

Sulzer AG – Annual General Meeting 2013

Address by Klaus Stahlmann, Chief Executive Officer

Dear shareholders,

It gives me great pleasure to present to you today our results for the last financial year, 2012. I shall also be reporting on our strategic priorities, our medium-term targets and our market position.

Sulzer is well positioned to continue achieving profitable, sustainable growth in the future.

Sulzer delivered a very strong performance in financial year 2012 – although the environment was not an easy one.

We succeeded in raising sales to a record level of just over four billion Swiss francs. This was helped by integration of the wastewater pumps business acquired in 2011, as well as organic growth in our divisions.

Net income attributable to shareholders rose to more than 300 million Swiss francs and return on sales remained in double digits at 10.2 percent.

We quadrupled our cash flow compared with the previous year. This is attributable not only to better results at the operating level, but also to systematic measures that enabled us to reduce net working capital significantly.

This further strengthened our balance sheet, while net debt declined to below 100 million Swiss francs.

All divisions performed well in 2012, contributing to the success of the business as a whole.

In our Pumps division, integration of the acquired wastewater pumps business was an important focal point. Coupled with organic growth, this enabled our Pumps division to exceed the two billion Swiss francs mark in terms of order intake and sales in 2012.

Sulzer Metco was able to continue its profitable growth thanks to its specialized coating solutions for auto parts and aircraft engines.

Sulzer Chemtech's separation and mixing technologies enabled it to generate higher sales and likewise improve its profitability.

At Sulzer Turbo Services, growth continued to be supported by the combination of maintenance of turbines and of engines and generators.

2012 will therefore go down in Sulzer history as another successful financial year.

We are excellently positioned for the future. Several factors are at play here: Our outstanding products and services, the attractive key markets in which we operate, and our exceptional global presence.

Let us firstly turn to the strength of our product offer and our service capability.

Our pumps are technology leaders in various areas. They transport demanding mixtures of oil, gas, water, and sand, are highly energy-efficient and produce exceptionally high pressure – to mention just three outstanding product features.

Our coating solutions not only prevent wear and tear but also contribute significantly to ensuring that vehicle and aircraft engines consume less fuel.

Our separation and mixing technology provides crucial help in breaking crude oil down into more than 17,000 possible components. Our process technology also assists with the processing of renewable commodities.

As a leading independent service provider, Sulzer Turbo Services not only restores turbines, engines and generators to their former performance capability but in many cases also enables even more efficient operation than previously.

A second factor behind our strong position going forward is Sulzer's focus on attractive key markets.

Here you can see the four key markets in which we mainly operate – alongside business with a larger group of general industrial markets. This shows a clear emphasis on oil and gas, where we generate 40 percent of our sales. However, we also have strong activities in the energy, water and transportation markets.

Our key markets are benefiting from important megatrends such as population growth and urbanization, rising demand for water, energy and mobility, but also from the need to exploit scarce natural resources as efficiently as possible. That means our key markets offer us excellent growth prospects in the long term.

At the same time, our products and services are urgently required in these key industries. We benefit from the fact that product requirements are increasing and our strengths are therefore becoming ever more important.

Allow me to illustrate this using oil production as an example: As sources gradually become exhausted, our pumps are required to produce ever greater pressure in order to extract oil from the ground. Offshore, our pumps are relied upon to yield oil from beneath the floor of the ocean – often at great depths. What's more, because the quality of the oil and the gas element changes more rapidly in the case of newer sources, our transportation pumps need to be easier to adapt.

Our offer in this key market is not just confined to a single division, however. Sulzer operates several businesses in this market. In oil and gas production, for example, we also use our coatings to harden drill bits and our separation technology is important to the liquefaction of gas. And in terms of the processing of oil and gas into fuel, plastics and countless chemicals, it's not only our separation tower internals that are vital: we also offer pumps that can cope with these aggressive substances.

We provide equally broad coverage of the energy market, where our boiler feed pumps supply water to giant power stations, our coatings protect gas and steam turbines, and our repair and maintenance service keeps turbines and generators running.

