

Summary
Annual Report 2008





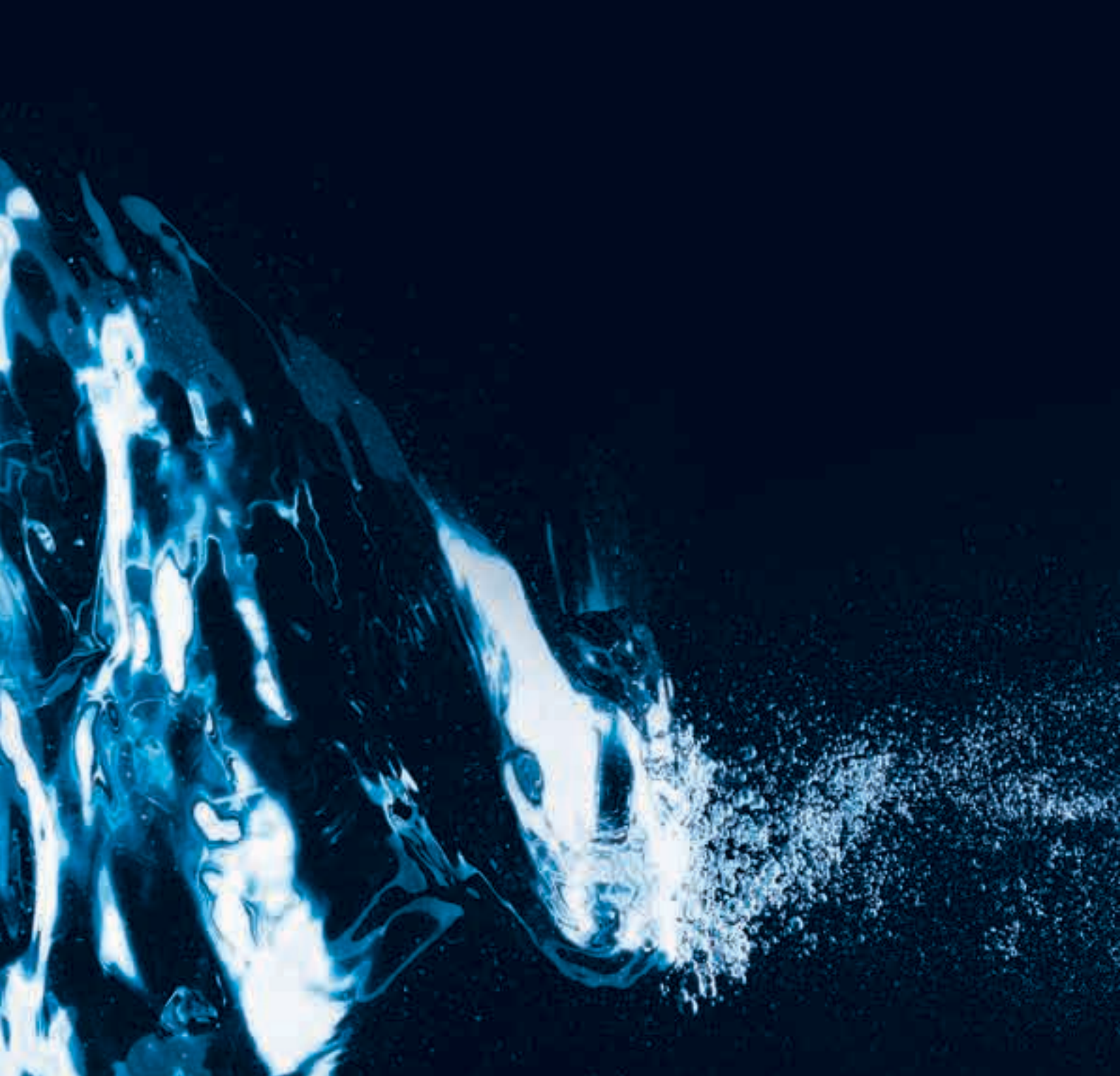
Generating efficient solutions to satisfy global market needs

