

Sulzer Ltd—Annual General Meeting 2008

Review of the year by Ulf Berg, Chairman of the Board

Ladies and Gentlemen, dear Shareholders,

Sulzer's performance has improved impressively in recent years. And despite several changes to our management team, we also achieved peak performance in 2007.

This was only made possible by the strength we derive from our business culture—the *Sulzer Spirit*—that is so strongly anchored in our company.

Let us take a look at developments since 2003. As you can see, Sulzer sales have approximately doubled during this time, with about four times greater profitability.

Our CEO Ton Büchner will be detailing our positive result for 2007 later on. At this time I note with pleasure that it is arguably the best result ever achieved by Sulzer Industries. Maybe you are wondering if this merely reflects a favorable period? It goes without saying that we certainly enjoyed a strong market demand—but we ourselves created the necessary conditions for that some time ago.

A good many of you will remember the drastic portfolio changes we had to make.

It was those changes that enabled us to focus on the four divisions we have today. In the next phase we concentrated on Operational Excellence and making our processes more efficient. That put us in the position to master our large order volumes and derive excellent business results from the outstandingly good market conditions.

Why is Sulzer in the position to master such challenges again and again?

In my first address as CEO four years ago, I said:

“The Foundations for the Future are laid in the Past”

and I can assure you that Sulzer has mastered many challenges on the way.

Our history characterizes our company and our people. It also lays the foundations for our future. That is what binds the Sulzer people of today with those of the older generation—many of whom are with us here at this meeting.

This combination of innovation and tradition, as lived by Sulzer today, is the secret of our success and that of our customers.

In the period from 2002 until now, the Sulzer share price has risen from less than 200 CHF to more than 1300 CHF.

Whereby the current share price reflects the financial crisis—it was considerably higher in the meantime.

Based on the gratifying result for 2007, the board of directors makes the following proposal as item 2 on the agenda:

The dividend shall be increased for the fourth time in succession, this time by 22% to CHF 28 per share. More than five times the dividend five years ago, this reflects Sulzer's very positive development

I would now like to take the opportunity of talking about corporate governance. Sulzer has been committed for years to good corporate governance. In 2002 we introduced the following rules in this connection:

- Two Sulzer board members may not sit together on the board of another company
- Sulzer board members must have international CEO experience or similar
- Sulzer board members must be personally independent
- Sulzer board members must reserve the necessary time for meeting their responsibilities.

Sulzer also fulfils all the recommendations of the Swiss Code of Best Practice for Corporate Governance ever since its introduction in 2002. This code was extended last year with new recommendations, including the compilation of a remuneration report. Sulzer has also complied with this recommendation—our remuneration report forms part of the corporate governance report within the annual report. I have a few comments:

The Sulzer Board of Directors' remuneration policy focuses on three criteria:

- Firstly, remuneration is regularly compared with that of other companies.
- Secondly, remuneration shall be transparent.
- And thirdly, remuneration shall be structured to ensure that the interests of the Board of Directors and executive management are coordinated as far as possible with those of our shareholders.

Remuneration of the board members comprises a cash component and a stock option component. Remuneration of our management team comprises a basic salary, a performance-linked bonus, and stock options.

This remuneration policy and the related stock option plan, including employment contracts, have not changed much for several years. Due to our higher share price, the options assigned by Sulzer in spring 2007 to our board members and about 70 executive managers had a very high value, but the recent share price decline has considerably reduced the effective value for the recipients.

During this period our executive management and board of directors resolved to adjust the long-term remuneration of the board of directors and management team in two steps:

As a **first step**, Sulzer has set a limit on the company's costs for remuneration based on stock options and/or shares. This limit has been in force since the beginning of 2008, and as a result, Sulzer has significantly reduced its long-term remuneration costs in 2008.

As a **second step**, Sulzer has decided that as of 2009, blocked shares will be paid out as long-term oriented remuneration instead of stock options. One third of these blocked shares will be released each year thereafter. Thanks to this changeover from stock options to shares, which are less risky, we shall be able as of 2009 to set the overall value of long-term remuneration components for the board of directors and senior management at a lower level than today and also apply an upper limit.

After this explanation of Sulzer's remuneration policy, I would now like to review the general economic situation.

There is a lot of talk about the financial sector crisis and how it will affect the primary economy. The effects in some branches of the economy will certainly be significant, but I do not think that Sulzer's key markets will be exposed very much to this trend. Due to the shortage and high prices of raw materials, heavy investments in their procurement and transportation will be necessary for the foreseeable future. This applies for example to Sulzer's oil and gas market applications.

The financial crisis does however leave its traces, particularly with regard to the cost of financing acquisitions. That is why we are now searching for attractive acquisition possibilities more intensively and with higher outlay.

Also for such acquisition processes, our Operational Excellence also provides a solid foundation for moving forward successfully.

This completes my introductory remarks, and we now proceed to the agenda.