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Sulzer Ltd—Annual General Meeting 2016
Speech Greg Poux-Guillaume, Chief Executive Officer

Dear Shareholders,

I am very pleased to welcome you to the Annual General Meeting for the first time as the new CEO of Sulzer. For me, the past few months have been very exciting. Sulzer is a great company, with great products and passionate people. It is an honor to be part of what we are doing at Sulzer. The current market environment is more than challenging and 2016 will be a difficult year, but I am convinced that we will come out of it as a more agile and competitive company.

Before we look at what is going to happen in the future, let me give you an overview of what we have achieved and how we performed last year.

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What have we done in 2015?

- We reorganized our Pumps Equipment division. It now consists of three market-oriented business units—Oil and Gas, Power, and Water—, a dedicated global aftermarket organization—called Global Parts, Retrofit, and Nuclear Services organization—, and a global operations network to manage our manufacturing assets transversally.
- In Chemtech, we adapted our operational setup and discontinued parts of our manufacturing activities in China, Singapore, Canada, and Switzerland.
- In Rotating Equipment Services, we restructured our service centers and improved operations in the UK and other parts of Europe.
- In Pumps Equipment, we adapted our manufacturing footprint in China, Brazil, and the USA. Further, we decided to close our foundries in Jundiaí, Brazil, and Kotka, Finland. I'll come back to this in a minute.
- We created a global procurement organization that works across divisions to fully leverage Sulzer's procurement power.
- Finally, we are simplifying our organization to reduce complexity, foster synergies and collaboration. All of this will strengthen one of our best assets, the Sulzer brand.

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What about our financial performance?

2015 was a challenging year with increasing headwinds from the oil and gas market. Neither we nor our peers had really anticipated the severity of the market downturn. Customers reacted with project cancellations and postponements. In addition, this led to higher competition in some of our other segments. Despite that, through our actions, we've been able to close the profitability gap to our top-tier competitors by some 200 basis points.

Order intake for the year on a currency-adjusted basis was down by 3.7%, mainly driven by headwinds from the oil and gas market. I will comment more on that in a minute. While we have seen sizeable suspension of previously received orders from our oil and gas customers, we have to-date seen no significant order cancellations.

Sales were down 3.2% on a currency-adjusted basis.

What were the main triggers for this decline?

Let's have a look at our markets segments:

First of all, order intake in oil and gas decreased by 13%, in an oil & gas market that dropped even more. We resisted better than most of our competitors because we are generating half of our business in oil and gas with the aftermarket business. Services and parts actually grew slightly, also thanks to two large orders in Chemtech's Tower Field Services business unit.

If we have learned anything from last year, it is that the future development of the oil price is not predictable. A year ago, the market expectations for oil and gas investments were way more optimistic than they are now. Considering this highly challenging market environment in 2015, Sulzer performed relatively well in oil and gas.

Let us also not forget that 50% of our business is outside the oil and gas market, particularly in the power, the water, and the general industry markets. These three segments performed well in 2015. The power market accounts for about 16% of our orders, and order intake increased by 22% in 2015. In water, we also had a good year. General industry was on last year's level. However, if you look at some of our core segments within general industry, pulp and paper or Sulzer Mixpac for example, you will see that they showed healthy growth.

I will now give you some regional perspective on order levels.

We have 45% exposure to Europe, Middle East, and Africa; we have 37% exposure to the Americas; and we have 18% exposure to Asia-Pacific.

In Asia-Pacific, we were down 21%, mostly driven by China. And in China, our divisions Chemtech and Pumps Equipment were hit particularly hard. If I look at the flipside of that, in Europe, Middle East, and Africa, we are actually up by 9%. And our business growth was driven by the Middle East and Europe. If I look at the Americas, we're down 8%, but this is actually a mixed bag. On the one hand, we were slightly growing in the U.S., which is by far our most important market. But on the other hand, our order intake in countries like Brazil, Mexico, but also Canada, was down significantly.

So, the market situation is not in our favor at the moment. With the significant decrease of the oil price and the current business slowdown in China and the recession in Brazil, we need to react and to adjust to the new realities.

In fact, we have already started to do so. Our transformation is fully underway and has good momentum. Let me show you what we have done so far.

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Sulzer Full Potential program

One year ago, we introduced the Sulzer Full Potential or SFP program. It is based on three pillars: strategy, operating model, and operational excellence.

In strategy, we are looking at our portfolio trying to decide where we want to be, where we want to grow. We are identifying focus areas where we want to deploy our resources, and we are looking at how we spend our money on innovation.

The challenge in operating model is that Sulzer has a complex structure, quite decentralized, to a point where it has become inefficient. So, we are adapting the organization to be leaner and be closer to the business. We are setting up global functions that make use of our scale to be more competitive.

And we are hard at work on the third pillar: operational excellence. We look at operational excellence in multiple areas. We have a lot of potential in procurement. We are further working very actively on our manufacturing footprint or capacity. And we have a lot of potential in General and Administrative. I will give you some examples what we have already done in a minute, but let us talk about cost saving figures first.

In 2015, we delivered CHF 36 million of savings with the SFP program. The number we had disclosed as a target for 2015 was CHF 18 million, so we delivered twice what we had anticipated. I think that shows that we are running hard to make it happen, and people are mobilized.

