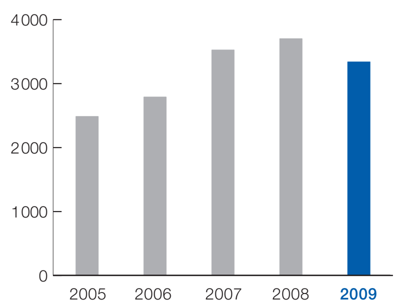
Summary Annual Report 2009

Key Figures 2009

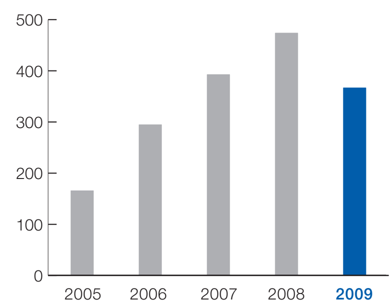
High profitability in challenging markets

Sulzer achieved double-digit return-on-sales levels, both before restructuring (12.4%) and after restructuring expenses (11.0%). The company remained focused on long-term value creation, which is reflected by the continued high return on capital employed.

Sales 2005–2009 in millions of CHF



EBIT 2005–2009 in millions of CHF



Key figures

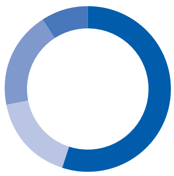
millions of CHF		2009	2008	Change in +/– %	+/– %[1]
Order intake		**3017.6**	4116.6	–26.7	–24.3
Order backlog		**1871.7**	2100.2	–10.9	
Sales		**3350.4**	3713.5	–9.8	–7.3
Operating income before depreciation/amortization	EBITDA	**479.2**	575.9	–16.8	
Operating income before restructuring expenses	EBITR	**416.6**	478.5	–12.9	
Operating income	EBIT	**368.0**	475.1	–22.5	
Return on sales before restructuring expenses (EBITR/sales)	ROSR	**12.4%**	12.9%		
Return on sales (EBIT/sales)	ROS	**11.0%**	12.8%		
Return on capital employed (EBIT/capital employed)	ROCE	**24.8%**	30.6%		
Net income attributable to shareholders of Sulzer Ltd		**270.4**	322.9	–16.3	
Capital expenditure		**112.2**	116.0	–3.3	
Equity attributable to shareholders of Sulzer Ltd		**1777.5**	1538.3	15.5	
Employees (number of full-time equivalents) as of December 31		**12183**	12726	–4.3	
Free cash flow		**528.8**	363.1	45.6	
Net liquidity		**670.6**	306.1	119.1	

Data per share

CHF		2009	2008	+/– %
Closing price of the registered share as of December 31		**81.10**	60.00	35.2
Net income attributable to a shareholder of Sulzer Ltd	EPS	**8.06**	9.59	–16.0
Equity attributable to a shareholder of Sulzer Ltd		**52.95**	45.83	15.5
Dividend		**2.80**[2]	2.80	0.0

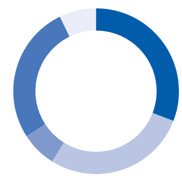
[1] Adjusted for currency effects as well as acquisitions and divestitures.
[2] Proposal to the Annual General Meeting.

Sales by division



	2009
Sulzer Pumps	55%
Sulzer Metco	17%
Sulzer Chemtech	19%
Sulzer Turbo Services	9%

Sales by region



	2009
Europe	31%
North America	28%
Central and South America	7%
Asia, Middle East, Australia	27%
Africa	7%

By division

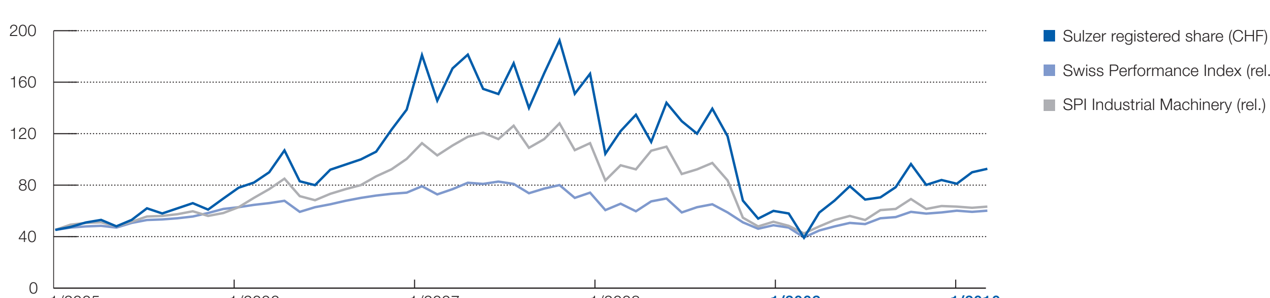
millions of CHF	Order intake 2009	Order intake 2008	Change in +/– %	Change in +/– %[1]	Sales 2009	Sales 2008	Change in +/– %	Change in +/– %[1]
Divisions	**3006.7**	4098.1	–26.6	–24.3	**3336.3**	3697.4	–9.8	–7.2
Sulzer Pumps	**1684.5**	2308.7	–27.0	–22.9	**1856.7**	1817.0	2.2	8.2
Sulzer Metco	**545.5**	715.6	–23.8	–21.4	**556.0**	743.5	–25.2	–23.0
Sulzer Chemtech	**498.4**	770.4	–35.3	–36.8	**632.3**	823.3	–23.2	–26.3
Sulzer Turbo Services	**278.3**	303.4	–8.3	–9.8	**291.3**	313.6	–7.1	–9.5
Others	**10.9**	18.5	–	–	**14.1**	16.1	–	–
Total	**3017.6**	4116.6	–26.7	–24.3	**3350.4**	3713.5	–9.8	–7.3

millions of CHF	Operating income before restructuring 2009	Operating income before restructuring 2008	Change in +/– %	Operating income 2009	Operating income 2008	Change in +/– %
Divisions	**361.3**	475.5	–24.0	**312.7**	472.1	–33.8
Sulzer Pumps	**223.4**	232.3	–3.8	**204.7**	231.9	–11.7
Sulzer Metco	**34.2**	71.2	–52.0	**20.5**	69.6	–70.5
Sulzer Chemtech	**65.5**	140.4	–53.3	**54.5**	140.1	–61.1
Sulzer Turbo Services	**38.2**	31.6	20.9	**33.0**	30.5	8.2
Others	**55.3**	3.0	–	**55.3**	3.0	–
Total	**416.6**	478.5	–12.9	**368.0**	475.1	–22.5

