SULZER

Financial Section 2007

Corporation

Consolidated Financial Statements

Five-year Summaries

Financial Statements of Sulzer Ltd (Parent Company)

Content

Investor Information

Data per share

in CHF	2007	2006	2005	2004	2003
Net income attributable to a shareholder of Sulzer Ltd	**83.47**	62.27	36.03	20.10	11.77
Change from prior year	**34%**	73%	79%	71%	–51%
Cash flow from operating and investing activities	**52.2**	48.0	29.1	18.0	17
Equity attributable to a shareholder of Sulzer Ltd	**455**	432	418	376	367
Dividend	**28**[1)]	23	14	9	6
Payout ratio	**34%**	37%	39%	45%	51%
Average number of shares outstanding	**3 403 570**	3 556 361	3 559 355	3 490 812	3 465 292

1) Proposal to the annual general meeting.

Stock market information

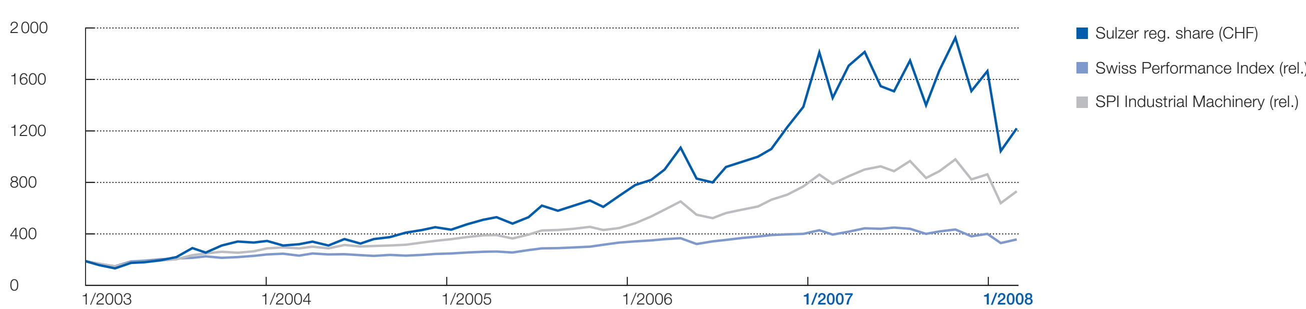
Share prices in CHF	2007	2006	2005	2004	2003
Registered share					
high	**1 924**	1 409	701	456	338
low	**1 375**	692	427.5	303	136
year-end	**1 665**	1 387	696	452.25	333
Market capitalization as of December 31					
number of shares issued	**3 638 030**	3 638 030	3 638 030	3 638 030	3 638 030
in millions of CHF	**6 057**	5 046	2 532	1 645	1 211
in percentage of equity	**392%**	328%	170%	125%	95%
P/E ratio as of December 31	**19.9x**	22.3x	19.3x	22.5x	28.3x
Dividend yield as of December 31	**1.7%**[1)]	1.7%	2.0%	2.0%	1.8%

1) Proposal to the annual general meeting.

Title	Security No.	Investdata	Reuters	Bloomberg
Listed on SWX Swiss Exchange				
Registered share	237 645	SUN	SUN.S	SUN SW

Additional key figures and ratios on pages 58 and 59.

Share Price Development



Five-year Summaries of Key Financial Data

Key figures from consolidated income statement and cash flow statement

millions of CHF		2007	2006	2005	2004	2003
Sales		3537.0	2801.7	2498.2	2067.0	1826
Operating income before depreciation/amortization[1]	(EBITDA)	501.3	376.1	272.6	224.2	179
Operating income before goodwill amortization[1]	(EBITA)	393.5	295.6	166.8	135.6	89
return on capital employed (in percentage of capital employed)[1] [2]	(ROCE)	24.2%	23.7%	13.3%	11.3%	6.8%
return on sales (in percentage of sales)[1]	(ROS)	11.1%	10.6%	6.7%	6.6%	4.9%
Operating income[1] [3]	(EBIT)	393.5	295.6	166.8	107.6	62
Depreciation/amortization		107.8	80.5	105.8	88.6	90
Goodwill amortization[3]		–	–	–	28.0	27
Research and development expenses		51.8	40.0	43.2	41.3	40
Net income attributable to shareholders of Sulzer Ltd		284.1	221.4	128.3	70.2	41
in percentage of equity attributable to shareholders of Sulzer Ltd	(ROE)	18.4%	14.4%	8.6%	5.3%	3.2%
Cash flow						
from operating activities		261.3	259.2	162.8	142.2	126
from investing activities		–83.6	–88.6	–59.3	–77.9	–67
Capital expenditure		134.8	106.0	77.8	81.4	83
Employees (number of full-time equivalents) as of December 31		11599	10393	9656	9586	8999
Personnel expenses		948.5	788.1	731.8	650.3	627

Key figures from consolidated balance sheet

millions of CHF	2007	2006	2005	2004	2003
Non-current assets	1294.1	1259.1	1052.5	1031.8	1079
thereof property, plant and equipment	655.0	629.3	568.2	580.3	606
Current assets	2166.7	1806.1	1791.8	1463.3	1340
thereof cash and marketable securities	384.5	361.6	550.9	444.3	385
Total assets	3460.8	3065.2	2844.3	2495.1	2419
Equity attributable to shareholders of Sulzer Ltd	1547.1	1536.9	1488.5	1314.1	1271
Non-current liabilities	339.8	421.0	460.1	455.2	459
thereof long-term borrowings	28.1	31.9	212.6	215.4	202
Current liabilities	1565.7	1099.9	883.2	714.5	677
thereof short-term borrowings	157.9	30.0	33.6	16.8	45
Net liquidity[4]	198.5	299.7	304.7	212.1	138
Equity ratio[5]	44.7%	50.1%	52.3%	52.7%	53%
Borrowings to equity ratio (gearing)	0.12	0.04	0.17	0.18	0.19

[1] In 2003 after charging restructuring costs at Sulzer Pumps of CHF 23 million.
[2] Until 2004 goodwill was included at historical cost in capital employed, since 2005 at net book value.
[3] Until 2004 incl. goodwill amortization.
[4] Cash and cash equivalents and marketable securities, less borrowings.
[5] Equity attributable to shareholders of Sulzer Ltd in relation to total assets.

Financial Commentary

Summary

Favorable economic framework conditions ensured a strong demand for Sulzer products and services in all relevant industry segments and regions in the reporting year. On the back of an already high order intake volume base of 2006, Sulzer achieved a growth rate of 23.7%. Sales rose significantly by 26.2% to CHF 3 537.0 million. The newly acquired businesses of Mixpac, Werfo, Mold, and Knitmesh, which are consolidated in Sulzer Chemtech, contributed CHF 129.2 million. The notable volume through-put of the corporation was handled in part by increased efficiency coming from the previous and ongoing operational excellence efforts together with expansion of the production sites in China, India, Mexico, and the USA. Job rotation across regions and the build-up of specialist (engineering) clusters also served to help cope with the high workload. The marked increase in the operating income of 33.1% to CHF 393.5 million was principally from the four divisions. The corporation's return on sales amounted to 11.1%, an improvement from the previous year's figure of 10.6%. The financial income was affected by a higher interest expense compared to previous year related to the partial usage of a new credit facility established in the reporting year, which to some extent offset a sizeable gain on sale of available-for-sale financial assets. Income tax increased due to the much improved pre-tax income. These factors resulted in a 28.3% higher net income attributable to Sulzer shareholders of CHF 284.1 million, which corresponds to CHF 83.47 basic earnings per share. The corresponding amount in 2006 was CHF 62.27 basic earnings per share.

Total assets have continued to increase and are now just below CHF 3.5 billion. Organic growth and partial usage of the new credit facility served to enlarge the balance sheet, whereas the program for the buyback of own shares, which was completed in 2007, reduced it. These developments led to an equity-to-assets ratio of just below 45%; five percentage points below the 2006 amount.

The profitable business operations and the sale of available-for-sale financial assets resulted in a significant cash inflow which supported the financing of CHF 134.8 million capital expenditure and CHF 210.1 million purchase of own shares for the share buyback program, which was initiated in 2006. The net liquidity amounted to CHF 198.5 million. In 2006 this figure was CHF 299.7 million.

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

The new standard IFRS 7 Financial Instruments, Disclosures, and the complementary Amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures introduced new disclosure requirements relating to financial instruments. The standard does not have any impact on the classification and valuation of the corporation's financial instruments.

The corporation has decided not to early adopt IFRS 8 Operating Segments, revised IAS 23 Borrowing Cost, IFRIC 11 IFRS 2 – Group and Treasury Share Transactions, IFRIC 12 Service Concession, IFRIC 13 Customer Loyalty Programs, and IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. The corporation is currently assessing the impact that the application of these standards and IFRICs will have in 2008. A detailed description to the forthcoming changes in accounting policies is shown in the corporate accounting principles, section 2.2 "Change in accounting policies".

In 2007, acquisitions and divestitures had a net effect of around CHF 127 million on the sales growth compared with the previous year. The opening balance sheet amounts correlating to the majority of these sales were included in 2006. No major divestiture took place in 2007. On January 31, 2007, the assets of Knitmesh were acquired and consolidated in the Sulzer Chemtech division.

The strength of the Euro and the British pound positively influenced the translation of the consolidated figures in 2007 compared to those of previous year. This positive impact offset the negative influence of the weakened US dollar. The effect of currency conversion on the income statement was slightly positive with just under 1% on sales and operating income. The corresponding balance sheet impact was a negative one of some 1.5% on the various asset and liability positions.

Sales

Sales rose by 26.2% to CHF 3 537.0 million in nominal values. The organic growth, adjusted for influences of acquisitions/divestitures and currency fluctuation, increase was 20.9%. The newly acquired businesses of Mixpac, Werfo, Mold, and Knitmesh contributed CHF 129.2 million. All four divisions depicted notable organic growth with Sulzer Chemtech achieving 27.4%, Sulzer Pumps at 22.4%, and Sulzer Turbo Services and Sulzer Metco developing by 15.5% and 15.1% respectively. With regards to geographic distribution, only Latin America was at the same nominal sales level as previous year. All other areas significantly outperformed their 2006 amounts (Europe +43%, Asia/Australia including Middle East +25%, North America +18%, and Africa +15%).

The premise of the order intake increasing to the same extent as the sales volume culminated in an order backlog of CHF 493.6 million above previous year at a record CHF 1 978.1 million. Due to the project nature of much of Sulzer Pumps' and Sulzer Chemtech's recently acquired orders, a sizeable portion of the order backlog was entered into the books with lead times of between 8 and 14 months.

A token gross margin improvement from 28.9% in 2006 to 29.3% in 2007 reflected the increase in certain material prices as well as the rigid discipline to maintaining on-time delivery, which at times resulted in higher freight charges being incurred.

Operating income

The Sulzer corporation was able to markedly outperform the previous year and achieve an increase in operating income from CHF 295.6 million to CHF 393.5 million. This increase of 33.1% was directly attributable to the four operational divisions which achieved a supplementary operating income of CHF 118.7 million in 2007. The development of the Sulzer share in 2007 resulted in a notably higher charge to the income statement for the corporation's share option plan. The operating income also reflected a reduced gain on sale of real estate in 2007, when compared to the high 2006 amount and additional corporate charges stemming in part from the Sulzer corporation's assessment of Bodycote as a potential acquisition target and additional shareholder related activities.

Internal efficiency gains and the realization of economies of scale in selling, general, and administrative expenses enabled the improved profitability of just over one percentage point return on sales for the divisions and half a percentage point for the corporation as a whole.

Sulzer Pumps

Sulzer Pumps achieved new record levels of order intake, sales, and operating income in 2007. Supported by favorable market conditions, order intake significantly increased by 18.5% to CHF 2 076.9 million. Order growth was most pronounced in the oil and gas, the power generation as well as the HPI segments. The latter was positively impacted by expansions and upgrades of refineries and petrochemical plants. High activity was also noted in the pulp and paper and the other industrial market segments. Sales amounted to CHF 1 733.8 million in 2007 exceeding the prior year by 23.4%. Adjusted for the effect of currency fluctuations and the divestiture of the Paco pump line in 2006, sales growth amounted to 22.4%. Regionally, sales growth in 2007 was mainly led by Europe and the Middle East. Due to the project nature of Sulzer Pumps' new equipment business, order intake again exceeded sales such that order backlog further increased in 2007. The demanding growth was addressed by further streamlining business processes, improving supply chain management and expanding engineering capacities through newly established technical resource centers. Capital expenditure remained at prior year levels and was predominately spent for the expansion of production capacities, rationalization measures, and replacement of existing plants and equipment. The operating income increased by 24.8% to CHF 199.2 million, implying a return on sales of 11.5%, which is slightly above the prior year value. However, considering the impact of the non-recurring gains realized in the prior year, return on sales increased by more than one percentage point in 2007. The increased profitability was also reflected in the return on capital employed ratio of 44.5%.

Sulzer Metco

Sulzer Metco benefited both from good market conditions and improved operational processes, which resulted in a significant increase in profitability. Order intake increased by 15.8% to CHF 762.8 million in 2007. Market activity reached new record levels in the aviation segment, which accounted for over a quarter of Sulzer Metco's order intake. Substantial orders were received for aircraft engine coatings and, owing to an expansion of its application portfolio, also for thermal spray coatings of landing gears. The industrial gas turbine market also noted increased activity. Sales increased by 16.9% to CHF 753.1 million, almost on a par with order intake. Adjusted for the currency influences Sulzer Metco recorded sales growth of 15.1%. Europe and Asia/Australia were the main contributors to this growth. Based on a continuous improvement of internal processes, a moderate increase of the personnel base, and controlled capacity expansion, Sulzer Metco was able to successfully manage the high growth and at the same time further improve operational performance indicators such as average on-time delivery. Compared to the prior year the operating income substantially increased by 41.9% to CHF 75.8 million. Return on sales reached 10.1% in 2007, a marked increase compared with 2006. Return on capital employed amounted to 17.1%, depicting a positive financial value creation. Despite the significant sales increase, net working capital remained at prior year levels. Capital expenditure was primarily used for expanding or replacing production capacities or rationalization measures.

Sulzer Chemtech

Sulzer Chemtech experienced high double digit growth stemming from a favorable market environment and external growth. Order intake increased by 47.9% to CHF 890.8 million; thereof CHF 133.9 million was contributed by the newly acquired businesses of Mixpac, Werfo, Mold, and Knitmesh. Order intake was driven by high activity within all markets and regions. Revenues increased by 52.2% to CHF 761.3 million. Adjusted for acquisitions and currency influences, revenue grew by 27.4%. Sulzer Chemtech particularly benefited from large orders in the oil and gas and the hydrocarbon processing industries. Major expansions in the gas industry and a number of large projects in the Middle East and Asia were the main drivers for a healthy development of Sulzer Chemtech's separation column business. A new sales record was reported by the tower field service business supported by high demand in all regions. The static mixers business recovered from last year to once again achieve a positive sales development. Finally, and as noted above, the newly acquired Mixpac Systems business contributed substantially to Sulzer Chemtech's sales growth. Operating income increased by 77.8% to CHF 116.3 million in 2007. Driven by the growing sales volume, return on sales increased to 15.3%. However, due to the afore-mentioned acquisitions, the return on capital employed, amounting to 25.1%, was lower than in the previous year. The extensive sales growth absorbed cash such that net working capital further increased. Capital expenditure was mainly used for expansion and replacement of production facilities.

