Group business review

In 2014, Oerlikon sustained its strong performance in a challenging economic environment globally and in specific markets in which it operates. It also further developed the Group's portfolio with the acquisition of Metco and the announced divestment of the Advanced Technologies Segment. That divestment is reported under "Discontinued Operations" in the 2014 full-year financial statements, and the 2013 accounts have been restated accordingly.

Sales increased to CHF 3215 million (2013: CHF 2770 million), while order intake went up by 9.0 % to CHF 3028 million (2013: CHF 2779 million). Order backlog, impacted by anticipated market normalization and order delays, was reduced by 10.6 %, coming in at CHF 715 million (2013: CHF 800 million). For the fourth consecutive year, the Group has achieved an EBITDA margin exceeding 15 % (2014: 16.3 %) and a double-digit EBIT margin (2014: 11.2 %), even after absorbing the one-time integration and acquisition accounting effects from the Metco transaction. Oerlikon's net financial result remained stable at minus CHF 30 million for full-year 2014 (2013: minus CHF 31 million), despite slightly higher interest expenses from the placement of the two senior unsecured bonds in 2014. Tax expenses slightly increased to CHF 83 million (2013: CHF 75 million), leading to a tax rate of 25.2 %. Result from continuing operations stood at CHF 247 million, and net income of the Oerlikon Group was CHF 202 million (2013: CHF 201 million), representing earnings per share of CHF 0.59 compared to CHF 0.60 a year ago. 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. With its solid performance in 2014, Oerlikon reinforced its position and competitive standing in its peer group.

Operationally, the Group made further progress in 2014 in terms of strategically balancing its portfolio, rolled out new, innovative products and technologies, expanded its global footprint and improved its operational efficiency.

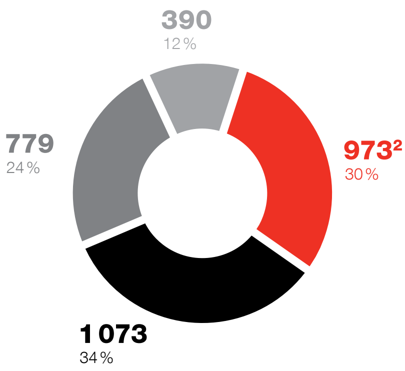
The successful closing of the Metco acquisition in the second quarter of 2014 and the divestment of the Advanced Technologies Segment marked the tenth and eleventh strategic portfolio-transformation moves, respectively, for the Oerlikon Group. With Metco, the company created a global technology leader in surface solutions. The transaction and first-time consolidation of Metco created significant cash and noncash impacts, some of them being one-time effects, in the 2014 consolidated income statement, which affected the profitability of the Surface Solutions Segment and the Oerlikon Group. Oerlikon provided transparency on the impacts and remained within the framework disclosed at the closing of the transaction. The Metco integration is progressing well and the results confirmed the assumptions underlying the rationale for the transaction. The divestment of its Advanced Technologies Segment, announced in December 2014, allows the Group to allocate resources and management attention to businesses of critical size.

Performance in the Segments

The Surface Solutions Segment continued to record strong performance and positive business development. Following the acquisition of Metco, the complementarity of the two businesses has provided Oerlikon with an attractive platform to further grow its business in this market. The Surface Solutions Segment reported significant growth of 90.8 % to achieve sales of CHF 973 million (2013: CHF 510 million). Order intake amounted to CHF 965 million compared to CHF 510 million a year ago. The growth in sales and order intake was attributable to the consolidation of Metco, but also to good organic growth from Oerlikon Balzers and Oerlikon Metco. EBITDA for the Surface Solutions Segment amounted to CHF 183 million, reflecting an EBITDA margin of 18.8 %. EBIT stood at CHF 98 million with an EBIT margin of 10.0 %. Both EBITDA and EBIT were impacted by integration and acquisition accounting effects from the Metco transaction mentioned above. Continued demand from the automotive and tooling industries in Asia, Europe and the United States contributed to a positive development in the thin-film service business. The successful expansion along the value chain with the rollout of the regrinding services to four additional centers added to the positive business trend. Solid demand from the aviation industry and growth in the power generation and oil and gas sectors drove development in the equipment and materials business.

