# Group business review

In 2015, Oerlikon proved its resilience in the face of increasingly challenging global market conditions and succeeded in sustaining its operating profitability (normalized) while maintaining its technology leadership.

In response to market challenges, the Group took decisive action to protect its operating profitability and to align the Manmade Fibers and Drive Systems Segments with current market dynamics. It has also clearly defined its strategy for advancing its position as a global technology leader in surface solutions and advanced materials. In line with the strategy, the Group closed the sale of its Advanced Technologies Segment and announced the divestment of its Vacuum Segment in 2015, allowing the Group to increase its focus and better allocate resources to core businesses. That divestment, which is expected to close by the middle of 2016, is reported as "Discontinued Operations" in the 2015 full-year financial statements, and the 2014 accounts have been restated accordingly to facilitate comparison. The announced measures related to the Manmade Fibers and Drive Systems Segments resulted in restructuring costs of CHF 112 million and impairment charges of goodwill and fixed assets CHF 476 million.

Reflecting the difficult market conditions and adjusted for the announced divestment of the Vacuum Segment, Group order intake was lower by 4.2 % at CHF 2 537 million versus CHF 2 647 million in 2014 and order backlog decreased by 33.0 % to CHF 431 million compared with CHF 643 million at year-end 2014. Group sales declined by 5.5 % in 2015 to CHF 2 671 million from CHF 2 825 million in 2014. Including the previously mentioned restructuring costs, EBITDA stood at CHF 338 million, correlating to an EBITDA margin of 12.7 %. Excluding the restructuring costs, EBITDA was CHF 450 million, yielding an EBITDA margin of 16.9 %, that is, around the same level as in 2014, where restated and normalized EBITDA was CHF 477 million and EBITDA margin was 16.9 %. EBIT for 2015, including the restructuring and impairment charges, was minus CHF 306 million in 2015, that is, minus 11.4 % of sales. Normalized, EBIT was at CHF 282 million, or 10.6 % of sales. In 2014, normalized and restated EBIT was CHF 326 million, or 11.6 % of sales. Oerlikon's net financial result remained relatively stable at minus CHF 33 million versus minus CHF 26 million in 2014. Tax expenses decreased slightly to CHF 63 million compared to CHF 75 million in 2014. The result from continuing operations was minus CHF 402 million and the net loss for 2015 was CHF 418 million. Excluding impairments, restructuring costs, amortization of acquired intangibles (from Metco, net of tax) and results from discontinued operations, normalized net result was CHF 207 million and this reflects underlying earnings per share of CHF 0.61. Cash flow from operating activities before changes in net current assets remained strong at CHF 393 million. Excluding the restructuring and impairment costs and adjusted for related tax effects, the Group's normalized return on capital employed (ROCE) amounted to 11.1 %.

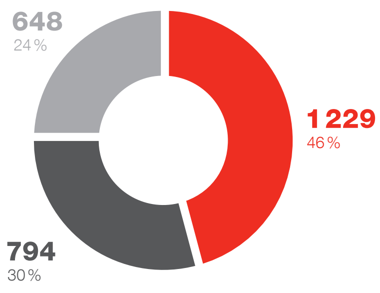
The successful integration of Oerlikon Metco and Oerlikon Balzers in the Surface Solutions Segment in 2015 created higher than expected synergies and has advanced the Group's strategy to become a powerhouse in surface solutions and advanced materials. As part of that strategy, the Group intends to pursue additional investment opportunities through internal investments and acquisitions, including both larger, transformative transactions and smaller, bolt-on acquisitions. The first bolt-on acquisition was completed in 2015 – with the purchase of the business of Laser Cladding Services LLC. to extend the existing laser cladding services of the Surface Solutions Segment and expand its targeted market. The Group's strong balance sheet supports its strategy to grow organically and inorganically.

The Group also strengthened its foothold in key countries to improve the proximity and quality of its services. The Surface Solutions Segment opened its first service center offering both Oerlikon Balzers and Oerlikon Metco technologies in Guelph, Ontario, Canada, its first Europe-based automotive competence center in Slovakia, a new sales office in Dubai and an additive manufacturing center in Westbury, New York, USA. 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, appointed distributors as partners in Argentina, Chile, Colombia and Peru to further develop its South American business and reinforced its sales presence in the Middle East to develop markets and distribution networks in the region.

