3.0 Oerlikon Group operational review

1. The Oerlikon Group continued to deliver a strong operational performance, achieving an EBIT margin of 12.7 %.

2. With a net liquidity of CHF 981 million and an equity ratio of 51 %, Oerlikon further improved its financial position following the divestment of the natural fibers businesses.

3. Second consecutive dividend increase to CHF 0.27 per share (payout ratio of 35 %).

4. Outlook 2014: organic sales growth, stable order intake and stable profitability.

Key figures Oerlikon Group[1]

in CHF million	**2013**	2012
Order intake	2 893	2 802
Order backlog	825	834
Sales	2 883	2 906
EBIT	366	421
EBIT margin	12.7 %	14.5 %

[1] Continuing operations.

In 2013, the Oerlikon Group sustained its strong performance despite a challenging economic environment in major end markets. The continued expansion of its global footprint, as well as the rollout of new products and technologies, achieved further improvements in operational excellence and completed a major step in the strategic transformation of the Group. The company continued to improve its competitiveness and to figure among the top performers in the industrial sector.

The operational result was bolstered by the ongoing execution of the Group's strategy based on the following core elements: Innovation, regional expansion, operational excellence and portfolio shaping. The Manmade Fibers and Coating Segments were the main drivers behind this sustainable performance. Regionally, Asia and, once again, China, in particular, were the main contributors to these results. The divestment of the Natural Fibers and Textile Components Business Units led to a more balanced portfolio and regional split. The Group's return on capital employed (ROCE) of 17.7 % (2012: 17.4 %, on a like-for-like basis) proves that Oerlikon has again created substantial value.

In 2013, for the second time in series of nearly 10 years, a dividend was paid out to shareholders; a signal of the business model's sustainability. For this reporting year, the Board of Directors will propose to the Annual General Meeting of Shareholders on April 15, 2014, an increased dividend (+8 %) of CHF 0.27 per share. This will be the second consecutive increase of the dividend payment and equivalent to a payout ratio of 35 % based on underlying earnings per share of CHF 0.77.

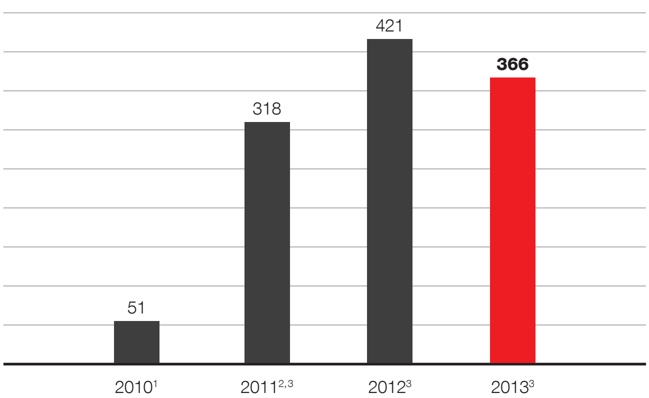
Based on its dominant financial position with a net liquidity of CHF 981 million, optimized operations and a shaped portfolio, the Oerlikon Group is now entering into the next phase of the company's development, focusing on growth – organically and by potential acquisitions.

2013 key Group figures at a glance

Operationally, the Group was able to deliver on the outlook provided at the beginning of the year:

