Business review

Return to organic order growth, improved profitability, and solid free cash flow despite market headwinds

Order intake grew by 2.2% organically and by 11.8% including acquisitions. Sales increased by 5.2% on acquisitions but declined organically as a result of a low order backlog entering the year. Sulzer Full Potential (SFP) program savings of CHF 61 million more than offset the impact of continuing market headwinds. Profitability increased to 8.4%, including a CHF 10 million (0.3%) one-time charge in the Chemtech division for a discontinued business activity. Free cash flow was CHF 127 million despite significant restructuring-related cash outlay.

If not otherwise indicated, changes compared with the previous year are based on currency-adjusted figures.

Encouraging organic order growth and strong contribution from acquisitions

Order intake increased by 11.8% (nominally 12.8%). CHF 269.1 million from acquisitions and 2.2% organic growth drove this upsurge. Order intake gross margin increased nominally by 0.4 percentage points to 34.4% as business mix effects more than offset the margin erosion from price pressure in the energy markets.

Sulzer delivered strong financial results in 2017, despite continuing market headwinds. We are well on track with our SFP program and should see its full impact on our operating margins as volumes pick up.

Thomas Dittrich Chief Financial Officer

Order intake in the Pumps Equipment division increased significantly by 8.1%, fueled by the Ensival Moret acquisition, which contributed 6.6%, which supplemented the organic growth of 1.5%. Organic growth was driven by oil and gas and general industry orders, which compensated for a strong organic decline in power. Order intake in the water market remained broadly flat on fewer large infrastructure projects, while municipal water order intake grew by 3%. In the Rotating Equipment Services division, order intake grew by 4.9% as a result of the Rotec acquisition. Orders decreased organically by 0.9%, which compared well against the broader market. This was mainly due to lower orders in the turbo services segment in a weak and highly competitive power market. Order intake in the Chemtech division grew by 5.9% (organically 5.1%) supported by the rebound of the Chinese market and strong growth in Europe. In the Applicator Systems division, orders increased by 55.7%. The strong growth resulted from two factors: the acquisitions of Geka, PC Cox, and Transcodent as well as healthy organic growth of 6.0%. Overall, Sulzer's order intake grew in all regions, except the Middle East and Africa.

Currency translation effects amounted to a positive CHF 26.9 million, due to a stronger Russian ruble and euro, partly offset by a weaker British pound.

As of December 31, 2017, the order backlog amounted to CHF 1’593.5 million (December 31, 2016: CHF 1’439.1 million).

Orders

millions of CHF	2017	2016
Order intake	3'155.7	2'797.5
Order intake gross margin	34.4%	34.0%
Order backlog as of December 31	1'593.5	1'439.1

Higher sales due to acquisitions

Sales amounted to CHF 3'049.0 million – an increase of 5.2% (nominal: 6.0%). This rise was driven by CHF 276.4 million of acquisition-related sales, which offset an organic sales decline of 4.4%. Positive currency translation effects totaled CHF 23.8 million.

In 2017, sales in the general industry segment recorded strong growth, driven by the Geka and Ensival Moret acquisitions and organic growth. This offset slightly lower sales in all other segments. Organically, Sulzer recorded a 7.6% sales decline in the energy segment.

Sales increased in Europe, Middle East, and Africa (EMEA), and Asia-Pacific, while the Americas region was down from the previous year. Consequently, the share of sales in emerging markets increased from 38% in 2016 to 41% in 2017.

Improved gross margin

Gross margin slightly increased from 30.6% in 2016 to 30.7%. Gross margin was positively affected by the larger share of higher-margin business and the effect of the global factory footprint reduction. This offset the price erosion effect in the oil and gas and in the power markets and a CHF 10 million one-time charge in the Chemtech division for a discontinued business activity. Total gross profit increased to CHF 936.6 million (2016: CHF 879.4 million) as a result of higher sales volumes.

Operational return on sales increased to 8.4%

Operational EBITA (opEBITA) amounted to CHF 255.4 million compared with CHF 238.9 million in 2016, an increase of 5.3% (nominally 6.9%). Savings of CHF 61 million from SFP and the contribution of acquisitions more than offset the impact of headwinds. OpEBITA decreased organically by 2.9% compared with 2016.

Operating expenses excluding amortization, impairment on property, plant, and equipment, restructuring expenses, and other non-operational items increased by 7.0% because acquisition-related cost additions were higher than SFP savings.

