

The Sulzer logo is displayed in a bold, dark blue, sans-serif font. It is positioned in the upper right quadrant of a white rectangular area that also contains the title and speaker information. The background of the slide features a complex, abstract pattern of overlapping, semi-transparent blue and white geometric shapes, creating a sense of depth and movement.

# Midyear 2016 results presentation

Greg Poux-Guillaume, CEO | Thomas Dittrich, CFO | July 26, 2016

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## **THE SAFE HARBOR STATEMENT UNDER THE US PRIVATE SECURITIES LITIGATION REFORM ACT 1995**

**This presentation may contain forward-looking statements, including but not limited to, projections of financial developments, market activities or future performance of products and solutions, containing risks and uncertainties. These forward-looking statements are subject to change based on known or unknown risks and various other factors, which could cause the actual results or performance to differ materially from the statements made herein.**

# Executive Team

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Note:

D. Bischofberger from September 1

T. Wintergerste ad interim

**CEO**



Greg Poux-Guillaume

**CHRO**



Armand Sohet

**CFO**



Thomas Dittrich

**CCMO**



Frédéric Lalanne

**Pumps Equipment**



César Montenegro

**Rotating Equipment  
Services**



Daniel Bischofberger

**Chemtech**



Torsten Wintergerste

# Agenda

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**Market Review**

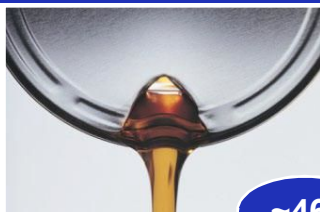
Sulzer Full Potential

Financial Review

Outlook

# Oil and gas market downturn continues

## Oil and Gas



~46%

- No rebound expected before H2 2017 at best
- Project delays, re-bidding and pricing pressure



## Upstream



~10%

- Customers squeezing costs
- Postponements of non-essential purchases also impact aftermarket
- Some early signs of resuming project activity

## Midstream



~7%

- Down significantly vs. previous years
- Some opportunities in H2 (Americas)
- Regulatory and environmental concerns contribute to slowdown

## Downstream



~29%

- Pockets of activity at steady levels (Middle East)
- Fierce price competition
- Capex constraints continue
- Slight pick-up from delayed maintenance

Order intake share H1 16

# All other market segments up or flat

## Power



~17%



- Overcapacity in fossil and slowdown in China
- US still driven by gas, some nuclear activity
- Pricing pressure carried over from O&G slump

## Water

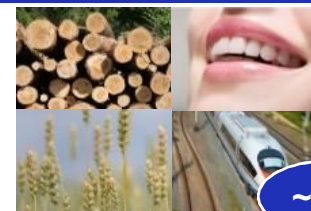


~13%



- Municipal water stable in continental Europe, China and US
- Slight pick-up in Brazil
- Desalination active in Middle East

## General Industry



~24%



- Pulp & Paper solid in Europe and Americas, overcapacity in China
- Fertilizers and healthcare with positive outlooks
- Metals and Mining slump

