SULZER

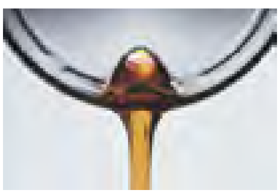
Annual Report 2013

Sulzer is a global partner with reliable and sustainable solutions for performance-critical applications.

We specialize in pumping solutions, rotating equipment maintenance and services as well as separation, reaction, and mixing technology. 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, power, and water. We serve clients worldwide through a network of over 150 locations.

Our key markets



Oil and gas

Power

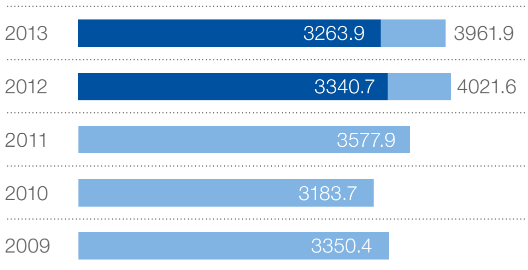
Water

Good level of order intake and sales

Order intake and sales were close to the levels of 2012. Profitability decreased, impacted by low capacity utilization in certain businesses and costs for operational measures. The free cash flow was on a healthy level.

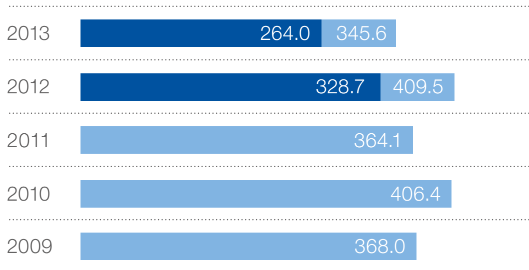
Sales

millions of CHF



Operating income

millions of CHF



■ From continuing operations.

Key figures [1]

millions of CHF		2013	2012	Change in +/– %	+/– %[2]
Order intake		**3249.9**	3343.4	–2.8	–1.1
Order backlog		**1672.1**	1753.6	–4.6	
Sales		**3263.9**	3340.7	–2.3	–0.7
Operating income before depreciation/amortization	EBITDA	**378.6**	437.1	–13.4	
Operating income before restructuring	EBITR	**280.8**	336.6	–16.6	
Operating income	EBIT	**264.0**	328.7	–19.7	
Return on sales before restructuring	ROSR	**8.6%**	10.1%		
Return on sales	ROS	**8.1%**	9.8%		
Return on capital employed	ROCE	**12.6%**	14.7%		
Net income attributable to shareholders of Sulzer Ltd[3]		**234.4**	302.9	–22.6	
Capital expenditure		**80.5**	93.0	–13.4	
Equity attributable to shareholders of Sulzer Ltd		**2334.4**	2216.6	5.3	
Free cash flow[3]		**218.7**	347.9	–37.1	
Net liquidity[3]		**–36.2**	–95.9		
Employees (number of full-time equivalents) as of December 31		**15382**	15537	–1.0	

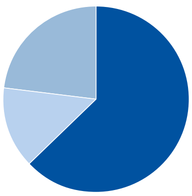
[1] Key figures from continuing operations.
[2] Adjusted for currency effects as well as acquisitions and divestitures.
[3] Includes continuing and discontinued operations.

Data per share

CHF		2013	2012	Change in +/– %
Closing price of the registered share as of December 31		**143.90**	144.10	–0.1
Net income attributable to a shareholder of Sulzer Ltd[1]	EPS	**6.89**	8.91	–22.7
Equity attributable to a shareholder of Sulzer Ltd		**68.70**	65.20	5.4
Dividend		**3.20**[2]	3.20	–

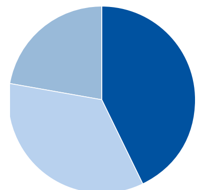
[1] Includes the results from continuing and discontinued operations.
[2] Proposal to the general meeting of shareholders.

Sales by division



	2013
Sulzer Pumps	63%
Sulzer Turbo Services	14%
Sulzer Chemtech	23%

Sales by region



	2013
Europe, Middle East, Africa	43%
Americas	35%
Asia-Pacific	22%

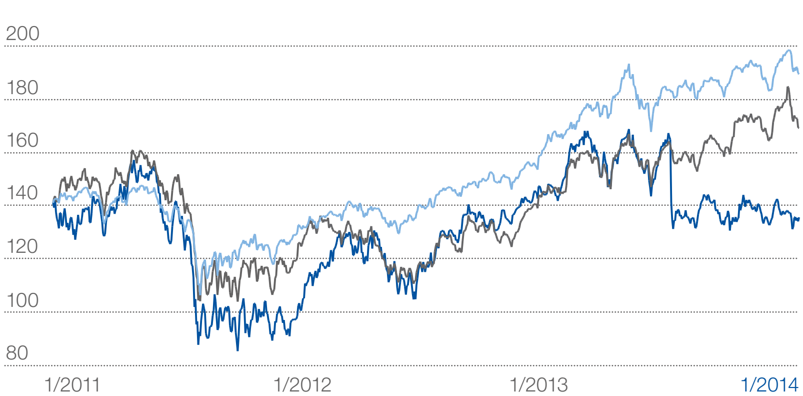
By division

	Order intake				Sales			
millions of CHF	**2013**	2012	Change in +/–%	+/–%[1]	**2013**	2012	Change in +/–%	+/–%[1]
Divisions	3252.9	3334.6	–2.5	–1.1	3266.6	3332.6	–2.0	–0.7
– Sulzer Pumps	2031.3	2094.3	–3.0	–1.1	2051.3	2097.5	–2.2	–0.4
– Sulzer Turbo Services	471.7	535.2	–11.9	–9.5	471.6	510.5	–7.6	–5.2
– Sulzer Chemtech	749.9	705.1	6.4	4.9	743.7	724.6	2.6	1.3
Others	–3.0	8.8	–	–	–2.7	8.1	–	–
Total	**3249.9**	**3343.4**	**–2.8**	**–1.1**	**3263.9**	**3340.7**	**–2.3**	**–0.7**

[1] Adjusted for currency effects as well as acquisitions and divestitures.

	Operating income			Return on sales	
millions of CHF	**2013**	2012	Change in +/–%	**2013**	2012
Divisions	289.7	316.8	–8.6	8.9%	9.5%
– Sulzer Pumps	169.1	191.2	–11.6	8.2%	9.1%
– Sulzer Turbo Services	39.2	54.9	–28.6	8.3%	10.8%
– Sulzer Chemtech	81.4	70.7	15.1	11.0%	9.8%
Others	–25.7	11.9	–	–	–
Total	**264.0**	**328.7**	**–19.7**	**8.1%**	**9.8%**

Share price development



+1.0%

(three-year performance 2011–2013)

Sulzer share (CHF)
Swiss Performance Index (indexed)
SWX Industrial Machinery (indexed)

Sales [1)]

CHF 3 264m

(2012: CHF 3 341m)

Operating income [1)]

CHF 264m

(2012: CHF 329m)

Net income [2)]

CHF 234m

(2012: CHF 303m)

Dividend

CHF 3.20
(proposed)

(2012: CHF 3.20)

1) From continuing operations.

2) Attributable to shareholders of Sulzer Ltd, includes the results from continuing and discontinued operations.

- In total, Sulzer (including Sulzer Metco) achieved an order intake and sales of CHF 4.0 billion and profitability of 9.2% of sales before and 8.7% after restructuring expenses
- For continuing operations (excluding Sulzer Metco), order intake was CHF 3.2 billion and sales were CHF 3.3 billion. Profitability was at 8.6% of sales before and 8.1% after restructuring expenses, impacted by low capacity utilization in the wastewater and the electromechanical businesses and the costs for operational measures
- The free cash flow was on a healthy level of CHF 219 million
- Sulzer initiated significant changes in 2013 with the goal of becoming *one* integrated and more customer-focused company
- Focusing on oil and gas, power, and water, and with an adapted operational structure, the company is geared for profitable growth
- For 2014, good activity levels for parts in the oil and gas industry are expected. Some recovery is anticipated for selected regions in the water market. Activities in the power and in the general industries are forecast to continue at similar levels
- Sulzer anticipates slight growth for order intake and sales in 2014 compared with 2013. Return on sales before restructuring is expected to improve slightly, supported by the measures taken in 2013. Depending on market developments and capacity utilization, restructuring measures will continue in 2014
- The Board of Directors proposes an unchanged dividend of CHF 3.20

Contents

Focused on creating value and growing profitably

Sulzer holds leading positions in its key markets: oil and gas, power, and water. The company is dedicated to creating long-term value and growing profitably. With its focused portfolio, Sulzer offers both performance-critical equipment and related services to its customers.

Divisions [1)]

Sulzer Pumps
Pump technology and solutions

Profile

We offer pumping solutions, related equipment, and services. Customers benefit from extensive research and development in fluid dynamics, process-oriented products, and reliable services. Our global manufacturing and service network ensures high customer proximity.

Order intake

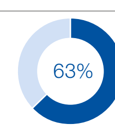
CHF 2 031m

(2012: CHF 2 094m)

Sales

CHF 2 051m

(2012: CHF 2 098m)



of total sales

Operating income / Return on sales

CHF 169m

(2012: CHF 191m)

8.2%

(2012: 9.1%)

Market Leadership

- Oil and gas (upstream, midstream, and downstream)
- Water (production and transport, wastewater)
- Power

See pages 22–25

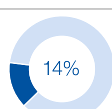
[1)] Structure as of December 31, 2013.

Sulzer Turbo Services
Service solutions for rotating equipment

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.

CHF 472m
(2012: CHF 535m)

CHF 472m
(2012: CHF 511m)



of total sales

CHF 39m
(2012: CHF 55m)

8.3%
(2012: 10.8%)

- Industrial gas and steam turbines
- Turbocompressors
- Generators and motors

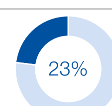
See pages 26–29

Sulzer Chemtech
Separation, mixing and service solutions

We offer products and services for separation, reaction, and mixing technology.
Customers benefit from advanced solutions in the fields of process technology and separation equipment, as well as two-component mixing and dispensing systems. Our global footprint ensures local knowledge and competence.

CHF 750m
(2012: CHF 705m)

CHF 744m
(2012: CHF 725m)



of total sales

CHF 81m
(2012: CHF 71m)

11.0%
(2012: 9.8%)

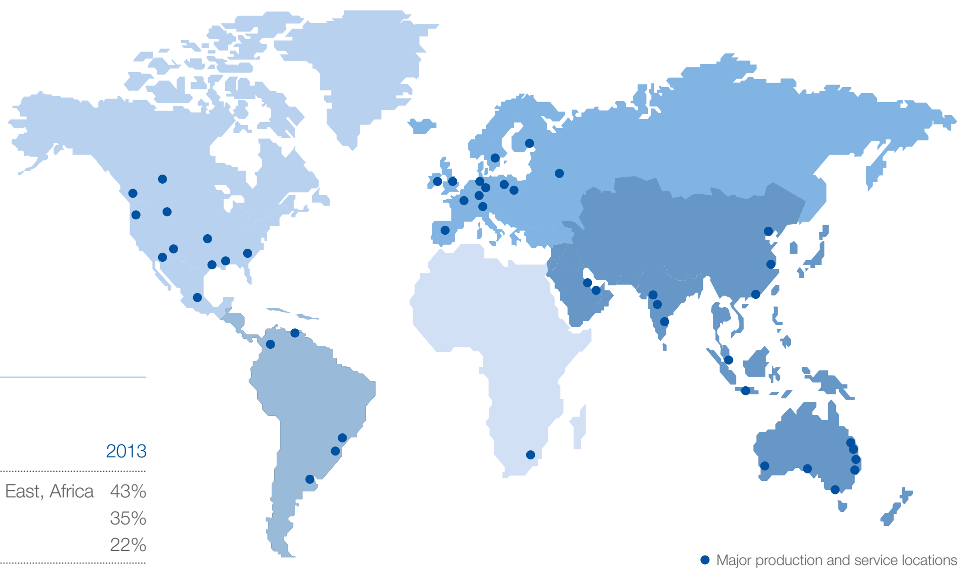
- Separation solutions
- Tower field services
- Two-component mixing and dispensing systems

See pages 30–33

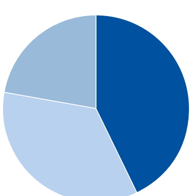
A truly global presence to increase customer proximity

A truly global presence with a strong footprint in emerging markets is vital for Sulzer's sustainable success. With over 150 production and service sites worldwide and more than 40% of sales in emerging markets, we are close to our customers and help them overcome their challenges.

Sulzer's production and service network



Sales by region



	2013
Europe, Middle East, Africa	43%
Americas	35%
Asia-Pacific	22%

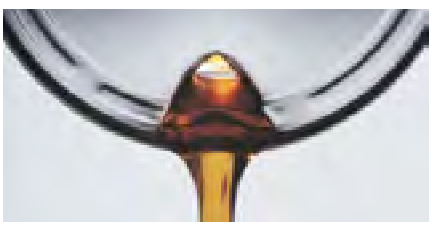
Market segments

	Oil and gas	Power	Water	Other industrial markets
Share of sales 2013	51%	15%	13%	21%
Sulzer Pumps	●	●	●	●
Sulzer Turbo Services	●	●	•	●
Sulzer Chemtech	●	•		●

● Greater than 10% of divisional sales.
• Less than 10% of divisional sales.

How we serve our key markets

Market segment



Oil and gas
Sulzer helps cover the global demand for oil and gas and the respective derivatives. Our solutions benefit customers in the up-, mid-, and downstream segments.

Power
Sulzer helps satisfy the global demand for energy. Our solutions add value in fossil-fired, nuclear, and renewable power generation.

Water
Sulzer helps meet the global demand for clean water. Our solutions are essential for water transport and use, as well as wastewater treatment and desalination.

Market drivers

Oil and gas
- Global supply and demand of oil and gas
- Exploration and production investments
- Global refinery capacity, utilization, refining margins
- Growing need for pipelines, floating production, storage, and off-loading units (FPSOs)

Power
- Population, industrial growth and wealth development
- Global power capacity additions

Water
- New regulatory frameworks and environmental standards
- Population and economic growth
- Upgrades and modernizations of existing plants and new investments

Our solutions

Oil and gas
- Pump systems both onshore and offshore (including subsea) for the production and transportation of oil and liquefied natural gas
- Process components such as fractionation trays, structured and random packings, liquid and gas distributors, gas-liquid separators, and internals for separation columns
- Service of mechanical and electromechanical rotating equipment
- Tray and packing installation, welding services, tower maintenance and plant turnaround projects
- Polymerization technology for the production of PLA (polylactic acid) and EPS (expandable polystyrene)

Power
- Pumps for fossil-fired and nuclear power plants as well as renewable power generation
- Advanced solutions for carbon capture and storage
- Repair and maintenance services for turbines, generators, and motors

Water
- Pumps and related equipment (such as lifters, mixers, aerators, compressors, control and monitoring equipment, as well as services)
- Pumps for water transport and use
- Pumping solutions in wastewater treatment and desalination
- Service for electromechanical equipment, e.g. motors

Our customers

Oil and gas: Oil and gas majors, national oil companies, refineries, and contractors. Also local customers

Power: Utility providers, contractors, end users and local customers

Water: Municipalities, contractors, and private water companies, customers in the agriculture

Significant changes for better market orientation

The year 2013 was a year of change for Sulzer. The company adapted its operational structure to better serve its three key markets—oil and gas, power, and water. Order intake and sales reached levels close to those of 2012, while profitability decreased.

Net income [1)]

CHF 234m

(2012: CHF 303m)

Dividend

CHF 3.20
(proposed)

(2012: CHF 3.20)

[1)] Attributable to shareholders of Sulzer Ltd, includes the results from continuing and discontinued operations.

Dear shareholder

Sulzer initiated significant changes in 2013 with the goal of becoming *one* integrated and more customer-focused company. The strategic decision to focus on three key markets and the adaptation of the company's operational structure provide the basis for profitable growth in the future. The adapted operational structure, effective since January 1, 2014, consists of the Pumps Equipment division comprising pumps and spares including an integrated Water business unit. The division Rotating Equipment Services integrates maintenance and repair services for turbines, compressors, generators, motors, and pumps. The Chemtech division remains unchanged, consisting of separation, mixing, and service solutions. As *one* integrated company, we can now offer one access point for customers and focus on value creation and profitable growth.

Key markets offering attractive prospects

With its new market strategy, Sulzer focuses on three key markets oil and gas, power, and water. This strategic step is based on our leading positions in these markets and global megatrends such as population growth, urbanization, increasing energy demand, and scarcity of water.

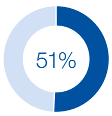
Oil and gas remain essential for global economic growth. With our broad portfolio, we are well positioned to provide solutions for the upstream, midstream and downstream market segments. Sulzer's high-performance pumps are leading solutions for the production and transportation of oil. Our technologies enable efficient separation processes for liquids and gas. We provide reliable services for compressors, turbines, motors, and generators.

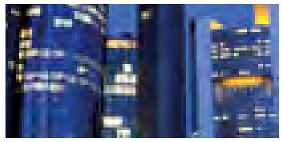
Sulzer sees various growth opportunities in the oil and gas market: the floating production, storage and off-loading units (FPSOs) for oil sources in deep water far off the coastline; new pipelines driven by new oil sources; refineries and petrochemical markets driven by the shale gas boom in the US.

Energy consumption is growing in modern societies. Sulzer helps satisfy this global demand across different markets, from fossil-fired and nuclear to renewable power. Main growth drivers are

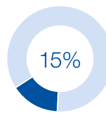
Acting as *one* company in three key markets [1]

Oil and gas

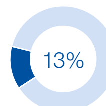




Power



Water



Equipment

Services

[1] Share of sales by market segment. The remaining 21% refers to the general industries.

geographical expansion in the coal and gas sector and the development of solar power, wind and geothermal power generation.

Water is our most precious natural resource and the need for clean water is increasing fast. Sulzer covers the whole water cycle—from fresh water (production and transport) to wastewater (municipal and industrial) with a comprehensive pumps offering. Factors like population growth, water scarcity, and environmental protection drive market growth.

Divestiture of Sulzer Metco

As a consequence of a more focused key market strategy, a divestiture process was initiated to sell the Sulzer Metco division, which is mainly active in the transportation market. At the end of January 2014, Sulzer signed an agreement with Oerlikon for the divestment of its Sulzer Metco division. Sulzer Metco is reported as discontinued operations throughout this Annual Report.

One focused and market-orientated company with adapted operational structure

Sulzer wants to serve customers in its key markets as *one* focused company, achieving collaborative advantages and synergies across its businesses by leveraging its product portfolio, capabilities and expertise with its over 150 production and service sites all over the world. The company continues to build on its four strategic priorities: technology leadership, outstanding services, continuous operational improvements, and collaborative advantage. Together with the *one* company approach, we are even more orientated toward our customers and focused on value creation and profitable growth. This is supported by a new operational structure, effective since January 1, 2014.

A leading supplier of services for rotating equipment

The Rotating Equipment Services division is a combination of our Turbo Services businesses and the service activities for pumps (excluding spares). Integrating services for rotating equipment into one division creates a leading provider of services for rotating equipment from turbines and compressors to generators and motors as well as pumps. With a combined global service network of 100 locations in over 25 countries, Sulzer is

Sulzer's operational structure in 2014

Pumps Equipment	Rotating Equipment Services	Chemtech
Pump technology and solutions	Repair and maintenance services for rotating equipment	Separation, mixing and service solutions
60%[1] 7 100 employees[2]	20%[1] 4 000 employees[2]	20%[1] 4 100 employees[2]

[1] Share of sales, pro-forma estimate based on full-year figures 2013.
[2] Estimated number of full-time equivalents.

Performance 2013[1]

Sales

CHF 3 264m

(2012: CHF 3 341m)

Return on sales

8.1%

(2012: 9.8%)

Return on capital employed

12.6%

(2012: 14.7%)

1) From continuing operations.

closer to its customers. We have the highest levels of competence and expertise as well as first-class engineering facilities. We can offer comprehensive solutions—from emergency repair to long-term service agreements—with one access point for customers.

Sulzer will grow its service business by leveraging its expanded geographical footprint and combined sales force using cross-selling opportunities for rotating equipment. Furthermore, Sulzer will be able to actively bundle service offerings, for instance for combinations of pumps and connected motors.

Pumps Equipment leverages global sales channels and manufacturing network

The Pumps Equipment division comprises the new engineered pumps business and spares for the oil and gas and the power markets in three regional business units. Furthermore, an integrated Water business unit combines all products and services for water and wastewater.

The engineered pumps business leverages the specific growth opportunities in the oil and gas and the power market as well as the global manufacturing network. Customer benefits are reliability in demanding applications, reduced energy consumption through high efficiency, and a global footprint supporting efficient manufacturing.

With the formation of the new Water business unit, all of Sulzer's pumps activities in this huge market will be bundled in one organization. This will allow us to focus on the most attractive market segments, selling individual product ranges into other segments and using strong customer relationships to cross-sell complementary products and services.

Chemtech with strong market positions

With a distinctive, strong product portfolio based on separation and static mixing technologies, the Chemtech division remains well positioned in attractive markets worldwide. Further profitable growth will build on an innovation pipeline with strong growth potential, a global footprint to benefit from local market demand and to improve the cost base, and the successful integration of acquisitions.

Integration of group functions

Sulzer is also aligning its staff functions with its adapted strategy. The streamlining and integration of central group functions aims to realize synergies by sharing services and pooling expertise. This provides a regional leverage of functions and scalable setup for future growth. Moreover, collaborative advantages and synergies across the company can be better leveraged and enable the group functions to operate more efficiently and effectively.

Building on strategic priorities and *one* company for profitable growth

Technology leadership

Outstanding services

Continuous operational improvements

Collaborative advantage

one company

Leverage existing capabilities and assets

Efficient and effective group functions

Customer orientation

Profitable growth

Performance in 2013

Market activities in the oil and gas industry showed growth in some areas while the power market remained at low level. The water market decreased slightly with some signs of picking-up trends in the wastewater segment by the end of the year 2013. Demand in Asia-Pacific was strong, while Europe continued to be comparably weak.

To mitigate the impact of lower sales, capacities were reduced in the wastewater pumps business and electromechanical services. Together with the integration of group functions this correlates with a reduction of over 300 full-time equivalents and restructuring expenses of almost CHF 17 million in 2013.

For total Sulzer, including discontinued operations, order intake and sales reached CHF 4.0 billion (2012: CHF 4.0 billion). Return on sales was at 9.2% before and at 8.7% after restructuring charges (2012: ROSR: 10.3%; ROS: 10.2%).

For continued operations, excluding Sulzer Metco, order intake decreased slightly compared with the previous year to CHF 3.2 billion in 2013. Sales also decreased slightly to CHF 3.3 billion.

Return on sales was influenced by lower capacity utilization, especially for wastewater pumps and for electromechanical services, by the operational measures in the respective businesses, and by the integration of central group functions. It decreased to 8.6% of sales before and 8.1% after restructuring expenses. Profitability increased in the second part of 2013 compared with the first half year.

Return on capital employed remained at a value creating level with 12.6%. Net income attributable to shareholders, as a result of the lower operating income, decreased to CHF 234 million, resulting in basic earnings per share of CHF 6.89.

The Board of Directors will propose an unchanged dividend of CHF 3.20 per share at the Annual General Meeting on March 20, 2014.

Changes in the board and the management

Manfred Wennemer was elected to the Board of Directors at the Annual General Meeting in March 2013 and was appointed as new Chairman, succeeding Jürgen Dormann, who followed internal age limitation rules. Manfred Wennemer resigned as per end of 2013. Vice Chairman Vladimir Kuznetsov acts as Chairman of the Board ad interim until the Annual General Meeting 2014. Scot Smith became Member of the Executive Committee and Division President of Sulzer Pumps in May, replacing Kim Jackson. In October, Urs Fankhauser had to step down due to serious illness, and Oliver Bailer was appointed Division President of Sulzer Chemtech and member of the Executive Committee. General Counsel Alfred Gerber left the company in April; his successor is not a member of the Executive Committee.

Outlook for 2014

Based on present knowledge and excluding major changes in the general economic conditions, good activity levels for parts of the oil and gas industry are expected, in particular in the Americas. Based on positive developments in selected regions, especially the Americas and China, some recovery is expected for the water market. Activities in the power and in the general industries are forecast to continue at similar levels. Sulzer anticipates slight growth for order intake and sales in 2014 compared with 2013. Return on sales before restructuring is expected to improve slightly, supported by the measures taken in 2013. Depending on market developments and capacity utilization, restructuring measures will continue in 2014.

We thank you, our shareholders, for your continued trust and support. We thank our employees for their commitment and excellent collaboration and we thank our customers and partners for their trustful and long-term cooperation.

Yours sincerely,

Vladimir Kuznetsov,
Vice Chairman
of the Board

Klaus Stahlmann,
CEO

Our vision

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

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.

Focused on oil and gas, power, and water

Global megatrends influence our lives and our well-being. Population growth, urbanization, increasing energy demand, and scarcity of water create important development needs in Sulzer's three key markets—oil and gas, power, and water. For Sulzer, this offers attractive growth potential.

Fueling the future

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.

See pages 12–13

Meeting power needs

Modern societies use large amounts of energy. The demand for energy efficiency and lower carbon dioxide emissions is steadily growing and requires improved solutions for the future.

See pages 14–15

Processing water for life

Water is our most precious natural resource. With growth in the emerging markets, the need for clean water is increasing quickly.

See pages 16–17

Fueling the future

Sulzer's solutions for the oil and gas market enable customers to prepare for the future. We provide services and solutions for onshore, offshore, and subsea oil production, for the transport of oil and gas in pipelines, and for the processing of crude oil and gas in refineries.

Meeting the power needs

Sulzer ensures that its customers have energy-efficient and sustainable operations and helps satisfy the global demand for energy. We provide high-performance pumps for fossil-fired, nuclear, or renewable power generation, advanced solutions for carbon capture and storage, and maintenance and repair services for rotating equipment.

Processing water for life

The scarcity of water presents the opportunity for Sulzer to create new, more efficient solutions. Sulzer's comprehensive product portfolio for the supply and treatment of water and for industrial and municipal wastewater collection supports the demand for clean water and constitutes sustainable business opportunities.

Healthy levels of order intake and sales

For continuing operations, order intake and sales were at healthy levels compared with the previous year. The operating income was CHF 264 million. Return on sales before restructuring decreased to 8.6% from 10.1% in the prior year. The free cash flow was on a healthy level of CHF 219 million.

Order intake: Negative currency translation effects influence order intake

In 2013, Sulzer received orders of CHF 3.2 billion. The order intake decreased nominally by 2.8%; adjusted for currency translation effects as well as acquisition effects, the order intake was only 1.1% below that of previous year. The currency translation effect amounted to negative CHF 63.5 million. The effect from acquisitions and divestitures amounted to CHF 8.1 million.

The strong double-digit order intake growth in Asia-Pacific in 2013 was offset by a comparably weak order intake in Europe and the Americas. The share of order intake in the emerging markets increased from 43% to 44%. The oil and gas market was strong, while less activity was recorded in the power and water markets than in the previous year. The divisions reported the following growth rates:

- Sulzer Pumps: –3.0% (–1.1% adjusted)
- Sulzer Turbo Services: –11.9% (–9.5% adjusted)
- Sulzer Chemtech: +6.4% (+4.9% adjusted)

Orders

millions of CHF	2013	2012
Order intake	**3 249.9**	3 343.4
Order backlog as of December 31	**1 672.1**	1 753.6

The order backlog decreased slightly to CHF 1 672.1 million (2012: CHF 1 753.6 million).

Sales: Impacted by currency translation effects

Sales of CHF 3.3 billion were recorded in 2013, which is a nominal decrease of 2.3% (adjusted –0.7%) compared to the previous year. The growth rates of the divisions were as follows:

- Sulzer Pumps: –2.2% (–0.4% adjusted)
- Sulzer Turbo Services: –7.6% (–5.2% adjusted)
- Sulzer Chemtech: +2.6% (+1.3% adjusted)

Sales were negatively influenced by the weaker Brazilian Real and South African Rand in particular. The negative currency translation effect amounted to CHF 60.6 million, while acquisition and divestiture

Consolidated income statement (condensed)

millions of CHF	2013	2012
Sales	**3 263.9**	3 340.7
Cost of goods sold	**–2 260.9**	–2 291.6
Gross profit	**1 003.0**	1 049.1
Selling, administrative and development expenses	**–722.2**	–712.5
Operating income before restructuring	**280.8**	336.6
Restructuring expenses	**–16.8**	–7.9
Operating income	**264.0**	328.7
Financial income, net	**–21.8**	1.2
Income tax expenses	**–65.9**	–80.6
Net income from continuing operations	**176.3**	249.3
Net income from discontinued operations, net of income taxes	**59.9**	58.5
Net income	**236.2**	307.8

effects added some CHF 8.2 million. The regions of North America and Eastern Europe were able to increase sales from the previous year, whereas the other regions reported stable or decreasing sales. The share of sales from services was at a healthy level of 44%.

Gross profit: Slight reduction

Gross profit amounts to CHF 1 003.0 million, which is a CHF 46.1 million decrease from the financial year 2012 (CHF 1 049.1 million). The reduction can be explained by the lower sales volume and the slightly lower gross margin of 30.7% in 2013, down from 31.4% during the previous year.

Operating income: Higher operating expenses including costs for restructuring

Operating expenses increased by CHF 18.6 million (+2.6%) to CHF 739.0 million despite slightly lower sales. Included in the operating expenses are restructuring expenses of CHF 16.8 million for cost-saving measures in operational entities, particularly at Sulzer Pumps in Europe and the integration of central group functions.

Corporate headquarter costs increased because of investments to strengthen the IT infrastructure and the relocation in Winterthur into one office building, which will support the new setup of the central group functions. Research and development (R&D) activities were further expanded to invest in the future of the businesses. R&D expenses increased from CHF 66.9 million in 2012 to CHF 70.6 million in 2013, which corresponds to 2.2% of sales (2012: 2.0%). This increased investment underscores Sulzer's strategic prioritization of technology leadership. It is a key factor in achieving leading positions in Sulzer's key markets oil and gas, power, and water.

Operating income (EBIT) decreased by 19.7% from CHF 328.7 million in 2012 to CHF 264.0 million in 2013. This decline was caused by the lower gross profit (minus CHF 46.1 million) and by higher operating expenses (plus CHF 18.6 million) from restructuring costs.

Return on sales (ROS) was at 8.1% (2012: 9.8%). Return on sales before restructuring expenses (ROSR) was at 8.6% (2012: 10.1%).

The divisions achieved the following return on sales (ROS) figures:

- Sulzer Pumps: 8.2% (2012: 9.1%). A slightly lower gross margin and reduced sales volume plus restructuring expenses of CHF 9.5 million could not be fully offset by the adaptation of operating expenses.
- Sulzer Turbo Services: 8.3% (2012: 10.8%). Lower sales and reduced gross margins decreased profitability despite reductions in operating expenses.
- Sulzer Chemtech: 11.0% (2012: 9.8%). Excellent profitability increase due to higher margins.

EBIT before depreciation and amortization (EBITDA) was CHF 378.6 million (11.6% of sales) compared with CHF 437.1 million in 2012 (13.1% of sales). Depreciation and amortization totaled CHF 114.6 million in 2013. Compared with the previous year, this represents an increase of CHF 6.2 million, which includes the higher depreciations from the IT infrastructure.

With a return on capital employed (ROCE) of 12.6% (2012: 14.7%), Sulzer exceeded its internal value-creating threshold (pretax weighted average cost of capital) and created financial value despite the restructuring expenses.

Financial income: Lower interest expenses for unfunded pension plans

Net financial income in 2013 was negative at CHF –21.8 million (2012: CHF 1.2 million). Interest income increased slightly to CHF 5.0 million (2012: CHF 4.6 million) driven by higher cash balances. Interest expenses of CHF 16.8 million were lower than last year (2012: CHF 18.4 million) due to lower borrowings. The interest expenses for employee benefit plans were CHF –6.4 million (2012: CHF –7.4 million). In 2012 the financial income benefited from the sale of third-party shares, which contributed CHF 31.0 million.

Lower pretax income taxed at higher income tax rate of 27.2%

Lower pretax income reduced the tax expenses by 18.2% to CHF 65.9 million in 2013. Based on the worldwide distribution of the profit including the profit at the headquarters in Switzerland, which is taxed at a low rate, the structural tax rate increased from 25.9% in 2012 to 26.7% in 2013. The effective tax rate of 27.2% in 2013 is slightly above the structural tax rate. No positive one-time effects such as the gain from sale of the third-party shares booked in 2012 could be reported in 2013 to reduce Sulzer's effective tax rate.

Equity ratio

51.4%

Solid balance sheet

Return on capital employed

12.6%

Above value-creating threshold

Divestiture of Sulzer Metco

Sulzer Metco is reported as discontinued operations throughout this Annual Report. By the end of January 2014, Sulzer signed an agreement with Oerlikon for the divestment of its Sulzer Metco division.

Net income: Lower net income of CHF 236 million

Based on the lower operating income and the lower financial income, the net income of CHF 236.2 million in 2013 was 23.3% below that of 2012 (CHF 307.8 million). Net income attributable to Sulzer shareholders amounted to CHF 234.4 million (7.2% of sales) compared to CHF 302.9 million (9.1% of sales) in 2012. Basic earnings per share (EPS) decreased by 22.7% to CHF 6.89 (2012: CHF 8.91).

Balance sheet: Increase of equity ratio to 51.4%

Total assets on December 31, 2013, amounted to CHF 4 543.9 million, which is a slight decrease of CHF 65.6 million over the figure from 2012.

Additions to assets totaled to CHF 80.5 million, mainly related to property, plant, and equipment (2012: CHF 93.0 million). With depreciation and amortization of CHF 114.6 million, fixed assets were reduced in 2013. The major additions to assets were investments for expansion (CHF 21.2 million, or 26% of total investments), replacements (CHF 30.6 million, or 38% of total investments), and IT investments (CHF 12.1 million, or 15% of total investments).

The liabilities decreased by CHF 182.9 million to CHF 2 203.2 million on December 31, 2013. Beside a substantial reduction in non-current provisions, the borrowings were reduced by CHF 36.5 million.

In connection with the intended divestiture of Sulzer Metco, all balance sheet items are shown on the lines assets and liabilities held for sale on December 31, 2013, which reduces all other balance sheet positions accordingly. With the reclassification of all Sulzer Metco balance sheet positions to assets held for sale, there is a general shift from non-current assets to current assets.

Non-current assets decreased from CHF 2 237.8 million in 2012 to CHF 1 891.5 million at the end of 2013. The current assets, on the other hand, increased from CHF 2 371.7 million to CHF 2 652.4 million on December 31, 2013. A similar but smaller effect could be seen within the liabilities, where the non-current liabilities decreased by CHF 131.2 million due to the Sulzer Metco reclassification and the decrease of provisions related to defined benefit plans.

Equity increased by CHF 117.3 million to CHF 2 340.7 million. This was impacted by the net income of CHF 236.2 million and by the dividend payment of CHF –111.8 million. The equity ratio (equity/total assets) increased from 48.1% in 2012 to 51.4% in 2013. The gearing (borrowings/equity) decreased to 25% (from 27% in 2012).

Consolidated cash flow statement (condensed)

millions of CHF	2013	2012
Cash flow from operating activities	**320.1**	472.8
Purchase of intangible assets and property, plant and equipment	**–107.6**	–128.2
Sale of property, plant and equipment, and intangible assets	**6.2**	3.3
Free cash flow	**218.7**	347.9
Acquisitions/divestitures	**–20.6**	–37.5
Purchase/sale of financial assets and marketable securities	**1.8**	33.4
Cash flow from operating and investing activities	**199.9**	343.8
Cash flow from financing activities	**–136.7**	–251.5
Exchange losses on cash and cash equivalents	**–20.6**	–7.6
Net change in cash and cash equivalents	**42.6**	84.7
Cash and cash equivalents as of December 31	**549.9**	507.3
– thereof classified as assets held for sale	**21.2**	–

Cash flow: Improving net liquidity by CHF 59.7 million

Change in net cash was positive — at CHF 42.6 million in 2013. The main impacts on cash flow were as follows:

- Cash flow from operating activities totaled CHF 320.1 million in 2013, a decrease of CHF 152.7 million from 2012. The main impacts were the lower net income (CHF –71.6 million) and the lower reduction in net working capital in 2012 (CHF 12.0 million) compared to 2013 (CHF 100.2 million).
- Taxes paid in 2013 (CHF 118.7 million) were at a similar level to that of 2012 (CHF 120.5 million).
- A total cash outflow of CHF 120.2 million resulted from investing activities. Capital expenditures of CHF 107.6 million were recorded in 2013, which is CHF 20.6 million below the figure from the previous year. Cash flow for acquisitions amounted to CHF 26.7 million, mainly related to the acquisition of Krøger A/S, Denmark.
- The cash flow from financing was negative at CHF 136.7 million. It included the cash paid out for dividend payments, which totaled CHF 108.7 million, and a reduction in borrowings of CHF 21.7 million.
- Exchange losses on cash were CHF 20.6 million, mainly related to the cash balance held in Brazilian Real (2012: CHF –7.6 million).

Net liquidity improved by CHF 59.7 million compared to 2012, mainly because of a healthy contribution from the operating activities and despite some smaller acquisitions and the increase in dividend payment over 2012.

Changes in accounting policies

Sulzer introduced the revised IFRS accounting standard IAS 19 “Employee Benefits”, on January 1, 2013. As required by the new standard, Sulzer’s consolidated financial statements 2012 have been restated retrospectively to reflect these changes.

Outlook 2014

Based on present knowledge and excluding major changes in the general economic conditions, good activity levels for parts of the oil and gas industry are expected, in particular in the Americas. Based on positive developments in selected regions, especially the Americas and China, some recovery is expected for the water market. Activities in the power and in the general industries are forecast to continue at similar levels. Sulzer anticipates slight growth for order intake and sales in 2014 compared with 2013. Return on sales before restructuring is expected to improve slightly, supported by the measures taken in 2013. Depending on market developments and capacity utilization, restructuring measures will continue in 2014.

Performance 2013

Sales

CHF 2 051m

(2012: CHF 2 098m)

Return on sales

8.2%

(2012: 9.1%)

ROCE [1]

12.1%

(2012: 13.1%)

[1] Return on capital employed.

Solid sales volume—global footprint further expanded

Sulzer Pumps achieved sales of CHF 2 billion in 2013 and expanded its service footprint in China, India, Brazil, and South Africa.


ULZER
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Solid sales volume—global footprint further expanded

“Sulzer Pumps achieved sales of CHF 2 billion in 2013. We further strengthened customer partnership and expanded our service footprint in China, India, Brazil, and South Africa.”

Scot Smith,
Division President

Strengthened strategic partnership and adapted operational structure

Sulzer Pumps signed a new strategic partnership with the Sinopec Corporation to develop their commercial activities within the hydrocarbon processing industry. The division also signed a long-term agreement with FMC Technologies—the global leader in subsea system integration—to further strengthen commercial partnership. Sulzer Pumps expanded its global service footprint by opening additional service centers in China, India, Brazil, and South Africa. Sulzer has adapted its operational structure to support its key market strategy more effectively. As of January 1, 2014, the division has been renamed Pumps Equipment. This division offers new pumps and related systems, including spares, for the oil and gas and the power markets. The newly formed Water business unit combines all products and services for the water and wastewater market segments. The service activities of Sulzer Pumps are now part of the new service division called Rotating Equipment Services.

