

Focused on oil and gas,
power, and water



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

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

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

Our key markets



Oil and gas



Power



Water

Sales ¹⁾

CHF 3 264m

(2012: CHF 3 341m)

Operating income ¹⁾

CHF 264m

(2012: CHF 329m)

Net income ²⁾

CHF 234m

(2012: CHF 303m)

Dividend

CHF 3.20

(proposed)

(2012: CHF 3.20)

¹⁾ From continuing operations.²⁾ Attributable to shareholders of Sulzer Ltd, includes the results from continuing and discontinued operations.

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

Focused on creating value and growing profitably

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

Divisions ¹⁾



Sulzer Pumps

Pump technology and solutions

Profile

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

Order intake

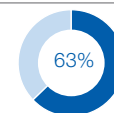
CHF 2 031m

(2012: CHF 2 094m)

Sales

CHF 2 051m

(2012: CHF 2 098m)



of total sales

Operating income
Return on sales

CHF 169m

(2012: CHF 191m)

8.2%

(2012: 9.1%)

Market Leadership

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

¹⁾ Structure as of December 31, 2013.

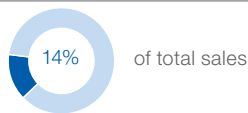


Sulzer Turbo Services
Service solutions for rotating equipment

We offer repair and maintenance services for turbomachinery, generators, and motors. Customers benefit from reliable and efficient repair and maintenance services for gas and steam turbines, compressors, motors, and generators of any brand. Our global network ensures high-quality local service.

CHF 472m
(2012: CHF 535m)

CHF 472m
(2012: CHF 511m)



CHF 39m
(2012: CHF 55m)

8.3%
(2012: 10.8%)

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

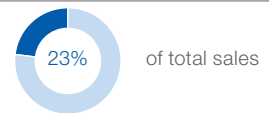


Sulzer Chemtech
Separation, mixing and service solutions

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

CHF 750m
(2012: CHF 705m)

CHF 744m
(2012: CHF 725m)



CHF 81m
(2012: CHF 71m)

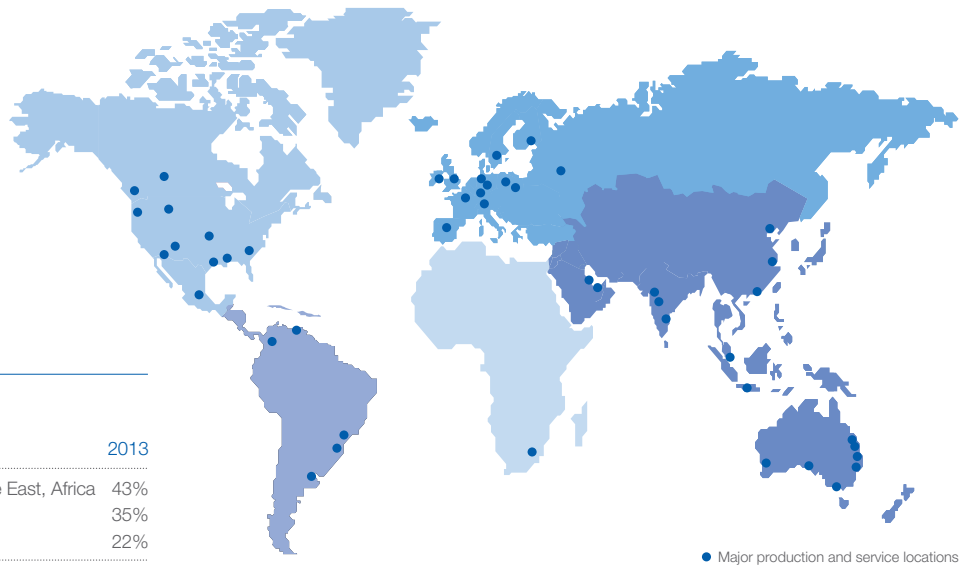
11.0%
(2012: 9.8%)

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

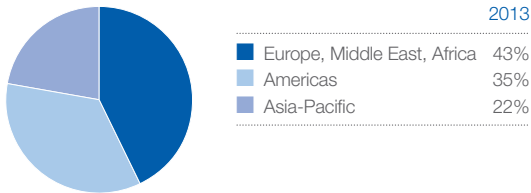
A truly global presence to increase customer proximity

