SULZER

The Company 2014

BECOMING A LEADING EQUIPMENT AND SERVICE PROVIDER

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

We specialize in pumping solutions, rotating equipment maintenance and services as well as separation, reaction, and mixing technology. Combining engineering and application expertise, our innovative solutions add value and strengthen the competitive position of our customers.

Sulzer is a leading provider in its key markets: oil and gas, power, and water. We serve clients around the world through a network of over 150 locations.

Winterthur, February 10, 2015

Dear shareholder

Sulzer looks back on over 180 years of industrial history. Since its establishment in 1834, the company has changed dramatically. Change and transformation is a constant companion and an indispensable factor in becoming a leading equipment and service provider.

Achievements in 2014

We divested the Sulzer Metco division and systematically strengthened our focus on the three key markets. We created the integrated service division Rotating Equipment Services. The new service division offers services for gas and steam turbines, compressors, pumps, motors, and generators of any brand. The acquisition of Grayson Armature in Houston, TX, USA, and the joint venture with China Huadian Corporation also further strengthen the service offering and regional footprint of the division. We streamlined our group functions at the headquarters in Winterthur, Switzerland, and adapted our operational structure to become an integrated company.

Go to market as *one* company

"You are doing the right thing," was a customer's feedback in 2014 when we presented the new and integrated service division to the business. This sort of customer feedback and the positive operational development of the new Rotating Equipment Services division are making us confident that we "are doing the right thing".

We need to go to market as *one* company and install single channels to market where appropriate as our customers expect a one-stop shop for products and services. We are taking advantage of divisional synergies and are now able to offer services for all kinds of rotating equipment to our customers.

Maintaining financial discipline

We would like to point out that we will maintain financial discipline in merger and acquisition projects, and we will not compete in bidding wars. Sulzer is a strong brand with an excellent product and service offering. We are very capable of becoming even better in what we do and growing profitably. Besides that, Sulzer is always working on several merger and acquisition projects to pursue growth opportunities. In 2014, we were in discussions with the US company Dresser-Rand about a potential non-cash merger of equals. We have ended these discussions with Dresser-Rand and Siemens has announced an all-cash takeover bid for Dresser-Rand. Focusing on the three key markets oil and gas, power, and water is the right strategy for Sulzer. Our strategic focus opens opportunities for us to expand our portfolio with complementary offerings—either for equipment or services—and, thus, make better use of our global sales channels and our manufacturing and service footprint. In 2014, orders in the oil and gas market increased whereas demand in the power, water, and the general industry were slightly lower.

Financial performance in 2014

Order intake was CHF 3.2 billion (2013: CHF 3.2 billion). Adjusted for currency effects and acquisitions, this is 0.6% less from 2013. Sales were CHF 3.2 billion (2013: CHF 3.3 billion) which is stable on an adjusted level compared with the previous year. The goodwill impairment in the Water business unit of CHF 340 million reduced the operating income to a negative CHF 69 million. Return on sales before goodwill impairment increased to 8.4% (2013: 8.1%).

The net income in 2014 increased by 17.7% to CHF 278.1 million (2013: CHF 236.2 million). This results in basic earnings per share of CHF 8.09 (2013: CHF 6.89) which is 17.4% higher from the previous year. The Board of Directors will propose an ordinary dividend increase to CHF 3.50 (2013: CHF 3.20) per share at the Annual General Meeting on April 1, 2015.

Market orientation of the divisions

We prepared the new market-oriented setup for our biggest division last year. Since the beginning of 2015, Pumps Equipment is set up according to the market segments oil and gas, power, and water. We expect a direct benefit from this new operational setup on all our business units and for their customers around the world. It will not only further enhance competitiveness, but also quality and delivery times. This year, we will also manage our factories globally and we will invest in organic growth as well as in external growth.

Our Chemtech division continues to provide its customers with outstanding solutions for static equipment, such as separating and mixing solutions, including tower field services. The Chemtech division is already market-oriented.

Volatility in the oil and gas market

With a share of sales of 54% (2013: 51%), our exposure in the oil and gas market has increased. We are very well aware of our oil and gas customers showing more capital discipline. The recent oil price development does not help favorable investment decisions in the short term. Nevertheless, the absolute level of investments is still expected to remain high. We believe that in such an environment, we should be able to benefit from our enhanced service offering. In 2014, we achieved again a healthy level of 45% of our sales in the service business (2013: 44%). In addition, we offer technologies—for instance through Chemtech's acquisition of ASCOM and ProLabNL—that support our customers in reducing their investment and operational costs significantly. These technologies further strengthen Sulzer's position in the oil and gas market. Our share of sales of 42% (2013: 42%) in emerging markets demonstrates our comprehensive global footprint in both the equipment and the service businesses.

Impact of the stronger Swiss franc

The Swiss National Bank's decision to end its three-year policy of capping the Swiss franc at 1.20 per euro, makes the Swiss franc stronger. With a strong global footprint and over 150 service and production facilities around the world, Sulzer manufactures in large parts in the region for the region. Besides the currency translation effect, the impact of currency shifts is limited.

Accelerating transformation

We have introduced a strategic program that frames and accelerates our transformation journey to become *one* focused, market-oriented, globally operating company. With this program called Sulzer Full Potential, we have an integrated approach on strategy, operating model, and operational excellence. We have identified measures how to reduce the complexity, maximize the synergies, and improve our efficiency. An integrated road map to execute the Sulzer Full Potential Program as well as tracking of the results is in place. We want to create an organization capable of adapting quickly to changing market conditions and support our aim to profitably grow. From 2017 onwards, Sulzer targets to improve profitability by four to six percentage points.

Changes in the Board and the management

Peter Löscher was newly elected as member and Chairman of the Board of Directors at the Annual General Meeting 2014. Matthias Bichsel was also newly elected as member to the Board of Directors at the Annual General Meeting 2014. César Montenegro, Division President of Sulzer Metco and member of the Executive Committee, was appointed Division President of Pumps Equipment as of June 2014, replacing Scot Smith. Thomas Dittrich was appointed Chief Financial Officer and member of the Executive Committee as of August 2014, replacing Jürgen Brandt.

Outlook for 2015 (adjusted for currency effects)

The markets are becoming increasingly volatile because of the current development of the oil price, regional conflicts, and geopolitical developments. The low oil price could influence our business negatively over time. However, our business mix is balanced through our 45% service share, our exposure to other markets, regions, and across customer segments. Activity in the power market is forecast to remain stable and the general industry is expected to slightly increase. The water market is anticipated to slightly increase.

For the full year 2015, adjusted for currency effects, order intake is expected to slightly decrease and sales is anticipated to be flat. To further increase transparency, Sulzer introduces with operational EBITA (op. operating income before amortization) a new performance indicator. Operational EBITA is forecast to be flat. From 2017 onwards, Sulzer targets to improve profitability by four to six percentage points.

Dear shareholder, we thank you for your confidence and continued support. We thank our employees for their outstanding agility and commitment, and we would also like to thank our customers and partners for their great and sustained cooperation.

Yours sincerely,

Peter Löscher
Chairman of the Board

Klaus Stahlmann
CEO

Order Intake

Order intake was CHF 3.2 billion (2013: CHF 3.2 billion). On an adjusted[1] basis, this is 0.6% less from 2013.

FCF

Free cash flow (FCF) of CHF 98.0 million in 2014 is lower compared to the CHF 218.7 million generated in the previous year. Main reason for the decline was the increase in net working capital.

Operational EBITA

To further increase transparency, Sulzer introduces with operational EBITA (op. operating income before amortization) a new performance indicator. Operational EBITA was CHF 303 million. Operational return on sales before amortization (ROSA) was 9.4% compared to 9.3% in 2013.

Dividend

The Board of Directors will propose an ordinary dividend increase to CHF 3.50 (2013: CHF 3.20) per share at the Annual General Meeting on April 1, 2015.

ROCE

Return on capital employed before impairment on goodwill (ROCE) was 13.0% (2013: 12.6%). Despite restructuring expenses, we exceeded our internal value-creating threshold.

EPS

Net income increased by 17.7% to CHF 278.1 million (2013: CHF 236.2 million) due to the net income from the Sulzer Metco divestiture. This results in basic earnings per share (EPS) of CHF 8.09 (2013: CHF 6.89) which is 17.4% higher from the previous year.

EBITR

Operating income before restructuring and goodwill impairment (EBITR) was CHF 282 million. This is a slight increase of 1.9% from 2013 on an adjusted[1] basis. The goodwill impairment in the Water business unit of CHF 340 million reduced the operating income to a negative CHF 69 million. Return on sales before goodwill impairment and restructuring increased to 8.8% (2013: 8.6%).

Sales

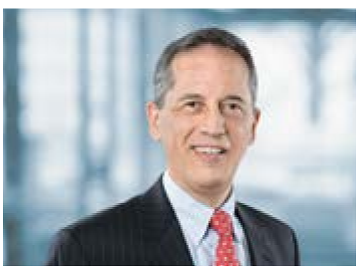
Sales were CHF 3.2 billion (2013: CHF 3.3 billion) which is 0.7% more from 2013 and stable on an adjusted[1] level.

