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Very strong free cash flow generation

Double-digit profitability in challenging markets

Building on operational discipline and its strong order backlog, Sulzer managed the challenges of the global economic downturn well in 2009 and maintained its strong market positions. Return on sales reached a high level of 12.4% before and 11.0% after restructuring expenses. Free cash flow increased substantially. Net income reached CHF 270.4 million, corresponding to earnings per share (EPS) of CHF 8.06. The Sulzer Board of Directors is proposing an unchanged dividend of CHF 2.80 per share. Tim Summers has been proposed for election as a new board member to replace Urs Andreas Meyer. Sulzer is well positioned for sustainable success based on its strong market positions, its operational and strategic initiatives and its sound financial situation. Due to reduced market activity in 2010, order intake and sales are expected to decrease, resulting in a lower operating income and return on sales.

Overview key figures

(millions of CHF)	2009	2008	Δ	Δ adjusted ¹
Order intake	3 017.6	4 116.6	-26.7%	-24.3%
Order backlog	1 871.7	2 100.2	-10.9%	
Sales	3 350.4	3 713.5	-9.8%	-7.3%
Operating income before depreciation/amortization (EBITDA)	479.2	575.9	-16.8%	
Operating income before restructuring (EBITR)	416.6	478.5	-12.9%	
Operating income (EBIT)	368.0	475.1	-22.5%	
Return on sales before restructuring (ROSR) ²	12.4%	12.9%		
Return on sales (ROS) ³	11.0%	12.8%		
ROCE ⁴	24.8%	30.6%		
Net income ⁵	270.4	322.9	-16.3%	
Earnings per share (EPS) (in CHF)	8.06	9.59	-16.0%	
Free cash flow	528.8	363.1	45.6%	
Net liquidity	670.6	306.1		
Employees as of December 31 (number of full-time equivalents)	12 183⁶	12 726	-4.3%	

¹ Adjusted for currency effects as well as acquisitions and divestitures

² EBITR/sales

³ EBIT/sales

⁴ Return on capital employed; EBIT/average capital employed

⁵ Attributable to Sulzer shareholders

⁶ Including approximately 700 additional employees (FTEs) due to acquisitions

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Sulzer managed the challenges of the global economic downturn well in 2009 and maintained its strong market positions. Sales remained at the 2008 level until midyear but softened toward the end of the year and reached CHF 3 350 million (adjusted¹ –7.3% and nominal –9.8%). The high order backlog, particularly at Sulzer Pumps and Sulzer Chemtech, was executed efficiently and contributed significantly to the sales volume, especially in the first part of the year. The negative currency translation effect on the nominal growth rates continued, while acquisitions and divestitures had only a minor impact.

Return on sales reached the high level of 12.4% before restructuring and 11.0% after restructuring expenses with an operating income of CHF 416.6 million before restructuring and CHF 368.0 million after restructuring expenses. At 24.8%, the return on capital employed (ROCE) clearly created financial value.

Extraordinary real-estate activities with a high operating income of CHF 55.1 million had a strong positive impact on the operating income and profitability. At the same time Sulzer booked restructuring expenses of CHF 48.6 million in 2009 for measures to adapt to the lower market demand. The measures already resulted in notable cost reductions in 2009.

Net income attributable to Sulzer shareholders amounted to CHF 270.4 million in 2009, compared with CHF 322.9 million in the previous year. Basic earnings per share (EPS) reached CHF 8.06 compared with CHF 9.59 in 2008.

Free cash flow increased by 45.6% to CHF 528.8 million, supported by higher cash flow from operating activities and the substantial cash inflow from the real estate disposals. Consequently, net liquidity improved significantly to CHF 670.6 million, and the strong financial situation was further enhanced. Sulzer's solid balance sheet provides a strong foundation for further development of the portfolio.

Measures to adapt to lower marked demand

Sulzer started early to take measures in all divisions to adapt cost structure and production capacity to the lower market demand. These actions include reduced subcontracting and increased short-time work and also the reduction of the workforce and the closure of some facilities. These measures are being implemented in a socially responsible manner. Non-recurring restructuring charges of CHF 48.6 million were booked in 2009, leading to a reduction of employees (full-time equivalents) by around 1200. The measures already resulted in

¹ Adjusted for currency effects as well as acquisitions and divestitures

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notable cost reductions in 2009 and will bring substantial savings in 2010.

Continued operational and strategic initiatives

Sulzer complemented its measures to adapt to lower market demand with continued operational and strategic initiatives in its five core areas operational excellence, health and safety, innovation, emerging markets and services.