The Manmade Fibers Segment reported another strong year with high profitability and sales close to its historically high level despite market normalization effects. The Segment delivered sales of CHF 1 073 million, close to the 2013 level of CHF 1 130 million. In line with the anticipated market normalization, order intake declined in the expected magnitude by 16.0 % to CHF 901 million (2013: CHF 1 073 million). EBITDA amounted to CHF 217 million, reflecting an EBITDA margin of 20.3 % (2013: 18.4 %). EBIT reached CHF 197 million in 2014, up 4.8 % compared to CHF 188 million in 2013. The EBIT margin further increased from 16.6 % to 18.4 %. The increase is mainly attributable to a favorable product mix, with strong demand for production lines of carpet yarn in 2014, as well as to the variabilization of costs and efficiency gains. With these results, the Manmade Fibers Segment is clearly operating at a Best-in-Class level among its peers. Initiatives have been introduced to partially offset the anticipated market normalization, such as further increasing the sales of services, expanding along the value chain and into adjacent markets, and continuing to innovate new products and solutions.

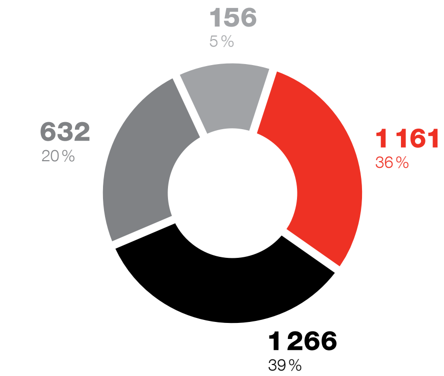
In 2014, the Drive Systems Segment was able to achieve further improvements although still facing an ongoing challenging market environment and being affected by weakness in the global mining and agricultural markets. That weakness in Europe and the US was compensated by positive momentum in the construction and infrastructure markets, ongoing demand in the high-performance automotive business and execution of orders from the energy industry. Overall, the Segment was able to improve its business performance. Sales increased by 6.1 % to CHF 779 million compared to CHF 734 million a year ago. Order intake remained close to prior-year level, reporting CHF 781 million in 2014 (2013: CHF 792 million). The Segment



Sales 2014 by Segment¹
in CHF million

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

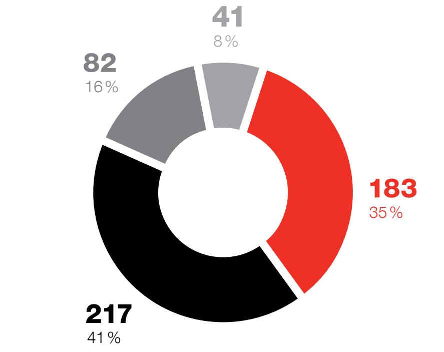
¹ Continuing operations.
² Oerlikon Metco included for seven months.



Sales 2014 by region¹
in CHF million

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

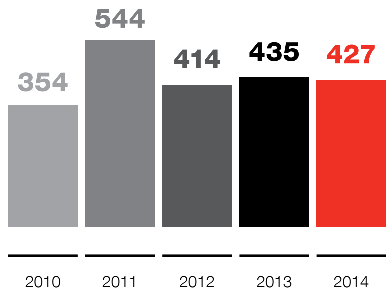
¹ Continuing operations.



EBITDA 2014 by Segment¹
in CHF million

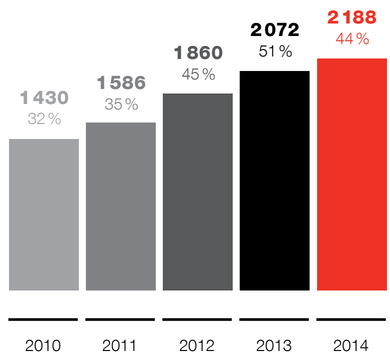
- Surface Solutions Segment
- Manmade Fibers Segment
- Drive Systems Segment
- Vacuum Segment

¹ Continuing operations.



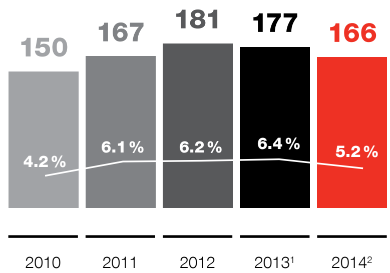
Operating cash flow¹
in CHF million

¹ Before changes in net current assets.



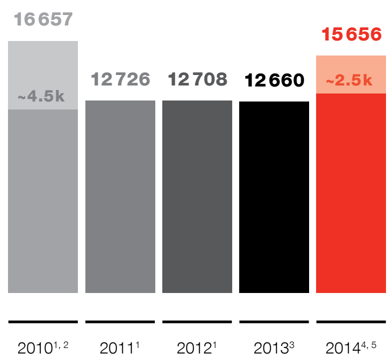
Equity¹
in CHF million (as % of assets)

¹ Attributable to shareholders of the parent.