The German antitrust authority (Federal Cartel Office; BKartA) had initiated divestiture proceedings against Sulzer's acquisition of Mixpac, Werfo, and Mold as announced on August 22, 2006 and completed on December 29, 2006. With the decision of February 14, 2007 it prohibited the merger and requested the divestiture of the acquired companies. Sulzer challenged this decision at the "Oberlandesgericht Düsseldorf" (Higher Regional Court Düsseldorf; OLGD) and the OLGD suspended the enforcement of the BKartA's decision. The BKartA filed an appeal against this suspension with the German "Bundesgerichtshof" (Federal Court; BGH). On September 25, 2007 the BGH not only confirmed the interim injunction in favor of Sulzer but also Sulzer's position with respect to the applicability of the so-called "Bagatellmarktklausel". Due to the clear reasoning given in the Federal Court's ruling, the BKartA has subsequently declared to the OLGD that it will not exercise any rights under its divestiture decision anymore.

Sulzer Turbo Services

Sulzer Turbo Services reported a new record order intake, also benefiting from overall positive market conditions and was able to improve return on sales. Order intake grew by 24.1% to CHF 313.2 million, regionally primarily driven by North America, South East Asia and progress in Europe. The depreciation of the US dollar relative to the Euro has affected competitiveness of the Dutch facilities for exports to the Middle East. All related markets were in good condition. The power generation segment, which accounts for nearly half of Sulzer Turbo Services' business, experienced a market upturn compared to the previous year. Revenues increased by 15.1% to CHF 279.0 million. Adjusted for currency influences, revenue growth was even slightly higher at 15.5%. Operational improvement programs focusing on a streamlining of internal processes, such as sales and production, generated positive results.

Besides measures to raise efficiency, Sulzer Turbo Services further expanded production capacities, primarily in North America, where a new assembly bay was built and a new service facility opened. Furthermore, the global service network was strengthened by adding new sales offices in Brazil, United Arab Emirates, India and Malaysia. Operating income increased by 30.1% to CHF 25.1 million. Despite certain long-term agreements of a Dutch company, which negatively affected Sulzer Turbo Services' results, return on sales rose by one percentage point to 9.0%. Likewise, return on capital employed increased to 14.5%, clearly depicting financial value creation. Cash flow was lower than in 2006, primarily driven by capital expenditures for production expansions in North America.

Other

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

In 2007, a CHF 22.9 million loss was incurred by Other compared to a loss of CHF 2.1 million in 2006. The main reason for this decline was the reduction in income from real estate disposals, where the corporation recorded comparably higher profits in 2006. In addition, Corporate Center costs exceeded the previous year level due to increased project activities involving external support.

The real estate business is not a strategically relevant independent business segment of Sulzer. The results of this 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, and will gradually be sold after preparation of the infrastructure and according to market conditions for space absorption. The funds generated from the disposals shall be reinvested into the core businesses. In 2007, objects with gross prices of about CHF 26 million were sold, whereas in the previous year disposals with gross prices of about CHF 38 million were recorded. In 2007, total contribution to operating income (EBIT) amounted to about CHF 19 million (disposals and rental activities) compared to about CHF 27 million in 2006.

The sales volume of Sulzer Innotec slightly increased to a level of CHF 25.9 million compared with CHF 22.5 million in previous year.

Open issues related to businesses sold in prior years had no significant impact on the income in 2007. 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 2007 was CHF 14.1 million, compared to CHF 12.5 million in 2006. Total net interest income 2007 was CHF –7.2 million (2006: CHF 2.2 million). The reduction is mainly due to increased interest expenses related to a new credit facility established in the reporting year. The actuarial interest charge on unfunded pension obligations in Germany amounted to CHF 3.4 million (2006: CHF 3.4 million).

In 2007, some CHF 25 million was recorded as income from participations and financial assets. This is the result of the sale of the major part of our equity participation in the Swiss Burckhardt Compression Inc. In the previous year, the profit of the sale of our equity participations in the German Voith Group was included with some CHF 11 million.

Taxes

Income taxes increased to CHF 120.2 million, as compared to CHF 83.5 million in the previous year. This is mainly the effect of the improved pre-tax profit. The reported tax rate increased from 27.1% to 29.5%. The 2006 figure was positively impacted by significant dissolution of valuation allowances on German tax assets subsequent to successful conclusion of tax audits. Although the German tax rate was still positively influenced by new loss carry forwards awarded as a result of a tax audit completed in 2007, it was to a much lesser extent. The reported tax rate was also positively influenced by the dissolution of valuation allowances on our remaining tax assets in the USA and Brazil. Adjusted for these one-time effects in Germany, USA and Brazil the reported tax rate in 2007 would have been 31.5%.

Net income

The corporation generated a net income after interest and tax of CHF 287.4 million. This includes a portion attributable to minority shareholders of CHF 3.3 million. Net income attributable to Sulzer shareholders amounted to CHF 284.1 million, an improvement of 28.3%. The share buyback program notably reduced the number of average shares outstanding from 3 556 361 in 2006 to 3 403 570 in 2007. The basic earnings per share was CHF 83.47 compared to the corresponding figure in 2006 of CHF 62.27.

Cash flow

The divisions continued to improve cash flow from operating activities, which is slightly up from CHF 259.2 million in 2006 to CHF 261.3 million in 2007. Gross cash flow (EBITDA), i.e. operating income plus depreciation and amortization, increased from CHF 376.1 million to CHF 501.3 million, primarily as a result of the earnings growth. The timing of certain advance payments from customers, where comparably high amounts were recorded in 2006, together with the higher taxes paid and increased trade receivables and inventory resulting from the substantial organic growth, absorbed much of the improved operational earnings.

The capital expenditure for property, plant and equipment of CHF 130.3 million was the largest position within cash flow from investing activities. This amount exceeded depreciation by some CHF 40 million. Included in this amount spent was a new state-of-the-art engineering and production facility in Shanghai and the expansion of the production site in Mexico for Sulzer Chemtech; expansion of the Chinese operations and a new facility for carbon linings for synchronizer rings in India for Sulzer Metco; a new assembly bay for Sulzer Turbo Services in North America, as well as operational efficiency improvements in all four divisions. The investment of Other making up the remaining CHF 22.8 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 29.7 million was markedly smaller than in 2006, CHF 53.1 million, as was the net cash outflow for acquisitions, CHF 11.5 million. The previous year's figure of CHF 151.8 million included cash out for 75% of the purchase price paid for Mixpac, Werfo, and Mold, offset by the cash received in the opening balance sheet.

In 2007 the most significant outflow in the cash flow from financing activities was CHF 210.1 million for the share buyback program. During the year 111 643 shares with an average price of some CHF 1 497 per share were repurchased. Cash out of CHF 78.8 million was also recorded for the dividend payment. The previous year included cash out for the repayment of long-term borrowings of CHF 195.7 million; the 2007 amount in comparison was negligible. The change in short-term borrowings reflected a cash inflow of CHF 127.1 million, reflecting partial usage of a syndicated credit facility, which was arranged during the year.

Corporate financing

During the reporting year the corporation successfully closed its CHF 300 million share buyback program. Accordingly a proposal to cancel the shares and reduce the capital will be submitted to shareholders at the annual general meeting in 2008. In order to finance mid-sized acquisitions and for general purposes a syndicated credit facility was signed during the year. At year-end the relevant key ratios in the balance sheet continue to be healthy. With a comfortable net liquidity of CHF 198.5 million, an equity ratio (equity/total assets) at around 45% and a low gearing of 12% (borrowing/equity) the capital structure remains very solid. Together with the positive cash generation from operating activities the corporation is well positioned to take advantage of internal and external growth opportunities.

Outlook

The oil and gas upstream and downstream markets are expected to remain strong, as are the power and aviation segments. Some weakening in the pulp and paper and in the general industries segments is anticipated. Overall, geographically, Sulzer only sees slowing economic growth in the USA and Europe, whereas the other regions should continue to be strong. Neither the slowdown in growth in the USA and Europe, nor the financial crisis has impacted the capital goods sector yet, and we feel the investment cycle will continue into 2008. Capital expenditure as well as cash outflow for acquisitions could likely surpass the level of 2007. The tax rate is anticipated to stay below the level of 2007 as a result of declining corporate tax rates in Germany and the United Kingdom. All in all, Sulzer can again expect better results in 2008.

Consolidated Income Statement

January – December

millions of CHF	Notes	2007	2006
Sales	05	**3537.0**	2801.7
Cost of goods sold		**–2501.3**	–1993.3
Gross profit		**1035.7**	808.4
Selling and distribution expenses		**–306.1**	–272.2
General and administrative expenses		**–291.2**	–238.3
Research and development expenses	08	**–51.8**	–40.0
Other operating income	09	**59.6**	83.1
Other operating expenses	09	**–52.7**	–45.4
Operating income		**393.5**	295.6
Interest and securities income	10	**9.5**	15.4
Interest expenses	10	**–16.7**	–13.2
Other financial income	10	**21.3**	10.3
Income before income tax expenses		**407.6**	308.1
Income tax expenses	11	**–120.2**	–83.5
Net income		**287.4**	224.6
attributable to shareholders of Sulzer Ltd		**284.1**	221.4
attributable to minority interests		**3.3**	3.2
Earnings per share, attributable to shareholders of Sulzer Ltd (in CHF)			
Basic earnings per share	24	**83.47**	62.27
Diluted earnings per share	24	**82.29**	61.61

Consolidated Balance Sheet

December 31

millions of CHF	Notes	2007	2006
Non-current assets			
Intangible assets	12	515.1	512.1
Property, plant and equipment	13	655.0	629.3
Other financial assets	14	58.9	61.8
Non-current receivables	17	1.2	1.8
Deferred income tax assets	11	63.9	54.1
Total non-current assets		1 294.1	1 259.1
Current assets			
Inventories	15/16	762.1	621.4
Trade accounts receivable	17	829.7	668.3
Other accounts receivable and prepaid expenses	18	185.3	153.9
Assets held for sale	19	5.1	0.9
Marketable securities	21	20.9	31.0
Cash and cash equivalents	20	363.6	330.6
Total current assets		2 166.7	1 806.1
Total assets		3 460.8	3 065.2

Equity			
Share capital		0.1	0.1
Reserves		1 547.0	1 536.8
Equity attributable to shareholders of Sulzer Ltd		1 547.1	1 536.9
Minority interests		8.2	7.4
Total equity	23/24	1 555.3	1 544.3
Non-current liabilities			
Long-term borrowings	25	28.1	31.9
Deferred income tax liabilities	11	76.1	82.2
Non-current income tax provisions	11	35.1	33.4
Other non-current provisions	26	197.1	202.5
Other non-current liabilities		3.4	71.0
Total non-current liabilities		339.8	421.0
Current liabilities			
Short-term borrowings	25	157.9	30.0
Current income tax provisions	11	72.6	73.4
Other current provisions	26	139.3	120.1
Trade accounts payable		383.0	301.6
Customers' advance payments		362.8	243.7
Other current and accrued liabilities	27	450.1	331.1
Liabilities directly associated with assets held for sale	19	–	–
Total current liabilities		1 565.7	1 099.9
Total liabilities		1 905.5	1 520.9
Total equity and liabilities		3 460.8	3 065.2

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 on 1.1.2006	23/24	0.1	1 412.6	–41.5	18.0	–29.0	128.3	1 488.5	12.5	1 501.0
Fair value changes on available-for-sale financial assets, net of tax					25.1			25.1		25.1
Cash flow hedges, net of tax					–2.2			–2.2		–2.2
Currency translation differences					0.2	–3.5		–3.3	–0.3	–3.6
Net result recognized directly in equity		–	–	–	23.1	–3.5	–	19.6	–0.3	19.3
Net income							221.4	221.4	3.2	224.6
Total recognized income for 2006		–	–	–	23.1	–3.5	221.4	241.0	2.9	243.9
Addition/deduction of minority interests									–6.7	–6.7
Change in treasury shares			–1.4	–142.0				–143.4		–143.4
Cost of share-based payments			1.7					1.7		1.7
Dividend							–50.9	–50.9	–1.3	–52.2
Allocation of net income			77.4				–77.4	–		–
Equity on 31.12.2006		0.1	1 490.3	–183.5	41.1	–32.5	221.4	1 536.9	7.4	1 544.3
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 on 31.12.2007		0.1	1 650.8	–381.2	38.9	–45.6	284.1	1 547.1	8.2	**1 555.3**

Consolidated Cash Flow Statement

January – December

millions of CHF	Notes	2007	2006
Cash and cash equivalents as of January 1		**330.6**	501.1
Cash flow from operating activities			
Operating income		**393.5**	295.6
Depreciation/amortization		**107.8**	80.5
Changes in inventory		**–121.3**	–58.8
Changes in advance payments to suppliers		**–56.4**	–20.4
Changes in trade accounts receivable		**–184.7**	–111.7
Changes in advance payments from customers		**130.9**	92.9
Changes in trade accounts payable		**91.6**	50.6
Changes in provisions		**8.4**	–5.1
Changes in other net current assets		**60.2**	28.3
Other non-monetary income statement items		**–8.7**	–0.9
Interest received		**9.8**	13.2
Interest payments		**–12.8**	–9.8
Income tax paid		**–137.7**	–56.0
Reallocation of cash flow to investing acitivities[1]		**–19.3**	–39.2
Total cash flow from operating activities		**261.3**	259.2
Cash flow from investing activities			
Purchase of intangible assets		**–4.5**	–0.7
Sale of intangible assets		**–**	–
Purchase of property, plant and equipment		**–130.3**	–105.3
Sale of property, plant and equipment		**29.7**	53.1
Acquisitions		**–11.5**	–151.8
Divestitures		**1.6**	30.2
Purchase of financial assets		**–1.3**	–4.9
Sale of financial assets		**28.1**	71.4
Purchase of marketable securities		**–35.1**	–21.3
Sale of marketable securities		**39.7**	40.7
Total cash flow from investing activities	32/33	**–83.6**	–88.6
Cash flow from operating and investing activities		**177.7**	170.6
Cash flow from financing activities			
Dividend		**–78.8**	–50.0
Purchase/sale of treasury stock		**23.2**	–17.9
Share buyback program		**–210.1**	–89.9
Minority interests		**–2.2**	–1.3
Additions in long-term borrowings		**0.8**	6.5
Repayment of long-term borrowings		**–5.5**	–195.7
Increase/decrease in short-term borrowings		**127.1**	–3.6
Total cash flow from financing activities		**–145.5**	–351.9
Exchange gains/losses on cash and cash equivalents		**0.8**	10.8
Net change in cash and cash equivalents		**33.0**	–170.5
Cash and cash equivalents as of December 31		**363.6**	330.6
Net liquidity (cash, cash equivalents and marketable securities, less short- and long-term borrowings)		**198.5**	299.7

[1] Incl. 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, 2007 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 12 000 people in over 120 locations worldwide.

Sulzer is listed on the SWX in Zurich, Switzerland (symbol: SUN).

These consolidated financial statements were authorized for issue by the Board of Directors on February 21, 2008.

