SULZER

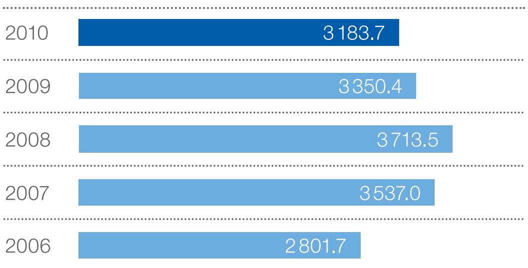
Annual Report 2010

Financial highlights 2010

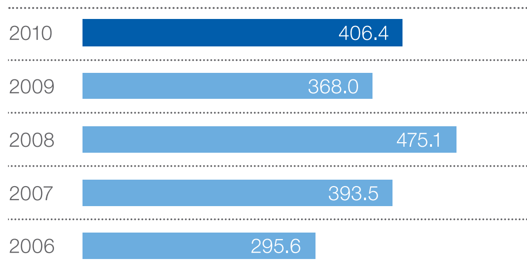
Growth in order intake and strong profitability

While late-cycle markets have not yet recovered, Sulzer achieved a strong financial performance. Order intake and return on sales increased. The improved return on capital employed highlights the continued focus on long-term value creation.

Sales
in millions of CHF



Operating income
in millions of CHF



Key figures

millions of CHF		2010	2009	Change in +/– %	+/– %[1]
Order intake		**3 288.7**	3 017.6	9.0	7.5
Order backlog		**1 799.8**	1 871.7	–3.8	
Sales		**3 183.7**	3 350.4	–5.0	–6.6
Operating income before depreciation/amortization	EBITDA	**511.0**	479.2	6.6	
Operating income before restructuring	EBITR	**410.3**	416.6	–1.5	
Operating income	EBIT	**406.4**	368.0	10.4	
Return on sales before restructuring	ROSR	**12.9%**	12.4%		
Return on sales	ROS	**12.8%**	11.0%		
Return on capital employed	ROCE	**28.1%**	24.8%		
Net income attributable to shareholders of Sulzer Ltd		**300.4**	270.4	11.1	
Capital expenditure		**118.1**	112.2	5.3	
Equity attributable to shareholders of Sulzer Ltd		**1 895.0**	1 777.5	6.6	
Free cash flow		**149.5**	528.8	–71.7	
Net liquidity		**552.8**	670.6	–17.6	
Employees (number of full-time equivalents) as of December 31		**13 740**	12 183	12.8	

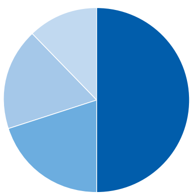
Data per share

CHF		2010	2009	Change in +/– %
Closing price of the registered share as of December 31		**142.50**	81.10	75.7
Net income attributable to a shareholder of Sulzer Ltd	EPS	**8.92**	8.06	10.7
Equity attributable to a shareholder of Sulzer Ltd		**56.20**	52.95	6.1
Dividend		**3.00**[2]	2.80	7.1

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

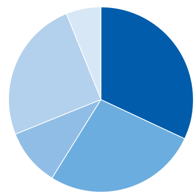
[2] Proposal to the Annual General Meeting.

Sales by division



	2010
Sulzer Pumps	50%
Sulzer Metco	20%
Sulzer Chemtech	18%
Sulzer Turbo Services	12%

Sales by region



	2010
Europe	32%
North America	27%
Central and South America	10%
Asia, Middle East, Australia	25%
Africa	6%

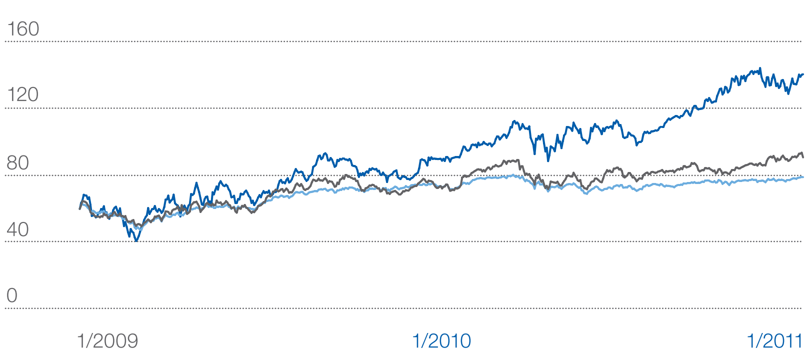
By division

	Order intake				Sales			
			Change in				Change in	
millions of CHF	**2010**	2009	+/– %	+/– %[1]	**2010**	2009	+/– %	+/– %[1]
Divisions	3278.5	3006.7	9.0	7.5	3173.3	3336.3	–4.9	–6.6
– Sulzer Pumps	1613.7	1684.5	–4.2	–1.7	1576.1	1856.7	–15.1	–13.5
– Sulzer Metco	643.1	545.5	17.9	21.8	623.5	556.0	12.1	15.7
– Sulzer Chemtech	621.3	498.4	24.7	24.7	574.6	632.3	–9.1	–8.9
– Sulzer Turbo Services	400.4	278.3	43.9	5.0	399.1	291.3	37.0	0.2
Others	10.2	10.9	–	–	10.4	14.1	–	–
Total	**3288.7**	**3017.6**	**9.0**	**7.5**	**3183.7**	**3350.4**	**–5.0**	**–6.6**

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

	Operating income			Return on sales	
			Change in		
millions of CHF	**2010**	2009	+/– %	**2010**	2009
Divisions	346.5	312.7	10.8	10.9%	9.4%
– Sulzer Pumps	189.0	204.7	–7.7	12.0%	11.0%
– Sulzer Metco	57.1	20.5	178.5	9.2%	3.7%
– Sulzer Chemtech	58.5	54.5	7.3	10.2%	8.6%
– Sulzer Turbo Services	41.9	33.0	27.0	10.5%	11.3%
Others	59.9	55.3	–	–	–
Total	**406.4**	**368.0**	**10.4**	**12.8%**	**11.0%**

Share price development



+76% (2010)

(2009/10: +138%)

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

Who we are and how we are doing

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

We specialize in industrial machinery and equipment, surface technology, and rotating equipment maintenance. Combining engineering and application expertise, our innovative solutions add value and strengthen the competitive position of our customers.

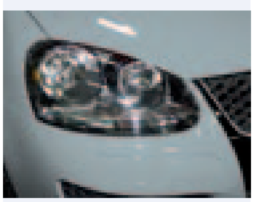
Sulzer is a leading provider in its key markets: oil and gas, hydrocarbon processing, power generation, automotive, aviation, and pulp and paper. We serve clients worldwide through a network of over 160 locations.

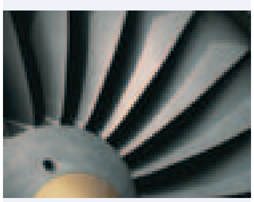
Our key markets


Oil and gas


Hydrocarbon processing


Power generation


Automotive


Aviation


Pulp and paper

See page 3 for more market information

Highlights in 2010

Sales

CHF 3184m

(2009: CHF 3 350m)

Operating income

CHF 406m

(2009: CHF 368m)

Net income[1)]

CHF 300m

(2009: CHF 270m)

Dividend

CHF 3.00 (proposed)

(2009: CHF 2.80)

- Sulzer's order intake increased, driven by acquisitions and the recovery of early-cycle markets. Sales were still impacted by the strong order intake reduction in 2009.
- With a return on sales of 12.8% and a return on capital employed of 28.1%, Sulzer proved its ability to adapt fast to changed market conditions.
- Sulzer's global presence was further strengthened with a major new manufacturing plant in China and facility expansions in Brazil, India, Russia, and Indonesia. Sulzer India Ltd. was taken private.
- The service businesses of Sulzer Turbo Services and Sulzer Metco were expanded with the acquisitions of Dowding & Mills and Bekaert's diamond-like coating activities.
- Sulzer successfully completed its real estate strategy by divesting Sulzer Real Estate Ltd.
- With a net income[1)] of CHF 300 million (EPS of CHF 8.92), the Board of Directors is proposing an increased dividend of CHF 3.00.
- Sulzer's solid balance sheet allows for further investments in innovation, in the global production and service network as well as in acquisitive growth.

[1)] Attributable to shareholders of Sulzer Ltd.

Contents

The company at a glance

Leading market positions with innovative and sustainable solutions

The Sulzer divisions are leading providers in selected industrial markets. Their innovative and sustainable solutions add value and strengthen the competitive positions of Sulzer's customers.

Sulzer Pumps

Sales

CHF 1576m

(2009: CHF 1857m)

Operating income

CHF 189m

(2009: CHF 205m)

Business profile See page 20

Sulzer Pumps is a market leader in pump technology and hydraulics.
Customers benefit from the division's intensive research and development in fluid dynamics, process-oriented products, and special materials. Its global production and service network ensures high customer proximity.

Sulzer Metco

Sales

CHF 624m

(2009: CHF 556m)

Operating income

CHF 57m

(2009: CHF 21m)

Business profile See page 24

Sulzer Metco is a market leader in surface technology.
The division supplies solutions, products, services, and equipment for thermal-spray, thin-film, and other selected functional surface technologies. Innovative solutions help the customers to improve performance and increase efficiency and reliability worldwide.

Sulzer Chemtech

Sales

CHF 575m

(2009: CHF 632m)

Operating income

CHF 59m

(2009: CHF 55m)

Business profile See page 28

Sulzer Chemtech has leading positions in separation technology and static mixing.
The division is active in the fields of process technology, separation towers, as well as two-component mixing and dispensing systems. It maintains a worldwide presence with sales, engineering, production, and service locations.

Sulzer Turbo Services

Sales

CHF 399m

(2009: CHF 291m)

Operating income

CHF 42m

(2009: CHF 33m)

Business profile See page 32

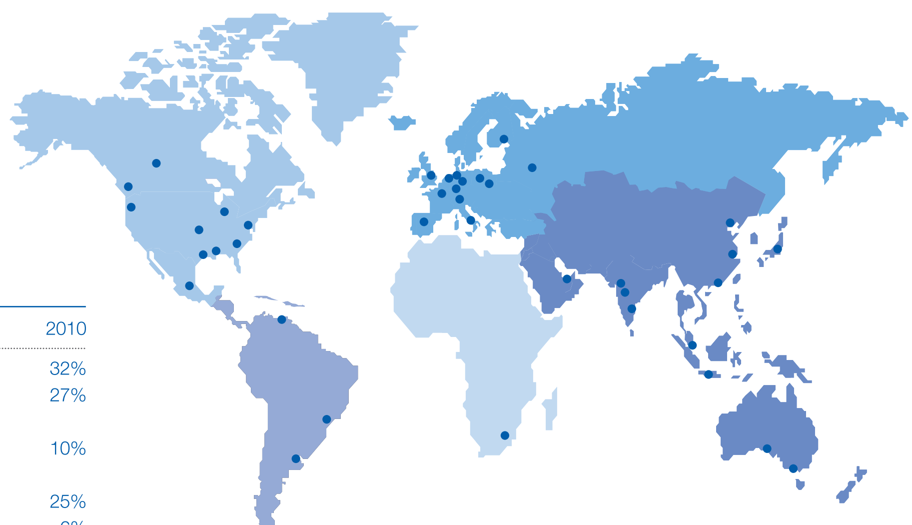
Sulzer Turbo Services is a leading independent service provider for rotating equipment.
The division offers repair and maintenance services for turbomachinery, generators, and motors. It also manufactures and sells replacement parts for gas and steam turbines, compressors, generators, and motors.

The markets we serve

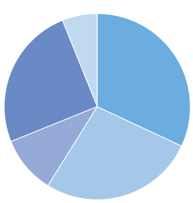
Sulzer's global network ensures high customer proximity

Sulzer builds on the advantages of a truly global network with over 160 production and service locations. Local presence is crucial to know the customers' challenges and to serve them quickly and reliably.

Sulzer's production and service network



Sales by region



	2010
Europe	32%
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Africa	6%

Market segments

	Oil and gas (upstream)	Hydrocarbon processing	Power generation	Automotive	Aviation	Pulp and paper	Other industrial markets
Share of sales	14%	26%	19%	7%	5%	4%	25%
Sulzer Pumps	●	●	●			•	●
Sulzer Metco	•		●	●	●		●
Sulzer Chemtech	•	●		•			●
Sulzer Turbo Services	●	●	●				●

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

Letter to the shareholders

Strong profitability, geographical expansion, and targeted acquisitions

Sulzer remained resilient in still challenging markets and achieved a strong return on sales. Based on its leading market positions, focused strategy, and continued operational improvements, Sulzer is well positioned for continued long-term success.

Ton Büchner, CEO **Jürgen Dormann,** Chairman of the Board

Net income[1)]

CHF 300m

(2009: CHF 270m)

Dividend

CHF 3.00 (proposed)

(2009: CHF 2.80)

[1)] Attributable to shareholders of Sulzer Ltd.

Dear Shareholder

In 2010, Sulzer achieved a strong double-digit profitability level again, which proves the effectiveness of the proactive and determined adaptation program initiated in 2009. We also achieved further progress in our five core focus areas. To foster operational excellence, lean principles were systematically implemented on a global basis. Sulzer expanded its presence in the emerging markets by opening a major pumps manufacturing plant in China and with a number of significant expansions at other locations. The service business was substantially strengthened through the acquisitions of a coating services business and a leading independent provider of electro-mechanical services. Sulzer successfully completed its real estate strategy by divesting Sulzer Real Estate Ltd.

Based on a healthy balance sheet, Sulzer continues to assess additional acquisitions in order to strengthen its portfolio and expand its global presence. For 2011, the company expects a moderate growth in order intake and increased sales on an adjusted basis. The divisional operating income is anticipated to be moderately higher (excluding the extraordinary income from the real estate divestiture).

Energy-efficient solutions for a sustainable future

Sustainable behavior is part of the core of Sulzer. As a result of its sustainability efforts, the company is listed on corresponding indices, such as the DJSI (Dow Jones Sustainability Index) World and Europe, the Kempen/SNS European SRI Universe, and the Julius Bär Swiss Sustainable Companies Fund. Sulzer also joined the UN Global Compact in 2010.

Our focus on energy efficiency and our solutions for the sustainable utilization of raw materials and renewable sources of energy are crucial success factors in light of the increasing global energy consumption and limited conventional resources. Sulzer is committed to making a significant difference with products and services that combine economic and environmental advantages to the customers. Throughout this report, we present a number of examples of how Sulzer engineers and service teams work intensively to improve resource productivity and energy efficiency. Sulzer's continuous search for sustainable solutions has a positive impact on the environment and creates relevant business opportunities and competitive advantages for the company.

Long-term value creation on the base of core focus areas

Sulzer strives to create long-term value, which is measured by return on sales, return on capital employed, and sales growth. To reach this goal, the company continued to advance its core focus areas: operational excellence based on lean principles, highest standards for health and safety, increased and faster innovation, continuous expansion in the emerging markets, and a strong emphasis on the service business.

In order to increase lean thinking, experts from all divisions established a set of methodologies and tools for the application of lean principles throughout the company. In 2010, the online Sulzer LEAN platform was launched and made available to all employees. Trained facilitators systematically initiate and support local lean initiatives to foster operational excellence worldwide.

In the area of health and safety, Sulzer continued its targeted measures to reduce the frequency and severity of occupational accidents. Further improvement was achieved in 2010; the accident rate has been reduced by more than 60% since 2006.

We have kept our investment level in research and development high, which allows us to continually seize new business opportunities. A systematic process is used to identify and expedite those projects with the greatest market potential. As a result, the number of new products launched in 2010 increased and the number of solutions in the prelaunch phase is higher than in the last ten years.

Strengthened global presence and expanded service offering

In 2010, we further expanded our presence in the emerging markets, which accounted for 42% of sales in 2010. In China, Sulzer opened a major state-of-the-art facility for engineered pumps. In addition, we expanded a number of existing manufacturing plants in India, Brazil, and Russia and added service locations in Saudi Arabia, Russia, and Indonesia. Sulzer increased its stake in Sulzer India Ltd. to over 90% and delisted the company. We also believe that, in order to ensure Sulzer's long-term success, fostering and strengthening diversity with respect to gender, culture, and demography is crucial. We strive to further increase the diversity of the Sulzer workforce in order to reflect the company's global activities and its broad customer base worldwide.

Sulzer's service business was further strengthened in 2010 with two acquisitions, which further increased the company-wide share of services to 43% of sales. The integration of Dowding & Mills allowed us to combine the acquired electro-mechanical service business with the existing activities of Sulzer Turbo Services, therewith becoming a leading independent service provider for turbomachinery, generators,

> “We continue to assess additional acquisitions in order to strengthen Sulzer's portfolio and expand the company's global presence.”

Our vision

Sulzer's vision is to be a recognized leader in innovative, sustainable, engineered, and customer-focused solutions for performance-critical applications in the oil and gas, hydrocarbon processing, power generation, pulp and paper, aviation, automotive, and other selected industries.

Our mission

Sulzer aims to be:
- a multi-industry company with a strong brand.
- a provider of solutions that combine products, services, engineering, and customer-application expertise.
- close to the customer by being primarily direct-sales driven.
- an engineering, innovation, and technology driven firm.
- an attractive employer where employees can excel.
- a company that creates value for its shareholders.

Our values

- **Customer partnership**
  We exceed the expectations of our customers with innovative and competitive solutions.
- **Operational excellence**
  We perform on the basis of structured work processes and lean principles.
- **Committed people**
  We are committed to high standards and show respect for people.

Letter to the shareholders

and motors. In addition, we strengthened our coating services with the acquisition of the diamond-like carbon coating business from Bekaert.

Leading positions maintained in still challenging markets

Sulzer maintained its leading market positions in 2010 and remained resilient in a still generally challenging economic environment. The order intake for the full year was higher than in 2009, driven by acquisitions and the recovery in the early-cycle markets. The early-cycle automotive and pulp and paper industries as well as other general industrial markets recovered from the very low levels of 2009. The aviation industry also started to show improvement toward year-end. The oil and gas industry showed positive development during 2010, although many customers remained cautious with regard to large-scale investments. The hydrocarbon processing industry remained flat. The power generation market declined as predicted from the high levels of the previous years. The emerging markets continued to be a growth driver for the company. North America also showed growth, while the order intake in Europe was stable. Acquisitions, mainly the integration of Dowding & Mills into Sulzer Turbo Services, had a positive effect on the order intake, while the strong Swiss franc had a negative translation impact.

Our core focus areas		Key performance indicators	Future actions
1	**Operational excellence** Sulzer strives for operational excellence and continually improves business processes based on lean principles.	99 (+148%) **Number of Sulzer LEAN workshops** (2009: 40)	• Continued global rollout of the corporation-wide standardized Sulzer LEAN initiative to all facilities • Further improvement of on-time delivery and reduction of lead times
2	**Health and safety** Health and safety of employees is a top priority for Sulzer.	4.4 (–20%) **Accident frequency rate** (2009: 5.5)	• Introduction of behavior-based safety program • Further advancement of the program to manage hazardous materials
3	**Innovation** Developing innovative solutions with high customer value is essential to Sulzer's sustainable success and organic growth.	81 (+88%) **Number of innovation projects in the market-launch phase** (2009: 43)	• Continued development of new project initiatives, particularly in the field of renewable resources • Continuous improvement of the stage-gate process • Intensified cooperation with ventures
4	**Emerging and developing markets** Sulzer continually expands its worldwide service and production network into emerging markets to serve customers locally.	42% **Share of emerging and developing markets in sales** (2009: 39%)	• Continuous assessment of potential acquisitions to broaden Sulzer's presence in the emerging markets • Focus on staff diversity to reflect the broad customer base worldwide
5	**Services** Sulzer expands its product-related and independent service offerings, which are more resistant to economic cycles.	43% **Share of sales in services**	• Integration of the newly acquired service business and leverage of synergies • Continuous expansion of the service network

Strong profitability level and solid balance sheet

In 2010, Sulzer exceeded the high performance level predicted in the midrange outlook, published in early 2009. Sales from early-cycle activities increased significantly, whereas overall sales decreased due to the significantly lower order intake in the previous year. The strong Swiss franc had a negative translation impact on sales and operating income. Despite lower sales volumes, return on sales increased to 12.8%, due to reduced restructuring expenses and the cost savings achieved. The adaptation program was proactively initiated in early 2009, and most restructuring expenses were booked in the same year. The sale of the Swiss real estate portfolio had a positive effect on the operating income. Return on capital employed increased to a highly value-generating level of 28.1%.

Net income attributable to shareholders increased to CHF 300 million, resulting in an improved basic earnings per share of CHF 8.92. The balance sheet remains solid with a net liquidity of CHF 553 million, supported by a positive free cash flow. Considering the increased net income and the strong financial situation, the Board of Directors will propose an increased dividend of CHF 3.00 per share at the Annual General Meeting on April 14, 2011. The Sulzer share price increased by 76% over the year back to the level it had just before the economic downturn.

New Board and Management Members

Tim Summers, Chairman of the Board of Directors of Venetos Management (a company of the Renova Group), was elected as a new Member of the Board at the 2010 Annual General Meeting, replacing Urs Andreas Meyer. Jürgen Brandt joined the Executive Committee as new CFO as of November 1, 2010. The Board of Directors is proposing that Jill Lee be elected as a new Board Member at the Annual General Meeting 2011. Hans Hubert Lienhard will not stand for reelection. We would like to thank him for his important contributions and wish him all the best for the future.

Outlook

The positive trend in the early-cycle markets is expected to continue, albeit at a somewhat slower pace. Activity in the automotive industry is likely to continue at its current high level. Further recovery in the aviation industry is projected. The pulp and paper market is likely to continue its positive trend at a somewhat slower pace. For other general industrial markets, moderate growth is anticipated. The oil and gas industry is expected to grow, especially in the second half of the year, as the number of project studies has increased. The hydrocarbon processing industry will probably remain flat. After a sharp decline in 2010, activity in the power generation industry is predicted to stabilize. Newly developed applications offer promising business opportunities. Stricter regulations and increasing environmental concerns will support demand for Sulzer's offering of highly reliable and energy-efficient solutions. Geographically, the emerging markets, particularly Brazil, India, China, and Russia are expected to remain the main growth drivers. Based on the strengthening Swiss franc—especially toward the end of 2010—further negative currency translation effects have to be expected in 2011. However, with its global manufacturing and service network, Sulzer is naturally hedged against major currency impacts on profitability. Based on its healthy balance sheet, Sulzer is continuously assessing additional acquisitions to strengthen its portfolio and expand its global presence, while maintaining its criteria of strategic fit, integration ability, and value creation.

For 2011, order intake is expected to grow moderately on an adjusted basis. With the order intake recovering since early 2010, adjusted sales are anticipated to grow again. The divisional operating income is expected to increase moderately, but the extraordinary income from the divestiture of the non-operational real estate will not reoccur.

Based on its leading market positions, focused strategy, and continued operational improvements, Sulzer is well positioned for continued long-term success. Over the next two years, Sulzer expects an increase of the divisional return on sales to approximately 11.8%, a return on capital employed of around 25%, and an average yearly growth in organic sales of approximately 5%.

We thank you, our shareholders, for your continued support. We would also like to thank our employees for their commitment and our customers for their continued cooperation and trust.

Jürgen Dormann,
Chairman of the Board

Ton Büchner,
CEO

Focus

Energy-efficient solutions

With the scarcity of conventional resources, particularly fossil energy sources, stricter emissions regulations, and growing concerns about climate change, our customers' demand for sustainable products and services is increasing.

Sulzer's energy-efficient solutions create value with combined economic and ecological advantages. Sulzer strives to optimize both its own production processes as well as the energy efficiency of the solutions for the customers over the entire life cycle of its offerings.

For more information visit www.sulzer.com/focus

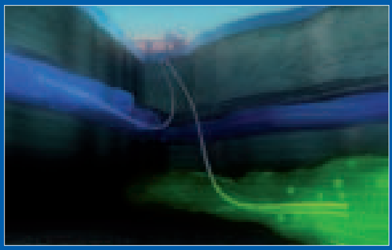
Sustainability Report 2009

New horizons

Increased efficiency for global mobility
The use of energy-efficient airplanes that consume less fuel and emit less carbon dioxide constitutes a competitive advantage for airlines. Sulzer coatings for aero engines increase fuel efficiency while reducing weight, noise emissions, and the frequency of costly overhauls.

See page 10

Deeper thinking



Capturing and storing carbon dioxide
Carbon dioxide emissions are subject to stricter regulations, as they are a major cause of global warming and ocean acidification. Solutions to reduce the carbon dioxide footprint are, therefore, in high demand. Sulzer has a leading position in technologies that are critical to the capture and storage of carbon dioxide.

See page 12

Sustainable resources

Using solar power as a sustainable source of energy
The global demand for power is continuously increasing while traditional energy sources are becoming scarcer and environmental concerns are rising. Thermal solar power has great potential as a renewable and clean source of energy. Sulzer develops performance-critical components for the operation of thermal solar-power plants.

See page 14

Energy-efficient solutions

New horizons

Increased efficiency for global mobility

Airlines are tightening the energy-efficiency requirements for their fleets. The operation of airplanes that consume less fuel and emit less carbon dioxide is an important competitive advantage. Sulzer is a leading supplier of thermal-spray equipment and materials for functional coatings used in aero engines. The company's surface technology and coating solutions result in higher fuel efficiency while reducing weight, noise emissions, and the frequency of costly engine overhauls for the customers.

Sulzer's services for rotating equipment increase energy efficiency of other forms of passenger transportation. For instance, Sulzer upgrades the efficiency of traction motors used in trains or marine generators used in ships. Consequently, energy consumption is reduced and overall lifetime prolonged to the benefit of the customer.

For more information

www.sulzer.com/focus/mobility

Energy-efficient solutions

Deeper thinking

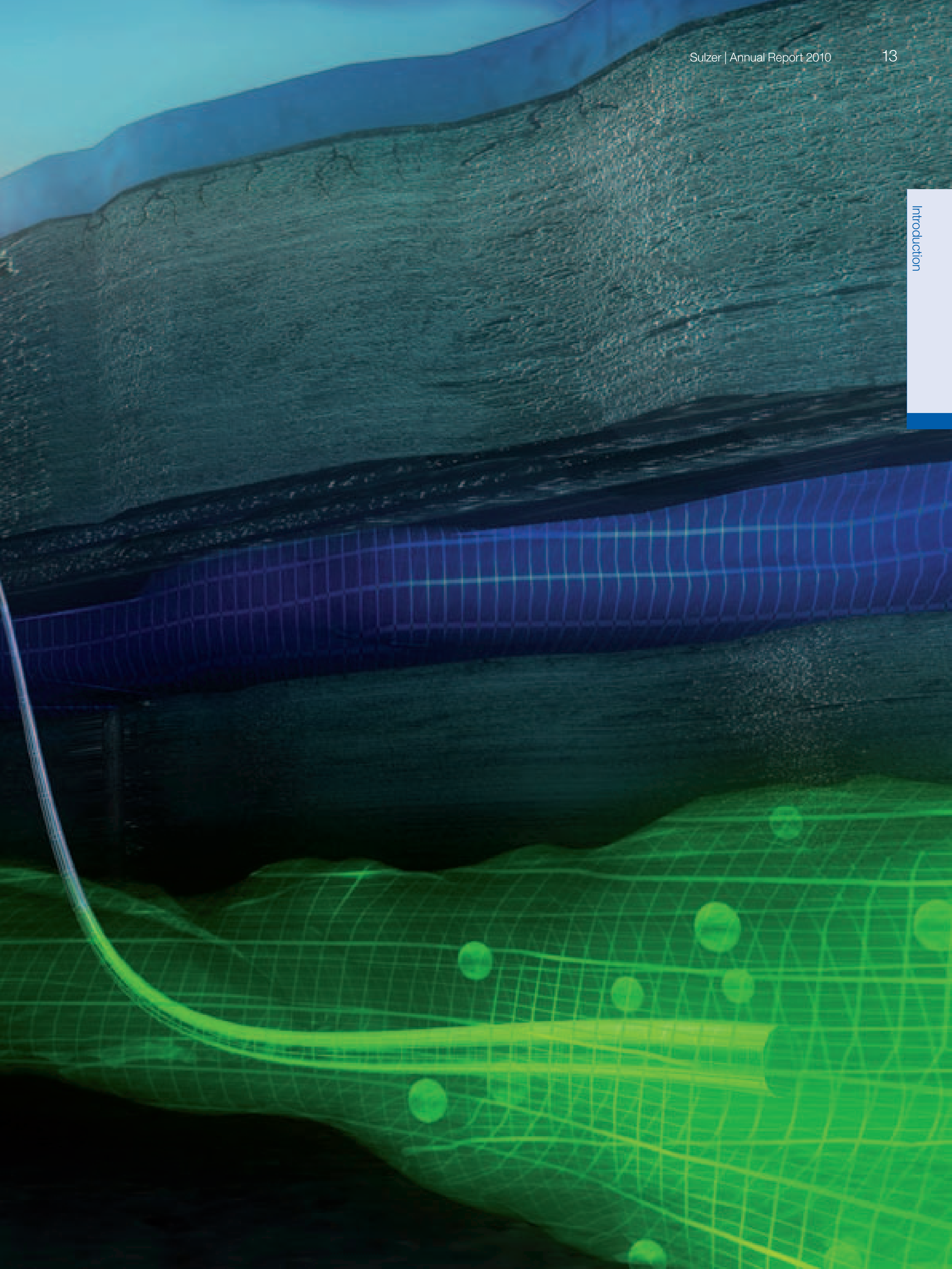
Capturing and storing carbon dioxide

Environmental concerns and stricter regulations have led to an increasing demand for solutions that decrease carbon dioxide emissions. Sulzer is a leading manufacturer of pumps and mass transfer equipment, which are critical for the newly developed carbon capture and storage technologies.

Sulzer has developed highly efficient separation packings to capture carbon dioxide at its point of origin, for instance, at fossil-fuelled power stations. High-performance pumps reliably produce the high pressures needed to transport the captured and compressed carbon dioxide. Once this carbon dioxide has reached its destination, high-pressure pumps can inject it safely into depleted gas reservoirs, saline formation, or unminable coal beds for long-term storage.

For more information

www.sulzer.com/focus/carbon



Energy-efficient solutions

Sustainable resources

Using solar power as a sustainable source of energy

As traditional sources of energy become scarcer and environmental concerns rise, renewable and clean ways of producing energy are becoming more competitive and investments are increasing.

Sulzer holds leading positions for performance-critical components in thermal solar power plants. For example, the company offers pumps to transport the oil that has been heated by sunrays reflected through parabolic mirrors. Other pumps are able to move molten salt, which is used as thermal storage, and which can reach temperatures of up to 600 °C.

Leveraging its existing coating and surface enhancement expertise, Sulzer is developing an innovative and cost-effective approach for the large-scale applications of coatings for mirrors in the solar field.

For more information

www.sulzer.com/focus/solar

Financial review

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Strong financial performance and solid balance sheet

Sulzer achieved a strong financial performance with a net income attributable to shareholders of CHF 300.4 million. Return on sales increased to 12.8%, and the return on capital employed to 28.1%. The capital structure remains very solid with an equity ratio of 54.3%.

Performance measures

The performance of the operations is primarily assessed based on the following key performance indicators: order intake, sales, operating income, cash flow, return on sales, and return on capital employed.

Order intake: recovery of some key markets

In 2010, Sulzer's early-cycle markets recovered from their low levels in 2009. The recovery of those markets and the additional order intake from two acquisitions resulted in an increase in the order intake of 9.0% (7.5% adjusted for negative currency translation effects as well as effects from acquisitions). Acquisitions contributed CHF 141 million, while currency translation had a negative impact of CHF 94 million.

Orders

millions of CHF	2010	2009
Order intake	**3288.7**	3017.6
Order backlog as of December 31	**1799.8**	1871.7

Compared with 2009, three of the four divisions increased their order intake substantially: Sulzer Turbo Services (+43.9%, –0.3% excluding Dowding & Mills), Sulzer Chemtech (+24.7%), and Sulzer Metco (+17.9%). Due to the late-cycle character of some of its key markets, Sulzer Pumps showed a decrease of 4.2% (almost flat with –1.7% on an adjusted basis). The order backlog decreased by 3.8% to CHF 1.8 billion as of December 31, 2010. This development was mainly caused by a negative currency translation effect based on the strong Swiss franc.

