



The first half of 2011 in brief

Strong performance and major acquisition announced

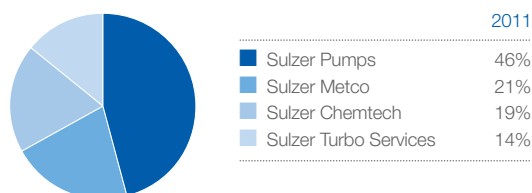
Sulzer increased orders, sales, and operating income. Profitability improved compared with the first half of the prior year. The strong Swiss franc continued to have a significant negative translation effect.

Key figures (January – June)

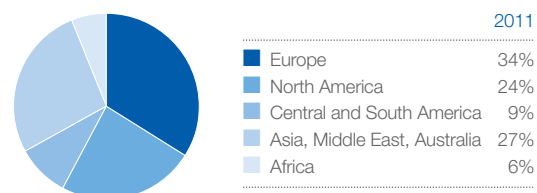
millions of CHF	2011	2010	Change in	
			+/- %	+/- % ¹⁾
Order intake	1824.4	1622.0	12.5%	20.6%
Order backlog as of June 30/December 31	1876.8	1799.8	4.3%	
Sales	1600.6	1471.5	8.8%	15.7%
Operating income before depreciation/amortization	EBITDA	227.0	204.2	11.2%
Operating income	EBIT	177.1	154.9	14.3%
Return on sales (EBIT/sales)	ROS	11.1%	10.5%	
Net income attributable to shareholders of Sulzer Ltd	124.8	111.7	11.7%	
Basic earnings per share (in CHF)	3.69	3.32	11.1%	
Free cash flow	-67.1	37.0		
Net liquidity as of June 30/December 31	372.6	552.8		
Employees (number of full-time equivalents) as of June 30/December 31	14809	13740	7.8%	

¹⁾ Adjusted for currency effects as well as acquisitions and divestitures.

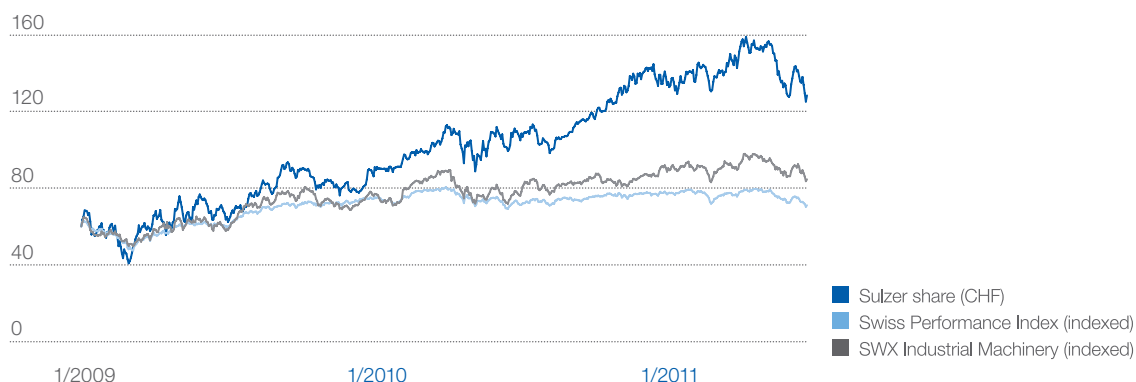
Sales by division



Sales by region



Share price development



Key highlights

- Through the announced CHF 852 million acquisition of Cardo Flow Solutions, Sulzer is to become a leading player in the water and wastewater pump industry.
- A bond of CHF 500 million with a 2.25% coupon rate was successfully launched.
- Order intake increased significantly due to continued growth in the early-cycle markets and recovering orders in some of the late-cycle markets.
- Sales and operating income increased substantially, and profitability improved.
- The strong Swiss franc had a significant negative translation effect on absolute figures, while Sulzer's global presence prevented it from having a material impact on profitability.
- For the full year, Sulzer expects double-digit growth rates for order intake and sales on an adjusted basis, albeit at a lower rate than in the first half of the year. Profitability is expected to remain at a double-digit level. This outlook does not include any effects from the intended acquisition of Cardo Flow Solutions.

Order intake

CHF 1824m

(First half 2010: CHF 1622m)

Sales

CHF 1601m

(First half 2010: CHF 1472m)

Operating income

CHF 177m

(First half 2010: CHF 155m)

Return on sales

11.1%

(First half 2010: 10.5%)

Our core focus areas	Achievements in first half of 2011
<p>1</p> <p>Operational excellence Sulzer strives for operational excellence and continually improves business processes based on lean principles.</p>	<ul style="list-style-type: none"> • Over 100 LEAN workshops completed and over 200 additional workshops planned for 2011. • Improvements of lead times and on-time delivery.
<p>2</p> <p>Health and safety Health and safety of employees is a top priority for Sulzer.</p>	<ul style="list-style-type: none"> • The accident frequency rate decreased again by 30% from the end of 2010 to 3.1 cases per million working hours. • The accident severity rate also decreased substantially.
<p>3</p> <p>Innovation Developing innovative solutions with high customer value is essential to Sulzer's sustainable success and organic growth.</p>	<ul style="list-style-type: none"> • Number of projects in the market launch phase increased to 87. • New test facility for subsea pumping was installed and laboratory and manufacturing capabilities were expanded.
<p>4</p> <p>Emerging and developing markets Sulzer continually expands its worldwide service and production network into emerging markets to serve customers locally.</p>	<ul style="list-style-type: none"> • Share of sales in emerging and developing markets remained high at 40%. • A tower field service specialist in Brazil was acquired.
<p>5</p> <p>Services Sulzer expands its product-related and independent service offerings, which are more resistant to economic cycles.</p>	<ul style="list-style-type: none"> • Share of sales in services remained high at 43%. • Additional service activities opened in China, Brazil, and Canada.

Letter to the shareholders

Improved operational performance and strategic position further strengthened

Sulzer increased orders, sales, operating income, and profitability. With the announced major acquisition, the company is to become a leading player in the water and wastewater market. Sulzer's service network and its presence in the emerging markets were further expanded.



