175 years

Experience Sulzer

SULZER

Financial Section 2008

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Consolidated Financial Statements

Five-year Summaries

Financial Statement of Sulzer Ltd (Parent Company)

Content

Investor Information

Data per share[1]

CHF	2008	2007	2006	2005	2004
Net income attributable to a shareholder of Sulzer Ltd	**9.59**	8.35	6.23	3.60	2.01
Change from prior year	**15%**	34%	73%	79%	71%
Cash flow from operating and investing activities	**7.48**	5.22	4.80	2.91	1.84
Equity attributable to a shareholder of Sulzer Ltd	**45.83**	46.11	44.35	41.73	37.04
Dividend	**2.80**[2]	2.80	2.30	1.40	0.90
Payout ratio	**29%**	34%	37%	39%	45%
Average number of shares outstanding	**33 675 840**	34 035 700	35 563 610	35 593 550	34 908 120

1) Prior year figures have been restated to reflect the ten-for-one share split on April 14, 2008 (see note 22 on page 44).
2) Proposal to the annual general meeting.

Stock market information[1]

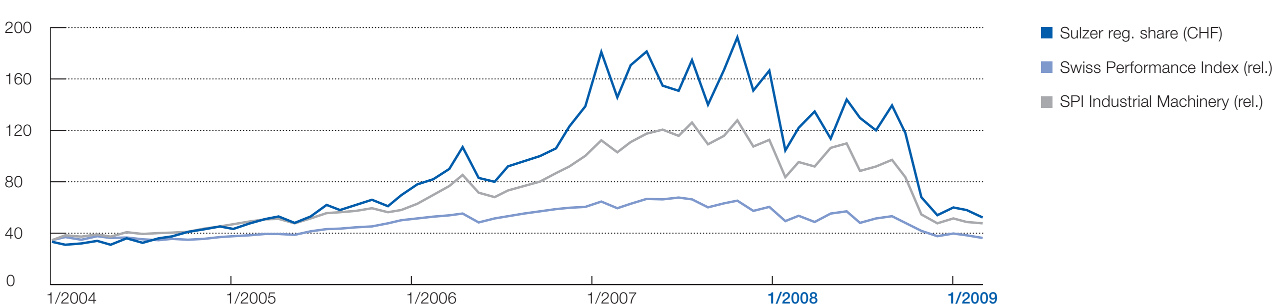
	2008	2007	2006	2005	2004
Registered share (in CHF)					
high	**165.20**	192.40	140.90	70.10	45.60
low	**54.00**	137.50	69.20	42.70	30.30
year-end	**60.00**	166.50	138.70	69.60	45.20
Market capitalization as of December 31					
number of shares outstanding	**33 562 931**	33 642 550	34 657 410	35 667 420	35 475 480
in millions of CHF	**2 014**	5 601	4 807	2 482	1 603
in percentage of equity	**131%**	361%	313%	167%	122%
P/E ratio as of December 31	**6.3x**	19.9x	22.3x	19.3x	22.5x
Dividend yield as of December 31	**4.7%**[2]	1.7%	1.7%	2.0%	2.0%

1) Prior year figures have been restated to reflect the ten-for-one share split on April 14, 2008 (see note 22 on page 44).
2) Proposal to the annual general meeting.

Title	Security No.	Investdata	Reuters	Bloomberg
Listed on SIX Swiss Exchange				
Registered share	3 838 891	SUN	SUN.S	SUN SW

Additional key figures and ratios can be found on pages 60 and 61.

Share price development[1]



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

Five-year Summaries of Key Financial Data

Key figures from consolidated income statement and cash flow statement

millions of CHF		2008	2007	2006	2005	2004
Sales		**3713.5**	3537.0	2801.7	2498.2	2067.0
Operating income before depreciation/amortization	EBITDA	**575.9**	501.3	376.1	272.6	224.2
Operating income before goodwill amortization	EBITA	**475.1**	393.5	295.6	166.8	135.6
return on capital employed (in percentage of capital employed)[1]	ROCE	**30.6%**	24.2%	23.7%	13.3%	11.3%
return on sales (in percentage of sales)	ROS	**12.8%**	11.1%	10.6%	6.7%	6.6%
Operating income[2]	EBIT	**475.1**	393.5	295.6	166.8	107.6
Depreciation/amortization		**100.8**	107.8	80.5	105.8	88.6
Goodwill amortization[2]		**–**	–	–	–	28.0
Research and development expenses		**59.6**	51.8	40.0	43.2	41.3
Net income attributable to shareholders of Sulzer Ltd		**322.9**	284.1	221.4	128.3	70.2
in percentage of equity attributable to shareholders of Sulzer Ltd	ROE	**21.0%**	18.4%	14.4%	8.6%	5.3%
Cash flow						
from operating activities		**449.9**	261.3	259.2	162.8	142.2
from investing activities		**–198.0**	–83.6	–88.6	–59.3	–77.9
Capital expenditure		**116.0**	134.8	106.0	77.8	81.4
Employees (number of full-time equivalents) as of December 31		**12726**	11599	10393	9656	9586
Personnel expenses		**961.5**	948.5	788.1	731.8	650.3

Key figures from consolidated balance sheet

millions of CHF	2008	2007[5]	2006	2005	2004
Non-current assets	**1203.0**	1294.1	1259.1	1052.5	1031.8
thereof property, plant and equipment	**605.8**	655.0	629.3	568.2	580.3
Current assets	**2227.2**	2171.9	1806.1	1791.8	1463.3
thereof cash and marketable securities	**488.5**	384.5	361.6	550.9	444.3
Total assets	**3430.2**	3466.0	3065.2	2844.3	2495.1
Equity attributable to shareholders of Sulzer Ltd	**1538.3**	1551.2	1536.9	1488.5	1314.1
Non-current liabilities	**316.6**	340.9	421.0	460.1	455.2
thereof long-term borrowings	**25.9**	28.1	31.9	212.6	215.4
Current liabilities	**1567.3**	1565.7	1099.9	883.2	714.5
thereof short-term borrowings	**156.5**	157.9	30.0	33.6	16.8
Net liquidity[3]	**306.1**	198.5	299.7	304.7	212.1
Equity ratio[4]	**44.8%**	44.7%	50.1%	52.3%	52.7%
Borrowings to equity ratio (gearing)	**0.12**	0.12	0.04	0.17	0.18

[1] Until 2004 goodwill was included at historical cost in capital employed, since 2005 at net book value.
[2] Until 2004 including goodwill amortization.
[3] Cash, cash equivalents and marketable securities, less short- and long-term borrowings.
[4] Equity attributable to shareholders of Sulzer Ltd in relation to total assets.
[5] Restated (see section 2.2 “Change in accounting policies” on page 14).

Financial Commentary

Summary

Sulzer experienced strong demand for its products and services in the reporting period based on good conditions in most of Sulzer's end markets with clear changes during the last few months of the year. An extraordinary amount of large projects booked by Sulzer Pumps contributed to the strong order intake as well. Toward the end of the year most markets weakened, particularly in the pulp and paper and the automotive markets. The deterioration of all major currencies against the Swiss franc had a significant effect on all absolute numbers. Compared to 2007, order intake volume increased by 1.5% to a new record of CHF 4 116.6 million. Net of currency, acquisition as well as divestiture effects, order intake growth amounted to 10.1%. Sales further increased by 5.0% to CHF 3 713.5 million or 13.2% adjusted for currency effects as well as acquisitions and divestitures. The impact of acquisitions on order intake and sales was negligible and there were no divestitures in the reporting period. Continued focus on efficiency improvement programs, particularly in the production area, supported the accommodation of the notable sales volume. New service centers were opened in Brazil, Canada, China, Mexico, Russia, and the Middle East and projects for new production facilities in emerging markets were initiated. As sales continued to trail order intake, order backlog further increased nominally by 6.2% to CHF 2 100.2 million at the exchange rates of December 31, 2008.

Operating income developed well and further increased by 20.7% to CHF 475.1 million, despite the significant currency effects. The corporation's return on sales amounted to 12.8%, a significant improvement from the previous year's figure of 11.1%. In 2008, financial income of CHF –23.5 million was recorded compared to CHF 14.1 million in the prior year, which was mainly driven by non-recurring income from the sale of Burckhardt Compression shares. The financial income in 2008 was affected by the weakening of the most relevant currencies. Income tax expenses slightly increased due to the higher pre-tax income. The effective tax rate decreased by over two percentage points to 27.4%. The above factors resulted in a 13.7% higher net income attributable to Sulzer shareholders of CHF 322.9 million, implying basic earnings per share of CHF 9.59. The corresponding amount in 2007 was CHF 8.35 basic earnings per share (adjusted for the ten-for-one share split).

Total assets remained broadly unchanged at CHF 3.4 billion as the effect of the growth was offset by significant currency effects. The equity-to-assets ratio by the end of 2008 was with 45% at a healthy level as in the previous years.

The profitable business operations resulted in a significant cash inflow, which supported the financing of CHF 116.0 million of capital expenditure and the acquisition of a turbomachinery service-provider in Latin America as well as the remaining stage-payment of the Mixpac, Werfo and Mold acquisition, which was closed in 2006. The net liquidity at year-end amounted to CHF 306.1 million. At the end of 2007 this figure was CHF 198.5 million.

Effects resulting from changes in accounting standards, acquisitions, divestitures and currency fluctuations

During the first half of 2008 there was a change of accounting treatment that required a restatement. As per January 1, 2008, IFRIC 14 has become effective. This interpretation of IAS 19 provides guidance on how to assess the surplus of an overfunded plan in a defined benefit scheme that shall be recognized as an asset under IAS 19 Employee Benefit. IFRIC 14 has been applied retrospectively with a corresponding restatement of equity as per January 1, 2007, of CHF 4.1 million (net of deferred income tax liabilities). The 2007 figure was significantly below the materiality threshold so that no restatement of the income statement was required. A detailed description to the forthcoming changes in accounting policies is shown in the corporate accounting principles, section 2.2 “Change in accounting policies”.

There was no material effect from acquisitions and divestitures on the sales growth compared with the previous year. On January 31, 2007, the assets of Knitmesh were acquired and consolidated in the Sulzer Chemtech division. On December 2, 2008, the Argentina based turbomachinery service-provider Capime was acquired and consolidated in the Sulzer Turbo Services division as per December 31, 2008.

All major currencies depreciated versus the Swiss franc compared with prior year, which significantly affected sales and income expressed in Swiss francs. The translation impact was some CHF 290 million on sales. Profitability (return on sales) was not notably influenced by the currency movements owing to Sulzer's global presence, whereby sales and costs are predominantly incurred in the same currency. The corresponding balance sheet impact was a negative one of some CHF 150 million on equity.

Sales

Sales rose by 5.0% to CHF 3 713.5 million in nominal values. Adjusted for the impact of currency fluctuation as well as acquisitions and divestitures, sales increased by 13.2% in 2008. The effect of acquisitions and divestitures was insignificant in 2008. Growth was mainly driven by Sulzer Pumps (CHF +83.2 million), Sulzer Chemtech (CHF +62.0 million) and Sulzer Turbo Services (CHF +34.6 million) while Sulzer Metco achieved sales in line with prior year levels. With regards to geographic distribution, Europe slightly decreased (–4.1%), while all other areas outperformed their 2007 amounts despite currency effects (Asia/Australia including Middle East +19.0%, Latin America +16.7%, North America +3.0% and Africa +2.5%).

As the order intake exceeded sales volume, order backlog increased by CHF 122.1 million to CHF 2 100.2 million (+6.2% compared to 2007). The growth in local currencies was significantly higher since the order backlog is valued at the exchange rate of December 31, 2008. Due to the project nature of much of the recently acquired orders of Sulzer Pumps and Sulzer Chemtech, a sizeable portion of the order backlog has lead times of between 8 and 14 months.

Gross margin further improved from 29.3% in 2007 to 30.9% in 2008 mainly as a consequence of higher margin projects at Sulzer Pumps and Sulzer Chemtech, supported by operational improvements as well as operational leverage.

Operating income

Sulzer was able to markedly outperform the previous year and achieve an increase in operating income from CHF 393.5 million to CHF 475.1 million, despite significant negative exchange rates effects in 2008. This increase of 20.7% was primarily attributable to the higher contribution of the operational divisions achieving a supplementary operating income of CHF 55.7 million in 2008, despite additional corporate charges to the divisions of 50 basis points of sales. The operating income of all other activities was with CHF 3.0 million slightly positive, after a negative result of CHF 22.9 million in the previous year. This improvement reflects the higher corporate charges as well as lower project activities requiring external support compared to 2007.

Internal efficiency gains and the realization of economies of scale in selling, general, and administrative expenses were balanced by the additional cost due to the expansion of the operations necessary as a consequence of the strong growth of Sulzer. Nevertheless, supported by the notable gross margin increase, return on sales improved by 100 basis points for the divisions (150 basis points adjusted for the higher corporate charges) and 170 basis points for the corporation as a whole.

Sulzer Pumps

In 2008, Sulzer Pumps achieved new record levels of order intake, sales and operating income. Supported by a notable number of large projects order intake significantly increased by 11.2% to CHF 2 308.7 million (adjusted 23.3%). Order growth was most pronounced in the power generation and the oil and gas segments. High activity was also noted in the hydrocarbon processing industry, which almost achieved the same level of order intake as in 2007. Order intake growth was particularly high in emerging markets which outgrew other regions. Sales amounted to CHF 1 817.0 million in 2008 exceeding the prior year by 4.8%. Adjusted sales growth amounted to 15.9%. There was no impact of acquisitions and divestitures. Regionally, sales growth in 2008 was strongest in Latin America and Africa, Asia Pacific and North America. Due to the project nature of Sulzer Pumps' new equipment business, order intake again exceeded sales such that order backlog further increased in 2008. The demanding growth was addressed by further streamlining business processes, improving supply chain management and expanding capacities. Capital expenditure slightly increased compared to prior year levels and was predominantly spent for the expansion of production capacities, rationalization measures, and replacement of existing plants and equipment as well as expanding the service network. The operating income increased by 16.4% to CHF 231.9 million, resulting in a return on sales of 12.8%, which was clearly above the prior year value. The increased profitability was also reflected in the return on capital employed ratio of 53.5%.

Sulzer Metco

Order intake and sales remained stable in 2008 despite negative currency effects and decreasing raw material prices. Sulzer Metco recorded order intake of CHF 715.6 million which was 6.2% below prior year. Net of currency effects, order intake decreased only marginally (–1.8%). Demand remained stable in the relevant markets for a large part of the year, but weakened toward the end of 2008. While the activity in the consumables and the services business developed well, lower orders were recorded in the new equipment business compared to the prior year. Sales of Sulzer Metco totaled CHF 743.5 million, a slight decrease of 1.3% compared to the prior year (adjusted +3.5%). Geographically, sales were strongest in Europe and Japan, while lower sales were recorded in North and Latin America and Asia Pacific excluding Japan. The currency impact and the effect of the decreasing raw material prices remained significant. Sulzer Metco succeeded to manage the resulting pricing issues. Operating income decreased by 8.2% to CHF 69.6 million. Return on sales reached 9.4% compared to 10.1% in 2007, mainly as a consequence of the higher corporate charges of 50 basis points of sales. Return on capital employed amounted to 16.0%. Capital expenditure remained broadly on prior year level and was primarily used for further expanding capacity and to increase efficiency.

Sulzer Chemtech

Sulzer Chemtech reported record sales and operating profit as a consequence of the exceptionally high order intake in the prior year. In the current reporting period, a lower number of large orders were received such that order intake decreased by 13.5% to CHF 770.4 million. Net of currency and acquisition effects, order intake was 9.3% lower than in 2007. The effect of acquisitions was negligible in the reporting period. The acquisition of TowerTech, which was signed in December 2008 had no impact on order intake or sales. The separation column business was affected by a softening of the project activity, especially toward the end of the year whereas the Sulzer Mixpac Systems business was further growing in local currencies. On the basis of a high order backlog at the beginning of the year, sales increased by 8.1% to a new record of CHF 823.3 million. Sulzer Chemtech particularly benefited from projects in the separation column business but also grew its Sulzer Mixpac Systems as well as the static mixer business. Operating income increased by 20.5% to CHF 140.1 million in 2008. Driven by a notable improvement of the gross margin, return on sales increased to 17.0% and return on capital employed increased to 32.9%, respectively. Capital expenditure was mainly used for new facilities in Canada and Russia, as well as expanding production capacities and to increase efficiencies supported by the implementation of a global process tool.

Sulzer Turbo Services

Supported by a healthy market environment in most segments and regions, Sulzer Turbo Services recorded stable order intake and further improved sales and operating income. Nominally, order intake slightly decreased by 3.1% to CHF 303.4 million. Adjusted for currencies, order intake grew by 5.0%. The acquisition of the Latin American turbomachinery service-provider Capime was completed in December 2008, but had no influence on the 2008 order intake or sales. The sales volume improved across all regions, increasing by 12.4% to CHF 313.6 million. Adjusted for currency influences, acquisitions and divestitures, sales growth was even higher at 21.8%. The division maintained its focus on continuous operational improvement and implemented further programs, in particular at the facilities in the Netherlands where efforts to improve efficiency and profitability showed visible results. Furthermore, facilities in the Netherlands and the USA were expanded to better address the growing demand. Operating income increased by 21.5% to CHF 30.5 million. Return on sales amounted to 9.7%, up from 9.0% in the prior year. Likewise, return on capital employed increased to 17.0%, clearly depicting financial value creation. Capital expenditure was lower in 2008 as high investments for production expansions in North America had been executed in 2007.

Others

Others includes the results from activities not included in the divisions, namely the real estate activities, Corporate Center, and Sulzer Innotec, the central research and development unit.

In 2008, an operating income of CHF 3.0 million was incurred by Others compared to a negative result of CHF 22.9 million in 2007. The notable improvement of Others was mainly due to the increase of the corporate charges to the divisions as well as lower project activities requiring external support, which impacted the prior year.

The results of the real estate business activity fluctuate due to the ongoing divestiture of real estate properties non-essential for business use (primarily in Switzerland). These properties stem from Sulzer's earlier more sizeable industrial activities locally, and will gradually be sold after preparation of the infrastructure and according to market conditions for space absorption. The funds generated from the disposals will be reinvested into the core businesses. In 2008, objects with gross prices of about CHF 22 million were sold, whereas in the previous year disposals with gross prices of about CHF 26 million were recorded. In 2008, total contribution to operating income amounted to about CHF 14.3 million (disposals and rental activities) compared to about CHF 19.1 million in 2007.

Supported by the good economical environment as well as the research and development needs of the divisions the sales volume of Sulzer Innotec increased by 21.6% to a level of CHF 31.5 million compared with CHF 25.9 million in previous year.

Adequate provisions remain in existence for the partially controversial obligations resulting from the divestiture of the former locomotive business. The situation of the asbestos law suits remained unchanged compared to previous year. All litigation expenses were charged to income and adequate provisions maintained. On the basis of the current development and known facts, Sulzer assumes that the remaining cases can be resolved without material impact on liquidity and results.

Financial income

Net financial income in 2008 was CHF –23.5 million, compared to CHF 14.1 million in 2007. Total net interest income 2008 was CHF –3.8 million (2007: CHF –7.2 million). The decrease in net financial income compared to the prior year was mainly driven by the currency impact on financial positions such as cash. In addition, the sale of a part of Sulzer's equity participation in Burckhardt Compression had a positive impact on the financial income in 2007.

Taxes

Income tax expenses increased to CHF 123.9 million, as compared to CHF 120.2 million in the previous year. This is mainly the effect of the improved pre-tax profit. The reported tax rate decreased from 29.5% to 27.4%. The reported tax rate was positively impacted by lower tax rates in Germany and UK and by the dissolution of valuation allowances on remaining tax assets in Germany and Brazil.

Net income

The corporation generated a net income of CHF 327.7 million. This includes a portion attributable to minority shareholders of CHF 4.8 million. Net income attributable to Sulzer shareholders amounted to CHF 322.9 million, an improvement of 13.7%. Based on average shares outstanding of 33 675 840 in 2008, basic earnings per share amounted to CHF 9.59 compared to the corresponding figure in 2007 of CHF 8.35 (adjusted for the ten-for-one share split in April 2008).

Cash flow

The divisions continued to improve cash flow from operating activities, which increased strongly from CHF 261.3 million in 2007 to CHF 449.9 million in 2008. Operating income before depreciation and amortization (EBITDA) increased from CHF 501.3 million to CHF 575.9 million, primarily as a result of the earnings growth. Net current assets remained broadly unchanged compared to prior year levels. Main drivers were higher trade accounts receivable and inventory which were partially offset by higher net advance payments.

