



Report by the Chairman of the Board and the CEO

Sulzer focused on organic growth and continued operational excellence.



Ulf Berg, Chairman of the Board



Ton Büchner, CEO

Dear Shareholders,

Sulzer showed high growth and continued improvement in 2007. Building on its already high volume base in 2006, Sulzer was able to add 23.7% to its order intake. Sales, return on sales (ROS), and return on capital employed (ROCE) all rose to new record levels. A share buyback program of CHF 300 million was concluded in September. With a net income of CHF 287.4 million, the board of directors will propose an increased dividend of CHF 28 per share at the annual general meeting 2008.

Markets

Sulzer's markets were highly active during 2007. There was high demand for our solutions, products, and services in all of our core segments; oil and gas, hydrocarbon processing industry, power generation, pulp and paper, aviation, and automotive.

In the upstream oil and gas market, existing fields are maturing and new fields are being found in more challenging areas for development. The quality of the newfound sources of crude oil and natural gas is different from the traditional Middle East and Brent characteristics.

Canadian tar sands and deep water developments pose a challenge for engineering contractors and operators worldwide, which embodies a positive trend for Sulzer.

In the hydrocarbon processing industry (HPI, oil and gas downstream), activities continued to increase. The Middle East and Asia invested heavily in new facilities. North America also started investing in HPI facilities.

National oil companies are playing an increasing role in the decision making, both in the upstream and downstream oil and gas activities—also for Sulzer products.

The power generation market became more dynamic during 2007. As opposed to the situation in the past, this activity was not restricted to selected regions, but rather occurred on a worldwide basis. Developed countries increasingly realize that the requirements for electricity will soon be structurally higher than the existing capacity for its generation. Furthermore, in the next fifteen to twenty years, many of the existing power plants will begin to reach the end of their design lifetimes, and upgrade and replacement needs will increase. Environmental pressures will influence decision making about the type of power plants to build.

The pulp segment showed high project volume in Latin America, whereas the paper market continued its good activity in Asia. The aviation markets have been lively, with a large number of airplanes on order. Utilization of planes was high worldwide, which positively impacted the Sulzer Metco supply to engine maintenance providers. Our automotive replacement technologies saw strong growth, and we believe this trend has the potential to continue further. The biofuel segment started very actively in the USA, and initial projects were kicked off in Europe. In the third quarter of the year, the structural problems in the USA with corn supply, logistical challenges, and biofuel pricing strongly reduced this momentum.

Divisions

Sales at Sulzer Pumps again grew at a strong double-digit rate of 23.4%, on top of the already high base of 2006. Although

the new equipment business continued to grow faster than the services business and none of the non-recurring positive effects of 2006 recurred, Sulzer Pumps was able to reach a strong ROS level of 11.5%. ROCE achieved 44.5%, in part because of continued good management of net working capital. Additional service stations were opened, and further equipment technology transfers to Asian factories were carried out.

Sulzer Metco continued its efforts to increase its operational effectiveness in 2007. The division was able to increase sales by 16.9%. Despite strong fluctuations in raw material prices, Sulzer Metco increased its ROS to 10.1% and ROCE to 17.1%, and clearly created financial value.

Sulzer Chemtech continued its extraordinary growth, particularly in its mass transfer solutions business and with the acquisition of Mixpac, Werfo, and Mold. Overall, ROS was improved to 15.3% and ROCE, affected by the acquisition, achieved 25.1%, a sign of high value creation. Integration of the Mixpac, Werfo, Mold, and Knitmesh separator business acquisitions is ongoing.

Sulzer Turbo Services progressed in getting nearer to the mid-range targets. Strong sales growth of 15.1% was accompanied by an improved profitability of 9.0%. Base profitability of long-term projects in the backlog hampered the ability to further improve ROS. The majority of this part of the backlog is expected to clear in 2008.

Sulzer Innotec continued to support the divisions in its core technology areas: fluid dynamics and material technology. The seed function of Sulzer Innotec has been strong: Key support projects for the divisions bore fruit in 2007. After a very successful 2006, Sulzer Real Estate had a year of slightly lower activity. Our midterm prospects for the sale of operationally non-essential real estate remain good.