Order intake remained solid

Sulzer Pumps achieved an order intake of over CHF 2 billion in 2013. This achievement was supported by large orders in the oil and gas upstream industry such as the supply for floating production storage and offloading (FPSO) vessels in Brazil and Australia in the first nine months of the year. In addition, the pipeline pump business in the Americas contributed with some large orders in 2013, while the downstream business lagged behind. The power industry continued on a low base, and the water market was lower than the previous year. Good activity was seen in the general industries. Asia-Pacific was very strong, and North America continued to develop well; Europe was comparably weak.

Sales again at similar level to 2012

The division achieved sales of CHF 2 billion, which is a similar level to last year. Sales started slowly into the year but improved throughout 2013. Sales volume was particularly low in the wastewater business. Operating income before restructuring expenses was CHF 179 million which is 10% lower than the last year. Operating income after restructuring expenses was CHF 169 million. Profitability before restructuring expenses was 8.7% of sales, while after restructuring expenses amounted to 8.2%. The lower profitability is mainly due to the lower volume and cost absorption in the wastewater business, especially in Europe, and due to lower-than-expected sales for engineered pumps in Europe. The management took targeted measures to address underutilization and the lower operating profitability by adapting capacities in the wastewater business including the closure of two sites. The frequency of accidents increased slightly while the severity of accidents decreased.

Market outlook

From a key market perspective, the division anticipates further growth opportunities in selected parts of the oil and gas market in 2014. For the power market, some growth is expected for Asia-Pacific while the rest of the world should continue at similar low levels. The water market is predicted to show growth opportunities in selected regions. Geographically, Asia-Pacific and North America are likely to remain the growth drivers in 2014.

Our strategic priorities and achievements 2013

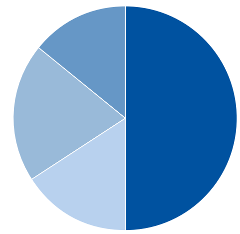
Technology leadership	• Engaged in joint industrial development programs for the next generation of highly efficient pumping solutions • Standardized pump groups for global distribution
Outstanding services	• Further expanded service footprint in China and India • Strengthened retrofit competencies and revenues • Signed significant long-term services agreements in China and Kazakhstan
Continuous operational improvement	• Optimizing factory layouts to improve on-time delivery and reduce lead times • Monitoring and organizing workplaces with the 5S method[1] • Introducing Kanban[2] process in shop floors to reduce lead times • Improving global capacity planning and order monitoring to boost on-time delivery • Improving the project management process, including certifying project managers according to PMP[3] standards
Collaborative advantage	• Offerings for pumps and other rotating equipments combined in Rotating Equipment Services division • Shop-in-shop concept established for combined service locations for different pump types to optimize the global service footprint

[1] A process that promotes the cleanliness, organization, and safety of all elements in a working environment. 5S so named for its five primary undertakings: sort, set in order, shine, standardize, sustain.

[2] Kanban is a scheduling system for lean and just-in-time (JIT) production. Kanban is a system to control the logistical chain from a production point of view to improve and maintain a high level of production.

[3] The title PMP means Project Management Professional and is awarded by the Project Management Institute (PMISM).

Sales by market segments



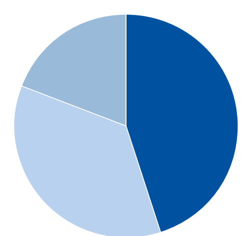
	2013
Oil and gas	50%
Power	16%
Water	20%
General industry	14%

Key figures

millions of CHF	2013	2012	Change in +/–%	+/–%[1]
Order intake	**2 031.3**	2 094.3	–3.0	–1.1
Order backlog	**1 235.0**	1 309.1	–5.7	
Sales	**2 051.3**	2 097.5	–2.2	–0.4
Operating income before depreciation/ amortization	**224.9**	245.9	–8.5	
Operating income before restructuring	**178.6**	199.3	–10.4	
Operating income	**169.1**	191.2	–11.6	
Return on sales before restructuring	**8.7%**	9.5%		
Return on sales	**8.2%**	9.1%		
Return on capital employed	**12.1%**	13.1%		
Employees	**8 496**	8 573	–0.9	

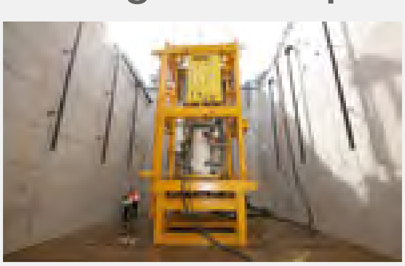
[1] Adjusted for currency effects as well as acquisitions and divestitures.

Sales by region

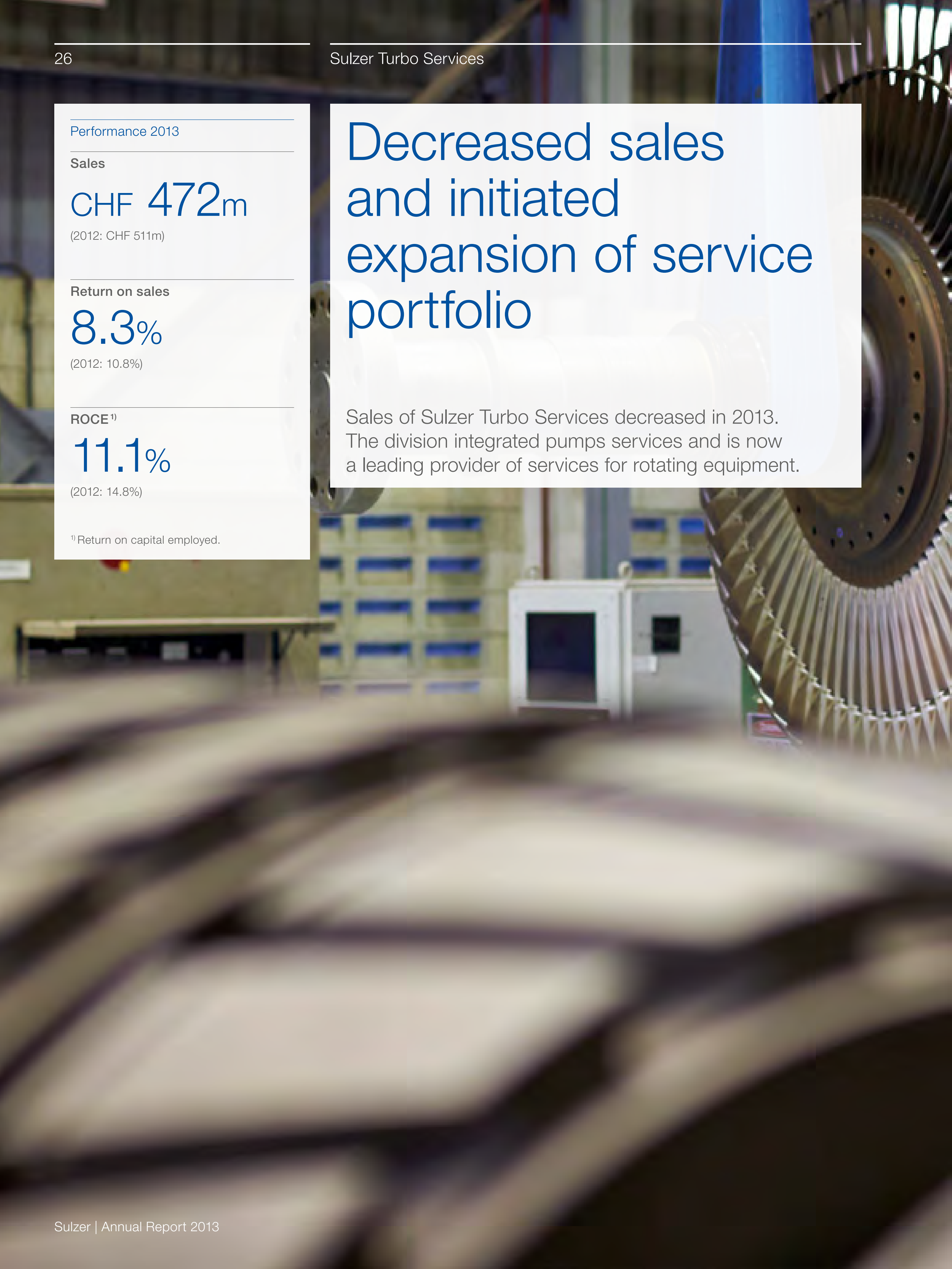


	2013
Europe, Middle East, Africa	45%
Americas	36%
Asia-Pacific	19%

Testing subsea pumps for the oil and gas industry



Sulzer develops pump solutions for deepwater oil and gas production. Because subsea pumping involves challenging operating conditions, it is essential to test the new pumps under realistic conditions. For this reason, Sulzer has built a special test facility in Leeds, UK, which holds 1.5 million liters of water. It has both liquid and gas testing capabilities, and continuously monitors over 240 parameters. The tests include all equipment that will be placed underwater. This way, the test-bed can validate the full system. Thanks to this new test facility, Sulzer was able to demonstrate the strong performance of its new 3.2 MW subsea multiphase pump. The customers now have confidence that they can safely deploy the equipment underwater. Sulzer's subsea pump has been internationally recognized and is an important first step toward a comprehensive subsea product line.



Performance 2013

Sales

CHF 472m

(2012: CHF 511m)

Return on sales

8.3%

(2012: 10.8%)

ROCE [1]

11.1%

(2012: 14.8%)

[1] Return on capital employed.

Decreased sales and initiated expansion of service portfolio

Sales of Sulzer Turbo Services decreased in 2013. The division integrated pumps services and is now a leading provider of services for rotating equipment.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Decreased sales and initiated expansion of service portfolio

“Sales decreased in 2013. With the integration of pumps services, we are now a leading provider of services for a broad portfolio of rotating equipment and we are geared for profitable growth.”

Peter Alexander,
Division President

Integrated service approach shows first tangible results

Since January 1, 2014, Sulzer has a new operational structure that supports its focused and market orientated strategy more effectively. The services for turbines, compressors, motors, and generators of Sulzer Turbo Services are now combined with the services for pumps and the division operates as Rotating Equipment Services. This unification has created a leading provider of services for rotating equipment and supports the company in growing sales and improving profitability.

The first tangible results of the integrated service approach are already visible. In 2013, the division deployed its shop-in-shop strategy—adding a pumps workshop to an electromechanical site—in Glasgow, UK, and in Salisbury, Australia. This addition leverages the combined customer base and actively identifies the service needs of current customers for other rotating equipment. The service locations in Neuss, Germany, and Rotterdam, Netherlands, provide bundled service offerings in the form of overhaul and repair services for combinations of rotating equipment. This is a successful collaboration and it underlines the value for Sulzer's customers having a single point of contact.

Decreased orders

Order intake decreased from the last year. This was mainly due to the weak demand for electromechanical services in the UK and in Australia. Activity levels in the oil and gas market were steady, while the power and the general industries were weaker. Geographically, market activities improved in all regions after a slow start in 2013. Demand in North America increased in part due to the shale gas boom. South America and Canada continued to develop positively. China and Russia offer good opportunities for future growth.

Profitability impacted by low capacity utilization

Sales decreased from last year. Operating income was CHF 39 million which is 29% lower than 2012. Reduced capacity utilization, especially at the electromechanical service sites in the UK and in Australia, affected the operating income and profitability of the division. Sulzer Turbo Services took targeted measures to improve its operational performance. These included capacity adaptations and sales improvement initiatives. Despite the positive effects of the measures taken and the visible improvements in the UK and Australia, profitability was 8.3% and did not achieve the same high level as in 2012. The frequency of accidents slightly decreased, while the severity of accidents increased from the previous year.

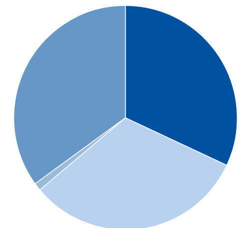
Market outlook

For 2014, Rotating Equipment Services expects some growth in the oil and gas market, driven by the continuing high demand of crude oil and the ongoing shale gas boom, namely in North America. The power market is expected to remain at the current levels, while opportunities in developing markets such as Russia and China are visible. The division predicts slow growth in the general industries, except in China. Geographically, North and South America, Russia, and China are expected to continue growing. Growth in Europe is forecast to continue on a weak level in 2014.

Our strategic priorities and achievements 2013

Technology leadership	• Developed redesign methods for turbocompressor retrofits • Deployed customized welding procedure for improved performance
Outstanding services	• Improved service offerings through close cooperation with other divisions • Extended capabilities for new technology (new building in Houston, TX, USA, with balancing pit for F-technology) • Extended service offerings in China • Strengthened Contract & Engineering organization at the headquarters in Switzerland
Continuous operational improvement	• Deploying shop-in-shop strategy (Glasgow, UK; Salisbury, AU), leveraging existing assets and capabilities
Collaborative advantage	• Bundled service offering for same customers with Sulzer Pumps (Neuss, DE; Rotterdam, NL)

Sales by market segments



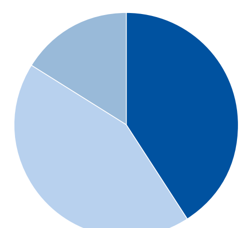
	2013
Oil and gas	32%
Power	32%
Water	1%
General industry	35%

Key figures

millions of CHF	2013	2012	Change in +/–%	+/–%[1]
Order intake	**471.7**	535.2	–11.9	–9.5
Order backlog	**146.8**	151.6	–3.2	
Sales	**471.6**	510.5	–7.6	–5.2
Operating income before depreciation/amortization	**55.7**	71.6	–22.2	
Operating income before restructuring	**40.5**	54.9	–26.2	
Operating income	**39.2**	54.9	–28.6	
Return on sales before restructuring	**8.6%**	10.8%		
Return on sales	**8.3%**	10.8%		
Return on capital employed	**11.1%**	14.8%		
Employees	**2537**	2703	–6.1	

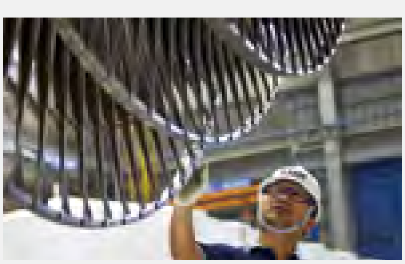
[1] Adjusted for currency effects as well as acquisitions and divestitures.

Sales by region



	2013
Europe, Middle East, Africa	41%
Americas	43%
Asia-Pacific	16%

Service solutions that optimize geothermal plants



The heat from inside the earth is a renewable source of energy with huge potential. More and more countries are investing in geothermal power generation. Rapid and reliable service solutions are essential to run operations at geothermal plants smoothly. Sulzer has proven experience in overhauling and repairing the steam turbines used in geothermal power plants worldwide. Thanks to its global service network, Sulzer is close to the hot spots of geothermal development.

Indonesia, for example, hosts some of the largest resources of geothermal energy in the world. Sulzer's service facility in Indonesia successfully carried out numerous service projects for geothermal plants. The team found service solutions even for challenging emergency repairs and managed to improve the power capacity and to reduce the downtime of the plants.

Performance 2013

Sales

CHF 744m

(2012: CHF 725m)

Return on sales

11.0%

(2012: 9.8%)

ROCE [1]

19.7%

(2012: 16.3%)

[1] Return on capital employed.

Increased order intake and double-digit profitability

Order intake increased and profitability reached a double-digit level. Sulzer Chemtech has been awarded a contract for a high-performance biopolymer production plant in Asia.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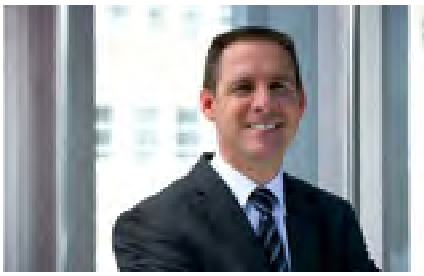
Increased order intake and double-digit profitability



“Sulzer Chemtech achieved healthy growth in order intake. Profitability clearly increased to a double-digit level. We have been awarded a contract for a high-performance biopolymer production plant in Asia.”

Oliver Bailer,
Division President

Cutting-edge technology and strategic acquisition

The division was awarded an order for the delivery of the first industrial-scale production plant based on Sulzer’s proprietary polylactic acid (PLA) technology to a customer in China. The plant will produce high-performance PLA and has a capacity of more than 10 000 tons per year. The special characteristics of the PLA produced are that it can withstand temperatures as high as 180°C and that it can be used in a broad range of applications in various industries. Commercial production is planned to start in the second half of 2014. This large contract represents an important milestone for the activities in the biopolymer industry, which offers attractive growth potential. In 2013, Sulzer Chemtech acquired Krøger A/S, a leading manufacturer of dispensers. This acquisition expands the product portfolio of Sulzer Mixpac Systems and strengthens its position as a technology leader and solution provider for one- and two-component application systems for industrial sealants and adhesives.

Increased order intake

The division achieved healthy growth in order intake, supported by good market conditions. The oil and gas downstream industry continued to develop positively for mass transfer technology and tower field services, supported by some large orders from Asia and the Middle East. The process technology business reported high demand with various large orders for multiple skid-mounted process solutions. Due to higher levels of activity in key markets, the order intake for one- and two-component mixing systems remained strong. Market activities continued at a good level in all geographic regions, especially in Asia.

Sales increased and profitability reached a double-digit level

Sales were higher than in 2012, and operating income increased significantly. Profitability clearly increased—supported by continuing operational improvements—and reached a double-digit level. An expansion project for skid manufacturing was initiated, and the capacity for two-component mixing and dispensing systems was ramped up in China to capture Asian growth. The frequency and the severity of accidents remained at a low level.

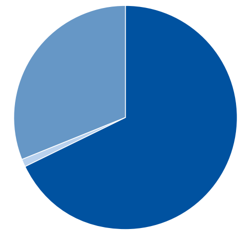
Market outlook

For 2014, Chemtech anticipates that the oil and gas market will stabilize at a high level. In the general industries, the division expects continued high levels of activity. Geographically, Asia and the Middle East are predicted to be the growth drivers, while market activities in all other regions are forecast to remain at the current level.

Our strategic priorities and achievements 2013

Technology leadership	• Developed T-Mixer technology to optimize performance and minimize waste in a wide range of two-component mixing applications • Developed new products for separation applications, such as silanes and CO_2-capture • Responded to growing demand for nutraceuticals (e.g. Vitamin E) with optimized process solution • Improved Sulzer process technology with biopolymer pilot plant to supply wide range of PLA sample material for customer's market development
Outstanding services	• Started up operations in Brazil to serve local market with mass transfer products and tower field services • Developed new applications for construction market segment with dispenser technology based on the acquisition of Krøger A/S, DK • Enhanced service technologies for corrosion protection, such as thermal spraying and welding
Continuous operational improvement	• Started expansion project for skid manufacturing facility in China • Ramped-up manufacturing for two-component mixing and dispensing systems in China
Collaborative advantage	• Received large separation equipment order for world's biggest floating liquefied natural gas (FLNG) ship

Sales by market segments



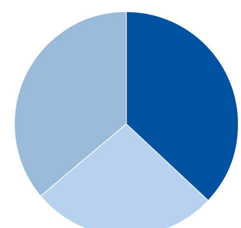
	2013
Oil and gas	68%
Power	1%
Water	0%
Other industrial markets	31%

Key figures

millions of CHF	2013	2012	Change in +/–%	Change in +/–%[1)]
Order intake	**749.9**	705.1	6.4	4.9
Order backlog	**290.5**	293.6	–1.1	
Sales	**743.7**	724.6	2.6	1.3
Operating income before depreciation/amortization	**120.5**	105.5	14.2	
Operating income before restructuring	**81.3**	70.5	15.3	
Operating income	**81.4**	70.7	15.1	
Return on sales before restructuring	**10.9%**	9.7%		
Return on sales	**11.0%**	9.8%		
Return on capital employed	**19.7%**	16.3%		
Employees	**4167**	4086	2.0	

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

Sales by region



	2013
Europe, Middle East, Africa	37%
Americas	27%
Asia-Pacific	36%

New tray technology increases gas plant capacity

Remotely located gas plants are highly dependent on performance and reliability over a wide range of operating conditions. Sulzer provides mass transfer equipment that copes with these challenges and benefits its customers in the oil and gas industry. Sulzer's Umbrella Valves™ are installed in distillation columns in gas fields as well as in a wide variety of columns in refinery and petrochemical plants. Their high capacity and efficient operation make these new valve trays ideal for gas applications. The uniquely shaped umbrella valve directs vapor downward onto the tray deck, providing better mixing and higher capacity than existing valve trays. The UFM™ (umbrella floating mini-valve) valves boost capacity by 20% and provide critical material savings of up to 15%. The result is improved plant performance at a lower cost.

Social performance[1]

Voluntary attrition rate

7.0%

(2012: 7.9%)

Accident frequency rate

3.1

(2012: 2.8 accidents per working hours)

Ecological performance[1]

Energy consumption[2]

1.0

(2012: 0.8 GJ/CHF 1 000)

Total greenhouse gas emissions

0.1

(2012: 0.1 t CO_2 eq./CHF 1 000)

1) From continuing operations.
2) Net value added.

Energy-efficient solutions for a sustainable world

Technology leadership and committed employees are the cornerstones of profitable growth and sustainable success. Sulzer continued to strive for improvements in its social and ecological performance despite challenges in the economic environment in 2013.


SULZER

Cutting-edge technology from deepwater solutions to dental applications

Strategic and mutually beneficial partnerships are crucial for Sulzer to reinforce its technology leadership. With a highly developed innovative and entrepreneurial mind-set, Sulzer can offer its customers a portfolio with high-end solutions.

Innovation and technology play a key role for Sulzer. Our innovative solutions add value and strengthen the competitive position of our customers.

Technology leadership—one of Sulzer's strategic priorities—is a key pillar of sustainable business success. Sulzer has a long track record in engineering innovative solutions with high customer benefit. In 2013, the company invested CHF 71 million in research and development (2012: CHF 67 million), which is 2.2% relative to sales (2012: 2.0% of sales). The number of patents filed in 2013 was 46.

Collaborating with partners to create high customer value

Sulzer Pumps and FMC Technologies—the global leader in subsea system integration—signed a long-term and exclusive collaboration agreement for subsea pumps in 2013. The agreement includes the supply of pumps for subsea applications to FMC Technologies and the further development of pumping technology to meet the growing demands of the subsea exploration and production industry. The new long-term partnership between Sulzer Pumps and FMC Technologies is beneficial for both companies and highlights the importance of the strategic priority collaborative advantage for Sulzer.

Sulzer has a long history of collaboration with academic institutions such as ETH Zurich (Swiss Federal Institute of Technology Zurich) or Texas A&M. At ETH, the company sponsors a professorship in fluid dynamics at the department of Mechanical and Process Engineering. With this partnership, Sulzer benefits from access to directed research on topics relevant to the company, and it also attracts highly talented potential employees. In addition, Sulzer has intensified its networking with other industry members such as ABB, Alstom, and BASF.

Number of patents

46

(2012: 60)

R&D investments [1]

CHF 71m

(2.2% of sales)

(2012: CHF 67m)

[1] From continuing operations.

In 2013, Sulzer was awarded an order for the delivery to China of the first industrial-scale production plant based on Sulzer's proprietary polylactic acid (PLA) technology. The facility will produce more than 10 000 tons of high-performance PLA per year. Special characteristics of the PLA produced are that it can withstand temperatures as high as 180°C and can be used in a broad range of applications in various industries like the electronics and automotive segments. Commercial production is planned to start in the second half of 2014. To support application development until the plant is operational, Sulzer is supplying materials to its customer from its PLA demonstration plant in Switzerland. This 1 000-tons-per-year demonstration facility for PLA production was built to emphasize Sulzer's commitment to the bioplastics industry. In the future, Sulzer will remain able to support new developments made by customers, because running samples for application development is more flexible at a small scale plant than on a commercial production line.

Testing, monitoring, and upgrading to improve life cycle cost

Sulzer develops pump solutions for deep water (2 000 m) oil and gas production. 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 (read more about subsea pumps testing in the box on page 25).

While testing pumps is crucial, customers also need to know how to monitor, maintain, and run the pumps in the optimum way to reach the overall best life cycle cost. Sulzer has therefore developed an application based on Android and IOS. It allows connecting the controllers and controlling panels of the ABS wastewater pump systems.

More than 90% of a typical pipeline pump's life cycle cost originates from energy use. Hence Sulzer focuses on efficiency issues and identifies optimization strategies and retrofits. Because pipeline pumps must comply with continuously changing requirements and ensure safe operation, retrofit solutions are an ideal way of improving reliability while maximizing performance at a short return on investment.

Reducing turnaround time and waste with outstanding solutions

Sulzer's service business offers customized weld repair solutions for critical rotating equipment. 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.

During the last few years, Sulzer has developed a new static mixing geometry with significantly less waste volume. The market introduction of this new patented mixer—T-MIXER™—started in spring 2013. The company applied its expertise in advanced development methods like CFD (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.

Bubbles boost wastewater treatment efficiency

Economic wastewater treatment is crucial everywhere, but especially in regions with a shortage of freshwater supplies. With Sulzer's pioneering aeration technology, customers can increase the wastewater treatment efficiency and save considerable energy costs. Until now, Sulzer has installed over five million diffusers and 1 600 high-speed compressors worldwide.

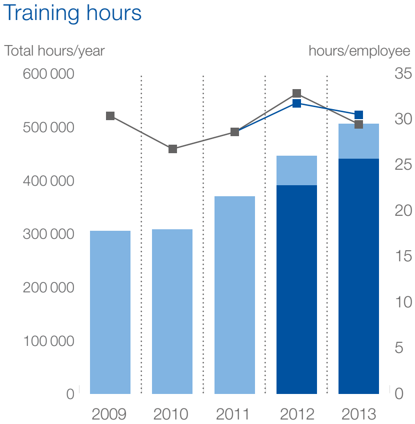
The city of Girona, Spain, entrusted Sulzer with the improvement of the wastewater treatment plant. In Girona, Sulzer replaced the old air distribution system with the efficient Nopon fine bubble disc diffuser system. Furthermore, modern HST turbocompressors replaced the old blowers. As a result, the energy consumption dropped by a fifth. This translates into massive cost savings and a substantial reduction of CO_2 emissions. But that's not all: the vibration free turbocompressors lower noise emissions as well. This eliminates the need for expensive noise-insulated blower houses and provides a pleasant working environment.

Ensuring a healthy and safe environment at work

Sulzer has established a corporate safety culture that mitigates potential risks for its workforce. The company trains its employees and fosters their operational and management skills as well as their leadership competencies.

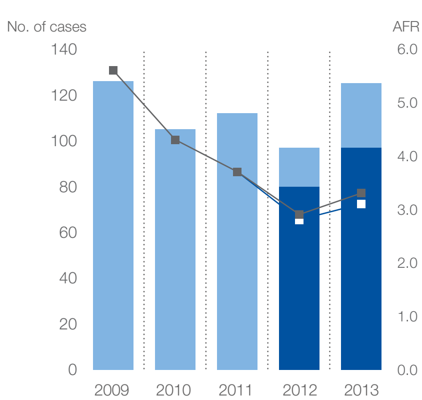
Health and safety of its employees is a top priority for Sulzer. The company encourages its employees to act safely in all circumstances.

Training hours



- Total number of training hours without Sulzer Metco
- Total number of training hours
- Training hours per employee without Sulzer Metco
- Training hours per employee

Accidents



- Cases that last > 1 day due to occupational accidents without Sulzer Metco
- Cases that last > 1 day due to occupational accidents
- Accident frequency rate (AFR) in cases per 1 000 000 working hours without Sulzer Metco
- Accident frequency rate (AFR) in cases per 1 000 000 working hours

Sulzer aspires to excellence in health and safety and is therefore committed to complying with internationally renowned Occupational Health and Safety (OHS) standards. The company confirmed its goal of zero accidents and continued to encourage its employees to act safely at all times.

Key performance indicators in safety show an upward trend in 2013. The management intensified its efforts in health and safety and attempted to increase the impact of these efforts on all employees. Considerable investments were made in safety programs and training sessions to strengthen the company's safety culture. Additionally, all Sulzer manufacturing and service centers continued to implement and continuously improve OHS management systems like OHSAS 18001 and/or SCC certification. In 2013, 82% of Sulzer's manufacturing and service centers were certified accordingly. The company also continued to internally align and harmonize its sustainability reporting and metrics on a global level—with the ultimate goal of a fully integrated reporting.

Improved safety culture through tailored initiatives

Sulzer initiated new programs and followed up on existing ones to improve its safety culture and performance further in 2013. Significant contributions came from the company's Safe Behavior Program (SBP), the Hazardous Materials Emissions and Exposure (HMEE) risk mitigation program, and the blacklist program on the substitution of (potentially) hazardous substances.

The Safe Behavior Program, which was rolled out globally in 2012, was established as a change program to foster a strong safety culture with an emphasis on preventing accidents by encouraging employees to act safely in all circumstances. This program provides the necessary platform to intervene in any unsafe situation (read more in the box).

Continued efforts to decrease frequency and severity of accidents

All Sulzer sites are required to report four key indicators on health and safety on a monthly basis: the accident frequency rate (AFR), the accident severity rate (ASR), the number of major/minor accidents (including all cases of medical treatment and first aid), and the number of occupational illnesses.

The AFR and ASR are the main indicators and will become relevant for bonus purposes in 2014. In 2013, Sulzer's global AFR target was 2.7 and the ASR target 38. The AFR was 3.1 cases per million working hours (2012: 2.8) in 2013. In 2013, the ASR decreased by two days to 58 lost days per million working hours (2012: 60). Sulzer increased its ongoing efforts to lower the AFR and ASR with tailored measures, as an integral part of the company's Safe Behavior Program.

Programs for learning and development boost in-house talent pool

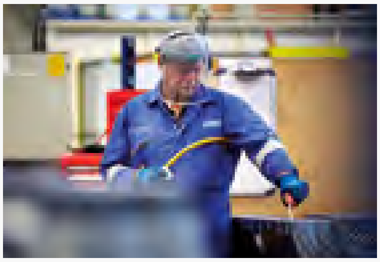
Sulzer offers several programs to train its employees and foster their operational and management skills as well as their leadership competencies. The corporate Program for Development and Impact (PDI) is a long-standing training program for ambitious managers, leaders, and functional specialists on various levels of the organization. It is beneficial for both the company and the participants because it supports cross-organizational job placements and enhances the employability of each individual. The program follows a philosophy of action learning and is highly oriented towards implementation and impact. The content of the training fosters capabilities of the individual, the team, and the business. The PDI is a cornerstone of Sulzer's investment in leadership development and a contributor to Sulzer's talent pool. In 2013, 73 managers and experts participated in one of the three PDIs.

Being an effective leader requires not only excellent technical, but also interpersonal and management skills. The Sulzer Management Training (SMT) trains new leaders and offers a refresher for established leaders. The SMT provides the essential skills and knowledge required to handle various communication and leadership challenges faced in management situations. In 2013, it was offered as a pilot training course in Switzerland. More than 40 participants took this pilot training and their feedback was consistently positive.

To manage training programs for employees, Sulzer will implement a learning management system (LMS). This cloud-based platform will contain all training courses available, both classroom and e-learning. Moreover, team leaders can check the training status and history and define training plans for their team members in this online tool. The LMS was launched at a pilot site in August 2013. The implementation throughout the entire company will be completed in 2015.

Sulzer's continued investment in human resources is reflected in the fact that 71% of leadership positions were filled with internal talents in 2013.

"People are the agents of change"



Sulzer's global Safe Behavior Program fosters a proactive, precautionary approach that lowers risks and increases awareness, thereby reducing the frequency and severity of accidents. While the program is global, the benefits are visible on a local level. For instance, the manufacturing site in Curitiba, Brazil, faced a difficult time in early 2013: several accidents occurred in short succession. To counteract this development, a change in the safety culture was initiated. In line with the global Sulzer Safe Behavior Program, the management conducted a series of training sessions and refurbished old machinery to meet current standards to increase the plant's safety. The impact of the initiative became visible by September 2013 when the site celebrated 100 days without accident. "Changing the culture of the employees was the biggest challenge," says Cesar Grande, the site's Managing Director. "We can now clearly see a change in internal culture where safety stops being somebody else's problem and becomes their own commitment. In other words, people are the agents of change."

Watch our safety vision video featuring core behaviors of the Safe Behavior Program at:

www.sulzer.com/sbp

Toward an integrated and customer-focused company

Sulzer initiated significant changes in 2013 with the goal of becoming *one* integrated and more customer-focused company. The company strove to act as a socially responsible employer, building on its strong values.

Sulzer fosters diversity with respect to gender, culture, and demography. Diverse teams can build on different viewpoints and, thus, have better ways of solving problems.

The integration of the service business and new setup of group functions as of the beginning of 2014 as well as the process for the divestment of one division were demanding projects for Sulzer in 2013. Thanks to Sulzer's highly qualified and committed employees, the company is convinced that it will successfully manage the transition to being *one* integrated and customer-focused company.

Strong values and committed employees

During times of change, company values gain importance as the fundamental principles of interacting and doing business. They act as an inner compass that guides all of Sulzer's activities. They define who Sulzer is and how the company behaves. There are three core values at Sulzer:

- Customer partnership
- Operational excellence
- Committed people

Committed employees are essential for Sulzer to achieve profitable growth and sustainable value. Sulzer Chemtech, for instance, with its Committed People Award, acknowledges the extraordinary achievements and contributions of its employees that have resulted in benefits for the company and its stakeholders. Such benefits include for example: affirming a sense of community and shared vision towards the Sulzer core values; creating a positive, supportive, and healthy work environment and culture; and encouraging initiatives, creativity, success, and excellence within the company. All employees including apprentices but excluding managers are eligible for the award.

Commitment is also fostered by motivating young future professionals to pursue a technical career. Sulzer offers attractive, future-proof apprenticeships of high quality. Every apprentice is assigned a supervisor who supports the apprentice not only in acquiring the necessary technical knowledge, but also in developing and strengthening personal and social skills. This not only inspires students to take on an engineering study but also offers an excellent opportunity for them to develop at an early stage in their professional lives. In 2013, the voluntary attrition rate decreased to 7.0% (2012: 7.9%).

A diverse workforce for *one* company and one brand

Diversity has always created a competitive advantage for Sulzer. The company's workforce is diverse in terms of gender, demography, and culture. In 2013, 15% of the workforce, 14% of all managers, and 12% of the Sulzer Management Group (top 100 managers) were female. Sulzer's customer base is also highly diverse and is located all over the world. Teams with different backgrounds not only create better solutions, but they are also closer to the company's customers and understand their specific needs. Sulzer employs 15 382 employees in 150 locations in over 40 countries. About 44% of the company's employees work in Europe, Middle East, and Africa. 28% work in the Americas (North, Central, and South America) and 28% work in the Asia-Pacific region.

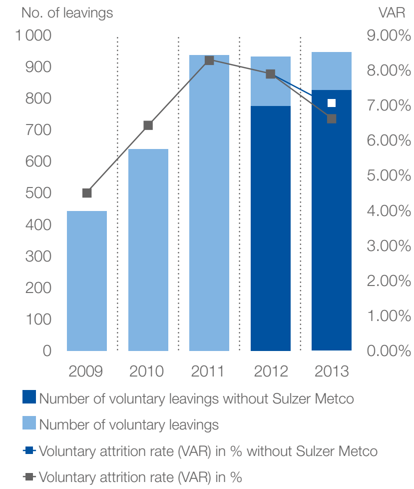
The company trusts and continuously builds on the value of its strong brand and focuses its communication on its one-brand strategy. This clearly strengthens the Sulzer brand, which is world renowned for experience, innovation, reliability, and quality. Moreover, it transports the values of the company in a consistent and believable manner. At the end of 2013, Sulzer headquarters in Winterthur, Switzerland, were united into a single building. This relocation empowers employees to increase internal collaboration under one roof.

Assuming social responsibility also in challenging times

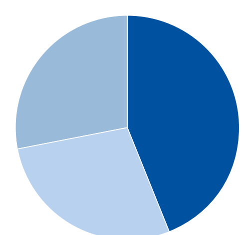
In 2013, Sulzer had to announce a headcount reduction of 300 full-time equivalents (FTEs) due to the integration of the group functions and weaknesses in some business areas. Around 100 FTEs were affected at the headquarters in Switzerland. The other 200 positions were reduced in businesses facing weak demand, particularly in the wastewater pumps business and in electromechanical services. Sulzer has assumed responsibility for the employees who were made redundant and has developed comprehensive social plans together with the employee representatives to accompany those employees with the best possible support.

For scope and period of data in the section "Sustainable development", see Sustainability Report 2013 at **www.sulzer.com/sustainability-report**

Voluntary attrition rate



Geographical spread of employees [1]



	2013
Europe, Middle East, Africa	44%
Americas	28%
Asia-Pacific	28%

[1] From continuing operations.

Reliable and energy-efficient solutions

Sulzer aspires to be a leader in providing energy-efficient solutions. These solutions allow Sulzer to improve its competitive edge and support its customers to create a more sustainable economy.

Sulzer offers its customers energy-efficient solutions. They help them to achieve both economic and ecological advantages.

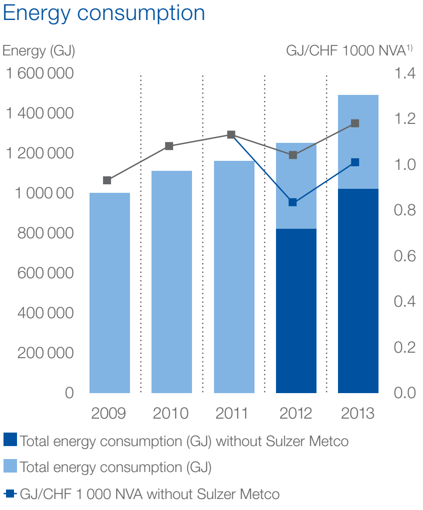
Sulzer's customers ask increasingly for reliable and energy-efficient products. They expect sustainable, state-of-the-art components to run processes at optimized cost levels. Since costs and environmental impacts occur at different stages throughout the lifetime of a product, Sulzer considers the entire life cycle of its products and solutions.

Environmental impact of solutions

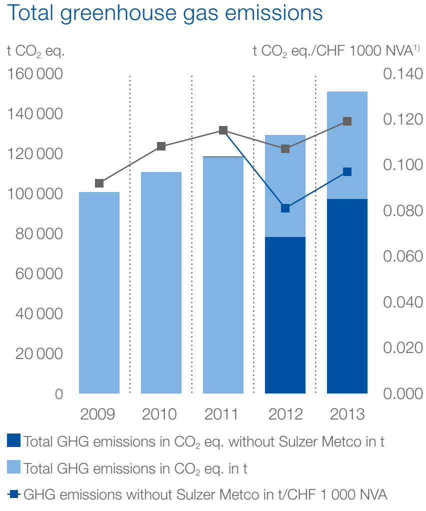
With standardized, externally verified environmental product declarations (EPD), Sulzer can provide environmental information on many of its products' life cycle stages. In addition, EPDs increase transparency and comparability. They highlight the ecological and economical benefits of the solutions Sulzer provides to its customers. Sulzer's EPDs help customers in their investment decisions and in the sustainable design of their value-added chain. To date, Sulzer offers type III EPDs for most engineered and configured pump types. Project-specific EPDs are available on request; examples are available at www.sulzer.com/epd.

The company's innovative and energy-efficient technologies and services mainly reduce the carbon footprint through lower electricity consumption rates. One example is Sulzer's innovative and energy-efficient HST turbocompressor. With this turbocompressor, the energy efficiency of air production in a wastewater treatment plant can be increased by up to 45%.