Sales: lower orders in 2009 lead to a decrease of sales in 2010

Sales decreased by 5.0% (adjusted –6.6%). Sulzer Pumps (–15.1%) and Sulzer Chemtech (–9.1%) both reported lower sales compared with the prior year, mainly due to the lower order backlog at the beginning of the year and low activity in some of the key markets. Sulzer Metco increased sales by 12.1%, based on the recovery of some early-cycle markets. Sulzer Turbo Services' significant sales growth of 37.0% was driven by the acquisition of Dowding & Mills, which was consolidated first time in June 2010.

In total, the negative currency translation impact of CHF 83 million was overcompensated by the positive impact from acquisitions of CHF 140 million. Due to the acquisition of Dowding & Mills by Sulzer Turbo Services and other smaller acquisitions by other divisions, as well as the different growth dynamics in sales, the share of total sales of Sulzer Pumps decreased from 55.4% in 2009 to 49.5% in 2010.

Geographically, Europe remained strong with 32.2% of total sales, followed by North America (26.4%) and Asia, Middle East, and Australia (25.2%). The region Central and South America (10.2%) showed a constant increase

Consolidated income statement (condensed)

millions of CHF	2010	2009
Sales	**3183.7**	3350.4
Cost of goods sold	**–2183.7**	–2343.9
Gross profit	**1000.0**	1006.5
Selling, administrative and development expenses	**–589.7**	–589.9
Operating income before restructuring	**410.3**	416.6
Restructuring expenses	**–3.9**	–48.6
Operating income	**406.4**	368.0
Financial income, net	**–4.4**	1.6
Income tax expenses	**–97.7**	–93.8
Net income	**304.3**	275.8

Business review

Net liquidity

CHF 552.8m

(2009: CHF 670.6m)

Return on capital employed

CHF 28.1%

(2009: CHF 24.8%)

in its share of total sales, mainly driven by strong sales of Sulzer Pumps in Brazil. In 2010, sales to emerging and developing markets increased to 42%.

Based on the quality of the order backlog at the beginning of the year, the strong focus on healthy margins in order intake, and a higher sales share from aftermarket businesses, a solid gross margin (gross profit in % of sales) of 31.4% was recorded in 2010 (2009: 30.0%). This accounts for a 1.4 percentage point increase compared with 2009, despite a lower sales volume. Cost adaptation measures, implemented mostly in 2009, and the continuous execution of operational excellence projects supported the improvement of the gross margin.

Operating expenses: positively impacted by disposal of real estate portfolio

Overall, operating expenses decreased by CHF 44.9 million (–7.0%) to CHF 593.6 million. They include an increase in selling and distribution expenses (CHF 9.1 million) and in general and administrative expenses (CHF 16.7 million). After a significant increase in 2009, research and development expenses were kept at the level of approximately 2% of sales in 2010. Minor restructuring expenses of CHF 3.9 million were booked in 2010 (2009: CHF 48.6 million). No new major restructuring projects were initiated in 2010.

A contribution to operating income from real estate activities of CHF 56.6 million was recorded in 2010, similar to the amount contributed in 2009 (CHF 55.1 million). This high contribution consisted mainly of the sale of Sulzer Real Estate Ltd to Implenia Ltd and of the real estate service business to Auwiesen AG in October 2010.

Operating income and profitability: high level of profitability achieved

Sulzer's operating income increased by 10.4% from CHF 368.0 million in 2009 to CHF 406.4 million in 2010. Due to the lower sales volume, gross profit decreased slightly and amounted to CHF 1000.0 million for 2010 (2009: CHF 1006.5 million).

Return on sales before restructuring expenses (ROSR) was at 12.9% (2009: 12.4%), return on sales (ROS) increased by 1.8 percentage points to 12.8% (2009: 11.0%). ROSR and ROS were not affected by currency exchange fluctuations.

The ROS achieved in 2010 was at the same high level as prior to the economic downturn. With a return on capital employed (ROCE) of 28.1% (up from 24.8% in 2009), Sulzer's financial-value-creating threshold, which refers to the pre-tax weighted average cost of capital of 12.5%, was exceeded by all four divisions.

Key performance ratios

		2010	2009
Return on sales before restructuring expenses (EBITR/sales)	ROSR	12.9%	12.4%
Return on sales (EBIT/sales)	ROS	12.8%	11.0%
Return on capital employed (EBIT/capital employed)	ROCE	28.1%	24.8%

For the divisions, operating income before restructuring expenses decreased by 3.0% to CHF 350.4 million, but the ROSR of the divisions amounted to 11.0%, which is 0.2 percentage points higher than in 2009. Sulzer Metco recorded the strongest improvement —with a more than 50% increase of the ROSR from 6.2% in 2009 to 9.5% in 2010. Sulzer Turbo Services' ROSR was impacted by the acquisition-related costs of the Dowding & Mills acquisition (total additional cost of CHF 6.0 million) and decreased to 10.5%. Operating income before depreciation and amortization (EBITDA) was at CHF 511.0 million (16.1% of sales) compared to CHF 479.2 million in 2009 (14.3% of sales). Depreciation and amortization was at CHF 104.6 million in 2010.

Mainly driven by Sulzer Metco and Sulzer Turbo Services, the operating income of the four divisions increased by CHF 33.8 million to CHF 346.5 million— an increase of 10.8%. Excluding the one-time acquisition and integration costs in Sulzer Turbo Services for Dowding & Mills, all four divisions were able to increase their profitability (ROS) compared with 2009. The strongest improvement in ROS was recorded at Sulzer Metco, with an increase from 3.7% in 2009 to 9.2% in 2010. Sulzer Pumps increased ROS by 100 basis points and Sulzer Chemtech recorded an increase of 160 basis points.

Financial review

Financial income: negatively impacted by currency effects

Primarily due to the strong Swiss franc, a net financial income of minus CHF 4.4 million was recorded in 2010 (2009: CHF 1.6 million). The main impact stems from a loss of CHF 9.5 million from currency exchange valuation of financial assets. These losses are partly offset by positive fair value changes on derivatives of CHF 3.3 million. Interest expenses amounted to CHF 9.1 million, of which CHF 3.3 million are related to unfunded pension plans in Germany. Interest income slightly increased from CHF 8.0 million to CHF 9.5 million in 2010 due to higher average cash during 2010. Income from investments amounted to CHF 0.2 million, which is CHF 1.8 million lower than in 2009 due to lower dividend payments from minority participations.

Income tax expenses: favorable levels due to real estate sales

Tax expenses increased by 4.2% to CHF 97.7 million in 2010, but the effective income tax rate decreased to 24.3%, compared with 25.4% in 2009. As in 2009, the tax rate was positively impacted by the gains generated from the disposal of real estate in Switzerland. These gains are taxed at a favorable rate. In addition, tax provisions no longer required of CHF 17.3 million were released in 2010. The capitalization of tax losses carried forward in the German operations, based on a re-organization of the German tax group also influenced the tax rate positively.

Net income: significant increase

Based on an improved operating income and a lower tax rate, the net income increased significantly by 10.3% to CHF 304.3 million. Net income attributable to Sulzer shareholders amounted to CHF 300.4 million (9.4% of sales) compared with CHF 270.4 million (8.1% of sales) in the previous year. Basic earnings per share (EPS) increased by 10.7% to CHF 8.92 compared with CHF 8.06 in 2009.

Balance sheet: solid capital structure and high equity ratio

Total assets as per December 31, 2010, amounted to CHF 3 491.7 million, which is an increase of CHF 107 million or 3.2% compared with 2009. Acquisitions added CHF 363.6 million assets to the balance sheet, whereas currency fluctuations resulted in a decrease of CHF 224.1 million of assets.

Non-current assets amounted to CHF 1 295.6 million (2009: CHF 1 200.4 million). The net effect from acquisitions and divestitures added CHF 207.4 million. Currency translation effects reduced non-current assets by about CHF 100 million. Major movements were recorded in goodwill (plus CHF 78.9 million) and other intangibles assets (plus CHF 38.2 million) due to acquisitions. As a result of the sale of real estate activities, property, plant, and equipment was reduced by CHF 66.5 million.

Current assets slightly increased to CHF 2 196.1 million (2009: CHF 2 183.8 million). The net effect from acquisitions and divestitures added CHF 66.2 million. Currency translation effects reduced current assets by CHF 121.2 million. The strongest impact results from a decrease in cash and cash equivalents (minus CHF 62.5 million) and in short-term financial assets (minus

Consolidated cash flow statement (condensed)

millions of CHF	2010	2009
Cash flow from operating activities	**254.2**	488.0
Purchase of intangible assets and property, plant and equipment	**–118.1**	–112.2
Sale of property, plant and equipment and intangible assets	**13.4**	153.0
Free cash flow	**149.5**	528.8
Acquisitions/divestitures	**–113.5**	–39.6
Purchase/sale of financial assets and marketable securities	**26.2**	11.8
Cash flow from operating and investing activities	**62.2**	501.0
Cash flow from financing activities	**–96.0**	–225.3
Exchange gains/losses on cash and cash equivalents	**–28.7**	7.7
Net change in cash and cash equivalents	**–62.5**	283.4
Cash and cash equivalents as of December 31	**668.1**	730.6

CHF 23.8 million). Trade receivables increased by CHF 22.2 million mainly due to acquisition effects. The ageing structure remained stable at an acceptable risk level. The recoverability of the trade accounts is reviewed regularly and adequate allowances for doubtful debts are considered. Other current receivables increased by CHF 50.6 million mainly due to an increase of short-term derivates and receivables resulting from the real estate transaction.

Sulzer's capital structure remained solid in 2010. Based on a healthy net income, equity increased by CHF 112.3 million to CHF 1901.2 million. Other comprehensive income decreased equity by CHF 103.9 million, which is mainly a result of negative currency translations. Dividend paid was at CHF 94.6 million, which reflects a 35% payout ratio. Non-controlling interests decreased by CHF 5.2 million as a result of the buyback of shares from minority shareholders of Sulzer India Ltd. Total liabilities (current and non-current liabilities) remained stable at CHF 1590.5 million (2009: CHF 1595.3 million). Currency translation effects reduced total liabilities by CHF 117.8 million. Non-current liabilities increased by CHF 20.9 million. The major movement resulted from an increase of non-current provisions for the remaining risks from divestitures. The main movements in current liabilities stem from short-term borrowings (plus CHF 36.3 million) and from trade payables (plus CHF 41.5 million), while advanced payments from customers decreased by CHF 35.9 million and current income tax liabilities by CHF 37.4 million. Current provisions were reduced by CHF 30.5 million (mainly due to a reduction of current provision for restructuring). The equity ratio (equity/total assets) remained at a solid level of 54.3% (up 1.5 percentage points from 2009), and the gearing (borrowings/equity) remained stable at a low level of 7.0%.

Sufficient provisions remain for potential obligations resulting from past and current divestitures. The situation of the asbestos lawsuits remained unchanged compared with the previous year and did not generate the need of additional provisions. Based on the current development and known facts, Sulzer assumes that the remaining open cases can be resolved without material impact on liquidity and profit.

Cash flow: impact from acquisitions and higher working capital

Net change in cash and cash equivalents was negative with CHF 62.5 million in 2010 compared to an increase of CHF 283.4 million in 2009. Cash flow from operating activities amounted to CHF 254.2 million in 2010, a decrease of CHF 233.8 million compared with the prior year. In 2010, net working capital increased by CHF 84.8 million. Increases were reported in all divisions. Most significant increases amounted from inventories (CHF 53.3 million), trade accounts receivable (CHF 51.2 million) and advance payments to suppliers (CHF 22.1 million). These increases were partly compensated by higher trade accounts payables (CHF 54.4 million).

A total cash outflow of CHF 192.0 million resulted from investing activities. Capital expenditures (CAPEX) of CHF 118.1 million were recorded in 2010. With CHF 71.7 million (60.7% of total CAPEX), the majority was spent for capacity and capability expansions. In addition to capability and capacity expansion in Europe and North America, strategic investments were made in the emerging markets. They included the completion of a new factory in China as well as expansions in Brazil and in Russia. Capital expenditure for replacements amounted to CHF 20.4 million (17.3% of total capital expenditure), and additional CHF 6.9 million was spent on information technology. The geographical distribution of CAPEX was as follows: Europe (40.6% of total CAPEX), Asia, Middle East, and Australia (34.2%), followed by North America (17.9%), Central and South America (6.7%), and Africa (0.6%).

A total of CHF 198.0 million was spent for acquisitions as follows: CHF 180.0 million was remitted for Dowding & Mills (purchase price less cash acquired), CHF 15.5 million to Bekaert for its diamond-like-coatings service business, and CHF 2.5 million for other smaller acquisitions. CHF 13.3 million was spent for the purchase of shares from minority shareholders of Sulzer India Ltd. Cash inflow from the sales of real estate activities was recorded at CHF 84.5 million (cash inflow minus cash of Sulzer Real Estate Ltd at the moment of deconsolidation). In 2010, the most significant movements in the cash flow from financing activities were the dividend payment of CHF 94.6 million and the repayment of long-term borrowings of CHF 25.0 million. Short-term borrowings increased temporarily by CHF 39.7 million, mainly due to local bank loans in some countries. The exchange losses on cash and cash equivalents amounted to CHF 28.7 million in 2010, whereas a gain of CHF 7.7 million was recorded in 2009. The high exchange rate loss is due to the weakness of the US dollar, the euro, and the British pound compared to the Swiss franc in 2010.

Outlook

For 2011, order intake is expected to grow moderately and sales are anticipated to increase again on an adjusted basis. The divisional operating income is expected to increase moderately, but the extraordinary income from the divestiture of the non-operational real estate will not reoccur. The tax rate is anticipated to amount to approximately 28%. Based on its leading market positions, focused strategy, and continued operational improvements, Sulzer is well positioned for continued long-term success.

Sulzer Pumps

Higher profitability and expanded global presence

Sulzer Pumps increased profitability despite lower sales volumes. Markets remained challenging. The division's technology leadership was further strengthened with innovative solutions and new applications.

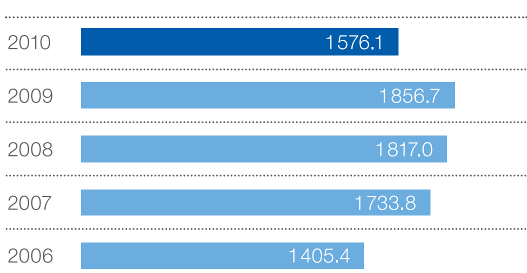
Sulzer employees check the cast casing of an axially split multi-stage pump at the new state-of-the-art pumps manufacturing plant in Suzhou, China. The final product will be delivered to a customer in the power generation industry.

In brief

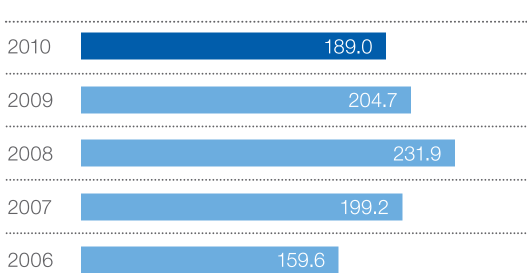
Highlights

- Return on sales increased, despite a decrease of sales as a result of the lower order intake during the prior year.
- The division's presence in the emerging markets was further expanded with a state-of-the-art production facility in China and several new service locations.
- In 2011, order intake, sales, and operating income are expected to grow moderately.

Sales
in millions of CHF



Operating income
in millions of CHF



Return on sales

12.0%

(2009: 11.0%)

Return on capital employed

55.5%

(2009: 49.1%)

Sulzer Pumps

Higher profitability and expanded global presence

"With an additional state-of-the-art production facility in China, expansion of the facility in Brazil, and new service locations in Saudi Arabia, Russia, and Indonesia, we further expanded our presence in the emerging markets."

Kim Jackson, Division President

Markets: stabilized order intake
The division's order intake stabilized. The oil and gas market showed some recovery from the low levels of the prior year. Activity in the hydrocarbon processing industry increased in some of the emerging markets, but was unchanged in the established markets. The activity in the power generation market was substantially reduced despite positive signals in renewable energy and nuclear power. The pulp and paper industry showed clear signs of recovery.

Operations: higher profitability
The division increased profitability, which proved the effectiveness of the substantial cost base adjustments initiated in 2009. Sales volumes decreased significantly, based on a lower order intake in the prior year.

Strategy: further expansion in emerging markets
The division continued to expand its presence in the emerging markets. In China, a new state-of-the-art facility was opened, and capacities and capabilities were increased in Brazil. The service network was further enhanced with new sites in Saudi Arabia, Russia, and Indonesia. The division continued to strengthen its technology leadership by continuously developing new applications, such as solutions for carbon capture and storage, concentrated solar power, and non-food-based biofuels.

Outlook
In 2011, the oil and gas industry is expected to grow, particularly in the second half of the year, as the number of project studies has increased. The hydrocarbon processing industry will probably remain flat, and the power generation industry is predicted to stabilize. The pulp and paper industry is likely to continue its positive trend at a somewhat slower pace. The division expects order intake, sales, and operating income to grow moderately.

Key figures

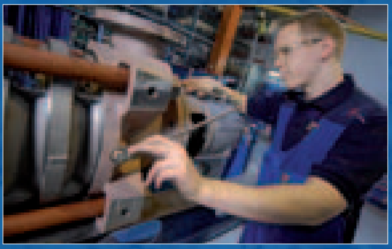
millions of CHF	2010	2009	Change in +/–%	Change in +/–%[1]
Order intake	**1 613.7**	1 684.5	–4.2	–1.7
Order backlog	**1 336.6**	1 436.0	–6.9	
Sales	**1 576.1**	1 856.7	–15.1	–13.5
Operating income before depreciation/amortization	**215.2**	231.5	–7.0	
Operating income before restructuring	**189.3**	223.4	–15.3	
Operating income	**189.0**	204.7	–7.7	
Return on sales before restructuring	**12.0%**	12.0%		
Return on sales	**12.0%**	11.0%		
Return on capital employed	**55.5%**	49.1%		
Employees	**5904**	5928	–0.4	

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

A new generation

Biofuels from renewable resources

Second-generation biofuels have great market potential as future energy sources. They are based on non-food-based materials, such as woody biomass, grassy feedstock, and agricultural or industrial residues.



Sulzer Pumps offers a wide range of solutions and technologies for the production of biofuels, such as centrifugal pumps for high-solids materials, gas removal pumps, tower and tank agitators, as well as gas mixers. One of the division's research and development centers specializes in pumping and mixing high-consistency stock, which is characteristic for biofuel production. Leveraging its leading market position for first-generation biofuel plants in the USA and many proven reference applications in Europe, Sulzer Pumps has equipped several demonstration plants for biofuel production in close cooperation with clients in Canada, Denmark, Finland, and the USA. Related tests are also being carried out in the division's own research and development facilities.

For more information

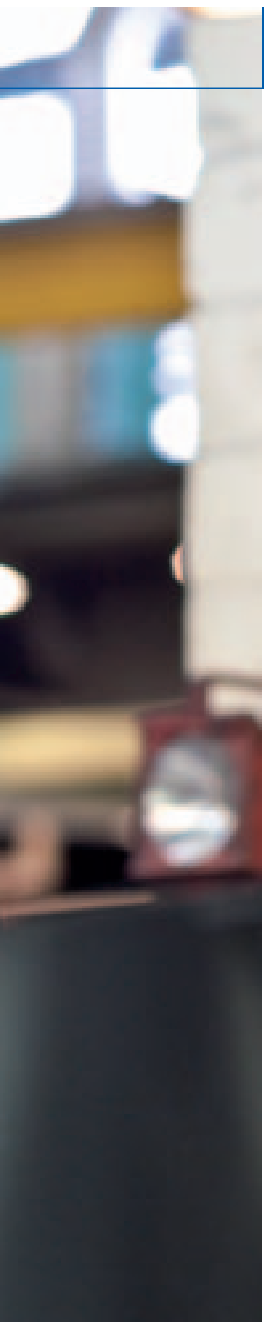
www.sulzer.com/focus/biofuels

Sulzer Metco

Substantial increases in sales and profitability

Sulzer Metco substantially increased sales, operating income, and return on sales from the low levels of the prior year. The division expanded its service business by acquiring diamond-like carbon coatings activities.

After applying a vacuum plasma coating onto gas turbine vanes used in the power generation industry, Sulzer employees in Salzgitter, Germany, analyze the thickness of the coating.

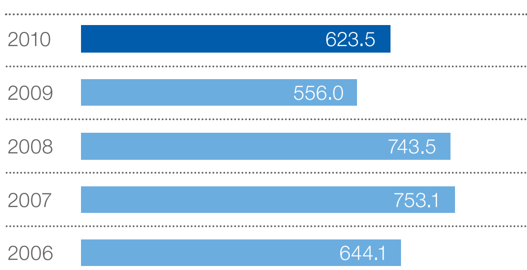


In brief

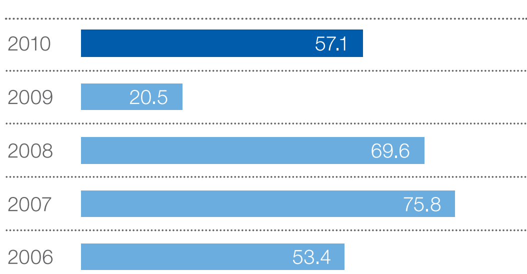
Highlights

- The overall performance increased substantially, driven by the adaptation measures implemented in the prior year and the recovery of early-cycle markets.
- The division continued to develop innovative solutions, such as new automotive coating solutions and non-line-of-sight aero engine coatings.
- For 2011, the division expects a further increase of the operating income and a moderate growth of order intake and sales.

Sales
in millions of CHF



Operating income
in millions of CHF



Return on sales

9.2%

(2009: 3.7%)

Return on capital employed

14.6%

(2009: 5.0%)

Sulzer Metco

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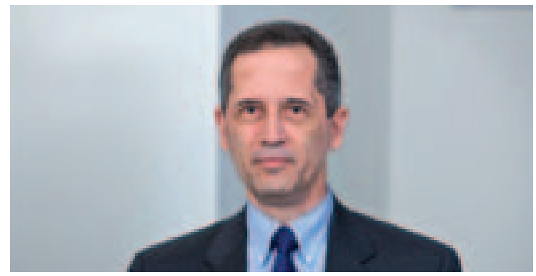
Substantial increases in sales and profitability

“Sales and profitability were substantially increased. We continued to develop innovative solutions to ensure sustained success and further strengthened our service business.”



César Montenegro, Division President

Markets: **recovering early-cycle markets**
The division increased its order intake significantly. Market demand in the automotive industry and in other industrial markets recovered substantially. The aviation market started to show improvement toward year-end, while the power generation industry softened. Demand was particularly high in Asia and the Americas.

Operations: **substantially increased results**
The improved market conditions resulted in a substantial increase of sales on the base of the low levels in the previous year, while the operating income rose even stronger. Return on sales reached a healthy level. Return on capital employed firmly returned to a value-creation level. These improvements give evidence of the effectiveness of the adaptation measures taken early in the prior year.

Strategy: **strengthened service business**
The integration of the newly acquired diamond-like carbon coatings activities is well advanced and has further strengthened the service business of the division. The new organizational structure allowed for better leveraging of synergies between the businesses and increased market orientation. Ongoing lean initiatives will further improve the productivity and competitiveness of the division. Innovative solutions, such as industrialized coating solutions for the automotive industry and non-line-of-sight aero engine coatings, remain crucial for continued success.

Outlook
The positive trend in the early-cycle markets is forecasted to continue, albeit at a somewhat slower pace. Activity in the automotive industry is likely to continue at its current high level. For other general industrial markets, moderate growth is anticipated. Further recovery is projected in the aviation industry. Activity in the power generation industry is predicted to stabilize. For 2011, the division expects a further increase of the operating income and moderate growth of the order intake and sales. The division aims to increase profitability to a double-digit level.

Key figures

millions of CHF	2010	2009	Change in	
			+/–%	+/–%[1]
Order intake	**643.1**	545.5	17.9	21.8
Order backlog	**71.3**	57.2	24.7	
Sales	**623.5**	556.0	12.1	15.7
Operating income before depreciation/amortization	**81.5**	46.3	76.0	
Operating income before restructuring	**59.5**	34.2	74.0	
Operating income	**57.1**	20.5	178.5	
Return on sales before restructuring	**9.5%**	6.2%		
Return on sales	**9.2%**	3.7%		
Return on capital employed	**14.6%**	5.0%		
Employees	**2045**	1796	13.9	

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

Energy-efficient solutions

The surface matters

Leading-edge coating technology for car engines

High-tech coatings are performance critical for the automotive industry, as they increase the service life, performance, and efficiency of cars and trucks. They combine economic and ecological advantages for the customers.

Sulzer Metco continuously advances thermal-spray, thin-film, and friction technology to develop coatings that reduce oil and fuel consumption and lower the carbon dioxide emissions of cars and trucks. Used in, for instance, cylinder bores, the innovative coatings reduce friction and improve wear resistance of the surface. This change reduces emissions and allows manufacturers greater freedom of design. Corrosion and wear are also significantly lower, which prolongs the lifetime of the engines. Customers have the choice of employing the division's coating services or purchasing fully equipped coating systems for their own use.

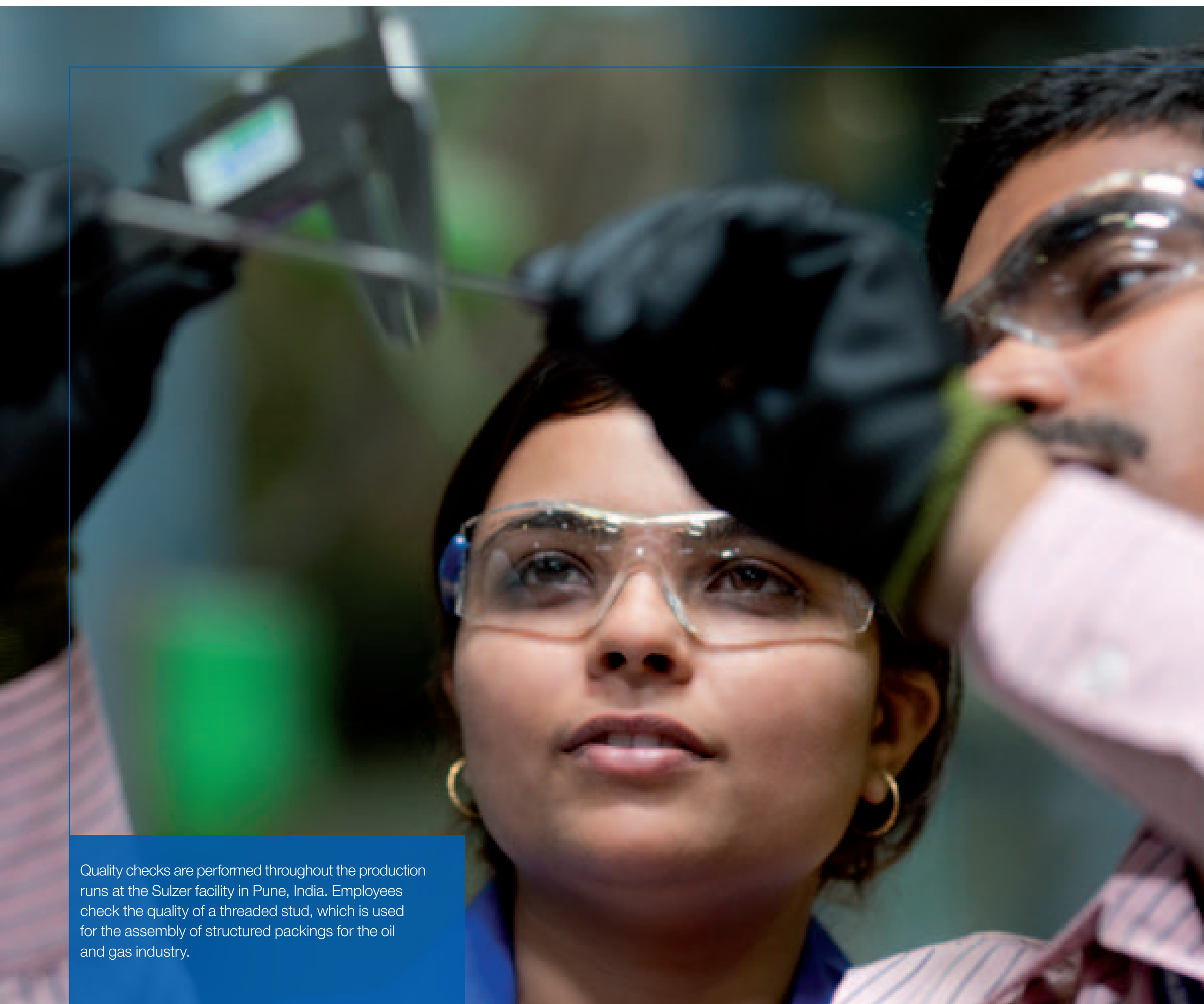
For more information

www.sulzer.com/focus/automotive

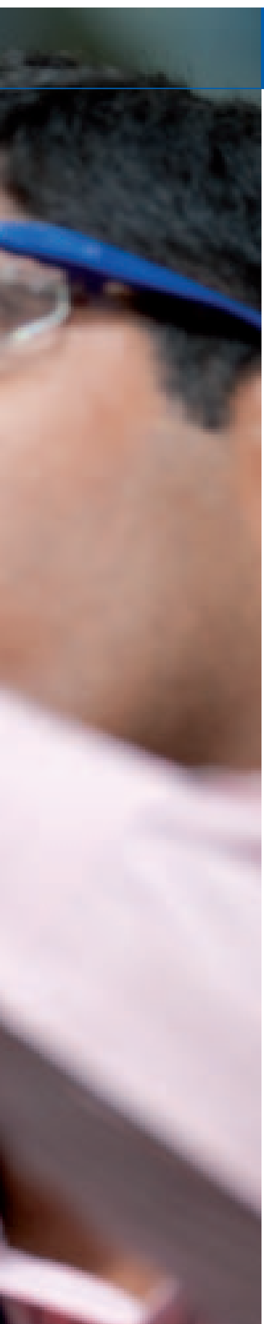
Sulzer Chemtech

Significant increase in order intake and double-digit profitability

Sulzer Chemtech showed a considerably higher order intake and increased its operating income. The division further advanced its bioplastic and carbon capture and storage technologies, which offer promising future business opportunities.



Quality checks are performed throughout the production runs at the Sulzer facility in Pune, India. Employees check the quality of a threaded stud, which is used for the assembly of structured packings for the oil and gas industry.



In brief

Highlights

- Operating income increased despite lower sales volumes, which proves the effectiveness of the adaptation measures.
- Innovative solutions, for instance, for two-component mixing and dispensing systems, were continuously developed to ensure sustained success.
- Sales and operating income are expected to increase further, and order intake will grow moderately.

Sales
in millions of CHF

2010	574.6
2009	632.3
2008	823.3
2007	761.3
2006	500.1

Operating income
in millions of CHF

2010	58.5
2009	54.5
2008	140.1
2007	116.3
2006	65.4

Return on sales

10.2%

(2009: 8.6%)

Return on capital employed

14.4%

(2009: 13.0%)

Sulzer Chemtech

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Significant increase in order intake and double-digit profitability

“With innovative solutions in the areas of bioplastic technology and carbon capture and storage, we are well positioned for sustained success.”

Urs Fankhauser, Division President

Markets: substantial increase of order intake
The division increased order intake substantially from the low levels of the prior year. Activity in the hydrocarbon processing industry was higher, but customers were still reluctant to invest in major projects. The order volume for the Tower Field Service business unit was encouraging. Increased tendering activity for the Process Technology business unit was turned into growing order intake toward year-end. The markets of Sulzer Mixpac Systems showed a strong improvement.

Operations: increased profitability
Based on a reduced order backlog at the beginning of the year, sales volumes decreased. The operating income and profitability increased, driven by the successful adaptation measures implemented in the prior year and the high activity levels of Sulzer Mixpac Systems.

Strategy: innovative solutions drive growth
The current organizational structure positions the division well in its global markets and will drive continued growth. The global production and service network was further strengthened with facility expansions in India and Russia. The division advanced its bioplastic and carbon captures and storage technologies, which offer promising business opportunities. Innovative solutions, for instance, two-component application systems for the dental market, were also continuously developed for the attractive markets of Sulzer Mixpac Systems.

Outlook
In 2011, the positive developments in the markets of the Process Technology and Sulzer Mixpac Systems business units are expected to continue at the current high levels. Demand for new equipment in the hydrocarbon processing industry will probably remain low, while the service activities are expected to continue the good performance of 2010. Sales and operating income are predicted to increase further, and order intake is expected to grow moderately.

