

SULZER

The Company 2011

A nighttime photograph of a city skyline, likely New York City, with numerous skyscrapers illuminated and their lights reflecting on the water in the foreground. The scene is dark, with the city lights providing the primary illumination.

Solutions for
global energy
and water needs

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, water, automotive, and aviation. We serve clients worldwide through a network of over 170 locations.

Our key markets



Oil and gas



Hydrocarbon processing



Power generation



Water



Automotive



Aviation

Orders and sales increased substantially, and profitability was healthy

Sulzer increased order intake and sales substantially. Return on sales was at a healthy level. An unchanged dividend of CHF 3.00 per share will be proposed.

Sales CHF 3578m (2010: CHF 3184m)	Operating income CHF 364m (2010: CHF 406m)
Net income¹⁾ CHF 280m (2010: CHF 300m)	Dividend CHF 3.00 (proposed) (2010: CHF 3.00)

¹⁾ Attributable to shareholders of Sulzer Ltd.

- Sulzer has become a leading player in the water industry due to the acquisition of Cardo Flow Solutions.
- Order intake and sales increased substantially, driven by growth in the oil and gas, the automotive, and other general industrial markets as well as acquisitions.
- Sulzer achieved healthy levels of profitability and return on capital employed.
- A bond of CHF 500 million was successfully issued.
- The balance sheet remained solid and will allow further external growth.
- Based on a solid financial performance, the Board of Directors is proposing an unchanged dividend of CHF 3.00 per share.

Market leaders with innovative and sustainable solutions

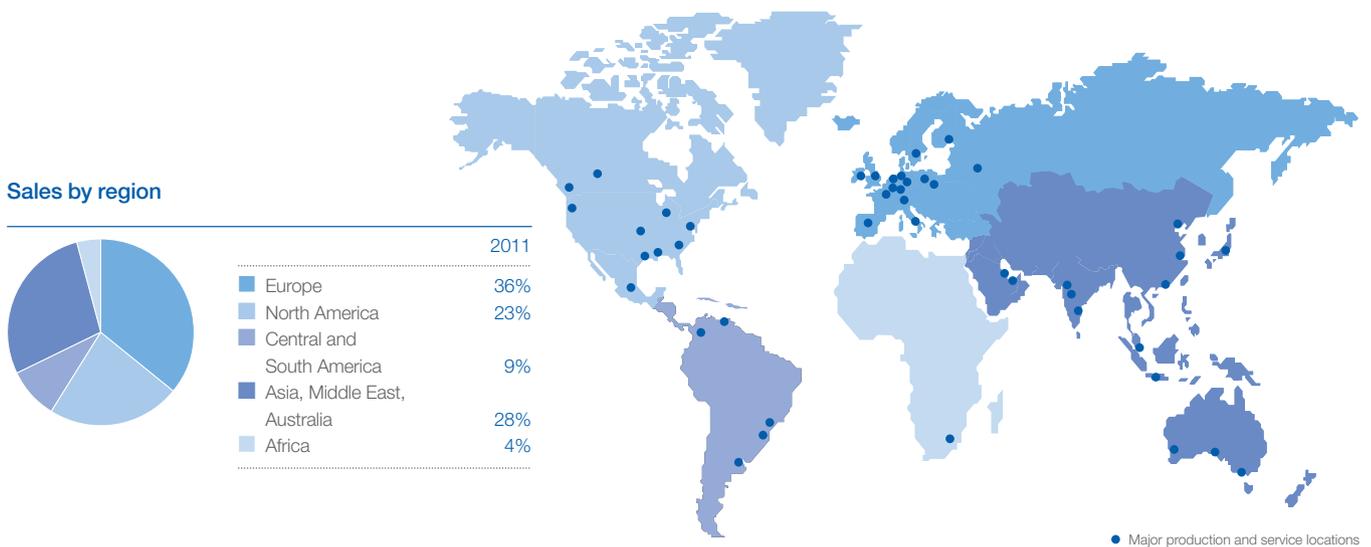
The Sulzer divisions are leading players in selected industries. Combining engineering and application expertise, their solutions add value and strengthen the competitive position of Sulzer's customers.

<p>Sulzer Pumps</p> 	<p>We offer pumping solutions and related equipment and services. Customers benefit from intensive research and development in fluid dynamics, process-oriented products, and reliable services. Our global manufacturing and service network ensures high customer proximity.</p>	<p>Sales CHF 1748m (2010: CHF 1576m)</p>	<p>Operating income CHF 168m (2010: CHF 189m)</p>
<p>Sulzer Metco</p> 	<p>We enhance surfaces with coating solutions and equipment. Customers benefit from a uniquely broad range of surface technologies, coating solutions, equipment, materials, and services, as well as specialized machining services and components. Our innovative solutions improve performance and increase efficiency and reliability.</p>	<p>Sales CHF 667m (2010: CHF 624m)</p>	<p>Operating income CHF 69m (2010: CHF 57m)</p>
<p>Sulzer Chemtech</p> 	<p>We offer products and services for separation, reaction, and mixing technology. Customers benefit from advanced solutions in the fields of process technology, separation equipment, as well as two-component mixing and dispensing systems. Our global footprint ensures local knowledge and competence.</p>	<p>Sales CHF 667m (2010: CHF 575m)</p>	<p>Operating income CHF 63m (2010: CHF 59m)</p>
<p>Sulzer Turbo Services</p> 	<p>We offer repair and maintenance services for turbomachinery, generators, and motors. Customers benefit from reliable and efficient repair and maintenance services for gas and steam turbines, compressors, motors, and generators of any brand. Our global network ensures high-quality local service.</p>	<p>Sales CHF 488m (2010: CHF 399m)</p>	<p>Operating income CHF 53m (2010: CHF 42m)</p>
<p>Sulzer Innotec</p> 	<p>We are the corporate R&D unit for Sulzer and third-parties. Customers benefit from contract research and technical services. Our core competencies include material and surface engineering, flow technology and mechanics, diagnostics, certified testing, as well as manufacturing and repair of precision components.</p>	<p>Sulzer R&D investments CHF 72m (2010: CHF 59m)</p>	<p>Number of innovation projects in the market-launch phase 107 (2010: 81)</p>

High customer proximity through a global network

Sulzer builds on the advantages of a truly global network with over 170 production and service locations. Local presence is crucial to understand the customers' challenges and to serve them quickly and reliably.

