SULZER

The Company 2010

Who we are and how we are doing

Sulzer is a global partner with reliable and sustainable solutions for performance-critical applications.

We specialize in industrial machinery and equipment, surface technology, and rotating equipment maintenance. Combining engineering and application expertise, our innovative solutions add value and strengthen the competitive position of our customers.

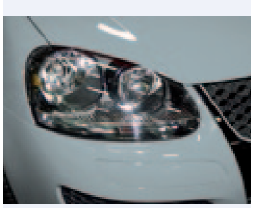
Sulzer is a leading provider in its key markets: oil and gas, hydrocarbon processing, power generation, automotive, aviation, and pulp and paper. We serve clients worldwide through a network of over 160 locations.

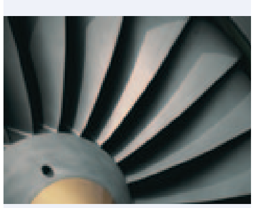
Our key markets

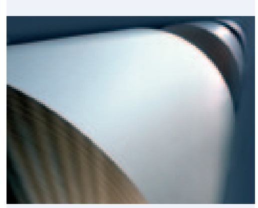

Oil and gas


Hydrocarbon processing


Power generation


Automotive


Aviation


Pulp and paper

See page 3 for more market information

Highlights in 2010

Sales	Operating income
CHF 3184m	CHF 406m
(2009: CHF 3 350m)	(2009: CHF 368m)

Net income[1]	Dividend
CHF 300m	CHF 3.00 (proposed)
(2009: CHF 270m)	(2009: CHF 2.80)

- Sulzer's order intake increased, driven by acquisitions and the recovery of early-cycle markets. Sales were still impacted by the strong order intake reduction in 2009.
- With a return on sales of 12.8% and a return on capital employed of 28.1%, Sulzer proved its ability to adapt fast to changed market conditions.
- Sulzer's global presence was further strengthened with a major new manufacturing plant in China and facility expansions in Brazil, India, Russia, and Indonesia. Sulzer India Ltd. was taken private.
- The service businesses of Sulzer Turbo Services and Sulzer Metco were expanded with the acquisitions of Dowding & Mills and Bekaert's diamond-like coating activities.
- Sulzer successfully completed its real estate strategy by divesting Sulzer Real Estate Ltd.
- With a net income[1] of CHF 300 million (EPS of CHF 8.92), the Board of Directors is proposing an increased dividend of CHF 3.00.
- Sulzer's solid balance sheet allows for further investments in innovation, in the global production and service network as well as in acquisitive growth.

[1] Attributable to shareholders of Sulzer Ltd.

The company at a glance

Leading market positions with innovative and sustainable solutions

The Sulzer divisions are leading providers in selected industrial markets. Their innovative and sustainable solutions add value and strengthen the competitive positions of Sulzer's customers.

Sulzer Pumps

Sales

CHF 1576m

(2009: CHF 1857m)

Operating income

CHF 189m

(2009: CHF 205m)

Business profile

Sulzer Pumps is a market leader in pump technology and hydraulics.
Customers benefit from the division's intensive research and development in fluid dynamics, process-oriented products, and special materials. Its global production and service network ensures high customer proximity.

Sulzer Metco

Sales

CHF 624m

(2009: CHF 556m)

Operating income

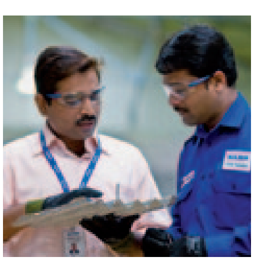
CHF 57m

(2009: CHF 21m)

Business profile

Sulzer Metco is a market leader in surface technology.
The division supplies solutions, products, services, and equipment for thermal-spray, thin-film, and other selected functional surface technologies. Innovative solutions help the customers to improve performance and increase efficiency and reliability worldwide.

Sulzer Chemtech



Sales

CHF 575m

(2009: CHF 632m)

Operating income

CHF 59m

(2009: CHF 55m)

Business profile

Sulzer Chemtech has leading positions in separation technology and static mixing.
The division is active in the fields of process technology, separation towers, as well as two-component mixing and dispensing systems. It maintains a worldwide presence with sales, engineering, production, and service locations.

Sulzer Turbo Services

Sales

CHF 399m

(2009: CHF 291m)

Operating income

CHF 42m

(2009: CHF 33m)

Business profile

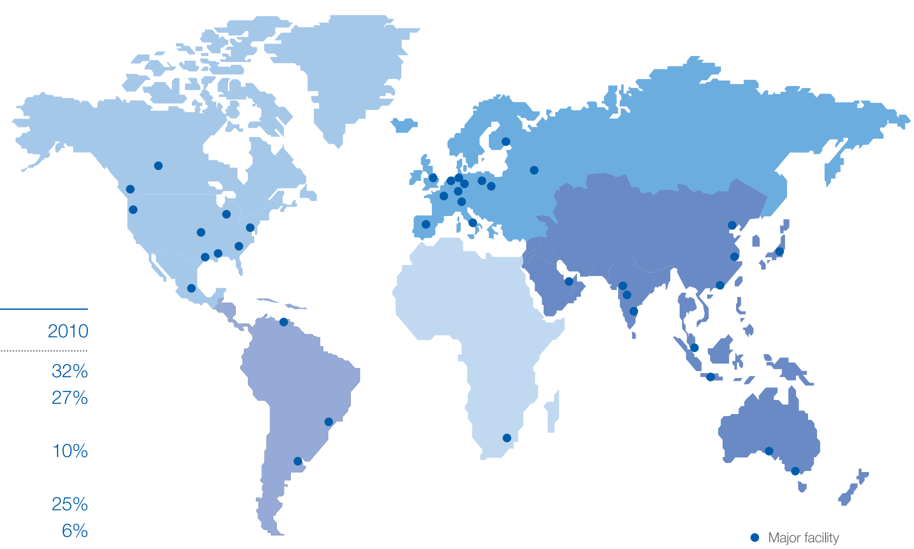
Sulzer Turbo Services is a leading independent service provider for rotating equipment.
The division offers repair and maintenance services for turbomachinery, generators, and motors. It also manufactures and sells replacement parts for gas and steam turbines, compressors, generators, and motors.

