Business review

Strong order growth and significant profitability improvement

Order intake grew by 8.4% organically and by 12.5% including acquisitions. Sales increased by 7.8% organically, supported by higher order backlog entering the year, and by 11.9% including acquisitions. Profitability increased by 1.1 percentage points to 9.5%, driven by CHF 45 million savings from the Sulzer Full Potential (SFP) program and acquisitions. Free cash flow grew by CHF 47 million to CHF 174 million on higher operating income.

If not otherwise indicated, changes from the previous year are based on currency-adjusted figures. These are reported without consideration of IFRS 15, applying the same accounting policies as in the prior year.

Strong order growth

Order intake increased by 12.5% in 2018. 8.4% organic growth and CHF 129.0 million from acquisitions drove this upsurge. Order intake gross margin decreased by 1.1 percentage points to 33.3%, largely because of the higher share of new equipment orders in oil and gas and continuing margin pressure in the power segment.

Sulzer delivered strong financial results in 2018 with double-digit sales growth, a significant profitability increase and healthy free cash flow.

Jill Lee, Chief Financial Officer

Order intake in the Pumps Equipment division increased significantly by 16.5%, due to 8.6% organic growth and 7.9% from acquisitions. The strong organic growth was the result of higher oil and gas orders, partly offset by the decline in the power segment. In the Rotating Equipment Services division, order intake grew by 7.6% on the back of 5.8% organic growth and acquisitions. Organic growth was boosted by a rebound in the oil and gas segment, while negatively affected by a drop in power orders. Order intake in the Chemtech division grew by 20.5% organically supported by strong growth across all regions. In the Applicator Systems division, orders increased by 4.2% as a result of the acquisitions of Transcodent and Medmix. Orders remained flat organically. Sulzer’s total order intake grew in the Americas, Europe, the Middle East and Africa, while remaining stable in Asia-Pacific.

Currency translation effects amounted to CHF –19.5 million, due to the weaker Russian rouble, Brazilian real and Argentinian peso, partly offset by the stronger euro.

As of December 31, 2018, the order backlog amounted to CHF 1’666.9 million (December 31, 2017: CHF 1’593.5 million). Negative currency translation effects totaled CHF 47.8 million.

Orders

millions of CHF	2018 (new accounting policies)[1]	2018 (previous accounting policies)[2]	2017
Order intake	3’531.5	3’531.5	3’155.7
Order intake gross margin	33.3%	33.3%	34.4%
Order backlog as of December 31	1’786.9	1’666.9	1’593.5

1) According to IFRS 15, see financial review and note 34 of the consolidated financial statements for details.
2) Without consideration of IFRS 15, applying the same accounting policies as in the prior year.

Higher sales on strong organic growth and acquisitions

Sales amounted to CHF 3’404.5 million in 2018 – an increase of 11.9%. This rise was driven by strong organic growth of 7.8% on the back of higher order backlog entering the year, the strong order intake during the year and CHF 126.9 million of acquisition-related sales. Negative currency translation effects totaled CHF 8.3 million.

In 2018, sales grew in all market segments. The most significant increase was recorded in the water segment, driven by strong organic growth and the JWC acquisition, as well as in the oil and gas segment, riding on the higher opening backlog. Sales in the power segment grew from the acquisition of Rotec and Brithinee, offsetting a slight organic decline. The general industry segment recorded higher sales from both organic growth and acquisitions.

Sales grew across all regions, most pronounced in Asia-Pacific. The share of sales in emerging markets increased from 41% in 2017 to 44% in 2018.

Lower gross margin

Gross margin decreased from 30.7% in 2017 to 28.7% in 2018. Gross margin was impacted by the price erosion in the oil and gas and power segments. In addition, the higher share of sales from lower-margin new equipment business negatively affected the overall gross margin. Total gross profit increased to CHF 978.0 million (2017: CHF 936.6 million) supported by higher sales volumes.

Operational return on sales increased to 9.5%

Operational EBITA (opEBITA) amounted to CHF 322.2 million compared with CHF 255.4 million in 2017, an increase of 26.7%. Higher sales, savings of CHF 45 million achieved from SFP and the contribution from acquisitions more than offset the negative margin and mix impact. OpEBITA increased organically by 18.1% compared with 2017.

Operating expenses excluding amortization, impairment on property, plant and equipment, restructuring expenses, and other non-operational items increased by 1.6% because acquisition-related cost additions exceeded SFP savings.

Operational ROSA (opROSA) increased to 9.5% compared with 8.4% in 2017.