Management Principles and Strategy

Sulzer's vision of being the recognized leader in innovative, sustainable, engineered, and customer-focused solutions for performance-critical applications in selected industries was formulated to focus our continued growth. Sulzer aims to be a multi-industry company with a strong brand, which provides solutions that combine our products, services, engineering, and customer application expertise. Compliance and sustainability as well as health and safety are core to our behavior and decision making. We are close to the customer by being primarily direct-sales driven. Engineering, innovation, and technology are our cornerstones. We strive to create an environment where our employees can excel, and we focus on creating value for our shareholders. The Sulzer culture bases on trust, experience, positive energy, and ethics. It has served us well in motivating and retaining our employees in a challenging growth environment. Our management principles encourage us to focus on operational excellence first before embarking on growth initiatives.

Since 2003, Sulzer has almost doubled its order intake and sales primarily through organic growth without making large acquisitions and without adding proportionally to staff. The small-to-midsize acquisitions were integrated well, and they have grown significantly and organically under Sulzer's owner-

ship. Sulzer has increased its efforts in pursuit of acquisitive growth; we are focused on filling product and geographical gaps or on adjacencies to the existing divisional activities. Strategic fit and value creation are essential when evaluating acquisitions, and Sulzer will maintain its discipline in acquisition valuations going forward.

Financial Results

Sulzer's order intake grew by 23.7% to CHF 4054.0 million, while sales grew by 26.2% to CHF 3537.0 million. Sales trailed order intake primarily due to the project-driven activities of Sulzer Pumps and Sulzer Chemtech. Increased lead times in newly acquired projects have increased the backlog to CHF 1978.1 million, a record figure.

The increase in operating income (EBIT) from CHF 297.7 million to CHF 416.4 million (+39.9%) was generated by the divisions. Other, containing Sulzer Real Estate, Sulzer Innotec, and corporate expenses, had significantly fewer positive one-offs compared to previous years. Expenses related to the high acquisition activities at the start of the year and to shareholder base activities increased headquarter costs. Furthermore, Sulzer Real Estate did not have the strong results of 2006.

Capital expenditure was increased in the divisions primarily to increase efficiency and expand Asian factories. Sulzer also committed to investing in service facilities, thereby allowing us to be closer to our key customers. Net working capital grew, primarily due to project-related timing of milestone payments. Overall net working capital ratios have stayed on a stable level. The corporation's ROCE reached a value-creating level of 24.2%—0.5 percentage points higher than last year.

The sale of Burckhardt Compression shares positively influenced financial income. At the end of the year, the net liquidity was CHF 198.5 million, down from CHF 299.7 million last year, mainly because of the share buyback program.

Based on these results, the board of directors will propose a dividend of CHF 28 per share (previous year CHF 23 per share) at the annual general meeting of shareholders on April 3, 2008.

Outlook

Sulzer communicated new midrange targets in March 2007. These targets are significantly above the previously communicated targets and above the 2006 performance levels. In 2007, Sulzer's sales growth exceeded these projections, but due to the further increased base for all divisions, Sulzer expects reduced order intake growth rates in the future.

The oil and gas upstream and downstream markets are expected to remain strong, as are the power and aviation segments. Some weakening in the pulp and paper and in the general industries segments is anticipated. Overall, geographically, Sulzer only sees slowing economic growth in the USA and Europe, whereas the other regions should continue to be strong. Neither the slowdown in growth in the USA and Europe, nor the financial crisis has impacted the capital goods sector yet, and we feel the investment cycle will continue into 2008. The Sulzer operating income is expected to grow in 2008.

Sulzer maintains the midrange targets at the levels communicated in March 2007, with the exception of a slight increase for Sulzer Pumps. However, divisional ROS figures are affected by increased corporate charges of 0.5 percentage points. The divisional targets have therefore become more challenging.

Employees

The year 2007 has been an extraordinary one for all our employees. The high workload, increased challenges in the supply chain, and difficulties in finding additional project managers and engineers have been compensated by the great efforts of our employees. The Sulzer spirit has made it possible to execute the challenges in an environment where resources were scarce. Sulzer's focus on training as well as health and safety remained, and additional employee-related initiatives were introduced.

Shareholders

The Sulzer shareholder base changed significantly during the year. Whereas we had no individual notified shareholders over 5% on January 1, 2007, we closed the year with four notified shareholders over the new legal notification level of 3%. As per December 31, 2007, the latest notifications show Everest and its subsidiary Salve, both with Victor Vekselberg as the beneficiary owner, holding 24.5% shares, 1.7% options, and 3.9% equity swaps. Fidelity notified Sulzer of a 10.0% shareholding. Focus Capital held 5.0% shares and reduced its holding to below 3% in February 2008. Deutsche Bank held 4.8% shares.