The markets we serve

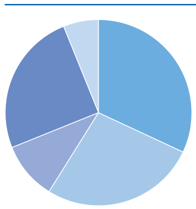
Sulzer's global network ensures high customer proximity

Sulzer builds on the advantages of a truly global network with over 160 production and service locations. Local presence is crucial to know the customers' challenges and to serve them quickly and reliably.

Sulzer's production and service network



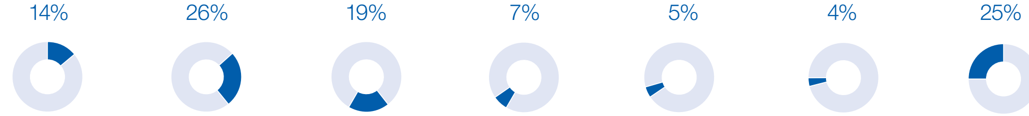
Sales by region



	2010
Europe	32%
North America	27%
Central and South America	10%
Asia, Middle East, Australia	25%
Africa	6%

Market segments

	Oil and gas (upstream)	Hydrocarbon processing	Power generation	Automotive	Aviation	Pulp and paper	Other industrial markets
Share of sales	14%	26%	19%	7%	5%	4%	25%
Sulzer Pumps	●	●	●			•	●
Sulzer Metco	•		●	●	●		●
Sulzer Chemtech	•	●		•			●
Sulzer Turbo Services	●	●	●				●



● Greater than 10% of divisional sales.
• Less than 10% of divisional sales.

Focus

Energy-efficient solutions

With the scarcity of conventional resources, particularly fossil energy sources, stricter emissions regulations, and growing concerns about climate change, our customers' demand for sustainable products and services is increasing.

Sulzer's energy-efficient solutions create value with combined economic and ecological advantages. Sulzer strives to optimize both its own production processes as well as the energy efficiency of the solutions for the customers over the entire life cycle of its offerings.

For more information visit www.sulzer.com/focus

Sustainability Report 2009

Energy-efficient solutions

New horizons

Increased efficiency for global mobility

Airlines are tightening the energy-efficiency requirements for their fleets. The operation of airplanes that consume less fuel and emit less carbon dioxide is an important competitive advantage. Sulzer is a leading supplier of thermal-spray equipment and materials for functional coatings used in aero engines. The company's surface technology and coating solutions result in higher fuel efficiency while reducing weight, noise emissions, and the frequency of costly engine overhauls for the customers.

Sulzer's services for rotating equipment increase energy efficiency of other forms of passenger transportation. For instance, Sulzer upgrades the efficiency of traction motors used in trains or marine generators used in ships. Consequently, energy consumption is reduced and overall lifetime prolonged to the benefit of the customer.

For more information

www.sulzer.com/focus/mobility

Energy-efficient solutions

Deeper thinking

Capturing and storing carbon dioxide

Environmental concerns and stricter regulations have led to an increasing demand for solutions that decrease carbon dioxide emissions. Sulzer is a leading manufacturer of pumps and mass transfer equipment, which are critical for the newly developed carbon capture and storage technologies.

Sulzer has developed highly efficient separation packings to capture carbon dioxide at its point of origin, for instance, at fossil-fuelled power stations. High-performance pumps reliably produce the high pressures needed to transport the captured and compressed carbon dioxide. Once this carbon dioxide has reached its destination, high-pressure pumps can inject it safely into depleted gas reservoirs, saline formation, or unminable coal beds for long-term storage.

For more information

www.sulzer.com/focus/carbon

Energy-efficient solutions

Sustainable resources

Using solar power as a sustainable source of energy

As traditional sources of energy become scarcer and environmental concerns rise, renewable and clean ways of producing energy are becoming more competitive and investments are increasing.

Sulzer holds leading positions for performance-critical components in thermal solar power plants. For example, the company offers pumps to transport the oil that has been heated by sunrays reflected through parabolic mirrors. Other pumps are able to move molten salt, which is used as thermal storage, and which can reach temperatures of up to 600 °C.

Leveraging its existing coating and surface enhancement expertise, Sulzer is developing an innovative and cost-effective approach for the large-scale applications of coatings for mirrors in the solar field.

For more information

www.sulzer.com/focus/solar

Letter to the shareholders

Strong profitability, geographical expansion, and targeted acquisitions

Sulzer remained resilient in still challenging markets and achieved a strong return on sales. Based on its leading market positions, focused strategy, and continued operational improvements, Sulzer is well positioned for continued long-term success.

Ton Büchner, CEO

Jürgen Dormann, Chairman of the Board

Net income [1)]

CHF 300m

(2009: CHF 270m)

Dividend

CHF 3.00 (proposed)

(2009: CHF 2.80)

[1)] Attributable to shareholders of Sulzer Ltd.

Dear Shareholder

In 2010, Sulzer achieved a strong double-digit profitability level again, which proves the effectiveness of the proactive and determined adaptation program initiated in 2009. We also achieved further progress in our five core focus areas. To foster operational excellence, lean principles were systematically implemented on a global basis. Sulzer expanded its presence in the emerging markets by opening a major pumps manufacturing plant in China and with a number of significant expansions at other locations. The service business was substantially strengthened through the acquisitions of a coating services business and a leading independent provider of electro-mechanical services. Sulzer successfully completed its real estate strategy by divesting Sulzer Real Estate Ltd.

Based on a healthy balance sheet, Sulzer continues to assess additional acquisitions in order to strengthen its portfolio and expand its global presence. For 2011, the company expects a moderate growth in order intake and increased sales on an adjusted basis. The divisional operating income is anticipated to be moderately higher (excluding the extraordinary income from the real estate divestiture).

Energy-efficient solutions for a sustainable future

Sustainable behavior is part of the core of Sulzer. As a result of its sustainability efforts, the company is listed on corresponding indices, such as the DJSI (Dow Jones Sustainability Index) World and Europe, the Kempen/SNS European SRI Universe, and the Julius Bär Swiss Sustainable Companies Fund. Sulzer also joined the UN Global Compact in 2010.

Our focus on energy efficiency and our solutions for the sustainable utilization of raw materials and renewable sources of energy are crucial success factors in light of the increasing global energy consumption and limited conventional resources. Sulzer is committed to making a significant difference with products and services that combine economic and environmental advantages to the customers. Throughout this report, we present a number of examples of how Sulzer engineers and service teams work intensively to improve resource productivity and energy efficiency. Sulzer's continuous search for sustainable solutions has a positive impact on the environment and creates relevant business opportunities and competitive advantages for the company.