Sulzer's production and service network



Market segments

	Oil and gas (upstream)	Hydrocarbon processing	Power generation	Water	Automotive	Aviation	Other industrial markets
Share of sales 2011	14%	25%	18%	8%	6%	4%	25%
Sulzer Pumps	●	●	●	●			●
Sulzer Metco	●		●		●	●	●
Sulzer Chemtech	●	●			●		●
Sulzer Turbo Services	●	●	●				●

- Greater than 10% of divisional sales.
- Less than 10% of divisional sales.



Solutions for global energy and water needs

The world depends on energy and water, as they enable life and prosperity. Sulzer provides innovative and sustainable solutions for the long-term trends of growing energy demand and increasing water scarcity. We help provide energy and water for everyone.

For more information visit



www.sulzer.com/focus



Clean water

Water is the basis for life on our planet. Sulzer solutions play a crucial role in the treatment of wastewater in order to return clean water into the natural cycle. We offer an extensive portfolio of wastewater pumps and related equipment, such as lifters and mixers, for the wastewater industry. Customers benefit from long-term reliability, minimal maintenance costs, and maximum equipment life cycles.

For more information visit



www.sulzer.com/focus/wastewater

Solutions for global energy and water needs

Invisible power

Economic growth fuels the demand for energy, particularly in the emerging markets. Sulzer solutions help to efficiently meet the increasing need for power for everyone. We offer an extensive range of solutions for the power generation industry, such as pumps for power plants, coatings for gas and steam turbines, and repair and maintenance services for turbines and generators.

For more information visit



www.sulzer.com/focus/power



Forward momentum

Today's way of life requires fast and efficient transport. Sulzer solutions help make transport more energy efficient and sustainable. Our transport solutions include coatings for drive components and engine parts as well as mixing and dispensing systems for car manufacturing. They improve performance and safety, while reducing fuel consumption and emissions.

For more information visit



www.sulzer.com/focus/transport

Strategic step into the water market

Sulzer is now a leading player in the water industry due to the acquisition of Cardo Flow Solutions. The company continued to focus on operational excellence, innovation, health and safety, emerging markets, and the service business.

“ Sulzer increased order intake and sales substantially in 2011. Our balance sheet remains solid and will allow further external growth. ”



Jürgen Dormann,
Chairman of the Board

Net income¹⁾

CHF 280m

(2010: CHF 300m)

Dividend

CHF 3.00 (proposed)

(2010: CHF 3.00)

¹⁾ Attributable to shareholders of Sulzer Ltd.

Dear Shareholder

Sulzer is now a leading player in the water industry due to its strategic acquisition of Cardo Flow Solutions. Cardo's leading offering of pumps and related equipment for wastewater applications combined with our existing products for the water industry has expanded our portfolio, which covers the entire water cycle. With this strategic step, we are now in a strong position to provide solutions for the long-term challenge of increasing water scarcity. Our extensive portfolio of performance-critical and energy-efficient solutions for power generation enables us to respond to the long-term trend of growing energy demand.

Sulzer has become a leading player in the water industry

In 2011, Sulzer increased order intake and sales substantially. Excluding the negative currency translation effects, both key figures exceeded CHF 4 billion. The higher non-recurring contribution from the sale of the real estate business in 2010 and acquisition-related expenses in 2011 are the main reasons for the decrease in profitability from the previous year. Return on capital employed remained at a clearly value-generating level. Based on a net income attributable to shareholders of CHF 280 million and earnings per share of CHF 8.25, the Board of Directors will propose an unchanged dividend of CHF 3.00 per share.

In order to continuously create sustainable shareholder value, we have kept our focus on operational excellence, innovation, and health and safety. We also further expanded our presence in emerging markets and added new locations to our service network.

For 2012, order intake and sales are expected to increase moderately, and profitability is forecast to remain healthy. By the year 2015, Sulzer aspires to achieve a divisional return on sales of 11–13% and a divisional return on capital employed of more than 20%. Sales of the divisions are expected to grow organically by 6–8% on an average yearly basis between 2012 and 2015.

Solutions for global energy and water needs

Sulzer is well positioned to provide performance-critical solutions for the long-term trends of growing energy demand and increasing water scarcity. Throughout this report, we present a number of examples of how our experts are developing solutions to meet the increasing power demand efficiently for everyone and to ensure the supply of clean water, which enables life and prosperity.

We provide solutions for the long-term trends of growing energy demand and water scarcity

Economic growth fuels the demand for energy, particularly in the emerging markets. We offer performance-critical and energy-efficient solutions for our customers in the power generation industry, such as pumps and carbon capture

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, water, automotive, aviation, 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.

technologies for power plants, coating solutions for gas and steam turbines, and maintenance and repair services for turbines and generators.

Sulzer is now a leading player in the water industry due to the acquisition of Cardo Flow Solutions. Our solutions cover the entire water cycle—from water production and transport to wastewater treatment. With the acquisition, water has become a key market for Sulzer, accounting for about 13% of sales (on a full-year basis).

