oerlikon

Semi-Annual Report 2008 Enabling High Technology

August 26, 2008

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Key Figures 1st Half-Year 2008

(in CHF)

			Year-on-year
2.5	billion	sales	–6,5%
2.8	billion	orders	–6,7%
105	million	EBIT before impairment	–54,7%
–45	million	cash flow	–

Key figures Oerlikon Group

in CHF million	**January 1 to June 30, 2008 unaudited**	January 1 to June 30, 2007 unaudited restated [1]
Orders received	2 755	2 952
Orders on hand	2 024	1 826
Sales	2 507	2 682
EBITDA	224	338
– as % of sales	9%	13%
EBIT before impairment of goodwill	105	232
– as % of sales	4%	9%
EBIT after impairment of goodwill	–238	232
Net profit	–313	128
– as % of sales	–12%	5%
– as % of equity attributable to shareholders of the parent	–23%	8%
Cash flow from operating activities	–45	165
Capital expenditure for fixed and intangible assets	141	161
Total assets	5 813	6 290
Equity attributable to shareholders of the parent	1 346	1 649
– as % of total assets	23%	26%
Net liquidity [2]	–1 240	–888
Net assets [3]	3 078	3 325
EBIT as % of net assets (RONA)	–8%	7%
Number of employees	19 517	18 847
Personnel expenses	707	709
Research and development expenses [4]	138	131

[1] The restatement concerns discontinued operations (business unit Oerlikon Optics), assets held for sale and conclusion of the Purchase Price Allocation of Saurer.

[2] Net liquidity includes marketable securities and treasury shares at market value as per June 30.

[3] Net assets include current and non-current operating assets (excluding cash and financial assets) less operating liabilities (excluding financial liabilities and tax provisions).

[4] Development expenses include expenses recognized as intangible assets CHF 19 million (previous year: CHF 26 million).

Statement of the Chairman of the Board of Directors and of the Chief Executive Officer

Addressing challenging economic environment with innovation and restructuring.

Diversified high tech portfolio provides stability and growth perspectives.

Dear Shareholder,

the first half of 2008 for Oerlikon was marked by contrasting trends and developments in different parts of our business. The introduction of new and innovative products by all of Oerlikon's segments was confronted by a downturn of the textile and semiconductor industries worldwide. Strong increases in energy and raw material prices, and unfavorable currency exchange rates burdened the company's top and bottom line; these effects could only be partly offset by cost saving and head count reduction measures, or price increases to our customers. The half-year business results have thus to be viewed in a differentiated way, displaying both significant challenges as well as solid performances.

Following a record year in 2007, key textile markets around the world are experiencing a severe downturn and Oerlikon Textile as the industry leader was also adversely affected. The market situation is not expected to recover before 2010. The semiconductor market has fallen as well, impacting the top and bottom line performance of Oerlikon Esec and Oerlikon Systems. Due to superior new products these businesses of Oerlikon are at least maintaining and in certain instances gaining market share. In total, the cyclical downturn in these three businesses resulted in CHF 376 million decline in sales and CHF 137 million decline in EBIT of Oerlikon, compared to the results of the first half of 2007. By contrast, major industrial markets for Oerlikon's core activities in thin-film coating, vacuum, drive systems and space continued to perform strongly and led to expected results in these segments. Most prominently, the newly created Solar segment fully benefited from its strong position in the fast growing market for alternative energy sources.

Oerlikon was adversely affected also by the appreciation of the Swiss Franc to major world currencies. Overall, the currency effects amounted to CHF 138 million in sales and CHF 23 million in EBIT.

Considering divergent market developments, the diversification of Oerlikon into a spectrum of high tech and clean tech areas is proving worthwhile. Oerlikon as a Group is able to absorb business cycles and deploy effective measures to emerge even stronger from demanding market environments. Consistent investments in innovation and continuous efforts to enhance efficiency are crucial to achieve sustainable competitive positions. The Group has the strength to withstand down cycles without curbing investments in innovative product development or missing out on new markets. By growing investment in R&D, optimizing production sites and consistently turning around unprofitable units and products, we lay the foundation for future profitable growth. Evidence of this corporate resolve is that R&D outlays for the first half-year of 2008 totaled CHF 138 million, 4.7 percent above last year. The solid positioning of Oerlikon as a technological leader was also confirmed by the large number of loyal repeat clients. The distinctions from well-known customers such as Carl Zeiss and scientific institutions such as CERN are living proof of customer satisfaction based on outstanding performance.

In challenging market environments, transparency and clear communication are especially important to investors and other stakeholders. The Oerlikon management and board have assessed the risks currently facing the company. Since the last review of the carrying values of the company's assets carried out at the end of 2007, the increase in interest rates and the overall economic volatility now calls for a higher Weighted Average Cost of Capital (WACC). Recognizing that, Oerlikon revalued certain elements of its goodwill for specific business units and segments. For Oerlikon Textile, Oerlikon Esec and Oerlikon Systems, a one-time impairment charge of CHF 343 million in total was recognized. This had no cash effect.

The key figures in detail:

- Sales in the first half-year declined by 6.5 percent to CHF 2.5 billion.
- EBIT before impairment charges amounted to CHF 105 million (–54.7 percent).
- The Group net profit was CHF –313 million.
- Orders received were reduced by 6.7 percent to CHF 2.8 billion.
- Order backlog rose by 10.9 percent to CHF 2 billion.
- Cash flow from operating activities amounted to CHF –45 million.

Financial position

With a credit line of CHF 2.5 billion from the syndicated loan, and utilization of CHF 1.9 billion, including the repurchase in full of the CHF 200 million bond (issued by Saurer) in May 2008, the Group's financial room for maneuvering remains sufficient. In addition, the Group holds approximately 1.3 million treasury shares valued at approximately CHF 350 million. Despite an increase in net debt and a reduction in EBITDA, the net debt ratio lies well within the contractual credit agreement as of June 30, 2008.

The equity amounts to CHF 1.3 billion, which is a ratio of 24 percent of total assets (30 percent including treasury shares), and in a range comparable to other large Swiss-based, stock-listed companies. Working capital has increased by 22 percent since the end of 2007, mainly driven by increased inventories in the Solar segment. Solar is producing in excess of 100 percent capacity level to fulfill customer demand; related customer advances are due in the second half of 2008. Therefore, and also because of reduced inventory levels in Textile, working capital needs will be lower in the second half of 2008. The decline in free cash flow was influenced mainly by the weak business performance in the Textile Segment and by the share repurchase program (CHF 112 million). Additional supply chain optimization will have a positive impact on inventory levels. Improving the free cash flow was addressed by increasing internal interest rates for the calculation of new capital expenditures. This ensures an additional focus on capital throughout the organization and is expected to lead to an improved situation by year end 2008.

Restructuring and new markets

The focus of management and the newly elected board of directors is twofold: firstly, implementing immediate measures to decrease costs and undertake necessary restructuring in Textile, Esec and Systems; and secondly, assuring management attention and capital resources are being concentrated on the fastest growing areas of the company. Oerlikon is following through on its announced strategy to streamline the portfolio and divest non-core or underperforming businesses. The sale of the Blu-ray business and the magnetic media equipment was successfully concluded in the first half of the year. The announced disposal of Oerlikon Optics is expected to be concluded in 2008.

In order to conquer future markets, management has agreed on a strategic realignment of Oerlikon Systems. The business unit will concentrate on clean technologies and nanotechnology alongside its existing semiconductor business.

With the acquisition of Suomen Plasmapinta Oy, Oerlikon Balzers Sandvik (Finland) consolidated its strong position in the Nordic coating market. The recently signed joint venture contract with PT.Artoda Global in Jakarta (Indonesia) is another step for Oerlikon Balzers into the Asian market. Overall, Oerlikon Group increased its global footprint during the first half of 2008 expanding significantly the plants in Suzhou (Textile, Drive Systems, Coating) and Tianjin (Vacuum) in China, ramping up the Solar facility in Singapore and opening a first office in Moscow. A first coating center in Russia is under construction and will be fully operational in the first half of 2009.

In order to continue reducing variable costs throughout the Group, a global sourcing team was established across all segments. The Team implemented the second wave of the centrally coordinated Supply Chain Management project which focuses on integrated analysis and improvement of sourcing processes. In this regard, sourcing in low cost countries (LCC) is essential, with the additional advantage of limiting the effects of currency fluctuation. Oerlikon Textile is leading this initiative by moving manufacturing product lines to Asia and localizing 100 percent of the supplier base. Oerlikon Solar is building up an additional supply chain for its new site in Singapore, including the recently announced global partnership with Flextronics. The goal is to increase the LCC share by five to ten percent across all business units in 2008. Overall additional savings of more than CHF 100 million can be expected from sourcing improvements by 2009. The Group headquarters in Pfäffikon also underwent cost optimization, by systematic reductions in staff and general overhead costs, thus lowering yearly expenses by approximately CHF 30 million.

While decreasing the number of employees in non-core and less profitable segments by nearly 400 people, the Oerlikon Group has created more than 700 new positions in our Solar segment as well as in the business units Balzers and Space. Additional educational programs were established for the continued development of our employees. Despite the difficult economic situation, Oerlikon remains committed to maintain our investments in training and promoting young, high potential staff including interns from the local vocational training.