	Return on sales before restructuring 2009	Return on sales before restructuring 2008	Return on sales 2009	Return on sales 2008
Divisions	**10.8%**	12.9%	**9.4%**	12.8%
Sulzer Pumps	**12.0%**	12.8%	**11.0%**	12.8%
Sulzer Metco	**6.2%**	9.6%	**3.7%**	9.4%
Sulzer Chemtech	**10.4%**	17.1%	**8.6%**	17.0%
Sulzer Turbo Services	**13.1%**	10.1%	**11.3%**	9.7%
Others	**–**	–	**–**	–
Total	**12.4%**	12.9%	**11.0%**	12.8%

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

Share price development



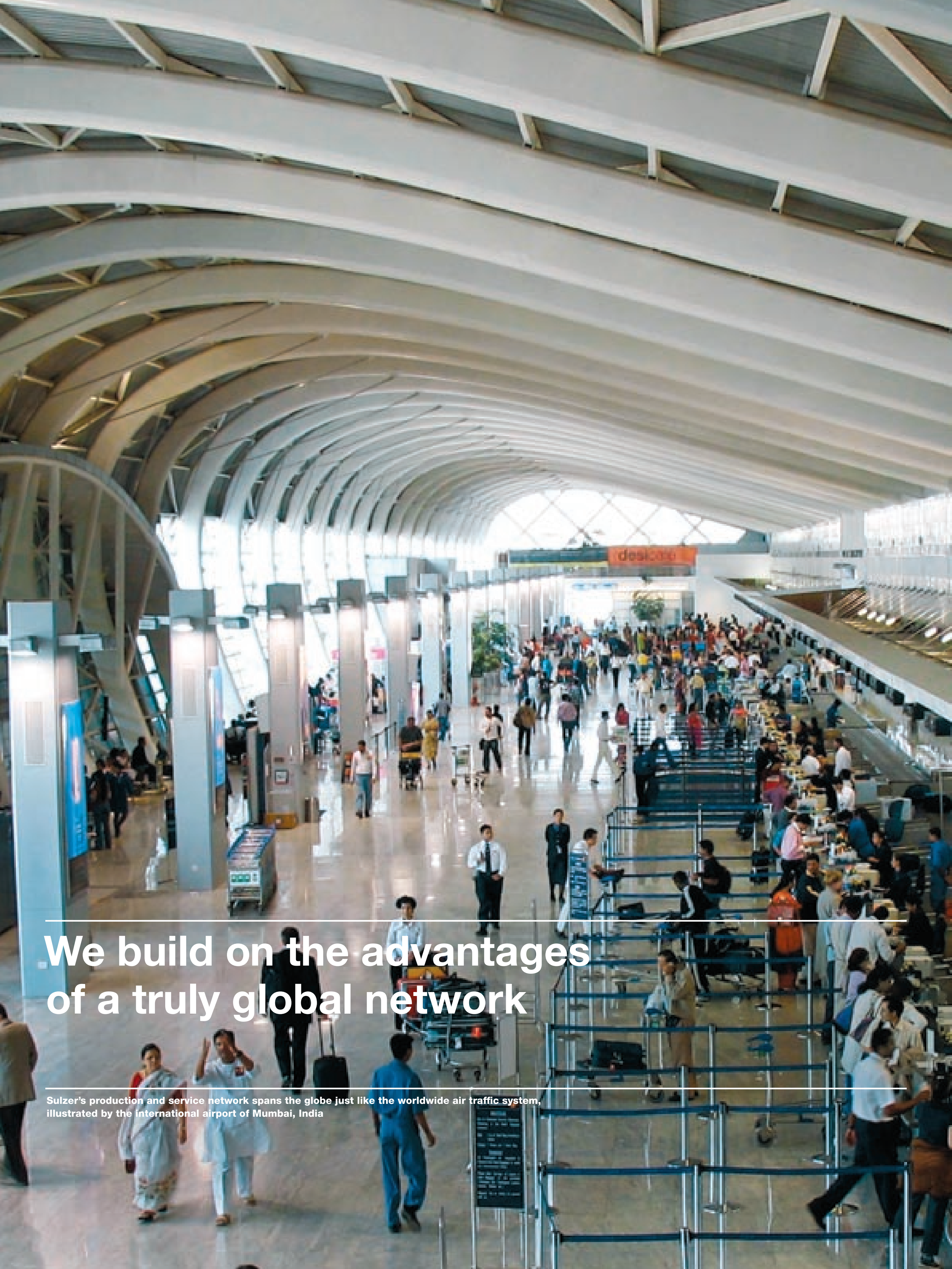
[1] Proposal to the Annual General Meeting.

We leverage the dynamism of emerging markets

Sulzer's offerings for the hydrocarbon processing industry are in high demand as mobility is increasing worldwide, which is visible, for instance, in the busy streets of São Paulo, Brazil

We know our customers and serve them with local knowledge and competence

Sulzer attaches great value to customer partnership and continually expands its local presence, for instance in Shanghai, China



We build on the advantages of a truly global network

Sulzer's production and service network spans the globe just like the worldwide air traffic system, illustrated by the international airport of Mumbai, India

We innovate to create value for our customers

Research and development at the Sulzer site in Elandsfontein, South Africa

Report by the Chairman of the Board and the CEO

High profitability and initiatives for sustainable success

Building on operational discipline and its strong order backlog, Sulzer managed the challenges of the global economic downturn well and maintained its strong market positions. The operational return on sales reached a high level of 12.4%. The company continued its initiatives to ensure long-term success.