Key figures

millions of CHF	2010	2009	Change in +/–%	+/–%[1]
Order intake	**621.3**	498.4	24.7	24.7
Order backlog	**274.3**	238.9	14.8	
Sales	**574.6**	632.3	–9.1	–8.9
Operating income before depreciation/amortization	**93.2**	96.2	–3.1	
Operating income before restructuring	**59.7**	65.5	–8.9	
Operating income	**58.5**	54.5	7.3	
Return on sales before restructuring	**10.4%**	10.4%		
Return on sales	**10.2%**	8.6%		
Return on capital employed	**14.4%**	13.0%		
Employees	**2973**	2977	–0.1	

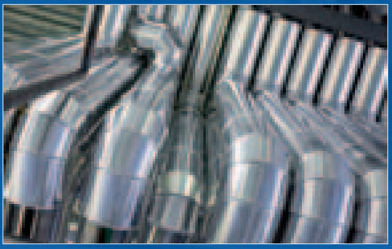
[1] Adjusted for currency effects as well as acquistions and divestitures.

Plastic goes green

Bioplastics based on renewable materials

Bioplastics made from renewable raw materials have a high market potential, as the technology constitutes a sustainable alternative to conventional oil-based plastics. For long-term success in the industry, it is crucial to improve the heat resistance of current bioplastics and to make them more competitive in price.

Sulzer Chemtech, in cooperation with a strategic partner, has now developed a novel and cost-effective polymerization technology to produce high-quality bioplastics. The starting material is lactide, which is produced through the fermentation of sugar. With its substantially improved heat resistance, the new product endures temperatures of up to 200 °C and is therefore useable in many new applications. The division operates an in-house pilot plant for the production of sample materials and continues to conduct research to improve technology. In 2010, the first semi-industrial plant was installed at a client site in the Netherlands.



For more information

www.sulzer.com/focus/bioplastics

Sulzer Turbo Services

Substantial acquisitive growth

Sulzer Turbo Services substantially increased sales and operating income, driven by the acquisition of Dowding & Mills, a leading service provider of electro-mechanical equipment.

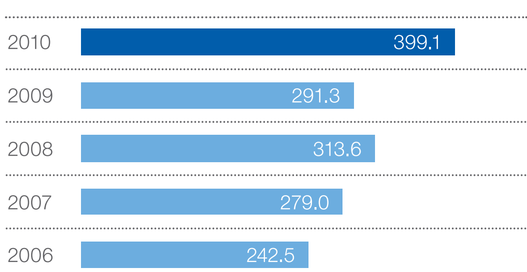
Sulzer employees perform an incoming inspection in the assembly shop of the Rotterdam service facility in the Netherlands. The compressor rotor is used in the air separation industry and needs a thorough overhaul.

In brief

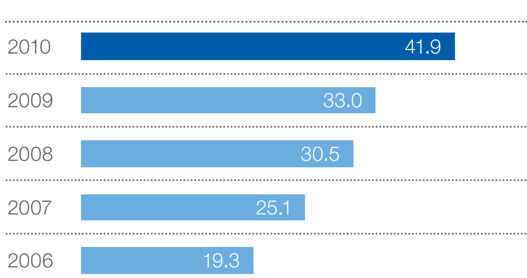
Highlights

- Sales and operating income increased substantially, while profitability was impacted by one-time acquisition-related expenses.
- The acquisition of Dowding & Mills significantly strengthened the division's market positions and expanded the service offering.
- In 2011, sales, operating income, and profitability are expected to increase.

Sales
in millions of CHF



Operating income
in millions of CHF



Return on sales

10.5%

(2009: 11.3%)

Return on capital employed

13.6%

(2009: 17.4%)

Sulzer Turbo Services

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Substantial acquisitive growth

"The newly acquired electro-mechanical business complements our service offering and allows for further growth. Integration of the new sites and activities is well advanced."

Peter Alexander, Division President

Markets: substantial increase in order intake
Demand for the division's services in the power generation, the oil and gas, and the hydrocarbon processing industries was flat. Activity in the newly acquired electro-mechanical service business was healthy. The Americas and Asia-Pacific developed strongly. The division increased its order intake substantially, driven by the acquisition of Dowding & Mills.

Operations: higher sales and operating income
Sales volumes increased following the acquisition of Dowding & Mills. Operating income also increased strongly, but was impacted by acquisition-related expenses of CHF 6 million. The long-term service agreements continued to have a stabilizing impact on the performance with steady long-term streams of revenue. Government export restrictions resulted in an exceptional one-off debooking of a sizeable order in the Middle East.

Strategy: expanded service portfolio
The acquisition of Dowding & Mills—a leading repair and maintenance provider for generators, motors, and associated equipment with annual sales of approximately CHF 200 million and around 1350 employees—significantly strengthened the division's market position (consolidated as of June 2010). The integration of the new sites and activities advanced well. The newly acquired business complements the division's current market offering and has allowed expansion into new markets such as transport and wind power.

Outlook
In 2011, activity in the power generation industry is predicted to recover slightly. Business generated in the hydrocarbon processing industry will probably remain comparatively low. Activity in the newly acquired electro-mechanical service businesses is predicted to remain healthy. The division expects increases in order intake, sales, and profitability, supported by the acquisition of Dowding & Mills.

Key figures

millions of CHF	2010	2009	Change in +/–%	+/–%[1]
Order intake	**400.4**	278.3	43.9	5.0
Order backlog	**115.1**	137.2	–16.1	
Sales	**399.1**	291.3	37.0	0.2
Operating income before depreciation/amortization	**55.9**	41.0	36.3	
Operating income before restructuring	**41.9**	38.2	9.7	
Operating income	**41.9**	33.0	27.0	
Return on sales before restructuring	**10.5%**	13.1%		
Return on sales	**10.5%**	11.3%		
Return on capital employed	**13.6%**	17.4%		
Employees	**2587**	1189	117.6	

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

A powerful breeze

Clean electricity from wind

Wind power has significant potential as a sustainable and clean source of energy. Global wind power production is expected to continue its upward growth, offering promising business opportunities for manufacturers and service providers.

Sulzer Turbo Services field service teams conduct repair and maintenance on performance-critical parts, such as generators, gearboxes, and bearings, from many strategically located service centers. With industry-leading electro-mechanical competence, the division develops innovative solutions for repair and maintenance of the rotating electrical equipment in wind turbines. To shorten downtime, the service teams also operate directly in the nacelle of wind power turbines at dizzying heights. Customers benefit from technology upgrades that improve the reliability of their wind turbines.

For more information

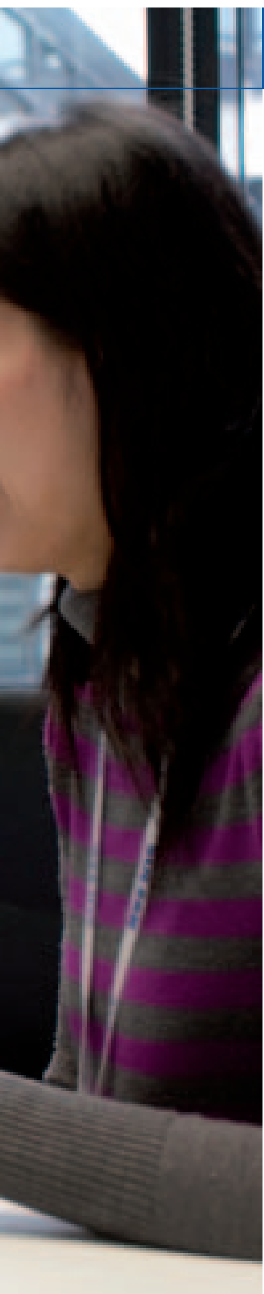
www.sulzer.com/focus/wind

Sustainable development

Company-wide initiatives for long-term success

Sulzer actively manages and develops key factors for its long-term success: sustainability, high-quality innovation, committed employees, and the company's strong culture and brand.

Customer orientation is a core value for Sulzer and is essential for the company's sustained success. Employees at the new state-of-the-art facility in Suzhou, China, discuss the specific needs of the local customer base.



In brief

Sustainability
High safety and environmental standards

Sulzer reduced the accident frequency rate by 20% in 2010 compared with 2009. The company is also close to completing certification of all production sites according to the ISO 14001 standard for environmental management systems.

See page 38

Innovation and technology
Technology leadership

Increased and faster innovation is a focus area and is crucial for ensuring Sulzer's technological leadership. Research and development is systematically managed to bring the most promising projects quickly and successfully to market.

See page 40

Employees
Engaging a diverse workforce

Sulzer applies integrated human resource processes in all areas to manage its increasingly diverse workforce. Targeted development measures aim to increase the engagement of all employees worldwide.

See page 42

Corporate culture and the Sulzer brand
Strengthening culture and brand

Sulzer's core values build the basis for its strong corporate culture. In 2010, the values were further integrated into day-to-day activities. They are reflected in a strong Sulzer brand, which is continuously fostered and strengthened with targeted measures.

See page 43

"Sustainability is at the core of our business and is part of our overall strategy. We assume our social responsibility and provide solutions with economic and ecological benefits for a more sustainable world."

Ton Büchner,
CEO

Sustainability

High safety and environmental standards

Sulzer reduced the accident frequency rate by 20% in 2010 compared with 2009. The company is also close to completing certification of all production sites according to the ISO 14001 standard for environmental management systems.

Sulzer strives to balance the expectations of all relevant stakeholders. In order to underline its commitment to good corporate citizenship in the areas of human rights, labor practices, environmental protection, and combating corruption, Sulzer joined the UN Global Compact in 2010. The company's long-standing sustainability strategy is based on the stakeholder matrix (see below), which outlines objectives, success factors, and primary tools for sustainability activities with regard to each stakeholder group. The Corporate Sustainability Council is in charge of monitoring the overall sustainability performance and coordinating Sulzer's sustainability efforts globally. On the local level, a network of around 300 local sustainability experts spans the entire company and allows Sulzer to implement and monitor sustainability initiatives. Regular training sessions ensure their competence and commitment. The sustainability database serves as a basis for the company's sustainability controlling and reporting. In 2010, 76 production and service sites, which cover approximately 80% of the entire Sulzer employee base, were assessed in the database. The companies acquired in 2010 are on track for inclusion.

Stakeholder matrix

	Economic sustainability			Social sustainability		Ecological sustainability
Stakeholders	**Investors**	**Customers**	**Suppliers**	**Employees and social partners**	**Neighborhood and society**	**Environment**
Objectives	Value creation	Customer satisfaction	Partnership	Engagement	Good citizenship	Good citizenship
Success factors	Profitability, competitiveness	Performance of products and services	Competitiveness	Competence	Trustworthiness	Eco-efficiency, innovation
Main measures	▪ Midrange plan ▪ Regular operational control cycle ▪ Operational excellence	▪ Quality management systems ▪ Lean management ▪ Customer satisfaction surveys	▪ Evaluation of suppliers ▪ Quality agreements ▪ Long-term relationships	▪ Annual appraisals ▪ Training programs ▪ Health and safety management systems	▪ Jobs ▪ Apprenticeships ▪ Involvement in communities	▪ Environmental management systems ▪ Product life-cycle analysis ▪ Blacklist of potentially hazardous materials
Code of Business Conduct and additional policies, regulations, and directives						

As part of its commitment to communicating openly and transparently about its sustainability performance, Sulzer publishes a biannual sustainability report and annual online updates that are both externally verified. The Sulzer Sustainability Report 2009 fully complied with the GRI (Global Reporting Initiatives) application level A+. The sustainability reports, regular updates with recent figures, and additional data, such as the GRI-G3 Index, can be viewed online at www.sulzer.com/sustainability.

Economic sustainability

Excel with lean principles

Long-term value creation is Sulzer's prime economic objective. The company carefully manages its relations with the relevant economic stakeholders, such as customers, suppliers, industrial partners, and investors. Sulzer has great expertise in developing tailored solutions for performance-critical applications with both economic and ecological benefits for the customers. Internally, the company continually improves its business processes in order to excel in organizational excellence—one of the company's core values. The corporate-wide LEAN initiative was further advanced in 2010 and remains a strategic focus area.

By the end of 2010, the ISO 9001 standard for quality management systems had been implemented at 59 production sites, which comprise 98% of all employees in production (excluding the newly acquired companies). Another 54 certifications maintained on an ongoing basis to certify compliance with, e.g., automotive, aviation, and medical quality standards.

Social sustainability

Significant improvement in health and safety

Sulzer continued to put considerable effort into ensuring the health and safety of its employees. With concerted measures, the company has reduced its accident frequency rate by more than 60% since 2006, while adding acquisitions and new facilities to the production and service network. In 2010, the accident frequency rate decreased to 4.4 cases per million working hours (from 5.6 in 2009). In addition, the accident severity rate was reduced to 60.4 lost days per million working hours (from 87.3 in 2009). Moreover, the total lost day rate due to occupational and non-occupational absences was lowered to 1.8% of working hours (from 2.1% in 2009). The company also continued its program to minimize hazardous materials emissions and exposure. In 2010, 61 training sessions were held in order to ensure compliance with Sulzer standards on a global basis. Additionally, several thousand employees completed health and safety e-learning programs.

Accident severity rate, ASR

60.4 (–31%)

(2009: 87.3 lost days per million working hours)

Sulzer further advanced the certification of all production sites according to the OHSAS 18001 (Occupational Health and Safety Assessment Series) or the SCC (Safety Checklist Contractors) standard. By the end of 2010, 58 production sites that cover 98% of employees in production had received the certificate.

Ecological sustainability

Reduced ecological footprint

Sulzer is committed to sustainable development and strives to operate without eroding the livelihood base of future generations. In particular, the company regards carbon dioxide emissions and the related climate change as a major ecological concern and is therefore committed to contributing to the climate change targets defined in the Kyoto Protocol. Sulzer aspires to operate in a more energy-efficient manner than the average of its competitors and to develop more energy-efficient solutions. The company's solutions make an important contribution toward a more sustainable world, particularly in the areas of energy efficiency, innovations for renewables, and solutions that reduce the impact on the environment. Examples of Sulzer solutions that meet the increasing environmental concerns and stricter regulations are given throughout this report. In order to support the superior environmental standards of its products, Sulzer started to issue environmental product declarations in 2010. They provide information about the environmental and economic performance of specific products over the entire life cycle—starting at raw material extraction, through manufacturing and use to end-of-life recycling or disposal.

Sulzer further advanced the certification of all production sites according to the ISO 14001 standard for environmental management systems. By the end of 2010, 54 production sites that comprise 96% of employees in production had received the certificate.

Sustainability Report 2009

Innovation and technology

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Technology leadership

Increased and faster innovation is a focus area and is crucial for ensuring Sulzer's technological leadership. Research and development is systematically managed to bring the most promising projects quickly and successfully to market.

Sulzer Innotec developed a mobile high-precision laser system, which allows metal forming with five axes simultaneously.

Innovation and continuous research and development play a pivotal role in the sustained success of Sulzer. Increased and faster high-quality innovation is thus one strategic priority of the company. In 2010, Sulzer invested CHF 59 million in research and development. After a significant increase in 2009, the investments in research and development relative to sales remained stable. The figure does not include many of the innovative solutions that have been developed in cooperation with clients during ongoing projects. More than 1 000 Sulzer employees were active in the areas research, development, and engineering in 2010; and around 30% of the overall employee base has a higher education.

Systematically managing innovations

In order to ensure access to the latest technology, Sulzer has been cooperating successfully for many years with the Swiss Federal Institute of Technology and other technical universities. In 2010, the company decided to continue its activities as part of Venture Incubator, a Swiss venture company that supports selective start-ups from the university environment. Thereby, Sulzer has gained access to state-of-the-art technologies that are relevant to the business. The company also further engaged in individual venture activities that complement its solution portfolio. It has implemented first steps for an external corporate venturing process that aims to continuously foster and strengthen long-term relations with the venture world.

Sulzer has used a systematic multistage innovation process for several years. The Technology Officers in the divisions are in charge of proactively managing this process. In the Innovation and Technology Council, they coordinate company-wide innovation activities together with the corporate Chief Technology Officer and the Head of the Patent Department. Out of hundreds of possible ideas that have been gathered in regular idea-generation meetings and workshops across the company, the ones with the greatest potential have been selected for a quick and successful market entry. During 2010, around 50% of the innovation projects experienced a change in status, i.e., they got closer to market launch. By the end of 2010, 81 projects were in the market-launch phase (up from 43 at the end of 2009). In the same year, 41 patents were filed, which evidences the innovative strength of Sulzer.

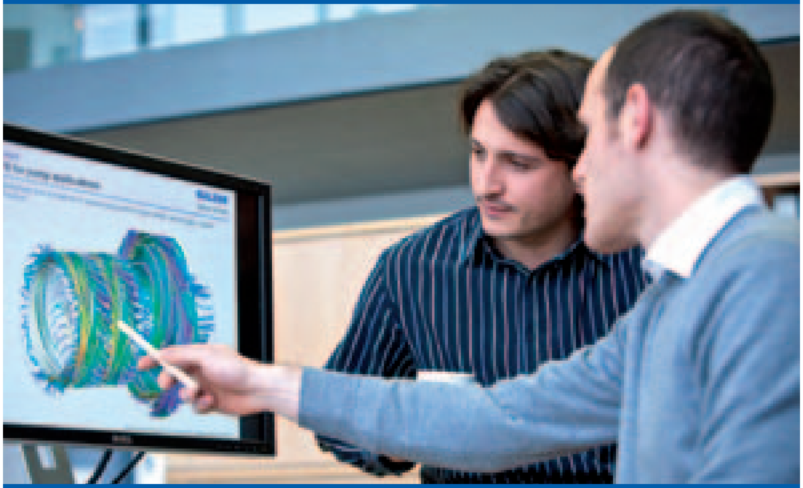
Innovative solutions with great market potential

All Sulzer divisions made significant achievements with innovation projects in 2010. Sulzer Pumps developed novel solutions in the fields of concentrated solar power, carbon capture and storage, as well as non-food-based biofuels. The division further increased the efficiency of its solutions, which corresponds to a growing client demand in light of environmental concerns and stricter regulations. Sulzer Metco expanded and refined its surface technology portfolio, for instance, with vacuum plasma-spray technology that improves coatings of complex geometries. Sulzer Chemtech further advanced its polymerization technology for bioplastics based on lactic acid, which has great market potential. A first customer plant was set up in 2010. For the highly innovative dental market, a unique two-component mixing system was introduced, which allows exact dosing, offers improved usability, and ensures the highest hygiene standards. The service teams at Sulzer Turbo Services used their great expertise in developing tailor-made solutions for specific customer problems. With the acquisition of Dowding & Mills in 2010, the division has strengthened its innovation potential by expanding its technical competences with electro-mechanical expertise.

Sulzer Innotec—high-potential innovation projects

Sulzer Innotec is the company's central research and development unit. It offers contract research and technical services both to the Sulzer divisions and to external customers. Core competencies include material and surface engineering, experimental and numerical methods for flow technology and mechanics, diagnostics, and certified testing, as well as manufacturing and repair of precision components and prototypes. Recent developments have included projects for dense ceramic membranes for oxygen separation and hybrid manufacturing, which can be used for complex impellers. Sulzer Innotec manages cross-divisional innovation initiatives and supports innovation projects with the highest potential for the entire company. They include solutions for the solar-power and the geothermal industries as well as innovations for the fields of unconventional gases and for third-generation biofuels (based on algae). For the field of computational fluid dynamics, novel simulation methods have been developed. In 2010, Sulzer Innotec's sales amounted to CHF 22 million.

Energy-efficient solutions



Increased energy efficiency in the oil and gas industry

Oil and gas will remain important energy sources and raw materials in the foreseeable future; substitutes for these resources can only be gradually introduced in the longer term. Sulzer researchers and engineers are therefore continuing their efforts to optimize the energy efficiency of solutions used in the oil and gas industry.

With the aspiration to better support customers in optimizing overall energy efficiency, Sulzer is introducing environmental product declarations with transparent information about the economic and environmental performance of specific products. Over 99% of energy consumption and carbon dioxide emissions occur from the use of the pump, and these are largely driven by the energy mix of the customer. Sulzer Pumps leverages its longstanding expertise with centrifugal pumps to achieve substantial energy-efficiency improvement throughout the entire life cycle of the pump.

For more information

www.sulzer.com/focus/oilandgas

Research and development expenses

CHF 59m (2% of sales)

(2009: 2% of sales)

Employees

Engaging a diverse workforce

Sulzer applies integrated human resource processes in all areas to manage its increasingly diverse workforce. Targeted development measures aim to increase the engagement of all employees worldwide.

Diverse teams with different backgrounds create better solutions and reflect Sulzer's broad customer base.

Employees are at the core of Sulzer's success. In 2010, the number of employees increased by 13%, due to acquisitions, changes in local regulations, and market improvements in some areas. Sulzer applies integrated HR processes, which are based on the company's vision, mission, and core values. These processes cover the areas of attracting and recruiting, performance and rewards, talent management, succession management, and development.

Attracting and maintaining talent

In 2010, Sulzer continued to implement its employer brand strategy on a worldwide basis, particularly to attract engineers from technical universities. This strategy is based on valuing ideas and ambition, long-term career prospects, and highly committed and motivated teams. Over 90% of all employees benefitted from a performance appraisal in 2010, which allowed high performers to be identified and ensured open and constructive feedback. Talent reviews supported the development of talent across regional, divisional, and functional boundaries and provided new career prospects. As an alternative to the management career track, engineers have the option of technical careers. In 2010, 64% of vacant leadership positions were filled with internal candidates, which testifies to Sulzer's strong talent pipeline.

Targeted development measures

In order to engage its workforce, Sulzer strives to create an environment where employees can learn and excel. Consequently, the company provides technical, functional, and product-related training. In 2010, strong emphasis was put on training in operational excellence and lean principles with the introduction of a corporate-wide platform to foster lean knowledge. Around 140 lean facilitators were trained to support local lean initiatives and foster lean thinking. In the initial phase in 2010, these facilitators held 99 lean workshops with over 600 participants that resulted in significant process improvements at the Sulzer facilities worldwide. In the areas of contract and risk management and compliance, several thousand employees participated in e-learning programs, training sessions, and workshops in 2010. More than 60 managers and experts participated in the various Programs for Development and Impact for leadership training. Employee opinion surveys combined with targeted action plans contributed to the positive work environment and the high employee engagement: For instance, Sulzer Pumps held top-management workshops and subsequently implemented measures to address areas of improvement, such as interdepartmental cooperation, that were identified in a global employee opinion survey.

Leveraging diversity

With Sulzer's global presence, it is essential that the company's workforce reflect the diversity of its customer base. Sulzer further believes that diverse teams create better solutions because they can build on more and different ways of seeing challenges and develop better ways of meeting them. The company consequently fosters and leverages diversity with respect to gender, culture, and demography. As a measurable result, the share of female members of the Sulzer Management Group doubled in 2010.

Leadership positions filled with internal talent

64%

(2009: 79%)

Corporate culture and the Sulzer brand

Strengthening culture and brand

Sulzer's core values build the basis for its strong corporate culture. In 2010, the values were further integrated into day-to-day activities. They are reflected in a strong Sulzer brand, which is continuously fostered and strengthened with targeted measures.

The Sulzer brand serves as an orientation point for both employees and external stakeholders. Living the core values helps to strengthen the corporate culture and contributes to the company's long-term success.

A corporate culture based on core values

The strong Sulzer corporate culture is based on the three core values: customer partnership, operational excellence, and committed employees. They function as an inner compass for the behavior of all Sulzer employees and reflect what is truly important to the company. In light of Sulzer's global activities, these shared values are crucial to the company's success, as they facilitate cooperation and ensure mutual understanding across national and departmental borders. In 2010, workshops and meetings throughout the company were continued to integrate the core values further into day-to-day activities. Sulzer strives to embed the core values in the corporate culture, for instance, by using these values as a key reference for performance appraisals. The core values also facilitated the integration of newly acquired companies in 2010, in particular, by providing guidance to the new employees.

Strengthening the Sulzer brand

Sulzer recognizes the importance and high value of its longstanding brand. Built on the company's core values, it serves both as an orientation point for employees and as an important driving factor in the marketplace: Customers know the qualities it stands for. Customer trust is a crucial element of the brand because Sulzer teams develop performance-critical applications for customers and are required to have a thorough understanding of their processes. In 2010, a brand survey was conducted with customers as well as employees from all divisions. The survey confirmed that the company is recognized as a dependable and honest partner with outstanding technical competence, high quality standards, and great reliability. The company refined the brand positioning as a basis to further foster and strengthen the Sulzer brand with targeted measures in the future.

In order to ensure a consistent visual appearance, design guidelines are provided to all employees on the web-based Sulzer Brandnet, which is updated regularly. Acquired businesses are integrated rapidly under the Sulzer brand and former brands are removed over time. The patent and trademark department takes appropriate action to protect the Sulzer logo and trademarks in cases of imitation or forgery.

The Sulzer brand stands for outstanding technical competence, high quality standards, and great reliability.

Corporate governance

Sound principles for management and control

Sulzer is committed to the principles of good corporate governance. The company acknowledges the interests of the various stakeholders and strives to ensure transparency as well as a sound balance of management and control.

In brief

Core principles

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.

See page 45

Board composition

The Board of Directors comprises seven members. Each member is elected individually. At the Annual General Meeting 2010 the term for members of the Board of Directors was reduced to 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.

See page 46

Committees of the Board

There are currently three committees of 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 the risk management.
- The Nomination and Remuneration Committee assesses the criteria for the election and reelection 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 acquisitions, divestitures, alliances, and joint ventures relevant to the company) as well as strategic planning and defining of development priorities.

See pages 46–50

New members

The following changes in the Board of Directors and the Executive Committee occurred during 2010:

- Tim Summers was newly elected into the Board of Directors on April 15, 2010.
- The Board of Directors is proposing that Jill Lee be elected as a new Board Member at the Annual General Meeting on April 14, 2011.
- Jürgen Brandt joined the Executive Committee as new CFO as of November 1, 2010. During the transition period between the former and the new CFO (July 24, 2010 – October 31, 2010), CEO Ton Büchner was in charge of the key responsibilities of the CFO assignment.

See pages 46, 54

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 as of December 31, 2010. Further, continually updated information on corporate governance is published on Sulzer's website 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 2010. The compensation report can be found on pages 56 to 62.

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 84 and 85 (note 3). 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). As of December 31, 2010, the market capitalization of all registered shares was CHF 4 882 387 725. The shares of Sulzer India Ltd, formerly listed on the Bombay Stock Exchange, were delisted from the exchange records with effect from September 13, 2010 (notification of September 13, 2010). Castle Support Services PLC, the ultimate holding for the Dowding & Mills Group, was acquired in the course of 2010 and delisted from the AIM London Stock Exchange on July 12, 2010. Information on the major subsidiaries included in the consolidation can be found under note 37 on pages 109 to 112 of the financial section.

Significant shareholders

As far as the company is aware, two shareholders held more than 3% of Sulzer Ltd's share capital on December 31, 2010: the Renova Group[1)] (10 689 797 shares, 31.20%) and Threadneedle Asset Management Holdings Ltd (1 028 210 shares, 3.001%). As of December 22, 2010, the Renova Group held 31.20% in Sulzer shares (directly held by Liwet Holding AG, as published on the SIX disclosure platform on December 24, 2010). On December 22, 2010, the Renova Group informed Sulzer about a change in its group structure and therefore in the indirect holding of the Sulzer shares. On January 18, 2010, Threadneedle Asset Management Holdings Ltd notified Sulzer that it held less than 3% in shares (notification of January 19, 2010). Subsequently, the company increased its shareholding to 3.05% (notification of February 18, 2010), reduced it below 3% (notification of February 23, 2010), increased it to 3.001% (notification of September 15, 2010) and eventually reduced it below 3% (notification of February 4, 2011). For detailed information, see the respective disclosure notifications on www.six-exchange-regulation.com/obligations/disclosure/major_shareholders_en.html. For the positions held by Sulzer and information on shareholders, see note 22 in the financial section (page 100). 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 119).

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, 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 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, provided that the above-mentioned conditions are met (see also paragraph 6a of the Articles of Association at www.sulzer.com/regulations).

On December 31, 2010, ten nominees holding a total of 5 249 281 shares (15.3% 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

[1)] For the group structure of the Renova Group, refer to the SIX disclosure platform on www.six-exchange-regulation.com/obligations/disclosure/major_shareholders_en.html.

Corporate governance

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 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) are set out in the financial section under note 32 (pages 105 to 107) and in the financial statements of Sulzer Ltd under note 109 (pages 122 to 125).

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. Business relationships in the lower double-digit million range exist with the Voith Group (Hans Hubert Lienhard is CEO). Vladimir Kuznetsov and Tim Summers have a close relationship with Sulzer's largest shareholder. Vladimir Kuznetsov is Managing Director, Strategic Development of Renova Management AG, a company of the Renova Group, and Tim Summers is Chairman of the Board of Directors of Venetos Management AG, a company of the Renova Group. Business relationships in the single-digit million range exist with companies that are directly or indirectly controlled by the Renova Group. For further information see financial section, note 33 on page 108. 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. At the Annual General Meeting on April 15, 2010, the shareholders amended the Articles of Association and reduced the term for members of the Board of Directors to one year. At the same time Hans Hubert Lienhard and Luciano Respini were reelected and Tim Summers was newly elected into the Board of Directors, all for terms of one year. The expiration of the terms of the members of the Board of Directors elected earlier than 2010 are shown in the table below. The Board of Directors has since been made up of seven members: one Austrian, one Brit, two Germans, one Italian, one Russian, and one Swiss. Professional expertise and international experience played a key role in the selection of the members. The CVs of the members of the Board of Directors can be viewed 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 in question reaches the age of 70. Exceptions up to but not exceeding the age of 73 can be made by the Board of Directors, which has been the case for Jürgen Dormann. The Board of Directors will recommend the reelection of Luciano Respini, Klaus Sturany, and Tim Summers to the shareholders at the 2011 Annual General Meeting. The Board of Directors is proposing that Jill Lee be elected as a new Board Member at the Annual General Meeting on April 14, 2011. Hans Hubert Lienhard will not stand for reelection.

Internal organization

The Board of Directors is self-constituting, designating from among its members the Chairman of the Board

Board of Directors

Name	Nationality	Position	Age	Entry	Elected until	Attending meeting in 2010 of the Board	AC	NRC	SC
Jürgen Dormann	German	Chairman, Chairman SC	71	August 2009	2012	10			4
Vladimir V. Kuznetsov	Russian	Member, Chairman NRC	50	December 2007	2012	9		3	
Hans Hubert Lienhard	German	Member, AC	60	April 2002	2011	8	2		
Luciano Respini	Italian	Member, NRC, SC	65	April 2004	2011	10		3	4
Daniel J. Sauter	Swiss	Member, AC	54	April 2002	2012	8	4		
Klaus Sturany	Austrian	Member NRC, Chairman AC	65	August 2009	2011	8	4	3	
Tim Summers	British	Member, SC[1]	44	April 2010	2011	6			3
Urs Andreas Meyer	Swiss	Member, AC[2]	47	December 2007		2	1		

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

1) As of April 15, 2010.

2) Until April 15, 2010.

The Board of Directors and its committees

Board of Directors

Jürgen Dormann (Chairman)
Vladimir V. Kuznetsov
Hans Hubert Lienhard
Luciano Respini
Daniel J. Sauter
Klaus Sturany
Tim Summers

Audit Committee	Nomination and Remuneration Committee	Strategy Committee
Klaus Sturany (Chairman)	Vladimir V. Kuznetsov (Chairman)	Jürgen Dormann (Chairman)
Hans Hubert Lienhard	Luciano Respini	Luciano Respini
Daniel J. Sauter	Klaus Sturany	Tim Summers

as well as the chairmen and members of the board committees. Jürgen Dormann has been Chairman of the Board of Directors since August 18, 2009. There are currently three committees: the Audit Committee (AC), the Nomination and Remuneration Committee (NRC), and the Strategy Committee (SC); for its constitutions, see above.

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 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, 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 2010, one two-day meeting as well as three one-day and six shorter board meetings, which lasted about three hours on average, were held. The table on page 46 shows the number of meetings of the committees and further information. Board meetings are generally also attended in an advisory role by the CEO, the CFO, and the General Counsel (who is the secretary of the Board of Directors). During the transition period between the former and the new CFO (July 24, 2010 – October 31, 2010), CEO Ton Büchner was in charge of the key responsibilities of the CFO assignment, including the CFO responsibilities at the Audit Committee meeting in September and at the Board Meeting in October. 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 Head of Planning and Acquisition provides regular status reports on ongoing merger and acquisition projects. In 2010, external experts of Towers Watson were called in by the Board of Directors in connection with the establishment of the performance share plan (for details, see compensation report, pages 56 to 62).