The capital expenditure of CHF 116.0 million was the largest position within cash flow from investing activities, broadly in line with depreciation and amortization. Included in this amount spent were the selective expansion of Sulzer Pumps' production capacities as well as the opening of service sites in Abu Dhabi, Australia and the Czech Republic; the expansion of Sulzer Metco's service network, for instance in China and India, and the increase of the powder production in Germany; new facilities in Canada and Russia to further strengthen the service business of Sulzer Chemtech and capital expenditure for the global process tools as well as operational efficiency improvements in all four divisions. The investment of Others making up the remaining CHF 12.7 million was primarily for preparation of real estate properties earmarked for sale and will be recovered in later years. The cash inflow from the sale of property, plant and equipment of CHF 29.2 million was broadly in line with prior year (CHF 29.7 million), while the net cash outflow for acquisitions of CHF 77.1 million was higher than in 2007 (CHF 11.5 million) due to the remaining payment of the Mixpac, Werfo and Mold acquisition, which was closed in 2006.

In 2008, the most significant outflows in the cash flow from financing activities were the 2007 dividend payment of CHF 94.6 million and the purchase of treasury stock of CHF 14.0 million. The previous year included cash out for the share buyback program of CHF 210.1 million and a cash inflow of CHF 127.1 million in short-term borrowings, reflecting partial usage of a syndicated credit facility, which was arranged in 2007.

Furthermore, there was a negative impact on cash and cash equivalents of CHF 69.4 million related to the adverse currency effects.

Corporate financing

Following the approval by the general assembly in April 2008, 211 793 shares relating to the completed 2007 share buyback program were cancelled in April 2008. At the same time the par value of each share was increased from CHF 0.03 to CHF 0.10 and the share was then split on a ten-for-one basis.

At year-end the relevant key ratios in the balance sheet continue to be healthy. With a comfortable net liquidity of CHF 306.1 million, an equity ratio (equity/total assets) at around 45% and a low gearing of 0.12 (borrowings/equity) the capital structure remains very solid. Together with the positive cash generation from operating activities as well as committed and uncommitted credit lines from various banks, the corporation is in principle well positioned to take advantage of internal and external growth opportunities.

Outlook

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.

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, operating income and net income are thus expected below 2008 levels. Capital expenditure will depend on the development of the market environment. The focus on expansion in emerging markets is expected to remain. The tax rate is anticipated to be around 28%. Our high order backlog and sound financial situation build a solid foundation for continued resilience in the future.

Consolidated Income Statement

January – December

millions of CHF	Notes	2008	2007
Sales		**3 713.5**	3 537.0
Cost of goods sold		**–2 564.2**	–2 501.3
Gross profit		**1 149.3**	1 035.7
Selling and distribution expenses		**–312.2**	–306.1
General and administrative expenses		**–293.4**	–291.2
Research and development expenses	07	**–59.6**	–51.8
Other operating income	08	**65.0**	62.1
Other operating expenses	08	**–74.0**	–55.2
Operating income		**475.1**	393.5
Interest and securities income	09	**10.8**	9.5
Interest expenses	09	**–14.6**	–16.7
Other financial income	09	**–19.7**	21.3
Income before income tax expenses		**451.6**	407.6
Income tax expenses	10	**–123.9**	–120.2
Net income		**327.7**	287.4
Attributable to shareholders of Sulzer Ltd		**322.9**	284.1
Attributable to minority interests		**4.8**	3.3
Earnings per share, attributable to a shareholder of Sulzer Ltd (in CHF)[1]			
Basic earnings per share	23	**9.59**	8.35
Diluted earnings per share	23	**9.52**	8.23

[1] Prior year figures have been restated to reflect the ten-for-one share split on April 14, 2008 (see note 22 on page 44).

Consolidated Balance Sheet

December 31

millions of CHF	Notes	2008	2007[1]
Non-current assets			
Intangible assets	11	**491.5**	515.1
Property, plant and equipment	12	**605.8**	655.0
Other financial assets	13	**33.3**	58.9
Non-current receivables		**3.4**	1.2
Deferred income tax assets	10	**69.0**	63.9
Total non-current assets		**1 203.0**	1 294.1
Current assets			
Inventories	14	**695.3**	762.1
Trade accounts receivable	16	**859.3**	829.7
Other accounts receivable and prepaid expenses	17	**174.9**	190.5
Assets held for sale	18	**9.2**	5.1
Marketable securities	20	**41.3**	20.9
Cash and cash equivalents	19	**447.2**	363.6
Total current assets		**2 227.2**	2 171.9
Total assets		**3 430.2**	3 466.0

Equity			
Share capital	22	**0.3**	0.1
Reserves		**1 538.0**	1 551.1
Equity attributable to shareholders of Sulzer Ltd		**1 538.3**	1 551.2
Minority interests		**8.0**	8.2
Total equity		**1 546.3**	1 559.4
Non-current liabilities			
Long-term borrowings	24	**25.9**	28.1
Deferred income tax liabilities	10	**72.3**	77.2
Non-current income tax liabilities	10	**35.1**	35.1
Non-current provisions	25	**177.2**	197.1
Other non-current liabilities		**6.1**	3.4
Total non-current liabilities		**316.6**	340.9
Current liabilities			
Short-term borrowings	24	**156.5**	157.9
Current income tax liabilities	10	**59.4**	72.6
Current provisions	25	**136.0**	139.3
Trade accounts payable		**317.3**	383.0
Customers' advance payments		**396.2**	362.8
Other current and accrued liabilities	26	**501.9**	450.1
Liabilities directly associated with assets held for sale	18	**–**	–
Total current liabilities		**1 567.3**	1 565.7
Total liabilities		**1 883.9**	1 906.6
Total equity and liabilities		**3 430.2**	3 466.0

[1] Restated (see section 2.2 "Change in accounting policies" on page 14).

Changes in Equity

January – December

millions of CHF	Notes	Share capital	Retained earnings	Treasury stock	Financial instruments	Currency translation adjustment	Net income	Total	Minority interests	Total equity
		Attributable to shareholders of Sulzer Ltd								
Equity as of January 1, 2007 (as previously reported)		0.1	1 490.3	–183.5	41.1	–32.5	221.4	1 536.9	7.4	1 544.3
Restatement (see section 2.2 "Change in accounting policies" on page 14)			4.1					4.1		4.1
Equity as of January 1, 2007 (restated)	22	0.1	1 494.4	–183.5	41.1	–32.5	221.4	1 541.0	7.4	1 548.4
Fair value changes on available-for-sale financial assets, net of tax					–0.8			–0.8		–0.8
Cash flow hedges, net of tax					–1.5			–1.5		–1.5
Currency translation differences					0.1	–13.1		–13.0	–0.3	–13.3
Net result recognized directly in equity		–	–	–	–2.2	–13.1	–	–15.3	–0.3	–15.6
Net income							284.1	284.1	3.3	287.4
Total recognized income for 2007		–	–	–	–2.2	–13.1	284.1	268.8	3.0	271.8
Addition/deduction of minority interests								–		–
Change in treasury shares			22.3	–197.7				–175.4		–175.4
Cost of share-based payments			0.5					0.5		0.5
Dividend							–83.7	–83.7	–2.2	–85.9
Allocation of net income			137.7				–137.7	–		–
Equity as of December 31, 2007		0.1	1 654.9	–381.2	38.9	–45.6	284.1	1 551.2	8.2	1 559.4
Fair value changes on available-for-sale financial assets, net of tax					–24.3			–24.3		**–24.3**
Cash flow hedges, net of tax					–26.8			–26.8		**–26.8**
Currency translation differences					8.2	–147.5		–139.3	–2.7	**–142.0**
Net result recognized directly in equity		–	–	–	–42.9	–147.5	–	–190.4	–2.7	**–193.1**
Net income							322.9	322.9	4.8	**327.7**
Total recognized income for 2008		–	–	–	–42.9	–147.5	322.9	132.5	2.1	**134.6**
Addition/deduction of minority interests								–		**–**
Change in treasury shares			–301.2	257.4				–43.8		**–43.8**
Cost of share-based payments			0.3					0.3		**0.3**
Increase share capital	22	0.2	–0.2					–		**–**
Dividend							–101.9	–101.9	–2.3	**–104.2**
Allocation of net income			182.2				–182.2	–		**–**
Equity as of December 31, 2008		0.3	1 536.0	–123.8	–4.0	–193.1	322.9	1 538.3	8.0	**1 546.3**

Consolidated Cash Flow Statement

January – December

millions of CHF	Notes	2008	2007
Cash and cash equivalents as of January 1		**363.6**	330.6
Cash flow from operating activities			
Operating income		**475.1**	393.5
Depreciation/amortization		**100.8**	107.8
Changes in inventory		**–68.8**	–121.3
Changes in advance payments to suppliers		**34.5**	–56.4
Changes in trade accounts receivable		**–160.5**	–184.7
Changes in advance payments from customers		**105.9**	130.9
Changes in trade accounts payable		**–**	91.6
Changes in provisions		**32.1**	8.4
Changes in other net current assets		**36.5**	60.2
Other non-monetary income statement items		**30.3**	–8.7
Interest received		**11.1**	9.8
Interest payments		**–10.7**	–12.8
Income tax paid		**–128.4**	–137.7
Reallocation of cash flow to investing acitivities[1)]		**–8.0**	–19.3
Total cash flow from operating activities		**449.9**	261.3
Cash flow from investing activities			
Purchase of intangible assets		**–5.2**	–4.5
Sale of intangible assets		**–**	–
Purchase of property, plant and equipment		**–110.8**	–130.3
Sale of property, plant and equipment		**29.2**	29.7
Acquisitions	30	**–77.1**	–11.5
Divestitures		**–**	1.6
Purchase of financial assets		**–7.5**	–1.3
Sale of financial assets		**4.2**	28.1
Purchase of marketable securities		**–46.7**	–35.1
Sale of marketable securities		**15.9**	39.7
Total cash flow from investing activities		**–198.0**	–83.6
Cash flow from operating and investing activities		**251.9**	177.7
Cash flow from financing activities			
Dividend		**–94.6**	–78.8
Purchase/sale of treasury stock		**–14.0**	23.2
Share buyback program		**–**	–210.1
Minority interests		**–2.3**	–2.2
Additions in long-term borrowings		**0.8**	0.8
Repayment of long-term borrowings		**–1.0**	–5.5
Changes in short-term borrowings		**12.2**	127.1
Total cash flow from financing activities		**–98.9**	–145.5
Exchange gains/losses on cash and cash equivalents		**–69.4**	0.8
Net change in cash and cash equivalents		**83.6**	33.0
Cash and cash equivalents as of December 31		**447.2**	363.6
Net liquidity (cash, cash equivalents and marketable securities, less short- and long-term borrowings)		**306.1**	198.5

1) Including income from sale of real estate.

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Corporate Accounting Principles

1 General information

Sulzer Ltd (the "company") is a company domiciled in Switzerland. The address of the company's registered office is Zürcherstrasse 14 in Winterthur, Switzerland. The consolidated financial statements as at and for the year ended December 31, 2008, comprise the company and its subsidiaries (together referred to as the "corporation" and individually as the "subsidiaries") and the corporation's interest in associates and jointly controlled entities.

The corporation is mainly active in the machinery and equipment, the surfacing technology business, and associated services.

Sulzer was founded in 1834 in Winterthur, Switzerland, and employs some 12 700 people in over 120 locations worldwide.

Sulzer is listed on the SIX Swiss Exchange in Zurich, Switzerland (symbol: SUN).

These consolidated financial statements were authorized for issue by the board of directors on February 19, 2009.

2 Key accounting policies and valuation methods

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) using the historical cost convention except for the following:

- financial instruments at fair value through profit or loss are measured at fair value (incl. derivative financial instruments),
- available-for-sale financial instruments are measured at fair value,
- liabilities for cash-settled share-based payments are measured at fair value.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by subsidiaries.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the corporation's accounting policies. The areas involving a higher degree of judgment or complexity or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in section 4 "Critical accounting estimates and judgments".

2.2 Change in accounting policies

a) Amendments, interpretations to published standards or new standards effective in 2008

- IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction – 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 an asset under IAS 19 Employee Benefits. This interpretation has been applied retrospectively and had a net effect of CHF 4.1 million in equity.

b) Standards, amendments, and interpretations which the corporation has decided not to early adopt in 2008

- IFRS 8 Operating Segments introduces the "management approach" to segment reporting and replaces IAS 14. IFRS 8, which becomes mandatory for the corporation's 2009 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the corporation's chief operating decision maker in order to assess each segment's performance and to allocate resources to them. Under the management approach, the corporation will present segment information unchanged from today in respect of the four divisions (Sulzer Pumps, Sulzer Metco, Sulzer Chemtech, and Sulzer Turbo Services) and Others (summary of the following activities: Real Estate, Sulzer Innotec, Corporate Center and consolidation adjustments).
- IAS 23 (Revised) Borrowing costs removes the option to expense borrowing costs and requires that an entity capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for the corporation's 2009 financial statements and will constitute a change in accounting policy for the corporation. The corporation will apply the revised IAS 23 to qualifying assets for which capitalization of borrowing costs commences on or after the effective date. No or only minor impact is expected on the consolidated financial statements.
- IAS 1 (Revised) Presentation of financial statements will prohibit the presentation of items of income and expenses (that is, "non-owner" changes in equity) in the statement of changes in equity, requiring these items to be presented separately from the owner changes in equity in a separate performance statement. Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and the statement of comprehensive income). IAS 1 (Revised) will become mandatory from January 1, 2009. The corporation will assess the impact of IAS 1 (Revised) in 2009.
- IAS 27 (Revised) Consolidated and separate financial statements requires the effects of all transactions with non-controlling interest to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains or losses. The standard also specifies when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognized in profit or loss. The corporation will apply IAS 27 (Revised) prospectively to transactions with non-controlling interests from January 1, 2010.
- IFRS 3 (Revised) Business combinations continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured through profit or loss. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All transaction costs should be expensed. The corporation will apply IFRS 3 (Revised) from January 1, 2010.
- IFRIC 13 Customer Loyalty Programs addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programs for their customers. It relates to customer loyalty programs under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13, which becomes mandatory for the corporation's 2009 financial statements, is not expected to have any impact on the consolidated financial statements.
- IFRIC 15 Agreements for construction of real estates. This interpretation clarifies whether IAS 18 Revenue or IAS 11 Construction contracts, should be applied to specific transactions. IFRIC 15 is not relevant to the corporation's operations as no construction of real estate business is performed.
- IFRIC 16 Hedges of a Net Investment in a Foreign operation (effective from October 1, 2008). IFRIC 16 clarifies the accounting treatment in respect of net investment hedging. This includes the fact that the net investment hedging relates to differences in functional currency not presentation currency, and hedging may be held anywhere in the corporation. The corporation will apply IFRIC 16 from January 1, 2009. It is not expected that IFRIC 16 will have a material impact on the consolidated financial statements.
- IFRIC 17 Distributions of non-cash assets to owners clarifies how an entity should measure distributions of assets, other than cash, when it pays dividends to its owners. The Interpretation states that a dividend payable

should be recognized when appropriately authorized and should be measured at the fair value of the net assets to be distributed. The difference between the fair value of the dividend paid and the carrying amount of the net assets distributed should be recognized in profit or loss. IFRIC 17 will become mandatory effective for the corporation's 2010 financial statements, with prospective application required. It is not expected to have any impact on the consolidated financial statements.

- There are a number of minor amendments, which are part of the IASB's annual improvement project published in May 2008. Such amendments are IAS 1 Presentation of financial statements, IFRS 1 First time adoption of IFRS, IFRS 2 Share-based payments, IFRS 5 Non-current assets held for sale and discontinued operations, IFRS 7 Financial instruments: Disclosures, IAS 8 Accounting policies, changes in accounting estimates and errors, IAS 10 Events after the reporting period, IAS 18 Revenue, IAS 19 Employee benefits, IAS 23 Borrowing costs, IAS 28 Investments in associates, IAS 32 Financial instruments: Presentation, IAS 34 Interim financial reporting, IAS 36 Impairment of assets, IAS 38 Intangible assets, and IAS 39 Financial instruments. These amendments will become mandatory on January 1, 2009, and are unlikely to have an impact on the corporation's financial statements.

c) Standards, amendments, and interpretations effective in 2008 but not relevant

The following standards, amendments, and interpretations are mandatory for accounting periods beginning on or after January 1, 2008, but are not relevant to the corporation's operations:

- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as equity-settled share-based payment transaction. IFRIC 11 became mandatory effective for the corporation's 2008 financial statements, with retrospective application required. IFRIC 11 did not have any impact on the consolidated financial statements.
- IFRIC 12 Service Concession Arrangements provides guidance on certain recognition and measurement issues that arise in accounting for private-to-public service concession arrangements. IFRIC 12, which became mandatory for the 2008 financial statements, did not have any impact on the consolidated financial statements.
- The following minor amendments to IAS 16 Property, plant and equipment, IAS 20 Accounting for government grants and disclosure of government assistance, IAS 27 Consolidated and separate financial statements, IAS 28 Investment in associates, IAS 29 Financial reporting in hyperinflationary economies, IAS 31 Investment in joint ventures, IAS 38 (Amendment) Intangible assets, IAS 40 Investment properties, and IAS 41 Agriculture which are part of the IASB's annual improvement project published in May 2008 will become effective on January 1, 2009, and will only have a minor impact on the corporation's financial statements.

2.3 Consolidation

a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the corporation has the power to govern the financial and operating policies generally accompanying a shareholding (voting rights) of more than 50% or otherwise controls the company's activities directly or indirectly, by applying the full consolidation method. Changes in the scope of consolidation take effect from the date on which control was transferred. The consolidation of equity has been carried out according to the purchase method. The accounting policies of subsidiaries have been changed to align them with the policies adopted by the corporation.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the corporation. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the corporation's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

b) Associates and jointly controlled entities

Associates are those entities in which the corporation has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the corporation holds, directly or indirectly, between 20% and 50% of the voting rights. Joint ventures are those entities over whose activities the corporation has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. Associates and jointly controlled entities are accounted for using the equity method and are initially recognized at cost.

c) Transactions eliminated on consolidation

All material intercompany transactions and balances, and any unrealized gains or losses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

A summary of the major subsidiaries or affiliated entities is shown in note 36 "Major subsidiaries".

2.4 Segment reporting

a) Primary reporting format

A business segment is a distinctive sub-activity of the corporation that delivers a specific product or service and is exposed to similar risks and returns. The strategic relevant segments for Sulzer are shown in note 03 "Segment information".

b) Secondary reporting format

A geographical segment is a distinctive sub-activity of the corporation that offers or delivers products or services within a particular economic environment with similar risks and returns that are different from those of segments operating in other economic environments.

2.5 Foreign currency translation

a) Functional and presentation currency

Items included in the financial statements of affiliated companies are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Swiss francs (CHF), which is the functional and presentation currency of Sulzer Ltd.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Changes in the fair value of monetary items denominated in foreign currency classified as available-for-sale are analyzed between translation differences resulting from changes in the amortized cost of the item and other changes in the carrying amount of the item. Translation differences related to changes in the amortized cost are recognized in profit or loss, and other changes in the carrying amount are recognized in equity.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the available-for-sale reserve in equity.

c) Subsidiaries

The results and financial position of all the subsidiaries (excluding the ones with hyperinflationary economy) that have a functional currency different from the presentation currency of the corporation are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet,
- income and expenses for each income statement are translated at average exchange rates.

Translation differences resulting from consolidation are taken to equity. In the event of a sale or liquidation of foreign affiliated companies, exchange differences which were recorded in equity are recognized in the income statement as part of the gain or loss on sale or liquidation.

2.6 Intangible assets

An intangible asset is classified either as an asset with indefinite useful life when timely limitation of generating net cash inflows is not foreseeable, or as an asset with a finite useful life.

Intangible assets with an indefinite useful life are not to be amortized. The corporation performs an annual review determining whether events and circumstances still support this classification is compulsory. Reassessing the useful life indicates that an asset might be impaired.