Operational ROSA (opROSA) increased to 8.4% compared with 8.3% in 2016, including the above-mentioned CHF 10 million (0.3%) one-time charge in 2017.

Operational key performance ratios

	2017	2016
opROSA	8.4%	8.3%
opROCEA	15.8%	15.7%

The divisions achieved the following profitability figures (opROSA):

- Pumps Equipment: –0.3% (2016: 1.1%). The lower profitability was due to the significant new equipment sales decline and margin deterioration as well as the slightly negative contribution from newly acquired Ensival Moret.
- Rotating Equipment Services: 13.9% (2016: 13.8%). The profitability was organically flat and increased by 0.1 percentage points with the Rotec acquisition.

- Chemtech: 5.2% (2016: 4.0%). The profitability increase resulted from higher sales and lower operating expenses. Excluding the CHF 10 million one-time charge for a discontinued business activity in the Tower Field Service business unit, the Chemtech opROSA would have been 7.3%.
- Applicator Systems: 20.5% (2016: 23.6%). The division reported lower profitability due to the first full-year consolidation of the Geka business, acquired in August 2016. On a comparable basis, opROSA increased from pro forma 20.1% in 2016 by 0.4 percentage points to 20.5% in 2017.

Bridge from EBIT to operational EBITA

millions of CHF	2017	2016
EBIT	**136.5**	**115.3**
Amortization	53.8	47.3
Impairment on tangible and intangible assets	15.4	18.4
Restructuring expenses	21.7	57.0
Non-operational items[1)]	28.0	0.9
opEBITA	**255.4**	**238.9**
opROSA	8.4%	8.3%

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.

Restructuring expenses and SFP program costs impacted operating income

As part of the SFP program, Sulzer has continued to adapt its global factory footprint and streamline its organization. Restructuring expenses significantly decreased compared to 2016. In 2017, restructuring expenses were mainly associated with measures taken in France, China, Brazil, Switzerland and Ireland.

In 2017, other non-operational items amounted to CHF –28.0 million. SFP-related expenses (CHF 26.0 million) and acquisition-related expenses (CHF 8.0 million) were partly offset by the income from a dispute settlement with the purchaser of the group’s locomotive business. In 2016, other non-operational items amounted to CHF –0.9 million. SFP-related expenses (CHF 26.9 million), acquisition-related expenses, and other items were offset by the favorable effect resulting from a lower conversion rate of the Swiss pension plans (CHF 35.4 million).

Consequently, EBIT amounted to CHF 136.5 million compared with CHF 115.3 million in 2016. Return on sales (ROS) was 4.5% compared with 4.0% in 2016.

Financial income: lower interest expenses

Total financial expenses amounted to CHF 10.8 million compared with CHF 19.3 million in 2016. Interest expenses were down by CHF 2.2 million as a result of the 2016 bond refinancing at favorable conditions. Other financial income/(expenses) amounted to CHF +0.3 million compared with CHF –7.1 million in 2016, mainly due to significantly reduced hedging costs and currency revaluation effects.

In 2017, Sulzer incurred expenses of CHF 0.3 million from a joint venture compared with CHF 0.8 million in the prior year. This relates to a joint venture in China for the service of gas turbines.

Slightly lower adjusted effective tax rate

Income tax expenses slightly increased to CHF 38.2 million (2016: CHF 35.1 million) despite a 28.2% upsurge of the pre-tax income. The effective tax rate declined from 36.9% in 2016 to 30.5% in 2017. Adjusted for the effects of restructuring expenses in both years and the impact of the US tax reform enacted in late 2017, the effective income tax rate declined from 24.3% in 2016 to 23.4% in 2017.

Higher core net income

In 2017, net income amounted to CHF 87.2 million compared with CHF 60.1 million in the previous year. Core net income excluding the tax-adjusted effects of non-operational items totaled CHF 178.3 million compared with CHF 153.8 million in 2016. Basic earnings per share increased from CHF 1.73 in 2016 to CHF 2.44 in 2017.

Improved balance sheet efficiency

Total assets as of December 31, 2017, amounted to CHF 4’117.3 million, which is an increase of CHF 381.4 million from 2016, as a result of acquisitions and currency translation effects.

Non-current assets increased nominally by CHF 180.6 million mainly due to higher goodwill (CHF 85.6 million), other intangibles (CHF 85.5 million), and higher property, plant, and equipment (CHF 20.6 million), while deferred income tax assets decreased by CHF 17.9 million to CHF 139.7 million. Goodwill, other intangible assets, and property, plant, and equipment increased by CHF 123.2 million on a currency-adjusted basis, mainly due to acquisitions.

