

Letter from the CEO

Dear Shareholders

2014 has been an eventful year for Oerlikon in which we continued to sustain our strong profitability, improved the Group's competitiveness in a challenging market environment and took further major steps in the strategic transformation of the Group's business portfolio with the acquisition of Metco and the announced divestment of the Advanced Technologies Segment.

Group order intake increased by 9.0% to CHF 3028 million compared to CHF 2779 million in 2013¹, while Group sales amounted to CHF 3215 million, an increase of 16.1% compared to the CHF 2770 million in the previous year. Excluding currency impacts, sales grew by 18.1% to CHF 3272 million and order intake increased by 10.9% to CHF 3081 million. With EBITDA of CHF 525 million and EBIT of CHF 360 million, corresponding to margins of 16.3% and 11.2% respectively, we recorded an EBITDA margin exceeding 15% and a double-digit EBIT margin for the fourth consecutive year, even after absorbing the one-time integration and acquisition accounting effects from the Metco transaction. The Group's result from continuing operations amounted to CHF 247 million. Net income of the Oerlikon Group was CHF 202 million (2013: CHF 201 million), impacted primarily by the divestment of the Advanced Technologies Segment, and represents earnings per share of CHF 0.59 compared to CHF 0.60 a year ago.

The Group maintained a strong financial position with an equity ratio of 44%. Even after the acquisition of Metco, the net liquidity position at the end of 2014 amounted to CHF 114 million. Cash flow from operating activities before changes in net current assets was strong at CHF 427 million, and the Group's return on capital employed (ROCE) stood at 10.4% as a result of an increased asset base due to the acquisition of Metco, with seven months of Metco profitability being recognized in Net Operating Profit After Tax.

Operationally, we have met our own targets and also delivered on the expectations of the capital markets. As we continue to record profitable growth, we have reinforced our position and competitive standing among industry peers.

In 2014, we took advantage of the favorable debt market conditions and placed senior unsecured bonds of CHF 300 million due 2019 and of CHF 150 million due 2024. In addition, we prolonged our syndicated credit facility until 2016. With these measures, we extended our financing maturity profile and reinforced the foundation for further development of our portfolio along our strategic agenda. The successful financing also confirmed the access and attractiveness of Oerlikon to the capital markets, and underscores the capital markets' confidence in the sustainability of the Group's underlying performance.

In the year under review, the Segments' business made further progress. In focus was the newly formed Surface Solutions Segment, formerly known as the Coating Segment, which delivered a strong top line performance of CHF 973 million as a



result of the positive impact from the Metco acquisition as well as its sound underlying organic growth. The Manmade Fibers Segment's sales declined by 5.0% year-on-year to CHF 1073 million, mainly attributable to the anticipated market normalization, but managed to strengthen its Best-in-Class position. The Drive Systems Segment slightly improved its business performance and competitiveness, resulting in sales growing by 6.1% to CHF 779 million compared to 2013. The Vacuum Segment delivered orders (CHF 381 million) and sales (CHF 390 million) around prior-year level due primarily to order delays. The Segments have identified strategic and operative measures that are being implemented to strengthen their competitive position and poise them for long-term growth within their respective areas.

As we continue to systematically execute portfolio optimization measures to focus on core growth areas, we acquired Metco and announced the divestment of the Advanced Technologies Segment in 2014. These moves marked the tenth and eleventh strategic transactions respectively to shape Oerlikon's portfolio since 2010. The sale of the Advanced Technologies Segment allows us to concentrate our efforts and investments on our larger, core growth businesses of critical size. With Metco, we further strengthened the competitiveness of our surface solutions business as we gained complementary technologies and created new business opportunities for our existing and potential customers. The newly formed Segment has the expanded expertise of more than 6000 employees in 35 countries at over 145 sites, of which over 140 are service and production centers, and is the largest Segment of the Group based on pro forma annual Group sales. Combining the strengths of both brands, Balzers and Metco, the Segment has an addressable market of some CHF 9 billion and an attractive platform to grow and outperform both the individual markets in which it operates (CAGR 4–6%) as well as global GDP growth forecasts (~3%). The integration process is progressing well on all fronts, and the results are further confirming the rationale of the deal.