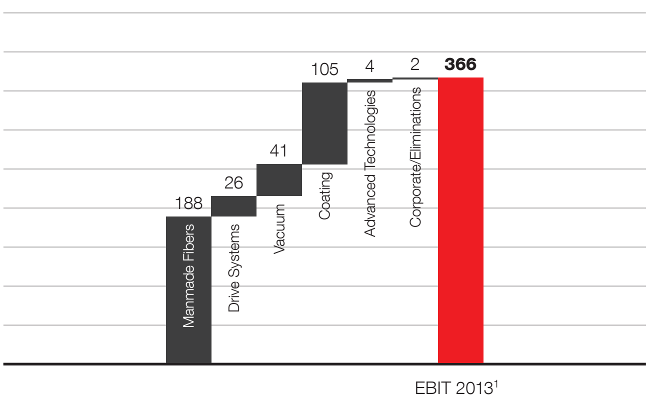
- Order intake increased by 3.2 % to CHF 2 893 million (2012: CHF 2 802 million), which was better than expected.
- Order backlog was reduced by 1.1 %, coming in at CHF 825 million (2012: CHF 834 million).
- Sales were similar to the prior year's level with CHF 2 883 million (2012: CHF 2 906 million).
- EBITDA amounted to CHF 492 million (2012: CHF 547 million), which is equivalent to an EBITDA margin of 17.1 %.
- The EBIT margin was 12.7 %, compared to 14.5 % in 2012, which included a substantial one-time effect; EBIT reached CHF 366 million (2012: CHF 421 million).
- The Group's result from continuing operations increased by 18.8 % from CHF 218 million to CHF 259 million.
- Headcount slightly increased to 12 860 employees worldwide (2012: 12 708).
- Oerlikon continues to generate value: ROCE – on a like-for-like basis – increased to 17.7 %, compared with 17.4 % in 2012 (reported ROCE in 2012: 19.7 %).
- The Board of Directors will propose an increased dividend of CHF 0.27 per share (2012: CHF 0.25) to the Annual General Meeting of Shareholders.

EBIT
in CHF million



[1] As reported. [2] Restated. [3] Continuing operations.

EBIT by Segment
in CHF million



[1] Continuing operations.

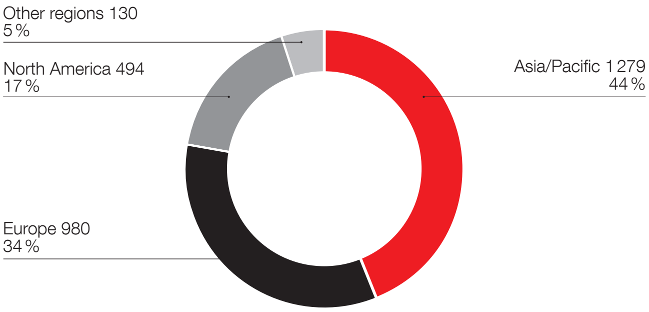
Currency impacts on sales and profitability were negligible.

With these operational results the Oerlikon Group outperformed most of its peers in terms of profitability and value creation in 2013.

Performance in the Segments

The Manmade Fibers Segment – formerly Textile Segment – performed at a historical high, again increasing sales by 2.4 % to CHF 1 130 million (2012: CHF 1 103 million). Order intake was sustained at a high level of CHF 1 073 million (2012: CHF 1 039 million), signaling that the expected market normalization has not yet started. Order backlog was CHF 541 million (2012: CHF 602 million). EBIT in 2013 reached CHF 188 million, compared to CHF 186 million in 2012, which included a one-time effect amounting to CHF 39 million for the sale of property in Arbon, Switzerland. Adjusted for this effect, the underlying EBIT margin increased from 13.4 % to 16.6 %. With these results, the Manmade Fibers Segment is operating at a Best-in-Class level among its peers. Driving forces were a continued strong market demand, especially from China, for Oerlikon's leading WINGS technology for filament yarn spinning, as well as for BCF carpet yarn equipment from the US. The increase of operational profitability was the result of ongoing efficiency gains at the sites in Remscheid, Germany, and Suzhou and Wuxi, China. A favorable product mix, as well as a successful transaction and management carve out, minimized the impact of negative synergies from the divestment of the natural fibers businesses.

Sales 2013 by market region[1]
in CHF million



[1] To third parties, continuing operations.

The Drive Systems Segment was affected by a challenging market environment. Weakness in the construction, infrastructure and heavy-duty off-highway equipment markets in the US and China, coupled with customers' high stock levels, have had a significant impact on the Segment. The Segment was also impacted by reduced equipment demand from the mining and natural-gas industries in the US energy sector. Sales were CHF 734 million, down 11.1 % year-on-year. However, one-time project orders from the energy market increased order intake by 3.4 % to CHF 792 million (2012: CHF 766 million). EBIT amounted to CHF 26 million, down 62.9 % year-on-year due to lower overall sales volume and disproportionately lower sales in the Segment's higher-margin products and services. The comprehensive mitigation actions, under way since the beginning of 2013, limited the negative effects, resulting in a sequential improvement quarter for quarter.