Overview of segment performance

Oerlikon Textile: A combination of market, government policy and economic factors contributed to the historically unprecedented downturn in the global textile machinery industry. After breaking all records in 2007, Oerlikon Textile has posted a 25.5 percent decrease in sales to CHF 965 million, which is still above the comparative figure for 2006. Given the time lag in downsizing capacity and clearing inventories, the segment ended the reporting period with an operative EBIT before impairment of CHF –14 million.

Despite the record year in 2007, and in anticipation of the downturn, Oerlikon Textile had already started an extensive project to streamline its product portfolio, optimize production sites and further improve business processes in mid-2007. As the downturn proved more extreme than forecast, this project, called "Simplify Oerlikon Textile," was expanded and accelerated with the goal of lowering the break-even point of the segment by more than CHF 300 million by 2010. This restructuring program consists of the following elements:

- Rationalize the product range and implement a consistent product platform strategy.
- Trim fixed costs by 20 percent compared to 2007.
- Reduce the European workforce by approx. 1,000 employees.
- Cut the number of production sites worldwide by half.
- Expand manufacturing capacity in China through a 30,000 square meter extension of the Suzhou facility.
- Target investments in R&D and modernizing production.

These actions will prepare Oerlikon Textile for a continuation of the cyclical slowdown expected into 2010, setting the stage for future profitability. However, any predictions for this business must be made cautiously, as the market outlook is weak and volatility remains high.

Oerlikon Components: Oerlikon Esec's performance was impacted by downward trends in the semiconductor market and by adverse currency developments. At the same time, the high level of interest generated by Oerlikon Esec when it launched the all-new Die Bonder 2100 xP has not yet been reflected in sales or earnings figures; growth can be expected in the next financial year, as the semiconductor industry is expected to rebound in early 2009. Oerlikon Space has continued its solid performance. A notable success for the space business was the launch of the European supply spacecraft Jules Verne. In the first half of the year, Oerlikon Components' sales rose by 3.3 percent to CHF 125 million, with EBIT of CHF –5 million (before impairment) due to the negative contribution by Esec. Whereas the business prospects for Oerlikon Esec remain restrained, Oerlikon Space is expected to see an even better second half of 2008 in terms of sales and profits.

Oerlikon Coating: Oerlikon Balzers' ultra-hard thin-film coating business continues to make excellent progress. By targeting investments, Balzers is accelerating both geographic and technology-based expansion. New application fields for Oerlikon's leading-edge PVD (Physical Vapor Deposition) technology are opening up in a time when the market for technically sophisticated coating solutions is experiencing structural growth. The coating specialist VST Keller, acquired in autumn 2007, has been successfully integrated into the business and is indicative of the next steps in further expansion in new application areas. Along with the solar segment, Oerlikon

Balzers is developing as a second driving force behind corporate growth. Oerlikon Systems has also suffered from the semiconductor downturn. Following divestment of the Blu-ray and magnetic media equipment businesses, this business unit became more focused in the first half of the year. As a next step, Oerlikon Systems will redirect its competencies toward future markets such as clean and nano-technologies. Overall, Oerlikon Coating's sales declined by 3.8 percent to CHF 337 million. By optimizing capacities, the EBIT was increased by 2.8 percent to CHF 41 million before impairment. The Oerlikon Coating business will continue to grow, with higher profit margins in the second half of 2008.

Oerlikon Vacuum: Once again, the segment posted strong sales growth of 7.4 percent to CHF 239 million. The process, coating and solar businesses have been the prime drivers of growth; Oerlikon Vacuum is a leading systems and solutions provider for all vacuum applications in these expanding markets. The solutions business also performed well, exceeding expectations, enabling Oerlikon Vacuum to differentiate itself significantly from the competition. The vacuum production facilities in Tianjin, China are also being expanded, improving the cost position in key product lines. Given the increased cost of raw materials, higher R&D expenditures, expansion of service capacity and currency effects, EBIT remained at the previous year's level, reaching CHF 26 million (–2.7 percent). The business outlook for Oerlikon Vacuum remains positive with further strong growth in sales, but with somewhat lesser growth in profits due to investments in marketing, the sales network and the solutions business.

Oerlikon Drive Systems: With strong growth of 12.7 percent to CHF 626 million, Oerlikon Drive Systems has experienced three years of uninterrupted growth. The segment is benefiting from robust demand in all markets and has been able to gain market share – particularly in agricultural machinery and mining equipment. In the energy sector, new markets are opening up, for instance in wind turbines, and Oerlikon Drive Systems has invested accordingly in new production capacity. The segment did not manage to pass on all of the sharp increases in energy and raw material prices promptly to customers, with the result that EBIT decreased by 10.4 percent to CHF 39 million. Measures are being implemented to address the issues with a specific product pruning and pricing project. In the second half of 2008 Oerlikon Drive Systems is expected to increase sales growth and reverse the trend back towards historic profitability levels around 8 percent.

Oerlikon Solar has achieved blue-chip industrial status

The first half of 2008 demonstrated that the new Solar segment is capable of leveraging its unrivalled technological assets to achieve blue-chip industrial status as measured by any global standard. Oerlikon Solar has built up a significant and highly competitive business within only a few years. The follow-up order of a 180 MW solar fab by the Taiwanese customer CMC Magnetics, the biggest single contract awarded to Oerlikon to date, shows the dynamics of the market. The strategic partnership with the global component supplier, Flextronics, certification of production processes by the German organization TÜV Rhineland, and the development of the Singapore location are all cornerstones of Oerlikon Solar's impressive performance during the first six months of 2008. Orders grew by nearly 76.7 percent to CHF 451 million, sales increased by 58.3 percent to CHF 214 million and EBIT grew to CHF 28 million. The segment is well on track toward reaching its 2008 targets of CHF 700 million sales and order intake exceeding CHF 1 billion. The second half of 2008 will also see increased profits mainly driven by higher sales volume. This success rests on Oerlikon Solar's patented technology and its capabilities to assure rapid installation of turn-key solar manufacturing facilities. Up to now, more than 400,000 solar modules have been manufactured to the highest quality standards at production facilities equipped by Oerlikon Solar.

Innovations pay dividends

Oerlikon Solar's thin-film silicon technology is just one of many examples where the Group achieves sustainable success by means of essential innovations or use of highly technical and innovative processes. Other instances where Oerlikon has translated cutting-edge technologies into profitable growth include the new polyester yarn winding machine WINGS, which was showcased for the first time in the autumn of last year at the ITMA textile trade show. Currently, more than 1,200 units have been sold. A further example is the revolutionary P3e™ coating technology developed by Oerlikon Systems, for which Oerlikon Balzers also supplies equipment INNOVA. Oerlikon Space developed and built the locomotion system for the Mars Rover for the European Space Agency, which is scheduled to explore the Red Planet in 2015. Rapid implementation of the latest engineering and focused research, which results in marketable and profitable industrial products, are the hallmarks of Oerlikon and forms the basis for its corporate success.

Outlook

All segments of the Oerlikon Group are in strong positions and innovative Oerlikon products are benefiting from a high level of acceptance in the market. The Group targets business sectors that are experiencing structural growth and differentiating itselves by providing customized products and services for high-tech components and integrated engineering solutions. The successes of core Oerlikon businesses like Solar, Coating and Vacuum demonstrate the resilient nature of high-tech in a recessionary economic environment.

Irrespective of the sharp, cyclical downturn in the textile business and its associated impact on growth and earnings, Oerlikon is optimistic about the future. Textile remains a structural growth market moving more and more to high quality products, specifically due to increased per capita income in developing countries, such as China and India. These trends favor Oerlikon Textiles innovative equipment. The measures to increase efficiency and flexibility, named "Simplify," are midway through implementation throughout the Oerlikon Textile segment. The rigorous restructuring of the textile segment will strengthen our market position making the business fit for the next upturn. However, on a short term basis, the market volatility remains high and the unprecedented nature of the current textile market downturn leads to significantly higher degrees of uncertainty in current forecasts.

The process of portfolio consolidation is progressing well and Oerlikon will continue to focus its portfolio while carefully weighing timing and business cycles as well as the capital market environment. Furthermore, Oerlikon is positioning itself in important markets of the future by growing our activites in Russia, by expanding our production facilities in China and by intensifying marketing activities in Eastern Europe.

Given the impact of the various factors described above, the Oerlikon Group envisages the 2008 EBIT before goodwill impairment at a level approximately one third lower than 2007. Sales will be slightly lower compared to last year's level. This outlook is subject to the assumption that the textile and semiconductor markets do not deteriorate further. The fundamental business outlook remains positive despite the obvious signs of recession. With the textile business separately expected to be profitable again next year, we reconfirm the target for the rest of Oerlikon's business to achieve a double-digit EBIT margin in 2009.

Vladimir Kuznetsov
Chairman of the Board of Directors

Dr. Uwe Krüger
Chief Executive Officer

Oerlikon Textile

After a record year 2007, a severe downturn in global textile markets exerted enormous pressure on Oerlikon Textile's business. In the first half year, the segment achieved sales of CHF 965 million (–25.5 percent), orders received amounted to CHF 903 million (–36.1 percent), order book totalled CHF 726 million (–25 percent). EBIT amounted to CHF –14 million (before impairment). The comprehensive restructuring project "Simplify Oerlikon Textile" was started to adapt Oerlikon Textile to the changed market conditions.