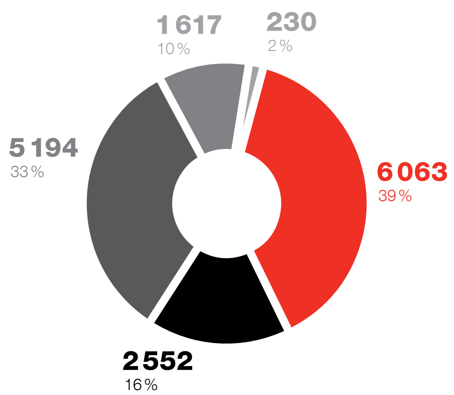
Capital expenditure
in CHF million

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



Employees

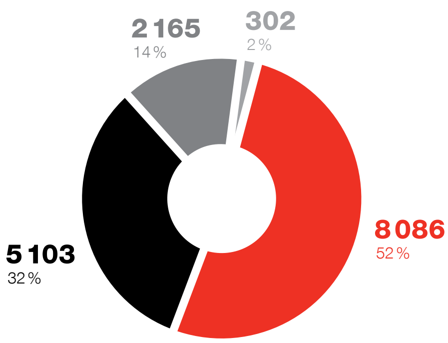
¹ Reported.
² Reduction due to restatements following divestments.
³ Restated.
⁴ Increase in 2014 due mainly to Metco acquisition.
⁵ Continuing operations.



Employees 2014 by Segment¹

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

¹ Continuing operations.



Employees 2014 by region¹

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

¹ Continuing operations.

continued its operational and structural efficiency programs, resulting in improvements in profitability. EBITDA grew by 22.4 % to reach CHF 82 million versus the CHF 67 million recorded in 2013, representing a double-digit EBITDA margin of 10.5 %. EBIT increased by 57.7 % to CHF 41 million compared to CHF 26 million a year ago. The EBIT margin was at 5.3 %.

The Vacuum Segment made further progress and improved operational excellence as it continued to be confronted with a challenging market environment and was impacted by postponements in large-scale projects. Such order delays in the energy sector as well as in industrial and glass coating applications impacted the top line. Positive trends in the R&D and analytics markets and the process industry were not able to fully compensate. Order intake decreased by 5.7 % to CHF 381 million compared to CHF 404 million a year ago. In terms of sales, the Segment was able to remain almost at prior-year level, reporting CHF 390 million (2013: CHF 396 million). In 2014, investments in organizational and operational effectiveness, optimization of footprint and logistics impacted profitability. EBITDA amounted to CHF 41 million, which resulted in an EBITDA margin of 10.3 % (2013: EBITDA of CHF 54 million; margin of 13.5 %). EBIT totaled CHF 27 million, representing an EBIT margin of 6.8 % (2013: EBIT of CHF 41 million; margin of 10.3 %).

A globally balanced business

A key reason for Oerlikon's sustainable success is the balance of its portfolio in terms of Segments, global presence and services. With the acquisition of Metco, the Group substantially strengthened its surface solutions business and further balanced business exposure within the Group. In 2014, since Metco had only been consolidation for seven months, the Surface Solutions Segment was the second largest Segment, representing 30 % of Group sales. The Manmade Fibers Segment, accounting for 34 % of Group sales, was Oerlikon's largest Segment in 2014. The Drive Systems Segment and the Vacuum Segment reported 24 % and 12 % of Group sales, respectively.

An international company with a strong global footprint, Oerlikon operates over 200 sites in 36 countries. Asia grew by 3.7 % to CHF 1 266 million, and continued to contribute significantly to Group sales (39.4 %). Sales in Europe grew by 23.6 % to CHF 1 161 million, accounting for 36.1 % of Group sales, while North America grew sales to CHF 632 million, an increase of 31.4 %, representing 19.7 % of Group sales. The share of other regions in Group sales was 4.8 % or CHF 156 million.

In 2014, Oerlikon grew its customer services business by 34.3 % compared to 2013 and further strengthened the Group's resilience. The service business accounted for 28.5 % of Group total sales. This balanced positioning of Oerlikon in terms of Segments, regions and service provides a strong foundation for the Group to address global challenges and uncertainties, and to secure sustainable performance.

Strong balance sheet with equity ratio of 44 %

As of December 31, 2014, Oerlikon's balance sheet amounted to CHF 4 966 million, compared to CHF 4 094 million as at the same reporting date in 2013. The Oerlikon Group had equity (attributable to shareholders of the parent) of CHF 2 188 million, representing an equity ratio of 44 %. The accretion in equity resulted from the execution of warrants in the first half of 2014 and the related issuance of some five million new shares. Net cash amounted to CHF 114 million (December 31, 2013: net cash of CHF 981 million).