Operational key performance ratios

	2018 (new accounting policies)[1]	2018 (previous accounting policies)[2]	2017
opROSA	9.6%	9.5%	8.4%
opROCEA	18.1%	17.8%	15.8%

1) According to IFRS 15, see financial review and note 34 of the consolidated financial statements for details.
2) Without consideration of IFRS 15, applying the same accounting policies as in the prior year.

The divisions achieved the following profitability figures (opROSA):

- Pumps Equipment: 3.1% (2017: –0.3%). The profitability increased from the strong sales growth in the new equipment business and in the water segment, which grew organically and from the JWC acquisition.
- Rotating Equipment Services: 13.7% (2017: 13.9%). Profitability reduced only slightly despite pressures from a very competitive power segment, which was broadly compensated by strong cost management.
- Chemtech: 8.7% (2017: 5.2%): The profitability increase was attributed to strong sales growth. In addition, last year’s profit included a CHF 10 million operational charge, relating to a meanwhile discontinued business activity in the Tower Field Service business unit. Excluding that charge, Chemtech’s 2017 opROSA would have been 7.3%.
- Applicator Systems: 21.1% (2017: 20.5%). The profitability grew due to higher sales volume.

Bridge from EBIT to operational EBITA

millions of CHF	2018 (new accounting policies)[1]	2018 (previous accounting policies)[2]	2017
EBIT	**183.8**	**183.6**	**136.5**
Amortization	69.0	69.0	53.8
Impairments on property, plant and equipment	4.4	4.4	15.4
Restructuring expenses	13.1	13.1	21.7
Non-operational items[3]	52.0	52.0	28.0
opEBITA	**322.5**	**322.2**	**255.4**
opROSA	9.6%	9.5%	8.4%

1) According to IFRS 15, see financial review and note 34 of the consolidated financial statements for details.
2) Without consideration of IFRS 15, applying the same accounting policies as in the prior year.
3) 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.

Non-operational costs impacted operating income

As part of the SFP program, Sulzer has continued to adapt its global factory footprint and streamline its organizational setup. Restructuring expenses significantly decreased compared with 2017. In 2018, restructuring expenses were mainly associated with measures taken in Brazil, Germany, the US, France, the Netherlands and Belgium.

In 2018, other non-operational items amounted to CHF 52.0 million (CHF 28.0 million in 2017). These included the following larger items; SFP-related expenses amounted to CHF 28.5 million (CHF 26.0 million in 2017) and acquisition-related expenses were CHF 8.8 million (CHF 8.0 million in 2017). CHF 6.5 million of costs incurred in relation to the US sanctions against Russia, mostly legal counsel and temporary disruption expenses. Sulzer incurred a CHF 30.1 million charge in Chemtech for a business activity in the Tower Field Service business unit, discontinued from the end of 2017. This was broadly offset by a CHF 28.5 million profit from the sale of unquoted equity instruments related to affordable housing historically provided to Sulzer employees. The equity instruments had previously been measured at cost.

Consequently, EBIT amounted to CHF 183.6 million, an increase of 36.8% compared with CHF 136.5 million in 2017. Return on sales (ROS) was 5.4% compared with 4.5% in 2017.

Financial income: higher interest expenses

Total financial expenses amounted to CHF 18.9 million compared with CHF 10.8 million in 2017. Interest expenses increased by CHF 5.1 million as a result of the higher borrowing volume. Other financial expenses amounted to CHF –1.5 million compared with CHF +0.3 million in 2017, mainly due to adverse currency revaluation effects and fair value changes.

In 2018, Sulzer recorded a profit of CHF 0.7 million from a joint venture compared with a loss of CHF 0.3 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 increased to CHF 49.3 million (2017: CHF 38.2 million) due to higher pre-tax income. The effective tax rate declined from 30.5% in 2017 to 29.8% in 2018. Adjusted for the effects of unrecognized deferred tax assets, restructuring expenses and the impact of the US tax reform, the effective income tax rate declined from 23.4% in 2017 to 23.1% in 2018.

Higher core net income

In 2018, net income amounted to CHF 116.1 million compared with CHF 87.2 million in the previous year. Core net income excluding the tax-adjusted effects of non-operational items totaled CHF 222.7 million compared with CHF 178.3 million in 2017. Basic earnings per share increased from CHF 2.44 in 2017 to CHF 3.54 in 2018.

Improved balance sheet efficiency

Total assets as of December 31, 2018 amounted to CHF 4’884.8 million, which is an increase of CHF 765.7 million from 2017. This was mainly the result of higher borrowings, increased business volume and acquisitions.