Energy consumption



Total greenhouse gas emissions



[1)] Net value added.

Extending lifetime of products

Lifetime extension solutions such as revamps or maintenance services require fewer resources than the construction of completely new solutions. Thus, Sulzer offers retrofit, revamp, and similar services to upgrade capital-intense systems with energy-efficient technologies and parts. Like this, customers can extend the lifetime of their products. Whenever lifetime extension is not viable, Sulzer supports and consults its customers in finding the ideal ecological and economic solution for proper disposal. The company informs customers primarily about local or regional recycling possibilities, because transporting products (like pumps or entire separation column installations back to a Sulzer plant) is a comparably environmentally unfriendly solution.

Comprehensive reporting system

Sulzer systematically and continuously collects data so it can report on the environmental impact of its solutions. The goal is to provide management and external stakeholders with reliable, accurate, timely, and comparable non-financial information to create a balanced view of Sulzer's sustainability performance and initiatives. In 2014, extra-financial and financial data will be consolidated on one single reporting platform.

Measuring the environmental performance

Sulzer collects data on the resource consumption and effluents of its own operations to manage its organizational footprint. The company set itself corporate year-on-year rolling targets to hold or reduce this year's values from last year's values.

The 2013 hazardous waste rolling target was met by Sulzer with 0.002 t per CHF 1 000 NVA (2012: 0.003 t/CHF 1 000 NVA). In 2013, hazardous waste decreased by 1 201 tons (metric) to 2 282 tons (2012: 3 483 tons). The continuing downward trend shows the success of Sulzer's efforts to lower the amount of waste produced.

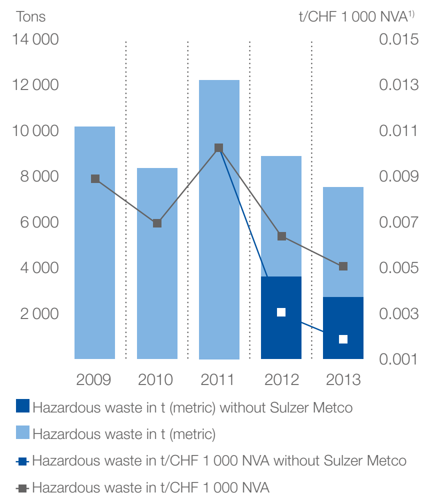
To optimize its organizational water footprint, the company focuses on reducing its water consumption. Sulzer was able to lower its water consumption values per CHF 1 000 NVA from last year's values by 8% to 1.6 m^3. In 2013, Sulzer's total water consumption decreased by 6% to 1 591 611 m^3.

The year-on-year rolling target for energy consumption was not met. Energy consumption per CHF 1 000 NVA increased by 21% to 1.01 GJ. In 2013, total energy consumption increased by 23% to 1 017 354 GJ due to, amongst others, an extended reporting scope.

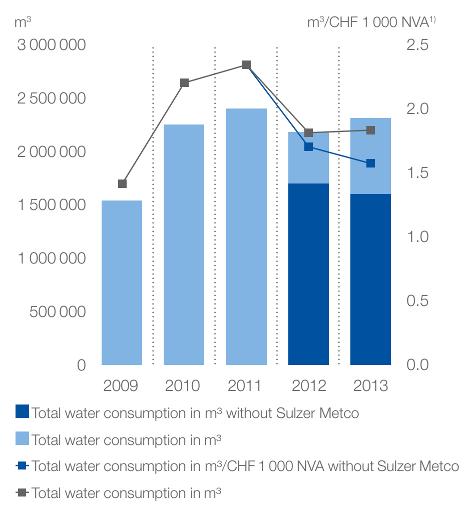
As a result, the CO_2 emissions per CHF 1 000 NVA increased by 20% to 0.097 tons, whereas the total greenhouse gas emissions increased by 23% to 98 170 t CO_2 eq.

For scope and period of data in the section "Sustainable development", see Sustainability Report 2013 at **www.sulzer.com/sustainability-report**

Hazardous waste



Water consumption



[1] Net value added.

Business review

Creating sustainable value with sound corporate governance

Sulzer is committed to the principles of good corporate governance. They ensure a sound balance of power and support the company in creating sustainable value for its various stakeholders.

In brief

Core principles See page 45	The rigorous application of sound corporate governance helps to consolidate and strengthen trust in the company. Sulzer is subject to the Swiss Corporation and Stock Exchange Law and also applies the Swiss Code of Best Practice for Corporate Governance.
Board composition See pages 45–46	The Board of Directors comprises six members (seven members until December 31, 2013). Each member is elected individually. The term for members of the Board of Directors is one year. The Board of Directors is self-constituting, designating from among its members the Chairman of the Board and the constitution of the board committees.
Committees of the Board See pages 47–50	There are currently three committees within the Board of Directors: • The Audit Committee assesses the midyear and annual accounts and the activities of the internal and external auditors, the Internal Control System (ICS), and risk management. • The Nomination and Remuneration Committee assesses the criteria for the election and re-election of Board members and nominations for the top two management levels. It also deals with succession planning, remuneration systems, and compensation for the members of the Board of Directors and the Executive Committee. • The Strategy Committee advises the Board of Directors on strategic matters (such as material acquisitions, divestitures, alliances, and joint ventures) as well as strategic planning and definition of development priorities.
Changes See pages 46, 52	The following changes occurred in the Board of Directors and the Executive Committee: • Jürgen Dormann, Chairman of the Board since 2009, did not stand for re-election at the Annual General Meeting of March 27, 2013, following internal age limitation rules. • Manfred Wennemer was newly elected to the Board of Directors at the Annual General Meeting of March 27, 2013. At the subsequent board meeting, he was appointed as Chairman of the Board. • All other board members were re-elected for terms of one year. • Kim Jackson, Division President of Sulzer Pumps and member of the Executive Committee, left the company on April 15, 2013. • Alfred Gerber, General Counsel, Secretary, and member of the Executive Committee, left the company on April 30, 2013. • Scot Smith joined Sulzer as Division President of Sulzer Pumps and member of the Executive Committee on May 21, 2013. • Urs Fankhauser, Division President of Sulzer Chemtech and member of the Executive Committee, resigned on October 31, 2013. • Oliver Bailer was appointed Division President of Sulzer Chemtech and member of the Executive Committee as of October 31, 2013. • Manfred Wennemer, Chairman of the Board since March 27, 2013, resigned as per December 31, 2013. Vladimir Kuznetsov (Vice Chairman of the Board) acts as Chairman of the Board ad interim until the Annual General Meeting 2014.

Sulzer Ltd is subject to the laws of Switzerland, in particular, Swiss corporation and stock exchange law. The company also applies the Swiss Code of Best Practice for Corporate Governance. The rigorous application of sound corporate governance helps to consolidate and strengthen trust in the company. A single share class and the separation of the functions of Chairman of the Board of Directors and CEO have been standard practice at Sulzer for many years. Since the Annual General Meeting on April 8, 2009, the Board of Directors has been made up exclusively of individuals who have never held executive positions at Sulzer. Unless otherwise indicated, the following information refers to the situation on December 31, 2013. Further, continually updated information on corporate governance is published at www.sulzer.com/corpgov. The information in the following section is set out in the order defined by the SIX Swiss Exchange guidelines on corporate governance information (RLCG), with subsections summarized as far as possible. Sulzer's consolidated financial statements comply with International Financial Reporting Standards (IFRS), and in certain sections, readers are referred to the financial section in the Sulzer Annual Report 2013. The compensation report can be found on pages 58 to 64.

1 Corporate structure and shareholders

Corporate structure

The operational corporate structure is shown in the graphic on page 50 and in the segment reports in the financial section on pages 89 to 91 (note 4). Sulzer Ltd is the only Sulzer company listed on a stock exchange. It is based in Winterthur, Switzerland. Its shares are listed and traded on the SIX Swiss Exchange in Zurich (Securities No. 3838891 / ISIN CH0038388911). On December 31, 2013, the market capitalization of all registered shares was CHF 4 930 355 043. Information on the major subsidiaries included in the consolidation can be found under note 35 on pages 115 to 117 of the financial section.

Significant shareholders

According to notifications of Sulzer shareholders, one shareholder held more than 3% of Sulzer Ltd's share capital on December 31, 2013. On December 23, 2013 (published on the SIX disclosure platform on January 6, 2014), Victor Vekselberg indirectly held 31.20% in Sulzer shares. The shares are directly held by Lamesa Holding S.A., Liwet Holding AG and Joint-Stock Company "Metkombank". The latter two are part of the Renova Group. BlackRock Investment Management (UK) Limited held between 2.82% and 3.02% during 2013 (last publication on the SIX disclosure platform on October 10, 2013: 2.93%). As of January 13, 2014, Norges Bank (the Central Bank of Norway) held 3.02% in Sulzer shares (published on the SIX disclosure platform on January 15, 2014). For detailed information, see the respective disclosure notifications on http://www.six-exchange-regulation.com/obligations/disclosure/major_shareholders_en.html. For the positions held by Sulzer and information on shareholders, see note 21 in the financial section (page 106). There are no cross-shareholdings where the capital or voting stakes on either side exceed the threshold of 3%.

2 Capital structure

Share capital

The fully paid-up share capital of Sulzer Ltd amounts to CHF 342 623.70 and is divided into 34 262 370 registered shares with a par value of CHF 0.01 per share. Each registered share entitles the holder to one vote at the Shareholders' Meeting. There is neither any authorized nor conditional capital, nor are there any participation or dividend certificates. The latest version of the Articles of Association can be viewed online at www.sulzer.com/regulations. Information on capital changes can be found in the financial statements of Sulzer Ltd (page 125).

Restrictions on transferability and nominee registrations

Sulzer shares are freely transferable provided that, when requested by the company to do so, buyers declare that they have purchased and will hold the shares in their own name and for their own account. Nominees shall only be entered in the share register with the right to vote if they meet the following conditions: the nominee is subject to the supervision of a recognized banking and financial market regulator; the nominee has entered into a written agreement with the Board of Directors concerning its status; the share capital held by the nominee does not exceed 3% of the registered share capital entered in the commercial register; and the names, addresses, and number of shares of those individuals for whose accounts the nominee holds at least 0.5% of the share capital have been disclosed. The Board of Directors is also entitled, beyond these limits, to enter shares of nominees with voting rights in the share register if the above mentioned conditions are met (see also paragraph 6a of the Articles of Association at www.sulzer.com/regulations). On December 31, 2013, ten nominees holding a total of 5 302 248 shares (15.5% of total shares) had entered into agreements concerning their status. All of those shares have been entered in the share register with voting rights. There are no transfer restrictions and no privileges under the Articles of Association; no exceptions have been granted. A removal or amendment of the transfer restriction requires a shareholders' resolution with a majority of at least two-thirds of the votes represented.

Convertible bonds and options

No convertible bonds or warrants are currently outstanding. Details of the options issued to members of the Board of Directors and the Executive Committee (from 2002 up to and including 2008) and restricted stock units (from 2009) as well as performance share units issued to the members of the Executive Committee (in 2010 and 2013) are set out in the financial section under note 31 (page 113) and in the financial statements of Sulzer Ltd under note 110 (pages 128 to 130).

3 Board of Directors

None of the members of the Board of Directors has ever belonged to the management of a Sulzer company or to the Executive Committee, nor do any significant business relationships, except as noted below, exist between members of the Board of Directors and Sulzer Ltd or a subsidiary of Sulzer Ltd. Vladimir Kuznetsov and Marco Musetti have a close relationship with Sulzer's largest shareholder; both are employees of Renova Management AG. Vladimir Kuznetsov is Managing Director, Strategic Development of the Renova Group and Marco Musetti is a senior officer of Renova Management AG and Chairman of Energetic Source S.p.A., in which Renova Group holds significant shareholdings. Business relationships in the double-digit million range exist with companies that are directly or indirectly controlled by the Renova Group. For further information see financial section, note 31 on page 113 to 114. There are no interlocking directorships.

Elections and terms of office

The Articles of Association stipulate that the Board of Directors of Sulzer Ltd shall comprise five to nine members. Each member is elected individually. The term for members of the Board of Directors is one year. As of the Annual General Meeting of March 27, 2013, Manfred Wennemer was newly elected to the Board of Directors. At the subsequent board meeting, he was appointed as Chairman of the Board (replacing Jürgen Dormann). As per December 31, 2013, Manfred Wennemer stepped down as Chairman and Board member. Vladimir Kuznetsov (Vice Chairman of the Board) acts as Chairman of the Board ad interim until the Annual General Meeting 2014. As of January 1, 2014, the Board of Directors is made up of six members: one Austrian, two Italians, one Russian, one Singaporean, and one Swiss. Professional expertise and international experience played a key role in the selection of the members. The CVs of the current members of the Board of Directors can be viewed on the pages 48 to 49 and online at www.sulzer.com/board. According to the organization regulations governing the Board of Directors, the term of office of a Board member ends no later than on the date of the Annual General Meeting in the year when the member reaches the age of 70. Exceptions up to but not exceeding the year in which the member reaches the age of 73 can be made by the Board of Directors.

Internal organization

The Board of Directors is self-constituting, designating from among its members the (Vice) Chairman of the Board as well as the chairmen and members of the board committees. Manfred Wennemer was appointed Chairman of the Board of Directors on March 27, 2013 and stepped down as Chairman and Board member as per December 31, 2013. Vladimir Kuznetsov (Vice Chairman of the Board) acts as Chairman of the Board ad interim until the Annual General Meeting 2014. There are currently three committees: the Audit Committee (AC), the Nomination and Remuneration Committee (NRC), and the Strategy Committee (SC); for their constitution, see the graphic on page 47. The division of responsibilities between the Board of Directors and the CEO and the authorities and responsibilities of the Chairman of the Board of Directors and of the three committees are defined in the Board of Directors and Organization Regulations and the relevant Committee Regulations, which are published online at www.sulzer.com/regulations.

Operating principles of the Board of Directors and its committees

All decisions are taken by the full Board of Directors. For each application, written documentation is distributed to the members of the Board of Directors prior to the meeting. The Board of Directors and the committees meet as often as required by circumstances (the Board of Directors meets at least six times annually (in 2013 nine times), the Audit Committee and the Nomination and Remuneration Committee meet at least three times annually, and the Strategy Committee meets at least twice annually). In 2013, two full day meetings, five half-day meetings and two shorter board meetings were held. The latter lasted about one to two hours on average. For further details, see the table on page 46. Board meetings are generally also attended in an advisory

Board of Directors

Name	Nationality	Position	Age	Entry	Elected until	Attending meetings in 2013 of the Board	AC	NRC	SC
Jürgen Dormann	German	Chairman[1], Chairman SC[1]	74	August 2009	2013	1			
Manfred Wennemer	German	Chairman[2] Chairman SC[2]	66	March 2013	2014	7	3		2
Thomas Glanzmann	Swiss	Member, AC, SC[3]	56	April 2012	2014	9	5		2
Vladimir V. Kuznetsov	Russian	Vice Chairman[4], Chairman NRC	53	December 2007	2014	9		3	
Jill Lee	Singaporean	Member, AC	51	April 2011	2014	9	5		
Marco Musetti	Italian	Member, SC[3]	45	April 2011	2014	9			1
Luciano Respini	Italian	Member, NRC, SC[5]	68	April 2004	2014	9		3	2
Klaus Sturany	Austrian	Member, Chairman AC, NRC	68	August 2009	2014	9	5	3	

AC = Audit Committee, NRC = Nomination and Remuneration Committee, SC = Strategy Committee

[1] until March 27, 2013.

[2] as of March 27, 2013, until December 31, 2013.

[3] as of March 27, 2013.

[4] as of March 27, 2013. Chairman ad interim as from January 1, 2014, until the Annual General Meeting 2014.

[5] Chairman SC as of January 1, 2014.

The Board of Directors and its committees [1)]

Board of Directors

Vladimir V. Kuznetsov (Vice Chairman)
Thomas Glanzmann
Jill Lee
Marco Musetti
Luciano Respini
Klaus Sturany

Audit Committee

Klaus Sturany (Chairman)
Jill Lee
Thomas Glanzmann

Nomination and Remuneration Committee

Vladimir V. Kuznetsov (Chairman)
Luciano Respini
Klaus Sturany

Strategy Committee

Luciano Respini (Chairman)
Marco Musetti
Thomas Glanzmann

[1)] As from January 1, 2014.

role by the CEO, the CFO, and the Group General Counsel (who is the Secretary of the Board of Directors). Other members of the Executive Committee are invited to attend board meetings as required to discuss the midterm planning, the strategy, and the budget, as well as division-specific items (such as large investments and acquisitions).

The committees do not take any decisions, but rather they review and discuss the matters assigned to them and submit the required proposals to the full Board of Directors for a decision. At the next full board meeting following the committee meeting, the chairmen of the committees report to the full Board of Directors on all matters discussed, including key findings, opinions, and recommendations.

Audit Committee

The Audit Committee (members listed above) assesses the midyear and annual consolidated financial statements and, in particular, the activities—including effectiveness and independence—of the internal and external auditors as well as the cooperation between the two bodies. It also assesses the Internal Control System (ICS), risk management, and compliance with the applicable standards; at least one full meeting per year is dedicated to risk management and compliance. The regulations of the Audit Committee can be viewed at www.sulzer.com/regulations. Meetings of the Audit Committee are attended by the CEO, the CFO, the Group General Counsel (at least partially), the Head of Internal Auditing (who is also the Secretary of this committee), and the external auditor-in-charge. In 2013, the Audit Committee held five meetings. The external auditor-in-charge attended four of these meetings. Internal experts, such as Group General Counsel and the Heads of Corporate Auditing, Corporate Controlling, Corporate Treasury, Corporate IT, Corporate QESH, Corporate Risk Management, and Corporate Taxes held presentations to the Audit Committee in 2013. The Group external audit mandate was assessed in detail, and it was decided to appoint a new external auditor. KPMG AG was elected as new external auditor at the Annual General Meeting of March 27, 2013.

In February, the Audit Committee receives and discusses a report addressing the exposures (results of periodic risk assessments) and compliance cases of the prior year. In September, the Audit Committee is briefed on the present state of risk management within the company and on the results of the risk management process—a process to systematically identify and evaluate significant risks and initiate countermeasures. In the same meeting, an update on Sulzer's compliance approach including the respective ongoing and planned activities is provided. At each meeting, the major current compliance cases (if any) are reported to and discussed by the Audit Committee.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee (members listed above) assesses the criteria for the election and re-election of board members and the nomination of candidates for the top two management levels. It also deals with succession planning, regularly assesses the remuneration systems, and recommends compensation for the members of the Board of Directors and the Executive Committee (including bonus targets for the latter) on behalf of the Board of Directors and in accordance with its specifications. It also carries out broadly based salary comparisons with international third-party companies, supported by studies of the consulting firm Towers Watson, and it scrutinizes the work of internal and external consultants. The regulations of the Nomination and Remuneration Committee can be viewed at www. sulzer.com/regulations. Meetings of the Nomination and Remuneration Committee are attended by the CEO and the Head of Corporate Human Resources (who is also the Secretary of this committee). In 2013, three regular meetings were held. External experts from Towers Watson provided benchmarking services (see compensation report, pages 58 to 64) and supported the Nomination and Remuneration Committee in reviewing the remuneration packages of the members of the Executive Committee.

Strategy Committee

The Strategy Committee (members listed above) advises the Board of Directors on strategic matters (such as material acquisitions, divestitures, alliances, and joint ventures) as well as strategic planning and defining of development priorities. The regulations of the Strategy Committee can be viewed at www.sulzer.com/regulations. In 2013, two meetings took place. The CEO, the CFO and the four Division

Board of Directors

The Sulzer Board of Directors consists of six [1] members who are elected individually for one-year terms. None of them has ever held an executive position at Sulzer. Manfred Wennemer [2] was appointed Chairman of the Board in March and resigned in December 2013. Vice Chairman Vladimir Kuznetsov assumes the duties of the Chairman of the Board on an interim basis until the Annual General Meeting 2014.

Vladimir V. Kuznetsov (1961) Russian
Vice Chairman of the Board
Chairman of the Nomination and Remuneration Committee

Career
Vladimir Kuznetsov joined the Sulzer Board of Directors in 2007 and was appointed Chairman of the Nomination and Remuneration Committee in 2009. He was Vice President of Renova Inc. in New York, USA (2001 to 2009), and he served as Chairman of the Board of OC Oerlikon (2007 to 2011) and Venetos Management (2008 to 2010). From 1994 to 1998, he headed the Moscow subsidiary of Salomon Brothers, and from 1992 to 1994, he served as Deputy Director and Director of Goldman Sachs in Moscow, Russia. Since 2004, he has been acting as Chief Investment Officer and then as Managing Director, Strategic Development of Renova Management AG. Since 1998, he has been Director General of Financial Advisory Services in Russia.

Binding interests
- Board Member Integrated Energy Systems (a company of the Renova Group)
- Vice President of the Board of Directors, Schmolz + Bickenbach AG

Educational background
- Master of International Affairs, Columbia University, New York, NY, USA
- PhD, Institute of World Economy and International Relations, Moscow, Russia
- Graduate degree in Economics, Moscow State University, Moscow, Russia

Thomas Glanzmann (1958) Swiss
Member of the Audit Committee
Member of the Strategy Committee

Career
Thomas Glanzmann joined the Sulzer Board of Directors in 2012. Previously, he was CEO and President of the Swedish company Gambro (2006 to 2011) and CEO and Managing Director of HemoCue, also in Sweden (2005 to 2006). From 2004 to 2005, he served as Senior Advisor to the Executive Chairman and as a Managing Director of the World Economic Forum, Switzerland. From 1988 to 2004, he held various positions with Baxter including Senior Vice President of Baxter Healthcare Corporation, USA (1999 to 2004), and President of Baxter Bioscience, USA (1998 to 2004) as well as CEO of Immuno International, Austria (1996 to 1998).

Binding interests
- Chairman, Grifols Inc., USA
- Member of the Board, Grifols SA, Spain
- Member of the Board, Sage Products Inc, USA

Educational background
- MBA, IMD, Lausanne, Switzerland
- BA in Political Science, Dartmouth College, USA
- Board of Directors Certification, UCLA Anderson School of Management, USA

[1] Seven members until December 31, 2013. Six members as from January 1, 2014. See description of changes on page 44.

[2] For full CV of Manfred Wennemer, go to www.sulzer.com/cv-wennemer.

Jill Lee (1963) Singaporean
Member of the Audit Committee

Career
Jill Lee joined the Sulzer Board of Directors in 2011. Currently, she is the Senior Vice President and CFO for ABB China and North Asia Region. Prior to this, she served as Senior Vice President, Finance Strategy and Investments for Neptune Orient Lines in Singapore (2010 to 2011). She has also held a number of positions with Siemens, including global Chief Diversity Officer (2008 to 2010), CFO and Senior Executive Vice President of Siemens in China (2004 to 2008), CFO and Senior Vice President of Siemens in Singapore (2000 to 2004), and CFO Asia Pacific and General Manager of the Asia Regional Headquarters of Siemens Electromechanical Components in Singapore (1997 to 2000).

Educational background
- Master of Business Administration (MBA), Nanyang Business School, Singapore
- BA in Business Administration, National University of Singapore

Marco Musetti (1969) Italian
Member of the Strategy Committee

Career
Marco Musetti joined the Sulzer Board of Directors in 2011. Since 2014, he has been serving as Member of the Board of Directors of CIFC Corp. Since 2013, he is Chairman of the Board of Energetic Source Spa, Member of the Board of En Plus SRL, and member of the Board of Schmolz + Bickenbach AG. He was COO and deputy CEO of Aluminium Silicon Marketing (Sual Group) (2000 to 2007), Head of Metals and Structured Finance Desk for Banque Cantonale Vaudoise (1998 to 2000), and Deputy Head of Metals Desk for Banque Bruxelles Lambert (1992 to 1998). Since 2009, he has been serving as Member of the Supervisory Board of Renova U.S. Holdings Limited.

Binding interests
- Member of the Supervisory Board, Renova U.S. Holdings Limited
- Chairman of the Board of Directors, Energetic Source Spa (company of the Renova Group)
- Member of the Board of Directors, EN Plus SRL
- Member of the Board of Directors, Schmolz + Bickenbach AG
- Member of the Board of Directors, CIFC Corp.

Educational background
- Master of Science in Accounting and Finance, London School of Economics and Political Science, UK
- Major degree in Economics, University of Lausanne, Switzerland

Luciano Respini (1946) Italian
Chairman of the Strategy Committee
Member of the Nomination and Remuneration Committee

Career
Luciano Respini joined the Sulzer Board of Directors in 2004. Respini has held a number of key positions with the Dow Chemical Company, including President of Dow Europe (1998 to 2006) and of Dow Latin America (1995 to 1997). He also served as Member of the Office of the Chief Executive of the Dow Chemical Company in the USA (2002 to 2006). In addition he was Member of the Board of Union Carbide Corporation, USA from 2003 to 2005.

Educational background
- Doctorate in Economics, Università Cattolica of Milan, Italy

Klaus Sturany (1946) Austrian
Chairman of the Audit Committee
Member of the Nomination and Remuneration Committee

Career
Klaus Sturany joined the Sulzer Board of Directors and was appointed Chairman of the Audit Committee in 2009. He served as CFO of RWE (1999 to 2007) and as CFO (and subsequently CEO) for GEA (1996 to 1999). He also held the position of CFO of Uhde (now ThyssenKrupp), and from 1971 to 1990, he acted in a number of positions with Hoechst, including Head of Controlling.

Binding interests
- Supervisory Board Member of Bayer AG
- Supervisory Board Member of Hannover Rückversicherung AG

Educational background
- PhD, Mathematics (major) and Physics, University of Innsbruck, Austria

For full CVs, go to www.sulzer.com/board

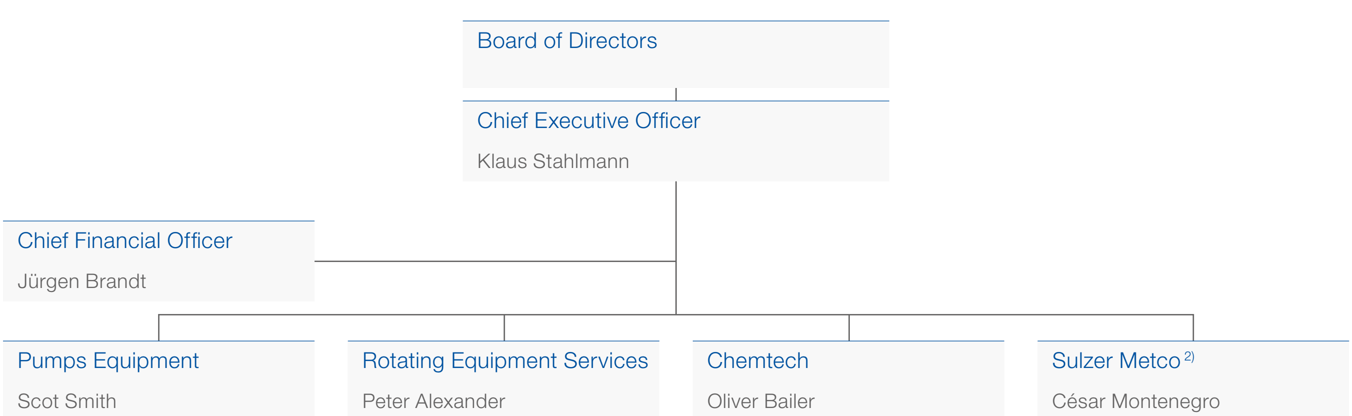
Presidents attended both meetings.
The Group General Counsel (who is the Secretary of this committee), and the Head of Corporate Auditing (Secretary ad interim), each attended one of these meetings.

Division of powers between the Board of Directors and the CEO
The Board of Directors has largely delegated executive management powers to the CEO, but it is still responsible for matters that cannot be delegated in accordance with Art. 716a of the Swiss Code of Obligations, such as corporate strategy, approval of midterm planning, and the annual budget, as well as key personnel decisions, including approval of the remuneration system. The same applies to acquisition and divestiture decisions involving an enterprise value exceeding CHF 15 million or CHF 20 million respectively, investments in fixed assets exceeding CHF 15 million, major corporate restructurings, approval of dispute settlements with an impact on operating income of more than CHF 20 million, approval of research and development projects exceeding CHF 10 million, as well as other matters relevant to the company, and decisions that must be made by law by the Board of Directors (including those defined in the Swiss Mergers Act). The competency regulations and the nature of the collaboration between the Board of Directors and the Executive Committee can be viewed in the organizational regulations at www.sulzer.com/regulation.

Information and control instruments
Each member of the Board of Directors receives a copy of the monthly financial statements (January to May and July to November), plus the midyear and annual financial statements. These include information about the balance sheet, income, and cash flow statements, as well as the key figures for the company and its divisions (incorporating comments on the respective business results and a six-month rolling forecast of the key figures). The CEO and CFO report at every Board meeting on business developments and all matters relevant to the company; once each year, the board receives the forecasted annual results. The chairmen of the committees also report at these meetings on all matters discussed by their committees and on the key findings and assessments, and they submit proposals accordingly. Each year, the Board of Directors discusses and approves the budget for the following year, and every three years, it establishes a midterm plan, which is also subject to periodic review. The Chairman of the Board of Directors regularly consults the CEO and other representatives of the Executive Committee. In addition, the board receives an investor relations status report twice a year.

Internal Auditing
Internal Auditing reports to the CFO for administrative purposes, but reports functionally directly to the Chairman of the Audit Committee. Meetings between Internal and External Auditing take place on a regular basis to prepare for the meetings of the Audit Committee, to review the interim and final reports of the External Auditing, to plan and coordinate internal and external audits, and to prepare audit instructions for the attention of external auditors of the individual companies. Group companies are audited by Internal Auditing based on an audit plan that is approved by the Audit Committee; depending on the risk category such audits

Organizational structure [1)]



[1)] As per January 1, 2014.
[2)] Discontinued operations.

are carried out on a rotational basis either annually or every second, third, or fourth year. Internal Auditing carried out 51 audits in the year under review. One of the focal points was the internal control system. The results of each audit are discussed in detail with the companies and (where necessary) the divisions concerned and key measures are agreed upon. The Chairman of the Board of Directors, the members of the Audit Committee, the CEO, the CFO, the Group General Counsel, as well as the respective Division President and other line managers of the audited unit receive a copy of the audit report. The key measures agreed upon are also presented to and discussed with the CEO, the CFO, the Group General Counsel, the Division Presidents, and the Division Controllers during monthly information meetings; twice annually, the divisions present the status of key measures agreed upon. A follow-up process is in place for all corporate audits (internal, legal and compliance, IT, and QESH) which enables efficient and effective monitoring of the implementation of the improvement measures. Each year, the Head of Internal Auditing compiles a report summarizing activities and results. This report is distributed to members of the Board of Directors and the members of the Executive Committee and presented to the Executive Committee and the Audit Committee. It is discussed in both committees and thereafter reported to the Board of Directors.

Risk management and corporate compliance

Sulzer has established and implemented a comprehensive and value-based compliance program that focuses on prevention. It consists of the following main elements:

Strong values and "tone at the top and the middle"

Sulzer puts a high priority on carrying out its business with integrity, in compliance with all applicable laws and internal rules ('a clean deal or no deal'), and on accepting only reasonable contractual risks. The Board of Directors and the Executive Committee are convinced that compliant and ethical behavior in all aspects is a precondition for a successful and sustainable future. It also fosters a speak-up culture and encourages employees to address potentially non-compliant behaviors.

Risk assessment

As part of Sulzer's integrated risk management process, compliance risks are assessed on a regular basis, and the results are discussed both with the management within the Corporate Risk Council as well as the Audit Committee, which dedicates at least one full meeting per year to risk management and compliance. An overview of the main risks and corresponding mitigation measures is provided on pages 56 to 57.

Internal rules and tools

In 2010, Sulzer joined the UN Global Compact initiative and introduced a new Code of Business Conduct, which can be viewed online at www.sulzer.com/regulations in 19 languages. Every current employee of the company and every new employee (including those of newly acquired businesses) is required to confirm in writing that he or she has read and understood this code and will comply with it. Every member of the Sulzer Management Group (approximately 100 people) as well as the heads of all operating companies and all divisional and local compliance officers must, among other things, reconfirm this compliance commitment in writing with certain explicit certification on an annual basis.

Rules

Although Sulzer follows a behavior- and principle-based approach it still requires internal rules discussing 'boundaries', defining processes, and providing guidance and decision support. In this respect Sulzer focuses on the major compliance risks, e.g.:

- Bribery and corruption risks: anti-bribery and anti-corruption guidelines were introduced in 2010. In 2011, a process addressing the due diligence of intermediaries was introduced. In 2012, this process was improved, the scope was extended, and the tool was made web-based. In the same year, a corporate-wide initiative setting maximum levels for offering and receiving gifts and hospitalities was carried out. The respective directive entered into force on January 1, 2013, and e-training (in 13 languages) was rolled out to make Sulzer employees enrolled in the e-training program familiar with the content of the directive.
- Anti-trust and anti-competition risks: an anti-trust guideline was introduced in 2010 and a directive addressing behaviors in trade association followed in 2012. In 2013, the roll-out of this directive took place, including collection of a compliance declaration from the employees representing Sulzer in trade association meetings.
- Export control risks: export control policies were established and rolled out in 2012 in most entities. At the end of 2012 and the beginning of 2013, e-training in trade compliance was rolled out to the employees involved in export issues.
- Further risks (e.g. stock exchange laws, human resource-related, intellectual property and know-how, privacy and data protection laws, product liability, environmental, quality and health, etc.): these and many other potential risks are addressed by focused rules and processes. In 2012 and 2013, new processes securing compliance with insider law risks and stock exchange reporting and notification risks were introduced.

Tools

Because of its strongly fostered speak-up culture, Sulzer offers a hot line that provides employees with one of many options for reporting (potential) violations of the laws or internal rules (reports can be made anonymously or openly via a free hotline or a dedicated website). The company also introduced a directive that further improves internal reporting of compliance cases and sets minimum standards for internal investigation in 2012. Further tools are available to all employees on the Sulzer Legal and Compliance Intranet site (e.g. presentations addressing the major exposure; draft agreements; sales and procurement handbooks with compliance-specific explanations and standard clauses). In 2013, a new type of anti-fraud training was introduced, mainly addressed to Sulzer's finance employees. In addition to that, e-learning related to "Fraud and Business Integrity" was rolled out.

Organization

The company, each division, and all operating companies have appointed compliance officers. The group compliance officer reports to the Group General Counsel and steers and administers the corporate-wide compliance program. In line with the new organizational structure as of January 1, 2014 (see shareholder letter, pages 6 to 9) organizational changes to the group functions Legal, Compliance and Risk Management will be implemented during 2014. The Corporate Risk Council, comprising the CFO (Chairman), the Group General Counsel, the Head of Internal Auditing, the Corporate Compliance Officer, the Heads of Risk Management of the corporation and the divisions, and representatives of other group staff functions, held three meetings in 2013. The Corporate Risk Council's tasks mainly include formulating and maintaining adequate risk management policies, systems, and guidelines; initiating and coordinating risk management activities; and advising the CEO and the Executive Committee on matters relating to risk management. Each member of the Executive Committee receives a copy of the minutes of the Corporate Risk Council. In addition, if considered necessary, a verbal report is given at the Executive Committee meetings that follow the meetings of the Corporate Risk Council.

The Group General Counsel informs the Board of Directors and the Executive Committee regularly on legal matters and key changes in legislation that may affect Sulzer, as well as on important litigation. Twice a year, a report is also made to the Audit Committee about any pending or threatened litigation with worst-case exposure exceeding CHF 0.5 million. Further information on reports to the Audit Committee is provided under ‘Audit Committee’ on page 47.

Awareness building and trainings
Sulzer puts substantial effort into the training of its employees. Training is carried out through e-learning programs (between two and three new programs are rolled out every year), on a face-to-face basis or through web conferences. In 2013, over 450 employees (particularly sales, project management, procurement, and middle management) participated in contract risk-related face-to-face training; each of these training courses also contained a compliance section during which the major risks are addressed. Over 25 000 e-learning courses were conducted in 2013 and several web conferences on specific legal or compliance matters were carried out.

Controls and sanctions
In addition to the audits carried out by Internal Auditing, the Corporate Legal Department carried out seven legal audits in 2013. These audits focused on contractual as well as compliance risks. The results of the audits were discussed with the responsible managers. Measures were agreed upon, and the corresponding reports were sent to the same group of recipients that also receives the internal audit reports. Implementation of these measures is monitored (follow-up process; see under ‘Internal Auditing’, page 50). The departments Corporate Quality, Environment, Health and Safety, and Sustainable Development carried out 12 audits and organized nine external insurance audits. The focal points were primarily environmental protection and workplace safety. The results of each of these audits were discussed directly with the responsible managers, and agreement was reached on any improvements required. The latest status of the company’s risks relating to quality, environment, safety, and health is reported to the Audit Committee once a year. Sulzer published its externally verified Sustainability Report 2013 parallel to the Sulzer Annual Report 2013 (see www.sulzer.com/sustainability). The external institute SGS (Société Générale de Surveillance) verified in its assurance statement that the report is in accordance with the highest GRI disclosure level A. Sulzer’s sustainability performance is regularly rated by various organizations; e.g. oekom research has been rewarding Sulzer with their “Prime Status” for several consecutive years now. Sulzer is a recognized sustainability leader in its industry.

Apart from these formal audits, many internal investigations (triggered by reports via the compliance hotlines, e-mails, telephone calls or otherwise) were carried out in the course of 2013 and at least 14 employees had to leave Sulzer due to non-compliant behavior with Sulzer’s Code of Business Conduct. Others received warnings or were internally transferred. However, the vast majority of the reports received concerned non-material issues.

Continuous improvement
It is Sulzer’s goal to constantly improve its compliance and risk management approach. Findings of audits and internal investigations are assessed and internal processes and rules adjusted, and/or corporate training modules improved and/or otherwise shared (e.g. through the regular legal and compliance newsletter).

4 Executive Committee
The Executive Committee consists of the CEO, the CFO, and the Division Presidents. Executive management powers are delegated by the Board of Directors to the CEO. The Division Presidents are charged by the CEO with defining and attaining business targets for their respective divisions in accordance with corporate goals. The appropriate powers have largely been delegated to the Division Presidents by the CEO. The organization regulation governs, among other things, the transfer of responsibilities from the Board of Directors to the CEO, and this regulation can be viewed at www.sulzer.com/regulations. The other members of the Executive Committee support the CEO in his corporate management tasks. There are no

management contracts with third parties. None of the Executive Committee members has a contract with a notice period exceeding 12 months. The CVs of the members of the Executive Committee can be viewed on pages 54 to 55 and online at www.sulzer.com/management.

5 Compensation report

Information on the remuneration of the Board of Directors and the Executive Committee can be found in the compensation report (pages 58 to 64).

6 Shareholder participation rights

Restrictions and representation of voting rights

Only nominees are subject to restrictions (see 'Capital structure', page 45). No exceptions were granted during the reporting year, and no measures to remove these restrictions are planned. A shareholder may be represented at the Annual General Meeting by a legal representative, another shareholder with the right to vote, a corporate proxy, an independent proxy, or a depositary. Shares held by a shareholder may be represented by only one person.

Statutory quorum

Changes to the Articles of Association may only be approved by a majority of at least two-thirds of the voting rights represented; share capital increases are carried out, however, upon an absolute majority of the votes represented. The dissolution or a merger of the company can only be decided upon if at least half the shares issued are represented at the Shareholders' Meeting and two-thirds thereof vote in favor of the corresponding proposal (see also paragraph 18 of the Articles of Association).