During the first quarter, an unusually large number of both publicly traded and over-the-counter (OTC-)options were issued by market participants, adding substantial volume and volatility to our stock. On April 26, 2007, Everest notified Sulzer that it held 17.5% shares and 14.4% options. These holdings have developed into the combined Everest and Salve holdings stated above. The various owners of Everest were reduced to a single owner (Renova) in August. Constructive discussions between Sulzer and Renova resulted in an agreement defining the formal relationship until May 2009. This agreement has created transparency for customers, employees, and shareholders.

Changes in the Sulzer Board and Management

Leonardo Vannotti and Bruno Allmendinger retired in 2007. The positions of chairman of the board and CFO were assumed by Ulf Berg, previously CEO, and Peter Meier, previously divisional controller at Sulzer Metco. Ton Büchner succeeded Ulf Berg as CEO of Sulzer, while Kim Jackson succeeded Ton Büchner as division president of Sulzer Pumps. These intense succession arrangements, executed simultaneously, were communicated in 2006 and prove Sulzer's ability in succession planning and talent development. At an extraordinary shareholders meeting on December 11, 2007, two board members were elected to the Sulzer board until the annual general meeting in 2009: Vladimir Kuznetsov and Urs Andreas Meyer. They represent Renova, the 100% owner of Everest and Salve.

Since 2002, as part of a long-term incentive program, Sulzer has operated a share option plan. Given the development of

the Sulzer share price with increased volatility and accordingly higher option costs, the board has decided to limit the expenses for the 2008 option award and to implement a new restricted share unit plan as of 2009, which will reduce the respective costs significantly.

Thanks

The board and management of Sulzer appreciate the concerted efforts of our committed employees to deliver on objectives set and recognize their ability not to lose focus in challenging times. This commitment embodies the true Sulzer spirit.

Our customers' appreciation for Sulzer solutions is the foundation of our success. Without it, Sulzer's continuous positive development would not have been possible and would not be so in the future. We highly appreciate the trust you, as a shareholder, place in us, and we are aware that we need to maintain this confidence through reliably excellent operational performance.



Ulf Berg
Chairman of the Board



Ton Büchner
CEO

Divisions and Markets

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 services and products for thermal-spray and thin-film surface technologies. Through its innovative and high-quality products and solutions, it helps its customers to improve performance, increase reliability, and ensure safe operations of their products. Sulzer Metco serves customers from a wide variety of 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 services, 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 located in the oil and gas, hydrocarbon processing, power generation, and other industrial markets.

Key Figures 2007

Strong double-digit growth in order intake, sales, and operating income.

Key Figures

millions of CHF		2007	2006
Order intake		4 054.0	3 276.9
Sales		3 537.0	2 801.7
Operating income before depreciation/amortization	EBITDA	501.3	376.1
Operating income	EBIT	393.5	295.6
Return on sales (EBIT/sales)	ROS	11.1%	10.6%
Return on capital employed (EBIT/capital employed ¹⁾)	ROCE	24.2%	23.7%
Net income attributable to shareholders of Sulzer Ltd		284.1	221.4
Capital expenditure		134.8	106.0
Shareholder's equity excl. minority interests		1 547.1	1 536.9
Employees (number of full-time equivalents) as of December 31		11 599	10 393
Cash flow from operating and investing activities		177.7	170.6
Net liquidity		198.5	299.7

Data per Share

CHF		2007	2006
Basic earnings per share	EPS	83.47	62.27
Equity attributable to shareholders of Sulzer Ltd		455	432
Dividend		28²⁾	23

Share Price

CHF		2007	2006
Closing price of the registered share as of December 31		1 665	1 387

¹⁾ Average capital employed incl. goodwill at net book values ²⁾ Proposal to the general meeting of shareholders

Sales by Division



	2007	2006
■ Sulzer Pumps	49.0%	50.2%
■ Sulzer Metco	21.3%	23.0%
■ Sulzer Chemtech	21.5%	17.8%
■ Sulzer Turbo Services	7.9%	8.7%
■ Other	0.3%	0.3%

