

OERLIKON-BÜHRLE

Semi-annual Report 1999

OERLIKON-BÜHRLE

Report of the Board of Directors

*To our shareholders,
employees, and
business friends*

Dear ladies and gentlemen,

In connection with its strategy of focusing on selected key technologies, the Oerlikon-Bührle Group sold Oerlikon-Bührle Immobilien AG to allreal Holding AG in mid-July. Further divestments are planned for the current year.

However, because these transactions will be effective as of the second half of the year 1999 at the earliest, the figures shown in the accompanying semi-annual report reflect the conglomerate entity existing prior to this concentration.

*Higher orders
received*

Orders received reached CHF 1834 mill. and exceeded the previous year's level by CHF 81 mill., or 4.6%. Balzers and Leybold showed a decrease of CHF 141 mill., or 14.4%. Of this decrease, some CHF 49 mill. arose from activities which have since been sold (CD lines and crystal puller systems). The remaining decrease of CHF 92 mill. is attributable primarily to the excess capacities currently existing for the manufacturers of hard disks (installed capacity is still sufficient thanks to increased storage densities), as well as the temporary excess capacity in the production of rewritable CDs as a result of higher sales of such production systems last year. Oerlikon Contraves (+69.9%) as well as Pilatus (+105.6%) showed notable increases in orders received compared with the previous year and accounted for the overall positive development.

*Slight decrease
in sales*

Based on the same Group companies, sales decreased by 4.5%. Overall, sales decreased by 8.2% to CHF 1560 mill. Compared with the previous year, Balzers and Leybold showed a decrease of 3.2%, which was entirely the result of discontinued activities. Due to delays in deliveries,

Oerlikon Contraves (-13.1%) and Pilatus (-16.9%) lie below last year's sales levels. Finally, Bally reported a sales decrease for the first six months of 14.5%.

At CHF 12 mill., operating result showed a strong improvement compared with the previous year (CHF -22 mill.). This resulted from the absence of special items.

*Operating result
strongly improved*

As a whole, a consolidated net loss was again reported. However, the net loss of CHF -18 mill. lies markedly below the previous year's result (CHF -98 mill.).

*Still slightly negative
net income*

The improvement in operating result (CHF +34 mill.), the absence of charges of a special nature in other result (CHF +33 mill.), as well as additional improvements in financial result, in income taxes and with regard to minority interests (CHF +13 mill.) resulted in the substantial reduction of net consolidated loss by CHF 80 mill.

As in the past, it is also expected for 1999 that sales during the second half of the year will be stronger and will result in an over-proportional positive impact on operating result. This impact will probably remain insignificant for Balzers and Leybold due to the current market weaknesses described above. On the other hand, Oerlikon Contraves and Pilatus will significantly improve their positions. Due to sales of operations, Oerlikon-Bührle Immobilien will no longer have an impact on the development of results during the second half of the year.

*Improved second
six months*

Excluding the impact on profits resulting from sales of operations, a slightly positive consolidated net income for the entire year 1999 is expected at the current time.

OERLIKON-BÜHRLE

Report of the Board of Directors

Group key figures	Total		Activities designated for sale		in CHF mill.
	6/30/1999	6/30/1998	6/30/1999	6/30/1998	
Sales	1 560	1 699	509	589	
Operating result before special items	19	46	-23	-12	
Operating result	12	-22	-19	-56	
Net loss	-18	-98	-22	-73	
Net funds from operations	-41	119	-18	35	
Orders received	1 834	1 753	626	547	
Orders on hand	1 884	1 932	277	121	
Net debt	739	805	389	412	
Capital expenditures in fixed assets	96	118	36	49	
Above excluding Oerlikon-Bührle Immobilien	65	86	5	17	
Number of employees at end of period	13 356	14 216	3 980	4 669	
Net loss per registered share in CHF	-1	-8			

Transformations as most important goal

The most important goal for 1999 is the completion of the extensive transformation of the currently existing conglomerate to a Group concentrated on selected key technologies. At the same time, every effort is being made to insure and to improve the market positions of the future core businesses.

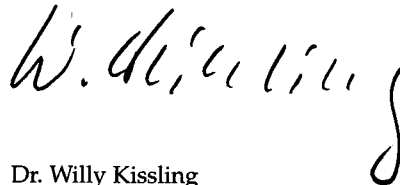
optimum can be achieved for customers, employees and shareholders. Business volatility will however tend to increase.

Zurich, end of August 1999

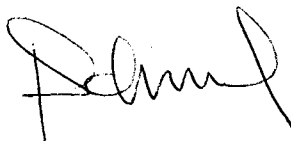
Yours truly,
Oerlikon-Bührle Holding AG

New Group organization

To fulfill these goals, the Board of Directors has developed a new Group organization designed to correspond with the targeted markets. This new organization will be implemented in the year 2000. A new corporate image, which is currently being formulated, will underscore this change. We will inform you about this project at the appropriate time.