Convocation of the Annual General Meeting and submission of agenda items

None of the applicable regulations deviate from the law regarding the convocation of a Shareholders' Meeting. Shareholders representing at least 2% of the share capital may submit items for inclusion on the agenda of a Shareholders' Meeting. Such submissions must be requested in writing at least two months prior to the meeting and must specify the agenda items and proposals of the shareholder concerned.

Entry in the share register

Voting rights may be exercised by registered shareholders whose names are entered in the share register no later than five working days prior to the Annual General Meeting.

7 Takeover and defense measures

The Articles of Association contain no opting-out or opting-up clause. None of the contracts with members of the Board of Directors contains a change of control clause. The contracts of the members of the Executive Committee who joined the Executive Committee prior to April 2009 contain a remuneration clause provided the contract is terminated or the member's function is changed considerably within 18 months after a change of control (see compensation report, pages 58 to 64).
If there is a change of control (which, for members of the Executive Committee, also includes a replacement of the majority of the members of the Board of Directors) or a public takeover bid that is not supported by the Board of Directors, all allocated restricted stock units (RSUs) of the RSU plan are automatically vested and the performance share units (PSUs) are automatically converted into shares on a pro rata basis without being subject to blocking restrictions. The vesting period for those RSUs granted to the members of the Board of Directors ends no later than the date on which the individual steps down from his or her respective function.

8 Auditors

The statutory auditor is elected at the Annual General Meeting for a one-year term of office. After having served as statutory auditor since 1992, PricewaterhouseCoopers AG was replaced by KPMG AG at the Annual General Meeting of March 27, 2013. The acting external auditor-in-charge is François Rouiller (since March 27, 2013). The external auditor-in-charge is replaced every seven years. The Audit Committee is in charge of supervising and monitoring the statutory auditor, and it reports to the Board of Directors (see 'Board of Directors', page 45). The members of the Audit Committee receive summaries of audit findings and improvement proposals at least once a year. The external auditor-in-charge is invited to attend meetings of the Audit Committee. In 2013, he attended four Audit Committee meetings. The Audit Committee or its Chairman meets separately with the Head of Internal Auditing and the external auditor-in-charge at least once per year to assess (among other things) the independence of the internal and external auditors. The Audit Committee evaluates the work done by the auditors based on the documents, reports, and presentations provided by the auditors as well as on the materiality and objectivity of their statements. In order to do so, the committee gathers the opinions of the CFO and the Head of Internal Auditing. The fee paid to the auditor is reviewed on a regular basis and compared with the auditing fees paid by other internationally active Swiss industrial companies. Said fee is negotiated by the CFO, checked by the Audit Committee, and signed off by the Board of Directors. Further information on the auditor, in particular, the amount of the auditor's fees and any additional fees received by the auditor for advisory services outside its statutory audit mandate, is listed in the financial section under note 32 (page 114). All advisory services provided outside the statutory audit mandate (essentially consisting of consulting services related to audit and accounting as well as legal and tax advisory services) are compliant with the applicable independence rules.

9 Information policy

Sulzer Ltd reports on its order intake every quarter (media releases) and on its financial results every half year, in each case also commenting on business performance and outlook. In addition, the company reports on important events on an ongoing basis (ad hoc publications). The reporting referred to in Section 5 of the Corporate Governance Report (including the respective references to the financial section) corresponds to the compensation report as laid out in Section 8 of Annex 1 of the Swiss Code of Best Practice for Corporate Governance.

Key dates in 2014

February 20	Annual results 2013
March 20	Annual General Meeting 2014
April 15	Order intake Q1 2014
July 22	Midyear report 2014
October 16	Order intake Q1 – Q3 2014
October 22	Capital Market Day

The above dates and any changes can be viewed at www.sulzer.com/events. Media releases (sent via e-mail) can be subscribed to at www.sulzer.com/newsletter. Other information is available on the Sulzer website www.sulzer.com.

Material changes

Reference is made in the text to any material changes occurring between the balance sheet date (December 31, 2013) and the copy deadline for the Annual Report (February 19, 2014). The implementation of the new operational structure and integration of the various group functions as from January 1, 2014 is ongoing and will be described in the Annual Report 2014.

Executive Committee [1)]

The Sulzer Executive Committee consists of the CEO, the CFO, and the Division Presidents. Scot Smith and Oliver Bailer joined the Executive Committee in 2013.

Klaus Stahlmann (1960) German
Chief Executive Officer

Career
Klaus Stahlmann joined the Sulzer Executive Committee as CEO in 2012. Previously, he was CEO for MAN Diesel and Turbo and Member of the Executive Board of MAN SE (2010 to 2011). From 2007 to 2009, he served as CEO for MAN Turbo, Germany. Before his engagement with MAN, he was Managing Director of the European Bearing Business Unit of NSK. For Allweiler, a German pumps manufacturer, he served as CEO (2001 to 2006) after having held various positions with the German industrial group Krupp (1987 to 2001).

Educational background
- Master of Science in Industrial Engineering, Technical University Darmstadt, Germany

Jürgen Brandt (1956) German
Chief Financial Officer

Career
Jürgen Brandt joined the Sulzer Executive Committee as CFO in November 2010. He was appointed CEO on an ad interim basis as of November 1, 2011 until February 2012. Previously, he served as CFO for the Austrian Energy & Environment Group (2007 to 2010) and as CFO of its Swiss subunit the Von Roll Inova Group (2006 to 2007). He has held the CFO position in a number of companies, including Foster Wheeler Power Group Europe (2006) and Sylvania Lighting International (2005 to 2006). He was also Senior Vice President Finance of the Power and Environment Division (1999 to 2004) and CFO Power Boilers (1997 to 1999) of Alstom.

Binding interest
- Member of the Board of Bobst Group SA

Educational background
- BSc in Economic Engineering, University of Esslingen, Germany

[1)] Adapted organizational structure as per January 1, 2014.

Scot Smith (1962) American
Division President Pumps Equipment

Career
Scot Smith joined the Sulzer Executive Committee in 2013. Prior to that, he was Divisional Managing Director of Weir Minerals of the Weir Group (2001 to 2012). From 1993 to 2001, he held a number of positions with Britax Vision Systems, including Regional Managing Director Americas (2000 to 2001) and Managing Director of Britax Geco in France (1996 to 2000).

Educational background
- MBA, International Business, Ashland University, USA
- BSc, Business Administration, Bowling Green State University, USA

Peter Alexander (1958) American
Division President Rotating Equipment Services

Career
Peter Alexander joined the Sulzer Executive Committee as Division President of Sulzer Turbo Services in 2005. He has held a number of positions with Sulzer Turbo Services, including Head Business Development and Division President on an ad interim basis (2004 to 2005), Cofounder and Director of Operations and Engineering in Indonesia (1994 to 2004), and Engineering Manager and Project Engineer in the USA (1987 to 1994).

Educational background
- BSc in Marine Engineering, Texas A&M University, College Station, TX, USA

Oliver Bailer (1967) Swiss
Division President Chemtech

Career
Oliver Bailer joined the Sulzer Executive Committee in 2013. From 1993 to 2013, he held a number of positions with the Chemtech division, including Head of Mixpac Systems (2010 to 2013), Head of Mixing and Reaction Technology (2008 to 2009), and Head of Business Development (2006 to 2008).

Educational background
- General Management Program (GMP), Harvard University, Boston, MA, USA
- Master of Business Administration (Executive MBA HSG), University St. Gallen, Switzerland
- Swiss-certified Chemical Engineer (Dipl. Chem. Ing.), ETH Zurich, Switzerland

César Montenegro (1953) Venezuelan
Division President Sulzer Metco

Career
César Montenegro joined the Sulzer Executive Committee as Division President of Sulzer Metco in 2008. He has held a number of positions with Sulzer since 1977. From 2002 to 2008, he served as Head of Business Area North America for Sulzer Pumps. He was also Managing Director of Sulzer Mexico (1996 to 2001) and of Sulzer de Venezuela (1989 to 1996).

Educational background
- Postgraduate studies in Business Engineering, University Simon Bolivar, Caracas, Venezuela
- MSc in Mechanical Engineering, University Simon Bolivar, Caracas, Venezuela

For full CVs, go to
www.sulzer.com/management

Identifying and managing risks

Thoroughly assessing and controlling risks is essential for sustainable business success. Loss control and mitigation are carried out through tailored and effective measures and programs.

Risk	Risk exposure	Main loss controls
External and markets		
Market assessment	Market developments that are assessed inappropriately could lead to missed business opportunities or losses.	• Continuous monitoring and assessment of market developments • Systematic midrange planning based on market developments and expectations
Geopolitical shocks	A geopolitical shock event could have an impact on operations and travel. Also, it could imply currency risks and default risks of countries and banks.	• Monitoring of exposure in critical countries • Monitoring of debt situation of countries and banks • Continuous monitoring of raw material prices and inflation indicators • Sulzer's global presence mitigates the effect of geopolitical shocks
Strategic		
Innovation More information on page 36	Failure in R&D and innovation activities could negatively impact the ability to operate and to grow the business.	• Six company-wide innovation initiatives started in 2012 • Midrange planning process • Innovation and Technology Council • Innovation stage-gate process
Operational		
Attraction and retention More information on page 40	Failure to attract and retain talent could lead to a lack of expertise and negatively impact the ability to operate.	• Active fostering of corporate values and high ethical standards • Strong Sulzer employer brand strategy • Regular talent review workshops • Development plans and education of employees • Salary benchmarks and reviews • Regular employee engagement surveys
Health and safety More information on page 38	An unsafe working environment could lead to harm to people, reputational damage, fines, and liability claims.	• Health and safety regulations, guidelines, programs, and training • OHSAS 18001 certifications • Monthly health and safety controlling • Global network of health and safety officers • Regular health and safety audits

Risk	Risk exposure	Main loss controls
Operational continued		
Compliance More information on page 51	Non-compliant or unethical behavior could lead to reputational damage, fines, and liability claims.	• Active fostering of high ethical standards • Continuous monitoring and assessment of potential exposures • Sulzer Code of Business Conduct and a number of supporting regulations (e.g. anti-corruption, anti-trust, trade control) • Global network of compliance officers • Compliance training (incl. e-learning) and audits • Speak-up culture, compliance hotline, and sanctions
Quality of products and services	Failure of high-quality products and services could lead to repeated work, reputation damage, or liability claims.	• Quality management and assurance systems tailored to specific businesses • Third-party accreditation • Competence development programs and training of employees • Test centers
Business interruptions	Business interruption, such as a fire, could cause damage to people, property, and equipment. It could have a negative effect on the ability to operate at the affected site.	• Crisis and emergency management systems (at global and local level) • Risk management policy and guidelines • Corporate and local crisis and emergency management systems • Disaster recovery plans in IT
Financial		
Financial markets More information on page 78	The unpredictability of financial markets may have a negative effect on Sulzer's financial performance and its ability to raise or access capital.	• Corporate financial policy • Foreign exchange risk policy • Trading loss limits for financial instruments
Credit More information on page 80	Credit risks arising from financial institutions and from customers could have a negative effect on Sulzer's financial performance and ability to operate.	• For financial institutions, only parties with a strong credit quality are accepted (third-party rated) • Individual risk assessment of customers with large order volumes • Continuous monitoring of country risks
Liquidity More information on page 80	Failure in liquidity risk management may have a negative effect on Sulzer's financial performance and its ability to operate.	• Continuous monitoring of the liquidity • Management of liquidity reserves at corporate level • Cash flow program to optimize liquidity and cash flow management • Efficient use of available cash through cash pooling

Incentives for sustainable performance

Compensation policies and plans at Sulzer are based on performance orientation and the company's strong emphasis on creating long-term shareholder value and sustainable growth.

In brief

Core principles

See page 59

Compensation policies and plans at Sulzer are based on performance orientation and have a strong emphasis on creating long-term shareholder value and sustainable growth. The compensation is reviewed by the Nomination and Remuneration Committee on an annual basis and, if necessary, adjusted by the full Board of Directors.

Compensation for the Board of Directors

See page 59

The compensation paid to the Chairman of the Board of Directors and the other members of the Board of Directors is based on a compensation regulation. The compensation of the Board of Directors consists of the following components:

- Fixed cash component
- Restricted stock unit (RSU) component

The total amount of compensation for the Chairman as well as the other members of the Board of Directors depends on the amount of responsibility, the complexity of the tasks, the professional and personal requirements placed on them, and the expected average time spent executing such duties.

Compensation for the Executive Committee

See pages 59–64

The compensation of the Executive Committee members is governed by internal regulations (total reward policy, bonus plan, restricted stock unit plan, and performance share plan). In order to reflect the objective of pay for performance, the total direct compensation package of the CEO and the members of the Executive Committee includes the following components:

- Fixed annual base salary (in cash)
- Variable component, which consists of:
  - short-term annual performance- and results-based bonus (in cash)
  - long-term incentives: the restricted share unit plan (RSU plan until and including 2012) and since 2010 the performance share plan (PSP)

CEO Klaus Stahlmann did not participate in the RSU nor in the PSP 2010. He joined the PSP 2013.

To ensure that the remuneration is competitive, Sulzer regularly participates in respective benchmarks.

Advisory vote

Sulzer's Board of Directors is proposing to enable shareholders to cast advisory votes on the compensation report at the next Annual General Meeting on March 20, 2014.

The compensation report follows section 5 of the SIX Swiss Exchange Guidelines on Corporate Governance Information (RLCG). Further information relating to the remuneration of the members of the Board of Directors and the Executive Committee can be found in the financial section under note 30 (pages 111 to 113) and note 31 (page 113) as well as in the financial statements of Sulzer Ltd under note 110 (pages 128 to 130).

Board of Directors

The compensation paid to the Chairman of the Board of Directors and the other members of the Board of Directors is based on a compensation regulation. The compensation is reviewed by the Nomination and Remuneration Committee (NRC) on an annual basis and, if necessary, adjusted by the full Board of Directors based on a proposal by the NRC. The compensation consists of a fixed cash component and a restricted stock unit (RSU) component with a fixed grant value. The latter replaced the option component in 2009 and ensures the long-term alignment of the interests of shareholders and Board members. The compensation does not include a short-term variable (bonus) element, and no Board member receives pension benefits. No attendance fees are paid. The members of the Board of Directors are paid for their service over a 12-month period starting with their election. Whereas the cash remuneration is paid in quarterly installments (for the Chairman, monthly installments), the RSUs are granted once a year (see below). The total amount of compensation for the Chairman as well as the other members of the Board of Directors is guided by compensation benchmarks (see the box 'Compensation benchmark' on page 60), and it reflects the amount of responsibility, the complexity of the tasks, the professional and personal requirements placed on them, and the expected average time spent executing such duties. However, the final compensation and the weighting of the different criteria is ultimately the result of discretionary decisions by the full Board. The same is true for the higher compensation of the Chairman, which reflects his higher level of responsibility, the broader scope of his tasks, and the greater amount of time spent executing this role. The elements and annualized values of the compensation of the members of the Board of Directors are shown in the table below. The grant value of the RSUs is fixed (CHF 125 000 per Board member and CHF 250 000 for the Chairman of the Board). The number of RSUs is determined by dividing the fixed grant value by the volume-weighted average share price of the last ten trading days prior to the grant date, which lies between the date of the publication of the year-end results and the Annual General Meeting. One-third of the RSUs vest after the first, second, and third anniversary of the grant date respectively. Upon vesting, one vested RSU is converted into one share of the company. The vesting period for all options and RSUs granted to the members of the Board of Directors ends no later than the date on which the individual steps down from his respective function. Although the grant values of the RSUs are fixed, they are considered a variable compensation element since the development of their values follows the share price. The variable compensation of the Chairman of the Board represented 69% of the fixed component. For the other Board members, the variable component represented between 0% and 123% of the fixed component. Further details can be found in the financial section under note 110 (pages 128 to 130). Further details on the RSU component are available in the Executive Committee subsection. Detailed information on the remuneration of the Board of Directors is given in the financial statements of Sulzer Ltd under note 110 (pages 128 to 130).

Executive Committee

The compensation of the Executive Committee members is governed by internal regulations (total reward policy, bonus plan, restricted stock unit plan, and performance share plan 2010 and 2013). The compensation is reviewed by the Nomination and Remuneration Committee (NRC) on an annual basis and, if necessary, adjusted and approved by the full Board of Directors based on a proposal by the NRC. The changes introduced for 2013 are described below under the respective package elements. The full Board also approves the performance targets as well as the performance achievement levels for all Executive Committee members based on the recommendations of the NRC. The members of the Executive Committee have no right to either attend or vote at meetings concerning their compensation. However, the CEO attends meetings in which the proposed compensation of members of the Executive Committee is being discussed, and he submits proposals (except concerning his own compensation). In order to reflect the objective of pay for performance, the total direct compensation package of the CEO and the members of the Executive Committee includes a fixed annual base salary (in cash) and a variable component. The variable component consists of a short-term annual performance- and

Annual compensation of the members of the Board of Directors [1]

in CHF	Fixed component (fixed amount, cash, net of social security contributions[2])	Variable component (variable, fixed amount at grant date, restricted stock units)
Chairman of the Board[3]	420 000	250 000
Members of the Board	70 000	125 000
Audit committee – Chairman[4]	30 000	–
Audit committee – Member	20 000	–
Nomination and Remuneration Committee – Chairman[4]	25 000	–
Nomination and Remuneration Committee – Member	15 000	–
Strategy Committee – Chairman[4]	–	–
Strategy Committee – Member	15 000	–

[1] Annualized compensation (as of April 1, 2011). For the exact amounts of the 2013 compensation refer to note 110 on pages 128 to 130 in the financial section.
[2] For gross amounts, refer to note 110 on pages 128 to 130 in the financial section.
[3] The Chairman of the Board of Directors does not receive additional remuneration for committee activities.
[4] Committee chairmen do not receive additional remuneration for committee membership.

Compensation benchmark

The comparison group reflects Sulzer's ambitious business strategy:

- **ABB**
- **Actelion**
- **Clariant**
- **EMS Chemie**
- **Geberit**
- **Georg Fischer**
- **Holcim**
- **Lonza**
- **Nobel Biocare**
- **Oerlikon**
- **Rieter**
- **Schindler**
- **Sika**
- **Sonova**
- **Syngenta**

results-based bonus (in cash) as well as long-term incentives: the restricted stock unit plan (RSU plan until 2012) and the performance share plan (PSP 2010 and 2013). In 2013, the variable compensation to Klaus Stahlmann, CEO represented 194% of the fixed component (base salary, pensions and social contributions). For the entire Executive Committee, the variable component represented 96% of the fixed component (see "Bonus"). The relationship between the fixed and the variable component of compensation reflects Sulzer's high performance orientation and the company's strong emphasis on aligning the interests of the Executive Committee and the shareholders to create long-term shareholder value and profitable growth. Further details can be found in the financial section under note 110 (pages 128 to 130). To ensure that the remuneration of the members of the Executive Committee is competitive, Sulzer regularly participates in respective benchmarks, such as the 2012/13 study provided by Towers Watson, a leading global consultancy. It focused on Swiss-based multinational corporations with—as median—a comparable number of employees and sales volume (see the box 'Compensation benchmark'). Sulzer aims for remuneration between the median and the 75th percentile of the benchmark. The elements of the compensation of the members of the Executive Committee are summarized in the table below.

Base salary (fixed, in cash)

To determine the base salary—which ultimately is the result of a discretionary decision by the full Board—the market median level for the respective position, individual qualifications and experience, and the prevailing local labor market conditions, i.e. for members of the Executive Committee, Swiss labor market conditions, are taken into account. In order to review, assess, and, where needed, adjust the individual compensation, compensation benchmark studies with Swiss-based multinational companies issued by external advisors are used (see 'Executive Committee', page 59). Positions are evaluated according to the Towers Watson Global Grading System (GGS). The GGS builds on company criteria such as size, complexity, and geographic scope to assess the number of levels. Positions are evaluated in a two-step process of banding and grading: Banding places jobs in the framework based on how they contribute to the overall organization. Grading assesses jobs against standard factors. For further details, see http://www.towerswatson.com/en/Services/Tools/job-leveling-global-grading-and-career-map.

Bonus (variable, performance-based, in cash)

The Board decided to increase the bonus on target levels for 2013 to 90% of the base salary for the CEO and kept the bonus on target level for all other members of the Executive Committee at 60%. The maximum payout factor remained at two times the bonus on target. The actual bonus paid depends on the attainment of the agreed targets. 70% of these targets are of a financial nature (such as order intake, operating income, net income, and return on capital employed) and 30% are individual targets, which can be both qualitative and quantitative. For each of those targets, a target value as well as a lower and an upper target level are set. Depending on the level of achievement, a corresponding number of points is calculated. The sum of the points determines the payout factor, which can be between zero and two times the target bonus. No bonus at all is paid if the minimum target level is not reached. Exceptions to this policy may be defined by the Board of Directors in response to a proposal by the Nomination and Remuneration Committee (NRC). For the year 2013, two exceptions were granted: Kim Jackson, who left the position as President Sulzer Pumps mid-April 2013 (contractual cancelation period per end

Overview compensation elements

Fixed compensation	Variable compensation	
	Short-term incentive plan	Long-term incentive plan
Base salary, pensions and social contributions, and other	Bonus plan	Performance share plan (PSP)

Compensation elements for the members of the Executive Committee

	Base compensation	Short-term incentive plan (bonus plan)	Long-term incentive plan (performance share plan) PSP 2010	PSP 2013
Main parameters	Position, function, experience, competency evaluation	Achievement of business, financial and individual targets	Achievement of long-term net-income results, factored by share price performance and acquisition volume	Achievement of long-term EBIT results and relative Total Shareholder Return (TSR)
Key drivers	Labor market	Net income, return on capital employed, order intake, and annual individual targets	Aggregate net income 2010–2012, Total Shareholder Return, acquisition volume	Aggregate EBIT 2013-2015, relative Total Shareholder Return
Links to compensation principles	Competitive compensation	Pay for performance	Sustainable value creation and growth	
Form	Cash	Cash	Performance share units (PSUs)	
Amount	Fixed	Variable, capped at maximum two times the bonus on target (which is 90% of the base salary for the CEO and 50-60% for the other Executive Committee (EC) members). The maximum amount can reach 180% of the base salary for the CEO and 100-120% of the base salary for the other EC members [1]	Number of PSUs granted based on a) defined investment of Executive Committee (EC) members (two-thirds of 2010–2012 annual RSU grants for CEO; one-third for other EC members) and b) matching by the company (100% of amount converted for CEO; 80% for other EC members), divided by the grant price of the RSUs in 2010. The overall amounts payable under this plan are capped	Since 2013 no RSUs are granted anymore to PSP participants., i.e. the full Long-Term Incentive is at risk and depending on performance. Grant values are defined based on the Global Grade. In the transition year 2013 grant values are three times higher than for 2014 and following years as there will only be a first vesting in 2016. Grant Values: CEO: 2 500 000; EC Members: 765 000 to 900 000
Grant	Monthly	March of the year following the performance period	April 1, 2010 (one-time plan)	April 1, 2013 (rolling plan with annual grants. 2013 is a transitional plan with grant values three times higher than in the subsequent years)
Performance period	One fiscal year (2013)	One fiscal year (2013)	January 1, 2010 – March 31, 2013	January 1, 2013 – March 31, 2016
Vesting	–	–	All units vest on March 31, 2013. 50% are de-blocked immediately and 30% at first, and 20% at second anniversary of the vesting date	All units vest on March 31, 2016

[1] The CEO (in charge since February 2012) did not participate in the 2010–2012 performance share plan.

of September 2013), was awarded a pro rata bonus for the business year 2013 and Alfred Gerber, General Counsel until end of April 2013, will receive a bonus for 2013 on target level (contractual end of resignation period March 31, 2014). The successor of Kim Jackson, Scot Smith who joined May 21, 2013, will participate in the regular bonus scheme. The successor of Alfred Gerber is not a member of the Executive Committee. Urs Fankhauser, President Sulzer Chemtech, who stepped down from the Executive Committee due to health issues as of October 31 will receive a regular bonus payment. His successor, Oliver Bailer received a bonus pro rata payment at target level for the period of November 1, 2013 until December 31, 2013.

The bonuses for 2013, which are assessed by the NRC and approved by the full Board, will be paid in March 2014. For the entire Executive Committee, the bonus paid represented 34% of the fixed component. The relationship between the bonus and the fixed component of compensation reflects Sulzer's high performance orientation. Further details can be found in the financial section under note 110 (pages 128 to 130).

Restricted stock unit plan (variable, fixed grant value, share-based remuneration)

Sulzer has used a restricted stock unit plan (RSU plan) as a long-term performance incentive since 2009. In 2012 the last RSU grant was provided to members of the Executive Committee. From 2013 the RSU program is fully replaced by the new performance share plan 2013 except for César Montenegro (discontinued operations) and Alfred Gerber (leaving). Further details can be found under note 110 (pages 128 to 130).

Performance share plan (variable, performance-based, share-based remuneration)

In order to motivate the members of the Executive Committee to maintain the strong operational management of the company, while at the same time using balance sheet assets to make sound investments (primarily in the form of capital expenditures and acquisitions), the full Board of Directors decided in 2010 to introduce a long-term performance share plan (PSP) for the members of the Executive Committee. The PSP 2010 was a one-time plan with a performance period of three years (see table on page 61). The plan was designed by the Nomination and Remuneration Committee with support from Towers Watson. The members of the Executive Committee were measured on very ambitious targets with regard to (i) the cumulative adjusted net income, (ii) the total shareholder return (TSR), and (iii) the acquisition volume. (i) Cumulative adjusted net income: the sum of the net income from 2010 to 2012 attributable to shareholders, adjusted by acquisition costs, integration costs, and effects related to business combinations (as introduced with IFRS 3 'Business Combinations') over the performance period (January 1, 2010 – December 31, 2012). The cumulative income over the period amounted to CHF 887.3 million. (ii) Total shareholder return (TSR): the share price growth plus dividends over the performance period. To calculate the share price growth, the initial share price is set as the ten-day volume-weighted average share price prior to the grant of RSUs in 2010 (i.e. the same amount that is used to calculate the restricted stock units for 2010). The ending share price is the volume-weighted average share price between January 1, 2013, and March 31, 2013. This calculation results in a TSR of 68.91%. (iii) Acquisition volume: total volume spent on the capitalization of balance sheet assets for the purpose of acquisitions or other sound investments of Sulzer's liquid assets over the performance period, for example, investment decisions. The total acquisition volume amounted to CHF 1 110 million. The PSP included a requirement for the participants to invest a portion of their yearly RSU grant into the PSP plan. The former CEO had to invest two-thirds of each of the three annual RSU grants, which results in a total investment of the equivalent of two annual grants during the performance period. All other Executive Committee members had to invest one-third of each of the three annual RSU grants, which resulted in a total investment of the equivalent of one annual grant during the performance period. At the grant date, each investment was matched by a co-investment by the company. The company matched 100% of the amounts invested of the CEO and 80% of the investments of the other Executive Committee members. The number of performance share units (PSUs) granted at the grant date was based on the number of RSUs shifted into the PSP and the company match divided by the volume-weighted average share price prior to the 2010 grant of RSUs. The PSP vested end of March 2013. However, on the day when the entire award is vested, only 50% of the shares were de-blocked (settlement possible in cash or shares). The remaining 50% of the shares will de-block on the first (30%) and second (20%) anniversary of the vesting date. The plan included a significant leverage in the case of extraordinary performance over the three-year performance period. At vesting, the number of PSUs granted were multiplied by two factors (see graphic on page 63). The first factor is defined by a matrix that consists of the cumulative adjusted net income and the total shareholder return; it ranges from 0 to 2.5. The second factor is defined by the acquisition volume; it ranges from 0.8 to 1.8. Of the three PSP metrics (total shareholder return, cumulative adjusted net income, acquisition volume), the total shareholder return has the highest impact on the final vesting value, which reflects Sulzer's strong emphasis on aligning the interests of the Executive Committee and the shareholders to create long-term shareholder value. The value vested was calculated by multiplying the final number of PSUs vested with the share price at March 31, 2013. The maximum payout is capped at four (for the CEO) to five (other members of the Executive Committee) times the total value at grant of the PSP, i.e. the total investment of the participant plus the company matching. Failure to achieve the minimum performance thresholds (i.e. the predetermined amounts of the cumulative net income and the ending share price) would have resulted in a zero payout, meaning that the Executive Committee member would lose the entire investment (i.e. their RSU contribution) value at grant invested into the PSP including the respective company match amount. If a member of the Executive Committee terminates his employment during the performance period, all PSUs granted shall lapse. If Sulzer terminates the employment or the Executive Committee member without cause prior to the vesting date, the member shall be entitled to a monetary compensation reflecting the pro rata achievement under the PSP.

Due to the excellent performance of the past three years the vesting values exceeded the defined cap values for all participants and were subsequently reduced to the defined maximum cap values.

In 2012 the Board decided to continue with a long-term and performance-oriented remuneration policy based on a Performance Share Plan (PSP). Restricted Stock Units (RSU) will not be granted any more. The target

Overview performance share plan (PSP)

Determining number of PSU vested three years after grant

(Target Achievement Factor 1	+ Target Achievement Factor 2	) × Number of PSU granted	= Number of PSU vested
Factor based on cumulative EBIT compared to Mid Range Plan (MRP) Minimum cumulative EBIT value over three years compared to MRP is defined at 60% and leads to a factor of 0. 100% achievement leads to a factor of 1 and 140% achievement leads to a factor of 2. The factor accordingly varies from 0 to 2 according to performance.	**Factor based on Relative Total Shareholder Return (TSR)** Minimum relative TSR performance over three years compared to 30 peers is defined at 10th percentile and leads to a factor of 0. Median TSR performance leads to a factor of 1 and a TSR performance at the 90th percentile leads to a factor of 2. The factor accordingly varies from 0 to 2 according to performance.	**Number of PSU granted** Since 2013 no RSU are granted anymore to PSP participants., i.e. the full Long Term Incentive is at risk and depending on performance. Grant values are defined based on the Global Grade. In the transition year 2013 grant values are three times higher as for 2014 and following years as there will only be a first vesting in 2016. Grant Values: CEO: 2 500 000 EC Members: 765 000 to 900 000	**Number of PSU vested** The maximum payout is capped at a multiple of the value at grant. CEO: 3.2 Other EC members: 3.9-4.4

dimensions of the new PSP are the cumulated operating income (EBIT) over a three-year period as well as the total shareholder return (Sulzer's performance against the respective performance of 30 defined peer companies, more at www.sulzer.com/peers). The new PSP 2013 is effective as of January 1, 2013, and is governed by three-year contractual agreements between the members of the Executive Committe and Sulzer. The new PSP is designed as an annual plan with annual grants. The annual grant will be determined by the Board prior of entering a new Award Agreement. The Board is entitled to terminate the PSP, i.e. not to offer a new Award Agreement, at any time.

The PSP 2013 is available exclusively to the members of the Executive Committee of Sulzer Ltd. The right to participate in the PSP is personal and not transferable. The PSP is an annual plan at the discretion of the Board.

The number of granted PSU is calculated based on the grant values per global grade. The beginning share price (on which the annually granted number of PSU will be based) is defined as the three months volume weighted average share price prior to the annual grant (usually around April 1). The performance periods for the two KPIs as described below are defined as follows:

a) Cumulative EBIT: EBIT January 1, 2013 to December 31, 2015.
b) Relative Total Shareholder Return (TSR): April 1, 2013 (beginning share price is based on the three months volume weighted average share price January 1 to March 31) to March 31, 2016 (ending share price shall be calculated based on volume weighted average share price of January 1 to March 31).

The full performance period reaches from January 1, 2013 to March 31, 2016.

Each PSU represents the right to one share of the company. On the vesting date the final number of PSU will vest. The performance at the end of the performance period will be measured based on two KPIs:

a) Achievement factor KPI 1 (minimum value: 0; maximum value: 2): Cumulative EBIT in % of the mid range plan (MRP) EBIT defined as Cumulative three-year EBIT over the performance period divided by cumulative MRP EBIT values of the respective years. The Board can at its sole discretion adjust the cumulative EBIT in case of the following events:
   - Acquisitions exceeding CHF 100 million: in case of conflicts between the KPI as defined in this plan and targeted business objectives beyond the time horizon of the current plan.
   - Exchange rate: adjustment in case of deviations of the Swiss Franc against major currencies relevant to Sulzer exceeding a bandwidth of +/– 2%. In such a case an adjustment to a threshold of +/– 2% is possible.
   - Unforeseen IFRS change: depending on issue adjustments are possible.

b) Achievement factor KPI 2 (minimum value: 0; maximum value: 2): Relative Total Shareholder Return defined as share price growth (ending share price minus starting share price) during the performance period plus dividends over the performance period (fiscal years n, n+1 and n+2) divided by ending share price measured against the performance of the defined Peer Group based on the ranking method (assuming dividends are not reinvested through buying more shares of the corresponding security). The Board has the right to change the composition of the Peer Group in case of merger and acquisition or any other change leading to a delisting or a fundamental change in the scope of the business of the peer group company. In such a situation the Board will choose a new peer company. A pre-defined succession list supports the Board in this process but does not limit the authority of the Board to choose any other suitable company.

The final number of PSU to be converted into shares will be calculated by multiplying the initial number of PSUs granted with the total achievement. The following formula shall apply: Number of performance share units granted x (Achievement Factor KPI 1 + Achievement Factor KPI 2) = hypothetical number of performance shares vested. For the final payout calculation the defined caps apply. The plan administrator will notify such number to the Committee.

The conversion of PSU into shares at the vesting date is subject to the following minimum performance thresholds:

- Cumulative EBIT in % of MRP EBIT > 60% or relative TSR > 10th percentile
- The total number of shares a participant is entitled to receive under the PSP is capped pursuant to defined maximum values at vesting per Global Grades

If a participant terminates his/her employment with the company during the performance period, all PSU granted to such participant shall be forfeited without any right to compensation. In exceptional cases and under the condition of an outstanding performance the Board has the right to consider a monetary compensation.

Upon termination of the employment of a participant as a result of disability, the conditions of the award agreement shall continue unchanged, meaning that all awards granted on or before termination shall remain effective as if the employment would not have been terminated.

If the employer terminates the employment without cause or if the employment agreement expires prior to the vesting date or in case of death, the participant or his or her beneficiaries shall be entitled to a monetary compensation reflecting the pro rata achievement under this PSP. The pro rata achievement shall be defined based on the number of calendar days reaching from January 1, year n to the exit date, expiry of the employment agreement or death of the participant divided by the total number of calendar days of the full performance period multiplied with the pro rata total achievement. Calculation of the underlying share price to determine pro rata relative TSR growth will be based on the volume weighted average share price of three months preceding the exit date or death of the participant. The pro rata cumulative EBIT calculation will be based on the most accurate figures available. The final payment will be defined by the Board considering the above calculation but with the right to adjust the monetary compensation in line with legal and statutory requirements.

No severance payments to members of the Executive Committee were made during the reporting year. The employment contracts of the Executive Committee members make no provision for unusually long notice periods or contract terms. However, Executive Committee members who joined the Executive Committee prior to April 2009 were given the right to compensation if after a change of control an employment contract is terminated within 18 months or in the event of a considerable change to a member’s function. This compensation is no longer allowed based on the new Minder legislation and was ended without compensation by December 31, 2013.

Consolidated financial statements

Sulzer achieved a net income attributable to shareholders of Sulzer Ltd of CHF 234.4 million. The capital structure remains solid with an equity ratio of 51.4%.

Consolidated income statement

January – December

millions of CHF	Notes	2013	2012[1]
Continuing operations			
Sales	04	**3263.9**	3340.7
Cost of goods sold		**–2260.9**	–2291.6
Gross profit		**1003.0**	1049.1
Selling and distribution expenses		**–334.8**	–340.3
General and administrative expenses		**–342.4**	–309.6
Research and development expenses	07	**–70.6**	–66.9
Other operating income	08	**50.6**	30.2
Other operating expenses	08	**–25.0**	–25.9
Operating income before restructuring		**280.8**	336.6
Restructuring expenses	24	**–16.8**	–7.9
Operating income		**264.0**	328.7
Interest and securities income	09	**5.0**	4.6
Interest expenses	09	**–23.2**	–25.8
Other financial income/(expenses)	09	**–3.6**	22.4
Income before income tax expenses		**242.2**	329.9
Income tax expenses	10	**–65.9**	–80.6
Net income from continuing operations		**176.3**	249.3
Discontinued operations			
Net income from discontinued operations, net of income taxes	02	**59.9**	58.5
Net income		**236.2**	307.8
Attributable to shareholders of Sulzer Ltd		**234.4**	302.9
Attributable to non-controlling interests		**1.8**	4.9
Earnings per share, attributable to a shareholder of Sulzer Ltd (in CHF)			
Basic earnings per share[2]	22	**6.89**	8.91
Diluted earnings per share[2]	22	**6.86**	8.86
Continuing operations			
Basic earnings per share continuing operations	22	**5.13**	7.19
Diluted earnings per share continuing operations	22	**5.11**	7.15
Discontinued operations			
Basic earnings per share discontinued operations	22	**1.76**	1.72
Diluted earnings per share discontinued operations	22	**1.75**	1.71

[1] Restatement of prior year figures, see corporate accounting policies 2.2 and note 02.

[2] Restatement of prior year figures, decrease of CHF 0.12 due to the restated net income related to IAS 19R.

Consolidated statement of comprehensive income

January – December

millions of CHF	Notes	2013	2012[1]
Net income		**236.2**	307.8
Items that may be reclassified subsequently to the income statement			
Fair value changes on available-for-sale financial assets, net of tax		**–**	–24.4
Cash flow hedges, net of tax	26	**–2.2**	2.7
Currency translation differences		**–67.6**	–8.1
Total of items that may be reclassified subsequently to the income statement		**–69.8**	–29.8
Items that will not be reclassified to the income statement			
Defined benefit cost recognized in other comprehensive income, net of tax	06	**36.7**	–0.7
Total of items that will not be reclassified to the income statement		**36.7**	–0.7
Total other comprehensive income		**–33.1**	–30.5
Total comprehensive income for the year		**203.1**	277.3
Attributable to shareholders of Sulzer Ltd		**202.0**	272.7
Attributable to non-controlling interests		**1.1**	4.6

[1] Restatement of prior year figures, see corporate accounting policies 2.2.