# Agenda

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Market Review

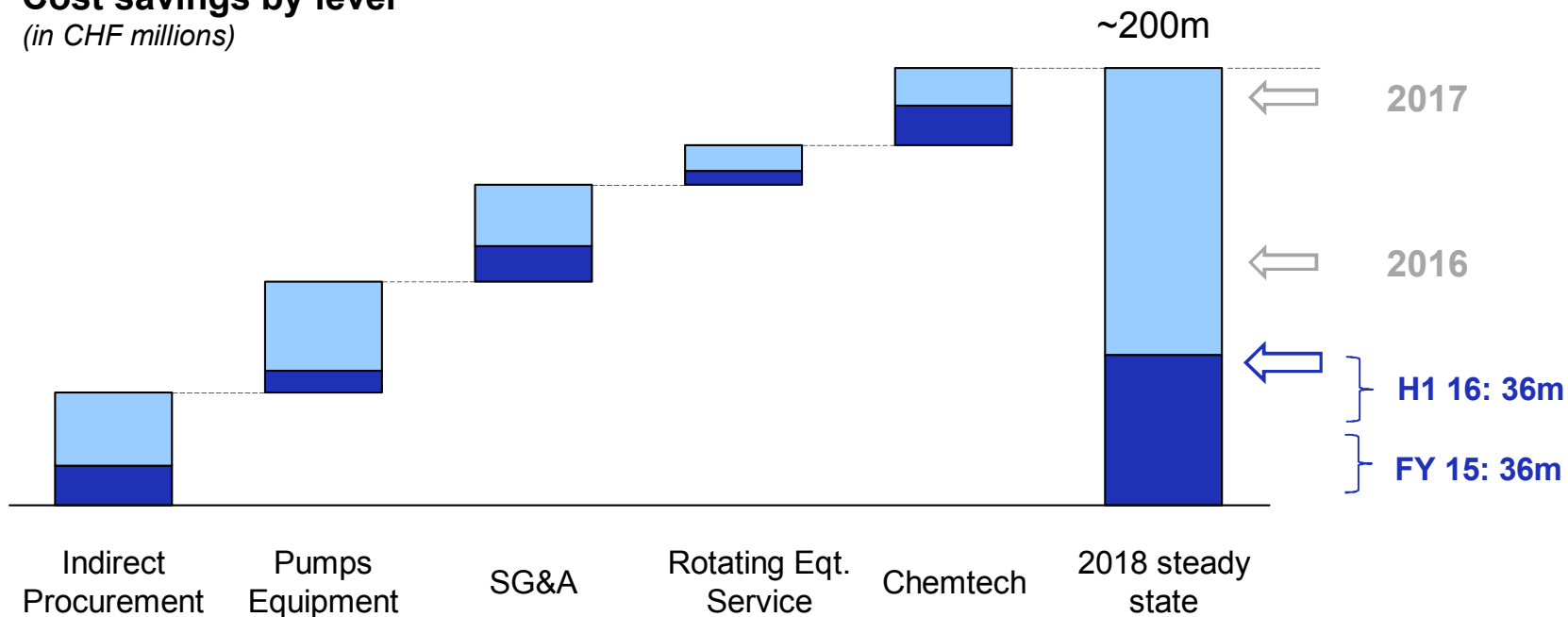
**Sulzer Full Potential**

Financial Review

Outlook

# Sulzer Full Potential continues to pick up speed

**Cost savings by lever**  
(in CHF millions)

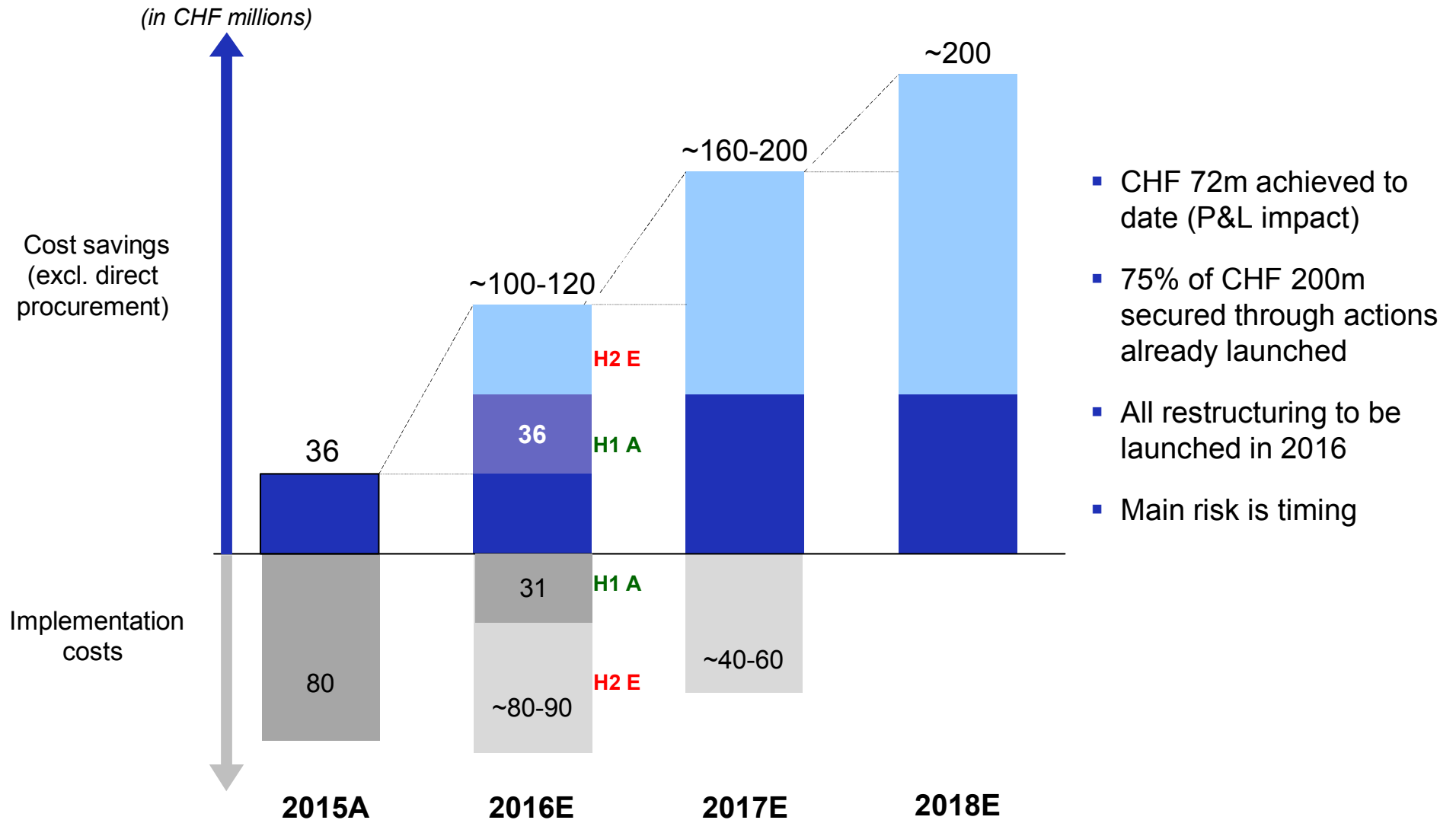


## Highlights H1 2016

- Global procurement organization fully operational
- Advanced production planning tools increase flexibility; Acceleration of value engineering
- Closure of Oberwinterthur Chemtech plant announced
- SG&A: finance processes harmonized



# SFP well on track to deliver cost savings of ~ CHF 200m by 2018<sup>1</sup>



<sup>1</sup> vs. 2014 baseline

# Agenda

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Market Review

Sulzer Full Potential

**Financial Review**

Outlook

# Stable sales and opEBITA despite oil & gas headwinds

## Key figures

<i>In CHF millions</i>	H1 2016	H1 2015	YOY	YOY adj. <sup>1</sup>
Order intake	<b>1,423</b>	1,584	-10.1%	-9.1%
<i>Order intake gross margin</i>	34.6%	32.9%		
Order backlog ( <i>Dec 31</i> )	<b>1,548</b>	1,511	2.5%	
Sales	<b>1,381</b>	1,393	-0.9%	-0.1%
opEBITA	<b>98.7</b>	98.3	0.4%	0.8%
<i>opROSA %</i>	7.1%	7.1%		
EBIT	<b>81.7</b>	47.6	71.6%	
<i>ROS %</i>	5.9%	3.4%		
Net income	<b>50.5</b>	27.8	81.7%	
EPS (in CHF)	<b>1.48</b>	0.79	87.3%	
Free cash flow	<b>3.7</b>	33.3	-88.9%	
FTEs ( <i>June 30</i> )	<b>13,876</b>	15,159	-8.5%	