Shanghai by night



Going to great lengths to answer our customers' challenges

Trans-Alaska oil pipeline using transportation pumps from Sulzer



Leveraging technology to develop innovative solutions

Fluid technology: water vortex with complex interaction



Transforming ideas into sustainable perspectives

State-of-the-art scanning electron microscope

Report by the Chairman of the Board and the CEO

Excellent growth and profitability in 2008

Sulzer achieved an excellent performance in 2008 with good growth and significantly improved return on sales and net income. With our strong balance sheet and healthy order backlog, we are well positioned to meet the challenges of the future. Sulzer is proud to celebrate its 175th anniversary in 2009.

175
years

Experience Sulzer



Ulf Berg, Chairman of the Board

Ton Büchner, CEO

Dear Shareholders,
Sulzer continued its successful development in 2008 despite weaker market conditions toward the end of the year. Order intake, sales, operating income and cash flow¹⁾ developed well despite significant negative currency translation effects. The company continued to improve its profitability with a return on sales of 12.8%. Further progress was achieved in our focus areas of operational excellence, health and safety, innovation in solutions, expanded presence in emerging markets and services.

After a good first part of the year, the conditions in most markets weakened in the last months of the year. In response to the general economic and financial environment, our customer base has become more cautious in their investment and spending decisions, which make the market developments in 2009 challenging to predict. However, with our strong balance sheet and our high order backlog we maintain a solid basis to meet the challenges of the future. We are determined to take all possible steps to ensure continued success for Sulzer.

In 2009, Sulzer celebrates its 175th anniversary with the motto *Experience Sulzer*. We are proud of our history and tradition. Key elements of the Sulzer quality and reliability

culture originate from the early years and continue to be cornerstones of Sulzer today. Our anniversary activities will emphasize today's products, services and solutions, which are the foundation of our present and future success. With the motto *Experience Sulzer*, we share what the Sulzer name stands for: our vision to be a recognized leader in innovative, sustainable, engineered and customer-focused solutions for performance-critical applications in six main markets and selected industries. Our core values of customer partnership, operational excellence and committed people are essential in meeting the challenges of tomorrow.

Sulzer's key markets were strong, but softened toward the end of 2008

For the majority of 2008, the relevant Sulzer markets were strong. The oil and gas (upstream) and power generation markets showed significant growth. The project activity in the hydrocarbon processing industry was lower, while the aviation segment and the automotive market remained largely stable. The pulp and paper segment declined. Toward the end of the year, demand clearly weakened in almost all relevant Sulzer markets.

¹⁾ Cash flow from operating and investing activities.

Geographically, the significant growth in the emerging markets in Asia, Latin America, Africa and the Middle East leveled off toward the end of 2008. Europe and North America weakened after stable activities in the first part of the year.

Continued growth of order intake and sales – substantially increased profitability

The order intake for the full year showed an adjusted²⁾ increase of 10.1% and a nominal growth of 1.5%, reaching CHF 4 117 million, mostly driven by the strong double-digit growth of Sulzer Pumps. Sales rose to CHF 3 714 million, an adjusted increase of 13.2% (nominal +5.0%). The weakness of all major currencies compared with the Swiss franc led to significant differences between nominal and adjusted growth rates, while acquisitions had only a minor effect. Despite significant currency translation effects during the year, order backlog increased to CHF 2 100 million, 6.2% higher than at the end of 2007.

Operating income (EBIT) clearly outgrew sales with an increase of 20.7% to CHF 475 million, based on substantially better results of the divisions as well as of Others (Sulzer Real Estate, Sulzer Innotec and Corporate Center). Return on sales (ROS) improved significantly from 11.1% in the previous year to 12.8% in 2008. The return on sales for the divisions increased from 11.8% to 12.8%, which is especially noteworthy since the corporation added an additional charge of 50 basis points of sales to each division relative to the year 2007. Operating leverage and continued operational improvements were key to this substantial progress. Currency effects had a significant impact on the nominal figures, but a limited impact on profitability. This is due to Sulzer's global production and service network, in which sales and costs are predominantly incurred in the same currency.