All divisions continued to improve business processes with lean management measures, which will now be supported by a corporate-wide initiative to share best practices. The health and safety program resulted in a clearly reduced corporate accident frequency rate of 5.5 cases per million working hours in 2009. The company supported increased and faster innovation and started a number of project initiatives, for instance in the areas of non-food-based biofuels, concentrated solar power and bioplastics.

Sulzer maintained its efforts to expand its local presence in emerging markets with the opening of a new facility in 2009 for the Russian market, capacity expansions in India and the construction of a major site in China, which will be fully operational in 2010. The company also increased the focus on services by further broadening the service network with acquisitions in Australia, Thailand, India and Germany. Potential acquisitions that may complement and strengthen the company's activity portfolio are continually being assessed, while Sulzer maintains its acquisition discipline.

Outlook for 2010: Challenging markets with some stabilization

The long-term outlook for Sulzer's performance-critical solutions remains positive. The company does not anticipate a quick recovery in its key markets, but some markets are likely to stabilize.

Order intake in 2010 is expected to decrease, driven by lower project activity in the power generation and hydrocarbon processing industries for Sulzer Pumps. For the oil and gas market, demand is predicted to be at levels comparable with those of 2009. The activity in the aviation industry is expected to remain around the current level. The development of the automotive market is difficult to forecast after the phaseout of government stimulus programs. The pulp and paper industry is predicted to remain at the low level of 2009. Market activity in Europe and North America is expected to remain low, whereas some of the emerging markets are likely to develop comparatively stronger.

Sales are expected to decrease, but to exceed order intake, resulting in a further reduction of the order backlog. The contribution of Sulzer Real

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Estate is projected to be substantially below the extraordinary high level in 2009. The adaptation measures will lead to substantial cost savings in 2010. Overall, Sulzer's operating income and return on sales are expected to further decrease.

Sulzer is well positioned for sustainable success based on its strong market positions, its operational and strategic initiatives and its sound financial situation.

Results in detail

Sulzer Pumps: record sales in a challenging environment

Based on a strong order backlog, Sulzer Pumps achieved record-high sales, while the order intake decreased significantly. Due to restructuring expenses, the operating income and return on sales were lower than in the previous year. The division succeeded in maintaining its strong market positions and continued to leverage new business opportunities in order to outpace the competition. The service business network has been further expanded and comprises more than 60 sites worldwide. Sulzer Pumps anticipates continued weakness in the oil and gas market and the pulp and paper industry and lower market activities in hydrocarbon processing and in power generation. The division will continue to adapt cost structures and capacities to the market development. For 2010, the division expects lower order intake, sales and return on sales compared with the strong performance in 2009.

Sulzer Pumps key figures

millions of CHF	2009	2008	Δ	Δ adjusted ¹
Order intake	1 684.5	2 308.7	-27.0%	-22.9%
Sales	1 856.7	1 817.0	2.2%	8.2%
Operating income before restructuring (EBITR)	223.4	232.3	-3.8%	
Operating income (EBIT)	204.7	231.9	-11.7%	
Return on sales before restructuring (ROSR) ²	12.0%	12.8%		
Return on sales (ROS) ³	11.0%	12.8%		
ROCE ⁴	49.1%	53.5%		
Employees as of December 31 (number of full-time equivalents)	5 928	6 239	-5.0%	

¹ Adjusted for currency effects as well as acquisitions and divestitures

² EBITR/sales

³ EBIT/sales

⁴ Return on capital employed; EBIT/average capital employed

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Sulzer Metco: adaptation measures and continued focus on innovation

Sulzer Metco reacted fast to the changed market environment and took early measures to reduce costs and capacities. The lower market demand led to a notable decrease in sales. Due to declined volumes and, thus, reduced operational leverage, the operating income decreased even more, which resulted in significantly lower profitability. The division maintained its focus on innovation. It increasingly offers customized solutions, which include systems, materials and know-how to ensure efficient and highly reliable processes and products for the customers. Innovations, such as carbon-based coating solutions should allow the division to seize additional business opportunities in the automotive industry. For 2010, Sulzer Metco expects some stabilization overall, with a slowdown in power generation, activity in the aviation market around the current level and higher activity in other industrial markets. The division expects some stabilization in sales and an improvement of the operating income in 2010.