Current assets increased nominally by CHF 200.8 million, due to higher working capital and higher cash and cash equivalents.

Total liabilities nominally increased by CHF 270.0 million to CHF 2’414.9 million as of December 31, 2017. An increase in borrowings (CHF 248.4 million), trade accounts payable (CHF 54.5 million), advance payments from customers (CHF 30.3 million), and other current and accrued liabilities (CHF 24.1 million) was partly offset by lower defined benefit obligations (CHF 100.5 million).

Equity nominally increased by CHF 111.4 million to CHF 1’702.4 million. This was mainly driven by net income (CHF 87.2 million), the remeasurement of the defined benefit obligation (CHF 91.8 million), and currency translation effects (CHF 54.6 million) which were partly offset by the Sulzer dividend payment (CHF 119.4 million).

Net debt to EBITDA increased from 0.14 in 2016 to 0.81, mainly due to an increase in short-term debt as a result of acquisitions.

Solid free cash flow

Free cash flow amounted to CHF 127.0 million compared with CHF 200.5 million reported in the prior year. The decrease was mainly due to CHF 31.1 million higher cash-out for restructuring (2017: CHF –59.0 million, 2016: CHF –27.9 million) and CHF 34.4 million lower contribution from net working capital (2017: CHF +22.9 million, 2016: CHF +57.3 million). The lower contribution from net working capital came from higher inventories on strong 2017 order growth, while inventory levels had decreased in 2016.

Cash flow from investing activities totaled CHF –230.8 million compared with CHF –168.8 million in the prior year. Cash-out for acquisitions amounted to CHF –162.5 million compared with CHF –313.4 million in 2016. Capital expenditures amounted to CHF 81.2 million, slightly above the CHF 74.9 million in 2016.

Cash flow from financing activities totaled CHF 106.3 million compared with CHF –680.6 million in 2016. Dividend payments amounted to CHF 119.4 million in 2017. In the previous year, dividend payments amounted to 617.5 million, which included a special dividend of CHF 498.1 million. Additional borrowings increased available cash by CHF 239.3 million (2016: CHF –59.4 million). Exchange gains on cash amounted to CHF 0.1 million compared with a gain of CHF 6.7 million in 2016.

Outlook 2018

Sulzer expects that the oil and gas market, which accounts for approximately 40% of its sales, will gradually recover and translate into a commercial rebound mostly visible in 2019. The power market is expected to decline, while all other Sulzer markets are expected to continue on their current growth path in 2018. This should lead to a slight increase in organic order level for the company, supplemented by additional volume from newly acquired businesses.

Sulzer delivered to date cumulative SFP savings of CHF 185 million, ahead of the previously communicated range of CHF 160 to 180 million. Sulzer decided to extend its SFP program by an additional year. The company is therefore raising its cumulative savings target from the previously communicated CHF 200 million (from 2018 onwards) to CHF 230 million (from 2019 onwards). In 2018, Sulzer expects its SFP program to deliver incremental cost savings of approximately CHF 25 million to cumulatively reach CHF 210 million.

For the full year 2018, including acquisitions signed in 2017 and adjusted for currency effects, order intake is expected to grow by 5 to 7% and sales to grow by 4 to 6%. Sulzer expects opEBITA margin at around 9.5% (opEBITA in percent of sales).

Abbreviations

EBIT: Operating income
ROS: Return on sales (EBIT/sales)
opEBITA: Operating income before restructuring, amortization, impairments, and non-operational items
opROSA: Return on sales before restructuring, amortization, impairments, and non-operational items (opEBITA/sales)
opROCEA: Return on capital employed (opEBITA/average capital employed)
EBITDA: Operating income before depreciation and amortization

Order intake returned to organic growth

Pumps Equipment reported growing order intake on a currency-adjusted basis and organically. Sales, operational EBITA, and operational ROSA decreased. Sulzer announced the acquisition of JWC Environmental, LLC, a leading supplier of wastewater equipment, and completed the acquisition of pump manufacturer Ensival Moret.

Extending pumping portfolio for industrial and wastewater applications

In the first quarter of 2017, Sulzer completed the acquisition of Ensival Moret. The French company offers a wide range of industrial pumps with strong positions in a variety of industrial applications such as fertilizers, sugar, mining, and chemicals.