## Performance in the Segments

The Surface Solutions Segment achieved strong and profitable growth in 2015 and successfully advanced its business. Order intake increased 27.8 % to CHF 1 233 million compared to CHF 965 million a year ago. Sales increased by 26.3 % to CHF 1 229 million compared with CHF 973 million in 2014. The growth in sales and order intake was attributable to the inclusion of Metco for the full year of 2015, but also to some organic growth. EBITDA for the Surface Solutions Segment increased to CHF 264 million, yielding an EBITDA margin of 21.4 %. In 2014, EBITDA was CHF 183 million and the EBITDA margin was 18.8 %. EBIT was at CHF 157 million, with an EBIT margin of 12.7 % (2014: CHF 98 million and margin of 10.0 %).

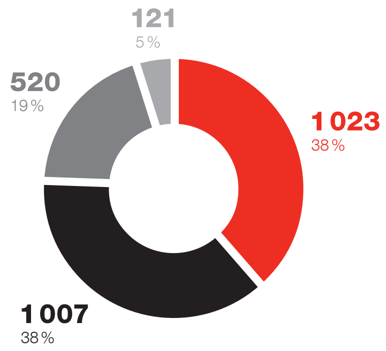
The profitable growth of the Surface Solutions Segment included the achievement of five consecutive quarters of an EBITDA margin over 20 %. The Segment addresses attractive markets and is tapping into opportunities presented by the increasing demand for lighter and more durable materials that can deliver better performance. The combined power of Oerlikon Balzers and Oerlikon Metco has resulted in the Segment being able to offer customers the most comprehensive technology portfolio of surface solutions and one of the most extensive global service networks, consisting of over 145 service and production centers in 37 countries. The Segment has also entered the exciting new, adjacent market of additive manufacturing, setting up a dedicated business unit, launching its first set of additive manufacturing materials, and 3D printed a first set of components to demonstrate its capabilities in additive manufacturing. In 2015, the Segment continued to bring to the market next-generation coating technologies for tools, such as INNOVENTA mega – a PVD system with extremely high




**Sales 2015 by Segment¹**
in CHF million

- Surface Solutions Segment
- Manmade Fibers Segment
- Drive Systems Segment

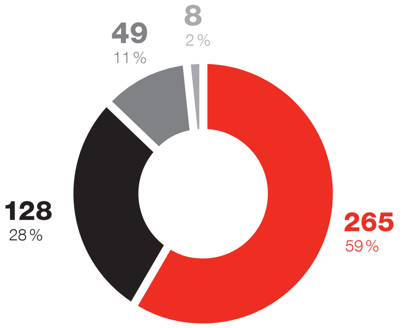
¹ Continuing operations.




**Sales 2015 by region¹**
in CHF million

- Europe
- Asia Pacific
- North America
- Other regions

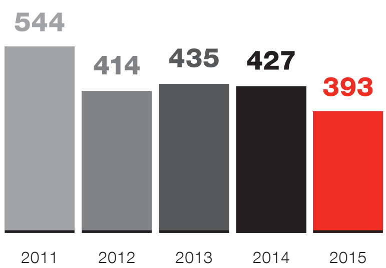
¹ Continuing operations.




**EBITDA 2015 (normalized) by Segment¹**
in CHF million

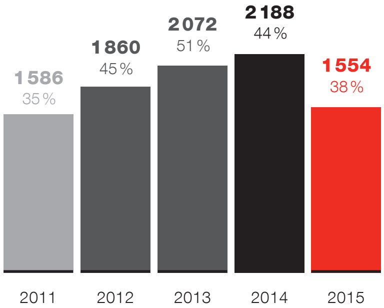
- Surface Solutions Segment
- Manmade Fibers Segment
- Drive Systems Segment
- Others

¹ Continuing operations.



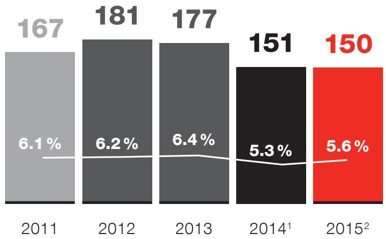

**Operating cash flow¹**
in CHF million

¹ Before changes in net current assets.



