

## Full Year Results Presentation 2014

February 12, 2015

**SULZER**

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### **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

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**Strategy Update and Business Review FY 2014**

Financial Review FY 2014

Outlook and Summary

## Business review 2014 – key points

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- **Topline and profitability guidance achieved**
- **Target to increase mid-term profitability by 4 - 6 percentage points from 2017 onwards**
- **Proposal to increase ordinary dividend from CHF 3.20 to CHF 3.50**
- **Impairment on goodwill of CHF 340m in Water business unit**



We offer **customer-focused** solutions for **performance-critical** applications in key markets:  
**Oil and gas, power, and water**



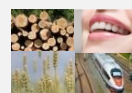
Oil and Gas



Power



Water



General Industry

## Equipment:

### Equipment for our selected markets

- Service intense, engineered, performance-critical → high margin
- Rotating and flow control equipment, process and separation technology

## Services:

### Comprehensive services

- Inspection, operations and maintenance, repair, spare parts, retrofits, upgrades, full shut-down services, long-term service agreements
- Sulzer OEM and 3rd party equipment

# One focused, market-oriented, globally operating company

**One**

**Focused**

**Market-oriented**

- **One** company approach globally
- Simplified organization and streamlined shared services
- Optimized on company level

- Attractive end markets
- Performance critical equipment and service solutions
- Technology and market leadership

- Business setup mirroring our customers
- Harmonized front-end, global back-end
- Knowhow and expertise leveraging

# Agenda and key actions as announced in February 2014

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## Agenda:

### **One company:**

- Leverage existing capabilities and assets
- Efficient and effective group functions



## Key actions:

- Creating new Rotating Equipment Services division
- Setting up central group functions