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 2007

- IFRS 7 Financial Instruments, Disclosures, and the complementary Amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures. IFRS 7 introduces new disclosure requirements relating to financial instruments. This standard does not have any impact on the classification and valuation of the corporation's financial instruments.

b) Standards, amendments, and interpretations which the corporation has decided not to early adopt in 2007

- 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 Other and Consolidation (summary of the following activities: Real Estate, Sulzer Innotec, Corporate Center and consolidation adjustments).
- Revised IAS 23 Borrowing costs removes the option to expense borrowing costs and requires that an entity capitalize 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.
- 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 will become mandatory effective for the corporation's 2008 financial statements, with retrospective application required. It is not expected to 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 becomes mandatory for the 2008 financial statements, is not expected to have any impact on the consolidated financial statements.
- 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 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. IFRIC 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognized as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. IFRIC 14 will become mandatory for the corporation's 2008 financial statements, with retrospective application required. The corporation is currently assessing the impact of IFRIC 14.

c) Standards, amendments, and interpretations effective in 2007 but not relevant

The following standards, amendments, and interpretations are mandatory for accounting periods beginning on or after January 1, 2007 but are not relevant to the corporation's operations:

- IFRS 4, Insurance contracts.
- IFRIC 7, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies (effective from March 1, 2006). IFRIC 7 provides guidance on how to apply the requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when the economy was not hyperinflationary in the prior period. As none of the subsidiaries have a currency of a hyperinflationary economy as its functional currency, IFRIC 7 is not relevant to Sulzer's operations.
- IFRIC 8, Scope of IFRS 2 (effective for annual periods beginning on or after May 1, 2006). IFRIC 8 requires consideration of transactions involving the issuance of equity instruments – where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether or not they fall within the scope of IFRS 2.
- IFRIC 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after June 1, 2006).
- IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after November 1, 2006).

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 38 “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 on a straight-line basis 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 licences 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).

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 three categories: "Financial assets at fair value through profit or loss", "Available-for-sale financial assets", and "Loans and receivables". 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 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 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" and 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.

Purchases and disposals of financial assets are recognized on the trade-date. 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 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.

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 34 "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 16.

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 written.

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, USD, GBP and SAR. 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, usually with the Corporate Treasury. To manage their foreign exchange risk arising from future commercial transactions and recognized assets and liabilities, entities in the corporation use forward contracts or other standard instruments transacted with Corporate Treasury.

For segment 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 certain 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 2007 and 2006 if a currency pair with significant inherent risk would have weakened/strengthened. The volatility used for the calculation is the one year historic volatility on December 31 for the relevant currency pair and year.

2007 in Income Statement

millions of CHF Currency pair	GBP/CHF
Volatility	**7.2%**
Effect on profit after tax (rate increase)	**0.6**
Effect on profit after tax (rate decrease)	**–0.6**

2006 in Income Statement

millions of CHF Currency pair	GBP/CHF
Volatility	4.6%
Effect on profit after tax (rate increase)	0.0
Effect on profit after tax (rate decrease)	0.0

If, at December 31, 2007, the British pound had increased by 7.2% against the Swiss franc with all other variables held constant, profit after tax for the year would have been CHF 0.6 million (2006: 0.0 million) higher. A decrease of the rate would have caused a loss of the same amount. Main reason would have been foreign exchange gains/losses on translation of GBP-denominated current assets.

The following tables show the hypothetical influence on equity for 2007 and 2006 if a currency pair with significant inherent risk would have weakened/strengthened. 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 influence on equity is a result of fair value changes of derivative financial instruments for future cash flows in foreign currencies not yet recognized in the income statement.

2007 in Equity

millions of CHF Currency pair	EUR/CHF	USD/CAD	EUR/GBP	USD/MXN	USD/GBP	USD/CHF	SAR/EUR
Volatility	4.1%	9.7%	5.2%	6.4%	7.1%	7.1%	16.5%
Effect on equity (rate increase)	–3.9	–6.1	–1.3	–0.8	–0.9	–0.6	–1.0
Effect on equity (rate decrease)	3.9	6.1	1.3	0.8	0.9	0.6	1.0

2006 in Equity

millions of CHF Currency pair	EUR/CHF	USD/CAD	EUR/GBP	USD/MXN	USD/GBP	USD/CHF	SAR/EUR
Volatility	2.9%	7.1%	4.4%	8.3%	7.7%	8.7%	6.3%
Effect on equity (rate increase)	–1.9	–3.1	–0.1	–0.8	0.0	–0.7	–0.3
Effect on equity (rate decrease)	1.9	3.1	0.1	0.8	0.0	0.7	0.3

(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 indices: 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 indices on the corporation's post-tax profit for the year and on equity. The analysis is based on the assumption that the equity indices 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.

	Volatility		Impact on post-tax profit millions of CHF		Impact on equity millions of CHF	
Index	**2007**	2006	**2007**	2006	**2007**	2006
SMI	**15.6%**	12.9%	**0.3**	0.3	**0.0**	0.0
SPI	**15.2%**	12.5%	**0.4**	0.0	**7.6**	2.7
FTSE-250 UK	**19.0%**	15.4%	**1.9**	0.0	**0.0**	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 have caused 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 2007 and 2006, the corporation's borrowings were mainly denominated in CHF, EUR and GBP.

The corporation analyzes its interest rate exposure. The corporation calculates the impact on profit and loss of defined interest rate shifts per currency, considering all borrowings at variable interest rates. The scenarios are run only for liabilities that represent the major interest-bearing positions.

The following table shows 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	2007			2006		
Borrowings by currency	Amount	Sensitivity in basis points	Impact on post-tax profit	Amount	Sensitivity in basis points	Impact on post-tax profit
CHF	70.0	100	0.5	0.0	100	0.0
EUR	44.3	100	0.3	0.7	100	0.0
GBP	18.0	100	0.1	0.0	100	0.0

At December 31, 2007, if interest rates on CHF-denominated borrowings had been 100 basis points higher with all other variables held constant, post-tax profit for the year would have been CHF 0.5 million (2006: CHF 0.0 million) lower, as a result of higher interest expense on floating rate borrowings. If the interest rates 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 independently rated parties with a 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.

The maximum credit risk is restricted to the reported amounts of financial claims. For more details on the credit risk out of trade accounts receivable refer to note 17.

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. Cash flow from operating activities in 2007 was CHF 261.3 million (2006: CHF 259.2 million). A new and increased committed credit line with maturity 2012 and an option for extension was established to have enough financial flexibility also to cover cash needs in the short run. 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	2007					2006				
	<1 year	1–2 years	2–5 years	>5 years	**Total**	<1 year	1–2 years	2–5 years	>5 years	Total
Borrowings	167.3	11.5	4.8	16.3	**199.9**	34.6	16.3	4.8	15.6	71.3
Trade accounts payable	383.0	–	–	–	**383.0**	301.6	–	–	–	301.6
Other liabilities	171.6	2.2	1.2	–	**175.0**	57.6	68.6	2.4	–	128.6

The table below 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 Sulzer is obliged to pay an amount, however receive 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	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**
Interest rate swaps					
– outflow	0.0	0.0	0.0	0.0	**0.0**
– inflow	0.0	0.0	0.0	0.0	**0.0**
Other options					
– outflow	37.5	0.0	0.0	0.0	**37.5**
– inflow	0.0	0.0	0.0	0.0	**0.0**

millions of CHF	2006				
	<1 year	1–2 years	2–5 years	>5 years	Total
Forward exchange contracts					
– outflow	772.4	8.6	0.0	0.0	781.0
– inflow	772.4	8.6	0.0	0.0	781.0
Currency options					
– outflow	0.0	0.0	0.0	0.0	0.0
– inflow	0.0	0.0	0.0	0.0	0.0
Interest rate swaps					
– outflow	0.2	0.0	0.0	0.0	0.2
– inflow	0.1	0.0	0.0	0.0	0.1
Other options					
– outflow	0.0	0.0	0.0	0.0	0.0
– inflow	0.0	0.0	0.0	0.0	0.0

The maximum exposure to credit risk from derivative financial instruments at the reporting date is the fair value of the derivative assets in the balance sheet as disclosed in note 28 “Derivative financial instruments”. Refer also to note 27 “Other current and accrued liabilities”.

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.

The corporation does not have significant externally imposed capital requirements. 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 ratios at December 31, 2007 and 2006 were as follows:

millions of CHF	2007	2006
Total financial debt	**186.0**	61.9
Total equity (excl. minorities)	**1 547.1**	1 536.9
Gearing Ratio	**0.12**	0.04

The increase in the gearing ratio during 2007 resulted primarily from the share buyback and the corresponding higher debt level.

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 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 at 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.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to the short-term nature of trade receivables. 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.

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. After three years with good performance these companies had displayed unsatisfactory profits in 2004 and 2005 but showed improvements in the years 2006 and 2007. The unit of Sulzer Metco showed a stable performance of sales and income during 2007. The expected recovery of the temporarily weaker markets for power generation and aerospace has materialized. In particular the demand for turbine components for jet engines was high. These relevant markets are forecast to stay in good condition. Only low growth has been assumed for the determination of the values in use for cash flows exceeding the planning period of five years. This subsidiary is also engaged in a "risk and revenue sharing" contract for the development, sale and service of a jet engine for the new Airbus A380. The delivery of the first four production engines for the launch customer Emirates took place in mid 2007. Based on the market intelligence it is assumed that the Airbus A380 program will therefore not give grounds to doubt the success of the engine. Applicable are the very long life cycles, which are supported by past experience from similar engine programs.

The Sulzer Turbo Services subsidiary continued to implement the improvement projects started in 2006, with encouraging results in lean manufacturing. The increased sales volume was performed with almost constant production capacities, thus improving efficiency considerably. The order related gross margins increased slightly. The weakening US dollar and exposure to the Middle East customers jeopardized profitability in this important market. The delivery performance of new parts manufacturing improved. This promising business was however faced with cost overruns, partially due to high material costs. The company has strengthened its sales force both in the Netherlands and in key markets. The positive effect from larger sales and better margins is expected to materialize starting 2008. Special emphasis will be given to management of major contracts with customers in the Middle East.

The valuation calculations performed on this basis for the two Dutch acquisitions 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 33.

Sulzer Pumps

2006: The sale of the Paco pumps business to the Grundfos Group was completed on February 28, 2006. Paco was part of Sulzer Pumps, recorded sales of about USD 46 million (approximately CHF 58 million) in 2005 and had around 225 employees in the USA and China. The selling price amounted to USD 23.5 million (approximately CHF 30 million). The appropriate assets in the USA as well as the Chinese operation were deconsolidated at February 28, 2006.

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 amounts to around CHF 13 million whereof about CHF 9 million has been remitted to the seller in 2007. The final payment will be remitted to the seller in the year 2008.

2006: Acquisition of Mixpac, Werfo, and Mold, and integration in the Sulzer Chemtech division. The combined sales of these operations amounted to approximately CHF 120 million in 2006. The total purchase price amounted to CHF 224 million whereof some CHF 160 million was paid to the sellers in 2006 for a 75% consideration. A financial liability, classified as other current liability, is included in the balance sheet for the remaining 25%. It is expected to be remitted to the seller in 2008.

The German antitrust authority (Federal Cartel Office; BKartA) had initiated divestiture proceedings against Sulzer's acquisition of Mixpac, Werfo, and Mold as announced on August 22, 2006 and completed on December 29, 2006. With decision of February 14, 2007 it prohibited the merger and requested the divestiture of the acquired companies. Sulzer challenged this decision at the "Oberlandesgericht Düsseldorf" (Higher Regional Court Düsseldorf; OLGD) and the OLGD suspended the enforcement of the BKartA's decision. The BKartA filed an appeal against this suspension with the German "Bundesgerichtshof" (Federal Court; BGH). On September 25, 2007 the BGH did not only confirm the interim-injunction in favor of Sulzer but also Sulzer's position with respect to the applicability of the so-called "Bagatellmarktklausel". Due to the clear reasoning given in the Federal Court's ruling, the BKartA has subsequently declared to the OLGD that it will not exercise any rights under its divestiture decision anymore.

02 Major currency exchange rates

in CHF	2007		2006	
	Average rate	Year-end rate	Average rate	Year-end rate
1 EUR	1.64	1.66	1.57	1.61
1 GBP	2.40	2.25	2.31	2.39
1 USD	1.20	1.12	1.25	1.22

03 Segment information

millions of CHF		Sulzer Pumps		Sulzer Metco		Sulzer Chemtech		Sulzer Turbo Services	
		2007	2006	2007	2006	2007	2006	2007	2006
Sales		1 733.8	1 405.4	753.1	644.1	761.3	500.1	279.0	242.5
Nominal growth (unaudited)		23.4%	11.0%	16.9%	10.5%	52.2%	28.4%	15.1%	0.5%
Organic growth (unaudited)[1]		22.4%	13.5%	15.1%	9.1%	27.4%	24.1%	15.5%	–0.1%
Operating income before depreciation and amortization	EBITDA	224.9	181.9	102.5	81.8	150.8	76.1	32.4	26.9
Depreciation/amortization		–25.7	–22.3	–26.7	–28.4	–34.5	–10.7	–7.3	–7.6
Operating income	EBIT	199.2	159.6	75.8	53.4	116.3	65.4	25.1	19.3
Operating assets		1 217.1	928.0	566.2	531.0	647.9	616.6	261.8	232.4
Non-operating assets		–	–	–	–	–	–	–	–
Total assets as of December 31		1 217.1	928.0	566.2	531.0	647.9	616.6	261.8	232.4
Operating liabilities		762.4	547.9	136.0	102.4	217.7	179.6	77.0	64.6
Non-operating liabilities		–	–	–	–	–	–	–	–
Total liabilities as of December 31		762.4	547.9	136.0	102.4	217.7	179.6	77.0	64.6
Operating net assets		454.7	380.1	430.2	428.6	430.2	437.0	184.8	167.8
Non-operating net assets		–	–	–	–	–	–	–	–
Total net assets as of December 31		454.7	380.1	430.2	428.6	430.2	437.0	184.8	167.8
Capital expenditure		39.3	39.9	26.5	19.9	25.1	20.7	21.1	7.6
Research and development expenses		17.1	12.4	15.8	13.7	16.1	9.6	–	–
Employees (number of full-time equivalents) as of December 31		5 686	5 192	2 054	1 928	2 393	1 979	1 179	1 012
Order intake (unaudited)		2 076.9	1 752.6	762.8	658.7	890.8	602.1	313.2	252.4
Nominal growth (unaudited)		18.5%	28.2%	15.8%	11.8%	47.9%	44.9%	24.1%	3.4%
Organic growth (unaudited)[1]		18.0%	30.9%	14.0%	10.5%	26.7%	40.2%	24.4%	2.7%
Order backlog (unaudited)		1 303.8	992.6	99.7	89.9	414.0	308.1	157.6	91.3
Return on capital employed (EBIT in % of capital employed)	ROCE	44.5%	41.0%	17.1%	12.2%	25.1%	39.8%	14.5%	11.7%
Return on sales (EBIT/sales)	ROS	11.5%	11.4%	10.1%	8.3%	15.3%	13.1%	9.0%	8.0%

[1] Adjusted for acquisitions, divestitures, and currency translation.

The four divisions comprise Sulzer Pumps, active in the manufacturing, maintenance and repair of centrifugal pumps, Sulzer Metco, provider of services and products 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 service for thermal turbomachinery and other rotating equipment.

The total goodwill position as of December 31, 2007 amounted to CHF 402.2 million (prior year: CHF 390.4 million). Goodwill allocation by division is shown in note 12 “Intangible assets”.