Ton Büchner, CEO

Jürgen Dormann, Chairman of the Board

Dear Shareholder,

Sulzer had a strong start in 2011 with higher orders, sales, operating income, and improved profitability compared with the first half of the prior year. The strong Swiss franc continued to have a significant negative translation effect on the results. With the intended acquisition of Cardo Flow Solutions, the company is to become a leading player in the attractive wastewater pumps market. The acquisition of the maintenance specialists C.L. Engenharia and Black Magic Crew increased the competitiveness of Sulzer's tower field service activities. Building on the strong basis of its five focus areas and a positive outlook for most markets, Sulzer is well positioned for continued and sustainable success.

Important strategic step into the wastewater market

In April, Sulzer signed an agreement for the acquisition of Cardo Flow Solutions, a leading supplier of pumps and related equipment for wastewater applications with around 1 900 employees and sales of CHF 463 million in 2010. With this intended acquisition, water and

wastewater will become one of Sulzer's key markets, accounting for approximately 16% of total sales and offering strong growth prospects. The acquisition is expected to close during the third quarter of this year. A bond of CHF 500 million with a 2.25% coupon rate was successfully launched in June to partly finance the acquisition.

Core focus areas further strengthened

We continued to put a concerted effort into our five core focus areas, which have helped to mitigate the impact of the economic crisis and leverage the recovery in the early-cycle markets. For operational excellence, the substantially increased number of local LEAN workshops created value for customers through reduced lead times and improved on-time delivery. Thanks to our ongoing efforts in health and safety, the frequency of accidents was reduced by another 30% to 3.1 accidents per million working hours in the first half of this year. The severity of accidents also decreased substantially.

Innovation remains crucial for Sulzer. It ensures that the company is competitive and creates new business opportunities. Sulzer has opened a new test facility for subsea pumping, expanded the process technology test center, and added laboratory and manufacturing capabilities for the development and supply of innovative coating powders. An industrial-scale in-house pilot plant for bioplastics is currently being built.

To be close to our customers, we aim to further expand our presence in the fast-growing emerging markets, which accounted for 40% of sales in the first half of 2011. Additional service activities in China, Brazil, and Canada were started. Our service business, which generated 43% of total sales in the first half of 2011, is also being further strengthened. In order to further enhance the competitiveness of our tower field service activities, we have acquired the maintenance specialists C.L. Engenharia and Black Magic Crew.

Continued growth in early-cycle markets

Sulzer generated a strong performance in the first half of 2011 with a significant increase in orders compared to the first half of the previous year. All divisions supported

this increase. The emerging markets contributed to the growth. North and South America developed positively, while the order intake in Europe remained stable.

Growth was driven by continuously strong early-cycle markets and by recovering orders in some of the late-cycle markets. The automotive, aviation, and other industrial markets remained strong. The oil and gas segment grew, while the hydrocarbon processing industry remained at a low level with some larger project orders booked. The power generation market stabilized, although nuclear projects suffered delays due to the incident in Japan.

Increased sales and profitability

Sales clearly exceeded the levels of the first half of the prior year, supported by acquisitions. The strong Swiss franc continued to have a significant negative translation effect on absolute figures, while the company's global presence again proved to be a natural hedge against material impacts on profitability. The operating income and the net income increased clearly, and profitability improved.

Changes in the top management and the board

As announced in June, CEO Ton Büchner has decided to pursue a career opportunity outside Sulzer. The search process has been started, and a successor will be announced in due course. Ton Büchner will remain CEO until his official leave, which is expected in the fourth quarter of this year. At the Annual General Meeting in April, the shareholders elected Jill Lee and Marco Musetti into the Board of Directors. Hans Hubert Lienhard and Tim Summers decided not to stand for reelection.

Outlook

The impact of the development in the financial markets can currently not be fully assessed. Based on present knowledge, the positive environment in the early-cycle markets is expected to continue. The automotive industry is likely to remain at its current high level. For the aviation and other general industries, we anticipate further growth. Activity in the oil and gas industry is expected to continue at similar levels, while the hydrocarbon processing industry is likely to recover only slightly. The power generation market is forecast to remain at a low level. As a consequence of the nuclear incident in Japan, increased future activity is predicted for combined-cycle and conventional fossil plants. Geographically, the emerging markets are expected to remain growth drivers for the company. The significant negative translation effect of the strong Swiss franc is likely to persist. However, with its global network, the company is naturally hedged against material currency impacts on profitability. The following outlook does not include any effects from the intended acquisition of Cardo Flow Solutions. On an adjusted basis, Sulzer expects double-digit growth rates for order intake and

sales, albeit at a lower rate than in the first half of the year. Profitability is forecast to remain at a double-digit level. The extraordinary income from the divestiture of real estate reported in 2010 will not reoccur. Sulzer's balance sheet will remain solid after the acquisition and will allow further external growth.

We thank you, our shareholders, for your continued trust. We would also like to thank our employees for their commitment and our customers for their continued cooperation. Based on our leading market positions, focused strategy, and ongoing operational measures, we are convinced that Sulzer is well positioned for continued and sustainable success.

Yours sincerely,

Dormann 

Jürgen Dormann,
Chairman of the Board

Ton Büchner,
CEO

Our vision

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

Our mission

Sulzer aims to be:

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

Our values

• Customer partnership

We exceed the expectations of our customers with innovative and competitive solutions.

• Operational excellence

We perform on the basis of structured work processes and lean principles.

• Committed people

We are committed to high standards and show respect for people.

Financial review

Double-digit growth and improved profitability

Sulzer achieved 20.6% adjusted growth in order intake. Operating income increased to CHF 177.1 million due to higher sales volume, healthy margins, and positive contributions from acquisitions. A bond of CHF 500 million was successfully launched to partly finance the acquisition of Cardo Flow Solutions.

Performance measures: improved profitability

The performance of the operations is primarily assessed based on order intake, sales, operating income, cash flow, return on sales, and return on capital employed. The ongoing appreciation of the Swiss franc compared to Sulzer's main trading currencies had a significant negative translation effect. However, the company is naturally hedged against material currency impacts on profitability. With its global service and production network, sales and costs are predominantly incurred in the same currency. In the first half of 2011, no significant exceptional items were recorded.