[1] Adjusted for currency effects and acquisitions.

Stable Sales and New Operational Setup

Sales were stable and order intake slightly decreased on an adjusted[1] basis from the previous year. Excluding the goodwill impairment, the operating income before restructuring moderately decreased. Pumps Equipment is now organized in three business units oil and gas, power, and water.

"We achieved stable sales in 2014. Supported by the new market-oriented setup of Pumps Equipment, we expect competitiveness, quality, and delivery times to further improve."



César Montenegro, Division President Pumps Equipment

Market-oriented operational setup and new pump manufacturing in Saudi Arabia

Since the beginning of 2015, Pumps Equipment has been structured with three business units focused on the market segments oil and gas, power, and water. Sulzer expects direct benefits from this new operational setup in all its business units and with its customers around the world. In April 2014, Sulzer and Wetend Technologies Ltd launched a new hygienic injection pumps series as a result of a joint development project. The new pump series has been designed for demanding injection applications in the pulp and paper industry and is suitable as well for the oil and gas, power, and water markets. In February 2014, Sulzer agreed to acquire the majority of Saudi Pump Factory and set up a local production joint venture under the name Sulzer Saudi Pump Company (SSPC). The SSPC joint venture is in line with Sulzer's focus on its three key markets. These markets are major sectors of Saudi Arabia's fast-growing economy.

Slightly decreased order intake on an adjusted[1] basis

Order intake was CHF 1.7 billion, a slight decrease of 1.2% from the previous year on an adjusted[1] basis. The order intake was impacted by lower demand in the water and the oil and gas market. Demand in the engineered water business decreased significantly because of challenging market conditions in South Africa, Spain, and Brazil. Activity in the midstream oil and gas market was flat at a very high level. The division experienced slight growth in the power market. The general industry was flat in 2014. Europe—impacted by economic stagnation—and the Asia-Pacific region—negatively affected by liquidity issues—were generally flat. The Americas and the Middle East grew slightly in 2014.

Operating income impacted by goodwill impairment

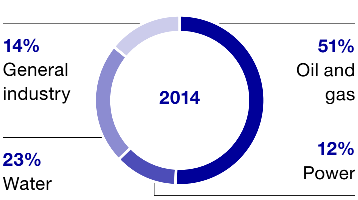
Sales were CHF 1.8 billion, 0.6% less than the previous year on an adjusted[1] basis. Sales were mainly affected by lower volume in the engineered water business. Lower sales in Europe, the Middle East, and Africa also further impacted the performance of the division. Excluding the CHF 340 million goodwill impairment in the water business, the operating income before restructuring was CHF 141 million. The return on sales before restructuring was 8.0%.

Market outlook (adjusted for currency effects)

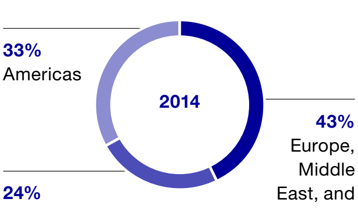
For the full year 2015, Pumps Equipment expects a slight decrease in orders from the oil and gas market because of the impact of falling oil prices. Demand in the power market and the general industry is forecast to be stable while the water market is expected to slightly grow. Activity in Europe, the Middle East, and Africa as well as in the Asia-Pacific region is projected to be flat. The division anticipates a decrease in orders from the Americas against the previous year.

[1] Adjusted for currency effects and acquisitions.

Sales by market segments



Sales by region



Our strategic priorities and achievements 2014

Technology leadership	— Further development of 3D design tools to improve the engineering process and standardization of pumps and packages — Extension of product lines according to market requirements — Development of new compressor type for wastewater applications — Launch of innovative, highly efficient, and cost-effective cooling water pumps and of ready-fitted mechanical seals for process pumps — Launch of the new hygienic injection pump series as a result of a joint development project with Wetend Technologies
Outstanding services	— Joint venture in Iraq to become a major player in Southern Iraq's market for the service of all rotating equipment — Implementation of global organization for parts, retrofit, and nuclear business to provide a more efficient and effective setup — Establishment of close cross-divisional collaboration with the Rotating Equipment Services division for the benefit of common customers — Further business development solutions for retrofit especially in the Asia-Pacific region
Continuous operational improvement	— Optimizing factory layouts for better on-time delivery and reduced lead time — Implementation of flow assembly and strengthening of 5S* and reduction of setup times at all sites — Investing to increase test-bed capacity in the USA, Mexico, Spain, and China and in state-of-the-art machining equipment to improve quality and reduce manufacturing time
Collaborative advantage	— Transition process towards industry-specific focused business units and global organization of operations and procurement — Efficiency improvement of the product life cycle data in our enterprise resource planning (ERP) system

*A workplace organization tool/process that maximizes the cleanliness, organization, and safety of all elements in a working environment. The 5S system is so named for its five primary undertakings: sort, set in order, shine, standardize, sustain.

Key figures

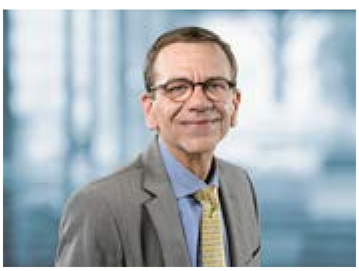
millions of CHF	2014	2013	+/–%	Change in +/–%[1]
Order intake	1 725.5	1 801.5	–4.2	–1.2
Order backlog	1 209.4	1 190.8	1.6	
Sales	1 754.9	1 821.6	–3.7	–0.6
Operating income before restructuring, impairment on goodwill, and depreciation/amortization	191.8	207.2	–7.4	
Operating income before restructuring, impairment on goodwill, and amortization	160.6	175.2	–8.3	
Operating income before restructuring and impairment on goodwill	140.9	153.6	–8.3	–6.5
Return on sales before restructuring, impairment on goodwill, and depreciation/amortization	10.9%	11.4%		
Return on sales before restructuring, impairment on goodwill, and amortization	9.2%	9.6%		
Return on capital employed	10.4%	n/a		
Employees	7 365	7 389	–0.3	

[1] Adjusted for currency effects and acquisitions.

Solid Increase in Order Intake and Successful Service Integration

On an adjusted[1] basis, order intake, sales, and the operating income before restructuring increased in 2014. The company successfully merged the former turbo service business with the pumps service business into one service division.

"We achieved a solid top-line growth in 2014 and successfully merged the former turbo service business with the pumps service business into one customer-focused service division called Rotating Equipment Services."



Peter Alexander, Division President Rotating Equipment Services

Successful service integration, acquisition, and joint venture formation

The Rotating Equipment Services division was established in 2014. It offers services for turbines, generators, motors, compressors, and pumps. The solid top-line growth of the division is, in part, due to the merger of the two existing service businesses. With about 100 service centers around the world, Sulzer strengthened its position as the leading independent provider of rotating equipment services in its key markets.

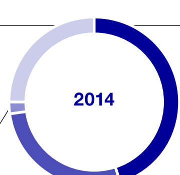
In the first quarter of 2014, Sulzer signed a joint venture agreement with China Huadian Corporation for the service of gas turbines, including field service, component repair, and the delivery of new capital parts. This joint venture offers Sulzer the opportunity to become a major player in China's power market for the service of rotating equipment.

In June 2014, Sulzer acquired Grayson Armature. The company is based in Houston, TX, USA, and adds electromechanical capabilities to Rotating Equipment Services in the important US Gulf Coast region.

Adjusted[1] order intake increased

The order intake of Rotating Equipment Services was CHF 725 million. This is a solid increase of 4.8% from the previous year on an adjusted[1] level. This result is partially due to the positive effect of the service integration. Activity in the Americas was high. The Grayson Armature acquisition also contributed substantially to this region. Demand in Europe, the Middle East, and Africa slightly decreased from last year. The division reported fewer projects in this region because of tightening OPEX budgets and significantly reduced use of gas turbines in Europe. Negative economic developments in Russia were also reflected in the regional performance. Demand in the Asia-Pacific region slightly decreased.

Sales by market segments



Solid adjusted[1] sales growth

Sales were CHF 725 million, a 3.4% increase from last year on an adjusted[1] level. The sales growth was mainly driven by strong services business in the Americas. Activity from the oil and gas industry significantly contributed to this result. Europe, the Middle East, and Africa showed slight growth for sales on an adjusted[1] basis; sales were impacted by currency translation effects.

The Asia-Pacific region showed slight growth in sales on an adjusted[1] basis. The operating income before restructuring was CHF 72 million and significantly increased by 10.6% from the previous year. Performance improvement measures initiated in Australia in 2013 showed positive results. Significant additional restructuring measures were launched in the UK, where several sites will be consolidated in 2015. Return on sales before restructuring was 10.0%, which is a slight increase from 2013.

[1] Adjusted for currency effects and acquisitions.