Consolidated balance sheet

December 31

millions of CHF	Notes	2013	2012	2011
Non-current assets				
Goodwill	11	**978.4**	1 092.7	1 060.9
Other intangible assets	11	**303.8**	354.3	374.3
Property, plant, and equipment	12	**492.0**	650.0	619.5
Other financial assets	13	**11.1**	8.6	36.2
Non-current receivables		**13.8**	13.8	12.2
Deferred income tax assets[1]	10	**92.4**	118.4	122.5
Total non-current assets		**1 891.5**	2 237.8	2 225.6
Current assets				
Inventories	14	**436.5**	622.9	675.4
Advance payments to suppliers		**87.4**	78.6	83.1
Trade accounts receivable	16	**877.5**	1 012.1	1 020.3
Other accounts receivable and prepaid expenses[1]	17	**153.4**	144.4	125.6
Assets held for sale	02	**568.9**	0.6	0.9
Marketable securities	19	**–**	5.8	8.1
Cash and cash equivalents	18	**528.7**	507.3	422.6
Total current assets		**2 652.4**	2 371.7	2 336.0
Total assets		**4 543.9**	4 609.5	4 561.6
Equity				
Share capital	21	**0.3**	0.3	0.3
Reserves[1]		**2 334.1**	2 216.3	2 022.1
Equity attributable to shareholders of Sulzer Ltd		**2 334.4**	2 216.6	2 022.4
Non-controlling interest		**6.3**	6.8	6.0
Total equity		**2 340.7**	2 223.4	2 028.4
Non-current liabilities				
Long-term borrowings	23	**515.9**	533.0	531.4
Deferred income tax liabilities[1]	10	**101.5**	113.0	130.9
Non-current income tax liabilities	10	**3.8**	9.3	12.8
Non-current provisions[1]	24	**202.2**	300.4	322.5
Other non-current liabilities		**1.9**	0.8	1.1
Total non-current liabilities		**825.3**	956.5	998.7
Current liabilities				
Short-term borrowings	23	**56.6**	76.0	236.2
Current income tax liabilities	10	**26.8**	55.3	49.5
Current provisions	24	**127.0**	138.0	171.3
Trade accounts payable		**345.6**	419.9	386.0
Advance payments from customers		**271.9**	291.0	272.2
Liabilities held for sale	02	**157.7**	–	–
Other current and accrued liabilities	25	**392.3**	449.4	419.3
Total current liabilities		**1 377.9**	1 429.6	1 534.5
Total liabilities		**2 203.2**	2 386.1	2 533.2
Total equity and liabilities		**4 543.9**	4 609.5	4 561.6

[1] Restatement of prior year figures, see corporate accounting policies 2.2.

Consolidated statement of changes in equity

January – December

millions of CHF	Notes	Share capital	Retained earnings	Treasury stock	Cash flow hedge reserve	Available-for-sale financial assets	Currency translation adjustment	Total	Non-controlling interests	Total equity
		Attributable to shareholders of Sulzer Ltd								
Equity as of January 1, 2012 (as previously reported)		0.3	2393.3	–64.3	1.8	24.4	–257.7	2097.8	6.0	2103.8
Restatement due to IAS 19 revised[1]			–75.4					–75.4		–75.4
Equity as of January 1, 2012 (restated)		**0.3**	**2317.9**	**–64.3**	**1.8**	**24.4**	**–257.7**	**2022.4**	**6.0**	**2028.4**
Comprehensive income for the year:										
Net income			302.9					302.9	4.9	307.8
Cash flow hedges, net of tax	26				2.7			2.7		2.7
Fair value changes on available-for-sale financial assets, net of tax						–24.4		–24.4		–24.4
Defined benefit cost recognized in other comprehensive income, net of tax	06		–0.7					–0.7		–0.7
Currency translation differences							–7.8	–7.8	–0.3	–8.1
Total comprehensive income for the year		**–**	**302.2**	**–**	**2.7**	**–24.4**	**–7.8**	**272.7**	**4.6**	**277.3**
Changes in ownership in subsidiaries without loss of control								–	–0.2	–0.2
Transactions in treasury shares			–7.8	19.8				12.0		12.0
Share-based payments	30		12.3					12.3		12.3
Dividend			–102.8					–102.8	–3.6	–106.4
Equity as of December 31, 2012 (restated)	21	**0.3**	**2521.8**	**–44.5**	**4.5**	**–**	**–265.5**	**2216.6**	**6.8**	**2223.4**
Comprehensive income for the year:										
Net income			234.4					234.4	1.8	236.2
Cash flow hedges, net of tax	26				–2.2			–2.2		–2.2
Defined benefit cost recognized in other comprehensive income, net of tax	06		36.7					36.7		36.7
Currency translation differences							–66.9	–66.9	–0.7	–67.6
Total comprehensive income for the year		**–**	**271.1**	**–**	**–2.2**	**–**	**–66.9**	**202.0**	**1.1**	**203.1**
Addition of non-controlling interests								–	0.6	0.6
Transactions in treasury shares			–1.6	17.6				16.0		16.0
Share-based payments	30		9.4					9.4		9.4
Dividend			–109.6					–109.6	–2.2	–111.8
Equity as of December 31, 2013	21	**0.3**	**2691.1**	**–26.9**	**2.3**	**–**	**–332.4**	**2334.4**	**6.3**	**2340.7**

[1] See corporate accounting policies 2.2.

Financial section

Consolidated statement of cash flows

January – December

millions of CHF	Notes	2013	2012
Cash and cash equivalents as of January 1		**507.3**	422.6
Cash flow from operating activities			
Net income[1]		**236.2**	307.8
Interest and securities income		**–5.2**	–4.9
Interest expenses[1]		**24.6**	27.4
Income tax expenses[1]		**86.3**	100.8
Depreciation/amortization		**134.5**	131.4
Income from disposals of subsidiaries; property, plant, and equipment; and financial instruments		**–2.6**	–31.3
Changes in inventories		**52.0**	44.7
Changes in advance payments to suppliers		**–14.4**	3.4
Changes in trade accounts receivable		**–4.9**	–11.5
Changes in advance payments from customers		**2.3**	24.9
Changes in trade accounts payable		**–23.0**	38.7
Changes in provisions[1]		**–18.4**	–43.1
Changes in other net current assets		**–24.1**	24.5
Other non-cash items[1]		**8.2**	–5.3
Interest received		**4.8**	4.9
Interest paid		**–17.5**	–19.1
Income tax paid		**–118.7**	–120.5
Total cash flow from operating activities		**320.1**	472.8
Cash flow from investing activities			
Purchase of intangible assets	11	**–4.8**	–2.4
Sale of intangible assets		**0.2**	0.2
Purchase of property, plant, and equipment	12	**–102.8**	–125.8
Sale of property, plant, and equipment		**6.0**	3.1
Acquisitions of subsidiaries, net of cash acquired	01	**–23.8**	–38.6
Acquisitions of associates		**–2.9**	–
Divestitures of subsidiaries		**6.1**	1.1
Purchase of financial assets		**0.1**	–1.1
Sale of financial assets		**–**	32.0
Purchase of marketable securities		**–1.0**	–3.6
Sale of marketable securities		**2.7**	6.1
Total cash flow from investing activities		**–120.2**	–129.0
Cash flow from financing activities			
Dividend		**–108.7**	–102.2
Purchase/sale of treasury stock		**–4.1**	11.3
Dividend to non-controlling interests		**–2.2**	–3.6
Additions in long-term borrowings		**8.8**	14.4
Repayment of long-term borrowings		**–3.6**	–2.9
Additions in short-term borrowings		**2.9**	19.8
Repayment of short-term borrowings		**–29.8**	–188.3
Total cash flow from financing activities		**–136.7**	–251.5
Exchange losses on cash and cash equivalents		**–20.6**	–7.6
Net change in cash and cash equivalents		**42.6**	84.7
Cash and cash equivalents as of December 31	18	**549.9**	507.3
– thereof classified as assets held for sale	02	**21.2**	–

[1] Restatement of prior year figures, see corporate accounting policies 2.2 and note 02.

Corporate accounting principles

1 General information

Sulzer Ltd (the "company") is a company domiciled in Switzerland. The address of the company's registered office is Neuwiesenstrasse 15 in Winterthur, Switzerland. The consolidated financial statements as at and for the year ended December 31, 2013, comprise the company and its subsidiaries (together referred to as the "corporation" and individually as the "subsidiaries") and the corporation's interest in associates and jointly controlled entities. The corporation is mainly active in the machinery and equipment sectors, the surfacing technology business, and associated services. Sulzer was founded in 1834 in Winterthur, Switzerland, and employs some 15400 people in over 150 locations worldwide. The company is listed on the SIX Swiss Exchange in Zurich, Switzerland (symbol: SUN).

These consolidated financial statements were authorized for issue by the Board of Directors on February 19, 2014.

2 Key accounting policies and valuation methods

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) using the historical cost convention except for the following:

- financial instruments at fair value through profit or loss are measured at fair value (incl. derivative financial instruments),
- available-for-sale financial instruments are measured at fair value,
- liabilities for cash-settled share-based payments are measured at fair value, and
- net defined benefit (assets) liabilities are measured at the fair value of plan assets less the present value of the defined benefit obligation, limited as explained in 2.18 a).

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by all subsidiaries.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the corporation's accounting policies. The areas involving a higher degree of judgment or complexity or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in section 4 "Critical accounting estimates and judgments."

2.2 Change in accounting policies

a) Standards, amendments, and interpretations to published standards effective in 2013

Sulzer has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of January 1, 2013:

- Amendment to IAS 1 'Presentation of items in other comprehensive income.' The main change resulting from this amendment is the requirement for entities to group items presented in other comprehensive income on the basis whether they are potentially reclassifiable to profit or loss subsequently. The corporation has applied the requirements in its 2013 consolidated financial statements.
- IAS 19 'Employee benefits.' The principal impact of this is that the return on pension plan assets and the interest calculated on the defined benefit obligations now use the same interest rate reflecting the current market yield of high-quality corporate bonds. In addition, interest expenses on funded post-employment schemes shown as part of personnel expenses are now recognized as financial expenses. It has also been required that figures be restated for unrecognized actuarial gains and losses. As required by the new standard, Sulzer's 2012 consolidated financial statements have been retrospectively restated to reflect these changes (see tables on the next page). The impact for the full year 2013 of IAS 19 revised on the operating expenses amounted to CHF –18.4 million and of CHF –6.4 million to interest expenses.
- As a result of the amendments to IFRS 7 'Financial instruments: Disclosures,' the corporation has expanded its disclosures about the offsetting of financial assets and financial liabilities (see note 26).
- As a result of IFRS 10 'Consolidated financial statements,' the corporation has changed its accounting policy for determining whether it consolidates its investees. The change did not have any effect on the scope of consolidation.
- As a result of IFRS 11 'Joint arrangements,' the corporation has changed its

Restatement of consolidated income statement

millions of CHF	January – December 2012 As reported	Restatement IAS 19R	Restated
Other operating expenses	–37.7	–0.7	–38.4
Operating income	409.5	–0.7	**408.8**
Financial income	4.7	–4.9	–0.2
Income before income tax expenses	414.2	–5.6	**408.6**
Income tax expenses	–102.2	1.4	–100.8
Net income	312.0	–4.2	**307.8**
Attributable to shareholders of Sulzer Ltd	307.1	–4.2	302.9
Attributable to non-controlling interests	4.9	–	4.9

Restatement of consolidated balance sheet

	December 31, 2012				December 31, 2011		
millions of CHF	As reported	Restatement January 1, 2012	Restatement Jan – Dec	Restated	As reported	Restatement	Restated
Deferred income taxes							
Deferred income tax assets on increase of benefit obligations	94.5	22.4	1.5	118.4	100.1	22.4	122.5
Deferred income tax liabilities on decrease of benefit obligations	116.5	–2.1	–1.4	113.0	133.0	–2.1	130.9
Amounts recognized in the balance sheet from employee benefit plans							
Overfunding of employee benefit plans	22.5	–1.2	–7.1	14.2	16.9	–1.2	15.7
Employee benefit plans	84.6	98.7	0.9	184.2	101.3	98.7	200.0
Reserves							
Retained earnings	2602.3	–75.4	–5.1	2521.8	2393.3	–75.4	2317.9

accounting policy for interests in joint arrangements. The change did not have any effect on the consolidated financial statements of the corporation.
- As a result of IFRS 12 'Disclosure of interest in other entities,' the corporation has changed its accounting policy for disclosures of interests in other entities. The change did not have any effect on the consolidated financial statements of the corporation.
- IFRS 13 'Fair value measurement,' aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs (see 3 Financial risk management).
- IAS 36 'Impairment of assets.' The corporation has early adopted the amendments to IAS 36 (2013). As the corporation does not have any material assets stated at fair value less costs to sell and no impairment was recognized, no additional disclosures are required.

The effects and changes to IAS 27 (revised) 'Separate financial statements,' IAS 28 (revised) 'Associates and joint ventures,' IAS 32 'Financial instruments: Presentation,' and the annual improvements are not material.

b) Standards, amendments, and interpretations which the corporation has decided not to early adopt in 2013

- IFRS 9 'Financial instruments.' The first phase on classification and measurement was originally published in 2009. It retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Phase 3 on hedge accounting was published in 2012 and delivers a more principles-based standard that aligns hedge accounting more closely with risk management and therefore should result in more meaningful information. The types of hedging relationship remain unchanged, but additional judgment will be required. Phase 2 on the impairment methodology is not yet published. IFRS 9 will not be applicable before January 1, 2017.
- Amendment to IAS 32, 'Financial instruments: Presentation,' on asset and liability offsetting, will become effective from January 1, 2014.

- The amendment to IAS 19 'Employee benefits' will reduce the complexity and burden of accounting for certain contributions from employees or third parties. The amendment further clarifies how service-linked contributions from employees or third parties should be included in determining net current service cost and the defined benefit obligation. The amendment will become effective for annual periods beginning on or after July 1, 2014.
- IFRIC 21 'Levies,' addresses the accounting for a liability to pay a levy if that liability is within the scope of IAS 37, will become effective from January 1, 2014.
- Amendments to IFRS 10, IFRS 12, and IAS 27 on investment entities, will become effective from January 1, 2014.
- Amendment to IAS 39, 'Novation of derivatives and continuation of hedge accounting,' requires an entity to discontinue the hedge accounting for a derivative that has been designated as a hedging instrument in an existing hedging relationship if the derivative is novated to a central counterparty.

2.3 Consolidation

a) Business combinations

The corporation accounts for business combinations using the acquisition method when control is transferred to the corporation (see 2.3 c). The consideration transferred in the acquisition is measured at the fair value of the assets given. Any goodwill arising is tested annually for impairment (see 2.6 a). Any gain on a bargain purchase is recognized in profit or loss immediately. Acquisition-related costs are expensed as incurred, except if related to the issue of debt or equity securities. Identifiable assets acquired, and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards), then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. The determination is based on the difference between the market-based measure of the replacement awards compared with the market-based measure of the aquiree's awards and the extent to which the replacement awards relate to pre-combination service.

b) Non-controlling interests

The corporation recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, at the non-controlling interest's proportionate share of the recognized amounts of the acquiree's identifiable net assets.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions.

When the corporation loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any related non-controlling interest and other components of equity. Any resulting gain or loss is recognized in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

c) Subsidiaries

Subsidiaries are all entities controlled by the corporation. The corporation controls an entity when it is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

d) Associates and jointly controlled entities

Associates are those entities in which the corporation has significant influence, but not controls, over the financial and operating policies. Significant influence is presumed to exist when the corporation holds, directly or indirectly, between 20% and 50% of the voting rights. Joint ventures are those entities over whose activities the corporation has joint control, established by contractual agreement and requiring unanimous consent for strategic, financial, and operating decisions. Associates and jointly controlled entities are accounted for using the equity method and are initially recognized at cost.

e) Transactions eliminated on consolidation

All material intercompany transactions and balances and any unrealized gains or losses arising from intercompany transactions are eliminated in preparing the consolidated financial statements.

f) Discontinued operation

A discontinued operation is a component of the corporation's business, the operations and cash flows of which can be clearly distinguished from the rest of the corporation and which:

- represents a major line of business;
- is part of a single co-ordinated plan to dispose of a separate major line of business; or
- is a subsidiary acquired exclusively with a view to re-sale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale. When an operation is classified as discontinued operation, the comparative statement of profit or loss and the OCI is re-presented as if the operation had been discontinued from the start of the comparative year. All disclosures in the notes to the consolidated financial statements refer to continuing operations, except where otherwise indicated.

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Executive Officer. The Chief Executive Officer, who is responsible for allocating resources and assessing performance (e.g. operating income) of the operating segments, has been identified as the steering committee that makes strategic decisions. The reported segments are:

- Sulzer Pumps – pump technology and solutions
- Sulzer Turbo Services – provider of service solutions for rotating equipment
- Sulzer Chemtech – separation, mixing, and service solutions

Operating assets and liabilities are assets or liabilities related to the operating activities of an entity and contributing to the operating income once transferred or recorded in the income statement. Capital employed is defined to be the average net operating assets of the corporation over the period.

2.5 Foreign currency translation

a) Functional and presentation currency

Items included in the financial statements of affiliated companies are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Swiss francs (CHF), which is the functional and presentation currency of Sulzer Ltd.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Changes in the fair value of monetary items denominated in foreign currency classified as available-for-sale are analyzed between translation differences resulting from changes in the amortized cost of the item and other changes in the carrying amount of the item. Translation differences related to changes in the amortized costs are recognized in profit or loss and other changes in the carrying amount are recognized in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the available-for-sale reserve in other comprehensive income.

c) Subsidiaries
The results and financial position of all the subsidiaries (excluding the ones with hyperinflationary economy) that have a functional currency different from the presentation currency of the corporation are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet, and
- income and expenses for each income statement are translated at average exchange rates.

Translation differences resulting from consolidation are taken to other comprehensive income. In the event of a sale or liquidation of foreign affiliated companies, exchange differences that were recorded in other comprehensive income are recognized in the income statement as part of the gain or loss on sale or liquidation.

2.6 Intangible assets
An intangible asset is classified either as an asset with indefinite useful life when timely limitation of generating net cash inflows is not foreseeable, or as an asset with a finite useful life.

Intangible assets with an indefinite useful life are not to be amortized. The corporation performs an annual review determining whether events and circumstances still support this measurement. Reassessing the useful life indicates that an asset might be impaired.

The intangible assets with finite useful life are amortized in line with the expected useful life, usually on a straight-line basis. The period of useful life is to be assessed according to business rather than legal criteria. This assessment is made at least once a year. An impairment might be required in the event of sudden or unforeseen value changes.

a) Goodwill
Goodwill represents the difference between the consideration transferred and the fair value of the corporation's share in the identifiable net asset value of the acquired business at the time of acquisition. Any goodwill arising as a result of a business combination is included within intangible assets.

Goodwill originating from the acquisition of an associated company is included in the book value of the participation in associated companies. Goodwill is subject to an annual impairment test and valued at its original acquisition cost less accumulated impairment losses. In cases where circumstances indicate a potential impairment, impairment tests are conducted more frequently. Profits and losses arising from the sale of a business include the book value of the goodwill assigned to the business being sold.

Goodwill is allocated to the lowest cash-generating units reported to the chief operating decision maker (CEO) for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

b) Trademarks and licenses
Trademarks, licenses, and similar rights acquired from third parties. Such assets are amortized over their expected useful life, generally not exceeding ten years.

c) Research and development
Expenditure on research activities is recognized in profit or loss as incurred. Development costs for major projects are capitalized only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the corporation intends and has sufficient resources to complete development and to use or sell the asset. Otherwise, it is recognized in profit or loss as incurred. Subsequently such assets are measured at cost less accumulated amortization (max. five years) and any accumulated impairment loss.

d) Computer software
Acquired computer software licenses are capitalized on the basis of the cost incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives (three to max. five years).

e) Customer relationships
As part of a business combination, acquired customer rights are recorded at fair value (cost at the time of acquisition). These costs are amortized over their estimated useful lives, generally not exceeding 15 years.

2.7 Property, plant, and equipment
Property, plant, and equipment is stated at acquisition cost less depreciation and impairments. Acquisition cost includes expenditure that is directly attributable to the acquisition of the item. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that the future economic benefits associated with the item will flow to the corporation and the cost of the item can be measured reliably. The carrying amount of the replaced item is derecognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is provided on a straight-line basis over the estimated useful life. Land is stated at cost and is not depreciated. The useful lives are as follows:

Buildings	20–50 years
Machinery	5–15 years
Technical equipment	5–10 years
Other non-current assets	max. 5 years

Property, plant, and equipment financed by long-term financial leases is capitalized and amortized in the same way as other assets. The applicable leasing commitments are shown as liabilities and are included under long-term borrowings.

An asset's carrying amount is impaired immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

2.8 Impairment of non-financial assets
Assets with an indefinite useful life are not

depreciated under a fixed schedule, but tested annually for impairment. Assets depreciated under a fixed schedule are only assessed for impairment if relevant events or changes in circumstances indicate that the book value is no longer recoverable. An impairment loss is recorded equal to the excess of the carrying value over the recoverable amount. The recoverable amount is the higher of the fair value of the asset less disposal costs and its value in use. The value in use is based on the estimated cash flow over at least a five-year period and the extrapolated projections for subsequent years. The results are discounted using an appropriate long-term interest rate. For the purposes of the impairment test, assets are grouped together at the lowest level for which separate cash flows can be identified (cash-generating units).

2.9 Financial assets

Financial assets, including marketable securities, are classified into the following four categories: “financial assets at fair value through profit or loss,” “available-for-sale financial assets,” “loans and receivables,” and “held-to-maturity financial assets.” Classification depends on the purpose for which the financial assets were acquired. Management determines the classification of assets at the date of purchase and reviews it on every accounting date. The fair value of financial instruments is either taken from an actively traded market or, in the case of non-traded financial instruments, from a valuation using standard formula-based methods. The marketable securities held by the corporation belong either to the first or the second level.

a) Financial assets at fair value through profit or loss

Assets in this category are capitalized at fair value and subsequently adjusted to fair values, with any adjustments charged or credited to financial income. Derivative financial instruments are recorded at fair value (cost at the time of acquisition) and subsequently adjusted to fair values. Financial assets designated at fair value from inception are those that are managed and their performance is evaluated on a fair value basis, in accordance with a documented investment strategy. With the exception of derivative financial instruments that meet the requirements of a “cash flow hedge” or a “net investment hedge,” all adjustments are charged or credited to financial income. Derivative financial assets are classified as current assets or in case maturity is later than twelve months from the balance sheet date as non-current assets.

b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

c) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in the current assets, unless the maturity is greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the balance sheet.

d) Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable payment terms and fixed maturities are classified as held-to-maturity when there is the positive intention and ability to hold to maturity. After initial recognition held-to-maturity investments are measured at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the investments are derecognized or impaired, as well as through the amortization process.

Purchases and disposals of financial assets are recognized on the trade date. The corporation assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the income statement. Financial assets are derecognized when the right to receive cash flows from the investments has expired or has been transferred and the corporation has transferred all substantial risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity financial assets are carried at amortized cost using the effective interest method. Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss are presented in the income statement line “Other financial income” in the period they arise. Dividend income from financial assets at fair value through profit or loss is recognized in the income statement as part of financial income.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analyzed between translation differences resulting from changes in amortized cost and other changes in the carrying amount. The translation differences on monetary items are recorded in the income statement, the translation differences on non-monetary items are recorded in equity. Changes in the fair value of financial assets classified as available-for-sale are recorded in equity. When these assets are sold or impaired, the accumulated fair value adjustments recorded in equity are recycled and booked to the financial income.

2.10 Derivative financial instruments and hedging activities

The corporation uses derivative financial instruments, such as forward currency contracts, other forward contracts and options, to hedge its risks associated with fluctuations in foreign currencies arising from operational and financing activities. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives during the year that do not qualify for hedge accounting are taken directly into profit or loss.

Sulzer applies hedge accounting to secure future cash flows which have a high probability of occurrence. These hedges are classified as “cash flow hedges” whereas the hedge instrument is recorded on the balance sheet at fair value and the effective portions are booked against “Other comprehensive income” in the column “Cash flow hedge reserve.” If the hedge relates to a non-financial transaction which will subsequently be recorded on the balance sheet, the adjustments accumulated under “Other comprehensive income” at that time will be included in the initial book value of the asset or liability. In all other cases the cumulative changes of fair value of the hedging instrument that have been recorded in other comprehensive income are included as a charge or credit to income when the forecasted transaction is recognized or when hedge accounting is discontinued as the criteria are no longer met. In general, the fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date.

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion on the hedge is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the income statement. Gains and losses accumulated in equity are included in the income statement when the foreign operation is partially disposed or sold.

The corporation documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The corporation also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

2.11 Inventories

Raw materials, supplies, and consumables are stated at the lower of cost or net realizable value. Finished products and work in progress are stated at the lower of production cost or net realizable value. Production cost includes the costs of materials, direct and indirect manufacturing costs, and contract-related costs of construction. Inventories are valued by reference to weighted average costs. Provisions are made for slow-moving and excess inventories.

2.12 Trade receivables

Trade and other accounts receivable are stated at nominal value less provision for impairments. The respective value corresponds approximately to the amortized cost. A provision for impairment of trade receivables is established when there is objective evidence that the corporation will not be able to collect all the amounts due according to the original payment terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. Receivables are subject to regular review and adequate impairment is considered. The amount of the impairment provision is the difference between the carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. An impairment charge is booked within selling and marketing expenses in the income statement and the carrying amount of the trade receivable is deducted through an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Any subsequent recoveries of amounts previously written off are credited against selling and marketing costs in the income statement.

2.13 Cash and cash equivalents

Cash and cash equivalents comprises bills, postal giros, and bank accounts, together with other short-term highly liquid investments. Bank overdrafts are reported within borrowings in the current liabilities.

2.14 Share capital

Ordinary shares are classified as equity. Costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.When share capital is repurchased, the amount of the consideration paid, which includes directly attributable cost, is net of any tax effects and is recognized as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity and the resulting surplus or deficit on the transaction is transferred to/from retained earnings.

2.15 Trade payables

Trade payables and other payables are stated at face value. The respective value corresponds approximately to the amortized cost.

2.16 Borrowings

Financial debt is stated at fair value when initially recognized, after recognition of transaction costs. In subsequent periods, it is valued at amortized cost. Any difference between the amount borrowed (after deduction of transaction costs) and the repayment amount is reported in the income statement over the duration of the loan using the effective interest method. Borrowings are classified as current liabilities unless the corporation has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.17 Current and deferred income taxes

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the corporation's subsidiaries and associates operate and generate taxable income. The management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. The liability method is used to provide deferred taxes on all temporary differences between the tax base of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred taxes are valued by applying tax rates (and regulations) substantially enacted on the balance sheet date or any that have essentially been legally approved and are expected to apply at the time when the deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax assets are applied to the extent that it is probable that a taxable profit will be available against which the temporary difference can be applied. Deferred tax liabilities arising as a result of temporary differences relating to investments in subsidiaries and associated companies are applied unless the corporation can control when temporary differences are reversed and it is unlikely that they will be reversed in the foreseeable future.

2.18 Employee benefits

a) Defined benefit plans

The corporation's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually for all material plans by a qualified actuary using the projected unit credit method. Smaller plans are rolled forward and recalculated on a three-year basis. When the calculation results in a potential asset for the corporation, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets and the effect of the asset ceiling, are recognized immediately in OCI. The corporation determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expenses and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The corporation recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

b) Defined contribution plans
Defined contribution plans are defined to be pure savings plans, under which the employer makes certain contributions into a separate legal entity (fund) and does not have a legal or an extendible (constructive) liability to contribute any additional amounts in the event this entity does not have enough funds to pay out benefits. A "constructive" commitment exists when it can be assumed that the employer will voluntarily make additional contributions in order not to endanger the relationship with its employees. Company contributions to such plans are considered in the income statement as personnel expenses.

c) Other employee benefits
Some subsidiaries provide other post-employment benefits to their employees. Short-term benefits are payable within 12 months after the end of the period in which the employees render the related employee service. In the case of liabilities of a long-term nature, the discounting effects and employee turnover are to be taken into consideration. Provisions for other post-employment employee benefits are reported as long-term provisions in the category "Other employee benefits."

In case of termination benefits (e.g. contributions on early retirement) the calculation of the provision is similar to the calculation for post-employment benefits. Obligations to employees arising from restructuring measures are included under the category "Restructuring provisions."

d) Share-based compensation
Sulzer operates equity-settled and cash-settled share-based compensation plans. For the equity-settled share-based compensation plan, the fair value of the employee service received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (e.g. profitability and sales growth targets). At each balance sheet date, the entity reassesses its estimates of the number of options that are expected to be exercised. It recognizes the impact of the reassessment of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the options is exercised. For cash-settled share-based payments, a liability equal to the proportion of the goods or service received is recognized at the current fair value determined at each balance sheet date.

2.19 Provisions
Provisions for environmental restoration, restructuring cost, and legal claims are recognized when: the corporation has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognized for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligation as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pretax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as interest expense.

2.20 Revenue recognition
Revenue comprises the fair value of the consideration received or receivable for the sale of goods and rendering of services in the ordinary course of the corporation's activities. Revenue is shown net of value added tax, returns, rebates, and discounts and after eliminating sales within the corporation. The corporation recognizes revenue when the amount of revenue can be reliably measured, when it is probable that future economic benefits will flow to the entity, and when specific criteria have been met.

a) Sale of goods/products
Revenue from the sale of goods/products derives in the ordinary course of business. Goods and products are described as ordinary when they are part of the official product range of the organization. Goods and products are those items produced/engineered and/or purchased for resale. This includes standard products (off the rack) as well as (pre-) engineered or tailor-made products.

Revenue from the sale of goods is recognized when all of the conditions stated below are fulfilled. The return rights of products and goods are also considered. The conditions for the recognition of revenue from sale of goods and products are as follows:

- it is probable that any future economic benefit associated with the revenue will flow to the entity,
- the revenue can be measured reliably,
- the cost incurred or to be incurred can be measured reliably,
- the entity (seller) has transferred significant risks and rewards of ownership to the buyer, and
- the entity (seller) has retained neither continuing managerial involvement nor effective control over the goods.

Revenue is recognized only when it is probable that it is collectible and measurable. Revenue can only be collectible when there is a binding sales agreement. Once revenue is recognized, any subsequent uncertainty about the collectability of the revenue is recognized as an expense/adjustment to the amount receivable rather than as an adjustment to revenue.

b) Rendering of services
The rendering of services involves an entity performing an agreed task for a customer. This service may involve asset maintenance; professional services; and the construction, development, or customization of assets. Service contracts may be single-element, in which the entity renders one type of service, or multiple-element contracts that provide for the delivery of more than one service, or may include the delivery of goods as well as services. Services are often performed within the reporting period. The percentage of completion basis is applicable to such services, but the stage of completion increases from 0% to 100% within one accounting period.

Services that are provided over a period beyond the reporting period involve estimates. Revenue is then recognized according to the stage, or percentage, of completion of the contract. The method used to determine the stage of completion will depend on the nature of the contract. A consistent approach is taken to the revenue recognition of similar contracts.

Revenue from rendering of services is recognized by reference to the stage of completion of the transaction when the following conditions are cumulatively met:

- the amount of revenue can be measured reliably,
- the flow of economic benefits to the entity is probable,
- the state of completion at the period end can be measured reliably, and
- the cost incurred to date and the cost to completion can be measured reliably.

c) Percentage of completion method
Major long-term customer orders are reported using the percentage of completion method (PoC), based on the percentage of costs to date compared with the total estimated contract costs, contractual milestones, or performance. The income statement contains a share of sales, including an estimated share of profit, while the balance sheet includes the corresponding trade accounts receivable after adjustment for advance payments received. When it appears probable that the total costs of an order will exceed the expected income, the total amount of expected loss is recognized immediately in the income statement.

d) Other revenue
Revenue from the use of entity assets by third parties yielding interest, royalties, and dividends in the form of:
- interest charges for the use of cash or cash equivalents or amounts due to the entity,
- royalty charges for the use of long-term assets (e.g. patents, trademarks, copyrights, and computer software), and
- dividend distribution of profits to holders of equity investments in proportion to their holdings of a particular class of capital.

Interest is recognized using the effective interest method. Royalties are recognized on an accrual basis in accordance with the substance of the relevant agreement. Dividends are recognized when the shareholder's right to receive payment is established.

2.21 Assets and disposal groups held for sale
A non-current asset or a group of assets is classified as "held for sale" (IFRS 5) if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the management must be committed to sell the assets, the assets must be actively marketed for sale, and the sale is expected to be completed within one year. A non-current asset or a group of assets classified as "held for sale" shall be measured at the lower of its carrying amount or fair value less selling cost.

2.22 Dividend distribution
Dividend distribution to the shareholders of Sulzer Ltd is resolved upon decision of the general assembly and will be paid in the same reporting period.

3 Financial risk management
3.1 Financial risk factors
The corporation's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk, and price risk), credit risk, and liquidity risk. The corporation's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the corporation's financial performance. The corporation uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by a central treasury department (Corporate Treasury). Corporate Treasury identifies, evaluates, and hedges financial risks in close cooperation with the corporation's affiliated companies. Principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity exist in writing.

a) Market risk
(i) Foreign exchange risk
The corporation operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency that is not the entity's functional currency. Management has set up a policy to require affiliated companies to manage their foreign exchange risk against their functional currency. The affiliated companies are required to hedge their major foreign exchange risk exposure using forward contracts or other standard instruments, usually transacted with Corporate Treasury.

For segment reporting purposes, each affiliated company designates contracts with Corporate Treasury as fair value hedges or cash flow hedges, as appropriate. Presently, most of the contracts are designated as cash flow hedges. External foreign exchange contracts are designated at the corporate level as hedges of foreign exchange risk on specific assets, liabilities, or future transactions on a gross basis. The corporation has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. If required, currency exposure arising from the net assets of the corporation's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

The following tables show the hypothetical influence on the income statement for 2013 and 2012 related to foreign exchange risk. The volatility used for the calculation is the one-year historic volatility on December 31 for the relevant currency pair and year. For 2013, the only currency pairs with significant inherent risk were the USD versus the MXN as well as the USD versus the BRL.

2013 in income statement

millions of CHF Currency pair	USD/MXN	USD/BRL
Exposure	4.1	–2.5
Volatility	10.9%	13.1%
Effect on profit after tax (rate increase)	0.3	–0.2
Effect on profit after tax (rate decrease)	–0.3	0.2

2012 in income statement

millions of CHF Currency pair	EUR/CNY	EUR/SEK
Exposure	–4.7	–5.4
Volatility	8.4%	6.8%
Effect on profit after tax (rate increase)	–0.3	–0.3
Effect on profit after tax (rate decrease)	0.3	0.3

If, on December 31, 2013, the USD had increased by 10.9% against the MXN with all other variables held constant, profit after tax for the year would have been CHF 0.3 million higher mainly due to foreign exchange gains on USD-denominated assets. A decrease of the rate would have caused a loss of the same amount.

The following tables show the hypothetical influence on equity for 2013 and 2012 related to foreign exchange risk of the most important currency pairs as at December 31 of the respective year. The volatility used for the calculation is the one-year historic volatility on December 31 for the relevant currency pair and year. Most of the hypothetical effect on equity is a result of fair value changes of derivative financial instruments designated as hedges of future cash flows in foreign currencies.

2013 in equity

millions of CHF

Currency pair	GBP/USD	USD/BRL	USD/MXN	EUR/CHF	EUR/INR	USD/CHF	EUR/USD
Exposure	69.3	–32.6	–31.4	–37.1	–11.6	–15.6	6.9
Volatility	7.6%	13.1%	10.9%	4.5%	13.2%	8.6%	7.4%
Effect on equity, net of taxes (rate increase)	3.9	–3.1	–2.5	–1.2	–1.1	–1.0	0.4
Effect on equity, net of taxes (rate decrease)	–3.9	3.1	2.5	1.2	1.1	1.0	–0.4

2012 in equity

millions of CHF

Currency pair	GBP/USD	USD/MXN	USD/BRL	USD/CHF	EUR/INR	EUR/CHF	EUR/GBP
Exposure	67.4	–18.4	–17.6	–19.4	–12.8	–46.1	–9.8
Volatility	6.2%	10.7%	11.0%	8.1%	9.6%	1.7%	5.9%
Effect on equity, net of taxes (rate increase)	3.1	–1.5	–1.4	–1.2	–0.9	–0.6	–0.4
Effect on equity, net of taxes (rate decrease)	–3.1	1.5	1.4	1.2	0.9	0.6	0.4

(ii) Price risk

As per December 31, 2013 the corporation was not exposed to price risk related to investments in equity securities either classified as “available-for-sale” or at “fair value through profit or loss.”

(iii) Interest rate sensitivity

The corporation’s interest rate risk arises from interest-bearing assets and liabilities. Assets and liabilities at variable rates expose the corporation to cash flow interest rate risk. Assets and liabilities at fixed rates expose the corporation to fair value interest rate risk. The corporation analyzes its interest rate exposure on a net basis. The following table shows the hypothetical influence on the income statement for variable-interest-bearing assets net of liabilities at variable interest rates, assuming market interest rate levels would have increased/decreased by 100 basis points. For the most significant currencies CHF, USD, CNY, BRL and INR, increasing interest rates would have a positive impact on the income statement, since the value of variable-interest-bearing assets (comprising mainly cash and cash equivalents) would exceed the value of variable- interest-bearing liabilities.

millions of CHF	2013			
Variable-interest-bearing assets (net)	Amount	Sensitivity in basis points	Impact on post-tax profit rate increase	rate decrease
CHF	**215.0**	**100**	**1.6**	**–**
USD	**98.2**	**100**	**0.7**	**–0.1**
CNY	**43.2**	**100**	**0.3**	**–0.1**
BRL	**43.0**	**100**	**0.3**	**–0.3**
INR	**14.3**	**100**	**0.1**	**–0.1**

millions of CHF	2012			
Variable-interest-bearing assets (net)	Amount	Sensitivity in basis points	Impact on post-tax profit rate increase	rate decrease
CHF	137.6	100	1.0	–
USD	75.7	100	0.6	–0.2
EUR	73.2	100	0.5	–
CNY	36.7	100	0.3	–0.1
BRL	26.4	100	0.2	–0.2

On December 31, 2013, if the interest rates on CHF-denominated assets net of liabilities had been 100 basis points higher with all other variables held constant, post-tax profit for the year would have been CHF 1.6 million higher (2012: CHF 1.0 million higher), mainly as a result of higher interest income on cash and cash equivalents. A decrease of interest rates on CHF-denominated assets net of liabilities would have had no impact on post-tax profit of 2013 and 2012.

b) Credit risk

Credit risk is managed on a corporation-wide basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions. For banks and financial institutions, generally only independently rated parties with a strong credit rating are accepted, and the total volume of transactions is split among several banks to reduce the individual risk with one bank.

For every wholesale customer with a large order volume, an individual risk assessment to credit the quality of the customer is performed that consider independent ratings, financial position, past experience, and other factors. Additionally, bank guarantees and letters of credit are requested. For more details on the credit risk out of trade accounts receivable, please refer to note 16.

c) Liquidity risk

Prudent liquidity risk management includes the maintenance of sufficient cash and marketable securities, the availability of funding from an adequate number of committed credit facilities, and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Corporate Treasury maintains flexibility in funding through a committed credit line. Management monitors forecast figures of the corporation's liquidity reserve on the basis of expected cash flow. In 2012, a syndicated credit line of CHF 500 million with a maturity date of 2017 was established to furthermore provide financial flexibility in the short run. If special needs arise, financing will be reviewed case by case.

The following table analyzes the corporation's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows calculated with the year-end closing rates. Borrowings include the notional amount as well as interest payments.

millions of CHF	2013					2012				
	<1 year	1–2 years	2–5 years	>5 years	**Total**	<1 year	1–2 years	2–5 years	>5 years	Total
Borrowings	70.7	29.5	507.3	1.0	**608.5**	91.3	20.6	552.5	15.5	679.9
Trade accounts payable	345.6	–	–	–	**345.6**	419.9	–	–	–	419.9
Other liabilities	66.6	0.3	0.3	1.3	**68.5**	94.3	0.4	0.3	–	95.0

The following table analyzes the corporation's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows calculated with the year-end closing rates. With every forward exchange contract the corporation is obliged to pay an amount; however, it also receives the equivalent amount in a different currency. In case of options, only sold options are considered, as only these positions may generate a payment liability.

millions of CHF	2013				
	<1 year	1–2 years	2–5 years	>5 years	**Total**
Forward exchange contracts					
– outflow	–1 194.8	–20.0	–	–	**–1 214.8**
– inflow	1 194.8	20.0	–	–	**1 214.8**
Other derivative instruments					
– outflow	–0.7	–	–	–	**–0.7**
– inflow	–	–	–	–	**–**

millions of CHF	2012				
	<1 year	1–2 years	2–5 years	>5 years	Total
Forward exchange contracts					
– outflow	–1 195.3	–28.1	–	–	–1 223.4
– inflow	1 195.3	28.1	–	–	1 223.4
Other derivative instruments					
– outflow	–21.1	–	–	–	–21.1
– inflow	33.2	–	–	–	33.2

3.2 Capital risk management

The corporation's objectives when managing capital are to safeguard the corporation's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In this respect the corporation aims at maintaining an investment grade credit rating, either as a perceived rating or an external rating issued by a rating agency.