### **Focus:**

- Focus on oil and gas, power, and water
- Performance critical applications



- Closing Metco disposal
- Scanning market for targeted acquisitions



### **Market-oriented:**

- Customer orientation
- Leverage know-how and expertise

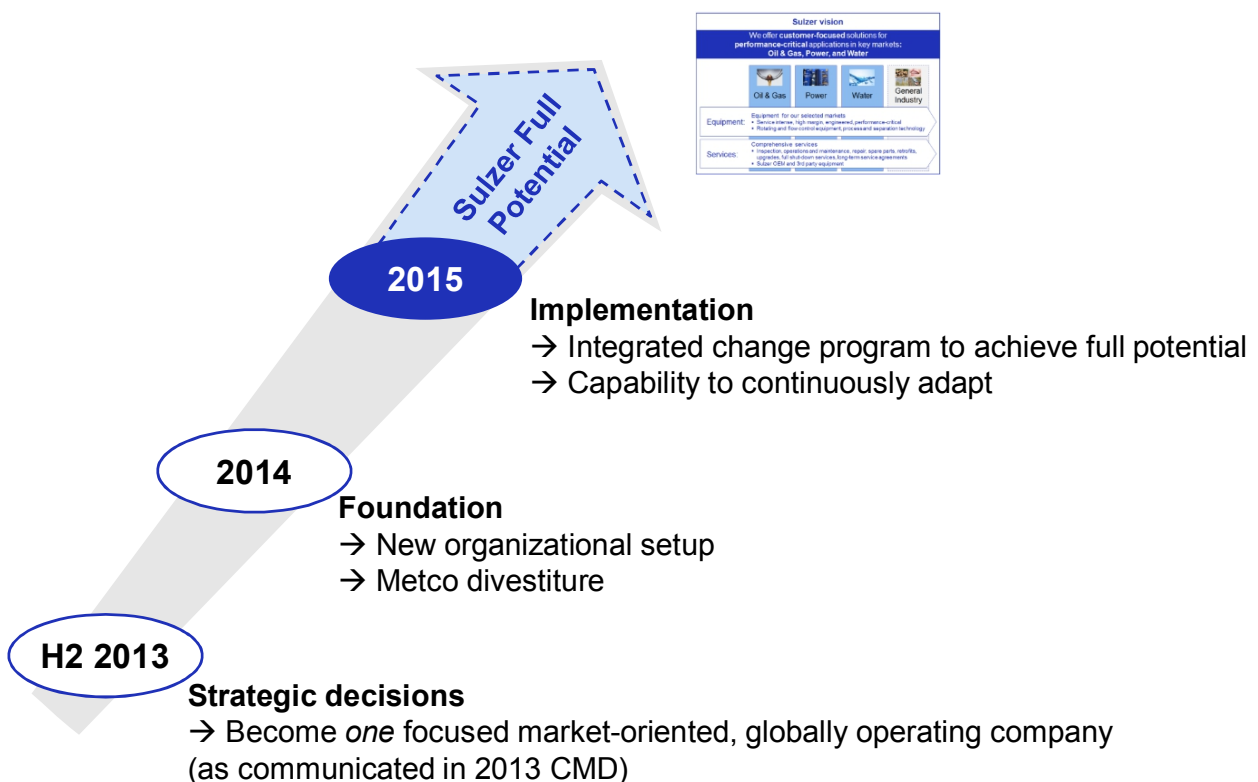


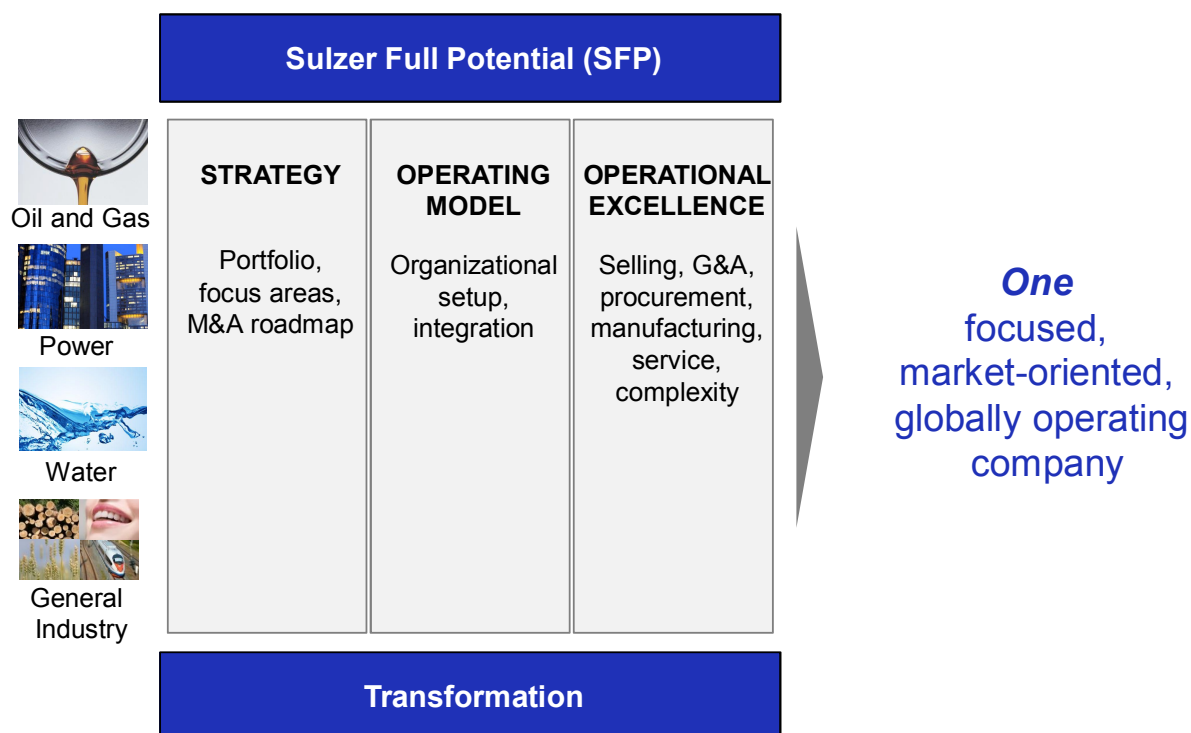
- Creating Oil and Gas and Power BU in Pumps Equipment
- Establishing global manufacturing network



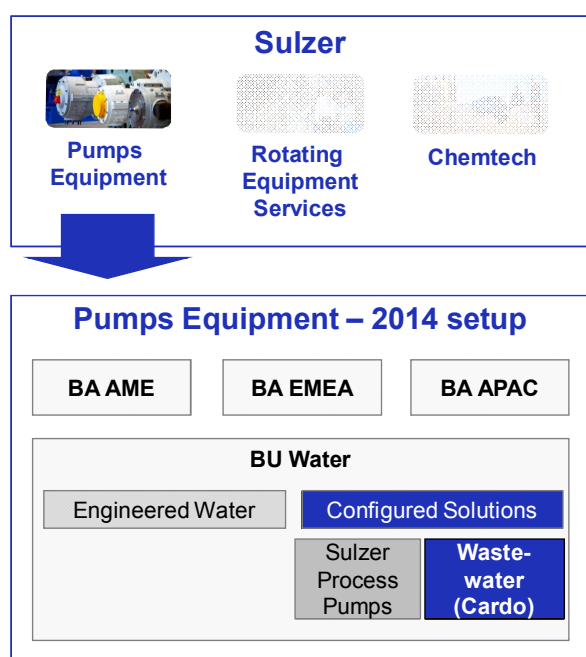
# Sulzer Full Potential program continues, transformation journey started in 2013

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## Impairment in relation to wastewater business line within Pumps Equipment's Water business unit















- Overall Sulzer goodwill of CHF 1'015m<sup>1)</sup>
  - Of which CHF 622m in Water business unit
- Almost all of Water BU goodwill resulted from 2011 acquisition of Cardo Flow Solutions
  - Cash consideration of CHF 852m
  - Post acquisition, adverse changes in major end markets and regions (financial crisis, downturn in Spanish construction market)
  - Multiple restructurings initiated, including administration, sales offices, and factory closures
- Water BU goodwill impaired by CHF 340m relating to business line Wastewater
- Aligns book value with future growth rates and profitability assumptions

1) As of December 31, 2014, before impairment

# Key underlying markets – development in 2014 from a Sulzer viewpoint

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Share of sales in %		Development in last quarter of 2014	Full year 2014 over 2013
 <b>Oil and Gas</b> ~54%		 Increase driven by large projects	 Increase driven by RES
 <b>Power</b> ~13%		 Stable at low levels	 Decrease driven by fewer new projects
 <b>Water</b> ~13%		 Improved; strongest quarter of the year	 Decrease due to slow start in the year
 <b>General Industry</b> ~20%		 Stable at similar levels	 Mixed picture; decrease due to weakness in some segments

Note: Share of sales in % based on 2014 sales; arrows indicative for market development; development in last quarter of 2014 refers to sequential development vs. Q3 2014

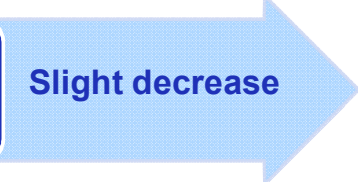
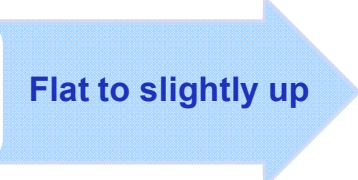

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## Guidance achieved

	Guidance for 2014	2014 results	2013 results	Change <sup>1)</sup>
<b>Order intake</b>	 Slight decrease	CHF 3,161m	CHF 3,250m	-0.6%
<b>Sales</b>	 Flat to slightly up	CHF 3,212m	CHF 3,264m	+0.7%
<b>EBITR <sup>2)</sup></b>	 Flat to slightly up	CHF 282m	CHF 281m	+1.9%

1) Adjusted for currency effects and acquisitions

2) Operating income before restructuring; adjusted for impairment on goodwill

## Margins have stabilized

In CHF millions	2014	2013	YOY	YOY adj. <sup>1)</sup>
Order intake	3160.8	3249.9	-2.7%	-0.6%
Order backlog (Dec 31)	1699.6	1672.1		
Sales	3212.1	3263.9	-1.6%	0.7%
EBITR (EBIT before restructuring and impairment on goodwill)	282.2	280.8	0.5%	1.9%
ROSR %	8.8%	8.6%		
EBIT before impairment on goodwill	271.0	264.0	2.6%	4.2%
ROS %	8.4%	8.1%		
Basic EPS (in CHF) <sup>2)</sup>	8.09	6.89	17.4%	

