

Sulzer AG—Annual General Meeting 2011

Address by Ton Büchner, Chief Executive Officer

Dear Shareholders,

Today I would like to inform you about three positive and pleasing developments at Sulzer:

- Firstly, a difficult 2010 business year that nonetheless turned out well
- Secondly, an excellent start of the order intake in 2011
- And thirdly, a major acquisition.

The last two years were shaped by the economic crisis. Sulzer rose to the challenges of this period impressively. We adapted swiftly and strengthened our position through targeted measures. Today, our company is stronger than it was before the crisis.

The order intake figure for the first quarter—published just this morning—confirms this strength and the resurgent growth of our core business.

Sulzer is ready for further growth and sustainable success. An important step towards this goal was announced last week with our acquisition of Cardo Flow Solutions.

But first, let us cast a brief glance back over the last financial year.

Sulzer posted good results in 2010, even though the operating environment remained difficult. In particular, activity in the late-cycle markets that are important to us remained at a modest level.

Sales declined last year due to the lower order intake of the previous year. Despite this development, we were able to improve year-on-year profitability. This remains the case even when all special factors are excluded and only the operating performance of the divisions is taken into account.

Although the strong Swiss franc leads to currency translation effects at Sulzer, our global presence means that production costs and sales are to a large extent incurred in the same currency. Our profitability is therefore largely hedged against currency influences in a natural way.

All divisions contributed to the positive result of 2010.

At Sulzer Pumps, the decline in the order intake in 2009 led to lower sales in 2010. Nonetheless, the return on sales prior to restructuring was maintained.

Sulzer Metco benefited from the recovery of early-cycle markets. However, the determinedly implemented cost adaptations were also a decisive factor in the sharp recovery in the return on sales.

At Sulzer Chemtech too, sales suffered from the slump in orders in 2009. Yet here again, the return on sales prior to restructuring was maintained.

Sulzer Turbo Services increased both sales and operating income significantly thanks to an acquisition.

In 2010, we made important progress in our five focus areas. These will be crucial in creating long-term value. These focal areas were determined in 2007 and great progress has been achieved since then.

Lean principles were implemented throughout the company with a view to further boosting operating performance. Since last year, tried-and-tested lean methods and instruments have been available to all our staff on the intranet. We have also trained up a large number of lean facilitators, and we will multiply the number of lean workshops this year.

We made significant progress in the area of operational health and safety. The frequency of accidents at Sulzer has fallen by more than 60 percent over the last four years. It goes without saying, however, that any accident is one too many. This is why we will continue to pursue measures in the area of accident prevention vigorously.

Innovation is a key factor for Sulzer. It allows us to generate clear added value for customers and to strengthen our own competitiveness. We manage this process by means of a systematic procedure. The projects that offer the greatest potential are selected at an early stage. This has the effect of accelerating innovation processes and ensures that the available funds are used in a targeted manner. Sulzer has considerably increased the number of newly launched products as a result.

We have further expanded our presence in the emerging markets by opening new production sites and expanding existing ones.

In China, we invested more than 30 million Swiss francs in a new production site for special pumps. The new factory in Suzhou, which lies to the north-east of Shanghai, comprises not only state-of-the-art production lines but also a large testing facility. This site will above all be used to cover the growing demand from China in the oil and

gas industry, as well as in power generation. The new location has enjoyed a very promising start, and capacity utilization is already high.

At almost the same time last year, we expanded our site near Moscow. This site is primarily used for producing structured packings, internals, and trays for thermal separation. As a result, Sulzer Chemtech has significantly boosted local production capacity and increased its customer proximity in Russia and Eastern Europe.

The fifth area of focus is the expansion of the service business. This is a high-margin area which is less dependent on economic developments. A whole array of acquisitions contributed to the expansion of the service share to the current level of 43 percent, most notably the acquisition of Dowding & Mills last summer.

With Dowding & Mills we have acquired a leading specialist in the maintenance and repair of electrical motors and generators. Its electro-mechanical expertise represents an outstanding addition to our portfolio. For example, we can now offer service solutions for turbines and generators from a single source, making us one of the leading independent providers.

