Growing order intake – but challenging market environment impacting H1 2015 results

Winterthur | July 28, 2015

THE SAFE HARBOR STATEMENT UNDER THE US PRIVATE SECURITIES LITIGATION REFORM ACT 1995

This presentation may contain forward-looking statements, including but not limited to, projections of financial developments, market activities or future performance of products and solutions, containing risks and uncertainties. These forward-looking statements are subject to change based on known or unknown risks and various other factors, which could cause the actual results or performance to differ materially from the statements made herein.

Agenda

Market Update

Business and Financial Review – H1 2015

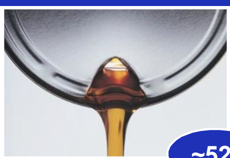
Update on Sulzer Full Potential program

Outlook

Oil and gas market continues to experience an overall downturn

Oil and Gas

Our short-term market outlook



~52%

- Oil price predictability remains low
- Project delays, suspensions, re-bidding and pricing pressure

O&G segment

Upstream

~16%

Midstream

~6%

Downstream

~30%

Setting

Upstream:
- Customers continue to push for cost reductions throughout the supply chain
- Some movement in FPSO projects, though overall low activity levels vs. 2014
- Postponements of non-essential purchases impact also aftermarket

Midstream:
- Slow start for the year, significantly reduced activity levels compared to previous years
- Customers becoming very cost conscious
- Some activity expected for 2H specifically in the Americas

Downstream:
- Pockets of activity at steady levels, predominantly driven by large projects in South East Asia and Latin America
- Market environment in China getting tougher due to limited projects and high number of competitors
- Global chemicals production remains stable

Sales share H1 15

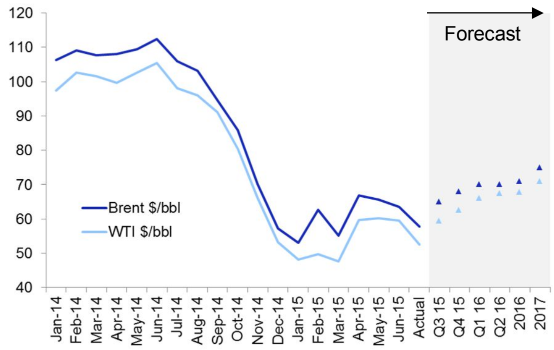
Av. OI 2012-2014

Headwinds in the oil & gas market are impacting Sulzer and the industry

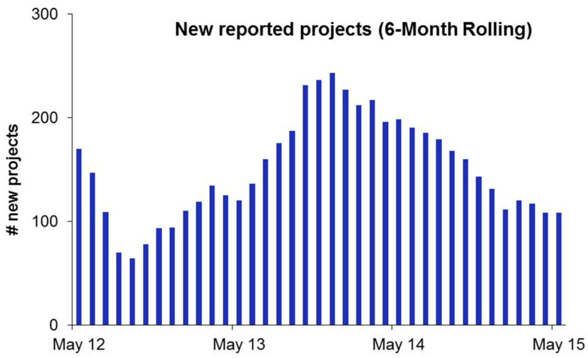
SULZER

Commodity price uncertainty

Oil price (Upstream)

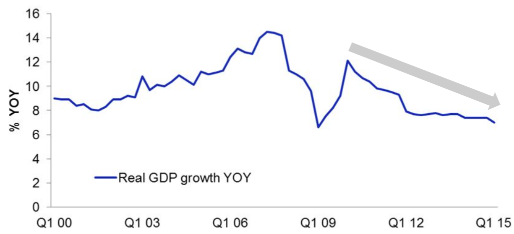


HPI Boxscore (Downstream)

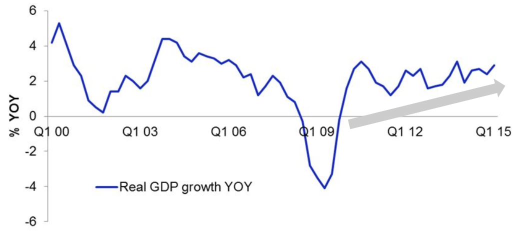


Economy (real GDP growth)

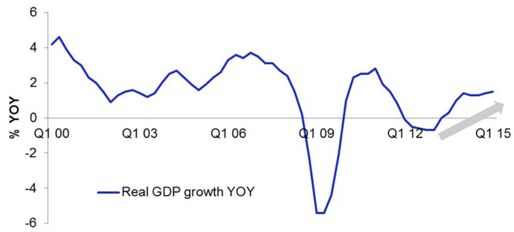
China



USA



Europe



Sources: Bloomberg; Hydrocarbon Processing, Boxscore database

Good performance in other market segments helped to outgrow decline in oil and gas

SULZER

	Power	Water	General Industry
Market	 ~14%	 ~12%	 ~22%
Our short-term market outlook			
Setting	▪ Good activity levels in APAC region, driven by investments in India and in China ▪ US still driven by gas, EMEA slow ▪ Pricing pressures - low O&G activity results in more aggressive competition on power opportunities	▪ Good municipal water activity levels in US and China ▪ Continued global growth in construction dewatering, mine dewatering remains weak ▪ Engineered Water: Active desalination markets in Middle East and Brazil	▪ Overall positive outlook continues for remaining 2015 ▪ China still driving growth for many industrial sectors, though easing growth rates ▪ Increasing pricing pressures in some segments due to local competition

Sales share H1 15

Agenda

- Market Update
- **Business and Financial Review – H1 2015**
- Update on Sulzer Full Potential program
- Outlook

H1 order intake and free cash flow improved – market headwind and strong Swiss franc impacted profitability