- Margins stabilized due to implemented changes and restructuring efforts
- Taking healthy level of committed order backlog into 2015
- Impairment within Pumps Equipment division, Water business unit, Wastewater business line

<sup>1)</sup> Adjusted for currency effects and acquisitions  
<sup>2)</sup> Note: continuing and discontinued operations

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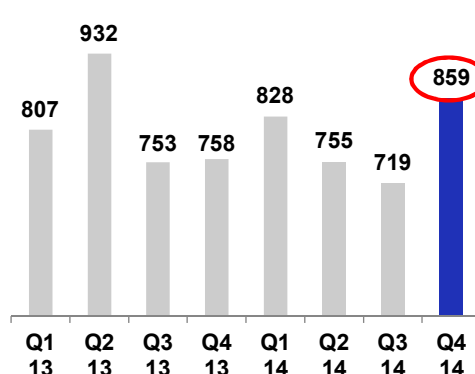
## Key figures by division

### Q4 best quarter for order intake in 2014

### Order intake by division

In CHF millions	Order intake		
	2014	2013	YOY adj. <sup>1)</sup>
Pumps Equipment	1725.5	1801.5	-1.2%
Rotating Equipment Services	725.2	699.3	4.8%
Chemtech	718.4	749.9	-3.2%
<b>Total Divisions</b>	<b>3169.1</b>	<b>3250.7</b>	<b>-0.3%</b>
Others	-8.3	-0.8	
<b>Total Sulzer</b>	<b>3160.8</b>	<b>3249.9</b>	<b>-0.6%</b>

### Quarterly orders (in CHF million)



- Q4 was best quarter for order intake in 2014 driven by Pumps Equipment and Chemtech
- Rotating Equipment Services: integration of pumps service centers and acquisition of Grayson Armature
- Chemtech: difficult year for Process Technologies, Mass Transfer Technologies and acquisition of ASCOM/ProLabNL

<sup>1)</sup> Adjusted for currency effects and acquisitions  
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## Key figures by division

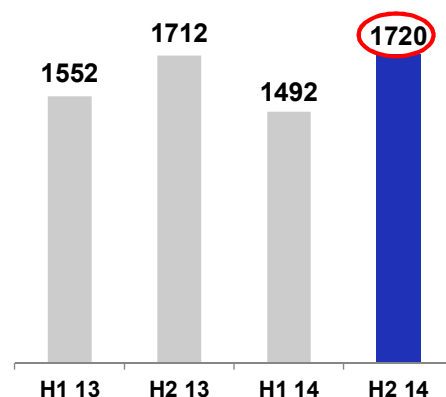
### Growing sales also in the second half 2014

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#### Sales by division

In CHF millions	Sales		
	2014	2013	YOY adj. <sup>1)</sup>
Pumps Equipment	1754.9	1821.6	-0.6%
Rotating Equipment Services	724.6	705.6	3.4%
Chemtech	741.5	743.7	1.6%
<b>Total Divisions</b>	<b>3221.0</b>	<b>3270.9</b>	<b>0.4%</b>
Others	-8.9	-7.0	
<b>Total Sulzer</b>	<b>3212.1</b>	<b>3263.9</b>	<b>0.7%</b>

#### Half yearly sales (in CHF million)



- Sales increased on an adjusted basis by 0.7%
- Rotating Equipment Services benefited from the combined service offering
- Pumps Equipment delivered its 1000th pump to Enbridge
- Seasonality due to customer behavior in certain market segments

<sup>1)</sup> Adjusted for currency effects and acquisitions

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## Key figures by division

### Stabilizing margins for the Group

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In CHF millions	EBITR before impairment			ROSR	
	2014	2013	YOY adj. <sup>1)</sup>	2014	2013
Pumps Equipment	140.9	153.6	-6.5%	8.0%	8.4%
Rotating Equipment Services	72.3	65.4	11.8%	10.0%	9.3%
Chemtech	78.4	81.3	-3.2%	10.6%	10.9%
<b>Total Divisions</b>	<b>291.6</b>	<b>300.3</b>	<b>-1.6%</b>	<b>9.1%</b>	<b>9.2%</b>
Others	-9.4	-19.5			
<b>Total Sulzer</b>	<b>282.2</b>	<b>280.8</b>	<b>1.9%</b>	<b>8.8%</b>	<b>8.6%</b>

- Pumps Equipment: preparing for new organizational setup
- Rotating Equipment Services: integration of pumps service centers
- Chemtech: again strong SMS performance, MTT/TFS stable
- Other: improvement due to group function restructuring

<sup>1)</sup> Adjusted for currency effects and acquisitions

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## Agenda

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Strategy Update and Business Review FY 2014

**Financial Review FY 2014**

Outlook and Conclusion

## Financial review 2014 – key points

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- **Sales and profitability guidance achieved** while in year of transition
- **Margins stabilized** due to combined restructuring efforts and reduction of complexity
- **Impairment on goodwill relating to business line Wastewater** to align book value with future growth rates and profitability assumptions
- **Increasing shareholder return** through
  - Increasing ordinary dividend to CHF 3.50
  - Raising dividend payout range from 1/3 to 40-70% of net income



## Consolidated income statement overview

In CHF millions	2014	2013	YOY	YOY adj. <sup>1)</sup>
Order intake	3160.8	3249.9	-2.7%	-0.6%
Order backlog (Dec 31)	1699.6	1672.1		
Sales	3212.1	3263.9	-1.6%	0.7%
Gross margin	31.4%	30.7%		
EBITR (EBIT before restructuring and impairment on goodwill)	282.2	280.8	0.5%	1.9%
ROSR %	8.8%	8.6%		
Restructuring expenses	-11.2	-16.8		
Impairment on goodwill	-340.0			
EBIT	-69.0	264.0		
EBIT before impairment on goodwill	271.0	264.0	2.7%	4.2%
ROS %	8.4%	8.1%		
Net income continuing operations	-157.6	176.3		
Net income discontinued operations	435.7	59.9		
Net income attr. to shareholders	275.0	234.4	17.3%	
Basic EPS (in CHF)	8.09	6.89	17.4%	
EPS from continued operations adj. for impairment on goodwill (in CHF)	5.27	5.13	2.7%	
Free cash flow	98.0	218.7	-55.2%	