## Commentary

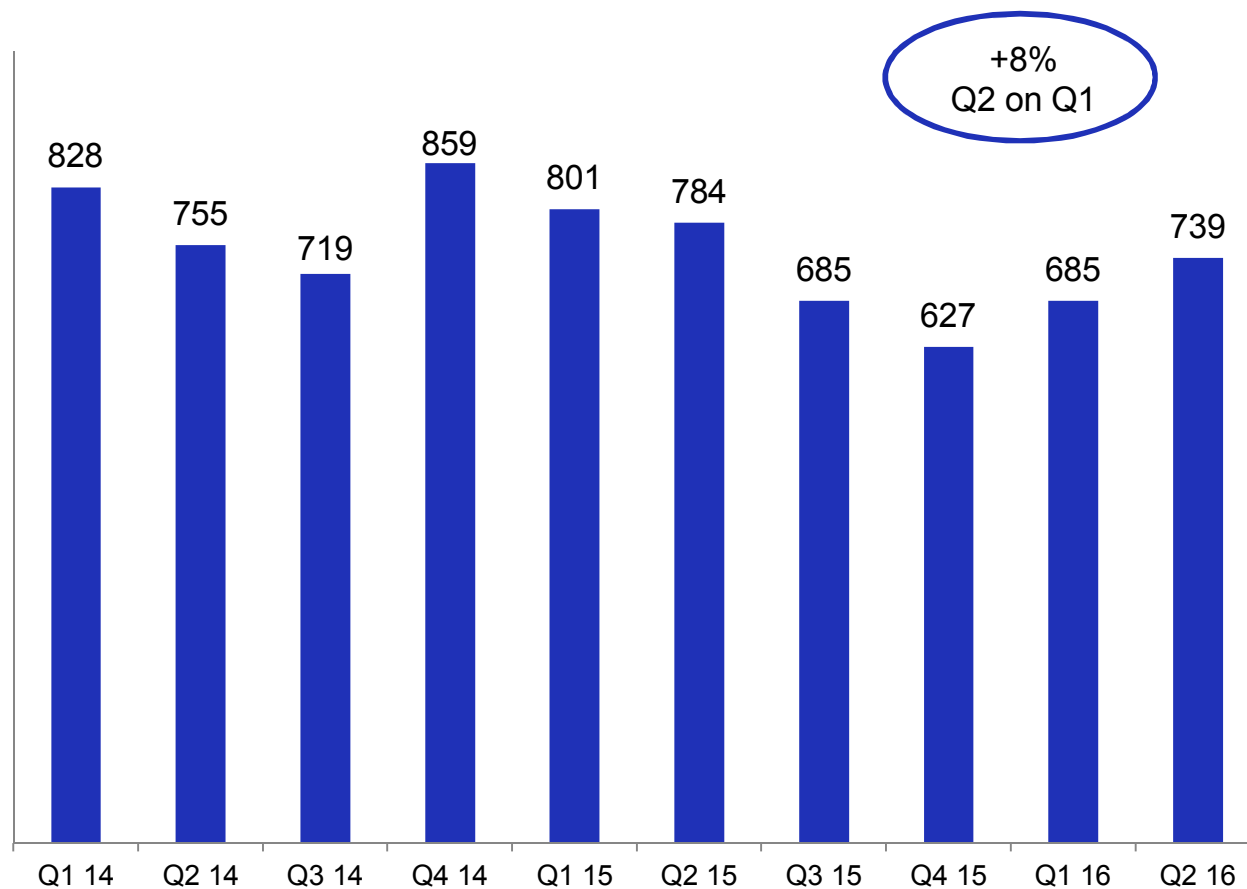
- Q2 orders down 5% YOY<sup>1</sup>, but up 8% QOQ
- Order intake gross margin up on mix effect
- Order backlog stabilized
- Sales and opEBITA stable despite continued headwinds in O&G market and significant price pressure
- EBIT increased due to gain on pension plan of CHF 35.4m
- FCF lower due to lower advance payments and net working capital timing

<sup>1</sup> Adjusted for currency effects

# Orders up quarter-on-quarter

## Quarterly order intake development

## Commentary



- Drivers of Q2 order intake:
  - PE down 7% YOY<sup>1</sup> on significant decline in O&G, but up sequentially (also in O&G)
  - RES down 5% YOY<sup>1</sup>, despite O&G slightly up (YOY and QOQ)
  - CT flat YOY<sup>1</sup> and slightly up QOQ with a slight decline in O&G balanced by the other segments
- FX impact in Q2 CHF –5.4m (CHF –16.6m for H1 16)
- Acquisition effect in Q2 CHF 26.1m (CHF 35.5m for H1 16)

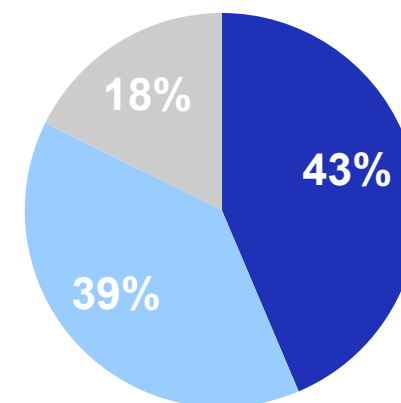
<sup>1</sup> Adjusted for currency effects

# Sales on last year's level despite difficult market

## Sales

<i>In CHF millions</i>	H1 2016	H1 2015	YOY	YOY adj. <sup>1</sup>
<b>Total Sulzer</b>	<b>1,381</b>	1,393	-0.9%	-0.1%
<b>Total Divisions</b>	<b>1,385</b>	1,400	-1.0%	-0.3%
Pumps Equipment	<b>746</b>	727	2.6%	3.3%
Rotating Equipment Services	<b>325</b>	334	-2.8%	-1.4%
Chemtech	<b>315</b>	339	-7.1%	-6.7%
Adj./Eliminations	<b>-4</b>	-6		

## By region



- Total effect from acquisitions/divestitures: CHF 16.2m
- Total effect from currency translation: CHF -10.9m
- Share of sales from emerging markets: 34% (H1 2015: 38%)