"Simplify" – the answer to volatile markets.

Key figures of Oerlikon Textile

in CHF million	H1 2008	H1 2007	Change (%)
Orders received	903	1 415	–36.1
Orders on hand	726	968	–25.0
Sales	965	1 295	–25.5
EBIT (before impairment)	–14	101	–

Status report

The severe downturn in global textile machinery markets caused Oerlikon Textile's business to deteriorate seriously in the first half year of 2008. An unprecedented combination of detrimental factors aggravated the market slowdown considerably. Besides existing overcapacities, numerous government subsidies were discontinued in India and Turkey. Further, investments in China were politically curbed and interest rates soared. Added to this were significant increases in raw material and energy prices. The negative exchange rate development led to a reduction in sales of CHF –42 million and in EBIT of CHF –3 million. The EBIT of the segment was additionally burdened by restructuring costs in the amount of almost CHF 10 million.

Thanks to the segment's broad portfolio and numerous product innovations, an even stronger downturn, as currently experienced by the textile machinery industry as a whole, could be avoided. While the German machinery association VDMA announced a drop in order intake over 50 percent for textile machines and some competitors' orders declined over 60 percent, Oerlikon Textile's orders decreased by 36 percent.

An extensive restructuring project "Simplify Oerlikon Textile" was launched by management with the following key actions:

- Streamline the product portfolio by 25 percent.
- Reduce production plants worldwide by half.
- Adjust European employee base by approx. 1,000 personnel.

Measures already initiated in 2007 have resulted in reduction of 300 permanent and 400 contingent staff. Overall, fixed costs will be reduced by around CHF 50 million in 2008. The "Simplify Oerlikon Textile" project aims to achieve a reduction of the break-even point for the whole segment by more than CHF 300 million by 2010.

Within the individual market segments of the five business units, the effects of the market downturn were experienced in varying degrees. In particular the staple fibre sector was very badly affected. In rotor spinning, Oerlikon Schlafhorst recorded a decrease in orders of more than 50 percent. The business unit is however stabilized by its leading market position in automated winding machines and the early establishment of mid-range ring spinning machines in China.

Currently, the chemical fibres market is also under pressure. Oerlikon Barmag recorded low demand. However, it was able to assert itself on the market as a result of WINGS, its new POY winding machine. With its "e-save" products, Oerlikon Barmag also had the right response to the ever increasing demand for production systems with reduced energy consumption.

Oerlikon Neumag was able to establish itself successfully as a supplier of complete machine installations at INDEX, the special nonwovens fair, which took place in Geneva in April. In the carpet yarn sector the order situation was positive, in particular thanks to anti-cyclic investments from the USA.

Demand for Oerlikon Saurer twisting and embroidery machines was also weak.

As a supplier of parts for new textile machines, the business of Oerlikon Textile Components declined in parallel to the machines business. It did continue to record healthy incoming orders in direct business with end customers. The business unit was temporarily upset by a fire incident in April which destroyed the production site in Singapore. This unfortunate, but fully insured accident was compensated after a short time as production at the other sites of the business unit increased.

Highlights

- Oerlikon Barmag has sold more than 1,000 units of WINGS, the new POY winding machine, in India alone during the first half year.
- At the ITMA Asia + CITME 2008 in Shanghai end of July, Oerlikon Textile presented a large number of product innovations, such as eFK, the new manual texturing machine of Oerlikon Barmag, the Fusion Twister of Oerlikon Saurer and the new rotor spinning machine BD 416 of Oerlikon Schlafhorst.
- Oerlikon Neumag received a second repeat order for an Airlaid nonwovens production line from Concert, the globally leading manufacturer for airlaid cellulose nonwovens, at the Pritzwalk site in Germany.
- Oerlikon Saurer received a major order from Yip Shing, Shantou, China for shuttle embroidery machines of the type EPOCA 05 2-1.
- Sanyang Textile, China put into operation the first total solutions plant completely supplied by Oerlikon Schlafhorst.

Outlook

The cyclical slowdown in the textile machines market is not expected to recover before 2010. This applies both to the staple fiber and the chemical fiber sector. One can still sense a readiness to invest in the market, but numerous projects will likely be postponed to next year and thereafter. We expect the second half of 2008 will be similar to the first half.

The "Simplify Oerlikon Textile" project aims to address the increased volatility of the markets and return the segment to profitability.

Oerlikon Coating
The business unit Oerlikon Balzers continued its profitable growth, mitigating an ongoing weak semiconductor market as well as currency effects. Although the business unit Oerlikon Systems feels the impact from the difficult market situation in the semiconductor industry, the order intake grew strongly. With the divestment of the hard disk business, Oerlikon Systems has streamlined its portfolio and is now focusing on future markets such as clean and nano technology. Revenues no longer consolidated due to the divestment, in the range of CHF 25 million, caused a decline of segment revenue to CHF 337 million (–3.8 percent), while profits grew 2.8 percent to CHF 41 million (before impairment).

Oerlikon's coating business continues on its path of rapid expansion.

Key figures of Oerlikon Coating

in CHF million	H1 2008	H1 2007	Change (%)
Orders received	357	327	9.0
Orders on hand	69	61	12.8
Sales	337	351	–3.8
EBIT (before impairment)	41	40	2.8

Status report

The half year result of Oerlikon Coating was supported by a very good first and an even better second quarter for the Business Unit Oerlikon Balzers. Balzers reported record sales – a growth of 12 percent compared to the second quarter of 2007 despite unfavorable currency factors. These had a top-line effect of almost CHF 20 million.

The outstanding result in the coating equipment business based on sales of INNOVA with the P3e™-technology was particularly gratifying. The success of this machine led to a record profit in coating equipment in the second quarter. This underlines the strong trust of our customers in the new technology, and consequently, Oerlikon Balzers was able to fortify its position considerably as undisputed market leader in coating technology.

The coating service business also grew continuously. The successfully integrated Pulse-Plasma-Diffusion (PPD™) specialist VST Keller contributed strongly to the prosperous first half year in 2008. The PPD™-technology complements Balzers' coating portfolio. The first PPD™-coating equipment was delivered to a customer in Japan as an initial step and set a new industrial standard.

With ongoing regional expansion, Oerlikon Balzers strengthened its leading market position and gained market share. With the acquisition of Suomen Plasmapinta Oy (SPP), Oerlikon Balzers Sandvik fortified its strong position in the Nordic coating market. The recently signed joint venture contract with PT. Artoda Global in Jakarta (Indonesia) is another progressive step into the Asian market. With its well established network, PT. Oerlikon Balzers Artoda Indonesia – the first coating facility in Indonesia – will be able to deliver high-quality coatings to the growing number of automotive suppliers.

Oerlikon Systems offers production equipment with leading-edge PVD, PECVD, and Etch process solutions for the Semiconductor industry and metallizers for the optical media storage industry. Oerlikon Systems' magnetic media equipment business was sold by the end of the second quarter to Intevac, USA. Employees were successfully relocated to the fast growing Oerlikon Solar business. Through the divestment of the magnetic media business, Oerlikon Systems increases focus on its core portfolio where it provides superior solutions as market and technology leader.

A strongly growing market for solid state lighting has been established with the etching and deposition tools. The convincing process performance and high flexibility of the Clusterline 200 established the tool as a reference solution for thin-film-head (TFH) applications.

Highlights

- The expansion of the worldwide coating center network is ongoing; Suomen Plasmapinta Oy (SPP), Finland, and the joint venture PT. Oerlikon Balzers Artoda Indonesia, are new to the Oerlikon Balzers family.
- BALINIT® ALDURA for hard cutting applications is resoundingly successful – particularly on the prestigious Japanese market.
- The coating machine business grew beyond expectations, particulary because INNOVA with its new P3e™-technology gave a strong boost to sales.
- u-IT orders CLN 200 for MEMS application reconfirmed the market view that Oerlikon offers superior process and production solutions for MEMS applications in PECVD, PVD and Etch.
- Multiple orders for CLN 200 and CLN 300 from a leading Packaging House for Flip Chip and CSP applications.
- Multiple repeat orders for Versaline (PECVD and ICP) for Solid State Lighting and Wireless applications.

Outlook

The Asian market still has potential for further exploration for Oerlikon Balzers. Double digit growth rates in local currency will also continue for the second half of 2008. Oerlikon Balzers' plans for expansion in China, Korea, Japan and India are ongoing. Further growth is possible in the Eastern part of Europe as well: the first coating center in Russia is under construction and will start production at the beginning of next year.

In the US the automotive business is expected to decline further until the end of the year. This will temporarily increase pressure on the High Volume Automotive (HVA) business. But since coated parts have a significant impact on fuel efficiency, the high oil price should have a positive mid-term effect on the HVA business.

The demand for cutting tools, especially for hard machining and high-speed cutting with a long tool lifetime is also growing.

The business unit Oerlikon Systems is in general well positioned in the Semiconductor market which is undergoing further consolidation. In order to conquer future markets, management have agreed on a strategic realignment. Oerlikon Systems will concentrate on clean technologies and nanotechnology alongside its existing semiconductor business.