The Vacuum Segment reported solid operations with steady growth. Order intake increased by 7.2 % to CHF 404 million (from CHF 377 million a year ago) despite a demanding market for vacuum applications. The same was true for total sales, which increased by 6.1 % to CHF 400 million (2012: CHF 377 million), resulting in market share gains. Drivers for the Segment were the analytics, R&D and coating industries, predominantly in China and the US. With major orders for steel degassing, nuclear and electronic production applications, the Segment strengthened its position in these discerning markets. Anticipatory investments in the optimization of manufacturing, footprint and logistics impacted profitability. EBIT went up by 7.9 % to CHF 41 million (2012: CHF 38 million). The EBIT margin rose from 10.2 % in 2012 to 10.3 % in 2013.

Despite a challenging market environment, notably in the automotive sector, the Coating Segment achieved a record result in its history with further growth of 1.8 % to achieve a total sales volume of CHF 511 million (2012: CHF 502 million), sustaining a high profitability of 20.5 % EBIT margin (2013 EBIT: CHF 105 million). With these results, the Coating Segment is operating at a Best-in-Class level among its peers. The successful execution of its strategy to expand the range of markets and applications (such as regrinding and PPD™) offset headwinds from the tooling industry. With the opening of three new coating centers in the US, China and the Philippines, the Coating Segment now operates 93 sites in 34 countries; a new competence center near Paris is addressing the special needs of aerospace customers. At the world's foremost trade show for metal working (EMO) in Hanover, Germany, the Segment launched a revolutionary new generation of coatings under the brand name BALIQ™, fostering its technology leadership.

The Advanced Technologies Segment was affected by a weak semiconductor market, where the expected recovery for the second half of 2013 was delayed. The Segment's order intake was CHF 114 million in 2013, maintaining a similar level as in 2012 (2012: CHF 119 million). The Segment ended the year with a high order backlog of CHF 25 million, which is stable in comparison to the previous year. Total sales rose by 8.7 % to CHF 113 million, primarily due to an increase in demand for touch screen panel applications. The Segment reported a slightly lower EBIT of CHF 4 million (EBIT margin of 3.7 %), compared to an EBIT of CHF 7 million (EBIT margin of 6.6 %) in 2012, as a result of a substantial increase in its investment in R&D.

Expansion in growth markets

A key reason behind Oerlikon's sustainable success is its strong global presence: the Group operates over 150 sites in 34 countries. The Asian growth markets once again made a positive contribution to Oerlikon's business performance in 2013. Asia grew by 1 % and recorded sales of CHF 1 279 million, presently accounting for 44 % of the Group's total sales. Sales in Europe grew by 1 % to CHF 980 million, accounting for 34 % of total Group sales, while North America recorded sales of CHF 494 million, representing a decrease of 1 % and accounting for 17 % of Group sales. The share of other regions in Group sales was 5 % (2012: 6 %).

In order to meet the needs of local customers even more effectively, the Group continued to focus on Asia, which is still the most important growth region globally.

The Drive Systems Segment started construction on its third plant in India and expects it to be in operation in early 2015. The factory is being set up in Sanand in the state of Gujarat, an established hub for automotive companies. The new plant will allow Drive Systems to deliver high-tech products and solutions at a competitive price by leveraging talent from local markets in an area where most of the current and prospective customers are based. The Vacuum Segment strengthened its position in India, with new regional headquarters in Bangalore. Oerlikon's position in Brazil was enhanced by a new regional headquarters and service site for the Vacuum Segment in São Paulo.