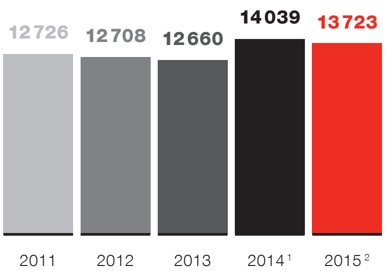

**Equity¹**
in CHF million (as % of assets)

¹ Attributable to shareholders of the parent.



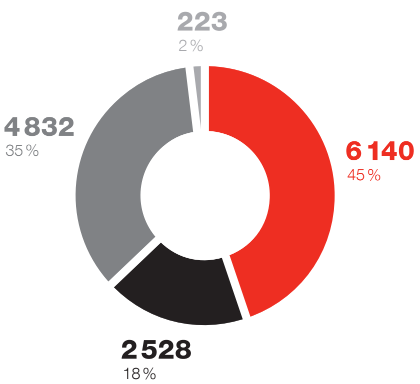

**Capital expenditure**
in CHF million

— In % of sales.
¹ Restated.
² Continuing operations.




**Employees**

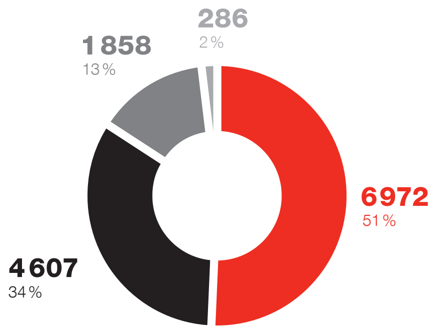
¹ Restated for announced divestment of Vacuum Segment; increase due mainly to Metco acquisition.
² Continuing operations.




**Employees 2015 by Segment¹**

- Surface Solutions Segment
- Manmade Fibers Segment
- Drive Systems Segment
- Other

¹ Continuing operations.




**Employees 2015 by region¹**

- Europe (EMEA)
- Asia Pacific
- North America
- Other regions

¹ Continuing operations.

throughputs – and BALINIT ALTENSA, the high-speed solution for productive gear cutting. Other technologies launched include new environmental barrier coatings to provide turbine engines effective protection against vapor and environmental factors and, in partnership with Stryker, a silver-containing antimicrobial PVD coating that provides better protection for medical components and instruments.

The Manmade Fibers Segment was confronted with major challenges in 2015, primarily caused by the unexpected economic slowdown in China and China government's review of its 13th five-year plan (2016–2020). That impacted China's textile sector, leading to overcapacity and order postponements. The new chemical handling rules in China, low oil prices, and a sluggish global economy also negatively affected the Segment. In reaction to the adverse market developments, the Segment has taken actions to restructure, lower its cost base, accelerate operational excellence programs and reduce fixed costs. These measures have led to a restructuring cost of CHF 43 million taken in 2015.

Order intake was lower by 18.6 % to CHF 733 million compared to CHF 901 million in 2014. Sales declined 26.0 % in 2015 to CHF 794 million versus CHF 1 073 million in 2014. EBITDA was impacted by restructuring costs and stood at CHF 85 million in 2015, corresponding to a margin of 10.6 %. Excluding restructuring costs, normalized EBITDA was CHF 128 million, or 16.1 % of sales. In 2014, EBITDA was CHF 217 million and the margin was at 20.3 %. Normalized EBIT in 2015 was CHF 110 million, or 13.8 % of sales (normalized EBIT in 2014: CHF 199 million, margin: 18.6 %). Including the restructuring costs, EBIT was CHF 67 million.

In 2015, the Segment strengthened its technology portfolio with a new version of the Plant Operation Center (POC), a complete software solution that manages the entire spinning and texturing production process, fully in line with Industry 4.0. It also introduced RoTac³, the eco-friendly and energy efficient component for yarn tangling, and EvoTape, which enables greater process stability in efficient tape extrusion for the production of carpets, agricultural textiles and geotextiles. New additions to the successful WINGS line of products (Winding INtegrated Godet Solution), such as WINGS FDY PLUS that allows for a larger operation window and higher package weights, were also brought to market in 2015. The Segment also reinforced its position in the polycondensation market through a joint venture (JV) with Huitong Chemical in China, creating a company that can offer customers comprehensive industrial solutions, from continuous polycondensation to finished end products in chemical fiber spinning or PET bottle-grade material.

