

Oerlikon Group

Oerlikon is a leading technology group. The Group's core business is to deliver innovative production systems, components, support and services for applications in the mobility, energy, food, infrastructure, functional wear and electronics markets.

Strategically transforming the Group portfolio

In 2014, the Group continued its strategic agenda and executed its tenth and eleventh portfolio transformation steps. With clear objectives to generate higher and more stable earnings, cash flow and added value, Oerlikon has been shaping its portfolio since 2010 through organic growth, acquisitions and divestments.

The Group has been evaluating existing business areas systematically, identifying new business fields and taking advantage of the opportunities presented by global megatrends and growth markets. A key driver is to maintain its Best-in-Class position in markets where it already is a leader and capture the No. 1 or No. 2 position in the other markets.

The eleven moves included smaller divestments of nonoperating assets and minority participation, and also larger transactions such as the sale of the solar business and the exit from the natural fiber activities. The most recent transaction was the announced divestment of the Advanced Technologies Segment in December 2014.

The strategic transformation also incorporated Oerlikon's investment in growth businesses to strengthen its technological and market position, within and along its value chain. Acquiring Hartec extended the Surface Solutions Segment's technology offering into environmentally friendly, decorative and functional coatings for plastics, which has been successfully launched

under the name ePD™ (embedded PVD for Design). With the acquisition of the "rox" tool regrinding service business, the Surface Solutions Segment expanded its service offering for the tooling market and has swiftly rolled out these services to meet increasing demand from the automotive and tooling industry. At the end of 2014, these services are being offered at a total of 15 coating centers in ten countries.

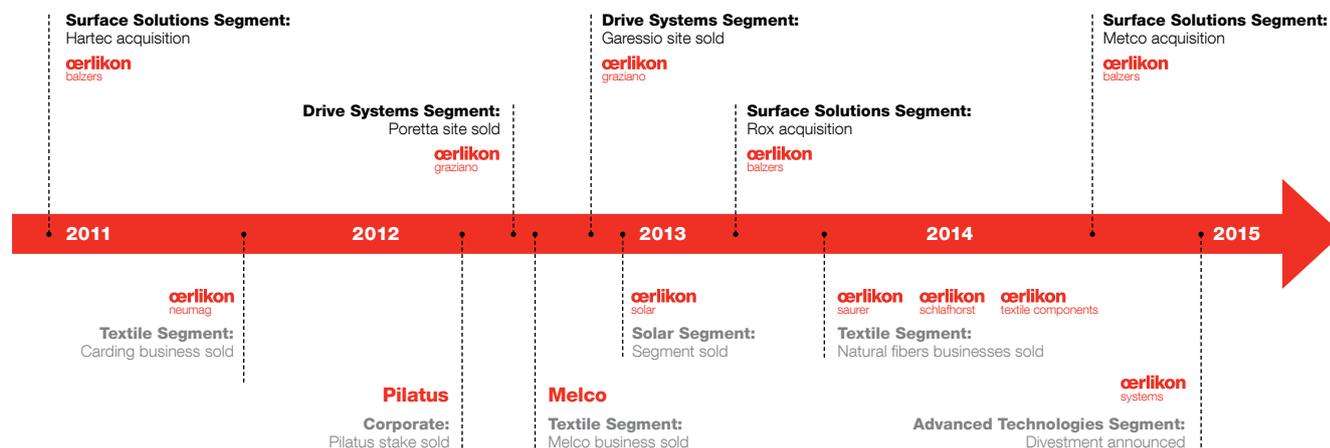
The purchase of Metco in 2014 reinforced the Surface Solutions Segment's global technology leadership notably. The Segment gained complementary adjacent deposition technologies and access to additional attractive addressable growth markets going forward.

Changes to the portfolio over the past five years have steadily reinforced Oerlikon's leading market positions and its underlying performance. EBITDA margin improved from 8 % in 2010 to 16.3 % in 2014, while the proportion of revenues related to service and spare parts significantly improved from 21.8 % in 2010 to 28.5 % in 2014.

Oerlikon will continue to create a more balanced and resilient portfolio to enhance value for its customers and shareholders. It will pursue this by following these principles:

- Strategically balancing out the portfolio further with regard to end markets and regions
- Strengthening the resilience of the business
- Continuing to reinforce its Best-in-Class Segments
- Achieving a Best-in-Class position in its other Segments
- Penetrating related markets and technologies
- Continuing to expand and strengthen core competencies
- Making disciplined use of financial resources

Eleven successful strategic portfolio transactions since 2010



Group structure

The Group's business is structured in four Segments: Surface Solutions, Manmade Fibers, Drive Systems and Vacuum. Each Segment is a technology leader in its respective market. The Segments operate under their own well-established brand names and have their own market-specific strategies.

Oerlikon operates globally in all regions with a well-established foothold in growth markets. With more than 200 sites spread across 36 countries, Oerlikon has a long-standing presence in Asia, particularly in the emerging markets of China and India, a strong foundation in Europe and serves the most important growth markets in the Americas.