The Coating Segment continued its regional expansion in Asia with new coating centers in Changchun, China, and Manila, Philippines. Additionally, the Segment opened a site in Oklahoma, in the US. The Coating Segment now operates 33 coating centers in Asia, accounting for 35 % of all 93 centers globally. Regrinding shops were added in four centers and a new generation of PPD™ equipment was introduced in China and Japan.

Portfolio shaping

Oerlikon announced the completion of the sale of its Natural Fibers and Textile Components Business Units to the Jinsheng Group from China on July 4, 2013. The completion of the transaction marked the latest strategic milestone in shaping Oerlikon's portfolio; it was the ninth strategic portfolio measure in the past three years. From the transaction, Oerlikon received net cash in the amount of CHF 502 million, after transaction costs.

This move significantly reduced Oerlikon's exposure to the textile business as a whole and effectively removed the company from the most cyclical part thereof, natural fibers. Focusing exclusively on the high-performing, less cyclical manmade fibers market reduces the textile share of sales from 53 % (including the discontinued natural fibers businesses) to 39 % of the Oerlikon Group's sales. The manmade fiber area is predicted to be the fastest growing in the textile business in the long run, and Oerlikon, a market leader with cutting-edge technology, is ideally positioned to benefit disproportionately from this growth.

With the exit from the natural fibers businesses, Oerlikon's Textile Segment was renamed the Manmade Fibers Segment. Under the brands Oerlikon Barmag and Oerlikon Neumag, Oerlikon provides comprehensive solutions and services for the production of manmade fibers, nonwovens, carpet yarns and synthetic staple fibers and is the global market and technology leader in this market.

Strengthened financial position, high ROCE

For the third consecutive year, the Oerlikon Group reported a strengthened financial position, fueled by the ongoing strong operational performance and cash proceeds from the divestments. Financial strength was further improved by signing a CHF 150 million credit for R&D projects, standing with the European Investment Bank (EIB).

The operational result (EBIT) stood at CHF 366 million (2012: CHF 421 million). Oerlikon's net financial result was minus CHF 32 million for full-year 2013 (2012: minus CHF 94 million), benefiting from the repositioning of the balance sheet in 2012. Tax expenses were down at CHF 75 million (2012: CHF 109 million) corresponding to a reduced tax rate of 22.5 %. The decline in the tax rate is predominantly related to the divestment of the natural fibers businesses.

The Group's result from continuing operations grew by 18.8 % to CHF 259 million compared to CHF 218 million a year ago. Including various noncash accounting effects from the divestments in 2013, net income was CHF 201 million (2012: CHF 380 million).

The Group's performance led to a return on capital employed (ROCE) of 17.7 % as of year-end 2013, versus a ROCE of 19.7 % at year-end 2012 (as reported). Excluding the one-time effect of the Arbon property sale, 2012 amounted to 17.4 %.

Strong equity ratio of 51 %, strong cash flow

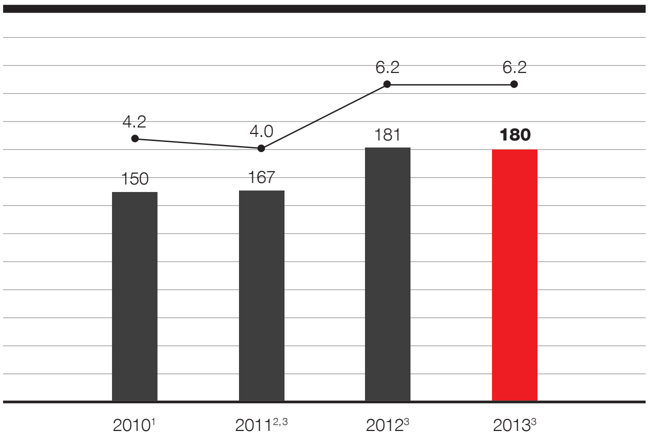
Strong operational performance in 2013 and the portfolio adjustments further strengthened Oerlikon's balance sheet. As at the reporting date, the Group had equity attributable to shareholders of CHF 2 072 million, putting the equity ratio at 51 % compared with 45 % at year-end 2012.

The equity position was positively affected by the execution of warrants and the related issuance of some 9 million new shares.