Key figures

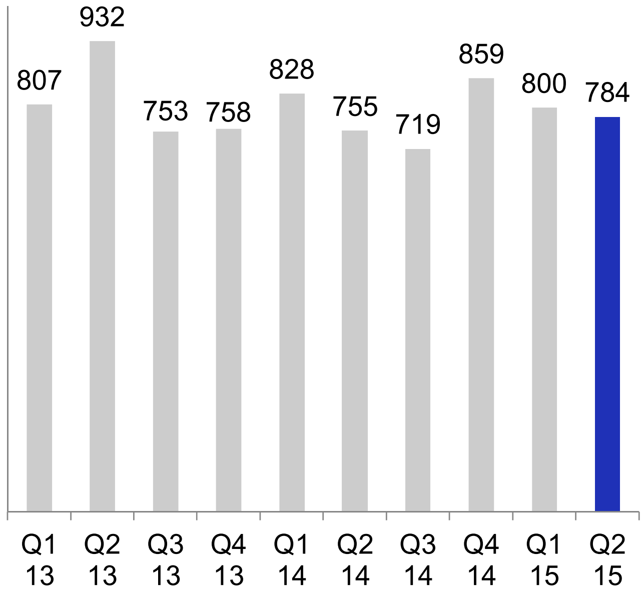
In CHF millions	**H1 2015**	H1 2014	YOY	YOY adj.[1)]
Order intake	**1'584.1**	1'583.4	0.0%	3.9%
Order intake gross margin	***32.9%***	*33.2%*	*-0.3pp*	*-0.1pp*
Order backlog *(June 30 vs Dec 31)*	**1'754.9**	1'699.6	3.3%	9.1%
Sales	**1'393.2**	1'491.7	-6.6%	-3.8%
opEBITA	**98.3**	120.7	-18.6%	-18.7%
opROSA %	*7.1%*	*8.1%*	-	
EBIT	**47.6**	99.2	-52.0%	-55.0%
ROS %	*3.4%*	*6.7%*	-	
Net income *continuing operations*	**27.8**	64.4	-56.8%	
Basic EPS (in CHF) *cont. op.*	**0.79**	1.87	-	
Free cash flow	**33.3**	-40.1	-	
FTEs *(June 30 vs Dec 31)*	**15'159**	15'494	-	

- Orders in Q2 growing by 8.9% due to water and power
- Order intake gross margin stable on an adj. basis
- Order backlog increased by 9.1% due to book-to-bill of 1.14x
- Sales decreased due to CHF114m suspended oil and gas orders, negatively impacting opROSA
- EBIT decreased due to SFP[2)] costs of CHF 21.5m and net impact relating to a legal case of CHF -8.7m
- Free cash flow improved on strong cash collections
- FTE's down by 335 due to rightsizing measures (-635) partly balanced by acquisitions

1) Adjusted for currency effects.
2) SFP Sulzer Full Potential program costs includes restructuring costs

Despite headwinds in oil and gas, Q2 order intake grew by 8.9% YOY[1)]

Order intake *(in CHF millions)*



- Drivers of order intake in Q2 were
  - In Pumps Equipment order intake grew by 13.3% YOY[1)], as the good performance of water and power more than compensated the decline in oil and gas
  - In Chemtech order intake increased by 5.3% YOY[1)], resulting from growth in TFS, PT and SMS that outweighed decline in MTT
  - Rotating Equipment Services increased by 3.9% YOY[1)], driven by North America (consolidation of Grayson Armature)
- FX impact in Q2 15 amounted to CHF -38.2m
- Acquistion effect in Q2 15 was CHF 11.6m

H2 and in particular Q4 2014 difficult to match in current environment

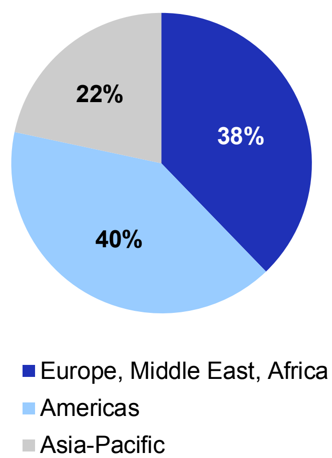
1) Adjusted for currency effects.

Suspension of orders in oil and gas resulted in lower sales volume mainly in Pumps Equipment

Sales

In CHF millions	**H1 2015**	H1 2014	YOY	YOY adj.[1)]
Total Sulzer	**1'393.2**	1'491.7	-6.6%	-3.8%
Total Divisions	**1'399.5**	1'494.3	-6.3%	-3.6%
Pumps Equipment	**726.7**	809.5	-10.2%	-5.9%
Rotating Equipment Services	**334.0**	327.5	2.0%	3.4%
Chemtech	**338.8**	357.3	-5.2%	-4.6%
Adj./Eliminations	**-6.3**	-2.6		

by region



- Pumps Equipment impacted by suspensions of previously received orders in oil and gas
- Rotating Equipment Services benefited from the consolidation of Grayson Armature (CHF 13.9m)
- Chemtech generated lower sales volumes in MTT and PT

- Total effect from acquisitions/divestitures: CHF 22.3m
- Total effect from currency translation: CHF –41.3m
- Share of sales from emerging markets: 38% (H1 2014: 41%)

1) Adjusted for currency effects.