Dr. Willy Kissling
Chairman of the Board of Directors



Jack Schmuckli
Vice Chairman of the Board of Directors

Confidence for the new key areas

During the first six months, the development at Balzers and Leybold did not completely meet the goals set. This was primarily due to the simultaneous occurrence of various negative, short-term market developments and the charges resulting from the on-going transformation process. The long-term positive perspectives remain untouched. The Board of Directors is convinced that through the concentration of the Group which has been introduced, an

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Divisions

Division
key figures

Core business	Balzers and Leybold		Oerlikon Contraves		Others	
	1 st six months		1 st six months		1 st six months	
	1999	1998	1999	1998	1999	1998
Orders received	838	979	334	197	36	30
Orders on hand	446	545	1 146	1 254	15	12
Sales	816	843	205	236	30	31
Operating result	52	57	-17	-17	-4	-6
Number of employees at end of period	6 638	6 793	2 391	2 422	347	332

in CHF mill.

Activities designated for sale	Pilatus		Bally		O-B Immobilien	
	1 st six months		1 st six months		1 st six months	
	1999	1998	1999	1998	1999	1998
Orders received	255	124	326	381	45	42
Orders on hand	277	121	-	-	-	-
Sales	138	166	326	381	45	42
Operating result	-4	-3	-30	-65	15	12
Number of employees at end of period	1 003	1 126	2 636	3 217	341	326

in CHF mill.

Balzers and Leybold

The development during the first six months only partially fulfilled expectations. Nevertheless, because market shares could for the most part be maintained or expanded, perspectives for future development remain intact.

Orders received decreased by 9.9% on a comparable basis, i.e. excluding CD lines and crystal puller systems. As a whole, the decrease was 14.4%, to CHF 838 mill. This is the net effect of very contradictory developments. While the business for systems used in the manufacture of CD ROM and DVD discs is booming, the high sales made last year of systems used in the production of re-writable discs has led to a temporary excess capacity in this market. A similar situation exists currently for systems used in the production of hard discs. The excess capacity in this area is a result of technological advances which enable higher storage densities, and which thereby result in a temporary decline in demand.

Excluding activities sold, sales reached last year's levels. Overall, sales of CHF 816 mill. were achieved, representing

a nominal decrease of 3.2%. Decreases were experienced particularly in systems used in the production of hard and re-writable optical discs as well as in coating materials. In contrast, deliveries of systems for the production of TFT displays, CD ROMs and DVDs were at high levels. Due to a cooling off in the tool industry – particularly in the U.S., UK and Sweden – the growth for products and services in the wear protection area also slowed down during the reporting period.

At CHF 52 mill., operating result for the first half of the year lies 9.3% below the previous year's figure, primarily as a result of the development in sales as well as the temporary charges arising from the new direction of the Division. For the year as a whole, it is currently expected that results will approximate those of the previous year. Based on the business cycle, an increase in orders received is expected during the second half of the year, together with an accompanying favorable impact on sales for the coming year.

Orders received during the first six months rose to CHF 334 mill., exceeding

Oerlikon Contraves

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Divisions

the previous year's amount by 69.9%. However, sales of CHF 205 mill. continue to lag behind the previous year by some 13.1%. Typical for the defense business, this sales volume lies markedly below 50% of expected year-end levels. This cyclical trend is also responsible for the still negative operating result. The Contraves Space business is progressing in the customary positive frame.

As a whole, Oerlikon Contraves has developed as expected. For the entire year 1999, orders received and sales are projected to be higher than in the previous year. Operating result will improve overproportionally and be clearly positive.

Pilatus

Orders received during the first six months, amounting to CHF 255 mill., surpassed the previous year's amount by 105.6%. This was primarily due to the continued high demand for the PC-12, as well as to positive developments regarding trainers and in the area of aircraft maintenance. Because of delays in deliveries, sales of CHF 138 mill. were nevertheless 16.9% below the comparable previous year's amount, which had a corresponding impact on the operating result.

A significant increase in sales is expected for the second half of the year. Accordingly, operating results which compare favorably with the previous year are anticipated.

For the first six months, sales were CHF 326 mill., or 14.5% lower than in the previous year. This decline was to a certain extent anticipated. The Asian markets developed as expected, and the U.S. market even better than expected. On the other hand, problems were experienced in Europe, and here in particular in Switzerland. In addition to the general weakness of the market, the store presentation which is still non-uniform, and the decline in the number of Asian tourists, speculations regarding the sale of the Division may also have weakened Bally's position.

Bally

The decline in sales during the first three months could be reduced in the second quarter. Division management expects to stabilize the development in sales by the end of the year.