Disciplined investment and use of cash continued to be Oerlikon's top priorities. Capital expenditure (CapEx) amounted to CHF 180 million, in line with the prior year's level of CHF 181 million. The CapEx to depreciation ratio was again above 1, indicating a return to growth over the medium to long term. Focus areas were Europe, with investments to improve operations and the regional position of all Segments, and the Asian growth markets in China and India, notably in the Drive Systems and Coating Segments.

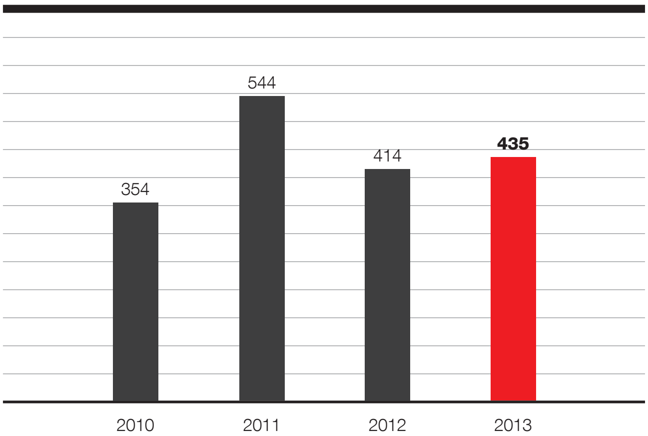
The main investment activities aimed at increasing efficiency and thereby capacity within the Manmade Fibers Segment, and included the ramp-up in China and the building of the third plant in the Drive Systems Segment in India, the erection of a new logistics center in Cologne, Germany, as well as capacity expansion in the Vacuum Segment in Tianjin, China, and the creation of three new coating centers, including capacity expansion in existing centers in the Coating Segment.

Capital expenditure
in CHF million



[1] As reported. [2] Restated. [3] Continuing operations. In % of sales.

Operating cash flow[1]
in CHF million



[1] Before changes in net current assets.

Cash flow from operating activities before changes in net current assets increased by 5.1 % to CHF 435 million (2012: CHF 414 million). Net working capital (defined as trade receivables + inventories – trade payables – current customer advances) amounted to CHF 108 million, which corresponds to 4 % of sales. The divestment of the Natural Fibers and Textile Components Business Units resulted in a cash flow from investing activities that amounted to CHF 360 million.

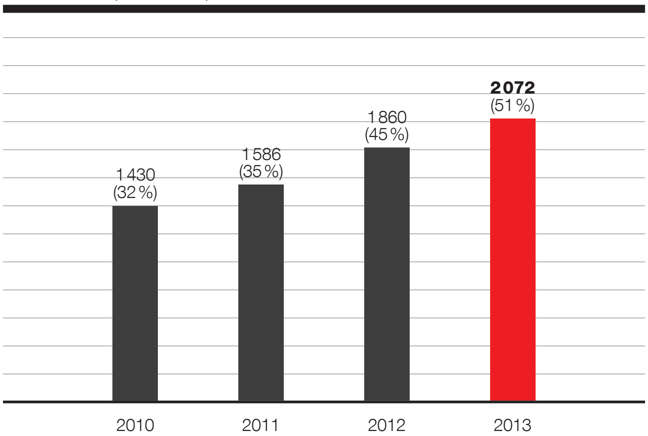
As a consequence, Oerlikon achieved a new record net liquidity of CHF 981 million, almost three times higher than year-end 2012 (2012: CHF 339 million).

Innovation

In 2013, Oerlikon continued to strengthen prospects for the future through substantial investment in R&D. R&D expenditures in 2013 increased by 15.1 % to CHF 122 million (2012: CHF 106 million). As a percentage of total Group sales, investments in new technologies remained unchanged at around 4 %.