Overall the segment will achieve its 2008 profit target on a slightly lower volume.

Oerlikon Solar

Within the course of the first half year 2008 Oerlikon Solar met management expectations. The thin-film silicon market showed high demand for Oerlikon's cutting edge end-to-end production solutions; all figures developed according to plan with an even better outlook for the second half of 2008. Orders increased by 76.7 percent, from CHF 255 million to CHF 451 million. Revenues increased by 58.3 percent, from CHF 135 million to CHF 214 million. EBIT was decreased from CHF 36 million to CHF 28 million, whereas the 2007 profit contained a one-time gain of CHF 13 million.

With strong and profitable growth Oerlikon Solar is delivering on its promises.

Key figures of Oerlikon Solar

in CHF million	H1 2008	H1 2007	Change (%)
Orders received	451	255	76.7
Orders on hand	697	514	35.6
Sales	214	135	58.3
EBIT	28	36	–20.8

Status report

Oerlikon Solar, which became a separate segment of Oerlikon Group at the beginning of 2008, reports continuing strong growth. Oerlikon Solar is already a recognized global leader for end-to-end production solutions within the thin-film silicon photovoltaic (PV) market. In anticipation of future market demands, Oerlikon Solar is making the necessary changes to its infrastructure to scale the business appropriately.

Over the first six months Oerlikon Solar obtained contracts for equipment or end-to-end fabs from five new customers. This represents a total production capacity of more than 500 MW/peak. Europe continues to be a strong market and now Asia, particularly China and Taiwan, are becoming key markets for Oerlikon Solar's thin-film silicon production equipment. This is evidenced by new large contracts from CMC Magnetics/ Sunwell (Taiwan), Auria Solar (Taiwan), Baoding TianWei Solarfilms (China) and Chint Solar (China).

This growth in order intake is matched with actions to create a global footprint and to scale critical manufacturing, installation, commissioning and supply chain resources of the company:

- A new Asian hub is being established in Singapore. The site management is already in place and hiring of the technical team is on track. An integrated pilot line is being set up and is scheduled for an early 2009 start-up.
- In early July, an agreement was signed with Flextronics, a leading electronics manufacturing services (EMS) provider. Flextronics will provide important capacity and supply chain solutions needed to accelerate the expansion of the company's global production capacity.
- Global employment in the Solar company has now risen to almost 700 people.
- Expansions and additions to the manufacturing and assembly plant in Truebbach, Switzerland, will enable to more than double sales this year.

Highlights

- The new pilot line in Truebbach is ramping up and providing valuable data on potential end-to-end process improvements. It will be opened officially in August.
- In a record time of eight months, the CMC/ Sunwell project in Taiwan went from installation to start of mass production.
- An estimated 400,000 panels have already been produced by Oerlikon Solar's customers.
- The first micromorph-tandem fabrication equipment was delivered to Inventux in Germany.
- Ersol Thin Film's amorphous thin-film module Nova®-T, produced with fabrication equipment from Oerlikon Solar, has now been approved by the German certifcation authority TÜV Rhineland and passed all tests required for TÜV IEC 61646 certification.
- A growing number of customers are buying fully-integrated, complete end-to-end solutions. The highest demand is now for Oerlikon Solar's proprietary, patented, twin junction cell technology – Micromorph Tandem® which increases module efficiency by more than 50 percent.
- Development activities continue within Oerlikon Solar to meet the plan to improve cost of ownership. Currently, Oerlikon can offer its customers efficiencies of solar modules above 9 percent, while champion cell efficiencies beyond 11 percent have been achieved in the laboratory.
- Plans are underway to expand research and development in Switzerland and Singapore. Cooperation with leading solar research institutes will also be broadened.
- Programs to lower production cost by increasing both throughput and availability stats of end-to-end production lines are making significant progress. Development programs for key equipment are under way.

Outlook

Oerlikon Solar is confident about the second half of 2008 confirming full year targets of over CHF 700 million in sales and more than CHF 1 billion in order intake. The company is the primary supplier of manufacturing solutions for silicon-based, thin-film silicon solar modules with customers already in mass production. The combination of proven solutions and expanding market conditions generates huge opportunities. Several customers are announcing plans to reach production capacities beyond 1 GW. The repeat order from CMC/Sunwell and others in the pipeline indicate that customer retention is also contributing to further growth.

Plans are being put in place to address the scalability of the business; however the challenges are many as this industry strives to achieve its forecasted growth rate in excess of 50 percent per annum over the next five years.

We are confident that this industry will continue to grow and Oerlikon Solar is in a strong position to participate in the sector's growth with leading technology and production-ready solutions.

Oerlikon Vacuum

Oerlikon Vacuum records another period of robust growth with revenue up by 7.4 percent to CHF 239 million. Profits remain stable at CHF 26 million. Excluding currency effects, the profit margin exceeded the 2007 level. New and customized vacuum technology developments, emerging fields of new applications and global markets with high growth rates, all demand forward vision and fast reaction. The vacuum solution business took off and is showing excellent growth.

Growing business in mature markets and promising innovations for the future.

Key figures of Oerlikon Vacuum

in CHF million	H1 2008	H1 2007	Change (%)
Orders received	256	229	11.8
Orders on hand	91	66	37.8
Sales	239	223	7.4
EBIT	26	26	–2.7

Status Report

The first six months have shown continued demand from industrial markets in Asia and Europe. US markets, however, cooled down substantially, particularly with regard to the semiconductor business. For 2008, this sector is not expected to show any growth, as the semiconductor markets shrank by at least 10 percent compared to last year. The analytical market remained stable, as did the R&D markets, though competitive pricing for projects remained an issue. Coating technologies showed favorable development with some interesting projects at glass coaters and optical applications worldwide. Laser technology also showed positive trends.

As usual, Oerlikon Leybold Vacuum derives its stability from its business with mature process industries. Therefore, order intake and sales for this market segment have been excellent. Solar technology applications continued to grow as expected.

Solar is one of many fields where vacuum pumps contribute to enabling processes for clean technologies. SOGEVAC pumps are well positioned to streamline relevant processes for both energy saving and renewable energy, e.g.:

- In glass coating processes these pumps help to improve architectural glass insulation properties. All major OEM and end-users in Europe use Leybold pumps.
- In solar applications, they are used for photovoltaic panel lamination and production. Leading European and Asian OEM have been using Leybold pumps for years.
- Another “clean” application is the use of these pumps in biogas production plants. ATEX pumps are used by a large number of German OEMs.

Solutions & Services

The success of Vacuum Solutions has increased further in the last six months. Order intake and sales exceed all expectations and have led to an increase in staff and production capacities.

The service business is developing along with sales growth. The new servicing lines implemented in Asia are working very successfully, especially in Taiwan, where now all fore vacuum pumps can be maintained and serviced directly. Considering the development of the solar fab installations worldwide, Services has strategically positioned itself to cover the increasing local demands. The capacity demand for these promising and challenging solar applications will remain high for the future, as service and maintenance need to be provided in the most effective manner to ensure customer success.

Highlights

At the end of June, Oerlikon Vacuum launched the new fore vacuum pump series TRIVAC NT – the first “dry” oil sealed pump with enhanced features. TRIVAC NT represents the next generation product to the well-known TRIVAC B product line.

Some projects in the research & development segment bear witness to the profound know-how and application expertise of Oerlikon Vacuum:

- Oerlikon Vacuum received the Gold Award for successful design and installation for two special vacuum systems at CERN, Switzerland.
- Oerlikon Vacuum delivered huge cryo pumps for space simulation in Asia. For cryogenic pumps in the 800 to 60 000 l/s performance range, the company has at its disposal a broad spectrum of products with excellent performance range. In the case of the ultra-large pump sizes, Oerlikon Vacuum is the only European manufacturer.

Outlook

The solar market will continue as a growth engine for vacuum. Within the Process Industry, business prospects for vacuum technology are still on a high level with few signs of weakening. However, a slowdown of industrial markets is to be expected in Europe, due to other market factors, such as the strong Euro and rising energy and raw material prices. For all market segments, continued price pressure remains an issue. To stabilize and improve profit margins, sourcing from low cost countries will be extended and prices will be increased selectively.

The second half of 2008 will see market penetration of the new TRIVAC NT series. With the new pump generation, performance and handling characteristics have been optimized and adapted to the increasing market requirements. The TRIVAC NT sets a new design and manufacturing standard that also reduces complexity. Due to new products being launched, an existing broad product portfolio and a stable industrial customer base, Oerlikon Vacuum is well positioned to deal with the challenging demands of the world vacuum market.

The business outlook for Oerlikon Vacuum remains positive with further solid growth in sales, although profit growth may be slightly slower.

Oerlikon Drive Systems

Oerlikon Drive Systems' good result in the first half of 2008 continues the positive development of the last three years. Sales rose by 12.7 percent from CHF 556 million to CHF 626 million while EBIT declined by 10.4 percent to CHF 39 million. This was due to currency effects, increased energy and raw material costs as well as capacity shortfalls arising from high market demand. A comprehensive investment and pricing program is in place to address these issues.

Investing for growth and profitability.