OpEBITA declined as a result of lower volumes – reallocation of costs distort divisional YOY comparison

SULZER

Operational EBITA

In CHF millions	**H1 2015**	H1 2014	YOY	YOY adj.[1]
Total Sulzer	**98.3**	**120.7**	**-18.6%**	**-18.7%**
opROSA %	***7.1%***	*8.1%*		
Divisions	**93.3**	**128.5**	**-27.4%**	**-27.3%**
opROSA %	***6.7%***	*8.6%*		
Pumps Equipment	**31.7**	55.1	-42.5%	-40.0%
opROSA %	***4.4%***	*6.8%*		
Rotating Equipment Services	**27.8**	26.7	4.1%	-0.5%
opROSA %	***8.3%***	*8.2%*		
Chemtech	**33.8**	46.7	-27.6 %	-27.3%
opROSA %	***10.0%***	*13.1%*		
Others	**5.0**	-7.8		

Pumps Equipment with lower margins on lower volumes in oil and gas, FX impact and internal reallocation of costs (see appendix)

Chemtech margins lower as a result of lower volumes in MTT and PT, and FX

Others with positive opEBITA as a result of internal reallocation of costs

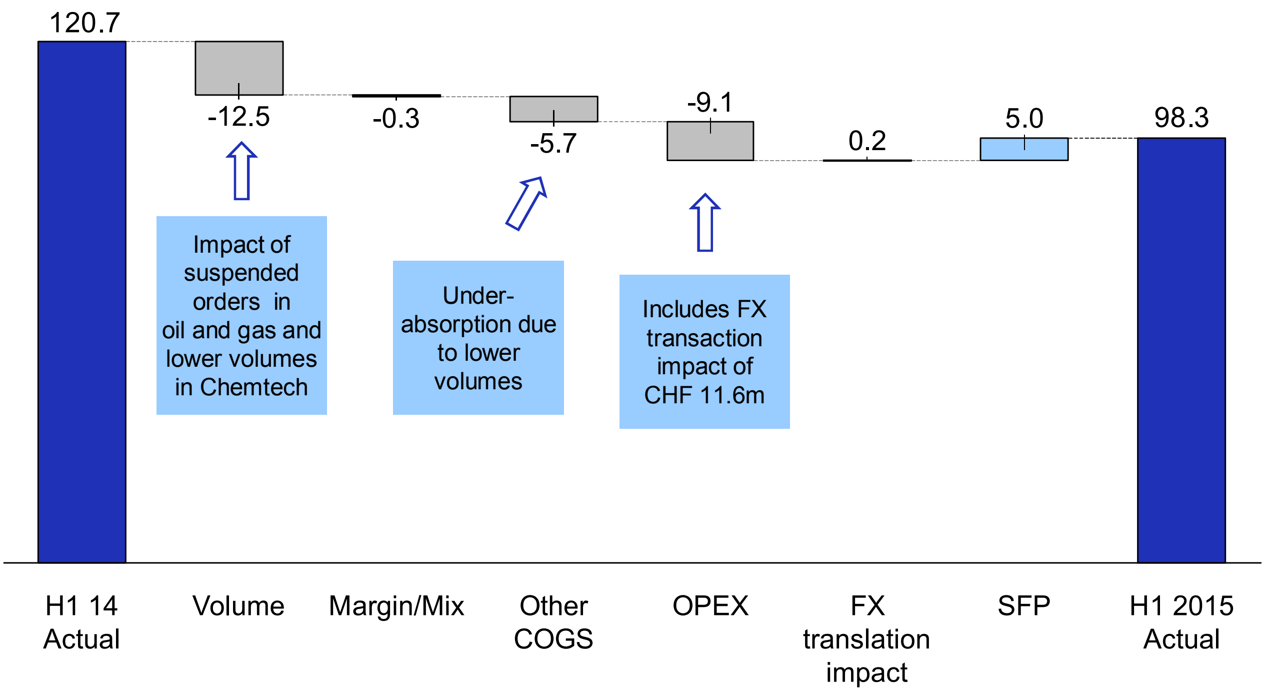
- Total effect from currency translation: CHF 0.2m
- Costs amounting to CHF 9.5m were charged out to divisions

1) Adjusted for currency effects.