There are no significant transactions across the segments.

millions of CHF		Total divisions		Other and consolidation		Total Sulzer	
		2007	2006	2007	2006	2007	2006
Sales		3527.2	2792.1	9.8	9.6	3537.0	2801.7
Nominal growth (unaudited)		26.3%	12.6%	–	–	26.2%	12.1%
Organic growth (unaudited)[1]		21.0%	12.8%	–	–	20.9%	12.6%
Operating income before depreciation and amortization	EBITDA	510.6	366.7	–9.3	9.4	501.3	376.1
Depreciation/amortization		–94.2	–69.0	–13.6	–11.5	–107.8	–80.5
Operating income	EBIT	416.4	297.7	–22.9	–2.1	393.5	295.6
Operating assets		2693.0	2308.0	202.4	239.0	2895.4	2547.0
Non-operating assets		–	–	–	–	565.4	518.2
Total assets as of December 31		2693.0	2308.0	202.4	239.0	3460.8	3065.2
Operating liabilities		1193.1	894.5	111.2	152.7	1304.3	1047.2
Non-operating liabilities		–	–	–	–	601.2	473.7
Total liabilities as of December 31		1193.1	894.5	111.2	152.7	1905.5	1520.9
Operating net assets		1499.9	1413.5	91.2	86.3	1591.1	1499.8
Non-operating net assets		–	–	–	–	–35.8	44.5
Total net assets as of December 31		1499.9	1413.5	91.2	86.3	1555.3	1544.3
Capital expenditure		112.0	88.1	22.8	17.9	134.8	106.0
Research and development expenses		49.0	35.7	2.8	4.3	51.8	40.0
Employees (number of full-time equivalents) as of December 31		11312	10111	287	282	11599	10393
Order intake (unaudited)		4043.7	3265.8	10.3	11.1	4054.0	3276.9
Nominal growth (unaudited)		23.8%	24.8%	–	–	23.7%	24.4%
Organic growth (unaudited)[1]		19.3%	25.0%	–	–	19.2%	24.9%
Order backlog (unaudited)		1975.1	1481.9	3.0	2.6	1978.1	1484.5
Return on capital employed (EBIT in % of capital employed)	ROCE	27.2%	25.8%	–	–	24.2%	23.7%
Return on sales (EBIT/sales)	ROS	11.8%	10.7%	–	–	11.1%	10.6%

[1] Adjusted for acquisitions, divestitures, and currency translation.

“Other and consolidation” 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	
	2007	2006	**2007**	2006	**2007**	2006
Europe	**1 757.9**	1 504.2	**83.1**	58.0	**1 345.0**	943.0
North America	**661.7**	640.1	**33.7**	21.5	**967.9**	821.5
Latin America	**171.5**	157.6	**4.6**	11.0	**211.9**	214.2
Asia, Australia[1]	**283.4**	220.5	**12.5**	14.6	**862.2**	692.5
Africa	**47.7**	42.9	**0.9**	0.9	**150.0**	130.5
Eliminations	**–26.8**	–18.3	**–**	–	**–**	–
Total	**2 895.4**	2 547.0	**134.8**	106.0	**3 537.0**	2 801.7

[1] Incl. Middle East.

05 Sales

millions of CHF	**2007**	2006
Products/engineering/assembly	**3 534.2**	2 798.6
Commissions/fees/licensing income	**2.8**	3.1
Total sales	**3 537.0**	2 801.7

06 Personnel expenses

millions of CHF	**2007**	2006
Salaries and wages	**751.4**	628.3
Employee defined contribution plans	**22.1**	16.3
Employee defined benefit plans	**24.2**	23.9
Cost of share-based payments	**14.8**	4.9
Other personnel costs	**136.0**	114.7
Total personnel expenses	**948.5**	788.1

The increase of personnel expenses compared to the prior year is mainly due to a higher average number of employees, an intensified competition on the labor market, particularly for engineers, and increased compensation.
A summary of the number of employees by divisions and regions is shown on pages 58 and 59.

07 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	2007	2006
Reconciliation of the amount recognized in the balance sheet at end of year				
Present value of funded defined benefit obligation	–3422.2	–	**–3422.2**	–3514.3
Fair value of plan assets	3859.4	–	**3859.4**	3892.0
Overfunding (+) / underfunding (–)	437.2	–	**437.2**	377.7
Present value of unfunded defined benefit obligation	–	–73.8	**–73.8**	–80.7
Unrecognized actuarial gains (–) / losses (+)	2.2	–0.9	**1.3**	17.9
Overfunding not recognized[1]	–425.9	–	**–425.9**	–371.6
Asset (+) / Liability (–) recognized in balance sheet	13.5	–74.7	**–61.2**	–56.7
thereof as liabilities under non-current provisions	–8.1	–74.7	**–82.8**	–79.6
thereof as prepaid expenses	21.6	–	**21.6**	22.9
Pension expenses recognized in profit or loss				
Current service cost (employer)			**–36.7**	–34.9
Interest cost			**–114.4**	–111.8
Expected return on plan assets			**177.0**	168.2
Actuarial gain (+) / loss (–) recognized in current year			**3.6**	85.5
Past service cost			**–2.7**	3.4
Effect of overfunding not recognized			**–54.7**	–139.0
Effect of curtailment and settlements			**0.3**	1.3
Expense recognized in profit (+) / loss (–)			**–27.6**	–27.3
thereof charged to personnel expenses			**–24.2**	–23.9
thereof charged to financial income (interest on unfunded plans)			**–3.4**	–3.4
Actual return on plan assets			**110.2**	266.8
Principal actuarial assumptions at December 31				
Discount rate			**3.5%**	3.2%
Expected rate of return on plan assets			**4.6%**	4.6%
Future salary increases			**2.3%**	2.3%
Future pension increases			**0.7%**	0.7%
Expected average remaining working lives in years			**9.2**	9.7
Life expectance at retirement age (male/female) in years			**18/22**	18/22

[1] 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: 3.0% for bonds, 6.8% for equities, 4.6% for properties and 3.5% for others.

07 Employee benefit plans (continued)

millions of CHF	2007	2006
Reconciliation of defined benefit obligation		
Defined benefit obligation at January 1[1)]	3595.0	3541.0
Interest cost	114.4	111.8
Current service cost (employer)	36.7	34.9
Contributions by plan participants	10.7	8.2
Past service cost	2.7	–3.4
Benefits paid/deposited	–159.7	–150.6
Change in scope of consolidation	–	25.0
Curtailment and settlements	–0.2	–2.0
Actuarial gain (–) / loss (+) on obligation	–86.5	15.6
Currency translation differences	–17.1	14.5
Defined benefit obligation at December 31[2)]	3496.0	3595.0
Reconciliation of the fair value of plan assets		
Fair value of plan assets at January 1	3892.0	3706.7
Expected return on plan assets	177.0	168.2
Contributions by the employer/benefits paid directly by employer	24.8	26.6
Contributions by plan participants	10.7	8.2
Benefits paid/deposited	–159.7	–150.6
Change in scope of consolidation	–	21.9
Curtailment and settlements	0.0	–0.5
Actuarial gain (+) / loss (–) on plan assets	–66.8	98.6
Currency translation differences	–18.6	12.9
Fair value of plan assets at December 31	3859.4	3892.0
thereof equity instruments Sulzer Ltd	7.5	8.0
thereof equity instruments – third party	1310.3	1192.8
thereof debt instruments – third party	1611.6	1623.5
thereof properties occupied by or used by third party	733.6	706.6
thereof others	196.4	361.1
Best estimate of contributions for upcoming financial year		
Contributions by the employer/benefits paid directly by employer[3)]	23.8	28.6
Contributions by plan participants	10.8	9.8

1) The defined benefit obligation includes the funded (CHF 3514.3 million), and the unfunded liability (CHF 80.7 million).
2) The defined benefit obligation includes the funded (CHF 3422.2 million), and the unfunded liability (CHF 73.8 million).
3) Benefits directly paid by the employer mainly refer to the German plans.

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

08 Research and development expenses

In 2007, the total research and development expenses amounted to CHF 51.8 million (2006: CHF 40.0 million). The increase is mainly due to larger investments into research and development projects in the divisons (CHF 49.0 million in 2007 vs. CHF 35.7 million in 2006). The investments of Sulzer Innotec, the corporate research and development department, amounted in 2007 to CHF 2.8 million (2006: CHF 4.3 million). Following the exit from Sulzer Hexis in 2005, the corporate spending was enlarged on projects closer to the core activities of the corporation. Furthermore, 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”.

09 Other operating income and expenses

millions of CHF	2007	2006
Income from rental/leasing of real estate	**29.6**	28.8
Gain from sale of real estate	**16.7**	28.9
Income from services to third parties	**8.2**	9.4
Operating currency exchange gains/losses	**–2.5**	0.2
Other operating income	**7.6**	15.8
Total other operating income	**59.6**	83.1
Expenses from rental/lease of real estate	**–26.8**	–24.2
Other operating expenses	**–25.9**	–21.2
Total other operating expenses	**–52.7**	–45.4
Total other operating income and expenses	**6.9**	37.7

Total net other operating income was substantially lower than in previous year (CHF 6.9 million vs. CHF 37.7 million). The previous year figures were positively influenced by the gain from the divestiture of the Paco pumps line and high gains on disposal of operationally non-essential real estates which also included a sizeable sale of a property in France. Another reason for the drop was the increased Corporate Center costs due to project activities involving external support in the reporting year 2007.

10 Financial income/expenses

millions of CHF	2007	2006
Interest and securities income	**9.5**	15.4
Interest expenses	**–13.3**	–9.8
Interest on unfunded employee benefit plans	**–3.4**	–3.4
Interest expenses	**–16.7**	–13.2
Total interest income	**–7.2**	2.2
Income from participations and other financial assets	**24.9**	10.4
Fair value changes	**–4.6**	0.3
Other financial income/expenses	**–0.6**	0.0
Currency exchange gains/losses	**1.6**	–0.4
Total other financial income	**21.3**	10.3
Total financial income	**14.1**	12.5
thereof from financial assets held at fair value through profit or loss	**0.3**	1.8
thereof from available-for-sale financial assets	**24.9**	10.4
thereof from loans and receivables	**0.8**	1.7
thereof from borrowings	**–13.3**	–9.8

Interest and securities income was substantially lower than in the previous year. The drop is mainly due to the lower average cash position in 2007 which led to a decrease in the interest income. Higher drawings on the syndicated credit facility resulted in higher interest expenses. The line "Income from participations and other financial assets" mainly includes a gain on sold shares of Burckhardt Compression. Due to the classification of this investment as "available-for-sale financial asset", the accumulated appropriate portion of fair value adjustments was recycled from equity and realized in financial income. The remaining stake of this investment was measured at fair value and the fair value adjustments were booked in equity. In 2006, this line included the gain from the sale of the participation in the Voith Group (Germany). 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".

11 Income taxes

Income taxes

millions of CHF	2007	2006
Current income taxes	–138.2	–80.5
Deferred income taxes	18.0	–3.0
Total income tax expenses	–120.2	–83.5

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	2007	2006
Income before income tax expenses	407.6	308.1
Weighted average tax rate	31.6%	31.8%
Income taxes at weighted average tax rate	–128.8	–98.0
Impact on differences between tax rates on taxes on income	2.3	–5.8
Effect of loss carry-forwards and allowances for deferred tax assets	9.4	26.9
Expenses not deductible for tax purposes	–0.7	–2.0
Effect of changes in tax rates and legislation	–2.9	–4.8
Prior period adjustments	0.5	0.2
Total income tax expenses	–120.2	–83.5
as percentage of income before income tax expenses	29.5%	27.1%

The weighted average tax rate remains stable compared with 2006. The corporate income tax rate has increased due to the significantly lower positive effect of loss carry forwards and allowances for deferred tax assets.

Income tax provisions

millions of CHF	2007	2006
Balance as of January 1	106.8	80.0
Additions	99.7	74.2
Released as no longer required	–3.7	0.0
Released for utilization	–94.4	–45.8
Currency translation differences	–0.7	–1.6
Total income tax provisions as of December 31	107.7	106.8
thereof non-current	35.1	33.4
thereof current	72.6	73.4

The higher volume of newly added tax provisions is due to the higher income. The increase of relased provisions for utilization is due to high tax payments for prior tax periods and higher tax prepayments which could be offset against income tax provisions.

11 Income taxes (continued)

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

millions of CHF	2007 Assets	2007 Liabilities	2006 Assets	2006 Liabilities
Intangible assets	3.3	33.0	2.9	31.4
Property, plant and equipment	2.4	25.1	2.0	25.6
Other financial assets	0.6	11.2	0.6	13.4
Inventories	14.2	9.9	12.5	9.2
Other assets	8.5	13.2	10.9	8.0
Non-current provisions	19.0	4.2	13.7	11.4
Current provisions	26.8	8.5	24.3	1.5
Other current liabilities	5.6	2.3	5.8	5.3
Loss carry-forwards	42.6	–	48.1	–
Elimination of intercompany profits	4.7	–	3.6	–
Total potential tax effect	127.7	107.4	124.4	105.8
Valuation allowances	–32.5	–	–46.7	–
Deferred tax – gross	95.2	107.4	77.7	105.8
Offset of assets and liabilities	–31.3	–31.3	–23.6	–23.6
Net recorded deferred tax assets and liabilities	63.9	76.1	54.1	82.2

Deferred taxes directly recorded in equity amounted to CHF 1.0 million (prior year: CHF 2.2 million).

In compliance with the exception clause of IAS 12, the corporation does not recognize deferred taxes on investments in subsidiaries in the balance sheet.

Loss carry-forwards

millions of CHF	2007	2006
Expiring in the next 3 years	3.6	4.9
Expiring in 4 to 7 years	28.2	29.2
Available without limitation	176.6	180.7
Total tax loss carry-forwards	208.4	214.8
Thereof calculated potential tax assets	42.6	48.1
Valuation allowances	–31.5	–30.9
Net tax asset from loss carry-forwards	11.1	17.2

As in 2006, Sulzer has been able to utilize a significant portion of the tax loss carry-forwards. The utilization was compensated to a large extent by new tax loss carry-forwards which were awarded Sulzer as a result of completed tax audits in Germany. The current company structure limits the use of some of the existing tax loss carry-forwards and hence they are not capitalized as deferred tax assets.

12 Intangible assets

millions of CHF	2007			2006		
	Goodwill	Other intangible assets	**Total**	Goodwill	Other intangible assets	Total
Acquisition cost						
Balance as of January 1	390.4	141.5	**531.9**	319.5	39.2	358.7
Changes in scope of consolidation	8.6	5.1	**13.7**	61.4	102.2	163.6
Additions	0.2	4.5	**4.7**	4.8	0.7	5.5
Disposals	–	–	**–**	–	–	–
Reclassifications	–	3.4	**3.4**	–	–	–
Currency translation differences	3.0	–0.6	**2.4**	4.7	–0.6	4.1
Balance as of December 31	402.2	153.9	**556.1**	390.4	141.5	531.9
Accumulated amortization						
Balance as of January 1	–	19.8	**19.8**	–	16.4	16.4
Changes in scope of consolidation	–	–	**–**	–	–	–
Additions	–	18.4	**18.4**	–	3.7	3.7
Disposals	–	–	**–**	–	–	–
Reclassifications	–	3.1	**3.1**	–	–	–
Impairment[1]	–	–	**–**	–	–	–
Currency translation differences	–	–0.3	**–0.3**	–	–0.3	–0.3
Balance as of December 31	–	41.0	**41.0**	–	19.8	19.8
Net book value						
as of January 1	390.4	121.7	**512.1**	319.5	22.8	342.3
as of December 31	402.2	112.9	**515.1**	390.4	121.7	512.1

[1] If any, impairments are charged to operating income.

The changes in goodwill and other intangible assets mainly refer to the new acquisition of Knitmesh as well as the minor changes to the purchase price allocation of the Mixpac, Werfo, and Mold acquisition (consolidated in 2006) during the measurement period. The amount of amortization increased compared to previous year mainly due to the beforementioned acquisition of Mixpac, Werfo, and Mold. In general, the position "Other intangible assets" includes purchased patents, licenses, brand names and know-how, software licenses, as well as capitalized development costs. 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 capitalized 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 13.0 million as of December 31, 2007 (prior year CHF 12.7 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, 2006	98.1	128.2	96.4	67.7	**390.4**
Goodwill, net book value as of December 31, 2007	99.3	131.7	102.4	68.8	**402.2**
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	12.3%	11.4%	10.5%	11.1%	

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 mid-range plans that have been approved by the management. Cash flows beyond this planning period are extrapolated, thereby assumptions were taken into account considering historical data. 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 the years 2007 and 2006.