Strong increase in order intake

In the first half of 2011, Sulzer significantly increased its order intake by 12.5% to CHF 1824.4 million. Adjusted for currency effects and acquisitions, order intake increased by 20.6%. The impact of acquisitions amounted to CHF 104.6 million. The strong Swiss franc had a negative translation effect of CHF 236.5 million on order volume.

Sales back on growth path in 2011

Sales substantially increased to CHF 1600.6 million in the first half of 2011 due to a high order backlog at the beginning of the year and an increased order intake. This represents an adjusted growth of 15.7% (8.8% nominal) compared with the first half of 2010. The impact of acquisitions came to CHF 102.5 million, while the

strong Swiss franc had a negative translation effect of CHF 204.7 million on sales volume. All divisions recorded double-digit growth rates on an adjusted basis. Gross margin was at healthy 31.8%. This figure is 0.5 percentage points lower than in the first half of 2010, mainly due to a different product mix.

Higher operating income and return on sales

Sulzer's operating income (EBIT) increased by a nominal 14.3% to CHF 177.1 million in 2011, primarily driven by the higher sales volume, operational improvements, and positive contributions from acquired businesses. Return on sales was at 11.1% (2010: 10.5%). All divisions achieved double-digit return-on-sales levels and contributed to the EBIT growth. Three divisions also improved their return on sales.

Increased net income despite higher tax rate

Financial income of CHF 0.2 million was recorded in the first half of 2011. Interest income was at CHF 4.6 million, which is a decrease of CHF 0.6 million from 2010. Interest expenses were CHF 4.0 million (2010: CHF 3.9 million), of which CHF 1.1 million were interest expenses for unfunded pension plans. Based on a successful hedging strategy, the exchange rate losses were limited to CHF 1.4 million. The effective tax rate in the first half of 2011 amounted to 28.8%, which is close to Sulzer's structural tax rate. The lower tax rate in 2010 was positively affected by the capitalization of tax loss carryforwards in Germany.

Key figures (January – June)

		Change in			
millions of CHF		2011	2010	+/--%	+/--% ¹⁾
Order intake		1824.4	1622.0	12.5%	20.6%
Sales		1600.6	1471.5	8.8%	15.7%
Operating income before depreciation/amortization	EBITDA	227.0	204.2		
Operating income	EBIT	177.1	154.9	14.3%	
Return on sales (EBIT/sales)	ROS	11.1%	10.5%		
Free cash flow		-67.1	37.0		
Net liquidity as of June 30/December 31		372.6	552.8		

¹⁾ Adjusted for currency effects as well as acquisitions and divestitures.

Adjusted sales growth¹⁾

15.7%

¹⁾ Adjusted for currency effects as well as acquisitions and divestitures.

Sulzer generated a solid net income of CHF 126.3 million compared with CHF 112.9 million in the first half of 2010 (+11.9% nominal). Net income attributable to Sulzer shareholders totalled CHF 124.8 million (7.8% of sales) in the first half of 2011 (2010: CHF 111.7 million, 7.6% of sales). Basic earnings per share (EPS) amounted to CHF 3.69 compared with CHF 3.32 in the first half of 2010.

Balance sheet: continuously strong financial situation

Total assets as per June 30, 2011, came to CHF 3 318.9 million. The decrease of CHF 172.8 million from December 2010 is mainly due to currency translation effects (CHF –162.6 million). Compared with December 2010, cash and cash equivalents decreased by CHF 227.5 million to CHF 440.6 million, primarily as a consequence of the dividend paid to shareholders (CHF 102.0 million) and higher net working capital requirements. The net working capital increased by CHF 132.1 million, mainly due to the strong volume growth and requirements of some large projects. Net liquidity decreased from CHF 552.8 million as per December 31, 2010, to CHF 372.6 million as per June 30, 2011.

Sulzer's capital structure remained solid. The equity ratio (equity/total assets) was 53.4%—a level similar to December 31, 2010 (54.4%)—and the gearing (borrowings/equity) marginally decreased to 5% (2010: 7%). The equity was negatively influenced by additional currency translations effects of CHF 95.6 million. The foreign exchange risk between the Swedish krona and the Swiss franc in connection with the acquisition of Cardo Flow Solutions was fully hedged. The valuation of this hedge as per June 30, 2011, led to an adjustment in equity of CHF –69.1 million.

Adequate provisions remain for the potential obligations resulting from past divestitures. All litigation expenses were charged to income, and adequate provisions were maintained.

Cash flow: impacted by increased net working capital requirements

Cash flow from operating activities was negative at CHF –25.5 million compared with CHF 72.1 million in June 2010, mainly driven by higher net working capital requirements (plus CHF 194.5 million). The most

Net income¹⁾

CHF 124.8m

(First half 2010: CHF 111.7m)

¹⁾ Attributable to shareholders of Sulzer Ltd.

significant increases are in inventories and trade accounts receivable, both driven by the strong volume growth. Some large projects and higher raw material prices also had an impact. Measures have been initiated to reduce the net working capital requirements in the second half of the year. Capital expenditure in property, plant, and equipment came to CHF 41.9 million, which was CHF 3.6 million lower than last year.

The free cash flow, consisting of cash flow from operating activities as well as capital expenditures was negative at CHF –67.1 million, mainly due to the increase in net working capital.

Net cash outflow from acquisitions and divestitures amounted to CHF –0.8 million. A cash inflow of CHF 11.2 million resulted from deferred cash proceeds from the divestiture of the real estate business in 2010. A total of CHF 12.0 million was spent for two smaller acquisitions.

In the first half of 2011, cash outflow from financing activities totalled CHF 138.9 million compared with an outflow of CHF 95.6 million in the first half of 2010. Due to a higher dividend, payments to shareholders increased by CHF 7.4 million to CHF 102.0 million. A short-term bank loan in the amount of CHF 40.1 million was repaid in January. Treasury shares were reduced by CHF 8.4 million. The exchange losses on cash and cash equivalents came to CHF 19.0 million in the first half of 2011, compared with losses of CHF 6.1 million in the same period of the prior year.

Outlook

This outlook does not include any effects from the intended acquisition of Cardo Flow Solutions, which is expected to close in the third quarter of 2011. On an adjusted basis, Sulzer expects double-digit growth rates for order intake and sales, albeit at a lower rate than in the first half of the year. Sulzer's balance sheet will remain solid after the acquisition and will allow further external growth. The negative currency translation effect is expected to persist. However, with its global service and production network, Sulzer is naturally hedged against material currency impacts on profitability. Cash flow from operating activities is expected to be positive for the full year.