Key figures of Oerlikon Drive Systems

in CHF million	H1 2008	H1 2007	Change (%)
Orders received	636	556	14.4
Orders on hand	218	n/a	–
Sales	626	556	12.7
EBIT	39	43	–10.4

Status Report

All markets relevant to Oerlikon Drive Systems remained strong in the first half of 2008, with agricultural and mining equipment above expectations and the energy sector continuing to provide new business opportunities. The Oerlikon global sales network, particularly in emerging markets, allows Oerlikon Drive Systems to establish an early presence to support existing customers and identify future business opportunities. Oerlikon Graziano, in the agricultural market, started serial production of synchronizers to SAAZ in Russia and preproduction deliveries of transmission components to CNH and John Deere in China. Also, Oerlikon Fairfield, in the road construction equipment market, increased its sales in China developing business with six new road equipment customers.

It was not in all cases possible to pass on to customers cost increases of energy, steel and other raw materials which therefore had a negative impact on the gross margin. A program to transfer these costs selectively is currently under way. Additionally, the EBIT was burdened by capacity shortfalls due to high market demand. Extra shift-working and logistical difficulties caused cost increases, which are currently being addressed by appropriate capital investments.

Oerlikon Graziano, in the agricultural market, has developed a new range of power clutches and synchronizers for the latest generation of Zetor tractors and has recently received an order for power-shift clutches to SAME Tractor for their new CV tractor concept. It has also developed a new axle and PTO in co-design with CNH and John Deere. In construction equipment, Oerlikon Graziano has successfully designed, developed and tested a new large body module synchronizer, with unprecedented load carrying and life cycle capabilities. It is also engaged in ongoing development and testing of complete axle sets and the 2-speed drop box for an articulated dump truck, as well as the new TXL30 light transaxle for a gas-driven forklift truck.

Oerlikon Fairfield has developed new business opportunities in Europe and India with a major compaction machinery producer whereby prototype testing has been completed and the product is currently moving into full-scale production for the fourth quarter of 2008.

In addition to the construction machinery market, Oerlikon Fairfield has received new orders from a major global OEM for combine harvester drive assembly gearing, further increasing market share in the agricultural segment.

Within the energy-related market areas, Oerlikon Fairfield continues with production of several new drives for raising and lowering the “legs” of oil drilling and servicing platforms, and continues R&D work with two OEMs to develop hybrid drive systems for construction machinery, as part of their “clean energy” initiative.

Oerlikon Fairfield is continuing with its entry into the wind energy market and is currently ramping up production to produce gearing for wind turbine main drive assemblies.

In the automotive market, Oerlikon Graziano is investing R&D time and business development efforts in building up three product lines focused on hybrid and full electric vehicle driveline systems. Two well-known OEMs in this industry ordered prototypes of a new transfer case designed to purpose: the vehicles are four passenger city cars with considerable performance (speed, acceleration and range).

Highlights

- Oerlikon Graziano and Oerlikon Balzers are continuing their joint projects started in 2007. The successful tests of BALINIT C Oerlikon Balzers coating in heavy duty/high performance bevel sets led to it being specified for most demanding applications currently under development. In the near future, new sports cars debuting in the market with innovative transmission systems developed by Oerlikon Graziano will feature an Oerlikon Balzers contribution to their high performance characteristics.

- Oerlikon Graziano and Oerlikon Fairfield are exploring market opportunities together where the combination of their product lines (Axles and Torque Hubs respectively) can provide the benefit of a complete driveline package to customers. First opportunities to be explored are compactors and graders.

- In automotive transmission systems, notable production starts are the manual transmission system of the Aston Martin DBS, power transfer units for the General Motors Global Epsilon platform and Fiat Panda 4x4, as well as the Dual Clutch T development program for a new sports car, now reaching the prototype stage with functional tests started on the first prototype.

Outlook

Agricultural, mining and energy markets remain strong; in the automotive market, demand for high performance cars is still high. With the agricultural market remaining buoyant, Oerlikon Graziano foresees no erosion in sales over the remaining six months of 2008.

Oerlikon Fairfield expects that the off-highway market downturn through the remainder of 2008 will be partially offset by continued market share gain. Markets and business development activities in Asia will continue with steady growth as Oerlikon Fairfield adds new customers and applications for its products. Fairfield is also receiving new orders from South America, specifically Brazil, for sugar cane harvesters due to the demand for alternative fuels.

New project development is underway to establish assembly operations in China by 2009 for planetary Torque Hub® drives and related customized drive assemblies for Chinese off-highway markets. Oerlikon Fairfield continues to strengthen its market share in the self-propelled aerial work platform segment with new product entries for both wheel and swing drive applications.

Initiatives to offset increased raw material and energy costs are already under way. In the second half of 2008 Oerlikon Drive Systems will stabilize profits by passing on higher input prices to its customers. Sales growth will be assured by continued high market demand.

Oerlikon Components

During the first half of 2008 Oerlikon Esec suffered from a weak semiconductor market and a low US dollar exchange rate. Oerlikon Space reported positive developments. Sales of the segment rose 3.3 percent to CHF 125 million, EBIT fell to CHF –5 million (before impairment).

Strong space business mitigates weak semiconductor market and low dollar.

Key figures of Oerlikon Components

in CHF million	H1 2008	H1 2007	Change (%)
Orders received	152	169	–10.4
Orders on hand	223	216	3.0
Sales	125	121	3.3
EBIT (before impairment)	–5	4	–

Status Report

The Oerlikon Components segment is comprised of Oerlikon Esec and Oerlikon Space business units since January 2008. Oerlikon Mechatronics (formerly Oerlikon Solutions) has been operating within the Oerlikon Solar segment since the beginning of the year. Oerlikon Optics is up for sale and is reported under “discontinued operations.”

A weak semiconductor market was predicted for 2008. After a seasonally low first quarter, demand deteriorated even further. Sales of Oerlikon Esec in US dollars during the first half of the year remained at more or less 2007 levels. The weak dollar still burdens the result.

Oerlikon Esec initiated an additional set of measures to counter the currently weak market environment:

- Capacity reductions by 15 percent globally.
- Intensifying global sourcing.
- Further cycle time reduction by lean manufacturing programs.
- Product launch and sales push intiatives.

The newly developed “Die Bonder 2100 xP” was successfully launched and has quickened interest in the market. The wire bonder business also scored a number of successes with the new Wire Bonder 3200, for which a major order has already been delivered.

Several prominent customers were acquired during the first half of 2008 as part of the product offensive, in Die and Wire Bonder, launched back in 2007. Business processes have been adapted to increase the flexibility of production capacities and shorten lead times, thus putting Oerlikon Esec in a good position to respond to sudden fluctuations in demand.

Oerlikon Space reports positive trends for both sales and EBIT. As the world’s leading provider of payload fairings for launchers, Oerlikon Space benefited from continued strong demand for commercial rocket launches during the first six months of 2008. Oerlikon’s most important customer is Arianespace with its Ariane 5, Sojus and, in future, Vega launchers, which have made this company the global market leader for commercial launches. Arianespace is planning seven launches during 2008 using the Ariane 5 launcher, four of which have already taken place successfully during the first six months of the year.

Oerlikon Space most recently succeeded in expanding its launcher structure business with its second most important customer, United Launch Alliance. In addition to the payload fairings for the large version of the Atlas V rocket, this Swiss aerospace company now also provides the interstage adapter for the much more commonly used smaller version of the Atlas V. This adapter connects the main and upper stages of the American launcher. The first flight of an Atlas rocket with an Oerlikon interstage adapter will take place in mid-2009. In the non-space sector, Oerlikon Space was able to consolidate its strategic partnership with Carl Zeiss SMT AG. In May Zeiss named Oerlikon Space as a “Carl Zeiss SMT Supply Chain Partner.” Zeiss also honored Oerlikon Space with the “2007 Best Supplier Award.” Oerlikon Space supplies Zeiss with highly specialized shutter mechanisms for lithography optics used in microchip production.

As previously announced at the 2008 Annual General Meeting of Shareholders, the Oerlikon Optics business unit is planned to be sold in the course of 2008. The process is proceeding in line with expectations.

Highlights

- Launch of the newly developed Die Attach generation, the “Die Bonder 2100 xP,” at the SEMICON 2008 show in Singapore.
- Major order for the Wire Bonder 3200 delivered to Greatek in Taiwan.
- Cooperation awards received from customers such as Infineon where, for the first time, Oerlikon Esec was simultaneously recognized in two categories.
- Successful expansion of the lean manufacturing program at the wire bonder assembly facility in Singapore – with as much as 50 percent reduction of cycle-times – has created positive customer response.
- Successful tests of a new horizontal separation system for the Ariane payload fairing, which considerably reduces the mechanical strain on the payload during separation. Its first use is scheduled for the end of the year at the launch of the Herschel and Planck space telescope.
- Predevelopment work concluded on a locomotion system for an autonomous Mars robot. This ExoMars Rover is scheduled to land on Mars in 2015 and scour the red planet for signs of life. An initial series of tests on a preliminary rover model was successful.
- Successful maiden flight of the “Jules Verne” unmanned European space transporter. Oerlikon Space supplies the structure for the Automated Transfer Vehicle’s (ATV) propulsion module as well as special racks for accommodating the payloads. At least four additional ATV missions are scheduled in the coming years following this successful maiden flight.

