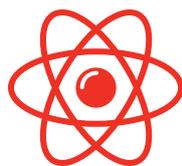


Surface Solutions Segment



A global technology leader for surface solutions is formed

Following the acquisition of Metco in 2014, Oerlikon merged Metco with Oerlikon Balzers to form the new Surface Solutions Segment and created a global technology leader for surface solutions. Oerlikon Balzers and Oerlikon Metco complement each other perfectly in terms of their technologies, competencies, industry and geographics. Customers are now able to take advantage of a unique range of products and services for surface treatment, thin-film and thicker-layer coating technologies, specialized machining services and components, as well as a global infrastructure spanning over 145 sites in 35 countries. The acquisition led to an additional 2 500 employees joining the Oerlikon Group. With a workforce of over 6 000 and annual sales of CHF 973 million, the Surface Solutions Segment was the second-largest Segment within the Oerlikon Group in 2014, with Metco consolidated for seven months. In 2015, it will become the largest Segment of the Group.



In 2014, the launch of three new layers of the revolutionary BALIQ™ family for wear protection and the rollout of the environmentally friendly ePD™ process for the metallization of plastic parts underline the innovative strength of Balzers and represent further technological milestones for the Segment.

With the opening of a new coating center in Austria, extensions at several existing sites and the rollout of regrinding services at four additional coating centers in 2014, the Segment is pushing ahead with its regional expansion, bringing it closer to its customers.

Winning a large 10-year long-term agreement for the supply of LEAP (Leading Edge Aviation Propulsion) engine components for the aviation industry underscores the leading position of Metco in this important growth market.

Key figures

in CHF million	2014	2013	Δ%
Order intake	965	510	89.2%
Order backlog	79	–	–
Sales (third parties)	973	510	90.8%
EBITDA	183	149	22.8%
– as % of sales	18.8%	29.2%	–
EBIT	98	105	–6.7%
– as % of sales	10.0%	20.5%	–
Research and development expenses	56	34	64.7%

Best-in-Class

Sandvik Machining Solutions: 20.0% operating profit margin (2014).

Profile

The Surface Solutions Segment, with the brands Oerlikon Balzers and Oerlikon Metco, is a global technology leader for innovative surface solutions. The coatings of Oerlikon Balzers are extraordinarily thin, extremely hard and reduce friction and wear. These high-end coatings improve the surface properties of precision parts, as well as cutting and forming tools and thus extend their service life. One of the core businesses of Oerlikon Balzers is its coating services provided at its own centers. Oerlikon Metco offers a wide range of surface technologies, equipment, materials, services, specialized machining services and components. The innovative range of coating solutions from Oerlikon Metco increases the efficiency and reliability of its customers' products. To offer customers the best possible services and solutions, the Segment operates a dense network of more than 145 sites, of which over 140 are service and production centers, in 35 countries, supported by over 6 000 employees. In 2014, a site in Austria was added to the network, while the products, services and capacities at various locations were expanded to meet increasing customer demand and cater for additional technologies that have been added to existing services.

Markets

With the acquisition of Metco, the Surface Solutions Segment now has an addressable market of some CHF 9 billion. In the markets in which the Segment operates – namely aviation, power generation, oil and gas, automotive, metal and plastics processing, as well as other specialized markets – growth is likely to range between 4 % and 6 %. Thanks to its unique technology portfolio and service offering, the Surface Solutions Segment expects to outperform this growth rate. The Segment operates sites in all of the key markets in Europe, the Americas, Asia and Australia.

Business performance

The Surface Solutions Segment achieved a successful financial year in 2014. Sales increased significantly by 90.8 % to CHF 973 million (2013: CHF 510 million). The order intake totaled CHF 965 million (2013: CHF 510 million). This increase is attributable primarily to the acquisition of Metco, which was consolidated in the 2014 annual financial statements for seven months. Organic growth was also recorded in the operating business. EBITDA amounted to CHF 183 million, corresponding to an EBITDA margin of 18.8 % (2013: 29.2 %). EBIT totaled CHF 98 million (2013: CHF 105 million), which equates to an EBIT margin of 10.0 % (2013: 20.5 %). Both EBITDA and EBIT were impacted by the one-time integration and the acquisition-related accounting effects connected with the Metco transaction.

Key developments

The integration of Metco into the Segment, which began after the closing of the Metco transaction on June 2, 2014, has been progressing well on all fronts. The growth potential identified and cost synergies confirmed the underlying rationale for the transaction. Around 400 key employees are involved in eleven major integration workstreams. The rebranding has been completed at the 50 Metco sites around the world, and the systems for legal, finance, IT, health and safety and HR reporting are in operation. In addition, joint R&D technology programs have been set up. The opportunities offered by the new Surface Solutions Segment have been evaluated together with key customers, and the Segment has received positive feedback and interest. To establish a common culture and team spirit, a virtual gathering took place for the over 6 000 employees worldwide.

In 2014, Oerlikon Balzers added three new layers to the revolutionary BALIQ coating product family, which was introduced in 2013. Customers can thus use this coating family for a broader range of applications. With the extraordinarily smooth BALIQ coatings, which are characterized by their extreme hardness, resistance to wear and adhesive strength, customers are also able to improve their productivity, increase process reliability and reduce costs. Oerlikon Balzers presented a further innovation in 2014 with its ePD technology. The process enables coated plastic parts to be given a chrome look, is environmentally friendly and thus offers a clean alternative compared to traditional chrome-plating methods. The launch of the MetcoClad™ system for laser cladding met with positive responses. The first unit sold is used to add corrosion-resistant coatings to hydraulic drill rods used in salt water in the oil and gas industry.