The intangible fixed assets with finite useful life are amortized in line with expected useful life, usually on a straight-line basis. The period of useful life is to be assessed according to business rather than legal criteria. This assessment is being made at least once a year. An impairment might be required in the event of sudden or unforeseen value changes.

a) Goodwill

Goodwill represents the difference between the costs of acquiring a business and the fair value of the corporation's share in the net asset value of the acquired business at the time of acquisition. Any goodwill arising as a result of a company acquisition is included within intangible assets. Goodwill originating from the acquisition of an associated company is included in the book value of the participation in associated companies. Goodwill is subject to an annual impairment test and valued at its original acquisition cost less accumulated impairment losses. Profits and losses arising from the sale of a business include the book value of the goodwill assigned to the business being sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The corporation allocates goodwill to each business segment in each country in which it operates.

b) Trademarks and licenses

Other intangible assets include material licenses, patents, trademarks, and similar rights acquired from third parties. Such assets are amortized over their expected useful life, generally not exceeding 10 years. Minor purchases of patents, licenses, trademarks, and similar rights and any related internally generated intangibles are expensed as incurred.

c) Research and development expenses

Development costs for major projects are only capitalized and amortized over the period of use if the present value of anticipated returns exceeds the development costs. Other research and development expenses are charged directly to income as incurred.

d) Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives (3 to max. 5 years).

e) Customer relationships

As part of a business combination acquired customer rights are capitalized on the basis of the costs incurred. These costs are amortized over their estimated useful lives, generally not exceeding 10 years.

f) Other intangible assets

Other intangible assets comply with the general requirements for intangible assets but cannot be classified in another category as defined above. Such intangible assets are stated on the basis of costs incurred and are amortized over their estimated useful lives, generally not exceeding 10 years.

2.7 Property, plant and equipment

Property, plant and equipment is stated at acquisition cost less operationally required depreciation and impairments. Acquisition cost includes expenditure that is directly attributable to the acquisition of the item. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that the future economic benefits associated with the item will flow to the corporation and the cost of the item can be measured reliably. The carrying amount of the replaced item is derecognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is provided on a straight-line basis over the estimated useful life. Land is stated at cost and is not depreciated.

The useful lives are as follows:

Buildings	20 – 50 years
Machinery	5 – 15 years
Technical equipment	5 – 10 years
Vehicles	max. 4 years
Other equipment	max. 5 years

Property, plant and equipment financed by long-term financial leases is capitalized and amortized in the same way as other assets. The applicable leasing commitments are shown as liabilities and are included under long-term borrowings. Substantial appreciations are also capitalized and amortized over the useful lives of the assets.

An asset's carrying amount is impaired immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

2.8 Impairment of non-financial assets

Assets with an indefinite useful life are not depreciated under a fixed schedule, but assessed annually for impairment. Assets depreciated under a fixed schedule are only assessed for impairment if relevant events or changes in circumstances indicate that the book value is no longer recoverable. An impairment loss is recorded equal to the excess of the carrying value over the recoverable amount. The recoverable amount is the higher of the fair value of the asset less disposal costs and its value in use. The value in use is based on the estimated cash flow over a 5-year period and the extrapolated projections for subsequent years. The results are discounted using an appropriate long-term interest rate. For the purposes of the impairment test, assets are grouped together at the lowest level for which separate cash flows can be identified (cash-generating units).

2.9 Financial assets

Financial assets, including marketable securities, are classified into the following four categories: "Financial assets at fair value through profit or loss", "Available-for-sale financial assets", "Loans and receivables", and "Held to maturity financial assets". Classification depends on the purpose for which the financial assets were acquired. Management determines the classification of assets at the date of purchase and reviews it on every accounting date. The fair value of financial instruments is either taken from an actively traded market or, in the case of non-traded financial instruments, from a valuation using standard formula-based methods.

The marketable securities held by the corporation belong either to the first or the second category.

a) Financial assets at fair value through profit or loss

Assets in this category are capitalized at fair value and subsequently adjusted to fair values, with any adjustments charged or credited to financial income. Derivative financial instruments are recorded at fair value (cost at the time of acquisition) and subsequently adjusted to fair values. Financial assets designated at fair value from inception are those that are managed and their performance is evaluated on a fair value basis, in accordance with a documented investment strategy. With the exception of derivative financial instruments which meet the requirements of a "cash flow hedge" or a "net investment hedge", all adjustments are charged or credited to financial income. Assets in this category are classified as current assets.

b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

c) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in the current assets, unless the maturity is greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the balance sheet.

d) Held to maturity financial assets

Non-derivative financial assets with fixed or determinable payment terms and fixed maturities are classified as held to maturity when there is the positive intention and ability to hold to maturity. After initial recognition held to maturity investments are measured at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the investments are derecognized or impaired, as well as through the amortization process.

Purchases and disposals of financial assets are recognized on the trade date. The corporation assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognized when the right to receive cash flows from the investments have expired or have been transferred and the corporation has transferred all substantial risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held to maturity financial assets are carried at amortized cost using the effective interest method. Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss are presented in the income statement line "Other financial income" in the period they arise. Dividend income from financial assets at fair value through profit or loss is recognized in the income statement as part of financial income.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analyzed between translation differences resulting from changes in amortized cost and other changes in the carrying amount. The translation differences on monetary items are recorded in the income statement, the translation differences on non-monetary items are recorded in equity. Changes in the fair value of financial assets classified as available-for-sale are recorded in equity. When these assets are sold or impaired, the accumulated fair value adjustments recorded in equity are recycled and booked to the financial income.

2.10 Derivative financial instruments and hedging activities

The corporation uses hedge accounting mainly for so-called "cash flow hedges" and "net investment hedges".

Cash flow hedges are used to secure future cash flows which have a high probability of occurrence. The hedge instrument is recorded on the balance sheet at fair value and the effective portions are booked against "Equity". If the hedge relates to a non-financial transaction which will subsequently be recorded on the balance sheet, the adjustments cumulated under "Equity" at that time will be included in the initial book value of the asset or liability. In all other cases the cumulative changes of fair value of the hedging instrument that have been recorded in equity are included as a charge or credit to income when the forecasted transaction is recognized. In general, the fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date.

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion on the hedge is recognized in equity. The gain or loss relating to the ineffective portion is recognized immediately in the income statement as gains or losses. Gains and losses accumulated in equity are included in the income statement when the foreign operation is partially disposed or sold.

The corporation documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The corporation also documents its assessment, both at hedge inception and on ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

2.11 Inventories

Raw materials, supplies and consumables are stated at the lower of cost or net realizable value. Finished products and work in progress are stated at the lower of production cost or net realizable value. Production costs include the cost of materials, direct and indirect manufacturing costs and contract-related costs of construction. Inventories are valued by reference to weighted average costs. Provisions are made for slow moving and excess inventories.

2.12 Trade receivables

Trade and other accounts receivable are stated at face value less provision for impairments. The respective value corresponds approximately to the amortized costs. A provision for impairment of trade receivables is established when there is objective evidence that the corporation will not be able to collect all the amounts due according to the original payment terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. Receivables which are past due more than 120 days are subject to regular review and adequate impairment is considered. The amount of the impairment provision is the difference between the carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. An impairment charge is booked within selling and marketing expenses in the income statement and the carrying amount of the trade receivable is deducted through an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Any subsequent recoveries of amounts previously written off are credited against selling and marketing costs in the income statement.

2.13 Cash and cash equivalents

Cash and cash equivalents comprises bills, postal giro and bank accounts, together with other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are reported within borrowings in the current liabilities.

2.14 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.
When share capital recognized as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, is net of any tax effects, and is recognized as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to/from retained earnings.

2.15 Trade payables

Trade payables and other payables are stated at face value. The respective value corresponds approximately to the amortized costs.

2.16 Borrowings

Financial debt is stated at fair value when initially recognized, after recognition of transaction costs. In subsequent periods it is valued at amortized cost. Any difference between the amount borrowed (after deduction of transaction costs) and the repayment amount is reported in the income statement over the duration of the loan using the effective interest method. Borrowings are classified as current liabilities unless the corporation has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.17 Current and deferred income taxes

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the corporation's subsidiaries and associates operate and generate taxable income. The management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.
The liability method is used to provide deferred taxes on all temporary differences between the tax base of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred taxes are valued by applying tax rates (and regulations) in force on the balance sheet date or any that have essentially been legally approved and are expected to apply at the time when the deferred tax asset is realized or the deferred tax liability is settled.
Deferred tax assets are applied to the extent that it is likely that a taxable profit will be available against which the temporary difference can be applied.
Deferred tax liabilities arising as a result of temporary differences relating to investments in subsidiaries and associated companies are applied unless the corporation can control when temporary differences are reversed and it is unlikely that they will be reversed in the foreseeable future.

2.18 Employee benefits

a) Defined benefit plans

The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are charged or credited to income over the employees' expected average remaining working lives.

b) Defined contribution plans

Defined contribution plans are defined to be pure savings plans, under which the employer makes certain contributions into a separate legal entity (fund) and does not have a legal or an extendible (constructive) liability to contribute any additional amounts in the event this entity does not have enough funds to pay out benefits. A "constructive" commitment exists when it can be assumed that the employer will voluntarily make additional contributions in order not to endanger the relationship with its employees.
Company contributions to such plans are considered in the income statement as personnel expenses.

c) Other employee benefits

Some subsidiaries provide other post-employment benefits to their employees. Short-term benefits are payable within twelve months after the end of the period in which the employees render the related employee service.
In the case of liabilities of a long-term nature, the discounting effects and employee turnover are to be taken into consideration. Provisions for other post-employment employee benefits are reported as long-term provisions in category "Other employee benefits".
In case of termination benefits (e.g., contributions on early retirement) the calculation of the provision is similar as the calculation for post-employment benefits. Obligations to employees arising from restructuring measures are included under the category "Restructuring provisions".

d) Share-based compensation

Sulzer operates equity-settled and cash-settled, share-based compensation plans. For the equity-settled, share-based compensation plan the fair value of the employee service received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). At each balance sheet date, the entity reassesses its estimates of the number of options that are expected to be exercised. It recognizes the impact of the reassessment of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the options are exercised. For cash-settled share-based payments a liability equal to the proportion of the goods or service received is recognized at the current fair value determined at each balance sheet date. Refer to note 31 "Share participation plans" for further information.

2.19 Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognized when: the corporation has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognized for future operating losses.

Where there is a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligation as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

2.20 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and rendering of services in the ordinary course of the corporation's activities. Revenue is shown net of value-added tax, returns, rebates and discounts, and after eliminating sales within the corporation. The corporation recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met.

a) Sale of goods/products

Revenue from the sale of goods/products derives in the ordinary course of business. Goods and products are described as ordinary when they are part of the official product range of the Sulzer organization. Goods and products are those items produced/engineered and/or purchased for resale. This includes standard products (off the rack) as well as (pre-)engineered or tailor-made products.

Revenue from the sale of goods is recognized when all of the below stated conditions are fulfilled. The return rights of products and goods are also considered. Conditions for the recognition of revenue from sale of goods and products:

- it is probable that any future economic benefit associated with the revenue will flow to the entity,
- the revenue can be measured reliably,
- the costs incurred or to be incurred can be measured reliably,
- the entity (seller) has transferred significant risks and rewards of ownership to the buyer, and
- the entity (seller) retained neither continuing managerial involvement nor effective control over the goods.

Revenue is recognized only when it is probable that it is collectible and measurable. Revenue can only be collectible when there is a binding sales agreement. Once revenue is recognized, any subsequent uncertainty about the collectability of the revenue is recognized as an expense/adjustment to the amount receivable rather than as an adjustment to revenue.

b) Rendering of services

The rendering of services involves an entity performing an agreed task for a customer. This service may involve asset maintenance, membership services, professional services, and the construction development or customization of assets. Service contracts may be single element, in which the entity renders one type of service, or multiple elements contracts that provide for delivery of more than one service, or may include delivery of goods as well as services. Services are often performed within the reporting period. The percentage of completion basis is applicable to such services, but the stage of completion increases from 0% to 100% within one accounting period. Services that are provided over a period beyond the reporting period involve estimates. Revenue is then recognized according to the stage, or percentage, of completion of the contract. The method used to determine the stage of completion will depend on the nature of the contract. A consistent approach is taken to the revenue recognition of similar contracts.

Revenue from rendering of services is recognized by reference to the stage of completion of the transaction when the following conditions are cumulatively met:

- the amount of revenue can be measured reliably,
- the flow of economic benefits to the entity is probable,
- the state of completion at the period end can be measured reliably, and
- the costs incurred to date and the costs to completion can be measured reliably.

c) Percentage of completion method

Major long-term customer orders are reported using the percentage of completion method (PoC), based on the percentage of costs to date compared to the total estimated contract costs, contractual milestones or performance. The income statement contains a share of sales, including an estimated share of profit, while the balance sheet includes the corresponding trade accounts receivable after adjustment for advance payments received. When it appears probable that the total costs of an order will exceed the expected income, the total amount of expected loss is recognized immediately in the income statement. The impact out of the percentage of completion orders on the consolidated income statement and balance sheet is shown in note 15.

d) Other revenue

Revenue from the use of entity assets by third parties yielding interest, royalties and dividends in the form of:

- interest – charges for the use of cash or cash equivalents or amounts due to the entity,
- royalties – charges for the use of long-term assets (for example: patents, trademarks, copyrights, and computer software), and
- dividends – distribution of profits to holders of equity investments in proportion to their holdings of a particular class of capital.

Interest is recognized using the effective interest method. Royalties are recognized on an accrual basis in accordance with the substance of the relevant agreement. Dividends are recognized when the shareholder's right to receive payment is established.

The earnings process is complete when all of the following have cumulatively occurred:

- probable that economic benefits will flow to the entity,
- revenue can be measured reliably.

2.21 Discontinuing operations

In line with IFRS 5, Sulzer classifies operations as discontinuing if the criteria for "held for sale" classification have been met. This is the case if it is a major line of business, geographical area of operations or parts thereof and when there is a co-ordinated plan to dispose a major line of business or geographical area of operations.

2.22 Assets and disposal groups held for sale

A non-current asset or a group of assets is classified as "held for sale" (IFRS 5) if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the management must be committed to sell the assets, the assets must be actively marketed for sale and the sale is expected to be completed within one year. A non-current asset or a group of assets classified as "held for sale" shall be measured at the lower of its carrying amount and fair value less selling costs.

2.23 Dividend distribution

Dividend distribution to the shareholders of Sulzer Ltd are resolved upon decision of the general assembly and will be paid in the same reporting period.

3 Financial risk management

3.1 Financial risk factors

The corporation's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The corporation's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Corporation's financial performance. The corporation uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by a central treasury department (Corporate Treasury). Corporate Treasury identifies, evaluates and hedges financial risks in close co-operation with the corporation's affiliated companies. Principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity exist in writing.

a) Market risk

(i) Foreign exchange risk

The corporation operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the EUR, CHF, USD, CAD and GBP. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.

Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency that is not the entity's functional currency. Management has set up a policy to require affiliated companies to manage their foreign exchange risk against their functional currency. The affiliated companies are required to hedge their major foreign exchange risk exposure using forward contracts or other standard instruments, usually transacted with Corporate Treasury.

For reporting purposes, each affiliated company designates contracts with Corporate Treasury as fair value hedges or cash flow hedges, as appropriate. Presently most of the contracts are designated as cash flow hedges. External foreign exchange contracts are designated at corporate level as hedges of foreign exchange risk on specific assets, liabilities or future transactions on a gross basis.

The corporation has investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the corporation's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

The following tables show the hypothetical influence on the income statement for 2008 and 2007 related to foreign exchange risk. The volatility used for the calculation is the one year historic volatility on December 31 for the relevant currency pair and year. For 2008, the only currency pair with significant inherent risk was the US Dollar versus the Canadian Dollar.

2008 in income statement

millions of CHF

Currency pair	USD/CAD
Volatility	**15.8%**
Effect on profit after tax (rate increase)	**–2.8**
Effect on profit after tax (rate decrease)	**2.8**

2007 in income statement

millions of CHF

Currency pair	USD/CAD
Volatility	9.7%
Effect on profit after tax (rate increase)	0.1
Effect on profit after tax (rate decrease)	–0.1

If, at December 31, 2008, the US Dollar had increased by 15.8% against the Canadian Dollar with all other variables held constant, profit after tax for the year would have been CHF 2.8 million lower mainly due to foreign exchange losses on USD-denominated current liabilities. A decrease of the rate would have caused a gain of the same amount. For 2007, an increase (decrease) of the US Dollar against the Canadian Dollar would have caused a gain (loss) of CHF 0.1 million.

The following tables show the hypothetical influence on equity for 2008 and 2007 related to foreign exchange risk of the most important currency pairs as at December 31, 2008. The volatility used for the calculation is the one year historic volatility on December 31 for the relevant currency pair and year. Most of the hypothetical effect on equity is a result of fair value changes of derivative financial instruments designated as hedges of future cash flows in foreign currencies.

2008 in equity

millions of CHF Currency pair	EUR/CHF	USD/MXN	GBP/USD	USD/CAD	USD/CHF	USD/BRL	EUR/BRL
Volatility	9.2%	19.0%	14.0%	15.8%	15.1%	29.1%	27.2%
Effect on equity (rate increase)	–7.6	–13.0	8.9	–9.7	–6.0	–7.6	–4.5
Effect on equity (rate decrease)	7.6	13.0	–8.9	9.7	6.0	7.6	4.5

2007 in equity

millions of CHF Currency pair	EUR/CHF	USD/MXN	GBP/USD	USD/CAD	USD/CHF	USD/BRL	EUR/BRL
Volatility	4.1%	6.4%	7.1%	9.7%	7.1%	14.4%	13.9%
Effect on equity (rate increase)	–3.9	–0.8	0.9	–6.1	–0.6	0.0	0.0
Effect on equity (rate decrease)	3.9	0.8	–0.9	6.1	0.6	0.0	0.0

(ii) Price risk

The corporation is exposed to equity securities price risk because of investments held by the corporation and classified on the consolidated balance sheet either as available-for-sale or at fair value through profit or loss.

The corporation's equity investments are mostly publicly traded and are included in one of the following equity indexes: SMI equity index, SPI equity index or FTSE-250 UK equity index.

The table below summarizes the hypothetical impact of increases/decreases of the three equity indexes on the corporation's post-tax profit for the year and on equity. The analysis is based on the assumption that the equity indexes had increased/decreased by its one year historic volatility at December 31 with all other variables held constant and all the corporation's equity instruments moved according to the historical correlation with the index.

millions of CHF	2008			2007		
Index	Volatility	Impact on post-tax profit	Impact on equity	Volatility	Impact on post-tax profit	Impact on equity
SMI	35.2%	0.7	0.0	15.6%	0.3	0.0
SPI	33.2%	0.3	6.6	15.2%	0.4	7.6
FTSE-250 UK	32.7%	0.8	0.0	19.0%	1.9	0.0

Post-tax profit for the year would increase as a result of gains on equity securities classified as at "fair value through profit or loss". Equity would increase as a result of gains on equity securities classified as "available-for-sale". A decrease of the equity markets would cause a loss of the same amount.

(iii) Interest rate risk

As a result of partially matching interest rate sensitive assets and liabilities in terms of maturities and interest rates the corporation's income and operating cash flows are substantially independent of changes in market interest rates.

The corporation's illustrative interest rate risk arises from borrowings. Borrowings at variable rates expose the corporation to cash flow interest rate risk. Borrowings at fixed rates expose the corporation to fair value interest rate risk. During 2008 and 2007, the corporation's borrowings were mainly denominated in CHF, EUR and GBP and variable interest rates.

The corporation analyzes its interest rate exposure. The following tables show the hypothetical influence on the income statement for borrowings at variable interest rates, assuming market interest rate levels would have increased/decreased with the estimated sensitivity based on past market experience and future expectations.

millions of CHF	2008			2007		
Borrowings by currency	Amount	Sensitivity in basis points	Impact on post-tax profit	Amount	Sensitivity in basis points	Impact on post-tax profit
CHF	100.0	100	0.7	70.0	100	0.5
EUR	32.8	100	0.2	44.3	100	0.3
GBP	14.2	100	0.1	18.0	100	0.1

At December 31, 2008, if the interest rates on CHF-denominated borrowings had been 100 basis points higher with all variables held constant, post-tax profit for the year would have been CHF 0.7 million (2007: CHF 0.5 million) lower, as a result of higher interest expense on floating rate borrowings. If the interest rate had been lower this would have caused a higher profit of the same amount.

b) Credit risk

Credit risk is managed on a corporation-wide basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions. For banks and financial institutions, generally only parties with a perceived minimum rating of "A" are accepted and the total volume of transactions is evenly split among several banks to reduce the individual risk with one bank.

For every wholesale customer with a large order volume an individual risk assessment to credit the quality of the customer is performed considering independent ratings, financial position, past experience and other factors. Additionally, bank guarantees and letters of credit are requested.

For more details on the credit risk out of trade accounts receivable please refer to note 16.

c) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and marketable securities, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Corporate Treasury maintains flexibility in funding by maintaining availability under a committed credit line.