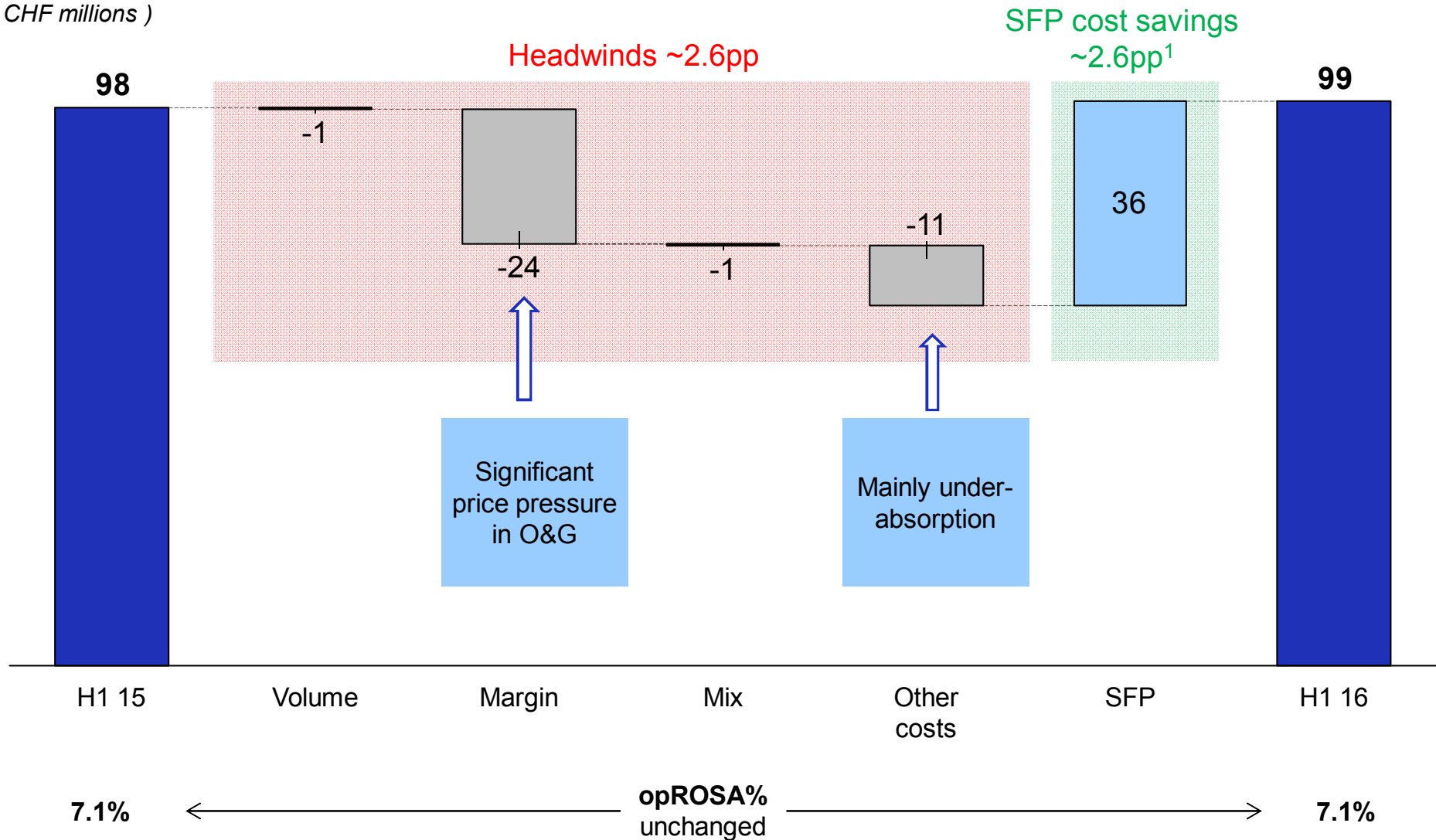
- Europe, Middle East, Africa
- Americas
- Asia-Pacific

<sup>1</sup> Adjusted for currency effects

# SFP savings fully offsetting headwinds

## Operational EBITA

(in CHF millions)



<sup>1</sup> Calculated based on H1 2016 sales  
Midyear 2016 results presentation

# OpEBITA stable across divisions

## Operational EBITA

<i>In CHF millions</i>	H1 2016	H1 2015	YOY	YOY adj. <sup>1</sup>
<b>Total Sulzer</b>	<b>98.7</b>	98.3	0.4%	0.8%
<i>opROSA %</i>	7.1%	7.1%		
<b>Divisions</b>	<b>96.0</b>	93.3	2.9%	3.4%
<i>opROSA %</i>	6.5%	6.3%		
Pumps Equipment	<b>31.7</b>	31.7	0.0%	2.5%
<i>opROSA %</i>	4.3%	4.4%		
Rotating Equipment Services	<b>30.3</b>	27.8	9.0%	6.5%
<i>opROSA %</i>	9.3%	8.3%		
Chemtech	<b>34.0</b>	33.8	0.6%	1.8%
<i>opROSA %</i>	10.8%	10.0%		
Others	<b>2.7</b>	5.0		