Creating long-term value for shareholders

Sulzer's five key focus areas continued to guide our efforts to create long-term value for our shareholders.

Operational excellence: The number of LEAN workshops increased significantly from the prior year. The entire organization is focused on continuously improving processes and creating value for customers through reduced lead times and improved on-time delivery.

Health and safety: We continued to reduce the frequency and severity of accidents in 2011 compared with the prior year. In order to make Sulzer an even safer place to work, pilot events of the corporate-wide safe behavior program were launched. The program will be rolled out within the entire company during 2012, offering intensive safety trainings to thousands of employees.

Innovation: Faster and increased innovation remains a crucial driver for growth. In 2011, spending for research and development was increased, and new, innovative solutions were brought to market. Sulzer is now invested in a major clean-technology venture fund; participation in this fund has opened access to thousands of promising start-up companies with high innovation potential. We will also expand our global research and development footprint in China.

Emerging markets: The emerging and developing markets have remained crucial to Sulzer, generating 41% of sales. In Brazil, we strengthened our tower field service activities through the acquisition of a local

service provider. New locations were opened in China, Columbia, and Russia. In addition, a pump company that serves the water industry in the Middle East, Africa, and Europe was acquired.

Services: We added new service locations in Brazil, Canada, China, Columbia, and Russia to further expand our service network and to be closer to our customers. The service business contributed 41% to sales in 2011.

Higher order intake and sales

In 2011, Sulzer increased order intake and sales substantially by 14% and 17% respectively on an adjusted basis. Excluding the negative currency translation effects,

Our core focus areas

Key performance indicator

Future actions

<p>1</p> <p>Operational excellence Sulzer strives for operational excellence and continually improves business processes based on LEAN principles.</p>	<p>448</p> <p>Number of LEAN workshops (2010: 99)</p>	<ul style="list-style-type: none"> • Roll out LEAN training for line managers globally to further embed LEAN thinking in the corporate culture • Introduce LEAN e-learning tool on a corporate-wide basis
<p>2</p> <p>Health and safety Health and safety of employees is a top priority for Sulzer.</p>	<p>3.7 (-16%)</p> <p>Accident frequency rate (2010: 4.4)</p>	<ul style="list-style-type: none"> • Roll out safe behavior program globally • Continuously implement corporate-wide environmental, safety, and health standards worldwide
<p>3</p> <p>Innovation Developing innovative solutions with high customer value is essential to Sulzer's sustainable success and organic growth.</p>	<p>107 (+32%)</p> <p>Number of innovation projects in the market-launch phase (2010: 81)</p>	<ul style="list-style-type: none"> • Expand the global research and development footprint in China • Leverage knowledge and start-up companies from clean-technology venture fund • Strengthen the talent program for engineers
<p>4</p> <p>Emerging and developing markets Sulzer continually fosters its worldwide service and production network in the emerging markets to serve customers locally.</p>	<p>41%</p> <p>Share of sales in emerging and developing markets (2010: 42%)</p>	<ul style="list-style-type: none"> • Organically expand Sulzer's presence and capacities in the emerging markets • Continuously assess potential acquisitions in the emerging markets • Increase and leverage staff diversity to better serve the diverse customer base
<p>5</p> <p>Services Sulzer continually fosters its product-related and independent service offerings, which are more resistant to economic cycles.</p>	<p>41%</p> <p>Share of sales in services (2010: 43%)</p>	<ul style="list-style-type: none"> • Leverage the acquired service businesses as platforms for further growth • Continuously expand the service network and assess of potential acquisitions of service providers

both key figures exceeded CHF 4 billion. On a nominal basis, order intake and sales increased to over CHF 3.5 billion. Growth was driven by larger orders in the oil and gas upstream market, the automotive industry, and other general industrial markets. The aviation industry remained strong. The hydrocarbon processing industry showed some growth driven by the chemical processing industry—where some larger orders were booked—while the refining business remained at a low level. In the course of the second half of the year, the power generation market stabilized, although nuclear projects suffered delays due to the incident in Japan. Strong growth was recorded in Europe and North America, and the emerging markets also continued to grow. The customer ordering behavior, which was affected by high uncertainty in the financial markets, improved again toward year-end. The acquisition of Cardo Flow Solutions was closed at the end of July and added about CHF 180 million to sales.

Profitability impacted by non-recurring items

The higher non-recurring contribution from the sale of the real estate business in 2010 and acquisition-related expenses in 2011 are the main reasons for the decrease in profitability compared with the previous year. Overall, the company's global presence is a natural hedge against material impacts of the strong Swiss franc on profitability. Return on capital employed remained at a clearly value-generating level. Net income attributable to shareholders amounted to CHF 280 million, resulting in basic earnings per share of CHF 8.25.

Sulzer clearly created financial value for its shareholders

Considering this year's net income and the solid financial situation of the company, the Board of Directors will propose an unchanged dividend of CHF 3.00 per share at the Annual General Meeting on April 5, 2012. The Sulzer share price has increased by 67% over the last three years. However, with the high level of uncertainty and volatility in the financial markets, the Sulzer share price in 2011 declined, following the overall market trend.

Ad interim CEO and new Board Members

Jürgen Brandt was appointed ad interim CEO as of November 1, 2011. The former CEO Ton Büchner left the company on October 31, 2011.

Jill Lee and Marco Musetti were elected as new Members of the Board at the 2011 Annual General Meeting, replacing Hans Hubert Lienhard and Tim Summers. After ten years of service, Daniel Sauter has decided not to stand for reelection at the Annual General Meeting on April 5, 2012. The Sulzer Board of Directors would like to thank him for his important contributions and wishes him all the best for the future.