It is an honor to take over from César as Division President Pumps Equipment. I am determined to take our business to the next level.

Michael Streicher Division President Pumps Equipment (as of January 1, 2018)

At year-end, Sulzer announced the acquisition of the US company JWC Environmental, LLC (JWC) (completed in January 2018). JWC is a leading provider of products to reduce and remove solids, such as grinders, screens, and dissolved air flotation systems for municipal, industrial, and commercial wastewater applications. The acquisition strengthened Sulzer's wastewater treatment offering through complementary equipment and improved its access to the key US municipal wastewater treatment market.

After 40 successful years with Sulzer, César Montenegro, Division President of Sulzer's Pumps Equipment division, chose to formally retire and stepped down from the Executive Committee as of December 31, 2017. Michael Streicher succeeded César Montenegro on January 1, 2018, as Division President Pumps Equipment and Sulzer Executive Committee member.

Returning to organic order intake growth

In 2017, the Pumps Equipment division reported growing order intake on a currency-adjusted basis (8.1%) and organically (1.5%) compared with the previous year. The organic increase was largely triggered by the improved oil and gas market. Order intake in the water market remained flat on fewer large orders for the engineered water business in 2017, despite 3% organic growth in Municipal Water. Order intake in the power market decreased, due to project delays in a highly competitive market. Order intake in the general industry markets grew organically and supported by the Ensival Moret acquisition.

Regionally, Europe, the Middle East, and Africa grew on a currency-adjusted basis but decreased organically. Demand in the Americas and Asia-Pacific regions grew significantly.

Our order intake grew organically in 2017. Healthy growth in general industry and early signs of recovery in oil and gas upstream helped us fill our order pipeline.

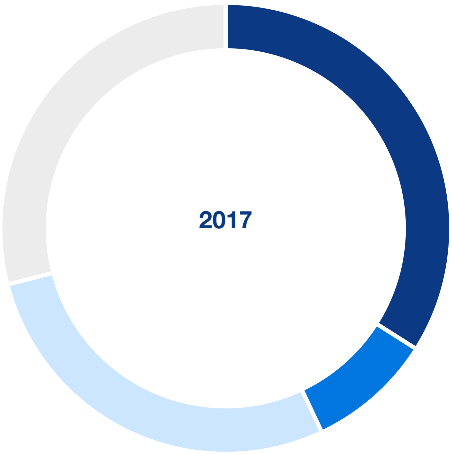
César Montenegro Division President Pumps Equipment (until December 31, 2017)

Decreasing sales, operational EBITA, and operational ROSA

Compared with 2016, sales decreased on a currency-adjusted basis (–4.3%) and organically (–12.9%). This was largely due to the significantly lower sales volumes from the energy markets (oil and gas and power) because of the lower order backlog at the beginning of 2017.

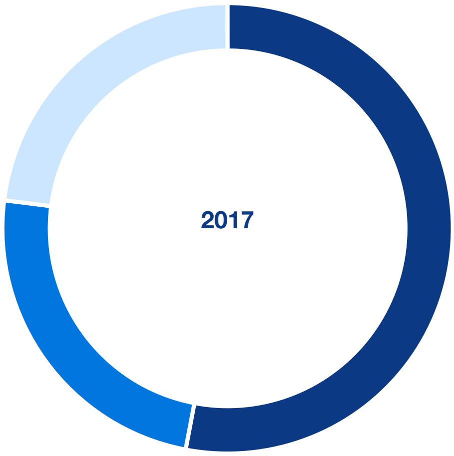
Operational EBITA decreased, impacted by lower organic sales volumes and the Ensival Moret acquisition. The slightly negative operational EBITA resulted in an operational ROSA of –0.3%.

Sales by market segment



- **34%** Oil and gas
- **9%** Power
- **28%** Water
- **29%** General industry

Sales by region



- **53%** Europe, Middle East, and Africa
- **24%** Americas
- **23%** Asia-Pacific

Higher accident frequency rate

In 2017, Pumps Equipment could not sustain its excellent safety performance that it achieved over the past five years. The division reported an increased accident frequency rate (AFR) of 2.2 cases per million working hours (2016: 1.3). The accident severity rate (ASR) amounted to 41.4 lost days per million working hours (2016: 33.8). The main reason for the increase is a high amount of accidents in the Asia-Pacific region. In Europe, the Middle East, and Africa, the number of accidents decreased considerably, whereas it remained stable in the Americas. The newly acquired companies were able to halve their number of accidents compared with 2016. In 2018, Sulzer will pay special attention to and implement measures at its sites in the Asia-Pacific region. Please read more about the company’s safety and health efforts in the chapter “Social sustainability”.

