Letter from the CEO

Dear Shareholders

Our 2015 business year was marked by challenges from global economic developments that were not envisaged at the beginning of the year. Market sentiments shifted suddenly in the third quarter, rapidly deteriorated and affected our markets. We saw a sharp downturn in our manmade fibers business, primarily driven by China's review of its next five-year plan (2016–2020) for supporting new investments in polymer technologies. We also saw a continued downward slide in oil prices and subdued developments in the agricultural, construction and energy sectors.

We reacted immediately and promptly took actions, which led to our success in protecting a strong operating profitability with a normalized EBITDA margin of 16.9 %, excluding restructuring costs, and setting the path for Oerlikon to sustainably grow over the medium to long term, building on our key strengths and attractive market opportunities.

The Group's order intake for 2015 came in at CHF 2 537 million, while Group sales totaled CHF 2 671 million. At constant exchange rates, sales were CHF 2 818 million, representing a currency impact of 5.5 %. EBITDA stood at CHF 338 million, or normalized at CHF 450 million, excluding restructuring costs. Correspondingly, the operating profitability margins were 12.7 % and 16.9 %, respectively. The restructuring costs were a consequence of the market-driven resizing of the Manmade Fibers and Drive Systems Segments, and amounted to CHF 112 million. Including the restructuring costs and impairment charges for goodwill and fixed assets of CHF 476 million, the Group's EBIT was CHF –306 million and results from continuing operations amounted to CHF –402 million. The net result including these effects stood at CHF –418 million. Normalized, the underlying net result[1] following the exclusions amounted to CHF 207 million, reflecting an underlying earnings per share of CHF 0.61. These results underscore the fact that the company keeps delivering good operational performance also in a demanding environment.

The Group's financial position remained strong in 2015, with an equity ratio of 38 %. The net cash position at the end of the year amounted to CHF 79 million. Cash flow from operating activities before changes in net current assets was CHF 393 million, and the Group's return on capital employed (ROCE) was at 11.1 %, excluding the reorganization and impairment effects. In 2015, we strengthened our capital position by taking advantage of the favorable interest rate environment and our improved risk profile to extend the maturity of our syndicated credit facility to 2017 at a lower interest rate.

Supporting our strong profitability were comprehensive initiatives in Group-wide operational excellence and cost savings programs, focusing on manufacturing and supply chain management. In manufacturing, we further implemented value stream analysis, shop floor management and lean manufacturing principles at different sites and achieved productivity improvements and 97.9 % on-time delivery. In supply chain management, we further optimized our pooling of purchases, upgraded skills and streamlined processes over electronic platforms, resulting in mid-double-digit millions of gross savings in Swiss francs. We also held our first Global Health & Safety Day in 2015, reinforced our safety measures and further reduced the Group's global Lost Time Accident Frequency Rates by 32 %.

Following the decided strategic direction, we shared our plans at the Investor Day in November on how we will lead the company through the short-term market challenges, while developing the core businesses in the medium term. Oerlikon addresses attractive markets, where we have invaluable and well-established competitive advantages in technologies, services and customer relations. For instance, we see great potential in surface solutions, an area where there is growing demand from customers for lighter and more durable materials that are able to deliver increased performance. For our manmade fibers and drive systems businesses, we sustained both Segments' underlying operating profitability despite the tough market conditions, and are aligning them to current market dynamics to make them fitter. The measures initiated at the Manmade Fibers and Drive Systems Segments will significantly lower these Segments' respective breakeven sales levels, and together with Group-wide operational excellence measures, gross saving of up to CHF 100 million is expected.

The Surface Solutions Segment delivered solid results in 2015, driven by the combined solutions from Oerlikon Balzers and Oerlikon Metco. We successfully integrated Oerlikon Balzers and Oerlikon Metco into the Segment, opened new service and competence centers, and launched new joint solutions such as the extremely wear-resistant BALINIT® CROMA coating. We have only begun to uncover the potential of the newly strengthened surface solutions business, and we intend to swiftly capitalize on the opportunities we believe will shape tomorrow's industries. In becoming a global powerhouse in surface solutions and advanced materials, we will be using our strong balance sheet to fund growth and pursue investment opportunities. In 2015, we carried out a bolt-on acquisition of the business of Laser Cladding Services to expand our surface solutions' offering in this area, and gained access to additional customers in

[1] Excluding impairments, restructuring costs, amortization of acquired intangibles (from Metco, net of tax) and results from discontinued operations.