⇒ PE margin stable on stable volumes and SFP impact

⇒ RES margin up mainly on SFP impact

⇒ CT margin up mix and SFP impact

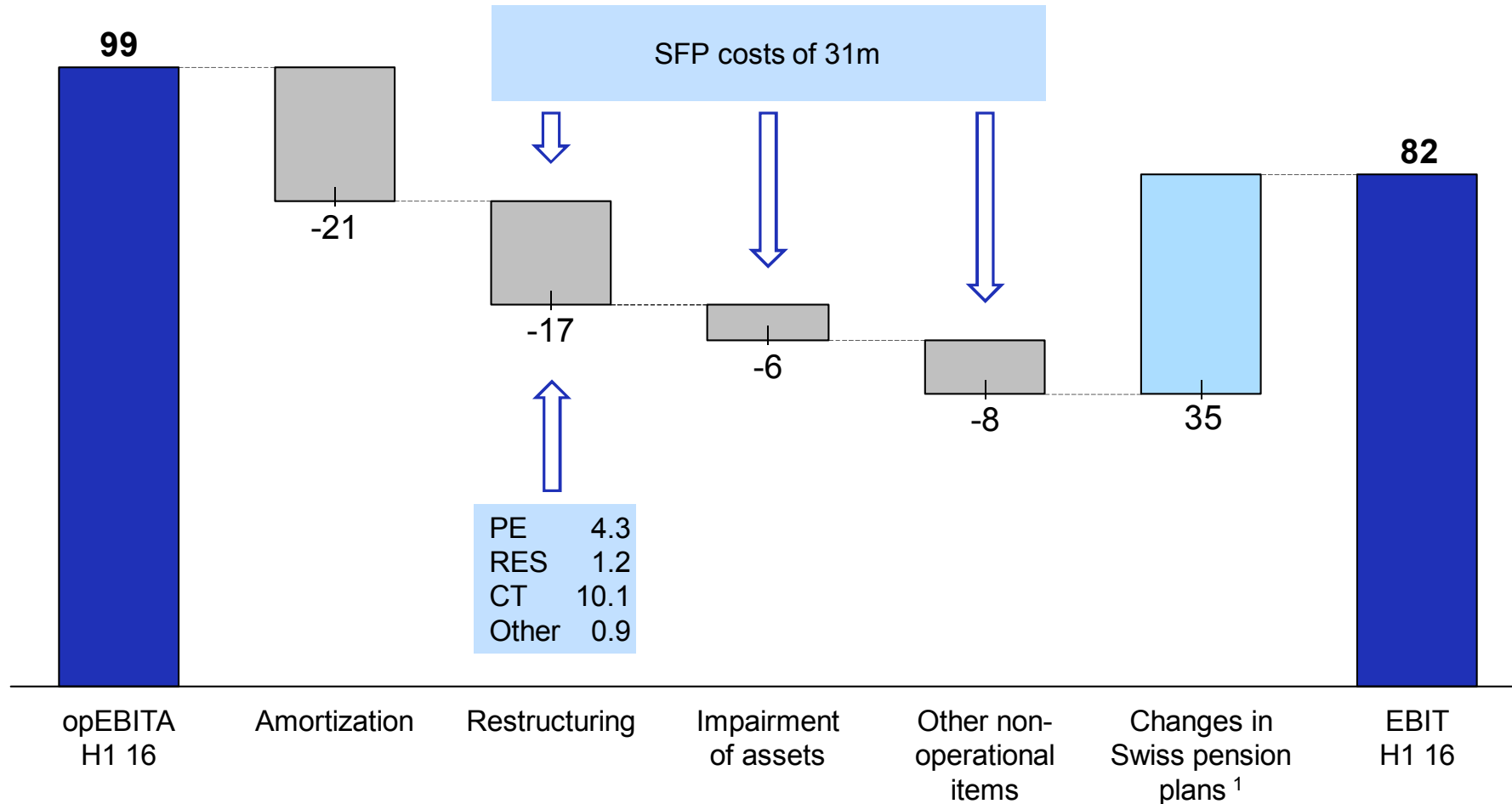
■ Total effect from currency translation: CHF –0.8m

<sup>1</sup> Adjusted for currency effects

# EBIT reflects SFP costs and one-time change in Swiss pension plan

## Operational EBITA to EBIT

(in CHF millions )



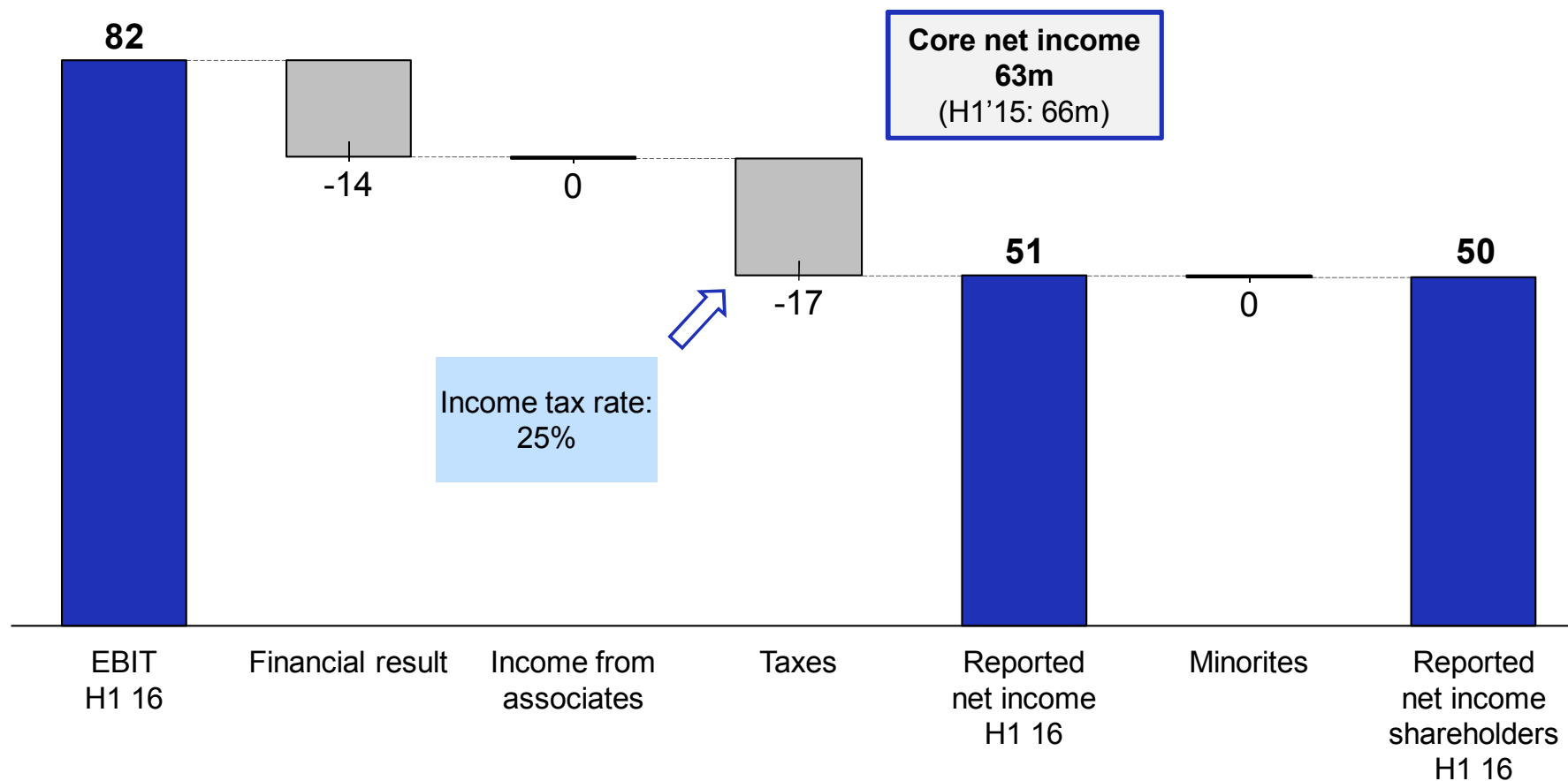
<sup>1</sup> Sulzer's Swiss Pension Fund Board decided in June 2016, to reduce the guaranteed pension conversion rate by 1.0 percentage points over 4 years, beginning January 1, 2018. The plan amendments, recognized as past service cost under IAS 19, have had a positive impact of CHF 35.4m.