Long-term value creation on the base of core focus areas

Sulzer strives to create long-term value, which is measured by return on sales, return on capital employed, and sales growth. To reach this goal, the company continued to advance its core focus areas: operational excellence based on lean principles, highest standards for health and safety, increased and faster innovation, continuous expansion in the emerging markets, and a strong emphasis on the service business.

In order to increase lean thinking, experts from all divisions established a set of methodologies and tools for the application of lean principles throughout the company. In 2010, the online Sulzer LEAN platform was launched and made available to all employees. Trained facilitators systematically initiate and support local lean initiatives to foster operational excellence worldwide.

In the area of health and safety, Sulzer continued its targeted measures to reduce the frequency and severity of occupational accidents. Further improvement was achieved in 2010; the accident rate has been reduced by more than 60% since 2006.

We have kept our investment level in research and development high, which allows us to continually seize new business opportunities. A systematic process is used to identify and expedite those projects with the greatest market potential. As a result, the number of new products launched in 2010 increased and the number of solutions in the prelaunch phase is higher than in the last ten years.

Strengthened global presence and expanded service offering

In 2010, we further expanded our presence in the emerging markets, which accounted for 42% of sales in 2010. In China, Sulzer opened a major state-of-the-art facility for engineered pumps. In addition, we expanded a number of existing manufacturing plants in India, Brazil, and Russia and added service locations in Saudi Arabia, Russia, and Indonesia. Sulzer increased its stake in Sulzer India Ltd. to over 90% and delisted the company. We also believe that, in order to ensure Sulzer's long-term success, fostering and strengthening diversity with respect to gender, culture, and demography is crucial. We strive to further increase the diversity of the Sulzer workforce in order to reflect the company's global activities and its broad customer base worldwide.

Sulzer's service business was further strengthened in 2010 with two acquisitions, which further increased the company-wide share of services to 43% of sales. The integration of Dowding & Mills allowed us to combine the acquired electro-mechanical service business with the existing activities of Sulzer Turbo Services, therewith becoming a leading independent service provider for turbomachinery, generators,

"We continue to assess additional acquisitions in order to strengthen Sulzer's portfolio and expand the company's global presence."

Our vision

Sulzer's vision is to be a recognized leader in innovative, sustainable, engineered, and customer-focused solutions for performance-critical applications in the oil and gas, hydrocarbon processing, power generation, pulp and paper, aviation, automotive, and other selected industries.

Our mission

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

Our values

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

Letter to the shareholders

and motors. In addition, we strengthened our coating services with the acquisition of the diamond-like carbon coating business from Bekaert.

Leading positions maintained in still challenging markets

Sulzer maintained its leading market positions in 2010 and remained resilient in a still generally challenging economic environment. The order intake for the full year was higher than in 2009, driven by acquisitions and the recovery in the early-cycle markets. The early-cycle automotive and pulp and paper industries as well as other general industrial markets recovered from the very low levels of 2009. The aviation industry also started to show improvement toward year-end. The oil and gas industry showed positive development during 2010, although many customers remained cautious with regard to large-scale investments. The hydrocarbon processing industry remained flat. The power generation market declined as predicted from the high levels of the previous years. The emerging markets continued to be a growth driver for the company. North America also showed growth, while the order intake in Europe was stable. Acquisitions, mainly the integration of Dowding & Mills into Sulzer Turbo Services, had a positive effect on the order intake, while the strong Swiss franc had a negative translation impact.

Our core focus areas		Key performance indicators	Future actions
1	**Operational excellence** Sulzer strives for operational excellence and continually improves business processes based on lean principles.	99 (+148%) **Number of Sulzer LEAN workshops** (2009: 40)	• Continued global rollout of the corporation-wide standardized Sulzer LEAN initiative to all facilities • Further improvement of on-time delivery and reduction of lead times
2	**Health and safety** Health and safety of employees is a top priority for Sulzer.	4.4 (–20%) **Accident frequency rate** (2009: 5.5)	• Introduction of behavior-based safety program • Further advancement of the program to manage hazardous materials
3	**Innovation** Developing innovative solutions with high customer value is essential to Sulzer's sustainable success and organic growth.	81 (+88%) **Number of innovation projects in the market-launch phase** (2009: 43)	• Continued development of new project initiatives, particularly in the field of renewable resources • Continuous improvement of the stage-gate process • Intensified cooperation with ventures
4	**Emerging and developing markets** Sulzer continually expands its worldwide service and production network into emerging markets to serve customers locally.	42% **Share of emerging and developing markets in sales** (2009: 39%)	• Continuous assessment of potential acquisitions to broaden Sulzer's presence in the emerging markets • Focus on staff diversity to reflect the broad customer base worldwide
5	**Services** Sulzer expands its product-related and independent service offerings, which are more resistant to economic cycles.	43% **Share of sales in services**	• Integration of the newly acquired service business and leverage of synergies • Continuous expansion of the service network

Strong profitability level and solid balance sheet

In 2010, Sulzer exceeded the high performance level predicted in the midrange outlook, published in early 2009. Sales from early-cycle activities increased significantly, whereas overall sales decreased due to the significantly lower order intake in the previous year. The strong Swiss franc had a negative translation impact on sales and operating income. Despite lower sales volumes, return on sales increased to 12.8%, due to reduced restructuring expenses and the cost savings achieved. The adaptation program was proactively initiated in early 2009, and most restructuring expenses were booked in the same year. The sale of the Swiss real estate portfolio had a positive effect on the operating income. Return on capital employed increased to a highly value-generating level of 28.1%.

Net income attributable to shareholders increased to CHF 300 million, resulting in an improved basic earnings per share of CHF 8.92. The balance sheet remains solid with a net liquidity of CHF 553 million, supported by a positive free cash flow. Considering the increased net income and the strong financial situation, the Board of Directors will propose an increased dividend of CHF 3.00 per share at the Annual General Meeting on April 14, 2011. The Sulzer share price increased by 76% over the year back to the level it had just before the economic downturn.

New Board and Management Members

Tim Summers, Chairman of the Board of Directors of Venetos Management (a company of the Renova Group), was elected as a new Member of the Board at the 2010 Annual General Meeting, replacing Urs Andreas Meyer. Jürgen Brandt joined the Executive Committee as new CFO as of November 1, 2010. The Board of Directors is proposing that Jill Lee be elected as a new Board Member at the Annual General Meeting 2011. Hans Hubert Lienhard will not stand for reelection. We would like to thank him for his important contributions and wish him all the best for the future.