Ton Büchner, CEO **Jürgen Dormann,** Chairman of the Board

Dear Shareholders,

Sulzer achieved double-digit return-on-sales levels in 2009, both before restructuring (12.4%) and after restructuring expenses (11.0%). The company maintained its strong market positions in 2009 and showed resilience based on operational discipline in the past years of high growth and the strong order backlog. Demand in virtually all of the key markets decreased significantly compared with the record levels of the previous year. However, Sulzer took early measures to adapt the cost structure and production capacities to the changed market situation. These measures were complemented with continued initiatives for future growth and the development of new business opportunities. The five core focus areas were further strengthened: operational excellence, health and safety, innovation, expansion in emerging markets and increased focus on services. For external growth, we continually assessed opportunities and acquired selected companies that met our criteria of strategic fit, value creation and integration. The long-term outlook for Sulzer's performance-critical solutions remains positive; however, we do not expect a quick recovery of our markets.

The company celebrated its 175th anniversary worldwide with the motto *Experience Sulzer* at various events for customers, employees and other stakeholder. The celebrations focused on demonstrating what the Sulzer brand stands for: reliability, quality, innovative solutions, customer partnership and sustainability.

Strategic focus on emerging markets and services

With Sulzer's strong local presence in the developing economies and about one-third of orders initiating there, the company was able to mitigate the effect of the global economic downturn and leverage additional growth opportunities. Some major emerging markets, particularly Brazil and China, but also other economies in South America, were more resilient during the economic downturn than traditional economies. Sulzer's global network ensures extensive local presence and high customer proximity, and it allows the company to keep the cost structure competitive. The network is continually being expanded, for instance, with the opening of a new facility in 2009 for the Russian market, capacity expansions in India and the construction of a major site in China, which will be fully operational in 2010.

Sulzer also increased the focus on services by further broadening the service network with acquisitions in Australia, Thailand, India and Germany. Potential acquisitions that may complement and strengthen the company's activity portfolio are continually being assessed, while Sulzer maintains its acquisition discipline.

> "Sulzer's extensive local network and presence in the emerging markets ensures high customer proximity and positions the company well for future growth in these regions."

Strengthening innovations and operational excellence

Innovative solutions with high customer value remain essential to sustainable success and organic growth. Processes and tools have been implemented to support increased and faster innovation and to foster a culture of learning. Various fields of opportunity with growth potential are being assessed, resulting in a number of project initiatives, for instance, for innovative solutions for the non-food-based biofuels, the concentrated solar power industry and the development of bioplastics.

Business processes are continually being improved with lean management measures in all divisions. These ongoing efforts are supported by a corporate-wide initiative to foster lean knowledge and share best practices with the objective of systematically improving the operational performance of the corporation and the divisions.

Health and safety is a top priority at Sulzer and has become a part of daily business. The long-term goal of the company is to reduce the number of accidents at work to zero. The health and safety program resulted in a clearly reduced corporate accident frequency rate of 5.5 cases per million working hours in 2009. During the year, almost half of all assessed sites had an accident frequency rate of zero.

The continued success of Sulzer is based on the performance of all employees. Their behavior is guided by the shared core values customer partnership, operational excellence and committed employees. These values were further emphasized throughout the company in 2009.

Challenging market developments

Sulzer maintained its strong market positions in 2009. However, the global economic downturn had an impact on virtually all of the company's key markets, which led to a significant decrease in order intake compared with the extraordinary level of the previous year. The global downturn particularly affected the oil and gas and the hydrocarbon processing industries. The power generation industry remained relatively strong but started to soften toward the end of the year. The

"In challenging markets, Sulzer achieved a high return on sales before restructuring of 12.4%, combined with a high free cash flow of CHF 529 million."

aviation industry was relatively active but showed signs of weakness in late 2009. Demand in the automotive market was low but increased toward the year-end. The activity level in the pulp and paper industry remained weak. The service business was more resilient than the new equipment business.

High profitability and healthy financial situation maintained

Sales remained at the 2008 level until midyear but softened toward the end of the year and reached CHF 3 350 million. The high order backlog, particularly at Sulzer Pumps and Sulzer Chemtech, was executed efficiently and contributed significantly to the sales volume. Currency translation effects, acquisitions and divestitures continued to have a negative impact of 3%. Despite lower sales, the return on sales reached the high level of 12.4% (before restructuring), or 11.0% after restructuring expenses. Extraordinary high real estate activities had a strong positive impact on the operating income and profitability.

Net income reached CHF 276 million, resulting in CHF 8.06 basic earnings per share. Considering this result and the solid financial situation, the Board of Directors will propose an unchanged dividend of CHF 2.80 per share at the Annual General Meeting on April 15, 2010. Sulzer generated a substantially increased free cash flow of CHF 529 million. Consequently, net liquidity improved significantly, and the strong financial situation was further enhanced. Sulzer's solid balance sheet provides a strong foundation for further development of the portfolio.

In 2009, the Sulzer share price increased by 35% over the year and clearly outperformed the SPI Industrial Machinery Index, which increased by 23%.

Adapt to the current economic situation

Sulzer was well prepared to manage the challenges of the global economic downturn. During the last years of extraordinary growth, the company expanded internal capacities only cautiously and prepared early for the expected lower demand. In 2009, Sulzer took measures in all divisions to stay abreast of the declining market demand, and it continues to do so. These actions are implemented in a socially responsible manner. They include reduced subcontracting and increased short-time work, but also the reduction of the workforce and the closure of some facilities. The measures have already resulted in cost reductions in 2009 and will bring substantial savings in 2010.