# Core net income stable, tax rate slightly down in H1 15

## EBIT to Net income shareholders

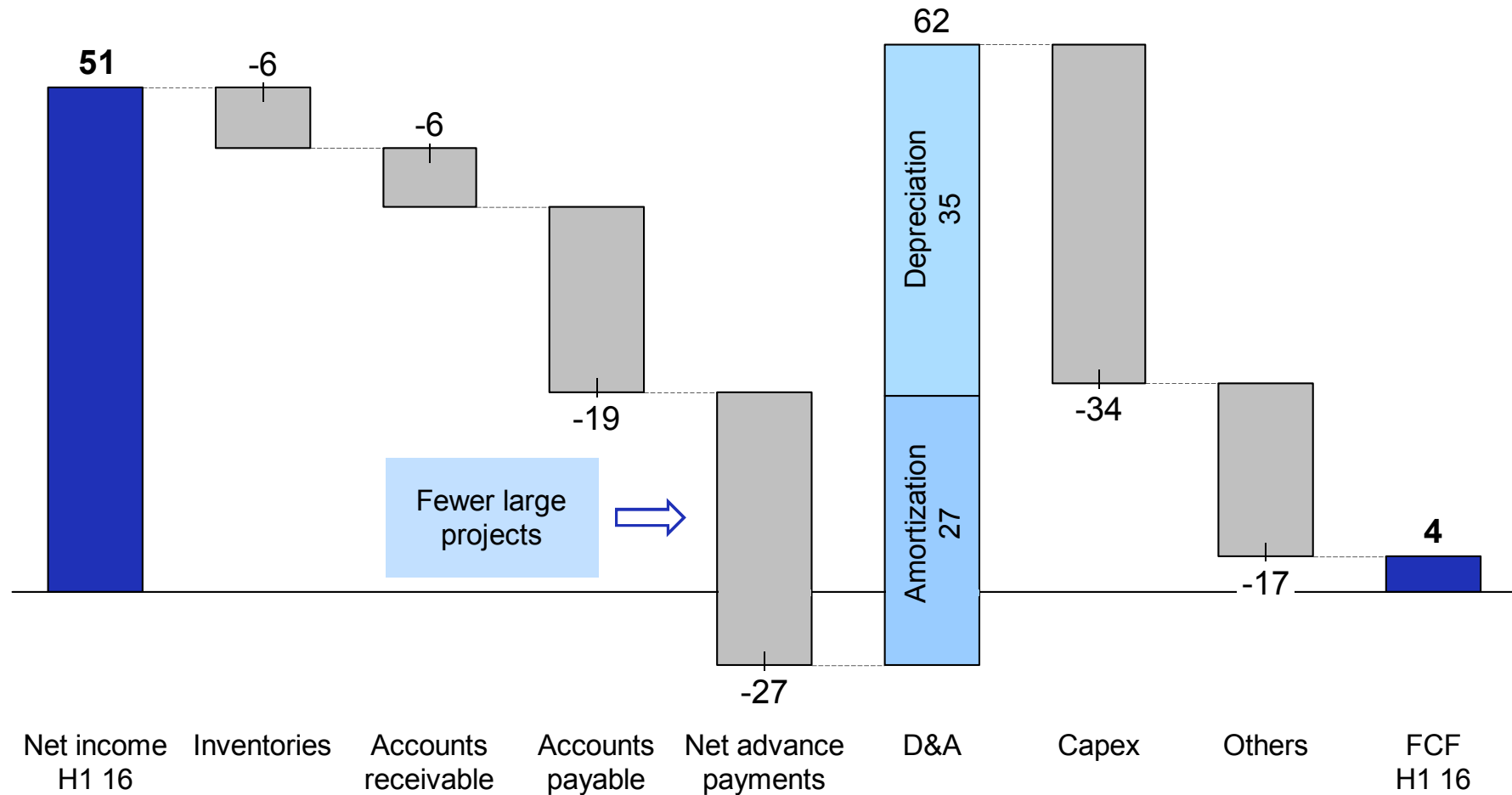
(in CHF millions)