Outlook 2012 and midrange targets

The impact of ongoing uncertainties in the financial markets cannot currently be fully assessed and bears a certain downside risk. Based on present knowledge, activities in the oil and gas industry are expected to remain stable at a high level based on the current favorable market conditions in this segment. Activities in the hydrocarbon processing industry are forecast to remain at the current levels. In the power generation market, Sulzer anticipates further stabilization with some growth potential. The activity levels in the water market are expected to grow, mainly driven by emerging markets. The automotive, the aviation, and other general industries are likely to remain stable at the current high levels. Sulzer's balance sheet has remained solid after the acquisition of Cardo Flow Solutions and will allow further external growth.

Sulzer's balance sheet has remained solid after the acquisition and will allow further external growth

Despite the ongoing uncertainties in the financial markets and their potential negative effect on the economy, Sulzer expects order intake and sales to increase moderately in 2012, and profitability is forecast to remain healthy. The newly acquired Cardo Flow Solutions business will contribute with a first full year to order intake, sales, and operating income, whereas only five months were consolidated in 2011.

By the year 2015, Sulzer aspires to achieve a divisional return on sales of 11–13% and a divisional return on capital employed of more than 20%. Sales of the divisions are expected to grow organically by 6–8% on an average yearly basis between 2012 and 2015.

I thank you, our shareholders, for your continued support. I would also like to thank our employees for their commitment and our customers for their trustful partnership.

Yours sincerely,



Jürgen Dormann,
Chairman of the Board

Substantial increases in order intake and sales and healthy profitability

Sulzer increased order intake and sales substantially in 2011. Acquisition-related costs and non-recurring items impacted the company's return on sales. Return on capital employed remained at a clearly value-generating level.

Sales

in millions of CHF

2011	3577.9
2010	3183.7
2009	3350.4
2008	3713.5
2007	3537.0

Operating income

in millions of CHF

2011	364.1
2010	406.4
2009	368.0
2008	475.1
2007	393.5

Key figures

millions of CHF	2011	2010	Change in	
			+/- %	+/- % ¹⁾
Order intake	3566.1	3288.7	8.4	13.7
Order backlog	1864.0	1799.8	3.6	
Sales	3577.9	3183.7	12.4	17.2
Operating income before depreciation/amortization	EBITDA 482.8	511.0	-5.5	
Operating income	EBIT 364.1	406.4	-10.4	
Return on sales	ROS 10.2%	12.8%		
Return on capital employed	ROCE 18.8%	28.1%		
Net income attributable to shareholders of Sulzer Ltd	279.8	300.4	-6.9	
Capital expenditure	113.2	118.1	-4.1	
Equity attributable to shareholders of Sulzer Ltd	2097.8	1895.0	10.7	
Free cash flow	82.3	149.5	-44.9	
Net liquidity	-336.9	552.8	-	
Employees (number of full-time equivalents) as of December 31	17002	13740	23.7	

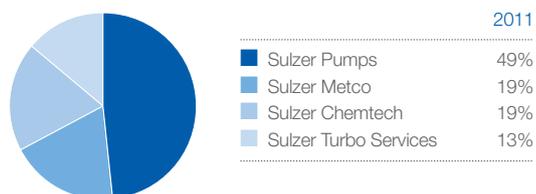
Data per share

CHF	2011	2010	Change in	
			+/- %	
Closing price of the registered share as of December 31	100.40	142.50	-29.5	
Net income attributable to a shareholder of Sulzer Ltd	EPS 8.25	8.92	-7.5	
Equity attributable to a shareholder of Sulzer Ltd	62.06	56.20	10.4	
Dividend	3.00²⁾	3.00	-	

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

²⁾ Proposal to the Annual General Meeting.

Sales by division



Sales by region



By division

millions of CHF	Order intake				Sales			
	2011	2010	Change in		2011	2010	Change in	
			+/-	% ¹⁾			+/-	% ¹⁾
Divisions	3558.5	3278.5	8.5	13.9	3570.1	3173.3	12.5	17.4
– Sulzer Pumps	1705.6	1613.7	5.7	10.4	1747.8	1576.1	10.9	14.7
– Sulzer Metco	673.6	643.1	4.7	15.3	667.3	623.5	7.0	17.8
– Sulzer Chemtech	701.7	621.3	12.9	21.2	667.0	574.6	16.1	23.7
– Sulzer Turbo Services	477.6	400.4	19.3	14.3	488.0	399.1	22.3	18.1
Others	7.6	10.2	–	–	7.8	10.4	–	–
Total	3566.1	3288.7	8.4	13.7	3577.9	3183.7	12.4	17.2

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

millions of CHF	Operating income			Return on sales	
	2011	2010	Change in	2011	2010
			+/-		
Divisions	353.2	346.5	1.9	9.9%	10.9%
– Sulzer Pumps	168.2	189.0	–11.0	9.6%	12.0%
– Sulzer Metco	68.7	57.1	20.3	10.3%	9.2%
– Sulzer Chemtech	63.1	58.5	7.9	9.5%	10.2%
– Sulzer Turbo Services	53.2	41.9	27.0	10.9%	10.5%
Others	10.9	59.9	–	–	–
Total	364.1	406.4	–10.4	10.2%	12.8%

Share price development



Strong organic growth and a major strategic acquisition

Sulzer achieved a solid financial performance with a net income attributable to shareholders of CHF 279.8 million. Return on sales was at a healthy 10.2%. With an equity ratio of 46.2%, the capital structure remains healthy despite a major acquisition.