Sulzer Metco key figures

millions of CHF	2009	2008	Δ	Δ adjusted ¹
Order intake	545.5	715.6	-23.8%	-21.4%
Sales	556.0	743.5	-25.2%	-23.0%
Operating income before restructuring (EBITR)	34.2	71.2	-52.0%	
Operating income (EBIT)	20.5	69.6	-70.5%	
Return on sales before restructuring (ROSR) ²	6.2%	9.6%		
ROS ³	3.7%	9.4%		
ROCE ⁴	5.0%	16.0%		
Employees as of December 31 (number of full-time equivalents)	1 796	2 105	-14.7%	

Sulzer Chemtech: adapting to lower market activity

Demand decreased substantially in all of Sulzer Chemtech's key markets, and sales and operating income were significantly lower. Sulzer Chemtech maintained its market positions, implemented the necessary adaptation measures quickly and still achieved a double-digit return on sales before restructuring. The division established the new Process Technology business unit by combining the existing process know-how with the acquired activities of Kühni Ltd. In 2010, the hydrocarbon processing industry is not expected to recover, while the tower field service business and the market activities for Sulzer Mixpac Systems are likely to remain at the levels of 2009. The divisional order intake is

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² EBITR/sales

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⁴ Return on capital employed; EBIT/average capital employed

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expected to stabilize in 2010, while sales are likely to decrease further. The return on sales is expected to remain at a similar level as in 2009.

Sulzer Chemtech key figures

millions of CHF	2009	2008	Δ	Δ adjusted ¹
Order intake	498.4	770.4	-35.3%	-36.8%
Sales	632.3	823.3	-23.2%	-26.3%
Operating income before restructuring (EBITR)	65.5	140.4	-53.3%	
Operating income (EBIT)	54.5	140.1	-61.1%	
Return on sales before restructuring (ROSR) ²	10.4%	17.1%		
ROS ³	8.6%	17.0%		
ROCE ⁴	13.0%	32.9%		
Employees as of December 31 (number of full-time equivalents)	2 977	2 769	+7.5%	

Sulzer Turbo Services: strong service business

Sulzer Turbo Services succeeded in notably increasing the return on sales. Operational excellence initiatives have been continuously implemented to ensure lean and efficient processes. Integration of the recently acquired businesses in South America progressed well and will increase business opportunities throughout the region. The strategy of pursuing long-term service agreements has been successful. For 2010, the division expects levels of order intake, sales and operating income comparable with those of 2009.

Sulzer Turbo Services key figures

millions of CHF	2009	2008	Δ	Δ adjusted ¹
Order intake	278.3	303.4	-8.3%	-9.8%
Sales	291.3	313.6	-7.1%	-9.5%
Operating income before restructuring (EBITR)	38.2	31.6	20.9%	
Operating income (EBIT)	33.0	30.5	8.2%	
Return on sales before restructuring (ROSR) ²	13.1%	10.1%		
ROS ³	11.3%	9.7%		
ROCE ⁴	17.4%	17.0%		
Employees as of December 31 (number of full-time equivalents)	1 189	1 314	-9.5%	

¹ Adjusted for currency effects as well as acquisitions and divestitures

² EBITR/sales

³ EBIT/sales

⁴ Return on capital employed; EBIT/average capital employed

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Others

“Others” mainly consists of Sulzer Real Estate, Sulzer Innotec and the Corporate Center. The increase of the operating income of Others from CHF 3.0 million to CHF 55.3 million reflects the extraordinary high operating income of CHF 55.1 million recorded by Sulzer Real Estate, which was driven by some major sales of operationally non-essential real estate in Switzerland.

Financial income and income taxes

In 2009, the net financial income amounted to CHF 1.6 million compared with CHF –23.5 million in 2008. The previous year’s financial income was largely driven by the negative impact of currency fluctuations on loans. The effective income tax rate decreased from 27.4% to 25.4%, driven by a number of non-recurring items, such as the extraordinary contributions of Sulzer Real Estate being taxed at a favorable rate, the capitalization of some tax loss carryforwards and some changes of applicable tax rates.

Proposals by the Board of Directors to the Annual General Meeting

Dividends

The Sulzer Board of Directors will propose an unchanged dividend of CHF 2.80 per share at the Annual General Meeting of Shareholders on April 15, 2010. If approved, the ex-dividend date will be April 19, 2010.

Board of Directors

The Board of Directors is proposing at the upcoming Sulzer Annual General Meeting on April 15, 2010, to reduce the term of office for its members in the Articles of Association from three years to one year.

The Board of Directors proposes Luciano Respini and Hans H. Lienhard for reelection as members of the board for a one-year term.

