Letter from the CEO

Dear Shareholders

In 2016, we delivered on all the targets that we set. We performed well in the difficult market environment, supported by the noticeable increase in sales and orders in the fourth quarter. Strategically, we executed the first steps of our strategy to become a global powerhouse in advanced materials and surface solutions, sharpened our market and customer focus, and increased our resilience and efficiency.

We anticipated difficult market conditions for 2016, which was a year filled with challenging macroeconomics and geopolitical events. China's economic deceleration, uncertainties in the European Union and the US, and commodities price volatilities led to a fragile market landscape, dampening investments in end markets. Key sectors such as the filaments equipment market, energy, construction and agriculture continued to see weak demand.

Against this backdrop, Oerlikon performed well and delivered good results. The Group's order intake for 2016 came in at CHF 2 413 million, including a positive currency impact of 1.2 %, while Group sales totaled CHF 2 331 million, including a currency impact of also 1.2 %. EBITDA was CHF 334 million, corresponding to an operating profitability margin of 14.3 %. The net result amounted to CHF 388 million, reflecting underlying earnings per share of CHF 1.14. With an equity ratio of 48 %, the Group's financial position remained strong in 2016. The net cash position at the end of the year amounted to CHF 401 million and cash flow from operating activities before changes in net current assets was CHF 269 million. The Group's return on capital employed (ROCE) was at 5.7 %. In 2016, we also strengthened our financial flexibility and signed an agreement for a new, unsecured syndicated credit facility amounting to CHF 600 million, with a five-year term and two optional one-year extensions. Our strong financial base enables us to continue implementing our organic and inorganic growth strategy in the future.

The Surface Solutions Segment achieved a consistently good performance, confirming the potential of this business and our strategy going forward. Our technologies are found at the center of the automotive, aerospace, energy, tooling and many more industries. They serve the growing demand from our industrial customers for lighter and more durable materials with new or better properties that are able to deliver increased performance. Our two other Segments, Manmade Fibers and Drive Systems, delivered results lower than the year before, reflecting the market challenges they face in their respective businesses.

The Surface Solutions Segment was the main income and profit generator for the Group in 2016. It slightly grew its orders and sales compared to the previous year, and saw stable demand in most of its key industries – automotive, aviation and power generation – and a positive development in general industries and tooling. It also improved its operating profitability compared to 2015. Its Q4 2016 EBITDA margin of 21.6 % marks a total of nine consecutive quarters where the Segment achieved an EBITDA margin of over 20 %. We continued to invest in new technologies and customer services and addressed new business opportunities such as additive manufacturing. New coating technologies from Oerlikon Balzers' key product families of BALINIT® and BALITHERM® were launched and new alloyed additive manufacturing materials customized for specific applications were introduced to the market. Customer proximity was strengthened by opening a new coating and service center in South Korea and expanding an automotive competence center in India. We acquired citim GmbH, gaining additive production capabilities and announced the building of a new plant in Michigan, USA, to produce advanced materials for additive production and high-end thermal spray applications. In addition, we joined America Makes to stay at the forefront of the additive manufacturing development in the US, and partnered with the Shanghai Additive Manufacturing Association to establish an additive manufacturing network in China.

The Manmade Fibers Segment continued to be impacted by the prevailing overcapacity in the filaments equipment market. China's 5-year plan (2016–2020) depicted a 2-year consolidation period, and we are currently in the midst of this period. However, toward the end of 2016, we saw indications that projects are being reevaluated, implying that the bottom of the trough was reached in 2016. The Segment's efforts in diversifying its focus on areas outside of the China-led filaments market has started to bear fruit. To strengthen our foothold in the staple fibers market, we acquired Trützschler's staple fibers technology portfolio. Staple fibers, bulked continuous filaments (BCF) and texturing (DTY) are the main areas where the Segment has improved its business in 2016. Positive demand for staple fibers was noted in India and Europe, and positive uptakes for BCF systems and services in the US and Turkey. For DTY, partially oriented yarn (POY) systems installed in previous years triggered investments. The Segment has also improved its cost base in the reporting year through restructuring measures and was able to protect its operating profitability and delivered a positive EBITDA margin for the full year despite sales level coming in almost 40 % lower than in 2015.

All of the Drive Systems Segment's end markets continued to be under pressure in 2016. Agriculture, construction, energy and mining sectors saw subdued demand, which resulted in the

Segment recording lower sales in 2016 than in the previous year. Nevertheless, the Segment's strategic reshaping of its product portfolio has led to first positive results. It managed to increase its order intake year-on-year by winning customers and projects in several market, such as in the US and European construction and transportation sectors, in the public transportation sector in China and in agriculture in India. Thanks to its consistent execution of restructuring and process optimization measures, the Segment also succeeded to obtain a notably improved year-on-year operating profitability, with an EBITDA margin of 8.4 %.

In 2016, we took many steps in executing our strategy. We closed the sale of the vacuum business to Atlas Copco, freeing up resources for our core businesses. We integrated the Group headquarters with the Surface Solutions Segment, creating a structure where the Business Units and Group functions can benefit from synergies, increase efficiency and improve their value proposition to markets and customers. This realignment will make us leaner, more agile, responsive and market-oriented. In that context, I also took over the operative management of the Surface Solutions Segment as part of my responsibility in order to be closer to our core business.

To maintain our technology leadership in our markets, we continued to invest in our innovations and R&D. In 2016, we filed 67 patents and allocated 4 % of our total sales in R&D, developing upgrades and innovations to meet customers' needs and demands.

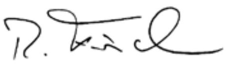
Looking ahead, we expect the macroeconomy in 2017 to remain uncertain. Open questions such as the policy changes by the newly inaugurated US president in the areas of foreign policy and international trade, China's ability to maintain its GDP growth and rebalance its economy, and the Euro Area's political, economic and migrant issues will need to be answered. These changes will inevitably impact the global and end markets, raising concerns on how we need to better address risks and mitigate against market developments. Having said that, based on our performance in 2016, we expect, even in the difficult market environment, to increase order intake and sales for the full year 2017 to around CHF 2.5 billion each and to deliver an operating profitability around the same level as in 2016. However, given the substantial planned investment expenses for the additive manufacturing business, the EBITDA margin is expected to be around 13 %.

The longer-term prospects for our business remain attractive. We have laid the foundation, focusing Oerlikon on strong technologies that address important industrial customer needs in growing markets. In 2016, we made important progress toward our key goals of strengthening our surface solutions business, managing the market cycle for manmade fibers and reshaping our drive system business. Taking further steps in our strategy execution is equally important for us. In 2017, we will work at enlarging our growth base to ensure sustainable profitable growth in the medium term. We want to grow our existing business organically, but will also look at value-added investment opportunities to complement our existing technology and service portfolio. Our key areas of focus will be in strengthening our technology leadership through continuous innovation, growing existing customer business, developing new business areas such as additive manufacturing, and bringing our organization to the next level. This will help us stay at the forefront of technology innovations and drive profitable growth in all our businesses in the future.

In closing, I would like to personally thank our employees for their ongoing dedication and efforts; our customers for the trust they place in us to deliver value-added technologies and services, and also to thank you, our shareholders, for your continued support in Oerlikon.

February 28, 2017

Best regards



Dr. Roland Fischer
Chief Executive Officer