Changes in the Board of Directors

Jürgen Dormann and Klaus Sturany were newly elected to the Sulzer Board of Directors at the Extraordinary General Meeting in August 2009. Jürgen Dormann was appointed as the new Chairman of the Board and heads the newly established Strategy Committee. The composition of the existing committees was also changed. Ulf Berg, the former chairman, was not reelected at the Annual General Meeting 2009. Luciano Respini held the position of Chairman of the Board between the Annual General Meeting and the Extraordinary General Meeting. The shareholders voted Thor Håkstad, the former vice chairman, and Louis R. Hughes out of office at the Extraordinary General Meeting. We would like to thank the former board members for their strong commitment and performance and wish them all the best for the future.

Challenging markets with some stabilization

The long-term outlook for Sulzer's performance-critical solutions remains positive. We do not anticipate a quick recovery in our key markets, but some markets are likely to stabilize. Order intake in 2010 is expected to decrease, driven by lower project activity in the power generation and hydrocarbon processing industries for Sulzer Pumps. For the oil and gas market, demand is predicted to be at levels comparable with those of 2009. The activity in the aviation industry is expected to remain around the current level. The development of the automotive market is difficult to forecast after the phase-out of government stimulus programs. The pulp and paper industry is predicted to remain at the low level of 2009. Market activity in Europe and North America is expected to remain low, whereas some of the emerging markets are likely to develop comparatively stronger.

Due to reduced market activity, order intake and sales are expected to decrease, resulting in a lower operating income and return on sales. Sulzer is well positioned for sustainable success based on its strong market positions, its continually strengthened five core focus areas and its sound financial situation.

> "Sulzer remains well positioned for future success based on its five core focus areas, its adaptation measures and its strong financial situation."

We thank our customers for their ongoing trust and our employees for their continued commitment and dedication in challenging times. We thank you, our shareholders, for your continued support.

Yours sincerely,

Jürgen Dormann, Chairman of the Board

Ton Büchner, CEO

We are a global leader for performance-critical applications

A Sulzer service team in Abu Dhabi, United Arab Emirates

Sulzer's Vision, Mission and Values

Our guiding principles

The Sulzer vision and mission outline the principles by which we live. The Sulzer values act as an inner compass, which guides all our activities. They define who we are and how we behave.

Our vision

Sulzer's vision is to be a recognized leader in innovative, sustainable, engineered and customer-focused solutions for performance-critical applications in six key markets and selected industries.

Our mission

Sulzer aims to be

- a multi-industry company with a strong brand.
- a provider of solutions that combine products, services, engineering and customer-application expertise.
- close to the customer by being primarily direct-sales driven.
- an engineering, innovation and technology driven firm.
- an attractive employer where employees can excel.
- a company that creates value for its shareholders.

Our values

- Customer partnership: We exceed the expectations of our customers with innovative and competitive solutions.
- Operational excellence: We perform on the basis of structured work processes and lean principles.
- Committed people: We are committed to high standards and show respect for people.

Divisions and Markets

Solutions for customers worldwide

Sulzer's worldwide network ensures customer proximity and local presence. The divisions are global leaders in selected industrial markets. Their innovative solutions strengthen the competitive positions of Sulzer's customers.

Sulzer Pumps

Sulzer Pumps develops and supplies centrifugal pumps worldwide. Intensive research and development in fluid dynamics, process-oriented products and special materials as well as reliable service help the division maintain its leading positions in its key markets. Its customers come from the oil and gas, hydrocarbon processing, power generation and pulp and paper sectors as well as from water distribution and treatment and other general industries.