Also key to our performance is our ability to provide innovative technologies and services that add clear value for our customers. We continued to consistently implement strategic and

¹ Relevant 2013 financial figures are restated for comparison following the divestment of the Advanced Technologies Segment

operational measures in our innovation, markets and customer services. In R&D, we increased our investments in 2014 by 19.8% to CHF 121 million, and continued to bring new and cutting-edge technologies to the market. For example, in 2014, from the Surface Solutions Segment: three new coating layers from the BALIQ™ family that serve to protect against wear and the proprietary eco-friendly ePD™ process for metallization of plastic parts. From the Manmade Fibers Segment: next generation yarn production equipment – WINGS POY 1800 and WINGS PA HOY – that increases productivity and is more resource and energy efficient. From the Drive Systems Segment: the 4SED transmission system for electric and hybrid cars – a compact and lightweight gearbox innovation that allows seamless, smooth shifting and over 90 % powertrain efficiency. And from the Vacuum Segment: the new generation of TURBOVAC i/iX pumps for the analytics, R&D and the process industry, which is Best-in-Class, performing 60 % above comparable products.

In 2014, we also continued to extend our global presence with additional facilities and service networks – in Asia, focusing on the growth markets of China and India, and investing in Europe to improve operations. Among other things, we rolled out re-grinding services in four additional coating centers in China, South Korea, Romania and Canada, and opened a new coating center in Austria for the Surface Solutions Segment. The Manmade Fibers Segment ramped up a plant in China and laid the foundation stone for a new technology center in Chemnitz, Germany, while the Drive Systems Segment constructed its third plant in India. The Vacuum Segment expanded production capacity in Tianjin, China, and inaugurated a new logistics center in Cologne, Germany. As we extend our network to be in closer proximity to our customers, we grew our service business to CHF 917 million, corresponding to an increase of 34.3% compared to 2013.

Under Oerlikon's Group-wide operational excellence program, we further improved our process efficiency, Health, Safety and Environment (HSE), as well as our cost management, covering areas such as procurement, R&D, IT and real estate. For HSE, we exceeded our target by recording a 41 % reduction in lost time accidents in 2014, which is an important achievement. This is an ongoing process that affirms our commitment to providing a safe and secure workplace for our employees. We managed to record double-digit CHF million savings through our coordinated procurement initiatives and implementation. At our facilities, increasing automation of processes, upgrading assembly lines based on lean manufacturing principles and optimizing shop floors are some of the operational effectiveness efforts, that have resulted in improved productivity and production cost savings.

All in all, Oerlikon has emerged stronger from the year under review, and we are ready to introduce further steps for medium- to long-term growth. In 2015, we expect the overall global

economic climate and some key end markets to remain challenging, requiring discipline from Oerlikon in executing strategic decisions to sustain our performance. The priority in 2015 is to build on our solid foundation; specifically, to strengthen our portfolio further and make it even more resilient, to continue developing innovative technologies and services for our customers, and to improve our operational excellence. We will continue to execute our growth strategy and deploy our financial resources with the utmost discipline. I am confident that we have the expertise and technologies to successfully serve our customers, providing them with solutions that benefit them by improving their product performance, productivity and efficiency in energy usage, while contributing to a more sustainable environment. This will lead us to achieving our objective of sustaining profitable growth in 2015 and in the coming years.

To provide guidance, we will be shifting our focus to our EBITDA results from 2015 onwards. This will give a better indication of our underlying operational business activities and neutralizing noncash accounting entries, primarily related to the amortization of the acquired intangible assets. For the 2015 fiscal year, we expect to deliver the following key financial metrics at constant exchange rates as compared to 2014:

- Order intake to increase by around 10 %
- Sales to increase by around 5 %
- EBITDA margin to be sustained at prior-year level

We also expect for 2015 a translation effect of around 11–12% on reported figures for order intake and sales, while maintaining the margin profile and, more importantly, Oerlikon's competitive position in its key markets.

Personally, this has been an exciting first year as CEO of the Oerlikon Group. With the newly extended Executive Committee (EC), we were also able to further improve the alignment of the Group. I am convinced that with our market-leading technologies, competitive competencies, innovative culture, as well as the strong expertise and motivation of our employees, we will enable the Group to further consolidate its technology leadership and sustain profitable growth. On this note, I would like to thank our customers for their support, my EC colleagues and our employees for their dedication and efforts, and you, our shareholders, for the trust and confidence you have placed in our company.

February 24, 2015

Best regards



Dr. Brice Koch
Chief Executive Officer