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

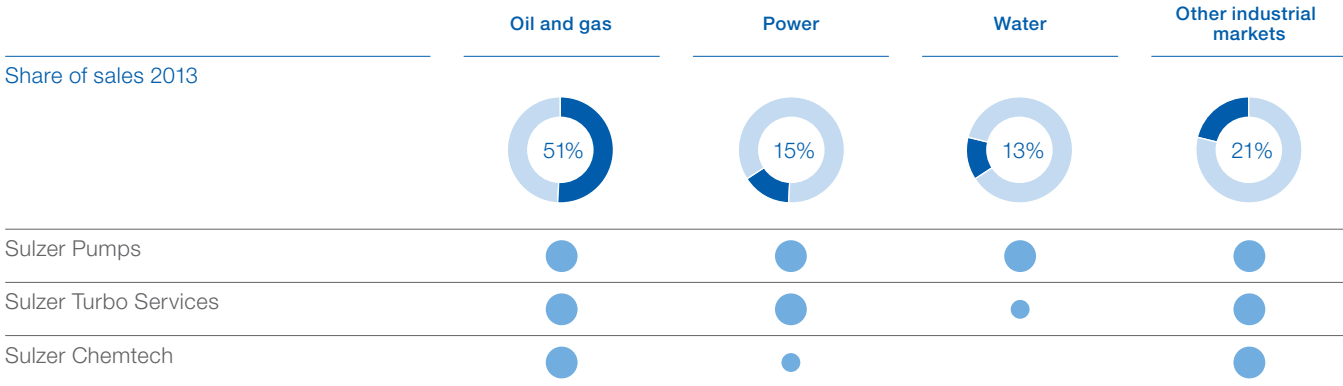
Sulzer’s production and service network



Sales by region



Market segments



- Greater than 10% of divisional sales.
- Less than 10% of divisional sales.

How we serve our key markets

Market segment



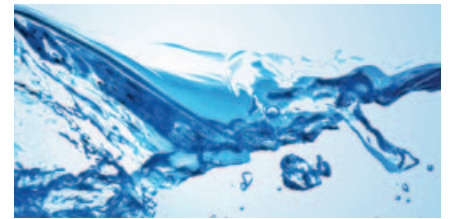
Oil and gas

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



Power

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



Water

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

Market drivers

- Global supply and demand of oil and gas
- Exploration and production investments
- Global refinery capacity, utilization, refining margins
- Growing need for pipelines, floating production, storage, and off-loading units (FPSOs)
- Population, industrial growth and wealth development
- Global power capacity additions
- New regulatory frameworks and environmental standards
- Population and economic growth
- Upgrades and modernizations of existing plants and new investments

Our solutions

- Pump systems both onshore and offshore (including subsea) for the production and transportation of oil and liquefied natural gas
- Process components such as fractionation trays, structured and random packings, liquid and gas distributors, gas-liquid separators, and internals for separation columns
- Service of mechanical and electromechanical rotating equipment
- Tray and packing installation, welding services, tower maintenance and plant turnaround projects
- Polymerization technology for the production of PLA (polylactic acid) and EPS (expandable polystyrene)
- Pumps for fossil-fired and nuclear power plants as well as renewable power generation
- Advanced solutions for carbon capture and storage
- Repair and maintenance services for turbines, generators, and motors
- Pumps and related equipment (such as lifters, mixers, aerators, compressors, control and monitoring equipment, as well as services)
- Pumps for water transport and use
- Pumping solutions in wastewater treatment and desalination
- Service for electromechanical equipment, e.g. motors

Our customers

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

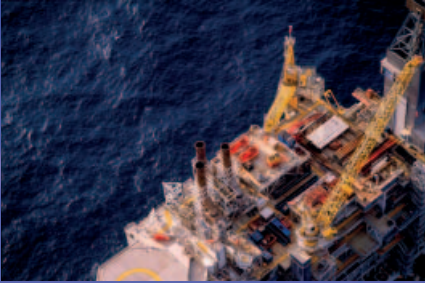
Utility providers, contractors, end users and local customers

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

Focused on oil and gas, power, and water

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

Fueling the future



Oil and gas will remain essential for global growth in the near future. The industry faces a wide range of challenges and opportunities in the production, transport, and processing of oil and gas.