Sulzer Full Potential savings partially offsetting market headwinds

SULZER

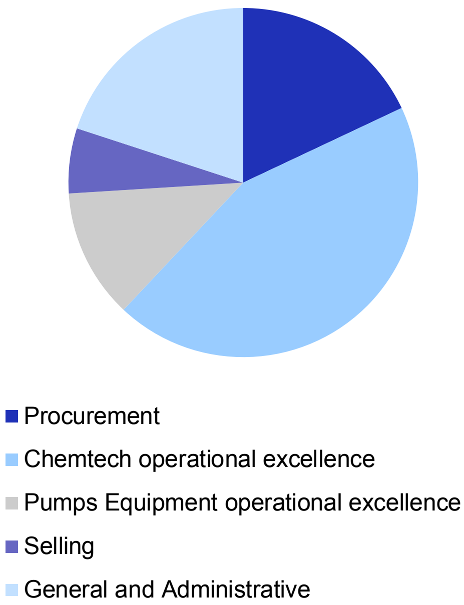
OpEBITA *(in CHF millions)*



SFP expected to yield a 0.6pp opROSA contribution in full year 2015

SULZER

SFP contribution of CHF 5.0m in H1 2015



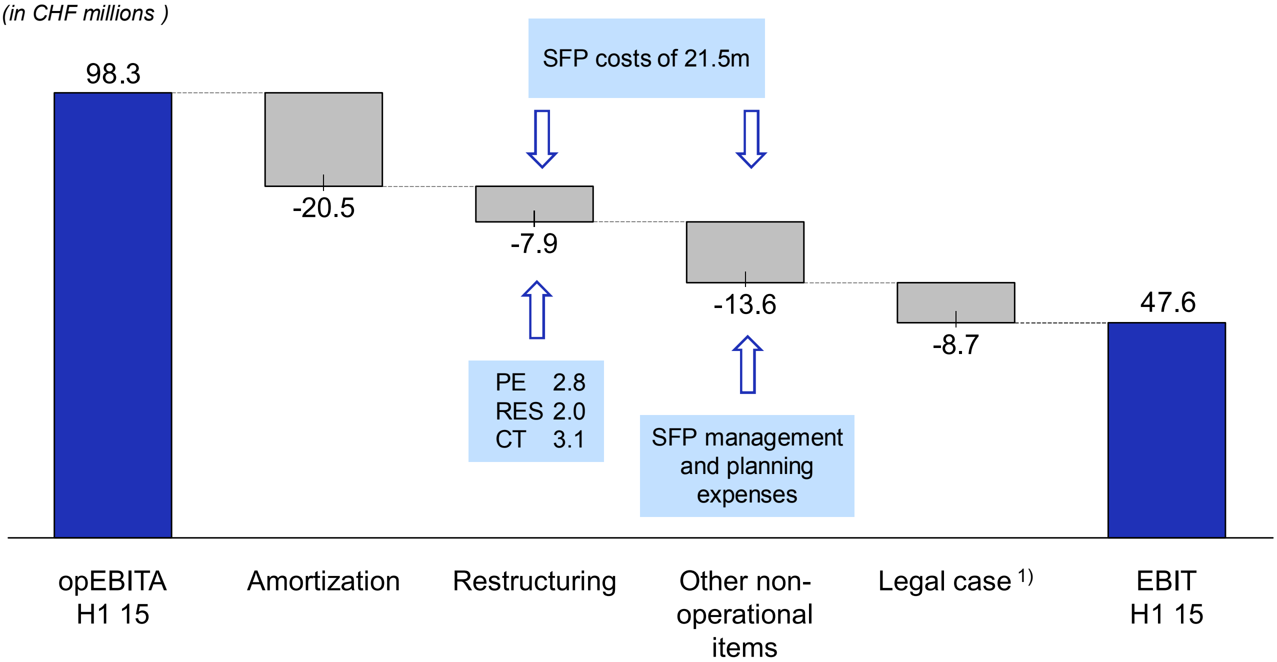
Main H1 contributions from:

- Adapting operational setup in Chemtech as previously announced, mainly in China, Singapore, Canada, Switzerland
- Procurement, e.g. electric motors
- General and Administrative (G&A): efficiencies in IT setup
- Pumps Equipment: adapting factory footprint to lower demand profile in China and Brazil
- Selling: changed route to market in Pumps Equipment's waste water business

EBIT impacted by SFP costs of CHF 21.5m and legal case of CHF8.7m

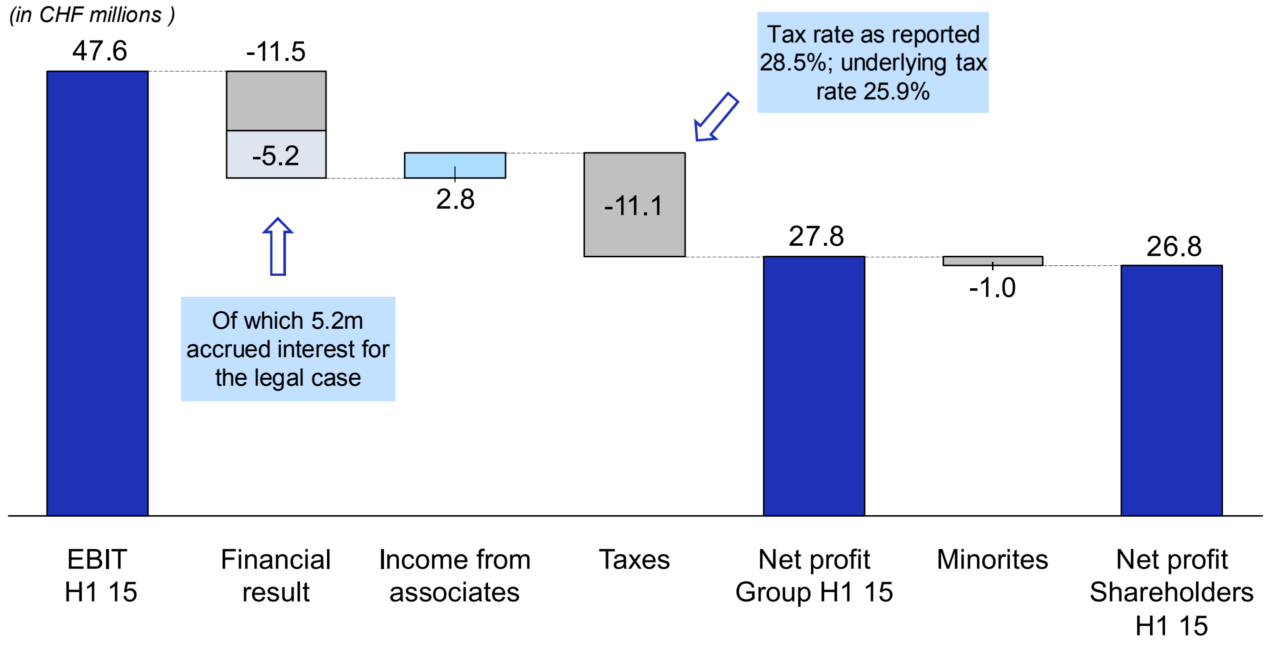
SULZER

(in CHF millions)

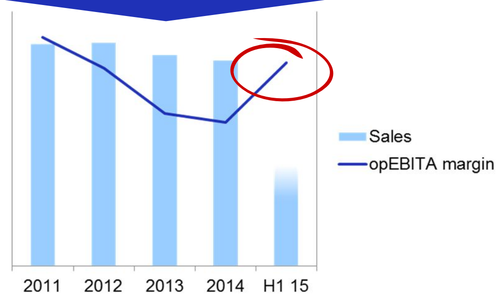


1) Following the decision of the arbitral tribunal in a legal case relating to a dispute with the purchaser of the locomotive business (sold in 1998), Sulzer recognized in addition to the existing provision CHF 8.7m in cost of goods sold and CHF 5.2m as interest expenses. Cash payment to occur H2 2015.