Non-current assets increased by CHF 139.9 million to CHF 2’052.4 million mainly due to higher goodwill (CHF 91.6 million), other intangible assets (CHF 34.7 million), and property, plant and equipment (CHF 14.9 million), due to acquisitions and higher capital expenditure. Currency translation effects on non-current assets amounted to CHF –78.0 million.

Current assets increased by CHF 793.8 million to CHF 2’832.4 million, mainly due to higher cash and cash equivalents (CHF 614.9 million) and higher working capital (CHF 152.0 million). Cash and cash equivalents also increased because of the higher borrowings. Working capital mainly increased due to the higher sales volume and backlog-related inventory increase, coupled with higher share of new equipment business in oil and gas. Currency translation effects on current assets amounted to CHF – 88.3 million.

Total liabilities increased by CHF 880.5 million to CHF 3’222.3 million as of December 31, 2018, mainly due to an increase in borrowings (CHF 621.5 million) and other current and accrued liabilities (CHF 227.2 million). The latter was mainly due to non-interest-bearing payables to Sulzer’s main shareholder Renova, amounting to CHF 184.6 million. This consisted of CHF 108.6 million related to the purchase of five million own shares from Renova on April 8, 2018, subsequently sold on

September 18, 2018, and CHF 76.0 million related to the 2018 dividend payment. Currency translation effects on total liabilities amounted to CHF –73.1 million.

Equity amounted to 1’662.4 million in 2018 compared with 1’702.4 million in 2017. This was mainly driven by the Sulzer dividend (CHF 119.1 million) and currency translation effects (CHF 90.6 million), which were partly offset by net income (CHF 116.1 million), and the remeasurement of the defined benefit obligation (CHF 55.9 million).

Net debt increased slightly from CHF 225.0 million in 2017 to CHF 239.0 million in 2018. Net debt to EBITDA decreased from 0.81 in 2017 to 0.73, mainly due to the increase in EBITDA.

Strong free cash flow

Cash flow from operating activities amounted to CHF 260.8 million, compared with CHF 183.7 million in 2017. This increase was mainly due to the higher net income partly offset by a lower contribution from net working capital. Free cash flow amounted to CHF 173.9 million compared with CHF 127.0 million in the prior year. This was driven by the higher cash flow from operating activities, partly offset by higher capital expenditure.

Cash-out from investing activities totaled CHF 297.4 million compared with CHF 230.8 million in the prior year. Cash-out for acquisitions amounted to CHF 218.7 million compared with CHF 162.5 million in 2017. Capital expenditure amounted to CHF 96.2 million, above the CHF 81.2 million in 2017.

Cash flow from financing activities totaled CHF 669.1 million compared with CHF 106.3 million in 2017. This was largely due to additional borrowings of CHF 625.8 million (2017: CHF 239.3 million). Dividend payments amounted to CHF 43.1 million in 2018, compared with CHF 119.4 million in 2017. While the Sulzer dividend remained unchanged at CHF 3.50 per share, CHF 76.0 million of dividend payments to Sulzer’s main shareholder Renova could not be transferred as a result of the US sanctions on Russia. Exchange losses on cash amounted to CHF 26.1 million compared with a gain of CHF 0.1 million in 2017.

Outlook 2019

Sulzer expects the positive momentum in the oil and gas market to continue in 2019. All other markets are also expected to grow, with the continued exception of power. The company’s early indicators do not show signs of an impending slowdown of the economy in its major markets. Sulzer therefore expects to continue its trend of organic growth and improved profitability.

Sulzer delivered to date cumulative SFP savings of CHF 230 million, ahead of the previously communicated cumulative 2018 target of CHF 220 million. In 2019, Sulzer expects its SFP program to deliver incremental cost savings of approximately CHF 10 million. The company is therefore raising its cumulative savings target from the previously communicated CHF 230 million (from 2019 onwards) to CHF 240 million (from 2019 onwards).

For the full year 2019, adjusted for currency effects, order intake is expected to grow organically by 2% to 5% and sales to grow organically by 3% to 5%. Sulzer expects to reach an opEBITA margin (opEBITA in percent of sales) of around 10%.

Impact of IFRS 15

Sulzer has adapted its reporting to reflect the application of IFRS 15 “Revenue from Contracts with Customers”. It replaced IAS 18 “Revenue”, and IAS 11 “Construction Contracts”. IFRS 15 determines whether, how much and when to recognize sales from contracts with customers. In 2018, IFRS 15 had a negative effect on sales (CHF 39.6 million) and a positive effect on opEBITA (CHF 0.3 million). Consequently, the application of IFRS 15 increased opROSA by 0.1 percentage points. These differences are related to projects where sales, cost and profit were recognized over time according to the previous accounting standards. According to IFRS 15, sales, cost and profit of these projects are recognized later at a certain point in time.