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 accounts and, in particular, the activities—including efficiency and independence—of the internal and external auditors as well as the cooperation between the two bodies, the Internal Control System (ICS), and the risk management. It also assesses 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 Head

Continue on page 50

Corporate governance

Board of Directors

The Sulzer Board of Directors consists of seven members who are elected individually for one-year terms. They have never held executive positions at Sulzer. Tim Summers was newly elected into the Board of Directors in 2010.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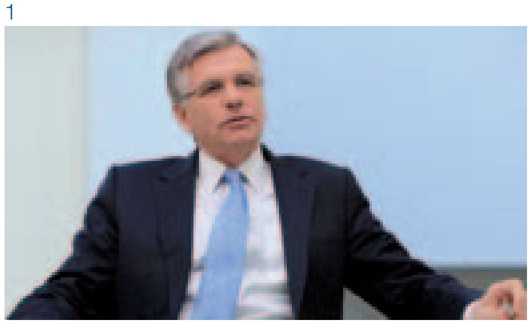
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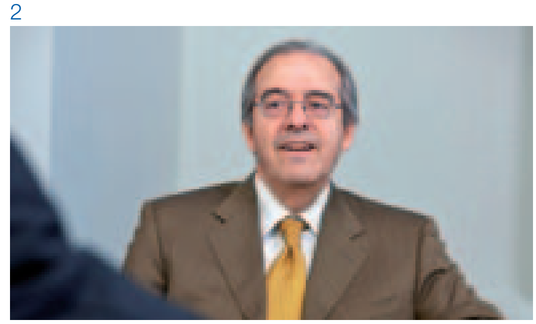
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1 Jürgen Dormann
Germany, 1940; Master of Economics, University of Heidelberg, Germany

Binding interests
Board Member Metall Zug (Chairman) and V-Zug (Chairman)

Career
since 2009, Sulzer, Switzerland; Chairman of the Board of Directors
2005–2010, BG Group, Great Britain, Member of the Board
2005–2008, IBM, USA; Member of the Board
2005–2008, Sanofi-Aventis, France; Vice Chairman
2004–2008, Adecco Group, Switzerland; Member of the Board (Chairman 2007–2008)
2001–2007, ABB, Switzerland; Chairman
2002–2004, ABB, Switzerland; CEO
2002–2004, Aventis, France; Chairman
1999–2002, Aventis, France; CEO
1996–2003, IBM, USA; Member of the Board
1994–1999, Hoechst, Germany; CEO

2 Vladimir V. Kuznetsov
Russia, 1961; Master of International Affairs, Columbia University, USA; Ph.D., Institute of World Economy and International Relations, Russia; Graduate Degree in Economics, Moscow State University, Russia

Binding interests
Board Member OC Oerlikon (Chairman) and Integrated Energy Systems (company of the Renova Group)

Career
2008–2010, Venetos Management (company of the Renova Group), Switzerland; Chairman
since 2007, Sulzer, Switzerland; Member of the Board of Directors
since 2004, Renova Management, Switzerland; Managing Director, Strategic Development
2001–2009, Renova, USA; Vice President
since 1998, Financial Advisory Services, Russia; Director General
1994–1998, Salomon Brothers, Russia; Head of the Moscow subsidiary
1992–1994, Goldman Sachs, Russia; Deputy Director and Director
1984–1992, Institute for Economics and International Relations, Soviet Union/Russia; Head of Financial Markets Research Department

3 Hans Hubert Lienhard
Germany, 1951; Ph.D., Chemical Engineering, Engler-Bunte-Institute, Germany; Master of Science, Chemical Engineering, Technical University of Karlsruhe, Germany

Binding interests
Supervisory Board Member SGL Carbon

Career
since 2008, Voith, Germany; CEO
since 2003, India-Economic Committee Asia-Pacific of German Business, Germany; Chairman
since 2002, Sulzer, Switzerland; Member of the Board of Directors
since 2001, Voith, Germany; Member of the Corporate Management Board; Chairman and CEO of Voith Siemens Hydro Power Generation
1999–2001, The Energy Consulting Group, Switzerland; Founder and Partner
1996–1998, ABB Power Generation Segment, Switzerland; Member of the Management Board
1996–1998, ABB Steam Turbines and Steam Power Plants, Switzerland; Business Area Manager
1994–1998, ABB Power Generation, Germany; Member of the Management Board
1989–1993, ABB Power Generation, Germany; Head of the Business Unit Gas Turbines and Combined-Cycle Plants

4 Luciano Respini
Italy, 1946; Doctor in Economics, Università Cattolica of Milan, Italy

Career
since 2004, Sulzer, Switzerland; Member of the Board of Directors, Chairman of the Board of Directors (a.i., 2009)
2002–2006, The Dow Chemical Company, USA; Member of the Office of the Chief Executive
1998–2006, Dow Europe, Switzerland; President
1995–1997, Dow Latin America, Brazil; President
1991–1994, Dow Europe, Switzerland; Vice President Performance Products
1987–1990, Dow Europe, Switzerland; Vice President Finance

5 Daniel J. Sauter
Switzerland, 1957; Swiss-Certified Banking Expert

Binding interests
Board Member Alpine Select (Chairman), Julius Bär Group, Sika, Model Holding and Trinsic

Career
since 2002, Sulzer, Switzerland; Member of the Board of Directors
1994–2001, Xstrata, Switzerland; Managing Director and CEO
1983–1998, Glencore International, Switzerland; Senior Partner and CFO

6 Klaus Sturany
Austria, 1946; Ph.D., Mathematics (major) and Physics, University of Innsbruck, Austria; studies in Economics (no degree), University of Linz, Austria

Binding interests
Supervisory Board Member Bayer, Hannover Rückversicherung, Heidelberger Druckmaschinen, and Österreichische Industrieholding

Career
since 2009, Sulzer, Switzerland; Member of the Board of Directors
1999–2007, RWE, Germany; CFO
1996–1999, GEA, Germany; CFO (subsequently CEO)
1990–1995, Uhde (now ThyssenKrupp), Germany; CFO
1971–1990, Hoechst Group (now Sanofi-Aventis), Germany; various positions, e.g., Head of Controlling

7 Tim Summers
Great Britain, 1967; Bachelor's Degree in Chemical Engineering, University of Manchester, UK

Binding interests
Board Member KCA Deutag (non-executive Chairman) and Venetos Management (company of the Renova Group)

Career
since 2010, Sulzer, Switzerland; Member of the Board of Directors
since 2010, Venetos Management (company of the Renova Group), Switzerland; Chairman
2008–2009, TNK-BP, Russia; Interim Chief Executive Officer
2006–2009, TNK-BP, Russia; Chief Operating Officer
2007–2009, Slavneft, Russia; Director
2005–2006, BP, Great Britain; Executive Assistant to Group Chief Executive
1989–2006, BP; various positions

Corporate governance

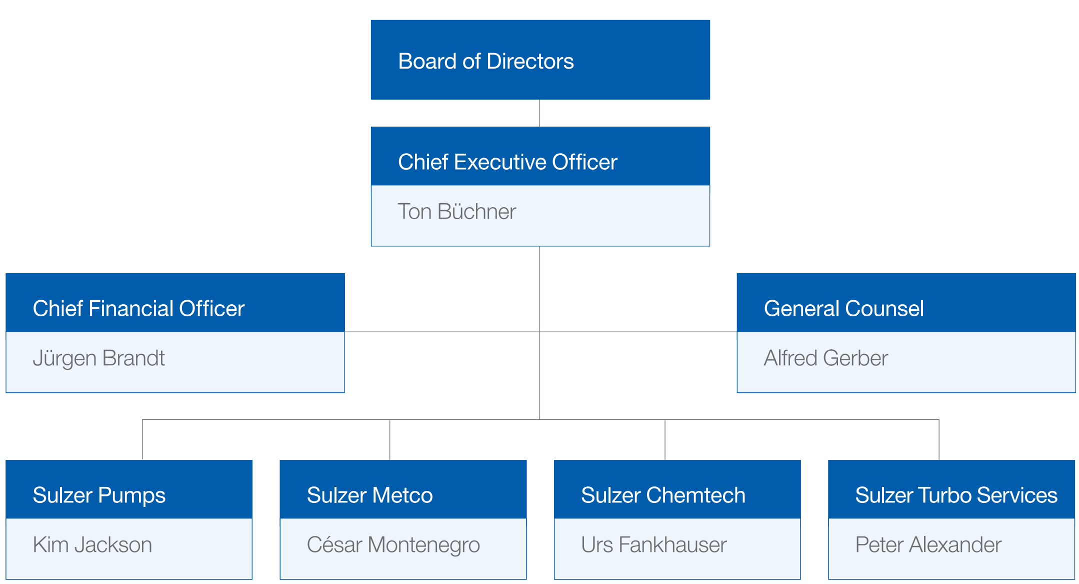
of Internal Auditing (who is also the secretary of this committee), and the external auditor-in-charge. In 2010, the Audit Committee held four meetings. During the transition period between the former and the new CFO (July 24, 2010 – October 31, 2010), CEO Ton Büchner was in charge of the key responsibilities of the CFO assignment, including the CFO responsibilities at the Audit Committee meeting in September and the Board meeting in October. Apart from the external auditor-in-charge, who attended each meeting, no external experts attended meetings of the Audit Committee. Internal experts, like the General Counsel, the Head Corporate Risk Management, the Head Corporate QESH, the Head Corporate IT, the Head Corporate Taxes, as well as the Presidents of Sulzer Pumps and Sulzer Metco made presentations to the Audit Committee in 2010.

Nomination and Remuneration Committee
The Nomination and Remuneration Committee (list of members on page 47) assesses the criteria for the election and reelection 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 firms such as Mercer and 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 2010, three meetings were held. External experts from Towers Watson were assigned to advise and support on the design and implementation of a performance share plan for the Executive Committee (see compensation report, pages 56 to 62). The search process for the new CFO was supported by Egon Zehnder International (EZI).

Strategy Committee
The Strategy Committee (list of members on page 47) advises the Board of Directors on strategic matters (such as acquisitions, divestitures, alliances, and joint ventures relevant to the company) 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 2010, three meetings took place. No external experts participated. The CEO, the General Counsel (who is the secretary of this committee), and the Head of Corporate Planning and Acquisitions attended all meetings. The Division President of Sulzer Turbo Services attended one meeting.

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

Organizational structure



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 by law be made 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/regulations.

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 three-months 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; twice 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 and participates in the meeting of the Sulzer Management Group (around 85 people) held every 12 to 18 months. In addition, the Board receives twice a year an investor relations status report.

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, as well as 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 are carried out on a rotational basis either annually or every second, third, or fourth year. Internal Auditing carried out 30 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 divisions concerned and key measures agreed upon. The Chairman of the Board of Directors, the members of the Audit Committee, the CEO, the CFO, and the 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 General Counsel, the Division Presidents, and the Division Controllers during the monthly information meetings; during these meetings, Internal Auditing also reports on the follow-up of measures agreed earlier. 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 puts a high priority on carrying out its businesses with integrity, in compliance with all applicable laws and internal rules, and on accepting only reasonable contractual risks. 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 and within the Corporate Risk Council. The Audit Committee dedicates at least one full meeting per year to risk management and compliance.

In 2010, Sulzer joined the UN Global Compact initiative and introduced a new Code of Business Conduct (Code), which can be viewed online at www.sulzer.com/regulations in 17 languages. Every current employee of the company and every new employee (including those of the newly acquired businesses) is required to confirm in writing that he or she has read and understood this Code and will comply with it. As of 2006, every member of the Sulzer Management Group (approximately 85 people) as well as the heads of all operating companies and all divisional and local compliance officers must, among others, reconfirm this compliance commitment in writing on an annual basis. The company, each division, and all operating companies have their own compliance officers. The group compliance officer reports to the General Counsel and steers and administers the corporate-wide compliance program (consisting of, e.g., risk assessments, values ("speak-up culture"), internal rules, awareness building, training, controls, and sanctions). Employees and the 80 compliance officers receive regular training so that best practice standards for compliance issues can be established and applied; in 2010, face-to-face trainings for the compliance officers were carried out. Twice a year, the Audit Committee is informed about compliance-related matters (e.g., exposures encountered and activities carried out in the current year and those planned for the following year). During 2010, compliance training again focused on compliance with export controls, competition law, and corruption avoidance. In 2010, several thousand employees participated in e-learning programs, training sessions, and workshops. In 2009, the compliance hotline, which has existed since 2002 for the US companies, was

Continue on page 54

Corporate governance

Executive Committee

The Sulzer Executive Committee consists of the CEO, the CFO, the Division Presidents, and the General Counsel. Jürgen Brandt has been appointed as new CFO in 2010.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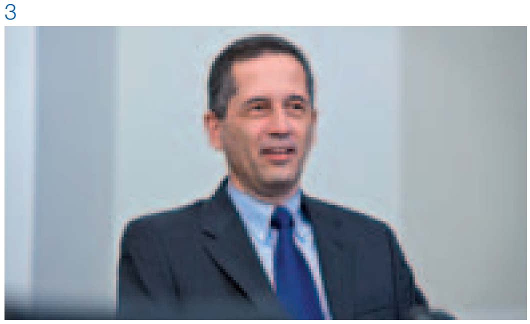
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1 Ton Büchner

Netherlands, 1965; Stanford Executive Program, USA; Master of Business Administration (MBA), IMD, Switzerland; Master of Science in Civil Engineering, TU Delft, Netherlands

Career

since 2007, Sulzer, Switzerland; CEO
2003–2007, Sulzer Pumps, Switzerland; Division President
2000–2003, Sulzer Turbo Services, Switzerland; Division President
1998–2000, Sulzer Turbo, Switzerland; General Manager Customer Support Services
1996–1998, Sulzer International (China Operation), P.R. China; Chief Representative, Beijing Representative Office; General Manager Compressors, China
1994–1996, Sulzer Management, Switzerland; Strategic Development Manager
1992–1993, John Brown Engineers and Constructors (an AkerKvaerner company), Netherlands, and R.J. Brown and Associates, Singapore; Project Manager
1990–1992, R.J. Brown and Associates, Indonesia, Malaysia, Singapore; Project Design Engineer, Project Manager offshore pipelines
1987–1990, Allseas Engineering, Netherlands; Oil and Gas Construction Engineer

2 Jürgen Brandt

Germany, 1956, Bachelor of Science in Economical Engineering, University of Esslingen, Germany

Career

since 2010, Sulzer, Switzerland; CFO
2007–2010, Austrian Energy & Environment Group, Austria; CFO
2006–2007, Austrian Energy & Environment Group, Switzerland; CFO Von Roll Inova Group
2006, Foster Wheeler, Finland; CFO Power Group Europe
2005–2006, Sylvania Lighting International, Germany; CFO
1999–2004, Alstom Power, France; Senior Vice President Finance Power and Environment Division
1997–1999, Alstom Power, Germany; CFO Power Boilers
1995–1997, Hager&Elsässer, Germany; CFO
1980–1997, EVT Energie- und Verfahrenstechnik, Germany; various positions in finance

3 Alfred Gerber

Switzerland, 1959; Law degree, bar exam, University of Zurich, Switzerland; LL.M. (Master of Law), UK

Binding interests

Board Member Association of Swiss Companies in Germany (VSUD); Chairman of European Legal Council of the Conference Board

Career

since 2001, Sulzer, Switzerland; General Counsel and Secretary General
1995–2001, Sulzer Management, Switzerland; Attorney
1991–1995, Kohli & Partners (law firm), Switzerland; Attorney
1989–1990, District Court Meilen, Switzerland; Clerk of the Court, Legal Secretary

4 Kim Jackson

England, 1962; IOD Financial Management, Institute of Directors, UK; B.Sc. (Hons) in Manufacturing Engineering, University of Hertfordshire, UK

Career

since 2007, Sulzer Pumps, Switzerland; Division President
2004–2007, Sulzer Pumps, China; Head of the Asian and South Pacific Business Area
2000–2003, Hayward Tyler Group, UK; Group Managing Director
1995–2000, Hayward Tyler Group, UK; Group Operations Director
1991–1995, Hayward Tyler Group, UK; Production Engineering Manager
1990–1991, Hayward Tyler Group, UK; Machine and Fabrication Manager

5 César Montenegro

Venezuela, 1953; Post-graduate studies in Business Engineering, University Simon Bolivar, Venezuela; BA Mechanical Engineering, University Simon Bolivar, Venezuela

Career

since 2008, Sulzer Metco, Switzerland; Division President
2002–2008, Sulzer Pumps (US), Head of Business Area North America
1996–2001, Sulzer (Mexico), Mexico; Managing Director
1989–1996, Sulzer de Venezuela, Venezuela; Managing Director
1988, Sulzer International, Switzerland; Sub-Regional Manager Andean Countries
1987, Gebr. Sulzer (Pump Division), Switzerland; Sales Manager Export
1985–1986, Sulzer Bros., USA; Pumps Application Engineer
1978–1985, Sulzer de Venezuela, Venezuela; Manager Energy Department

6 Urs Fankhauser

Switzerland, 1960; Advanced Management Program (AMP), Harvard University, USA; Master of Business Administration, Henley Management College, UK; Dipl. Ing. FH, Switzerland

Binding interests

Board Member Burckhardt Compression and Bossard

Career

since 2002, Sulzer Chemtech, Switzerland; Division President
2000–2002, Sulzer Chemtech, USA; President North and South America
1993–2000, Sulzer Chemtech, Singapore; President East Asia/Pacific
1990–1993, Sulzer Chemtech, Singapore; Engineering Manager
1989–1990, Sulzer Pumps, UK; Production Engineer

7 Peter Alexander

USA, 1958; B.Sc. Marine Engineering, Texas A&M University, USA

Career

since 2005, Sulzer Turbo Services, Switzerland; Division President
2004–2005, Sulzer Turbo Services, Switzerland; Head Business Development, Division President (a.i.)
1994–2004, PT Sulzer Hickham Indonesia, Indonesia; Co-Founder and Director of Operations and Engineering
1987–1994, Hickham Industries, USA; Engineering Manager and Project Engineer

Corporate governance

rolled out worldwide to all companies. This hotline provides all employees with another option for reporting (potential) violations of the law or internal directives. Reports can be made via a free hotline or a dedicated website. Users may remain anonymous if they choose to do so. A process to investigate reported issues has been established.

The Corporate Risk Council, comprising the CFO (chairman), the General Counsel, the Head of Internal Auditing, the Corporate Compliance Officer, the Head of Risk Management, and representatives of other group staff functions, held three meetings in 2010. 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. Training in 2010 focused once again on the areas of contractual risks (including insurance) and compliance aspects. Several hundred employees from all divisions took part in the face-to-face training sessions organized by corporate staff units during the reporting year. Internal management of contractual risk was also improved further in the year under review, including through the appointment of additional contract managers and a corporate lawyer located in Shanghai.

The General Counsel informs the Board of Directors 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. At its September meeting, the Audit Committee was 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 was also provided. The Corporate Legal Department carried out ten legal audits in 2010. These audits focused on contractual as well as compliance risks. The results of the audits are discussed with the responsible managers. Measures are agreed upon, and the corresponding reports are sent to the same group of recipients that also receives the internal audit reports. Implementation of these measures is monitored on the basis of written information from the responsible managers. The Corporate Quality, Environment, Safety, and Health Department carried out 34 audits in 2010. The focal points were primarily environmental protection and workplace safety. The results of each of these audits are discussed directly with the responsible managers, and an agreement is 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 an externally verified Sustainability Report in 2010 (see www.sulzer.com/sustainability). The company received the highest rating of A+ from the Global Reporting Initiative (GRI) and is included in the Dow Jones World Sustainability Index (DJSI) since 2008. The external auditing institute SGS (Société Générale de Surveillance) also confirmed the highest GRI rating. The Corporate Information Technology Department conducted eight IT audits in 2010, with the focus on IT security. The results of the audits are discussed with the responsible managers. Measures are agreed upon, and the corresponding reports are sent to the same group of recipients that also receives the internal audit reports.

4. Executive Committee

The Executive Committee consists of the CEO, the CFO, the Division Presidents, and the General Counsel. The former CFO Peter Meier formally left the company as per October 31, 2010. Jürgen Brandt has been appointed as new CFO of Sulzer as of November 1, 2010. During the transition period between the former and the new CFO (July 24, 2010 – October 31, 2010), CEO Ton Büchner was in charge of the key responsibilities of the CFO assignment. 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. The CVs of the members of the Executive Committee can be viewed 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 56 to 62).

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 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 56 to 62). 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 options of the option plan and restricted stock units (RSUs) of the RSU plan are automatically vested. The vesting period for those 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.

8. Auditors

PricewaterhouseCoopers AG has been the statutory auditor of Sulzer Ltd since 1992. The statutory auditor is elected at the Annual General Meeting for a one-year term of office. Christian Kessler has been acting as the external auditor-in-charge for the Sulzer mandate since the 2006 Annual General Meeting. 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 46). 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 2010, he has attended all 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 34 (page 108). 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 2011

January 13	Order intake 2010
February 24	Annual results 2010
April 14	Annual General Meeting 2011, Order intake Q1 2011
July 21	Midyear report 2011
October 14	Order intake Q1–Q3 2011
October 17	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, 2010) and the copy deadline for the Annual Report (February 18, 2011).

Compensation report

Incentives for long-term 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 profitable growth.

In brief

Core principles

Compensation policies and plans at Sulzer are based on performance orientation and have a strong emphasis on creating long-term shareholder value and profitable 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.

See page 57

Compensation for the 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 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.

See page 57

Compensation for the Executive Committee

The compensation of the Executive Committee members is governed by internal regulations (total reward policy, bonus plan, stock option 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) and since 2010 the performance share plan (PSP)

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

See pages 58–62

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 April 14, 2011.

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 32 (pages 105 to 107) and note 33 (page 108) as well as in the financial statements of Sulzer Ltd under note 109 (pages 122 to 125).

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 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. The higher compensation of the Chairman reflects his higher level of responsibility, the broader scope of his tasks, as well as the greater amount of time spent executing this role. The elements and values of the compensation of the members of the Board of Directors for the year 2010 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 53% of the fixed component. For the other board members, the variable component represented between 0% and 210% of the fixed component. Further details can be found in the financial section under note 109 (pages 122 to 125).

Further details on the RSU component are available in the Executive Committee subsection. Detailed information on the remuneration of the Board of Directors (including Urs Andreas Meyer, Board member until April 15, 2010, and Tim Summers, Board member since April 15, 2010), is given in the financial statements of Sulzer Ltd under note 109 (pages 122 to 125).

Annual compensation of the members of the Board of Directors

in CHF	Fixed component (fixed amount, cash, net of social security contributions[1])	Variable component (variable, fixed amount at grant date, restricted stock units)
Chairman of the Board[2]	400000	250000
Members of the Board	65000	125000
Chairman of a committee[3]	20000	–
Member of a committee[3]	10000	–

[1] For gross amounts, refer to note 109 on pages 122 to 125 in the financial section.

[2] The Chairman of the Board does not receive additional remuneration for committee activities.

[3] Committee chairmen do not receive additional remuneration for committee membership.

Compensation report

Executive Committee

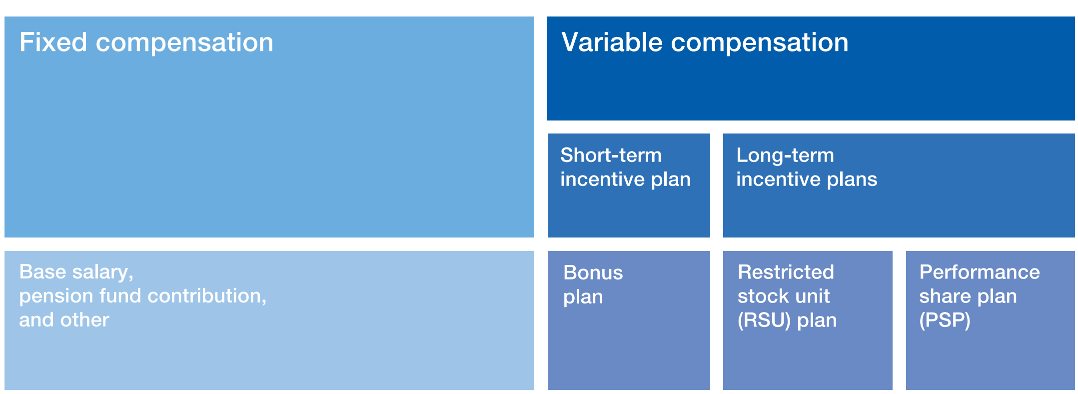
The compensation of the Executive Committee members is governed by internal regulations (total reward policy, bonus plan, stock option plan, restricted stock unit plan, and performance share plan). The compensation is reviewed by the Nomination and Remuneration Committee (NRC) on an annual basis and, if necessary, adjusted and approved by the full Board of Directors based on a proposal by the NRC. The full Board also approves the performance targets as well as the performance achievement levels for all Executive Committee members based on 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 results-based bonus (in cash) as well as long-term incentives: the restricted share unit plan (RSU plan) and the performance share plan (PSP). In 2010, the variable compensation to the CEO represented 199% of the fixed component. For the entire Executive Committee, the variable component represented 140% of the fixed component. 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 109 (pages 122 to 125).

To ensure that the remuneration of the members of the Executive Committee is nationally as well as internationally competitive, Sulzer regularly participates in respective benchmarks, such as the 2010 study provided by Towers Watson, a leading global consultancy. It focused on Swiss-based multinational corporations with a comparable number of employees and similar sales volume (e.g., Rieter, OC Oerlikon, Sika, Geberit, Georg Fischer, Lonza). Sulzer aims for remuneration between the median and the 75th percentile of the benchmark. This study was also used to design the performance share plan.

The elements of the compensation of the members of the Executive Committee are summarized in the table on page 59.

Overview compensation elements



Compensation elements for the members of the Executive Committee

	Base compensation	Short-term incentive plan (bonus plan)	Long-term incentive plan I (restricted stock unit plan)	Long-term incentive plan II (performance share plan)
Main parameters	Position, function, experience, competency evaluation	Achievement of business, financial and individual targets	Position, function, experience	Achievement of long-term net-income results, factored by share price performance and acquisition volume
Key driver	Labor market	Net income, return on capital employed, order intake, and annual individual targets	Share price development	Aggregate net income 2010–2012, total shareholder return, acquisition volume
Links to compensation principles	Competitive compensation	Pay for performance	Sustainable value creation	Sustainable value creation and growth
Form	Cash	Cash	Restricted stock units (RSUs)	Performance share units (PSUs)
Amount	Fixed	Variable, capped at maximum 2.5 times the bonus on target (which is 50% of the base salary for the CEO and 30–35% for the other Executive Committee (EC) members). The maximum amount can reach 125% of the base salary for the CEO and 75%–87.5% of the base salary for the other EC members	Fixed value for one year based on decision of the Board of Directors, converted into RSUs	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
Grant	Monthly	March of the year following the performance period	Annually at grant date (in March)	April 1, 2010 (one-time plan)
Performance period	One fiscal year (2010)	One fiscal year (2010)	1–3 years	January 1, 2010 – March 31, 2013
Vesting	–	–	One-third each on the first, second, and third anniversary of the grant date	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

Compensation report

Base salary (fixed, in cash)

The base salary reflects 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. In order to review, assess, and, where needed, adjust the individual compensation, multinational salary benchmark studies issued by external advisors are used (see “Executive Committee”, page 58). Jobs are evaluated according to the Towers Watson Global Grading System (GGS). GGS builds on company criteria such as size, complexity, and geographic scope to assess the number of levels. Jobs 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 www.towerswatson.com/assets/pdf/2815/TowersWatson_GGS-CM-Factsheet-NA_2010_16685.pdf.

Bonus (variable, performance-based, in cash)

The annual target bonus corresponds to a percentage of the base annual salary (50% for the CEO, 30% or 35% for the other members of the Executive Committee). 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 ratio, which can be between zero and two and a half 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 2010, no such exceptions were granted. The bonuses for 2010, which are assessed by the NRC and approved by the full Board, will be paid in March 2011. The bonus for 2010 paid to the CEO represented 105% of the fixed component (base salary, pension fund contribution, other). For the entire Executive Committee, the bonus paid represented 71% of the fixed component. The relationship between the bonus and the variable component of compensation reflect Sulzer’s high performance orientation. Further details can be found in the financial section under note 109 (pages 122 to 125).

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. Following a benchmarking analysis (PricewaterhouseCoopers: Executive Compensation Benchmark 2008) and in consultation with PricewaterhouseCoopers and Mercer, the Board of Directors decided to replace the previous long-term option plan with an RSU plan starting in 2009. Each year, members of the Sulzer Management Group receive RSUs; the grant value of the RSUs depends on the respective management grade (for a definition of the Global Grading System, see “Base salary”). In 2010, it was reviewed using the Towers Watson Benchmark 2010. All senior managers with the same global grade receive the same number of RSUs. The number of RSUs granted is calculated by dividing the defined grant value per global grade by the volume-weighted average share price over the last ten trading days before the grant date. The RSUs are not definitively allocated when issued; instead, one-third of the units granted are vested every year. In the event that the employment is terminated, all options and RSUs that are unvested on the day the working relationship expires shall lapse. With the introduction of the performance share plan (see below) all members of the Executive Committee agreed to have their RSU values—compared with those granted in 2009—reduced for the years 2010 to 2012 (by two-thirds for the CEO and by one-third for all other Executive Committee members) and have these amounts invested into the performance share plan. In 2010, the RSU plan for the CEO represented 17% of the fixed component. For the entire Executive Committee, the RSU plan represented 32% of the fixed component. The relationship between the fixed component of compensation and the RSU plan reflects Sulzer’s strong emphasis on aligning the interests of the Executive Committee and the shareholders to create long-term shareholder value. Further details can be found in the financial section under note 109 (pages 122 to 125).

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

Sulzer aims to further align the interests of the members of the Executive Committee with those of the shareholders and, particularly, 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). Therefore, 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 is a one-time plan with a performance period of three years (see graphic on page 61). The plan was designed by the Nomination and Remuneration Committee with support from Towers Watson. The members of the Executive Committee will be 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, as well as effects related to business combinations (as introduced with IFRS 3 (revised) “Business

Combinations", see page 68) over the performance period (January 1, 2010 – December 31, 2012).

(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.

(iii) Acquisition volume: Total volume spent on the activation of balance sheet assets for the purpose of acquisitions or other sound investments of Sulzer's

Overview performance share plan (PSP)

Step 1: Determining number of PSUs granted

Number of restricted share units (RSUs) granted (over performance period 2010–2012)

×

Factor required to be invested in performance share plan:

- CEO: two thirds of RSUs must be invested in performance share units (PSUs)
- Other Executive Committee members: one third of RSUs must be invested in PSUs

+

Company matches the number of PSUs:

- CEO: 100%
- Other Executive Committee members: 80%

=

Number of PSUs granted

PSUs will vest three years after grant.

Step 2: Determining number of PSUs vested three years after grant

Number of PSUs as calculated in Step 1 (over performance period 2010–2012)

×

Factor based on cumulative net income/total shareholder return (TSR) matrix (see table below)

- Minimum cumulative net income and TSR amounts are set—if either of these is not met, no PSUs will vest
- The factor accordingly varies from 0 to the maximum of 2.5 (for exceptional net income and TSR). If both cumulative net income and TSR are at an expected level the factor is 1.02

×

Factor based on acquisition volume

Total volume spent on the activation of the balance sheet assets for the purpose of acquisitions or sound investments of Sulzer's liquid assets over the performance period

Factor ranges from 0.8 to 1.8

=

Number of PSUs vested

The maximum payout is capped at a multiple of the cumulative value at grant of the PSP:

- CEO: 4
- Other Executive Committe members: 5

Cumulative net income/total shareholder return (TSR) matrix

	Minimum performance		Expected performance		Exceptional performance
Cumulative net income	0.60	0.83	1.39	1.94	**2.50**
	0.40	0.72	1.20	1.68	2.17
	0.20	0.61	**1.02**	1.43	1.83
	0.10	0.50	0.83	1.17	1.50
	0	0.40	0.73	1.07	1.40
	Total shareholder return (TSR)				

Compensation report

liquid assets over the performance period, for example, share buyback programs. For major acquisition and investment decisions (see “Division of powers between the Board of Directors and the CEO,” page 50), the approval of the Board of Directors is necessary.