Sustainability and key Group developments

For Oerlikon, sustainability means strengthening the Group's ability to seize business opportunities, manage future challenges as well as secure the long-term viability and profitability of the Group.

Oerlikon's key objective is to sustain profitable growth and create further value for all stakeholders. Sustainability is implemented in the areas of customer service, HR policy, health and safety, R&D and innovation, operational excellence, supply chain management, environmental protection, risk management and compliance with legal, regulatory, ethical and internal requirements.

The Group's Code of Conduct defines the ethical and legal framework for business activities and forms the basis of the sustainable orientation of the Group.

Customer service

One of Oerlikon's core competencies is its in-depth understanding of its customers' production processes and systems, and its ability to anticipate customers' needs.

The production environments of many of Oerlikon's customers involve complex systems of machinery, which need to work seamlessly. Such systems involve high capital investments. Often, Oerlikon is brought in by the customer at the conceptual stage to ensure that processes and components are aligned closely with the customer's requirements, and that Oerlikon's technologies can be easily integrated into customers' manufacturing processes.

Many of Oerlikon's technological solutions were also developed in close partnership with research institutions. A key and increasingly important part of Oerlikon's business is providing customized solutions including joint research projects, comprehensive service and support, warranty or first-hand access to ongoing development and new product generations.

To strengthen customer relationships and offer world-class services in close proximity to customers, Oerlikon continuously expands its global presence and customer service network. In 2014, the Group added over 50 sites to its dense network. Oerlikon is represented by its own companies in almost all of the major markets of the world and operates in line with the principle of "In the market for the market". In 2014, Oerlikon grew its service business to CHF 917 million, corresponding to an increase of 34.3% compared to 2013.

Group structure

oerlikon

Surface Solutions Segment

oerlikon
balzers

oerlikon
metco

Manmade Fibers Segment

oerlikon
barmag

oerlikon
neumag

Drive Systems Segment

oerlikon
graziano

oerlikon
fairfield

Vacuum Segment

oerlikon
leybold vacuum

Employees

Oerlikon fosters a corporate culture that strengthens its employees' sense of responsibility and encourages their growth and development, built on the Group's core values of Integrity, Team Spirit, Excellence and Innovation. Oerlikon aims to be a preferred employer for its employees. Apart from competitive pay and a modern HR policy, Oerlikon has various HR programs:

- Management development: Oerlikon has an internal management academy with a comprehensive training program for various management levels and functions.
- Talent management: Group-wide talent management defines the appropriate measures and instruments for the professional and personal development of employees. To recruit new talent, the Group offers specific programs for graduates from universities and institutes of technology.
- Apprenticeship: Over 700 young people are currently completing their apprenticeship at Oerlikon and the majority of them are expected to remain with the company.
- Diversity: In markets such as China and India, Oerlikon primarily employs local managers. The composition of senior management, known as the "Global Leaders", represents Oerlikon's diverse culture, with over 90 members from 13 countries.

Health and safety

Occupational health and safety are important elements of Oerlikon's sustainability strategy and form an integral part of the Group's business processes. HSE (Health, Safety and Environment) guidelines and monitoring are centrally coordinated, but the programs and processes are decentralized and implemented by the Segments and sites locally.

The Visual Safety Leadership initiative plays a key role in this context, with a series of concrete measures aimed at cutting accident figures further and protecting the health of employees. The objective is the vision of "Zero harm to people". The key performance indicator for measuring progress is the lost time accidents (LTAs) figure. Based on the initial year of 2012, in which the average value within the Group was still at 1.76, a 27% reduction to 1.28 was achieved in 2013. For 2014, a further decline of 30% was set as the target value and this objective was significantly exceeded with an LTA value of 0.75 at the end of 2014. This is a considerable achievement but it started from a low base and is an ongoing process.

This improvement was achieved through a series of measures. In 2014:

- Around 2000 managers took part in one- to two-day health and safety training workshops.
- A Health and Safety Handbook was created to promote safe and systematic working, alongside consistent communication of the occupational health and safety guidelines.
- A Group-wide electronic "learn & share" platform was created to enhance employees' HSE knowledge and facilitate sharing of best practices.
- HSE days were organized by the Surface Solutions Segment, the Manmade Fibers Segment and the Drive Systems Segment for employees and their families.
- Periodic safety inspections were carried out at various Oerlikon sites.

R&D and Innovation

R&D and innovation is the foundation upon which Oerlikon is built, and a key strength of the Group. The Company and Segments maintain their competitive advantage and leadership position through continually developing cutting-edge and market-leading technologies.

Today, Oerlikon has value-enhancing proprietary technologies for surface solutions, the manufacturing of manmade fibers and polycondensation systems, drives and shifting solutions for vehicles and machinery, and vacuum pumps and components.