The information presented for 2017 has not been restated. For transparency, we are showing the figures for 2018 according to both the new and the old methods in the divisional business reviews. The changes in percent shown in the tables and mentioned in the text compare 2018 figures, according to the old method, with 2017 figures as previously reported. In the consolidated financial statements (note 34), a table summarizes the impact of the new accounting standards on the financial statements.

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

Growing order intake, sales and profitability

Pumps Equipment recorded growing order intake and sales in 2018. Operational EBITA and operational ROSA increased significantly, bringing the division back to profitability. Sulzer completed its acquisition of JWC Environmental, LLC. As of January 1, 2019, Frédéric Lalanne was appointed as President of the Pumps Equipment division.

Award-winning Internet of Things solution

Sulzer continued to take its offering into the digital age. The company's BLUE BOX™ platform for advanced remote analytics went live for Phillips 66, a major pipeline company in the US. Thanks to BLUE BOX, Phillips 66 can improve its energy efficiency and optimize management of its assets. In November 2018, the pioneering solution won the Gold Certificate Industry 4.0 at the Swiss Digital Economy Awards.

We returned to profitability in 2018. I am excited to lead Pumps Equipment's continued rebound in a market with solid momentum.

Frédéric Lalanne, Division President Pumps Equipment (as of January 1, 2019)

In January 2018, Sulzer completed its acquisition of JWC Environmental, LLC (JWC). JWC is a supplier to the North American wastewater market and employs around 230 people.

As of January 1, 2019, Sulzer appointed Frédéric Lalanne, previously Chief Commercial and Marketing Officer, as President of the Pumps Equipment division. Michael Streicher stepped down from the Executive Committee to assume his new responsibilities as Global Head of the water pumps business.

Order intake increased

In 2018, Pumps Equipment reported increasing order intake. All market segments except for power contributed to growth. Bookings were particularly good in the oil and gas segment. The acquisition of JWC added orders totaling CHF 87 million.

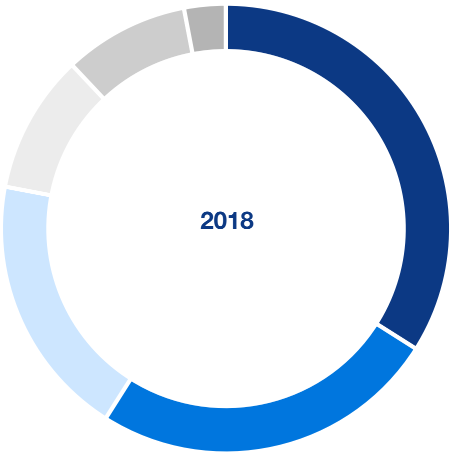
Regionally, order intake was strong in the Americas, particularly in the US where major pipeline orders have been booked. Orders in Europe, the Middle East and Africa (EMEA) remained stable, while orders in the Asia-Pacific region decreased.

Increase in sales and return to profitability

Sales increased in 2018 by 15.5%. Sales grew in all of Sulzer’s key markets and were particularly strong in all segments of the oil and gas industry.

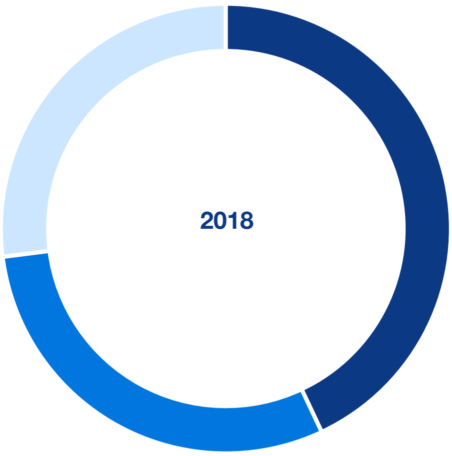
Operational EBITA increased significantly compared with 2017, bringing the division back to profitability. This was supported by higher volumes in the water and industrial markets as well as a positive contribution from the JWC acquisition. Operational ROSA increased to 3.1%.