Underlying tax rate at 25.9%



Turnaround in Water business unit achieved in H1 2015



What we have done 2013-14:

- 3 factories closed (from 12 to 9)
- Headcount reduced by 388 (~15% of workforce)
- Replaced direct sales force with distributors in certain markets without sacrificing topline

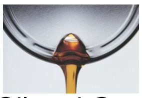
Turnaround achieved in H1 15:

- Order intake growth of 16%
- Positive opEBITA

Agenda

- Market Update
- Business and Financial Review – H1 2015
- **Update on Sulzer Full Potential program**
- Outlook

Sulzer Full Potential program steers our transformation journey


Oil and Gas


Power


Water


General Industry

Sulzer Full Potential (SFP)

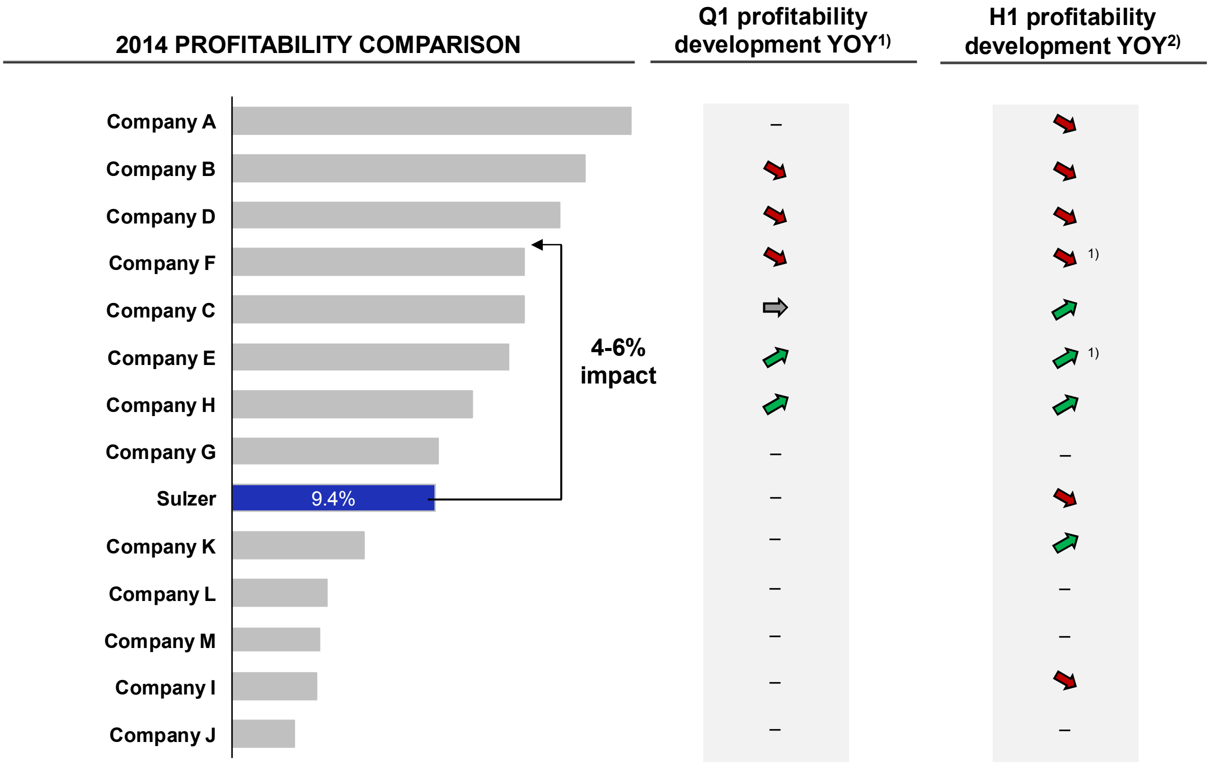
STRATEGY	OPERATING MODEL	OPERATIONAL EXCELLENCE
Portfolio	Organizational setup	Procurement
Focus areas	Integration	PE operational excellence
Innovation/R&D		G&A
M&A roadmap		Selling
		CT operational excellence