13 Property, plant and equipment

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	0.0	–	**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	0.0	–	**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	0.0	0.0	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.

Sulzer owns a number of real estate properties no longer essential for its operations, with a book value of about CHF 140 million (prior year CHF 143 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. Therefore it is not possible to make a reliable estimate of their fair value. However, based on market estimates, Sulzer is confident that the net proceeds (after consideration of preparation costs) would be in excess of the book value.

13 Property, plant and equipment (continued)

millions of CHF	Land and buildings	Machinery and technical equipment	Other non-current assets	Assets under construction	2006 Total
Acquisition cost					
Balance as of January 1	649.5	590.1	217.9	27.7	1 485.2
Changes in scope of consolidation	17.2	45.1	1.8	–	64.1
Additions[1)]	36.3	38.8	18.5	11.7	105.3
Disposals	–39.6	–19.6	–8.0	–	–67.2
Reclassifications	–0.2	–7.6	7.8	–	0.0
Currency translation differences	–3.8	–2.0	0.7	–0.6	–5.7
Balance as of December 31	659.4	644.8	238.7	38.8	1 581.7
Accumulated depreciation					
Balance as of January 1	322.0	419.3	175.7	–	917.0
Changes in scope of consolidation	4.6	1.8	0.1	–	6.5
Additions	18.7	39.6	18.5	–	76.8
Disposals	–22.3	–18.5	–7.5	–	–48.3
Reclassifications	–	–5.4	5.4	–	0.0
Impairment	–	–	–	–	–
Currency translation differences	–0.2	0.3	0.3	–	0.4
Balance as of December 31	322.8	437.1	192.5	–	952.4
Net book value					
as of January 1	327.5	170.8	42.2	27.7	568.2
as of December 31	336.6	207.7	46.2	38.8	629.3
thereof leased property, plant and equipment					
Acquisition cost of leased property, plant and equipment	4.8	3.5	0.6	–	8.9
Accumulated depreciation	4.8	3.3	0.5	–	8.6
Net book value as of December 31	0.0	0.2	0.1	–	0.3
Leasing commitments (present value)	2.1	1.2	0.3	–	3.6
Fire insurance value	1 298.3	952.1	344.8	38.8	2 634.0

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

14 Other financial assets

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 current/non-current	–	–	**–**
Changes in fair value	23.5	0.0	**23.5**
Currency translation differences	0.3	0.1	**0.4**
Balance as of December 31	53.5	5.4	**58.9**

			2006
Balance as of January 1	87.5	8.3	95.8
Changes in scope of consolidation	0.2	–	0.2
Additions	0.7	2.9	3.6
Deductions	–67.7	–5.1	–72.8
Reclassifications current/non-current	–	–	–
Changes in fair value	34.1	0.0	34.1
Currency translation differences	1.1	–0.2	0.9
Balance as of December 31	55.9	5.9	61.8

Financial assets that belong to the category “Available-for-sale” include securities of a capital investment nature, and participations of less than 20%. The fair value revaluation of CHF 23.5 million (prior year: CHF 34.1 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 53.5 million consists to a major part of the participation in Burckhardt Compression (Switzerland). The reduction compared to prior year is due to the partial sale of this participation which is reflected in line “Deductions”. The realized gain of this transaction (CHF 24.3 million) was booked to the financial income and included the accumulated fair value adjustments recycled from equity. In the prior year the sale of the participation in the Voith Group (Germany) was included in line “Deductions” of this category.

15 Inventories

millions of CHF	Raw materials, supplies and consumables	Work in progress	Finished products and trade merchandise	Advance payments to suppliers	2007 Total
Acquisition cost					
Balance as of January 1	164.5	284.8	141.2	81.2	**671.7**
Balance as of December 31	192.5	367.4	143.2	111.3	**814.4**
Write-downs					
Balance as of January 1	19.7	6.2	24.4	–	**50.3**
Changes in scope of consolidation	–	–	–	–	**–**
Additions	4.0	3.0	5.0	–	**12.0**
Released as no longer required	–1.7	–0.5	–1.8	–	**–4.0**
Released for utilization	–1.3	–0.6	–3.0	–	**–4.9**
Reclassifications	–	–	–	–	**–**
Currency translation differences	0.0	0.0	–1.1	–	**–1.1**
Balance as of December 31	20.7	8.1	23.5	–	**52.3**
Net book value					
Balance as of January 1	144.8	278.6	116.8	81.2	**621.4**
Balance as of December 31	171.8	359.3	119.7	111.3	**762.1**

					2006
Acquisition cost					
Balance as of January 1	131.9	251.5	129.1	60.9	573.4
Balance as of December 31	164.5	284.8	141.2	81.2	671.7
Write-downs					
Balance as of January 1	16.3	5.7	23.4	–	45.4
Changes in scope of consolidation	–	–	–	–	–
Additions	6.4	1.4	3.7	–	11.5
Released as no longer required	–2.6	–1.0	–1.0	–	–4.6
Released for utilization	–0.3	0.0	–0.6	–	–0.9
Reclassifications	–	–	–	–	–
Currency translation differences	–0.1	0.1	–1.1	–	–1.1
Balance as of December 31	19.7	6.2	24.4	–	50.3
Net book value					
Balance as of January 1	115.6	245.8	105.7	60.9	528.0
Balance as of December 31	144.8	278.6	116.8	81.2	621.4

The acquisition cost represents the purchase or production costs of inventories in stock at the balance sheet date. The increase in inventories is due to the expansion of the order backlog.

16 Percentage of completion contracts

millions of CHF	2007	2006
Contract revenue recognized in period	**296.9**	124.4
Contract costs incurred since start of contract work and recognized profits to date (relating to current contracts)	**324.0**	201.1
Advances received from customers	**–276.3**	–43.3

Sales recognized in accordance with the percentage of completion method for the reporting period amounted to CHF 296.9 million which corresponds to 8.4% of total sales (prior year: CHF 124.4 million or 4.4% of sales). The costs related to this sales figure amounted to CHF 233.7 million (prior year: CHF 109.8 million). The impact on gross profit was CHF 63.2 million which corresponds to 6.1% of total gross profit (prior year: CHF 14.6 million, 1.8%). The increase in sales recognized and advances received from customers mainly resulted from a number of large contracts within Sulzer Pumps.

17 Trade accounts receivable

Aging structure of trade accounts receivable

millions of CHF	2007	2006
Current	**589.8**	453.1
Past due		
1–30 days	**134.5**	119.7
31–60 days	**50.9**	47.4
61–90 days	**32.0**	22.2
91–120 days	**24.9**	21.1
> 120 days	**22.4**	29.6
thereof impaired	**–23.6**	–23.0
Total trade accounts receivable	**830.9**	670.1

Impairment of doubtful trade accounts receivable

millions of CHF	2007	2006
Balance as of January 1	**23.0**	36.5
Changes in scope of consolidation	**–**	–
Additions	**10.1**	12.0
Released as no longer required	**–2.4**	–17.1
Released for utilization	**–6.8**	–8.3
Currency translation differences	**–0.3**	–0.1
Balance as of December 31	**23.6**	23.0

In 2007 the total amount of trade accounts receivable increased by CHF 160.8 million to CHF 830.9 million mainly due to the ongoing good business course. Less than a third of the total trade accounts receivable are past due and CHF 23.6 million (2.8%) 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 independant 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.

18 Other accounts receivable and prepaid expenses

millions of CHF	2007	2006
Receivables from tax authorities	59.6	50.2
Derivative financial instruments	56.4	30.8
Other accounts receivable	21.5	25.7
Total other current accounts receivable	**137.5**	106.7
Insurance premiums	4.2	4.1
Over funding of employee benefit plans	21.6	22.9
Other prepaid expenses	22.0	20.2
Total prepaid expenses	**47.8**	47.2
Total other accounts receivable and prepaid expenses	**185.3**	153.9

For further details to position “Derivative financial instruments” refer to note 28 “Derivative financial instruments”. Other current accounts receivable do not include any material positions which are past due or impaired.

19 Assets and disposal groups held for sale

millions of CHF	2007	2006
Intangible assets (incl. goodwill)	–	–
Property, plant and equipment	5.1	0.9
Inventories	–	–
Other current assets	–	–
Total assets held for sale	**5.1**	0.9
Current liabilities	–	–
Provisions	–	–
Total liabilities directly associated with assets held for sale	**–**	–

All amounts disclosed as “assets and disposal groups held for sale” are reflecting transactions that are anticipated to be closed within the next 12 months. The amount shown as of December 31, 2007 represents agreed sales of real estate properties. The properties are mainly located in Switzerland.

20 Cash and cash equivalents

millions of CHF	31.12.2007		31.12.2006	
	Average eff. interest rate	**Amount**	Average eff. interest rate	Amount
Cash		**361.6**		326.9
Cash equivalents		**2.0**		3.7
Total cash and cash equivalents	2.84	**363.6**	2.30	330.6

The small increase in cash and cash equivalents results from the continuously good business course and the related cash collections. The cash out for the share buyback program was partially financed by drawings from the syndicated credit facility. The average effective interest rate on cash and cash equivalents amounted to 2.84% (previous year 2.30%).

21 Marketable securities

millions of CHF	2007	2006
Marketable securities – designated at fair value through profit or loss	**20.9**	31.0
Marketable securities – available for sale	**–**	–
Total marketable securities	**20.9**	31.0

The entire position as of December 31, 2007 consisted of equities (97%) and interest bearing investments (3%). In the reporting year and previous year no impairments were booked. The total position is classified as "designated at fair value through profit or loss". The fair value adjustments are booked in the financial income.

22 Pledged assets

millions of CHF	2007	2006
Land and buildings	**6.2**	5.2
Machinery and equipment	**–**	1.1
Total pledged assets	**6.2**	6.3

23 Share capital

thousands of CHF	Number of shares (par value CHF 0.03)	2007	2006
Issued shares			
Shares with dividend entitlement			
Balance as of January 1	3638030	**109.1**	109.1
Balance as of December 31	3638030	**109.1**	109.1

The share capital amounts to CHF 109 140.90, made up of 3 638 030 shares with a par value of CHF 0.03. All shares are fully paid in and registered. Further details on the individual equity components are presented in the “Changes in equity” on page 10 of this financial section. On September 18, 2007, Sulzer successfully closed its share buyback program. The company bought back 211 793 of own shares or 5.82% of all issued shares for a total amount of CHF 300.0 million. This corresponds to an average share price of about CHF 1 416. The buyback was launched on November 14, 2006 and was realized via a second trading line, which was opened on the SWX Swiss Exchange. It is foreseen to cancel the repurchased shares and to reduce the share capital at the next annual general meeting (April 3, 2008).

Share ownership

Shareholders who declare holding Sulzer shares in their own name and for their own account are registered without restrictions. Shareholders who do not expressly declare holding the shares for their own account (nominees) are registered with voting rights under strict conditions. They must be subject to supervision by a recognized control agency of the banking and financial markets industry, need to conclude an agreement with the Board of Directors regarding their status and the portion of shares that their holding shall not be in excess of 5% of the total share capital. If the shares held by a nominee exceed 5% of the total share capital, registration is subject to the disclosure to the Board of Directors of details of the persons holding in excess of 1% of the share capital.

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

	31.12.2007		31.12.2006	
	Number of shares	in %	Number of shares	in %
Shareholders larger than 3% (previous year larger than 5%)				
Chase Nominees Ltd (Nominee)			456668	12.55
Everest Beteiligungs GmbH incl. its subsidiary Salve Beteiligungs GmbH	890457	24.47		
Fidelity Management Research Corp.	364102	10.01		
Focus Capital Investors LLC[1)]	183447	5.04		
Deutsche Bank	173868	4.78		
Other shareholders	1752381	48.17	3009073	82.71
Total shares in circulation	3364255	92.47	3465741	95.26
Shares held by Sulzer Ltd	273775	7.53	172289	4.74
Total shares issued	3638030	100.00	3638030	100.00

1) According to the notification of shareholding interest published on February 13, 2008 the stockholding interest of Focus Capital Investors LLC has fallen below the threshold of 3%.

Sulzer’s agreement with both Everest and Renova Industries Ltd is described in note 35. 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, 2007 amounted to 273775, thereof 211793 shares derive from the share buyback program. The balance of 61982 shares is mainly held for the purpose of the management option plan (refer to note 34). For further information on shareholders refer to the Sulzer Annual Report 2007 on page 38.

24 Earnings per share/diluted earnings per share

	2007	2006
Net income attributable to shareholders of Sulzer Ltd (millions of CHF)	**284.1**	221.4
Average number of outstanding shares	**3 403 570**	3 556 361
Adjustment for share option plan	**48 762**	38 174
Average number of shares for calculating diluted earnings per share	**3 452 332**	3 594 535
Earnings per share, attributable to shareholders of Sulzer Ltd (in CHF)		
Basic earnings per share	**83.47**	62.27
Diluted earnings per share	**82.29**	61.61
Dividend per share	**28.00**[1]	23.00

[1] Proposal to the annual general meeting.

25 Borrowings

millions of CHF	2007			2006		
	Short-term	Long-term	**Total**	Short-term	Long-term	Total
Bank loans	157.9	16.1	**174.0**	29.8	18.1	47.9
Mortgage loans	–	9.2	**9.2**	–	10.4	10.4
Other loans and debts	–	–	**–**	0.2	–	0.2
Leasing obligations	–	2.8	**2.8**	–	3.4	3.4
Total borrowings	157.9	28.1	**186.0**	30.0	31.9	61.9
thereof due in < 1 year	157.9	–	**157.9**	30.0	–	30.0
thereof due in 1–5 years	–	12.5	**12.5**	–	16.9	16.9
thereof due in > 5 years	–	15.6	**15.6**	–	15.0	15.0

In 2007, a new syndicated credit facility has been arranged. This credit facility expires on August 15, 2012, with two options to extend the maturity by two years in total. It is subject to financial covenants, based on net financial indebtness and EBITDA.
The increase of the short-term borrowings results from the drawings on the syndicated loan through various subsidiaries in their individual currencies. In addition, local bank loans from subsidiaries were also increased.
The carrying amount of financial borrowings is approximately equivalent to their fair value.