Outlook

The positive trend in the early-cycle markets is expected to continue, albeit at a somewhat slower pace. Activity in the automotive industry is likely to continue at its current high level. Further recovery in the aviation industry is projected. The pulp and paper market is likely to continue its positive trend at a somewhat slower pace. For other general industrial markets, moderate growth is anticipated. The oil and gas industry is expected to grow, especially in the second half of the year, as the number of project studies has increased. The hydrocarbon processing industry will probably remain flat. After a sharp decline in 2010, activity in the power generation industry is predicted to stabilize. Newly developed applications offer promising business opportunities. Stricter regulations and increasing environmental concerns will support demand for Sulzer's offering of highly reliable and energy-efficient solutions. Geographically, the emerging markets, particularly Brazil, India, China, and Russia are expected to remain the main growth drivers. Based on the strengthening Swiss franc—especially toward the end of 2010—further negative currency translation effects have to be expected in 2011. However, with its global manufacturing and service network, Sulzer is naturally hedged against major currency impacts on profitability. Based on its healthy balance sheet, Sulzer is continuously assessing additional acquisitions to strengthen its portfolio and expand its global presence, while maintaining its criteria of strategic fit, integration ability, and value creation.

For 2011, order intake is expected to grow moderately on an adjusted basis. With the order intake recovering since early 2010, adjusted sales are anticipated to grow again. The divisional operating income is expected to increase moderately, but the extraordinary income from the divestiture of the non-operational real estate will not reoccur.

Based on its leading market positions, focused strategy, and continued operational improvements, Sulzer is well positioned for continued long-term success. Over the next two years, Sulzer expects an increase of the divisional return on sales to approximately 11.8%, a return on capital employed of around 25%, and an average yearly growth in organic sales of approximately 5%.

We thank you, our shareholders, for your continued support. We would also like to thank our employees for their commitment and our customers for their continued cooperation and trust.

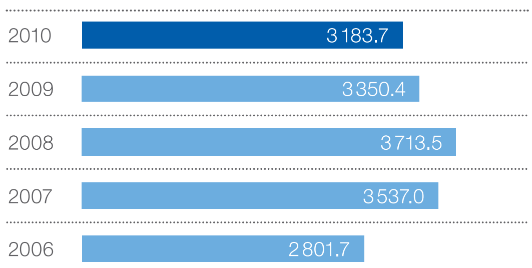
Jürgen Dormann,	**Ton Büchner,**
Chairman of the Board	CEO

Financial highlights 2010

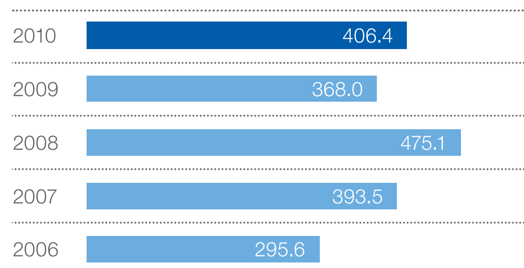
Growth in order intake and strong profitability

While late-cycle markets have not yet recovered, Sulzer achieved a strong financial performance. Order intake and return on sales increased. The improved return on capital employed highlights the continued focus on long-term value creation.

Sales
in millions of CHF



Operating income
in millions of CHF



Key figures

millions of CHF		2010	2009	Change in +/– %	+/– %[1]
Order intake		**3 288.7**	3 017.6	9.0	7.5
Order backlog		**1 799.8**	1 871.7	–3.8	
Sales		**3 183.7**	3 350.4	–5.0	–6.6
Operating income before depreciation/amortization	EBITDA	**511.0**	479.2	6.6	
Operating income before restructuring	EBITR	**410.3**	416.6	–1.5	
Operating income	EBIT	**406.4**	368.0	10.4	
Return on sales before restructuring	ROSR	**12.9%**	12.4%		
Return on sales	ROS	**12.8%**	11.0%		
Return on capital employed	ROCE	**28.1%**	24.8%		
Net income attributable to shareholders of Sulzer Ltd		**300.4**	270.4	11.1	
Capital expenditure		**118.1**	112.2	5.3	
Equity attributable to shareholders of Sulzer Ltd		**1 895.0**	1 777.5	6.6	
Free cash flow		**149.5**	528.8	–71.7	
Net liquidity		**552.8**	670.6	–17.6	
Employees (number of full-time equivalents) as of December 31		**13 740**	12 183	12.8	

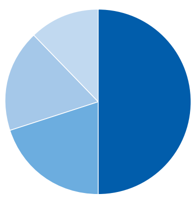
Data per share

CHF		2010	2009	Change in +/– %
Closing price of the registered share as of December 31		**142.50**	81.10	75.7
Net income attributable to a shareholder of Sulzer Ltd	EPS	**8.92**	8.06	10.7
Equity attributable to a shareholder of Sulzer Ltd		**56.20**	52.95	6.1
Dividend		**3.00**[2]	2.80	7.1

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

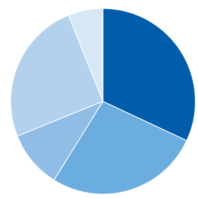
[2] Proposal to the Annual General Meeting.

