28 Letter Information for investors Oerlikon Group Operational review Corporate governance

2.3 **Operational excellence**

Oerlikon's unstinting focus on its operational excellence is driving continuous improvement toward Best-in-Class levels in the areas of Health and Safety, Operations, Procurement, Research & Development, IT and Real Estate. Oerlikon monitors its progress by benchmarking itself against leading companies, using a variety of key performance metrics, comparing performance in all aspects of the company, from logistical concerns such as On Time Delivery, Lost Time Accident Frequency Rate (LTAFR) to key financial figures such as RONA, EBIT margin and order intake. Oerlikon has identified peer groups to compare its operational performance for both the Group and Segments. This benchmarking process helps steer the operational management of the company and is fundamental to management incentive pay.

Oerlikon Operational Excellence (OOE) moves forward

In 2013 Oerlikon rolled out a Group-wide Operational Excellence (OOE) program, following deep analysis and strong improvements by individual activities and projects in the Segments in 2012. A 2012 analysis of the status quo in the Segments, in operations and among operations management yielded valuable information regarding the positioning of Oerlikon in direct comparison with the competition, allowing the identification of strengths and weaknesses within the operations systems. This in turn highlighted the need for increased expertise in the area of lean process management, with the first focus being on manufacturing.

Oerlikon has seen significant improvements by empowering staff as individuals and by strengthening the role of teams. Staff are encouraged to ask questions, which enable teams to work together, under the leadership of a designated OOE expert using the 5S methodology: sorting, streamlining workflow, systematic cleaning, standardizing and sustainability. Teamwork is a key factor in achieving employee engagement and is the basis of all lean activities.

The success of the introduction of the OOE program to one of the sites has resulted in continuous improvements to the work-place by providing a clean, well-organized and transparent work environment. This has empowered the staff and garnered positive reactions from customers who visit the site. This approach has led directly to a reduction of materials in assembly and significant improvements in On Time Delivery.

Peer Groups for benchmarking

Group (Swiss Peers)	Group (International Peers)	Manmade Fibers Segment	Drive Systems Segment	Vacuum Segment	Coating Segment	Advanced Technologies Segment
ABB	GEA	Andritz	American Axle	Atlas Copco	Bodycote	Aixtron
Georg Fischer	General Electric	Dürr	Bharat Gears	Inficon	Kennametal	Applied Materials
Sulzer	Siemens	Heidelberger	BorgWarner	Ingersoll Rand	Praxair	Lam Research
	Sumitomo	Druckmaschinen	Brembo	Pfeiffer Vacuum	Sandvik	Singulus
	ThyssenKrupp	Schweiter Technologies	Carraro			Ulvac
			Dana			Veeco Instruments

Visual Safety Leadership starts to show results

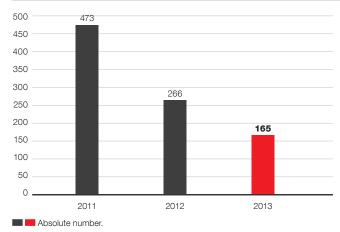
During 2013, Oerlikon progressed well on the path toward its vision of "Zero Harm to People". Progress is measured using the Lost Time Accident Frequency Rate (LTAFR) as the main metric. Starting with the 2012 results as the baseline (Oerlikon Group: 1.76), the 2013 target was set at 1.23, which represents a 30% reduction. For 2014, another reduction of 30% will be required beyond the 2013 target – and this process will continue until the value falls below 0.4 as shown in the table below.

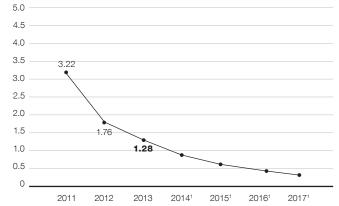
At the end of 2013, Oerlikon achieved an LTAFR of 1.28. This was made possible by a number of actions: communication of the Oerlikon Health & Safety Policy; participation of nearly all top and senior managers in a one-day course on Visual Safety Leadership; two-day courses on Safety Leadership for middle managers in all Segments; on-site safety reviews at all the major production sites.

Additionally, all Segments started their own initiatives based on the new policy. In the Manmade Fibers Segment's plant in Suzhou, weekly safety observation tours by senior management were introduced, and resulted in an immediate, positive impact on housekeeping operations. At the Drive Systems Segment plant in Belgaum, India, a group of workers volunteered to celebrate the Indian National Safety Day in combination with an Oerlikon safety day. Oerlikon Leybold Vacuum launched an extensive campaign to improve the use of safety glasses. At the end of September 2013, the Coating Segment celebrated its first global HSE (Health, Safety and Environment) day – on the same day as all its locations around the world. And the Advanced Technologies Segment opened a review regarding safety procedures when prototyping.

All the initiatives mentioned are excellent examples of Visual Safety Leadership. Oerlikon will continue on this journey by consistently turning the "safety wheel" introduced in 2012: the new Health & Safety Handbook, which was introduced in October, will strengthen systematic working everywhere; refresher training will guarantee a lasting effect; an emphasis on reporting and dealing with near misses and instances requiring first aid will lead to a stronger learn and share mentality, and events such as HSE days involving also the families of the employees will help to create awareness of safety-related issues, which is a prerequisite for sustainability.

Lost time accidents





→ Rate (per 200 000 working hours).

¹ Targets.