- Delivered on guidance for order intake, sales and EBIT before restructuring and impairment on goodwill
- Ended the year with healthy order backlog
- Improved gross margins
- Stabilizing ROSR margin due to restructuring efforts in PE, RES, and group functions

<sup>1)</sup> Adjusted for currency effects and acquisitions

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- Impairment on goodwill in Water business unit within the Pumps Equipment division

<sup>1)</sup> Adjusted for currency effects and acquisitions

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- Net income positively impacted by gain on divestiture of Sulzer Metco division
- EPS of CHF 8.09, up 17.4% YoY

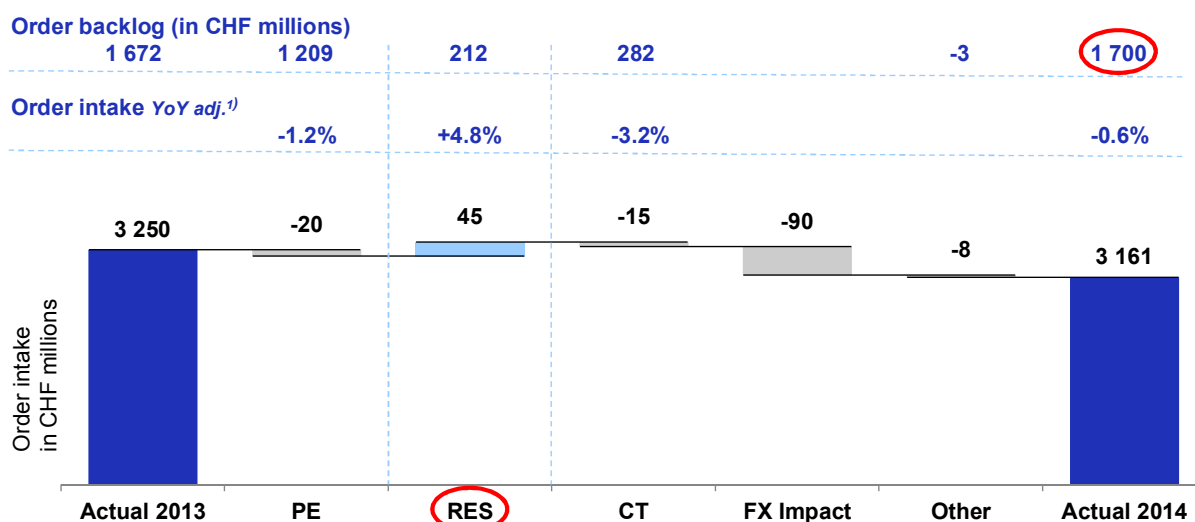
<sup>1)</sup> Adjusted for currency effects and acquisitions

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## Order intake resulting in healthy order backlog at end of 2014



- Order intake declined by -0.6% on an adjusted basis
- Order backlog at CHF 1'700m increased slightly due to currency effects

<sup>1)</sup> Adjusted for currency effects and acquisitions

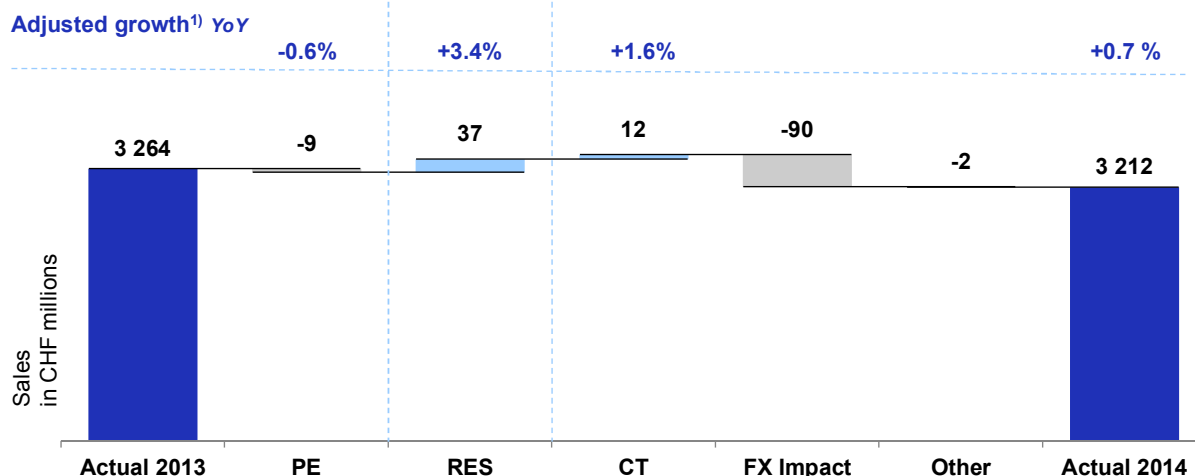
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## Sales up 0.7% on an adjusted basis, driven by Rotating Equipment Services and Chemtech

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### Impact from acquisitions:

- Pumps Equipment:
  - Small impact from Tartek acquired in 2013
  - Saudi Pump Factory acquisition signed, closing of the transaction is expected in H1 2015
- Rotating Equipment Services: includes five months of Grayson Armature
- Chemtech: includes three months of ASCOM/ProLabNL