Sales by (sub-)segment



- **34%** Water
- **25%** General industry
- **19%** Mid- and downstream
- **10%** Upstream
- **9%** Power
- **3%** Chemical processing industry

Sales by region



- **43%** Europe, the Middle East and Africa
- **30%** Americas
- **27%** Asia-Pacific

Safety performance in 2018

In 2018, Pumps Equipment reported a decrease in its accident frequency rate (AFR) to 2.7 cases per million working hours (2017: 2.8*). The accident severity rate (ASR) amounted to 107.3 lost days per million working hours (2017: 49.3*). The carryover of lost time from accidents that occurred in the previous year, but which did not close fully until 2018, contributed to the increase. In 2019, the division will focus on improving safety performance, particularly in the EMEA region, which saw an unusual rise in accidents in 2018. You can read more about the company’s health and safety efforts in the chapter “Social sustainability”.

* Adjusted for acquisition effects.

If not otherwise indicated, changes from the previous year are based on currency-adjusted figures. These are reported without consideration of IFRS 15, applying the same accounting policies as in the prior year.

Key figures Pumps Equipment

millions of CHF	2018 (new accounting policies)1)	2018 (previous accounting policies)2)	2017	Change in +/–%3)	+/–% adjusted4)	+/–% organic5)
Order intake	1’372.1	1’372.1	1’180.2	16.3	16.5	8.6
Order intake gross margin	26.3%	26.3%	28.3%			
Order backlog as of December 31	982.9	910.3	847.0	7.5		
Sales	1’284.2	1’299.9	1’120.0	16.1	15.5	7.5
EBIT	–27.2	–29.0	–61.7	53.0		
opEBITA	41.4	39.7	–3.7	n/a	n/a	n/a
opROSA	3.2%	3.1%	–0.3%			
opROCEA	5.8%	5.4%	–0.6%			
Employees (number of full-time equivalents) as of December 31	5’713	5’713	5’453	4.8		

1) According to IFRS 15, see financial review and note 34 of the consolidated financial statements for details.

2) Without consideration of IFRS 15, applying the same accounting policies as in the prior year.

3) Comparing 2018 (previous accounting policies) with 2017.

4) Adjusted for currency effects. Comparing 2018 (previous accounting policies) with 2017.

5) Adjusted for acquisition and currency effects. Comparing 2018 (previous accounting policies) with 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)

Top-line growth across all regions

In 2018, order intake, sales and operational EBITA increased compared with the previous year. Operational ROSA was impacted by the power segment. By acquiring Brithinee Electric, Sulzer expanded its electromechanical services to Southern California and into wind power.

Digitalizing service model and expanding into new markets

Rotating Equipment Services continued to take its service model into the digital age. In 2018, the pumps spare parts manufacturing center in Leeds, UK, went fully paperless. This move has improved the speed of delivery of spare parts to customers and saved cost and effort. Furthermore, the parts manufacturing centers around the globe are ramping up their use of additive manufacturing to improve delivery time and sourcing flexibility.

In 2018, our service business achieved an increased order intake across all regions. Taking our service model into the digital age will help us sustain growth for the future.

Daniel Bischofberger, Division President Rotating Equipment Services

In November 2018, Sulzer acquired Brithinee Electric, a leading independent electromechanical service provider targeting the wind market in Southern California, USA. In 2017, Brithinee recorded annual sales of about USD 10 million with a workforce of 46 employees.

Increase in order intake

In 2018, Rotating Equipment Services reported growing order intake. The increase stemmed largely from the oil and gas market rebound. Order intake in the power market decreased. Whilst orders were up in pumps services and electromechanical services, they declined in the turbo services business.

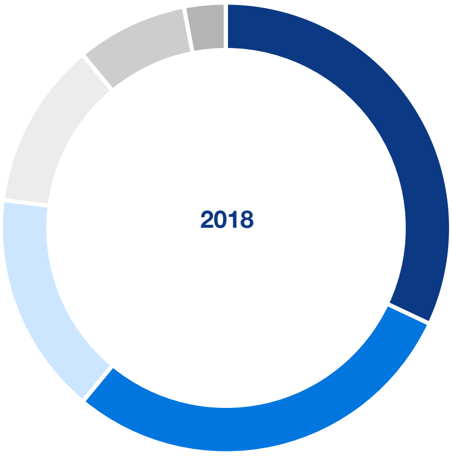
Order intake increased in all regions compared with 2017. Growth was most pronounced in the Asia-Pacific region.

Sales and operational EBITA increased

Sales increased in 2018 compared with the previous year. The division reported growth across all regions.