Our strategic priorities and achievements 2014

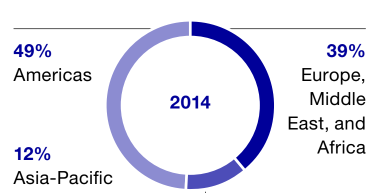
Technology leadership	— Development of replacement parts for F-Technology gas turbines (advanced industrial gas turbines) in the service centers in Venlo, NL, and Houston, USA — Improvement of rail network infrastructure through the development of parts (impedance bonds) in Australia
Outstanding services	— Synergies through easier access to other services within Sulzer benefits customers
Continuous operational improvement	— Inspecting and repairing process pumps on a fast track at the Los Angeles Service Center, USA — Improving tendering process (shorter lead times) through lean processes
Collaborative advantage	— Improved services level and synergies for the customer through one access point for all services — Faster and more flexible service through mixed teams servicing one customer site

Key figures

millions of CHF	2014	2013	+/–%	Change in +/–%[1]
Order intake	725.2	699.3	3.7	4.8
Order backlog	212.2	190.7	11.3	
Sales	724.6	705.6	2.7	3.4
Operating income before restructuring and depreciation/amortization	93.4	84.1	11.1	
Operating income before restructuring and amortization	78.1	71.0	10.0	
Operating income before restructuring	72.3	65.4	10.6	11.8
Return on sales before restructuring and depreciation/amortization	12.9%	11.9%		
Return on sales before restructuring and amortization	10.8%	10.1%		
Return on capital employed	14.7%	n/a		
Employees	3709	3642	1.8	

[1] Adjusted for currency effects and acquisitions.

Sales by region



Market outlook (adjusted for currency effects)

For the full year 2015, Rotating Equipment Services expects stable order intake from the oil and gas industry and a slight increase from the power market and the general industry. Activity in the Americas and the Asia-Pacific region is anticipated to grow. In Europe, the Middle East, and Africa, demand is forecast to be flat.

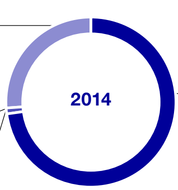
Double-Digit Profitability and New Separation Technologies

Adjusted[1] sales slightly increased while the order intake on an adjusted[1] basis moderately decreased from 2013. Return on sales before restructuring remained on a double-digit level. Chemtech enhanced its portfolio with separation technologies for the oil and gas market.

"Sales slightly increased in 2014 and profitability remained on a double-digit level despite lower demand and project delays in some of our markets. We have made targeted acquisitions to enhance our portfolio."

Oliver Bailer,
Division President Chemtech

Sales by market segments



New technologies reduce customers' investments and operating costs

Sulzer made targeted acquisitions to strengthen its position in both the oil and gas market as well as in the polymer foams industry. In the third quarter of 2014, Chemtech acquired Advanced Separation Company (ASCOM) B.V. and ProLabNL B.V. ASCOM is one of the leading providers of oil, water, and gas separation equipment such as the inline separation system Twinline™. The Twinline, for instance, reduces investments and operating costs of Sulzer's oil and gas customers (read more on page 6–9). ProLabNL offers one of the most advanced multiphase flow loops worldwide to test equipment in real oil field conditions under high or low pressure. Globally leading oil and gas companies are using these unique capabilities extensively for their conventional and subsea technology qualification programs.

In the first quarter of 2014, Sulzer acquired aixfotec, a company in the polymer foams industry. This acquisition strengthens Chemtech's position as a technology leader and system supplier for polymer foams manufacturing. The division further expanded its production facilities in China to benefit from the Asian market for two-component mixing and dispensing systems as well as for process technology.

Moderately decreased order intake on an adjusted[1] basis

In 2014, order intake was CHF 718 million. This is a moderate decrease of 3.2% from the previous year on an adjusted[1] basis. Compared with the high base of 2013, the order intake was negatively impacted by fewer large projects in the mass transfer and the process technology business. The low demand in the process technology business—in particular for projects in the field of polymers—was partially compensated by a good order intake level in the tower field service business. This demand was mainly driven by orders from North and South America. Activity in the oil and gas market was good. Demand in the general industry was stable. Chemtech noticed strong growth in the Americas compared with 2013. Demand in Europe was stable. The Asia-Pacific region, particularly China, decreased from the previous year.

Adjusted[1] sales slightly increased and double-digit profitability

Sales were CHF 742 million. This is a slight increase of 1.6% compared with the previous year on an adjusted[1] basis. The operating income before restructuring was CHF 78 million which is a moderate decline of 3.6% compared with 2013. The lowered performance was mainly driven by reduced volume in the process technology business. Measures—such as organizational changes and short time work—as well as initiatives to drive orders and sales of this business, have been initiated already in the first half of 2014 and will be ongoing into 2015. Return on sales before restructuring was with 10.6% on a double-digit level but slightly decreased from 2013.

Market outlook (adjusted for currency effects)

For the full year 2015, Chemtech expects a slight decrease in orders from the oil and gas market because of the impact of falling oil prices. Demand in the general industry is forecast to slightly increase. Activity in Europe is expected to be flat, the Asia-Pacific region is anticipated to slightly decrease. The Americas is expected to continue on a high level. The changed currency environment will have an impact on certain parts of Chemtech's businesses.

[1] Adjusted for currency effects and acquisitions.

Our strategic priorities and achievements 2014

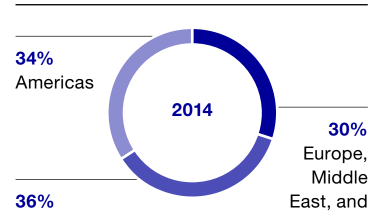
Technology leadership	— Expansion of separator portfolio through acquisition of ASCOM — Incorporation of ProLabNL, which has unique capabilities to test equipment in actual oil field conditions — Expansion of process technology laboratory with crystallization test equipment — Acquisition of aixfotec extrusion systems to expand offerings in polymer value chain with technologies for the production of polymer foams
Outstanding services	— Large turnaround project for refinery in Ecuador received — Large service project for corrosion protection with thermal-sprayed aluminum in Saudi Arabia carried out
Continuous operational improvement	— Completed skid-manufacturing expansion project in China and Switzerland — Started project for components manufacturing facility in Western China — Completed installation of Manufacturing Execution System (MES) in Sulzer Mixpac Systems operations globally
Collaborative advantage	— Order received for column internals for the world's largest carbon capture project

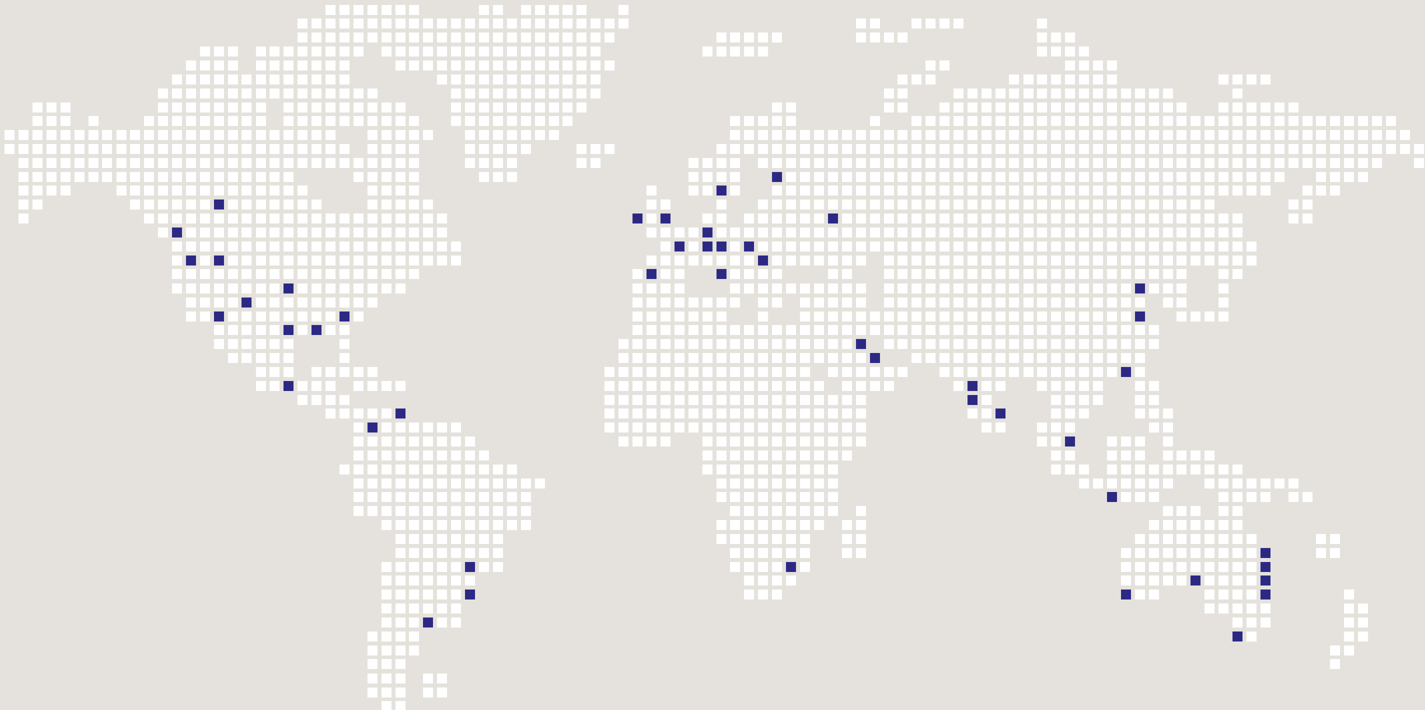
Key figures

millions of CHF	2014	2013	+/–%	Change in +/–%[1]
Order intake	718.4	749.9	–4.2	–3.2
Order backlog	282.0	290.5	–2.9	
Sales	741.5	743.7	–0.3	1.6
Operating income before restructuring and depreciation/amortization	119.3	120.4	–0.9	
Operating income before restructuring and amortization	93.6	95.0	–1.5	
Operating income before restructuring	78.4	81.3	–3.6	–3.2
Return on sales before restructuring and depreciation/amortization	16.1%	16.2%		
Return on sales before restructuring and amortization	12.6%	12.8%		
Return on capital employed	18.6%	19.7%		
Employees	4 287	4 167	2.9	