High order growth of Sulzer Pumps and excellent profitability of Sulzer Chemtech

On a divisional level, Sulzer Pumps achieved high order growth in 2008, supported by strong demand, particularly in the oil and gas and power generation markets, including some major orders for large power-plant equipment in South Africa and China. The division also improved sales, operating income and profitability. At Sulzer Metco, sales were stable in a weakening general economic environment. Although order intake did not reach the high level of 2007, Sulzer Chemtech increased sales and operating income substantially and achieved a record ROS of 17.0%. Sulzer Turbo Services increased sales, operating income and return on sales.

Higher net income and cash flow: strong balance sheet with high net liquidity

Net income increased by 13.7% to CHF 323 million, resulting in CHF 9.59 basic earnings per share, compared to CHF 8.35 in 2007. Operating income before deprecia-

tion and amortization (EBITDA) improved by 14.9% to CHF 576 million. Cash flow generation in 2008 was substantially higher than in the previous year. Cash flow from operating and investing activities amounted to a strong CHF 252 million (2007: CHF 178 million). The corporation's return on capital employed reached 30.6%, which is more than six percentage points higher than 2007. All four divisions create financial value. Supported by the 2008 results, net liquidity increased to CHF 306 million.

In light of the financial flexibility of the corporation, the board of directors will propose an unchanged dividend of CHF 2.80 per share at the annual general meeting of shareholders on April 8, 2009.

Progress in operational excellence and sustainability

Continued initiatives in all divisions to further improve operational excellence supported the good performance. Lean principles were systematically applied in production and other areas. Executing orders on time, and according to high-quality standards, remained the number one priority in 2008.

To strengthen its service offer and global presence, Sulzer opened several new service centers in Brazil, Canada, China, Mexico, Russia and the Middle East, and also acquired smaller service businesses for Sulzer Chemtech and Sulzer Turbo Services. In addition, major projects for facility expansions and new production facilities in emerging markets were started. Overall, capital expenditure was CHF 116 million.

The comprehensive sustainability report published in 2008, covering economic, social and ecological aspects of Sulzer's activities, was audited for the first time by external experts. In September 2008, Sulzer was included in the Dow Jones Sustainability Index World. As part of the focus on health and safety, the Sulzer Safety Rules were distributed globally to all employees, supplemented with many local initiatives and specific measures. Both the accident frequency and severity rates decreased in 2008.

We also strengthened our employee development efforts with new training programs and started an initiative to strengthen our employer brand. The internal succession arrangement, with César Montenegro as the new division president of Sulzer Metco, is an example of our successful continued talent development activities.

Innovation in solutions and external growth opportunities

Future success depends on our ability to offer innovative solutions for performance-critical applications in our key markets. We keep a strong focus on innovation and continue to invest in research and development with a particular focus on solutions that combine products, services and customer application know-how. Proactive innovation management with a multistage review of projects ensures technical feasibility, market acceptance and a faster time-to-market. The annual report contains a number of recent

²⁾ Adjusted for currency effects as well as acquisitions and divestitures.

examples of how Sulzer is creating value through innovation in solutions.

Sulzer continued its acquisitions strategy to further strengthen the portfolio and complement organic growth. In 2008, Sulzer Turbo Services expanded its presence in Latin America with the acquisition of the Argentina based turbomachinery service-provider Capime. Sulzer Chemtech enlarged its presence with the acquisition of the TowerTech tower field service activities in Asia and Australia. Sulzer will continue to assess potential acquisitions, with strategic fit and value creation as main criteria, while maintaining its discipline in pricing and risk assessment.