Sulzer Metco

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

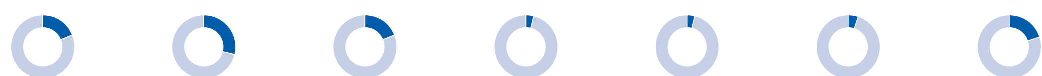
Sulzer Chemtech

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

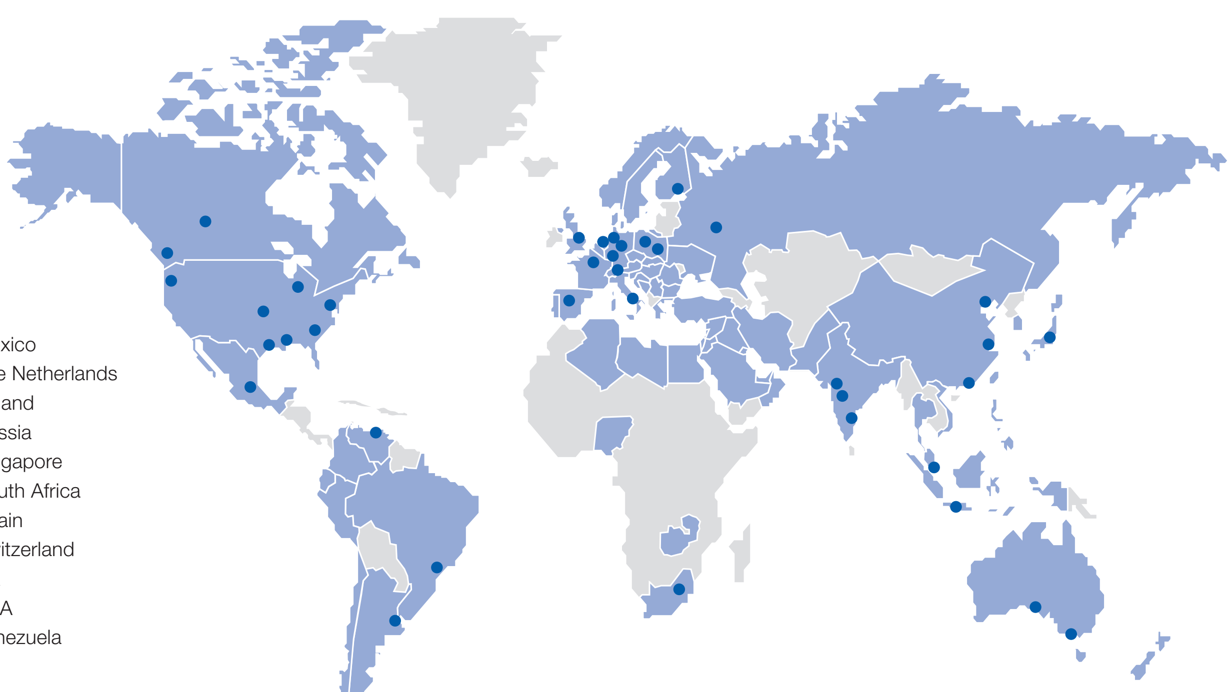
Sulzer Turbo Services

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

Market segments

	Oil and Gas (Upstream)	HPI (Oil and Gas, Downstream)	Power Generation	Pulp and Paper	Aviation	Automotive Industry	Other Industrial Markets
Share of Sales							
Sulzer Pumps	■	■	■	■			■
Sulzer Metco	▪		■	▪	■	■	■
Sulzer Chemtech	■	■	▪			▪	■
Sulzer Turbo Services	■	■	■	▪			■

Sulzer's production and service network



Argentina
Australia
Brazil
Canada
China
Finland
France
Germany
India
Indonesia
Italy
Japan
Mexico
The Netherlands
Poland
Russia
Singapore
South Africa
Spain
Switzerland
UK
USA
Venezuela

● Major facility ■ Sulzer presence

Financial Review

Sound financial performance and high cash flow

Sulzer achieved a strong financial performance with a return on sales of 11.0% and a return on capital employed of 24.8%. The capital structure remains very strong, with an equity ratio of 52.5%. The high cash flow resulted in an increase of net liquidity to CHF 670.6 million.

Performance measures

The performance of operations is primarily assessed based on order intake, sales, operating income, cash flow as well as — in relative terms — return on sales (including and excluding restructuring expenses) and return on capital employed.

Order intake: challenging markets

In 2009, most of Sulzer's key markets were affected by the global economic downturn, which resulted in clearly lower activity levels compared to the prior year. Order intake decreased by 26.7% to CHF 3 017.6 million. Adjusted for the impact of currency effects, acquisitions and divestitures, order intake decreased by 24.3%.

Orders

millions of CHF	2009	2008
Order intake	**3 017.6**	4 116.6
Order backlog (December 31)	**1 871.7**	2 100.2

Compared with 2008, Sulzer Chemtech's order intake was most affected and declined by 35.3% (adjusted 36.8%), which is mainly due to lower activity in the hydrocarbon processing industry. The impact of the global economic downturn was also significant at Sulzer Pumps, with order intake decreasing by 27.0% (adjusted 22.9%), as well as at Sulzer Metco, where order intake contracted by 23.8% (adjusted 21.4%). Order intake of Sulzer Turbo Services only moderately declined by 8.3% (adjusted 9.8%), supported by continued high activity in North America. The order backlog decreased by 10.9% to CHF 1 871.7 million, mainly as sales were higher than order intake.

Sales: strong contribution of Sulzer Pumps

Sulzer achieved sales of CHF 3 350.4 million in 2009, which is a decrease of 9.8% compared with the prior year. Adjusted for the impact of currency effects, acquisitions and divestitures, sales decreased by 7.3%. Sulzer Pumps was the only division whose sales volume grew (nominally 2.2%, adjusted 8.2%), driven by the execution of its strong order backlog, ensuring high capacity utilization. The other divisions remained below the previous year's levels. In particular, Sulzer Metco and Sulzer Chemtech had significantly negative growth rates of 25.2% (adjusted 23.0%) and 23.2% (adjusted 26.3%), respectively. The sales volume of Sulzer Turbo Services moderately decreased by 7.1% (adjusted 9.5%). Consequently, Sulzer Pumps' share of total sales increased from 48.9% in 2008 to 55.4% in 2009. Geographically, Europe accounted for 31.3% of total sales, followed by North America (28.4%) and Asia, the Middle East and Australia (26.4%). Driven by strong sales in Brazil, the share of Central and South America increased to 7.1% in 2009. The remaining 6.8% of sales were generated in Africa.

Based on the execution of the high-quality order backlog, a solid gross margin of 30.0% was recorded in 2009. This was broadly in line with the prior year's level of 30.9%. The slight reduction was primarily a result of lower capacity utilization in various production sites. Gross profit decreased by 12.4% to CHF 1 006.5 million, mainly due to the lower sales volume.

Operating expenses: impacted by real estate sales and restructuring expenses

In 2009, operating expenses decreased by CHF 35.7 million (–5.3%) to CHF 638.5 million. Selling and distribution expenses decreased by CHF 21.6 million and general and administrative expenses were reduced by CHF 15.9 million, while research and development expenses increased by CHF 3.8 million. Sulzer booked restructuring expenses of CHF 48.6 million to adapt its cost structure and capacity to the lower market demand. An extraordinary high operating income, amounting to CHF 55.1 million, was recorded by Sulzer Real Estate. This was driven by some major sales of operationally non-essential real estate in Switzerland. In 2008, restructuring expenses had amounted to CHF 3.4 million and Sulzer Real Estate contributed CHF 14.3 million to the operating income. Excluding the high impact of the adaptation measures and Sulzer Real Estate, the operating expenses decreased by 5.8% in 2009.

The results of Sulzer Real Estate fluctuate due to the ongoing divestiture of operationally non-essential real estate. These properties stem from Sulzer's earlier industrial activities and will gradually be sold after preparation of the infrastructure and according to market conditions. The funds generated from the disposals are reinvested into the core businesses.