Borrowings by currency

	2007			2006		
	millions of CHF	in %	Interest rate	millions of CHF	in %	Interest rate
AUD	0.2	0.1	7.0%	0.3	0.5	8.3%
BRL	15.1	8.1	9.8%	25.5	41.2	10.5%
CHF	76.5	41.1	2.8%	8.0	12.9	2.7%
EUR	65.3	35.1	4.9%	21.6	34.9	5.1%
GBP	18.3	9.9	6.6%	0.1	0.2	6.2%
Other	10.6	5.7	–	6.4	10.3	–
Total	186.0	100.0	–	61.9	100.0	–

26 Other provisions

millions of CHF	Employee benefit plans[1]	Other employee benefits	Warranties/ liabilities	Restructuring	Real estate obligations	Other	2007 Total
Balance as of January 1	79.6	38.7	130.5	11.0	33.0	29.8	**322.6**
Changes in scope of consolidation	–	–	–	–	–	–	**–**
Additions	7.1	40.9	35.3	3.6	5.5	16.4	**108.8**
Released as no longer required	–0.9	–1.9	–13.9	–2.2	–1.5	–2.7	**–23.1**
Released for utilization	–4.6	–6.4	–46.5	–1.4	–1.9	–11.4	**–72.2**
Reclassifications	–	–	–	–	2.9	–2.9	**0.0**
Currency translation differences	1.6	–0.1	–1.1	0.1	0.0	–0.2	**0.3**
Total provisions as of December 31	82.8	71.2	104.3	11.1	38.0	29.0	**336.4**
thereof non-current	82.8	47.6	36.4	2.0	21.1	7.2	**197.1**
thereof current	–	23.6	67.9	9.1	16.9	21.8	**139.3**

							2006
Balance as of January 1	77.1	20.8	116.7	24.5	30.4	31.9	301.4
Changes in scope of consolidation	5.9	0.4	1.1	–	–	–	7.4
Additions	4.2	22.5	53.8	1.5	2.5	14.4	98.9
Released as no longer required	–0.1	–0.6	–9.4	–2.9	0.0	–1.9	–14.9
Released for utilization	–9.6	–4.6	–30.6	–12.4	–1.1	–13.1	–71.4
Reclassifications	–	–	–	–	1.2	–1.2	0.0
Currency translation differences	2.1	0.2	–1.1	0.3	0.0	–0.3	1.2
Total provisions as of December 31	79.6	38.7	130.5	11.0	33.0	29.8	322.6
thereof non-current	79.6	26.3	69.7	2.1	15.1	9.7	202.5
thereof current	–	12.4	60.8	8.9	17.9	20.1	120.1

[1] For further details of employee benefit plans refer to note 07 "Employee benefit plans".

The largest position in other provisions refers to "Warranties/liabilities". These provisions include customer claims, penalties, litigation and legal cases relating predominantly to delivered goods. In 2007 this position has decreased by CHF 26.2 million to CHF 104.3 million. The provision for risks referring to an ongoing dispute with the purchaser of the locomotive business is accrued within this category. About CHF 68 million is classified as current and is therefore expected to result in a cash outflow for 2008. The nature of much of the remaining provision is such that the timing of cash outflows is uncertain. The provision for "Restructuring" remained unchanged due to the delay of some expected restructuring measures announced in 2006.

Category "Other employee benefits" increased by CHF 32.5 million to CHF 71.2 million. The main reason for the increase was due to recording resp. valuation of the liabilitiy booked according to IFRS 2 referring to the Sulzer Management cash-settled stock option plan (see note 34). 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 31.6 million as of December 31, 2007. The remaining portion of "Other employee benefits" includes provisions for jubilee gifts, for early retirement of senior managers and for other obligations to employees. Cash outflow for one fifth of this remaining portion is expected in 2008. The timing of cash outflow for the remaining part is difficult to estimate.

The additions as well as the final balance of the provisions in the "Real estate obligations" category cover the obligations from past as well as current sales of real estate. Of the CHF 38.0 million cash outflow of CHF 16.9 million is expected in 2008. The timings of the remaining cash outflows are by their nature uncertain. "Other provisions" include provisions which do not fit in to 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 provisions" are expected to be realized in 2008, by their nature the amounts and timing of any cash outflows are difficult to predict.

27 Other current and accrued liabilities

millions of CHF	2007	2006
Notes payable	**3.9**	3.1
Social security institutions	**11.5**	6.7
Taxes (VAT, withholding tax)	**25.3**	21.9
Undistributed dividends (related to acquisitions)	**0.1**	6.4
Derivative financial instruments	**6.2**	3.3
Other current liabilities	**124.6**	16.2
Total other current liabilities	**171.6**	57.6
Vacation and overtime claims	**37.4**	32.0
Salaries, wages and bonuses	**69.5**	66.1
Contract-related costs	**126.1**	93.8
Withholding tax from share buyback	**–**	43.0
Other accrued liabilities	**45.5**	38.6
Total accrued liabilities	**278.5**	273.5
Total other current and accrued liabilities	**450.1**	331.1

The line "Other current liabilities" includes the remaining part of the purchase price for the Mixpac, Werfo, and Mold acquisition of CHF 63.6 million. It is expected, that the amount will be remitted to the seller in 2008. In addition, this line contains the present value of a put option issued on treasury shares (CHF 36.5 million).

The increase in the lines vacation, overtime claims, salaries, and bonuses is caused by the ongoing good business course resulting in higher accruals for personnel expenses. The growth also led to a strong increase of accruals for contract-related costs, mainly consisting of missing invoices from suppliers for already received material.

28 Derivative financial instruments

millions of CHF	2007				2006			
	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	461.4	9.6	348.4	6.0	450.3	7.6	330.8	2.9
Currency options	15.5	0.0	15.5	0.3	5.0	0.0	4.9	0.0
Interest rate swaps	–	–	–	–	–	–	25.0	0.4
Other options	89.9	46.8	–	–	34.7	23.2	–	–
Total	566.8	56.4	363.9	6.3	490.0	30.8	360.7	3.3
thereof due in < 1 year	559.6		340.5		486.6		355.5	
thereof due in 1 – 2 years	7.2		21.2		3.4		5.2	
thereof due in 2 – 5 years	–		2.2		–		–	
thereof due in > 5 years	–		–		–		–	

Trading derivatives and their fair values are classified as current assets or current liabilities.

The ineffective portion recognized in profit or loss that arose from cash flow hedges amounted to CHF 0.3 million (2006: CHF 0.0 million). There was no ineffectiveness to be recorded from fair value hedges or 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.

a) Forward foreign exchange contracts
The notional principal amounts of the outstanding forward foreign exchange contracts at December 31, 2007 were CHF 809.8 million (2006: CHF 781.1 million). The hedged highly probable forecast transactions denominated in foreign currency 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, 2007 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 fixed assets, in which case recognition is over the lifetime of the asset (5 to 10 years).

b) Interest rate swaps
As per December 31, 2007 no interest rate swaps existed. The interest rate swap of CHF 25.0 million reported in the previous year matured in July 2007.

Determination of notional values of derivative financial instruments has been changed in 2007. The values of prior year have been amended accordingly.

29 Monetary net current assets by currency

millions of CHF	Cash and marketable securities	Accounts receivable and prepaid expenses	Trade accounts payable incl. customers' advance payments	Other current and accrued liabilities	Short-term borrowings	2007 Total
BRL	3.9	53.7	–33.9	–12.6	–15.1	**–4.0**
CAD	15.1	37.3	–22.6	–7.4	–	**22.4**
CHF	134.7	172.5	–71.7	–193.4	–70.0	**–27.9**
CNY	26.3	32.1	–43.1	–7.5	–	**7.8**
EUR	57.5	220.9	–121.4	–88.0	–44.3	**24.7**
GBP	20.7	194.7	–230.6	–31.8	–18.3	**–65.3**
INR	17.8	19.5	–28.3	–4.5	–0.1	**4.4**
JPY	8.7	17.4	–6.4	–5.3	–	**14.4**
MXN	8.0	15.8	–9.4	–9.0	–1.3	**4.1**
SGD	19.6	39.3	–19.2	–13.8	–0.6	**25.3**
USD	55.2	168.8	–133.7	–67.6	–	**22.7**
Other	17.0	43.0	–25.5	–9.2	–8.2	**17.1**
Total	384.5	1 015.0	–745.8	–450.1	–157.9	**45.7**

						2006
BRL	6.9	47.5	–18.2	–11.5	–22.6	2.1
CAD	9.7	25.9	–17.8	–2.9	–	14.9
CHF	139.9	131.9	–56.8	–133.8	–0.1	81.1
CNY	18.1	17.8	–26.6	–3.8	–	5.5
EUR	65.3	201.7	–89.0	–79.5	–0.7	97.8
GBP	32.8	90.9	–108.9	–24.5	–0.8	–10.5
INR	6.7	25.9	–16.5	–4.0	–1.1	11.0
JPY	8.7	15.4	–3.8	–4.1	–	16.2
MXN	9.1	17.2	–24.6	–3.7	–0.5	–2.5
SGD	24.2	32.0	–24.0	–6.6	–0.6	25.0
USD	24.8	181.0	–141.2	–49.8	–	14.8
Other	15.4	35.0	–17.9	–6.9	–3.6	22.0
Total	361.6	822.2	–545.3	–331.1	–30.0	277.4

30 Other financial commitments

millions of CHF	2007			2006		
	Rented premises	Other	**Total**	Rented premises	Other	Total
Maturity < 1 year	8.0	3.7	**11.7**	5.9	2.6	8.5
Maturity 1 – 5 years	23.7	3.9	**27.6**	20.7	3.0	23.7
Maturity > 5 years	9.5	–	**9.5**	10.0	–	10.0
Total rental commitments (incl. operational leasing)	41.2	7.6	**48.8**	36.6	5.6	42.2
Total commitments for future investments and acquisitions	0.9	5.4	**6.3**	0.2	16.8	17.0

The commitments for future investments and acquisitions mainly represent contractually agreed payments as a consequence of the acquisitions made or announced in 2007 and previous years (see also notes 01 and 33). The decrease of this position is due to the payment for an acquisition which was made in the year 2006.

31 Contingent liabilities

millions of CHF	2007	2006
Pledges in favor of third parties	**1.3**	1.1
Guarantees in favor of third parties	**0.4**	0.8
Total contingent liabilities	**1.7**	1.9

Guarantees in favor of third parties decreased further to an insignificant level. The marginal increase of pledges in favor of third parties is caused by foreign exchange rate influences.

32 Cash flow from investing activities

millions of CHF	2007			2006		
	Investments	Divestitures	**Total**	Investments	Divestitures	Total
Intangible assets	–4.5	–	**–4.5**	–0.7	–	–0.7
Property, plant and equipment	–130.3	29.7	**–100.6**	–105.3	53.1	–52.2
Acquisitions/divestitures	–11.5	1.6	**–9.9**	–151.8	30.2	–121.6
Financial assets	–1.3	28.1	**26.8**	–4.9	71.4	66.5
Marketable securities	–35.1	39.7	**4.6**	–21.3	40.7	19.4
Total cash flow from investing activities	–182.7	99.1	**–83.6**	–284.0	195.4	–88.6

The investments in intangible assets mainly refer to software licenses. The cash in from property, plant and equipment in the amount of CHF 29.7 million is the result of the divestiture of real estate mainly in Switzerland. The cash flow from acquisition/divestitures includes the payments for the acquisition of Knitmesh made in 2007 and a minor cash portion for deals made in previous years. In previous year, the cash proceeds for the sale of the Paco pumps business sold to Grundfos Group was included. The cash received for “Financial assets” mainly includes the disposal of Burckhardt Compression shares which were classified as “available-for-sale”. In the prior year, the disposal of Sulzer’s participation in the Voith Group, Germany, was included.

33 Cash flow from acquisitions

millions of CHF	2007	2006
Non-current assets	**–3.9**	–157.7
Inventories	**–0.2**	–23.9
Other net current assets	**–0.5**	–4.7
Other liabilities	**0.3**	18.6
Identified acquired net assets	**–4.3**	–167.7
Minus acquired cash	**–**	26.2
Subtotal	**–4.3**	–141.5
Goodwill	**–8.6**	–66.6
Purchase of minorities	**–**	–6.6
Purchase price to be paid in future periods	**4.3**	65.3
Payments of purchase price relating to prior periods	**–2.9**	–2.4
Net cash flow	**–11.5**	–151.8
Acquisition related key financial data		
Order intake	**9.0**	–
Sales	**6.5**	0.3
Operating income before goodwill amortization	**0.6**	0.1

Refer to note 01 for further information on the acquisitions and their impact in 2007 and 2006.

33 Cash flow from acquisitions (continued)

Revaluations of identified acquired net assets

millions of CHF	Fair Value	Revaluations	Acquiree's carrying amount
Intangible assets	2.7	2.7	0.0
Property, plant and equipment	1.2	0.2	1.0
Inventories	0.2	–	0.2
Other net current assets (excl. cash)	0.5	–	0.5
Liabilities with third parties	–0.3	–	–0.3
Identified acquired net assets	4.3	2.9	1.4

34 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 exercise price is determined on the basis of the average stock market price of the Sulzer share during the last 10 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 10 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 one share.
In 2007 a total of CHF 14.8 million is charged to the operating income, thereof CHF 0.5 million refer to equity-settled. In the previous year CHF 4.9 million was included in operating income. The cash-settled plan is hedged with a derivative instrument of a Swiss bank.
For details of option holdings by members of the Board of Directors and the Executive Management see note 113 of the financial statement of Sulzer Ltd.

Option right for one Sulzer share

Grant date	Outstanding 1.1.2007	Granted 2007	Exercised 2007	Forfeited 2007	Expired 2007	Outstanding 31.12.2007	Average exercise price in CHF
2002	6 870	–	3 102	–	–	3 768	318
2003	8 765	–	4 845	–	–	3 920	173
2004	15 985	–	4 520	–	–	11 465	318
2005	20 568	–	4 335	–	–	16 233	522
2006	36 882	–	7 670	–	–	29 212	942
2007	–	41 932	–	240	–	41 692	1 495
Total	89 070	41 932	24 472	240	–	106 290	–

Expiry of option rights for one Sulzer share

	2007		2006	
Year of expiry	Number of options	Average exercise price in CHF	Number of options	Average exercise price in CHF
2011	29 212	942	36 882	942
2012	45 460	1 397	6 870	324
2013	3 920	173	8 765	173
2014	11 465	318	15 985	318
2015	16 233	522	20 568	522
Outstanding as of December 31	106 290	–	89 070	–

The options granted during the reporting period had a fair value of CHF 556 at the grant date (calculation based on trinomial model). The relevant parameters were included as follows: price of the underlying share: CHF 1 655 (share price at grant date), strike price: CHF 1 495 (10 days average prior to grant date), dividend yield: 1.3%, maturity: 5 years, risk free interest rate: 2.7%, and (historic) volatility: 33.5%.

35 Transactions with members of the Board of Directors, Executive Management and related parties

Key management compensation

thousands of CHF	2007			2006		
	Short-term benefits	Equity-based compensation	**Total**	Short-term benefits	Equity-based compensation	Total
Board of Directors	1 011	1 884	**2 895**	1 026	820	1 846
Executive Committee	6 800	6 019	**12 819**	6 301	2 111	8 412

The amounts for equity-based compensation are valued according to IFRS 2. Employer contribution to post-employement benefits (incl. early retirement benefits) for the Board of Directors amounted to CHF 0.4 million (prior year CHF 0.1 million) and for the Executive Committee to CHF 2.0 million (prior year: CHF 1.1 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 and the Executive Management as per balance sheet date.

No shares have been granted to members of the Board of Directors, the Executive Management or related persons, with the exception of shares granted in connection with service awards.

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 (2007: CHF 3.9 million; 2006: CHF 3.5 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. Based on this agreement, the Swiss Takeover-board concluded in a recommendation of December 6, 2007, that Sulzer, Everest, and Renova constitute a group for mandatory-bid purposes. The parties disagree with this interpretation. The case is currently pending before the Swiss Federal Banking Commission.

At the time of completion of the consolidated financial statements of the corporation on February 21, 2008, no major business transactions or outstanding balances with Everest, Renova, their representatives, or any other related parties or companies are known.

Board and Executive Management compensation disclosures as required by Swiss law (OR 663b^{bis} – OR 663c)

These consolidated financial statements have been prepared in accordance with IFRS. The new compensation disclosure requirements in accordance with the Swiss law for companies, the Swiss Code of Obligations (SCO), are disclosed in the financial statements of Sulzer Ltd, note 113.

36 Auditor remuneration

Fees for the audit work by PricewaterhouseCoopers as the Group auditor amounted to CHF 2.1 million (prior year: CHF 2.0 million). Additional services provided by PricewaterhouseCoopers, primarily for tax consulting and other services, amounted to total CHF 1.6 million (prior year: CHF 1.1 million).