Sulzer Pumps

Major strategic acquisition

Sulzer Pumps increased order intake by 16% on an adjusted basis. The profitability improved. With the announced acquisition of Cardo Flow Solutions, the division is to become a leading player in the wastewater market.



Becoming a leading player in the wastewater market

With the intended acquisition of Cardo Flow Solutions, the division is to become a leading player in the wastewater market, which offers strong growth prospects. The global service network was further strengthened with an additional service center in China. Sulzer Pumps completed a major test facility for subsea pumping systems. The division continued to develop innovative and energy-efficient solutions, for instance, enhanced thermal oil pumps for the solar power industry and new high-efficiency products for the desalination and geothermal markets.

Increased investment activities in the oil and gas industry

The higher order intake compared with the first half of the prior year was mainly driven by increased investment activities in the oil and gas industry. In the hydrocarbon processing industry, project activity remained at a low level in general, with some ongoing activities in emerging markets. In the power generation industry, strong activity was seen in India, whereas in established economies the market remained flat. Nuclear projects suffered delays as a consequence of the nuclear incident in Japan. The general industry segments showed higher project activity levels compared with the first half of the prior year.

Increased sales on an adjusted basis

The strong Swiss franc had a significant negative translation effect. Sulzer Pumps increased sales by 13% on an adjusted basis. The operating income and the return on sales increased as well. Excluding acquisition-related costs of CHF 3.0 million, the operational return on sales increased from 11.3% in the first half of 2010 to 11.9%. Since the end of 2010, the division has substantially reduced its accident frequency rate. Deliveries from the new Chinese facility have successfully started.

Outlook

Activity in the oil and gas industry is expected to continue at similar levels, while the hydrocarbon processing industry is likely to remain flat throughout 2011. The power generation market is expected to remain at a low level. The following outlook does not include any effects from the intended acquisition of Cardo Flow Solutions. On an adjusted basis, the division anticipates a double-digit growth in order intake and sales for the full year, while profitability is predicted to remain at a double-digit level.

Key figures (January – June)

millions of CHF	2011	2010	Change in	
			+/-%	+/-% ¹⁾
Order intake	839	824	2%	16%
Sales	743	747	0%	13%
Operating income before depreciation and amortization EBITDA	97	97	0%	
Operating income EBIT	85	85	0%	
Return on sales (EBIT/sales) ROS	11.5%	11.3%		

¹⁾ Adjusted for currency effects as well as acquisitions and divestitures.

Sulzer Metco

Substantial growth and improved profitability

Sulzer Metco continued to increase order intake, sales, and operating income significantly. Profitability rose to a double-digit level. Innovation remains crucial for the sustained organic growth of the division.



Early-cycle markets continue to grow

Sulzer Metco further increased its order intake, driven by growth in most of its end markets. The higher raw material prices added somewhat to the higher volumes. The demand for the division's highly innovative coating solutions was particularly strong in the automotive industry. The aviation industry also developed positively, and strong growth was recorded in the general industry segment. Geographically, demand was particularly pronounced in Asia-Pacific and in Europe.

Double-digit profitability

Sales and operating income of the division increased significantly compared with the first half of the previous year. The strong Swiss franc had a negative translation effect. The return on sales rose by almost two percentage points to a double-digit level. The new atomizer for powder production in North America was successfully taken into operation.

Outlook

The positive environment in the early-cycle markets is expected to continue. The automotive industry is likely to remain at its current high level. For the aviation and other general industries, further growth is anticipated. For the full year, the division expects double-digit growth for order intake and sales on an adjusted basis, albeit at a lower rate than in the first half of the year. Profitability is forecast to remain at a double-digit level.

Organic growth through innovation

Innovation remains crucial for the division's continued success. Sulzer Metco installed additional laboratory and manufacturing capabilities for the development and supply of innovative coating powders. The division is also preparing the launch of a new generation of its triplex plasma coating equipment, and it introduced a new high-performance coating technology for mechanical tools. The diamond-like coating business, which was acquired in July 2010, is developing successfully within Sulzer Metco's network. The division continues to strengthen its presence in the emerging markets.

Key figures (January – June)

millions of CHF		2011	2010	Change in	
				+/-%	+/-% ¹⁾
Order intake		347	311	12%	22%
Sales		329	298	10%	20%
Operating income before depreciation and amortization	EBITDA	46	38	23%	
Operating income	EBIT	35	26	35%	
Return on sales (EBIT/sales)	ROS	10.5%	8.6%		

¹⁾ Adjusted for currency effects as well as acquisitions and divestitures.

Sulzer Chemtech

Higher orders, sales, and operating income

Sulzer Chemtech increased orders, sales, and operating income. The global tower field service network was further strengthened with two acquisitions. The division continued to drive organic growth through innovations.



Higher order intake

The division significantly increased its order intake compared with the first half of the previous year. Demand in the hydrocarbon processing industry stabilized, and some large projects contributed positively to the order intake. The Process Technology unit recorded a substantial increase of orders, and activity levels for Sulzer Mixpac Systems remained strong. Geographically, the demand was particularly high in the Middle East and in China.

Higher sales

Sulzer Chemtech increased sales and operating income compared with the first half of the previous year. Profitability decreased due to a change in the product mix and minor adaptations of the capacity in Europe. The strong Swiss franc continued to have a negative translation effect. The division decreased its accident frequency rate significantly since the end of 2010.

Expansion of service network and innovation

In order to further enhance the competitiveness of the tower field service activities, the division acquired two maintenance specialists: C.L. Engenharia in Brazil and Black Magic Crew in Canada. The division remained focused on innovation to drive organic growth: Sulzer Chemtech has expanded its process technology test center, and is building its own industrial-scale pilot plant for the production of bioplastics sample materials. Sulzer Mixpac Systems continued to successfully launch innovative mixing and dispensing systems. For the hydrocarbon processing industry, the product portfolio of separators was further developed.