Share price affected by difficult market environment

The market environment in 2008 was characterized by extraordinary high volatility, which also affected the Sulzer share price. From January 1 to December 31, the share price dropped by 64.0% and the SPI Industrial Machinery Index by 54.2% reflecting changed expectations.

In April 2008, Sulzer cancelled 211 793 shares and reduced the corresponding share capital. The par value of each share was increased from CHF 0.03 to CHF 0.10 and split on a ten-for-one basis to CHF 0.01 as of April 14, 2008.

Outlook: well positioned to meet challenges

The market conditions changed significantly toward the end of 2008. The general economic environment and the uncertainties in the financial markets make forward projections challenging. Sulzer closely monitors the market developments in order to adapt proactively on changing trends. Sulzer strives to communicate early and transparently when relevant market changes become visible. This is reflected in our early predictions in 2008 and in how we met our communicated goals throughout the year of 2008.

Overall, the oil and gas upstream and the power generation segments are expected to remain comparatively strong in 2009, although not at the extraordinary levels of 2008. The hydrocarbon processing industry is expected to show clearly lower activity than the high levels realized in recent years. The order backlog from the aviation industry should provide some stability, but passenger miles flown are expected to decline. The severe weakness in the automotive markets will affect Sulzer as well, even though the strength and the acceptance of Sulzer's innovative solutions have

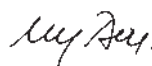
been firmly established during 2008. The pulp and paper market is expected to remain very weak. While all regions are expected to show some slowdown, activities in Asia are projected to remain stronger than in North America and Europe.

The extraordinary number of major orders in 2008 is unlikely to be repeated in 2009. The prices of raw materials are anticipated to further reduce compared to 2008 and significant negative currency translation effects are expected to continue. Therefore, order intake in 2009 is expected to be lower compared to 2008. Due to lower volumes, the positive operating leverage of the recent years will reduce. Challenging market conditions are expected to result over time in tougher payment terms and other contract conditions. For 2009, sales and operating income are thus expected below 2008 levels.

Sulzer will remain focused on sustainable long-term value creation. Our high order backlog and sound financial situation build a solid foundation for continued resilience in the future. The order backlog has continuously grown in local currency throughout 2008, which is reflected in the current high workload in most of our worldwide facilities. The limited increase of in-house capacities compared to sales growth over the last few years, and the expansion primarily in emerging markets, support the flexibility to adapt cost levels to market demand. Sulzer actively and carefully monitors the development of its markets and is well prepared to take the necessary steps to meet the challenges of 2009.

The board and management of Sulzer appreciate very much the strong commitment and outstanding performance of our employees, which will also be key for the continued success of our company in a more difficult environment. Our customers' trust in Sulzer as a reliable partner builds a strong foundation for the future. We would like to thank you, our shareholders, for your trust and continued support.

Yours sincerely,



Ulf Berg
Chairman of the Board



Ton Büchner
CEO

Divisions and Markets

Sulzer at a glance

The divisions are global leaders in selected industrial markets. Their solutions, products and services aim to strengthen the competitive positions of Sulzer's customers.



Sulzer Pumps

Sulzer Pumps develops and supplies centrifugal pumps worldwide. Intensive research and development in fluid dynamics, process-oriented products and special materials as well as reliable service help the division maintain its leading position in its focus market segments. Its customers come from the oil and gas, hydrocarbon processing, power generation, pulp and paper, water distribution and treatment sectors as well as from specialized areas in the food, metals and fertilizer businesses.



Sulzer Metco

Sulzer Metco is a leading global supplier of solutions, products, services and equipment for thermal-spray, thinfilm and selected other functional surface technologies as well as a provider of specialized machining services. Innovative solutions help the customer to improve performance, increase efficiency and reliability, and to ensure the safe operation of the products. Sulzer Metco serves industries such as power generation, aviation, automotive and other specialized markets.