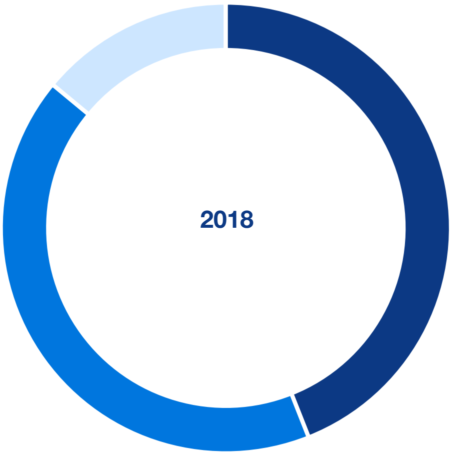
Operational EBITA increased, whereas operational ROSA showed a slight decrease. Higher sales volumes were offset by lower margins because of pricing erosion in the power segment, particularly in the Americas.

Sales by (sub-)segment



- **32%** Power
- **29%** Mid- and downstream
- **16%** General industry
- **12%** Upstream
- **8%** Chemical processing industry
- **3%** Water

Sales by region



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

Safety performance in 2018

In 2018, the accident frequency rate (AFR) increased slightly to 2.1 cases per million working hours (2017: 2.0), driven by a higher number of lost time accidents in Europe, the Middle East and Africa (EMEA). The accident severity rate increased to 53.7 (2017: 42.6) despite efforts to develop risk assessment and other safety-related competencies. Throughout 2019, the division will focus on pre-work planning, control of high-risk activities and root cause analyses. You can read more about the company’s health and safety efforts in the chapter “Social sustainability”.

If not otherwise indicated, changes from the previous year are based on currency-adjusted figures. These are reported without consideration of IFRS 15, applying the same accounting policies as in the prior year.

Key figures Rotating Equipment Services

millions of CHF	2018 (new accounting policies)[1)]	2018 (previous accounting policies)[2)]	2017	Change in +/–%[3)]	+/–% adjusted[4)]	+/–% organic[5)]
Order intake	1’109.7	1’109.7	1’047.7	5.9	7.6	5.8
Order intake gross margin	37.7%	37.7%	38.0%			
Order backlog as of December 31	393.1	368.2	364.4	1.1		
Sales	1’063.7	1’087.4	1’029.5	5.6	7.2	5.2
EBIT	130.8	133.5	134.4	–0.7		
opEBITA	146.1	148.8	144.0	3.4	4.9	3.0
opROSA	13.7%	13.7%	13.9%			
opROCEA	26.6%	26.6%	28.4%			
Employees (number of full-time equivalents) as of December 31	4’721	4’721	4’485	5.3		

1) According to IFRS 15, see financial review and note 34 of the consolidated financial statements for details.

2) Without consideration of IFRS 15, applying the same accounting policies as in the prior year.

3) Comparing 2018 (previous accounting policies) with 2017.

4) Adjusted for currency effects. Comparing 2018 (previous accounting policies) with 2017.

5) Adjusted for acquisition and currency effects. Comparing 2018 (previous accounting policies) with 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, sales and profitability increased

In 2018, the Chemtech division reported growing order intake and sales. Operational EBITA and operational ROSA also increased. Sulzer expanded its cooperation with SGL group in the field of column internals and teamed up with Futerro and TechnipFMC to form the PLAnet™ initiative for the production of sustainable plastics from polylactic acid (PLA).

Strategic collaboration for new products and solutions

In January 2018, the Chemtech division extended its cooperation with SGL group in the field of column internals. The partners have now succeeded in making a complete family of column internals based on carbon fiber composite — a material that is very temperature- and corrosion-resistant.

Chemtech achieved growing orders, sales volumes and profitability in 2018. Together with our partners we continue to develop new products, new sustainable materials and state-of-the-art processes to bring innovative solutions to the market.

Torsten Wintergerste, Division President Chemtech

In December 2018, Sulzer, Futerro and TechnipFMC teamed up to simplify the manufacture of bioplastics. The three major process technology and equipment specialists have formed the PLAnet™ initiative to promote the production of sustainable plastics made of polylactic acid (PLA). This strategic collaboration will support manufacturers interested in entering the bioplastic market by delivering integrated PLA technology packages. Most of the industrial PLA plants worldwide operate with Sulzer's technology.

