

Letter to the shareholders



Dear Shareholder,

Last year at this point in time, when the world turned its eyes to China battling a novel virus, we wrote that it was still too early to assess the impact of COVID-19 on Sulzer, anticipating that it would very likely burden us beyond our China business.

Soon after, the coronavirus found its way across continents and country borders, challenging our private and professional lives. Thanks to our rapid response, our global network, Sulzer's geographical and industrial diversification, and dedicated employees who went above and beyond the call of duty to continue to support customers under the strictest safety regulations, we were able to mitigate to a large extent the impact of the pandemic on our business.

Performance in 2020

Amid strong market headwinds and a global recession, Sulzer once again proved to be resilient: Compared with the full year 2019, orders only softened by 2.2% (–3.8% organic) and sales by 4.6% (–5.6% organic), delivering on our guidance. Our diversified portfolio underpinned by our broad regional presence and solid operational execution were key drivers for this performance.

Our service business continued to be strong, with year-on-year order growth of 2.5%. Chemtech's overall order intake remained on the previous year's level on a dynamic Chemicals market and a 29.2% rise in orders in China, Chemtech's major market. In Pumps Equipment, order intake softened by 4.1%. The water market continued to grow, with orders up 2.3%, excluding two large Engineered Water orders in 2019. Orders in Energy decreased by 1.9%, on fewer investments in a volatile environment. Applicator Systems' business came to an abrupt but temporary halt following the

closing of stores, factories and dental clinics in the second quarter, resulting in an order intake decline of 11.0% for the full year 2020. Along with the lifting of country lockdowns, APS rebounded with good momentum in the second half of 2020, culminating in year-on-year growth in the fourth quarter.

Robust operational profitability due to swift cost cutting

To mitigate the short-term impact of market disruptions by the pandemic, we took quick actions to squeeze our operating expenses by CHF 59 million.

Additionally, in anticipation of the downturn in Energy-related markets, we started to ramp down the related capacities. The teams executed the rigorous measures swiftly and without distractions, proving our agility to adapt to a fast-changing market environment. The recurring savings, targeted for a total of CHF 70 million, already started to have a positive impact in 2020 and will be largely realized this year.

Together, these measures helped us achieve an operational profitability of 9.0% (2019: 10.0%), despite the sudden deterioration of the business environment.

With our disciplined net working capital management, we have again delivered a record free cash flow of CHF 272 million, strengthening our already solid balance sheet.

Boosting our presence in medical and water

In line with our strategy to complement our portfolio with bolt-on acquisitions in fast-growing markets such as medical and water, we have announced exciting transactions of strategic importance.

[Haselmeier](#), an acquisition we announced in August and closed five weeks later, provides Sulzer access to the highly attractive drug delivery devices market. With its self-injection pens for reproductive health, diabetes or osteoporosis patients, Haselmeier is a great fit to our APS business and leverages our precision injection-molding expertise. Through this CHF 119 million transaction, we welcomed to Sulzer 230 people who had generated sales of CHF 40 million in 2019, and booked additional sales of CHF 7.4 million for the fourth quarter 2020.

With the acquisition of the Swedish company [Nordic Water](#), announced in January and closed on February 1, 2021, Sulzer strengthened its wastewater treatment offering and gained further access to the clean water market, an exciting and fast-growing segment where Sulzer is already present. This leading supplier of water treatment technology, which we bought for CHF 128 million, employs 200 people in six countries and has annual sales of around CHF 80 million.

Fostering sustainable innovation

With these transactions, we continued Sulzer's industrial repositioning towards higher growth markets. Today, we have strong positions in sustainable ventures such as water treatment, energy efficiency, recycling, biomaterial applications, low carbon solutions and healthcare.

As we speak, Sulzer is scaling up a [new groundbreaking textile recycling technology](#) in partnership with fashion giant H&M, aiming at revolutionizing the textile industry. On the following pages, we provide further insights into some of our projects in the area of sustainable applications, including [the development of plastic recycling and biopolymers in Switzerland](#), [the supply of fresh water to Brazil's drought-affected areas](#) and [our artificial intelligence solution for solar power plants in the middle of the desert](#).

Continuing to embed ESG in our business model

As we look to the future, we will continue to make sustainable innovation part of all we do. The groundwork has been laid: Our Board's Strategy and Sustainability Committee oversees all our sustainability initiatives and has already integrated ESG (Environment, Social, Governance) objectives into our compensation framework.

Gender pay parity at Sulzer

At Sulzer, we value diversity in all forms, as is reflected in our shared values and behaviors. This includes equal pay for equal work irrespective of gender. We are proud to say that there is no material earnings gap at Sulzer: The salaries between men and women for equal work on average across the entire company vary by a small 3% whereas global industry benchmarks suggest a 15% gap.

Changes to the Board of Directors

At the 2020 Annual General Meeting, Alexey Moskov was elected as new and additional member of the Board of Directors for a one-year term of office, bringing it back up to eight members. All eight are independents, and two are representatives of our largest shareholder Tiwel.

Outlook for 2021

For 2021, Sulzer expects a progressive return to pre-pandemic levels. The first half of the year at least will continue to be impacted by the pandemic, with regional lockdowns hampering business interactions. Our business most impacted by the lockdowns in 2020, Applicator Systems, should build on its strong H2 2020 rebound to return to pre-pandemic volumes by the middle of 2021. Progress with vaccination should bring an acceleration to all Sulzer businesses in the second half of the year.

Sulzer order intake in 2020 was only down 2% for the year, on the back of a strong first half where we were up almost 2%. As such, we have a robust baseline and expect orders to be up 3% to 6% in 2021 on a currency-adjusted basis. Sales were down 4.6% in 2020 and should grow by 5% to 7% on a currency-adjusted basis. Operational profitability will benefit from the rebound in Applicator Systems and a significant uplift from our structural cost-cutting measures to return to pre-pandemic levels, close to 10%.

The storm is not over yet. The world is still in a global health crisis, with far-reaching consequences on our lives. However, we have good reason to believe that we are in good shape to continue weathering it. Throughout the year, we at Sulzer worked closely together as a team to change, adapt and execute swiftly, all while holding our spirits high. We've seen many encouraging stories of support and "going the extra mile" during 2020, and we extend our heartfelt thanks to our employees for their commitment and excellent performance. We also thank our customers, shareholders and partners who share our vision and values, and who continue to support us through choppy waters. We look forward to a continued open dialogue – hopefully in person again soon.

Kind regards,



Peter Löscher
Chairman of the Board



Greg Poux-Guillaume
CEO