Sulzer Chemtech

Sulzer Chemtech has a leading position in the fields of separation columns, static mixing, as well as two-component mixing and dispensing systems. With locations for sales, engineering, production and customer service, Sulzer Chemtech maintains a worldwide presence for its clients in the oil and gas, hydrocarbon processing and other industrial markets.



Sulzer Turbo Services

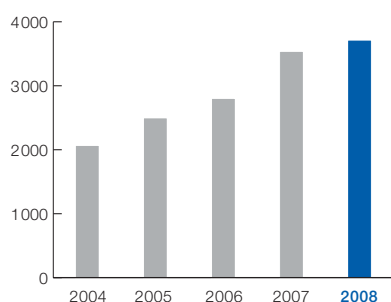
Sulzer Turbo Services is the largest independent provider of repair and maintenance services for thermal turbomachinery and other rotating equipment. The division also manufactures and sells replacement parts for gas turbines, steam turbines and compressors. Sulzer Turbo Services' customers are in the oil and gas, hydrocarbon processing, power generation and other industrial markets.

Key Figures 2008

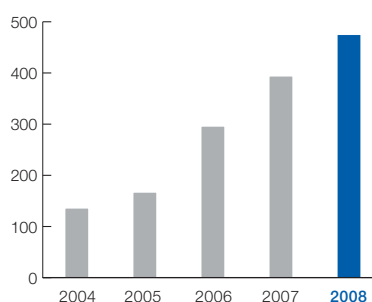
Record performance in order intake, sales, operating income and cash flow

Sulzer achieved a very good performance in 2008 with increases in order intake, sales and operating income. Return on sales and return on capital employed reached new record levels. The impact of the currency translation effect was significant.

Sales 2004–2008 in millions of CHF



EBIT 2004–2008 in millions of CHF



Key figures

millions of CHF		2008	2007	Change in	
				+/- %	+/- % ¹⁾
Order intake		4116.6	4054.0	1.5	10.1
Sales		3713.5	3537.0	5.0	13.2
Operating income before depreciation/amortization	EBITDA	575.9	501.3	14.9	
Operating income	EBIT	475.1	393.5	20.7	
Return on sales (EBIT/sales)	ROS	12.8%	11.1%		
Return on capital employed (EBIT/capital employed)	ROCE	30.6%	24.2%		
Net income attributable to shareholders of Sulzer Ltd		322.9	284.1	13.7	
Capital expenditure		116.0	134.8	-13.9	
Equity attributable to shareholders of Sulzer Ltd		1538.3	1551.2	-0.8	
Employees (number of full-time equivalents) as of December 31		12726	11599	9.7	
Cash flow from operating and investing activities		251.9	177.7	41.8	
Net liquidity		306.1	198.5	54.2	

Data per share²⁾

CHF		2008	2007	+/- %
Net income attributable to a shareholder of Sulzer Ltd	EPS	9.59	8.35	14.9
Equity attributable to a shareholder of Sulzer Ltd		45.83	46.11	-0.6
Dividend		2.80 ³⁾	2.80	0.0

Share price²⁾

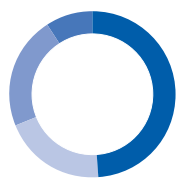
CHF		2008	2007	+/- %
Closing price of the registered share as of December 31		60.00	166.50	-64.0

¹⁾ Adjusted for currency effects as well as acquisitions and divestitures.

²⁾ Prior year figures have been restated to reflect the ten-for-one share split on April 14, 2008.

³⁾ Proposal to the annual general meeting.

Sales by division



	2008	2007
Sulzer Pumps	49%	49%
Sulzer Metco	20%	21%
Sulzer Chemtech	22%	22%
Sulzer Turbo Services	9%	8%

Sales by region



	2008	2007
Europe	35%	38%
North America	27%	27%
Latin America	7%	6%
Asia, Australia ¹⁾	27%	25%
Africa	4%	4%

¹⁾ Including Middle East.