<sup>1)</sup> Adjusted for currency effects and acquisitions

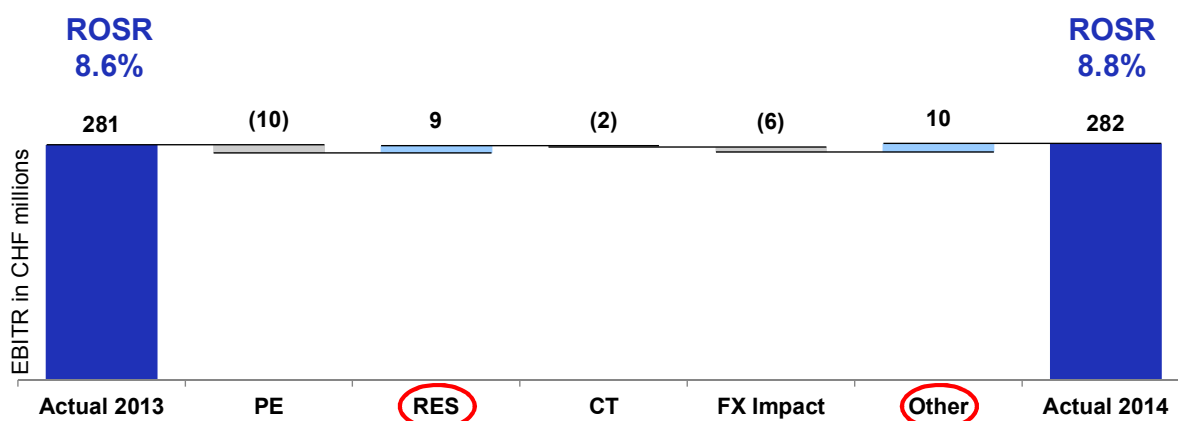
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## Return on Sales before restructuring and impairment on goodwill stabilized at 8.8%

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### Main drivers

- Rotating Equipment Services (RES):
  - successful integration of pumps services with Turbo Services
  - resizing of site in UK enabling the disposal of building
- Others:
  - benefitted from results of group functions restructuring
  - lower IT expenses
  - lower costs of employee pension/medical plans (IAS19)
- Pumps Equipment (PE):
  - lower volumes in Engineered Water and EMEA
- Chemtech (CT):
  - lower volumes in Process Technology

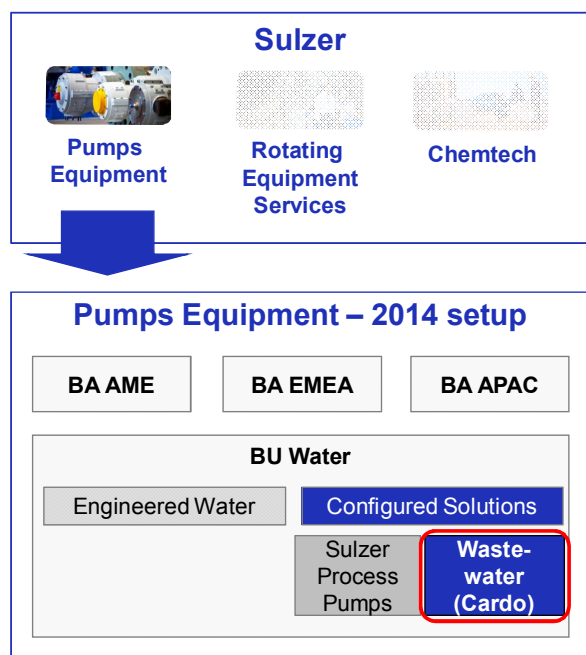
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# Impairment in relation to wastewater business line within Pumps Equipment's Water business unit

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- Overall Sulzer goodwill of CHF 1'015m<sup>1)</sup>
  - Of which CHF 622m in Water business unit
- Almost all of Water BU goodwill resulted from 2011 acquisition of Cardo Flow Solutions
  - Cash consideration of CHF 852m
  - Post acquisition, adverse changes in major end markets and regions (financial crisis, downturn in Spanish construction market)
  - Multiple restructurings initiated, including administration, sales offices, and factory closures
- Water BU goodwill impaired by CHF 340m relating to business line Wastewater
- Aligns book value with future growth rates and profitability assumptions

1) As of December 31, 2014, before impairment

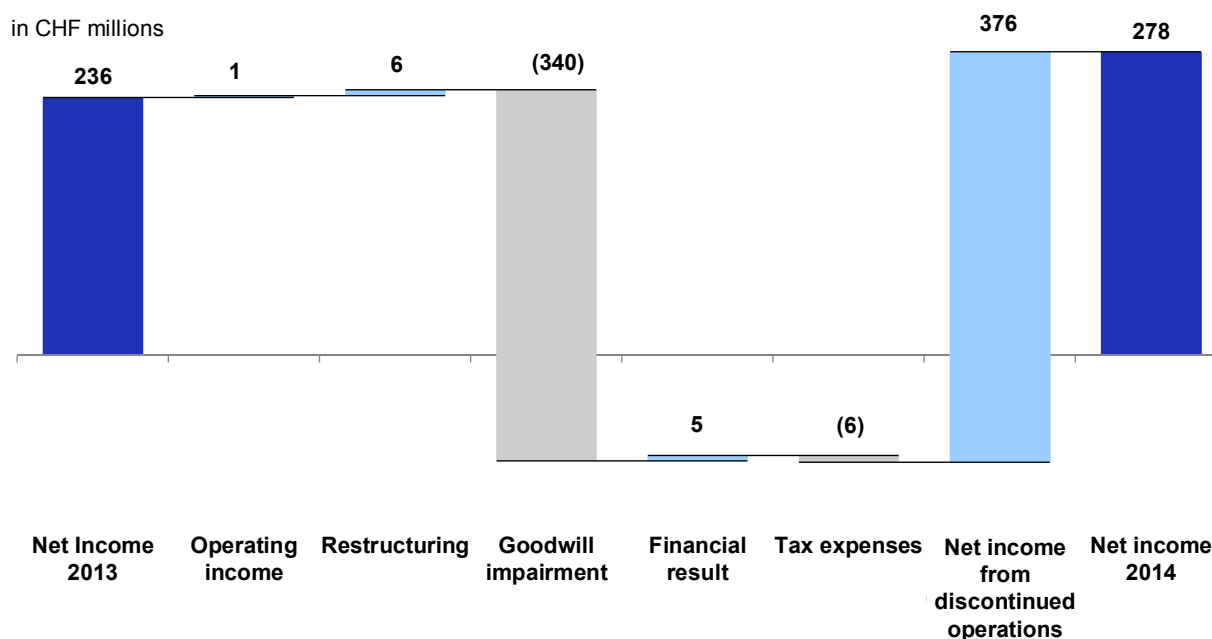
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## Net income 2014 major changes from impairment and Sulzer Metco divestiture

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- Net income adjusted for impairment on goodwill and gains of disposal slightly up
- Effective tax rate adjusted for impairment on goodwill of 28.3% vs 27.2% in 2013 due to regional mix of income. Expect lower effective tax rate in 2015.