The Drive Systems Segment faced significant challenges in 2015 as four of its six markets, namely mining, oil & gas, agriculture and construction, saw tough developments triggered by plummeting oil and commodity prices and the slowdown in China. Decisive actions have been taken to streamline its business, sharpen its focus on products, adjacent markets and customers that will drive future growth, and improve the efficiency of its operations. Reflecting these actions, a restructuring charge of CHF 68 million was taken in 2015 and impairment charges of goodwill and fixed assets of CHF 476 million were recognized due to the expectation that the weakness in the above-mentioned four markets will continue.

Order intake declined 26.9 % to CHF 571 million compared to CHF 781 million in 2014. Segment sales decreased by 16.8 % in 2015 to CHF 648 million, compared to CHF 779 million a year ago. Normalized EBITDA for 2015, without the restructuring effects, stood at CHF 49 million, or 7.5 % of sales (2014: CHF 82 million, margin of 10.5 %). Including restructuring costs, EBITDA was minus CHF 19 million, or minus 3.0 % of sales. Normalized EBIT, excluding the restructuring costs and impairment charges, was CHF 10 million, or 1.6 % of sales (2014 normalized EBIT: CHF 41 million, margin of 5.3 %). EBIT, including both the restructuring and impairment charges, was minus CHF 534 million.

Notwithstanding the year's myriad of challenges, the Segment achieved a number of key developments. The Segment introduced a new range of Torque Hub drives for self-propelled agricultural sprayers and developed a new power transfer unit (PTU) for next generation clutch transmissions of Mercedes AMG models. In line with its efforts to improve manufacturing efficiency, new robotized cells were added, for example, at the plant in Rivoli, Italy. A new Mercedes assembly line installed in the plant in Luserna, Italy is another example where a synchronized and balanced one-piece flow and u-shaped line designed on lean manufacturing principles has resulted in a 25 % improvement in productivity. In addition, the Segment launched a joint research project with the Surface Solutions Segment to develop new friction materials and pursue other synergies.

**A globally balanced business**

Maintaining a portfolio of best-in-class businesses, global presence and services are important elements of the Oerlikon strategy. The Group's recently announced strategic plan has sharpened its focus on the drivers of future growth with strong emphasis on fostering its position to become a global powerhouse in surface solutions, advanced materials and materials processing.

The Surface Solutions Segment, the largest Segment of the Group, represented 46 % of Group sales. The Manmade Fibers Segment accounted for 30 % of Group sales, while the Drive Systems Segment had 24 % of Group sales. As an international company with a strong global footprint, Oerlikon operates over 170 sites in 37 countries. In 2015, Europe was the largest market for the Group, at 38.3 % of sales, reflecting a 2.4 % increase, amounting to CHF 1 023 million compared with CHF 999 million in 2014. Asia followed closely with 37.7 % of Group sales, although total sales came in 10.7 % lower at CHF 1 007 million, compared to CHF 1 128 million in 2014, mainly due to the lower volume generated in China. North America represented 19.5 % of Group sales in 2015, totaling CHF 520 million versus CHF 552 million in 2014, a decline of 5.8 %. Sales in other regions accounted for 4.5 % of Group sales at CHF 121 million.

In 2015, the ratio of Oerlikon's service revenues to total sales increased to 33.6 %, an improvement compared with 29.4 % in 2014.

**Strong balance sheet with equity ratio of 38 %**

As of December 31, 2015, Oerlikon's balance sheet amounted to CHF 4 097 million, compared to CHF 4 966 million at the same reporting date in 2014. The Oerlikon Group had equity (attributable to shareholders of the parent) of CHF 1 554 million, representing an equity ratio of 38 %, compared to CHF 2 188 million and an equity ratio of 44 % at December 31, 2014. The year-on-year decrease in the total balance sheet and equity primarily reflected the CHF 476 million of impairment charges of goodwill and fixed assets related to the Drive Systems Segment. Net cash amounted to CHF 79 million, compared with CHF 114 million at December 31, 2014.

During 2015, Oerlikon extended the maturity of its syndicated credit facility to June 2017 at a reduced interest rate, reflecting both the favorable interest rate environment and its improved risk profile. This enhanced the Group's debt maturity profile and capital position, thereby increased Oerlikon's financial flexibility. This strong financial foundation allows Oerlikon to further develop its portfolio in line with its clear direction and strategic plan to achieve long-term profitable growth.

