlikon.com/pressreleases and www.oerlikon.com/ir.

About Oerlikon
Oerlikon (SIX: OERL) is a leading global technology Group, with a clear strategy of becoming a global powerhouse in surface solutions, advanced materials and materials processing. The Group is committed to investing in value-bringing technologies that provide customers with lighter, more durable materials that are able to increase performance, improve efficiency and reduce the use of scarce resources. A Swiss company with over 100 years of tradition, Oerlikon has a global footprint of over 13 500 employees at more than 170 locations in 37 countries and sales of CHF 2.7 billion in 2015. The company invested CHF 103 million in R&D in 2015 and has over 1 350 specialists developing innovative and customer-oriented products and services.

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