[1] Adjusted for currency effects and acquisitions.

Sales by region





NUMBER OF LOCATIONS

150

SHARE OF SALES IN EMERGING MARKETS

42%

A Global Service and Production Footprint to Meet Customers' Needs

Our customers require the best products and services at the highest quality standards in the industry. We are present with over 150 production and service sites around the world and generate more than 42% of sales in emerging markets. We are close to our customers and help them meet their needs.

■ *Major production and service locations*

Profitability Increased Before Goodwill Impairment

Adjusted for currency and acquisition effects, order intake decreased slightly and sales increased slightly from the previous year. Return on sales before goodwill impairment increased to 8.4% from 8.1% in the year before. The goodwill impairment in the Water business unit of CHF 340 million reduced operating income to a negative CHF 69 million. Net liquidity increased by CHF 810 million, mainly due to proceeds from the Sulzer Metco divestiture.

Slight decrease of order intake despite a strong fourth quarter

Order intake, adjusted for currency translation effects as well as acquisition effects, decreased by 0.6%, while nominal total orders decreased by 2.7% to CHF 3.2 billion.

The service business was strong, resulting in an adjusted growth of 4.8% for the Rotating Equipment Services division. The higher capital discipline of the oil companies affected the Pumps Equipment division, which generates more than 50% of its orders in the oil and gas segment. The division reported an adjusted decrease in order intake of 1.2%. Chemtech could not sustain the level of the previous year, mainly due to fewer large projects in the Process Technology business unit.

In 2014, orders in the oil and gas market increased whereas the power, water, and the general industry were slightly lower. The Americas region reported strong order intake with an increase of 4% over the previous year. The Asia-Pacific region weakened in 2014 compared with 2013, while the activity in Europe, Middle East, and Africa (EMEA) remained fairly stable.

The three divisions reported the following growth rates:
— Pumps Equipment: –4.2% (–1.2% adjusted)
— Rotating Equipment Services: 3.7% (4.8% adjusted)
— Chemtech: –4.2% (–3.2% adjusted)

Free cash flow

CHF 98.0m

The currency translation effect amounted to a negative CHF 89.9 million. Weakening of the Brazilian real, the Russian ruble, and the US dollar had an adverse effect, while the strengthening of the British pound positively influenced the nominal order intake. The effect from acquisitions and divestitures contributed CHF 19.3 million in 2014, mainly from the Grayson acquisition in the Rotating Equipment Services division (CHF 11.2 million), ASCOM B.V. and ProLabNL B.V. (CHF 18.6 million) in the Chemtech division, and the divestiture of Innotec in Chemtech (CHF –12.4 million).

Orders

millions of CHF	2014	2013
Order intake	3 160.8	3 249.9
Order backlog as of December 31	1 699.6	1 672.1

The order backlog as of December 31, 2014 increased slightly to CHF 1 699.6 million (December 31, 2013: CHF 1 672.1 million).

Slight sales increase on an adjusted basis

Sales of CHF 3.2 billion were recorded in 2014, a nominal decrease of 1.6% due to adverse currency translation effects (adjusted +0.7%). The growth rates of the divisions are as follows:
— Pumps Equipment: –3.7% (–0.6% adjusted)
— Rotating Equipment Services: 2.7% (3.4% adjusted)
— Chemtech: –0.3% (1.6% adjusted)

The negative currency translation effect amounted to CHF 89.5 million, while acquisition effects added CHF 14.2 million.

In 2014, sales in the oil and gas and the water market increased, but were lower in the power and the general industry. Sales in the Americas and the Asia-Pacific region were up from previous year, and were down in EMEA. The share of sales in the emerging markets was stable at 42%.

Better gross margin despite lower volumes

Gross margin increased to 31.4% compared with 30.7% in 2013. Chemtech and Pumps Equipment both reported better margins than in the previous year, while Rotating Equipment Services remained on a similar level to 2013. Total gross profit increased by CHF 6.9 million to CHF 1 009.9 million (2013: CHF 1 003.0 million) with higher margins being offset by slightly lower sales volumes.

Operating income: higher gross profit and stable operating expenses

Operating income before goodwill impairment increased by 4.2% on an adjusted basis (nominal 2.6%). Total operating expenses—excluding goodwill impairment—remained on the same level as in 2013. Selling as well as general and administration expenses decreased from the previous year, largely resulting from the restructuring programs initiated in 2013. Restructuring measures continued in 2014, while restructuring costs of CHF 11.2 million were lower than the CHF 16.8 million in 2013. Rotating Equipment Services launched a restructuring program in 2014 in the UK, while Pumps Equipment further intensified the restructuring efforts in the Water business unit.

Lower administration expenses were partially reinvested into R&D programs. A total of CHF 76.2 million was spent for research and development activities, which is an increase of 8% and, in relation to sales, an increase from 2.2% to 2.4% of sales. This supports the objective of achieving leading positions in Sulzer's key markets through continuing investments in technology and innovation. In addition to higher R&D costs, the other operating income was lower in 2014 resulting in total operating expenses of CHF 738.9 million (excluding goodwill impairment), flat on 2013 with CHF 739.0 million.

With stable operating expenses, the higher gross profit of CHF 6.9 million directly improved operating income. This resulted in a slightly higher operating income before impairment of CHF 271.0 million (compared to CHF 264.0 million in 2013).

Goodwill impairment in Water business unit

The goodwill impairment resulted from the change of estimated future growth and profitability assumptions in order to bring them in line with expected market developments. This affected the results of the Pumps Equipment division and the results of Sulzer overall. On a group level, the goodwill impairment of CHF 340 million resulted in a negative operating income of CHF 69.0 million as reported.

Adjusted for the goodwill impairment impact from the Water business unit, return on sales (ROS) increased to 8.4% from 8.1% in the previous year, largely supported by cost reduction on group level. On an as-reported basis return on sales is –2.1%.

ROCE

13.0%

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

— Pumps Equipment: 7.8% (2013: 7.9%). Lower sales volumes and higher under-absorption costs were compensated by better margins and lower selling expenses. Including the goodwill impairment of CHF 340 million, the profitability dropped to –11.6%.
— Rotating Equipment Services: 9.0% (2013: 9.1%). Sales volumes and margins improved but were offset by under-absorption and higher selling costs. The restructuring expenses of CHF 7.2 million for a program in the UK were offset by the gain from a property sale in London that was included in other operating income.
— Chemtech: 10.6% (2013: 11.0%). Continuing high level of profitability. However, return on sales was slightly below the previous year due to a less favorable business mix.

Key performance ratios before goodwill impairment

		2014	2013
Return on sales (EBIT/sales)	ROS	8.4%	8.1%
Return on sales before restructuring (EBITR/sales)	ROSR	8.8%	8.6%
Operational return on sales before amortization (opEBITA/sales)	opROSA	9.4%	9.3%
Return on capital employed (EBIT/capital employed)	ROCE	13.0%	12.6%

EBIT before depreciation and amortization (EBITDA) was CHF 393.9 million (12.3% of sales) compared with CHF 378.6 million in 2013 (11.6% of sales). Depreciation and amortization totaled CHF 122.9 million in 2014 plus the goodwill impairment of CHF 340 million. Compared with the previous year and before the goodwill impairment impact, this represents an increase of CHF 8.3 million, which includes higher acquisition-related depreciation and amortization.

Introducing operational EBITA

To further increase transparency, Sulzer introduces with operational EBITA (op. operating income before amortization) a new performance indicator. Operational EBITA better reflects the ongoing business performance and allows for better comparability between periods and peers.