Transformation

One focused, market-oriented, globally operating company

We remain committed to deliver top tier profitability

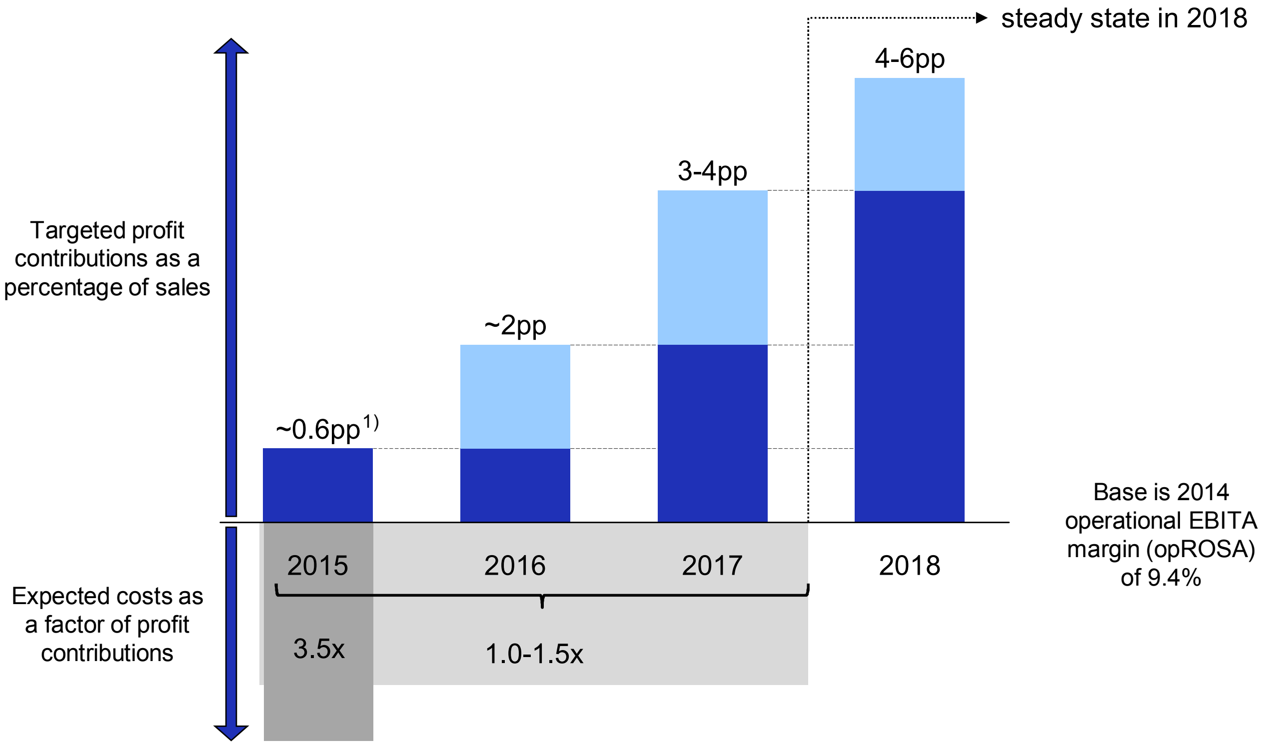
SULZER



1) Actual development
2) Source: Bloomberg estimates as of July 24, 2015; "–" where no estimates available

SFP targets a 4-6pp contribution to operational EBITA margin by end of 2017

SULZER

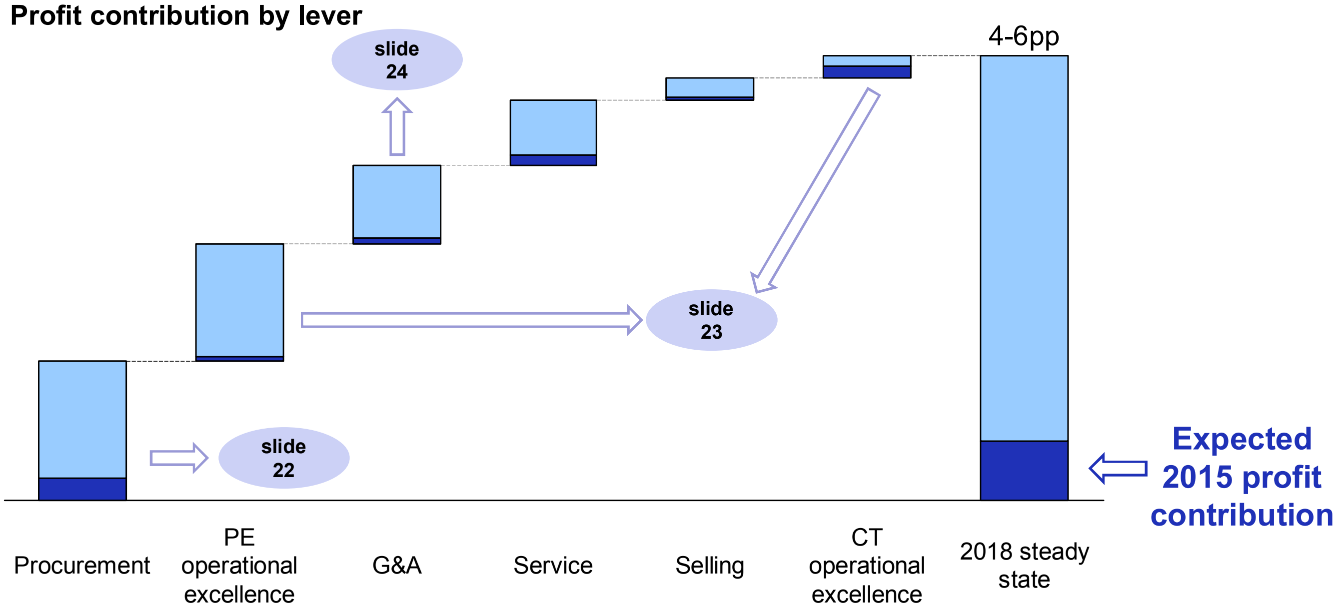


1) In 2015, market headwinds offset contributions from SFP

On track for an 0.6pp contribution in operational EBITA margin for 2015

SULZER

Profit contribution by lever



- **Comprehensive program** across all functions and divisions, with more than 200 initiatives
- **Procurement and PE Operational Excellence** are the main levers and account for approx. ~50% of total steady state savings
- **Short term (2015) impact** delivered by **procurement** and **CT Operational Excellence**

Procurement accelerated with new procurement organization

SULZER

Objectives	Achievements
Introduce **global procurement organization and processes**	Organization: **global CPO** in place as of Aug. 1
Establish stricter **demand control**	Direct categories: shift to best cost region for **machined castings and motors** delivered **~CHF 3m savings** so far
Reduce **direct spend by ~5%** across major categories	Indirect 2015 savings target for **logistics, travel and insurance** of **~CHF 6m combined**
Reduce **indirect spend by ~9%**	

Strengthen operational capabilities to compete efficiently in the years to come

SULZER

Objectives

- **Adjust global footprint** to market demand
- Leverage best cost regions to **improve cost of components** without compromising quality
- Right-size capacity and **increase productivity**
- Reduce **overall operating cost by 10%**
- Reinforce position in **Separation Technology**

Achievements

- Launched **global PE manufacturing** organization
- **Strengthened focus** of sites (e.g. on engineered vs. standard products)
- Built capacity in **best cost regions** (e.g. India)
- Established **global spare parts organization**
- **Merged PT and MTT**, rightsized locations

G&A transformation targets cost reduction of >20% through 2017

SULZER

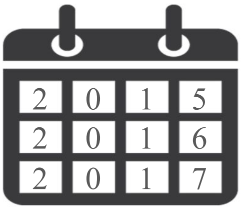
Objectives

- **Share resources across divisions** for an integrated and more cost-efficient setup
- **Improve service levels** internally and through selective outsourcing
- **Decrease complexity**: reduce number of legal entities by ~50%
- **Rationalize country footprint** and create local platforms across divisions