Management monitors forecast figures of the corporation's liquidity reserve on the basis of expected cash flow. In 2007, a syndicated credit line with maturity 2012 has been established to provide financial flexibility also in the short run. During 2008, the syndicated credit line has been partially extended until 2013. If special needs arise, financing will be reviewed case by case.

The table below analyzes the corporation's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows calculated with the year-end closing rates. Borrowings include the notional amount as well as interest payments.

millions of CHF	2008					2007				
	<1 year	1–2 years	2–5 years	>5 years	**Total**	<1 year	1–2 years	2–5 years	>5 years	Total
Borrowings	163.6	9.3	4.9	16.0	**193.8**	167.3	11.5	4.8	16.3	199.9
Trade accounts payable	317.3	–	–	–	**317.3**	383.0	–	–	–	383.0
Other liabilities	210.4	5.7	0.4	–	**216.5**	171.6	2.2	1.2	–	175.0

The following table analyzes the corporation's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows calculated with the year-end closing rates. With every forward contract the corporation is obliged to pay an amount, however receives the equivalent amount in a different currency. In case of options, only short positions are considered as only these positions generate a payment liability.

millions of CHF	2008				
	<1 year	1–2 years	2–5 years	>5 years	**Total**
Forward exchange contracts					
– outflow	990.6	40.7	0.8	0.0	**1 032.1**
– inflow	990.6	40.7	0.8	0.0	**1 032.1**
Currency options					
– outflow	1.2	0.0	0.0	0.0	**1.2**
– inflow	1.2	0.0	0.0	0.0	**1.2**
Other options					
– outflow	36.7	0.0	0.0	0.0	**36.7**
– inflow	0.0	0.0	49.8	0.0	**49.8**

millions of CHF	2007				
	<1 year	1–2 years	2–5 years	>5 years	Total
Forward exchange contracts					
– outflow	781.8	25.8	2.2	0.0	809.8
– inflow	781.8	25.8	2.2	0.0	809.8
Currency options					
– outflow	14.2	1.3	0.0	0.0	15.5
– inflow	14.2	1.3	0.0	0.0	15.5
Other options					
– outflow	37.5	0.0	0.0	0.0	37.5
– inflow	0.0	0.0	0.0	0.0	0.0

3.2 Capital risk management

The corporation's objectives when managing capital are to safeguard the corporation's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the corporation may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the same industry, the corporation monitors capital on the basis of the gearing ratio. This ratio is calculated as total financial debt divided by total equity (debt to equity ratio). The equity capital as shown in the balance sheet corresponds to the managed equity capital.

The gearing ratio as at December 31, 2008, remained constant compared to 2007 as showed in the following table:

millions of CHF	**2008**	2007[1)]
Total financial debt	**182.4**	186.0
Total equity (excluding minorities)	**1 538.3**	1 551.2
Gearing Ratio	**0.12**	0.12

1) Restated (see section 2.2 "Change in accounting policies" on page 14).

3.3 Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the corporation is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by reference to quoted market prices or model calculations. The corporation uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date.

The carrying value less allowance for doubtful trade receivables and payables are assumed to approximate their fair values due to the short-term nature of trade receivables. Allowances are based on past experience in the relevant markets. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the corporation for similar financial instruments.

The corporation does not have significant financial assets for which valuation techniques not based on observable market data are used.

4 Critical accounting estimates and judgments

All estimates and assessments are continually reviewed and are based on historical experiences and other factors, including expectations regarding future events that appear reasonable under the given circumstances. The corporation makes estimates and assumptions that relate to the future. By their nature, these estimates will only rarely correspond to actual subsequent events. The estimates and assumptions that carry a significant risk, in the form of a substantial adjustment to the present values of assets and liabilities within the next financial year, are set out below.

a) Goodwill

In accordance with the accounting policies set forth in section 2.6, the corporation carries out an annual impairment test on goodwill. The recoverable amount from cash-generating units is measured on the basis of value in use calculations. These calculations require the establishment of assumptions. The management defines budgeted gross margins based on developments in the past and on future market expectations. The applied discount rates are based on pre-tax interest rates and reflect the specific risks of the respective industry.

As in the previous year enhanced attention was paid to the valuation of goodwill of two acquisitions in the Netherlands completed in 2000. The involved divisions are Sulzer Metco and Sulzer Turbo Services. The unit of Sulzer Metco showed an almost stable performance of sales and income during 2008. The mainly relevant aviation and industrial gas turbine markets are expected to stay at a good level. Only a low growth rate has been assumed for the determination of the values in use for cash flows exceeding the planning period of five years. A second program related to the Airbus A380 is slowly increasing the output which is reflected in the forecasted revenues, but still not at the level as previously anticipated. This fact has been taken into consideration projecting the upcoming years.

Sulzer Turbo Services' subsidiaries results in 2008 are in line with the projections made in prior year. The relevant growth rates were reduced in order to reflect current market expectations.

The valuation calculations performed on this basis for the two acquisitions in the Netherlands did not require impairments. No other acquisition reported weak earnings and required special attention.

b) Income taxes

The corporation is obliged to pay income taxes in numerous jurisdictions. Significant assumptions are required in order to determine global tax provisions. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of the business.

c) Provisions

The provisions of warranties/liabilities include significant amounts to cover pending items in connection with liabilities and disagreements with the buyer of the locomotive business. The assessment of the related risks is, in view of the complex character of the contracts involved and their partially long-term nature difficult.

d) Revenue recognition

The corporation uses the percentage of completion method (PoC) in accounting for major long-term contracts. The use of the PoC method requires the corporation to estimate the proportional revenue and costs. If circumstances arise that may change the original estimates of revenues, costs or extent of progress toward completion, estimates are revised. These revisions may result in increases or decreases in estimated revenues or costs and are reflected in income in the period in which the circumstances that give rise to the revision become known by management.

e) Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The corporation uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or trader quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date.

Notes to the Consolidated Financial Statements

01 Significant changes in the scope of consolidation

All current figures related to business combinations in the reporting period are of temporary nature only as they can change during the measurement period. If the estimates need to be revised, the cost of the business combination shall be adjusted accordingly. The impact on cash flow and the income statement of the below listed acquisitions is disclosed in note 30.

Sulzer Chemtech

2007: On January 31, 2007, the assets of Knitmesh were acquired and consolidated in the Sulzer Chemtech division. The main locations of the activities are in the UK and the USA. The total purchase price amounted to around CHF 13 million, whereof about CHF 9 million were remitted to the seller in 2007 and CHF 4 million in 2008.

Sulzer Turbo Services

2008: On December 2, 2008, the assets of Capime were acquired by Sulzer Turbo Services. The main locations of their activities are in Argentina, Uruguay, Brazil and Venezuela. The total purchase price amounted to approximately USD 18.8 million, whereof USD 4.8 million were paid to the seller by the end of 2008. USD 9.9 million will be remitted to the seller in 2009 and the final payment of USD 4.1 million (deferred payments) in 2011.

02 Major currency exchange rates

CHF	2008		2007	
	Average rate	Year-end rate	Average rate	Year-end rate
1 EUR	1.59	1.49	1.64	1.66
1 GBP	2.00	1.54	2.40	2.25
1 USD	1.08	1.06	1.20	1.12

03 Segment information

millions of CHF		Sulzer Pumps 2008	Sulzer Pumps 2007	Sulzer Metco 2008	Sulzer Metco 2007	Sulzer Chemtech 2008	Sulzer Chemtech 2007	Sulzer Turbo Services 2008	Sulzer Turbo Services 2007
Sales		1 817.0	1 733.8	743.5	753.1	823.3	761.3	313.6	279.0
Nominal growth (unaudited)		4.8%	23.4%	–1.3%	16.9%	8.1%	52.2%	12.4%	15.1%
Adjusted growth (unaudited)[1]		15.9%	22.4%	3.5%	15.1%	13.1%	27.4%	21.8%	15.5%
Operating income before depreciation and amortization	EBITDA	257.0	224.9	94.3	102.5	171.8	150.8	38.1	32.4
Depreciation/amortization		–25.1	–25.7	–24.7	–26.7	–31.7	–34.5	–7.6	–7.3
Operating income	EBIT	231.9	199.2	69.6	75.8	140.1	116.3	30.5	25.1
Operating assets		1 189.4	1 217.1	515.4	566.2	627.9	647.9	289.5	261.8
Unallocated assets		–	–	–	–	–	–	–	–
Total assets as of December 31		1 189.4	1 217.1	515.4	566.2	627.9	647.9	289.5	261.8
Operating liabilities		799.1	762.4	106.1	136.0	226.9	217.7	91.9	77.0
Unallocated liabilities		–	–	–	–	–	–	–	–
Total liabilities as of December 31		799.1	762.4	106.1	136.0	226.9	217.7	91.9	77.0
Operating net assets		390.3	454.7	409.3	430.2	401.0	430.2	197.6	184.8
Unallocated net assets		–	–	–	–	–	–	–	–
Total net assets as of December 31		390.3	454.7	409.3	430.2	401.0	430.2	197.6	184.8
Capital expenditure		31.7	39.3	31.3	26.5	30.5	25.1	9.8	21.1
Research and development expenses		19.1	17.1	19.6	15.8	19.5	16.1	–	–
Employees (number of full-time equivalents) as of December 31		6 239	5 686	2 105	2 054	2 769	2 393	1 314	1 179
Order intake (unaudited)		2 308.7	2 076.9	715.6	762.8	770.4	890.8	303.4	313.2
Nominal growth (unaudited)		11.2%	18.5%	–6.2%	15.8%	–13.5%	47.9%	–3.1%	24.1%
Adjusted growth (unaudited)[1]		23.3%	18.0%	–1.8%	14.0%	–9.3%	26.7%	5.0%	24.4%
Order backlog (unaudited)		1 518.6	1 303.8	68.2	99.7	347.9	414.0	160.0	157.6
Return on capital employed (EBIT in % of average capital employed)	ROCE	53.5%	44.5%	16.0%	17.1%	32.9%	25.1%	17.0%	14.5%
Return on sales (EBIT/sales)	ROS	12.8%	11.5%	9.4%	10.1%	17.0%	15.3%	9.7%	9.0%

[1] Adjusted for currency effects as well as acquisitions and divestitures.

The four divisions are Sulzer Pumps, active in developing and supplying centrifugal pumps; Sulzer Metco, provider of services, products and equipment for thermal-spray and thinfilm surface technologies; Sulzer Chemtech, which supplies in the field of separation columns, static mixing, as well as two-component mixing and dispensing systems; and Sulzer Turbo Services, providing repair and maintenance services for thermal turbomachinery and other rotating equipment. There are no significant transactions across the segments.

millions of CHF		Total divisions		Others		Total Sulzer	
		2008	2007	2008	2007	2008	2007[2]
Sales		3 697.4	3 527.2	16.1	9.8	3 713.5	3 537.0
Nominal growth (unaudited)		4.8%	26.3%	–	–	5.0%	26.2%
Adjusted growth (unaudited)[1]		13.1%	21.0%	–	–	13.2%	20.9%
Operating income before depreciation and amortization	EBITDA	561.2	510.6	14.7	–9.3	575.9	501.3
Depreciation/amortization		–89.1	–94.2	–11.7	–13.6	–100.8	–107.8
Operating income	EBIT	472.1	416.4	3.0	–22.9	475.1	393.5
Operating assets		2 622.2	2 693.0	151.5	202.4	2 773.7	2 895.4
Unallocated assets		–	–	–	–	656.5	570.6
Total assets as of December 31		2 622.2	2 693.0	151.5	202.4	3 430.2	3 466.0
Operating liabilities		1 224.0	1 193.1	62.2	111.2	1 286.2	1 304.3
Unallocated liabilities		–	–	–	–	597.7	602.3
Total liabilities as of December 31		1 224.0	1 193.1	62.2	111.2	1 883.9	1 906.6
Operating net assets		1 398.2	1 499.9	89.3	91.2	1 487.5	1 591.1
Unallocated net assets		–	–	–	–	58.8	–31.7
Total net assets as of December 31		1 398.2	1 499.9	89.3	91.2	1 546.3	1 559.4
Capital expenditure		103.3	112.0	12.7	22.8	116.0	134.8
Research and development expenses		58.2	49.0	1.4	2.8	59.6	51.8
Employees (number of full-time equivalents) as of December 31		12 427	11 312	299	287	12 726	11 599
Order intake (unaudited)		4 098.1	4 043.7	18.5	10.3	4 116.6	4 054.0
Nominal growth (unaudited)		1.3%	23.8%	–	–	1.5%	23.7%
Adjusted growth (unaudited)[1]		9.9%	19.3%	–	–	10.1%	19.2%
Order backlog (unaudited)		2 094.7	1 975.1	5.5	3.0	2 100.2	1 978.1
Return on capital employed (EBIT in % of average capital employed)	ROCE	32.0%	27.2%	–	–	30.6%	24.2%
Return on sales (EBIT/sales)	ROS	12.8%	11.8%	–	–	12.8%	11.1%

[1] Adjusted for currency effects as well as acquisitions and divestitures.
[2] Restated (see section 2.2 "Change in accounting policies" on page 14).

Others summarizes the following activities: Real Estate, Sulzer Innotec, Corporate Center and consolidation adjustments.

04 Segment information by geographical regions

millions of CHF	Operating assets by company locations		Capital expenditure in intangible assets and property, plant and equipment by company locations		Sales by region	
	2008	2007	2008	2007	2008	2007
Europe	1676.5	1757.9	71.9	83.1	1289.9	1345.0
North America	643.6	661.7	21.2	33.7	996.8	967.9
Latin America	182.7	171.5	5.9	4.6	247.2	211.9
Asia, Australia[1)]	248.2	283.4	16.3	12.5	1025.9	862.2
Africa	37.2	47.7	0.7	0.9	153.7	150.0
Eliminations	–14.5	–26.8	–	–	–	–
Total	2773.7	2895.4	116.0	134.8	3713.5	3537.0

1) Including Middle East.

05 Personnel expenses

millions of CHF	2008	2007
Salaries and wages	762.9	751.4
Employee defined contribution plans	24.6	22.1
Employee defined benefit plans	24.9	24.2
Cost of share-based payments	14.8	14.8
Other personnel costs	134.3	136.0
Total personnel expenses	961.5	948.5

The small increase of personnel expenses compared to the higher average number of employees is mainly a result of the currency development during 2008. A summary of the number of employees by divisions and regions is shown on pages 60 and 61.

06 Employee benefit plans

The defined benefit obligation for the active members of pension plans is the present value of accrued pension obligations at balance sheet date considering future salary and pension increases and also turnover rates (using the Project Unit Credit method). The defined benefit obligation for the retirees is the present value of the ongoing pensions considering future pension increases. In Switzerland and in most other countries, pension liabilities are covered by assets held by separate legal entities. The financing of pension benefit plans in Germany, however, is made by means of provisions accrued in the accounting records of the companies affected. The actuarial valuations for the defined benefit plans were performed at the balance sheet closing date. The Swiss pension plans are treated as defined benefit plans in accordance with IAS 19.

millions of CHF	Funded plans	Unfunded plans	2008	2007[1]
Reconciliation of the amount recognized in the balance sheet at end of year				
Present value of funded defined benefit obligation	–3209.6	–	**–3209.6**	–3422.2
Fair value of plan assets	3152.6	–	**3152.6**	3859.4
Overfunding (+) / underfunding (–)	–57.0	–	**–57.0**	437.2
Present value of unfunded defined benefit obligation	–	–63.1	**–63.1**	–73.8
Unrecognized actuarial gains (–) / losses (+)	82.7	–2.0	**80.7**	2.1
Overfunding not recognized[2]	–10.3	–	**–10.3**	–421.5
Asset (+) / Liability (–) recognized in balance sheet	15.4	–65.1	**–49.7**	–56.0
thereof as liabilities under non-current provisions	–4.6	–65.1	**–69.7**	–82.8
thereof as prepaid expenses	20.0	–	**20.0**	26.8
Pension expenses recognized in profit or loss				
Current service cost (employer)			**–36.6**	–36.7
Interest cost			**–118.7**	–114.4
Expected return on plan assets			**173.4**	177.0
Actuarial gain (+) / loss (–) recognized in current year			**–457.3**	4.4
Past service cost			**1.3**	–2.7
Effect of overfunding not recognized			**409.0**	–54.7
Effect of curtailment and settlements			**0.4**	0.3
Expense recognized in profit (+) / loss (–)			**–28.5**	–26.8
thereof charged to personnel expenses			**–24.9**	–23.4
thereof charged to financial income (interest on unfunded plans)			**–3.6**	–3.4
Actual return on plan assets			**–455.2**	110.2
Principal actuarial assumptions as of December 31				
Discount rate			**3.5%**	3.5%
Expected rate of return on plan assets			**4.1%**	4.6%
Future salary increases			**2.1%**	2.3%
Future pension increases			**0.4%**	0.7%
Expected average remaining working lives in years			**9.1**	9.2
Life expectance at retirement age (male/female) in years			**18/22**	18/22

[1] Restated (see section 2.2 "Change in accounting policies" on page 14).
[2] Legal requirements, particularly those in Switzerland, restrict the utilization of overfunded amounts in legally separate benefit plans. Only amounts for which the future economics benefit to the employer is immanent are capitalized in the consolidated balance sheet.

The expected return on plan assets is determined by considering the expected returns available on the assets underlying the current investment policy. The expected long-term return for investment categories is as follows: 2.5% for bonds, 6.3% for equities, 4.1% for properties and 3.5% for others.

06 Employee benefit plans (continued)

millions of CHF	2008	2007
Reconciliation of defined benefit obligation		
Defined benefit obligation as of January 1[1]	3496.0	3595.0
Interest cost	118.7	114.4
Current service cost (employer)	36.6	36.7
Contributions by plan participants	11.5	10.7
Past service cost	–1.3	2.7
Benefits paid/deposited	–187.9	–159.7
Change in scope of consolidation	–	–
Curtailment and settlements	–0.7	–0.2
Actuarial gain (–) / loss (+) on obligation	–100.3	–86.5
Currency translation differences	–99.9	–17.1
Defined benefit obligation as of December 31[2]	3272.7	3496.0
Reconciliation of the fair value of plan assets		
Fair value of plan assets as of January 1	3859.4	3892.0
Expected return on plan assets	173.4	177.0
Contributions by the employer/benefits paid directly by employer	27.2	24.8
Contributions by plan participants	11.5	10.7
Benefits paid/deposited	–187.9	–159.7
Change in scope of consolidation	–	–
Curtailment and settlements	–0.3	–
Actuarial gain (+) / loss (–) on plan assets	–628.7	–66.8
Currency translation differences	–102.0	–18.6
Fair value of plan assets as of December 31	3152.6	3859.4
thereof equity instruments Sulzer Ltd	4.0	7.5
thereof equity instruments–third party	729.2	1310.3
thereof debt instruments–third party	1369.4	1611.6
thereof properties occupied by or used by third party	721.8	733.6
thereof others	328.2	196.4
Best estimate of contributions for upcoming financial year		
Contributions by the employer/benefits paid directly by employer[3]	23.5	23.8
Contributions by plan participants	10.9	10.8

[1] Defined benefit obligation includes the funded part (CHF 3422.2 million) and the unfunded part (CHF 73.8 million).
[2] Defined benefit obligation includes the funded part (CHF 3209.6 million) and the unfunded part (CHF 63.1 million).
[3] Benefits directly paid by the employer mainly refer to the German plans.

millions of CHF	2008	2007	2006	2005
Information over several years				
Present value of funded defined benefit obligation	–3209.6	–3422.2	–3514.3	–3463.9
Fair value of plan assets	3152.6	3859.4	3892.0	3706.7
Overfunding (+) / underfunding (–)	–57.0	437.2	377.7	242.8
Present value of unfunded defined benefit obligation	–63.1	–73.8	–80.7	–77.1
Experience adjustments on defined benefit obligation	–5.0	–21.7	–1.1	27.3
Experience adjustments on plan assets	–628.7	–66.8	98.6	280.5

07 Research and development expenses

In 2008, the total research and development expenses amounted to CHF 59.6 million (2007: CHF 51.8 million). The increase is mainly due to larger investments into research and development projects in the divisions (CHF 58.2 million in 2008 compared to CHF 49.0 million in 2007). The investments of Sulzer Innotec, the corporate research and development unit, amounted in 2008 to CHF 1.4 million (2007: CHF 2.8 million). Sulzer Innotec and some of the divisions maintain a close cooperation with the Swiss Federal Institutes of Technology, domestic and foreign universities, and research laboratories. A detailed breakdown of the research and development expenses per division is shown in note 03 “Segment information”.