37 Subsequent events after the balance sheet date

The Board of Directors authorized these consolidated financial statements for issue on February 21, 2008. They are subject to approval at the annual general meeting which will be held on April 3, 2008. The Board of Directors and the Executive Management are, at the time of completion of the consolidated financial statements of the corporation on February 21, 2008, not aware of any events that would materially affect these statements.

38 Major subsidiaries

31.12.2007	(including paid-in capital in the USA and Canada)	Participation Registered Capital	Research and Development	Production and Engineering	Sales	Service	Division
Europe							
Switzerland	Sulzer Pumpen AG, Winterthur Kim Jackson	100% CHF 3 000 000	■	■	■	■	Sulzer Pumps
	Sulzer Metco AG, Wohlen Adrian Zaugg	100% CHF 5 000 000	■	■	■	■	Sulzer Metco
	Sulzer Chemtech AG, Winterthur Urs Fankhauser	100% CHF 10 000 000	■	■	■	■	Sulzer Chemtech
	Sulzer Immobilien AG, Winterthur Martin Schmidli	100% CHF 13 000 000					Corporate
	Sulzer Markets & Technology AG, Winterthur Urs Hirt	100% CHF 4 000 000	■				Corporate
	Sulzer Management AG, Winterthur Peter Meier	100% CHF 500 000					Corporate
	Sulzer Finance (Switzerland) AG, Winterthur Jean-Daniel Millasson	100% CHF 3 600 000					Corporate
	Sulzer Kelmix Holding AG[1], Rotkreuz Volker Brinke	75% CHF 565 000					Sulzer Chemtech
	Sulzer Mixpac AG[1], Rotkreuz Volker Brinke	75% CHF 100 000	■	■	■		Sulzer Chemtech
	Sulzer Werfo AG[1], Haag Volker Brinke	76% CHF 100 000	■	■	■		Sulzer Chemtech
Germany	Sulzer Pumpen (Deutschland) GmbH, Bruchsal Michael Streicher	100% EUR 9 200 000	■	■	■	■	Sulzer Pumps
	Sulzer Metco Europe GmbH, Hattersheim Paul-Heinz Müller-Planteur	100% EUR 1 600 000			■	■	Sulzer Metco
	Sulzer Metco Coatings GmbH, Salzgitter Franz Jansen	100% EUR 3 100 000	■	■	■		Sulzer Metco
	Sulzer EUROFLAMM Germany GmbH, Bremen Dietmar Köster	100% EUR 2 300 000	■	■	■		Sulzer Metco
	Sulzer Metaplas GmbH, Bergisch-Gladbach Valentin Bühler	100% EUR 2 556 500	■	■	■	■	Sulzer Metco
	Sulzer Metco WOKA GmbH, Barchfeld Jürgen Gerbig	100% EUR 383 600	■	■	■		Sulzer Metco
	Sulzer Metco OSU GmbH, Duisburg Stephan Knapp	100% EUR 300 000	■	■	■	■	Sulzer Metco
	Sulzer Chemtech GmbH, Linden Roland Böcher	100% EUR 300 000		■	■	■	Sulzer Chemtech
	Sulzer Holding (Deutschland) GmbH, Singen Gert Müller	100% EUR 29 570 000					Corporate
	VBG Beteiligungen GmbH, Singen Gert Müller	100% EUR 25 000					Corporate
Finland	Sulzer Pumps Finland Oy, Kotka Jukka Timperi	100% EUR 16 000 000	■	■	■	■	Sulzer Pumps
France	Sulzer Pompes France SASU, Mantes Jacques Rigaux	100% EUR 1 500 000	■	■	■	■	Sulzer Pumps
	Sulzer Pompes Process SASU, Schweighouse-S/Moder Jean-Claude Cordellier	100% EUR 462 000			■		Sulzer Pumps
	Compagnie de Construction Mécanique Sulzer SASU, Mantes, Jacques Rigaux	100% EUR 4 200 000					Corporate
Great Britain	Sulzer Pumps (UK) Ltd, Leeds Keith Dowle	100% GBP 9 610 000	■	■	■	■	Sulzer Pumps
	Sulzer Metco (UK) Ltd, Cwmbran Anthony Herbert	100% GBP 500 000			■	■	Sulzer Metco
	Sulzer Metco Coatings Ltd, Cheshire Barry Godwin	100% GBP 57 125	■	■	■		Sulzer Metco

[1] Refer to note 01

	31.12.2007 (including paid-in capital in the USA and Canada)	Participation Registered Capital	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 Raffic Trabulsi	100% GBP 100 000		■	■	■	Sulzer Chemtech
	Sulzer (UK) Holdings Limited, Leeds Garth Bradwell	100% GBP 6 100 000					Corporate
Italy	Sulzer EUROFLAMM Italia S.r.l., Arzano 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 1 134 437	■	■	■	■	Sulzer Chemtech
	Sulzer Repco B.V., Europoort Peter Alexander	100% EUR 18 151		■	■	■	Sulzer Turbo Services
	Sulzer Elbar B.V., Lomm Peter Alexander	100% EUR 444 705		■	■	■	Sulzer Turbo Services
	Sulzer Netherlands Holding B.V., Breda Eric Koning	100% EUR 10 010 260					Corporate
	Sulzer Capital B.V., Breda Eric Koning	100% EUR 50 000					Corporate
	Sulzer Pumps (Benelux) N.V., Standaarbuiten Frank Kerstens	100% EUR 22 690				■	Sulzer Pumps
Austria	Sulzer Pumpen Österreich Ges.m.b.H., Wels Karl Pilka	100% EUR 350 000			■		Sulzer Pumps
Poland	Sulzer Chemtech Polska Sp.zo.o., Przezmierowo Mariusz Calinski	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 Jouni Lehtinen	100% RUB 250 000			■		Sulzer Pumps
Czech Republic	Sulzer Pumps CZ + SK s.r.o., Prag Dirk Küllmey	100% CZK 200 000				■	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 160 000 000	■	■	■		Sulzer Metco
Liechtenstein	Mold AG[1], Eschen Volker Brinke	76% 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 Mark Benz	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 César Montenegro	100% USD 40 381 108	■	■	■	■	Sulzer Pumps

[1] Refer to note 01

38 Major subsidiaries (continued)

	31.12.2007 (including paid-in capital in the USA and Canada)	Participation Registered Capital	Research and Development	Production and Engineering	Sales	Service	Division
North America							
USA	Sulzer Pumps Houston Inc., Brookshire, Texas Urs Rathgeb	100% USD 11 000 000		■	■	■	Sulzer Pumps
	Sulzer Process Pumps (US) Inc., Easly, South Carolina Kaarlo Horo	100% USD 27 146 250		■	■	■	Sulzer Pumps
	Sulzer Metco (US) Inc., Westbury, New York Friedrich Herold	100% USD 26 865 993	■	■	■	■	Sulzer Metco
	Sulzer Metaplas (US) Inc., Woonsocket, Rhode Island Jacob Avissar	100% USD 1 200 000	■	■	■	■	Sulzer Metco
	Sulzer Euroflamm US Inc., Dayton, Ohio Eric Schueler	100% USD 1 236 953	■	■	■		Sulzer Metco
	Sulzer Chemtech USA Inc., Humble, Texas Christopher Isom	100% USD 47 895 000	■	■	■	■	Sulzer Chemtech
	Sulzer Hickham Inc., La Porte, Texas Darayus Pardivala	100% USD 20 980 000		■	■	■	Sulzer Turbo Services
	Sulzer Enpro Inc., Belle Chasse, Louisiana Darayus Pardivala	100% USD 4 006 122		■	■	■	Sulzer Turbo Services
	Sulzer US Holding Inc., Sugar Land, Texas Kelli Edell	100% USD 164 976 151					Corporate
Latin America							
Brazil	Sulzer Brasil S.A., Jundiaí Mauricio Bannwart	100% BRL 81 789 432		■	■	■	Sulzer Pumps
	Sulzer Metco Indústria e Commércio Ltda, Diadema Ronald Bremberger	100% BRL 4 418 273		■	■		Sulzer Metco
Mexico	Sulzer Pumps México, S.A. de C.V., Cuautitlán Izcalli Marcelo Suhner	100% MXN 4 887 413		■	■	■	Sulzer Pumps
	Sulzer Chemtech, S. de R.L. de C.V., Cuautitlán Izcalli Celso Pajaro	100% MXN 31 345 500		■	■	■	Sulzer Chemtech
Venezuela	Sulzer Pumps (Venezuela) S.A., Barcelona Valmore Salas	100% VEB 200 000 000			■	■	Sulzer Pumps
Africa							
South Africa	Sulzer Pumps (South Africa) Pty. Ltd, Elandsfontein Deon Vorster	75% ZAR 450 000	■	■	■	■	Sulzer Pumps
	Sulzer (South Africa) Holdings (Pty) Ltd., Elandsfontain Deon Vorster	100% ZAR 16 476		■	■	■	Sulzer Pumps
Nigeria	Sulzer Pumps (Nigeria) Ltd, Lagos Garth Bradwell	100% NGN 10 000 000			■	■	Sulzer Pumps
Asia							
Arabic Emirates	Sulzer (Middle East) FZCO, Dubai Andrew Hodgson	100% AED 500 000			■		Sulzer Pumps
India	Sulzer Pumps India Ltd, Navi Mumbai A.T. Bondal	99% INR 25 000 000		■	■	■	Sulzer Pumps
	Sulzer India Ltd, Pune Listed in Mumbai with securities identification number ISIN INE 297C01010 Market capitalization per 31.12.2007: INR 2 153 million (CHF 61 million) Balaji Bakthisaran	80% INR 34 500 000		■	■	■	Sulzer Chemtech
	Sulzer Tech India Pvt. Ltd., Navi Mumbai R. Varadarajan	100% INR 1 000 000		■			Sulzer Pumps
	Sulzer Metco India Ltd., Pune Veeraganta Bhaskara Raman	100% INR 7 100 000		■	■		Sulzer Metco
Indonesia	PT Sulzer Hickham Indonesia, Purwakarta Nathan Self	100% IDR 28 234 800 000		■	■	■	Sulzer Turbo Services
Japan	Sulzer Daiichi K.K., Tokyo Kazuo Kiyozuka	60% JPY 30 000 000			■		Sulzer Pumps
	Sulzer Metco (Japan) Ltd, Tokyo Norio Yumiba	100% JPY 180 000 000		■	■	■	Sulzer Metco

31.12.2007 (including paid-in capital in the USA and Canada)		Participation Registered Capital	Research and Devel-opment	Production and Engin-eering	Sales	Service	Division
Asia							
Singapore	Sulzer Pumps Asia Pacific Pte Ltd, Singapore Venkatasubramanian Ramanathan	100% SGD 1 000 000		■	■	■	Sulzer Pumps
	Sulzer Metco (Singapore) Pte Ltd, Singapore Cheng Teo Tan	100% SGD 600 000			■	■	Sulzer Metco
	Sulzer Chemtech Pte Ltd, Singapore Subodh Nadkarni	100% SGD 1 000 000	■	■	■	■	Sulzer Chemtech
South Korea	Sulzer Korea Ltd, Seoul Youngbae Kim	100% KRW 222 440 000			■		Sulzer Pumps
People's Republic of China	Sulzer Dalian Pumps & Compressors Ltd, Dalian Lee Zhenyi Lu	100% CNY 115 000 000		■	■	■	Sulzer Pumps
	Sulzer Pumps (China) Ltd, Hong Kong Albert Tong	100% HKD 8 110 000			■	■	Sulzer Pumps
	Sulzer Metco Surface Technology (Shanghai) Co. Ltd., Shanghai, Bruno Tanner	100% CHF 4 400 000		■	■	■	Sulzer Metco
	Sulzer Shanghai Eng. & Mach. Works Ltd, Shanghai Mel Chua	100% CNY 61 432 607		■	■	■	Sulzer Chemtech
Australia							
	Sulzer Pumps (ANZ) Pty. Ltd, South Yarra David Armstrong	100% AUD 100 000			■		Sulzer Pumps
	Sulzer Metco Australia Pty. Ltd, Sydney Scott Elson	100% AUD 500 000			■	■	Sulzer Metco

Auditors' Report

PRICEWATERHOUSECOOPERS

Report of the Group Auditors
to the general meeting of
the Shareholders of Sulzer Ltd
8401 Winterthur

As auditors of the group, we have audited the consolidated financial statements (income statement, balance sheet, changes in equity, statement of cash flows and notes/pages 8 to 55) of Sulzer Ltd for the year ended December 31, 2007.

These consolidated financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards and with the International Standards on Auditing, which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements 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.

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

PricewaterhouseCoopers AG

Christian Kessler
Auditor in charge

Diego Alvarez

Winterthur, February 21, 2008

Five-year Summaries by Divisions

millions of CHF	Order intake 2007	2006	2005	2004	2003	Sales 2007	2006	2005	2004	2003
Total divisions	**4043.7**	3265.8	2616.2	2179.3	1883	**3527.2**	2792.1	2480.2	2049.4	1801
Sulzer Pumps	**2076.9**	1752.6	1367.5	1073.0	951	**1733.8**	1405.4	1266.4	1001.9	870
Sulzer Metco	**762.8**	658.7	589.2	534.2	423	**753.1**	644.1	583.0	521.4	424
Sulzer Chemtech	**890.8**	602.1	415.5	346.0	312	**761.3**	500.1	389.5	313.1	307
Sulzer Turbo Services	**313.2**	252.4	244.0	226.1	197	**279.0**	242.5	241.3	213.0	200
Other	**10.3**	11.1	18.9	18.3	25	**9.8**	9.6	18.0	17.6	25
Total	**4054.0**	3276.9	2635.1	2197.6	1908	**3537.0**	2801.7	2498.2	2067.0	1826

millions of CHF	Operating income (EBIT)[1] 2007	2006	2005	2004	2003	Capital employed (average)[2] 2007	2006	2005	2004	2003
Total divisions	**416.4**	297.7	184.9	100.3	57	**1529.0**	1155.9	1126.6	1065.1	1152
Sulzer Pumps	**199.2**	159.6	98.2	55.2	17	**448.0**	388.7	381.4	341.8	417
Sulzer Metco	**75.8**	53.4	36.1	8.1	8	**443.2**	437.1	442.6	434.4	397
Sulzer Chemtech	**116.3**	65.4	40.6	26.8	19	**464.1**	164.3	132.8	115.0	151
Sulzer Turbo Services	**25.1**	19.3	10.0	10.2	13	**173.7**	165.8	169.8	173.9	187
Other	**–22.9**	–2.1	–18.1	7.3	5	**96.4**	91.4	126.4	136.3	157
Total	**393.5**	295.6	166.8	107.6	62	**1625.4**	1247.3	1253.0	1201.4	1309

millions of CHF	Order backlog 2007	2006	2005	2004	2003	Employees (number of full-time equivalents) 2007	2006	2005	2004	2003
Total divisions	**1975.1**	1481.9	1003.1	795.3	667	**11312**	10111	9379	9215	8569
Sulzer Pumps	**1303.8**	992.6	667.2	508.2	429	**5686**	5192	5116	4983	4492
Sulzer Metco	**99.7**	89.9	75.6	66.1	54	**2054**	1928	1783	1725	1589
Sulzer Chemtech	**414.0**	308.1	177.6	147.0	119	**2393**	1979	1443	1407	1381
Sulzer Turbo Services	**157.6**	91.3	82.7	74.0	65	**1179**	1012	1037	1100	1107
Other	**3.0**	2.6	1.0	8.5	8	**287**	282	277	371	430
Total	**1978.1**	1484.5	1004.1	803.8	675	**11599**	10393	9656	9586	8999

[1] Until 2004 including goodwill amortization.
[2] Until 2004 goodwill was included at historical cost in capital employed, since 2005 at net book value.