In order to maintain or adjust the capital structure, the corporation may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

As do others in the same industry, the corporation monitors capital on the basis of the gearing ratio. This ratio is calculated as total financial debt divided by equity attributable to shareholders of Sulzer Ltd (debt-to-equity ratio). The equity capital as shown in the balance sheet corresponds to the managed equity capital.

The decrease in the gearing ratio during 2013 resulted from a decrease in financial debt as well as an increase in equity.

The gearing ratio as at December 31, 2013 and 2012, was as follows:

millions of CHF	**2013**	2012
Borrowings	**572.5**	609.0
Equity attributable to shareholders of Sulzer Ltd	**2 334.4**	2 216.6
Borrowings-to-equity ratio (gearing)	**0.25**	0.27

3.3 Fair value estimation

The following table presents the carrying amounts and fair values of financial assets and liabilities as at December 31, 2013, including their levels in the fair value hierarchy. For financial assets and financial liabilities not measured at fair value in the balance sheet, fair value information is not provided if the carrying amount is a reasonable approximation of fair value.

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities, or the outstanding bond) is based on quoted market prices at the balance sheet date. Such instruments (if any) are included in level 1.

The fair value of financial instruments that are not traded in an active market (e.g. over-the-counter derivatives) is determined by using valuation techniques. Forward exchange and other forward contracts are valued using a market comparison technique: the fair values are based on quoted or otherwise observable prices for similar instruments at the balance sheet date. Forward exchange and other forward contracts are included in level 2.

Contingent considerations (Level 3) are linked on the fulfillment of certain parameters, mainly related to technology transfer and retention of key personnel. The corporation considered the maximum amount and assumes the fulfillment of the defined clauses.

millions of CHF	Notes	Carrying amount	**Fair value**	Level 1	Level 2	Level 3
Financial assets measured at fair value						
Derivative assets	26	11.9	**11.9**	–	11.9	–
Total financial assets measured at fair value		11.9	**11.9**	–	11.9	–
Financial assets not measured at fair value						
Loans and receivables	13	6.6				
Available-for-sale financial assets	13	4.5				
Non-current receivables (excluding derivative assets)		13.4				
Trade accounts receivables	16	877.5				
Other accounts receivables (excluding derivative assets)	17	129.6				
Cash and cash equivalents	18	528.7				
Total financial assets not measured at fair value		1 560.3	**–**	–	–	–
Financial liabilities measured at fair value						
Derivative liabilities	25, 26	5.4	**5.4**	–	5.4	–
Contingent considerations		2.3	**2.3**			2.3
Total financial liabilities measured at fair value		7.7	**7.7**	–	5.4	2.3
Financial liabilities not measured at fair value						
Outstanding bond	23	498.1	**519.2**	519.2	–	–
Bank loans and other borrowings	23	74.4				
Trade accounts payable		345.6				
Total financial liabilities not measured at fair value		918.1	**519.2**	519.2	–	–

The following table presents the carrying amounts and fair values of financial assets and liabilities as at December 31, 2012.

millions of CHF	Notes	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets measured at fair value						
Financial assets at fair value through profit or loss	19	5.8	5.8	1.3	4.5	–
Derivative assets	26	9.1	9.1	–	9.1	–
Total financial assets measured at fair value		14.9	14.9	1.3	13.6	–
Financial assets not measured at fair value						
Loans and receivables	13	8.6				
Available-for-sale financial assets	13	–				
Non-current receivables (excluding derivative assets)		13.4				
Trade accounts receivables	16	1 012.1				
Other accounts receivables (excluding derivative assets)	17	121.5				
Cash and cash equivalents	18	507.3				
Total financial assets not measured at fair value		1 662.9	–	–	–	–
Financial liabilities measured at fair value						
Derivative liabilities	25, 26	4.2	4.2	–	4.2	–
Contingent considerations		3.4	3.4			3.4
Total financial liabilities measured at fair value		7.6	7.6	–	4.2	3.4
Financial liabilities not measured at fair value						
Outstanding bond	23	497.4	522.1	522.1	–	–
Bank loans and other borrowings	23	111.6				
Trade accounts payable		419.9				
Notes payable	25	2.1				
Total financial liabilities not measured at fair value		1 031.0	522.1	522.1	–	–

The vast majority of the corporation's contingent considerations represents retention bonuses for key management personnel. The corporation considers the full amount as long as key management personnel's employment is ongoing.

Contingent consideration

millions of CHF	2013	2012
Balance as of January 1	**3.4**	4.7
Assumed in a business combination	**1.8**	1.4
Transfer to liabilities held for sale	**–1.0**	–
Release to other operating income	**–0.9**	–
Payment of contingent consideration	**–1.0**	–2.7
Total contingent consideration as of December 31	**2.3**	3.4

4 Critical accounting estimates and judgments

All estimates and assessments are continually reviewed and are based on historical experience and other factors, including expectations regarding future events that appear reasonable under the given circumstances. The corporation makes estimates and assumptions that relate to the future. By their nature, these estimates will only rarely correspond to actual subsequent events. The estimates and assumptions that carry a significant risk, in the form of a substantial adjustment to the present values of assets and liabilities within the next financial year, are set out below.

a) Goodwill

Goodwill amounted as per December 31, 2013 to CHF 978.4 million. In accordance with the accounting policies set forth in section 2.6 “Intangible assets,” the corporation carries out an annual impairment test on goodwill in the fourth quarter of the year, or when indications of a potential impairment exist. The recoverable amount from cash-generating units is measured on the basis of value-in-use calculations influenced materially by the terminal growth rate, the discount rate, and the projected cash flows. Information about assumptions and estimation uncertainties that have significant risk of resulting in a material adjustment in the year ending December 31, 2014 are disclosed in note 11.

b) Income taxes

The corporation is obliged to pay income taxes in numerous jurisdictions. Significant assumptions are required in order to determine global tax provisions. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of the business.

c) Provisions

The provisions for warranties/liabilities include significant amounts to cover pending items in connection with liabilities and disagreements with the buyer of the locomotive business. The assessment of the related risks is, in view of the complex character of the contracts involved and their partially long-term nature, difficult.

d) Revenue recognition

The corporation uses the percentage of completion method (PoC) in accounting for major long-term contracts. The use of the PoC method requires the corporation to estimate the proportional revenue and costs. If circumstances arise that may change the original estimates of revenues, costs, or extent of progress toward completion, estimates are revised. These revisions may result in increases or decreases in estimated revenues or costs and are reflected in income in the period in which the circumstances that give rise to the revision become known by management. Revenue from the application of the PoC method amounted as per December 31, 2013 CHF 446.7 million (see note 15).

e) Employee benefit plans

The present value of the pension obligation and the plan assets depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Assumptions used in determining the defined benefit obligation and the plan assets include the discount rate, the expected rate of return on plan assets, and the participation of Sulzer in the pension plans. The assumptions are reviewed and reassessed at the end of each year based on observable market data, i.e. interest rate of high-quality corporate bonds denominated in the corresponding currency and asset management studies. The participation of Sulzer in the pension plans covers the active employees and the retirees related to Sulzer.

Notes to the consolidated financial statements

01 Significant changes in the scope of consolidation

All current figures related to business combinations in the reporting period are of temporary nature only as they can change during the measurement period. If the estimates need to be revised, the allocation of the cost of the business combination shall be adjusted accordingly.

Significant changes in 2013

Krøger A/S

On February 5, 2013, Sulzer acquired Krøger A/S, a leading manufacturer of dispensers in Greve, Denmark. Krøger A/S achieved sales of approximately CHF 9.0 million in 2012 with 34 employees. The acquisition expands the product portfolio of the business unit Sulzer Mixpac Systems. Transaction costs recognized in general and administrative expenses amounted to CHF 0.4 million. The goodwill is attributable to synergies from combined solutions and shared services. For the year 2013, order intake came to CHF 7.9 million, sales amounted to CHF 7.7 million, and operating income totaled CHF 0.1 million.

Acquired net assets of Krøger A/S

millions of CHF	Fair value
Intangible assets	12.3
Property, plant, and equipment	0.7
Inventories	2.2
Trade accounts receivable	1.3
Other current assets	0.1
Liabilities with third parties	–7.8
Identified acquired net assets	8.8
Purchase price (total consideration)	17.8
Contingent consideration	0.3
Goodwill	9.3

Tartek Oy

On October 31, 2013, Sulzer Pumps acquired Tartek Oy, a family owned company established in 1978, located in Rauma, Finland. Tartek Oy is a specialist in development, manufacture, repair and maintenance of high-quality mechanical seals. With this acquisition, Sulzer Pumps further expands its technology portfolio to provide extended seal offerings to customers in the pulp and paper, power, and water industries. The goodwill is attributable to synergies from additional and combined solutions. For the year 2013, the order intake and sales totaled CHF 0.1 million, operating income CHF 0.0 million.

Acquired net assets of Tartek Oy

millions of CHF	Fair value
Property, plant, and equipment	0.2
Current assets	0.1
Liabilities with third parties	–0.1
Identified acquired net assets	0.2
Purchase price paid in cash	4.7
Contingent consideration	1.5
Goodwill	6.0

Other

Sulzer Metco acquired 60% of Zigong Golden China Specialty Carbides, China, for a purchase price of CHF 0.3 million. The contribution of this acquisition to the consolidated financial statements of Sulzer is not material.

01 Significant changes in the scope of consolidation (continued)

Significant changes in 2012

Hidrotecar S.A.
On January 10, 2012, Sulzer Pumps acquired the privately owned pump company Hidrotecar S.A. in Burgos, Spain, for a purchase price of EUR 12.2 million (CHF 14.8 million) paid in cash. The acquired company achieved sales of CHF 7.7 million in 2012 and employs approximately 50 employees.

Acquired net assets of Hidrotecar S.A.

millions of CHF	Fair value
Intangible assets	2.9
Property, plant, and equipment	5.5
Inventories	2.8
Trade accounts receivable	4.2
Liabilities with third parties	–3.3
Identified acquired net assets	**12.1**
Purchase price (total consideration)	14.8
Goodwill	**2.7**

Thermoset Inc.
On December 26, 2012, Sulzer Metco acquired the assets of the carbon business of Thermoset Inc. in Mequon, Wisconsin, USA, for a total consideration of USD 21.5 million (CHF 19.6 million) paid in cash. Transaction costs recognized in general and administrative expenses amounted to CHF 0.2 million. For the year 2013, the order intake totaled CHF 17.2 million, sales amounted to CHF 17.2 million, and the operating income totaled CHF 2.0 million.

Acquired net assets of Thermoset Inc.

millions of CHF	Fair value
Intangible assets	6.9
Property, plant, and equipment	0.4
Inventories	0.9
Identified acquired net assets	**8.2**
Purchase price (total consideration)	19.6
Goodwill	**11.4**

No changes to the provisional purchase price allocation disclosed in the Sulzer Annual Report 2012 had to be considered.

Cash flow from acquisitions

millions of CHF	2013	2012
Non-current assets	–13.5	–17.3
Inventories	–2.2	–4.0
Other current assets	–2.1	–4.2
Liabilities	7.8	3.3
Identified acquired net assets	**–10.0**	**–22.2**
Cash acquired	0.7	–
Subtotal	**–9.3**	**–22.2**
Goodwill	–15.3	–16.0
Purchase price to be paid in future periods	1.8	2.0
Payments of purchase price relating to prior periods	–1.0	–2.4
Total cash flow from acquisitions	**–23.8**	**–38.6**

02 Discontinued operations

Sulzer Metco, with half of its sales in the automotive and aviation industries and about one-third in general industries, has a clear focus outside Sulzer's three key markets. On January 30, 2014, Sulzer has signed an agreement with Oerlikon for the divestment of its Sulzer Metco division. As a consequence, Sulzer Metco is presented as discontinued operations and the assets and liabilities are classified as held for sale. The comparative consolidated income statement and statement of comprehensive income have been restated to show discontinued operation separately from continuing operations.

Income statement from discontinued operations

millions of CHF	2013	2012
Sales	**698.0**	680.9
Expenses	**–616.4**	–600.8
Operating income	**81.6**	80.1
Financial result	**–1.3**	–1.4
Income tax expenses	**–20.4**	–20.2
Net income from discontinued operations	**59.9**	58.5
Attributable to shareholders of Sulzer Ltd	**59.9**	58.5
Attributable to non-controlling interests	**–**	–

Cash flows from discontinued operations

millions of CHF	2013	2012
Total cash flow from operating activities	**67.6**	65.6
Total cash flow from investing activities	**–27.2**	–55.9
Total cash flow from financing activities	**–22.7**	–9.3

02 Discontinued operations (continued)

Balance sheet of discontinued operations

millions of CHF	2013
Intangible assets	133.5
Property, plant, and equipment	146.0
Investments in associates	2.9
Other financial assets	0.1
Non-current receivables	15.4
Deferred income tax assets	11.8
Inventories	117.7
Advance payments to suppliers	3.0
Trade accounts receivable	101.4
Other accounts receivable and prepaid expenses	15.9
Cash and cash equivalents	21.2
Assets classified as held for sale	**568.9**
Long-term borrowings	13.5
Deferred income tax liabilities	3.9
Non-current provisions	29.0
Short-term borrowings	0.1
Current income tax liabilities	12.7
Current provisions	6.5
Trade accounts payable	36.3
Advance payments from customers	9.0
Other current and accrued liabilities	46.7
Liabilities classified as held for sale	**157.7**

03 Major currency exchange rates

CHF	2013		2012	
	Average rate	Year-end rate	Average rate	Year-end rate
1 EUR	1.23	1.23	1.21	1.21
1 GBP	1.45	1.47	1.49	1.48
1 USD	0.93	0.89	0.94	0.92
1 BRL	0.43	0.38	0.48	0.45
1 CAD	0.90	0.84	0.94	0.92
100 CNY	15.08	14.70	14.86	14.69
100 INR	1.59	1.44	1.76	1.67
100 MXN	7.27	6.81	7.13	7.05
100 SEK	14.23	13.86	13.85	14.06
1 SGD	0.74	0.70	0.75	0.75
100 ZAR	9.64	8.49	11.45	10.78

04 Segment information

millions of CHF		Sulzer Pumps		Sulzer Turbo Services		Sulzer Chemtech		Total Divisions	
		2013	2012	2013	2012	2013	2012	2013	2012
Order intake (unaudited)		2031.3	2094.3	471.7	535.2	749.9	705.1	3252.9	3334.6
Nominal growth (unaudited)		–3.0%	22.8%	–11.9%	12.1%	6.4%	0.5%	–2.5%	n/a
Adjusted growth (unaudited)[1]		–1.1%	7.1%	–9.5%	8.4%	4.9%	–4.1%	–1.1%	n/a
Order backlog (unaudited)		1235.0	1309.1	146.8	151.6	290.5	293.6	1672.3	1754.3
Sales		2051.3	2097.5	471.6	510.5	743.7	724.6	3266.6	3332.6
Nominal growth		–2.2%	20.0%	–7.6%	4.6%	2.6%	8.6%	–2.0%	n/a
Adjusted growth (unaudited)[1]		–0.4%	5.9%	–5.2%	0.8%	1.3%	4.0%	–0.7%	n/a
Research and development expenses		34.8	31.8	–	–	35.8	33.2	70.6	65.0
Operating income before depreciation/amortization	EBITDA	224.9	245.9	55.7	71.6	120.5	105.5	401.1	423.0
Depreciation/amortization		–55.8	–54.7	–16.5	–16.7	–39.1	–34.8	–111.4	–106.2
Operating income before restructuring	EBITR	178.6	199.3	40.5	54.9	81.3	70.5	300.4	324.7
Restructuring expenses		–9.5	–8.1	–1.3	–	0.1	0.2	–10.7	–7.9
Operating income	EBIT	169.1	191.2	39.2	54.9	81.4	70.7	289.7	316.8
Return on sales (EBIT/sales)	ROS	8.2%	9.1%	8.3%	10.8%	11.0%	9.8%	8.9%	9.5%
Return on sales before restructuring (EBITR/sales)	ROSR	8.7%	9.5%	8.6%	10.8%	10.9%	9.7%	9.2%	9.7%
Return on capital employed (EBIT in % of average capital employed)	ROCE	12.1%	13.1%	11.1%	14.8%	19.7%	16.3%	13.4%	14.0%
Operating assets		2199.7	2257.7	488.0	510.6	606.8	626.6	3294.5	3394.9
Unallocated assets		–	–	–	–	–	–	–	–
Total assets as of December 31		2199.7	2257.7	488.0	510.6	606.8	626.6	3294.5	3394.9
Operating liabilities		808.3	860.7	143.6	140.1	230.3	209.8	1182.2	1210.6
Unallocated liabilities		–	–	–	–	–	–	–	–
Total liabilities as of December 31		808.3	860.7	143.6	140.1	230.3	209.8	1182.2	1210.6
Operating net assets		1391.4	1397.0	344.4	370.5	376.5	416.8	2112.3	2184.3
Unallocated net assets		–	–	–	–	–	–	–	–
Total net assets as of December 31		1391.4	1397.0	344.4	370.5	376.5	416.8	2112.3	2184.3
Capital expenditure		37.7	39.7	13.4	13.1	23.3	30.0	74.4	82.8
Employees (number of full-time equivalents) as of December 31		8496	8573	2537	2703	4167	4086	15200	15362

[1] Adjusted for currency effects as well as acquisitions and divestitures.

There are no significant transactions across the segments.

04 Segment information (continued)

millions of CHF		Others		Total Sulzer		Sulzer Metco	
		2013	2012[2]	2013	2012[2]	2013	2012
Order intake (unaudited)		–3.0	8.8	3249.9	3343.4	716.5	689.5
Nominal growth (unaudited)		–	–	–2.8%	n/a	3.9%	2.4%
Adjusted growth (unaudited)[1]		–	–	–1.1%	n/a	1.7%	1.2%
Order backlog (unaudited)		–0.2	–0.7	1672.1	1753.6	82.8	76.5
Sales		–2.7	8.1	3263.9	3340.7	708.2	690.3
Nominal growth		–	–	–2.3%	n/a	2.6%	3.4%
Adjusted growth (unaudited)[1]		–	–	–0.7%	n/a	0.6%	2.3%
Research and development expenses		–	1.9	70.6	66.9	24.0	22.8
Operating income before depreciation/amortization	EBITDA	–22.5	14.1	378.6	437.1	97.3	91.7
Depreciation/amortization		–3.2	–2.2	–114.6	–108.4	–25.9	–23.0
Operating income before restructuring	EBITR	–19.6	11.9	280.8	336.6	72.4	67.0
Restructuring expenses		–6.1	–	–16.8	–7.9	–1.0	1.7
Operating income	EBIT	–25.7	11.9	264.0	328.7	71.4	68.7
Return on sales (EBIT/sales)	ROS	–	–	8.1%	9.8%	10.1%	10.0%
Return on sales before restructuring (EBITR/sales)	ROSR	–	–	8.6%	10.1%	10.2%	9.7%
Return on capital employed (EBIT in % of average capital employed)	ROCE	–	–	12.6%	14.7%	16.5%	17.1%
Operating assets		29.1	26.5	3323.6	3421.4	530.7	539.4
Unallocated assets (includes assets held for sale)		–	–	1220.3	1188.1	–	–
Total assets as of December 31		29.1	26.5	4543.9	4609.5	530.7	539.4
Operating liabilities		76.9	60.1	1259.1	1270.7	110.1	115.1
Unallocated liabilities (includes liabilities held for sale)		–	–	944.1	1115.4	–	–
Total liabilities as of December 31		76.9	60.1	2203.2	2386.1	110.1	115.1
Operating net assets		–47.8	–33.6	2064.5	2150.7	420.6	424.3
Unallocated net assets		–	–	276.2	72.7	–	–
Total net assets as of December 31		–47.8	–33.6	2340.7	2223.4	420.6	424.3
Capital expenditure		6.1	10.2	80.5	93.0	28.4	35.2
Employees (number of full-time equivalents) as of December 31		182	175	15382	15537	2450	2399

[1] Adjusted for currency effects as well as acquisitions and divestitures.

[2] Restatement of prior year figures, see corporate accounting policies 2.2 and note 02.

04 Segment information (continued)

by geographical region

millions of CHF	Operating assets by company location		Capital expenditure in intangible and tangible assets by company location		Sales by region	
	2013	2012[1]	**2013**	2012[2]	**2013**	2012[2]
Europe, Middle East, Africa	**2237.8**	2593.1	**49.7**	47.4	**1402.4**	1421.2
– thereof Switzerland	**325.2**	392.0	**21.7**	29.3	**41.7**	45.7
– thereof Germany	**123.7**	224.3	**3.9**	2.5	**168.7**	172.5
– thereof United Kingdom	**368.7**	367.0	**5.5**	3.5	**227.1**	258.9
Americas	**648.1**	836.2	**17.6**	20.6	**1130.0**	1145.5
– thereof USA	**432.3**	544.4	**10.7**	13.5	**699.8**	675.7
– thereof Brazil	**123.6**	156.8	**4.6**	3.2	**144.4**	176.1
Asia-Pacific	**437.7**	531.5	**13.2**	25.0	**731.5**	774.0
– thereof China	**273.0**	311.8	**7.0**	18.6	**355.5**	349.9
– thereof India	**61.0**	73.3	**2.2**	2.8	**42.5**	65.7
Total	**3323.6**	3960.8	**80.5**	93.0	**3263.9**	3340.7

[1] Includes discontinued operations.

[2] Restated, includes only continuing operations.

Sales of divisions by region (as percentage)

	Europe, Middle East, Africa		Americas		Asia-Pacific	
	2013	2012	**2013**	2012	**2013**	2012
Sulzer Pumps	**45.4%**	45.4%	**35.5%**	34.3%	**19.1%**	20.3%
Sulzer Turbo Services	**40.9%**	39.4%	**42.9%**	44.0%	**16.2%**	16.6%
Sulzer Chemtech	**37.4%**	35.6%	**27.1%**	28.0%	**35.5%**	36.4%

05 Personnel expenses

millions of CHF	**2013**	2012[1]
Salaries and wages	**838.6**	821.9
Employee defined contribution plans	**24.1**	23.0
Employee defined benefit plans	**18.4**	17.6
Cost of share-based payments	**8.4**	10.3
Other personnel costs	**157.9**	147.0
Total personnel expenses	**1047.4**	1019.8

[1] Restatement of prior year figures, see corporate accounting policies 2.2 and note 02.

Personnel expenses increased by CHF 27.6 million from the previous year as a consequence of the acquisitions as well as higher other personnel costs.

06 Employee benefit plans

The defined benefit obligation for the active members of pension plans is the present value of accrued pension obligations at balance sheet date considering future salary and pension increases as well as turnover rates (using the Project Unit Credit Method). The defined benefit obligation for the retirees is the present value of the ongoing pension considering future pension increases.

millions of CHF	2013						2012[1)]
	Funded plans Switzerland	Funded plans United Kingdom	Funded plans USA	Funded plans Others	Unfunded plans	**Total**	Total
Reconciliation of the amount recognized in the balance sheet as of December 31							
Present value of funded defined benefit obligation	–1 357.0	–516.0	–45.9	–49.4	–	**–1 968.3**	–2 042.2
Fair value of plan assets	1 420.0	471.8	35.8	42.0	–	**1 969.6**	1 947.9
Overfunding (+) / underfunding (–)	63.0	–44.2	–10.1	–7.4	–	**1.3**	–94.3
Present value of unfunded defined benefit obligation	–	–	–	–	–66.4	**–66.4**	–63.8
Adjustment to asset ceiling	–51.5	–	–	–	–	**–51.5**	–11.9
Asset (+) / liability (–) recognized in the balance sheet	11.5	–44.2	–10.1	–7.4	–66.4	**–116.6**	–170.0
– thereof as liabilities under non-current provisions	–0.5	–44.2	–10.1	–7.7	–48.8	**–111.3**	–184.2
– thereof as prepaid expenses	12.0	–	–	0.3	–	**12.3**	14.2
– thereof as liabilities held for sale	–	–	–	–	–17.6	**–17.6**	–

1) Restatement of prior year figures, see corporate accounting policies 2.2.

Sulzer operates major funded defined benefit ("DB") pension plans in Switzerland, UK, Ireland, and the USA. Unfunded defined benefit plans refer to German defined benefit plans. The plans are exposed to actuarial risks, e.g. longevity risk, currency risk, interest rate risk and the funded plans additionally to market (investment) risk.

In Switzerland Sulzer contributes to two pension plans funded via two different pension funds, i.e. a base plan for all employees and a supplementary plan for employees with salaries exceeding a certain limit. Both plans provide benefits depending on the pension savings at retirement. They offer certain guarantees by law as minimum interest credits to the pension savings (i.e. investment return) and guaranteed rates of conversion of pension savings into an annuity at retirement. In addition the plans offer death in service and disability benefits. The pension funds are legally separated from the corporation. The vast majority of the active participants in the two pension funds are employed at businesses not belonging to the corporation. The board of trustees for the base plan comprises ten employee and ten employer representatives of the contributing businesses. Both plans are fully funded by the end of the year according to IAS 19R.

In the UK Sulzer operates two funded defined benefit plans managed as sections of the Sulzer Pension Scheme. The scheme is structured as Sulzer Pension Trustees Ltd with six Trustee Directors forming the Trustee Board. Four Trustee Directors are company nominated, one Trustee Director is Sulzer member nominated and one Trustee Director is Sulzer Dowding & Mills member nominated. Both plans are multi-employer schemes with Sulzer (UK) Holding being the sponsor. Both plans are closed to new entrants and the John Holt Defined Benefit Pension Scheme is closed for future accruals since February 2010.

In the USA, Sulzer operates non contributory defined benefit retirement plans covering substantially all of their employees. The salaried plans provide benefits that are based on years of service and the employee's compensation, averaged over the five highest consecutive years preceding retirement. The hourly plans' benefits are based on years of service and a flat dollar benefit multiplier. All plans are closed to new entrants. This led in 2013 to a negative past service cost of CHF 3.1 million.

In addition Sulzer sponsors two Irish funded defined benefit plans. During the year the following changes were made to past and future service benefits of the staff plan. First; retirement ages were extended to 66, 67 and 68 depending on year of birth; compulsory commutation of 25% of each member's benefit was introduced on retirement; and the staff defined benefit plan has been closed for new entrants in 2013 and a new defined contribution plan has been introduced. The effect of these changes amounted to CHF 5.2 million negative past service cost.

In Germany, Sulzer operates a range of different DB pension plans. The majority of these plans are unfunded and benefits are paid directly by the employer to the beneficiaries as they fall due. All DB plans are closed for new joiners and a new defined contribution plan for all employees was introduced in 2007. Existing employees who participated in the DB plans continued to be eligible for these DB pensions but became also eligible for the new DC pensions. However, the benefits under the DC plan are offset against the benefits under the DB plans. The different DB plans offer old age pension, disability pension and survivors pension benefits.

06 Employee benefit plans (continued)

millions of CHF	2013	2012[1]
Reconciliation of effect of asset ceiling		
Adjustment to asset ceiling at January 1	11.9	16.6
Interest expense/(income) on effect of asset ceiling	0.2	0.4
Change in effect of asset ceiling excl. interest expense/(income)	39.4	–5.1
Currency translation adjustment	–	–
Adjustment to asset ceiling at December 31	**51.5**	**11.9**
Reconciliation of asset (+)/liability (–) recognized in the balance sheet		
Asset (+)/liability (–) recognized at January 1	–170.0	–184.3
Defined benefit cost recognized in profit or loss	–28.9	–28.6
Defined benefit cost recognized in OCI	48.6	–2.8
Contributions by the employer/benefit paid directly by the entity	34.9	45.3
Change in scope of consolidation	–	–
Currency translation differences	–1.2	0.4
Asset (+) / liability (–) recognized at December 31	**–116.6**	**–170.0**
Components of defined benefit cost in profit or loss		
Current service cost (employer)	–30.5	–27.2
Interest cost	–55.6	–62.4
Interest income on plan assets	49.4	54.7
Past service cost	8.3	7.1
Effects of curtailments and settlement	0.1	–
Interest expense on effect of asset ceiling	–0.2	–0.4
Other administrative cost	–0.4	–0.4
Expense recognized in profit or loss	**–28.9**	**–28.6**
– thereof charged to personnel expenses	–18.4	–17.6
– thereof charged to financial income	–6.4	–7.4
– thereof charged to net income from discontinued operations	–4.1	–3.6
Components of defined benefit cost in OCI		
Actuarial gain/(loss) on defined benefit obligation	23.8	–90.4
Return on plan assets excl. interest income	64.0	82.5
Change in effect of asset ceiling excl. interest expense/income	–39.4	5.1
Return on reimbursement right excl. interest income	0.2	–
Others	–	–
Defined benefit cost recognized in OCI[2]	**48.6**	**–2.8**

[1] Restatement of prior year figures, see corporate accounting policies 2.2.

[2] The tax effect on defined benefit cost recognized in OCI amounted to CHF -11.9 million (2012: CHF 2.1 million).

06 Employee benefit plans (continued)

millions of CHF	2013	2012[1]
Reconciliation of defined benefit obligation		
Defined benefit obligation as of January 1	2106.0	2027.0
Interest cost	55.6	62.4
Current service cost (employer)	30.5	27.2
Contributions by plan participants	12.1	11.3
Past service cost	–8.3	–7.1
Benefits paid/deposited	–133.9	–112.6
Effects of curtailments and settlement	–0.4	–
Other administrative cost	0.4	0.4
Actuarial gain (–)/loss (+) on obligation	–23.8	90.5
Currency translation differences	–3.5	6.9
Defined benefit obligation as of December 31[2]	**2034.7**	**2106.0**
Reconciliation of the fair value of plan assets		
Fair value of plan assets as of January 1	1947.9	1859.4
Interest income on plan assets	49.4	54.7
Contributions by the employer/benefits paid directly by the employer[3]	34.9	45.3
Contributions by plan participants	12.1	11.3
Benefits paid/deposited	–133.9	–112.6
Effects of curtailments and settlement	–0.3	–
Return on plan assets excl. interest income	64.0	82.5
Currency translation differences	–4.5	7.3
Fair value of plan assets as of December 31	**1969.6**	**1947.9**
Total plan assets at fair value – Quoted market price		
Cash and cash equivalents	69.6	96.7
Equity instruments third parties	622.2	528.7
Equity instruments Sulzer Ltd	0.4	1.2
Debt instruments third parties	722.1	746.5
Real estate funds	44.6	41.3
Investment funds	0.2	–
Others	42.0	45.3
Total assets at fair value – Quoted market price as of December 31	**1501.1**	**1459.7**
Total plan assets at fair value – Non-quoted market price		
Properties occupied by or used by third parties (Real estate)	283.4	288.6
Others	185.1	199.6
Total assets at fair value – Non-quoted market price as of December 31	**468.5**	**488.2**
Best estimate of contributions for upcoming financial year		
Contributions by the employer/benefits paid directly by the employer[3]	31.4	30.1
Contributions by plan participants	11.8	11.9

1) Restatement of prior year figures, see corporate accounting policies 2.2.

2) The defined benefit obligation 2013 includes the funded part (CHF 1968.3 million) and the unfunded part (CHF 66.4 million).

3) Benefits paid directly by the employer mainly refer to the German plans.

06 Employee benefit plans (continued)

millions of CHF	2013	2012[1]
Components of defined benefit obligation, split (§137)		
Defined benefit obligation at December 31 for active members	406.6	
Defined benefit obligation at December 31 for pensioners	1 607.4	
Defined benefit obligation at December 31 for deferred members	20.7	
Total defined benefit obligation at December 31	2034.7	2 106.0
Components of actuarial (gain)/losses on obligations (§141 lit. c)		
Actuarial (gain)/loss arising from changes in financial assumptions	–50.5	
Actuarial (gain)/loss arising from changes in demogr. assumptions	–	
Actuarial (gain)/loss arising from experience adjustments	26.7	
Actuarial (gain)/loss on defined benefit obligation	–23.8	90.5
Components of economic benefit available (§141 lit. c)		
Economic benefits available in form of refund	0.4	–
Economic benefits available in form of reduction in future contribution	11.9	14.2
Total economic benefit available	12.3	14.2
Maturity profile of defined benefit obligation (§147 lit. c)		
Weighted average duration of defined benefit obligation in years	13.0	
Sensitivity analysis of defined benefit obligation		
Discount rate (decrease 0.25%)	2088.8	
Discount rate (increase 0.25%)	1 975.6	
Future salary growth (decrease 0.25%)	2023.9	
Future salary growth (increase 0.25%)	2038.4	
Life expectance (decrease 1 year)	1 948.3	
Life expectance (increase 1 year)	2111.7	
Principal actuarial assumptions as of December 31		
Discount rate	2.9%	2.7%
Future salary increases	1.3%	1.9%
Future pension increases	0.7%	0.7%
Expected average remaining working lives in years	9.4	9.4
Life expectance at retirement age (male/female) in years	21/25	21/25

[1] Restatement of prior year figures, see corporate accounting policies 2.2.

07 Research and development expenses

In 2013, total research and development expenses amounted to CHF 70.6 million (2012: CHF 66.9 million). A breakdown of the research and development expenses per division is shown in note 04, “Segment information.”

08 Other operating income and expenses

millions of CHF	2013	2012[1)]
Income from disposal of group companies to third party	10.0	2.6
Income from services to third parties	8.2	6.4
Operating currency exchange gains	5.2	–
Income from litigation cases	1.6	1.9
Income from negative past service costs	8.3	7.1
Other operating income	17.3	12.2
Total other operating income	**50.6**	30.2
Loss from litigation cases	–3.5	–0.9
Operating currency exchange losses	–	–1.9
Expenses from adjustments to defined benefit cost	–3.4	–2.0
Other operating expenses	–18.1	–21.1
Total other operating expenses	**–25.0**	–25.9
Total other operating income and expenses, net	**25.6**	4.3

1) Restatement of prior year figures, see corporate accounting policies 2.2 and note 02.

Total other operating income and expenses amounted to CHF 25.6 million in 2013 compared to CHF 4.3 million in the previous year. In 2013, Sulzer was able to release no longer required provisions of CHF 9.5 million, relating to the sale of Sulzer Real Estate Ltd (2012: CHF 2.6 million). Additional CHF 8.3 million (2012: CHF 7.1 million) resulted from negative past service cost related to defined benefit plans (refer to note 06).

09 Financial income and expenses

millions of CHF	2013	2012[1)]
Interest and securities income	**5.0**	4.6
Interest expenses	–16.8	–18.4
Interest on employee benefit plans	–6.4	–7.4
Interest expenses	**–23.2**	–25.8
Total interest expenses	**–18.2**	–21.2
Income from investments and other financial assets	–0.1	31.3
Fair value changes	0.9	4.1
Other financial income/expenses	0.4	–1.7
Currency exchange losses	–4.8	–11.3
Total other financial income/(expenses)	**–3.6**	22.4
Total financial income/(expenses)	**–21.8**	1.2
– thereof from financial assets held at fair value through profit or loss	0.9	4.1
– thereof from available-for-sale financial assets	–	31.0
– thereof from loans and receivables	–	0.4
– thereof from borrowings	–16.8	–18.4

1) Restatement of prior year figures, see corporate accounting policies 2.2 and note 02.

The income on interest and securities slightly increased while interest expenses decreased compared with 2012, mainly due to the reduction of borrowings. The “Fair value changes” largely comprise the fair valuation of derivative financial instruments that are classified as financial assets or financial liabilities at fair value through profit or loss and that are used as hedging instruments with regard to foreign exchange risks. The impact of the fair valuation of these derivatives partially offsets the currency exchange losses incurred during 2013.

10 Income taxes

millions of CHF	2013	2012[1]
Current income tax expenses	–77.8	–99.7
Deferred income tax expenses	11.9	19.1
Total income tax expenses continuing operations	–65.9	–80.6

[1] Restatement of prior year figures, see corporate accounting policies 2.2 and note 02.

The weighted average tax rate results from applying each subsidiary's statutory income tax rate to the income before taxes and non-controlling interest. Since the corporation operates in countries that have differing tax laws and rates, the consolidated weighted average effective tax rate will vary from year to year according to variations in income per country and changes in applicable tax rates.

millions of CHF	2013	2012[1]
Income continuing operations before income tax expenses	242.2	329.9
Weighted average tax rate	26.7%	25.9%
Income taxes at weighted average tax rate	–64.7	–85.4
Income taxed at different tax rates	–3.6	5.6
Effect of tax loss carryforwards and allowances for deferred income tax assets	–	–3.6
Expenses not deductible for tax purposes	–4.4	–4.6
Effect of changes in tax rates and legislation	1.7	1.7
Prior period items and others	5.1	5.7
Total income tax expenses	–65.9	–80.6
Effective income tax rate	27.2%	24.4%

[1] Restatement of prior year figures, see corporate accounting policies 2.2 and note 02.

The increase in the effective income tax rate to 27.2% can be explained through a change in allocation of taxable profit to countries with higher income tax rates and the one-time effect recorded in 2012 from the gain from sale of third-party shares taxable at a low tax rate.

Income tax liabilities

millions of CHF	2013	2012
Balance as of January 1	64.6	62.3
Changes in scope of consolidation	0.8	–
Additions	65.6	71.8
Released as no longer required	–7.9	–7.3
Released for utilization	–78.5	–61.6
Transfer to liabilities held for sale	–12.7	–
Currency translation differences	–1.3	–0.6
Total income tax liabilities as of December 31	30.6	64.6
– thereof non-current	3.8	9.3
– thereof current	26.8	55.3

10 Income taxes (continued)

Summary of deferred income tax assets and liabilities in the balance sheet

millions of CHF	2013		2012[1]	
	Assets	Liabilities	Assets	Liabilities
Intangible assets	1.8	88.9	2.4	96.5
Property, plant, and equipment	2.0	17.9	2.3	20.9
Other financial assets	1.0	5.7	0.1	6.6
Inventories	23.4	2.1	27.4	4.4
Other assets	19.6	9.7	22.5	10.1
Non-current provisions	27.0	4.6	42.7	0.1
Current provisions	24.2	1.5	28.0	2.6
Other current liabilities	21.3	25.3	24.4	31.2
Tax loss carryforwards	33.0	–	33.9	–
Elimination of intercompany profits	2.8	–	4.6	–
Total potential tax effect	**156.1**	**155.7**	188.3	172.4
Valuation allowances	–9.5	–	–10.5	–
Deferred income tax – gross	**146.6**	**155.7**	177.8	172.4
Offset of assets and liabilities	–54.2	–54.2	–59.4	–59.4
Net recorded deferred income tax assets and liabilities	**92.4**	**101.5**	118.4	113.0

[1] Restatement of prior year figures, see corporate accounting policies 2.2 and note 02.

Deferred income tax liabilities directly recorded in equity amounted to CHF –6.8 million (2012 Deferred income tax assets: CHF 2.9 million). In compliance with the exception clause of IAS 12, the corporation does not recognize deferred taxes on investments in subsidiaries in the balance sheet.