Sales by division



	2010
Sulzer Pumps	50%
Sulzer Metco	20%
Sulzer Chemtech	18%
Sulzer Turbo Services	12%

Sales by region



	2010
Europe	32%
North America	27%
Central and South America	10%
Asia, Middle East, Australia	25%
Africa	6%

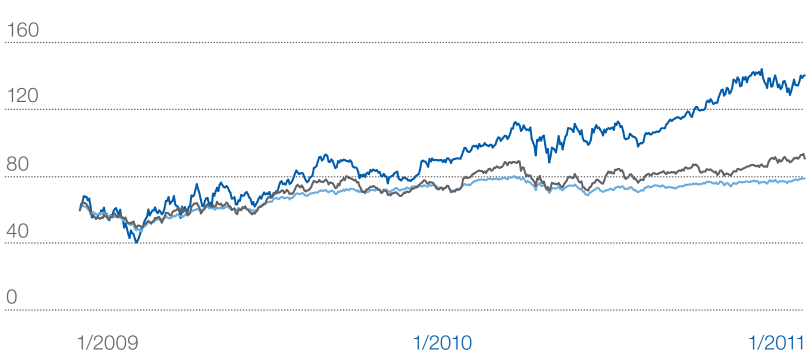
By division

millions of CHF	Order intake 2010	2009	Change in +/– %	+/– %[1]	Sales 2010	2009	Change in +/– %	+/– %[1]
Divisions	3278.5	3006.7	9.0	7.5	3173.3	3336.3	–4.9	–6.6
– Sulzer Pumps	1613.7	1684.5	–4.2	–1.7	1576.1	1856.7	–15.1	–13.5
– Sulzer Metco	643.1	545.5	17.9	21.8	623.5	556.0	12.1	15.7
– Sulzer Chemtech	621.3	498.4	24.7	24.7	574.6	632.3	–9.1	–8.9
– Sulzer Turbo Services	400.4	278.3	43.9	5.0	399.1	291.3	37.0	0.2
Others	10.2	10.9	–	–	10.4	14.1	–	–
Total	**3288.7**	**3017.6**	**9.0**	**7.5**	**3183.7**	**3350.4**	**–5.0**	**–6.6**

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

millions of CHF	Operating income 2010	2009	Change in +/– %	Return on sales 2010	2009
Divisions	346.5	312.7	10.8	10.9%	9.4%
– Sulzer Pumps	189.0	204.7	–7.7	12.0%	11.0%
– Sulzer Metco	57.1	20.5	178.5	9.2%	3.7%
– Sulzer Chemtech	58.5	54.5	7.3	10.2%	8.6%
– Sulzer Turbo Services	41.9	33.0	27.0	10.5%	11.3%
Others	59.9	55.3	–	–	–
Total	**406.4**	**368.0**	**10.4**	**12.8%**	**11.0%**

Share price development



+76% (2010)

(2009/10: +138%)

- Sulzer share (CHF)
- Swiss Performance Index (indexed)
- SWX Industrial Machinery (indexed)

Financial review

Strong financial performance and solid balance sheet

Sulzer achieved a strong financial performance with a net income attributable to shareholders of CHF 300.4 million. Return on sales increased to 12.8%, and the return on capital employed to 28.1%. The capital structure remains very solid with an equity ratio of 54.3%.

Performance measures

The performance of the operations is primarily assessed based on the following key performance indicators: order intake, sales, operating income, cash flow, return on sales, and return on capital employed.

Order intake: recovery of some key markets

In 2010, Sulzer's early-cycle markets recovered from their low levels in 2009. The recovery of those markets and the additional order intake from two acquisitions resulted in an increase in the order intake of 9.0% (7.5% adjusted for negative currency translation effects as well as effects from acquisitions). Acquisitions contributed CHF 141 million, while currency translation had a negative impact of CHF 94 million.

Orders

millions of CHF	2010	2009
Order intake	**3 288.7**	3 017.6
Order backlog as of December 31	**1 799.8**	1 871.7

Compared with 2009, three of the four divisions increased their order intake substantially: Sulzer Turbo Services (+43.9%, –0.3% excluding Dowding & Mills), Sulzer Chemtech (+24.7%), and Sulzer Metco (+17.9%). Due to the late-cycle character of some of its key markets, Sulzer Pumps showed a decrease of 4.2% (almost flat with –1.7% on an adjusted basis). The order backlog decreased by 3.8% to CHF 1.8 billion as of December 31, 2010. This development was mainly caused by a negative currency translation effect based on the strong Swiss franc.

Sales: lower orders in 2009 lead to a decrease of sales in 2010

Sales decreased by 5.0% (adjusted –6.6%). Sulzer Pumps (–15.1%) and Sulzer Chemtech (–9.1%) both reported lower sales compared with the prior year, mainly due to the lower order backlog at the beginning of the year and low activity in some of the key markets. Sulzer Metco increased sales by 12.1%, based on the recovery of some early-cycle markets. Sulzer Turbo Services' significant sales growth of 37.0% was driven by the acquisition of Dowding & Mills, which was consolidated first time in June 2010.

In total, the negative currency translation impact of CHF 83 million was overcompensated by the positive impact from acquisitions of CHF 140 million. Due to the acquisition of Dowding & Mills by Sulzer Turbo Services and other smaller acquisitions by other divisions, as well as the different growth dynamics in sales, the share of total sales of Sulzer Pumps decreased from 55.4% in 2009 to 49.5% in 2010.

Geographically, Europe remained strong with 32.2% of total sales, followed by North America (26.4%) and Asia, Middle East, and Australia (25.2%). The region Central and South America (10.2%) showed a constant increase

Consolidated income statement (condensed)

millions of CHF	2010	2009
Sales	**3183.7**	3350.4
Cost of goods sold	**–2183.7**	–2343.9
Gross profit	**1 000.0**	1 006.5
Selling, administrative and development expenses	**–589.7**	–589.9
Operating income before restructuring	**410.3**	416.6
Restructuring expenses	**–3.9**	–48.6
Operating income	**406.4**	368.0
Financial income, net	**–4.4**	1.6
Income tax expenses	**–97.7**	–93.8
Net income	**304.3**	275.8

Net liquidity

CHF 552.8m

(2009: CHF 670.6m)

Return on capital employed

CHF 28.1%

(2009: CHF 24.8%)

in its share of total sales, mainly driven by strong sales of Sulzer Pumps in Brazil. In 2010, sales to emerging and developing markets increased to 42%.

Based on the quality of the order backlog at the beginning of the year, the strong focus on healthy margins in order intake, and a higher sales share from aftermarket businesses, a solid gross margin (gross profit in % of sales) of 31.4% was recorded in 2010 (2009: 30.0%). This accounts for a 1.4 percentage point increase compared with 2009, despite a lower sales volume. Cost adaptation measures, implemented mostly in 2009, and the continuous execution of operational excellence projects supported the improvement of the gross margin.

Operating expenses: positively impacted by disposal of real estate portfolio

Overall, operating expenses decreased by CHF 44.9 million (–7.0%) to CHF 593.6 million. They include an increase in selling and distribution expenses (CHF 9.1 million) and in general and administrative expenses (CHF 16.7 million). After a significant increase in 2009, research and development expenses were kept at the level of approximately 2% of sales in 2010. Minor restructuring expenses of CHF 3.9 million were booked in 2010 (2009: CHF 48.6 million). No new major restructuring projects were initiated in 2010.