If not otherwise indicated, changes compared with the previous year are based on currency-adjusted figures.

Key figures Pumps Equipment

millions of CHF	2017	2016[3]	Change in +/–%	+/–% adjusted[1]	+/–% organic[2]
Order intake	1’189.7	1’090.4	9.1	8.1	1.5
Order intake gross margin	28.3%	26.7%			
Order backlog as of December 31	847.0	697.4	21.5		
Sales	1’122.7	1’159.0	–3.1	–4.3	–12.9
EBIT	–61.7	–64.9	n/a		
opEBITA	–3.7	13.0	n/a	n/a	n/a
opROSA	–0.3%	1.1%			
opROCEA	–0.6%	1.8%			
Employees (number of full-time equivalents) as of December 31	5’453	5’156	5.8		

1) Adjusted for currency effects.

2) Adjusted for acquisition and currency effects.

3) Reclassified numbers according to new operational structure, effective since January 1, 2017.

Abbreviations

EBIT: Operating income

opEBITA: Operating income before restructuring, amortization, impairments, and non-operational items

opROSA: Return on sales before restructuring, amortization, impairments, and non-operational items (opEBITA/sales)

opROCEA: Return on capital employed (opEBITA/average capital employed)

Order intake increased

In 2017, Rotating Equipment Services reported growing order intake on a currency-adjusted basis, whereas organic order intake remained broadly stable. Sales, operational EBITA, and operational ROSA increased. Sulzer closed the acquisition of Rotec GT to become a sizeable player in the Russian gas turbine service market.

Becoming a leading independent gas turbine service provider in Russia

In the second quarter of the year, Sulzer closed the acquisition of a controlling stake in Rotec's gas turbine maintenance business (Rotec GT). Rotec GT, headquartered in Moscow (Russia), is active mainly in the Russian market. Through this acquisition, Sulzer has become a leading independent gas turbine service provider for Russia and the CIS countries.

We are very pleased with the development of our Rotec acquisition. It gave us a new platform and strengthened our presence in Russia.

Daniel Bischofberger Division President Rotating Equipment Services

Sulzer changed its reporting structure and shifted the pumps spare parts business from Pumps Equipment to Rotating Equipment Services. Thereby customers benefit from a single access point for services and parts.

Higher order intake

In 2017, order intake increased on a currency-adjusted basis (4.9%) and remained broadly stable organically (–0.9%), which compared well against the broader market.

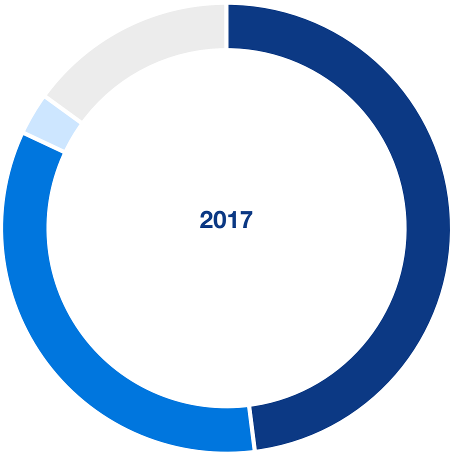
Regionally, the Americas and Asia-Pacific grew. Europe, the Middle East, and Africa also increased on a currency-adjusted basis but decreased organically. The organic decline was due to lower orders in the turbo services business, impacted by a challenging market environment for gas turbines.

Sales, operational EBITA, and operational ROSA increased

Rotating Equipment Services reported an increase in sales on a currency-adjusted basis (1.6%) and an organic sales decrease (–2.1%) compared with 2016. The decline was driven by lower volumes in the oil and gas as well as the power markets.

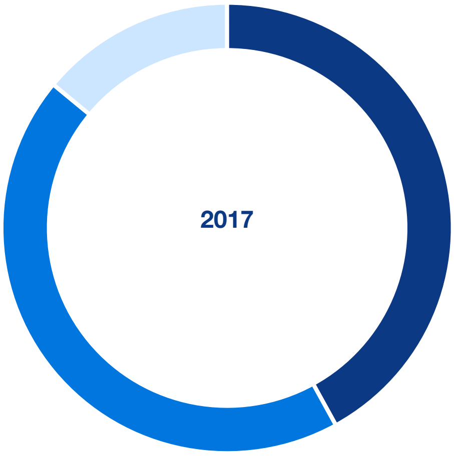
Operational EBITA increased on a currency-adjusted basis (2.4%) and decreased organically (–1.8%). Despite pricing pressure, operational ROSA increased to 13.9%.