Order intake: strong adjusted growth

In 2011, Sulzer received orders of CHF 3.6 billion. This was a significant increase of nominal 8.4% and 13.7% adjusted for currency effects as well as for acquisitions. All four divisions showed double-digit adjusted growth compared with the prior year:

- Sulzer Pumps: +10.4% (+5.7% nominal)
- Sulzer Metco: +15.3% (+4.7% nominal)
- Sulzer Chemtech: +21.2% (+12.9% nominal)
- Sulzer Turbo Services: +14.3% (+19.3% nominal)

Orders

millions of CHF	2011	2010
Order intake	3 566.1	3 288.7
Order backlog as of December 31	1 864.0	1 799.8

Double-digit adjusted growth of orders

Due to the strong Swiss franc, the currency translation had a significant negative impact of CHF 447 million, while acquisitions contributed CHF 273 million to the order intake.

The order backlog increased by 3.6% to CHF 1 864.0 million as of December 31, 2011. Cardo Flow Solutions' (Cardo) order backlog amounted to CHF 79.9 million.

Sales: strong growth despite currency effects

Sales increased by a nominal 12.4% (adjusted 17.2%). All divisions recorded significantly higher sales based on a strong order intake development, a higher order backlog at the beginning of the year, and acquisitions. All divisions showed double-digit adjusted growth:

- Sulzer Pumps: +14.7% (+10.9% nominal)
- Sulzer Metco: +17.8% (+7.0% nominal)
- Sulzer Chemtech: +23.7% (+16.1% nominal)
- Sulzer Turbo Services: +18.1% (+22.3% nominal)

Double-digit adjusted growth of sales

Sales were negatively influenced by the significant strengthening of the Swiss franc against all major currencies. The negative currency translation effect amounted to CHF 445 million, while acquisitions, in particular Cardo and Sulzer Dowding & Mills, contributed CHF 291 million to sales. Strong growth was reported in Europe and North America. The emerging markets also continued to grow, but at a slower pace. The share of sales in emerging markets was at 41% (2010: 42%).

The gross margin decreased from 31.4% in 2010 to 30.6% in 2011. Negative impacts from a still challenging environment, some cost overruns

Consolidated income statement (condensed)

millions of CHF	2011	2010
Sales	3 577.9	3 183.7
Cost of goods sold	-2 481.5	-2 183.7
Gross profit	1 096.4	1 000.0
Selling, administrative, and development expenses	-732.3	-593.6
Operating income	364.1	406.4
Financial income, net	5.3	-4.4
Income tax expenses	-89.4	-97.7
Net income	280.0	304.3

Equity ratio

46.2%

Solid balance sheet

Return on capital employed

18.8%

Clearly above value-creating threshold

for large projects, and minor effects from the strong Swiss franc were partially compensated by operational excellence initiatives and some operational leverage.

Operating income and profitability: healthy levels, impacted by acquisitions

Operating expenses increased by CHF 138.7 million (+23.4%) to CHF 732.3 million, mainly driven by the following factors:

- Acquisition and integration cost and first-time consolidation of the Cardo entities: CHF 68 million
- First full-year consolidation of Dowding & Mills entities: CHF 18 million
- Lower income from the disposal of the real estate activities: CHF 38 million
- Higher restructuring expenses: CHF 5 million (not including Cardo integration costs)

Research and development (R&D) activities were further expanded, and expenses in R&D increased from CHF 58.5 million in 2010 to CHF 71.7 million, which corresponds to approximately 2.0% of sales (2010: 1.8%).

R&D expenses increased to 2% of sales

Operating income (EBIT) decreased by 10% from CHF 406.4 million in 2010 to CHF 364.1 million in 2011 for the following main reasons:

- The higher gross profit (plus CHF 96.4 million) only partially compensated the increase in operating expenses (plus CHF 138.7 million).
- The acquisition of Cardo had a negative impact of CHF 17.8 million on EBIT, mainly due to acquisition and integration costs (CHF 30.0 million).
- In 2011, a gain of CHF 18.2 million was recorded from the pending sales from the divested real estate activities in Switzerland compared to CHF 56.6 million in the prior year.

Return on sales (ROS) was at 10.2% (2010: 12.8%). The strong Swiss franc had only a minor effect on the profitability. Adjusted for the acquisition-related effects from Cardo and for the impacts from the sale of real estate, the ROS would be at 10.7% for 2011 and 11.0% for 2010 respectively. The ROS of the divisions were as follows:

- Sulzer Pumps: 9.6% (2010: 12.0%), Adjusted for Cardo acquisition: 11.9%
- Sulzer Metco: 10.3% (2010: 9.2%), driven by higher volumes and operational excellence initiatives
- Sulzer Chemtech: 9.5% (2010: 10.2%), mainly due to the changed business mix and negative currency effects from the comparably high level of activity in Switzerland
- Sulzer Turbo Services: 10.9% (2010: 10.5%), driven by higher volumes and sales synergies from the successful integration of Dowding & Mills

Key performance ratios

		2011	2010
Return on sales (EBIT/sales)	ROS	10.2%	12.8%
Return on capital employed (EBIT/capital employed)	ROCE	18.8%	28.1%

EBIT before depreciation and amortization (EBITDA) was CHF 482.8 million (13.5% of sales) compared with CHF 511.0 million in 2010 (16.1% of sales). Depreciation and amortization was CHF 118.7 million in 2011, which is an increase of CHF 14.1 million mainly due to effects from the Cardo acquisition. With a return on capital employed (ROCE) of 18.8% (down from 28.1% in 2010), Sulzer clearly exceeded its value-creating threshold (pretax weighted average cost of capital) of 12.0% despite the dilutive effect of the Cardo acquisition and created financial value.