A contribution to operating income from real estate activities of CHF 56.6 million was recorded in 2010, similar to the amount contributed in 2009 (CHF 55.1 million). This high contribution consisted mainly of the sale of Sulzer Real Estate Ltd to Implenia Ltd and of the real estate service business to Auwiesen AG in October 2010.

Operating income and profitability: high level of profitability achieved

Sulzer's operating income increased by 10.4% from CHF 368.0 million in 2009 to CHF 406.4 million in 2010. Due to the lower sales volume, gross profit decreased slightly and amounted to CHF 1000.0 million for 2010 (2009: CHF 1006.5 million).

Return on sales before restructuring expenses (ROSR) was at 12.9% (2009: 12.4%), return on sales (ROS) increased by 1.8 percentage points to 12.8% (2009: 11.0%). ROSR and ROS were not affected by currency exchange fluctuations.

The ROS achieved in 2010 was at the same high level as prior to the economic downturn. With a return on capital employed (ROCE) of 28.1% (up from 24.8% in 2009), Sulzer's financial-value-creating threshold, which refers to the pre-tax weighted average cost of capital of 12.5%, was exceeded by all four divisions.

Key performance ratios

		2010	2009
Return on sales before restructuring expenses (EBITR/sales)	ROSR	**12.9%**	12.4%
Return on sales (EBIT/sales)	ROS	**12.8%**	11.0%
Return on capital employed (EBIT/capital employed)	ROCE	**28.1%**	24.8%

For the divisions, operating income before restructuring expenses decreased by 3.0% to CHF 350.4 million, but the ROSR of the divisions amounted to 11.0%, which is 0.2 percentage points higher than in 2009. Sulzer Metco recorded the strongest improvement —with a more than 50% increase of the ROSR from 6.2% in 2009 to 9.5% in 2010. Sulzer Turbo Services' ROSR was impacted by the acquisition-related costs of the Dowding & Mills acquisition (total additional cost of CHF 6.0 million) and decreased to 10.5%. Operating income before depreciation and amortization (EBITDA) was at CHF 511.0 million (16.1% of sales) compared to CHF 479.2 million in 2009 (14.3% of sales). Depreciation and amortization was at CHF 104.6 million in 2010.

Mainly driven by Sulzer Metco and Sulzer Turbo Services, the operating income of the four divisions increased by CHF 33.8 million to CHF 346.5 million—an increase of 10.8%. Excluding the one-time acquisition and integration costs in Sulzer Turbo Services for Dowding & Mills, all four divisions were able to increase their profitability (ROS) compared with 2009. The strongest improvement in ROS was recorded at Sulzer Metco, with an increase from 3.7% in 2009 to 9.2% in 2010. Sulzer Pumps increased ROS by 100 basis points and Sulzer Chemtech recorded an increase of 160 basis points.

Financial review

Financial income: negatively impacted by currency effects

Primarily due to the strong Swiss franc, a net financial income of minus CHF 4.4 million was recorded in 2010 (2009: CHF 1.6 million). The main impact stems from a loss of CHF 9.5 million from currency exchange valuation of financial assets. These losses are partly offset by positive fair value changes on derivatives of CHF 3.3 million. Interest expenses amounted to CHF 9.1 million, of which CHF 3.3 million are related to unfunded pension plans in Germany. Interest income slightly increased from CHF 8.0 million to CHF 9.5 million in 2010 due to higher average cash during 2010. Income from investments amounted to CHF 0.2 million, which is CHF 1.8 million lower than in 2009 due to lower dividend payments from minority participations.

Income tax expenses: favorable levels due to real estate sales

Tax expenses increased by 4.2% to CHF 97.7 million in 2010, but the effective income tax rate decreased to 24.3%, compared with 25.4% in 2009. As in 2009, the tax rate was positively impacted by the gains generated from the disposal of real estate in Switzerland. These gains are taxed at a favorable rate. In addition, tax provisions no longer required of CHF 17.3 million were released in 2010. The capitalization of tax losses carried forward in the German operations, based on a re-organization of the German tax group also influenced the tax rate positively.

Net income: significant increase

Based on an improved operating income and a lower tax rate, the net income increased significantly by 10.3% to CHF 304.3 million. Net income attributable to Sulzer shareholders amounted to CHF 300.4 million (9.4% of sales) compared with CHF 270.4 million (8.1% of sales) in the previous year. Basic earnings per share (EPS) increased by 10.7% to CHF 8.92 compared with CHF 8.06 in 2009.

Balance sheet: solid capital structure and high equity ratio

Total assets as per December 31, 2010, amounted to CHF 3491.7 million, which is an increase of CHF 107 million or 3.2% compared with 2009. Acquisitions added CHF 363.6 million assets to the balance sheet, whereas currency fluctuations resulted in a decrease of CHF 224.1 million of assets.

Non-current assets amounted to CHF 1295.6 million (2009: CHF 1200.4 million). The net effect from acquisitions and divestitures added CHF 207.4 million. Currency translation effects reduced non-current assets by about CHF 100 million. Major movements were recorded in goodwill (plus CHF 78.9 million) and other intangibles assets (plus CHF 38.2 million) due to acquisitions. As a result of the sale of real estate activities, property, plant, and equipment was reduced by CHF 66.5 million.

Current assets slightly increased to CHF 2196.1 million (2009: CHF 2183.8 million). The net effect from acquisitions and divestitures added CHF 66.2 million. Currency translation effects reduced current assets by CHF 121.2 million. The strongest impact results from a decrease in cash and cash equivalents (minus CHF 62.5 million) and in short-term financial assets (minus

Consolidated cash flow statement (condensed)

millions of CHF	2010	2009
Cash flow from operating activities	**254.2**	488.0
Purchase of intangible assets and property, plant and equipment	**–118.1**	–112.2
Sale of property, plant and equipment and intangible assets	**13.4**	153.0
Free cash flow	**149.5**	528.8
Acquisitions/divestitures	**–113.5**	–39.6
Purchase/sale of financial assets and marketable securities	**26.2**	11.8
Cash flow from operating and investing activities	**62.2**	501.0
Cash flow from financing activities	**–96.0**	–225.3
Exchange gains/losses on cash and cash equivalents	**–28.7**	7.7
Net change in cash and cash equivalents	**–62.5**	283.4
Cash and cash equivalents as of December 31	**668.1**	730.6

CHF 23.8 million). Trade receivables increased by CHF 22.2 million mainly due to acquisition effects. The ageing structure remained stable at an acceptable risk level. The recoverability of the trade accounts is reviewed regularly and adequate allowances for doubtful debts are considered. Other current receivables increased by CHF 50.6 million mainly due to an increase of short-term derivates and receivables resulting from the real estate transaction.

