

# Letter to the shareholders



*Dear Shareholder,*

Markets are changing faster than ever before. Technology has upended the oil and gas landscape, taking the USA in a few years from the status of net importer to surpassing Saudi Arabia as an oil producing nation. It has made data, ours and our customers', the most valuable commodity of all. It has allowed us to enter new markets, but has also empowered a new breed of competitors in domains where significant industrial assets used to be a prerequisite to compete. And it makes the world a global village, creating limitless opportunities for efficient collaboration across our company and beyond.

The "fourth industrial revolution," "Industry 4.0": these terms pepper the speech of every CEO and the strategy presentations of their companies. Sulzer is no exception, but our digital transformation is first and foremost an enabler towards our main goal: to achieve industrial agility. To compete in a world where change is the only constant, Sulzer needs to combine the recognition it enjoys for quality and innovation with the ability to react quickly to changing markets, changing customer needs and changing environmental constraints.

Sulzer is ready. We are reinventing our business for tomorrow. We are using additive manufacturing to produce the next generation of pump impellers and to speed up the development of mascara brushes. We are using digital tools to turn our pumps into smart devices and to enable the Sulzer factory of the future. But we are also changing the way we work so that we can deliver spare parts in a matter of hours rather than weeks.

So dive into this first Annual Report available exclusively online and learn more about how we are connecting our businesses, increasing productivity and driving growth.

## Performance in 2017

We had significant commercial and operational successes in 2017 and delivered on what we promised. The oil and gas markets remained challenging but downstream started rebounding. We do not yet expect a wider rebound this year but are optimistic as we look beyond 2018.

In 2017, we recorded encouraging organic order growth in addition to the strong contribution from our acquisitions. At CHF 3.2 billion, order intake grew by 11.8% on a currency-adjusted basis and by 2.2% organically. Sales increased by 5.2% to CHF 3.0 billion on the strength of our acquisitions, while declining organically as a result of a low opening order backlog.

Operational profitability (opEBITA) reached CHF 255.4 million, an increase of 5.3% on a currency-adjusted basis compared with 2016. Savings of CHF 61 million from the Sulzer Full Potential (SFP) program and the contribution of acquisitions more than offset the impact of headwinds. Profitability increased to 8.4%, despite a CHF 10 million one-time charge for a discontinued business activity in Chemtech.

*While SFP continues to deliver strong results, we have shifted our focus to becoming a more agile company to support our profitable growth.*

**Greg Poux-Guillaume** CEO

## Building on the successes of SFP

SFP achieved additional savings of CHF 61 million in 2017 – and there is more to come.

When we launched SFP three years ago, we set as a goal a 2018 financial objective and implementation horizon. The depth of the oil and gas market downturn has been more pronounced than anticipated, and its recovery slower. But SFP is on track to over-deliver, ahead of time and within budget. And we still have ideas for making Sulzer leaner and more agile. Consequently, we have decided to extend SFP for one more year and to raise the previously communicated target of CHF 200 million of savings from 2018 onwards to CHF 230 million of savings 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. SFP helped us get Sulzer back on track, now it will be fueling our margin recovery. And we are not done yet.

## Delivering on acquisitions

We continued to follow the acquisition path we set out in 2016. We successfully closed four acquisitions in 2017:

- Ensival Moret, closed in February 2017: added axial flow and slurry pump technologies to our portfolio;
- VIEC, closed in February 2017: added separation technology for the upstream oil and gas market segment;
- Rotec GT, closed in June 2017: extended our gas turbine service business in Russia;
- Transcodent, closed in September 2017: strengthened our Applicator Systems' dental segment where we already are a global market leader.

Furthermore, we announced the acquisition of JWC Environmental, LLC, in December 2017 (closed in January 2018). JWC is a leading provider of solids reduction and removal products for the wastewater business. It complements our existing water products and improves our access to the US municipal wastewater treatment market.

The effect from acquisitions closed in 2016 and 2017 amounted to CHF 269 million in order intake and to CHF 276 million in sales in 2017. For 2018, we continue to combine an active M&A pipeline with a strong focus on value creation.

## Changes to the Board of Directors and the Executive Committee

Jill Lee, who has been a Sulzer Board member for six years and is currently member of the Audit Committee, is joining the Executive Committee of Sulzer as Chief Financial Officer on April 5, 2018. She will not stand for reelection to Sulzer's Board of Directors at the April 4 General Assembly. Jill is succeeding Thomas Dittrich, who will leave Sulzer in March after four years of decisive contributions to our transformation plan.

Michael Streicher, who has been with Sulzer's pump business for more than 20 years, succeeded César Montenegro as Division President Pumps Equipment and Sulzer Executive Committee member on January 1, 2018. César Montenegro is completing his handover to his chosen successor and will formally retire in April 2018 after 40 years of unparalleled contributions to Sulzer.

*We are excited that – with Jill as the new CFO and Michael as the new President of our Pumps Equipment division – we can welcome two excellent colleagues to our Executive Committee. They both have intricate knowledge of the company, and they will ensure a smooth and seamless transition.*

**Peter Löscher** Chairman of the Board of Directors

## Outlook for 2018

Sulzer expects that the oil and gas market, which accounts for approximately 40% of our sales, will gradually recover and translate into a commercial rebound for Sulzer 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.

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).

Dear Shareholder, we are excited about the year ahead of us. We are continuing our transformation and we are working hard to build on our solid foundation for growth. We thank you for your support and continued trust. The spirit that makes Sulzer unique is very much alive today. Thank you for being part of it.

Sincerely,



Peter Löscher  
Chairman of the Board



Greg Poux-Guillaume  
CEO



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- [Speeding up the development of mascara brushes](#)
- [Turning pumps into smart devices](#)
- [Sulzer's future factories: smart and learning](#)
- [Faster than ever: delivering pump spare parts within 48 hours](#)