Order intake increased

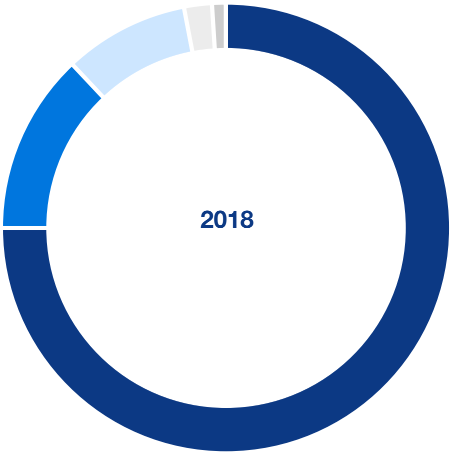
In 2018, Chemtech reported a significant increase in order intake. The Separation Technology business unit was behind much of the growth. There were two large orders that particularly contributed to the increase: one for Sulzer's patented VIEC technology and the other for the company's distillation equipment, which supports the pioneering EU-funded project "Steelanol". The project aims to turn carbon-rich industrial emissions into bioethanol fuels. Order intake grew across all market segments, with the most pronounced increase coming from oil and gas.

Order intake was strong across all regions, particularly in Asia-Pacific and Europe, the Middle East and Africa (EMEA), where it was supported by the oil and gas market rebound.

Increase in sales, operational EBITA and operational ROSA

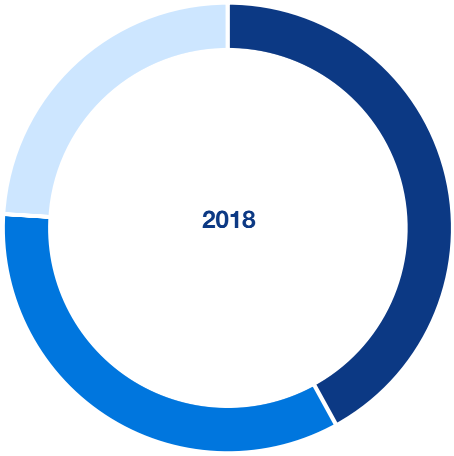
In line with the strong order intake increase, the division's sales also grew significantly compared with 2017. Major sales drivers were the Asia-Pacific and Europe regions. Operational EBITA increased significantly in 2018, supported by higher volumes, increased productivity and a favorable product mix. Accordingly, operational ROSA rose significantly compared with the previous year.

Sales by (sub-)segment



75% Mid- and downstream
13% Chemical processing industry
9% Upstream
2% General industry
1% Power

Sales by region



42% Asia-Pacific
34% Europe, the Middle East and Africa
24% Americas

Safety performance in 2018

In 2018, the accident frequency rate (AFR) at Chemtech increased to 1.8 cases per million working hours (2017: 1.5). The accident severity rate (ASR) improved to 80.4 lost days per million working hours (2017: 84.7). An increased number of safety walks and a stronger focus on safety for work in confined spaces supported the prevention of accidents involving confined space activities, one of the division's highest risk activities. You can read more about the company's safety and health efforts in the chapter "Social sustainability".

If not otherwise indicated, changes from the previous year are based on currency-adjusted figures. These are reported without consideration of IFRS 15, applying the same accounting policies as in the prior year.

Key figures Chemtech

millions of CHF	2018 (new accounting policies)[1)]	2018 (previous accounting policies)[2)]	2017	Change in +/–%[3)]	+/–% adjusted[4)]	+/–% organic[5)]
Order intake	600.1	600.1	501.5	19.7	20.5	20.5
Order intake gross margin	31.3%	31.3%	31.0%			
Order backlog as of December 31	345.9	323.2	315.3	2.5		
Sales	563.2	563.4	478.0	17.9	18.6	18.6
EBIT	14.5	13.3	11.0	21.0		
opEBITA	50.0	48.8	25.0	94.8	94.6	94.7
opROSA	8.9%	8.7%	5.2%			
opROCEA	24.6%	23.0%	11.3%			
Employees (number of full-time equivalents) as of December 31	3'063	3'063	2'878	6.4		

1) According to IFRS 15, see financial review and note 34 of the consolidated financial statements for details.
2) Without consideration of IFRS 15, applying the same accounting policies as in the prior year.
3) Comparing 2018 (previous accounting policies) with 2017.
4) Adjusted for currency effects. Comparing 2018 (previous accounting policies) with 2017.
5) Adjusted for acquisition and currency effects. Comparing 2018 (previous accounting policies) with 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, sales and profitability increased

In 2018, Applicator Systems reported growing order intake and sales. Operational EBITA and operational ROSA also increased. Sulzer acquired Medmix Systems Ltd, strengthening its position as a state-of-the-art supplier of mixing and dispensing solutions in the healthcare market.

Expanding portfolio of applicators

In August 2018, Sulzer completed its acquisition of Medmix Systems Ltd. The Swiss company provides applicators for tissue treatment, bone repair, oral surgery and drug delivery. The acquisition expanded Applicator Systems' portfolio of mixing and dispensing devices in the healthcare segment, complementing its leading positions in dental, adhesives and beauty.