In response to an increasingly challenging market environment, we are accelerating and increasing the overall cost saving target to CHF 200 million in a steady state from 2018 onwards. Last year we said 4 – 6%, which in a CHF 3 billion company is CHF 120 million to CHF 180 million. Now, we are saying CHF 200 million. You see that the numbers have gone up, and we are running faster than we had anticipated given the state of the market.

You see this in our so-called “Bundesliga-Tabelle”. This is our league table where we compare ourselves to our competitors. And what you see is that Sulzer today is a bit below average, which is not where we want to be. Yet what you see is that in 2015, we moved up. We closed the gap by about 200 basis points versus the top-tier competitors, and we aim to continue moving up. However, we are not patting ourselves on the back. Our profitability has gone down, but it is gone down less than that of our competitors. This shows that we have made a step in the right direction in 2015.

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Let us now go a bit deeper into some of our measures within the SFP program.

Procurement

As I mentioned, Sulzer’s former size and structure have left the company with a lot of complexity. Although we have three divisions now, we still had until mid-2015 a fully decentralized procurement structure in place where essentially factories were buying independently from each other. This means that you miss out all the economies of scale of being a large company which, in procurement, means significant cost savings. So what we did is that we built a global procurement organization. We hired a new head of global procurement. We have shifted some of our colleagues and hired some experts from the outside to do category management, and we have a team focusing on category management, things like motors, which is a big part of what we buy. We are organizing our business to benefit from our global purchasing power, something which we probably should have done a long time ago. But we are doing it now.

Operational Excellence

Operational Excellence covers many things, including what we are trying to do in terms of adapting our footprint. For Separation Technology components in Chemtech, we were faced with a strong market decline and severe price pressure in our important Chinese market. We right-sized the business, and at the same time, we increased productivity. We have also improved our position as the leading solution provider of Separation Technology components by combining the strengths of two of our business units. Once again, this makes us lighter on our feet, and it makes us more powerful.

The starting point for Pumps Equipment is that we have largely independent sites in terms of engineering and manufacturing. We are regionally organized at best and we have large product overlaps. So what we’re doing is that we are specializing our factories. Our goal is to leverage the best cost region sites and to optimize the value-added depth, with a focus on core capabilities.

We are now managing our manufacturing footprint as a global network. This basically means that the factories are no longer owned either by individual segments or regions, which allows us to focus our sites regarding business models and products. This includes doing things like shifting some products from one site to another and having a level of specialization that allows us to be more efficient. We are also looking to shifting standard tasks to some of our suppliers when there is a cost advantage. It also means, frankly, closing some of the sites. On that basis, we have decided to close our foundries in Brazil and Finland in 2015. It is a difficult move, it is a painful move which impacts a lot of good people, but it is a necessary one in a really competitive environment.

In Switzerland, there is the additional challenge of the strong Swiss franc. Although Sulzer largely produces in the region for the region and thus has limited exposure to currency fluctuations, the production site in Oberwinterthur was hit by the strong Swiss franc. Furthermore, the significant drop in the oil prices generated overcapacity in our plant network. Therefore, we announced that we plan to close our manufacturing facility in Oberwinterthur. I am aware of the significance of this step: Sulzer, a Winterthur-based company that has produced in this city for decades, plans to end all manufacturing activities here. Again, it is painful and symbolic measure, but a necessary one.

So, you see that we have already reduced our capacities. But we still have some more to do. Let me emphasize that we will do that in a socially responsible manner and with full consideration for the fact that we are impacting our friends and colleagues around the world.

G&A Transformation

The aim of the G&A transformation is to simplify and streamline Sulzer's historical complexity. So what we do now is that we share resources across divisions. We are improving service levels. We are reducing the number of legal entities and we are rationalizing our country footprint. To achieve these goals, we are harmonizing our financial processes. And we are taking out cost in SG&A.

You see that this year is going to be all about execution. We have a good plan, now we have to make it happen. If we execute the SFP program properly, we will be just fine.

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So, what is our view of the markets in 2016?

Our market assessment for 2016 is in line with many of our industry peers. We expect oil prices to remain low in 2016. We are therefore forecasting subdued demand and price pressure from oil and gas customers. Their CAPEX and OPEX will stay under significant pressure in 2016 and beyond, particularly in upstream. So oil and gas will continue to be an increasingly difficult market in 2016. Our other markets—power, water, and general industry— are expected to be flat to slightly up.

We expect to deliver 2016 SFP cost savings in the range of an additional CHF 60 - 80 million, bringing the cumulative total achieved at the end of 2016 to CHF 100 - 120 million. As I mentioned earlier, we increased our total SFP target to CHF 200 million of hard cost savings by 2018.

This brings me to the financial guidance. We expect our orders and sales in 2016 to be down by 5% to 10%. And we expect our operational return on sales to be around 8%.

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Dear shareholders, 2016 is going to be a challenging year. The markets are not in our favor. The oil price is not going to recover in the short term. But we have the means, the potential to adapt ourselves to these new realities. We have great products and services that address global needs and serve our customers. We have committed and talented people, who are working hard to turn the business around. And we have Sulzer Full Potential, our program to become more agile and competitive.

With this in mind I am convinced that we can put an end to the downward spiral and become sustainably successful again.

Thank you for your support and loyalty which we appreciate. And thank you for your attention.

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