The PSP includes a requirement for the participants to invest a portion of their yearly RSU grant into the PSP plan. The CEO must 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 must invest one-third of each of the three annual RSU grants, which results in a total investment of the equivalent of one annual grant during the performance period. At the grant date, each investment is matched by a co-investment by the company. The company matches 100% of the amount invested (and of the amount to be 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 is 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 will result in a one-time payout by conversion of PSUs into shares on the vesting date (March 31, 2013). However, on the day when the entire award automatically vests, only 50% of the shares shall automatically be de-blocked (settlement possible in cash or shares). The remaining 50% of the shares shall be de-blocked on the first (30%) and second (20%) anniversary of the vesting date. The plan includes a significant leverage in the case of extraordinary performance over the three-year performance period. At vesting, the number of PSUs granted is multiplied by two factors (see graphic on page 61). 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 is 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) will result in a zero payout, meaning that the Executive Committee member will 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. In 2010, the PSP units for the CEO represented 77% of the fixed component. For the entire Executive Committee, the PSP units represented 37% of the fixed component. The relationship between the fixed component of compensation and the PSP reflects Sulzer’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 109 (pages 122 to 125).

The former CFO Peter Meier officially left the company as per October 31, 2010. He received the base remuneration for the first ten months as well as a maximum pro rata bonus. Additionally, he is entitled to the RSUs and options that vest in early 2011 (i.e., within the contractual notice period). He did not participate in the PSP. Jürgen Brandt has been appointed as new Chief Financial Officer of Sulzer as of November 1, 2010. In 2010, he did not receive RSUs, but he will be eligible for RSUs in 2011. It is also intended that he will participate on a pro rata basis in the PSP as of 2011.

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, since February 2006, they contain the right to compensation if an employment contract is terminated within 18 months after a change of control or in the event of a considerable change to a member’s function. This compensation consists of the base salary plus the target bonus plus 10% of the base salary for one year. The Board of Directors has undertaken this measure in the interests of the company. Furthermore, if there is a change of control (for members of the Executive Committee, including the 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 options of the option plan and RSUs of the RSU plan are automatically vested.

All other information on compensation (including that of the CEO and the Executive Committee as a whole) can be found in the financial section under note 32 pages 105 to 107) and note 33 (page 108) as well as in the financial statements of Sulzer Ltd under note 109 (pages 122 to 125).

Financial section

Consolidated financial statements

Sulzer achieved a net income attributable to shareholders of Sulzer Ltd of CHF 300 million. The capital structure was further strengthened, which is reflected in the equity ratio of 54.3%.

Consolidated financial statements

Notes to the consolidated financial statements

Consolidated income statement

January – December

millions of CHF	Notes	2010	2009
Sales	03	**3183.7**	3350.4
Cost of goods sold		**–2183.7**	–2343.9
Gross profit		**1000.0**	1006.5
Selling and distribution expenses		**–299.7**	–290.6
General and administrative expenses		**–294.2**	–277.5
Research and development expenses	07	**–58.5**	–63.4
Other operating income	08	**104.1**	101.7
Other operating expenses	08	**–41.4**	–60.1
Operating income before restructuring		**410.3**	416.6
Restructuring expenses		**–3.9**	–48.6
Operating income		**406.4**	368.0
Interest and securities income	09	**9.5**	8.0
Interest expenses	09	**–9.1**	–10.1
Other financial income	09	**–4.8**	3.7
Income before income tax expenses		**402.0**	369.6
Income tax expenses	10	**–97.7**	–93.8
Net income		**304.3**	275.8
Attributable to shareholders of Sulzer Ltd		**300.4**	270.4
Attributable to non-controlling interests		**3.9**	5.4
Earnings per share, attributable to a shareholder of Sulzer Ltd (in CHF)			
Basic earnings per share	23	**8.92**	8.06
Diluted earnings per share	23	**8.82**	7.99

Consolidated statement of comprehensive income

January – December

millions of CHF	Notes	2010	2009
Net income		**304.3**	275.8
Fair value changes on available-for-sale financial assets, net of tax		**8.1**	3.9
Cash flow hedge reserve, net of tax		**4.9**	25.5
Currency translation differences		**–116.9**	26.6
Total comprehensive income for the year		**200.4**	331.8
Attributable to shareholders of Sulzer Ltd		**196.9**	325.5
Attributable to non-controlling interests		**3.5**	6.3

Consolidated balance sheet

December 31

millions of CHF	Notes	2010	2009
Non-current assets			
Intangible assets	11	**629.0**	511.9
Property, plant and equipment	12	**531.6**	558.1
Other financial assets	13	**35.9**	32.1
Non-current receivables		**8.8**	6.2
Deferred income tax assets	10	**90.3**	92.1
Total non-current assets		**1 295.6**	1 200.4
Current assets			
Inventories	14	**533.8**	512.8
Advance payments to suppliers		**80.3**	68.8
Trade accounts receivable	16	**718.3**	696.1
Other accounts receivable and prepaid expenses	17	**179.2**	128.6
Assets held for sale	18	**3.7**	10.4
Marketable securities	20	**12.7**	36.5
Cash and cash equivalents	19	**668.1**	730.6
Total current assets		**2196.1**	2 183.8
Total assets		**3491.7**	3384.2
Equity			
Share capital	22	**0.3**	0.3
Reserves		**1 894.7**	1 777.2
Equity attributable to shareholders of Sulzer Ltd		**1 895.0**	1 777.5
Non-controlling interests		**6.2**	11.4
Total equity		**1 901.2**	1 788.9
Non-current liabilities			
Long-term borrowings	24	**44.2**	49.0
Deferred income tax liabilities	10	**66.1**	65.6
Non-current income tax liabilities	10	**22.2**	31.6
Non-current provisions	25	**214.3**	179.1
Other non-current liabilities		**1.3**	1.9
Total non-current liabilities		**348.1**	327.2
Current liabilities			
Short-term borrowings	24	**83.8**	47.5
Current income tax liabilities	10	**36.8**	74.2
Current provisions	25	**155.7**	186.2
Trade accounts payable		**285.2**	243.7
Customers' advance payments		**277.9**	313.8
Other current and accrued liabilities	26	**403.0**	402.7
Total current liabilities		**1 242.4**	1 268.1
Total liabilities		**1 590.5**	1 595.3
Total equity and liabilities		**3491.7**	3384.2

Consolidated statement of changes in equity

January – December

millions of CHF	Share capital	Retained earnings	Treasury stock	Financial instruments	Currency translation adjustment	Net income	Total	Non-controlling interests	**Total equity**
	Attributable to shareholders of Sulzer Ltd								
Equity as of January 1, 2009	0.3	1536.0	–123.8	–4.0	–193.1	322.9	1538.3	8.0	1546.3
Total comprehensive income for the year				26.5	28.6	270.4	325.5	6.3	331.8
Addition/deduction of non-controlling interests							–	0.3	0.3
Change in treasury shares		–21.0	25.1				4.1		4.1
Cost of share-based payments		5.5					5.5		5.5
Dividend						–95.9	–95.9	–3.2	–99.1
Allocation of net income		227.0				–227.0	–		–
Equity as of December 31, 2009	0.3	1747.5	–98.7	22.5	–164.5	270.4	1777.5	11.4	1788.9
Total comprehensive income for the year				13.0	–116.5	300.4	196.9	3.5	**200.4**
Addition/deduction of non-controlling interests							–	–0.5	**–0.5**
Changes in ownership in subsidiaries without loss of control		–14.7					–14.7	–3.6	**–18.3**
Change in treasury shares		1.4	21.8				23.2		**23.2**
Cost of share-based payments		8.0					8.0		**8.0**
Dividend						–95.9	–95.9	–4.6	**–100.5**
Allocation of net income		174.5				–174.5	–		**–**
Equity as of December 31, 2010	0.3	1916.7	–76.9	35.5	–281.0	300.4	1895.0	6.2	**1901.2**

Consolidated statement of cash flows

January – December

millions of CHF	Notes	2010	2009
Cash and cash equivalents as of January 1		**730.6**	447.2
Cash flow from operating activities			
Net income		**304.3**	275.8
Interest and securities income		**–9.5**	–8.0
Interest expenses		**9.1**	10.1
Income tax expenses	10	**97.7**	93.8
Depreciation/amortization		**104.6**	111.2
Changes in inventories		**–53.3**	146.4
Changes in advance payments to suppliers		**–22.1**	–7.5
Changes in trade accounts receivable		**–51.2**	203.6
Changes in advance payments from customers		**–12.6**	–122.4
Changes in trade accounts payable		**54.4**	–87.4
Changes in provisions		**–37.0**	29.5
Changes in other net current assets		**33.2**	–11.3
Other non-cash items		**45.1**	30.4
Interest received		**8.5**	9.7
Interest paid		**–6.0**	–7.1
Income tax paid		**–153.5**	–134.6
Income from disposals of subsidiaries and property, plant and equipment		**–57.5**	–44.2
Total cash flow from operating activities		**254.2**	488.0
Cash flow from investing activities			
Purchase of intangible assets	11	**–1.6**	–1.3
Sale of intangible assets		**0.4**	0.1
Purchase of property, plant and equipment	12	**–116.5**	–110.9
Sale of property, plant and equipment		**13.0**	152.9
Acquisitions	30	**–198.0**	–40.2
Divestitures		**84.5**	0.6
Purchase of financial assets		**–**	–0.2
Sale of financial assets		**2.5**	0.5
Purchase of marketable securities		**–13.5**	–6.3
Sale of marketable securities		**37.2**	17.8
Total cash flow from investing activities		**–192.0**	13.0
Cash flow from operating and investing activities		**62.2**	501.0
Cash flow from financing activities			
Dividend		**–94.6**	–94.0
Purchase/sale of treasury stock		**–1.9**	–28.0
Dividend to non-controlling interests		**–2.8**	–3.2
Changes in non-controlling interests		**–13.3**	–
Additions in long-term borrowings		**1.9**	20.0
Repayment of long-term borrowings		**–25.0**	–1.1
Changes in short-term borrowings		**39.7**	–119.0
Total cash flow from financing activities		**–96.0**	–225.3
Exchange gains/losses on cash and cash equivalents		**–28.7**	7.7
Net change in cash and cash equivalents		**–62.5**	283.4
Cash and cash equivalents as of December 31		**668.1**	730.6

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 Zürcherstrasse 14 in Winterthur, Switzerland. The consolidated financial statements as at and for the year ended December 31, 2010, 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, the surfacing technology business, and associated services. Sulzer was founded in 1834 in Winterthur, Switzerland, and employs some 13 800 people in over 160 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 18, 2011.

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.

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 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 2010

- IAS 27 (revised) Consolidated and Separate Financial Statements requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains or losses. The standard also specifies when control is lost. Any remaining interest in the entity is remeasured to fair value and a gain or loss is recognized in profit or loss. The corporation applied IAS 27 (revised) from January 1, 2010.
- IFRS 3 (revised) Business Combinations continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured through profit or loss. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interests in the acquiree at fair value or at the non-controlling interests' proportionate share of the acquiree's net assets. All transaction costs are expensed when they incur. The corporation applied IFRS 3 (revised) from January 1, 2010.
- There are a number of minor amendments, which were part of the IASB's annual improvement project published in April 2009. Such amendments were IAS 1 current/non-current classification of convertible instruments, IFRS 2 scope of IFRS 2 and IFRS 3 (revised), IFRS 5 disclosures required in respect of non-current assets classified as held for sale or discontinued operations, IFRS 8 disclosure of information about segment assets, IAS 7 classification of expenditures on unrecognized assets, IAS 17 classification of leases of land and buildings, IAS 18 determining whether an entity is acting as principal or as an agent, IAS 36 unit of accounting for goodwill impairment test, IAS 38 additional consequential amendments arising from IFRS 3 (revised), IAS 38 measuring the fair value of an intangible asset acquired in a business combination, IAS 39 treating loan prepayment penalties as closely related derivatives, IAS 39 scope exemption for business combination contracts, IAS 39 cash flow hedge accounting, IFRIC 9 provides guidance on how to reassess embedded derivatives, IFRIC 16 clarifying the basis of conclusion for hedges of a net investment in a foreign operation, and IFRIC 18 provides guidance on how to account for property, plant and equipment received from customers. These amendments became mandatory for financial reporting periods for the corporation beginning January 1, 2010.

b) Standards, amendments, and interpretations which the corporation has decided not to early adopt in 2010

- IFRS 9 Financial Instruments will replace IAS 39 Financial Instruments in its entirety and will establish principles for the financial reporting of financial assets to improve user's ability to assess amounts, timing, and uncertainties of the entities future cash flow. IFRS 9 will become mandatory for periods beginning on or after January 1, 2013, with earlier application permitted.
- IAS 24 (revised) Related Party Disclosures reduces or eliminates alternatives, redundancies, and conflicts within the existing standard. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The corporation will apply IAS 24 (revised) in its 2011 consolidated financial statements.
- Classification of rights issues (amendment to IAS 32). The amendment applies to annual periods beginning on or after February 1, 2010. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities.
- Prepayments of a minimum funding requirement (amendment to IFRIC 14). Without the amendment, entities are not permitted to recognize as an asset some voluntary prepayments for minimum funding contributions. The amendment will become mandatory for financial reporting periods beginning on or after January 1, 2011.
- IFRIC 19 Extinguishing financial liabilities with equity instruments addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. The interpretation will become mandatory for financial reporting periods beginning on or after July 1, 2010.
- There are a number of minor amendments, which are part of the IASB's annual improvement project published in May 2010. Such amendments were IFRS 1 clarification of treatment of accounting policy changes in the first year and the revaluation basis as deemed cost, IFRS 3 defines the transitional requirements for contingent considerations and the measurement of non-controlling interests, IFRS 7 clarifies the disclosures required and scopes out IFRS 3 business combinations, IAS 1 clarifying the disclosure requirement in the statement of changes in equity, IAS 27 specifies the transition

requirements for amendments arising as a result of IAS 27 (revised), IAS 34 further clarifies disclosing events in interim periods, and IFRIC 13 defines fair value measurement of award credits. These amendments will become mandatory for financial reporting periods for the corporation beginning January 1, 2011, and are unlikely to have material impact on the consolidated financial statements.

c) Standards, amendments, and interpretations effective in 2010 but not relevant

The following standards, amendments, and interpretations are mandatory for accounting periods beginning on or after January 1, 2010, but are not relevant to the corporation's operations:

- Amendment to IFRS 1 First Time adoption of IFRS determines the transition provisions permitted in applying IFRS 7 Financial Instruments: Disclosures for first time adopters. The amendment, which became mandatory for financial reporting periods beginning January 1, 2010, did not have an impact on the consolidated financial statements.
- IFRIC 17 Distributions of Non-cash Assets to owners clarifies how an entity should measure distributions of assets, other than cash, when it pays dividends to its owners. The interpretation states that a dividend payable should be recognized when appropriately authorized and should be measured at the fair value of the net assets to be distributed. The difference between the fair value of the dividend paid and the carrying amount of the net assets distributed should be recognized in profit or loss. IFRIC 17, which became mandatory for the corporation's 2010 financial statements, did not have an impact on the consolidated financial statements.

2.3 Consolidation

a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the corporation has the power to govern the financial and operating policies generally accompanying a shareholding (voting rights) of more than 50% or otherwise controls the company's activities directly or indirectly, by applying the full consolidation method. Changes in the scope of consolidation take effect from the date on which control was transferred. The consolidation of equity has been carried out according to the purchase method. The accounting policies of subsidiaries have been changed to align them with the policies adopted by the corporation.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the corporation. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued, and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the corporation's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

b) Associates and jointly controlled entities

Associates are those entities in which the corporation has significant influence, but not control, 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.

c) 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. A summary of the major subsidiaries or affiliated entities is shown in note 37 "Major subsidiaries."

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 operating segments for Sulzer are shown in note 03 "Segment information."

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 equity 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 equity.

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 equity.

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,
- income and expenses for each income statement are translated at average exchange rates.

Translation differences resulting from consolidation are taken to equity. In the event of a sale or liquidation of foreign affiliated companies, exchange differences which were recorded in equity 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 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 being 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 cost of acquiring a business 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 company acquisition 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. 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
Other intangible assets include material licenses, patents, trademarks, and similar rights acquired from third parties. Such assets are amortized over their expected useful life, generally not exceeding ten years. Minor purchases of patents, licenses, trademarks, and similar rights and any related internally generated intangibles are expensed as incurred.

c) Research and development expenses
Development costs for major projects are only capitalized and amortized over the period of use if required criteria are met. Other research and development expenses are charged directly to income as incurred.

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 ten years.

f) Other intangible assets
Other intangible assets comply with the general requirements for intangible assets but cannot be classified in another category as defined above. Such intangible assets are stated on the basis of costs incurred and are amortized over their estimated useful lives, generally not exceeding ten years.

2.7 Property, plant and equipment
Property, plant and equipment is stated at acquisition cost less operationally required 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
Vehicles	max. 4 years
Other equipment	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. Substantial appreciations are also capitalized and amortized over the useful lives of the assets.

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 assessed 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 category.

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 which meet the requirements of a “cash flow hedge” or a “net investment hedge,” all adjustments are charged or credited to financial income. Assets in this category are classified as 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 hedge accounting mainly for so-called “cash flow hedges” and “net investment hedges.” Cash flow hedges are used to secure future cash flows which have a high probability of occurrence. The hedge instrument is recorded on the balance sheet at fair value and the effective portions are booked against “Equity” in the column “Financial instruments.” If the hedge relates to a non-financial transaction which will subsequently be recorded on the balance sheet, the adjustments cumulated under “Equity” 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 equity 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 equity. The gain or loss relating to the ineffective portion is recognized immediately in the income statement as gains or losses. 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 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 include 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 face 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 which are past due more than 120 days 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 giro, and bank accounts, together with other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are reported within borrowings in the current liabilities.

2.14 Share capital
Ordinary shares are classified as equity. Incremental cost 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 recognized as equity 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) in force 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 likely 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 liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are charged or credited to income over the employees' expected average remaining working lives.

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 postemployment employee benefits are reported as long-term provisions in category "Other employee benefits."

In case of termination benefits (e.g., contributions on early retirement) the calculation of the provision is similar as 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 are 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. Refer to note 32 "Share participation plans" for further information.

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 is 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 pre-tax 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 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, 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 Sulzer 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 below-stated conditions 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) 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 elements contracts that provide for delivery of more than one service, or may include 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 to 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. The impact out of the percentage of completion orders on the consolidated income statement and balance sheet is shown in note 15 "Percentage of completion contracts."

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 (for example: 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.

The earnings process is complete when all of the following have cumulatively occurred:
- probable that economic benefits will flow to the entity,
- revenue can be measured reliably.

2.21 Discontinuing operations
In line with IFRS 5, Sulzer classifies operations as discontinuing if the criteria for "held for sale" classification have been met. This is the case if it is a major line of business, geographical area of operations or parts thereof and when there is a coordinated plan to dispose a major line of business or geographical area of operations.

2.22 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 and fair value less selling cost.

2.23 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, primarily with respect to the EUR, CHF, USD, CAD, and GBP.

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 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 2010 and 2009 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 2010, the only currency pairs with significant inherent risk were the USD versus the CAD as well as the EUR versus the AED.

2010 in income statement

millions of CHF Currency pair	USD/CAD	EUR/AED
Volatility	11.5%	11.9%
Effect on profit after tax (rate increase)	–1.4	0.4
Effect on profit after tax (rate decrease)	1.4	–0.4

2009 in income statement

millions of CHF Currency pair	EUR/INR	USD/CHF
Volatility	12.1%	12.7%
Effect on profit after tax (rate increase)	1.0	0.7
Effect on profit after tax (rate decrease)	–1.0	–0.7

If, on December 31, 2010, the USD had increased by 11.5% against the CAD with all other variables held constant, profit after tax for the year would have been CHF 1.4 million lower mainly due to foreign exchange losses on USD-denominated internal liabilities. A decrease of the rate would have caused a gain of the same amount.

The following tables show the hypothetical influence on equity for 2010 and 2009 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.

2010 in equity

millions of CHF

Currency pair	GBP/USD	EUR/CHF	USD/CHF	USD/MXN	BRL/CHF	USD/CAD	EUR/GBP
Volatility	10.1%	8.9%	10.7%	11.5%	13.6%	11.5%	9.2%
Effect on equity (rate increase)	4.7	–3.2	–3.1	–1.8	–1.7	–1.3	–1.1
Effect on equity (rate decrease)	–4.7	3.2	3.1	1.8	1.7	1.3	1.1

2009 in equity

millions of CHF

Currency pair	GBP/USD	USD/CAD	EUR/CHF	USD/MXN	GBP/CHF	USD/CHF	EUR/USD
Volatility	13.9%	14.7%	6.3%	16.2%	13.8%	12.7%	12.2%
Effect on equity (rate increase)	7.4	–3.0	–1.9	–1.7	–1.5	–1.4	1.3
Effect on equity (rate decrease)	–7.4	3.0	1.9	1.7	1.5	1.4	–1.3

(ii) Price risk
The corporation is exposed to equity securities price risk because of investments held by the corporation and classified on the consolidated balance sheet either as "available-for-sale" or at "fair value through profit or loss."

The corporation's equity investments are mostly publicly traded and are included in the equity index SPI.

The table below summarizes the hypothetical impact of increases/decreases of the SPI on the corporation's post-tax profit for the year and on equity. The analysis is based on the assumption that the equity index had increased/decreased by its one year historic volatility at December 31 with all other variables held constant and all the corporation's equity instruments moved according to the historical correlation with the index.

millions of CHF	2010			2009		
Index	Volatility	Impact on post-tax profit	Impact on equity	Volatility	Impact on post-tax profit	Impact on equity
SPI	14.4%	0.4	4.2	19.3%	0.3	4.7

Post-tax profit for the year would increase as a result of gains on equity securities classified as at "fair value through profit or loss." Equity would increase as a result of gains on equity securities classified as "available-for-sale." A decrease of the equity markets would cause a loss of the same amount.

(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, BRL, USD, CNY, and GBP, increasing interest rates would have a positive impact on the income statement, since the amount of variable interest bearing assets (comprising mainly cash and cash equivalents) are exceeding the amount of variable interest bearing liabilities.

millions of CHF	2010			
Variable interest bearing assets (net)	Amount	Sensitivity in basis points	Impact on post-tax profit rate increase	rate decrease
CHF	256.2	100	1.9	–0.2
BRL	78.2	100	0.6	–0.6
USD	60.8	100	0.5	–0.1
CNY	42.0	100	0.3	–0.3
GBP	23.8	100	0.2	–0.1

millions of CHF	2009			
Variable interest bearing assets (net)	Amount	Sensitivity in basis points	Impact on post-tax profit rate increase	rate decrease
CHF	237.8	100	1.8	–0.2
USD	116.1	100	0.9	–0.1
BRL	75.2	100	0.6	–0.6
CNY	69.1	100	0.5	–0.5
EUR	52.2	100	0.4	–0.1

On December 31, 2010, if the interest rates on CHF-denominated assets net of liabilities had been 100 basis points higher with all variables held constant, post-tax profit for the year would have been CHF 1.9 million (2009: CHF 1.8 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 a negative impact of CHF 0.2 million on post-tax profit of 2010 and 2009.

(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 quality 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 considering 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 maintaining sufficient cash and marketable securities, the availability of funding from an adequate amount 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 by maintaining availability under a committed credit line.

Management monitors forecast figures of the corporation's liquidity reserve on the basis of expected cash flow. In 2007 a syndicated credit line with maturity 2012 was established to provide financial flexibility also in the short run. During 2008, the syndicated credit line was partially extended until 2013. If special needs arise, financing will be reviewed case by case.

The table below 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	2010					2009				
	<1 year	1–2 years	2–5 years	>5 years	Total	<1 year	1–2 years	2–5 years	>5 years	Total
Borrowings	86.7	27.9	5.2	15.9	135.7	50.2	12.8	26.0	18.4	107.4
Trade accounts payable	285.2	–	–	–	285.2	243.7	–	–	–	243.7
Other liabilities	127.7	0.4	0.4	–	128.5	142.1	1.7	0.3	–	144.1

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 receives the equivalent amount in a different currency. In case of options, only short positions are considered, as only these positions may generate a payment liability.

millions of CHF	2010				
	<1 year	1–2 years	2–5 years	>5 years	Total
Forward exchange contracts					
– outflow	1 185.2	21.9	–	–	1 207.1
– inflow	1 185.2	21.9	–	–	1 207.1
Other forward contracts					
– outflow	–	–	19.2	–	19.2
– inflow	–	–	–	–	–
Other options					
– outflow	11.5	–	–	–	11.5
– inflow	–	–	33.2	–	33.2

millions of CHF	2009				
	<1 year	1–2 years	2–5 years	>5 years	Total
Forward exchange contracts					
– outflow	739.6	47.1	2.3	–	789.0
– inflow	739.6	47.1	2.3	–	789.0
Other forward contracts					
– outflow	20.5	–	–	–	20.5
– inflow	–	–	–	–	–
Other options					
– outflow	35.8	–	–	–	35.8
– inflow	–	–	49.8	–	49.8

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 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.

Consistent with 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 total equity (debt to equity ratio). The equity capital as shown in the balance sheet corresponds to the managed equity capital.

The gearing ratio as at December 31, 2010 and 2009, was as follows:

millions of CHF	2010	2009
Total financial debt	128.0	96.5
Total equity (excluding non-controlling interests)	1 895.0	1 777.5
Gearing ratio	0.07	0.05

The increase in the gearing ratio during 2010 resulted from a slight increase in financial debt.

3.3 Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the corporation is the current bid price. Such instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The corporation uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Such instruments are included in level 2.

The following table presents the financial assets and liabilities that are measured at fair value at December 31, 2010.

millions of CHF	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through profit or loss	2.7	10.0	–	**12.7**
Derivative assets	–	38.2	–	**38.2**
Available-for-sale financial assets	31.1	–	–	**31.1**
Total assets	**33.8**	**48.2**	**–**	**82.0**
Liabilities				
Financial liabilities at fair value through profit or loss	–	–	–	**–**
Derivative liabilities	–	13.9	–	**13.9**
Total liabilities	**–**	**13.9**	**–**	**13.9**

The following table presents the financial assets and liabilities that are measured at fair value at December 31, 2009.

millions of CHF	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through profit or loss	1.1	35.4	–	36.5
Derivative assets	–	15.5	–	15.5
Available-for-sale financial assets	27.4	–	–	27.4
Total assets	28.5	50.9	–	79.4
Liabilities				
Financial liabilities at fair value through profit or loss	–	–	–	–
Derivative liabilities	–	9.2	–	9.2
Total liabilities	–	9.2	–	9.2

Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date.

The carrying value less allowance for doubtful trade receivables and payables are assumed to approximate their fair values due to the short-term nature of trade receivables. Allowances are based on past experience in the relevant markets. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the corporation for similar financial instruments.

The corporation does not have significant financial assets for which valuation techniques not based on observable market data are used (level 3).

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

In accordance with the accounting policies set forth in section 2.6 “Intangible assets,” the corporation carries out an annual impairment test on goodwill. The recoverable amount from cash-generating units is measured on the basis of value-in-use calculations. These calculations require the establishment of assumptions.

The management defines budgeted gross margins based on developments in the past and on future market expectations. The applied discount rates are based on pre-tax interest rates and reflect the specific risks of the respective industry.

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.

e) Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The corporation uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or trader quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date.

f) 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. The impact on cash flow of the acquisitions listed below is disclosed in note 30.

Significant changes in 2010
Castle Support Services Plc
On June 2, 2010, Sulzer and the board of Castle Support Services Plc, the sole owner of Dowding & Mills, agreed the terms of a recommended cash offer by Sulzer (UK) Holdings Ltd for Castle Support Services Plc, for a total of approximately GBP 127.5 million. On the same day, Sulzer (UK) Holdings Ltd received valid acceptances from Castle shareholders in respect of 94.52% of the existing share capital of Castle. Based on the level of acceptances received, Sulzer declared the offer unconditional in all respects as of June 3, 2010, and thereby attained control of Castle Support Services Plc. Castle shares have been cancelled trading on the Alternative Investment Market (AIM) at the London Stock Exchange. As of December 31, 2010, Sulzer (UK) Holdings Ltd held 100% of shares of Castle Support Services Plc. With the acquisition, Sulzer intends to strengthen its service business. The electro-mechanical activities of Dowding & Mills will expand Sulzer's technical competences and complement the current activities of Sulzer Turbo Services. Through the integration of Dowding & Mills into Sulzer Turbo Services Sulzer became a leading independent service provider for turbomachinery, generators, and motors.

Founded in 1919, Dowding & Mills is one of the largest independent repair and maintenance providers for generators, motors, and associated equipment. With its quality repair and remanufacturing service, the company provides a fast alternative to the replacement of motors and generators. Dowding & Mills achieved annual sales of GBP 125.5 million (CHF 213 million) in the 12 months ended on June 30, 2009. This included certain activities amounting to approximately GBP 11 million (CHF 18 million) that were not acquired by Sulzer. Dowding & Mills employs approximately 1 350 people in the UK, USA, Australia, and UAE.

Cash acquired amounted to CHF 33.6 million. Recognized intangible assets amounted to CHF 64.2 million. The resulting goodwill comparing the purchase price of CHF 213.6 million paid in cash (total consideration) and the net assets acquired amounted to CHF 141.6 million. The amount increased compared to the initially published goodwill of CHF 137.7 million by CHF 3.9 million, mainly related to a decrease in identified intangible assets of CHF 1.5 million, a lower amount in deferred tax assets of CHF 1.5 million, and minor changes in other net current assets. The goodwill is attributable to synergies from entering new geographical markets and the related increase in the service portfolio. The goodwill will not lead to taxable valuation differences. Transaction costs are recognized in general and administrative expenses and amount to CHF 3.3 million. Non-controlling interests related to the acquisition are measured at proportionate equity with an amount of CHF –0.5 million. Since the acquisition date, order intake has amounted to CHF 123.0 million, sales have amounted to CHF 123.0 million, and operating income has amounted to CHF 12.5 million.

Acquired net assets of Castle Support Services Plc

millions of CHF	Fair Value
Intangible assets	64.2
Other non-current assets	60.9
Inventories	21.2
Trade accounts receivable	33.8
Other current assets	39.5
Employee benefit plans	–45.6
Liabilities with third parties	–102.0
Identified acquired net assets	**72.0**

Bekaert Diamond-like Carbon (DLC) Coatings
On July 1, 2010, Sulzer Metco acquired Bekaert's diamond-like carbon (DLC) coating activities for a purchase price of EUR 14.1 million (CHF 18.6 million). The resulting goodwill amounts to CHF 0.3 million. With its leading DLC technology, Bekaert achieved sales in 2009 of EUR 12.5 million (CHF 16.5 million). Bekaert's DLC coatings business develops and markets thin-film coatings, which combine very low frictional resistance and extreme hardness. The DLC coatings will complement Sulzer Metco's current range of advanced coating systems and services in the area of PVD (physical vapor deposition) and PHT (plasma heat treatment) as well as a combination thereof. The transaction covers all six production plants in Belgium, France, Germany, and the USA with approximately 150 employees in total, enhancing Sulzer Metco's service network in Europe and the USA. Since the acquisition date, order intake has amounted to CHF 12.9 million, sales have amounted to CHF 12.4 million, and operating income has amounted to CHF –0.4 million including restructuring expenses of CHF 2.4 million.

01 Significant changes in the scope of consolidation (continued)

Acquired net assets of Bekaert's diamond-like carbon (DLC) coating activities

millions of CHF	Fair value
Intangible assets	1.9
Other non-current assets	13.5
Inventories	0.6
Trade accounts receivable	3.7
Other current assets	3.7
Liabilities with third parties	–5.1
Identified acquired net assets	**18.3**

In addition, Sulzer Chemtech acquired the assets of Dentaco GmbH. The contribution of the acquisition to the consolidated income statement and to the total of Sulzer's employees is not material. There was no goodwill resulting from the transaction.

Sulzer Real Estate Ltd
On October 27, 2010, Sulzer successfully completed the transaction of its Winterthur real estate portfolio with Implenia Ltd, which was first announced on August 31, 2010. By acquiring Sulzer Real Estate Ltd in a share deal structure, Implenia Ltd is taking over Sulzer's operationally non-essential real estate in Switzerland, including liabilities.