Outlook

The hydrocarbon processing industry is projected to recover further, although at a slow pace. The project activity levels in the polymer industry and for Sulzer Mixpac Systems are expected to increase. For the full year, the division expects double-digit growth for order intake and sales on an adjusted basis, albeit at a lower rate than in the first half of the year. Profitability is forecast to remain at a double-digit level.

Key figures (January – June)

millions of CHF	2011	2010	Change in	
			+/-%	+/-% ¹⁾
Order intake	376	320	17%	27%
Sales	303	275	10%	19%
Operating income before depreciation and amortization EBITDA	48	47	2%	
Operating income EBIT	31	29	7%	
Return on sales (EBIT/sales) ROS	10.1%	10.7%		

¹⁾ Adjusted for currency effects as well as acquisitions and divestitures.

Sulzer Turbo Services

Strong growth driven by acquisition and large projects

Sulzer Turbo Services strongly increased its order intake and sales. Operating income was doubled. The integration of Dowding & Mills was successfully concluded.



High demand for services

The demand for the division's service offering in the oil and gas, power generation, and other industrial markets continued to grow. The hydrocarbon processing industry showed signs of improvement. These positive developments allowed Sulzer Turbo Services to strongly increase its order intake compared with the first half of the previous year, driven both by significant organic growth and by strong contributions from Dowding & Mills. In the power maintenance sector, Central and South America showed particularly high activity levels.

Strong performance and increased profitability

The division strongly increased sales and doubled its operating income. The strong Swiss franc continued to have a negative translation effect. Return on sales rose by more than two percentage points compared with the first half of the prior year. In addition to successfully integrating Dowding & Mills, the division also significantly decreased its accident frequency rate.

Outlook

Demand for the division's services in the oil and gas, power generation, and other industrial markets is predicted to remain at high levels. The hydrocarbon processing industry is forecast to improve slightly. For the full year, Sulzer Turbo Services expects double-digit growth in order intake and sales on an adjusted basis. The acquired business will strongly support the nominal growth. Profitability is expected to remain at a double-digit level.

Successful integration of electromechanical activities

Dowding & Mills, acquired in June 2010, was successfully integrated and has contributed significantly to the results of the division. Through the acquisition, Sulzer Turbo Services has been able to diversify its product and service portfolio and has achieved significant sales synergies. The global presence was further expanded with a sales and project office in Russia, which will strengthen the division's presence in that fast-growing market. Sulzer Turbo Services continued the successful development of long-term service agreements that help to ensure steady income streams over longer periods of time.

Key figures (January – June)

millions of CHF		2011	2010	Change in	
				+/-%	+/-% ¹⁾
Order intake		260	162	61%	31%
Sales		221	146	51%	15%
Operating income before depreciation and amortization	EBITDA	31	16	96%	
Operating income	EBIT	23	11	109%	
Return on sales (EBIT/sales)	ROS	10.2%	7.7%		

¹⁾ Adjusted for currency effects as well as acquisitions and divestitures.

Consolidated income statement

January – June

millions of CHF	2011	2010
Sales	1 600.6	1 471.5
Cost of goods sold	-1 092.4	-995.8
Gross profit	508.2	475.7
Selling and distribution expenses	-151.6	-147.7
General and administrative expenses	-148.7	-140.8
Research and development expenses	-32.0	-29.4
Other operating income	16.2	22.7
Other operating expenses	-15.0	-25.6
Operating income	177.1	154.9
Interest and securities income	4.6	5.2
Interest expenses	-4.0	-3.9
Other financial income	-0.4	-2.3
Income before income tax expenses	177.3	153.9
Income tax expenses	-51.0	-41.0
Net income	126.3	112.9
Attributable to shareholders of Sulzer Ltd	124.8	111.7
Attributable to non-controlling interests	1.5	1.2
Earnings per share, attributable to a shareholder of Sulzer Ltd (in CHF)		
Basic earnings per share	3.69	3.32
Diluted earnings per share	3.65	3.29

Consolidated statement of comprehensive income

January – June

millions of CHF	2011	2010
Net income	126.3	112.9
Fair value changes on available-for-sale financial assets, net of tax	-0.3	0.6
Cash flow hedge reserve, net of tax	-66.7	2.7
Currency translation differences	-95.6	1.9
Total comprehensive income for the period	-36.3	118.1
Attributable to shareholders of Sulzer Ltd	-37.4	116.7
Attributable to non-controlling interests	1.1	1.4

Consolidated balance sheet

millions of CHF	June 30 2011	December 31 2010	June 30 2010
Non-current assets			
Intangible assets	596.6	629.0	678.2
Property, plant and equipment	500.7	531.6	600.8
Other financial assets	35.0	35.9	28.1
Non-current receivables	8.6	8.8	10.6
Deferred income tax assets	83.0	90.3	114.6
Total non-current assets	1223.9	1295.6	1432.3
Current assets			
Inventories	615.3	533.8	594.4
Advance payments to suppliers	82.0	80.3	79.8
Trade accounts receivable	773.2	718.3	729.2
Other accounts receivable and prepaid expenses	165.8	179.2	155.4
Assets held for sale	3.6	3.7	7.8
Marketable securities	14.5	12.7	30.5
Cash and cash equivalents	440.6	668.1	495.4
Total current assets	2095.0	2196.1	2092.5
Total assets	3318.9	3491.7	3524.8
Equity			
Share capital	0.3	0.3	0.3
Reserves	1768.1	1894.7	1804.4
Equity attributable to shareholders of Sulzer Ltd	1768.4	1895.0	1804.7
Non-controlling interests	4.4	6.2	9.7
Total equity	1772.8	1901.2	1814.4
Non-current liabilities			
Long-term borrowings	41.2	44.2	69.5
Deferred income tax liabilities	56.0	66.1	91.9
Non-current income tax liabilities	21.8	22.2	32.3
Non-current provisions	204.6	214.3	221.2
Other non-current liabilities	3.2	1.3	3.3
Total non-current liabilities	326.8	348.1	418.2
Current liabilities			
Short-term borrowings	41.3	83.8	47.0
Current income tax liabilities	40.4	36.8	43.8
Current provisions	137.1	155.7	175.5
Trade accounts payable	286.4	285.2	277.4
Customers' advance payments	282.7	277.9	324.6
Other current and accrued liabilities	431.4	403.0	423.9
Total current liabilities	1219.3	1242.4	1292.2
Total liabilities	1546.1	1590.5	1710.4
Total equity and liabilities	3318.9	3491.7	3524.8