Outlook

Oerlikon Esec will unveil more market-leading innovations and products during the second half of 2008 and continue to expand its “most modern fleet in the industry” available today. With its focus on customers and optimized internal workflows, Oerlikon Esec is in a position to respond quickly and flexibly to sudden market changes.

Oerlikon Space will continue to grow during the second half of 2008. This growth will be driven by continued high demand for payload fairings and launcher structures in Europe and the USA and, above all, the institutional programs of the European Space Agency (ESA). The development work already completed has put Oerlikon Space in an excellent position to take on the development and production of key subsystems for the upcoming ExoMars and BepiColombo (Mercury probe) ESA scientific programs. GMES (Global Monitoring for Environment and Security) and Galileo (a European satellite navigation system), two EU programs in which Switzerland is also involved, offer growth opportunities in the institutional sector.

Whereas the business prospects for Oerlikon Esec remain restrained, Oerlikon Space is going to see an even better second half of 2008 in terms of sales and profits.

Financial report

Key figures Group

Key figures Oerlikon Group

in CHF million	**January 1 to June 30, 2008 unaudited**	January 1 to June 30, 2007 unaudited restated [1]
Orders received	2 755	2 952
Orders on hand	2 024	1 826
Sales	2 507	2 682
EBITDA	224	338
– as % of sales	9%	13%
EBIT before impairment of goodwill	105	232
– as % of sales	4%	9%
EBIT after impairment of goodwill	–238	232
Net profit	–313	128
– as % of sales	–12%	5%
– as % of equity attributable to shareholders of the parent	–23%	8%
Cash flow from operating activities	–45	165
Capital expenditure for fixed and intangible assets	141	161
Total assets	5 813	6 290
Equity attributable to shareholders of the parent	1 346	1 649
– as % of total assets	23%	26%
Net liquidity [2]	–1 240	–888
Net assets [3]	3 078	3 325
EBIT as % of net assets (RONA)	–8%	7%
Number of employees	19 517	18 847
Personnel expenses	707	709
Research and development expenses [4]	138	131

[1] The restatement concerns discontinued operations (business unit Oerlikon Optics), assets held for sale and conclusion of the Purchase Price Allocation of Saurer.

[2] Net liquidity includes marketable securities and treasury shares at market value as per June 30.

[3] Net assets include current and non-current operating assets (excluding cash and financial assets) less operating liabilities (excluding financial liabilities and tax provisions).

[4] Development expenses include expenses recognized as intangible assets CHF 19 million (previous year: CHF 26 million).

Consolidated income statement

in CHF million	January 1 to June 30, 2008 unaudited	January 1 to June 30, 2007 unaudited restated [1]
Sales of goods	2 152	2 354
Services rendered	355	328
Total sales	**2 507**	**2 682**
Cost of sales	–1 928	–1 996
Gross profit	**579**	**686**
Marketing and selling	–177	–172
Research and development	–126	–107
Administration	–172	–184
Impairment of goodwill	–343	0
Other income	30	21
Other expenses	–29	–12
EBIT	**–238**	**232**
Result from associated companies	0	–2
Financial income	6	7
Financial expenses	–53	–93
Profit before taxes (EBT)	**–286**	**144**
Income taxes	–29	–15
Result from continuing operations	**–315**	**129**
Result from discontinued operations	2	–2
Net profit	**–313**	**128**
Attributable to:		
Shareholders of the parent	–315	124
Minority interests	2	3
Earnings per registered share in CHF	**–24.57**	9.49
Fully diluted earnings per registered share in CHF	**–24.56**	9.49

[1] The restatement concerns discontinued operations (business unit Optics) and conclusion of the Purchase Price Allocation Saurer (Notes to the consolidated financial statements).

Statement of recognized income and expenses

in CHF million	January 1 to June 30, 2008 unaudited	January 1 to June 30, 2007 unaudited restated [1]
Fair value adjustments IAS 39	9	–1
Realization under IAS 39	–3	–2
Actuarial gains / losses under IAS 19	19	–2
Economic benefit available as a contribution reduction IAS 19 – IFRIC 14	–4	0
Deferred taxes	–7	0
Conversion differences	–104	40
Net result recognized directly in equity	–90	36
Net profit	–313	128
Total recognized income and expenses	**–403**	**163**
– of which attributable to shareholders of the parent	–403	159
– of which attributable to minority interests	0	4

[1] The restatement concerns the conclusion of the Purchase Price Allocation Saurer and implementation of IFRIC 14 (Notes to the consolidated financial statements).

Consolidated balance sheet

Assets

in CHF million	June 30, 2008 unaudited	December 31, 2007
Cash and cash equivalents	346	484
Current financial investments	22	25
Trade receivables	732	794
Other receivables	107	96
Current tax receivables	25	27
Inventories	1 130	985
Prepaid expenses and accrued income	44	25
Assets classified as held-for-sale	57	65
Current assets	**2 463**	**2 501**
Loans and other financial receivables	15	15
Non-current financial investments	33	34
Property, plant and equipment	1 351	1 394
Intangible assets	1 790	2 170
Post-employment benefit assets	17	23
Deferred tax assets	145	154
Non-current assets	**3 350**	**3 789**
Total assets	**5 813**	**6 290**

Liabilities and equity

in CHF million	June 30, 2008 unaudited	December 31, 2007
Trade payables	539	587
Loans and borrowings	58	40
Other liabilities	119	121
Accrued liabilities	409	408
Current customer advances	211	249
Current income tax provisions	137	139
Current post-employment benefit provisions	16	16
Current other provisions	154	167
Liabilities related to assets classified as held-for-sale	21	27
Current liabilities	**1 664**	**1 755**
Loans and borrowings	1 909	1 748
Non-current customer advances	51	48
Non-current post-employment benefit provisions	502	539
Deferred tax liabilities	222	222
Non-current other provisions	92	93
Non-current liabilities	**2 776**	**2 649**
Total liabilities	**4 440**	**4 403**
Share capital	283	283
Treasury shares	–295	–184
Reserves and retained earnings	1 358	1 760
Equity attributable to shareholders of the parent	**1 346**	**1 859**
Minority interests	27	28
Total shareholders' equity	**1 373**	**1 887**
Total liabilities and equity	**5 813**	**6 290**

Consolidated cash flow statement

in CHF million	January 1 to June 30, 2008 unaudited	January 1 to June 30, 2007 unaudited restated [1]
Net profit	–315	129
Tax expenses (+) / tax income (–)	29	15
Losses (+) / gains (–) from investments in associated companies	0	2
Interest expenses (+) / interest income (–) from financial liabilities and assets	31	41
Depreciation of property, plant and equipment	99	101
Impairment / amortization of intangible assets	21	11
Impairment of goodwill	343	0
Impairment losses on property, plant and equipment	0	1
Addition to (+) / release of (–) other provisions	29	25
Increase (+) / decrease (–) in post-employment benefit provisions	–12	9
Losses (+) / gains (–) from sale of non-current assets	1	–1
Income taxes paid	–27	–21
Other non-cash expenses (+) / income (–)	–2	33
Decrease (+) / increase (–) in receivables / accrued assets	5	–19
Decrease (+) / increase (–) in inventories	–183	–183
Increase (+) / decrease (–) in trade payables / accrued liabilities	–38	–23
Increase (+) / decrease (–) in customer advances	–32	47
Non-cash impact on net current assets due to hedge accounting	6	–2
Cash flow from operating activities	**–45**	**165**
Capital expenditure for property, plant and equipment	–115	–97
Capital expenditure for intangible assets	–26	–64
Decrease in loans receivable	0	3
Investment in other companies	3	–9
Long-term financial assets	16	–1
Increase in marketable securities	0	–1
Decrease in marketable securities	4	88
Acquisition of subsidiaries	–2	–296
Proceeds from sale of property, plant and equipment	11	6
Interest received	4	5
Cash flow from / used by investing activities	**–105**	**–366**
Dividends paid	–1	–1
Purchase of treasury shares	–111	0
Increase in long-term financial debt	164	1 878
Increase in short-term financial debt	2	–1 781
Interest paid	–32	–46
Cash flow from / used by financing activities	**22**	**50**
Conversion adjustments to cash and cash equivalents	–10	9
Increase (+) / decrease (–) in cash and cash equivalents	**–138**	**–142**
Cash and cash equivalents at the beginning of the year	484	486
Cash and cash equivalents at the end of the year	346	344
Increase (+) / decrease (–) in cash and cash equivalents	**–138**	**–142**

[1] The restatement concerns discontinued operations (business unit Optics) and conclusion of the Purchase Price Allocation Saurer (Notes to the consolidated financial statements page 29).

The cash flows from the discontinued operations are not included in the consolidated cash flow statement.

