

Letter to the shareholders



Dear Shareholder,

2017 is the year Sulzer initiated its rebound in terms of order intake and profitability. This year, the trend has continued. In the first half of 2018, our momentum for order intake has been strong across all divisions, with orders increasing by 11.6% (6.5% organically) compared with the same period of the previous year. All our divisions grew organically.

Order intake grew in all markets except power

All markets contributed to the increase in order intake except power. The oil and gas downstream market started to recover in 2017, and it is being followed by a rebound of the upstream market in 2018. While volumes recover, we expect price pressure to continue until 2019. The global power market continues to be challenging. The gas turbine service business is facing price pressure, and there are fewer projects for conventional power plants around the world. Our water business is growing strongly, further supported by our recent acquisition of JWC Environmental, LLC (JWC). Our industry businesses are also showing very positive trends. Order intake grew across all regions and particularly in the Americas (20.1%).

We have had good commercial momentum in the first half of 2018 and expect that trend to continue in the second half of the year.

Greg Poux-Guillaume CEO

Sales increased by 10.5% (5.4% organically). Operational EBITA grew double digits on the back of higher volumes and continued cost improvements. Compared with the same period of the previous year, operational ROSA increased to 8.5% from 7.4%.

Savings target of the full year already achieved

The extension of the Sulzer Full Potential program (SFP) is benefiting us without jeopardizing our ability to benefit from the market rebound. We have already achieved in the first half of 2018 our incremental full-year savings target of CHF 25 million. This is why we see the possibility to pull forward actions to achieve incremental savings of CHF 35 million to cumulatively reach CHF 220 million at the end of 2018. This will help to compensate continuing margin pressure in the energy markets. We are confident that we will reach our overall savings of CHF 230 million from 2019 onwards.

Adapting to the new IFRS 15 standard

We have adapted our reporting to reflect the new IFRS 15 standard. In the consolidated financial statements ([note 13](#)), you will find tables summarizing the impact of the new accounting standards on the financial statements. The changes are not material.

Optimizing financing mix

We have increased our financial flexibility by raising CHF 400 million in the Swiss capital market via a dual tranche issuance as of July 6, 2018. The first tranche of CHF 110 million has a term of two years and carries a coupon of 0.25% at a price of 100%. The second tranche of CHF 290 million has a term of five years and carries a coupon of 1.3% at a price of 100%.

No long-term impact of temporary sanctions

On April 6, the US Department of the Treasury's Office of Foreign Assets Control (OFAC) identified our then majority shareholder Renova as a specially designated national subject to sanctions. We subsequently negotiated with Renova the purchase of five million of our own shares at a price of CHF 109.13 per share, thereby bringing Renova's shareholding to 48.83%. OFAC approved the transaction and confirmed that we were no longer considered part of the Renova group and therefore free from sanctions. While this issue disrupted our business, it was resolved within three working days and operations were back to normal within a week. We estimate one-off costs linked to the sanctions will be significantly less than ten million CHF, to be treated as non-operational. We do not foresee any long term consequences on the performance of Sulzer.

We have obtained from Renova a full price adjustment mechanism without time limit. Should Sulzer re-sell the shares for a lower price than CHF 109.13, the company will be fully compensated for the difference by Renova.

Changes to the Board of Directors and the Executive Committee

Jill Lee, who had been a Sulzer Board member for six years and the Chair of our Audit Committee, joined the Executive Committee of Sulzer as Chief Financial Officer as of April 5, 2018. She did not stand for reelection to Sulzer's Board of Directors.

Michael Streicher, who has been with Sulzer's pumps business for more than 20 years, succeeded César Montenegro as Division President Pumps Equipment and Sulzer Executive Committee member on January 1, 2018, upon César's retirement.

In line with its reduced shareholding and returned status as a minority shareholder of Sulzer, Renova reduced its Board representation as of May 28, 2018. Axel Heitmann, the Renova representative with the shortest tenure on Sulzer's Board of Directors, tendered his resignation. Sulzer's Board of Directors is now composed of seven members, four of whom are independent.

We are convinced that we have the right leadership team and the right governance structure to raise Sulzer to new heights.

Peter Löscher Chairman of the Board of Directors

Realizing bolt-on acquisitions at reasonable multiples

In January 2018, Sulzer acquired JWC, a leading supplier of municipal and industrial wastewater equipment. The acquisition added new products to our portfolio and improved our access to the key US municipal wastewater treatment market.

We continue to pursue small- to medium-sized acquisition targets. Our strategy to deploy capital in a targeted way at reasonable multiples continues to pay off.

Increasing guidance for order intake and sales

The good performance of Sulzer in the first half allows us to increase our guidance for order intake and sales for the full year 2018. Including acquisitions and adjusted for currency effects, order intake is expected to grow by 7 to 10% (previously 5 to 7%) and sales to grow by 6 to 8% (previously 4 to 6%). The company confirms its guidance for the operational EBITA margin (opEBITA in percent of sales) to be around 9.5%.

“Faster and better” — we certainly lived up to this spirit in the first half of 2018. We will continue to become faster, better and more agile for the benefit of our customers and you, our shareholders. We thank you for your continued support and trust.

Sincerely,



Peter Löscher
Chairman of the Board



Greg Poux-Guillaume
CEO