08 Other operating income and expenses

millions of CHF	2008	2007
Income from rental/leasing of real estate	27.7	29.6
Gain from sale of real estate	11.3	16.7
Income from services to third parties	8.8	8.2
Other operating income	17.2	7.6
Total other operating income	**65.0**	62.1
Expenses from rental/lease of real estate	–25.6	–26.8
Operating currency exchange gains/losses	–10.7	–2.5
Other operating expenses	–37.7	–25.9
Total other operating expenses	**–74.0**	–55.2
Total other operating income and expenses	**–9.0**	6.9

Total other operating income and expenses amounted to CHF –9.0 million compared to CHF 6.9 million in the previous year. Compared to previous year income from rental and leasing as well as gains from sale of real estate decreased by CHF 7.3 million. Furthermore the negative impact of the fluctuation of currency exchange rates on operating assets and liabilities amounted to CHF 10.7 million.

09 Financial income/expenses

millions of CHF	2008	2007
Interest and securities income	**10.8**	9.5
Interest expenses	**–11.0**	–13.3
Interest on unfunded employee benefit plans	**–3.6**	–3.4
Interest expenses	**–14.6**	–16.7
Total interest income	**–3.8**	–7.2
Income from participations and financial assets	**–0.4**	24.9
Fair value changes	**–4.2**	–4.6
Other financial income/expenses	**1.1**	–0.6
Currency exchange gains/losses	**–16.2**	1.6
Total other financial income	**–19.7**	21.3
Total financial income	**–23.5**	14.1
thereof from financial assets held at fair value through profit or loss	**–4.4**	0.3
thereof from available-for-sale financial assets	**–**	24.9
thereof from loans and receivables	**–10.1**	0.8
thereof from borrowings	**–11.0**	–13.3

The income on interests and securities slightly increased due to the higher average cash position over the year. The lower drawings on the syndicated credit facility as well as the falling interest rates led to lower interest expenses compared to 2007. In the previous year the line “Income from participations and financial assets” included mainly a gain on sold shares of Burckhardt Compression. In the reporting period only minor equity sales have been realized compared to CHF 24.9 million in previous year. The fair value changes mainly comprise the fair valuation of marketable securities which are classified as “financial assets at fair value through profit or loss”. In addition, the strong volatility in the currencies resulted in notable currency exchange losses.

10 Income taxes

Income tax expenses

millions of CHF	2008	2007
Current income tax expenses	–125.1	–138.2
Deferred income tax expenses	1.2	18.0
Total income tax expenses	**–123.9**	–120.2

The tax on the corporation's profit before tax differs from the theoretical amount which would arise using the weighted average tax rate calculated at domestic tax rates as follows:

millions of CHF	2008	2007
Income before income tax expenses	451.6	407.6
Weighted average tax rate	**29.6%**	31.6%
Income taxes at weighted average tax rate	–133.7	–128.8
Impact on differences between tax rates on taxes on income	2.9	2.3
Effect of tax loss carryforwards and allowances for deferred income tax assets	10.0	9.4
Expenses not deductible for tax purposes	–1.9	–0.7
Effect of changes in tax rates and legislation	–0.6	–2.9
Prior period adjustments	–0.6	0.5
Total income tax expenses	**–123.9**	–120.2
as percentage of income before income tax expenses	27.4%	29.5%

The weighted average tax rate decreased by 2.0% compared to the previous year, the corporate income tax rate by 2.1%. The reasons for these improvements are lower tax rates in Germany and the UK as well as the granting of special tax status to certain Swiss and Chinese companies. In addition, the corporate income tax rate was positively influenced by the dissolution of valuation allowances on remaining tax assets in Germany and Brazil.

Income tax liabilities

millions of CHF	2008	2007
Balance as of January 1	107.7	106.8
Additions	82.8	99.7
Released as no longer required	–5.4	–3.7
Released for utilization	–83.2	–94.4
Currency translation differences	–7.4	–0.7
Total income tax liabilities as of December 31	**94.5**	107.7
thereof non-current	35.1	35.1
thereof current	59.4	72.6

The decrease of income tax liabilities is due to larger tax payments for the current year.

10 Income taxes (continued)

Summary of deferred income tax assets and liabilities in the balance sheet

millions of CHF	2008		2007[1)]	
	Assets	**Liabilities**	Assets	Liabilities
Intangible assets	**2.6**	**33.5**	3.3	33.0
Property, plant and equipment	**2.8**	**22.8**	2.4	25.1
Other financial assets	**0.4**	**6.6**	0.6	11.2
Inventories	**12.0**	**7.4**	14.2	9.9
Other assets	**15.7**	**16.9**	8.5	14.3
Non-current provisions	**14.1**	**4.2**	19.0	4.2
Current provisions	**29.6**	**6.2**	26.8	8.5
Other current liabilities	**12.6**	**10.1**	5.6	2.3
Tax loss carryforwards	**25.6**	**–**	42.6	–
Elimination of intercompany profits	**4.6**	**–**	4.7	–
Total potential tax effect	**120.0**	**107.7**	127.7	108.5
Valuation allowances	**–15.6**	**–**	–32.5	–
Deferred income tax – gross	**104.4**	**107.7**	95.2	108.5
Offset of assets and liabilities	**–35.4**	**–35.4**	–31.3	–31.3
Net recorded deferred income tax assets and liabilities	**69.0**	**72.3**	63.9	77.2

1) Restated (see section 2.2 “Change in accounting policies” on page 14).

Deferred income taxes directly recorded in equity amounted to CHF 11.8 million (2007: CHF 1.0 million). In compliance with the exception clause of IAS 12, the corporation does not recognize deferred income taxes on investments in subsidiaries in the balance sheet.

Tax loss carryforwards

millions of CHF	2008	2007
Expiring in the next 3 years	**30.4**	3.6
Expiring in 4 to 7 years	**18.0**	28.2
Available without limitation	**72.8**	176.6
Total tax loss carryforwards	**121.2**	208.4
Calculated potential tax assets thereof	**25.6**	42.6
Valuation allowances	**–14.6**	–31.5
Net tax asset from tax loss carryforwards	**11.0**	11.1

As in 2007, Sulzer has been able to utilize a significant portion of the tax loss carryforwards in 2008. The current company structure limits the use of some of the existing tax loss carryforwards and hence they are not capitalized as deferred income tax assets.

11 Intangible assets

millions of CHF	2008			2007		
	Goodwill	Other intangible assets	**Total**	Goodwill	Other intangible assets	Total
Acquisition cost						
Balance as of January 1	402.2	153.9	**556.1**	390.4	141.5	531.9
Changes in scope of consolidation	21.9	2.4	**24.3**	8.6	5.1	13.7
Additions	–	5.2	**5.2**	0.2	4.5	4.7
Disposals	–	–1.3	**–1.3**	–	–	–
Reclassifications	–	16.0	**16.0**	–	3.4	3.4
Currency translation differences	–34.9	–5.8	**–40.7**	3.0	–0.6	2.4
Balance as of December 31	389.2	170.4	**559.6**	402.2	153.9	556.1
Accumulated amortization						
Balance as of January 1	–	41.0	**41.0**	–	19.8	19.8
Changes in scope of consolidation	–	–	**–**	–	–	–
Additions	–	16.6	**16.6**	–	18.4	18.4
Disposals	–	–1.3	**–1.3**	–	–	–
Reclassifications	–	14.4	**14.4**	–	3.1	3.1
Impairment[1)]	–	–	**–**	–	–	–
Currency translation differences	–	–2.6	**–2.6**	–	–0.3	–0.3
Balance as of December 31	–	68.1	**68.1**	–	41.0	41.0
Net book value						
as of January 1	402.2	112.9	**515.1**	390.4	121.7	512.1
as of December 31	389.2	102.3	**491.5**	402.2	112.9	515.1

1) If any, impairment losses are charged to operating income.

The change in goodwill in 2008 refers to the acquisition of the turbomachinery service-provider Capime in Latin America. The position “Other intangible assets” includes purchased patents, licenses, brand names and know-how, software licenses as well as capitalized development costs. The amortization of “Other intangible assets” was broadly in line with the prior year and was largely related to intangible assets of the Mixpac, Werfo and Mold acquisition. In 2003, Sulzer Metco entered into a long-term risk and revenue sharing agreement for the development and supply of components of the jet engine for the Airbus A380. The recoverability of this intangible asset is directly associated with the long-term development partnership. The corresponding share paid to third parties for the development costs has been capitalized for an amount of CHF 11.5 million as of December 31, 2008 (2007: CHF 13.0 million).

Goodwill impairment test

millions of CHF	Sulzer Pumps	Sulzer Metco	Sulzer Chemtech	Sulzer Turbo Services	**Total**
Goodwill, net book value as of December 31, 2007	99.3	131.7	102.4	68.8	**402.2**
Goodwill, net book value as of December 31, 2008	89.9	119.0	100.0	80.3	**389.2**
The test is based on the following assumptions:					
Growth rate for the residual amount	2.0%	2.0%	0.0%	0.0%	
Pre-tax discount rate	13.0%	11.6%	10.8%	11.5%	

Goodwill is allocated to the smallest identifiable cash-generating unit (CGU) of the appropriate segment. The fair value of this unit is determined through calculation of its value in use. The calculation is based on cash flow projections derived from midrange plans that have been approved by the management. Cash flows beyond this planning period are extrapolated, using rather conservative growth rates. The above assumptions were used for the analysis of every cash-generating unit within the segments. The allocation of goodwill to the segments is displayed in the above table. No impairment charge had to be recognized in 2008 and 2007. In the case of two acquisitions in the Netherlands, completed in 2000, sensitivity analyses were performed with respect to parameters such as growth, profitability and discount rate. These sensitivity analyses did not give reason to an adjustment of the respective initial impairment test assessments.

12 Property, plant and equipment

millions of CHF	Land and buildings	Machinery and technical equipment	Other non-current assets	Assets under construction	2008 Total
Acquisition cost					
Balance as of January 1	657.7	668.2	267.2	34.9	**1 628.0**
Changes in scope of consolidation	–	0.2	0.6	0.4	**1.2**
Additions[1)]	26.0	59.2	22.0	3.6	**110.8**
Disposals	–16.7	–19.9	–14.2	–	**–50.8**
Reclassifications	–2.2	8.5	–28.5	–	**–22.2**
Currency translation differences	–40.8	–74.4	–24.6	–3.1	**–142.9**
Balance as of December 31	624.0	641.8	222.5	35.8	**1 524.1**
Accumulated depreciation					
Balance as of January 1	307.4	458.0	207.6	–	**973.0**
Changes in scope of consolidation	–	–	–	–	**–**
Additions	21.0	46.4	16.8	–	**84.2**
Disposals	–9.8	–16.7	–13.4	–	**–39.9**
Reclassifications	5.6	8.4	–26.0	–	**–12.0**
Impairment	–	–	–	–	**–**
Currency translation differences	–16.1	–52.4	–18.5	–	**–87.0**
Balance as of December 31	308.1	443.7	166.5	–	**918.3**
Net book value					
as of January 1	350.3	210.2	59.6	34.9	**655.0**
as of December 31	315.9	198.1	56.0	35.8	**605.8**
thereof leased property, plant and equipment					
Acquisition cost of leased property, plant and equipment	4.4	0.4	0.9	–	**5.7**
Accumulated depreciation	4.4	0.4	0.8	–	**5.6**
Net book value as of December 31	–	–	0.1	–	**0.1**
Leasing commitments (present value)	1.8	0.2	0.2	–	**2.2**
Fire insurance value	1 374.1	1 102.1	348.6	35.8	**2 860.6**

1) For "Assets under construction" this line represents the net change (additions/deductions) of the reporting period.

Sulzer owns a number of real estate properties no longer essential for its operations, with a book value of about CHF 134 million (2007: CHF 140 million). It is planned to sell these properties over time, or to develop them for different utilization. The value of these properties is strongly linked with their future use and application. The fair market value of these properties exceeds the book value by approximately CHF 50 million (the valuation is based on discounted cash flow calculations and similar transactions performed by an accredited independent valuer).

12 Property, plant and equipment (continued)

millions of CHF	Land and buildings	Machinery and technical equipment	Other non-current assets	Assets under construction	2007 Total
Acquisition cost					
Balance as of January 1	659.4	644.8	238.7	38.8	1 581.7
Changes in scope of consolidation	12.4	–2.0	0.1	–	10.5
Additions[1)]	44.5	56.4	33.0	–3.6	130.3
Disposals	–51.2	–14.8	–15.7	–	–81.7
Reclassifications	–3.8	–16.4	11.2	–	–9.0
Currency translation differences	–3.6	0.2	–0.1	–0.3	–3.8
Balance as of December 31	657.7	668.2	267.2	34.9	1 628.0
Accumulated depreciation					
Balance as of January 1	322.8	437.1	192.5	–	952.4
Changes in scope of consolidation	9.0	–0.4	–	–	8.6
Additions	21.8	49.3	18.3	–	89.4
Disposals	–46.5	–13.0	–15.3	–	–74.8
Reclassifications	1.2	–16.4	12.1	–	–3.1
Impairment	–	–	–	–	–
Currency translation differences	–0.9	1.4	–	–	0.5
Balance as of December 31	307.4	458.0	207.6	–	973.0
Net book value					
as of January 1	336.6	207.7	46.2	38.8	629.3
as of December 31	350.3	210.2	59.6	34.9	655.0
thereof leased property, plant and equipment					
Acquisition cost of leased property, plant and equipment	4.9	1.7	0.7	–	7.3
Accumulated depreciation	4.9	1.7	0.6	–	7.2
Net book value as of December 31	–	–	0.1	–	0.1
Leasing commitments (present value)	2.1	0.5	0.4	–	3.0
Fire insurance value	1 303.2	1 026.3	322.5	34.9	2 686.9

1) For "Assets under construction" this line represents the net change (additions/deductions) of the reporting period.

13 Other financial assets

millions of CHF	Available-for-sale financial assets	Loans and receivables	2008
Balance as of January 1	53.5	5.4	**58.9**
Changes in scope of consolidation	–	–	**–**
Additions	2.1	5.4	**7.5**
Deductions	–2.7	–2.3	**–5.0**
Reclassifications	–	–	**–**
Changes in fair value	–26.3	–	**–26.3**
Currency translation differences	–1.6	–0.2	**–1.8**
Balance as of December 31	25.0	8.3	**33.3**

millions of CHF	Available-for-sale financial assets	Loans and receivables	2007
Balance as of January 1	55.9	5.9	61.8
Changes in scope of consolidation	–	–	–
Additions	0.3	0.9	1.2
Deductions	–26.5	–1.5	–28.0
Reclassifications	–	–	–
Changes in fair value	23.5	–	23.5
Currency translation differences	0.3	0.1	0.4
Balance as of December 31	53.5	5.4	58.9

Financial assets that belong to the category “Available-for-sale financial assets” include securities of a capital investment nature, and participations of less than 20%. The fair value revaluation of CHF –26.3 million (2007: CHF 23.5 million) was recognized through equity not effecting net income. The category “Loans and receivables” includes mainly loans and receivables to third parties with maturities beyond 12 months.
The net book value of category “Available-for-sale financial assets” of CHF 25.0 million consists to a major part of the participation in Burckhardt Compression. The reduction compared to prior year is due to the fair value revaluation. In the prior year, the partial sale of this participation was reflected in line “Deductions”.

14 Inventories

millions of CHF	2008	2007
Raw materials, supplies and consumables	**148.8**	171.8
Work in progress	**360.9**	359.3
Finished products and trade merchandise	**125.6**	119.7
Advance payments to suppliers	**60.0**	111.3
Total inventories	**695.3**	762.1

In 2008, Sulzer recognized write-downs to a net realizable value of CHF 18.6 million (2007: CHF 12.0 million). Based on the gross value, the total write-downs amounted to CHF 62.3 million as of December 31, 2008 (2007: CHF 52.3 million).

15 Percentage of completion contracts

millions of CHF	2008	2007
Contract revenue recognized in period	354.7	296.9
Contract costs incurred since start of contract work and recognized profits to date (relating to current contracts)	349.2	324.0
Advances received from customers	–236.1	–276.3

Sales recognized in accordance with the percentage of completion method for the reporting period amounted to CHF 354.7 million which corresponds to 9.6% of total sales (2007: CHF 296.9 million or 8.4% of sales). The costs related to this sales figure amounted to CHF 261.5 million (2007: CHF 233.7 million). The impact on gross profit was CHF 93.2 million which corresponds to 8.1% of total gross profit (2007: CHF 63.2 million, 6.1%). The increase in sales recognized and contract costs incurred since start of contract work mainly resulted from the sales growth of Sulzer Pumps and a number of large contracts within Sulzer Pumps.

16 Trade accounts receivable

Aging structure of trade accounts receivable

millions of CHF	2008	2007
Not past due	586.9	588.6
Past due		
1–30 days	124.2	134.5
31–60 days	71.3	50.9
61–90 days	35.1	32.0
91–120 days	29.6	24.9
>120 days	38.4	22.4
thereof impaired	–26.2	–23.6
Total trade accounts receivable	859.3	829.7

Allowance for doubtful trade accounts receivable

millions of CHF	2008	2007
Balance as of January 1	23.6	23.0
Changes in scope of consolidation	–	–
Additions	15.0	10.1
Released as no longer required	–4.7	–2.4
Released for utilization	–5.3	–6.8
Currency translation differences	–2.4	–0.3
Balance as of December 31	26.2	23.6

In 2008, the total amount of trade accounts receivable increased by CHF 29.6 million to CHF 859.3 million. Less than one-third of the trade accounts receivable are past due and CHF 26.2 million (3.0%) are impaired. The recoverability of trade accounts receivable is reviewed regularly and the credit quality of new customers is assessed thoroughly. Due to the large and independent customer base the credit risk of the corporation is limited. Receivables which are past due more than 120 days are subject to regular review and adequate impairment is considered.

17 Other accounts receivable and prepaid expenses

millions of CHF	2008	2007[1)]
Receivables from tax authorities	46.4	59.6
Derivative financial instruments	41.9	56.4
Other accounts receivable	31.0	21.5
Total other accounts receivable	119.3	137.5
Insurance premiums	2.9	4.2
Overfunding of employee benefit plans	20.0	26.8
Other prepaid expenses	32.7	22.0
Total prepaid expenses	55.6	53.0
Total other accounts receivable and prepaid expenses	174.9	190.5

1) Restated (see section 2.2 “Change in accounting policies” on page 14).

For further details to position “Derivative financial instruments” refer to note 27 “Derivative financial instruments”. Other current accounts receivable do not include any material positions which are past due or impaired.

18 Assets and disposal groups held for sale

millions of CHF	2008	2007
Intangible assets	–	–
Property, plant and equipment	9.2	5.1
Inventories	–	–
Other current assets	–	–
Total assets held for sale	9.2	5.1
Current liabilities	–	–
Provisions	–	–
Total liabilities directly associated with assets held for sale	–	–

All amounts disclosed as “Assets and disposal groups held for sale” reflect transactions that are anticipated to be closed within the next 12 months. The amount shown as of December 31, 2008, mainly represents agreed sales of real estate properties located in Switzerland.

19 Cash and cash equivalents

millions of CHF	2008		2007	
	Average eff. interest rate	Amount	Average eff. interest rate	Amount
Cash		365.3		361.6
Cash equivalents		81.9		2.0
Total cash and cash equivalents	1.75	447.2	2.84	363.6

The increase in cash and cash equivalents results from the good business course and the related cash collections. Cash equivalents increased by CHF 79.9 million due to the purchase of short-term time deposits with original maturity of three months or less.

20 Marketable securities

millions of CHF	2008	2007
Designated at fair value through profit or loss	41.3	20.9
Available-for-sale	–	–
Total marketable securities	**41.3**	**20.9**

Marketable securities designated at fair value through profit or loss as of December 31, 2008, consist of equities (24%) and interest bearing investments (76%). No impairments were recorded in 2008 and previous year. Fair value adjustments are booked in the financial income.