By division

Divisions	Order intake				Sales				Operating income (EBIT)		
	2008	2007	Change in		2008	2007	Change in		2008	2007	+/- %
			+/- %	+/- % ¹⁾			+/- %	+/- % ¹⁾			
Divisions	4 098.1	4 043.7	1.3	9.9	3 697.4	3 527.2	4.8	13.1	472.1	416.4	13.4
Sulzer Pumps	2 308.7	2 076.9	11.2	23.3	1 817.0	1 733.8	4.8	15.9	231.9	199.2	16.4
Sulzer Metco	715.6	762.8	-6.2	-1.8	743.5	753.1	-1.3	3.5	69.6	75.8	-8.2
Sulzer Chemtech	770.4	890.8	-13.5	-9.3	823.3	761.3	8.1	13.1	140.1	116.3	20.5
Sulzer Turbo Services	303.4	313.2	-3.1	5.0	313.6	279.0	12.4	21.8	30.5	25.1	21.5
Others	18.5	10.3	-	-	16.1	9.8	-	-	3.0	-22.9	-
Total	4 116.6	4 054.0	1.5	10.1	3 713.5	3 537.0	5.0	13.2	475.1	393.5	20.7

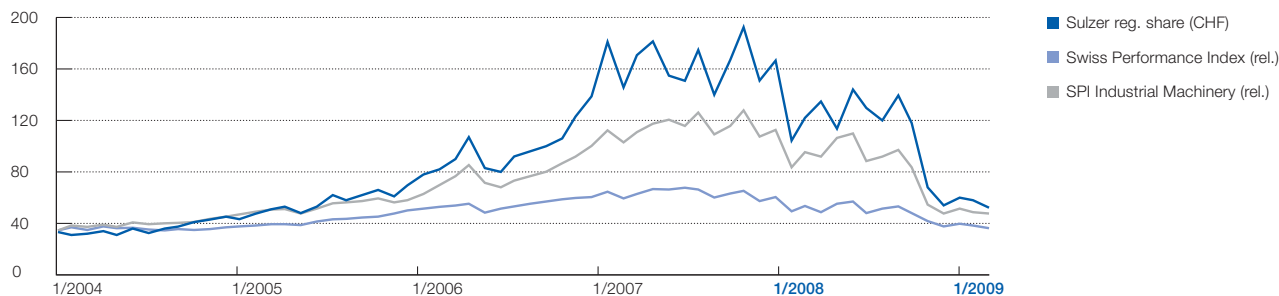
¹⁾ Adjusted for currency effects as well as acquisitions and divestitures.

By region

Region	Order intake				Sales				Number of employees (full-time equivalents) as per 12/31		
	2008	2007	Change in		2008	2007	Change in		2008	2007	+/- %
			+/- %	+/- % ¹⁾			+/- %	+/- % ¹⁾			
Europe	1 314.7	1 321.8	-0.5	4.8	1 289.9	1 345.0	-4.1	0.9	5 728	5 547	3.3
North America	1 008.7	1 184.5	-14.8	-6.1	996.8	967.9	3.0	13.4	2 596	2 409	7.8
Latin America	344.9	246.4	40.0	49.3	247.2	211.9	16.7	24.7	1 270	1 097	15.8
Asia, Australia ²⁾	1 149.0	1 120.8	2.5	10.8	1 025.9	862.2	19.0	28.1	2 696	2 154	25.2
Africa	299.3	180.5	65.8	97.8	153.7	150.0	2.5	20.2	436	392	11.2
Total	4 116.6	4 054.0	1.5	10.1	3 713.5	3 537.0	5.0	13.2	12 726	11 599	9.7

¹⁾ Adjusted for currency effects as well as acquisitions and divestitures. ²⁾ Including Middle East.

Share price development in comparison with the Swiss Performance Index and the SPI Industrial Machinery¹⁾



¹⁾ The share price development has been adjusted for the ten-for-one share split on April 14, 2008.

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