

March 20, 2014

**Sulzer AG—Annual General Meeting 2014**  
**Address Klaus Stahlmann, Chief Executive Officer**

Dear shareholders,

In 2013 Sulzer put in an unsatisfactory financial performance overall and it was a year of change for Sulzer.

We recorded a solid level in orders and sales, especially at Sulzer Chemtech and Sulzer Metco, whereas Sulzer Pumps and Sulzer Turbo Services lagged behind the prior year's level and were below our expectations.

Return on sales was burdened by underutilization of capacities in some divisions of Sulzer Pumps and also of Sulzer Turbo Services.

- We took targeted improvement measures in order to adjust capacities in these divisions and increase the declining sales again.
- The operating performance in the second half of the year shows that we were able to exhibit better profitability in both divisions than in the first six months.

Operating income was 20% lower than in the prior year. In addition to the indicated underutilization of capacities, the reasons for this were also necessary restructuring expenses and higher other costs, especially due to the required investments in IT.

Net income payable to shareholders decreased overall by 23%.

- The reasons for this were the lower operating income and unusually high earnings from the sale of third-party shares, which we had posted in the prior year's financial review.

The free cash flow was on a healthy level this year, but did not achieve the record level of the prior year.

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Our investments in Research and Development amounted to CHF 71 million and were therefore somewhat higher than in the prior year. Thus we invested 2.2% of sales in R&D. Sulzer filed 46 patents. I would like to give you a few examples of our innovative products:

Sulzer develops pump solutions for the oil and gas production in deep water until 2 000 meters. These subsea pumping solutions allow oil recovery from remote subsea fields. To validate the performance of the new subsea pumps, the company has built a test facility in the UK. It emulates the conditions of the subsea installation as closely as possible to verify all operational conditions prior to deepwater deployment. Innovation is the key to remaining a leader in the service business: for instance, conventional rotor

weld repair procedures cannot be used on certain components in specific situations. Sulzer engineers have developed a specialized weld procedure for gas turbine disk repairs to solve this challenge. They thereby have significantly decreased repair costs and turnaround time. Sulzer has developed a new static mixing geometry with significantly less waste volume. In addition, the company applied its expertise in advanced development methods like computational fluid dynamics for fluid dynamics simulation and functional performance testing in close cooperation with key customers. As a result, it became possible to decrease the waste volume of a typical application by up to 30%. This has clear ecological and economic benefits for Sulzer's customers.

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In order to implement our new strategy and to better leverage the capabilities and assets of Sulzer more effectively we decided to adapt the operational structure of the company and carried out the first of these changes over the last year.

In the course of our new strategy we want to be *one* market-oriented company with a clear focus on three key markets and we want to strengthen the Sulzer brand.

We wish to become *one* leading supplier of facilities and equipment for operation-critical applications and of first-class service for our own and third-party facilities and equipment.

We focus on the three key markets oil and gas, power, and water, and we simultaneously stay active in other selected industries in which we occupy a strong position.

For facilities and equipment we focus on the areas of flow control, processing and treatment.

At the same time we are a leading service provider with a comprehensive range of services for our own facilities and those of third-party providers.

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Our focus on the three key markets led to the divestiture of Sulzer Metco and, at the end of January, to the signing of a divestiture agreement for this purpose with Oerlikon. We achieved an enterprise value of 1 billion Swiss francs.

The new Sulzer company consists of three divisions, supported by central group functions.

Our Pumps Equipment division offers its customers first-class facilities and equipment, plus replacement parts on their key markets.

- The division, with sales of CHF 1.8 billion, will comprise about 7 100 employees.
- The first step toward founding the new Water division was initiated in 2013. This division took up operations on January 1, 2014.
- The next step in the Pumps Equipment division will be the introduction of units relating to the oil and gas and power markets.

These steps are scheduled for 2014 and are likely to be realized in 2015.

Our integrated Service Division Rotating Equipment Services offers its customers a first-class service. It resulted of the merger of the former Turbo Services division with the Division Pumps service area.

- The division, with sales of CHF 800 million, will comprise about 4000 employees.
- It provides first-class maintenance and repair services for rotating equipment such as pumps, compressors, turbines, motors, generators, etc., in-house and for other providers.

The third division is Chemtech, which continues to provide its customers with outstanding solutions for static equipment such as separating and mixing solutions including tower field services.