Sulzer clearly created financial value

Financial income: positive despite higher interest cost from acquisition financing

Net financial income was positive at CHF 5.3 million. Interest income was CHF 8.7 million (CHF 0.8 million lower than in 2010), driven by lower average cash. Interest expenses were CHF 14.8 million (2010: CHF 9.1 million). The main reason for this increase was that Sulzer incurred interest expenses for the financing of the Cardo acquisition (plus CHF 6.5 million). The interest expenses for unfunded pension plans were CHF 2.9 million (CHF 0.4 million lower than in 2010). Fair-value changes (mainly derivatives) were negative at CHF 11.9 million. This was more than compensated by currency exchange gains of CHF 23.3 million mainly due to a gain of CHF 15.8 million as a result of the optimization of the Cardo shareholding scheme.

Income tax expenses: favorable level due to special effects

Tax expenses decreased by 8.5% to CHF 89.4 million in 2011, and the effective income tax rate slightly decreased to 24.2% (24.3% in 2010). The tax rate was positively affected by the gains generated from the disposal of real estate in Switzerland, which are taxed at a favorable rate. In addition, currency gains from the restructuring of the Cardo entities are non-taxable and some tax provisions no longer required of CHF 11.3 million could be released in 2011.

Net income: solid level of CHF 280.0 million

Driven by a lower operating income, net income decreased from CHF 304.3 million in 2010 to CHF 280.0 million in 2011. Net income attributable to Sulzer shareholders amounted to CHF 279.8 million (7.8% of sales) compared with CHF 300.4 million (9.4% of sales) in 2010. Basic earnings per share (EPS) decreased by 7.5% to CHF 8.25 (2010: CHF 8.92).

Balance sheet: high impact of acquisition and successful issue of bond

Total assets as per December 31, 2011, amounted to CHF 4540.4 million, which is an increase of CHF 1048.7 million over 2010's figure. Net effects from acquisitions at year-end added CHF 1194.9 million of assets to the balance sheet. Currency fluctuations had only a minor impact. Non-current assets amounted to CHF 2203.2 million (2010: CHF 1295.6 million). The net effects from acquisitions are the main cause of those increases and added CHF 920.2 million. Major movements were recorded in:

- Goodwill: plus CHF 578.4 million. Acquisitions (mainly Cardo) added CHF 586.6 million to goodwill.
- Other intangibles assets: plus CHF 227.8 million. Acquisitions (mainly Cardo) added CHF 248.8 million,

while amortization and currency effects reduced the other intangibles assets by CHF 21.0 million.

- Property, plant and equipment: plus CHF 87.9 million. Acquisitions added CHF 70.7 million. The remaining difference of CHF 17.2 million was a result of capital expenditure, depreciation, and currency effects.

Current assets increased to CHF 2337.2 (2010: CHF 2196.1 million). The net effect from acquisitions added CHF 274.7 million. Cash and cash equivalents were reduced by CHF 245.5 million to CHF 422.6 million and were used to partially finance the acquisitions. Trade receivables increased by CHF 302.0 million due to acquisitions (CHF 97.6 million) and due to higher sales volume in all divisions. The ageing structure remained stable at an acceptable risk level. Inventory increased by CHF 141.6 million due to acquisitions (CHF 63.5 million) and higher business volumes in all divisions. Other accounts receivable and prepaid expenses decreased by CHF 52.4 million mainly due to a decrease of short-term derivatives (CHF 31.4 million) and receivables resulting from the real estate transaction (CHF 31.9 million).

Bond of CHF 500 million successfully issued

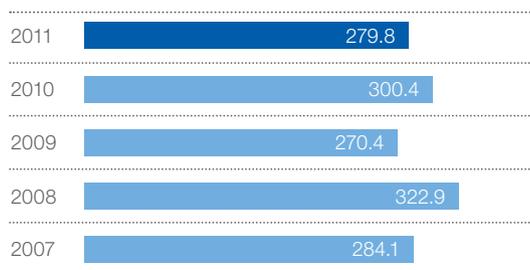
Total liabilities (current and non-current liabilities) increased by CHF 846.1 million to CHF 2436.6 million. Non-current liabilities increased by CHF 554.0 million. The major change resulted from the increase of long-term borrowings (CHF 487.2 million). Sulzer successfully issued a CHF-denominated 2.25% domestic bond in the amount of CHF 500 million for a term of five years (due date July 11, 2016).

Consolidated cash flow statement (condensed)

millions of CHF	2011	2010
Cash flow from operating activities	188.6	254.2
Purchase of intangible assets and property, plant and equipment	-113.2	-118.1
Sale of property, plant and equipment and intangible assets	6.9	13.4
Free cash flow	82.3	149.5
Acquisitions/divestitures	-815.4	-113.5
Purchase/sale of financial assets and marketable securities	4.1	26.2
Cash flow from operating and investing activities	-729.0	62.2
Cash flow from financing activities	499.2	-96.0
Exchange gains/losses on cash and cash equivalents	-15.7	-28.7
Net change in cash and cash equivalents	-245.5	-62.5
Cash and cash equivalents as of December 31	422.6	668.1

Net income¹⁾

in millions of CHF



¹⁾ Attributable to shareholders of Sulzer Ltd.

Acquisitions added CHF 78.4 million to the non-current liabilities, mainly for deferred income tax liabilities and defined benefit obligations. Current liabilities increased by CHF 292.1 million. Acquisitions added CHF 110.4 million to current liabilities. Another main increase resulted from the short-term borrowings (CHF 152.3 million), which were used to partially finance the acquisitions.