Operational EBITA

millions of CHF	2014	2013
Reported EBIT	−69.0	264.0
Amortization	43.7	41.6
Impairment on goodwill	340.0	–
Restructuring expenses	11.2	16.8
Adjustments for other non-operational items[1]	−23.0	−18.3
Operational EBITA	302.9	304.1
Operational ROSA (opEBITA/sales)	9.4%	9.3%

[1] Other non-operational items include significant acquisition-related expenses, gains, and losses from sale of businesses or real estate (including release of provisions), and certain non-operational items that are non-recurring or do not regularly occur in similar magnitude.

Divestiture of Sulzer Metco

The divestiture of Sulzer Metco was successfully closed in June 2014. Sulzer Metco was already shown as discontinued operations in 2013, since the intention to divest Sulzer Metco was set and had been communicated during the financial year 2013. Proceeds from the divestiture increased the cash positions by CHF 870.4 million.

Financial income: increased cash position leads to higher interest income

Higher cash positions from the divestiture of Sulzer Metco increased the interest income slightly from CHF 5.0 million in 2013 to CHF 6.8 million in 2014. The decrease in interest expenses due to lower borrowings contributed further. Included in the financial results 2014 are currency exchange gains of CHF 1.4 million, while in 2013 currency exchange losses of CHF 4.8 million were reported. In total, the financial income is CHF −16.7 million, CHF 5.1 million higher than in the previous year (2013: CHF −21.8 million).

Effective income tax rate increased, adjusted for goodwill impairment

Pre-tax income increased by CHF 12.1 million or 5.0% to CHF 254.3 million. Income tax expenses increased by CHF 6.0 million or 9.1% from last year, resulting in a higher effective tax rate of 28.3% (2013: 27.2%). The reported tax rate is inflated by the non-tax-deductible goodwill impairment.

Net income: Sulzer Metco divestiture offset by goodwill impairment

Net income from discontinued operations of CHF 435.7 million is up from CHF 59.9 million in 2013, which reflected Sulzer Metco's operating result in 2013. The increase in 2014 is due to the book gain realized from the divestiture of Sulzer Metco.

The positive one-time effect from the Sulzer Metco divestiture on the net income of CHF 435.7 million was offset in part by the goodwill impairment of CHF 340 million. The net income from continuing operations, excluding goodwill impairment, was slightly better compared with 2013. The net income increased by 17.7% to CHF 278.1 million in 2014 (2013: CHF 236.2 million).

The increase in net income is also reflected in basic earnings per share, which increased by 17.4% from CHF 6.89 in 2013 to CHF 8.09 in 2014.

Balance sheet: higher cash positions and increase of equity ratio to 52.6%

Total assets as of December 31, 2014, amounted to CHF 4 648 million, which is an increase of CHF 104 million over the figure from 2013.

Non-current assets were reduced by CHF 216 million due to the goodwill impairment of CHF 340 million partly offset by additions resulting from acquisitions and investments. Additions to assets (capex) of CHF 96.0 million (2013: CHF 80.5 million) fall mainly into the following categories: expansion (42%), replacement (30%), IT investment (12%), and rationalization (6%).

Current assets increased by CHF 320 million. Assets held for sale of CHF 569 million at the end of 2013 were deconsolidated with the Sulzer Metco closing during the financial year 2014, and cash positions (CHF 666 million) and marketable securities (CHF 107 million) increased accordingly. Within net working capital, inventory increased by CHF 51 million, and trade receivables rose by CHF 78 million.

Total liabilities remained practically unchanged at CHF 2 206 million as of December 31, 2014. The deconsolidation of CHF 158 million liabilities held for sale (from the Sulzer Metco divestiture), was largely offset by an increase in non-current provisions of CHF 150 million (mainly resulting from higher provisions for employee benefit plans).

Equity increased by CHF 101 million to CHF 2 442 million driven by the net income of CHF 278 million which was partly affected by the dividend payment of CHF –108.9 million.

Cash flow: improving net liquidity by CHF 810 million

Change in net cash was positive at CHF 644.8 million in 2014. Proceeds from the Sulzer Metco divestiture increased cash positions by CHF 870 million. The main impacts on cash flow were as follows:

- Cash flow from operating activities was reduced to CHF 181.2 million due to increased net working capital. The increase in inventory of CHF 45.2 million related to manufacturing relocations and new product launches. The increase in accounts receivables of CHF 46.3 million was largely due to shipments and invoicing late in the year. The decrease in advance payments of CHF 65.1 million resulted from fewer large orders compared to the previous year. Taxes paid of CHF 98.7 million in 2014 are lower than in 2013, when CHF 118.7 million were paid.
- Cash flow from investing activities includes the impact from the divestiture of Sulzer Metco and payments made for acquisitions (in 2014: Advanced Separation Company (ASCOM) B.V., ProLabNL B.V., Grayson Armature, and aixfotec) which were CHF 73.0 million and thereby higher than in the previous year (2013: CHF 23.8 million). Purchases of assets for property, plant, and equipment as well as intangible assets were on a similar level to previous years at CHF 104.6 million. An investment in marketable securities (short-term bank deposits) reduced cash by CHF 106.6 million but increased interest income slightly.

— The cash flow from financing was a negative CHF 161.4 million. It included the dividend payment of CHF 108.9 million, unchanged from last year. The repayment of short-term borrowings reduced cash by CHF 52.8 million.
— Exchange gains on cash were CHF 19.7 million, mainly related to the cash balances held in US dollars (2013: CHF –20.6 million).

The free cash flow of CHF 98.0 million in 2014 is lower compared to the CHF 218.7 million generated in the previous year. Main reason for the decline was the increase in net working capital.

Outlook 2015 (adjusted for currency effects)

The markets are becoming increasingly volatile because of the current development of the oil price, regional conflicts, and geopolitical developments. The low oil price could influence our business negatively over time. However, our business mix is balanced through our 45% service share, our exposure to other markets, regions, and across customer segments. Activity in the power market is forecast to remain stable and the general industry is expected to slightly increase. The water market is anticipated to slightly increase.

For the full year 2015, adjusted for currency effects, order intake is expected to slightly decrease and sales is anticipated to be flat. To further increase transparency, Sulzer introduces with operational EBITA (op. operating income before amortization) a new performance indicator. Operational EBITA is forecast to be flat. From 2017 onwards, Sulzer targets to improve profitability by four to six percentage points.

Innovative Technology for Clean Water and Renewable Energy

“Everything we do is based on what the customer wants, not on what Sulzer thinks the customer should have.”

Andy Smith, Operations Manager, Pumps Equipment Wastewater UK

Number of patents

36

(2013: 46)

R&D investments

CHF 76m

(2.4% of sales)
(2013: CHF 71m/2.2% of sales)

To become a leading equipment and service provider, Sulzer maintains a well-stocked innovation pipeline. The company partners with customers, suppliers, industry members, and universities to develop new solutions thatmaximize efficiency, save energy, and address global needs.

During Sulzer’s 180 years of industrial history, technology has always formed the company’s DNA. Maintaining technology leadership in its fields remains an integral strategic priority for Sulzer. In 2014, the company invested CHF 76 million in research and development (2013: CHF 71 million), which is 2.4% relative to sales (2013: 2.2% of sales). There were 36 patents filed in 2014.

Addressing the needs of the water market

The company launched a series of new products in 2014. In Sulzer’s key markets, but especially in the water business, there is great potential and demand for more energy-efficient solutions. In many regions of the world, the increasing lack of clean water is a pressing problem. Seawater desalination is an important means of providing a sustainable supply of clean water. These days, the market trend is turning away from traditional technologies based on evaporation/distillation towards reverse osmosis. It needs much less energy and is, in addition, more eco-friendly. Sulzer provides pumps for reverse osmosis processes, covering the full range for medium-to-large plants in this segment. Recently, the company has developed new high-pressure feed pumps. They have been designed especially for reverse osmosis plants and will be introduced in 2015 (see www.sulzer.com/MBN-RO or www.sulzer.com/MSD-RO).

Maximizing efficiency without compromising flexibility

The oil and gas industry requires high-performance distillation columns. In many industrial applications, however, distillation towers consume a large amount of energy. The development of energy-saving mass transfer technologies is therefore becoming more and more important. Sulzer introduced a new generation of trays in 2014—the UFMPlus™ and VGPlus™ (see www.sulzer.com/ufmplus-vgplus). These new trays substantially improve distillation efficiency and capacity (up to 30% higher than conventional trays) without compromising the operating range and flexibility of the column. The UFMPlus™ and VGPlus™ chordal downcomer trays save energy, which results in a reduction of both operating costs and capital costs for customers.

Extending lifetime of products with new service solutions

Sulzer is not only concerned with innovation on the product side, but also continuously works on new service solutions. For example, the company designs and manufactures gas turbine replacement parts that are compatible and interchangeable with the original equipment. In this way, Sulzer reduces in-service issues as well as unnecessary expenditures while offering the required flexibility demanded by today’s market. Ultimately, this extends the lifetime of and improves the performance of gas turbines and thus reduces maintenance time and costs for Sulzer’s customers.