The third factor behind our strong positioning is our worldwide presence. With more than 170 production sites and service centers, we are always very close at hand for customers all over the globe. In overall terms, this gives us a balanced worldwide presence with around one-third of sales generated in America, one third in Europe and the remaining third in Asia, Africa and the Middle East.

This is the outcome of a long-term strategy.

An important milestone last year – besides six new service centers – was the official opening of a production plant for wastewater pumps in Kunshan, China. Since last autumn, pumps, mixers and compressors have been produced and tested there mainly for the Chinese water market.

Global customers find us to be a partner with which they can cooperate in various parts of the world. And when a market in a particular region is developing especially well, for example because new sources are being tapped, we already have a local operation in most cases and therefore have a substantial head start over our less globally active rivals.

Our compelling product offer and service capability, the focus on key markets with huge future potential and our global presence are all important, mutually reinforcing factors in our success.

With a view to exploiting this potential even more, last year saw us develop a new vision. It's a vision that complements our three values: customer partnership, operational excellence, and committed employees.

Our vision is for our customers to recognize us for our leading technologies and services, delivering innovative and sustainable solutions.

That means firstly that our customers are our benchmark and we aim to ensure their complete satisfaction. Only if we really meet the needs of our customers and if they also perceive that to be the case will we have achieved our objective. Second, we intend to maintain a lead over our competitors – in terms of technology and service alike. Third, we are constantly seeking further improvements that will have a long-term impact too.

In all these areas, Sulzer has a lot to offer. But if we really pursue this vision with ambition, we can become significantly better still.

At the same time, we have defined four strategic priorities that we are systematically pursuing with operating projects and strategic initiatives. And as you can see here too, the strategic priorities are all systematically geared toward the needs of our customers. Ultimately, this is the only way we can grow profitably.

Technological leadership is the basis of our strong market positions. If we are to safeguard this crucial strength, we must constantly develop innovations that are tailored to the needs of the market and customers. We therefore intend to systematically focus research and development on customers and markets and strengthen it over the long term. Thus we invested almost 90 million CHF in research and development in 2012, and our technology portfolio was systematically expanded through acquisitions.

Outstanding service also enables us to stand out significantly from our competitors and deliver profitable growth. Services already account for about 41 percent of our sales, and we believe there is potential to expand this much further. Customer proximity – including a dense network of service centers, which we are constantly expanding – is of key importance in this regard. We are also systematically expanding our service offering. Long-term service agreements for turbines are an example for this.

Continuous operational improvements contribute not only to customer satisfaction but also to Sulzer's commercial success. Besides improving efficiency in general, the focus is on delivering products on time and with the right quality. This boosts customer satisfaction, and at the same time provides us with additional cost savings. Other areas such as accident prevention are also delivering greater safety in the workplace.

With the concept of collaborative advantage in mind, we intend to exploit the potential of tighter internal cooperation. Responsibility for market and customer-oriented processes continues to lie with the divisions. At the same time, however, we aim to utilize shared structures and services on a cross-divisional basis wherever it makes sense to do so. In that way we can strengthen our negotiating position vis-à-vis suppliers through shared purchasing. But we also intend to examine where we can achieve additional growth through cross-divisional cooperation on individual markets, e.g. bundled service offerings for specific markets.

How does the future look in concrete terms?

We have just reiterated the ambitious medium-term targets that we set ourselves at the start of 2012. Our aim is to increase sales by an average of 6 to 8 percent per year between 2012 and 2015. We also intend to achieve an 11 to 13 percent return on sales and a return on capital employed of more than 20 percent.

We will work systematically towards these objectives in 2013 and subsequent years. For the current year, we expect modest growth in order intake and sales as well as a slight improvement in profitability. Given current very challenging market conditions, however, we will have to make an effort to reach our outlook for 2013.

Dear shareholder,

I wish to thank you for your continued confidence not only in the Sulzer management team but also our entire staff.

In conclusion, I would now like to show you a video showing how – in tune with our vision and our objectives – partnership with our customers is the main focus of our efforts. In this example, illustrating four key customers, you can see for yourselves how our divisions ideally meet these customers' specific requirements.

Thank you for your attention.