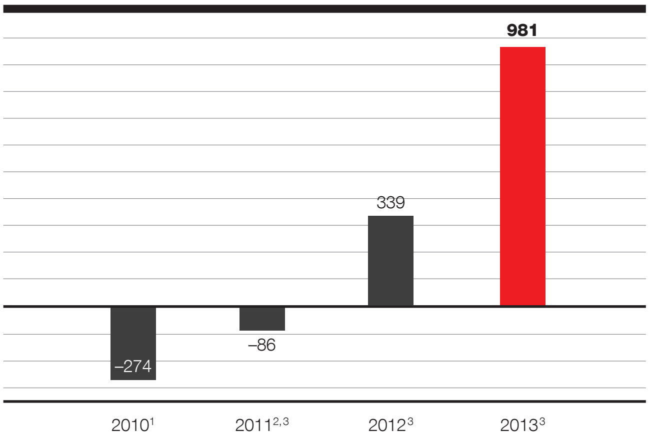
Successful R&D efforts across the Group resulted in new products and/or solutions in 2013. The Manmade Fibers Segment launched the WINGS POY 1800, a major advancement of the highly successful WINGS (Winding INtegrated Godet Solution) technology. The WINGS POY 1800 boosts manmade fibers productivity by 20 %, due to the increased number of bobbins able to be wound simultaneously. The Drive Systems Segment maintained its already promising position in the market of electric vehicles with the new gearbox concept 4 Speed Electric Drive (4SED). 4SED uses, for the first time, four shifts compared to conventional electric car transmissions with only one shift. Working with multiple gears, 4SED significantly improves the efficiency of the drive by up to 15 %, resulting in a higher range for the electric car. The Vacuum Segment launched a new turbo molecular pump called TURBOVAC i/iX. The new patented multi-inlet principle, which combines several pump units in one housing, considerably reduces the total cost of ownership (TCO) compared to individual components. The Coating Segment presented the first two coatings, based on the revolutionary S3p™ (Scalable Pulsed Power Plasma) coating technology. S3p™ was introduced to the market two years

Equity[1]
in CHF million (% of assets)



[1] Attributable to shareholders of the parent.

Net debt/liquidity
in CHF million



[1] As reported. [2] Restated. [3] Continuing operations.

ago and uniquely integrates different coating technologies which, until then, did not seem combinable. Branded BALIQ™, this new coating generation allows for new applications such as micro drills, increasing tool lifetime by a factor of 30. The Advanced Technologies Segment made its CLUSTERLINE® equipment applicable for the production of power semiconductors in the wafer format of 300 millimeters instead of the commonly used 200 millimeters. The larger format more than doubles the productivity of wafer backside metallization.

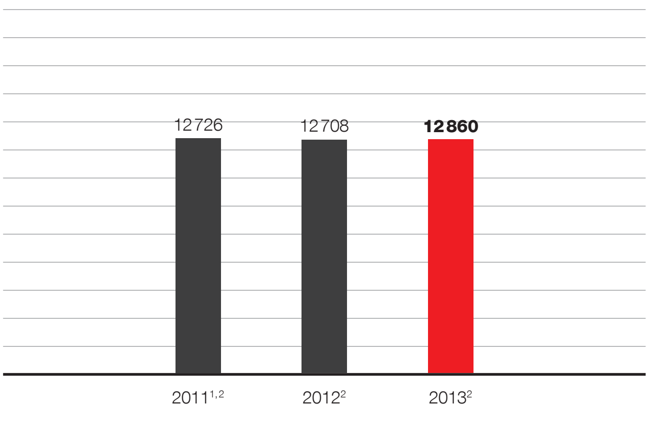
Operational excellence

Fundamental to the continuation of the Group's strong profitability is the underlying operational performance, which has been improved by major enhancements to processes through ongoing operational excellence programs. The consistent implementation of these initiatives has enhanced process efficiency and stability to a marked degree. In 2013, Oerlikon launched a Group-wide operational excellence program to harmonize methods and processes across the Group and to ensure a Best-in-Class approach within the whole organization.