Meeting power needs



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

Processing water for life



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



Fueling the future

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



Meeting the power needs

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



Processing water for life

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



Significant changes for better market orientation

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

Net income¹⁾

CHF 234m

(2012: CHF 303m)

Dividend

CHF 3.20
(proposed)

(2012: CHF 3.20)

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



Dear shareholder

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

Key markets offering attractive prospects

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

population growth, urbanization, increasing energy demand, and scarcity of water.

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

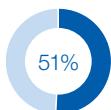
Sulzer sees various growth opportunities in the oil and gas market: the floating production, storage and off-loading units (FPSOs) for oil sources in deep water far off the coastline; new pipelines driven by new oil sources; refineries and petrochemical markets driven by the shale gas boom in the US.

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

Acting as *one* company in three key markets ¹⁾



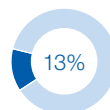
Oil and gas



Power



Water



Equipment

Services

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

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

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

Divestiture of Sulzer Metco

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

One focused and market-oriented company with adapted operational structure

Sulzer wants to serve customers in its key markets as *one* focused company,

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

A leading supplier of services for rotating equipment

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

Sulzer's operational structure in 2014

Pumps Equipment

Pump technology and solutions

60%¹⁾

7 100 employees²⁾

Rotating Equipment Services

Repair and maintenance services for rotating equipment

20%¹⁾

4 000 employees²⁾

Chemtech

Separation, mixing and service solutions

20%¹⁾

4 100 employees²⁾

¹⁾ Share of sales, pro-forma estimate based on full-year figures 2013.

²⁾ Estimated number of full-time equivalents.

Performance 2013¹⁾

Sales

CHF 3 264m

(2012: CHF 3 341m)

Return on sales

8.1%

(2012: 9.8%)

Return on capital employed

12.6%

(2012: 14.7%)

¹⁾ From continuing operations.