Collaborating with industry partners to develop new solutions

Sulzer works with competent partners to meet global environmental and societal challenges. The company participates in the Separation Technology Research (STAR) Program, a joint industry project for research, systematic testing, and the qualification of separation equipment. Initiated by ExxonMobil, Shell, Chevron, and the non-profit organization Southwest Research Institute® in 2014, it combines the knowledge, effort, and resources of members in the energy sector.

Supporting companies to save energy

Also in 2014, Sulzer concluded a long-term frame agreement for the upgrade and supply of modern water injection pumps with a major oil and gas company. In the context of its energy-saving program, the company installed Sulzer centrifugal pumps at its fields. Thanks to Sulzer’s new, highly efficient, and energy-saving pumps, it was possible to reduce power consumption significantly. In addition, there was not a single failure requiring a major overhaul over the entire operation period.

Joining forces with industry partners and universities

By joining forces with other players in the industry, Sulzer continuously extends its portfolio and presence. To become a major player for rotating equipment services in China's power market, the company signed a joint venture agreement with China Huadian Corporation. Also in 2014, Sulzer formed a joint venture with the Unaoil Group for the service of all rotating equipment for oil and gas and power customers in Southern Iraq.

In addition to collaborating with industry partners, Sulzer has maintained relationships with academic institutions such as the ETH Zurich (Swiss Federal Institute of Technology Zurich) and Texas A&M for a long time. Furthermore, the company runs a project on standardized impeller design together with the Lucerne University of Applied Sciences and Arts. Thus, Sulzer benefits from research on topics relevant to the company and gains access to a large talent pool.

Managing extreme conditions for renewable power generation

The global power industry recognizes the demand for clean and dependable energy from renewable resources. Concentrated solar power (CSP) generation is a sustainable solution for global energy needs, but it poses extreme challenges to pump technology. The energy of the sun is used to heat up a fluid—either thermal oil or molten salt—which is then used to transfer or store heat.

The working temperature of the system is in the range of 500–600°C. The molten salt freezes at 220°C; when it is exposed to the environment, it becomes rock hard and blocks the pumps immediately. Hence, the requirements for the pumps are extremely complex. A further challenge is the material growth because weight and space are always critical elements on customers' sites. Sulzer developed a new pump for the hottest fluids; it will be launched in 2015. The molten-salt circulation pump SJT (VCN) is designed specifically to meet the extreme requirements and needs of the solar power industry.

Supporting Customers in Reducing Their Ecological Footprint

Sulzer has substantial expertise in providing energy-efficient solutions. The company educates its customers on the safe and efficient installation and operation of equipment. Sulzer also systematically aims to reduce its own environmental footprint.

Customers increasingly pay attention to the environmental impact of products. This is true in all market segments—but particularly in the water market. Municipalities often ask for environmental data to make investment decisions. Sulzer uses standardized environmental product declarations (EPD, prepared in accordance with the International EPD® System (IES) framework), which supply its customers with transparent and comparable environmental data and costs over the entire product lifetime. EPDs provide information on the consumption of resources such as materials, water, and energy. Moreover, they offer a deeper understanding of the environmental impact such as CO_2 emissions and acidification of water and soil (find further information online at www.sulzer.com/epd).

Considering the entire life cycle of products and solutions

For Sulzer, the delivery of a product is not the end of the job. The company considers the entire life cycle of its products and solutions. It is important to avoid the unintended or incorrect use of the solutions, dispersion of chemical substances into the environment during maintenance work, or improper disposal of a product. Hence, Sulzer collaborates and consults with its customers to select appropriate technologies and materials. Moreover, experts show the customers how to install, operate, and maintain their equipment safely and efficiently.

Harmonized reporting system for better coverage

Sulzer collects data systematically and continuously to report on both the environmental impact of its solutions and its own organizational footprint. In 2014, Sulzer consolidated its financial and extrafinancial data onto a single, harmonized, and centralized reporting platform. Thus, the number of assessed sites has grown, and there is better and more-consistent coverage across the company than in the past. Overall, 81% of total working hours report on environmental data. The coverage of occupational health and safety data is 98% (of total working hours), while 100% (of total working hours) report on HR data. However, the change of platform and the extended reporting scope make it difficult in the short term to compare this year's figures with those from earlier years.

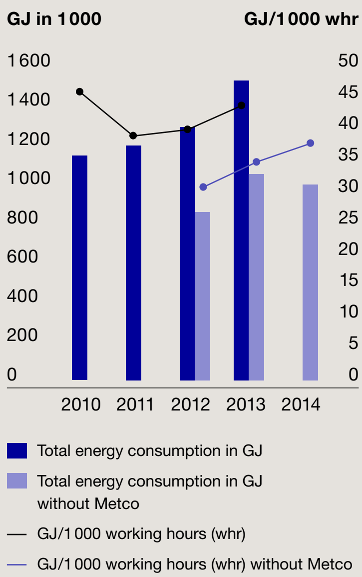
Decrease of total energy consumption

Total energy consumption decreased by 5% to 965 814 GJ in 2014 (2013: 1 017 354 GJ), which reflects the changes in the product mix and the slight reduction in business activities. The disproportional reduction of working hours (whr) led to an increase of energy consumption by 10% to 37 GJ per 1 000 working hours (2013: 34 GJ/1 000 whr). Sulzer's energy mix is still dominated by electricity (60%), followed by gas (24%, including natural gas, propane, and butane), and district heating (7%).
In 2014, the total greenhouse gas (GHG) emissions remained stable at 97 500 tons (t) CO_2 eq. (2013: 98 200 t CO_2 eq.). Sulzer did not meet its year-on-year rolling target to maintain or reduce GHG emissions in CO_2 eq. per 1 000 working hours compared with last year's values. Due to the disproportional reduction of working hours and increased direct emissions, the greenhouse gas emissions increased by 15% to 3.8 tons CO_2 eq. per 1 000 working hours (2013: 3.3 t CO_2 eq./1 000 whr).

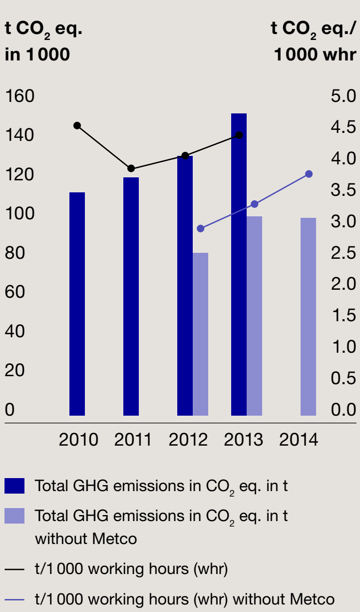
Increase of hazardous waste and water consumption

In 2014, the total production of hazardous waste doubled from the previous year to 4 442 tons (2013: 2 282 t). Hazardous waste per 1 000 working hours also increased by 125% to 0.17 tons (2013: 0.08 t/1 000 whr). The upswing was caused by a defective dewatering unit for hazardous waste and changes in activities such as sandblasting. Furthermore, construction activities resulting in the disposal of contaminated soils as well as natural fluctuations in hazardous waste production added to the increase. The main contributors to hazardous waste are emulsions and mixtures of oil-water material (47%) and sandblasting residues (20%).

Energy consumption*



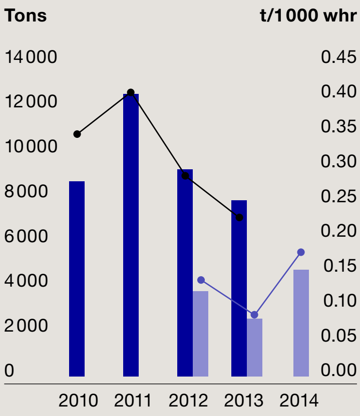
Total greenhouse gas emissions*



Total water consumption remained stable at 1 581 631 m³ (2013: 1 591 611 m³), while the consumption per 1 000 working hours increased by 15% to 61 m³ (2013: 53 m³/1 000 whr). This rise is due to the disproportional reduction of working hours. The main sources of water are groundwater (40%), municipal water (33%), and surface water (27%). About 65% of the water consumed is used for cooling purposes.

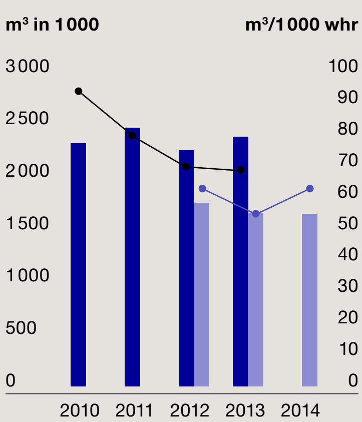
Sulzer experts educate their customers on the safe and efficient operation of the equipment they install. Sulzer monitors its own environmental footprint closely and compares its achievements with results from the past.