Dividend

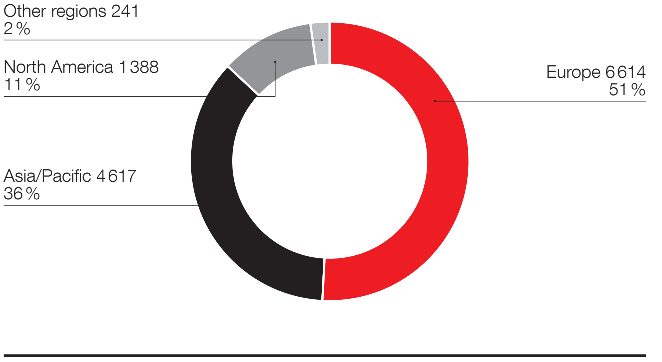
In 2013, for the second consecutive time within the last decade, Oerlikon paid a dividend of CHF 0.25 per share to its shareholders. Based on a sustainable, strong operational performance and strong cash position, the Board of Directors of Oerlikon will propose an increased dividend of CHF 0.27 per share to the Annual General Meeting of Shareholders on April 15, 2014. This represents the second consecutive increase and follows a stable and progressive payout approach in line with the company's dividend policy.

Employees



[1] Restated. [2] Continuing operations.

Employees 2013 by region[1]



[1] Continuing operations.

Management

In March 2013, former CEO Dr. Michael Buscher left the company to take up a new position. CFO Jürg Fedier was appointed interim CEO until January 15, 2014. Dr. Brice Koch was announced as the new CEO on November 1, 2013. Dr. Brice Koch (1964) has held a number of successful leadership roles over the last 20 years. In his last position, he was a member of the ABB Group Executive Committee and Head of the USD 8 billion Power Systems division. Dr. Brice Koch holds a PhD in material science from the Swiss Federal Institute of Technology (ETH), Zurich. On February 11, 2014, Oerlikon announced the expansion of its Executive Committee to include all five Segment CEOs – a measure intended to bolster the market experience and operational potential of this body.

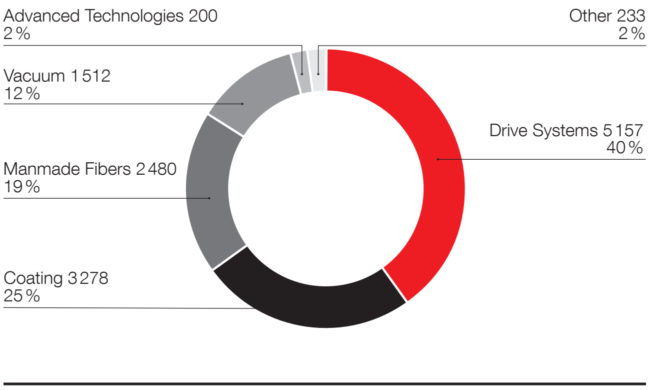
Outlook for 2014

With nine strategic transactions to shape the portfolio and with significant underlying operational improvements Oerlikon has, since 2010, created a sustainable level of profitability, shifting the focus of the Group toward the acceleration of growth in the future.

The Oerlikon Group forecasts for 2014:

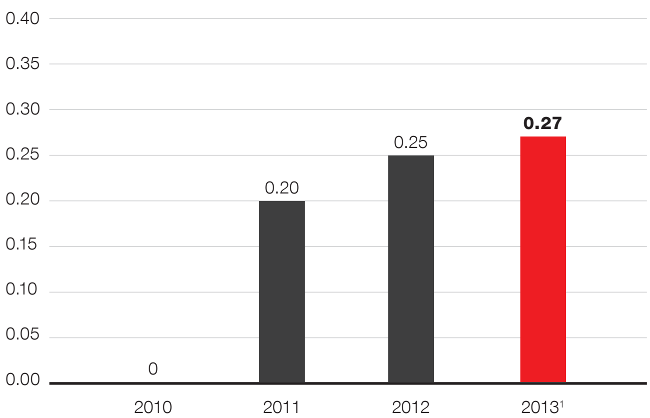
- Organic sales growth
- Stable order intake and stable profitability

Employees 2013 by Segment[1]



[1] Continuing operations.

Dividend per share
in CHF



[1] Proposed.