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

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

Pumps Equipment leverages global sales channels and manufacturing network

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

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

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

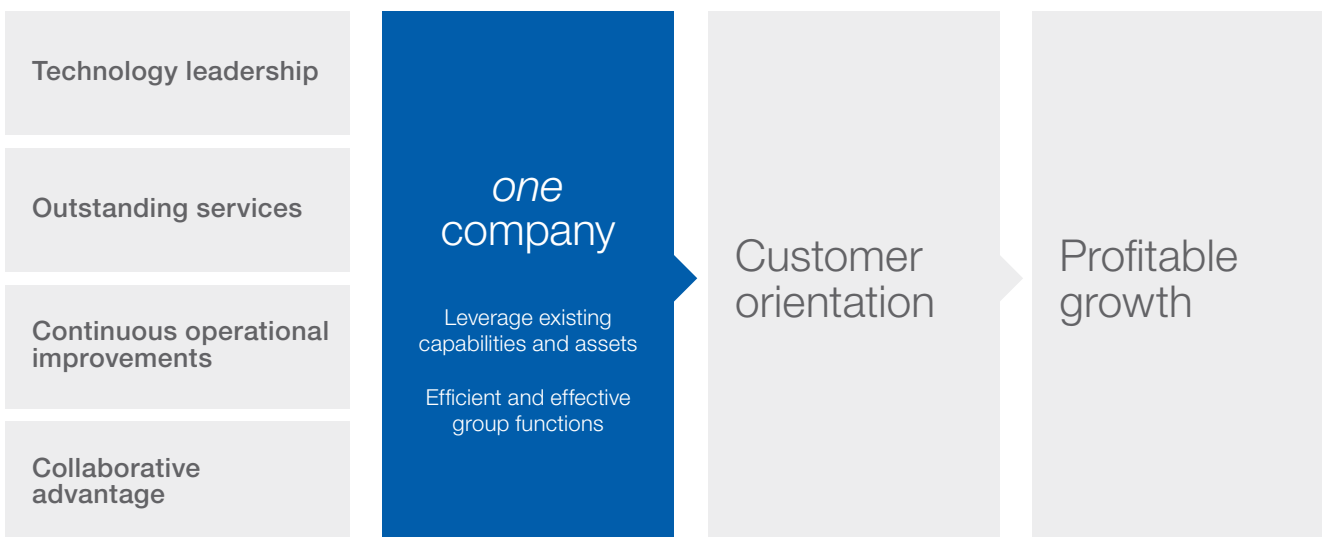
Chemtech with strong market positions

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

Integration of group functions

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

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



Performance in 2013

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

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

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

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

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

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

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

Changes in the board and the management

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

Outlook for 2014

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

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

Yours sincerely,



Vladimir Kuznetsov,
Vice Chairman
of the Board



Klaus Stahlmann,
CEO

Our vision

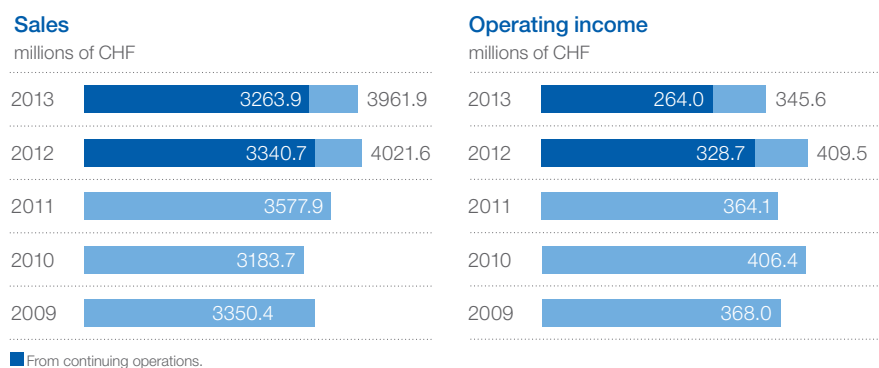
Our customers recognize us for our leading technologies and services, delivering innovative and sustainable solutions.

Our values

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

Good level of order intake and sales

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



Key figures ¹⁾

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

¹⁾ Key figures from continuing operations.

²⁾ Adjusted for currency effects as well as acquisitions and divestitures.

³⁾ Includes continuing and discontinued operations.

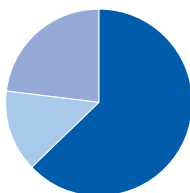
Data per share

CHF		2013	2012	Change in
				+/- %
Closing price of the registered share as of December 31		143.90	144.10	-0.1
Net income attributable to a shareholder of Sulzer Ltd ¹⁾	EPS	6.89	8.91	-22.7
Equity attributable to a shareholder of Sulzer Ltd		68.70	65.20	5.4
Dividend		3.20²⁾	3.20	-

¹⁾ Includes the results from continuing and discontinued operations.

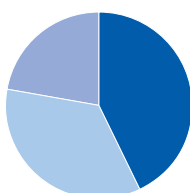
²⁾ Proposal to the general meeting of shareholders.

Sales by division



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

Sales by region



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

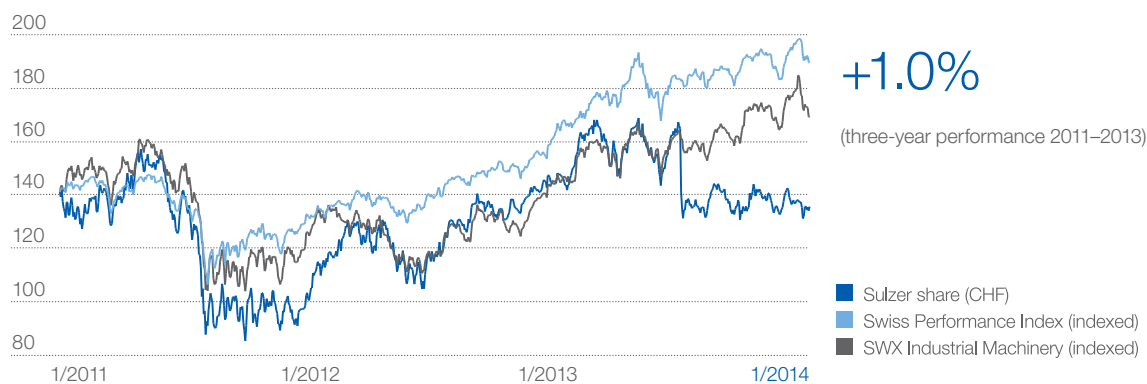
By division

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

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

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

Share price development



Healthy levels of order intake and sales

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

Order intake: Negative currency translation effects influence order intake

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

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

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

Orders

millions of CHF	2013	2012
Order intake	3249.9	3343.4
Order backlog as of December 31	1672.1	1753.6