The net transaction value was approximately CHF 83 million. In addition, there is a value attached to sales contracts already signed for various properties, for which closing is expected during the course of the next three years. At the end of September, the divestiture of the real estate services to Auwiesen Immobilien AG was already closed for a value of CHF 2.5 million. In 2010, the EBIT contribution from the sale of Sulzer Real Estate Ltd amounted to CHF 47.8 million and from the already signed contracts, CHF 3.8 million. The two new owners retain all employees of Sulzer Real Estate Ltd. The implementation of Sulzer's long-term strategy of selling all operationally non-essential real estate in Switzerland to third parties was successfully concluded with these last steps.

Significant changes in 2009
On January 15, 2009, Sulzer Chemtech acquired the TowerTech companies based in Australia, Thailand, and Singapore. TowerTech averages annual sales of approximately AUD 10 million (CHF 7.5 million), employs over 20 people, and is a renowned specialist in tower field services.

On April 30, 2009, Sulzer Chemtech acquired Kühni Ltd located in Allschwil, Switzerland. The company is also present in the USA and active in Asia. Kühni is an expert in thermal, diffusion, and membrane separation technology for the separation and purification of aqueous and organic mixtures. The acquired company achieved sales of CHF 37 million in 2008 and employs over 80 people.

On July 31, 2009, Sulzer Chemtech acquired SAB Technical Services and renamed it Sulzer Chemtech Tower Field Service (India) Pvt Ltd. The company is mainly active in India and Singapore. SAB's annual sales are approximately USD 4 million (CHF 4.4 million), and it employs approximately 50 people.

On October 7, 2009, Sulzer Chemtech acquired assets and liabilities of Manfred Preu Kolonnenservice. Manfred Preu Kolonnenservice is mainly active in Germany. The acquired business achieved average annual sales of approximately EUR 2.3 million (CHF 3.5 million) over the past years.

In addition, Sulzer Chemtech acquired Freeze Tec B.V., and Sulzer Metco acquired the assets of Select Transmission Technologies Inc. The contribution of the two companies to the consolidated income statement and to the total of Sulzer's employees is not material.

The purchase price of the six acquisitions in 2009 amounted to CHF 81.1 million, with CHF 32.2 million of cash acquired. The resulting goodwill totaled CHF 17.0 million. In 2009, CHF 72.1 million was remitted to the sellers.

01 Significant changes in the scope of consolidation (continued)

Acquired net assets of acquisitions 2009

millions of CHF	Fair value
Intangible assets	21.5
Other non-current assets	18.1
Inventories	7.9
Other current assets	44.3
Liabilities with third parties	–27.7
Identified acquired net assets	64.1

Significant changes in ownership interest in subsidiaries without loss of control in 2010

Sulzer India Ltd

On March 4, 2010, Sulzer Ltd stated its intention to acquire the remaining 19.97% of equity (688 908 equity shares) of Sulzer India Ltd, India, held by public minority shareholders and to delist from the Bombay Stock Exchange (BSE). Through a public delisting offer, Sulzer acquired approximately 392 000 shares of Sulzer India Ltd, Pune, representing 11.4% of the outstanding shares. Consequently, the cumulative shareholding of Sulzer increased to 91.4%, allowing it to apply for a delisting of the shares from the BSE. The final notice of the delisting was issued on August 30, 2010. Accordingly, trading of the shares was discontinued from September 3, 2010, onward, and the shares were delisted from the exchange records. As required by local law, Sulzer accepted remaining publicly held shares at the offer price of INR 1 180 per share for a period of 12 months from the date of delisting. As of December 31, 2010, Sulzer Ltd held 94.01% of Sulzer India Ltd. Therefore a total amount of INR 569.0 million (CHF 13.3 million) was paid to public shareholders of Sulzer India Ltd.

02 Major currency exchange rates

CHF	2010		2009	
	Average rate	Year-end rate	Average rate	Year-end rate
1 EUR	**1.38**	**1.25**	1.51	1.48
1 GBP	**1.61**	**1.45**	1.70	1.66
1 USD	**1.04**	**0.94**	1.09	1.03
1 BRL	**0.59**	**0.56**	0.55	0.59
1 CAD	**1.01**	**0.94**	0.95	0.98
100 CNY	**15.40**	**14.20**	15.89	15.09
100 INR	**2.28**	**2.09**	2.24	2.21
100 MXN	**8.25**	**7.57**	8.04	7.87
1 SGD	**0.76**	**0.73**	0.75	0.73
1 ZAR	**0.14**	**0.14**	0.13	0.14

03 Segment information

millions of CHF		Sulzer Pumps		Sulzer Metco		Sulzer Chemtech		Sulzer Turbo Services	
		2010	2009	2010	2009	2010	2009	2010	2009
Order intake (unaudited)		1 613.7	1 684.5	643.1	545.5	621.3	498.4	400.4	278.3
Nominal growth (unaudited)		–4.2%	–27.0%	17.9%	–23.8%	24.7%	–35.3%	43.9%	–8.3%
Adjusted growth (unaudited)[1]		–1.7%	–22.9%	21.8%	–21.4%	24.7%	–36.8%	5.0%	–9.8%
Order backlog (unaudited)		1 336.6	1 436.0	71.3	57.2	274.3	238.9	115.1	137.2
Sales		1 576.1	1 856.7	623.5	556.0	574.6	632.3	399.1	291.3
Nominal growth		–15.1%	2.2%	12.1%	–25.2%	–9.1%	–23.2%	37.0%	–7.1%
Adjusted growth (unaudited)[1]		–13.5%	8.2%	15.7%	–23.0%	–8.9%	–26.3%	0.2%	–9.5%
Research and development expenses		11.0	17.5	19.6	19.3	25.9	24.5	–	–
Operating income before depreciation/amortization	EBITDA	215.2	231.5	81.5	46.3	93.2	96.2	55.9	41.0
Depreciation/amortization		–26.2	–26.8	–24.4	–25.8	–34.7	–41.7	–14.0	–8.0
Operating income before restructuring	EBITR	189.3	223.4	59.5	34.2	59.7	65.5	41.9	38.2
Restructuring expenses		–0.3	–18.7	–2.4	–13.7	–1.2	–11.0	–	–5.2
Operating income	EBIT	189.0	204.7	57.1	20.5	58.5	54.5	41.9	33.0
Return on sales before restructuring (EBITR/sales)	ROSR	12.0%	12.0%	9.5%	6.2%	10.4%	10.4%	10.5%	13.1%
Return on sales (EBIT/sales)	ROS	12.0%	11.0%	9.2%	3.7%	10.2%	8.6%	10.5%	11.3%
Return on capital employed (EBIT in % of average capital employed)	ROCE	55.5%	49.1%	14.6%	5.0%	14.4%	13.0%	13.6%	17.4%
Operating assets		1 026.7	1 062.4	465.6	483.0	582.1	566.5	516.9	267.2
Unallocated assets		–	–	–	–	–	–	–	–
Total assets as of December 31		1 026.7	1 062.4	465.6	483.0	582.1	566.5	516.9	267.2
Operating liabilities		702.7	737.7	100.6	96.7	176.6	169.1	142.3	75.9
Unallocated liabilities		–	–	–	–	–	–	–	–
Total liabilities as of December 31		702.7	737.7	100.6	96.7	176.6	169.1	142.3	75.9
Operating net assets		324.0	324.7	365.0	386.3	405.5	397.4	374.6	191.3
Unallocated net assets		–	–	–	–	–	–	–	–
Total net assets as of December 31		324.0	324.7	365.0	386.3	405.5	397.4	374.6	191.3
Employees (number of full-time equivalents) as of December 31		5 904	5 928	2 045	1 796	2 973	2 977	2 587	1 189

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

Sulzer Pumps is a market leader in pump technology and hydraulics. Sulzer Metco is a market leader in surface technology. Sulzer Chemtech has leading positions in separation technology and static mixing. Sulzer Turbo Services is a leading independent service provider for rotating equipment. There are no significant transactions across the segments.

03 Segment information (continued)

millions of CHF		Total divisions		Others		Total Sulzer	
		2010	2009	2010	2009	2010	2009
Order intake (unaudited)		3278.5	3006.7	10.2	10.9	3288.7	3017.6
Nominal growth (unaudited)		9.0%	–26.6%	–	–	9.0%	–26.7%
Adjusted growth (unaudited)[1)]		7.5%	–24.3%	–	–	7.5%	–24.3%
Order backlog (unaudited)		1797.3	1869.3	2.5	2.4	1799.8	1871.7
Sales		3173.3	3336.3	10.4	14.1	3183.7	3350.4
Nominal growth		–4.9%	–9.8%	–	–	–5.0%	–9.8%
Adjusted growth (unaudited)[1)]		–6.6%	–7.2%	–	–	–6.6%	–7.3%
Research and development expenses		56.5	61.3	2.0	2.1	58.5	63.4
Operating income before depreciation/amortization	EBITDA	445.8	415.0	65.2	64.2	511.0	479.2
Depreciation/amortization		–99.3	–102.3	–5.3	–8.9	–104.6	–111.2
Operating income before restructuring	EBITR	350.4	361.3	59.9	55.3	410.3	416.6
Restructuring expenses		–3.9	–48.6	–	–	–3.9	–48.6
Operating income	EBIT	346.5	312.7	59.9	55.3	406.4	368.0
Return on sales before restructuring (EBITR/sales)	ROSR	11.0%	10.8%	–	–	12.9%	12.4%
Return on sales (EBIT/sales)	ROS	10.9%	9.4%	–	–	12.8%	11.0%
Return on capital employed (EBIT in % of average capital employed)	ROCE	23.9%	21.8%	–	–	28.1%	24.8%
Operating assets		2591.3	2379.1	37.2	100.4	2628.5	2479.5
Unallocated assets		–	–	–	–	863.2	904.7
Total assets as of December 31		2591.3	2379.1	37.2	100.4	3491.7	3384.2
Operating liabilities		1122.2	1079.4	76.9	97.7	1199.1	1177.1
Unallocated liabilities		–	–	–	–	391.4	418.2
Total liabilities as of December 31		1122.2	1079.4	76.9	97.7	1590.5	1595.3
Operating net assets		1469.1	1299.7	–39.7	2.7	1429.4	1302.4
Unallocated net assets		–	–	–	–	471.8	486.5
Total net assets as of December 31		1469.1	1299.7	–39.7	2.7	1901.2	1788.9
Employees (number of full-time equivalents) as of December 31		13509	11890	231	293	13740	12183

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

Others summarizes the following activities: Real Estate, Sulzer Innotec, Corporate Center, and consolidation adjustments.

04 Segment information by geographical regions

millions of CHF	Operating assets by company locations		Capital expenditure in intangible assets and property, plant and equipment by company locations		Sales by region	
	2010	2009	**2010**	2009	**2010**	2009
Europe	**1453.6**	1424.6	**47.9**	66.9	**1024.4**	1046.5
North America	**561.0**	559.7	**21.2**	26.3	**840.3**	951.7
Central and South America	**158.7**	177.7	**7.9**	3.7	**323.8**	238.7
Asia, Middle East, Australia	**392.1**	250.5	**40.4**	14.5	**802.9**	885.4
Africa	**63.1**	67.0	**0.7**	0.8	**192.3**	228.1
Total	**2628.5**	2479.5	**118.1**	112.2	**3183.7**	3350.4

Sales of divisions by region (as percentage)

	Europe		North America		Central and South America		Asia, Middle East, Australia		Africa	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
Sulzer Pumps	**24.0%**	23.3%	**24.0%**	28.2%	**16.8%**	10.0%	**23.3%**	26.8%	**11.9%**	11.7%
Sulzer Metco	**54.4%**	57.4%	**23.3%**	21.9%	**1.9%**	1.2%	**20.2%**	19.1%	**0.2%**	0.4%
Sulzer Chemtech	**32.9%**	35.1%	**25.3%**	24.6%	**3.6%**	2.0%	**37.5%**	37.3%	**0.7%**	1.0%
Sulzer Turbo Services	**25.7%**	19.1%	**43.3%**	52.5%	**6.7%**	11.6%	**24.2%**	16.2%	**0.1%**	0.6%

The countries representing more than 10% of third-party sales in 2010 or 2009 are the USA and Germany with CHF 698.3 million and CHF 306.5 million respectively (2009: CHF 798.6 million and CHF 341.4 million respectively). Third-party sales in Switzerland in 2010 amounted to CHF 57.1 million (2009: CHF 68.9 million). The countries that represented more than 10% of operating assets by company location in 2010 are Switzerland with CHF 392.6 million (2009: CHF 476.3 million), the USA with CHF 452.9 million (2009: CHF 447.1 million), and Great Britain with CHF 356.5 million (2009: CHF 179.6 million). No other countries represented more than 10% of operating assets and sales from third parties in 2010 and 2009. In 2010 and 2009, no customer represented 10% or more of the corporation's third-party sales.

05 Personnel expenses

millions of CHF	**2010**	2009
Salaries and wages	**769.1**	742.2
Employee defined contribution plans	**24.0**	22.2
Employee defined benefit plans	**23.8**	22.8
Cost of share-based payments	**9.4**	13.0
Other personnel costs	**147.3**	143.8
Total personnel expenses	**973.6**	944.0

Personnel expenses increased by CHF 29.6 million compared to the previous year mainly caused by the higher average number of full-time employees as a consequence of the acquisitions as well as higher variable salary payments and accruals.

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 pensions considering future pension increases. In Switzerland and in most other countries, pension liabilities are covered by assets held by separate legal entities. The financing of pension benefit plans in Germany, however, is made by means of provisions accrued in the accounting records of the respective companies. The actuarial valuations for the defined benefit plans were performed at the balance sheet closing date. The Swiss pension plans are treated as defined benefit plans in accordance with IAS 19.

millions of CHF	2010			2009
	Funded plans	Unfunded plans	**Total**	Total
Reconciliation of the amount recognized in the balance sheet as of December 31				
Present value of funded defined benefit obligation	–1 852.7	–	**–1 852.7**	–1 687.8
Fair value of plan assets	1 895.8	–	**1 895.8**	1 770.3
Overfunding (+) / underfunding (–)[1]	43.1	–	**43.1**	82.5
Present value of unfunded defined benefit obligation	–	–60.1	**–60.1**	–66.8
Unrecognized actuarial gains (–) / losses (+)	27.8	3.7	**31.5**	1.2
Overfunding not recognized[2]	–89.6	–	**–89.6**	–65.4
Asset (+) / liability (–) recognized in the balance sheet	–18.7	–56.4	**–75.1**	–48.5
– thereof as liabilities under non-current provisions	–36.8	–56.4	**–93.2**	–68.4
– thereof as prepaid expenses	18.1	–	**18.1**	19.9
Pensions expenses recognized in profit or loss				
Current service cost (employer)			**–33.0**	–35.2
Interest cost			**–67.4**	–112.9
Expected return on plan assets			**79.7**	128.1
Actuarial gain (+) / loss (–) recognized in current year			**18.6**	54.7
Past service cost			**–0.2**	7.3
Effect of overfunding not recognized			**–25.1**	–51.2
Effect of curtailment and settlements			**0.3**	–17.1
Expense recognized in profit (+) / loss (–)			**–27.1**	–26.3
– thereof charged to personnel expenses			**–23.8**	–22.8
– thereof charged to financial income (interest on unfunded plans)			**–3.3**	–3.5
Actual return on plan assets			**99.7**	417.3
Principal actuarial assumptions as of December 31				
Discount rate			**3.5%**	3.6%
Expected rate of return on plan assets			**4.7%**	4.4%
Future salary increases			**2.3%**	2.3%
Future pension increases			**0.7%**	0.6%
Expected average remaining working lives in years			**9.6**	9.6
Life expectancy at retirement age (male/female) in years			**19/23**	18/22

[1] The decrease in the overfunding of the consolidated employee benefit plans relates to the acquisition of Dowding & Mills. The underfunding of the plan at the time of the acquisition amounted to CHF 45.6 million.

[2] Legal requirements, particularly those in Switzerland, restrict the utilization of overfunded amounts in separate legal benefit plans. Only amounts for which the future economic benefit to the employer is imminent are capitalized in the consolidated balance sheet.

The expected return on plan assets is determined by considering the expected returns available on the assets underlying the current investment policy. The expected long-term return for investment categories is as follows: 2.5% for bonds, 6.3% for equities, 4.1% for properties, and 3.5% for others.

06 Employee benefit plans (continued)

millions of CHF	2010	2009
Reconciliation of defined benefit obligation		
Defined benefit obligation as of January 1[1]	1 754.6	3 272.7
Interest cost	67.4	112.9
Current service cost (employer)	33.0	35.2
Contributions by plan participants	9.7	12.0
Past service cost	0.2	–7.3
Benefits paid/deposited	–138.2	–190.1
Change in scope of consolidation	223.8	15.8
Curtailment and settlements[2]	–0.3	–1 578.9
Actuarial gain (–) / loss (+) on obligation	34.9	68.6
Currency translation differences	–72.3	13.7
Defined benefit obligation as of December 31[3]	1 912.8	1 754.6
Reconciliation of the fair value of plan assets		
Fair value of plan assets as of January 1	1 770.3	3 152.6
Expected return on plan assets	79.7	128.1
Contributions by the employer/benefits paid directly by the employer[4]	30.3	25.6
Contributions by plan participants	9.7	12.0
Benefits paid/deposited	–138.2	–190.1
Change in scope of consolidation	180.1	21.3
Curtailment and settlements[2]	–	–1 685.0
Actuarial gain (+) / loss (–) on plan assets	20.0	289.2
Currency translation differences	–56.1	16.6
Fair value of plan assets as of December 31	1 895.8	1 770.3
– thereof equity instruments Sulzer Ltd	1.7	1.9
– thereof equity instruments—third-party	502.4	453.6
– thereof debt instruments—third-party	721.6	846.3
– thereof properties occupied by or used by third-parties	307.3	320.9
– thereof others	362.8	147.6
Best estimate of contributions for upcoming financial year		
Contributions by the employer/benefits paid directly by the employer[4]	23.4	23.9
Contributions by plan participants	9.2	11.3

[1] The defined benefit obligation includes the funded part (CHF 1 687.8 million) and the unfunded part (CHF 66.8 million).

[2] Due to an amendment in the law, the allocation of the defined benefit obligations as well as plan assets (particularly of retirees) were reassessed in 2009. The reassessment resulted in 2009 in a reduction of the defined benefit obligation of CHF 1 578.9 million and plan assets of CHF 1 685.0 million with proportionate actuarial losses of CHF 89.8 million.

[3] The defined benefit obligation includes the funded part (CHF 1 852.7 million) and the unfunded part (CHF 60.1 million).

[4] Benefits paid directly by the employer mainly refer to the German plans.

06 Employee benefit plans (continued)

Five-year summary

millions of CHF	2010	2009	2008	2007	2006
Present value of funded defined benefit obligation	–1852.7	–1687.8	–3209.6	–3422.2	–3514.3
Fair value of plan assets	1895.8	1770.3	3152.6	3859.4	3892.0
Overfunding (+) / underfunding (–)	43.1	82.5	–57.0	437.2	377.7
Present value of unfunded defined benefit obligation	–60.1	–66.8	–63.1	–73.8	–80.7
Experience adjustments on defined benefit obligation	–7.3	31.2	–5.0	–21.7	–1.1
Experience adjustments on plan assets	20.0	289.2	–628.7	–66.8	98.6

07 Research and development expenses

In 2010, total research and development expenses amounted to CHF 58.5 million (2009: CHF 63.4 million). The decrease is mainly due to lower investments into research and development projects in the divisions (CHF 56.5 million in 2010 vs. CHF 61.3 million in 2009). The investments of Sulzer Innotec, the corporate research and development department, amounted in 2010 to CHF 2.3 million (2009: CHF 2.5 million). Furthermore, Sulzer Innotec and some of the divisions maintain close cooperation with the Swiss Federal Institutes of Technology as well as domestic and foreign universities, and research laboratories. A breakdown of the research and development expenses per division is shown in note 03 “Segment information.”

08 Other operating income and expenses

millions of CHF	2010	2009
Income from rental/leasing of real estate	11.5	21.9
Gain from sale of real estate	4.9	52.9
Income from services to third parties	8.1	7.7
Operating currency exchange gains	2.0	3.7
Other operating income	77.6	15.5
Total other operating income	104.1	101.7
Expenses from rental/lease of real estate	–10.9	–21.1
Other operating expenses	–30.5	–39.0
Total other operating expenses	–41.4	–60.1
Total other operating income and expenses	62.7	41.6

Total other operating income and expenses amounted with CHF 62.7 million compared to CHF 41.6 million in the previous year. Compared with previous year, income from rental and leasing decreased by CHF 10.4 million to CHF 11.5 million in 2010 and gains from sale of real estate, which decreased from CHF 52.9 million in 2009 to CHF 4.9 million in 2010. In 2010, the EBIT contribution from the sale of Sulzer Real Estate Ltd is included in “Other operating income” and amounted to CHF 51.6 million. For detailed information about the sale of Sulzer Real Estate Ltd, please refer to note 01.

09 Financial income and expenses

millions of CHF	2010	2009
Interest and securities income	**9.5**	8.0
Interest expenses	–5.8	–6.6
Interest on unfunded employee benefit plans	–3.3	–3.5
Interest expenses	**–9.1**	–10.1
Total interest income	**0.4**	–2.1
Income from participations and other financial assets	0.2	2.0
Fair value changes	3.3	–10.5
Other financial income/expenses	1.2	1.2
Currency exchange gains/losses	–9.5	11.0
Total other financial income	**–4.8**	3.7
Total financial income	**–4.4**	1.6
– thereof from financial assets held at fair value through profit or loss	4.3	–10.5
– thereof from available-for-sale financial assets	0.7	–
– thereof from loans and receivables	0.2	0.4
– thereof from borrowings	–5.8	–6.6

The income on interest and securities increased while interest expenses slightly decreased compared with 2009. The “Fair value changes” mainly 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 2010 due to the high volatility in foreign exchange rates.

10 Income taxes

millions of CHF	2010	2009
Current income tax expenses	–107.9	–140.5
Deferred income tax expenses	10.2	46.7
Total income tax expenses	**–97.7**	–93.8

The weighted average tax rate is the tax rate that results from applying each subsidiary's statutory income tax rate to the income before taxes and non-controlling interests. 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	2010	2009
Income before income tax expenses	402.0	369.6
Weighted average tax rate	**28.4%**	28.6%
Income taxes at weighted average tax rate	–114.2	–105.7
Income taxed at different tax rates	6.9	9.7
Effect of tax loss carryforwards and allowances for deferred income tax assets	3.2	1.2
Expenses not deductible for tax purposes	–7.1	–8.6
Effect of changes in tax rates and legislation	–1.3	6.4
Prior period and other items	14.8	3.2
Total income tax expenses	**–97.7**	–93.8
Effective income tax rate	24.3%	25.4%

The effective income tax rate of 24.3% was positively impacted by the low taxed gains generated from the disposal of real estate in Switzerland, the release of tax provisions no longer required, and by the dissolution of valuation allowances on remaining tax assets in Germany.

Income tax liabilities

millions of CHF	2010	2009
Balance as of January 1	105.8	94.5
Changes in scope of consolidation	0.8	2.4
Additions	78.7	89.9
Released as no longer required	–17.3	–7.7
Released for utilization	–106.3	–74.2
Currency translation differences	–2.7	0.9
Total income tax liabilities as of December 31	**59.0**	105.8
– thereof non-current	22.2	31.6
– thereof current	36.8	74.2

The reduction in tax provisions is mainly due to the increased release of tax provisions no longer required and to higher tax payments for prior years that could be offset against income tax provisions.

10 Income taxes (continued)

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

millions of CHF	2010		2009	
	Assets	Liabilities	Assets	Liabilities
Intangible assets	2.4	32.9	2.2	33.9
Property, plant and equipment	1.9	19.0	1.4	15.3
Other financial assets	0.3	9.3	0.4	11.9
Inventories	21.1	5.8	17.2	3.9
Other assets	29.1	12.1	17.8	12.7
Non-current provisions	13.2	1.9	17.1	5.3
Current provisions	34.7	3.4	39.3	5.9
Other current liabilities	18.8	29.2	14.2	10.1
Tax loss carryforwards	28.3	–	31.6	–
Elimination of intercompany profits	3.7	–	4.5	–
Total potential tax effect	**153.5**	**113.6**	145.7	99.0
Valuation allowances	–15.7	–	–20.2	–
Deferred income tax—gross	**137.8**	**113.6**	125.5	99.0
Offset of assets and liabilities	–47.5	–47.5	–33.4	–33.4
Net recorded deferred income tax assets and liabilities	**90.3**	**66.1**	92.1	65.6

Deferred income taxes directly recorded in equity amounted to CHF –2.8 million (2009: CHF –0.3 million). Thereof CHF –0.5 million (2009: CHF 1.3 million) are related to the cash flow hedges recognized in other comprehensive income and CHF –2.3 million (2009: CHF –1.6 million) are related to fair value changes on available-for-sale financial assets. 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	2010	2009
Expiring in the next 3 years	7.9	10.5
Expiring in 4–7 years	62.7	36.8
Available without limitation	67.3	111.2
Total tax loss carryforwards	**137.9**	158.5
Calculated potential tax assets thereof	28.3	31.6
Valuation allowances	–14.4	–19.6
Net tax assets from tax loss carryforwards	**13.9**	12.0

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. Furthermore, the current company structure limits the use of some of the existing tax loss carryforwards, and, hence, they are not capitalized as deferred income tax assets.

11 Intangible assets

millions of CHF	2010			2009		
	Goodwill	Other intangible assets	**Total**	Goodwill	Other intangible assets	Total
Acquisition cost						
Balance as of January 1	403.6	197.7	**601.3**	389.2	170.4	559.6
Changes in scope of consolidation	135.9	66.9	**202.8**	17.0	21.5	38.5
Final purchase price allocation adjustment	–	–	**–**	–2.9	–1.3	–4.2
Additions	–	1.6	**1.6**	–	1.3	1.3
Disposals	–	–3.7	**–3.7**	–	–3.2	–3.2
Reclassifications	–	1.0	**1.0**	–	8.9	8.9
Currency translation differences	–57.0	–12.3	**–69.3**	0.3	0.1	0.4
Balance as of December 31	482.5	251.2	**733.7**	403.6	197.7	601.3
Accumulated amortization						
Balance as of January 1	–	89.4	**89.4**	–	68.1	68.1
Changes in scope of consolidation	–	0.1	**0.1**	–	–	–
Additions	–	23.0	**23.0**	–	22.4	22.4
Disposals	–	–3.3	**–3.3**	–	–3.2	–3.2
Reclassifications	–	–0.4	**–0.4**	–	2.0	2.0
Impairment	–	–	**–**	–	–	–
Currency translation differences	–	–4.1	**–4.1**	–	0.1	0.1
Balance as of December 31	–	104.7	**104.7**	–	89.4	89.4
Net book value						
As of January 1	403.6	108.3	**511.9**	389.2	102.3	491.5
As of December 31	482.5	146.5	**629.0**	403.6	108.3	511.9

The change in goodwill in 2010 refers to the acquisition of Dowding & Mills and Bekaert (for further information, see note 01). The position "Other intangible assets" includes the capitalized intangible assets in connection with the acquisition of Dowding & Mills as well as purchased patents, licenses, brand names and know-how, software licenses, and capitalized development costs. The amortization of "Other intangible assets" increased mainly due to the amortization of the capitalized intangible assets acquired with Dowding & Mills. In 2003, Sulzer Metco entered into a long-term risk and revenue sharing agreement for the development and supply of jet engine components for the Airbus A380. The recoverability of this capitalized intangible asset is directly associated with the long-term development partnership. The corresponding share paid to third parties for the development cost has been capitalized for an amount of CHF 8.3 million as of December 31, 2010 (2009: CHF 10.7 million).

11 Intangible assets (continued)

Goodwill impairment test

millions of CHF	Sulzer Pumps	Sulzer Metco	Sulzer Chemtech	Sulzer Turbo Services	Total
Goodwill, net book value as of December 31, 2009	89.3	122.4	112.4	79.5	403.6
Goodwill, net book value as of December 31, 2010	77.7	104.1	108.9	191.8	**482.5**
The test is based on the following assumptions:					
Growth rate for the residual amount	1.2%	2.0%	0.0%	1.0%	
Pre-tax discount rate	11.9%	11.4%	11.3%	12.6%	

Goodwill is allocated to the smallest identifiable cash-generating unit (CGU) identified according to the appropriate operating segment and reported to the CEO (chief operating decision maker). The fair value of this unit is determined by calculating its value in use. The calculation is based on cash flow projections derived from midrange plans that have been approved by management. Cash flows beyond this planning period are extrapolated, using the rather conservative growth rates stated above. The assumptions above were used for the analysis of every cash-generating unit allocated to the appropriate operating segment. Compared with the prior year growth and pre-tax discount rates were adjusted where necessary. The allocation of goodwill to the segments is displayed in the above table. No impairment charge had to be recognized in 2010 and 2009. Sensitivity analyses with respect to parameters such as growth and discount rate did not give reason to adjust the respective initial impairment test assessments.

12 Property, plant and equipment

millions of CHF	2010				
	Land and buildings	Machinery and technical equipment	Other non-current assets	Assets under construction	**Total**
Acquisition cost					
Balance as of January 1	534.3	677.9	223.2	39.0	**1 474.4**
Changes in scope of consolidation	–148.3	92.3	13.5	–3.9	**–46.4**
Additions	11.1	29.9	14.8	60.7	**116.5**
Disposals	–17.9	–31.4	–17.1	0.9	**–65.5**
Reclassifications	20.8	23.3	10.0	–57.7	**–3.6**
Currency translation differences	–34.0	–72.5	–20.8	–2.9	**–130.2**
Balance as of December 31	366.0	719.5	223.6	36.1	**1 345.2**
Accumulated depreciation					
Balance as of January 1	268.8	477.7	169.8	–	**916.3**
Changes in scope of consolidation	–118.1	68.1	12.1	–	**–37.9**
Additions	15.7	45.7	18.7	–	**80.1**
Disposals	–14.4	–28.7	–16.3	–	**–59.4**
Reclassifications	–0.3	–0.4	–1.3	–	**–2.0**
Impairment	0.2	0.3	1.2	–	**1.7**
Currency translation differences	–14.8	–54.4	–16.0	–	**–85.2**
Balance as of December 31	137.1	508.3	168.2	–	**813.6**
Net book value					
As of January 1	265.5	200.2	53.4	39.0	**558.1**
As of December 31	228.9	211.2	55.4	36.1	**531.6**
Thereof leased property, plant and equipment					
Acquisition cost of leased property, plant and equipment	5.7	1.2	0.1	–	**7.0**
Accumulated depreciation	2.3	0.5	–	–	**2.8**
Net book value as of December 31	3.4	0.7	0.1	–	**4.2**
Leasing commitments (present value)	4.0	0.6	–	–	**4.6**
Fire insurance value	545.2	1 124.9	348.0	36.1	**2054.2**

Sulzer sold the real estate portfolio in Winterthur to Implenia Ltd (see note 01). As a result of the Sulzer Real Estate Ltd sale, the book value of real estate properties no longer essential for Sulzer's operations decreased to CHF 4.7 million (2009: CHF 60.6 million). Sulzer plans to sell the remaining properties over time. The fair value of these properties is equal to the book value.