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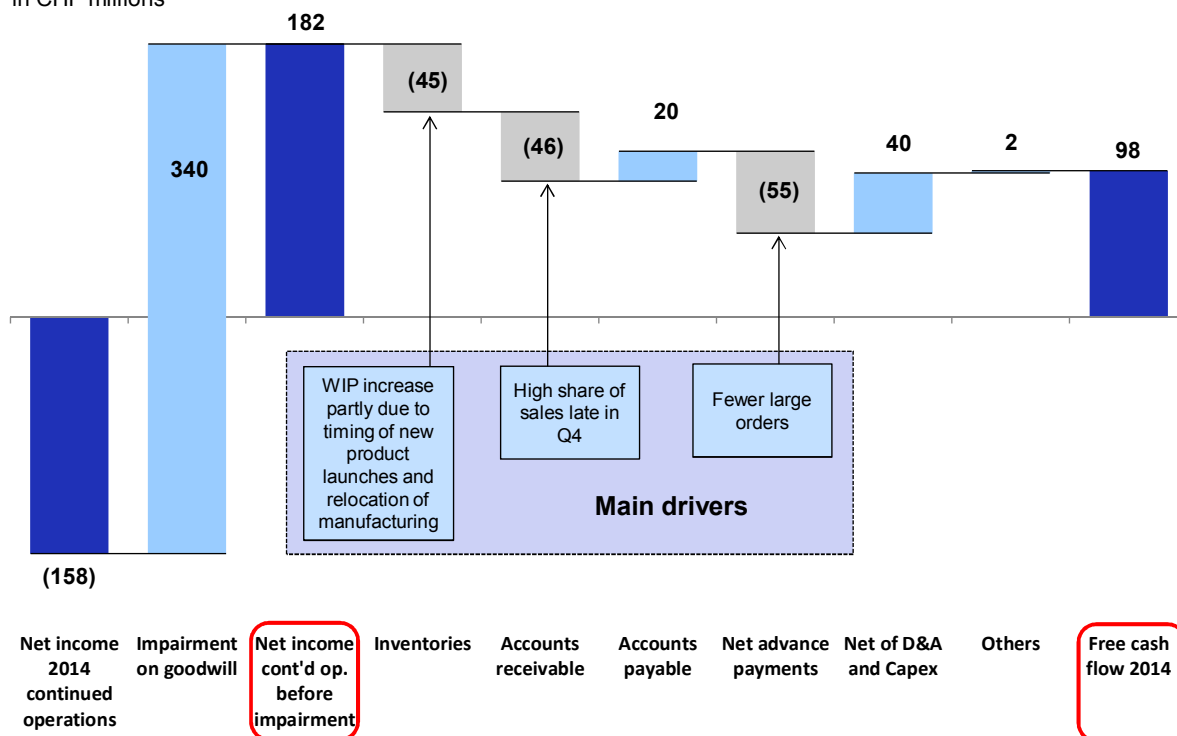
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# Strong sales late in the year and temporary effects result in lower free cash flow

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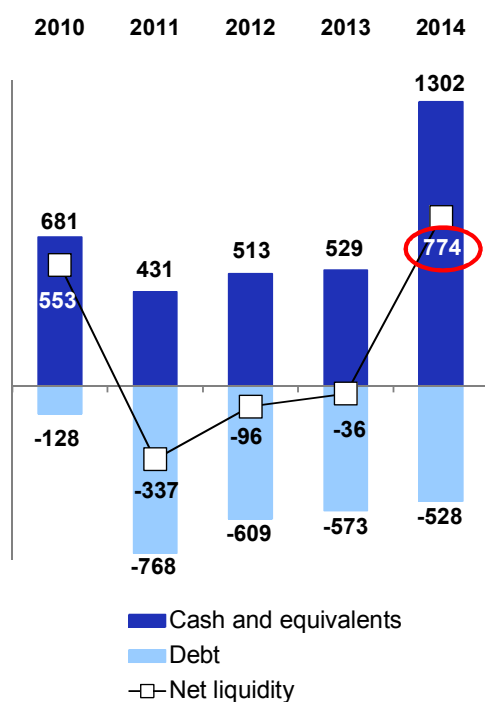
in CHF millions



# Balance sheet – net liquidity risen significantly due to proceeds from Sulzer Metco divestment

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in CHF millions



## Balance sheet Dec. 31, 2014:

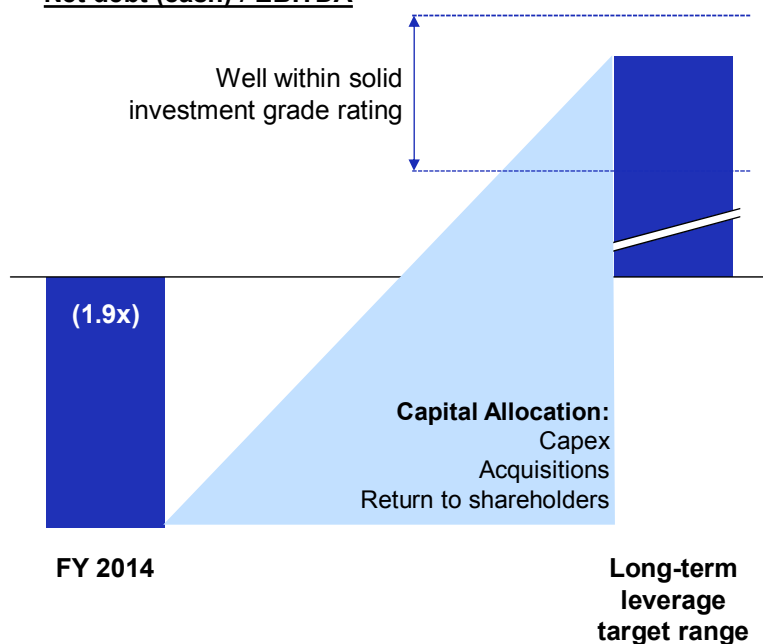
- Total net cash of: CHF 774 million
- Disposal of Sulzer Metco division resulted in net cash inflow of CHF 870 million (post-tax)