21 Pledged assets

millions of CHF	2008	2007
Land and buildings	5.6	6.2
Machinery and equipment	–	–
Total pledged assets	**5.6**	**6.2**

22 Share capital

thousands of CHF	Number of shares	2008	2007
Issued shares			
Shares with dividend entitlement			
Balance as of January 1 (par value CHF 0.03)	3638030	**109.1**	109.1
Share buyback program / Reduction of share capital	–211793	**–6.4**	
Share capital increase		**239.8**	
Subtotal before share split (par value CHF 0.10)	3426237	**342.6**	
Share split ten-for-one			
Balance as of December 31 (par value CHF 0.01)	34262370	**342.6**	109.1

The share capital amounts to CHF 342623.70, made up of 34 262 370 shares with a par value of CHF 0.01. All shares are fully paid in and registered. Further details on the individual equity components are presented in "Changes in equity" on page 10 of this financial section. The annual general meeting of April 3, 2008, decided to cancel the 211793 shares purchased through a share buyback program and to reduce the share capital accordingly. The annual general meeting also decided to increase the share capital to CHF 342623.70 through the increase of the par value of CHF 0.03 to CHF 0.10 per registered share and to split the shares on a ten-for-one basis.

Share ownership

Sulzer shares are freely transferable without limitation provided that, when requested by the company to do so, buyers declare that they purchased and will hold the shares in their own name and for their own account. At the 2008 annual general meeting, the conditions for registering nominees were revised. In the future, nominees will be entered in the share register with the right to vote under the following provisions: The nominee is subject to supervision by a recognized banking and financial market regulator, the nominee has entered into an agreement with the board of directors concerning his status, the share capital held by the nominee does not exceed 3% of the registered share capital as entered in the commercial register, and the names, addresses and number of shares of the persons for whose account the nominee holds at least 0.5% or more of the share capital are disclosed. The board of directors is authorized to register shares of nominees with the right to vote in the share registry in excess of these limits as long as the other conditions have been satisfied (see also paragraph 6a of the articles of association at www.sulzer.com/corpgov).

In accordance with the information available to the corporation, the following shareholders hold in excess of 3% of the share capital of Sulzer Ltd:

Shareholders

	31.12.2008		31.12.2007[1]	
	Number of shares	in %	Number of shares	in %
Shareholders larger than 3%				
Renova Group	9285607	27.10	8904570	24.47
Fidelity Management Research Corp.	1673476	4.88	3641020	10.01
Focus Capital Investors LLC	–	–	1834470	5.04
Deutsche Bank	–	–	1738680	4.78
Sulzer Ltd	699439	2.04	2737750	7.53

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

Sulzer's agreement with both Everest and Renova is described in note 32. Sulzer Ltd is not aware of any other agreements between the above named shareholders regarding the shares held or regarding the execution of voting rights. The total number of shares held by Sulzer Ltd as of December 31, 2008, amounted to 699439, which are mainly held for the purpose of the management option plan (refer to note 31). For further information on shareholders refer to the Sulzer Annual Report 2008 on page 43.

23 Earnings per share

	2008	2007[1]
Net income attributable to shareholders of Sulzer Ltd (in millions of CHF)	**322.9**	284.1
Average number of shares outstanding	**33675840**	34035700
Adjustment for share option plan	**255806**	487620
Average number of shares for calculating diluted earnings per share	**33931646**	34523320
Earnings per share, attributable to a shareholder of Sulzer Ltd (in CHF)		
Basic earnings per share	**9.59**	8.35
Diluted earnings per share	**9.52**	8.23
Dividend per share	**2.80**[2]	2.80

[1] Prior year figures have been restated to reflect the ten-for-one share split as at April 14, 2008 (see note 22 on page 44).
[2] Proposal to the annual general meeting.

24 Borrowings

millions of CHF	2008			2007		
	Short-term	Long-term	**Total**	Short-term	Long-term	Total
Bank loans	155.6	14.8	**170.4**	157.9	16.1	174.0
Mortgage loans	–	8.6	**8.6**	–	9.2	9.2
Other loans and debts	0.8	0.5	**1.3**	–	–	–
Leasing obligations	0.1	2.0	**2.1**	–	2.8	2.8
Total borrowings	156.5	25.9	**182.4**	157.9	28.1	186.0
thereof due in < 1 year	156.5	–	**156.5**	157.9	–	157.9
thereof due in 1–5 years	–	10.5	**10.5**	–	12.5	12.5
thereof due in > 5 years	–	15.4	**15.4**	–	15.6	15.6

By exercising a first option the maturity of the syndicated loan has been partially extended by one year until August 15, 2013. It is subject to financial covenants, based on net financial indebtness and EBITDA.
The bank loans to subsidiaries in local currencies were reduced. The carrying amount of financial borrowings is approximately equivalent to their fair value.

Borrowings by currency

	2008			2007		
	millions of CHF	in %	Interest rate	millions of CHF	in %	Interest rate
BRL	–	–	–	15.1	8.1	9.8%
CHF	106.0	58.1	3.2%	76.5	41.1	2.8%
EUR	52.4	28.7	4.4%	65.3	35.1	4.9%
GBP	14.2	7.8	4.3%	18.3	9.9	6.6%
USD	5.1	2.8	5.6%	0.6	0.3	7.3%
Other	4.7	2.6	–	10.2	5.5	–
Total	182.4	100.0	–	186.0	100.0	–

25 Provisions

millions of CHF	Employee benefit plans[1]	Other employee benefits	Warranties/ liabilities	Restructuring	Real estate obligations	Other	**Total**
Balance as of December 31, 2007	82.8	71.2	104.3	11.1	38.0	29.0	**336.4**
Changes in scope of consolidation	–	–	–	–	–	–	**–**
Additions	3.9	16.8	46.7	1.7	5.1	34.2	**108.4**
Released as no longer required	–2.6	–4.2	–6.3	–3.4	–0.5	–1.8	**–18.8**
Released for utilization	–6.5	–36.5	–17.0	–2.4	–6.9	–14.3	**–83.6**
Reclassifications	–	–	–4.6	–2.0	0.7	5.9	**–**
Currency translation differences	–7.9	–3.0	–13.2	–0.6	–0.3	–4.2	**–29.2**
Total provisions as of December 31, 2008	69.7	44.3	109.9	4.4	36.1	48.8	**313.2**
thereof non-current	69.7	38.0	35.5	1.5	25.4	7.1	**177.2**
thereof current	–	6.3	74.4	2.9	10.7	41.7	**136.0**

[1] For further details of employee benefit plans refer to note 06 “Employee benefit plans”.

The largest position in provisions refers to “Warranties/liabilities”. These provisions include customer claims, penalties, litigation and legal cases relating predominantly to delivered goods. In 2008, this position has increased by CHF 5.6 million to CHF 109.9 million. The provision for risks referring to an ongoing dispute with the purchaser of the locomotive business is accrued within this category. About CHF 74 million is classified as current and is therefore expected to result in a cash outflow for 2009. The nature of much of the remaining provision is such that the timing of cash outflows is uncertain. The provision for “Restructuring” was reduced mainly due to releases of CHF 5.8 million in total.

Category “Other employee benefits” decreased by CHF 26.9 million to CHF 44.3 million. The main reason for the decrease was due to recording resp. valuation of the liability booked according to IFRS 2 referring to the Sulzer management cash-settled stock option plan (see note 31). This liability is measured at fair value at each balance sheet date and adjusted for vesting reasons and fluctuation expectations. The liability amounted to CHF 2.9 million as of December 31, 2008. The remaining portion of “Other employee benefits” includes provisions for jubilee gifts, for early retirement of senior managers and for other obligations to employees. Of this position, only CHF 6.3 million are expected to be cash effective in 2009.

The provisions in the “Real estate obligations” category cover the obligations from sales of real estate. Cash outflow of about one-third of the total CHF 36.1 million is expected in 2009.

“Other” include provisions which do not fit into the aforementioned categories. A large portion of these provisions refer to onerous contracts. In addition, a provision for ongoing asbestos law suits is included. Based on the currently known facts, Sulzer is of the opinion that the resolution of the open cases will not have material effects on its liquidity or financial condition. Although a large part of the category “Other” is expected to be realized in 2009, by their nature the amounts and timing of any cash outflows are difficult to predict.

26 Other current and accrued liabilities

millions of CHF	2008	2007
Notes payable	3.1	3.9
Social security institutions	9.9	11.5
Taxes (VAT, withholding tax)	24.2	25.3
Derivative financial instruments	43.4	6.2
Other current liabilities	129.8	124.7
Total other current liabilities	**210.4**	171.6
Vacation and overtime claims	34.5	37.4
Salaries, wages and bonuses	67.2	69.5
Contract-related costs	123.8	126.1
Other accrued liabilities	66.0	45.5
Total accrued liabilities	**291.5**	278.5
Total other current and accrued liabilities	**501.9**	450.1

The line "Other current liabilities" includes the put option issued on treasury shares (CHF 36.5 million) and the forward contract on treasury shares (CHF 50.3 million). In addition, this line contains CHF 10.5 million of the purchase price for the Capime acquisition which will be due in 2009. The increase in derivative financial instruments mainly resulted from significant currency fluctuations in 2008.

Despite ongoing strong business, the accrued liabilities for vacation, overtime claims, salaries, and bonuses as well as contract-related costs, decreased slightly.

27 Derivative financial instruments

millions of CHF	2008				2007			
	Derivative assets		Derivative liabilities		Derivative assets		Derivative liabilities	
	Notional value	Fair value	Notional value	Fair value	Notional value	Fair value	Notional value	Fair value
Forward exchange contracts	566.0	39.6	466.1	47.6	461.4	9.6	348.4	6.0
Currency options	1.2	–	1.2	–	15.5	–	15.5	0.3
Interest rate swaps	–	–	–	–	–	–	–	–
Other options	127.1	4.0	–	–	89.9	46.8	–	–
Total	694.3	43.6	467.3	47.6	566.8	56.4	363.9	6.3
thereof due in < 1 year	681.9		438.2		559.6		340.5	
thereof due in 1–2 years	12.4		28.3		7.2		21.2	
thereof due in 2–5 years	–		0.8		–		2.2	
thereof due in > 5 years	–		–		–		–	

The notional and fair value of derivative assets and liabilities include current and also non-current derivative financial instruments.

The cash flow hedges of the expected future sales in 2009 were assessed to be highly effective. As at December 31, 2008, a net unrealized loss of CHF 32.1 million (2007: CHF 0.0 million) with a relating deferred income tax asset of CHF 13.0 million (2007: CHF –0.4 million) is included in equity.

The ineffective portion recognized in the income statement that arose from cash flow hedges amounted to CHF 0.0 million (2007: CHF 0.3 million). There was no ineffectiveness to be recorded from fair value hedges and net investments in foreign entity hedges.

The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets in the balance sheet.

The notional value of the outstanding forward foreign exchange contracts as of December 31, 2008, amounted to CHF 1 032.1 million (2007: CHF 809.8 million). The hedged forecast transactions denominated in foreign currencies are highly probable and are mostly expected to occur at various dates during the next 12 months. Gains and losses recognized in the hedging reserve (cash flow hedges) in equity on forward foreign exchange contracts as of December 31, 2008, are recognized either in cost of goods sold or in other operating income/expenses in the period or periods during which the hedged transaction affects the income statement. This is generally within 12 months from the balance sheet date unless the gain or loss is included in the initial amount recognized for the purchase of property, plant and equipment, in which case recognition is over the lifetime of the asset (5 to 10 years).

28 Other financial commitments

millions of CHF	2008			2007		
	Rented premises	Other	**Total**	Rented premises	Other	Total
Maturity < 1 year	7.4	7.6	**15.0**	8.0	3.7	11.7
Maturity 1–5 years	20.7	6.6	**27.3**	23.7	3.9	27.6
Maturity > 5 years	7.7	–	**7.7**	9.5	–	9.5
Total rental commitments (incl. operational leasing)	35.8	14.2	**50.0**	41.2	7.6	48.8
Total commitments for future investments and acquisitions	0.4	15.2	**15.6**	0.9	5.4	6.3

The commitments for future investments and acquisitions mainly represent contractually agreed payments as a consequence of the acquisitions made or announced in 2008 and previous years (see also notes 01 and 35).

29 Contingent liabilities

millions of CHF	2008	2007
Pledges in favor of third parties	**1.3**	1.3
Guarantees in favor of third parties	**0.3**	0.4
Total contingent liabilities	**1.6**	1.7

The pledges and guarantees in favor of third parties decreased by CHF 0.1 million to CHF 1.6 million.

30 Cash flow from acquisitions

millions of CHF	2008	2007
Non-current assets	**–3.3**	–3.9
Inventories	**–5.5**	–0.2
Other net current assets	**–2.1**	–0.5
Other liabilities	**7.5**	0.3
Identified acquired net assets	**–3.4**	–4.3
Cash acquired	**2.9**	–
Subtotal	**–0.5**	–4.3
Goodwill	**–21.9**	–8.6
Purchase of minorities	**–**	–
Purchase price to be paid in future periods	**16.8**	4.3
Payments of purchase price relating to prior periods	**–71.5**	–2.9
Total cash flow from acquisitions	**–77.1**	–11.5

Acquisition related key financial data		
Order intake	**–**	9.0
Sales	**–**	6.5
Operating income	**–**	0.6

Sulzer Chemtech acquired Mixpac, Werfo and Mold in 2006. The payment of the remaining 25% of the purchase price was remitted to the seller in 2008. Refer to note 01 for further information on the acquisitions and their impact in 2008 and 2007.

Revaluations of identified acquired net assets

millions of CHF	Acquiree's carrying amount	Revaluations	Fair value
Intangible assets	–	2.4	**2.4**
Property, plant and equipment	0.9	–	**0.9**
Inventories	5.5	–	**5.5**
Other net current assets (excluding cash)	2.1	–	**2.1**
Liabilities with third parties	–6.7	–0.8	**–7.5**
Identified acquired net assets	1.8	1.6	**3.4**

31 Share participation plans

Since 2002 there is an option plan in place for key members of the management and board members. Awards are made annually and depend on the organizational position of the employee. The strike price is determined on the basis of the average stock market price of the Sulzer share during the last ten days before the options are granted. Sulzer operates equity and cash-settled compensation plans. For equity-settled compensation plans 25% of the options vest after one year, with an additional 25% vesting in each of the following three years. Equity-settled options are valid for ten years from the date of grant. For cash-settled compensation plans one-third of the options vest after one year, with an additional one-third vesting in each of the following two years. Cash-settled options are valid for five years from the date of grant. One option entitles the purchase of ten shares.

In 2008, a total of CHF 14.8 million is charged to the operating income, thereof CHF 0.3 million refer to equity-settled participation plans. In the previous year, CHF 14.8 million was included in operating income. The cash-settled plan is hedged with derivative instruments of Swiss banks. For details of option holdings by members of the board of directors and the executive management see note 109 of the financial statement of Sulzer Ltd.

Option right for ten Sulzer shares

Grant date	Outstanding 1.1.2008	Granted 2008	Exercised 2008	Forfeited 2008	Expired 2008	Outstanding 31.12.2008	Average strike price in CHF
2002	3768	–	1280	–	–	2488	31.80
2003	3920	–	470	–	–	3450	17.30
2004	11465	–	2445	–	–	9020	31.80
2005	16233	–	2590	350	–	13293	52.20
2006	29212	–	4430	700	–	24082	94.20
2007	41692	–	5410	1320	–	34962	149.50
2008	–	38922	–	1800	–	37122	127.90
Total	106290	38922	16625	4170	–	124417	–

Expiry of option rights for ten Sulzer shares

	2008		2007	
Year of expiry	Number of options	Average strike price in CHF	Number of options	Average strike price in CHF
2011	24082	94.20	29212	94.20
2012	37450	141.70	45460	139.70
2013	40572	118.50	3920	17.30
2014	9020	31.80	11465	31.80
2015	13293	52.20	16233	52.20
Outstanding as of December 31	124417	–	106290	–

The options granted during the reporting period had a fair value of CHF 347.10 at the grant date (calculation based on trinomial model). The relevant parameters were included as follows: price of the underlying share: CHF 127.40 (share price at grant date adjusted for ten-for-one split), strike price: CHF 127.90 (ten days average prior to grant date and adjusted for ten-for-one split), conversion ratio 1:10, dividend yield: 2.2%, maturity: 5 years, risk free interest rate: 2.8%, and (historic) volatility: 33%.

32 Transactions with members of the board of directors, executive management and related parties

Key management compensation

thousands of CHF	2008			2007		
	Short-term benefits	Equity-based compensation	**Total**	Short-term benefits	Equity-based compensation	Total
Board of directors	1 209	2 541	**3 750**	1 011	1 884	2 895
Executive committee	6 221	5 169	**11 390**	6 800	6 019	12 819

The amounts for equity-based compensation are valued according to IFRS 2. Employer contribution to post-employment benefits (including early retirement benefits) for the board of directors amounted to CHF 0.3 million (2007: CHF 0.4 million) and for the executive committee to CHF 1.3 million (2007: CHF 2.0 million). No other long-term or termination benefits were paid to the members of the executive management and the board of directors in the reporting year. There are no outstanding loans with members of the board of directors as per balance sheet date. There is one loan over CHF 0.1 million outstanding with a member of the executive management as per balance sheet date.

Related parties

Administration and asset management of the Sulzer pension fund in Switzerland is done by staff members of Sulzer Management Ltd and Sulzer Immobilien Ltd. The individual foundations have no own staff. The related costs were invoiced to the foundations (2008: CHF 3.6 million, 2007: CHF 3.9 million).

Sulzer concluded an agreement with Everest Beteiligungs GmbH (Everest) and Renova Industries Ltd. (Renova) on October 10, 2007. Under the terms of this agreement, Sulzer agreed to register the shares held by Everest in the share register and to recommend for election to the board of directors of the corporation the two candidates proposed by Everest. Everest and Renova agreed to neither acquire an interest in Sulzer Ltd greater than 33% (in shares or options) nor to launch a public bid for all the shares of the corporation except if such bid was recommended by the board of directors of the corporation. Furthermore Everest and Renova agreed neither to vote for nor otherwise support a merger between OC Oerlikon Corporation Ltd and Sulzer Ltd unless such transaction was recommended by the board of directors of Sulzer Ltd nor to change the articles of association or to change the composition of the board of Sulzer Ltd. In case of violation by Everest or Renova, and under the condition that the violation is not cured within five business days, their shares will be reclassified as shares without voting rights for a period ending August 31, 2009. This agreement is valid until May 31, 2009. By recommendation dated October 10, 2007, the Disclosure Office (OLS) of the SIX Swiss Exchange stated that due to this agreement (for details see Sulzer Annual Report 2007, page 38), Sulzer Ltd and the Renova Group need to disclose their holdings in Sulzer together as a group within the meaning of the disclosure laws. Sulzer initially rejected that recommendation. After it was decided in a parallel proceeding (in accordance with a request filed by Sulzer) that Sulzer and Renova do not form a group under Swiss takeover law (ordinance of the Takeover Chamber of the Swiss Federal Banking Commission dated May 29, 2008), Sulzer, however, decided to accept the recommendation. At the time of completion of the consolidated financial statements of the corporation on February 19, 2009, no major business transactions or outstanding balances with the Renova Group, their representatives, or any other related parties or companies are known.

Board and executive management compensation disclosures as required by Swiss law (CO 663b – CO 663c)

These consolidated financial statements have been prepared in accordance with IFRS. The compensation disclosure requirements in accordance with the Swiss law for companies, the Swiss Code of Obligations (CO), are disclosed in the financial statements of Sulzer Ltd, note 109.

33 Auditor remuneration

Fees for the audit work by PricewaterhouseCoopers as the statutory auditor amounted to CHF 2.2 million (2007: CHF 2.1 million). Additional services provided by PricewaterhouseCoopers, primarily for tax consulting and other services, amounted to total CHF 1.8 million (2007: CHF 1.6 million).

34 Corporate risk management process

Sulzer has an integrated risk management system which is under constant scrutiny for further improvements.

A defined risk management process and four common tools (risk assessment schedule, risk-profiling matrix, risk description schedule, loss control schedule) are applied in order to assess and control all key risks, to implement and maintain risk financing and risk transfer measures, and to monitor the results and to define and implement corrective actions if required. The divisions as well as the corporation generate their respective key risk-profiling matrices and complete and update the related risk control schedules on an annual basis. These schedules identify specific risk exposures and the related risk objectives, list existing loss controls, address their effectiveness, list (where required) additional or alternative loss controls, and determine responsibilities and time frames for their implementation. The divisions' key risk-profiling matrices are reviewed at the corporate level and then consolidated into a divisions' key risk-profiling matrix. The head of corporate risk management informs the audit committee at least once a year about the current risks and risk mitigation as well as on the progress toward achieving major risk objectives. The risk management process is audited by corporate auditing.

35 Subsequent events after the balance sheet date

Sulzer Chemtech signed on December 19, 2008, an agreement to acquire the TowerTech companies based in Australia, Thailand and Singapore for a purchase price of AUD 11 million (CHF 8 million). The acquisition was closed on January 15, 2009. TowerTech averages a turnover of approximately AUD 10 million (CHF 7.5 million) and is a renowned specialist in tower field services with more than 20 years of experience, and is mainly active in Australia, Singapore, Thailand, and other Asian countries such as Indonesia, India and Malaysia. With this acquisition, Sulzer Chemtech will expand its geographical presence as a leading specialized tower field service supplier.