Tax loss carryforwards

millions of CHF	2013				2012			
	Amount	Potential tax assets	Valuation allowance	Carrying amount	Amount	Potential tax assets	Valuation allowance	Carrying amount
Expiring in the next 3 years	22.5	5.5	–0.4	5.1	29.7	6.5	–1.7	4.8
Expiring in 4–7 years	25.0	5.5	–5.4	0.1	15.3	3.3	–1.2	2.1
Available without limitation	100.4	22.0	–3.6	18.4	110.5	24.1	–7.6	16.5
Total tax loss carryforwards	147.9	33.0	–9.4	23.6	155.5	33.9	–10.5	23.4

Deferred income tax assets are recognized for tax loss carryforwards to the extent that the realization of the related tax benefit through future taxable profits is probable.

11 Intangible assets

millions of CHF	2013					
	Goodwill	Trademarks and licenses	Research and development	Computer software	Customer relationship	**Total**
Acquisition cost						
Balance as of January 1	1 092.7	158.9	1.8	48.4	338.0	**1 639.8**
Changes in scope of consolidation	15.3	2.2	–	–	10.1	**27.6**
Additions	–	0.4	0.7	3.7	–	**4.8**
Disposals	–	–	–	–1.7	–	**–1.7**
Reclassifications	–	–	–	0.3	0.4	**0.7**
Transfer to assets held for sale	–114.9	–5.0	–	–6.1	–25.3	**–151.3**
Currency translation differences	–14.7	–1.4	–	–0.6	–7.0	**–23.7**
Balance as of December 31	978.4	155.1	2.5	44.0	316.2	**1 496.2**
Accumulated amortization						
Balance as of January 1	–	61.7	–	42.2	88.9	**192.8**
Additions	–	15.2	–	3.4	26.3	**44.9**
Disposals	–	–	–	–1.5	–	**–1.5**
Transfer to assets held for sale	–	–3.0	–	–5.2	–10.4	**–18.6**
Currency translation differences	–	–0.5	–	–0.4	–2.7	**–3.6**
Balance as of December 31	–	73.4	–	38.5	102.1	**214.0**
Net book value						
As of January 1	1 092.7	97.2	1.8	6.2	249.1	**1 447.0**
As of December 31	978.4	81.7	2.5	5.5	214.1	**1 282.2**

The changes in scope of consolidation in 2013 refer to the acquisitions of Krøger A/S and Tartek Oy. For further details refer to note 01.

Financial section

11 Intangible assets (continued)

millions of CHF 2012	Goodwill	Trademarks and licenses	Research and development	Computer software	Customer relationship	Total
Acquisition cost						
Balance as of January 1	1 060.9	155.8	–	47.5	321.8	1 586.0
Changes in scope of consolidation	16.2	0.2	–	–	11.4	27.8
Additions	–	0.6	–	1.8	–	2.4
Disposals	–	–0.3	–	–0.9	–0.1	–1.3
Reclassifications	–	0.1	1.8	0.5	–	2.4
Currency translation differences	15.6	2.5	–	–0.5	4.9	22.5
Balance as of December 31	1 092.7	158.9	1.8	48.4	338.0	1 639.8
Accumulated amortization						
Balance as of January 1	–	46.4	–	40.1	64.3	150.8
Additions	–	15.4	–	3.4	24.6	43.4
Disposals	–	–0.3	–	–0.9	–	–1.2
Currency translation differences	–	0.2	–	–0.4	–	–0.2
Balance as of December 31	–	61.7	–	42.2	88.9	192.8
Net book value						
As of January 1	1 060.9	109.4	–	7.4	257.5	1 435.2
As of December 31	1 092.7	97.2	1.8	6.2	249.1	1 447.0

Goodwill impairment test

millions of CHF	Sulzer Pumps	Sulzer Turbo Services	Sulzer Chemtech	Sulzer Metco
Goodwill, net book value as of December 31, 2013	**677.1**	**184.7**	**116.6**	**114.9**
The test is based on the following assumptions:				
Growth rate for the residual amount	1.4%	0.0%	0.0%	2.0%
Pretax discount rate	10.6%	10.1%	10.7%	9.2%
Goodwill, net book value as of December 31, 2012	679.6	189.1	110.1	113.9
The test is based on the following assumptions:				
Growth rate for the residual amount	1.5%	0.0%	0.0%	2.0%
Pretax discount rate	11.0%	9.9%	12.3%	10.4%

Goodwill is allocated to the smallest identifiable cash-generating unit (CGU) at which the goodwill is monitored for internal management purposes (i.e. business units and areas). The fair value of these units is determined by calculating its value in use. The calculation is generally based on five-year cash flow projections derived from mid-range plans that have been approved by management. Cash flows beyond this planning period are extrapolated using a terminal value including the growth rates as stated above. The assumptions above were used for the analysis of every cash-generating unit. Significant goodwill positions relate to the Configured Solutions (Sulzer Pumps) business with CHF 647.9 million and to Sulzer Turbo Services EMEA with CHF 148.6 million.

Compared with the prior year, growth and pretax discount rates were adjusted where necessary to reflect management's latest estimate and to adjust for current market data. No impairment was recognized in 2013 and 2012. Sensitivity analyses using the key parameters such as sales growth and discount rates showed that for none of the CGUs an impairment is considered reasonably probable with the exception of the Configured Solutions business, for which an increase of the pretax discount rate from 10.2% to 12.4% or a reduction of the future cash flows by 3.2% would result in a value in use being identical to the carrying amount of the goodwill. As a consequence any further reduction would trigger an impairment charge.

12 Property, plant, and equipment

millions of CHF	2013				
	Land and buildings	Machinery and technical equipment	Other non-current assets	Assets under construction	**Total**
Acquisition cost					
Balance as of January 1	432.7	922.2	233.6	50.0	**1 638.5**
Changes in scope of consolidation	0.5	4.9	–0.1	–	**5.3**
Additions	6.4	35.7	18.3	43.8	**104.2**
Disposals	–7.9	–44.8	–16.9	–	**–69.6**
Reclassifications	8.9	29.9	13.9	–54.1	**–1.4**
Transfer to assets held for sale	–81.3	–277.9	–53.5	–10.1	**–422.8**
Currency translation differences	–12.5	–18.0	–6.3	–1.0	**–37.8**
Balance as of December 31	346.8	652.0	189.0	28.6	**1 216.4**
Accumulated depreciation					
Balance as of January 1	165.8	642.4	180.3	–	**988.5**
Changes in scope of consolidation	0.2	3.9	–0.1	–	**4.0**
Additions	17.0	59.9	19.3	–	**96.2**
Disposals	–5.2	–41.0	–15.2	–	**–61.4**
Transfer to assets held for sale	–40.4	–201.5	–40.2	–	**–282.1**
Impairment	–0.3	–0.2	–0.2	–	**–0.7**
Currency translation differences	–4.1	–11.7	–4.3	–	**–20.1**
Balance as of December 31	133.0	451.8	139.6	–	**724.4**
Net book value					
As of January 1	266.9	279.8	53.3	50.0	**650.0**
As of December 31	213.8	200.2	49.4	28.6	**492.0**
Thereof leased property, plant, and equipment					
Acquisition cost of leased property, plant, and equipment	0.7	0.7	0.1	–	**1.5**
Accumulated depreciation	–	0.3	–	–	**0.3**
Net book value as of December 31	0.7	0.4	0.1	–	**1.2**
Leasing commitments (present value)	0.4	0.3	0.1	–	**0.8**
Fire insurance value	526.4	1 135.4	466.4	28.6	**2 156.8**

Financial section

12 Property, plant, and equipment (continued)

millions of CHF	2012				
	Land and buildings	Machinery and technical equipment	Other non-current assets	Assets under construction	Total
Acquisition cost					
Balance as of January 1	408.5	875.1	224.0	54.7	1 562.3
Changes in scope of consolidation	3.1	2.3	–	0.1	5.5
Additions	5.5	41.3	15.1	63.9	125.8
Disposals	–1.2	–23.6	–8.8	–	–33.6
Reclassifications	21.8	36.3	7.5	–68.0	–2.4
Currency translation differences	–5.0	–9.2	–4.2	–0.7	–19.1
Balance as of December 31	432.7	922.2	233.6	50.0	1 638.5
Accumulated depreciation					
Balance as of January 1	153.1	615.1	174.6	–	942.8
Changes in scope of consolidation	–	–0.1	–0.4	–	–0.5
Additions	15.5	55.3	17.2	–	88.0
Disposals	–0.9	–21.8	–8.3	–	–31.0
Impairment	–	–	–	–	–
Currency translation differences	–1.9	–6.1	–2.8	–	–10.8
Balance as of December 31	165.8	642.4	180.3	–	988.5
Net book value					
As of January 1	255.4	260.0	49.4	54.7	619.5
As of December 31	266.9	279.8	53.3	50.0	650.0
Thereof leased property, plant, and equipment					
Acquisition cost of leased property, plant, and equipment	6.1	1.6	0.1	–	7.8
Accumulated depreciation	2.8	0.7	–	–	3.5
Net book value as of December 31	3.3	0.9	0.1	–	4.3
Leasing commitments (present value)	3.7	0.4	0.1	–	4.2
Fire insurance value	614.1	1 447.4	401.4	50.0	2 512.9

13 Other financial assets

millions of CHF	2013		
	Available-for-sale	Loans and receivables	Total
Balance as of January 1	–	8.6	**8.6**
Additions	–	0.3	**0.3**
Disposals	–	–	**–**
Reclassifications	4.5	–1.2	**3.3**
Transfer to assets held for sale	–	–0.1	**–0.1**
Changes in fair value	–	–	**–**
Currency translation differences	–	–1.0	**–1.0**
Balance as of December 31	4.5	6.6	**11.1**

millions of CHF	2012		
	Available-for-sale	Loans and receivables	Total
Balance as of January 1	28.2	8.0	36.2
Additions	–	1.2	1.2
Disposals	–32.0	–0.1	–32.1
Reclassifications	–	–	–
Changes in fair value	3.8	–0.1	3.7
Currency translation differences	–	–0.4	–0.4
Balance as of December 31	–	8.6	8.6

Financial assets that belong to the category “Available-for-sale financial assets” include investments in equity securities. The category “Loans and receivables” includes items with maturities beyond 12 months.

14 Inventories

millions of CHF	2013	2012
Raw materials, supplies, and consumables	**108.4**	167.5
Work in progress	**243.9**	323.4
Finished products and trade merchandise	**84.2**	132.0
Total inventories	**436.5**	622.9

In 2013, Sulzer recognized write-downs of CHF 18.9 million (2012: CHF 14.8 million) in the income statement. Total accumulated write-downs on inventories amounted to CHF 64.2 million as of December 31, 2013 (2012: CHF 74.3 million). Material expenses in 2013 amounted to CHF 1 365.9 million (2012: CHF 1 310.6 million).

15 Percentage of completion contracts

millions of CHF	2013	2012
Contract revenue recognized in the period	**446.7**	377.3
Net receivables resulting from construction contracts	**191.6**	174.9
Net liabilities resulting from construction contracts	**–29.2**	–35.6
Advance payments received from customers	**–471.4**	–502.7

Sales recognized in accordance with the percentage of completion method for the reporting period amounted to CHF 446.7 million, which corresponds to 13.7% of total sales (2012: CHF 377.3 million, or 11.3% of sales). The costs related to this sales figure amounted to CHF 352.5 million (2012: CHF 305.4 million). The impact on gross profit was CHF 94.2 million, which corresponds to 9.4% of total gross profit (2012: CHF 71.9 million, 6.9%).

16 Trade accounts receivable

Aging structure of trade accounts receivable

millions of CHF	2013			2012		
	Gross amount	Allowance	**Net book value**	Gross amount	Allowance	Net book value
Not past due	645.7	–6.8	**638.9**	736.3	–2.3	734.0
Past due						
1–30 days	91.8	–0.7	**91.1**	124.8	–1.0	123.8
31–60 days	37.0	–1.4	**35.6**	49.4	–4.0	45.4
61–90 days	26.7	–0.6	**26.1**	27.2	–1.7	25.5
91–120 days	19.6	–1.5	**18.1**	20.2	–2.0	18.2
>120 days	90.2	–22.5	**67.7**	95.0	–29.8	65.2
Total trade accounts receivable	911.0	–33.5	**877.5**	1 052.9	–40.8	1 012.1

Allowance for doubtful trade accounts receivable

millions of CHF	2013	2012
Balance as of January 1	**40.8**	45.1
Changes in scope of consolidation	**–**	–
Additions	**26.8**	35.7
Released as no longer required	**–21.8**	–25.1
Released for utilization	**–7.2**	–14.1
Reclassifications to assets held for sale	**–2.6**	–
Currency translation differences	**–2.5**	–0.8
Balance as of December 31	**33.5**	40.8

Approximately 29.1% (2012: 30.1%) of the gross amount of trade accounts receivable is past due, and an allowance of CHF 33.5 million (2012: CHF 40.8 million) was recorded. The recoverability of trade accounts receivable is regularly reviewed, and the credit quality of new customers is thoroughly assessed. Due to the large and heterogeneous customer base, the credit risk of the corporation is limited.

17 Other accounts receivable and prepaid expenses

millions of CHF	2013	2012
Receivables from tax authorities	64.6	64.9
Derivative financial instruments	11.5	8.7
Other accounts receivable	32.3	24.0
Total other accounts receivable	**108.4**	97.6
Insurance premiums	2.6	3.8
Prepaid contributions to employee benefit plans[1]	12.3	14.2
Other prepaid expenses	30.1	28.8
Total prepaid expenses	**45.0**	46.8
Total other accounts receivable and prepaid expenses	**153.4**	144.4

[1] Restatement of prior year figures, see corporate accounting policies 2.2.

For further details on the position "Derivative financial instruments," refer to note 26. Other accounts receivable do not include any material positions that are past due or impaired.

18 Cash and cash equivalents

millions of CHF	2013		2012	
	Average eff. interest rate	Amount	Average eff. interest rate	Amount
Cash		479.2		486.1
Cash equivalents		49.5		21.2
Total cash and cash equivalents	**0.73**	**528.7**	0.89	507.3

19 Marketable securities

millions of CHF	2013	2012
Designated at fair value through profit or loss	–	5.8
Total marketable securities	**–**	5.8

As of December 31, 2013 no marketable securities designated at fair value through profit or loss were recorded.

20 Pledged assets

millions of CHF	2013	2012
Land and buildings	14.4	15.3
Machinery and equipment	1.6	1.2
Total pledged assets	**16.0**	16.5

21 Share capital

thousands of CHF	2013		2012	
	Number of shares	Share capital	Number of shares	Share capital
Balance as of December 31 (par value CHF 0.01)	**34262370**	**342.6**	34262370	342.6

The share capital amounts to CHF 342623.70, made up of 34262370 shares with dividend entitlement and a par value of CHF 0.01. All shares are fully paid in and registered.

Share ownership

Sulzer shares are freely transferable provided that, when requested by the company to do so, buyers declare that they have purchased and will hold the shares in their own name and for their own account. Nominees shall only be entered in the share register with the right to vote, provided that they meet the following conditions: The nominee is subject to the supervision of a recognized banking and financial market regulator; the nominee has entered into an agreement with the Board of Directors concerning his status; the share capital held by the nominee does not exceed 3% of the registered share capital entered in the commercial register; and the names, addresses, and number of shares of those individuals for whose account the nominee holds at least 0.5% of the share capital have been disclosed. The Board of Directors is also entitled, beyond these limits, to enter shares of nominees with voting rights in the share register, provided that the above-mentioned conditions are met (see also paragraph 6a of the Articles of Association at www.sulzer.com/regulations).

	2013		2012	
Shareholders holding more than 3% and Sulzer Ltd	Number of shares	in %	Number of shares	in %
Renova Group	**10688812**	**31.20**	10699797	31.23
BlackRock	**–**	**–**	1058976	3.09
Sulzer Ltd	**282415**	**0.82**	229560	0.67

Sulzer Ltd is not aware of any agreements between the shareholders named above regarding the shares held or regarding the execution of voting rights. The total number of shares held by Sulzer Ltd as of December 31, 2013, amounted to 282415, which are mainly held for the purpose of the management stock option and restricted stock unit plan.

22 Earnings per share

	2013	2012[2)]
Net income attributable to shareholders of Sulzer Ltd - continuing operations	**174.5**	244.4
Net income attributable to shareholders of Sulzer Ltd - discontinued operations	**59.9**	58.5
Net income attributable to shareholders of Sulzer Ltd (millions of CHF)	**234.4**	302.9
Issued number of shares	**34262370**	34262370
Adjustment for treasury shares held	**–262941**	–253103
Average number of shares outstanding	**33999429**	34009267
Adjustment for share participation plans	**159177**	190741
Average number of shares for calculating diluted earnings per share	**34158606**	34200008
Earnings per share, attributable to a shareholder of Sulzer Ltd (in CHF)		
Basic earnings per share	**6.89**	8.91
– thereof basic earnings per share continuing operations	**5.13**	7.19
– thereof basic earnings per share discontinued operations	**1.76**	1.72
Diluted earnings per share	**6.86**	8.86
– thereof diluted earnings per share continuing operations	**5.11**	7.15
– thereof diluted earnings per share discontinued operations	**1.75**	1.71
Dividend per share	**3.20**[1)]	3.20

[1)] Proposal to the Annual General Meeting.

[2)] Restatement of prior year figures, see corporate accounting policies 2.2.

23 Borrowings

millions of CHF	2013			2012		
	Short-term	Long-term	**Total**	Short-term	Long-term	Total
Bonds	–	498.1	**498.1**	–	497.4	497.4
Bank loans	56.2	16.5	**72.7**	75.6	24.0	99.6
Mortgage loans	–	–	**–**	–	7.0	7.0
Other loans and debts	0.1	0.5	**0.6**	–	0.5	0.5
Leasing obligations	0.3	0.8	**1.1**	0.4	4.1	4.5
Total borrowings	56.6	515.9	**572.5**	76.0	533.0	609.0
– thereof due in <1 year	56.6	–	**56.6**	76.0	–	76.0
– thereof due in 1–5 years	–	514.9	**514.9**	–	517.9	517.9
– thereof due in >5 years	–	1.0	**1.0**	–	15.1	15.1

Borrowings by currency

	2013			2012		
	millions of CHF	**in %**	**Interest rate**	millions of CHF	in %	Interest rate
BRL	**16.5**	**2.9**	**8.0%**	12.0	2.0	7.9%
CHF	**503.3**	**87.9**	**2.2%**	512.8	84.2	2.2%
EUR	**28.1**	**4.9**	**1.3%**	58.0	9.5	2.2%
GBP	**11.8**	**2.1**	**1.3%**	11.8	2.0	1.9%
USD	**1.2**	**0.2**	**3.1%**	6.9	1.1	3.0%
Other	**11.6**	**2.0**	**–**	7.5	1.2	–
Total	**572.5**	**100.0**	**–**	609.0	100.0	–

23 Borrowings (continued)

In 2012 a CHF 500 million syndicated credit facility with maturity in April 2017 was arranged. The facility is subject to financial covenants based on net financial indebtedness and EBITDA, which were adhered to throughout the reporting period. As of December 31, 2013 the use of the syndicated credit line was CHF 36.3 million compared to CHF 58.1 million at the end of the previous year, and the amount of short-term borrowings was reduced accordingly. Also the outstanding long-term borrowings decreased during 2013.

Outstanding bond

millions of CHF	2013		2012	
	Amortized costs	Nominal	Amortized costs	Nominal
2.25% 2011–2016	498.1	500.0	497.4	500.0
Total	**498.1**	**500.0**	497.4	500.0

In 2011 Sulzer Ltd issued a CHF-denominated 2.25% domestic bond in the aggregate principal amount of CHF 500 million for a term of five years. The effective interest rate is 2.42%. The fair value of the outstanding bond amounts to CHF 519.2 million as per December 31, 2013 (2012: CHF 522.1 million). The fair value of the other financial borrowings is approximately equivalent to their carrying amount.

24 Provisions

millions of CHF	Employee benefit plans[1)2)]	Other employee benefits	Warranties/ liabilities	Restructuring	Environmental	Other	Total
Balance as of December 31, 2012	184.2	49.5	95.5	7.2	18.2	83.8	438.4
Changes in scope of consolidation	–	–	–	–	–	–	**–**
Additions	6.0	9.3	43.4	12.7	0.1	22.1	**93.6**
Released as no longer required	–34.3	–4.5	–18.4	–1.2	–1.5	–18.1	**–78.0**
Released for utilization	–25.8	–4.3	–23.3	–5.8	–0.2	–18.0	**–77.4**
Reclassifications	0.1	–0.1	–	–0.1	–	0.2	**0.1**
Reclassifications to liabilities held for sale	–17.6	–10.1	–5.1	–1.8	–	–0.8	**–35.4**
Currency translation differences	–1.3	–1.5	–6.8	–	–	–2.5	**–12.1**
Total provisions as of December 31, 2013	111.3	38.3	85.3	11.0	16.6	66.7	**329.2**
– thereof non-current	111.3	34.1	17.3	–	16.5	23.0	**202.2**
– thereof current	–	4.2	68.0	11.0	0.1	43.7	**127.0**

1) For further details of employee benefit plans refer to note 06 "Employee benefit plans."

2) Restatement of prior year figures regarding IAS 19 revised, see corporate accounting policies 2.2.

The largest position in provisions refers to "Employee benefit plans." In 2013, this position decreased by CHF 72.9 million to CHF 111.3 million mainly due to actuarial gains on defined benefit obligations and related plan assets recorded in other comprehensive income. The category "Other employee benefits" decreased by CHF 11.2 million to CHF 38.3 million. The category of "Other employee benefits" includes provisions for jubilee gifts, early retirement of senior managers, and other obligations to employees.

The category "Warranties/liabilities" decreased by CHF 10.2 million to CHF 85.3 million. These provisions include customer claims, penalties, litigation, and legal cases relating to goods delivered or services rendered. The provision for risks referring to an ongoing dispute with the purchaser of the locomotive business (sold in 1998) is accrued within this category.

The increase in restructuring provision is related to the program communicated in October. CHF 15.8 million of the expenses recognized in 2013 (CHF 16.8 million) is related to personnel restructuring expenses. "Environmental" mainly consist of expected costs related to inherited liabilities. "Other" includes provisions that do not fit into the aforementioned categories. A large number of these provisions refer to onerous contracts, in particular from divestitures. In addition, provisions for ongoing asbestos lawsuits and other legal claims are included. Based on the currently known facts, Sulzer is of the opinion that the resolution of the open cases will not have material effects on its liquidity or financial condition. Although Sulzer expects a large part of the category "Other" to be realized in 2014, by their nature, the amounts and timing of any cash outflows are difficult to predict.

25 Other current and accrued liabilities

millions of CHF	2013	2012
Notes payable	–	2.1
Social security institutions	12.4	13.0
Taxes (VAT, withholding tax)	33.3	35.2
Derivative financial instruments	5.4	4.2
Other current liabilities	20.9	44.0
Total other current liabilities	**72.0**	**98.5**
Vacation and overtime claims	32.2	42.3
Salaries, wages, and bonuses	76.0	86.0
Contract-related costs	120.2	127.5
Other accrued liabilities	91.9	95.1
Total accrued liabilities	**320.3**	**350.9**
Total other current and accrued liabilities	**392.3**	**449.4**

In 2012 the line "Other current liabilities" included a forward contract on treasury shares of CHF 19.2 million, which was sold during 2013.

26 Derivative financial instruments

millions of CHF	2013				2012			
	Derivative assets		Derivative liabilities		Derivative assets		Derivative liabilities	
	Notional value	Fair value	Notional value	Fair value	Notional value	Fair value	Notional value	Fair value
Forward exchange contracts	688.6	11.9	526.2	5.4	677.4	8.6	546.0	4.2
Other derivative instruments	0.7	–	–	–	4.6	0.5	–	–
Total	**689.3**	**11.9**	**526.2**	**5.4**	682.0	9.1	546.0	4.2
– thereof due in <1 year	671.1		524.4		659.8		540.1	
– thereof due in 1–2 years	18.2		1.8		22.2		5.9	
– thereof due in 2–5 years	–		–		–		–	
– thereof due in >5 years	–		–		–		–	

The notional and the fair value of derivative assets and liabilities include current and also non-current derivative financial instruments. The cash flow hedges of the expected future sales were assessed as highly effective. As at December 31, 2013, a net unrealized profit of CHF 0.3 million (2012: CHF 3.7 million) with a deferred tax asset of CHF 2.0 million (2012: CHF 0.8 million) relating to these cash flow hedges were included in other comprehensive income. In 2013, a gain of CHF 1.9 million (2012: a gain of CHF 2.4 million) cash flow hedge reserve was recognized in profit or loss. There was no ineffectiveness that arose from cash flow hedges in 2013 (2012: CHF 0.0 million). There was no ineffectiveness to be recorded from fair value hedges and net investments in foreign entity hedges. The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets in the balance sheet.

The hedged, highly probable forecast transactions denominated in foreign currency are mostly expected to occur at various dates during the next 12 months. Gains and losses recognized in the hedging reserve (cash flow hedges) in equity on forward foreign exchange contracts as of December 31, 2013, are recognized either in sales, cost of goods sold, or in other operating income/expenses in the period or periods during which the hedged transaction affects the income statement. This is generally within 12 months from the balance sheet date unless the gain or loss is included in the initial amount recognized for the purchase of fixed assets, in which case, recognition is over the lifetime of the asset (five to ten years).

The Group enters into derivative financial instruments under enforceable master netting arrangements. These agreements do not meet the criteria for offsetting derivative assets and derivative liabilities in the consolidated balance sheet. As per December 31, 2013 the amount subject to such netting arrangements was CHF 2.3 million. Considering the effect of these agreements, the amount of derivative assets would reduce from CHF 11.9 million to CHF 9.6 million, and the amount of derivative liabilities would reduce from CHF 5.4 million to CHF 3.1 million.

27 Other financial commitments

millions of CHF	2013			2012		
	Rented premises	Other	**Total**	Rented premises	Other	Total
Maturity <1 year	27.2	11.8	**39.0**	24.6	11.9	36.5
Maturity 1–5 years	79.9	15.6	**95.5**	60.5	17.4	77.9
Maturity >5 years	25.4	–	**25.4**	17.9	–	17.9
Operating lease	132.5	27.4	**159.9**	103.0	29.3	132.3
– thereof continuing operations	104.7	23.7	**128.4**	79.0	26.0	105.0
– thereof discontinued operations	27.8	3.7	**31.5**	24.0	3.3	27.3
Total commitments for future investments and acquisitions	1.6	3.6	**5.2**	0.3	4.2	4.5
– thereof continuing operations	1.6	2.5	**4.1**	0.3	2.9	3.2
– thereof discontinued operations	–	1.1	**1.1**	–	1.3	1.3

28 Contingent liabilities

millions of CHF	**2013**	2012
Pledges in favor of third parties	**0.8**	0.9
Guarantees in favor of third parties	**–**	–
Total contingent liabilities	**0.8**	0.9

29 Capital expenditure by category (unaudited)

millions of CHF	**2013**	**in %**	2012[1]	in %
Expansion	**21.2**	**26.3**	40.5	43.6
Rationalization	**3.5**	**4.3**	4.3	4.6
Replacing	**30.6**	**38.0**	23.8	25.6
IT	**12.1**	**15.0**	12.6	13.5
QESH (Quality, environment, safety, and health)	**3.3**	**4.1**	1.1	1.2
Other	**9.8**	**12.3**	10.7	11.5
Total capital expenditure by category	**80.5**	**100.0**	93.0	100.0

[1] Restatement of prior year figures, see note 02.

The total capital expenditure of continuing operations for intangible assets amounted to CHF 4.3 million (2012: CHF 1.3 million) and for property, plant, and equipment to CHF 76.2 million (2012: CHF 91.7 million).

30 Share participation plans

Stock option plan

From 2002 until 2008, there was a Sulzer stock option plan in place for the Sulzer Management Group and board members. Awards were made annually and were dependent on the organizational position of the employee. The exercise price was determined on the basis of the average stock market price of the Sulzer share during the last ten days before the options were granted.

Sulzer operates equity- and cash-settled compensation plans. For equity-settled compensation plans, 25% of the options vest after one year, with an additional 25% vesting in each of the following three years. Equity-settled options are valid for ten years from the grant date. They do not lead to an increase of the company's share capital. For cash-settled compensation plans, one-third of the options vest after one year, with an additional one-third vesting in each of the following two years. Cash-settled options are valid for five years from the date of grant. One option entitles the purchase of ten shares. In 2013 and 2012, a total of CHF 0.0 million was charged to the operating income for the existing option plans. The cash-settled plan is hedged with derivative instruments of a Swiss bank.

For details on option holdings by members of the Board of Directors and the Executive Committee, see note 110 of Sulzer Ltd's financial statements.

Option right for ten Sulzer shares 2013

Grant year	Outstanding 01.01.2013	Granted 2013	Exercised 2013	Forfeited 2013	Expired 2013	**Outstanding 31.12.2013**	**Average exercise price in CHF**
2004	1 485	–	1 285	–	–	**200**	**31.80**
2005	2 635	–	1 225	–	–	**1 410**	**52.20**
2008	1 890	–	1 890	–	–	**–**	**127.90**
Total	6 010	–	4 400	–	–	**1 610**	
Weighted average exercise price in CHF	**70.97**	**–**	**78.76**	**–**	**–**	**49.67**	**–**

Option right for ten Sulzer shares 2012

Grant year	Outstanding 01.01.2012	Granted 2012	Exercised 2012	Forfeited 2012	Expired 2012	Outstanding 31.12.2012	Average exercise price in CHF
2002	1 250	–	1 250	–	–	–	34.08
2003	1 390	–	1 350	40	–	–	17.30
2004	2 880	–	1 315	80	–	1 485	31.80
2005	3 343	–	708	–	–	2 635	52.20
2007	10 920	–	2 930	–	7 990	–	149.50
2008	16 082	–	14 192	–	–	1 890	127.90
Total	35 865	–	21 745	120	7 990	6 010	
Weighted average exercise price in CHF	112.15	–	110.27	26.97	149.50	70.97	–

30 Share participation plans (continued)

Expiry of option rights for ten Sulzer shares

Year of expiry	2013		2012	
	Number of options	Average exercise price in CHF	Number of options	Average exercise price in CHF
2013	–	–	1 890	127.90
2014	200	31.80	1 485	31.80
2015	1 410	52.20	2 635	52.20
Outstanding as of December 31	1 610		6 010	

In 2013, no options were granted.

Restricted stock unit plan settled in Sulzer shares

Since 2009, there has been a restricted stock unit (RSU) plan in place for the Sulzer Management Group and board members. Awards are made annually and depend on the organizational position of the employee. For equity-settled restricted stock unit plans, one-third of the RSUs vest after one year, with an additional one-third vesting in each of the following two years. One RSU award is settled with one Sulzer share. The number of awards granted is determined on the basis of the average stock market price of the Sulzer share during the last ten days before the awards are granted and the cash equivalent determined per participant. After vesting, the unrestricted shares are transferred to the plan participant. They do not lead to an increase of the company's share capital. In 2013, a total of CHF 6.7 million (2012: CHF 6.4 million) was charged for this restricted stock unit plan to the operating income. Awards to members of the Board of Directors automatically vest with the departure from the board.

For details of restricted stock unit holdings by members of the Board of Directors and the Executive Committee, see note 110 of the financial statements of Sulzer Ltd.

Restricted stock units 2013

Grant year	Outstanding 01.01.2013	Granted 2013	Exercised 2013	Forfeited 2013	Expired 2013	Outstanding 31.12.2013	Average stock price at grant date in CHF
2010	22 167	–	22 167	–	–	–	98.41
2011	34 826	–	17 998	1 147	–	15 681	142.62
2012	60 807	–	21 561	2 536	–	36 710	129.13
2013	–	50 451	–	816	–	49 635	166.61
Total	117 800	50 451	61 726	4 499	–	102 026	

Restricted stock units 2012

Grant year	Outstanding 01.01.2012	Granted 2012	Exercised 2012	Forfeited 2012	Expired 2012	Outstanding 31.12.2012	Average stock price at grant date in CHF
2009	48 557	–	48 557	–	–	–	47.48
2010	45 182	–	23 015	–	–	22 167	98.41
2011	53 469	–	18 409	234	–	34 826	142.62
2012	–	61 587	–	780	–	60 807	129.13
Total	147 208	61 587	89 981	1 014	–	117 800	

30 Share participation plans (continued)

Performance share plan settled in Sulzer shares

Executive Committee members received performance share units (PSUs) of Sulzer Ltd, Winterthur, as a portion of their compensation. Sulzer operated two performance share plans (PSP).

The first PSP was a front-loaded one-off plan with a performance period of three years (2010–2012), which vested on March 31, 2013. The PSP included a requirement for the participants to invest a portion of their restricted stock unit (RSU) grants 2010–2012 into the PSP. The company matched these investments by a defined co-investment. The number of the performance share units (PSUs) granted at the grant date is based on the number of RSUs shifted into the PSP and the company match divided by the grant price of the 2010 RSU plan. The achievement of the defined performance indicators based on financial objectives determined the effective number of PSUs. The plan did not lead to an increase of the company's share capital. In 2013, an income of CHF 0.8 million (2012: an expense of CHF 3.9 million) was charged to the operating income.

The second PSP was introduced in 2013 with a performance period from January 1, 2013 to March 31, 2016. Key performance indicators may consist of financial objectives and are based on the relative Total Shareholder Return (TSR) of Sulzer over the performance period, within a Peer Group consisting of 30 companies including Sulzer. TSR is measured with a starting value of the Volume Weighted Average Share Price (VWAP) over the first three months of the first year, and an ending value of the VWAP over the last three months of the vesting period. The average fair market value at grant date was CHF 294.81 and has been calculated using a Monte Carlo Simulation. Main assumptions include a stock price of CHF 157.61 and an average expected volatility of the peer group of 31.84%. The rank of Sulzer's TSR at the end of the Performance Period determines the effective number of total shares. At Rank 3 of the peer group or above, a maximum payout of 200 % of target performance share awards (PSA) are converted into shares. At Rank 15 of the peer group, the payout is 100 %, at Rank 21 it is 75% and at Rank 27 or below, it is 0%. The plan will not lead to an increase of the company's share capital. In 2013, an expense of CHF 2.5 million was charged to the operating income (2012: CHF 0.0 million).

For details of performance share units by members of the Executive Committee, see note 110 of the financial statements of Sulzer Ltd.

Performance share units 2013

Grant year	Outstanding 01.01.2013	Granted 2013	Exercised 2013	Forfeited 2013	Expired 2013	**Outstanding 31.12.2013**	**Average stock price at grant date in CHF**
2010	31 643	–	31 643	–	–	**–**	**98.41**
2013	–	37 035	–	–	–	**37 035**	**166.61**

31 Transactions with members of the Board of Directors, Executive Committee, and related parties

Key management compensation

thousands of CHF	**2013**				2012			
	Short-term benefits	Equity-based compensation	Pensions and social contributions	**Total**	Short-term benefits	Equity-based compensation	Pensions and social contributions	Total
Board of Directors	961	878	140	**1 979**	1 046	953	157	2 156
Executive Committee	6 388	2 286	2 626	**11 300**	6 395	6 058	1 467	13 920

The amounts for equity-based compensation are valued according to IFRS 2. There are no outstanding loans with members of the Board of Directors or the Executive Committee as per balance sheet date. No shares have been granted to members of the Board of Directors, the Executive Committee, or related persons, with the exception of shares granted in connection with equity-settled plans and service awards.

Related parties

Administration and asset management of the Sulzer pension fund in Switzerland were done by staff members of Sulzer Management Ltd. The individual foundations do not have their own staff. The related costs were invoiced to the foundations (2013: CHF 4.0 million; 2012: CHF 4.2 million). As of December 31, 2013, sales with related parties controlled by the major shareholder (Renova Group) amounted to CHF 13.8 million (2012: CHF 8.8 million) with open receivables of CHF 0.5 million (2012: CHF 2.3 million). Fees for consulting services from a company controlled by the major shareholder of Sulzer amounted to CHF 0.1 million (2012: CHF 0.0 million). Sales with other related parties recorded in 2013 amounted to CHF 0.2 million (2012: CHF 0.0 million).

At the time of completion of the corporation's consolidated financial statements on February 19, 2014, no other major business transactions or outstanding balances with the Renova Group, their representatives, or any other related parties or companies were known.

31 Transactions with members of the Board of Directors, Executive Committee, and related parties (continued)

Board and Executive Committee compensation disclosures as required by Swiss law (article CO 663b–663c)
These consolidated financial statements have been prepared in accordance with IFRS. The compensation disclosure requirements in accordance with the Swiss law for companies, the Swiss Code of Obligations (CO), are disclosed in the financial statements of Sulzer Ltd, note 110.

32 Auditor remuneration

Fees for the audit work by KPMG as the group auditor amounted to CHF 2.5 million (2012 PricewaterhouseCoopers: CHF 2.7 million). Additional services provided by the group auditor amounted to a total of CHF 1.3 million (2012: CHF 0.6 million). This figure includes CHF 0.0 million (2012: CHF 0.1 million) for accounting-related fees, CHF 0.2 million (2012: CHF 0.3 million) for tax and legal fees, CHF 0.8 million related to the divestiture of Sulzer Metco and CHF 0.3 million for other consulting services (2012: CHF 0.2 million).

33 Corporate risk management process

Sulzer has an integrated risk management system that is under constant scrutiny for further improvement.

A defined risk management process and four common tools (risk assessment schedule, risk-profiling matrix, risk description schedule, loss control schedule) are applied in order to assess and control all key risks, to implement and maintain risk financing and risk transfer measures, to monitor the results, and to define and implement corrective actions if required. The divisions and the corporation generate their respective key risk-profiling matrices and complete and update the related risk control schedules on an annual basis. These schedules identify specific risk exposures and the related risk objectives, list existing loss controls, address their effectiveness, list (where required) additional or alternative loss controls, and determine responsibilities and time frames for their implementation. The divisions' key risk-profiling matrices are reviewed at the corporate level and are then consolidated into a division's key risk-profiling matrix. The head of Corporate Risk Management informs the Audit Committee at least once a year of the current risks and risk mitigation as well as of the progress toward achieving major risk objectives. The risk management process is audited by corporate auditing.

34 Subsequent events after the balance sheet date

On January 30, 2014, Sulzer has signed an agreement with Oerlikon for the divestment of its Sulzer Metco division. The transaction is based on an enterprise value of CHF 1 billion. Sulzer expects cash proceeds after taxes of approximately CHF 850 million from the deal. The divestment agreement is subject to merger control and regulatory approval. Closing is expected in the third quarter 2014.

On February 2, 2014, Sulzer signed an agreement for the acquisition of a 75% stake in Saudi Pump Factory with Nabil Al Hashim, the owner and founder of the company. The agreed purchase price for the 75% stake is CHF 33 million. Closing of the transaction is expected for the second quarter of 2014 and is subject to local regulatory approval.

The Board of Directors authorized these consolidated financial statements for issue on February 19, 2014. They are subject to approval at the Annual General Meeting, which will be held on March 20, 2014. The Board of Directors and the Executive Committee are, at the time of completion of the corporation's consolidated financial statements on February 19, 2014, not aware of any events that would materially affect these statements.