Hazardous waste*



Total hazardous waste in t (metric)
Total hazardous waste in t (metric) without Metco
t/1 000 working hours (whr)
t/1 000 working hours (whr) without Metco

Water consumption*



Total water consumption in m³
Total water consumption in m³ without Metco
m³/1 000 working hours (whr)
m³/1 000 working hours (whr) without Metco

*The charts display two different reporting scopes (2010–2013 vs. 2014). For more detailed information about scope and period of data, see Sustainability Report 2014 at www.sulzer.com/sustainability-report.

Providing a Healthy and Safe Workplace while Fostering Employees

Sulzer's workforce is diverse in gender, culture, and demography. The company believes that diverse teams create better solutions.

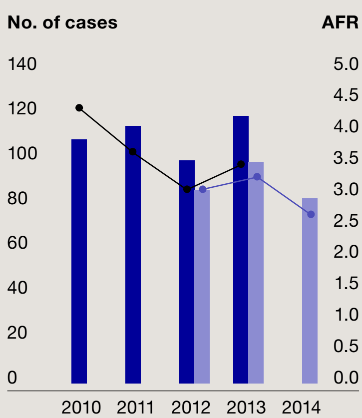
Sulzer attaches great importance to a safe workplace and to the health of its employees. The company intends to be a socially responsible employer and strives to offer its diverse workforce attractive opportunities for development.

Sulzer places considerable emphasis on providing a safe and healthy working environment and on empowering all employees to act safely. The company's Safe Behavior Program (SBP) is a cornerstone to achieving the long-term goal of zero accidents and towards establishing a preventive safety culture. In 2014, the focus of the program was on anchoring safe behavior at all operational levels. The SBP aspires to foster an attitude and understanding of safety ownership on all management levels. This will inspire employees to engage proactively in safety initiatives.

In 2014, the rate of certified sites remained high—78% of Sulzer's manufacturing and service centers were certified with OHSAS[1] 18001 and/or SCC[2] certification.

The accident frequency rate (AFR) and the accident severity rate (ASR) are the main safety indicators and relevant for bonus purposes. The AFR was 2.6 cases per million working hours in 2014 (2013: 3.2). Hence, Sulzer was able to exceed its AFR target of 2.7. The ASR decreased by 12% to 53.9 lost days per million working hours (2013: 61.4); however, the target of 38 lost days was not met. Sulzer is committed to further reducing the AFR and ASR and to improving occupational health and safety systematically across the company.

Accidents*



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

Company-wide survey to collect ideas and thoughts

One of Sulzer's values is having committed people. The company's sustainable success is dependent on the commitment of all employees. Sulzer considers every employee as an individual with unique capabilities and competencies. Thus, the company aims to foster the well-being and employability of its people.

Sulzer encourages its employees to speak up. In autumn 2014, Sulzer launched a company-wide employee engagement survey (EES). The entire global workforce had the opportunity to give anonymous feedback on topics such as job content, working environment, leadership, values, and commitment. At 83.3%, the return rate was even higher than for the last EES, which was conducted in 2011 (81.4% return rate). The input will help Sulzer to improve its performance, leadership, and behavioral aspects systematically.

Continued learning and development activities in times of change

Sulzer steadily develops its training programs for employees. In 2014, the company invested about 390 000 hours (2013: 440 000) in training. As a result, training hours per full-time equivalent (FTE) decreased from 30 hours in 2013 to 25 hours in 2014.

The company's leadership development initiative includes the Sulzer Management Training (SMT) for new leaders and the Leadership Program for Development and Impact (PDI). Centerpieces of the SMT are management basics as well as current leadership topics in order to support Sulzer's strategic goals and the ongoing reorganization. The PDI focuses on fostering the capabilities of the individual, the team, and the business. More than 40 participants in mixed groups from all business units in Europe, Middle East, and Africa (EMEA) passed the SMT in 2014. A total of 79 managers and experts participated in one of the PDIs. Furthermore, Sulzer began implementing a learning management system (LMS) in 2013. The global rollout of this cloud-based platform for training and development administration will continue in 2015. With the LMS, online training is becoming an integral part of the learning activities of Sulzer employees.

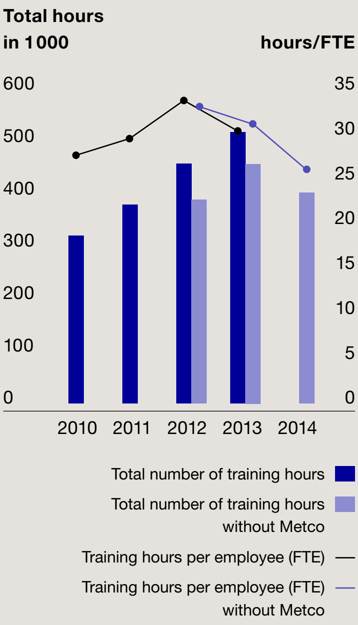
[1] Occupational Health and Safety Assessment Series.
[2] Safety Certificate Contractors.

Sulzer provides its workforce with attractive career opportunities. Leadership development initiatives as well as online training courses support employees in their professional development. The company is able to fill leadership positions with internal talent to a great extent.

"We treat all people with respect, and we cooperate across the whole company. We believe that this respect fosters teamwork and commitment."

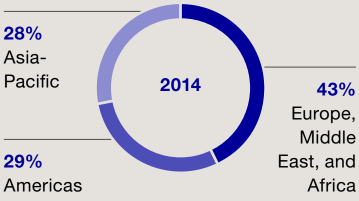
Marius Baumgartner,
Head of Group Human Resources

Training hours*

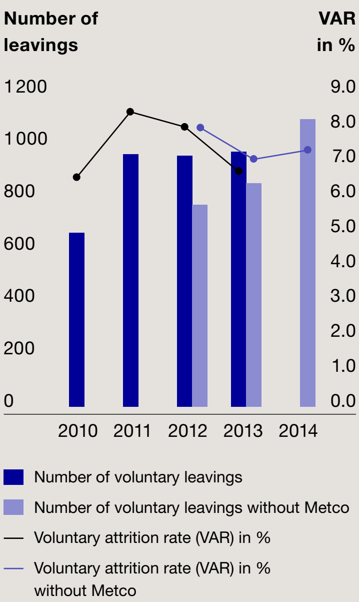


*The charts display two different reporting scopes (2010–2013 vs. 2014). For more detailed information about scope and period of data, see Sustainability Report 2014 at www.sulzer.com/sustainability-report.

Geographical spread of employees



Voluntary attrition rate*



In times of change, it is even more important to educate and train the workforce. For this reason, much cross-divisional and interdepartmental training took place. Consequently, a common understanding of each other's business activities was developed and cross-selling enabled. A clear indicator of Sulzer's successful efforts in fostering the skills of its employees is its internal leadership pipeline. In 2014, Sulzer filled 89% of leadership positions with internal talent.

Diverse teams to create better solutions

Sulzer believes that diverse teams with different backgrounds drive innovation and create better solutions. Therefore, the company fosters diversity of gender, culture, and demography. In 2014, 14% of the workforce, 13% of all managers, and 12% of the Sulzer Management Group (top 100 managers) were female.

Sulzer engages 15 494 employees in over 150 locations and 41 countries. About 43% of employees work in the EMEA region, 29% work in the Americas, and 28% work in the Asia-Pacific region. This allows the company to be close to its customer base and to understand its specific needs. Sulzer's teams are also diverse in terms of age; long-term and experienced employees work together with apprentices and recent university graduates. Bringing together younger and older employees increases the likelihood of new approaches to a solution.

Supporting one brand with strong values

Sulzer's values—customer partnership, operational excellence, and committed people—are the foundation of all interaction and business activities. They define who the company is and how it behaves.

Employees are passionate about the Sulzer brand. They are committed to representing the company with customers and partners. In 2014, Sulzer continued its efforts towards the one company strategy by integrating the divisional brands under the Sulzer umbrella brand, which is world renowned for experience, innovation, reliability, and quality.

Sulzer encourages and empowers its employees to act safely in all circumstances. The company's Safe Behavior Program (SBP) is a cornerstone towards establishing a preventive safety culture. This means that employees understand how to behave safely and to look after each other's safety. In the long term, Sulzer strives to achieve a zero accident rate.