Consolidated statement of changes in shareholders' equity

in CHF million	Share capital	Additional paid-in capital	Treasury shares	Conversion differences	Retained earnings	Hedge accounting	Fair value adjustments	Deferred taxes	Total equity attributable to shareholders	Minority interests	Total share-holders' equity
Balance at January 1, 2007 (before restatement IFRIC 14) [1]	**283**	**622**	**–183**	**–56**	**806**	**2**	**0**	**14**	**1 488**	**24**	**1 512**
Restatement first application IFRIC 14 (notes)					–2				–2	0	–2
Balance at January 1, 2007 (after restatement)	**283**	**622**	**–183**	**–56**	**804**	**2**	**0**	**14**	**1 486**	**24**	**1 510**
Total recognized income and expenses				39	122	–2	0	0	159	4	163
Dividend distributions									0	–1	–1
Change in scope of consolidation									0	0	0
Purchase of treasury shares			–1						–1		–1
Sale of treasury shares			1		2				3		3
Balance at June 30, 2007 (after restatement)	**283**	**622**	**–183**	**–17**	**928**	**–1**	**0**	**14**	**1 647**	**27**	**1 674**
Balance at January 1, 2008 (before restatement)	**283**	**622**	**–184**	**–61**	**1 220**	**3**	**0**	**–25**	**1 859**	**28**	**1 887**
Restatement first application IFRIC 14 (notes)					–1				–1	0	–1
Balance at January 1, 2008 (after restatement)	**283**	**622**	**–184**	**–61**	**1 219**	**3**	**0**	**–25**	**1 858**	**28**	**1 886**
Total recognized income and expenses				–102	–300	6	0	–7	–403	0	–403
Dividend distributions									0	–1	–1
Change in scope of consolidation									0		0
Share-based payments									0		0
Purchase of treasury shares			–112						–112		–112
Sale of treasury shares			0		1				1		1
Balance at June 30, 2008 unaudited	**283**	**622**	**–295**	**–163**	**920**	**9**	**0**	**–31**	**1 346**	**27**	**1 373**

[1] The restatement concerns the conclusion of the Purchase Price Allocation Saurer, impact of CHF 10 million.

Key figures by segment

in CHF million	**January 1 to June 30, 2008 unaudited**	January 1 to June 30, 2007 unaudited restated [1]
Oerlikon Coating		
Orders received	357	327
Orders on hand	69	61
Sales	337	351
EBITDA	71	67
EBIT	–9	40
– as % of sales	–3%	11%
Net assets	528	619
Number of employees	3 405	3 309
Oerlikon Vacuum		
Orders received	256	229
Orders on hand	91	66
Sales	239	223
EBITDA	32	31
EBIT	26	26
– as % of sales	11%	12%
Net assets	34	–54
Number of employees	1 560	1 386
Oerlikon Solar		
Orders received	451	255
Orders on hand	697	514
Sales	214	135
EBITDA	36	39
EBIT	28	36
– as % of sales	13%	26%
Net assets	130	60
Number of employees	692	419
Oerlikon Components		
Orders received	152	169
Orders on hand	223	216
Sales	125	121
EBITDA	–2	7
EBIT	–98	4
– as % of sales	–79%	3%
Net assets	68	197
Number of employees	924	881
Oerlikon Textile		
Orders received	903	1 415
Orders on hand	726	968
Sales	965	1 295
EBITDA	19	134
EBIT	–214	101
– as % of sales	–22%	8%
Net assets	1 241	1 403
Number of employees	7 553	7 735
Oerlikon Drive Systems		
Orders received	636	556
Orders on hand	218	n/a
Sales	626	556
EBITDA	70	74
EBIT	39	43
– as % of sales	6%	8%
Net assets	1 120	1 120
Number of employees	5 239	4 842
Other / discontinued operations		
Orders received	47	53
Sales	43	54
EBITDA	4	–10
EBIT	–10	–18
Net assets	–8	–10
Number of employees	585	839

[1] In 2008 the Group created a new segment Solar and identified discontinued operations (Notes to the consolidated financial statements).

Net assets include current and non-current operating assets (excluding cash and financial assets) less operating liabilities (excluding financial liabilities and tax provisions).

Accounting Principles

Introduction
OC Oerlikon Corporation AG is a Swiss public company located in Freienbach SZ, Churerstrasse 120, Pfäffikon SZ. It is the ultimate parent company of the Oerlikon Group, a globally leading supplier of production systems, transmission technology, yarn processing solutions (textile machinery), components and services for selected information technology market segments and industrial applications. The growing importance of the solar panel business has led to its recognition as a separate business segment from January 1, 2008.

Basis of preparation
The consolidated semi-annual financial statements of OC Oerlikon Corporation AG have been prepared in accordance with International Financial Reporting Standards (IFRS) and Swiss company law. These accounting standards have been applied consistently in all periods presented in this report. The reporting period is six months. The consolidated income statement shows operating costs grouped by function. Assets and liabilities in the consolidated balance sheet are classified as current or non-current. These consolidated semi-annual financial statements were approved by the Board of Directors on August 25, 2008. All standards issued by the IASB and all interpretations of the International Financial Reporting Interpretations Committee (IFRIC) effective at the date of the consolidated financial statements have been taken into account. The unaudited consolidated semi-annual financial statements for the first half-year 2008 are presented in abridged form and are in compliance with IAS 34. The consolidated semi-annual financial statements do not include all the details contained in the consolidated annual financial statements and should therefore be read in combination with the annual report as of December 31, 2007. All line item amounts in the consolidated financial statements are presented in millions of Swiss francs and all such amounts (including totals and subtotals) have been rounded according to normal commercial practice. Thus an addition of the figures presented can result in rounding differences.

Judgements, estimates and assumptions
Preparation of the financial statements requires management to make judgements, estimates and assumptions which have an impact on the accounting treatment of reported assets and liabilities, expenses and income. Actual results can differ from these estimates.

The same significant assumptions and estimates were made by management for this semi-annual report as for the Annual Report 2007.

Significant accounting policies
The accounting policies in this semi-annual report match those applied in the audited consolidated Group financial statements as of December 31, 2007, with the exception of the changes shown below.

New and revised accounting standards: The International Accounting Standards Board (IASB) has published a number of new and revised standards that Oerlikon has adopted as of January 1, 2008. The effects of these on the Group's consolidation principles are discussed below.

IFRIC 11 Group and Treasury Share Transactions (effective March 1, 2007): according to IFRIC 11, a share-based payment transaction, in which an entity receives goods or services as consideration for its own equity instruments, should always be accounted for as equity-settled, regardless of how the equity instruments are actually transferred. This interpretation has no effect on Oerlikon Group's financial statements.

IFRIC 12 Service Concession Agreements (effective January 1, 2008): this IFRIC offers guidance to service organizations regarding the accounting treatment of their rights and obligations in service concession arrangements. This interpretation has no effect on Oerlikon Group's financial statements.

IFRIC 14 IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective January 1, 2008): this interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as a benefit under IAS 19. Implementation of this interpretation called for a restatement of retained earnings as at January 1, 2007. The effects of this restatement are detailed in the notes to these financial statements.

Future developments in IFRS accounting standards: The International Accounting Standards Board (IASB) has published a number of new and revised standards and interpretations, which come into force on or after July 1, 2008 and have not been implemented in the attached accounts. Their effects on Oerlikon Group's financial statements have not yet been fully analyzed, but a first review suggests that no significant effects should be expected:

IAS 1 Presentation of Financial Statements: statement of comprehensive income requirement (effective January 1, 2009). All income-related transactions booked directly to equity must be disclosed.

IAS 23 Borrowing Costs: capitalization of such costs required in cases where they can be allocated directly to a qualifying asset (effective January 1, 2009)

IAS 27 Consolidated and Separate Financial Statements: accounting treatment in case of loss of control (effective July 1, 2009)

IAS 32 Financial Instruments: presentation of puttable instruments and obligations arising on liquidation (effective January 1, 2009)

IFRS 2 Share-based Payment: vesting conditions and cancellations (effective January 1, 2009)

IFRS 3 Business Combinations: accounting for acquisitions (effective from July 1, 2009)

IFRS 8 Operating Segments (effective January 1, 2009)

IFRIC 13 Customer Loyalty Programs (effective from July 1, 2008)

Notes to the consolidated financial statements

Changes in scope of consolidation and group structure
Oerlikon Group has made no material acquisitions, company formations or divestments in the first half of 2008.

Oerlikon Group has increased its investment in Fibrevision Ltd, Macclesfield UK, from 25 percent to 56 percent. The purchase price was GBP 1 million. This investment is fully consolidated for the first time at the end of June 2008. The Group plans to increase this investment in the second part of the year to 78 percent.

The Purchase Price Allocation of Silas GmbH and VST Keller GmbH & Co. KG is completed; as the impact on the semi-annual report is immaterial it will be published in the 2008 annual report.

Discontinued operations and assets held for sale
The Magnetic Media business is being sold and its assets are shown as held for sale. The sale will be completed in the 3rd quarter. The assets of Magnetic Media amounted to CHF 12 million including inventories of CHF 11 million. The related liabilities amounted to CHF 2 million.

The business unit Optics continues to be shown as discontinued operations, the cash flow is made up as follows: cash flow from operating activities CHF 2 million (prior year CHF 1 million), cash flow from investing activities CHF 0 million (CHF 3 million), cash flow from financing activities CHF 0 million (CHF 0 million). Sales of the Optics business for the first mid-year 2008 are CHF 43 million (CHF 52 million), EBIT amounts to CHF 2 million (CHF –2 million) and the net assets as of June 30, 2008 are CHF 26 million (CHF 10 million).

In the first half of 2008, the Group has sold the Blu-ray/DVD business unit shown as held for sale at the end of 2007.