Consolidated statement of changes in equity

millions of CHF	Attributable to shareholders of Sulzer Ltd							Non-controlling interests	Total equity
	Share capital	Retained earnings	Treasury stock	Cash flow hedge reserve	Available-for-sale financial assets	Currency translation adjustment	Total		
Equity as of January 1, 2010	0.3	2017.9	-98.7	3.5	19.0	-164.5	1777.5	11.4	1788.9
Comprehensive income for the period:									
Net income		111.7					111.7	1.2	112.9
Cash flow hedges, net of tax				2.7			2.7		2.7
Fair value changes on available-for-sale financial assets, net of tax					0.6		0.6		0.6
Currency translation differences						1.7	1.7	0.2	1.9
Total comprehensive income for the period		111.7	-	2.7	0.6	1.7	116.7	1.4	118.1
Addition/deduction of non-controlling interests								-0.4	-0.4
Change in treasury shares		-11.1	13.4				2.3		2.3
Share-based payments		4.1					4.1		4.1
Dividend		-95.9					-95.9	-2.7	-98.6
Equity as of June 30, 2010	0.3	2026.7	-85.3	6.2	19.6	-162.8	1804.7	9.7	1814.4
Equity as of January 1, 2011	0.3	2217.1	-76.9	8.5	27.0	-281.0	1895.0	6.2	1901.2
Comprehensive income for the period:									
Net income		124.8					124.8	1.5	126.3
Cash flow hedges, net of tax				-66.7			-66.7		-66.7
Fair value changes on available-for-sale financial assets, net of tax					-0.3		-0.3		-0.3
Currency translation differences						-95.2	-95.2	-0.4	-95.6
Total comprehensive income for the period		124.8	-	-66.7	-0.3	-95.2	-37.4	1.1	-36.3
Addition/deduction of non-controlling interests							-	-	-
Change in treasury shares		-11.3	20.5				9.2		9.2
Share-based payments		4.4					4.4		4.4
Dividend		-102.8					-102.8	-2.9	-105.7
Equity as of June 30, 2011	0.3	2232.2	-56.4	-58.2	26.7	-376.2	1768.4	4.4	1772.8

Consolidated statement of cash flows

millions of CHF	2011	2010
Cash and cash equivalents as of January 1	668.1	730.6
Cash flow from operating activities		
Net income	126.3	112.9
Interest and securities income	-4.6	-5.2
Interest expenses	4.0	3.9
Income tax expenses	51.0	41.0
Depreciation/amortization	49.9	49.3
Changes in inventories	-126.9	-68.7
Changes in advance payments to suppliers	-7.5	-15.2
Changes in trade accounts receivable	-111.2	-4.1
Changes in advance payments from customers	27.0	12.4
Changes in trade accounts payable	24.1	22.8
Changes in provisions	-5.4	-22.7
Changes in other net current assets	-29.1	-2.1
Other non-cash items	29.4	27.5
Interest received	4.6	4.6
Interest paid	-2.7	-2.1
Income tax paid	-50.9	-79.0
Income from disposals of subsidiaries and property, plant and equipment	-3.5	-3.2
Total cash flow from operating activities	-25.5	72.1
Cash flow from investing activities		
Purchase of intangible assets	-0.7	-0.8
Sale of intangible assets	-	0.4
Purchase of property, plant and equipment	-41.9	-45.5
Sale of property, plant and equipment	1.0	10.8
Acquisitions	-12.0	-179.2
Divestitures	11.2	-
Purchase of financial assets	-	0.1
Sale of financial assets	0.4	1.7
Purchase of marketable securities	-7.5	-9.5
Sale of marketable securities	5.4	16.3
Total cash flow from investing activities	-44.1	-205.7
Cash flow from operating and investing activities	-69.6	-133.6
Cash flow from financing activities		
Dividend	-102.0	-94.6
Purchase/sale of treasury stock	8.4	0.9
Dividend to non-controlling interests	-2.9	-0.9
Changes in non-controlling interests	-1.0	-
Additions in long-term borrowings	0.8	0.5
Repayment of long-term borrowings	-2.1	-0.7
Changes in short-term borrowings	-40.1	-0.8
Total cash flow from financing activities	-138.9	-95.6
Exchange gains/losses on cash and cash equivalents	-19.0	-6.1
Net change in cash and cash equivalents	-227.5	-235.2
Cash and cash equivalents as of June 30	440.6	495.4

Notes to the financial statements

01 Accounting policies

This unaudited consolidated interim financial report for the six months ended June 30, 2011, was prepared in accordance with the IAS 34 on Interim Financial Reporting and the accounting policies outlined in the Sulzer Annual Report 2010.

02 Changes in accounting policies

Sulzer has adopted all applicable new IFRS standards, interpretations, and amendments, which were mandatory for the first time for the financial year beginning January 1, 2011. All applicable changes, i.e., IAS 24 (revised), the amendment to IAS 32, IFRIC 19, the amendment to IFRIC 14, and the amendments published as part of the improvement project in May 2010 have no impact on Sulzer's financial statements.

03 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 allocation of the cost of the business combination shall be adjusted accordingly.

2011

C.L. Engenharia Ltda.

On May 31, 2011, Sulzer Chemtech acquired the privately-owned maintenance specialist C.L. Engenharia Ltda. in Brazil for a purchase price of BRL 20.0 million (CHF 10.7 million). The related goodwill amounted to CHF 2.0 million. The acquired company achieved sales of BRL 20.6 million (CHF 11.7 million) in 2010 and employs approximately 300 employees. With this acquisition, Sulzer Chemtech will enhance the competitiveness of its tower field service activities in Brazil by adding the competencies of a local contractor with a skilled crew.

Sulzer Chemtech acquired the assets of Black Magic Crew Ltd. in Canada. The contribution of the acquisition to the consolidated income statement and to the total of Sulzer's employees is not material. There was no goodwill resulting from the transaction.