Sulzer's capital structure remained solid in 2010. Based on a healthy net income, equity increased by CHF 112.3 million to CHF 1 901.2 million. Other comprehensive income decreased equity by CHF 103.9 million, which is mainly a result of negative currency translations. Dividend paid was at CHF 94.6 million, which reflects a 35% payout ratio. Non-controlling interests decreased by CHF 5.2 million as a result of the buyback of shares from minority shareholders of Sulzer India Ltd. Total liabilities (current and non-current liabilities) remained stable at CHF 1 590.5 million (2009: CHF 1 595.3 million). Currency translation effects reduced total liabilities by CHF 117.8 million. Non-current liabilities increased by CHF 20.9 million. The major movement resulted from an increase of non-current provisions for the remaining risks from divestitures. The main movements in current liabilities stem from short-term borrowings (plus CHF 36.3 million) and from trade payables (plus CHF 41.5 million), while advanced payments from customers decreased by CHF 35.9 million and current income tax liabilities by CHF 37.4 million. Current provisions were reduced by CHF 30.5 million (mainly due to a reduction of current provision for restructuring). The equity ratio (equity/total assets) remained at a solid level of 54.3% (up 1.5 percentage points from 2009), and the gearing (borrowings/equity) remained stable at a low level of 7.0%.

Sufficient provisions remain for potential obligations resulting from past and current divestitures. The situation of the asbestos lawsuits remained unchanged compared with the previous year and did not generate the need of additional provisions. Based on the current development and known facts, Sulzer assumes that the remaining open cases can be resolved without material impact on liquidity and profit.

Cash flow: impact from acquisitions and higher working capital

Net change in cash and cash equivalents was negative with CHF 62.5 million in 2010 compared to an increase of CHF 283.4 million in 2009. Cash flow from operating activities amounted to CHF 254.2 million in 2010, a decrease of CHF 233.8 million compared with the prior year. In 2010, net working capital increased by CHF 84.8 million. Increases were reported in all divisions. Most significant increases amounted from inventories (CHF 53.3 million), trade accounts receivable (CHF 51.2 million) and advance payments to suppliers (CHF 22.1 million). These increases were partly compensated by higher trade accounts payables (CHF 54.4 million).

A total cash outflow of CHF 192.0 million resulted from investing activities. Capital expenditures (CAPEX) of CHF 118.1 million were recorded in 2010. With CHF 71.7 million (60.7% of total CAPEX), the majority was spent for capacity and capability expansions. In addition to capability and capacity expansion in Europe and North America, strategic investments were made in the emerging markets. They included the completion of a new factory in China as well as expansions in Brazil and in Russia. Capital expenditure for replacements amounted to CHF 20.4 million (17.3% of total capital expenditure), and additional CHF 6.9 million was spent on information technology. The geographical distribution of CAPEX was as follows: Europe (40.6% of total CAPEX), Asia, Middle East, and Australia (34.2%), followed by North America (17.9%), Central and South America (6.7%), and Africa (0.6%).

A total of CHF 198.0 million was spent for acquisitions as follows: CHF 180.0 million was remitted for Dowding & Mills (purchase price less cash acquired), CHF 15.5 million to Bekaert for its diamond-like-coatings service business, and CHF 2.5 million for other smaller acquisitions. CHF 13.3 million was spent for the purchase of shares from minority shareholders of Sulzer India Ltd. Cash inflow from the sales of real estate activities was recorded at CHF 84.5 million (cash inflow minus cash of Sulzer Real Estate Ltd at the moment of deconsolidation). In 2010, the most significant movements in the cash flow from financing activities were the dividend payment of CHF 94.6 million and the repayment of long-term borrowings of CHF 25.0 million. Short-term borrowings increased temporarily by CHF 39.7 million, mainly due to local bank loans in some countries. The exchange losses on cash and cash equivalents amounted to CHF 28.7 million in 2010, whereas a gain of CHF 7.7 million was recorded in 2009. The high exchange rate loss is due to the weakness of the US dollar, the euro, and the British pound compared to the Swiss franc in 2010.

Outlook

For 2011, order intake is expected to grow moderately and sales are anticipated to increase again on an adjusted basis. The divisional operating income is expected to increase moderately, but the extraordinary income from the divestiture of the non-operational real estate will not reoccur. The tax rate is anticipated to amount to approximately 28%. Based on its leading market positions, focused strategy, and continued operational improvements, Sulzer is well positioned for continued long-term success.

Consolidated income statement

January – December

millions of CHF	Notes	2010	2009
Sales	03	**3183.7**	3350.4
Cost of goods sold		**–2183.7**	–2343.9
Gross profit		**1000.0**	1006.5
Selling and distribution expenses		**–299.7**	–290.6
General and administrative expenses		**–294.2**	–277.5
Research and development expenses	07	**–58.5**	–63.4
Other operating income	08	**104.1**	101.7
Other operating expenses	08	**–41.4**	–60.1
Operating income before restructuring		**410.3**	416.6
Restructuring expenses		**–3.9**	–48.6
Operating income		**406.4**	368.0
Interest and securities income	09	**9.5**	8.0
Interest expenses	09	**–9.1**	–10.1
Other financial income	09	**–4.8**	3.7
Income before income tax expenses		**402.0**	369.6
Income tax expenses	10	**–97.7**	–93.8
Net income		**304.3**	275.8
Attributable to shareholders of Sulzer Ltd		**300.4**	270.4
Attributable to non-controlling interests		**3.9**	5.4
Earnings per share, attributable to a shareholder of Sulzer Ltd (in CHF)			
Basic earnings per share	23	**8.92**	8.06
Diluted earnings per share	23	**8.82**	7.99