# Long term commitment to optimize capital structure

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## Optimize capital structure

Net debt (cash) / EBITDA<sup>1)</sup>



## Capital Allocation

### Sources of cash

- **Excess cash** from Metco disposal
- **High cash generative business** with average historic FCF / Net income cash conversion of around 80%

### Uses of cash

- **Returning excess cash to shareholders**
- **Support SFP transformation path** and organic growth of businesses
- **Execute value accretive acquisitions**, both add-ons and transformational
- Financial discipline for organic and M&A investment opportunities

### Long term policy

- Move towards a **leverage range well within investment grade rating**
- **Leaving ample room** for value creating investment opportunities
- **Return excess cash** when possible

<sup>1)</sup> Before restructuring and impairment

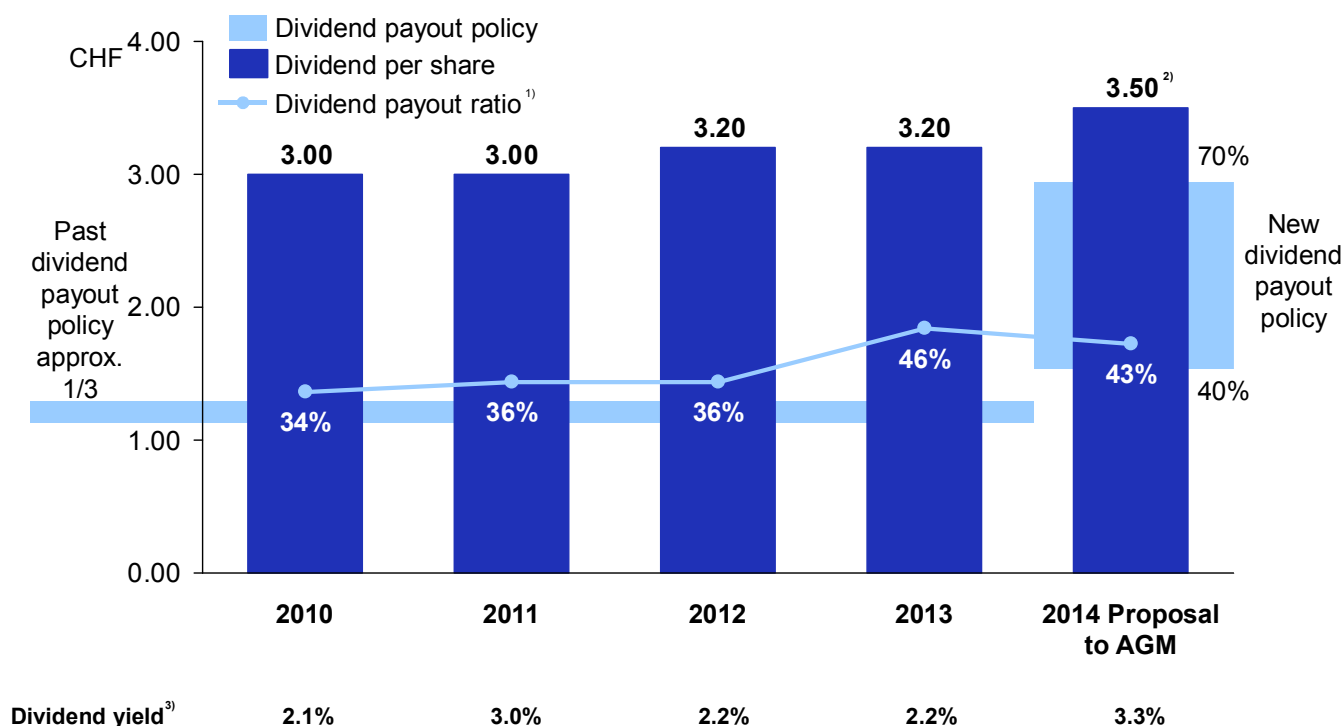
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# Increasing shareholder return through higher dividend at attractive yield

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<sup>1)</sup> Based on DPS / reported EPS

<sup>2)</sup> Dividend proposal by Board of Directors; to be approved by shareholders at the Annual General Meeting on April 1, 2015

<sup>3)</sup> Dividend per share / share price on Dec 31.

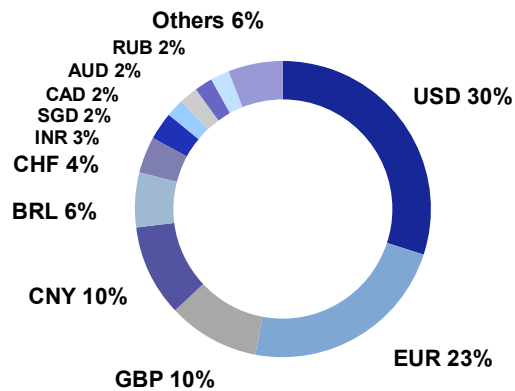
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## Sales split by currency



- Sulzer is in general naturally hedged, producing in the region for the region
- Headquarter and some operations of Chemtech are located in Switzerland, leading to a limited transaction impact
- We are committed to keep the transaction impact limited













## Agenda

Strategy Update and Business Review FY 2014

Financial Review FY 2014

**Outlook and Conclusion**

## Key markets – assessment for 2015

Share of sales in %		Activity level 2014	Outlook 2015
 ~54%	<b>Oil and Gas</b>	 Increase driven by RES	 Volatile markets, prediction difficult
 ~13%	<b>Power</b>	 Decrease driven by less new projects	 Remain stable
 ~13%	<b>Water</b>	 Decrease due to slow start in the year	 Slight increase
 ~20%	<b>General Industry</b>	 Mixed picture; Decrease due to weakness in some segments	 Slight increase

Note: Share of sales in % based on 2014 sales; outlook 2015 statements based on present knowledge and excluding any major changes in the economic conditions.