Many of the challenges of key megatrends can be solved through engineering innovations. Increasing the efficiency of mobility, improving the performance and functionality of goods and systems, efficient use of energy, and contributing to environmental sustainability will continue to feature in the innovative technologies of Oerlikon. Beyond technology innovation, Oerlikon also looks into innovation of processes and services to create further value for its customers. Essentially, Oerlikon's high-performance products, engineering expertise and quality services serve to enable cost savings and efficiency gains for customers, supporting them in their business success.

In 2014, Oerlikon continued to invest around 4% of Group sales in R&D, corresponding to CHF 121 million, an increase of 19.8% as compared to 2013. Over 1 300 engineers and scientists work for the Group worldwide. In line with R&D activities, Oerlikon files for patents and registers its proprietary brands regularly to protect its intellectual property. In 2014, 108 patents were registered for new inventions, corresponding to a total of 5 921 filings worldwide.

Environment

In addition to the environmentally friendly technologies that it offers its customers, Oerlikon also promotes sustainable thinking and the introduction of resource-saving processes within the Group. In 2014:

- The Surface Solutions Segment switched to an environmentally friendly cleaning procedure in electrochemical drilling processes. The new procedure resulted in reducing the volume of contaminated water by 75% and total water consumption by around 1 000 m³ per year.
- The Manmade Fibers Segment obtained ISO 50001 certification for energy management for its production sites at Remscheid and Neumünster in Germany.
- The new Drive Systems Segment production site in India was designed and constructed as an energy-efficient and environmentally sustainable site. The building is expected to use 30% less energy compared to other production sites of the same size in India and has a closed water circuit where rainwater is collected and wastewater is recycled.

Operational excellence

The Oerlikon operational excellence (OOE) program is a Group-wide program designed to optimize operational effectiveness by harmonizing Group-wide methods and processes and achieve Best-in-Class in all businesses and functions. A further important aspect of OOE is the successful integration of acquired businesses.

Under OOE, operational effectiveness and corporate performance are measured by means of various key performance indicators (KPIs) and benchmarked against other leading companies based on top line and profitability performance. Oerlikon has defined peer groups at both Group and Segment level for this purpose (see table). This process supports the operational management of the Group, and is also part of managers' performance incentives. Alongside the operating business, the OOE program also focuses on other areas, such as occupational health and safety, procurement, R&D, IT and real estate.

In 2014, the OOE program was implemented in three Segments, at ten Group locations in four different countries, with specific KPIs for measuring progress. The program is further supported by the internal OOE Academy, which provides training in the methodology and KPIs of operational excellence.

Supply chain management

Optimizing the supply chain enables Oerlikon to benefit from higher operating efficiency, better use of resources and cost savings. Establishing close partnerships with strategically selected suppliers, pooling purchasing, creating knowledge networks, utilizing advanced procurement tools and streamlining processes are all part of Oerlikon's procurement harmonization program. It is centrally coordinated and implemented throughout the Group, across businesses, functions and regions, with clear strategic and financial objectives. Oerlikon also attaches importance to ensure that its suppliers meet high quality and sustainability standards. In 2014:

- The global category management team was reorganized to make it more efficient, with each category manager responsible for a specific category within a Segment and across Segments, improving procurement coordination and processes for efficiency gains.
- Around 150 buyers from all Segments and regions were trained as part of the Supply Chain Academy program.
- Standardized processes and systems were defined and introduced, such as the STEP Project Management Tool for the implementation and reporting of costs.

Peer groups for benchmarking

Group (Swiss peers)	Group (International peers)	Surface Solutions Segment	Manmade Fibers Segment ¹	Drive Systems Segment	Vacuum Segment
ABB	GEA	Bodycote	Andritz	American Axle	Atlas Copco
Georg Fischer	General Electric	Kennametal	Dürr	Bharat Gears	Gorman Rupp ²
Sulzer	Siemens	Praxair	Heidelberger Druckmaschinen	BorgWarner	Inficon
	Sumitomo	Sandvik	Schweiter Technologies	Brembo	Ingersoll Rand
	ThyssenKrupp			Carraro	Pfeiffer Vacuum
				Dana	

¹ Redefined after sale of natural fibers businesses. Replaced natural fibers companies (Jingwei, Lakshmi and Rieter Textile) with companies from the mechanical engineering sector (Andritz, Dürr and Heidelberger Druckmaschinen).

² Gorman Rupp replaced Gardner Denver after its delisting.

Risk management

Oerlikon takes a comprehensive approach to risk management that identifies, assesses and controls all corporate risks relevant throughout the Group, including market, credit and operational risks. The risk management system is integrated throughout the company from an operational and management perspective. Further information about risk management can be found on pages 58 and 59.

Compliance

The Oerlikon Group ensures that business practices worldwide are in line with the Code of Conduct, internal regulations, as well as legal and regulatory requirements. Compliance is monitored at Group level, setting standards, recommending preventive measures and providing information, training and consultation. As a company listed on the SIX Swiss Exchange, Oerlikon complies with the legal and regulatory requirements specified by SIX and the Swiss government. Further details about compliance can be found on page 59.