

# Letter to the shareholders



Dear Shareholder,

Our momentum of 2018 has carried into 2019. In the first half of this year, our order intake reached CHF 1.9 billion, an increase of 8.7% compared with the same period last year. Sales were also strong, up by 13.1%, while operational EBITA grew by 15.4% to CHF 159 million for an improved operational ROSA of 9.0%.

## Water and Chemtech driving order intake

In Pumps Equipment, the growth in Oil and Gas continued but the real story was Water, where orders increased by 20.6% organically. Our Municipal Water business grew in line with the market's GDP-like pace but we also booked two large orders in the Middle East worth a combined CHF 42 million. We will supply pumps to one of the largest water transportation systems in the world, transporting 1.2 million m<sup>3</sup> of potable water per day. We will also supply key pumps for a desalination plant, a business where we are market leaders in terms of efficiency. Sulzer-equipped desalination plants around the globe support the production of more than three million m<sup>3</sup> of freshwater per day.

Chemtech continued on its remarkable growth trend, with a 25.9% jump in orders compared to an already robust first semester of 2018, with all regions contributing. We benefited from a high level of investment in capacity increases for petrochemicals, buoyed in the case of the US by low gas prices.

Our Rotating Equipment Services business grew by a solid 7.3%, with all geographies contributing as our Pump Service business picked up. We also had a strong start to the year in Turbo Service.

In Applicator Systems, all segments performed well apart from Beauty, where volumes temporarily contracted as we modify our industrial base to increase our focus on the viral-marketing-driven "independents", a more fragmented but faster-growing customer base.



*The momentum in our order intake upswing continues. Sales also increased significantly, leading to double-digit growth of operational EBITA. Continued robust customer inquiries led us to raise our forecast for the full year.*

**Greg Poux-Guillaume**, CEO

## Trending towards double-digit profitability

Our robust order intake of the last two years is progressively driving up our sales, a trend which should continue as our markets continue to be healthy and as we convert the growing backlog from our longer-lead products, such as engineered pumps.

At half year 2019, Sulzer has already achieved its incremental full year savings target of CHF 10 million as a result of the timing of initiatives. The company therefore expects the cumulative savings for the SFP program to be slightly above the overall target of CHF 240 million by the end of 2019.

Finally, our margins in oil-and-gas-related activities are improving, thanks to our ability to increasingly arbitrate in favor of more profitable orders, combined with selective opportunities to price up as the capex recovery continues.

## Extending the reach of Chemtech and Rotating Equipment Services

In the first half of 2019, we strengthened our Chemtech business by [acquiring GTC Technology](#). This technology company offers proprietary processes and systems to produce aromatics and other petrochemicals. Through this, Chemtech expands its revenue base to process licensing and associated proprietary equipment and chemicals. GTC is headquartered in Houston, Texas, US, employs around 200 people and generated 2018 sales of CHF 48 million.

Further, we announced on July 2 our [acquisition of Alba Power](#), a Scottish independent service provider for aero-derivative gas turbines, essentially jet engines converted into turbines. These light and compact turbines are used in distributed power and offshore or marine applications. With Alba, we will diversify our service portfolio and enter the decentralized power segment, a sizeable and growing market. Alba employs 80 people and generated 2018 sales of CHF 44 million.



*Sulzer's strong balance sheet continues to position us well for acquisitions. The teams are looking at larger targets in the pumps and applicators business and smaller deals in chemicals and maintenance services.*

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

## Turning carbon emissions into biofuels

Sulzer is a key technology provider to the pioneering EU-funded project "[Steelanol](#)". Steelmaking is a significant generator of CO<sub>2</sub>. We will help ArcelorMittal turn carbon emissions into bioethanol fuels at its steel production plant in Ghent, Belgium, by supplying the distillation equipment. This plant will be the first industrial installation of its kind in Europe, producing 80 million liters of bioethanol annually. Once fully deployed, this project should reduce CO<sub>2</sub> emissions by 65%.

## Eco-friendly alternative to conventional packaging

At the beginning of the year, our Applicator Systems division launched with **ecopaCC™** an eco-friendly alternative to conventional packaging for adhesives applications. Transporting conventional plastic cartridges means sending a lot of air around the globe, and storing them takes up a lot of space. When these cartridges are emptied, the entire cartridge becomes waste. With Sulzer's **ecopaCC™** collapsible cartridge, the packaging waste is reduced by up to 75%. The CO<sub>2</sub> emissions per item are also reduced due to the pre-collapsed packaging which saves space in storage and transportation.

## Open, collaborative culture for our long-term success

We believe that sustainable growth is about culture, and we work hard to continue to become more open, collaborative and agile. We have simplified our decision-making structures, redesigned our site organizations to empower leaders and instill accountability. We have also transformed the way we communicate and collaborate internally, by introducing a social space for ideas and people to interact across the company, without the previous constraints of divisions and business areas.

Sulzer in Motion, our employee health and wellbeing initiative, is an important part of our cultural transformation. Led by employees volunteering across the company, sponsoring and organizing self-led initiatives around community, health and social responsibility, Sulzer in Motion embodies our values. Our journey continues, and we are excited about where we are heading.

## Outlook for 2019

While we are not immune to the climate of economic uncertainty that percolates from some of the markets or geographies that we are active in, we do not see at this point signs of a slowdown in our leading indicators.

Based on sustained customer inquiries and our strong performance in the first half of this year, Sulzer is increasing its guidance. The company raises its forecast for order intake to grow by 6% to 9% (previously 2% to 5%), and sales to grow by 7% to 9% (previously 3% to 5%), adjusted for currency effects and including the two acquisitions mentioned earlier. Sulzer forecasts reaching an opEBITA margin (opEBITA in percent of sales) of around 10%.

We thank you, our shareholders, for your commitment and look forward to continuing our journey together. We also thank our loyal customers, our reliable partners, and our committed colleagues around the world who contribute every day to making Sulzer faster and better.

Sincerely,



**Peter Löscher**  
Chairman of the Board



**Greg Poux-Guillaume**  
CEO