Consolidated statement of comprehensive income

January – December

millions of CHF	Notes	2010	2009
Net income		**304.3**	275.8
Fair value changes on available-for-sale financial assets, net of tax		**8.1**	3.9
Cash flow hedge reserve, net of tax		**4.9**	25.5
Currency translation differences		**–116.9**	26.6
Total comprehensive income for the year		**200.4**	331.8
Attributable to shareholders of Sulzer Ltd		**196.9**	325.5
Attributable to non-controlling interests		**3.5**	6.3

Consolidated balance sheet

December 31

millions of CHF	Notes	2010	2009
Non-current assets			
Intangible assets	11	629.0	511.9
Property, plant and equipment	12	531.6	558.1
Other financial assets	13	35.9	32.1
Non-current receivables		8.8	6.2
Deferred income tax assets	10	90.3	92.1
Total non-current assets		1 295.6	1 200.4
Current assets			
Inventories	14	533.8	512.8
Advance payments to suppliers		80.3	68.8
Trade accounts receivable	16	718.3	696.1
Other accounts receivable and prepaid expenses	17	179.2	128.6
Assets held for sale	18	3.7	10.4
Marketable securities	20	12.7	36.5
Cash and cash equivalents	19	668.1	730.6
Total current assets		2 196.1	2 183.8
Total assets		3 491.7	3 384.2
Equity			
Share capital	22	0.3	0.3
Reserves		1 894.7	1 777.2
Equity attributable to shareholders of Sulzer Ltd		1 895.0	1 777.5
Non-controlling interests		6.2	11.4
Total equity		1 901.2	1 788.9
Non-current liabilities			
Long-term borrowings	24	44.2	49.0
Deferred income tax liabilities	10	66.1	65.6
Non-current income tax liabilities	10	22.2	31.6
Non-current provisions	25	214.3	179.1
Other non-current liabilities		1.3	1.9
Total non-current liabilities		348.1	327.2
Current liabilities			
Short-term borrowings	24	83.8	47.5
Current income tax liabilities	10	36.8	74.2
Current provisions	25	155.7	186.2
Trade accounts payable		285.2	243.7
Customers' advance payments		277.9	313.8
Other current and accrued liabilities	26	403.0	402.7
Total current liabilities		1 242.4	1 268.1
Total liabilities		1 590.5	1 595.3
Total equity and liabilities		3 491.7	3 384.2

Consolidated statement of changes in equity

January – December

millions of CHF	Share capital	Retained earnings	Treasury stock	Financial instruments	Currency translation adjustment	Net income	Total	Non-controlling interests	**Total equity**
	Attributable to shareholders of Sulzer Ltd								
Equity as of January 1, 2009	0.3	1 536.0	–123.8	–4.0	–193.1	322.9	1 538.3	8.0	1 546.3
Total comprehensive income for the year				26.5	28.6	270.4	325.5	6.3	331.8
Addition/deduction of non-controlling interests							–	0.3	0.3
Change in treasury shares		–21.0	25.1				4.1		4.1
Cost of share-based payments		5.5					5.5		5.5
Dividend						–95.9	–95.9	–3.2	–99.1
Allocation of net income		227.0				–227.0	–		–
Equity as of December 31, 2009	0.3	1 747.5	–98.7	22.5	–164.5	270.4	1 777.5	11.4	1 788.9
Total comprehensive income for the year				13.0	–116.5	300.4	196.9	3.5	**200.4**
Addition/deduction of non-controlling interests							–	–0.5	**–0.5**
Changes in ownership in subsidiaries without loss of control		–14.7					–14.7	–3.6	**–18.3**
Change in treasury shares		1.4	21.8				23.2		**23.2**
Cost of share-based payments		8.0					8.0		**8.0**
Dividend						–95.9	–95.9	–4.6	**–100.5**
Allocation of net income		174.5				–174.5	–		**–**
Equity as of December 31, 2010	0.3	1 916.7	–76.9	35.5	–281.0	300.4	1 895.0	6.2	**1 901.2**

Imprint

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 that could cause the actual results or performance to differ materially from the statements made herein.

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Consolidated statement of cash flows

January – December

millions of CHF	Notes	2010	2009
Cash and cash equivalents as of January 1		**730.6**	447.2
Cash flow from operating activities			
Net income		**304.3**	275.8
Interest and securities income		**–9.5**	–8.0
Interest expenses		**9.1**	10.1
Income tax expenses	10	**97.7**	93.8
Depreciation/amortization		**104.6**	111.2
Changes in inventories		**–53.3**	146.4
Changes in advance payments to suppliers		**–22.1**	–7.5
Changes in trade accounts receivable		**–51.2**	203.6
Changes in advance payments from customers		**–12.6**	–122.4
Changes in trade accounts payable		**54.4**	–87.4
Changes in provisions		**–37.0**	29.5
Changes in other net current assets		**33.2**	–11.3
Other non-cash items		**45.1**	30.4
Interest received		**8.5**	9.7
Interest paid		**–6.0**	–7.1
Income tax paid		**–153.5**	–134.6
Income from disposals of subsidiaries and property, plant and equipment		**–57.5**	–44.2
Total cash flow from operating activities		**254.2**	488.0
Cash flow from investing activities			
Purchase of intangible assets	11	**–1.6**	–1.3
Sale of intangible assets		**0.4**	0.1
Purchase of property, plant and equipment	12	**–116.5**	–110.9
Sale of property, plant and equipment		**13.0**	152.9
Acquisitions	30	**–198.0**	–40.2
Divestitures		**84.5**	0.6
Purchase of financial assets		**–**	–0.2
Sale of financial assets		**2.5**	0.5
Purchase of marketable securities		**–13.5**	–6.3
Sale of marketable securities		**37.2**	17.8
Total cash flow from investing activities		**–192.0**	13.0
Cash flow from operating and investing activities		**62.2**	501.0
Cash flow from financing activities			
Dividend		**–94.6**	–94.0
Purchase/sale of treasury stock		**–1.9**	–28.0
Dividend to non-controlling interests		**–2.8**	–3.2
Changes in non-controlling interests		**–13.3**	–
Additions in long-term borrowings		**1.9**	20.0
Repayment of long-term borrowings		**–25.0**	–1.1
Changes in short-term borrowings		**39.7**	–119.0
Total cash flow from financing activities		**–96.0**	–225.3
Exchange gains/losses on cash and cash equivalents		**–28.7**	7.7
Net change in cash and cash equivalents		**–62.5**	283.4
Cash and cash equivalents as of December 31		**668.1**	730.6

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