Solid balance sheet with an equity ratio of 46.2%

Equity increased by CHF 202.6 million to CHF 2103.8 million. Due to the increase of the balance sheet total because of acquisitions, the equity ratio (equity/total assets) decreased from 54.3% in 2010 to a still healthy 46.2% in 2011, and the gearing (borrowings/equity) increased to 37% (from 7%).

Cash flow: negative impact from acquisitions and higher net working capital

Change in net cash was negative at CHF 245.5 million in 2011. The main impacts on cash flow were as follows:

- Cash flow from operating activities amounted to CHF 188.6 million in 2011, a decrease of CHF 65.6 million compared with 2010.
- The increase in net working capital led to a negative cash flow of CHF 231.7 million. Most significant increases came from trade receivables (CHF 229.4 million) and inventories (CHF 78.2 million), which reflect the higher business volume and some delayed or postponed deliveries. Higher trade accounts payables (CHF 84.5 million) partially compensated these increases.
- Taxes paid decreased to CHF 93.7 million in 2011 (2010: CHF 153.5 million) due to some advanced payments in 2010 and higher statutory results in the years before.

- A total cash outflow of CHF 917.6 million resulted from investing activities. For acquisitions, a total of CHF 864.5 million (net of acquired cash) was spent, of which CHF 852.2 million for the Cardo acquisition.
- Final cash proceeds for pending sales of CHF 49.1 million were recorded for the divested real estate activities in Switzerland (sold in 2010).
- Capital expenditures (CAPEX) of CHF 113.2 million were recorded in 2011, which break down into capacity and capability expansions of CHF 63.0 million (55.6%), replacements of CHF 31.7 million (28.0%), information technology of CHF 6.3 million (5.6%), and CHF 12.2 million (10.8%) for Others.

Cash flow from financing activities was positive at CHF 499.2 million. Short- and long-term borrowings increased by CHF 619.7 million, of which CHF 500 million came from the bond issued in July to partially finance the Cardo acquisition. The dividend payment to Sulzer's shareholders totaled CHF 102 million.

The exchange losses on cash and cash equivalents amounted to CHF 15.7 million in 2011, (2010: loss of CHF 28.7 million). The introduction of a minimum exchange rate for the Swiss franc to the Euro by the Swiss National Bank had a positive impact and reduced the company's exposure to currency exchange fluctuations in the second half of 2011.

Outlook 2012 and midrange targets

Despite the ongoing uncertainties in the financial markets and their potential negative effect on the economy, Sulzer expects order intake and sales to increase moderately in 2012, and profitability is forecast to remain healthy. The newly acquired Cardo Flow Solutions business will contribute with a first full year to order intake, sales, and operating income, whereas only five months were consolidated in 2011.

By the year 2015, Sulzer aspires to achieve a divisional return on sales of 11–13% and a divisional return on capital employed of more than 20%. Sales of the divisions are expected to grow organically by 6–8% on an average yearly basis between 2012 and 2015.

Consolidated income statement

January – December

millions of CHF	Notes	2011	2010
Sales	03	3577.9	3 183.7
Cost of goods sold		-2481.5	-2 183.7
Gross profit		1 096.4	1 000.0
Selling and distribution expenses		-340.3	-299.7
General and administrative expenses		-320.0	-294.2
Research and development expenses	07	-71.7	-58.5
Other operating income	08	44.7	104.1
Other operating expenses	08	-45.0	-45.3
Operating income		364.1	406.4
Interest and securities income	09	8.7	9.5
Interest expenses	09	-14.8	-9.1
Other financial income	09	11.4	-4.8
Income before income tax expenses		369.4	402.0
Income tax expenses	10	-89.4	-97.7
Net income		280.0	304.3
Attributable to shareholders of Sulzer Ltd		279.8	300.4
Attributable to non-controlling interests		0.2	3.9
Earnings per share, attributable to a shareholder of Sulzer Ltd (in CHF)			
Basic earnings per share	23	8.25	8.92
Diluted earnings per share	23	8.19	8.82

Consolidated statement of comprehensive income

January – December

millions of CHF	Notes	2011	2010
Net income		280.0	304.3
Fair value changes on available-for-sale financial assets, net of tax		-2.7	8.1
Cash flow hedge reserve, net of tax		-6.6	4.9
Currency translation differences		22.7	-116.9
Total comprehensive income for the year		293.4	200.4
Attributable to shareholders of Sulzer Ltd		293.8	196.9
Attributable to non-controlling interests		-0.4	3.5

Consolidated balance sheet

December 31

millions of CHF

Notes 2011 2010

Non-current assets

Intangible assets	11	1 435.2	629.0
Property, plant and equipment	12	619.5	531.6
Other financial assets	13	36.2	35.9
Non-current receivables		12.2	8.8
Deferred income tax assets	10	100.1	90.3
Total non-current assets		2 203.2	1 295.6

Current assets

Inventories	14	675.4	533.8
Advance payments to suppliers		83.1	80.3
Trade accounts receivable	16	1 020.3	718.3
Other accounts receivable and prepaid expenses	17	126.8	179.2
Assets held for sale	18	0.9	3.7
Marketable securities	20	8.1	12.7
Cash and cash equivalents	19	422.6	668.1
Total current assets		2 337.2	2 196.1

Total assets

4 540.4 3 491.7

Equity

Share capital	22	0.3	0.3
Reserves		2 097.5	1 894.7
Equity attributable to shareholders of Sulzer Ltd		2 097.8	1 895.0
Non-controlling interests		6.0	6.2
Total equity		2 103.8	1 901.2

Non-current liabilities

Long-term borrowings	24	531.4	44.2
Deferred income tax liabilities	10	133.0	66.1
Non-current income tax liabilities	10	12.8	22.2
Non-current provisions	25	223.8	214.3
Other non-current liabilities		1.1	1.3
Total non-current liabilities		902.1	348.1