2010

Castle Support Services plc

On June 3, 2010, Sulzer acquired Castle Support Services plc, the parent company of Dowding & Mills, for a total purchase price of GBP 127.5 million. Castle shares trading on the Alternative Investment Market (AIM) at the London Stock Exchange have been cancelled. As of December 31, 2010, Sulzer (UK) Holdings Ltd held 100% of shares of Castle Support Services plc. Dowding & Mills employs approximately 1 350 people in the UK, USA, Australia, and UAE.

Cash acquired amounted to CHF 33.6 million. Recognized intangible assets totaled CHF 64.2 million. The resulting goodwill comparing the purchase price of CHF 213.6 million paid in cash (total consideration) and the net assets acquired amounted to CHF 141.6 million. The goodwill is attributable to synergies from entering new geographical markets and the related increase in the service portfolio. The goodwill will not lead to taxable valuation differences. Transaction costs were recognized in general and administrative expenses and came to CHF 3.3 million in first half year 2010. Non-controlling interests related to the acquisition were measured at proportionate equity with an amount of CHF -0.5 million. For the first half year 2011, order intake was CHF 105.1 million (2010: CHF 18.8 million), sales amounted to CHF 103.0 million (2010: CHF 18.8 million), and operating income totaled CHF 10.0 million (2010: CHF 2.1 million).

Acquired net assets of Castle Support Services plc

millions of CHF	Fair value
Intangible assets	64.2
Other non-current assets	60.9
Inventories	21.2
Trade accounts receivable	33.8
Other current assets	39.5
Employee benefit plans	-45.6
Other liabilities with third parties	-102.0
Identified acquired net assets	72.0

Bekaert diamond-like carbon (DLC) coatings

On July 1, 2010, Sulzer Metco acquired Bekaert's diamond-like carbon (DLC) coating activities for a purchase price of EUR 14.1 million (CHF 18.6 million). The resulting goodwill amounts to CHF 0.3 million. Bekaert's DLC coatings business develops and markets thin-film coatings, which combine very low frictional resistance and extreme hardness. For the first half year 2011, order intake totaled CHF 13.1 million (2010: CHF 0.0 million), sales came to CHF 13.1 million (2010: CHF 0.0 million), and operating income amounted to CHF 1.8 million (2010: CHF 0.0 million).

Acquired net assets of Bekaert's diamond-like carbon (DLC) coating activities

millions of CHF	Fair value
Intangible assets	1.9
Other non-current assets	13.5
Inventories	0.6
Trade accounts receivable	3.7
Other current assets	3.7
Liabilities with third parties	-5.1
Identified acquired net assets	18.3

Sulzer Chemtech acquired the assets of Dentaco GmbH. The contribution of the acquisition to the consolidated income statement and to the total of Sulzer's employees is not material. There was no goodwill resulting from the transaction.

No changes to the provisional purchase price allocation disclosed in the Sulzer Annual Report 2010 had to be considered for acquisitions made in 2010.

Sulzer Real Estate Ltd

On October 27, 2010, Sulzer successfully completed the transaction of its Winterthur real estate portfolio with Implenla Ltd. By acquiring Sulzer Real Estate Ltd in a share deal structure, Implenla Ltd took over Sulzer's operationally non-essential real estate in Switzerland, including liabilities.

The net transaction value was approximately CHF 83 million. In addition, there is a value attached to sales contracts already signed for various properties, for which closing is expected to take place by the end of 2013. In 2011, the EBIT contribution from the sale of Sulzer Real Estate Ltd amounted to CHF 3.7 million (2010: CHF 0.0 million).

04 Planned acquisition of Cardo Flow Solutions

Sulzer has signed an agreement with Assa Abloy, the new majority owner of Cardo Flow Solutions after a public offer concluded in March 2011, for the acquisition of Cardo Flow Solutions. Headquartered in Malmö, Sweden, Cardo Flow Solutions achieved in 2010 sales of approximately CHF 463 million and an adjusted EBITDA of CHF 67 million, implying a 14.5% EBITDA margin. The business has around 1900 employees and generates around 90% of its sales in the wastewater market as a full-line supplier of pumps and related equipment such as lifters, mixers, aerators, compressors, control and monitoring equipment, and services.

With the intended acquisition, Sulzer will become a leading player in the wastewater pump and related equipment market. Cardo Flow Solutions complements the existing business of Sulzer Pumps in water transportation and desalination. With the intended acquisition, water and wastewater will become a key market for Sulzer, accounting for approximately 16% of total sales (pro-forma combined based on 2010 sales). The intended acquisition is subject to customary regulatory approvals. Closing is expected in the third quarter of 2011.

After the closing of the transaction, the wastewater pumps business will be integrated into Sulzer Pumps as an additional global business area, with the intention to further expand the business geographically and expanding the range of complete pumping solutions. Cardo Flow Solutions' process pumps business for the general industries segments will be integrated into Sulzer Pumps' existing process pumps business area.

The cash consideration of SEK 5.9 billion (CHF 852 million) corresponds to an adjusted 2010 EBITDA multiple of 12.8x. The purchase price in SEK is hedged using common foreign exchange forward contracts and a deal contingent forward for 50%. The unrealized hedge result for these instruments is recognized in other comprehensive income, whereas the ineffective portion of the hedges of CHF 0.3 million is recognized in financial income.

Synergies will be mainly achieved through broader geographic presence, combined solutions, joint sourcing, and shared services. Run-rate sales synergies are expected to be in the range of 10% of acquired sales in year three. Cost synergies are identified and will be quantified after closing.

Sulzer expects transaction costs of CHF 10 million and integration costs of CHF 25 million distributed over three years. The future EBIT impact due to amortization of acquired intangibles will be quantified only after closing.

The transaction of CHF 852 million will be financed with cash on hand and available debt capacity. On June 22, 2011, Sulzer successfully launched a CHF-denominated 2.25% domestic bond in the aggregate principal amount of CHF 500 million for a term of five years (due date July 11, 2016). The capital will be deployed as part of the financing of the acquisition of Cardo Flow Solutions.