Five-year Summaries by Regions

Order intake by region

millions of CHF	2007	2006	2005	2004	2003
Europe	1 321.8	1 104.1	921.2	833.1	780
North America	1 184.5	929.6	776.7	509.4	441
Latin America	246.4	237.8	199.7	168.9	89
Asia, Australia[1]	1 120.8	859.3	598.8	542.7	503
Africa	180.5	146.1	138.7	143.5	95
Total	4 054.0	3 276.9	2 635.1	2 197.6	1 908

Sales by region

millions of CHF	2007	2006	2005	2004	2003
Europe	1 345.0	943.0	892.5	853.4	771
North America	967.9	821.5	672.0	475.7	496
Latin America	211.9	214.2	201.1	108.7	98
Asia, Australia[1]	862.2	692.5	583.2	508.1	380
Africa	150.0	130.5	149.4	121.1	81
Total	3 537.0	2 801.7	2 498.2	2 067.0	1 826

Capital employed (average) by company location[2]

millions of CHF	2007	2006	2005	2004	2003
Europe	1 045.5	731.7	765.4	824.2	892
North America	391.1	355.4	341.4	265.5	299
Latin America	75.5	73.8	54.4	32.4	32
Asia, Australia[1]	91.3	69.2	69.5	60.1	67
Africa	22.0	17.2	22.3	19.2	19
Total	1 625.4	1 247.3	1 253.0	1 201.4	1 309

Employees (number of full-time equivalents) by company location

	2007	2006	2005	2004	2003
Europe	5 547	5 192	4 574	4 690	4 816
North America	2 409	2 160	2 179	2 083	1 593
Latin America	1 097	994	934	843	810
Asia, Australia[1]	2 154	1 664	1 598	1 602	1 437
Africa	392	383	371	368	343
Total	11 599	10 393	9 656	9 586	8 999

[1] Incl. Middle East.
[2] Until 2004 goodwill was included at historical cost in capital employed, since 2005 at net book value. The prior year has been restated for comparison reasons.

Financial Statements of Sulzer Ltd (Parent Company)

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Balance Sheet

December 31

millions of CHF	Notes	2007	2006
Non-current assets			
Operational assets		**–**	–
Investments in subsidiaries and other companies	102	**507.3**	512.0
Loans to subsidiaries		**282.4**	250.2
Other loans and financial assets		**1.8**	3.4
Total non-current assets		**791.5**	765.6
Current assets			
Accounts receivable from subsidiaries	103	**44.8**	35.4
Other accounts receivable and prepayments		**4.1**	1.7
Marketable securities	104	**350.9**	215.3
Cash		**28.7**	32.8
Total current assets		**428.5**	285.2
Total assets		**1 220.0**	1 050.8

Equity			
Registered share capital	105	**0.1**	0.1
Legal reserves		**160.9**	155.1
Reserves for treasury stock	105	**344.6**	183.3
Free reserves		**116.7**	173.8
Unappropriated retained earnings		**8.0**	7.8
Net profit for the year		**346.1**	193.9
Total equity		**976.4**	714.0
Liabilities			
Non-current liabilities			
Non-current financial liabilities		**–**	–
Non-current provisions		**53.8**	60.5
Non-current liabilities with subsidiaries	106	**4.6**	4.6
Total non-current liabilities		**58.4**	65.1
Current liabilities			
Current financial liabilities		**70.0**	–
Current provisions		**11.7**	8.2
Current liabilities with subsidiaries	106	**96.1**	210.1
Accounts payable and accrued liabilities	107	**7.4**	53.4
Total current liabilities		**185.2**	271.7
Total liabilities		**243.6**	336.8
Total equity and liabilities		**1 220.0**	1 050.8

Income Statement

January – December

millions of CHF	Notes	2007	2006
Revenues			
Investment income	109	**360.8**	176.0
Financial income	110	**51.4**	36.6
Other income		**17.9**	17.6
Total revenues		**430.1**	230.2
Expenses			
Administrative expenses	111	**37.7**	25.4
Financial expenses	110	**17.0**	4.7
Investment and loan expenses	112	**12.4**	5.6
Income taxes		**4.6**	0.1
Other expenses		**12.3**	0.5
Total expenses		**84.0**	36.3
Net profit for the year		**346.1**	193.9

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, 2005	0.1	178.0	27.5	251.7	8.6	47.3	513.2
Dividend						–32.8	–32.8
Allocation of net income				15.0	–0.5	–14.5	–
Net profit for the year						90.6	90.6
Change in reserves for treasury stock		–8.9	8.9				–
Equity as of December 31, 2005	0.1	169.1	36.4	266.7	8.1	90.6	571.0
Dividend						–50.9	–50.9
Allocation of net income				40.0	–0.3	–39.7	–
Net profit for the year						193.9	193.9
Change in reserves for treasury stock		–14.0	146.9	–132.9			–
Equity as of December 31, 2006	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

Notes to the Financial Statements of Sulzer Ltd

101 Valuation principles

The financial statements as of December 31, 2007 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 in note 38 of the consolidated financial statements.

103 Accounts receivable from subsidiaries

millions of CHF	2007	2006
Current loans	**40.4**	34.4
Other receivables	**4.2**	0.5
Prepaid expenses	**0.2**	0.5
Total accounts receivable from subsidiaries	**44.8**	35.4

104 Marketable securities

millions of CHF	2007	2006
Treasury stock	**330.2**	184.6
Other shares	**20.7**	30.7
Total marketable securities	**350.9**	215.3

The increase of treasury stock as of December 31, 2007 mainly stems from the share buyback program.

105 Registered share capital

The share capital amounts to CHF 109 140.90, made up of 3 638 030 shares with a par value of CHF 0.03. All shares are fully paid and registered.

Share ownership

Details of the composition and changes relating to the issued share capital and the shares held as treasury stock, are included in note 23 to the consolidated financial statements. Details, with regards to share ownership data, are also provided in note 23.

Treasury stock held by Sulzer Ltd

Number of shares	2007	2006
Balance as of January 1	**172 289**	71 288
Purchase	**135 158**	139 852
Sale	**–33 672**	–38 851
Balance as of December 31	**273 775**	172 289

The treasury stock held covers the options outstanding from the share participation plan and includes also the repurchased shares for the share buyback program. The total number of shares as of December 31, 2007 amounted to 273 775 (prior year: 172 289). The number of shares related to the share buyback program amounted to 211 793 (prior year: 100 150) as of December 31, 2007.

106 Liabilities with subsidiaries

millions of CHF	2007	2006
Non-current loans	4.6	4.6
Total non-current liabilities with subsidiaries	**4.6**	4.6
Current loans and advances	95.5	209.8
Other liabilities	0.6	0.3
Total current liabilities with subsidiaries	**96.1**	210.1

107 Accounts payable and accrued liabilities

millions of CHF	2007	2006
Other liabilities	1.0	1.0
Accrued liabilities	6.4	52.4
Total accounts payable and accrued liabilities	**7.4**	53.4

The accrued liabilities in 2006 included CHF 42.9 million of withholding tax for Sulzer shares repurchased with the share buyback program in 2006. This amount was fully paid in 2007.

108 Contingent liabilities

millions of CHF	2007	2006
Guarantees, sureties, comfort letters for subsidiaries		
to banks and insurance companies[1)]	1 398.6	714.5
to customers	61.1	47.0
Guarantees to third parties	–	0.1
Syndicate transactions	–	–
Total contingent liabilities	**1 459.7**	761.6
[1)] thereof utilized	561.8	280.5

109 Investment income

millions of CHF	2007	2006
Dividends and profit participations	358.0	168.8
Release of write-downs of loans	–	6.6
Other investment income	2.8	0.6
Total investment income	**360.8**	176.0

110 Financial income/expenses

millions of CHF	2007	2006
Interest and securities income	51.4	36.6
Interest expense and value adjustments	–17.0	–4.7
Total financial income/expenses	**34.4**	31.9

The interest and securities income includes the realized and unrealized gain on treasury stock. In 2007, a gain on the disposal of Burckhardt Compression shares is included.

111 Administrative expenses

millions of CHF	2007	2006
Personnel expenses	23.9	12.6
Other administrative expenses	13.8	12.8
Total administrative expenses	**37.7**	25.4

112 Investment and loan expenses

millions of CHF	2007	2006
Allowance/disposal of investments	11.3	5.3
Withholding tax	1.1	0.3
Total investment and loan expenses	**12.4**	5.6

113 Compensation and share participation of the Board of Directors, Executive Management and related parties

Compensation 2007

This note has been prepared in accordance with the requirements of the Swiss Code of Obligations (SCO), and differs from the compensation disclosures in note 35 of the consolidated financial statements due to different valuation.

thousands of CHF	Fix	Variable[5]	Cash compensation	Pension fund contribution	Other	Subtotal	Options[6]	Total
Board of Directors	1 011	–	1 011	61	–	**1 072**	2 598	**3 670**
Leonardo E. Vannotti, Chairman[1]	115	–	115	–	–	**115**	–	**115**
Ulf Berg, Chairman[2]	320	–	320	61	–	**381**	743	**1 124**
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]	3 089	3 042	6 131	1 413	669	**8 213**	8 600	**16 813**
thereof highest single compensation Ton Büchner	650	825	1 475	136	156	**1 767**	1 485	**3 252**

No compensation was granted to former members of the Board of Directors or the Executive Management. No non arms-length compensation was granted to present or former members of the Board of Directors or the Executive Management or 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, Secretary General
– 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) of the current reporting period.
6) Options assigned during the reporting period had a fair value of CHF 556 at the grant date. For the valuation of the compensation a discount of CHF 61.2 (11%) was considered due to the limited availability at the grant date and in line with the tax procedure for such cases. Employer contribution to the social security institutions due to the execution of options granted is not included.

113 Compensation and share participation of the Board of Directors, Executive Management and related parties (continued)

Shareholders

	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**	Put options
Board of Directors incl. related parties	8060	7750	14375	–	**30185**	–
Leonardo E. Vannotti	1424	4000	–	–	**5424**	–
Ulf Berg	3500	–	6500	–	**10000**	–
Thor Håkstad	300	875	1625	–	**2800**	–
Louis R. Hughes	–	1000	1375	–	**2375**	–
Vladimir V. Kuznetsov	–	–	–	–	**–**	–
Hans Hubert Lienhard	286	–	1625	–	**1911**	–
Urs Andreas Meyer	–	–	–	–	**–**	–
Luciano Respini	550	–	1625	–	**2175**	–
Daniel J. Sauter	2000	1875	1625	–	**5500**	–
Executive Management incl. related parties	1626	5828	27940	–	**35394**	–
Ton Büchner	425	3608	5650	–	**9683**	–
Peter Alexander	2	600	2400	–	**3002**	–
Bruno Allmendinger	510	–	3850	–	**4360**	–
Urs Fankhauser	250	300	3800	–	**4350**	–
Alfred Gerber	152	–	2500	–	**2652**	–
Peter Meier	104	–	2150	–	**2254**	–
Kim Jackson	–	50	2140	–	**2190**	–
Henri Steinmetz	183	1270	5450	–	**6903**	–

[1] Options assigned by Sulzer as compensation.

One option entitles the purchase of one share.
There exist no loans or credits between Sulzer and the Board of Directors or the Executive Management.

113 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															
	2002A		2002B		2003		2004		2005		2006		2007		**Total**	
	F[1]	NF[2]	F	NF	F	NF	F	NF	F	NF	F	NF	F	NF	**F**	**NF**
Board of Directors	–	–	750	–	1 750	–	2 000	1 125	1 500	2 000	1 750	4 500	–	6 750	**7 750**	**14 375**
Leonardo E. Vannotti	–	–	–	–	1 000	–	1 000	–	1 000	–	1 000	–	–	–	**4 000**	**–**
Ulf Berg	–	–	–	–	–	–	–	500	–	1 000	–	2 000	–	3 000	**–**	**6 500**
Thor Håkstad	–	–	–	–	–	–	375	125	250	250	250	500	–	750	**875**	**1 625**
Louis R. Hughes	–	–	250	–	250	–	250	125	–	–	250	500	–	750	**1 000**	**1 375**
Vladimir V. Kuznetsov	–	–	–	–	–	–	–	–	–	–	–	–	–	–	**–**	**–**
Hans Hubert Lienhard	–	–	–	–	–	–	–	125	–	250	–	500	–	750	**–**	**1 625**
Urs Andreas Meyer	–	–	–	–	–	–	–	–	–	–	–	–	–	–	**–**	**–**
Luciano Respini	–	–	–	–	–	–	–	125	–	250	–	500	–	750	**–**	**1 625**
Daniel J. Sauter	–	–	500	–	500	–	375	125	250	250	250	500	–	750	**1 875**	**1 625**
Executive Management	518	–	500	–	340	–	1 120	1 260	1 600	3 400	1 750	7 400	–	15 880	**5 828**	**27 940**
Ton Büchner	518	–	500	–	340	–	750	250	600	600	900	1 800	–	3 000	**3 608**	**5 650**
Peter Alexander	–	–	–	–	–	–	–	–	400	400	200	800	–	1 200	**600**	**2 400**
Bruno Allmendinger	–	–	–	–	–	–	–	250	–	600	–	1 200	–	1 800	**–**	**3 850**
Urs Fankhauser	–	–	–	–	–	–	–	200	300	600	–	1 200	–	1 800	**300**	**3 800**
Alfred Gerber	–	–	–	–	–	–	–	100	–	400	–	800	–	1 200	**–**	**2 500**
Peter Meier	–	–	–	–	–	–	–	50	–	100	–	200	–	1 800	**–**	**2 150**
Kim Jackson	–	–	–	–	–	–	–	40	–	100	50	200	–	1 800	**50**	**2 140**
Henri Steinmetz	–	–	–	–	–	–	370	370	300	600	600	1 200	–	3 280	**1 270**	**5 450**

[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	Exercise price
2002A	2002	01.2012	244
2002B	2002	04.2012	365
2003	2003	04.2013	173
2004	2004	04.2014	318
2005	2005	04.2015	522
2006	2006	04.2011	942
2007	2007	03.2012	1 495

Appropriation of Net Profit

in CHF	2007	2006
Net profit for the year	346 100 000	193 900 000
Unallocated profit carried forward from previous year	8 038 516	7 813 206
Total available profit	**354 138 516**	201 713 206
Proposal by the Board of Directors:		
Appropriation to free reserves	**245 000 000**	110 000 000
Dividend	**101 864 840**	83 674 690
Balance carried forward	**7 273 676**	8 038 516
Distribution per share CHF 0.03		
Gross dividend	28.00	23.00
less 35% withholding tax	9.80	8.05
Net payment	**18.20**	14.95

The Board of Directors proposes the payment of a dividend of CHF 28.00 per share to the annual general meeting on April 3, 2008.

Annual General Meeting

The 94th ordinary annual general meeting will be held on Thursday, April 3, 2008 at 10.00 a.m. in the Eulachhalle, Wartstrasse 73, Winterthur.

Auditors' Report

PRICEWATERHOUSECOOPERS

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

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement, changes in equity and notes/pages 62 to 70) of Sulzer Ltd for the year ended December 31, 2007.

These financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements and the proposed appropriation of available earnings comply 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
Auditor in charge

Diego Alvarez

Winterthur, February 21, 2008

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 or on the Web at *www.sulzer.com/AR07*. Furthermore, the report is available as a summary in German or in English. The original version is in English.

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