Achievements

- **Harmonized** finance processes and launched evaluation of **shared service options**
- **Consolidated data centers**
- **Shifted resources** to best cost regions
- **Reduced Legal Entities** from 155 to 105; additional 40 under review

Track Sulzer Full Potential results with periodic updates to investors



Continue to provide periodic progress updates to investors

Agenda

- Market Update
- Business and Financial Review – H1 2015
- Update on Sulzer Full Potential program
- **Outlook**

Key markets – assessment for H2 2015

Share of orders in %		Activity level H1	Outlook H2 2015
 ~52%	**Oil and Gas**	Reduced	Activity levels expected to remain weak
 ~16%	**Power**	Good	Similar levels of activity expected
 ~13%	**Water**	Good	Similar levels of activity expected
 ~19%	**General Industry**	Reduced	Similar levels of activity expected

Note: Share of orders in % based on H1 15 orders; outlook 2015 statements based on present knowledge and excluding any major changes in the economic conditions.

Financial guidance

	Order Intake	Sales	Operational EBITA
2015 New guidance	**Slight decrease**	**Moderate decrease**	**Moderate decrease**
2015 Previous guidance	Slight decrease	Flat	Flat
steady state 2018	**No top line guidance provided** (Uncertain impact of oil price volatility limits top line visibility over the mid-term)		**Improve Sulzer profit margins by 4–6 percentage points** (assuming no significant top line erosion)

[1)] Adjusted for currency effects

Key reporting dates and contact

Financial Calendar	
October 15, 2015	9M 2015 order intake
February 25, 2016	FY 2015 results

Your investor relations contact:

Christoph Ladner
Head of Investor Relations

Phone: +41 52 262 20 22
Mobile: +41 79 326 69 70
E-mail: christoph.ladner@sulzer.com

Sulzer Management Ltd
Neuwiesenstrasse 15
8401 Winterthur
Switzerland

Appendix

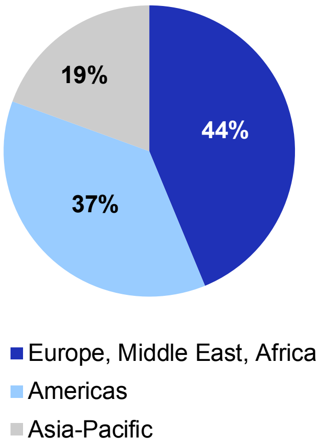
Despite headwinds in oil and gas, order intake grew by 3.9% in H1 2015

SULZER

Order intake

In CHF millions	**H1 2015**	H1 2014	YOY	YOY adj.[1]
Total Sulzer	**1'584.1**	1'583.4	0.0%	3.9%
Total Divisions	**1'589.9**	1'585.2	0.3%	4.2%
Pumps Equipment	**834.8**	851.3	-1.9%	3.5%
Rotating Equipment Services	**364.0**	379.9	-4.2%	-2.2%
Chemtech	**391.1**	354.0	10.5%	12.7%
Adj./Eliminations	**-5.8**	-1.8		

by region



- Pumps Equipment orders were up on strong performance in water and power
- Rotating Equipment Services was still lacking large orders in Europe, but order intake was supported by Grayson Armature consolidation
- Chemtech's order intake was strong due to TFS which more than outweighed decline in MTT

- Total effect from currency translation: CHF –61.5m
- Total effect from acquisitions/divestitures: CHF 20.7m
- Share of orders from emerging markets: 43% (H1 2014: 45%)

1) Adjusted for currency effects.

Group charges and divisional shifts impacting YoY comparison

SULZER

In CHF millions	PE	RES	CT	Others	Total
Adjustments for charges/shifts					
opEBITA H1 2015	**31.7**	**27.8**	**33.8**	**5.0**	**98.3**
opROSA	*4.4%*	*8.3%*	*10.0%*		*7.1%*
Group charges	5.4	3.2	0.9	-9.5	
Divisional shifts	7.7	-7.7			
Adj. opEBITA H1 2015	**44.8**	**23.4**	**34.8**	**-4.4**	**98.3**
adj. opROSA	*6.2%*	*7.0%*	*10.3%*		*7.1%*
Adjustments for FX					
FX transaction impact in H1 15	-9.4	0.3	-1.7	-0.8	-11.6
Adj. opEBITA H1 2015	**54.2**	**23.1**	**36.5**	**-3.6**	**109.9**
adj. opROSA	*7.5%*	*6.9%*	*10.8%*		*7.9%*
opEBITA H1 2014	**55.1**	**26.7**	**46.7**	**-7.8**	**120.7**
opROSA	*6.8%*	*8.2%*	*13.1%*		*8.1%*

SULZER

Operational EBITA to EBIT bridges for divisions

In CHF millions	PE	RES	CT	Divisions	Others	Total
opEBITA H1 2015	**31.7**	**27.8**	**33.8**	**93.3**	**5.0**	**98.3**
Amortization	-8.4	-3.1	-7.9	-19.4	-1.1	-20.5
Restructuring costs	-2.8	-2.0	-3.1	-7.9	0.0	-7.9
Legal case	0.0	0.0	0.0	0.0	-8.7	-8.7
Other	0.0	0.0	0.0	0.0	-13.6	-13.6
EBIT H1 2015	**20.5**	**22.7**	**22.8**	**66.0**	**-18.4**	**47.6**
as % of sales	*2.8%*	*6.8%*	*6.7%*	*4.7%*		*3.4%*