35 Major subsidiaries

31.12.2013 Europe	Subsidiary	Participation	Registered capital (including paid-in capital in the USA and Canada)	Research & development	Production & Engineering	Sales	Service	Division
Switzerland	Sulzer Pumpen AG, Winterthur	100%	CHF 3 000 000	■	■	■	■	PU
	Sulzer Metco AG, Wohlen	100%	CHF 5 000 000	■	■	■	■	SM
	Sulzer Chemtech AG, Winterthur	100%	CHF 10 000 000	■	■	■	■	CT
	Sulzer Mixpac AG, Haag	100%	CHF 100 000	■	■	■		CT
	Sulzer Markets and Technology AG, Winterthur	100%	CHF 4 000 000		■	■	■	CT
	Sulzer Management AG, Winterthur	100%	CHF 500 000					Oth
Germany	Sulzer Pumpen (Deutschland) GmbH, Bruchsal	100%	EUR 2 300 000	■	■	■	■	PU
	Sulzer Pumps Wastewater Germany GmbH, Bonn	100%	EUR 300 000			■	■	PU
	Sulzer Pump Solutions Germany GmbH, Lohmar	100%	EUR 1 000 000		■			PU
	Sulzer Metco Europe GmbH, Kelsterbach	100%	EUR 1 000 000			■	■	SM
	Sulzer Metco Coatings GmbH, Salzgitter	100%	EUR 1 000 000	■	■	■		SM
	Sulzer Friction Systems (Germany) GmbH, Bremen	100%	EUR 1 000 000	■	■	■		SM
	Sulzer Metaplas GmbH, Bergisch Gladbach	100%	EUR 1 000 000	■	■	■	■	SM
	Sulzer Metco WOKA GmbH, Barchfeld	100%	EUR 1 000 000	■	■	■		SM
	Sulzer Chemtech GmbH, Linden	100%	EUR 300 000			■	■	CT
	Sulzer Holding (Deutschland) GmbH, Singen	100%	EUR 20 000 000					Oth
	Sulzer Beteiligungen (Deutschland) GmbH, Singen	100%	EUR 25 000					Oth
Denmark	Sulzer Mixpac Denmark A/S	100%	DKK 500 000	■	■	■	■	CT
Finland	Sulzer Pumps Finland Oy, Kotka	100%	EUR 16 000 000	■	■	■	■	PU
France	Sulzer Pompes France SASU, Mantes	100%	EUR 6 600 000	■	■	■	■	PU
	Sulzer Sorevi S.A.S., Limoges	100%	EUR 250 000	■		■	■	SM
Great Britain	Sulzer Pumps (UK) Ltd., Leeds	100%	GBP 9 610 000	■	■	■	■	PU
	Sulzer Metco (UK) Ltd., Cwmbran	100%	GBP 500 000			■	■	SM
	Sulzer Metco Coatings Ltd., Cheshire	100%	GBP 57 125	■	■	■		SM
	Neomet Ltd., Stockport	100%	GBP 292 671	■	■	■		SM
	Sulzer Chemtech (UK) Ltd., Stockton on Tees	100%	GBP 100 000			■	■	CT
	Dowding & Mills Plc., Birmingham	100%	GBP 15 409 555		■	■	■	TS
	Sulzer (UK) Holdings Ltd., Leeds	100%	GBP 6 100 000					Oth
Ireland	Sulzer Pump Solutions Ireland Ltd., Wexford	100%	EUR 2 222 500	■	■	■	■	PU
Italy	Sulzer Friction Systems (Italia) S.r.l., Caivano	100%	EUR 250 000	■	■	■		SM
	Sulzer Pumps Wastewater Italy S.r.l., Casalecchio di Reno	100%	EUR 600 000			■		PU
	Sulzer Chemtech Italia S.r.l., Milano	100%	EUR 100 000			■		CT
Norway	Sulzer Pumps Wastewater Norway A/S, Sandvika	100%	NOK 502 000			■	■	PU
The Netherlands	Sulzer Pumps Wastewater Netherlands B.V., Maastricht-Airport	100%	EUR 79 000			■	■	PU
	Sulzer Eldim (NL) B.V., Lomm	100%	EUR 396 375	■	■	■		SM
	Sulzer Chemtech Nederland B.V., Breda	100%	EUR 1 134 451			■	■	CT
	Sulzer Turbo Services Rotterdam B.V., Europoort	100%	EUR 18 000		■	■	■	TS
	Sulzer Turbo Services Venlo B.V., Lomm	100%	EUR 444 705		■	■	■	TS
	Sulzer Netherlands Holding B.V., Breda	100%	EUR 10 010 260					Oth
	Sulzer Capital B.V., Breda	100%	EUR 50 000					Oth
Austria	Sulzer Pumps Wastewater Austria GmbH, Wiener Neudorf	100%	EUR 55 000			■	■	PU
Poland	Sulzer Turbo Services Poland Sp. z o.o., Lublin	100%	PLN 2 427 000		■		■	TS
Russia	ZAO Sulzer Pumps, St. Petersburg	100%	RUB 8 000 000			■		PU
	Sulzer Pumps Rus LLC, Moscow	100%	RUB 6 000 600			■	■	PU
	Sulzer Chemtech LLC, Serpukhov	100%	RUB 55 500 000		■	■	■	CT
Sweden	Sulzer Pumps Sweden AB, Norrköping	100%	SEK 3 000 000			■		PU
	Sulzer Pump Solutions AB, Malmö	100%	SEK 30 000 000					PU
	Sulzer Pump Solutions Sweden AB, Mölndal	100%	SEK 600 000			■	■	PU

PU Sulzer Pumps
SM Sulzer Metco
CT Sulzer Chemtech
TS Sulzer Turbo Services
Oth Others

35 Major subsidiaries (continued)

31.12.2013 Europe	Subsidiary	Participation	Registered capital (including paid-in capital in the USA and Canada)	Research & development	Production & Engineering	Sales	Service	Division
Spain	Sulzer Pumps Spain S.A., Madrid	100%	EUR 1 750 497			■		PU
	Sulzer Pumps Wastewater Spain S.A., Rivas Vaciamadrid	100%	EUR 2 000 000			■	■	PU
Hungary	Sulzer Eldim (HU) Kft., Debrecen	100%	HUF 161 000 000	■	■	■		SM
North America								
Canada	Sulzer Pumps (Canada) Inc., Burnaby	100%	CAD 2 771 588		■	■	■	PU
	Sulzer Metco (Canada) Inc., Fort Saskatchewan	100%	CAD 14 210 627	■	■	■	■	SM
	Sulzer Chemtech Canada Inc., Edmonton	100%	CAD 1 000 000		■	■	■	CT
	Sulzer Turbo Services Canada Ltd., Edmonton	100%	CAD 7 000 000		■	■	■	TS
USA	Sulzer Pumps (US) Inc., Brookshire, Texas	100%	USD 40 381 108	■	■	■	■	PU
	Sulzer Pump Solutions (US) Inc., Meriden, Connecticut	100%	USD 1 000		■	■	■	PU
	Sulzer Process Pumps (US) Inc., Easley, South Carolina	100%	USD 27 146 250		■	■	■	PU
	Sulzer Metco (US) Inc., Westbury, New York	100%	USD 26 865 993	■	■	■	■	SM
	Sulzer Friction Systems (US) Inc., Dayton, Ohio	100%	USD 5 297 189	■	■	■		SM
	Sulzer Chemtech USA Inc., Tulsa, Oklahoma	100%	USD 47 895 000	■	■	■	■	CT
	Sulzer Mixpac USA Inc., Salem, New Hampshire	100%	USD 100			■		CT
	Sulzer Turbo Services Houston Inc., La Porte, Texas	100%	USD 18 840 000		■	■	■	TS
	Sulzer Turbo Services New Orleans Inc., Belle Chasse, Louisiana	100%	USD 4 006 122		■	■	■	TS
	Sulzer EMS Inc., Phoenix, Arizona	100%	USD 97		■	■	■	TS
	Sulzer US Holding Inc., Sugar Land, Texas	100%	USD 200 561 040					Oth
Mexico	Sulzer Pumps México, S.A. de C.V., Cuautitlán Izcalli	100%	MXN 4 887 413		■	■	■	PU
	Sulzer Chemtech, S. de R.L. de C.V., Cuautitlán Izcalli	100%	MXN 31 345 500		■	■	■	CT
Central and South America								
Argentina	Sulzer Turbo Services Argentina S.A., Buenos Aires	100%	ARS 9 730 091		■	■	■	TS
Brazil	Sulzer Brasil S.A., Jundiaí	100%	BRL 82 054 659		■	■	■	PU
	Sulzer Pumps Wastewater Brasil Ltda., Curitiba	100%	BRL 8 077 706		■	■	■	PU
	Sulzer Friction Systems do Brasil Ltda., Diadema	100%	BRL 4 418 273		■	■		SM
	Sulzer Services Brasil, Municipio de Vinhedo	100%	BRL 21 675 856				■	CT
Venezuela	Sulzer Pumps (Venezuela) S.A., Barcelona	100%	VEB 200 000 000			■	■	PU
Africa								
South Africa	Sulzer Pumps (South Africa) (Pty) Ltd., Elandsfontein	75%	ZAR 100 450 000	■	■	■	■	PU
Nigeria	Sulzer Pumps (Nigeria) Ltd., Lagos	100%	NGN 10 000 000			■	■	PU
Middle East								
United Arab Emirates	Sulzer Pumps Middle East FZCO, Dubai	100%	AED 500 000			■	■	PU
Saudi Arabia	Sulzer Pumps (Saudi Arabia) LLC, Al Khobar	100%	SAR 1 000 000			■	■	PU
Bahrain	Sulzer Chemtech Middle East S.P.C., Al Seef	100%	BHD 50 000			■		CT
Asia								
India	Sulzer Pumps India Ltd., Navi Mumbai	99%	INR 25 000 000		■	■	■	PU
	Sulzer Friction Systems (India) Ltd., Chennai	100%	INR 7 100 000		■	■		SM
	Sulzer India Ltd.[1], Pune	96%	INR 34 500 000		■	■	■	CT
	Sulzer Chemtech Tower Field Services (India) Pvt. Ltd., Mumbai	100%	INR 500 000			■	■	CT
Indonesia	PT Sulzer Turbo Services Indonesia, Purwakarta	100%	IDR 28 234 800 000		■	■	■	TS
Japan	Sulzer Daiichi K.K., Tokyo	60%	JPY 30 000 000			■		PU
	Sulzer Metco (Japan) Ltd., Tokyo	100%	JPY 180 000 000		■	■	■	SM
Singapore	Sulzer Pumps Asia Pacific Pte Ltd., Singapore	100%	SGD 1 000 000		■	■	■	PU
	Sulzer Metco (Singapore) Pte Ltd., Singapore	100%	SGD 600 000			■	■	SM
	Sulzer Chemtech Pte Ltd., Singapore	100%	SGD 1 000 000	■	■	■	■	CT
South Korea	Sulzer Korea Ltd., Seoul	100%	KRW 222 440 000			■		PU
People's Republic of China	Sulzer Dalian Pumps & Compressors Ltd., Dalian	100%	CNY 115 000 000		■	■	■	PU
	Sulzer Pumps Suzhou Ltd., Suzhou	100%	CNY 82 069 324		■	■	■	PU

PU Sulzer Pumps
SM Sulzer Metco
CT Sulzer Chemtech
TS Sulzer Turbo Services
Oth Others

35 Major subsidiaries (continued)

31.12.2013 Europe	Subsidiary	Participation	Registered capital (including paid-in capital in the USA and Canada)	Research & development	Production & Engineering	Sales	Service	Division
People's Republic of China	Sulzer Pump Solutions (Kunshan) Co., Ltd., Kunshan	100%	USD 5 760 000		■			PU
	Sulzer Metco Surface Technology (Shanghai) Co. Ltd., Shanghai	100%	CHF 9 500 000	■	■	■	■	SM
	Sulzer Shanghai Eng. & Mach. Works Ltd., Shanghai	100%	CNY 61 432 607	■	■	■	■	CT
Australia								
	Sulzer Pumps (ANZ) Pty Ltd., Wheelers Hill	100%	AUD 100 000			■		PU
	Sulzer Metco Australia Pty Ltd., Sydney	100%	AUD 500 000			■	■	SM
	Sulzer Chemtech Pty Ltd., Adelaide	100%	AUD 500 000			■	■	CT
	Dowding & Mills (Australia) Pty Ltd., Brendale	100%	AUD 5 308 890		■	■	■	TS
	Sulzer Australia Holding Pty Ltd., Wheelers Hill	100%	AUD 11 320 100					Oth

[1] Shareholding increase according to the numbers of shares bought back.

PU Sulzer Pumps
SM Sulzer Metco
CT Sulzer Chemtech
TS Sulzer Turbo Services
Oth Others

KPMG

Report of the Statutory Auditor to the General Meeting of Shareholders of
Sulzer Ltd, Winterthur

Report of the Statutory Auditor on the Consolidated Financial Statements

As statutory auditor, we have audited the accompanying consolidated financial statements of Sulzer Ltd, which comprise the income statement, statement of comprehensive income, balance sheet, statement of changes in equity, statement of cash flows and notes (pages 66 to 117) for the year ended December 31, 2013.

Board of Directors' Responsibility

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards as well as International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements for the year ended December 31, 2013 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Other Matter

The consolidated financial statements of Sulzer Ltd for the year ended December 31, 2012 were audited by another auditor who expressed an unmodified opinion on those statements on February 8, 2013.

Report on Other Legal Requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the board of directors.

We recommend that the consolidated financial statements submitted to you be approved.

KPMG AG

François Rouiller Licensed Audit Expert Auditor in Charge	Roman Wenk Licensed Audit Expert

Zurich, February 19, 2014

Financial section

Five-year summaries of key financial data

Key figures from consolidated income statement and statement of cash flows

millions of CHF		2013	2012[3]	2011	2010	2009
Sales		**3263.9**	3340.7	3577.9	3183.7	3350.4
Operating income before depreciation/amortization	EBITDA	**378.6**	437.1	482.8	511.0	479.2
Operating income before restructuring	EBITR	**280.8**	336.6	379.1	410.3	416.6
Operating income	EBIT	**264.0**	328.7	364.1	406.4	368.0
Return on sales before restructuring (EBITR/sales)	ROSR	**8.6%**	10.1%	10.6%	12.9%	12.4%
Return on sales (EBIT/sales)	ROS	**8.1%**	9.8%	10.2%	12.8%	11.0%
Return on capital employed (EBIT/capital employed)	ROCE	**12.6%**	14.7%	18.8%	28.1%	24.8%
Depreciation/amortization		**114.6**	108.4	118.7	104.6	111.2
Research and development expenses		**70.6**	66.9	71.7	58.5	63.4
Net income attributable to shareholders of Sulzer Ltd		**234.4**	302.9	279.8	300.4	270.4
– in percentage of equity attributable to shareholders of Sulzer Ltd	ROE	**10.0%**	13.7%	13.8%	15.9%	15.2%
Capital expenditure		**80.5**	93.0	113.2	118.1	112.2
Free cash flow		**218.7**	347.9	82.3	149.5	528.8
Cash flow from operating and investing activities		**199.9**	343.8	–729.0	62.2	501.0
Employees (number of full-time equivalents) as of December 31		**15382**	15537	17002	13740	12183
Personnel expenses		**1047.4**	1019.8	1056.3	973.6	944.0

Key figures from consolidated balance sheet

millions of CHF	2013	2012	2011	2010	2009
Non-current assets	**1891.5**	2237.8	2225.6	1295.6	1200.4
– thereof property, plant, and equipment	**492.0**	650.0	619.5	531.6	558.1
Current assets	**2652.4**	2371.7	2336.0	2196.1	2183.8
– thereof cash and cash equivalents and marketable securities	**528.7**	513.1	430.7	680.8	767.1
Total assets	**4543.9**	4609.5	4561.6	3491.7	3384.2
Equity attributable to shareholders of Sulzer Ltd	**2334.4**	2216.6	2022.4	1895.0	1777.5
Non-current liabilities	**825.3**	956.5	998.7	348.1	327.2
– thereof long-term borrowings	**515.9**	533.0	531.4	44.2	49.0
Current liabilities	**1377.9**	1429.6	1534.5	1242.4	1268.1
– thereof short-term borrowings	**56.6**	76.0	236.2	83.8	47.5
Net liquidity[1]	**–36.2**	–95.9	–336.9	552.8	670.6
Equity ratio[2]	**51.4%**	48.1%	44.3%	54.3%	52.5%
Borrowings-to-equity ratio (gearing)	**0.25**	0.27	0.38	0.07	0.05

1) Cash and cash equivalents and marketable securities, less short- and long-term borrowings from continuing and discontinued operations.

2) Equity attributable to shareholders of Sulzer Ltd in relation to total assets.

3) Restatement of prior year figures.

Five-year summaries by division

	Order intake					Sales				
millions of CHF	**2013**	2012[2]	2011	2010	2009	**2013**	2012[2]	2011	2010	2009
Divisions	**3252.9**	3334.6	3558.5	3278.5	3006.7	**3266.6**	3332.6	3570.1	3173.3	3336.3
Sulzer Pumps	**2031.3**	2094.3	1705.6	1613.7	1684.5	**2051.3**	2097.5	1747.8	1576.1	1856.7
Sulzer Turbo Services	**471.7**	535.2	477.6	400.4	278.3	**471.6**	510.5	488.0	399.1	291.3
Sulzer Chemtech	**749.9**	705.1	701.7	621.3	498.4	**743.7**	724.6	667.0	574.6	632.3
Sulzer Metco	**–**	–	673.6	643.1	545.5	**–**	–	667.3	623.5	556.0
Others	**–3.0**	8.8	7.6	10.2	10.9	**–2.7**	8.1	7.8	10.4	14.1
Total	**3249.9**	3343.4	3566.1	3288.7	3017.6	**3263.9**	3340.7	3577.9	3183.7	3350.4

	Operating income (EBIT)					Capital employed (average)				
millions of CHF	**2013**	2012[2]	2011	2010	2009	**2013**	2012[2]	2011	2010	2009
Divisions	**289.7**	316.8	353.2	346.5	312.7	**2158.7**	2270.1	1965.9	1447.5	1436.8
Sulzer Pumps	**169.1**	191.2	168.2	189.0	204.7	**1394.4**	1464.6	820.0	340.5	416.7
Sulzer Turbo Services	**39.2**	54.9	53.2	41.9	33.0	**351.5**	371.5	356.2	308.9	190.1
Sulzer Chemtech	**81.4**	70.7	63.1	58.5	54.5	**412.8**	434.0	412.2	406.2	417.9
Sulzer Metco	**–**	–	68.7	57.1	20.5	**–**	–	377.5	391.9	412.1
Others	**–25.7**	11.9	10.9	59.9	55.3	**–68.9**	–26.2	–29.4	–0.6	49.9
Total	**264.0**	328.7	364.1	406.4	368.0	**2089.8**	2243.9	1936.5	1446.9	1486.7

	Order backlog					Employees[1]				
millions of CHF	**2013**	2012[2]	2011	2010	2009	**2013**	2012[2]	2011	2010	2009
Divisions	**1672.3**	1754.3	1861.7	1797.3	1869.3	**15200**	15362	16758	13509	11890
Sulzer Pumps	**1235.0**	1309.1	1343.5	1336.6	1436.0	**8496**	8573	8211	5904	5928
Sulzer Turbo Services	**146.8**	151.6	130.1	115.1	137.2	**2537**	2703	2654	2587	1189
Sulzer Chemtech	**290.5**	293.6	310.7	274.3	238.9	**4167**	4086	3634	2973	2977
Sulzer Metco	**–**	–	77.4	71.3	57.2	**–**	–	2259	2045	1796
Others	**–0.2**	–0.7	2.3	2.5	2.4	**182**	175	244	231	293
Total	**1672.1**	1753.6	1864.0	1799.8	1871.7	**15382**	15537	17002	13740	12183

[1] Number of full-time equivalents as of December 31.

[2] Restatement of prior year figures.

Five-year summaries by region

Order intake by region

millions of CHF	2013	2012[2]	2011	2010	2009
Europe, Middle East, Africa	**1 329.7**	1 431.2	1 554.5	1 349.8	1 330.7
Americas	**1 123.2**	1 214.9	1 225.5	1 131.9	1 051.6
Asia-Pacific	**797.0**	697.3	786.1	807.0	635.3
Total	**3 249.9**	3 343.4	3 566.1	3 288.7	3 017.6

Sales by region

millions of CHF	2013	2012[2]	2011	2010	2009
Europe, Middle East, Africa	**1 402.4**	1 421.2	1 574.6	1 331.4	1 471.4
Americas	**1 130.0**	1 145.5	1 167.6	1 164.0	1 190.4
Asia-Pacific	**731.5**	774.0	835.7	688.3	688.6
Total	**3 263.9**	3 340.7	3 577.9	3 183.7	3 350.4

Capital employed (average) by company location

millions of CHF	2013	2012[2]	2011	2010	2009
Europe, Middle East, Africa	**1 365.1**	1 500.2	1 319.7	922.5	961.2
Americas	**481.0**	497.0	418.1	389.8	426.2
Asia-Pacific	**243.7**	246.7	198.7	134.6	99.3
Total	**2 089.8**	2 243.9	1 936.5	1 446.9	1 486.7

Employees by company location[1]

	2013	2012[2]	2011	2010	2009
Europe, Middle East, Africa	**6 749**	6 938	8 211	6 480	5 436
Americas	**4 361**	4 653	4 739	3 757	3 687
Asia-Pacific	**4 272**	3 946	4 051	3 503	3 060
Total	**15 382**	15 537	17 001	13 740	12 183

[1] Number of full-time equivalents as of December 31.

[2] Restatement of prior year figures.

Financial statements of Sulzer Ltd

Financial statements of Sulzer Ltd

Balance sheet of Sulzer Ltd

December 31

millions of CHF	Notes	2013	2012
Non-current assets			
Operational assets		–	0.1
Investments in subsidiaries and other entities		1 301.7	1 316.5
Loans to subsidiaries		724.0	698.7
– thereof subordinated CHF 2.8 million (2012: CHF 9.6 million)			
Other loans and financial assets		4.6	0.6
Total non-current assets		**2 030.3**	**2 015.9**
Current assets			
Accounts receivable from subsidiaries		227.8	194.7
Other accounts receivable and prepayments		7.3	7.1
Marketable securities	103	40.6	71.4
Cash		146.2	14.4
Total current assets		**421.9**	**287.6**
Total assets		**2 452.2**	**2 303.5**
Equity			
Registered share capital	104	0.3	0.3
Legal reserves		178.6	180.2
Reserves for treasury stock	104	26.9	25.3
Free reserves		1 226.5	986.5
Retained earnings		13.6	13.9
Net profit for the year		371.5	349.3
Total equity		**1 817.4**	**1 555.5**
Non-current liabilities			
Non-current financial liabilities		498.1	497.4
Non-current provisions		67.8	77.4
Non-current liabilities with subsidiaries		–	–
Total non-current liabilities		**565.9**	**574.8**
Current liabilities			
Current financial liabilities		-	10.0
Current provisions		6.1	10.9
Current liabilities with subsidiaries		33.1	126.1
Accounts payable and accrued liabilities	105	29.7	26.2
Total current liabilities		**68.9**	**173.2**
Total liabilities		**634.8**	**748.0**
Total equity and liabilities		**2 452.2**	**2 303.5**

Income statement of Sulzer Ltd

January – December

millions of CHF	Notes	2013	2012
Revenues			
Investment income	109	**448.5**	289.7
Financial income		**52.1**	93.9
Other income		**53.8**	52.2
Total revenues		**554.4**	435.8
Expenses			
Administrative expenses	107	**87.0**	39.7
Financial expenses		**78.9**	22.2
Investment and loan expenses		**15.4**	15.4
Income taxes		**0.7**	8.5
Other expenses		**0.9**	0.7
Total expenses		**182.9**	86.5
Net profit for the year		**371.5**	349.3

Statement of changes in equity of Sulzer Ltd

January – December

millions of CHF	Share capital	Legal reserves	Reserves for treasury stock	Free reserves	Retained earnings	Net income	Total
Equity as of January 1, 2011	**0.3**	**159.3**	**46.2**	**676.5**	**6.5**	**413.9**	**1 302.7**
Dividend						–102.8	–102.8
Allocation of net income				310.0	1.1	–311.1	–
Net profit for the year						109.1	109.1
Change in reserves for treasury stock		1.1	–1.1				–
Equity as of December 31, 2011	**0.3**	**160.4**	**45.1**	**986.5**	**7.6**	**109.1**	**1 309.0**
Dividend						–102.8	–102.8
Allocation of net income					6.3	–6.3	–
Net profit for the year						349.3	349.3
Change in reserves for treasury stock		19.8	–19.8				–
Equity as of December 31, 2012	**0.3**	**180.2**	**25.3**	**986.5**	**13.9**	**349.3**	**1 555.5**
Dividend						–109.6	–109.6
Allocation of net income				240.0	–0.3	–239.7	–
Net profit for the year						371.5	371.5
Change in reserves for treasury stock		–1.6	1.6				–
Equity as of December 31, 2013	**0.3**	**178.6**	**26.9**	**1 226.5**	**13.6**	**371.5**	**1 817.4**

Notes to the financial statements of Sulzer Ltd

101 Valuation principles

The financial statements as of December 31, 2013, are in compliance with the requirements of the Swiss Corporation law.

102 Investments in subsidiaries

A list of the major subsidiaries held directly or indirectly by Sulzer Ltd is included on pages 115 to 117 (note 35).

103 Marketable securities

millions of CHF	2013	2012
Treasury stock	40.6	65.6
Other shares	-	5.8
Total marketable securities	**40.6**	71.4

104 Registered share capital

The share capital amounts to CHF 342 623.70, made up of 34 262 370 shares with a par value of CHF 0.01. All shares are fully paid in and registered.

Share ownership
Details of the composition and changes relating to the issued share capital, the share capital authorized but not issued, and the shares held as treasury stock, are included in note 21 to the consolidated financial statements. Details of share data ownership are also provided in note 21.

Treasury stock held by Sulzer Ltd

millions of CHF	Number of shares	Total acquisition cost
Balance as of January 1, 2013	229 560	25.3
Purchase	199 729	18.6
Sale	–146 874	–17.0
Balance as of December 31, 2013	**282 415**	**26.9**

The treasury stock held covers the options from the shares participation plan and restricted stock unit plan. The total number of shares as of December 31, 2013, amounted to 282 415 (2012: 229 560).

105 Accounts payable and accrued liabilities

millions of CHF	2013	2012
Other liabilities	1.1	2.3
Accrued liabilities	28.6	23.9
Total accounts payable and accrued liabilities	29.7	26.2

106 Contingent liabilities

millions of CHF	2013	2012
Guarantees, sureties, comfort letters for subsidiaries		
– to banks and insurance companies	1 341.4	1 303.4
– to customers	389.4	395.3
– to others	150.7	34.5
Total contingent liabilities	1 881.5	1 733.2

As of December 31, 2013, CHF 399.8 million (2012: CHF 400.0 million) of guarantees, sureties, and comfort letters for subsidiaries to banks and insurance companies were utilized.

107 Administrative expenses

millions of CHF	2013	2012
Personnel expenses	22.8	17.3
Other administrative expenses	64.2	22.4
Total administrative expenses	87.0	39.7

108 Risk management process

Sulzer Ltd is the ultimate parent company of the Sulzer corporation. The key risks of Sulzer Ltd are covered through the risk management process (see note 33 to the consolidated financial statements) of the corporation.

109 Investment income

Sulzer Finance (Switzerland) Ltd has been merged with Sulzer Ltd in the reporting year. The merger gain amounted to CHF 112.0 million and is included in investment income.

110 Compensation and share participation of the Board of Directors, Executive Committee, and related parties

This note has been prepared in accordance with the requirements of the Swiss Code of Obligations (CO), and differs from the compensation disclosures in note 31, mainly due to different valuation.

Compensation 2013

thousands of CHF	Base salary	Bonus[4]	Subtotal cash compensation	Other	Restricted stock unit (RSU) plan[5]	Performance share plan (PSP) 2013[6]	Performance share plan (PSP) 2010[7]	Pensions and social contributions	Total
Board of Directors	957	–	957	4	778	–	–	140	**1 879**
Manfred Wennemer, Chairman[1] and Chairman of the Strategy Committee	321	–	321	–	223	–	–	–	**544**
Jürgen Dormann[2]	106	–	106	4	–	–	–	48	**158**
Thomas Glanzmann	109	–	109	–	111	–	–	10	**230**
Vladimir V. Kuznetsov, Vice Chairman, Chairman of the Nomination and Remuneration Committee	100	–	100	–	111	–	–	33	**244**
Jill Lee	96	–	96	–	111	–	–	13	**220**
Marco Musetti	90	–	90	–	111	–	–	12	**213**
Luciano Respini	105	–	105	–	111	–	–	14	**230**
Klaus Sturany, Chairman of the Audit Committee	30	–	30	–	–	–	–	10	**40**
Executive Committee[3]	3 878	2 298	6 176	212	495	3 639	–	2 626	**13 148**
– thereof highest single compensation Klaus Stahlmann, CEO	820	637	1 457	2	–	1 495	–	276	**3 230**

No compensation was granted to former members of the Board of Directors, former members of the Executive Committee, or other related parties.

[1] Chairman from March 27 to December 31, 2013.

[2] Chairman until March 27, 2013.

[3] Members of the Executive Committee:
- Klaus Stahlmann, CEO
- Peter Alexander, President of Sulzer Turbo Services
- Oliver Bailer, President of Sulzer Chemtech since November 1, 2013
- Jürgen Brandt, CFO
- Urs Fankhauser, President of Sulzer Chemtech until October 31, 2013
- Alfred Gerber, General Counsel until April 30, 2013
- Kim Jackson, President of Sulzer Pumps until mid April 2013
- César Montenegro, President of Sulzer Metco
- Scot Smith, President of Sulzer Pumps since May 21, 2013.

[4] Expected variable wage elements.

[5] RSU awards assigned during the reporting period had a fair value of CHF 148.28 at grant date. The fair value includes an 11% discount according to the tax procedure regarding reduction due to the limited availability at the grant date (i.e. CHF 18.33). Employer contribution to the social security institutions due to the execution of equity instruments is not included.

[6] Represents one-third of the fair value of the granted performance share units of the PSP 2013.

[7] In 2013, the 2010 performance share plan vested. Due to the excellent performance of the years 2010 to 2012, the vesting value exceeded the defined cap value for all participants and was subsequently reduced to the cap value. The vesting amount of CHF 15.5 million was settled in cash (CHF 8.0 million) and in restricted shares with a value after tax discount of CHF 7.5 million.

110 Compensation and share participation of the Board of Directors, Executive Committee, and related parties (continued)

Compensation 2012

thousands of CHF	Base salary	Bonus[4]	Subtotal cash com-pensation	Other	Restricted stock unit (RSU) plan[5]	Performance share plan (PSP) 2013	Performance share plan (PSP) 2010[6]	Pensions and social contributions	Total
Board of Directors	1044	–	1044	2	889	–	–	157	2092
Jürgen Dormann, Chairman and Chairman of the Strategy Committee	443	–	443	–	223	–	–	45	711
Thomas Glanzmann[2]	68	–	68	–	111	–	–	2	181
Vladimir V. Kuznetsov, Vice Chairman, Chairman of the Nomination and Remuneration Committee	101	–	101	–	111	–	–	18	230
Jill Lee	96	–	96	–	111	–	–	9	216
Marco Musetti	92	–	92	–	111	–	–	8	211
Luciano Respini	105	–	105	–	111	–	–	26	242
Daniel J. Sauter[1]	24	–	24	2	–	–	–	49	75
Klaus Sturany, Chairman of the Audit Committee	115	–	115	–	111	–	–	–	226
Executive Committee[3]	3372	2871	6243	152	1113	–	959	1467	9934
– thereof highest single compensation Klaus Stahlmann, CEO	685	867	1552	–	–	–	–	187	1739

No compensation was granted to former members of the Board of Directors, former members of the Executive Committee, or other related parties.

1) Member until April 5, 2012.

2) Member since April 5, 2012.

3) Members of the Executive Committee:
– Klaus Stahlmann, CEO (since February 22, 2012)
– Peter Alexander, President of Sulzer Turbo Services
– Jürgen Brandt, CFO and ad interim CEO (until February 22, 2012)
– Urs Fankhauser, President of Sulzer Chemtech
– Alfred Gerber, General Counsel
– Kim Jackson, President of Sulzer Pumps
– César Montenegro, President of Sulzer Metco.

4) Expected variable wage elements.

5) RSU awards assigned during the reporting period had a fair value of CHF 114.93 at grant date. The fair value includes an 11% discount according to the tax procedure regarding reduction due to the limited availability at the grant date (i.e. CHF 14.20). Employer contribution to the social security institutions due to the execution of equity instruments is not included.

6) Represents one-third of the fair value of the granted performance share units of the PSP 2010.

110 Compensation and share participation of the Board of Directors, Executive Committee, and related parties (continued)

Shareholders 2013

	Sulzer shares	Restricted Stock Units (RSU) (NF)[1]	Other call options	Total call options, share awards and shares	Put options	Blocked Sulzer shares out of PSP 2010	Performance Share Units (PSU)[2]
Board of Directors	54 878	10 609	–	65 487	–	–	–
Manfred Wennemer	–	1 503	–	1 503	–	–	–
Thomas Glanzmann	2 723	1 399	–	4 122	–	–	–
Vladimir V. Kuznetsov	40 315	1 692	–	42 007	–	–	–
Jill Lee	909	1 692	–	2 601	–	–	–
Marco Musetti	909	1 692	–	2 601	–	–	–
Luciano Respini	6 757	1 692	–	8 449	–	–	–
Klaus Sturany	3 265	939	–	4 204	–	–	–
Executive Committee	2 183	8 268	–	10 451	–	24 739	32 175
Klaus Stahlmann	–	–	–	–	–	–	15 881
Peter Alexander	–	1 651	–	1 651	–	9 277	4 860
Oliver Bailer	202	1 332	–	1 534	–	–	–
Jürgen Brandt	98	1 651	–	1 749	–	6 185	5 717
César Montenegro	1 883	3 634	–	5 517	–	9 277	–
Scot Smith	–	–	–	–	–	–	5 717

[1] Restricted Stock Units assigned by Sulzer as compensation.

[2] The average fair value of one performance share unit of the PSP 2013 at grant date amounted to CHF 294.14.

Shareholders 2012

	Sulzer shares	Options free to be sold (F)[1]	Options not free to be sold (NF)[1]	Restricted Stock Units (RSU) (NF)[1]	Other call options	Total call options, share awards and shares[2]	Put options
Board of Directors	20 887	750	–	13 971	–	42 358	–
Jürgen Dormann	5 648	–	–	3 955	–	9 603	–
Thomas Glanzmann	1 000	–	–	969	–	1 969	–
Vladimir V. Kuznetsov	3 775	750	–	1 979	–	13 254	–
Jill Lee	293	–	–	1 555	–	1 848	–
Marco Musetti	293	–	–	1 555	–	1 848	–
Luciano Respini	7 653	–	–	1 979	–	9 632	–
Klaus Sturany	2 225	–	–	1 979	–	4 204	–
Executive Committee	12 496		–	18 789	–	31 285	–
Klaus Stahlmann	–	–	–	–	–	–	–
Peter Alexander	2 825	–	–	3 243	–	6 068	–
Jürgen Brandt	865	–	–	2 734	–	3 599	–
Urs Fankhauser	305	–	–	3 479	–	3 784	–
Alfred Gerber	4 645	–	–	2 375	–	7 020	–
Kim Jackson	10	–	–	3 479	–	3 489	–
César Montenegro	3 846	–	–	3 479	–	7 325	–

[1] Options/Restricted Stock Units assigned by Sulzer as compensation.

[2] One option entitles the purchase of ten shares, one RSU award is converted into one share. This has been reflected in the total balance.

Appropriation of net profit

in CHF	2013	2012
Net profit for the year	371 500 000	349 300 000
Unallocated profit carried forward from previous year	13 590 600	13 930 184
Total available profit	**385 090 600**	363 230 184
Proposal by the Board of Directors:		
Appropriation to free reserves	**260 000 000**	240 000 000
Dividend	**109 639 584**	109 639 584
Balance carried forward	**15 451 016**	13 590 600
Distribution per share CHF 0.01		
Gross dividend	3.20	3.20
less 35% withholding tax	1.12	1.12
Net payment	**2.08**	2.08

The Board of Directors proposes the payment of a dividend of CHF 3.20 per share to the Annual General Meeting on March 20, 2014.

Annual General Meeting

The 100th ordinary Annual General Meeting will be held on Thursday, March 20, 2014, at 10.00 a.m. at Eulachhalle, Wartstrasse 73, Winterthur (Switzerland).

KPMG

Report of the Statutory Auditor to the General Meeting of Shareholders of
Sulzer Ltd, Winterthur

Report of the Statutory Auditor on the Financial Statements

As statutory auditor, we have audited the financial statements of Sulzer Ltd, which comprise the balance sheet, income statement, statement of changes in equity and notes (pages 124 to 130) for the year ended December 31, 2013.

Board of Directors' Responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended December 31, 2013 comply with Swiss law and the company's articles of incorporation.

Other Matter

The financial statements of Sulzer Ltd for the year ended December 31, 2012 were audited by another auditor who expressed an unmodified opinion on those statements on February 8, 2013.

Report on Other Legal Requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the board of directors.

We further confirm that the proposed appropriation of net profit complies with Swiss law and the company's articles of incorporation.
We recommend that the financial statements submitted to you be approved.

KPMG AG

François Rouiller Licensed Audit Expert Auditor in Charge	Roman Wenk Licensed Audit Expert

Zurich, February 19, 2014

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 Sulzer Annual Report 2013 is also available in German and online at www.sulzer.com/AR2013. Furthermore, the report is available as a summary in German or in English. The original version is in English.

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Data per share

CHF	2013	2012	2011	2010	2009
Net income attributable to a shareholder of Sulzer Ltd	**6.89**	8.91	8.25	8.92	8.06
Change from prior year	**–23%**	8%	–8%	11%	–16%
Free cash flow	**6.43**	10.23	2.43	4.44	15.75
Equity attributable to a shareholder of Sulzer Ltd	**68.70**	65.20	59.60	56.20	52.95
Dividend	**3.20**[1)]	3.20	3.00	3.00	2.80
Payout ratio	**46%**	36%	36%	34%	35%
Average number of shares outstanding	**33999429**	34009267	33906689	33693120	33567516

1) Proposal to the Annual General Meeting.

Stock market information

	2013	2012	2011	2010	2009
Registered share (in CHF)					
– high	**171.00**	147.50	158.50	144.00	96.40
– low	**129.60**	101.40	84.35	80.10	39.15
– year-end	**143.90**	144.10	100.40	142.50	81.10
Market capitalization as of December 31					
– number of shares outstanding	**33979955**	34032810	33804507	33715892	33570526
– in millions of CHF	**4890**	4904	3394	4805	2723
– in percentage of equity	**209%**	221%	168%	254%	153%
P/E ratio as of December 31	**20.9x**	16.2x	12.2x	16.0x	10.1x
Dividend yield as of December 31	**2.2%**	2.2%	3.0%	2.1%	3.5%

Title	Security No.	Investdata	Reuters	Bloomberg
Listed on SIX Swiss Exchange Registered share	3838891	SUN	SUN.S	SUN SW

Shareholder structure as of December 31, 2013

number of shares	Number of shareholders	Shareholding
1–100	5770	0.8%
101–1000	5021	4.8%
1001–10000	637	5.2%
10001–100000	109	9.6%
More than 100000	24	52.6%
Total registered shareholders and shares (excluding treasury shares Sulzer Ltd)	**11561**	**73.0%**

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