- Annual sales at Chemtech are CHF 750 million. The division has 4100 employees globally.

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Thus, the most important changes carried out so far are:

- the establishment of the newly integrated service division, where we combined the highly qualified service crews from Pumps and Turbo Services in order to leverage their potential in the service areas on a global level.
- the establishment of the new Water unit within the Pumps Equipment division as a first step in adopting a market focus in this division.
- the establishment of central group functions to support the divisions.

The next major steps in 2014 is the establishment of further market-oriented units within the Pumps Equipment division for Oil and Gas as well as Power.

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Let's take a closer look at our three key markets.

These are benefiting from important megatrends such as population growth and urbanization, the rising demand for water and power, but also from the need to utilize scarce natural resources as efficiently as possible. Attractive growth opportunities therefore arise for our products in these markets:

- Oil and gas will remain essential for global growth in the near future. The industry faces a wide range of challenges and opportunities in the production, transport, and processing of oil and gas. We are well positioned in the upstream, midstream, and downstream oil and gas markets. We have very good relationships within our broad customer base—in particular, with the national oil companies, who are not only investing because of demand but will also continue to invest for their own strategic reasons. We expect investment volumes to remain at continuously high levels—in particular in the Americas and the Middle East.

- Power: Modern societies use large amounts of energy. The demand for energy efficiency and lower carbon dioxide emissions is steadily growing, and it requires improved solutions for the future. We believe that this year will show activity in selected regions in the power market at similar levels to those of 2013. Of course, this depends on the further developments and decisions in countries such as the US and the financing of power projects in general.
- Water is the world's most precious natural resource. With growth in the emerging markets, the need for clean water is increasing quickly. Our outlook for 2014: the water market will show some improvement in selected regions such as the US and China.

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It is our clear objective to leverage the existing potential for sustainable, profitable growth. Our growth strategy is built on two pillars:

- organic growth and
- targeted acquisitions for the company's continuing strength.

In order to leverage organic potential:

- We intend to transform Sulzer into *one* company with a focused market segment organization.
- Our strong local service presence with a differentiated offering will increase customer satisfaction and lay the foundation for further growth.
- We will continue to optimize business processes and continue to invest regions where we discern growth potential.
- At the same time we must secure our position as a technological leader and invest in R&D.

As regards the external growth,

- we will look for suitable candidates that fit in with the new strategy and will enhance our equipment and service offering.
- the focus continues to lie on equipment and associated services on our three key markets.
- our future transactions will show varying orders of magnitude, from small to mid-sized to bolt-on; larger deals are also possible.
- we must look out for a good fit regarding culture and compliance.

We will make our decisions carefully and circumspectly, so that value creation is guaranteed with each potential acquisition.

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So what is our agenda for 2014, what are the next major steps?

- The divestiture of Metco is expected to be completed in Q3 2014.
- The execution of our strategy in the water segment has high priority, so that a sustained improvement in operating performance can be achieved in the years to come.

- In the Pumps Equipment division we will also continue to form units that are focused on certain market segments.
- To strengthen the company we will continue to keep a selective lookout for acquisition opportunities.
- In addition, management will endeavor to leverage the potential of the newly created service offering and to grow profitably.
- Furthermore we intend to optimally leverage the company's central functions.

At the same time we will continue to pursue our strategic priorities. 2014 will be characterized by the transformation of a decentralized organization into one market-oriented company.

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How are the actual future prospects looking?

The outlook for 2014 is based on our current estimate of the end markets, and also takes account of the volatile economic circumstances in a number of areas. The outlook likewise takes account of the fact that 2014 will be a year of transformation for Sulzer and that major challenges are accordingly anticipated.

We are anticipating a modest start to the new year. For 2014 as a whole we expect slight growth in order intake and also at the sales level.

Return on sales before restructuring expenses and other substantial one-time postings is likely to show a slight increase.

Depending on actual market trends and capacity utilization, more restructuring measures might follow in 2014.

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Dear shareholders, with our company's current consistent customer focus we are laying the crucial foundation for future success. Only when we make our customers our benchmarks and show them our full appreciation, only when we really meet their needs and our customers notice this, only then will we have achieved our goal.

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I am delighted that you, dear shareholders, are supporting us in this matter. I thank you for your continuing trust in management and the entire personnel at Sulzer. Many thanks for your attention.

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