# FCF down on lower customer advance payments and net working capital timing

## Free Cash Flow

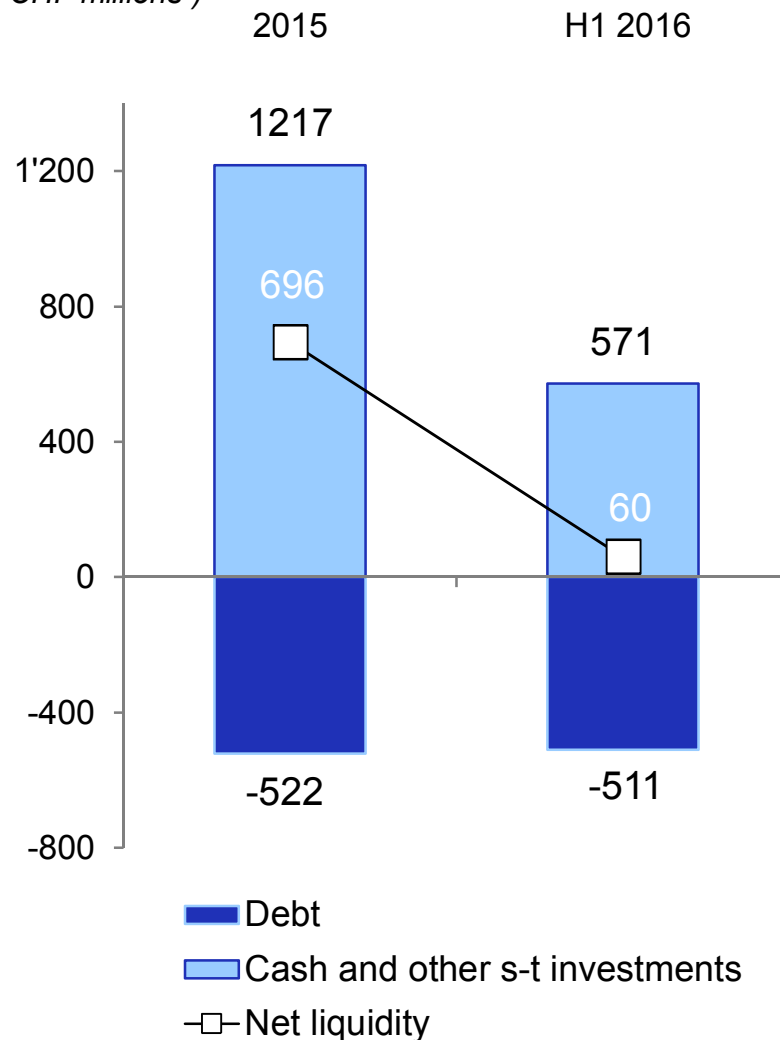
(in CHF millions)



# Net cash after special and regular dividends – one of the strongest balance sheets in our industry

## Balance Sheet

(in CHF millions)



### Balance sheet June 2016:

- Total net cash of: CHF 60m
- FCF of CHF 4m
- Special dividend payment of CHF 498m
- Regular dividend payment of CHF 119m
- Acquisitions of CHF 19m
- **Before** acquisition of Geka

# Agenda

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Market Review

Sulzer Full Potential

Financial Review

**Outlook**

# Financial guidance 2016<sup>1</sup>

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<b>Order Intake<sup>2</sup></b>	<b>At higher end of previously communicated range of “down 5–10%”</b>
<b>Sales<sup>2</sup></b>	<b>down 5–10%</b>
<b>Operational ROSA<sup>3</sup> %</b>	<b>around 8%</b>

<sup>1</sup> As of July 26, 2016

<sup>2</sup> Adjusted for currency effects

<sup>3</sup> Operational EBITA divided by sales

# Doubling the size of SMS, Sulzer's most profitable business

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By acquiring Geka, we create a **leader in innovative B2B mixing and applicator solutions**

- Geka brings an **additional vertical market** segment to Sulzer Mixpac System (SMS)
- Geka adds **critical mass** to SMS
- **Significant cost synergies** through a shared industrial core in high-precision plastic injection molding technologies
- **Attractive top-line synergies** through complementary regional manufacturing footprints
- Geka is expected to generate **sales of CHF ~165m** in 2016 at a opEBITA margin of ~13%
- The transaction is expected to **close in Q3**
- We also acquired **PC Cox** on April 4, dispensers specialist with **CHF 20m sales** in 2016

Pro-forma 2016, SMS+GEKA+PC Cox

- CHF ~365m sales
- OpEBITA CHF ~63m (~17% opROSA)
- Broken out of Chemtech, will report to CEO at closing

# Summary

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- **Order intake rebound despite continued challenging market conditions in O&G**
  - Q2 **8% above** Q1, second sequential quarter of growing orders
  - H1 16 down 9.1% YOY<sup>1</sup> but up 9.8% vs. H2 15
  - **O&G orders up** in Q2 versus Q1
  
- **Sales and opEBITA stable despite headwinds**
  - **opROSA unchanged** at 7.1% with SFP savings mitigating headwinds
  
- **SFP progressing well**
  - **SFP savings** in H1 of **CHF 36m**, bringing total SFP savings to date to **CHF 72m**
  - **Accelerating** SFP and making it more robust
  
- **Outlook**
  - **Updated for order intake:** higher end of previous range of “down 5–10%”
  - **Confirmed for sales:** down 5–10%
  - **Confirmed for opROSA:** around 8%