Operating income and profitability: value-creating threshold clearly exceeded

Sulzer's operating income decreased by 22.5% from CHF 475.1 million in 2008 to 368.0 million in 2009. Aside from the impact of the lower sales volume, the operating income was affected by the above-mentioned restructuring expenses and the extraordinary high contribution of Sulzer Real Estate. Return on sales before restructuring expenses (ROSR) amounted to 12.4% compared with 12.9% in 2008 and return on sales after restructuring expenses (ROS) amounted to 11.0% (2008: 12.8%).

Key performance indicators

millions of CHF	2009	2008
Return on sales before restructuring (ROSR)	12.4%	12.9%
Return on sales (ROS)	11.0%	12.8%
Return on capital employed (ROCE)	24.8%	30.6%

Despite its decrease from 30.6% to 24.8%, the return on capital employed (ROCE) clearly exceeded the pre-tax weighted average cost of capital, Sulzer's financial value creating threshold, of approximately 12%.

Operating income of the four divisions decreased by 33.8% to CHF 312.7 million and the ROSR of the divisions amounted to 10.8%. The reduction was mainly caused by the notably lower sales volume. The ROS of the divisions dropped by 3.4 percentage points to 9.4%. While Sulzer Turbo Services increased operating income before restructuring expenses by 20.9% and Sulzer Pumps noted a moderate decrease of 3.8%, Sulzer Metco (–52.0%) and Sulzer Chemtech (–53.3%) recorded less than half of their respective results of last year.

Financial income

The net financial income amounted to CHF 1.6 million, compared with CHF –23.5 million in 2008. The previous year's financial income was largely driven by the negative impact of currency fluctuations. Net interest income amounted to CHF –2.1 million, which is broadly on the same level as in the prior year (2008: CHF –3.8 million). Interest expenses are mainly related to unfunded pension liabilities in Germany.

Income tax expenses

Tax expenses decreased by 24.3% from CHF 123.9 million in 2008 to CHF 93.8 million in 2009, mainly as a result of the lower pre-tax income. The effective income tax rate amounted to 25.4%, compared with 27.4% in 2008. The significantly lower tax rate was driven by a number of

Consolidated income statement (condensed)

millions of CHF	2009	2008
Sales	3350.4	3713.5
Cost of goods sold	–2343.9	–2564.2
Gross profit	1006.5	1149.3
Selling, administrative and development expenses	–589.9	–670.8
Operating income before restructuring	416.6	478.5
Restructuring expenses	–48.6	–3.4
Operating income	368.0	475.1
Financial income, net	1.6	–23.5
Income tax expenses	–93.8	–123.9
Net income	275.8	327.7

non-recurring items, such as the extraordinary contributions of Sulzer Real Estate being taxed at a favorable rate, the capitalization of tax loss carry forwards in Brazil and Canada, and positive effects on deferred tax positions due to changes of applicable tax rates for some companies in Switzerland and China.

Net income

Sulzer generated a solid net income of CHF 275.8 million compared with CHF 327.7 million in the previous year (–15.8%). In 2009, CHF 5.4 million was attributable to minority shareholders, which was similar to the prior year. Net income attributable to Sulzer shareholders amounted to CHF 270.4 million (8.1% of sales) in 2009, compared with CHF 322.9 million (8.7% of sales) in the previous year. Basic earnings per share (EPS) amounted to CHF 8.06 compared with CHF 9.59 in 2008.

Balance sheet: continuously strong capital structure

Total assets as per December 31, 2009, amounted to CHF 3384.2 million, which is a slight decrease of CHF 46.0 million, or 1.3% compared with 2008. Acquisitions added approximately CHF 40 million to the balance sheet, and currency fluctuations resulted in an increase of approximately CHF 74 million. Notable changes compared with the prior year were recorded in property, plant and equipment (PP&E), inventories and trade accounts receivable. PP&E decreased by CHF 47.7 million to CHF 558.1 million, mainly as a result of the sale of operationally non-essential real estate in Switzerland. Inventories decreased by CHF 122.5 million and trade accounts receivable declined by CHF 163.2 million due to the lower sales volume compared with the prior year. The aging structure of trade accounts receivable remained broadly unchanged. The recoverability of trade accounts receivable is reviewed regularly and adequate allowances for doubtful debtors are considered. Cash and cash equivalents substantially increased by CHF 283.4 million to CHF 730.6 million as per December 31, 2009, and net liquidity (cash, cash equivalents and marketable securities less short- and long-term borrowings) more than doubled from CHF 306.1 million as per December 31, 2008, to CHF 670.6 million as per December 31, 2009.

Sulzer's capital structure further strengthened in 2009, as equity increased by CHF 242.6 million to CHF 1788.9 million, while total liabilities decreased by CHF 288.6 million to CHF 1595.3 million. The currency impact on equity was immaterial. The equity ratio (equity/total assets) increased from 44.8% in 2008 to 52.5% in 2009, and the gearing (borrowings/equity) decreased from 0.12 to 0.05. The lower liabilities were mainly a result of the reduction of short-term borrowings and a lower balance of advance payments from customers.

Adequate provisions remain for the controversial obligations resulting from a past divestiture. The situation of the asbestos lawsuits remained unchanged compared with the previous year. All litigation expenses were charged to income, and adequate provisions were 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.

Cash flow

Cash flow from operating activities amounted to CHF 488.0 million in 2009, an increase of CHF 38.1 million (8.5%) compared with the prior year. This rise was mainly driven by a notable reduction of net working capital by some CHF 133 million as a result of the lower sales volume, which led to lower trade accounts receivable and lower inventory levels but also to lower advance payments from customers. The beneficial impact of the lower net working capital was partially offset by the lower EBITDA contribution of the divisions.