The Division again achieved a very good result during the first six months and enters the new structure of allreal Holding AG in excellent condition. As a result of its sale, this Division was withdrawn from the Group as of July 1, 1999.

*Oerlikon-Bührle
Immobilien*

The Zurich Marriott Hotel continues to develop positively. The same applies to the civilian activities of Contraves USA which remain in the Group (glass container inspection systems).

Others

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Group

Consolidated
balance sheet

	Total				Activities designated for sale		in CHF mill.
	6/30/1999	%	12/31/1998	%	6/30/1999	12/31/1998	
Current assets	2 583	58	2 447	56	829	810	
Non-current assets	1 895	42	1 911	44	736	766	
	4 478	100	4 358	100	1 565	1 576	
Current liabilities	2 085	47	1 925	44	796	755	
Long-term liabilities	1 271	28	1 319	30	318	344	
Liabilities	3 356	75	3 244	74	1 114	1 099	
Minority interests	13	-	17	1	1	4	
Shareholders' equity	1 109	25	1 097	25	450	473	
	4 478	100	4 358	100	1 565	1 576	
Contingent liabilities	64		55		7	12	

Consolidated
income statement

	Total		Activities designated for sale		in CHF mill.
	6/30/1999	6/30/1998*	6/30/1999	6/30/1998*	
Sales	1 560	1 699	509	589	
Operating expenses	-1 541	-1 653	-532	-601	
Operating result before special items	19	46	-23	-12	
Special items	-7	-68	4	-44	
Operating result	12	-22	-19	-56	
Financial result	-18	-24	-2	-7	
Other result	6	-27	4	-5	
Income before taxes	0	-73	-17	-68	
Income taxes	-19	-23	-4	-3	
Net loss including minority interests	-19	-96	-21	-71	
Minority interests	1	-2	-1	-2	
Net loss	-18	-98	-22	-73	

Recorded directly against shareholders' equity:

Restatement of deferred taxes**	-	-58		
Revaluation of real estate to current values	1	-		
Conversion differences	30	22		
Total	31	-36		
Transactions with shareholders	-4	28		
Net loss including minority interests	-19	-96		
Change in shareholders' equity including minority interests	8	-104		

**in fall 1998
recorded retro-
actively as of
1/1/1998

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Group

Consolidated
statement of changes
in financial position

	Total		Activities designated for sale	
	6/30/1999	6/30/1998	6/30/1999	6/30/1998
Net loss including minority interests	-19	-96	-21	-71
Depreciation of non-current assets	86	80	27	26
Increase (+), decrease (-) in provisions	4	96	-5	39
Losses (+), gains (-) on sales of fixed assets	-2	-12	-1	-11
Decrease (+), increase (-) in net current assets	-110	51	-18	52
Net funds from, used by operations	-41	119	-18	35
Net funds from, used by investing activities	-44	-93	8	-18
Net funds from, used by financing activities	87	30	-8	8
Conversion differences	9	-3	5	0
Increase (+), decrease (-) in cash and cash equivalents	11	53	-13	25
Repayment of (+), increase in (-) financial debts	-94	-2	-8	-29
Decrease (+), increase (-) in net debt	-83	51	-21	-4

in CHF mill.

Accounting
principles

Accounting principles used in the preparation of the 1998 Annual Report have been applied without change, and prior year figures have been reclassified to reflect the new presentation.

The Board of Directors of Oerlikon-Bührle Holding AG has announced at various times that they intend to transform the present conglomerate into a concentrated Group. For this reason, Oerlikon-Bührle Immobilien AG was sold in mid-July. Similar plans exist with regard to Bally and Pilatus. These three segments together represent the «activities designated for sale».

Sales

The decline in sales amounts to 8.2%. Excluding the effects of conversion differences, this figure increases somewhat to -8.4%. Conversion differences had only a minimal impact in all Divisions. A portion of the decline in sales is attributable to the changes in Group companies. Thereof, the sale of Balzers and Leybold's CD business line was predominant. On a comparable basis, sales declined by 4.5%.

In contrast with the previous year, other result was practically no longer burdened by special items. Other result as of June 30, 1998 includes among other items, charges related to the sale of Pilatus Britten-Norman as well as the creation of provisions for lease commitments having no future value to the Group.

Due to the increase in net current assets accompanied by insufficient consolidated net income, funds from operations were negative. The increase in net current assets relates to Balzers and Leybold (increases in receivables and inventories) and to Oerlikon Contraves (decrease in liabilities).

The increase in net debt as of mid-1999 was expected due to a particularly favorable constellation as of the prior year-end. As of the end of 1999, a significant decrease is anticipated as a result of, among other items, the sales of activities which have been initiated.

Other result

Net funds from
operation

Net debt

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from the original German.

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