05 Currency exchange rates

CHF	Average rate			Closing rate		
	Jan–Jun 2011	Jan–Jun 2010	Jan–Dec 2010	Jun 30 2011	Jun 30 2010	Dec 31 2010
1 EUR	1.27	1.44	1.38	1.21	1.33	1.25
1 GBP	1.46	1.65	1.61	1.33	1.63	1.45
1 USD	0.91	1.08	1.04	0.83	1.08	0.94
1 BRL	0.56	0.60	0.59	0.53	0.60	0.56
1 CAD	0.93	1.05	1.01	0.86	1.03	0.94
100 CNY	13.84	15.87	15.40	12.90	15.94	14.20
100 INR	2.01	2.37	2.28	1.87	2.33	2.09
100 MXN	7.61	8.55	8.25	7.10	8.44	7.57
1 SGD	0.72	0.78	0.76	0.68	0.77	0.73
100 ZAR	13.13	14.39	14.25	12.29	14.18	14.11

06 Subsequent events after the balance sheet date

The Board of Directors authorized these consolidated financial statements for issue on July 20, 2011. The Board of Directors and the Executive Committee are, at the time of completion of the consolidated financial statements of the corporation on July 20, 2011, not aware of any other events that would materially affect these statements.

Segment information

January – June

millions of CHF		Sulzer Pumps		Sulzer Metco		Sulzer Chemtech		Sulzer Turbo Services	
		2011	2010	2011	2010	2011	2010	2011	2010
Order intake		838.5	824.1	347.1	310.9	375.5	319.8	259.9	161.8
Nominal growth		1.7%	-6.8%	11.6%	11.9%	17.4%	30.6%	60.6%	12.7%
Adjusted growth ¹⁾		16.2%	-7.1%	21.7%	15.2%	27.1%	29.1%	31.4%	2.7%
Order backlog as of June 30/December 31		1319.6	1336.6	84.5	71.3	329.4	274.3	142.4	115.1
Sales		743.2	746.9	328.8	298.2	302.9	274.9	220.5	145.8
Nominal growth		-0.5%	-22.5%	10.3%	8.9%	10.2%	-20.3%	51.2%	7.8%
Adjusted growth ¹⁾		13.2%	-23.6%	20.3%	11.9%	18.9%	-21.0%	15.3%	-2.9%
Research and development expenses		5.9	6.0	10.3	9.6	14.8	12.7	-	-
Operating income before depreciation/amortization	EBITDA	97.3	97.4	46.1	37.6	47.8	47.0	30.7	15.7
Depreciation/amortization		-11.9	-12.8	-11.6	-11.9	-17.1	-17.7	-8.1	-4.4
Operating income	EBIT	85.4	84.6	34.5	25.7	30.7	29.3	22.6	11.3
Return on sales (EBIT/sales)	ROS	11.5%	11.3%	10.5%	8.6%	10.1%	10.7%	10.2%	7.7%
Operating assets		1099.2	1026.7	468.3	465.6	618.0	582.1	485.8	516.9
Unallocated assets		-	-	-	-	-	-	-	-
Total assets as of June 30/December 31		1099.2	1026.7	468.3	465.6	618.0	582.1	485.8	516.9
Operating liabilities		640.3	702.7	97.6	100.6	193.5	176.6	145.9	142.3
Unallocated liabilities		-	-	-	-	-	-	-	-
Total liabilities as of June 30/December 31		640.3	702.7	97.6	100.6	193.5	176.6	145.9	142.3
Operating net assets		458.9	324.0	370.7	365.0	424.5	405.5	339.9	374.6
Unallocated net assets		-	-	-	-	-	-	-	-
Total net assets as of June 30/December 31		458.9	324.0	370.7	365.0	424.5	405.5	339.9	374.6
Capital expenditure		15.8	21.9	9.1	9.5	12.0	10.9	4.8	2.5
Employees (number of full-time equivalents) as of June 30/December 31		6184	5904	2200	2045	3513	2973	2680	2587

¹⁾ Adjusted for currency effects as well as acquisitions and divestitures.

January – June

millions of CHF		Total divisions		Others ²⁾		Total Sulzer	
		2011	2010	2011	2010	2011	2010
Order intake		1 821.0	1 616.6	3.4	5.4	1 824.4	1 622.0
Nominal growth		12.6%	4.2%	–	–	12.5%	4.2%
Adjusted growth ¹⁾		20.9%	3.5%	–	–	20.6%	3.5%
Order backlog as of June 30/December 31		1 875.9	1 797.3	0.9	2.5	1 876.8	1 799.8
Sales		1 595.4	1 465.8	5.2	5.7	1 600.6	1 471.5
Nominal growth		8.8%	–14.6%	–	–	8.8%	–14.7%
Adjusted growth ¹⁾		15.9%	–15.8%	–	–	15.7%	–15.8%
Research and development expenses		31.0	28.3	1.0	1.1	32.0	29.4
Operating income before depreciation/amortization	EBITDA	221.9	197.7	5.1	6.5	227.0	204.2
Depreciation/amortization		–48.7	–46.8	–1.2	–2.5	–49.9	–49.3
Operating income	EBIT	173.2	150.9	3.9	4.0	177.1	154.9
Return on sales (EBIT/sales)	ROS	10.9%	10.3%	–	–	11.1%	10.5%
Operating assets		2 671.3	2 591.3	35.9	37.2	2 707.2	2 628.5
Unallocated assets		–	–	–	–	611.7	863.2
Total assets as of June 30/December 31		2 671.3	2 591.3	35.9	37.2	3 318.9	3 491.7
Operating liabilities		1 077.3	1 122.2	139.8	76.9	1 217.1	1 199.1
Unallocated liabilities		–	–	–	–	329.0	391.4
Total liabilities as of June 30/December 31		1 077.3	1 122.2	139.8	76.9	1 546.1	1 590.5
Operating net assets		1 594.0	1 469.1	–103.9	–39.7	1 490.1	1 429.4
Unallocated net assets		–	–	–	–	282.7	471.8
Total net assets as of June 30/December 31		1 594.0	1 469.1	–103.9	–39.7	1 772.8	1 901.2
Capital expenditure		41.7	44.8	0.9	1.5	42.6	46.3
Employees (number of full-time equivalents) as of June 30/December 31		14 577	13 509	232	231	14 809	13 740

¹⁾ Adjusted for currency effects as well as acquisitions and divestitures.

²⁾ Others summarizes the following activities: Sulzer Real Estate, Sulzer Innotec, Corporate Center, and consolidation adjustments.

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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