Consolidated balance sheet
December 31

millions of CHF	Notes	2014	2013
Non-current assets			
Goodwill	14	675.1	978.4
Other intangible assets	14	317.4	303.8
Property, plant, and equipment	15	530.7	492.0
Investment in associates	16	2.5	–
Other financial assets	17	11.9	11.1
Non-current receivables		11.3	13.8
Deferred income tax assets	13	126.8	92.4
Total non-current assets		**1675.7**	**1891.5**
Current assets			
Inventories	18	487.5	436.5
Advance payments to suppliers		79.0	87.4
Trade accounts receivable	20	955.9	877.5
Other accounts receivable and prepaid expenses	21	148.6	153.4
Assets held for sale	05	–	568.9
Marketable securities	23	106.8	–
Cash and cash equivalents	22	1194.7	528.7
Total current assets		**2972.5**	**2652.4**
Total assets		**4648.2**	**4543.9**
Equity			
Share capital	25	0.3	0.3
Reserves		2435.1	2334.1
Equity attributable to shareholders of Sulzer Ltd		**2435.4**	**2334.4**
Non-controlling interest		6.6	6.3
Total equity		**2442.0**	**2340.7**
Non-current liabilities			
Long-term borrowings	27	510.3	515.9
Deferred income tax liabilities	13	93.7	101.5
Non-current income tax liabilities	13	2.6	3.8
Non-current provisions	28	352.2	202.2
Other non-current liabilities		30.9	1.9
Total non-current liabilities		**989.7**	**825.3**
Current liabilities			
Short-term borrowings	27	17.7	56.6
Current income tax liabilities	13	32.4	26.8
Current provisions	28	147.7	127.0
Trade accounts payable		383.6	345.6
Advance payments from customers		210.9	271.9
Liabilities held for sale	05	–	157.7
Other current and accrued liabilities	29	424.2	392.3
Total current liabilities		**1216.5**	**1377.9**
Total liabilities		**2206.2**	**2203.2**
Total equity and liabilities		**4648.2**	**4543.9**

Consolidated income statement

January–December

Consolidated income statement

millions of CHF	Notes		2014		2013
Continuing operations					
Sales	07		3212.1		3263.9
Cost of goods sold			–2202.2		–2260.9
Gross profit			**1009.9**		**1003.0**
— Selling and distribution expenses		–334.3		–334.8	
— Impairment on goodwill		–340.0		–	
Total selling and distribution expenses		–674.3	–674.3	–334.8	–334.8
General and administrative expenses			–331.0		–342.4
Research and development expenses	10		–76.2		–70.6
Other operating income/expenses	11		13.8		25.6
Restructuring expenses	28		–11.2		–16.8
Operating income			**–69.0**		**264.0**
Interest and securities income	12		6.8		5.0
Interest expenses	12		–21.2		–23.2
Other financial income/(expenses)	12		–2.3		–3.6
Share of profit/(loss) of associates	16		–		–
Income before income tax expenses			**–85.7**		**242.2**
Income tax expenses	13		–71.9		–65.9
Net income from continuing operations			**–157.6**		**176.3**
Discontinued operations					
Net income from discontinued operations, net of income taxes	05		435.7		59.9
Net income			**278.1**		**236.2**
Attributable to shareholders of Sulzer Ltd			275.0		234.4
Attributable to non-controlling interests			3.1		1.8
Earnings per share, attributable to a shareholder of Sulzer Ltd (in CHF)					
Basic earnings per share	26		8.09		6.89
Diluted earnings per share	26		8.05		6.86
Continuing operations					
Basic earnings per share continuing operations	26		–4.72		5.13
Diluted earnings per share continuing operations	26		–4.70		5.11
Discontinued operations					
Basic earnings per share discontinued operations	26		12.81		1.76
Diluted earnings per share discontinued operations	26		12.75		1.75

Reconciliation of operating income to operating income before restructuring expenses and impairment on goodwill

	2014	2013
Operating income	–69.0	264.0
Restructuring expenses	11.2	16.8
Impairment on goodwill	340.0	–
Operating income before restructuring expenses and impairment on goodwill	**282.2**	**280.8**

Consolidated statement of comprehensive income
January–December

millions of CHF	Notes	2014	2013
Net income		**278.1**	**236.2**
Items that may be reclassified subsequently to the income statement			
Cash flow hedges, net of tax	30	−8.0	−2.2
Reclassification to the income statement of foreign currency translation difference relating to the disposal of Metco		59.1	–
Currency translation differences		17.6	−67.6
Total of items that may be reclassified subsequently to the income statement		**68.7**	**−69.8**
Items that will not be reclassified to the income statement			
Defined benefit cost recognized in other comprehensive income, net of tax	09	−137.9	36.7
Total of items that will not be reclassified to the income statement		**−137.9**	**36.7**
Total other comprehensive income		**−69.2**	**−33.1**
Total comprehensive income for the year		**208.9**	**203.1**
Attributable to shareholders of Sulzer Ltd		205.4	202.0
Attributable to non-controlling interests		3.5	1.1

Consolidated statement of changes in equity
January–December

		Attributable to shareholders of Sulzer Ltd							
millions of CHF	Notes	Share capital	Retained earnings	Treasury stock	Cash flow hedge reserve	Currency translation adjustment	Total	Non-controlling interests	Total equity
Equity as of January 1, 2013		**0.3**	**2521.8**	**–44.5**	**4.5**	**–265.5**	**2216.6**	**6.8**	**2223.4**
Comprehensive income for the year:									
Net income			234.4				234.4	1.8	236.2
— Cash flow hedges, net of tax	30				–2.2		–2.2		–2.2
— Defined benefit cost recognized in other comprehensive income, net of tax	09		36.7				36.7		36.7
— Currency translation differences						–66.9	–66.9	–0.7	–67.6
Other comprehensive income			**36.7**		**–2.2**	**–66.9**	**–32.4**	**–0.7**	**–33.1**
Total comprehensive income for the year		**–**	**271.1**	**–**	**–2.2**	**–66.9**	**202.0**	**1.1**	**203.1**
Transactions with owners of the Company:									
Transactions in treasury shares			–1.6	17.6			16.0		16.0
Share-based payments	34		9.4				9.4		9.4
Dividend			–109.6				–109.6	–2.2	–111.8
Change in scope of consolidation							–	0.6	0.6
Equity as of December 31, 2013	25	**0.3**	**2691.1**	**–26.9**	**2.3**	**–332.4**	**2334.4**	**6.3**	**2340.7**
Comprehensive income for the year:									
Net income			275.0				275.0	3.1	278.1
— Cash flow hedges, net of tax	30				–8.0		–8.0		–8.0
— Defined benefit cost recognized in other comprehensive income, net of tax	09		–137.9				–137.9		–137.9
— Currency translation differences						76.3	76.3	0.4	76.7
Other comprehensive income			**–137.9**		**–8.0**	**76.3**	**–69.6**	**0.4**	**–69.2**
Total comprehensive income for the year		**–**	**137.1**	**–**	**–8.0**	**76.3**	**205.4**	**3.5**	**208.9**
Transactions with owners of the Company:							–	–	–
Transactions in treasury shares			–6.3	3.5			–2.8		–2.8
Share-based payments	34		8.0				8.0		8.0
Dividend			–109.6				–109.6	–2.6	–112.2
Change in scope of consolidation							–	–0.6	–0.6
Equity as of December 31, 2014	25	**0.3**	**2720.3**	**–23.4**	**–5.7**	**–256.1**	**2435.4**	**6.6**	**2442.0**

Consolidated statement of cash flows
January–December

Consolidated statement of cash flows

millions of CHF	Notes	2014	2013
Cash and cash equivalents as of January 1		**549.9**	**507.3**
Cash flow from operating activities			
Net income		278.1	236.2
Interest and securities income		–6.9	–5.2
Interest expenses		21.6	24.6
Income tax expenses		81.0	86.3
Depreciation/amortization/impairment		463.2	134.5
Income from disposals of subsidiaries; property, plant, and equipment; and financial instruments		–423.5	–2.6
Changes in inventories		–45.2	52.0
Changes in advance payments to suppliers		10.5	–14.4
Changes in trade accounts receivable		–46.3	–4.9
Changes in advance payments from customers		–65.1	2.3
Changes in trade accounts payable		20.0	–23.0
Changes in provisions		–7.7	–18.4
Changes in other net current assets		6.4	–24.1
Other non-cash items		3.6	8.2
Interest received		6.7	4.8
Interest paid		–16.5	–17.5
Income tax paid		–98.7	–118.7
Total cash flow from operating activities		**181.2**	**320.1**
Purchase of intangible assets	14	–5.6	–4.8
Sale of intangible assets		–	0.2
Purchase of property, plant, and equipment	15	–99.0	–102.8
Sale of property, plant, and equipment		21.4	6.0
Acquisitions of subsidiaries, net of cash acquired	05	–73.0	–23.8
Acquisitions of associates		–2.3	–2.9
Divestitures of subsidiaries	05	870.4	6.1
Purchase of financial assets		–0.1	0.1
Sale of financial assets		0.1	–
Purchase of marketable securities		–106.6	–1.0
Sale of marketable securities		–	2.7
Total cash flow from investing activities		**605.3**	**–120.2**
Dividend		–108.9	–108.7
Purchase/sale of treasury stock		–3.6	–4.1
Dividend to non-controlling interests		–2.6	–2.2
Additions in long-term borrowings		2.1	8.8
Repayment of long-term borrowings		–1.9	–3.6
Additions in short-term borrowings		6.3	2.9
Repayment of short-term borrowings		–52.8	–29.8
Total cash flow from financing activities		**–161.4**	**–136.7**
Exchange gains/losses on cash and cash equivalents		19.7	–20.6
Net change in cash and cash equivalents		**644.8**	**42.6**
Cash and cash equivalents as of December 31	22	**1 194.7**	**549.9**
— thereof classified as assets held for sale	05	–	21.2

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