In 2014, Oerlikon took advantage of the favorable debt market conditions and placed senior unsecured bonds of CHF 300 million due 2019 and CHF 150 million due 2024. In addition, the Group prolonged its syndicated credit facility until 2016. With these measures, Oerlikon successfully extended its maturity profile and increased the Group's financial flexibility. This financing activity demonstrated Oerlikon's full access to the capital markets and the accelerated confidence of the capital markets in the sustainability of the Group's underlying performance. This strong financial foundation allows Oerlikon to further develop its portfolio in line with its strategic agenda of achieving long-term profitable growth.

Continued strong operating cash flow

Cash flow from operating activities before changes in net current assets remained strong at CHF 427 million (2013: CHF 435 million). Net working capital increased to CHF 394 million, corresponding to 12 % of Group sales (2013: CHF 108 million). The increase was due primarily to the addition of Metco.

Disciplined investment and use of cash continued to be Oerlikon's top priorities. Capital expenditure (CAPEX) amounted to CHF 166 million, a decrease of 6.2 % compared to CHF 177 million restated for 2013. The CAPEX-to-depreciation ratio was around 1. Focus areas were the Asian growth markets in China and India, notably for the Drive Systems and Surface Solutions Segments, and in Europe, with investments to improve operations and the regional positioning of all Segments. The Surface Solutions Segment rolled out its regrinding services to four additional centers, opened a new coating center in Austria and expanded production capacity at several existing sites. The Manmade Fibers Segment invested in improving operational efficiency and ramped up a plant in China. The Drive Systems Segment constructed its third plant in India, while the Vacuum Segment expanded production capacity in Tianjin, China, and inaugurated a new logistics center in Cologne, Germany.

Cash flow from investing activities amounted to minus CHF 1 058 million, mainly attributable to the closing of the Metco transaction and to capital expenditure (2013: CHF 360 million, mainly due to proceeds from divestments). Cash flow from financing activities amounted to CHF 334 million (2013: minus CHF 100 million), primarily due to the proceeds from the issue of financial debt, net of transaction costs (placement of two unsecured senior bonds) in the amount of CHF 489 million, and proceeds from capital increase (execution of warrants) in the amount of CHF 30 million. The dividend payment of CHF 94 million and interest paid of CHF 36 million represent the main outflow positions.

Due to the effects of the Metco acquisition and strong operating cash flow, Oerlikon reported a cash and cash-equivalent position at the end of the year of CHF 826 million compared to CHF 1 280 million in 2013.

Investments in research and development (R&D) remained a priority for Oerlikon in order to maintain and expand its leading technology positions. In 2014, R&D expenditures increased by 19.8 % to CHF 121 million from CHF 101 million (restated) a year ago. Oerlikon continued to invest around 4 % of its sales in products and services of the future.

In view of its sustainable, strong operational performance and solid financial position in 2014, the Board of Directors will propose an 11 % increase in dividends, corresponding to a payout of CHF 0.30 per share, at the Annual General Meeting (AGM) of Shareholders, taking place on April 8, 2015. This represents the third consecutive increase and is in line with the Group's dividend payout policy. Based on the company's track record, the Board of Directors has approved a change in the Group's dividend policy, which now states that a dividend of up to 50 % of underlying net income can be paid, subject to the availability of funds.

2014 key Group figures at a glance
Operationally, the Group was able to deliver on the outlook provided at the beginning of the year:

- Order intake increased by 9.0 % to CHF 3 028 million (2013: CHF 2 779 million).
- Order backlog was reduced by 10.6 %, coming in at CHF 715 million (2013: CHF 800 million).
- Sales went up by 16.1 % to CHF 3 215 million (2013: CHF 2 770 million).
- EBITDA amounted to CHF 525 million (2013: CHF 483 million); equivalent to an EBITDA margin of 16.3 %.
- The EBIT margin was 11.2 %, compared to 13.0 % in 2013, with EBIT at CHF 360 million (2013: CHF 359 million).
- The Group's result from continuing operations decreased by 2.4 %, from CHF 253 million to CHF 247 million.
- Headcount increased significantly to 15 656 employees worldwide, due mainly to the Metco acquisition (2013 restated: 12 660)
- 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.
- The Board of Directors will propose an increased dividend payout of CHF 0.30 per share (2013: CHF 0.27) at the 2015 Annual General Meeting of Shareholders.