The board of directors authorized these consolidated financial statements for issue on February 19, 2009. They are subject to approval at the annual general meeting which will be held on April 8, 2009. The board of directors and the executive management are, at the time of completion of the consolidated financial statements of the corporation on February 19, 2009, not aware of any other events that would materially affect these statements.

36 Major subsidiaries

	31.12.2008		Participation	Registered Capital (including paid-in capital in the USA and Canada)	Research and Development	Production and Engineering	Sales	Service	Division
Europe									
Switzerland	Sulzer Pumpen AG, Winterthur	Kim Jackson	100%	CHF 3000000	■	■	■	■	Sulzer Pumps
	Sulzer Metco AG, Wohlen	Daniel Moraschetti	100%	CHF 5000000	■	■	■	■	Sulzer Metco
	Sulzer Chemtech AG, Winterthur	Urs Fankhauser	100%	CHF 10000000	■	■	■	■	Sulzer Chemtech
	Sulzer Immobilien AG, Winterthur	Martin Schmidli	100%	CHF 13000000					Others
	Sulzer Markets & Technology AG, Winterthur	Urs Hirt	100%	CHF 4000000	■				Others
	Sulzer Management AG, Winterthur	Peter Meier	100%	CHF 500000					Others
	Sulzer Finance (Switzerland) AG, Winterthur	Jean-Daniel Millasson	100%	CHF 3600000					Others
	Sulzer Kelmix Holding AG, Rotkreuz	Volker Brinke	100%	CHF 565000					Sulzer Chemtech
	Sulzer Mixpac AG, Rotkreuz	Volker Brinke	100%	CHF 100000	■	■	■		Sulzer Chemtech
	Sulzer Werfo AG, Haag	Volker Brinke	100%	CHF 100000	■	■	■		Sulzer Chemtech
Germany	Sulzer Pumpen (Deutschland) GmbH, Bruchsal	Michael Streicher	100%	EUR 2300000	■	■	■	■	Sulzer Pumps
	Sulzer Metco Europe GmbH, Hattersheim	Paul-Heinz Müller-Planteur	100%	EUR 1000000			■	■	Sulzer Metco
	Sulzer Metco Coatings GmbH, Salzgitter	Franz Jansen	100%	EUR 1000000	■	■	■		Sulzer Metco
	Sulzer Friction Systems (Germany) GmbH, Bremen	Dietmar Köster	100%	EUR 1000000	■	■	■		Sulzer Metco
	Sulzer Metaplas GmbH, Bergisch-Gladbach	Valentin Bühler	100%	EUR 1000000	■	■	■	■	Sulzer Metco
	Sulzer Metco WOKA GmbH, Barchfeld	Jürgen Gerbig	100%	EUR 1000000	■	■	■		Sulzer Metco
	Sulzer Metco OSU GmbH, Duisburg	Stephan Knapp	100%	EUR 300000	■	■	■	■	Sulzer Metco
	Sulzer Chemtech GmbH, Linden	Roland Böcher	100%	EUR 300000		■	■	■	Sulzer Chemtech
	Sulzer Holding (Deutschland) GmbH, Singen	Gert Müller	100%	EUR 20000000					Others
	VBG Beteiligungen GmbH, Singen	Gert Müller	100%	EUR 25000					Others
Finland	Sulzer Pumps Finland Oy, Kotka	Mikko Hirvensalo	100%	EUR 16000000	■	■	■	■	Sulzer Pumps
France	Sulzer Pompes France SASU, Mantes	Jacques Rigaux	100%	EUR 1500000	■	■	■	■	Sulzer Pumps
	Sulzer Pompes Process SASU, Schweighouse-s/Moder	Jean-Claude Cordellier	100%	EUR 462000			■		Sulzer Pumps
	Compagnie de Construction Mécanique Sulzer SASU, Mantes	Jacques Rigaux	100%	EUR 4200000					Others
Great Britain	Sulzer Pumps (UK) Ltd, Leeds	Keith Dowle	100%	GBP 9610000	■	■	■	■	Sulzer Pumps
	Sulzer Metco (UK) Ltd, Cwmbran	Anthony Herbert	100%	GBP 500000			■	■	Sulzer Metco
	Sulzer Metco Coatings Ltd, Cheshire	Barry Godwin	100%	GBP 57125	■	■	■		Sulzer Metco

36 Major subsidiaries (continued)

	31.12.2008	Participation Registered Capital (including paid-in capital in the USA and Canada)	Research and Development	Production and Engineering	Sales	Service	Division
Europe							
Great Britain	Neomet Ltd, Stockport Richard Hammersley	100% GBP 292 671	■	■	■		Sulzer Metco
	Sulzer Chemtech (UK) Ltd, Leeds John Bailey	100% GBP 100 000		■	■	■	Sulzer Chemtech
	Sulzer (UK) Holdings Ltd, Leeds Garth Bradwell	100% GBP 6 100 000					Others
Italy	Sulzer Friction Systems (Italia) S.r.l., Caivano Salvatore Piccirillo	100% EUR 25 500	■	■	■		Sulzer Metco
	Sulzer Chemtech Italia S.r.l., Milano Cesare Somaini	100% EUR 422 300	■	■	■		Sulzer Chemtech
The Netherlands	Eldim B.V., Lomm Thomas Gutzwiller	100% EUR 397 057	■	■	■		Sulzer Metco
	Sulzer Chemtech Nederland B.V., Breda Arnold van Sinderen	100% EUR 1 134 451	■	■	■	■	Sulzer Chemtech
	Sulzer Repco B.V., Europoort Peter Alexander	100% EUR 18 151		■	■	■	Sulzer Turbo Services
	Sulzer Elbar B.V., Lomm Bernard Doorenbos	100% EUR 444 705		■	■	■	Sulzer Turbo Services
	Sulzer Netherlands Holding B.V., Breda Eric Koning	100% EUR 10 010 260					Others
	Sulzer Capital B.V., Breda Eric Koning	100% EUR 50 000					Others
	Sulzer Pumps (Benelux) N.V., Standaarbuiten Frank Kerstens	100% EUR 22 690				■	Sulzer Pumps
Austria	Sulzer Pumpen Oesterreich Ges.m.b.H., Wels Karl Pilka	100% EUR 350 000			■		Sulzer Pumps
Poland	Sulzer Chemtech Polska Sp.zo.o., Przezmierowo Albert Smektalski	100% PLN 9 760 000		■	■	■	Sulzer Chemtech
	Sulzer Elbar Polska Sp.zo.o., Lublin Peter Alexander	100% PLN 1 000 000		■		■	Sulzer Turbo Services
Russia	ZAO Sulzer Pumps Russia, St. Petersburg Veli-Pekka Tiittanen	100% RUB 250 000			■		Sulzer Pumps
	Sulzer Chemtech LLC, Serpukhov Lorenzo Ghelfi	100% RUB 55 500 000		■	■	■	Sulzer Chemtech
Czech Republic	Sulzer Pumps CZ + SK s.r.o., Prag Petr Marek	100% CZK 4 100 000				■	Sulzer Pumps
Sweden	Sulzer Pumps Sweden AB, Norrköping Carl Nordenswan	100% SEK 3 000 000			■		Sulzer Pumps
Spain	Sulzer Pumps Spain S.A., Madrid Daniel Späti	100% EUR 300 500			■		Sulzer Pumps
Hungary	Sulzer Hungaerotech Kft., Debrecen Istvan Bogyo	100% HUF 161 000 000	■	■	■		Sulzer Metco
Liechtenstein	Sulzer Mold AG, Eschen Volker Brinke	100% CHF 50 000		■	■		Sulzer Chemtech
North America							
Canada	Sulzer Pumps (Canada) Inc., Burnaby R.V.S. Mani	100% CAD 2 771 588		■	■	■	Sulzer Pumps
	Sulzer Metco (Canada) Inc., Fort Saskatchewan Gerald Deck	100% CAD 14 210 627	■	■	■	■	Sulzer Metco
	Sulzer Chemtech Canada Inc., Edmonton Ganapathy Murthy	100% CAD 1 000 000		■	■	■	Sulzer Chemtech
	Sulzer Turbo Services Canada Ltd., Edmonton H. Terry Moon	100% CAD 7 000 000		■	■	■	Sulzer Turbo Services
USA	Sulzer Pumps (US) Inc., Portland, Oregon Martin Valentin	100% USD 40 381 108	■	■	■	■	Sulzer Pumps

	31.12.2008	Participation Registered Capital (including paid-in capital in the USA and Canada)	Research and Devel-opment	Production and Engin-eering	Sales	Service	Division
North America							
USA	Sulzer Pumps Houston Inc., Brookshire, Texas	100%		■	■	■	Sulzer Pumps
	Urs Rathgeb	USD 11 000 000					
	Sulzer Process Pumps (US) Inc., Easly, South Carolina	100%		■	■	■	Sulzer Pumps
	Kaarlo Horo	USD 27 146 250					
	Sulzer Metco (US) Inc., Westbury, New York	100%	■	■	■	■	Sulzer Metco
	Friedrich Herold	USD 26 865 993					
	Sulzer Metaplas (US) Inc., Woonsocket, Rhode Island	100%	■	■	■	■	Sulzer Metco
	Valentin Bühler	USD 1 200 000					
	Sulzer Friction Systems (US) Inc., Dayton, Ohio	100%	■	■	■		Sulzer Metco
	Eric Schueler	USD 1 236 953					
	Sulzer Chemtech USA Inc., Humble, Texas	100%	■	■	■	■	Sulzer Chemtech
	Chris Isom	USD 47 895 000					
	Sulzer Hickham Inc., La Porte, Texas	100%		■	■	■	Sulzer
	Darayus Pardivala	USD 18 840 000					Turbo Services
	Sulzer Enpro Inc., Belle Chasse, Louisiana	100%		■	■	■	Sulzer
	Darayus Pardivala	USD 4 006 122					Turbo Services
	Sulzer US Holding Inc., Sugar Land, Texas	100%					Others
	Kelli Edell	USD 164 976 151					
	Sulzer Mixpac USA Inc., Salem, New Hampshire	100%			■		Sulzer Chemtech
	Chris Isom	USD 1					
Latin America							
Argentina	Sulzer Turbo Services Argentina S.A., Buenos Aires	100%		■	■	■	Sulzer
	Daniel Corallo	ARS 6 055 772					Turbo Services
Brazil	Sulzer Brasil S.A., Jundiaí	100%		■	■	■	Sulzer Pumps
	Mauricio Bannwart	BRL 81 789 432					
	Sulzer Metco Indústria e Commércio Ltda., Diadema	100%		■	■		Sulzer Metco
	Ronald Bremberger	BRL 4 418 273					
	Sulzer Turbo Services Brazil Ltda., Rio de Janeiro	100%				■	Sulzer
	Daniel Corallo	BRL 1 000					Turbo Services
Mexico	Sulzer Pumps México, S.A. de C.V., Cuautitlán Izcalli	100%		■	■	■	Sulzer Pumps
	Marcelo Suhner	MXN 4 887 413					
	Sulzer Chemtech, S. de R.L. de C.V., Cuautitlán Izcalli	100%		■	■	■	Sulzer Chemtech
	Celso Pajaro	MXN 31 345 500					
Uruguay	Sulzer Turbo Services Uruguay S.A., Montevideo	100%				■	Sulzer
	Daniel Corallo	UYU 720 000					Turbo Services
Venezuela	Sulzer Pumps (Venezuela) S.A., Barcelona	100%			■	■	Sulzer Pumps
	Paolo Gregorini	VEB 200 000 000					
	Sulzer Turbo Services Venezuela S.A., Caracas	100%				■	Sulzer
	Daniel Corallo	VEB 5 000					Turbo Services
Africa							
South Africa	Sulzer Pumps (South Africa) (Pty) Ltd., Elandsfontein	75%	■	■	■	■	Sulzer Pumps
	Deon Vorster	ZAR 450 000					
	Sulzer (South Africa) Holdings (Pty) Ltd., Elandsfontain	100%		■	■	■	Sulzer Pumps
	Deon Vorster	ZAR 16 476					
Nigeria	Sulzer Pumps (Nigeria) Ltd, Lagos	100%			■	■	Sulzer Pumps
	Garth Bradwell	NGN 10 000 000					
Asia							
Arabic Emirates	Sulzer (Middle East) FZCO, Dubai	100%			■		Sulzer Pumps
	Andrew Ferrie	AED 500 000					
Bahrain	Sulzer Chemtech Middle East S.P.C., Al Seef	100%			■		Sulzer Chemtech
	Albert Hug	BHD 50 000					
India	Sulzer Pumps India Ltd., Navi Mumbai	99%		■	■	■	Sulzer Pumps
	Vijay Mattoo	INR 25 000 000					

36 Major subsidiaries (continued)

	31.12.2008	Participation Registered Capital (including paid-in capital in the USA and Canada)	Research and Devel-opment	Production and Engin-eering	Sales	Service	Division
Asia							
India	Sulzer India Ltd., Pune	80%		■	■	■	Sulzer Chemtech
	Listed in Mumbai with securities identification number ISIN INE 297C01010						
	Market capitalization per 31.12.2008: INR 2105 million (CHF 46 million)						
	Balaji Bakthisaran	INR 34500000					
	Sulzer Tech India Pvt. Ltd., Navi Mumbai	100%		■			Sulzer Pumps
	R. Varadarajan	INR 100000					
	Sulzer Metco India Ltd., Pune	100%		■	■		Sulzer Metco
	Veeraganta Bhaskara Ramam	INR 7100000					
Indonesia	PT Sulzer Hickham Indonesia, Purwakarta	100%		■	■	■	Sulzer
	Nathan C. Self	IDR 28234800000					Turbo Services
Japan	Sulzer Daiichi K.K., Tokyo	60%			■		Sulzer Pumps
	Takumi Seki	JPY 30000000					
	Sulzer Metco (Japan) Ltd., Tokyo	100%		■	■	■	Sulzer Metco
	Norio Yumiba	JPY 180000000					
Singapore	Sulzer Pumps Asia Pacific Pte Ltd., Singapore	100%		■	■	■	Sulzer Pumps
	David Armstrong	SGD 1000000					
	Sulzer Metco (Singapore) Pte Ltd., Singapore	100%			■	■	Sulzer Metco
	Sei Kwong Leong	SGD 600000					
	Sulzer Chemtech Pte Ltd., Singapore	100%	■	■	■	■	Sulzer Chemtech
	Subodh Nadkarni	SGD 1000000					
South Korea	Sulzer Korea Ltd., Seoul	100%			■		Sulzer Pumps
	Youngbae Kim	KRW 222440000					
People's	Sulzer Dalian Pumps & Compressors Ltd., Dalian	100%		■	■	■	Sulzer Pumps
Republic of China	Lee Zhenyi Lu	CNY 115000000					
	Sulzer Pumps (China) Ltd., Hong Kong	100%			■	■	Sulzer Pumps
	Albert Tong	HKD 8110000					
	Sulzer Metco Surface Technology (Shanghai) Co. Ltd.,	100%		■	■	■	Sulzer Metco
	Shanghai, Bruno Tanner	CHF 7300000					
	Sulzer Shanghai Eng. & Mach. Works Ltd., Shanghai	100%		■	■	■	Sulzer Chemtech
	Mel Chua	CNY 61432607					
Australia							
	Sulzer Pumps (ANZ) Pty Ltd, South Yarra	100%			■		Sulzer Pumps
	Michael Bennett	AUD 100000					
	Sulzer Metco Australia Pty Ltd, Sydney	100%			■	■	Sulzer Metco
	Scott Elson	AUD 500000					

Auditors' Report

PRICEWATERHOUSECOOPERS

Report of the statutory auditor
to the general meeting of
the Shareholders of Sulzer Ltd
8401 Winterthur

Report of the statutory auditor on the consolidated financial statements
As statutory auditor, we have audited the consolidated financial statements of Sulzer Ltd, which comprise the income statement, balance sheet, changes in equity, cash flow statement and notes (pages 8 to 56), for the year ended December 31, 2008.

Board of Directors' Responsibility
The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards as well as the International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements for the year ended December 31, 2008 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Christian Kessler	Diego Alvarez
Audit expert	Audit expert
Auditor in charge	

Winterthur, February 19, 2009

Five-year Summaries by Divisions

Order intake

millions of CHF	2008	2007	2006	2005	2004
Total divisions	**4 098.1**	4 043.7	3 265.8	2 616.2	2 179.3
Sulzer Pumps	**2 308.7**	2 076.9	1 752.6	1 367.5	1 073.0
Sulzer Metco	**715.6**	762.8	658.7	589.2	534.2
Sulzer Chemtech	**770.4**	890.8	602.1	415.5	346.0
Sulzer Turbo Services	**303.4**	313.2	252.4	244.0	226.1
Others	**18.5**	10.3	11.1	18.9	18.3
Total	**4 116.6**	4 054.0	3 276.9	2 635.1	2 197.6

Sales

millions of CHF	2008	2007	2006	2005	2004
Total divisions	**3 697.4**	3 527.2	2 792.1	2 480.2	2 049.4
Sulzer Pumps	**1 817.0**	1 733.8	1 405.4	1 266.4	1 001.9
Sulzer Metco	**743.5**	753.1	644.1	583.0	521.4
Sulzer Chemtech	**823.3**	761.3	500.1	389.5	313.1
Sulzer Turbo Services	**313.6**	279.0	242.5	241.3	213.0
Others	**16.1**	9.8	9.6	18.0	17.6
Total	**3 713.5**	3 537.0	2 801.7	2 498.2	2 067.0

Operating income (EBIT)[1]

millions of CHF	2008	2007	2006	2005	2004
Total divisions	**472.1**	416.4	297.7	184.9	100.3
Sulzer Pumps	**231.9**	199.2	159.6	98.2	55.2
Sulzer Metco	**69.6**	75.8	53.4	36.1	8.1
Sulzer Chemtech	**140.1**	116.3	65.4	40.6	26.8
Sulzer Turbo Services	**30.5**	25.1	19.3	10.0	10.2
Others	**3.0**	–22.9	–2.1	–18.1	7.3
Total	**475.1**	393.5	295.6	166.8	107.6

Capital employed (average)[2]

millions of CHF	2008	2007	2006	2005	2004
Total divisions	**1 473.3**	1 529.0	1 155.9	1 126.6	1 065.1
Sulzer Pumps	**433.8**	448.0	388.7	381.4	341.8
Sulzer Metco	**433.8**	443.2	437.1	442.6	434.4
Sulzer Chemtech	**426.2**	464.1	164.3	132.8	115.0
Sulzer Turbo Services	**179.5**	173.7	165.8	169.8	173.9
Others	**80.5**	96.4	91.4	126.4	136.3
Total	**1 553.8**	1 625.4	1 247.3	1 253.0	1 201.4

Order backlog[3]

millions of CHF	2008	2007	2006	2005	2004
Total divisions	**2 094.7**	1 975.1	1 481.9	1 003.1	795.3
Sulzer Pumps	**1 518.6**	1 303.8	992.6	667.2	508.2
Sulzer Metco	**68.2**	99.7	89.9	75.6	66.1
Sulzer Chemtech	**347.9**	414.0	308.1	177.6	147.0
Sulzer Turbo Services	**160.0**	157.6	91.3	82.7	74.0
Others	**5.5**	3.0	2.6	1.0	8.5
Total	**2 100.2**	1 978.1	1 484.5	1 004.1	803.8

Employees[4]

	2008	2007	2006	2005	2004
Total divisions	**12 427**	11 312	10 111	9 379	9 215
Sulzer Pumps	**6 239**	5 686	5 192	5 116	4 983
Sulzer Metco	**2 105**	2 054	1 928	1 783	1 725
Sulzer Chemtech	**2 769**	2 393	1 979	1 443	1 407
Sulzer Turbo Services	**1 314**	1 179	1 012	1 037	1 100
Others	**299**	287	282	277	371
Total	**12 726**	11 599	10 393	9 656	9 586

[1] Until 2004 including goodwill amortization.
[2] Until 2004 goodwill was included at historical cost in capital employed, since 2005 at net book value.
[3] At year-end rates.
[4] Number of full-time equivalents, as of December 31.