**Continued strong operating cash flow**

Cash flow from operating activities before changes in net current assets remained strong at CHF 393 million compared with CHF 427 million in 2014. Net working capital[1] amounted to CHF 391 million[1], corresponding to 15 % of Group sales versus CHF 394 million[1], or 14 % of Group sales in 2014.

Disciplined investment and use of cash continued to be Oerlikon's top priorities. Capital expenditure (CAPEX) amounted to CHF 150 million, compared to CHF 151 million in 2014. Excluding amortization of acquired intangible assets, the CAPEX-to-depreciation ratio was 1.09 times, with the Group's target continuing to be between 1.0 to 1.2 times. Among the significant capital expenditures were: a service center for Oerlikon Balzers and Oerlikon Metco technologies in Guelph, Ontario, Canada; a new automotive competence center for the Surface Solutions Segment in Slovakia; and an Additive Manufacturing center in Westbury, New York, USA. Also, the Manmade Fibers Segment opened a new service center in Dalton, Georgia, USA, as well as a new technology center in Chemnitz, Germany. The Drive Systems Segment inaugurated its third plant in India and added robotized cells in Rivoli, Italy, to improve manufacturing efficiency.

Cash flow from investing activities amounted to minus CHF 107 million, mainly attributable to capital expenditure, compared with minus CHF 1 058 million in 2014, mainly due to the closing of the Metco transaction in addition to capital expenditure. Cash flow from financing activities amounted to minus CHF 142 million, primarily reflecting the dividend payments of CHF 105 million and interest paid of CHF 41 million. This compares with CHF 334 million in 2014, which included proceeds from the issue of financial debt consisting of the placement of two unsecured senior bonds and proceeds from capital increase due to the execution of warrants.

Primarily reflecting the Group's operating cash flow, Oerlikon reported a cash and cash-equivalent position at the end of 2015 of CHF 851 million compared to CHF 826 million for 2014.

Investments in research and development (R&D) remained a priority for Oerlikon in order to maintain and expand its leading technology positions. In 2015, R&D expenditures were CHF 103 million, or 3.9 % of Group sales, compared to CHF 96 million, or 3.4 % of Group sales, the previous year. Oerlikon remains committed to investing around 4 % of sales in products and services of the future.

We believe that dividends are an important means of delivering shareholder value. Accordingly, at the Annual General Meeting (AGM) of Shareholders, taking place on April 5, 2016, the Board of Directors will propose a dividend payout of CHF 0.30 per share, maintaining the same level of payout as in the prior year.

**2015 key Group figures at a glance**

- Order intake totaled CHF 2 537 million versus CHF 2 647 million in 2014, a decline of 4.2 %.
- Order backlog was CHF 431 million versus CHF 643 million in 2014.
- Sales decreased 5.5 % to CHF 2 671 million from CHF 2 825 million in 2014.
- EBITDA was CHF 338 million in 2015, a margin of 12.7 %. Excluding restructuring costs, normalized EBITDA was CHF 450 million in 2015, yielding an EBITDA margin of 16.9 %. In 2014, restated and normalized EBITDA was CHF 477 million, or 16.9 % of sales.
- EBIT for 2015, due to the restructuring and impairment charges, was minus CHF 306 million (2014 restated EBIT: CHF 323 million).
- The Group's result from continuing operations, including restructuring costs and impairment charges, was minus CHF 402 million versus CHF 222 million in 2014. Net result in 2015 including those effects and discontinued operations was minus CHF 418 million. Excluding impairments, restructuring costs, amortization of acquired intangibles (from Metco, net of tax) and results from discontinued operations, normalized net result was CHF 207 million, reflecting underlying earnings per share of CHF 0.61.
- Headcount totaled 13 723 compared with 14 039 employees worldwide in 2014.
- Normalized ROCE stood at 11.1 %, excluding restructuring and impairment charges and adjusted for related tax effects.
- The Board of Directors will propose at the 2016 AGM a dividend payout of CHF 0.30 per share, which is at the same level as in 2014.

[1] Net working capital is defined as trade receivables + inventories – trade payables – current customer advances.