Current liabilities

Short-term borrowings	24	236.2	83.8
Current income tax liabilities	10	49.5	36.8
Current provisions	25	171.3	155.7
Trade accounts payable		386.0	285.2
Customers' advance payments		272.2	277.9
Other current and accrued liabilities	26	419.3	403.0
Total current liabilities		1 534.5	1 242.4
Total liabilities		2 436.6	1 590.5

Total equity and liabilities

4 540.4 3 491.7

Consolidated statement of changes in equity

January – December

millions of CHF	Notes	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 year:										
Net income			300.4					300.4	3.9	304.3
Cash flow hedges, net of tax					4.9			4.9		4.9
Fair value changes on available-for-sale financial assets, net of tax						8.1		8.1		8.1
Currency translation differences							-116.5	-116.5	-0.4	-116.9
Total comprehensive income for the year		-	300.4	-	4.9	8.1	-116.5	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
Share-based payments	32		8.0					8.0		8.0
Dividend			-95.9					-95.9	-4.6	-100.5
Equity as of December 31, 2010	22	0.3	2217.1	-76.9	8.4	27.1	-281.0	1895.0	6.2	1901.2
Comprehensive income for the year:										
Net income			279.8					279.8	0.2	280.0
Cash flow hedges, net of tax					-6.6			-6.6		-6.6
Fair value changes on available-for-sale financial assets, net of tax						-2.7		-2.7		-2.7
Currency translation differences							23.3	23.3	-0.6	22.7
Total comprehensive income for the year		-	279.8	-	-6.6	-2.7	23.3	293.8	-0.4	293.4
Addition/deduction of non-controlling interests								-	3.1	3.1
Changes in ownership in subsidiaries without loss of control			1.3					1.3	0.7	2.0
Change in treasury shares			-12.6	12.6				-		-
Share-based payments	32		10.5					10.5		10.5
Dividend			-102.8					-102.8	-3.6	-106.4
Equity as of December 31, 2011	22	0.3	2393.3	-64.3	1.8	24.4	-257.7	2097.8	6.0	2103.8

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.

The complete Sulzer Annual Report 2011 is available online at www.sulzer.com/AR2011.

Published by: Sulzer Ltd, Winterthur, Switzerland, © 2012

Concept/Layout: Addison Corporate Marketing, London, UK

Photographs: Andy Wilson, London, UK

Hal Bergman, Getty images (cover, page 4); Kevin Phillips, Getty Images; Corbis Premium RF, Alamy; DreamPictures, Getty images; Nga Nguyen, Getty images; Corbis Premium RF, Alamy; PhotoEdit, Alamy (internal front cover); John Zainer, Getty (page 5); Jesse Swallow, Getty (page 6); daitoZen, Getty (page 7)

Printing: Mattenbach AG, Winterthur, Switzerland

This report is printed in a climate-neutral process on Forest Stewardship Council (FSC) certified paper.



Consolidated statement of cash flows

January – December

millions of CHF	Notes	2011	2010
Cash and cash equivalents as of January 1		668.1	730.6
Cash flow from operating activities			
Net income		280.0	304.3
Interest and securities income	09	-8.7	-9.5
Interest expenses	09	14.8	9.1
Income tax expenses	10	89.4	97.7
Depreciation/amortization		118.7	104.6
Changes in inventories		-78.2	-53.3
Changes in advance payments to suppliers		-1.5	-22.1
Changes in trade accounts receivable		-229.4	-51.2
Changes in advance payments from customers		-7.1	-12.6
Changes in trade accounts payable		84.5	54.4
Changes in provisions		12.0	-37.0
Changes in other net current assets		24.5	33.2
Other non-cash items		-0.6	45.1
Interest received		8.6	8.5
Interest paid		-6.6	-6.0
Income tax paid		-93.7	-153.5
Income from disposals of subsidiaries and property, plant and equipment		-18.1	-57.5
Total cash flow from operating activities		188.6	254.2
Cash flow from investing activities			
Purchase of intangible assets	11	-1.8	-1.6
Sale of intangible assets		0.1	0.4
Purchase of property, plant and equipment	12	-111.4	-116.5
Sale of property, plant and equipment		6.8	13.0
Acquisitions	30	-864.5	-198.0
Divestitures		49.1	84.5
Purchase of financial assets		-0.6	-
Sale of financial assets		1.0	2.5
Purchase of marketable securities		-7.5	-13.5
Sale of marketable securities		11.2	37.2
Total cash flow from investing activities		-917.6	-192.0
Cash flow from financing activities			
Dividend		-102.0	-94.6
Purchase/sale of treasury stock		-12.2	-1.9
Dividend to non-controlling interests		-3.6	-2.8
Changes in non-controlling interests		-2.7	-13.3
Additions in long-term borrowings		506.7	1.9
Repayment of long-term borrowings		-1.7	-25.0
Changes in short-term borrowings		114.7	39.7
Total cash flow from financing activities		499.2	-96.0
Exchange gains/losses on cash and cash equivalents		-15.7	-28.7
Net change in cash and cash equivalents		-245.5	-62.5
Cash and cash equivalents as of December 31	19	422.6	668.1

Sulzer Ltd

8401 Winterthur
Switzerland
Phone +41 52 262 11 22
Fax +41 52 262 01 01

www.sulzer.com

Corporate Communications

Phone +41 52 262 72 72
Fax +41 52 262 00 25
communications@sulzer.com

Investor Relations

Phone +41 52 262 20 22
Fax +41 52 262 00 25
investor.relations@sulzer.com