Sales by market segment



- **48%** Oil and gas
- **34%** Power
- **3%** Water
- **15%** General industry

Sales by region



- **42%** Europe, Middle East, and Africa
- **44%** Americas
- **14%** Asia-Pacific

Increased number of accidents

In 2017, the accident frequency rate (AFR) increased slightly to 2.0 cases per million working hours (2016: 1.9), driven by an increase in the number of incidents in the Americas region. With 42.6 lost days per million working hours, the division was able to slightly decrease the accident severity rate (ASR; 2016: 44.9). The Sulzer Safe Behavior Program has been rolled out to all new entities in the division. The company intensified intra-divisional exchange of lessons learned to improve safe behavior at the workplace. In 2018, the target is to increase the number of safety walks and observations to identify unsafe conditions and behavior. Moreover, all new entities will be ISO- and OHSAS-certified in 2018. Please read more about the company's safety and health efforts in the chapter "Social sustainability".

If not otherwise indicated, changes compared with the previous year are based on currency-adjusted figures.

Key figures Rotating Equipment Services

millions of CHF	2017	2016[3)]	Change in +/–%	+/–% adjusted[1)]	+/–% organic[2)]
Order intake	1’071.0	1’009.7	6.1	4.9	–0.9
Order intake gross margin	38.0%	38.0%			
Order backlog as of December 31	364.4	378.7	–3.8		
Sales	1’034.5	1’011.3	2.3	1.6	–2.1
EBIT	134.4	129.3	3.9		
opEBITA	144.0	139.5	3.2	2.4	–1.8
opROSA	13.9%	13.8%			
opROCEA	28.4%	25.9%			
Employees (number of full-time equivalents) as of December 31	4’485	4’541	–1.2		

1) Adjusted for currency effects.

2) Adjusted for acquisition and currency effects.

3) Reclassified numbers according to new operational structure, effective since January 1, 2017.

Abbreviations

EBIT: Operating income

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opROSA: Return on sales before restructuring, amortization, impairments, and non-operational items (opEBITA/sales)

opROCEA: Return on capital employed (opEBITA/average capital employed)

Solid organic growth

Chemtech reported growing order intake and sales in 2017. Compared with the previous year, operational EBITA and operational ROSA improved. Sulzer expanded its separation capabilities through the closing of the Vessel Internal Electrostatic Coalescer (VIEC) acquisition and through two exclusive license partnerships for oil and gas processing technologies.

Licensed technologies for oil and gas processing

Sulzer closed the acquisition of Wärtsilä's Vessel Internal Electrostatic Coalescer (VIEC) technology in the first quarter of 2017. The patented technology separates oil from water in a highly efficient manner.

We drove sales and introduced new technologies in 2017. Supported by the market rebound, Chemtech had a successful year.

Torsten Wintergerste Division President Chemtech

ExxonMobil has exclusively licensed its new patented cMIST™ technology to the Chemtech division. cMIST efficiently removes water vapor present during the production of natural gas. Furthermore, Sulzer's Chemtech division has been granted an exclusive license covering the wash tank technology for oil processing patented by Total. The main purpose of this technology is to enhance the removal of water, salt, and contaminants from oil and emulsions.

With the creation of the new Applicator Systems division as of January 1, 2017, Sulzer Mixpac Systems, Geka, and PC Cox no longer report as part of the Chemtech division.

Order intake up by 5.1% organically

In 2017, order intake increased by 5.9% on a currency-adjusted basis and by 5.1% organically compared with the previous year. This development was driven by the rebound of the downstream market and the chemical processing industry, mainly in China. The introduction of new technologies supported growth as well. Order intake in the Separation Technology business unit was strong, especially for installations in the Asia-Pacific region. Order intake in the Tower Field Service business unit remained on last year's level.