Capital expenditure (purchase of intangible assets and property, plant and equipment) of CHF 112.2 million was broadly in line with the prior year. With CHF 54.7 million, or 48.8%, the major share of capital expenditure was spent for expansions. Besides capability and capacity expansion in Europe and North America, strategic investments were executed in the emerging markets. These investments included the ongoing construction of a new factory of Sulzer Pumps in Suzhou, China; the new Sulzer Chemtech facility in Serpukhov, Russia; and capacity expansions at the Sulzer Chemtech site in Pune, India. Capital expenditure for replacements amounted to CHF 30.1 million, or 26.8% of total capital expenditure. CHF 7.5 million was spent on information technology, primarily for the continued standardization of enterprise-resource-planning systems within the divisions. Geographically, capital expenditure was primarily spent in Europe (59.6%) and North America (23.5%), while 12.9% of capital expenditure was spent in Asia, the Middle East and Australia and the remaining 4.0% in Central and South America and Africa. The sale of intangible assets and property, plant and equipment of CHF 153.0 million was, as in the prior year, primarily driven by the sale of operationally non-essential real estate in Switzerland.

Free cash flow, consisting of cash flow from operating activities as well as purchase and sale of intangible assets and property, plant and equipment, was supported by the substantial cash inflow from the real estate sales and amounted to CHF 528.8 million. This is 45.6% above the CHF 363.1 million generated in the previous year.

Cash outflow from acquisitions and divestitures amounted to CHF 39.6 million, compared with CHF 77.1 million in 2008. With the exception of one smaller acquisition by Sulzer Metco, all acquisitions closed in the reporting year were executed for Sulzer Chemtech. The division established the new Process Technology business unit by combining existing process know-how with the acquired activities of Kühni Ltd. Acquisitions in Australia, Thailand, Germany and India further strengthened the Tower Field Service business unit of Sulzer Chemtech. In 2009, cash flow from acquisitions and divestitures included a payment of CHF 7.5 million to the seller of the company Capime, which was acquired in 2008 by Sulzer Turbo Services. In the prior year, cash flow from acquisitions and divestitures mainly related to the remaining payment of the Mixpac, Werfo and Mold acquisition, which was closed in 2006.

Overall, a cash inflow from investing activities of CHF 13.0 million was recorded, compared with a cash outflow of CHF 198.0 million in 2008.

In 2009, the most significant outflows in the cash flow from financing activities were the dividend payment of CHF 94.0 million, the repayment of borrowings of CHF 120.1 million as well as CHF 28.0 million mainly related to a treasury stock forward transaction. The previous year included primarily the dividend payment of CHF 94.6 million.

The exchange gains on cash and cash equivalents amounted to CHF 7.7 million in 2009, whereas exchange losses of CHF 69.4 million were recorded in 2008.

Corporate development

Sulzer announced measures to adapt cost structure and production capacity to the lower market demand. These measures will allow for annual cost savings of approximately CHF 110 million after completion in the first half of 2011, with related restructuring expenses of some CHF 55 million. Thereof, non-recurring charges of CHF 48.6 million were booked in 2009.

All divisions have taken adaptation measures. However, the magnitude and timing depends on their specific situation. The measures in 2009 were most extensive at Sulzer Metco and Sulzer Chemtech, while Sulzer Turbo Services was affected to a lesser degree and at only one location. At Sulzer Pumps, a strong order backlog ensured high capacity utilization at many locations, while, at other sites, capacities were already adjusted. The geographical emphasis of the adaptation measures lay within Europe and North America. The restructuring provisions as per December 31, 2009, amounted to CHF 24.2 million. The vast majority of these restructuring provisions are projected to be cash effective in 2010.

For the acquisition strategy, Sulzer aims to achieve its strategic goals more rapidly by selectively acquiring technologies and investing in specific market geographies and segments. The strategy focuses on the company's core activities, including adjacent businesses. Sulzer continues to pursue suitable acquisitions, but will maintain its discipline of strategic fit, value creation and integration.

Outlook

Sulzer expects a further decline of order intake and sales in 2010, mainly due to Sulzer Pumps, which was affected by the downturn later than the other divisions. Sales are expected to exceed order intake, resulting in a further reduction of the order backlog. The adaptation measures will already have a substantial impact in 2010. However, the full cost savings will only show effect from mid-2011 onward. The contribution of Sulzer Real Estate is projected to be substantially below the extraordinary high level in 2009. Sulzer's operating income and return on sales are expected to decrease in 2010. The tax rate is forecast to amount to approximately 28%. Sulzer's strong market positions and the sound financial situation build a solid foundation for sustainable success.

Consolidated cash flow statement (condensed)

millions of CHF	2009	2008
Cash flow from operating activities	**488.0**	449.9
Purchase of intangible assets and property, plant and equipment	**–112.2**	–116.0
Sale of intangible assets and property, plant and equipment	**153.0**	29.2
Free cash flow	**528.8**	363.1
Acquisitions/divestitures	**–39.6**	–77.1
Purchase/sale of financial assets and marketable securities	**11.8**	–34.1
Cash flow from operating and investing activities	**501.0**	251.9
Cash flow from financing activities	**–225.3**	–98.9
Exchange gains/losses on cash and cash equivalents	**7.7**	–69.4
Net change in cash and cash equivalents	**283.4**	83.6
Cash and cash equivalents as of December 31	**730.6**	447.2

Consolidated Income Statement

January – December

millions of CHF	Notes	2009	2008
Sales		**3350.4**	3713.5
Cost of goods sold		**–2343.9**	–2564.2
Gross profit		**1006.5**	1149.3
Selling and distribution expenses		**–290.6**	–312.2
General and administrative expenses		**–277.5**	–293.4
Research and development expenses	07	**–63.4**	–59.6
Other operating income	08	**98.0**	65.0
Other operating expenses	08	**–56.4**	–70.6
Operating income before restructuring		**416.6**	478.5
Restructuring expenses		**–48.6**	–3.4
Operating income		**368.0**	475.1
Interest and securities income	09	**8.0**	10.8
Interest expenses	09	**–10.1**	–14.6
Other financial income	09	**3.7**	–19.7
Income before income tax expenses		**369.6**	451.6
Income tax expenses	10	**–93.8**	–123.9
Net income		**275.8**	327.7
Attributable to shareholders of Sulzer Ltd		**270.4**	322.9
Attributable to minority interests		**5.4**	4.8
Earnings per share, attributable to a shareholder of Sulzer Ltd (in CHF)			
Basic earnings per share	23	**8.06**	9.59
Diluted earnings per share	23	**7.99**	9.52