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

Sales: Impacted by currency translation effects

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

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

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

Consolidated income statement (condensed)

millions of CHF	2013	2012
Sales	3263.9	3340.7
Cost of goods sold	-2260.9	-2291.6
Gross profit	1003.0	1049.1
Selling, administrative and development expenses	-722.2	-712.5
Operating income before restructuring	280.8	336.6
Restructuring expenses	-16.8	-7.9
Operating income	264.0	328.7
Financial income, net	-21.8	1.2
Income tax expenses	-65.9	-80.6
Net income from continuing operations	176.3	249.3
Net income from discontinued operations, net of income taxes	59.9	58.5
Net income	236.2	307.8

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

Gross profit: Slight reduction

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

Operating income: Higher operating expenses including costs for restructuring

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

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

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

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

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

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

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

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

Financial income: Lower interest expenses for unfunded pension plans

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

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

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

Equity ratio

51.4%

Solid balance sheet

Return on capital employed

12.6%

Above value-creating threshold

Divestiture of Sulzer Metco

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

Net income: Lower net income of CHF 236 million

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

Balance sheet: Increase of equity ratio to 51.4%

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

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

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

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

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

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

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

Cash flow: Improving net liquidity by CHF 59.7 million

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

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

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

Changes in accounting policies

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

Outlook 2014

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

Consolidated income statement

January – December

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

¹⁾ Restatement of prior year figures, see corporate accounting policies 2.2 and note 02 in the Sulzer Annual Report 2013.

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

Consolidated statement of comprehensive income

January – December

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

¹⁾ Restatement of prior year figures, see corporate accounting policies 2.2 in the Sulzer Annual Report 2013.

Consolidated balance sheet

December 31

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

¹⁾ Restatement of prior year figures, see corporate accounting policies 2.2 in the Sulzer Annual Report 2013.

Consolidated statement of changes in equity

January – December

millions of CHF	Notes	Attributable to shareholders of Sulzer Ltd							Total	Non-controlling interests	Total equity
		Share capital	Retained earnings	Treasury stock	Cash flow hedge reserve	Available-for-sale financial assets	Currency translation adjustment				
Equity as of January 1, 2012 (as previously reported)		0.3	2393.3	-64.3	1.8	24.4	-257.7	2097.8	6.0	2 103.8	
Restatement due to IAS 19 revised ¹⁾			-75.4					-75.4		-75.4	
Equity as of January 1, 2012 (restated)		0.3	2317.9	-64.3	1.8	24.4	-257.7	2022.4	6.0	2028.4	
Comprehensive income for the year:											
Net income			302.9					302.9	4.9	307.8	
Cash flow hedges, net of tax	26				2.7			2.7		2.7	
Fair value changes on available-for-sale financial assets, net of tax						-24.4		-24.4		-24.4	
Defined benefit cost recognized in other comprehensive income, net of tax	06		-0.7					-0.7		-0.7	
Currency translation differences							-7.8	-7.8	-0.3	-8.1	
Total comprehensive income for the year		-	302.2	-	2.7	-24.4	-7.8	272.7	4.6	277.3	
Changes in ownership in subsidiaries without loss of control											
Transactions in treasury shares			-7.8	19.8				12.0	-0.2	12.0	
Share-based payments	30		12.3					12.3		12.3	
Dividend			-102.8					-102.8	-3.6	-106.4	
Equity as of December 31, 2012 (restated)	21	0.3	2521.8	-44.5	4.5	-	-265.5	2216.6	6.8	2223.4	
Comprehensive income for the year:											
Net income			234.4					234.4	1.8	236.2	
Cash flow hedges, net of tax	26				-2.2			-2.2		-2.2	
Defined benefit cost recognized in other comprehensive income, net of tax	06		36.7					36.7		36.7	
Currency translation differences							-66.9	-66.9	-0.7	-67.6	
Total comprehensive income for the year		-	271.1	-	-2.2	-	-66.9	202.0	1.1	203.1	
Addition of non-controlling interests											
Transactions in treasury shares			-1.6	17.6				16.0	0.6	16.0	
Share-based payments	30		9.4					9.4		9.4	
Dividend			-109.6					-109.6	-2.2	-111.8	
Equity as of December 31, 2013	21	0.3	2691.1	-26.9	2.3	-	-332.4	2334.4	6.3	2340.7	

¹⁾ See corporate accounting policies 2.2 in the Sulzer Annual Report 2013.

Consolidated statement of cash flows

January – December

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

¹⁾ Restatement of prior year figures, see corporate accounting policies 2.2 and note 02 in the Sulzer Annual Report 2013.

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.

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