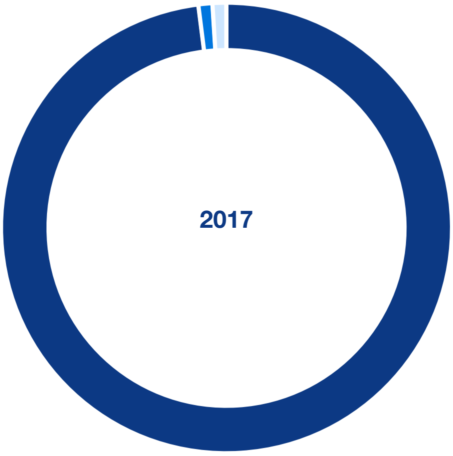
Regionally, order intake in Europe and Asia-Pacific grew strongly. Orders in the Middle East and the Americas remained flat. Order intake in Africa declined due to one big project in the previous year.

Growing sales, operational EBITA, and operational ROSA

In 2017, Chemtech reported growing sales, both on a currency-adjusted basis (7.0%) and organically (6.2%). The increase mostly stemmed from the positive development in the oil and gas market.

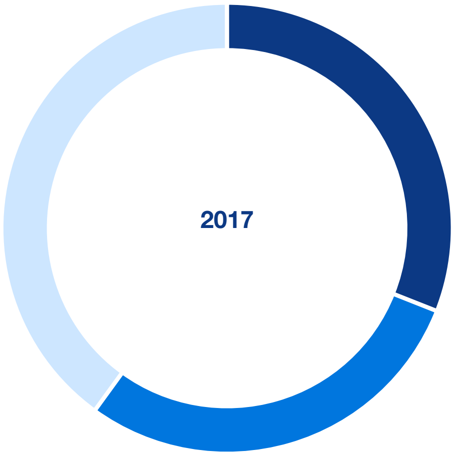
Operational EBITA increased strongly on a currency-adjusted basis (35.2%) and organically (39.7%). The increase was triggered by a higher sales volume and operational improvement measures. Accordingly, operational ROSA increased significantly to 7.3% before a CHF 10 million one-time charge for a discontinued business activity in Tower Field Services.

Sales by market segment



98% Oil and gas
1% Power
1% General industry

Sales by region



31% Europe, Middle East, and Africa
29% Americas
40% Asia-Pacific

Safety performance stabilized

In 2017, Chemtech was able to stabilize its safety performance and reduce the number of accidents. The accident frequency rate (AFR) at Chemtech dropped to 1.5 cases per million working hours (2016: 2.8). The accident severity rate (ASR) decreased to 84.7 lost days per million working hours (2016: 88.5). An increased number of safety walks and a stronger focus on work in confined spaces and lessons learned supported the development. Please read more about the company's safety and health efforts in the chapter "Social sustainability".

If not otherwise indicated, changes compared with the previous year are based on currency-adjusted figures.

Key figures Chemtech

millions of CHF	2017	2016 3)	Change in +/–%	+/–% adjusted 1)	+/–% organic 2)
Order intake	502.0	471.9	6.4	5.9	5.1
Order intake gross margin	31.0%	30.2%			
Order backlog as of December 31	315.3	304.9	3.4		
Sales	478.4	446.1	7.2	7.0	6.2
EBIT	11.0	–2.5	n/a		
opEBITA	25.0	18.0	38.9	35.2	39.7
opROSA	5.2%	4.0%			
opROCEA	11.3%	8.0%			
Employees (number of full-time equivalents) as of December 31	2’878	2’570	12.0		

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opROCEA: Return on capital employed (opEBITA/average capital employed)

Strengthening the applicator systems portfolio

At the beginning of 2017, Sulzer established a fourth division called Applicator Systems (APS). Order intake, sales, and operational EBITA increased in 2017 compared with the previous year. With the acquisition of Transcodent, Sulzer further strengthened its leading position in the dental market segment.

New division Applicator Systems up and running

On January 1, 2017, Sulzer changed its reporting structure for increased transparency and customer focus: The combination of the Sulzer Mixpac Systems (SMS) business unit and the recently acquired Geka and PC Cox businesses are now being reported as the new Applicator Systems division. APS offers a global platform for high-precision plastic molding, assembly, decoration, and filling technologies for mixing and applicator solutions. The division serves customers in the dental, industrial adhesives, and beauty (particularly mascara) segments.

Our acquired businesses supplemented our solid organic growth. With Transcodent, we were able to round out our dental portfolio and became a full-line supplier for dental applications. The integration is well underway.

