

Sulzer Ltd—Annual General Assembly 2010

Presidential Address by Jürgen Dormann, Chairman of the Board

Dear Shareholders,

Sulzer is in good shape—despite the current, very challenging business environment.

Our divisions have managed to keep their market positions in the face of declining demand and the resulting tougher competition.

Thanks to good operating performance and decisive adaption measures, Sulzer again achieved double-digit profitability for 2009—still a high level even by long-term comparison.

The marked increase of almost 50 percent in free cash flow is, in addition, particularly noteworthy.

Cooperation of the Sulzer Board of Directors with the Executive Management is open and constructive.

During the course of various meetings with divisional and local management teams, I have gotten to know numerous highly competent and very committed people.

The creation of a Strategy Committee underlines the great importance that the Board of Directors attaches to successful long-term development.

The markets in which Sulzer is active offer excellent long-term development opportunities.

Our biggest markets—oil and gas production, hydrocarbon processing, and power generation—profit from a long-term rise in demand, which can be attributed to population development and economic growth, in particular, in the new emerging markets.

Promising opportunities for innovative Sulzer solutions also arise in our other markets—the automotive industry, aviation, paper, and other industries. Innovative solutions for improving energy efficiency are particularly in demand.

Sulzer sets clear strategic and operational priorities to leverage this development potential.

Let me cite two examples in particular.

First, continuous innovation is indispensable for continued success. This primarily means putting new scientific findings into practice quickly. We need to take calculated risks while, at the same time, focusing on projects with the greatest chances of success. Only innovations that bring customers added value can be truly successful.

Thanks to outstanding technological know-how, a strong scientific network, targeted innovation management, and close customer relationships, Sulzer is very well positioned for ongoing success through continuous innovation.

We regularly hold corporate-wide brainstorming events to generate ideas. A good example is the “Idea Lab” event held by Sulzer last November with the Federal Institute of Technology (ETH) in Zurich. It focused on alternative energy technologies ranging from concentrated solar thermal power to biofuels to carbon dioxide capture and storage.

Second, economic growth in the future will focus strongly on new emerging markets, in particular, Brazil, China, India and Russia.

The success of global corporations depends on the timely establishment of a strong presence in these growth markets and a systematic focus on their needs.

Sulzer is already present today in more than 120 locations worldwide. About one-third of our order intake currently originates from the emerging markets. For the future, it is crucial to further expand our local presence there.

During the course of 2009, we took some important steps in this direction with the integration of an acquired company in Argentina by Sulzer Turbo Services, the opening of a new Sulzer Chemtech location in Russia, the construction of a new Sulzer Pumps production plant in China, and expansion at various existing locations. But we will have to continue to take many more steps in this direction.

CEO Ton Büchner will elaborate later on how we plan to expand our presence in the emerging markets.

Our strong balance sheet enables targeted investment in innovation and the organic growth of business activities. At the same time, Sulzer also wants to grow through acquisitions. In 2009, we strengthened Sulzer Chemtech through smaller takeovers in the tower field service and process technology areas.

We shall continue to support our growth with acquisitions and also to examine medium and large acquisition opportunities accordingly. The primary aim is to reach our strategic goals faster by selectively acquiring technologies and reinforcing our businesses in certain regions and market segments. We are thereby focusing on our core activities and related business areas.

The environment for such acquisitions has improved, but we will maintain our strict criteria with regard to strategic fit, value creation, and integration of any potential acquisitions. All acquisitions must sustainably strengthen our business.

Our employees are the most important success factor for Sulzer. They embody not only our technical leadership, but also our capability to identify and meet the needs of our customers.

Our success in the emerging markets critically depends not only on establishing ourselves locally, but also on attracting and training local, qualified personnel. In the medium to long term, our global activities must also be well reflected in the international composition of our employees at all levels.

Sulzer therefore aims to entrust more talented employees from the emerging markets—and also more women and younger, high-potential employees—with greater responsibility. A well-balanced mix of employees by gender, age, and origin helps to meet today's varied and changing challenges and to make better use of success potential.

The expectations about ethical behavior and good corporate governance are increasingly demanding.

It is therefore very important that our management style meet the highest standards, as prescribed by our code of conduct. Accordingly, our employees are systematically trained and agree contractually to comply with this code of conduct.

We also aspire to continuously improve our corporate governance. In this connection, the Board of Directors is proposing in item 5 of the agenda to shorten the term of office of its members to one year, according to the trend among Swiss publicly listed corporations.

The standards we apply to the compensation of our board and management team members are no less exacting.

Total compensation in 2009 was considerably lower than in the previous years, declining by 2.5 million Swiss francs to 8.4 million for the Executive Committee and by 1.2 million to 2.2 million Swiss francs for the Board of Directors. This decrease is mainly attributable to our change in 2009 from a stock option plan to a restricted share unit plan.

The base salaries of our managers are determined based on job requirements, individual qualifications, and employment market situation. The annual bonus depends on the corporate financial targets and on individual targets. For all managers except the CEO, it is lower than their base salary even if maximal targets are achieved. Long-term corporate target orientation is assured by our share unit plan with a three-year vesting period.

Long-term corporate target orientation of the Board of Directors is likewise assured by compensation through share unit plan in addition to base compensation.

For full details of our compensation system, please refer to the *Annual Report*.

To conclude this introduction, let me summarize: Sulzer is in good shape despite difficult circumstances, and the company is well prepared in all respects for continued success in the future.