

Letter to the shareholders



Dear Shareholder,

Advanced materials and processes open up many new possibilities for Sulzer. They can enable products with better properties, new manufacturing or service concepts, faster and leaner operations or even entirely new products.

When utilized optimally, advanced materials and technologies such as additive manufacturing extend the lifetime of our products, increase availability and efficiency, reduce lead times and protect the environment. At Sulzer, it is not a question of mind over matter. It is a question of mind and matter.

Explore how the materials of the future are having an impact on Sulzer today in this year's Annual Report.

Performance in 2018

Sulzer grew significantly in 2018, with orders up by 8.4% organically and by 12.5% including acquisitions. While we overperformed in a rebounding oil and gas market, all our segments developed positively, with the exception of the power market, which accounts for slightly more than 10% of our business.

Regionally, order intake increased in Europe, the Middle East and Africa (EMEA) and even more so in the Americas. Asia-Pacific remained stable.

Sales showed an organic increase of 7.8% and of 11.9% including acquisitions. The higher volumes together with a more efficient cost structure resulted in an increase of operational profit (opEBITA) to

CHF 322.2 million, up by 18.1% organically and by 26.7% including acquisitions. Profitability (opROSA) grew to 9.5% from 8.4% in the previous year.

We kept our promises and achieved strong results in 2018. Sulzer demonstrated a resilience to external events and an ability to execute faster and better.

Greg Poux-Guillaume, CEO

More efficient and more agile

We have continued to make Sulzer leaner and more agile. We achieved additional savings of CHF 45 million in 2018, taking cumulative savings to CHF 230 million, one year ahead of schedule and CHF 30 million above our initial target. In 2019, the final year of our Sulzer Full Potential program (SFP), we will add incremental savings of CHF 10 million to reach cumulative savings of CHF 240 million.

Driving bolt-on acquisitions and growing profitably

We are proud of the new companies that became part of the Sulzer family in 2018. They will boost our profitable growth by expanding our offering and giving us access to new markets.

- JWC Environmental (USA), closed in January 2018: added solids reduction and removal products to our wastewater business;
- Medmix Systems (CH), closed in August 2018: added applicators for tissue treatment, bone repair, oral surgery and drug delivery to our healthcare applicator segment;
- Brithinee Electric (USA), closed in November 2018: expanded our electromechanical services business into Southern California's renewable power market.

The effect from acquisitions closed in 2017 and 2018 amounted to CHF 129 million in order intake and to CHF 127 million in sales in 2018. With our recent acquisitions, we strengthened our portfolio in aftermarket services and low cyclicality markets such as water and healthcare. As for the future, we start 2019 with an active M&A pipeline of small to medium-size targets, maintaining a course of focused targets at reasonable valuations. While our solid balance sheet allows us to consider larger targets, none have cleared our thresholds to date.

A year of achievement

2018 started strongly, with a robust first quarter significantly above our initial guidance.

Our momentum could have been derailed when, on April 6, the US subjected our then majority shareholder Renova to sanctions. We immediately 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 48.8%. The US Treasury approved the transaction and confirmed that we were no longer considered part of the Renova group and therefore not subject to sanctions. While this issue disrupted our business, it was resolved within three working days and operations were back to normal within a week. Our customers supported us throughout and the associated costs ended up being non-material. We closed a strong second quarter with orders 15% up in the US.

Our products deliver value to our customers, making their processes more efficient and reducing their costs. Sometimes, they also save lives. In the summer of 2018, when the "Wild Boars" youth football team was trapped in a flooded cave in Thailand, our local partner DungDong supplied Sulzer equipment and expertise for the water removal from the caves. 18 heavy-duty Sulzer pumps

extracted water day and night until the rescue was completed. We are proud of our blue pumps, which you see on many of the rescue pictures, and were happy to play a discreet but mission-critical role in this heartwarming story.

We subsequently were the recipient in the third quarter of the largest pipeline pump order in the oil and gas market in the US since the downturn. We also inaugurated a brand-new manufacturing site for Applicator Systems in Wroclaw, Poland, augmenting our ability to serve the dynamic adhesives market.

On September 18, we placed all five million shares bought from Renova with international investors, increasing our free float to 51.2% and realizing a capital gain of around CHF 15 million.

We closed out the year with results at or above guidance and the gold certificate at the Swiss Digital Economy Awards for BLUE BOX™, our advanced analytics platform for pumps. BLUE BOX uses machine learning and the Internet of Things for predictive maintenance and performance optimization of our customers' assets.

In 2018, we grew profitably despite external business threats and market volatility. Sulzer's management team reacted decisively and has the company performing at an increasingly high level. This bodes well for 2019.

Peter Löscher, Chairman of the Board of Directors

Fully refinanced for future growth

In 2018, we further optimized our financing mix and took advantage of favorable market conditions. Between June and October, Sulzer issued four bonds with staggered maturities for a total of CHF 860 million. The company was one of the largest issuers of debt on the Swiss market in 2018, confirming investor appetite for Sulzer financial instruments.

Changes to the Board of Directors and the Executive Committee

The year saw two changes to our Executive Committee. Jill Lee, who had been a Sulzer Board member for seven 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.

Frédéric Lalanne, our Chief Commercial and Marketing Officer, was appointed President of the Pumps Equipment division at the end of the year, replacing Michael Streicher, who took the helm of our water business, reporting to Frédéric. Sulzer thus reduced the size of its Executive Committee to six members.

The Board of Directors welcomed two new members at the Annual General Meeting of April 4, 2018, in Hanne Birgitte Breinbjerg Sørensen and Lukas Braunschweiler. They replaced Jill Lee and Thomas Glanzmann, our longest serving Board member, who did not stand for reelection.

Renova reduced its Board representation to two representatives as of May 28, 2018, through the resignation of Axel Heitmann. He was not replaced and Sulzer's Board of Directors is now composed of seven members.

Outlook for 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. Our early indicators do not show signs of an impending slowdown of the economy in our major markets. We therefore expect to continue our trend of organic growth and improved profitability.

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%.

Sincerely,



Peter Löscher
Chairman of the Board



Greg Poux-Guillaume
CEO

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- [Steeled for the future](#)
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