<sup>1</sup> Adjusted for currency effects

# Key reporting dates and contact

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## Financial Calendar

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October 20, 2015

9M 2016 order intake

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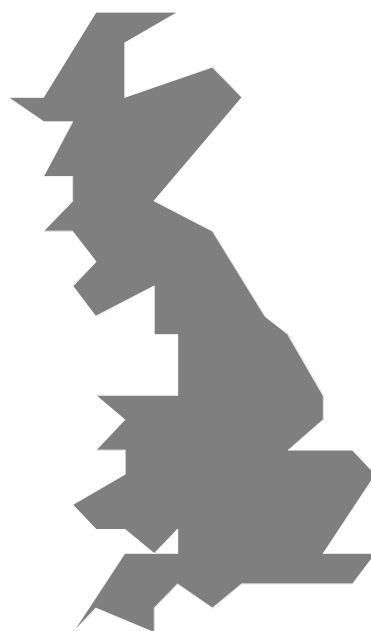
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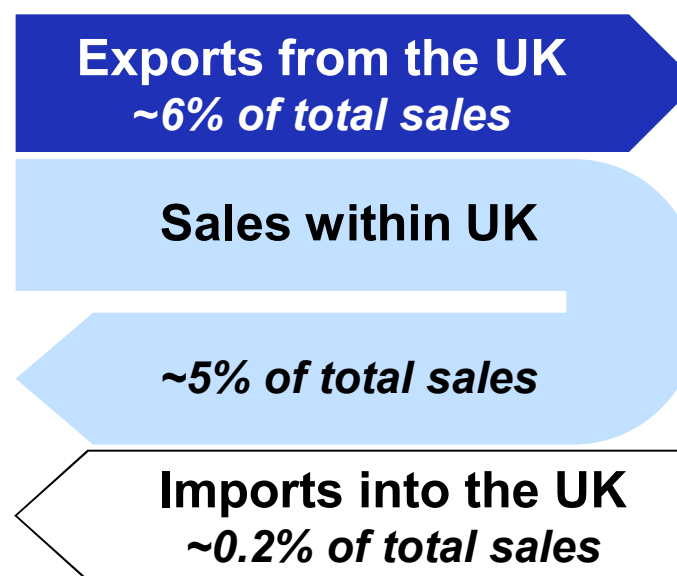
# **Reconciliations and supplementary slides**

# Exports from the UK are 6% of total Group sales, Imports into the UK are negligible (0.2%)

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*In H1 2016*

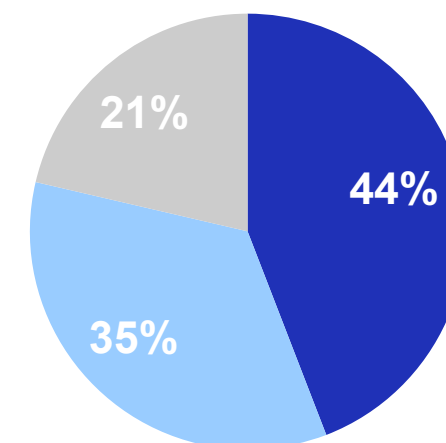


# Headwinds in O&G continued to negatively impact order intake

## Order intake

<i>In CHF millions</i>	H1 2016	H1 2015	YOY	YOY adj. <sup>1</sup>
Total Sulzer	<b>1,423</b>	1,584	-10.1%	-9.1%
Total Divisions	<b>1,428</b>	1,590	-10.2%	-9.1%
Pumps Equipment	<b>731</b>	835	-12.5%	-11.5%
Rotating Equipment Services	<b>344</b>	364	-5.4%	-3.7%
Chemtech	<b>353</b>	391	-9.7%	-9.1%
Adj./Eliminations	<b>-5</b>	-6		

by region



- Total effect from acquisitions/divestitures: CHF 35.5m
- Total effect from currency translation: CHF -16.6m
- Share of orders from emerging markets: 44% (H1 2015: 43%)

- Europe, Middle East, Africa
- Americas
- Asia-Pacific

<sup>1</sup> Adjusted for currency effects

## Operational EBITA to EBIT bridges for divisions

<i>In CHF millions</i>	PE	RES	CT	Divisions	Others	Total
<b>opEBITA H1 2016</b>	<b>31.7</b>	<b>30.3</b>	<b>34.0</b>	<b>96.0</b>	<b>2.7</b>	<b>98.7</b>
Amortization	-9.0	-3.2	-8.3	-20.5	-0.9	-21.4
Restructuring costs	-4.3	-1.2	-10.1	-15.6	-0.9	-16.5
Impairments on tangible and intangible assets	–	-0.2	-5.4	-5.6	–	-5.6
Other	-3.2	-0.7	3.5	-0.4	26.9	26.5
<b>EBIT H1 2016</b>	<b>15.2</b>	<b>25.0</b>	<b>13.7</b>	<b>53.9</b>	<b>27.8</b>	<b>81.7</b>
<b>as % of sales</b>	<b>2.0%</b>	<b>7.7%</b>	<b>4.4%</b>	<b>3.9%</b>		<b>5.9%</b>

## Core net income

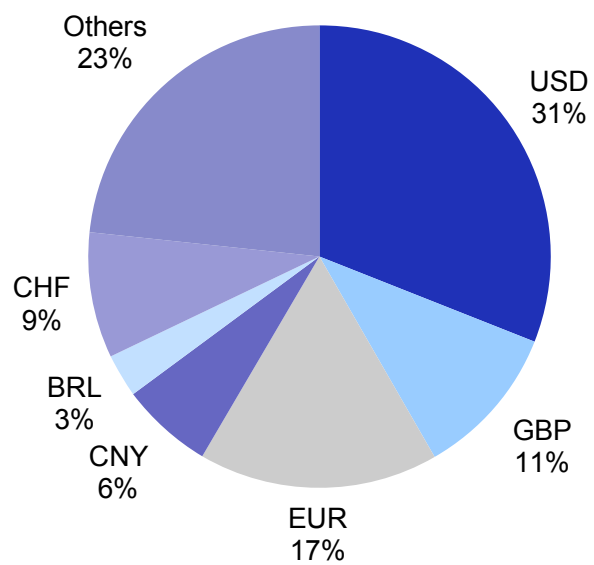
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<i>In CHF millions</i>	<b>H1 2016</b>	<b>H1 2015</b>
<b>Net income reported</b>	<b>50.5</b>	<b>27.8</b>
Impairment on tangible and intangible assets	5.6	0.0
Amortization	21.4	20.5
Restructuring expenses	16.5	7.9
Other non-operational items	-26.5	22.3
Tax impact	-4.2	-12.6
<b>Core net income</b>	<b>63.3</b>	<b>65.9</b>

# Foreign exchange exposure

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## Sulzer FX exposure H1 2016



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