North America. A business where we see great opportunities is metal-based additive manufacturing (AM). We offer a unique market proposition to this highly promising sector as we have the expertise in both advanced materials and surface solutions. We have started to expand our product portfolio with innovative superalloy powders, optimized for state-of-the-art applications for all laser-based and electron beam AM processes, and launched the first AM materials under the MetcoAdd™ brand.

For the Manmade Fibers Segment, the extent and speed of China's economic deceleration in the third quarter of 2015 prompted China to review its 13th five-year plan. Consequently, the textile sector was severely impacted and extended the overcapacity of equipment, resulting in postponement of orders and weak demand. Despite the trough, the Segment delivered underlying operating profitability in 2015, and we have taken steps to make the Segment even more resilient by lowering its cost base and implementing further operational excellence initiatives to generate further productivity savings. The Segment will also be focusing stronger on developing its business in other regional markets outside of China, and in adjacent markets such as polycondensation. Through the joint venture with the Chinese company Huitong Chemical, signed in 2015, we are effectively the only company able to offer comprehensive industrial solutions, from continuous polycondensation to finished end products in chemical fiber spinning or PET bottle-grade material.

The Drive Systems Segment experienced pullback in its business due to negative developments in four out of six of its markets. The mining and construction sectors remained weak, while the oil & gas and agricultural sectors saw sharp decline in investments and shelving of projects. Those developments made it necessary for us to review the Segment's portfolio, and to focus on key product lines in long-term growth markets where the Segment enjoys a strong technology and market position. Further measures include a stronger focus on key customer accounts, high-value projects and extending product applications into adjacent industries with similar needs. The Segment will also undertake a reorganization, introduce a focused factory concept with defined lead factories for each global product line and improve its production and logistic processes.

We took another decisive action in 2015 – the announced sale of our Vacuum Segment to Atlas Copco, which is the ideal owner to unfold the full potential of the Vacuum Segment, as it has a strong position and broad expertise in the vacuum and compressor sector. The transaction is based on an enterprise value of CHF 525 million and is expected to close by the middle of 2016. Additionally, the divestiture of the Advanced Technologies Segment was completed in 2015. These actions enable us to reallocate critical resources to fund targeted investments and our growth plan.

In 2015, we invested CHF 103 million, or around 4 % of our sales, in R&D. In the Surface Solutions Segment, our progress included the expansion of the BALIQ™ family of coatings with further wear-resistant and extremely smooth and dense coatings, and the development of next-generation materials for environmental barrier coatings (EBC) optimized for effective protection of turbine engines against vapor and environmental factors. The Manmade Fibers Segment introduced an energy- and cost-saving carpet yarn finishing component called RoTac^{3} and a new version of a software solution that effectively manages the entire spinning and texturing production process – Plant Operation Center (POC). The Drive Systems Segment rolled out a new range of Torque Hub® for sprayer machines that increases efficiency and improves safety.

We continued to expand our global footprint in 2015. Milestones include our first service center offering both Oerlikon Balzers and Oerlikon Metco technologies in Guelph, Ontario, Canada, a new automotive competence center for surface solutions in Slovakia, a new sales office in Dubai and an AM center in Westbury, New York, USA. Today, we offer one of the largest surface solutions service networks in the industry, spanning over 145 centers in 37 countries. The Manmade Fibers Segment opened a new service center in Dalton, Georgia, USA, and a new technology center in Chemnitz, Germany. The Drive Systems Segment inaugurated its third plant in India. As we improved our proximity and services to customers, we increased the ratio of our service revenue to total Group sales to 33.6 %.

All in all, we proved our resilience and agility in 2015 and reacted well to the market developments. We strengthened our position as a technology leader, maintained our strong commitment to R&D, lowered our breakeven cost and improved and optimized our Group-wide processes and competences.

The challenging market developments are predicted to continue in 2016 and 2017, and the Group's focus is to continue protecting its solid profitability. Thus, order intake and sales are expected to be between CHF 2.3 billion and CHF 2.5 billion and the EBITDA margin to be in the mid-teens for the full year 2016.

Our markets are fundamentally supported by mid- and long-term drivers such as globalization, mobility, energy and urbanization. We are therefore convinced that the markets will recover and grow. With the defined strategy, Oerlikon will be able to partially offset the adverse market impacts. At this stage, it is important for Oerlikon to proceed with a strong strategy execution and the initiation of its next phase of development.

In closing, I would like to personally thank our customers, shareholders and employees for their trust and support over the past years. I am confident that the defined new strategy will have a far-reaching impact on Oerlikon's future, and will create sustainable future returns and value for Oerlikon and for its shareholders, customers and employees.

February 29, 2016

Best regards

Dr. Brice Koch
Chief Executive Officer