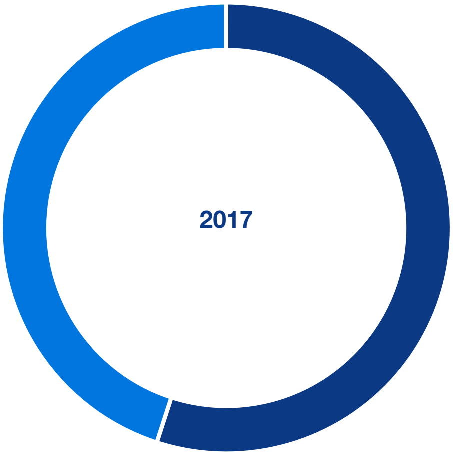
Amaury de Menthiere Division President Applicator Systems

In the third quarter of 2017, Sulzer acquired Transcodent. The company, headquartered in Kiel, Germany, is a leading provider of multiple dose and unit dose application systems, needles, tips, and capsules for the dental market. The acquisition further strengthened the Applicator Systems division of Sulzer in its dental segment, where Sulzer is already a global market leader.

Solid organic order intake and sales growth

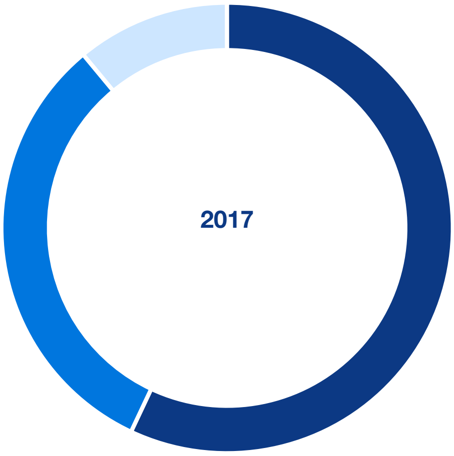
In 2017, order intake increased on a currency-adjusted basis (55.7%) and organically (6.0%) compared with 2016. Sales, which track orders closely in this division, increased by 54.9% and organically by 5.0%. The acquisitions of PC Cox, Geka, and Transcodent contributed CHF 135.8 million to sales in 2017. Organic growth was driven by high sales volumes in the industrial adhesives segment. All product lines and geographies contributed to growth.

Sales by market segment



- **55%** Adhesives, dental, healthcare
- **45%** Beauty

Sales by region



- **57%** Europe, Middle East, and Africa
- **32%** Americas
- **11%** Asia-Pacific

Higher operational EBITA

In 2017, operational EBITA increased significantly, both on a currency-adjusted basis (34.8%) and organically (10.3%). Operational ROSA, while diluted by the Geka acquisition which closed in the third quarter of 2016, actually increased on a comparable basis from pro forma 20.1% in 2016 to 20.5% in 2017.

Implementing Sulzer's safety culture

In 2017, Applicator Systems focused on integrating Sulzer's safety standards and driving progress in its newly acquired businesses. The division reported an accident frequency rate (AFR) of 7.2 cases per million working hours in 2017. The accident severity rate (ASR) amounted to 50.4 lost days per million working hours. APS paid particular attention to an increased management focus on safety matters, driving safety ownership, and implementing Sulzer's safety culture. As a result, all sites of APS met or exceeded their safety performance targets in 2017. Please read more about the company's safety and health efforts in the chapter "Social sustainability".

If not otherwise indicated, changes compared with the previous year are based on currency-adjusted figures.

Key figures Applicator Systems

millions of CHF	2017	2016[3)]	Change in +/–%	+/–% adjusted[1)]	+/–% organic[2)]
Order intake	426.3	272.6	56.4	55.7	6.0
Order intake gross margin	43.9%	49.5%			
Order backlog as of December 31	64.7	58.0	11.6		
Sales	423.5	272.0	55.7	54.9	5.0
EBIT	63.2	39.7	59.2		
opEBITA	86.8	64.1	35.4	34.8	10.3
opROSA	20.5%	23.6%			
opROCEA	22.7%	29.1%			
Employees (number of full-time equivalents) as of December 31	1’716	1’562	9.9		

1) Adjusted for currency effects.

2) Adjusted for acquisition and currency effects.

3) Reclassified numbers according to new operational structure, effective since January 1, 2017.

Abbreviations

EBIT: Operating income

opEBITA: Operating income before restructuring, amortization, impairments, and non-operational items

opROSA: Return on sales before restructuring, amortization, impairments, and non-operational items (opEBITA/sales)

opROCEA: Return on capital employed (opEBITA/average capital employed)