12 Property, plant and equipment (continued)

millions of CHF	2009				
	Land and buildings	Machinery and technical equipment	Other non-current assets	Assets under construction	Total
Acquisition cost					
Balance as of January 1	624.0	641.8	222.5	35.8	1 524.1
Changes in scope of consolidation	10.5	2.5	2.5	–	15.5
Additions	19.9	36.5	16.2	38.3	110.9
Disposals	–133.7	–22.0	–22.6	–	–178.3
Reclassifications	9.5	12.9	1.4	–35.6	–11.8
Currency translation differences	4.1	6.2	3.2	0.5	14.0
Balance as of December 31	534.3	677.9	223.2	39.0	1 474.4
Accumulated depreciation					
Balance as of January 1	308.1	443.7	166.5	–	918.3
Changes in scope of consolidation	0.1	–1.8	0.2	–	–1.5
Additions	18.5	47.6	18.6	–	84.7
Disposals	–57.0	–18.7	–21.8	–	–97.5
Reclassifications	–4.1	0.3	3.7	–	–0.1
Impairment	2.0	1.8	0.3	–	4.1
Currency translation differences	1.2	4.8	2.3	–	8.3
Balance as of December 31	268.8	477.7	169.8	–	916.3
Net book value					
As of January 1	315.9	198.1	56.0	35.8	605.8
As of December 31	265.5	200.2	53.4	39.0	558.1
Thereof leased property, plant and equipment					
Acquisition cost of leased property, plant and equipment	5.4	–	0.3	–	5.7
Accumulated depreciation	1.8	–	0.1	–	1.9
Net book value as of December 31	3.6	–	0.2	–	3.8
Leasing commitments (present value)	4.2	–	0.2	–	4.4
Fire insurance value	869.2	970.6	327.8	39.0	2 206.6

13 Other financial assets

millions of CHF	2010		
	Available-for-sale financial assets	Loans and receivables	Total
Balance as of January 1	27.4	4.7	**32.1**
Changes in scope of consolidation	–	–0.2	**–0.2**
Additions	–	–	**–**
Deductions	–5.1	–0.1	**–5.2**
Reclassifications	–	0.4	**0.4**
Changes in fair value	8.9	–	**8.9**
Currency translation differences	–0.1	–	**–0.1**
Balance as of December 31	31.1	4.8	**35.9**

millions of CHF	2009		
	Available-for-sale financial assets	Loans and receivables	Total
Balance as of January 1	25.0	8.3	33.3
Changes in scope of consolidation	1.6	–	1.6
Additions	0.2	–	0.2
Deductions	–4.5	–0.1	–4.6
Reclassifications	–	–3.5	–3.5
Changes in fair value	4.2	–	4.2
Currency translation differences	0.9	–	0.9
Balance as of December 31	27.4	4.7	32.1

Financial assets that belong to the category “Available-for-sale financial assets” include securities of a capital investment nature and participations of less than 20%. The fair value revaluation of CHF 8.9 million (2009: CHF 4.2 million) was recognized through other comprehensive income not affecting net income. The category “Loans and receivables” includes mainly loans and receivables to third parties with maturities beyond 12 months.

The net book value of the category “Available-for-sale financial assets” of CHF 31.1 million consists mainly of the participation in Burckhardt Compression. The increase compared with prior year is due to the fair value revaluation. In total CHF 0.4 million were reclassified from the category “Loans and receivables” to non-current receivables.

14 Inventories

millions of CHF	2010	2009
Raw materials, supplies, and consumables	**148.7**	109.7
Work in progress	**282.9**	289.7
Finished products and trade merchandise	**102.2**	113.4
Total inventories	**533.8**	512.8

In 2010, Sulzer recognized write-downs of CHF 15.4 million (2009: CHF 20.7 million). Based on the gross value, the total write-downs amounted to CHF 66.5 million as of December 31, 2010 (2009: CHF 62.0 million). Material expenses in 2010 amounted to CHF 1 450.1 million (2009: CHF 1 539.6 million).

15 Percentage of completion contracts

millions of CHF	2010	2009
Contract revenue recognized in period	**329.5**	278.4
Net receivables relating to construction contracts (relating to current contracts)	**130.8**	94.5
Net liabilities relating to construction contracts (relating to current contracts)	**–42.0**	–47.7
Advances received from customers	**–312.5**	–320.2

Sales recognized in accordance with the percentage of completion method for the reporting period amounted to CHF 329.5 million, which corresponds to 10.4% of total sales (2009: CHF 278.4 million or 8.3% of sales). The costs related to this sales figure amounted to CHF 311.7 million (2009: CHF 229.3 million). The impact on gross profit was CHF 17.8 million, which corresponds to 1.8% of total gross profit (2009: CHF 49.1 million, 4.9%).

16 Trade accounts receivable

Aging structure of trade accounts receivable

millions of CHF	2010	2009
Not past due	**549.8**	497.0
Past due		
1–30 days	**81.2**	105.3
31–60 days	**33.8**	50.9
61–90 days	**19.7**	16.8
91–120 days	**15.5**	12.6
>120 days	**48.8**	44.8
thereof impaired	**–30.5**	–31.3
Total trade accounts receivable	**718.3**	696.1

Allowance for doubtful trade accounts receivable

millions of CHF	2010	2009
Balance as of January 1	**31.3**	26.2
Changes in scope of consolidation	**2.0**	0.1
Additions	**24.5**	21.9
Released as no longer required	**–15.8**	–10.2
Released for utilization	**–8.3**	–6.5
Currency translation differences	**–3.2**	–0.2
Balance as of December 31	**30.5**	31.3

In 2010, the total amount of trade accounts receivable increased by CHF 22.2 million to CHF 718.3 million. Approximately 27.7% (2009: 33.1%) of the trade accounts receivable are past due, and an allowance of CHF 30.5 million (2009: CHF 31.3 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 independent customer base, the credit risk of the corporation is limited. Receivables that are more than 120 days past due are subject to regular review and adequate allowances are considered.

17 Other accounts receivable and prepaid expenses

millions of CHF	2010	2009
Receivables from tax authorities	43.3	46.9
Derivative financial instruments	38.0	15.2
Other accounts receivable	54.3	22.3
Total other accounts receivable	**135.6**	84.4
Insurance premiums	3.3	3.9
Overfunding of employee benefit plans	18.1	19.9
Other prepaid expenses	22.2	20.4
Total prepaid expenses	**43.6**	44.2
Total other accounts receivable and prepaid expenses	**179.2**	128.6

For further details on the position “Derivative financial instruments,” refer to note 27 “Derivative financial instruments.” Other accounts receivable do not include any material positions that are past due or impaired.

18 Assets held for sale

millions of CHF	2010	2009
Property, plant and equipment	3.7	10.4
Total assets held for sale	**3.7**	10.4
Total liabilities directly associated with assets held for sale	**–**	–

All amounts disclosed as “Assets held for sale” reflect transactions that Sulzer expects will be closed within the next 12 months. The amount shown as of December 31, 2010, represents the projected sale of a real estate property located in Poland.

19 Cash and cash equivalents

millions of CHF	2010		2009	
	Average eff. interest rate	Amount	Average eff. interest rate	Amount
Cash		522.8		611.5
Cash equivalents		145.3		119.1
Total cash and cash equivalents	**1.21**	**668.1**	1.22	730.6

20 Marketable securities

millions of CHF	2010	2009
Designated at fair value through profit or loss	12.7	36.5
Total marketable securities	**12.7**	**36.5**

Marketable securities designated at fair value through profit or loss as of December 31, 2010, consist of equities (50%) and interest bearing investments (50%). Fair value adjustments are booked in the financial income.

21 Pledged assets

millions of CHF	2010	2009
Land and buildings	2.4	2.6
Machinery and equipment	0.7	0.1
Total pledged assets	**3.1**	**2.7**

22 Share capital

thousands of CHF	2010		2009	
	Number of shares	Share capital	Number of shares	Share capital
Balance as of December 31 (per value CHF 0.01)	**34 262 370**	**342.6**	**34 262 370**	**342.6**

The share capital amounts to CHF 342 623.70, made up of 34 262 370 shares with dividend entitlement with a par value of CHF 0.01. All shares are fully paid in and registered. Further details on the individual equity components are presented in the consolidated statement of changes in equity on page 66.

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).

	2010		2009	
Shareholders larger than 3% and Sulzer Ltd	Number of shares	in %	Number of shares	in %
Renova Group	10689797	31.20	10689797	31.20
Threadneedle Asset Management Holdings Ltd	1028210	3.00	1040910	3.04
Sulzer Ltd	546478	1.59	691844	2.02

Sulzer Ltd is not aware of any other agreements between the above-named shareholders regarding the shares held or regarding the execution of voting rights. The total number of shares held by Sulzer Ltd as of December 31, 2010, amounted to 546 478, which are mainly held for the purpose of the management stock option and restricted stock unit plan (refer to note 32).

23 Earnings per share

	2010	2009
Net income attributable to shareholders of Sulzer Ltd (in millions of CHF)	**300.4**	270.4
Average number of shares outstanding	**33693120**	33567516
Adjustment for share participation plans	**366166**	295411
Average number of shares for calculating diluted earnings per share	**34059286**	33862927
Earnings per share, attributable to a shareholder of Sulzer Ltd (in CHF)		
Basic earnings per share	**8.92**	8.06
Diluted earnings per share	**8.82**	7.99
Dividend per share	**3.00**[1]	2.80

[1] Proposal to the Annual General Meeting.

24 Borrowings

millions of CHF	2010			2009		
	Short-term	Long-term	**Total**	Short-term	Long-term	Total
Bank loans	83.2	31.1	**114.3**	46.9	35.8	82.7
Mortgage loans	–	7.7	**7.7**	–	8.4	8.4
Other loans and debts	0.4	0.9	**1.3**	0.5	0.4	0.9
Leasing obligations	0.2	4.5	**4.7**	0.1	4.4	4.5
Total borrowings	83.8	44.2	**128.0**	47.5	49.0	96.5
– thereof due in <1 year	83.8	–	**83.8**	47.5	–	47.5
– thereof due in 1–5 years	–	28.9	**28.9**	–	31.4	31.4
– thereof due in >5 years	–	15.3	**15.3**	–	17.6	17.6

From 2009, the outstanding short-term borrowings increased by CHF 36.3 million. The use of the syndicated credit line, which was established in 2007, was CHF 76.6 million as of December 31, 2010. The carrying amount of financial borrowings is approximately equivalent to its fair value.

Borrowings by currency

	2010			2009		
	millions of CHF	**in %**	**Interest rate**	millions of CHF	in %	Interest rate
BRL	**19.2**	**15.0**	**4.5%**	20.5	21.2	4.5%
CHF	**45.8**	**35.8**	**0.5%**	6.1	6.3	1.4%
EUR	**43.9**	**34.3**	**2.8%**	51.6	53.5	2.7%
GBP	**11.8**	**9.2**	**1.2%**	15.3	15.9	1.1%
USD	**2.4**	**1.9**	**2.8%**	0.7	0.7	3.1%
Other	**4.9**	**3.8**	**–**	2.3	2.4	–
Total	**128.0**	**100.0**	**–**	96.5	100.0	–

25 Provisions

millions of CHF	Employee benefit plans[1]	Other employee benefits	Warranties/ liabilities	Restructuring	Environmental	Other	Total
Balance as of December 31, 2009	68.4	48.3	122.4	24.2	39.0	63.0	**365.3**
Changes in scope of consolidation	43.8	2.6	2.7	–	–14.6	5.6	**40.1**
Additions	–0.9	12.6	61.7	4.2	1.6	54.3	**133.5**
Released as no longer required	–0.4	–2.6	–23.2	–1.8	–	–8.0	**–36.0**
Released for utilization	–4.1	–4.3	–41.4	–14.4	–4.5	–33.3	**–102.0**
Reclassifications	–	–	4.2	–	–	–2.7	**1.5**
Currency translation differences	–13.6	–3.3	–8.3	–1.7	–0.9	–4.6	**–32.4**
Total provisions as of December 31, 2010	93.2	53.3	118.1	10.5	20.6	74.3	**370.0**
– thereof non-current	93.2	34.9	33.2	1.7	19.9	31.4	**214.3**
– thereof current	–	18.4	84.9	8.8	0.7	42.9	**155.7**

[1] For further details of employee benefit plans refer to note 06 “Employee benefit plans.”

The largest position in provisions refers to “Warranties/liabilities.” These provisions include customer claims, penalties, litigation, and legal cases relating predominantly to delivered goods. In 2010, this position decreased by CHF 4.3 million to CHF 118.1 million. The provision for risks referring to an ongoing dispute with the purchaser of the locomotive business is accrued within this category. About CHF 85 million is classified as current and is therefore expected to result in a cash outflow in 2011. The nature of much of the remaining provision is such that the timing of cash outflows is uncertain.

The category “Other employee benefits” increased by CHF 5.0 million to CHF 53.3 million. Major reasons for the increase were the acquisition of Dowding & Mills and the interest effect on the valuation of the provision for jubilee gifts and early retirements. Furthermore, the increasing share price led to an increase of the liability booked in connection with the cash-settled stock option plan (see note 32). This liability is measured at fair value at each balance sheet date and adjusted for vesting reasons. The liability amounted to CHF 11.3 million as of December 31, 2010 (2009: CHF 4.3 million). The remaining portion of “Other employee benefits” includes provisions for jubilee gifts, early retirement of senior managers, and other obligations to employees. Of this position, Sulzer expects to pay out only CHF 18.4 million in 2011.

The provisions in the “Environmental” category cover the obligations from risks related to environmental issues. In 2009 the main part of the provisions of Sulzer Real Estate Ltd from the sale of properties was also contained in this category.

“Other” includes provisions that do not fit into the aforementioned categories. A large number of these provisions refer to onerous contracts. In addition, a provision for ongoing asbestos lawsuits is 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 2011, by their nature the amounts and timing of any cash outflows are difficult to predict.

26 Other current and accrued liabilities

millions of CHF	2010	2009
Notes payable	**2.2**	3.2
Social security institutions	**10.6**	10.3
Taxes (VAT, withholding tax)	**28.6**	22.7
Derivative financial instruments	**13.3**	8.6
Other current liabilities	**73.0**	97.3
Total other current liabilities	**127.7**	142.1
Vacation and overtime claims	**32.4**	31.9
Salaries, wages, and bonuses	**79.7**	70.3
Contract-related costs	**106.3**	109.4
Other accrued liabilities	**56.9**	49.0
Total accrued liabilities	**275.3**	260.6
Total other current and accrued liabilities	**403.0**	402.7

The line "Other current liabilities" includes the put option of CHF 11.5 million (2009: CHF 35.8 million) issued on treasury shares and the forward contract on treasury shares of CHF 19.2 million (2009: CHF 20.5 million). The accrued liabilities for vacation and overtime claims as well as salaries, wages, and bonuses increased by 10%. Contract-related costs decreased in line with sales.

27 Derivative financial instruments

millions of CHF	2010				2009			
	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	**651.2**	**26.9**	**555.9**	**13.9**	477.3	11.1	311.7	9.2
Currency options	–	–	–	–	–	–	–	–
Interest rate swaps	–	–	–	–	–	–	–	–
Other options	**62.6**	**11.3**	–	–	114.0	4.4	–	–
Total	**713.8**	**38.2**	**555.9**	**13.9**	591.3	15.5	311.7	9.2
– thereof due in <1 year	**707.4**		**540.4**		578.8		274.8	
– thereof due in 1–2 years	**6.4**		**15.5**		10.2		36.9	
– thereof due in 2–5 years	–		–		2.3		–	
– 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, 2010, a net unrealized profit of CHF 9.0 million (2009: CHF 2.2 million) with a deferred tax liability of CHF 0.5 million (2009: Deferred tax asset of CHF 1.3 million) relating to hedging instruments is included in equity. In 2010, a loss of CHF 0.5 million (2009: CHF 13.9 million) cash flow hedge reserve was recognized in profit or loss. There was no ineffectiveness that arose from cash flow hedges in 2010 (2009: 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 notional value of the outstanding forward foreign exchange contracts as at December 31, 2010, amounted to CHF 1 207.1 million (2009: CHF 789.0 million). 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, 2010, 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 (5 to 10 years).

28 Other financial commitments

millions of CHF	2010			2009		
	Rented premises	Other	Total	Rented premises	Other	Total
Maturity <1 year	14.6	7.4	**22.0**	10.6	6.3	16.9
Maturity 1–5 years	38.5	12.1	**50.6**	33.4	5.6	39.0
Maturity >5 years	23.9	0.1	**24.0**	16.3	–	16.3
Total rental commitments (incl. operational leasing)	77.0	19.6	**96.6**	60.3	11.9	72.2
Total commitments for future investments and acquisitions	–	1.5	**1.5**	0.1	0.6	0.7

29 Contingent liabilities

millions of CHF	2010	2009
Pledges in favor of third parties	**1.5**	1.7
Guarantees in favor of third parties	**–**	0.2
Total contingent liabilities	**1.5**	1.9

The contingent liabilities declined by CHF 0.4 million to CHF 1.5 million.

30 Cash flow from acquisitions

millions of CHF	2010	2009
Non-current assets	**–143.9**	–39.6
Inventories	**–21.9**	–7.9
Other current assets	**–80.2**	–44.3
Liabilities	**152.4**	27.7
Identified acquired net assets	**–93.6**	–64.1
Cash acquired	**36.5**	32.2
Subtotal	**–57.1**	–31.9
Goodwill	**–141.9**	–17.0
Purchase of loans given	**–**	7.6
Purchase price to be paid in future periods	**1.0**	9.0
Payments of purchase price relating to prior periods	**–**	–7.9
Total cash flow from acquisitions	**–198.0**	–40.2

Refer to note 01 for information on the acquisitions and their impact in 2009 and 2010.

31 Capital expenditure by category (unaudited)

millions of CHF	2010	in %	2009	in %
Expansion	71.7	60.7	54.7	48.8
Rationalization	3.8	3.2	5.4	4.8
Replacing	20.4	17.3	30.1	26.8
IT	6.9	5.8	7.5	6.7
QESH (quality, environment, safety, and health)	2.1	1.8	2.8	2.5
Other	13.2	11.2	11.7	10.4
Total capital expenditure by category	118.1	100.0	112.2	100.0

The total capital expenditure for intangible assets amounted to CHF 1.6 million (2009: CHF 1.3 million) and for property, plant and equipment to CHF 116.5 million (2009: CHF 110.9 million).

32 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 2010, a total of CHF 1.4 million was charged to the operating income for the existing option plans. In the previous year, CHF 7.5 million was included in operating income. 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 109 of Sulzer Ltd's financial statements.

Option right for ten Sulzer shares 2010

Grant year	Outstanding 1.1.2010	Granted 2010	Exercised 2010	Forfeited 2010	Expired 2010	Outstanding 31.12.2010	Average exercise price in CHF
2002	2365	–	536	–	–	**1829**	**34.32**
2003	3050	–	1400	–	–	**1650**	**17.30**
2004	7030	–	3000	–	–	**4030**	**31.80**
2005	9913	–	4975	–	–	**4938**	**52.20**
2006	21852	–	16442	360	–	**5050**	**94.20**
2007	32182	–	15282	400	–	**16500**	**149.50**
2008	35442	–	9040	880	–	**25522**	**127.90**
Total	111834	–	50675	1640	–	**59519**	**–**
Weighted average exercise price in CHF	**109.78**	**–**	**106.31**	**125.77**	**–**	**112.30**	**–**

32 Share participation plans (continued)

Option right for ten Sulzer shares 2009

Grant year	Outstanding 1.1.2009	Granted 2009	Exercised 2009	Forfeited 2009	Expired 2009	Outstanding 31.12.2009	Average exercise price in CHF
2002	2488	–	73	50	–	2365	33.10
2003	3450	–	350	50	–	3050	17.30
2004	9020	–	1990	–	–	7030	31.80
2005	13293	–	2980	400	–	9913	52.20
2006	24082	–	2230	–	–	21852	94.20
2007	34962	–	2580	200	–	32182	149.50
2008	37122	–	1280	400	–	35442	127.90
Total	124417	–	11483	1100	–	111834	–
Weighted average exercise price in CHF	107.43	–	85.94	94.96	–	109.76	–

Expiry dates for option rights for ten Sulzer shares

Year of expiry	2010		2009	
	Number of options	**Average exercise price in CHF**	Number of options	Average exercise price in CHF
2011	**5050**	**94.20**	21852	94.20
2012	**18329**	**138.01**	34547	141.53
2013	**27172**	**121.18**	38492	119.14
2014	**4030**	**31.80**	7030	31.80
2015	**4938**	**52.20**	9913	52.20
Outstanding as of December 31	**59519**	**–**	111834	–

In 2010, no options were granted.

32 Share participation plans (continued)

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 2010, a total of CHF 6.7 million (2009: CHF 5.5 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 109 of the financial statements of Sulzer Ltd.

Restricted stock units 2010

Grant year	Outstanding 1.1.2010	Granted 2010	Exercised 2010	Forfeited 2010	Expired 2010	Outstanding 31.12.2010	Average stock price at grant date in CHF
2009	184870	–	63379	11875	–	**109616**	**47.48**
2010	–	79290	–	4120	–	**75170**	**98.41**
Total	184870	79290	63379	15995	–	**184786**	**–**

Restricted stock units 2009

Grant year	Outstanding 1.1.2009	Granted 2009	Exercised 2009	Forfeited 2009	Expired 2009	Outstanding 31.12.2009	Average stock price at grant date at CHF
2009	–	190138	5268	–	–	184870	47.48

Performance share plan settled in Sulzer shares

For members of the Executive Committee, a performance share plan (PSP) was introduced in 2010. It is a front-loaded one-off plan with a performance period of three years (2010–2012). Executive Committee members received performance share units (PSUs) of Sulzer Ltd, Winterthur, as a portion of their compensation. The PSP includes 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 coinvestment. 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 determines the effective number of PSUs to be vested on March 31, 2013. The plan does not lead to an increase of the company's share capital. In 2010, a total of CHF 1.3 million was charged to the operating income.

For details of performance share units by members of the Executive Committee, see note 109 of the financial statements of Sulzer Ltd.

Performance share units 2010

Grant year	Outstanding 1.1.2010	Granted 2010	Exercised 2010	Forfeited 2010	Expired 2010	Outstanding 31.12.2010	Average stock price at grant date in CHF
2010	–	46660	–	–	–	**46660**	**98.41**

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

Key management compensation

thousands of CHF	2010			2009		
	Short-term benefits	Equity-based compensation	**Total**	Short-term benefits	Equity-based compensation	Total
Board of Directors	927	1069	**1996**	1049	1950	2999
Executive Committee	6256	3150	**9406**	5630	3234	8864

The amounts for equity-based compensation are valued according to IFRS 2. Employer contribution to post-employment benefits (incl. early retirement benefits) for the Board of Directors amounted to CHF 0.1 million (2009: CHF 0.1 million) and for the Executive Committee to CHF 1.4 million (2009: CHF 1.1 million). No other long-term or termination benefits were paid to the members of the Executive Committee and the Board of Directors in the reporting year. There are no outstanding loans with members of the Board of Directors and the Executive Committee as per balance sheet date. The short-term loan of CHF 0.1 million granted in prior years to a member of the Executive Committee was paid back in 2010.

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 service awards.

Related parties
Administration and asset management of the Sulzer pension fund in Switzerland is done by staff members of Sulzer Management Ltd. The individual foundations have no own staff. The related costs were invoiced to the foundations (2010: CHF 3.4 million; 2009: CHF 3.5 million). As of December 31, 2010, sales with related parties (Renova-Group) amounted to CHF 8.3 million, whereas in 2009 no major business transactions with related parties took place. Fees for consulting services from a company controlled by the major shareholder of Sulzer amounted to CHF 0.2 million.

At the time of completion of the corporation's consolidated financial statements on February 18, 2011, no other major business transactions or outstanding balances with the Renova Group, their representatives, or any other related parties or companies were known.

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 109.

34 Auditor remuneration

Fees for the audit work by PricewaterhouseCoopers as the group auditor amounted to CHF 2.9 million (2009: CHF 3.0 million). Additional services provided by PricewaterhouseCoopers amounted to total CHF 0.6 million (2009: CHF 0.9 million). This figure includes CHF 0.2 million (2009: CHF 0.4 million) for accounting-related fees and CHF 0.4 million (2009: CHF 0.5 million) for tax and legal fees.

35 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.

36 Subsequent events after the balance sheet date

The Board of Directors authorized these consolidated financial statements for issue on February 18, 2011. They are subject to approval at the Annual General Meeting, which will be held on April 14, 2011. The Board of Directors and the Executive Committee are, at the time of completion of the corporation's consolidated financial statements on February 18, 2011, not aware of any events that would materially affect these statements.

37 Major subsidiaries

31.12.2010 Europe	Subsidiary General manager	Participation Registered capital (including paid-in capital in the USA and Canada)	Research and development	Production and engineering	Sales	Service	Division
Switzerland	Sulzer Pumpen AG, Winterthur Kim Jackson	100% CHF 3 000 000	■	■	■	■	Sulzer Pumps
	Sulzer Metco AG, Wohlen Suat Demokan	100% CHF 5 000 000	■	■	■	■	Sulzer Metco
	Sulzer Chemtech AG, Winterthur Urs Fankhauser	100% CHF 10 000 000	■	■	■	■	Sulzer Chemtech
	Sulzer Markets and Technology AG, Winterthur Urs Hirt	100% CHF 4 000 000	■				Others
	Sulzer Management AG, Winterthur Jürgen Brandt	100% CHF 500 000					Others
	Sulzer Finance (Switzerland) AG, Winterthur Jean-Daniel Millasson	100% CHF 3 600 000					Others
	Sulzer Mixpac AG, Haag Oliver Bailer	100% CHF 100 000	■	■	■		Sulzer Chemtech
Germany	Sulzer Pumpen (Deutschland) GmbH, Bruchsal Michael Streicher	100% EUR 2 300 000	■	■	■	■	Sulzer Pumps
	Sulzer Metco Europe GmbH, Hattersheim Paul-Heinz Müller-Planteur	100% EUR 1 000 000			■	■	Sulzer Metco
	Sulzer Metco Coatings GmbH, Salzgitter Franz Jansen	100% EUR 1 000 000	■	■	■		Sulzer Metco
	Sulzer Friction Systems (Germany) GmbH, Bremen Dietmar Köster	100% EUR 1 000 000	■	■	■		Sulzer Metco
	Sulzer Metaplas GmbH, Bergisch Gladbach Valentin Bühler	100% EUR 1 000 000	■	■	■	■	Sulzer Metco
	Sulzer Metco WOKA GmbH, Barchfeld Salvatore Musso	100% EUR 1 000 000	■	■	■		Sulzer Metco
	Sulzer Chemtech GmbH, Linden Roland Böcher	100% EUR 300 000		■	■	■	Sulzer Chemtech
	Sulzer Holding (Deutschland) GmbH, Singen Gert Müller	100% EUR 20 000 000					Others
	Sulzer Beteiligungen (Deutschland) GmbH, Singen Gert Müller	100% EUR 25 000					Others
Finland	Sulzer Pumps Finland Oy, Kotka Mikko Hirvensalo	100% EUR 16 000 000	■	■	■	■	Sulzer Pumps
France	Sulzer Pompes France SASU, Mantes Jacques Rigaux	100% EUR 1 500 000	■	■	■	■	Sulzer Pumps
	Sulzer Pompes Process SASU, Schweighouse-s/Moder Laurent Riva	100% EUR 462 000			■		Sulzer Pumps
	Sulzer Sorevi S.A.S., Limoges Valentin Bühler	100% EUR 257 200	■		■	■	Sulzer Metco
Great Britain	Sulzer Pumps (UK) Ltd., Leeds Richard Whiteley	100% GBP 9 610 000	■	■	■	■	Sulzer Pumps
	Sulzer Metco (UK) Ltd., Cwmbran Andy Coomber	100% GBP 500 000			■	■	Sulzer Metco
	Sulzer Metco Coatings Ltd., Cheshire Barry Godwin	100% GBP 57 125	■	■	■		Sulzer Metco
	Neomet Ltd., Stockport Richard Hammersley	100% GBP 292 671	■	■	■		Sulzer Metco
	Sulzer Chemtech (UK) Ltd., Stockton on Tees Jon Bailey	100% GBP 100 000		■	■	■	Sulzer Chemtech
	Sulzer (UK) Holdings Ltd., Leeds Garth Bradwell	100% GBP 6 100 000					Others

37 Major subsidiaries (continued)

31.12.2010 Europe	Subsidiary General manager	Participation Registered capital (including paid-in capital in the USA and Canada)	Research and development	Production and engineering	Sales	Service	Division
Great Britain	Dowding & Mills Plc., Birmingham Andrew Hodgson	100% GBP 15 409 555		■	■	■	Sulzer Turbo Services
Italy	Sulzer Friction Systems (Italia) S.r.l., Caivano Salvatore Piccirillo	100% EUR 250 000	■	■	■		Sulzer Metco
	Sulzer Chemtech Italia S.r.l., Milano Cesare Somaini	100% EUR 100 000	■	■	■		Sulzer Chemtech
The Netherlands	Sulzer Eldim (NL) B.V., Lomm Rene van Doorn	100% EUR 397 057	■	■	■		Sulzer Metco
	Sulzer Chemtech Nederland B.V., Breda Arnold van Sinderen	100% EUR 1 134 451	■	■	■	■	Sulzer Chemtech
	Sulzer Turbo Services Rotterdam B.V., Europoort Joris Ringelberg	100% EUR 18 000		■	■	■	Sulzer Turbo Services
	Sulzer Turbo Services Venlo B.V., Lomm Subodh Nadkarni	100% EUR 444 705		■	■	■	Sulzer Turbo Services
	Sulzer Netherlands Holding B.V., Breda Eric Koning	100% EUR 10 010 260					Others
	Sulzer Capital B.V., Breda Eric Koning	100% EUR 50 000					Others
	Sulzer Pumps (Benelux) N.V., Standaarbuiten Frank Kerstens	100% EUR 22 690				■	Sulzer Pumps
Austria	Sulzer Pumpen Oesterreich Ges.m.b.H., Wels Harald Sonntagbauer	100% EUR 350 000			■		Sulzer Pumps
Poland	Sulzer Turbo Services Poland Sp. z o.o., Lublin Frenk Hinssen	100% PLN 1 809 000		■		■	Sulzer Turbo Services
Russia	ZAO Sulzer Pumps Russia, St. Petersburg Veli-Pekka Tiittanen	100% RUB 250 000			■		Sulzer Pumps
	Sulzer Chemtech LLC, Serpukhov Lorenzo Ghelfi	100% RUB 55 500 000		■	■	■	Sulzer Chemtech
	Sulzer Pumps (Russia) LLC, Moscow Mick Wigglesworth	100% RUB 6 000 600			■	■	Sulzer Pumps
Sweden	Sulzer Pumps Sweden AB, Norrköping Carl Nordenswan	100% SEK 3 000 000			■		Sulzer Pumps
Spain	Sulzer Pumps Spain S.A., Madrid Daniel Späti	100% EUR 300 500			■		Sulzer Pumps
Hungary	Sulzer Eldim (HU) Kft., Debrecen Erik Krol	100% HUF 161 000 000	■	■	■		Sulzer Metco
North America							
Canada	Sulzer Pumps (Canada) Inc., Burnaby Ross Bennet	100% CAD 2 771 588		■	■	■	Sulzer Pumps
	Sulzer Metco (Canada) Inc., Fort Saskatchewan Gerald Deck	100% CAD 14 210 627	■	■	■	■	Sulzer Metco
	Sulzer Chemtech Canada Inc., Edmonton Ganapathy Murthy	100% CAD 1 000 000		■	■	■	Sulzer Chemtech
	Sulzer Turbo Services Canada Ltd., Edmonton H. Terry Moon	100% CAD 7 000 000		■	■	■	Sulzer Turbo Services
USA	Sulzer Pumps (US) Inc., Brookshire, Texas Mauricio Bannwart	100% USD 40 381 108	■	■	■	■	Sulzer Pumps
	Sulzer Process Pumps (US) Inc., Easley, South Carolina Alan Crawford	100% USD 27 146 250		■	■	■	Sulzer Pumps
	Sulzer Metco (US) Inc., Westbury, New York Friedrich Herold	100% USD 26 865 993	■	■	■	■	Sulzer Metco
	Sulzer Friction Systems (US) Inc., Dayton, Ohio Eric Schueler	100% USD 1 236 953	■	■	■		Sulzer Metco