Effects of adjustments to profit and loss of the first half year 2007

in CHF million	2007 Semi-Annual Report	Saurer PPA and reclassifications	Restatement discontinued operations	January 1 to June 30, 2007 unaudited restated
Sales of goods	2 452	–50	–48	2 354
Services rendered	282	50	–4	328
Total sales	**2 735**	**1**	**–53**	**2 682**
Cost of sales	–2 045	8	42	–1 996
Gross profit	**690**	**7**	**–11**	**686**
Operating expenses	–460	–6	12	–454
EBIT	**230**	**1**	**2**	**232**
Result from associated companies	–2	–1	0	–2
Financial income	7	0	–0	7
Financial expense	–93	0	0	–93
Profit before taxes (EBT)	**142**	**0**	**2**	**144**
Income taxes	–6	–9	0	–15
Result from continuing operations	**136**	**–9**	**2**	**129**
Result from discontinued operations	0	0	–2	–2
Net profit	**136**	**–18**	**9**	**128**

Effect of initial implementation of IFRIC 14

The initial implementation of IFRIC 14 had the following effects on shareholders' equity and on post-employment benefit assets:

in CHF million	01.01.2007	30.06.2007	31.12.2007
Post-employment benefit assets	–3	–3	–2
Deferred taxes	1	1	0
Shareholders' equity	–2	–2	–2

Provisions

Provisions and circumstances which might call for provisions, are the subject of regular scrutiny as required by the related law and regulation. In the reporting period, provisions were set up in the amount of CHF 34 million, CHF 5 million were released and CHF 36 million were utilized.

Impairment test of goodwill

Goodwill is attributed to the segments as follows:

in CHF million	**30.06.2008**	31.12.2007
Oerlikon Coating	61	124
Oerlikon Solar	13	0
Oerlikon Components	6	113
Oerlikon Textile	508	707
Oerlikon Drive Systems	571	588
Total	**1 159**	1 532

Goodwill and other intangible assets with indefinite useful life are allocated to the group of Cash-Generating Units (CGUs) which are expected to benefit from the business combination in which the goodwill arose.

As of June 30, 2008, impairment tests were carried out for the Textile segment and also for the business unit Systems (segment Coating) and business unit ESEC (segment Components). The triggering events for this were a significant deterioration in market conditions and economic outlook in the textile and semiconductor industries. A further important influence was the increase of interest rates and as a result an increase in the weighted average cost of capital (WACC). Besides this, structural changes led to a redefinition of the groups of cash-generating units within the Oerlikon Coating and Oerlikon Components segments, such that Systems and ESEC business units are now seen as two separate cash-generating units.

The goodwill of the relevant cash-generating units was tested for impairment as of June 30, 2008 using discounted cash flow analysis. All amounts used in the test were based on fair values and the latest business plans approved by management. The business plans used covered a five-year period 2008 to 2012. The discount rates used were based on WACC of a peer group for the Textile segment and Systems and ESEC business units and reflect all risks relevant to the specific countries and industry groups.

Cash flows for the segment Oerlikon Textile and the ESEC business unit were extrapolated beyond the five-year plan period 2008 – 2012 using a growth rate assumption of 1 percent.

Cash flows for the Systems business unit were extrapolated beyond the five-year plan period 2008 – 2012 using a growth rate assumption of 2 percent.

The impairment is reported in the goodwill statement below:

in CHF million	Oerlikon Coating	Oerlikon Solar	Oerlikon Components	Oerlikon Textile	Oerlikon Drive Systems	**2008 Total**
Cost						
Balance at January 1, 2008	**123**		**113**	**707**	**588**	**1 532**
Conversion differences	–9		–1	–8	–12	–30
Changes in Group structure [1]				3		3
Additions						
Disposals						
Transfers [2]	–5	13	–13			–5
June 30, 2008 unaudited	**109**	**13**	**99**	**702**	**576**	**1 500**
Accumulated impairment						
Balance at January 1, 2008						
Conversion differences	–2					–2
Changes in Group structure						
Impairment losses	**50**		**93**	**200**		**343**
Disposals						
Transfers						
June 30, 2008 unaudited	**48**		**93**	**200**		**341**
Net Group values at January 1, 2008	123		112	713	583	1 532
Net Group values at June 30, 2008 unaudited	**61**	**13**	**6**	**508**	**571**	**1 159**

[1] Increase of investment in Fibrevision Ltd., Macclesfield UK.

[2] Transfer from Components to Solar segment and final Purchase Price Allocation of VST Keller GmbH & Co. KG.

Financial liabilities
The syndication of the loan, which started in June 2007, was completed on August 17, 2007. A total of 19 top international banks participated in the new syndicated loan amounting to CHF 2 500 million.

The loan is composed of one three-year fixed loan (term loan) in the amount of CHF 600 million and a five-year revolving credit limit in the amount of CHF 1.9 billion and is used to refinance existing debts as well as for general operating purposes. The initial margins of the loans were 40 and 45 basis points above LIBOR respectively and is now calculated on the basis of a leverage pricing grid. No assets have been pledged as security for this syndicated loan. The only financial covenant pertaining to the loan is a leverage ratio, which was covered as at June 30, 2008.

An amount of CHF 1 882 million is included in financial liabilities in respect of this syndicated loan as at June 30, 2008, which is shown net of directly attributable transaction costs of CHF 20 million.

Syndicated Loan:

– Term Loan:

in millions

Currency	Nominal Amount	Current Interest Period	Interest Rate for Current Period (in percent)	Term of Credit Facility
CHF	600	25.02.08–26.08.08	3.213	07.06.2010

– Revolving Facility:

in millions

Currency	Nominal Amount	Current Interest Period	Interest Rate for Current Period (in percent)	Term of Credit Facility
CHF	600	25.02.08–26.08.08	3.263	07.06.2012
CHF	440	30.06.08–30.07.08	2.727	07.06.2012
CHF	150	16.06.08–16.07.08	2.795	07.06.2012
USD	110	30.06.08–30.07.08	2.833	07.06.2012

As a hedge against the interest rate risk inherent in the variable interest rates of the syndicated loan, two interest caps were taken up in August 2007 for a nominal amount of CHF 1 200 million. The interest caps run to 2011 and over that period they compensate for any excess of the 6-month CHF LIBOR over 4 percent by paying out the difference. The nominal amount is reduced over the period of the loan in accordance with the planned repayment of the loans.

The total premiums of CHF 2 million payable at the inception of this contract were capitalized and were revalued to fair values in the balance sheet at June 30, 2008.

Saurer Bond
On November 12, 2007, OC Oerlikon invited holders of the CHF 200 million 3.50 percent bonds due August 28, 2013, issued by Saurer AG, to tender for purchase any or all of the Bonds. The offer expired on November 20, 2007.

As of the expiration date, a total of CHF 191 million of bonds, representing 95.38 percent of the total outstanding nominal amount of the bonds, have been validly tendered. As a consequence, the tender price of 100.250 percent and the accrued interest for the tendered bonds were paid to the bondholders on Monday, November 26, 2007.

Following the offer process, OC Oerlikon formally requested the issuer of the bond (Saurer AG) to call a meeting of the remaining bond creditors. The meeting was duly held on December 10, 2007 and agreed to the early repayment of 100 percent of the bond at the offer price of 100.125 percent. The high court of Canton Thurgau has authorized the resolution taken at the bondholders' meeting with legal effect from May 20, 2008. The bond was therefore redeemed on June 10, 2008 at 100.125 percent of its nominal value, plus cumulative interest charges at 3.5 percent p.a. (net of 35 percent Swiss withholding tax). The last trading day of the Saurer bond was June 5, 2008.

Share repurchase program
On August 8, 2007, the Board of Directors of OC Oerlikon Corporation AG approved a share buyback program of maximum 2.59 percent of the share capital. The share buyback covers 366 858 registered shares (2.59 percent of the company's share capital) which, with the existing own stock of the company, corresponds to a maximum of 10 percent of the issued share capital and voting rights.

The share buyback program started on August 9, 2007 and will end at the latest on the date of the ordinary general meeting in 2009. The company reserves the right to end the buyback program at any time. No separate trading line will be opened for the share buyback program. Repurchases will be traded at market price.

By June 30, 2008, 289 954 shares had been repurchased under the program, at an average price of CHF 388.26.

Primary shareholder

The share capital of OC Oerlikon Corporation AG, Pfäffikon consists of 14 142 437 shares. On June 30, 2008, the following primary shareholders are entered in the share register:

	Share ownership as per mandatory disclosure	
Shareholder	**Number of shares**	**in % [1]**
Renova – Victory Group [2]	7 239 560	51.19
Deutsche Bank Group	789 318	5.58
OC Oerlikon Corporation AG, Pfäffikon	1 332 933	9.43

[1] Basis: 14 142 437 outstanding shares.

[2] Individual shareholders at June 30, 2008:

– 39.13% Renova Industries Ltd., Nassau, Bahamas (Beneficial ownership: Victor F. Vekselberg, Moscow and Zurich).

– 12.06% Victory Industriebeteiligung AG, Wien (Beneficial ownership: Millennium Privatstiftung, Wien and RPR Privatstiftung, Wien).

Agenda, Contact

Important dates
October 22, 2008
Key figures for the third quarter of 2008

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