Five-year Summaries by Regions

Order intake by region

millions of CHF	2008	2007	2006	2005	2004
Europe	**1 314.7**	1 321.8	1 104.1	921.2	833.1
North America	**1 008.7**	1 184.5	929.6	776.7	509.4
Latin America	**344.9**	246.4	237.8	199.7	168.9
Asia, Australia[1]	**1 149.0**	1 120.8	859.3	598.8	542.7
Africa	**299.3**	180.5	146.1	138.7	143.5
Total	**4 116.6**	4 054.0	3 276.9	2 635.1	2 197.6

Sales by region

millions of CHF	2008	2007	2006	2005	2004
Europe	**1 289.9**	1 345.0	943.0	892.5	853.4
North America	**996.8**	967.9	821.5	672.0	475.7
Latin America	**247.2**	211.9	214.2	201.1	108.7
Asia, Australia[1]	**1 025.9**	862.2	692.5	583.2	508.1
Africa	**153.7**	150.0	130.5	149.4	121.1
Total	**3 713.5**	3 537.0	2 801.7	2 498.2	2 067.0

Capital employed (average) by company location[2]

millions of CHF	2008	2007	2006	2005	2004
Europe	**1 046.6**	1 045.5	731.7	765.4	824.2
North America	**334.4**	391.1	355.4	341.4	265.5
Latin America	**66.1**	75.5	73.8	54.4	32.4
Asia, Australia[1]	**96.6**	91.3	69.2	69.5	60.1
Africa	**10.1**	22.0	17.2	22.3	19.2
Total	**1 553.8**	1 625.4	1 247.3	1 253.0	1 201.4

Employees by company location[3]

	2008	2007	2006	2005	2004
Europe	**5 728**	5 547	5 192	4 574	4 690
North America	**2 596**	2 409	2 160	2 179	2 083
Latin America	**1 270**	1 097	994	934	843
Asia, Australia[1]	**2 696**	2 154	1 664	1 598	1 602
Africa	**436**	392	383	371	368
Total	**12 726**	11 599	10 393	9 656	9 586

[1] Including Middle East.
[2] Until 2004 goodwill was included at historical cost in capital employed, since 2005 at net book value.
[3] Number of full-time equivalents, as of December 31.

Financial Statement of Sulzer Ltd (Parent Company)

Page	Content

Balance Sheet

December 31

millions of CHF	Notes	2008	2007
Non-current assets			
Operational assets		**–**	–
Investments in subsidiaries and other companies		**743.9**	507.3
Loans to subsidiaries		**138.4**	282.4
Other loans and financial assets		**1.7**	1.8
Total non-current assets		**884.0**	791.5
Current assets			
Accounts receivable from subsidiaries		**117.9**	44.8
Other accounts receivable and prepayments		**3.8**	4.1
Marketable securities	103	**44.7**	350.9
Cash		**90.5**	28.7
Total current assets		**256.9**	428.5
Total assets		**1 140.9**	1 220.0
Equity			
Registered share capital	104	**0.3**	0.1
Legal reserves		**149.4**	160.9
Reserves for treasury stock	104	**56.1**	344.6
Free reserves		**361.5**	116.7
Unappropriated retained earnings		**7.2**	8.0
Net profit for the year		**203.9**	346.1
Total equity		**778.4**	976.4
Liabilities			
Non-current liabilities			
Non-current financial liabilities		**–**	–
Non-current provisions		**53.1**	53.8
Non-current liabilities with subsidiaries		**4.6**	4.6
Total non-current liabilities		**57.7**	58.4
Current liabilities			
Current financial liabilities		**100.0**	70.0
Current provisions		**11.6**	11.7
Current liabilities with subsidiaries		**113.2**	96.1
Accounts payable and accrued liabilities	105	**80.0**	7.4
Total current liabilities		**304.8**	185.2
Total liabilities		**362.5**	243.6
Total equity and liabilities		**1 140.9**	1 220.0

Income Statement

January – December

millions of CHF	Notes	2008	2007
Revenues			
Investment income		**249.4**	360.8
Financial income		**25.1**	51.4
Other income		**34.2**	17.9
Total revenues		**308.7**	430.1
Expenses			
Administrative expenses	107	**32.4**	37.7
Financial expenses		**65.9**	17.0
Investment and loan expenses		**3.6**	12.4
Income taxes		**0.9**	4.6
Other expenses		**2.0**	12.3
Total expenses		**104.8**	84.0
Net profit for the year		**203.9**	346.1

Changes in Equity

January – December

millions of CHF	Share capital	Legal reserves	Reserve for treasury stock	Free reserves	Retained earnings	Net income	Total
Equity as of January 1, 2007	0.1	155.1	183.3	173.8	7.8	193.9	714.0
Dividend						–83.7	–83.7
Allocation of net income				110.0	0.2	–110.2	–
Net profit for the year						346.1	346.1
Change in reserves for treasury stock		5.8	161.3	–167.1			–
Equity as of December 31, 2007	0.1	160.9	344.6	116.7	8.0	346.1	976.4
Dividend						–101.9	**–101.9**
Cancellation of treasury shares			–300.0				**–300.0**
Increase share capital	0.2			–0.2			**–**
Allocation of net income				245.0	–0.8	–244.2	**–**
Net profit for the year						203.9	**203.9**
Change in reserves for treasury stock		–11.5	11.5				**–**
Equity as of December 31, 2008	0.3	149.4	56.1	361.5	7.2	203.9	**778.4**

Notes to the Financial Statements of Sulzer Ltd

101 Valuation principles

The financial statements as of December 31, 2008, are in compliance with the requirements of the Swiss corporation law. However, for the purpose of including Sulzer Ltd in the consolidated financial statements, the corporate accounting principles remain fully applicable.

102 Investments in subsidiaries

A list of the major subsidiaries held directly or indirectly by Sulzer Ltd is included on pages 53 to 56 (note 36).

103 Marketable securities

millions of CHF	2008	2007
Treasury stock	34.3	330.2
Other shares	10.4	20.7
Total marketable securities	**44.7**	350.9

The decrease of treasury stock as of December 31, 2008, mainly stems from the cancellation of treasury shares purchased within the share buyback program.

104 Registered share capital

The share capital amounts to CHF 342 623.70, made up of 34 262 370 shares with a par value of CHF 0.01. All shares are fully paid in and registered.

Share ownership

Details of the composition and changes relating to the issued share capital, the share capital authorized but not issued, and the shares held as treasury stock, are included in note 22 to the consolidated financial statements. Details, with regard to share data ownership, are also provided in note 22.

Treasury stock held by Sulzer Ltd

millions of CHF	Number of shares	Total acquisition cost
Balance as of January 1, 2008	273 775	344.6
Share buyback program / Reduction of share capital	–211 793	–300.0
Share split ten-for-one	557 838	
Purchase	220 319	20.4
Sale	–140 700	–8.9
Balance as of December 31, 2008	**699 439**	56.1

The annual general meeting of April 3, 2008, decided to cancel the 211 793 shares bought back through a share buyback program and to reduce the share capital accordingly. The annual general meeting also decided to increase the share capital to CHF 342 623.70 through the increase of the current par value of CHF 0.03 to CHF 0.10 per registered share and to split the shares on a ten-for-one basis.

105 Accounts payable and accrued liabilities

millions of CHF	2008	2007
Other liabilities	15.6	1.0
Accrued liabilities	64.4	6.4
Total accounts payable and accrued liabilities	**80.0**	7.4

The accrued liabilities in 2008 include CHF 49.1 million of outstanding options on treasury shares.

106 Contingent liabilities

millions of CHF	2008	2007
Guarantees, sureties, comfort letters for subsidiaries		
to banks and insurance companies[1]	1 386.9	1 398.6
to customers	186.4	61.1
Guarantees to third parties	–	–
Syndicate transactions	–	–
Total contingent liabilities	**1 573.3**	1 459.7
[1] thereof utilized	556.5	561.8

107 Administrative expenses

millions of CHF	2008	2007
Personnel expenses	14.6	23.9
Other administrative expenses	17.8	13.8
Total administrative expenses	**32.4**	37.7

108 Risk management process

Sulzer Ltd is the ultimate parent company of the Sulzer corporation. The key risks of Sulzer Ltd are covered through the risk management process (see note 34 to the consolidated financial statements) for the corporation.

109 Compensation and share participation of the board of directors, executive management and related parties

This note has been prepared in accordance with the requirements of the Swiss Code of Obligations (CO). It differs from the compensation disclosures in note 32, mainly due to different valuation.

Compensation 2008

thousands of CHF	Fix	Variable[2]	Cash compensation	Pension fund contribution	Other	Subtotal	Options[3]	Total
Board of directors	1209	–	1209	92	–	1301	2087	**3388**
Ulf Berg, Chairman	480	–	480	92	–	572	463	**1035**
Thor Håkstad, Vice chairman	174	–	174	–	–	174	232	**406**
Louis R. Hughes, Chairman of the audit committee	100	–	100	–	–	100	232	**332**
Vladimir V. Kuznetsov	95	–	95	–	–	95	232	**327**
Hans Hubert Lienhard, Chairman of the nomination and remuneration committee	95	–	95	–	–	95	232	**327**
Urs Andreas Meyer	75	–	75	–	–	75	232	**307**
Luciano Respini	95	–	95	–	–	95	232	**327**
Daniel J. Sauter	95	–	95	–	–	95	232	**327**
Executive management[1]	3262	2713	5975	744	246	6965	3893	**10858**
thereof highest single compensation Ton Büchner	685	820	1505	137	–	1642	927	**2569**

No compensation was granted to former members of the board of directors or the executive management. A short-term loan of CHF 0.1 million was granted to one member of the executive management. Non arms-length compensation neither was granted to present or former members of the board of directors or the executive management nor to related parties.

[1] Members of the executive management:
- Ton Büchner, CEO
- Peter Alexander, President of Sulzer Turbo Services
- Urs Fankhauser, President of Sulzer Chemtech
- Alfred Gerber, General Counsel and Secretary
- Kim Jackson, President of Sulzer Pumps
- Peter Meier, CFO
- César Montenegro, President of Sulzer Metco since August 18, 2008
- Henri Steinmetz, President of Sulzer Metco until July 31, 2008

[2] Expected variable wage elements (bonus).

[3] Options assigned during the reporting period had a fair value of CHF 308.90 at the grant date, considering a discount of CHF 38.20 (11%) according to the tax procedure regarding the value reduction due to the limited availability at the grant date. The fair value of these options was CHF 47.80 at December 31, 2008, considering a discount of 11% due to the limited availability. Employer contributions to the social security institutions due to the exercising of options granted is not included.

Compensation 2007

thousands of CHF	Fix	Variable[5]	Cash compensation	Pension fund contribution	Other	Subtotal	Options[6]	Total
Board of directors	1011	–	1011	61	–	1072	2598	**3670**
Leonardo E. Vannotti, Chairman[1]	115	–	115	–	–	115	–	**115**
Ulf Berg, Chairman[2]	320	–	320	61	–	381	743	**1124**
Thor Håkstad, Vice chairman	174	–	174	–	–	174	371	**545**
Louis R. Hughes, Chairman of the audit committee	100	–	100	–	–	100	371	**471**
Vladimir V. Kuznetsov[3]	5	–	5	–	–	5	–	**5**
Hans Hubert Lienhard, Chairman of the nomination and remuneration committee	103	–	103	–	–	103	371	**474**
Urs Andreas Meyer[3]	4	–	4	–	–	4	–	**4**
Luciano Respini	95	–	95	–	–	95	371	**466**
Daniel J. Sauter	95	–	95	–	–	95	371	**466**
Executive management[4]	3089	3042	6131	1413	669	8213	8600	**16813**
thereof highest single compensation Ton Büchner	650	825	1475	136	156	1767	1485	**3252**

No compensation was granted to former members of the board of directors or the executive management. Non arms-length compensation neither was granted to present or former members of the board of directors or the executive management nor to related parties.

1) Chairman until April 3, 2007.
2) Chairman since April 4, 2007.
3) Member since December 12, 2007.
4) Members of the executive management:
– Ulf Berg, CEO until April 3, 2007
– Ton Büchner, CEO since April 4, 2007, formerly President of Sulzer Pumps
– Peter Alexander, President of Sulzer Turbo Services
– Bruno Allmendinger, CFO until February 28, 2007
– Urs Fankhauser, President of Sulzer Chemtech
– Alfred Gerber, General Counsel and Secretary
– Peter Meier, CFO since March 1, 2007
– Kim Jackson, President of Sulzer Pumps
– Henri Steinmetz, President of Sulzer Metco
5) Expected variable wage elements (bonus).
6) Options assigned during the reporting period had a fair value of CHF 556.00 at the grant date. For the valuation of the compensation a discount of CHF 61.20 (11%) was considered due to the limited availability at the grant date and in line with the tax procedure for such cases. As of December 31, 2008, the fair value of these options was CHF 17.20. Employer contribution to the social security institutions due to the execution of options granted is not included.

109 Compensation and share participation of the board of directors, executive management and related parties (continued)

Shareholders 2008

	Sulzer shares	Options free to be sold (F)[1]	Options not free to be sold (NF)[1]	Other call options	Total call options and shares[2]	Put options
Board of directors	63860	6200	14500	–	270860	–
Ulf Berg	35000	–	5000	–	85000	–
Thor Håkstad	3000	1325	1625	–	32500	–
Louis R. Hughes	–	1625	1500	–	31250	–
Vladimir V. Kuznetsov	–	–	750	–	7500	–
Hans Hubert Lienhard	2860	125	1625	–	20360	–
Urs Andreas Meyer	–	–	750	–	7500	–
Luciano Respini	3000	500	1625	–	24250	–
Daniel J. Sauter	20000	2625	1625	–	62500	–
Executive management	18210	12240	23400	–	374610	–
Ton Büchner	11130	4700	6200	–	120130	–
Peter Alexander	20	1350	2600	–	39520	–
Urs Fankhauser	1500	2000	3900	–	60500	–
Alfred Gerber	1520	1100	2600	–	38520	–
Kim Jackson	–	840	3150	–	39900	–
Peter Meier	1040	800	3150	–	40540	–
César Montenegro	1170	1450	1800	–	33670	–
Henri Steinmetz	1830	–	–	–	1830	–

1) Options assigned by Sulzer as compensation.
2) One option entitles to purchase ten shares. This has been reflected in the total balance.

Shareholders 2007

	Sulzer shares[2]	Options free to be sold (F)[1]	Options not free to be sold (NF)[1]	Other call options	Total call options and shares[2]	Put options
Board of directors	80600	7750	14375	–	301850	–
Leonardo E. Vannotti	14240	4000	–	–	54240	–
Ulf Berg	35000	–	6500	–	100000	–
Thor Håkstad	3000	875	1625	–	28000	–
Louis R. Hughes	–	1000	1375	–	23750	–
Vladimir V. Kuznetsov	–	–	–	–	–	–
Hans Hubert Lienhard	2860	–	1625	–	19110	–
Urs Andreas Meyer	–	–	–	–	–	–
Luciano Respini	5500	–	1625	–	21750	–
Daniel J. Sauter	20000	1875	1625	–	55000	–
Executive management	16260	5828	27940	–	353940	–
Ton Büchner	4250	3608	5650	–	96830	–
Peter Alexander	20	600	2400	–	30020	–
Bruno Allmendinger	5100	–	3850	–	43600	–
Urs Fankhauser	2500	300	3800	–	43500	–
Alfred Gerber	1520	–	2500	–	26520	–
Peter Meier	1040	–	2150	–	22540	–
Kim Jackson	–	50	2140	–	21900	–
Henri Steinmetz	1830	1270	5450	–	69030	–

1) Options assigned by Sulzer as compensation.
2) Prior year figures have been restated to reflect the ten-for-one share split on April 14, 2008 (see note 22 on page 44).

109 Compensation and share participation of the board of directors, executive management and related parties (continued)

Information on options assigned by Sulzer as compensation (including related parties)

	Series														Total	
	2002B		2003		2004		2005		2006		2007		2008			
	F[1]	NF[2]	F	NF	F	NF	F	NF	F	NF	F	NF	F	NF	**F**	**NF**
Board of directors	750	–	750	–	1 200	–	750	1 000	1 750	2 250	1 000	4 500	–	6 750	**6 200**	**14 500**
Ulf Berg	–	–	–	–	–	–	–	500	–	1 000	–	2 000	–	1 500	**–**	**5 000**
Thor Håkstad	–	–	–	–	200	–	375	125	500	250	250	500	–	750	**1 325**	**1 625**
Louis R. Hughes	250	–	250	–	375	–	–	–	500	250	250	500	–	750	**1 625**	**1 500**
Vladimir V. Kuznetsov	–	–	–	–	–	–	–	–	–	–	–	–	–	750	**–**	**750**
Hans Hubert Lienhard	–	–	–	–	125	–	–	125	–	250	–	500	–	750	**125**	**1 625**
Urs Andreas Meyer	–	–	–	–	–	–	–	–	–	–	–	–	–	750	**–**	**750**
Luciano Respini	–	–	–	–	–	–	–	125	250	250	250	500	–	750	**500**	**1 625**
Daniel J. Sauter	500	–	500	–	500	–	375	125	500	250	250	500	–	750	**2 625**	**1 625**
Executive management	–	–	50	–	1 790	–	2 450	1 200	4 050	2 700	3 900	7 800	–	11 700	**12 240**	**23 400**
Ton Büchner	–	–	–	–	1 000	–	900	300	1 800	900	1 000	2 000	–	3 000	**4 700**	**6 200**
Peter Alexander	–	–	–	–	–	–	350	200	600	400	400	800	–	1 200	**1 350**	**2 600**
Urs Fankhauser	–	–	–	–	200	–	600	300	600	600	600	1 200	–	1 800	**2 000**	**3 900**
Alfred Gerber	–	–	–	–	100	–	200	200	400	400	400	800	–	1 200	**1 100**	**2 600**
Kim Jackson	–	–	–	–	40	–	50	50	150	100	600	1 200	–	1 800	**840**	**3 150**
Peter Meier	–	–	–	–	50	–	50	50	100	100	600	1 200	–	1 800	**800**	**3 150**
César Montenegro	–	–	50	–	400	–	300	100	400	200	300	600	–	900	**1 450**	**1 800**
Henri Steinmetz	–	–	–	–	–	–	–	–	–	–	–	–	–	–	**–**	**–**

1) Options assigned by Sulzer as compensation and free to be sold.
2) Options assigned by Sulzer as compensation and not free to be sold.

Series	Year of issue	Expiration date	Strike price
2002B	2002	04.2012	36.50
2003	2003	04.2013	17.30
2004	2004	04.2014	31.80
2005	2005	04.2015	52.20
2006	2006	04.2011	94.20
2007	2007	03.2012	149.50
2008	2008	03.2013	127.90

Appropriation of Net Profit

CHF	2008	2007[1)]
Net profit for the year	203 900 000	346 100 000
Unallocated profit carried forward from previous year	7 273 676	8 038 516
Total available profit	**211 173 676**	354 138 516
Proposal by the board of directors:		
Appropriation to free reserves	**110 000 000**	245 000 000
Dividend	**95 934 636**	101 864 840
Balance carried forward	**5 239 040**	7 273 676
Distribution per share CHF 0.01		
Gross dividend	2.80	2.80
less 35% withholding tax	0.98	0.98
Net payment	**1.82**	1.82

1) Prior year figures have been restated to reflect the ten-for-one share split on April 14, 2008 (see note 22 on page 44).

The board of directors proposes the payment of a dividend of CHF 2.80 per share to the annual general meeting on April 8, 2009.

Annual General Meeting

The 95th ordinary annual general meeting will be held on Wednesday, April 8, 2009, 10.00 a.m., at Eulachhalle, Wartstrasse 73, Winterthur (Switzerland).

Auditors’ Report

Report of the statutory auditor
to the general meeting of
the Shareholders of Sulzer Ltd
8401 Winterthur

Report of the statutory auditor on the financial statements
As statutory auditor, we have audited the financial statements of Sulzer Ltd, which comprise the balance sheet, income statement, changes in equity and notes (pages 64 to 72), for the year ended December 31, 2008.

Board of Directors’ Responsibility
The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company’s articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor’s Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity’s preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements for the year ended December 31, 2008 comply with Swiss law and the company’s articles of incorporation.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Christian Kessler	Diego Alvarez
Audit expert	Audit expert
Auditor in charge	

Winterthur, February 19, 2009

This document may contain forward-looking statements, including but not limited to projections of financial developments and future performance of materials and products, containing risks and uncertainties. These statements are subject to change based on known and unknown risks and various other factors which could cause the actual results or performance to differ materially from the statements made herein.

The annual report is also available in German and online at *www.sulzer.com/AR08*. Furthermore, the report is available as a summary in German or in English. The original version is in English.

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