Consolidated Statement of Comprehensive Income

January – December

millions of CHF	Notes	2009	2008
Net income		**275.8**	327.7
Fair value changes on available-for-sale financial assets, net of tax		**3.9**	–24.3
Cash flow hedges, net of tax		**25.5**	–26.8
Currency translation differences		**26.6**	–142.0
Total comprehensive income for the year		**331.8**	134.6
Attributable to shareholders of Sulzer Ltd		**325.5**	132.5
Attributable to minority interests		**6.3**	2.1

Consolidated Balance Sheet

December 31

millions of CHF	Notes	2009	2008
Non-current assets			
Intangible assets	11	**511.9**	491.5
Property, plant and equipment	12	**558.1**	605.8
Other financial assets	13	**32.1**	33.3
Non-current receivables		**6.2**	3.4
Deferred income tax assets	10	**92.1**	69.0
Total non-current assets		**1 200.4**	1 203.0
Current assets			
Inventories	14	**512.8**	635.3
Advance payments to suppliers		**68.8**	60.0
Trade accounts receivable	16	**696.1**	859.3
Other accounts receivable and prepaid expenses	17	**128.6**	174.9
Assets held for sale	18	**10.4**	9.2
Marketable securities	20	**36.5**	41.3
Cash and cash equivalents	19	**730.6**	447.2
Total current assets		**2 183.8**	2 227.2
Total assets		**3 384.2**	3 430.2

Equity			
Share capital	22	**0.3**	0.3
Reserves		**1 777.2**	1 538.0
Equity attributable to shareholders of Sulzer Ltd		**1 777.5**	1 538.3
Minority interests		**11.4**	8.0
Total equity		**1 788.9**	1 546.3
Non-current liabilities			
Long-term borrowings	24	**49.0**	25.9
Deferred income tax liabilities	10	**65.6**	72.3
Non-current income tax liabilities	10	**31.6**	35.1
Non-current provisions	25	**179.1**	177.2
Other non-current liabilities		**1.9**	6.1
Total non-current liabilities		**327.2**	316.6
Current liabilities			
Short-term borrowings	24	**47.5**	156.5
Current income tax liabilities	10	**74.2**	59.4
Current provisions	25	**186.2**	136.0
Trade accounts payable		**243.7**	317.3
Customers' advance payments		**313.8**	396.2
Other current and accrued liabilities	26	**402.7**	501.9
Liabilities directly associated with assets held for sale	18	**–**	–
Total current liabilities		**1 268.1**	1 567.3
Total liabilities		**1 595.3**	1 883.9
Total equity and liabilities		**3 384.2**	3 430.2

Consolidated Statement of 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, 2008		0.1	1 654.9	–381.2	38.9	–45.6	284.1	1 551.2	8.2	1 559.4
Total comprehensive income for the year					–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
Total comprehensive income for the year					26.5	28.6	270.4	325.5	6.3	**331.8**
Addition/deduction of minority interests								–	0.3	**0.3**
Change in treasury shares			–21.0	25.1				4.1		**4.1**
Cost of share-based payments			5.5					5.5		**5.5**
Dividend							–95.9	–95.9	–3.2	**–99.1**
Allocation of net income			227.0				–227.0	–		**–**
Equity as of December 31, 2009		0.3	1 747.5	–98.7	22.5	–164.5	270.4	1 777.5	11.4	**1 788.9**

Consolidated Statement of Cash Flows

January – December

millions of CHF	Notes	2009	2008
Cash and cash equivalents as of January 1		**447.2**	363.6
Cash flow from operating activities			
Operating income		**368.0**	475.1
Depreciation/amortization		**111.2**	100.8
Changes in inventories		**146.4**	–68.8
Changes in advance payments to suppliers		**–7.5**	34.5
Changes in trade accounts receivable		**203.6**	–160.5
Changes in advance payments from customers		**–122.4**	105.9
Changes in trade accounts payable		**–87.4**	–
Changes in provisions		**29.5**	32.1
Changes in other net current assets		**–11.3**	36.5
Other non-monetary income statement items		**34.1**	30.3
Interest received		**9.7**	11.1
Interest payments		**–7.1**	–10.7
Income tax paid		**–134.6**	–128.4
Income from disposals of subsidiaries and property, plant and equipment		**–44.2**	–8.0
Total cash flow from operating activities		**488.0**	449.9
Cash flow from investing activities			
Purchase of intangible assets		**–1.3**	–5.2
Sale of intangible assets		**0.1**	–
Purchase of property, plant and equipment		**–110.9**	–110.8
Sale of property, plant and equipment		**152.9**	29.2
Acquisitions	30	**–40.2**	–77.1
Divestitures		**0.6**	–
Purchase of financial assets		**–0.2**	–7.5
Sale of financial assets		**0.5**	4.2
Purchase of marketable securities		**–6.3**	–46.7
Sale of marketable securities		**17.8**	15.9
Total cash flow from investing activities		**13.0**	–198.0
Cash flow from operating and investing activities		**501.0**	251.9
Cash flow from financing activities			
Dividend		**–94.0**	–94.6
Purchase/sale of treasury stock		**–28.0**	–14.0
Minority interests		**–3.2**	–2.3
Additions in long-term borrowings		**20.0**	0.8
Repayment of long-term borrowings		**–1.1**	–1.0
Changes in short-term borrowings		**–119.0**	12.2
Total cash flow from financing activities		**–225.3**	–98.9
Exchange gains/losses on cash and cash equivalents		**7.7**	–69.4
Net change in cash and cash equivalents		**283.4**	83.6
Cash and cash equivalents as of December 31		**730.6**	447.2

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