## Summary Financial Guidance<sup>1)</sup>

	Order Intake	Sales	Operational EBITA
<b>2015</b>	Slight decrease	Flat	Flat
<b>from 2017</b>	<b>No top line guidance provided</b> (Uncertain impact of oil price volatility limits top line visibility over the mid-term)		<b>Improve Sulzer profit margins by 4–6 percentage points</b> (assuming no significant top line erosion)

<sup>1)</sup> Adjusted for currency effects

## Strong fundamentals

- **#1 or #2 positions** in long-term **attractive markets**
- Equipment and services for **performance critical** applications
- **Global footprint** with a strong presence in **emerging markets**
- **Diversified business portfolio** with high **service share**
- Strong **balance sheet** and **capital discipline**

## Attractive prospects

- **4 - 6 percentage points profitability improvement** from 2017 onwards
- Substantial **growth potential** in fundamentally attractive markets
- **Committed and dedicated management** team prepared to deliver

## Key reporting dates 2015 and contact

Financial Calendar	
April 1, 2015	Annual General Meeting
April 16, 2015	Q1 Order Intake
July 28, 2015	H1 results
October 15, 2015	9M order intake

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## Backup slides

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## Operational EBITA is our key profitability KPI

### Operational EBITA

#### EBIT before

- Amortization
- Goodwill impairment
- Restructuring cost
- Adjustments for other non-operational items
  - Significant **acquisition related expenses**
  - Gains and losses from **sale of businesses or real estate** (including release of provisions)
  - Certain non-operational items that are **non-recurring** or do not regularly occur in **similar magnitude**.

- Increased transparency
- Better reflection of the ongoing business performance
- Closer link to controllable levers

## From EBIT to operational EBITA

<i>In CHF millions</i>	2014	2013	2012	2011	2010
EBIT as reported	-69.0	264.0	328.7	364.1	406.4
Amortization	43.7	41.6	41.7	40.2	24.7
Impairment on goodwill	340.0				
Restructuring costs	11.2	16.8	7.9	15.0	3.9
Other non-operation items	-23.0	-18.3	0.1	12.0	-51.0
Operational EBITA	302.9	304.1	378.4	431.3	384.0
ROS (EBIT/sales) <sup>1)</sup>	8.4%	8.1%	9.8%	10.2%	12.8%
opROSA (opEBITA/sales)	9.4%	9.3%	11.3%	12.1%	12.1%
<b>Operational EBITA Divisions</b>					
Pumps Equipment	160.6	166.9	228.1	221.0	192.6
Rotating Equipment Services	64.6	71.0	61.7	60.7	52.0
Chemtech	93.6	95.0	83.3	79.7	74.3
Metco				76.4	61.6
Divisions	318.8	332.9	373.1	437.8	380.5
Others	-15.9	-28.8	5.3	-6.5	3.5
Total	302.9	304.1	378.4	431.3	384.0

<sup>1)</sup> EBIT before impairment on goodwill

## Pumps Equipment

In CHF millions	2014	2013	YOY	YOY adj. <sup>1)</sup>
Order intake	1725.5	1801.5	-4.2%	-1.2%
Order backlog (Dec 31)	1209.4	1190.8		
Sales	1754.9	1821.6	-3.7%	-0.6%
EBITR (EBIT before restructuring and impairment on goodwill)	140.9	153.6	8.2%	-6.5%
ROSR %	8.0%	8.4%		
Restructuring expenses	-4.0	-9.4		
EBIT (before impairment on goodwill)	136.9	144.2		
ROS %	7.8%	7.9%		
FTEs (Dec 31)	7365	7389		

### Pumps Equipment – Review 2014:

- Market-oriented operational setup installed, leading to direct benefits
- Sulzer agreed to acquire Saudi Pumps, transaction expected to close in H1 2015
- Order intake impacted by lower demand in the water and oil and gas markets. Demand in the power increased and was flat in general industry.
- Profitability decreased due to lower volumes in Engineered Water, EMEA (from a high level in 2013)

<sup>1)</sup> Adjusted for currency effects and acquisitions

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## Rotating Equipment Services

In CHF millions	2014	2013	YOY	YOY adj. <sup>1)</sup>
Order intake	725.2	699.3	3.7%	4.8%
Order backlog (Dec 31)	212.2	190.7		
Sales	724.6	705.6	2.7%	3.4%
EBITR (EBIT before restructuring)	72.3	65.4	10.6%	11.8%
ROSR %	10.0%	9.3%		
Restructuring expenses	-7.2	-1.4		
EBIT	65.1	64.0	1.7%	3.4%
ROS %	9.0%	9.1%		
FTEs (Dec 31)	3709	3642		

### Rotating Equipment Services – Review 2014:

- Successful integration of pumps services and former Turbo Services division
- Joint venture agreement with China Huadian Corporation offers opportunity to become a major player in China's power market for servicing rotating equipment
- Acquisition of Grayson Armature added electromechanical capabilities in the important US Gulf Coast region

<sup>1)</sup> Adjusted for currency effects and acquisitions

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## Chemtech

<i>In CHF millions</i>	2014	2013	YOY	YOY adj. <sup>1)</sup>
Order intake	718.4	749.9	-4.2%	-3.2%
Order backlog ( <i>Dec 31</i> )	282.0	290.5		
Sales	741.5	743.7	-0.3%	1.6%
EBITR ( <i>EBIT before restructuring</i> )	78.4	81.3	-3.6%	-3.2%
ROSR %	10.6%	10.9%		
Restructuring expenses	0.0	0.1		
EBIT	78.4	81.4	-3.6%	-3.3%
ROS %	10.6%	11.0%		
FTEs ( <i>Dec 31</i> )	4287	4167		

### Chemtech – Review 2014:

- Acquisition of ASCOM/ProLabNL added inline separation technology which reduces costs for customers significantly
- Orders decreased mainly due fewer large projects in the mass transfer and the process technology business
- ROSR still double digit but decreased slightly due to business mix

<sup>1)</sup> Adjusted for currency effects and acquisitions