Urs Andreas Meyer has informed the Sulzer Board that he will resign from his board membership at the upcoming shareholder meeting. As new board member for a one-year term, the Board of Directors proposes to elect Tim Summers, who has been recommended by Renova. Tim Summers (1967, British) will bring extensive experience in the oil and gas industry to the Sulzer Board. Tim Summers is non-executive chairman of the oil and gas drilling company KCA Deutag. He was COO from 2006 to 2009 and interim CEO from 2008 to 2009 of TNK-BP, the Russian oil joint venture of BP and the Alfa, Access and Renova consortium (AAR). He previously held various senior operational and commercial roles at BP. Tim Summers has recently been appointed vice president of Renova Management AG.

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Key Figures

Order intake (millions of CHF)	2009	2008	Δ	Δ adjusted ¹
Divisions	3 006.7	4 098.1	-26.6%	-24.3%
Sulzer Pumps	1 684.5	2 308.7	-27.0%	-22.9%
Sulzer Metco	545.5	715.6	-23.8%	-21.4%
Sulzer Chemtech	498.4	770.4	-35.3%	-36.8%
Sulzer Turbo Services	278.3	303.4	-8.3%	-9.8%
Others²	10.9	18.5	-	-
Total	3 017.6	4 116.6	-26.7%	-24.3%

Sales (millions of CHF)

Divisions	3 336.3	3 697.4	-9.8%	-7.2%
Sulzer Pumps	1 856.7	1 817.0	2.2%	8.2%
Sulzer Metco	556.0	743.5	-25.2%	-23.0%
Sulzer Chemtech	632.3	823.3	-23.2%	-26.3%
Sulzer Turbo Services	291.3	313.6	-7.1%	-9.5%
Others	14.1	16.1	-	-
Total	3 350.4	3 713.5	-9.8%	-7.3%

Operating income before restructuring expenses (EBITR; millions of CHF)

Divisions	361.3	475.5	-24.0%
Sulzer Pumps	223.4	232.3	-3.8%
Sulzer Metco	34.2	71.2	-52.0%
Sulzer Chemtech	65.5	140.4	-53.3%
Sulzer Turbo Services	38.2	31.6	20.9%
Others	55.3	3.0	-
Total	416.6	478.5	-12.9%

Operating income (EBIT; millions of CHF)

Divisions	312.7	472.1	-33.8%
Sulzer Pumps	204.7	231.9	-11.7%
Sulzer Metco	20.5	69.6	-70.5%
Sulzer Chemtech	54.5	140.1	-61.1%
Sulzer Turbo Services	33.0	30.5	8.2%
Others	55.3	3.0	-
Total	368.0	475.1	-22.5%

¹ Adjusted for currency effects as well as acquisitions and divestitures

² Others consists of: Corporate Center, Sulzer Real Estate, Sulzer Innotec and consolidation adjustments

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Return on sales before restructuring expenses (ROSR)¹

Divisions	10.8%	12.9%
Sulzer Pumps	12.0%	12.8%
Sulzer Metco	6.2%	9.6%
Sulzer Chemtech	10.4%	17.1%
Sulzer Turbo Services	13.1%	10.1%
Others	–	–
Total	12.4%	12.9%

Return on sales (ROS)²

Divisions	9.4%	12.8%
Sulzer Pumps	11.0%	12.8%
Sulzer Metco	3.7%	9.4%
Sulzer Chemtech	8.6%	17.0%
Sulzer Turbo Services	11.3%	9.7%
Others	–	–
Total	11.0%	12.8%

Sales by region (millions of CHF)

			Share in 2009
Europe	1 046.5	1 276.2	31%
North America	951.7	1 048.5	28%
Central and South America	238.7	195.5	7%
Asia, Middle East, Australia	885.4	1 039.6	27%
Africa	228.1	153.7	7%
Total	3 350.4	3 713.5	100%

Number of employees (full-time equivalents) by region (as of December 31)

Europe	4 915	5 724
North America	2 864	3 156
Central and South America	823	710
Asia, Middle East, Australia	3 125	2 700
Africa	456	436
Total	12 183	12 726

¹ EBITR/sales

² EBIT/sales

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In our virtual press kit for the annual report 2009 (www.sulzer.com/AR09), you will find our image database and the following pdf documents:

- *Annual Report 2009 and Summary*
- *Media release*
- *Company Profile*
- *Annual results presentation*

Sulzer was founded in 1834 in Winterthur, Switzerland, and today is active in machinery and equipment manufacturing and surface engineering at over 120 locations worldwide. The divisions are global leaders in their respective customer segments, which include the oil and gas, hydrocarbon processing, power generation, pulp and paper, aviation and automotive industries. www.sulzer.com

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