37 Major subsidiaries (continued)

31.12.2010 North America	Subsidiary General manager	Participation Registered capital (including paid-in capital in the USA and Canada)	Research and development	Production and engineering	Sales	Service	Division
USA	Sulzer Chemtech USA Inc., Tulsa, Oklahoma Lance Golwas	100% USD 47 895 000	■	■	■	■	Sulzer Chemtech
	Sulzer Turbo Services Houston Inc., La Porte, Texas Darayus Pardivala	100% USD 18 840 000		■	■	■	Sulzer Turbo Services
	Sulzer Turbo Services New Orleans Inc., Belle Chasse, Louisiana Darayus Pardivala	100% USD 4 006 122		■	■	■	Sulzer Turbo Services
	Sulzer US Holding Inc., Sugar Land, Texas Kelli Edell	100% USD 200 561 040					Others
	Sulzer Mixpac USA Inc., Salem, New Hampshire Richard Wilson	100% USD 100			■		Sulzer Chemtech
	Sulzer EMS Inc., Phoenix, Arizona Darayus Pardivala	100% USD 97		■	■	■	Sulzer Turbo Services
Mexico	Sulzer Pumps México, S.A. de C.V., Cuautitlán Izcalli Marcelo Suhner	100% MXN 4 887 413		■	■	■	Sulzer Pumps
	Sulzer Chemtech, S. de R.L. de C.V., Cuautitlán Izcalli Leopoldo Rodriguez	100% MXN 31 345 500		■	■	■	Sulzer Chemtech
Central and South America							
Argentina	Sulzer Turbo Services Argentina S.A., Buenos Aires Daniel Corallo	100% ARS 9 999 984		■	■	■	Sulzer Turbo Services
Brasil	Sulzer Brasil S.A., Jundiaí Ricardo Coco	100% BRL 81 789 432		■	■	■	Sulzer Pumps
	Sulzer Friction Systems do Brasil Ltda., Diadema Ronald Bremberger	100% BRL 4 418 273		■	■		Sulzer Metco
	Sulzer Turbo Services Brasil Ltda., Municipio de Vinhedo Daniel Corallo	100% BRL 1 000				■	Sulzer Turbo Services
Venezuela	Sulzer Pumps (Venezuela) S.A., Barcelona Pablo Moros	100% VEB 200 000 000			■	■	Sulzer Pumps
	Sulzer Turbo Services Venezuela S.A., Caracas Daniel Corallo	100% VEB 5 000				■	Sulzer Turbo Services
Africa							
South Africa	Sulzer Pumps (South Africa) (Pty) Ltd., Elandsfontein Deon Vorster	75% ZAR 450 000	■	■	■	■	Sulzer Pumps
	Sulzer (South Africa) Holdings (Pty) Ltd., Elandsfontein Deon Vorster	100% ZAR 16 476		■	■	■	Sulzer Pumps
	Sulzer Chemtech (Pty) Ltd., Johannesburg Patrick Lurà	100% ZAR 121		■	■	■	Sulzer Chemtech
Nigeria	Sulzer Pumps (Nigeria) Ltd., Lagos Garth Bradwell	100% NGN 10 000 000			■	■	Sulzer Pumps
Middle East							
United Arab Emirates	Sulzer (Middle East) FZCO, Dubai Andreas Schulte	100% AED 500 000			■	■	Sulzer Pumps
Saudi Arabia	Sulzer Pumps (Saudi Arabia) LLC, Al Khobar Colin Ford	100% SAR 1 000 000			■	■	Sulzer Pumps
Bahrain	Sulzer Chemtech Middle East S.P.C., Al Seef Albert Hug	100% BHD 50 000			■		Sulzer Chemtech
Asia							
India	Sulzer Pumps India Ltd., Navi Mumbai Ramanathan Venkatasubramanian	99% INR 25 000 000		■	■	■	Sulzer Pumps
	Sulzer India Ltd.[1], Pune Balaji Bakthisaran	94% INR 34 500 000		■	■	■	Sulzer Chemtech
	Sulzer Tech India Pvt. Ltd., Navi Mumbai A.S. Kothekar	100% INR 100 000		■			Sulzer Pumps

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

37 Major subsidiaries (continued)

31.12.2010 Asia	Subsidiary General manager	Participation Registered capital (including paid-in capital in the USA and Canada)	Research and development	Production and engineering	Sales	Service	Division
India	Sulzer Metco India Ltd., Chennai Veeraganta Bhaskara Ramam	100% INR 7 100 000		■	■		Sulzer Metco
	Sulzer Chemtech Tower Field Services (India) Pvt. Ltd., Mumbai S Ramann	100% INR 500 000			■	■	Sulzer Chemtech
Indonesia	PT Sulzer Turbo Services Indonesia, Purwakarta K. Agus Susena	100% IDR 28 234 800 000		■	■	■	Sulzer Turbo Services
Japan	Sulzer Daiichi K.K., Tokyo Takumi Seki	60% JPY 30 000 000			■		Sulzer Pumps
	Sulzer Metco (Japan) Ltd., Tokyo Norio Yumiba	100% JPY 180 000 000		■	■	■	Sulzer Metco
Singapore	Sulzer Pumps Asia Pacific Pte Ltd., Singapore RVS Mani	100% SGD 1 000 000		■	■	■	Sulzer Pumps
	Sulzer Metco (Singapore) Pte Ltd., Singapore Sei Kwong Leong	100% SGD 600 000			■	■	Sulzer Metco
	Sulzer Chemtech Pte Ltd., Singapore Victor Chiam	100% SGD 1 000 000	■	■	■	■	Sulzer Chemtech
South Korea	Sulzer Korea Ltd., Seoul Youngbae Kim	100% KRW 222 440 000			■		Sulzer Pumps
People's Republic of China	Sulzer Dalian Pumps & Compressors Ltd., Dalian Lee Zhenyi Lu	100% CNY 115 000 000		■	■	■	Sulzer Pumps
	Sulzer Metco Surface Technology (Shanghai) Co. Ltd., Shanghai Anthony Herbert	100% CHF 7 300 000		■	■	■	Sulzer Metco
	Sulzer Shanghai Eng. & Mach. Works Ltd., Shanghai Mel Chua	100% CNY 61 432 607		■	■	■	Sulzer Chemtech
	Sulzer Pumps Suzhou Ltd., Suzhou Martin Tempus	100% CNY 82 069 324		■	■	■	Sulzer Pumps
Australia							
	Sulzer Pumps (ANZ) Pty Ltd., Wheelers Hill David Armstrong	100% AUD 100 000			■		Sulzer Pumps
	Sulzer Metco Australia Pty Ltd., Sydney Scott Elson	100% AUD 500 000			■	■	Sulzer Metco
	Sulzer Australia Holding Pty Ltd., South Yarra David Baird	100% AUD 100					Others
	Sulzer Chemtech Pty Ltd., Adelaide Dale Calderbank	100% AUD 500 000			■	■	Sulzer Chemtech
	Dowding & Mills (Australia) Pty Ltd., Brendale Chris Langham	100% AUD 5 308 890		■	■	■	Sulzer Turbo Services

Auditors' report

PRICEWATERHOUSECOOPERS

Report of the statutory auditor
to the general meeting of
Sulzer Ltd
Winterthur

Winterthur, February 18, 2011

Report of the statutory auditor on the consolidated financial statements

As statutory auditor, we have audited the 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 64 to 112), for the year ended December 31, 2010.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the 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 the 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, 2010 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

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.

PricewaterhouseCoopers AG

Christian Kessler
Audit expert
Auditor in charge

Marcel Tobler

Enclosure:

- Consolidated financial statements (income statement, statement of comprehensive income, balance sheet, statement of changes in equity, statement of cash flows, and notes)

Five-year summaries of key financial data

Key figures from consolidated income statement and statement of cash flows

millions of CHF		2010	2009	2008	2007	2006
Sales		**3183.7**	3350.4	3713.5	3537.0	2801.7
Operating income before depreciation/amortization	EBITDA	**511.0**	479.2	575.9	501.3	376.1
Operating income before restructuring	EBITR	**410.3**	416.6	478.5	396.0	295.6
Operating income	EBIT	**406.4**	368.0	475.1	393.5	295.6
Return on sales before restructuring (EBITR/sales)	ROSR	**12.9%**	12.4%	12.9%	11.2%	10.6%
Return on sales (EBIT/sales)	ROS	**12.8%**	11.0%	12.8%	11.1%	10.6%
Return on capital employed (EBIT/capital employed)	ROCE	**28.1%**	24.8%	30.6%	24.2%	23.7%
Depreciation/amortization		**104.6**	111.2	100.8	107.8	80.5
Research and development expenses		**58.5**	63.4	59.6	51.8	40.0
Net income attributable to shareholders of Sulzer Ltd		**300.4**	270.4	322.9	284.1	221.4
– in percentage of equity attributable to shareholders of Sulzer Ltd	ROE	**15.9%**	15.2%	21.0%	18.4%	14.4%
Capital expenditure		**118.1**	112.2	116.0	134.8	106.0
Free cash flow		**149.5**	528.8	363.1	156.2	206.3
Cash flow from operating and investing activities		**62.2**	501.0	251.9	177.7	170.6
Employees (number of full-time equivalents) as of December 31		**13740**	12183	12726	11599	10393
Personnel expenses		**973.6**	944.0	961.5	948.5	788.1

Key figures from consolidated balance sheet

millions of CHF	2010	2009	2008	2007	2006
Non-current assets	**1295.6**	1200.4	1203.0	1294.1	1259.1
– thereof property, plant and equipment	**531.6**	558.1	605.8	655.0	629.3
Current assets	**2196.1**	2183.8	2227.2	2171.9	1806.1
– thereof cash and cash equivalents and marketable securities	**680.8**	767.1	488.5	384.5	361.6
Total assets	**3491.7**	3384.2	3430.2	3466.0	3065.2
Equity attributable to shareholders of Sulzer Ltd	**1895.0**	1777.5	1538.3	1551.2	1536.9
Non-current liabilities	**348.1**	327.2	316.6	340.9	421.0
– thereof long-term borrowings	**44.2**	49.0	25.9	28.1	31.9
Current liabilities	**1242.4**	1268.1	1567.3	1565.7	1099.9
– thereof short-term borrowings	**83.8**	47.5	156.5	157.9	30.0
Net liquidity[1]	**552.8**	670.6	306.1	198.5	299.7
Equity ratio[2]	**54.3%**	52.5%	44.8%	44.7%	50.1%
Borrowings to equity ratio (gearing)	**0.07**	0.05	0.12	0.12	0.04

[1] Cash and cash equivalents and marketable securities, less short- and long-term borrowings.

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

Five-year summaries by division

	Order intake					Sales				
millions of CHF	**2010**	2009	2008	2007	2006	**2010**	2009	2008	2007	2006
Divisions	**3278.5**	3006.7	4098.1	4043.7	3265.8	**3173.3**	3336.3	3697.4	3527.2	2792.1
Sulzer Pumps	**1613.7**	1684.5	2308.7	2076.9	1752.6	**1576.1**	1856.7	1817.0	1733.8	1405.4
Sulzer Metco	**643.1**	545.5	715.6	762.8	658.7	**623.5**	556.0	743.5	753.1	644.1
Sulzer Chemtech	**621.3**	498.4	770.4	890.8	602.1	**574.6**	632.3	823.3	761.3	500.1
Sulzer Turbo Services	**400.4**	278.3	303.4	313.2	252.4	**399.1**	291.3	313.6	279.0	242.5
Others	**10.2**	10.9	18.5	10.3	11.1	**10.4**	14.1	16.1	9.8	9.6
Total	**3288.7**	3017.6	4116.6	4054.0	3276.9	**3183.7**	3350.4	3713.5	3537.0	2801.7

	Operating income (EBIT)					Capital employed (average)				
millions of CHF	**2010**	2009	2008	2007	2006	**2010**	2009	2008	2007	2006
Divisions	**346.5**	312.7	472.1	416.4	297.7	**1447.5**	1436.8	1473.3	1529.0	1155.9
Sulzer Pumps	**189.0**	204.7	231.9	199.2	159.6	**340.5**	416.7	433.8	448.0	388.7
Sulzer Metco	**57.1**	20.5	69.6	75.8	53.4	**391.9**	412.1	433.8	443.2	437.1
Sulzer Chemtech	**58.5**	54.5	140.1	116.3	65.4	**406.2**	417.9	426.2	464.1	164.3
Sulzer Turbo Services	**41.9**	33.0	30.5	25.1	19.3	**308.9**	190.1	179.5	173.7	165.8
Others	**59.9**	55.3	3.0	–22.9	–2.1	**–0.6**	49.9	80.5	96.4	91.4
Total	**406.4**	368.0	475.1	393.5	295.6	**1446.9**	1486.7	1553.8	1625.4	1247.3

	Order backlog					Employees[1]				
millions of CHF	**2010**	2009	2008	2007	2006	**2010**	2009	2008	2007	2006
Divisions	**1797.3**	1869.3	2094.7	1975.1	1481.9	**13509**	11890	12427	11312	10111
Sulzer Pumps	**1336.6**	1436.0	1518.6	1303.8	992.6	**5904**	5928	6239	5686	5192
Sulzer Metco	**71.3**	57.2	68.2	99.7	89.9	**2045**	1796	2105	2054	1928
Sulzer Chemtech	**274.3**	238.9	347.9	414.0	308.1	**2973**	2977	2769	2393	1979
Sulzer Turbo Services	**115.1**	137.2	160.0	157.6	91.3	**2587**	1189	1314	1179	1012
Others	**2.5**	2.4	5.5	3.0	2.6	**231**	293	299	287	282
Total	**1799.8**	1871.7	2100.2	1978.1	1484.5	**13740**	12183	12726	11599	10393

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

Five-year summaries by region

Order intake by region

millions of CHF	2010	2009	2008	2007	2006
Europe	**1016.0**	945.3	1286.1	1293.9	1082.8
North America	**820.5**	762.8	1070.6	1225.1	977.2
Central and South America	**311.4**	288.8	283.1	205.8	190.2
Asia, Middle East, Australia	**959.7**	807.5	1177.5	1148.7	880.6
Africa	**181.1**	213.2	299.3	180.5	146.1
Total	**3288.7**	3017.6	4116.6	4054.0	3276.9

Sales by region

millions of CHF	2010	2009	2008	2007	2006
Europe	**1024.4**	1046.5	1276.2	1319.7	919.5
North America	**840.3**	951.7	1048.5	1017.5	875.1
Central and South America	**323.8**	238.7	195.5	162.4	160.7
Asia, Middle East, Australia	**802.9**	885.4	1039.6	887.4	715.9
Africa	**192.3**	228.1	153.7	150.0	130.5
Total	**3183.7**	3350.4	3713.5	3537.0	2801.7

Capital employed (average) by company location

millions of CHF	2010	2009	2008	2007	2006
Europe	**904.4**	953.2	1046.6	1045.5	731.7
North America	**344.7**	380.3	367.1	417.5	380.8
Central and South America	**45.1**	46.0	33.4	49.1	48.4
Asia, Middle East, Australia	**139.0**	99.8	96.6	91.3	69.2
Africa	**13.7**	7.4	10.1	22.0	17.2
Total	**1446.9**	1486.7	1553.8	1625.4	1247.3

Employees by company location[1)]

	2010	2009	2008	2007	2006
Europe	**5874**	4915	5724	5544	5192
North America	**2949**	2864	3156	2943	2160
Central and South America	**810**	823	710	563	994
Asia, Middle East, Australia	**3633**	3125	2700	2157	1664
Africa	**474**	456	436	392	383
Total	**13740**	12183	12726	11599	10393

1) Number of full-time equivalents as of December 31.

Financial section

Financial statements of Sulzer Ltd

Financial statements of Sulzer Ltd

Balance sheet of Sulzer Ltd

December 31

millions of CHF	Notes	2010	2009
Non-current assets			
Operational assets		–	–
Investments in subsidiaries and other companies		700.1	752.4
Loans to subsidiaries		186.3	80.4
– thereof subordinated CHF 2.0 million in 2010			
Other loans and financial assets		1.7	1.7
Total non-current assets		888.1	834.5
Current assets			
Accounts receivable from subsidiaries		456.7	245.1
Other accounts receivable and prepayments		34.6	2.3
Marketable securities	103	90.0	54.1
Cash		9.6	73.0
Total current assets		590.9	374.5
Total assets		1 479.0	1 209.0
Equity			
Registered share capital	104	0.3	0.3
Legal reserves		159.3	150.6
Reserves for treasury stock	104	46.2	54.9
Free reserves		676.5	471.5
Unappropriated retained earnings		6.5	5.2
Net profit for the year		413.9	302.2
Total equity		1 302.7	984.7
Non-current liabilities			
Non-current financial liabilities		–	–
Non-current provisions		80.9	53.4
Non-current liabilities with subsidiaries		–	4.5
Total non-current liabilities		80.9	57.9
Current liabilities			
Current financial liabilities		40.0	0.1
Current provisions		8.3	15.2
Current liabilities with subsidiaries		15.1	114.0
Accounts payable and accrued liabilities	105	32.0	37.1
Total current liabilities		95.4	166.4
Total liabilities		176.3	224.3
Total equity and liabilities		1 479.0	1 209.0

Income statement of Sulzer Ltd

January – December

millions of CHF	Notes	2010	2009
Revenues			
Investment income		**409.1**	316.3
Financial income		**68.8**	56.1
Other income		**30.6**	35.7
Total revenues		**508.5**	408.1
Expenses			
Administrative expenses	107	**29.7**	30.7
Financial expenses		**42.0**	3.1
Investment and loan expenses		**14.7**	64.4
Income taxes		**5.5**	4.9
Other expenses		**2.7**	2.8
Total expenses		**94.6**	105.9
Net profit for the year		**413.9**	302.2

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, 2008	0.1	160.9	344.6	116.7	8.0	346.1	976.4
Dividend						–101.9	–101.9
Cancellation of treasury shares			–300.0				–300.0
Increase share capital	0.2			–0.2			–
Allocation of net income				245.0	–0.8	–244.2	–
Net profit for the year						203.9	203.9
Change in reserves for treasury stock		–11.5	11.5				–
Equity as of December 31, 2008	0.3	149.4	56.1	361.5	7.2	203.9	778.4
Dividend						–95.9	–95.9
Allocation of net income				110.0	–2.0	–108.0	–
Net profit for the year						302.2	302.2
Change in reserves for treasury stock		1.2	–1.2				–
Equity as of December 31, 2009	0.3	150.6	54.9	471.5	5.2	302.2	984.7
Dividend						–95.9	**–95.9**
Allocation of net income				205.0	1.3	–206.3	**–**
Net profit for the year						413.9	**413.9**
Change in reserves for treasury stock		8.7	–8.7				**–**
Equity as of December 31, 2010	0.3	159.3	46.2	676.5	6.5	413.9	**1 302.7**

Notes to the financial statements of Sulzer Ltd

101 Valuation principles

The financial statements as of December 31, 2010, are in compliance with the requirements of the Swiss Corporation law. However, for the purpose of including Sulzer Ltd in the consolidated financial statements, the corporate accounting principles remain fully applicable.

102 Investments in subsidiaries

A list of the major subsidiaries held directly or indirectly by Sulzer Ltd is included on pages 109 to 112 (note 37).

103 Marketable securities

millions of CHF	2010	2009
Treasury stock	83.1	48.9
Other shares	6.9	5.2
Total marketable securities	**90.0**	54.1

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 22 to the consolidated financial statements. Details of share data ownership are also provided in note 22.

Treasury stock held by Sulzer Ltd

millions of CHF	Number of shares	Total acquisition cost
Balance as of January 1, 2010	691 844	54.9
Purchase	107 782	11.3
Sale	–253 148	–20.0
Balance as of December 31, 2010	**546 478**	**46.2**

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, 2010, amounted to 546 478 (2009: 691 844).

105 Accounts payable and accrued liabilities

millions of CHF	2010	2009
Other liabilities	6.1	4.0
Accrued liabilities	25.9	33.1
Total accounts payable and accrued liabilities	**32.0**	37.1

The accrued liabilities in 2010 include CHF 7.3 million of outstanding options on treasury shares (2009: CHF 13.5 million).

106 Contingent liabilities

millions of CHF	2010	2009
Guarantees, sureties, comfort letters for subsidiaries		
– to banks and insurance companies	1 503.5	1 532.0
– to customers	446.4	425.5
Guarantees to third parties	–	–
Syndicate transactions	–	–
Total contingent liabilities	**1 949.9**	1 957.5

As of December 31, 2010, CHF 466.2 million (2009: CHF 480.1 million) of guarantees, sureties, and comfort letters for subsidiaries to banks and insurance companies were utilized.

107 Administrative expenses

millions of CHF	2010	2009
Personnel expenses	17.4	17.9
Other administrative expenses	12.3	12.8
Total administrative expenses	**29.7**	30.7

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 35 to the consolidated financial statements) of the corporation.

Financial section

109 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 33, mainly due to different valuation.

Compensation 2010

thousands of CHF	Base salary	Bonus[4]	Cash compensation	Pension fund contribution	Other	Subtotal	Restricted stock unit plan[5]	Performance share plan (PSP)[6]	Total
Board of Directors	927	–	927	–	–	927	889	–	**1 816**
Jürgen Dormann, Chairman and Chairman of the Strategy Committee	421	–	421	–	–	421	223	–	**644**
Luciano Respini	90	–	90	–	–	90	111	–	**201**
Vladimir V. Kuznetsov, Chairman of the Nomination and Remuneration Committee	93	–	93	–	–	93	111	–	**204**
Hans Hubert Lienhard	72	–	72	–	–	72	111	–	**183**
Urs Andreas Meyer[1]	23	–	23	–	–	23	–	–	**23**
Daniel J. Sauter	80	–	80	–	–	80	111	–	**191**
Klaus Sturany, Chairman of the Audit Committee	95	–	95	–	–	95	111	–	**206**
Tim Summers[2]	53	–	53	–	–	53	111	–	**164**
Executive Committee[3]	3 187	2 895	6 082	722	174	6 978	1 297	1 531	**9 806**
– thereof highest single compensation Ton Büchner, CEO	720	900	1 620	141	–	1 761	148	667	**2 576**

No compensation was granted to former members of the Board of Directors or the Executive Committee. The short-term loan of CHF 0.1 million granted in prior years to one member of the Executive Committee was paid back in 2010. Non arm's length compensation was granted neither to present or former members of the Board of Directors or the Executive Committee nor to related parties.

[1] Member until April 15, 2010.

[2] Member since April 15, 2010.

[3] Members of the Executive Committee:
- Ton Büchner, CEO
- Peter Alexander, President of Sulzer Turbo Services
- Jürgen Brandt, CFO (since November 1, 2010)
- Urs Fankhauser, President of Sulzer Chemtech
- Alfred Gerber, General Counsel
- Kim Jackson, President of Sulzer Pumps
- Peter Meier, CFO (until July 24, 2010)
- 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 87.58 at the grant date. The fair values include a 11% discount according to the tax procedure regarding reduction due to the limited availability at the grant date (i.e., CHF 10.83). Employer contribution to the social security institutions due to the execution of equity instruments is not included.

[6] Represents one-third of the amount invested in the PSP (2010–2012) assigned during the reporting period with an average stock price of CHF 98.41 at the grant date. Employer contribution to the social security institutions due to the execution of equity instruments is not included. The PSP 2010–2012 will vest in 2013.

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

Compensation 2009

thousands of CHF	Base salary	Bonus[8]	Cash compensation	Pension fund contribution	Other	Subtotal	Restricted stock unit plan[9]	Total
Board of Directors	1049	–	1049	31	–	1080	1108	2188
Jürgen Dormann, Chairman[1] and Chairman of the Strategy Committee	156	–	156	–	–	156	146	302
Luciano Respini[2]	219	–	219	–	–	219	223	442
Ulf Berg[3]	160	–	160	31	–	191	–	191
Thor Håkstad[4]	86	–	86	–	–	86	111	197
Louis R. Hughes[5]	58	–	58	–	–	58	111	169
Vladimir V. Kuznetsov, Chairman of the Nomination and Remuneration Committee	97	–	97	–	–	97	111	208
Hans Hubert Lienhard	80	–	80	–	–	80	111	191
Urs Andreas Meyer	74	–	74	–	–	74	111	185
Daniel J. Sauter	84	–	84	–	–	84	111	195
Klaus Sturany, Chairman of the Audit Committee[6]	35	–	35	–	–	35	73	108
Executive Committee[7]	3153	2348	5501	709	129	6339	2020	8359
– thereof highest single compensation Ton Büchner, CEO	715	900	1615	142	4	1761	445	2206

No compensation was granted to former members of the Board of Directors or the Executive Committee. A short-term loan of CHF 0.1 million (2008: CHF 0.1 million) was granted to one member of the Executive Committee. Non arm's length compensation was granted neither to present or former members of the Board of Directors or the Executive Committee nor to related parties.

[1] Chairman since August 18, 2009.

[2] Chairman between April 8, 2009, and August 18, 2009.

[3] Chairman until April 8, 2009.

[4] Vice chairman until August 18, 2009.

[5] Member until August 18, 2009.

[6] Member since August 18, 2009.

[7] Members of the Executive Committee:
- Ton Büchner, CEO
- Peter Alexander, President of Sulzer Turbo Services
- Urs Fankhauser, President of Sulzer Chemtech
- Alfred Gerber, General Counsel
- Kim Jackson, President of Sulzer Pumps
- Peter Meier, CFO
- César Montenegro, President of Sulzer Metco

[8] Expected variable wage elements.

[9] RSU awards assigned during the reporting period had a fair value of CHF 42.25 at the grant date. In the case of the newly elected board members of the Extraordinary General Meeting of August 18, 2009, the fair value per RSU was CHF 67.46. The fair values include a 11% discount according to the tax procedure regarding reduction due to the limited availability at the grant date (i.e., CHF 5.23 and CHF 8.34 respectively). Employer contribution to the social security institutions due to the execution of equity instruments is not included.

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

Shareholders 2010

	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 and shares[2]	Put options
Board of Directors	24534	7375	1000	21122	–	129406	–
Jürgen Dormann	7923	–	–	3987	–	11910	–
Vladimir V. Kuznetsov	878	500	250	3028	–	11406	–
Hans Hubert Lienhard	3738	1500	250	3028	–	24266	–
Luciano Respini	4756	1375	250	4784	–	25790	–
Daniel J. Sauter	6878	4000	250	3028	–	52406	–
Klaus Sturany	361	–	–	1995	–	2356	–
Tim Summers	–	–	–	1272	–	1272	–
Executive Committee	24016	8830	3300	38698	–	184014	–
Ton Büchner	16591	2000	1000	8717	–	55308	–
Peter Alexander	20	100	400	4687	–	9707	–
Jürgen Brandt	350	–	–	–	–	350	–
Urs Fankhauser	1500	3800	600	6869	–	52369	–
Alfred Gerber	3116	800	400	4687	–	19803	–
Kim Jackson	32	–	600	6869	–	12901	–
César Montenegro	2407	2130	300	6869	–	33576	–

1) Options and restricted stock units assigned by Sulzer as compensation.

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

Shareholders 2009

	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 and shares[2]	Put options
Board of Directors	19060	6375	3250	19057	–	134367	–
Jürgen Dormann	7200	–	–	2169	–	9369	–
Vladimir V. Kuznetsov	–	250	500	2634	–	10134	–
Hans Hubert Lienhard	2860	1000	750	2634	–	22994	–
Urs Andreas Meyer	–	250	500	2634	–	10134	–
Luciano Respini	3000	1375	750	5268	–	29518	–
Daniel J. Sauter	6000	3500	750	2634	–	51134	–
Klaus Sturany	–	–	–	1084	–	1084	–
Executive Committee	18612	20600	11700	47817	–	389429	–
Ton Büchner	13330	7000	3000	10533	–	123863	–
Peter Alexander	20	2750	1200	4740	–	44260	–
Urs Fankhauser	1500	4100	1800	6951	–	67451	–
Alfred Gerber	1520	2500	1200	4740	–	43260	–
Kim Jackson	32	–	1800	6951	–	24983	–
Peter Meier	1040	2150	1800	6951	–	47491	–
César Montenegro	1170	2100	900	6951	–	38121	–

1) Options and restricted stock units assigned by Sulzer as compensation.

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

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

Information on options and restricted stock units assigned by Sulzer as compensation

	2002	2003	2004	2005	2006	2007	2008		RSUs[3]	Total[4]	
	F[1]	F	F	F	F	F	F	NF[2]	NF	**F**	**NF**
Board of Directors	500	500	625	750	1000	2000	2000	1000	21122	**73750**	**31122**
Jürgen Dormann	–	–	–	–	–	–	–	–	3987	**–**	**3987**
Vladimir V. Kuznetsov	–	–	–	–	–	–	500	250	3028	**5000**	**5528**
Hans Hubert Lienhard	–	–	125	125	250	500	500	250	3028	**15000**	**5528**
Luciano Respini	–	–	–	125	–	750	500	250	4784	**13750**	**7284**
Daniel J. Sauter	500	500	500	500	750	750	500	250	3028	**40000**	**5528**
Klaus Sturany	–	–	–	–	–	–	–	–	1995	**–**	**1995**
Tim Summers	–	–	–	–	–	–	–	–	1272	**–**	**1272**
Executive Committee	–	–	200	730	600	2700	4600	3300	38698	**88300**	**71698**
Ton Büchner	–	–	–	–	–	–	2000	1000	8717	**20000**	**18717**
Peter Alexander	–	–	–	100	–	–	–	400	4687	**1000**	**8687**
Jürgen Brandt	–	–	–	–	–	–	–	–	–	**–**	**–**
Urs Fankhauser	–	–	200	600	–	1800	1200	600	6869	**38000**	**12869**
Alfred Gerber	–	–	–	–	–	–	800	400	4687	**8000**	**8687**
Kim Jackson	–	–	–	–	–	–	–	600	6869	**–**	**12869**
César Montenegro	–	–	–	30	600	900	600	300	6869	**21300**	**9869**

1) Options assigned by Sulzer as compensation and free to be sold.

2) Options assigned by Sulzer as compensation and not free to be sold.

3) Total RSUs 2009 and 2010 granted but not yet vested.

4) One option entitles to purchase ten shares, one RSU award is converted into one share. This has been reflected in the total balance.

Series	Year of issue	Expiration date	Exercise price
2002	2002	04.2012	36.50
2003	2003	04.2013	17.30
2004	2004	04.2014	31.80
2005	2005	04.2015	52.20
2006	2006	04.2011	94.20
2007	2007	03.2012	149.50
2008	2008	03.2013	127.90

Appropriation of net profit

CHF	2010	2009
Net profit for the year	413900000	302200000
Unallocated profit carried forward from previous year	6504404	5239040
Total available profit	420404404	307439040
Proposal by the Board of Directors:		
Appropriation to free reserves	310000000	205000000
Dividend	102787110	95934636
Balance carried forward	7617294	6504404
Distribution per share CHF 0.01		
Gross dividend	3.00	2.80
Less 35% withholding tax	1.05	0.98
Net payment	1.95	1.82

The Board of Directors proposes the payment of a dividend of CHF 3.00 per share to the Annual General Meeting on April 14, 2011.

Annual General Meeting

The 97th ordinary Annual General Meeting will be held on Thursday, April 14, 2011, at 10.00 a.m. at Eulachhalle, Wartstrasse 73, Winterthur (Switzerland).

Auditors' report

PRICEWATERHOUSECOOPERS

Report of the statutory auditor
to the general meeting of
Sulzer Ltd
Winterthur

Winterthur, February 18, 2011

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 118 to 126), for the year ended December 31, 2010.

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, 2010 comply with Swiss law and the company's articles of incorporation.

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 available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Christian Kessler
Audit expert
Auditor in charge

Marcel Tobler

Enclosures:

- Financial statements (balance sheet, income statement, statement of changes in equity and notes)
- Proposed appropriation of the available earnings

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 2010 is also available in German and online at www.sulzer.com/AR2010. Furthermore, the report is available as a summary in German or in English.
The original version is in English.

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Investor information

Data per share

CHF	2010	2009	2008	2007	2006
Net income attributable to a shareholder of Sulzer Ltd	**8.92**	8.06	9.59	8.35	6.23
Change from prior year	**11%**	–16%	15%	34%	73%
Free cash flow	**4.44**	15.75	10.78	4.59	5.80
Equity attributable to a shareholder of Sulzer Ltd	**56.20**	52.95	45.83	46.11	44.35
Dividend	**3.00**[1]	2.80	2.80	2.80	2.30
Payout ratio	**34%**[1]	35%	29%	34%	37%
Average number of shares outstanding	**33 693 120**	33 567 516	33 675 840	34 035 700	35 563 610

[1] Proposal to the Annual General Meeting.

Stock market information

	2010	2009	2008	2007	2006
Registered share (in CHF)					
– high	**144.00**	96.40	165.20	192.40	140.90
– low	**80.10**	39.15	54.00	137.50	69.20
– year-end	**142.50**	81.10	60.00	166.50	138.70
Market capitalization as of December 31					
– number of shares outstanding	**33 715 892**	33 570 526	33 562 931	33 642 550	34 657 410
– in millions of CHF	**4 805**	2 723	2 014	5 601	4 807
– in percentage of equity	**254%**	153%	131%	361%	313%
P/E ratio as of December 31	**16.0x**	10.1x	6.3x	19.9x	22.3x
Dividend yield as of December 31	**2.1%**[1]	3.5%	4.7%	1.7%	1.7%

[1] Proposal to the Annual General Meeting.

Title	Security No.	Investdata	Reuters	Bloomberg
Listed on SIX Swiss Exchange Registered share	3 838 891	SUN	SUN.S	SUN SW

Shareholder structure as of February 18, 2011

number of shares	Number of shareholders	Shareholding
1–100	5551	0.9%
101–1 000	4619	4.5%
1 001–10 000	647	5.3%
10 001–100 000	116	11.5%
More than 100 000	22	51.7%
Total (excluding treasury shares Sulzer Ltd)	**10 955**	**73.9%**

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