Sales by Region



	2007	2006
■ Europe	38.0%	33.7%
■ North America	27.4%	29.3%
■ Latin America	6.0%	7.6%
■ Asia, Australia ¹⁾	24.4%	24.7%
■ Africa	4.2%	4.7%

¹⁾ including Middle East

By Division

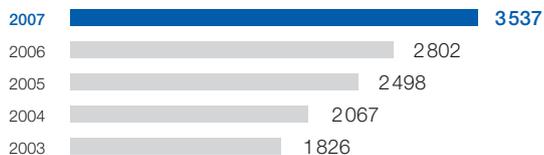
millions of CHF	Order intake			Sales			Operating income (EBIT)		
	2007	2006	+/- %	2007	2006	+/- %	2007	2006	+/- %
Divisions	4 043.7	3 265.8	23.8	3 527.2	2 792.1	26.3	416.4	297.7	39.9
Sulzer Pumps	2 076.9	1 752.6	18.5	1 733.8	1 405.4	23.4	199.2	159.6	24.8
Sulzer Metco	762.8	658.7	15.8	753.1	644.1	16.9	75.8	53.4	41.9
Sulzer Chemtech	890.8	602.1	47.9	761.3	500.1	52.2	116.3	65.4	77.8
Sulzer Turbo Services	313.2	252.4	24.1	279.0	242.5	15.1	25.1	19.3	30.1
Other	10.3	11.1	-	9.8	9.6	-	-22.9	-2.1	-
Total	4 054.0	3 276.9	23.7	3 537.0	2 801.7	26.2	393.5	295.6	33.1

By Region

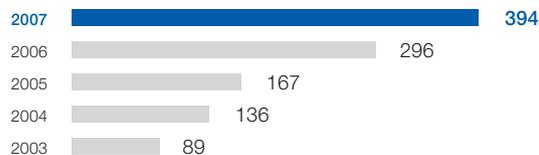
millions of CHF	Order intake			Sales			Number of employees (full-time equivalents) as per 12/31		
	2007	2006	+/- %	2007	2006	+/- %	2007	2006	+/- %
Europe	1 321.8	1 104.1	19.7	1 345.0	943.0	42.6	5 547	5 192	6.8
North America	1 184.5	929.6	27.4	967.9	821.5	17.8	2 409	2 160	11.5
Latin America	246.4	237.8	3.6	211.9	214.2	-1.1	1 097	994	10.4
Asia, Australia ¹⁾	1 120.8	859.3	30.4	862.2	692.5	24.5	2 154	1 664	29.4
Africa	180.5	146.1	23.5	150.0	130.5	14.9	392	383	2.3
Total	4 054.0	3 276.9	23.7	3 537.0	2 801.7	26.2	11 599	10 393	11.6

¹⁾ Including Middle East

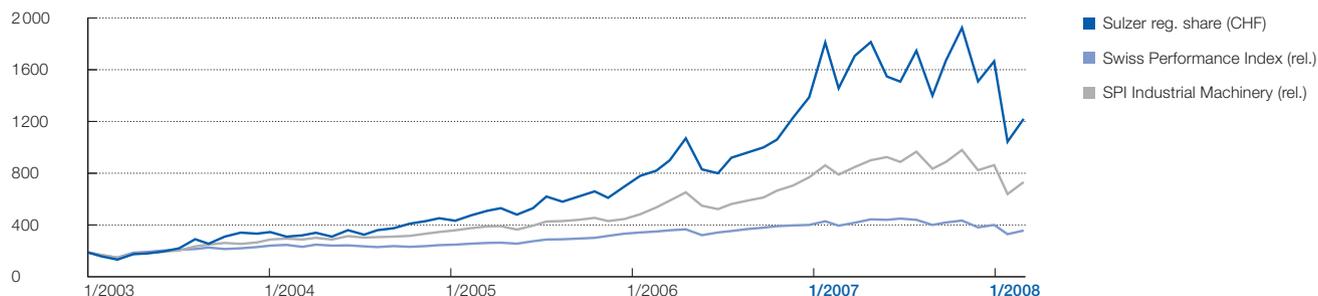
Sales 2003–2007 in millions of CHF



EBIT 2003–2007 in millions of CHF



Share Price Development in comparison with the Swiss Performance Index and the SPI Industrial Machinery



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