The acquisition of Medmix will help us gain ground in the growing healthcare market in addition to our already leading positions in the dental, adhesives and beauty segments.

Amaury de Menthiere, Division President Applicator Systems

To increase the capacity of its industrial adhesives business, Sulzer opened a new production plant in Wroclaw, Poland, in 2018. Moreover, the company established a new European distribution hub in Luxembourg for its adhesives products.

Order intake increased on a currency-adjusted basis

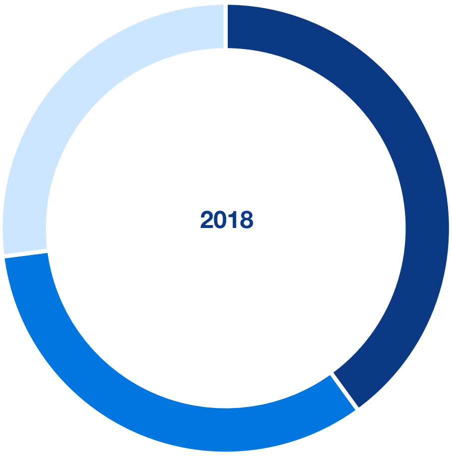
Order intake grew on a currency-adjusted basis and remained flat organically. Order intake in the adhesives, dental and healthcare segments together increased by 11.8% including acquisitions and by 4.8% organically. Order intake in the beauty segment was down by 5.4% organically because a major customer switched to a new-generation product, which resulted in a disruption of order intake and sales.

Sales, operational EBITA and operational ROSA increased

Sales increased compared with 2017, driven by the Transcodent acquisition and strong organic order intake in the dental segment. The acquisitions of Transcodent and Medmix had a positive impact, adding CHF 16 million to sales. Applicator Systems reported growing sales across all regions. The increase was most pronounced in Europe, the Middle East and Africa (EMEA).

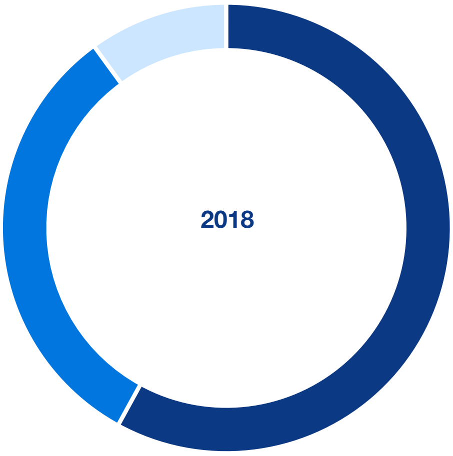
In 2018, operational EBITA increased, largely driven by higher volumes in the dental and adhesives segments. Operational ROSA also increased.

Sales by (sub-)segment



- **40%** Beauty
- **33%** Adhesives
- **27%** Dental and healthcare

Sales by region



- **58%** Europe, the Middle East and Africa
- **32%** Americas
- **10%** Asia-Pacific

Safety performance in 2018

In 2018, the division reported an accident frequency rate (AFR) of 8.1 cases per million working hours (2017: 7.2). The accident severity rate (ASR) amounted to 73.2 lost days per million working hours (2017: 50.4). The increase stemmed from acquisitions and ongoing integration efforts. In 2019, the division will put renewed focus on safety ownership and culture. You can read more about the company's health and safety efforts in the chapter "Social sustainability".

If not otherwise indicated, changes from the previous year are based on currency-adjusted figures. These are reported without consideration of IFRS 15, applying the same accounting policies as in the prior year.

Key figures Applicator Systems

millions of CHF	2018 (new accounting policies)[1)]	2018 (previous accounting policies)[2)]	2017	Change in +/–%[3)]	+/–% adjusted[4)]	+/–% organic[5)]
Order intake	449.6	449.6	426.3	5.4	4.2	0.3
Order intake gross margin	45.9%	45.9%	43.9%			
Order backlog as of December 31	65.0	65.0	66.8	–2.8		
Sales	453.8	453.8	421.6	7.7	6.3	2.4
EBIT	63.8	63.8	63.2	0.9		
opEBITA	95.7	95.7	86.8	10.2	9.5	5.7
opROSA	21.1%	21.1%	20.5%			
opROCEA	22.9%	22.9%	22.7%			
Employees (number of full-time equivalents) as of December 31	1’864	1’864	1’716	8.6		

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