Dowding & Mills was one of 15 acquisitions in which Sulzer has invested around 600 million Swiss francs since the end of 2006. On top of this to come this year is the acquisition of Cardo Flow Solutions, a strong provider of wastewater pumps. At around 860 million Swiss francs, this will be the largest acquisition in Sulzer's recent history. Closing of the acquisition is expected for the second half of 2011. However, it is subject to customary regulatory approvals.

Why did Sulzer's Board of Directors and Executive Committee vote unanimously in favor of this acquisition, you might ask?

Firstly, water and wastewater is a very attractive long-term market. The world is confronted with an increasing scarcity of water. At the same time, water consumption per capita is rising on the back of population growth, urbanization, and growing prosperity. On top of this come the requirements of environmental and climate protection, and the need for modernization in developed countries. As a result, global investment in facilities for water supply and wastewater disposal is growing by more than five percent annually on a long-term basis. Moreover, this growth appears more stable than other pump sales markets.

Secondly, the acquisition will make Sulzer a powerful provider in the wastewater segment. Cardo Flow Solutions is a full-line provider of pumps and associated equipment. In addition to pumps, the company produces agitators, mixers, and aeration systems, as well as control and monitoring equipment. With sales of more than CHF 460 million and around 1 900 employees, it is one of the largest companies in this area. 90 percent of sales are generated in the wastewater market.

Thirdly, Sulzer can use this acquisition as a platform for further growth. Cardo Flow Solutions already has a very strong position in the important European market. We want to use Sulzer's global presence to expand the market positions of wastewater pumps in other regions in the future: in North and South America, Asia, the Middle East and Africa. Sulzer Pumps provides an outstanding platform for this expansion, with 14 production facilities and more than 60 service locations around the world.

Fourthly, the pump types manufactured by Cardo und Sulzer complement each other very well. One of the products offered by Cardo is submersible pumps. These are so well sealed that the pump and its motor can operate under water. Together with pump types manufactured by Sulzer, this constitutes the ideal basis for the development of complete pumping solutions for customers in the water and wastewater industry. In addition, we also want to tap the potential for cross-selling these different pump types in other areas too.

Finally, this acquisition will generate value. The purchase price of 858 million Swiss francs is equivalent to 12.8 times the adjusted operating income of the business before depreciation and amortization. This is a substantial price, but less than other industrial companies have paid for acquisitions in recent months. Both Sulzer Pumps and the company as a whole will continue to generate value. In other words, they will generate more operating income than the cost of the capital employed. Moreover, by 2012 we already expect the planned acquisition to increase earnings per share, before amortization of intangible assets from acquisition.

For all these reasons, we are confident that Sulzer's entry into the wastewater pump business will make an important contribution to our future success.

Sulzer has enjoyed a good start to 2011, as you can see from this morning's published order intake for the first quarter. The company reported a year-on-year rise in new orders of 12.4 percent—to more than 900 million Swiss francs—for the first quarter of 2011. Adjusted for currency and acquisition effects, the rise was as high as 15.5 percent.

Sulzer Pumps benefited from more orders for oil and gas production. At Sulzer Metco, the upturn in the automotive and aviation industry has had a positive impact. At Sulzer Chemtech, static two-component mixers were particularly in demand. And at Sulzer Turbo Services, the traditional service business performed very well with some large projects in South America, as did the recently acquired electromechanical business.

What is our outlook for 2011 as a whole? Order intake has risen strongly in the first quarter, and we expect continued growth over the rest of the year. For the full year, we expect growth of orders to be close to 10 percent, adjusted for currency effects and acquisitions.

At Sulzer, we are convinced that sustainability is an essential element in long-term success. Driven by this conviction, we are naturally limiting and reducing our own impact on the environment, as well as our energy consumption. However, even more decisive in our business is the impact of our products as used by our customers.

For instance, 99 percent of a pump's energy consumption is generated by its use over a thirty-year lifespan. We are therefore one of the first companies to gather information over the entire product lifecycle. In addition to the environmental impact and carbon dioxide emissions, this data also covers procurement and operating costs. Starting this year, we are now providing these environmental product declarations to our customers.

In our 2010 Annual Report, we provide you with information on a whole range of energy-efficient Sulzer solutions for our customers—solutions that involve very different approaches. Some of my colleagues will now present a number of these to you in a short video.

Thank you very much for listening.