SULZER

Underlying tax rate at 25.9%

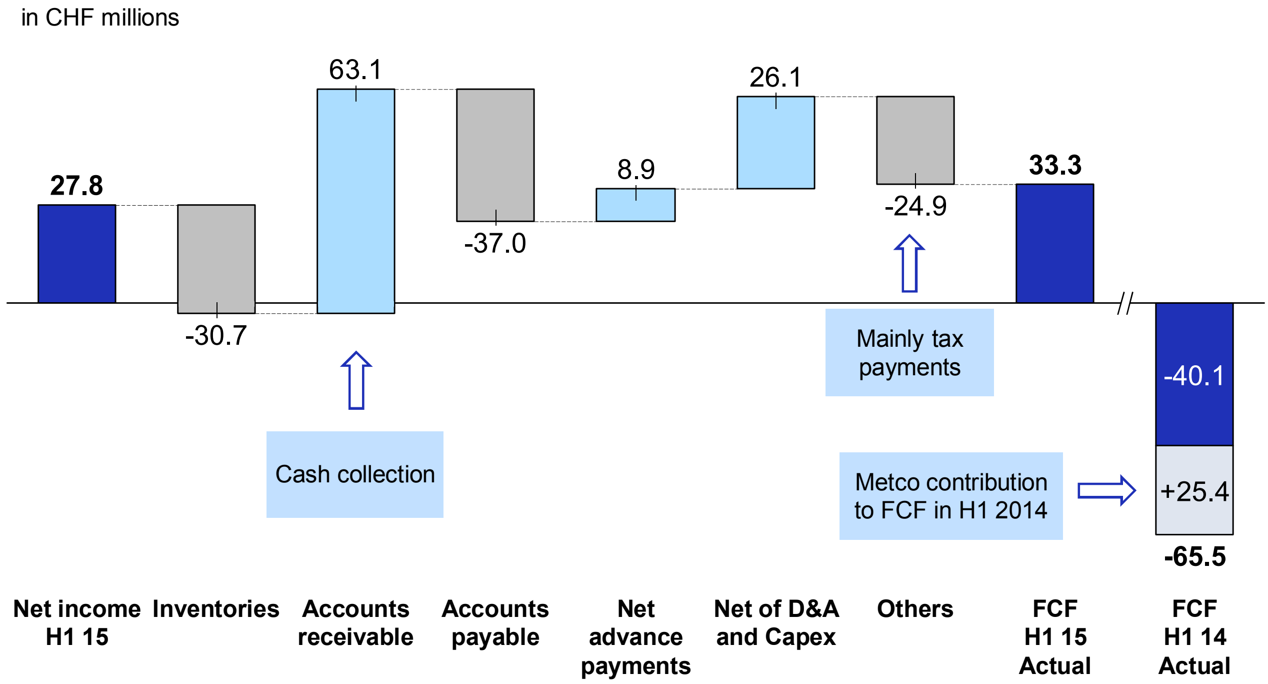
In CHF millions	**H1 2015**	H1 20142	YOY	YOY adj.[1)]
EBIT	**47.6**	99.2	-52.0%	-55.0%
Financial income (net)	**-8.7**	-8.1	-7.4%	
Income before taxes (EBT)	**38.9**	91.1	-57.3%	
Income tax expenses	**-11.1**	-26.7	58.4%	
tax rate (%)	***28.5%***	*29.3%*		
Net income for the group *continuing operations*	**27.8**	64.4	-56.8%	
o/w minorities	**1.0**	1.1		
o/w attributable to Sulzer shareholders	**26.8**	63.3	-57.7%	

- The expenses for the legal case incur in a legal entity where the possibility to account for a deferred tax asset is not given

1) Adjusted for currency effects.

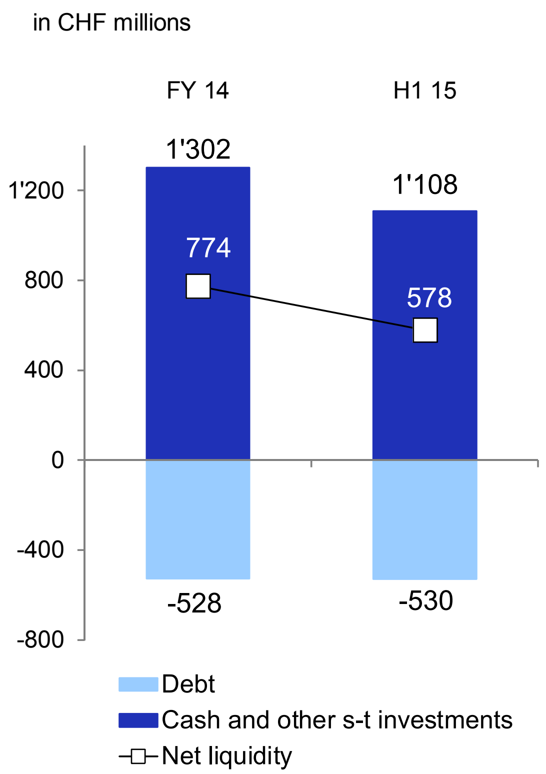
Free cash flow improved in H1 2015 by CHF 98.8m, resulting in net income to FCF conversion of 120%

SULZER



Strong balance sheet, with a net cash position of CHF578m

SULZER



Balance sheet June 30, 2015:

- Total net cash of: CHF 578m
- FCF of CHF 33.3m (-40.1m in H1 14)
- Dividend payment of CHF 119m
- Acquisitions CHF 63m

This document may contain forward-looking statements, including, but not limited to, projections of financial developments and future performance of materials and products, containing risks and uncertainties. These statements are subject to change based on known and unknown risks and various other factors that could cause the actual results or performance to differ materially from the statements made herein.
Furthermore, the information shown herein has been compiled to the best knowledge of the authors. However, Sulzer Ltd. and its affiliated companies, including all directors, officers and employees cannot assume any responsibility for the quality of the information, and therefore any representations or warranties (expressed or implied) as to the accuracy or completeness of the information is excluded.