Decrease in Order Intake — Complementary Pumps Added

Pumps Equipment reported a decrease in order intake and sales in 2016. Operational EBITA and operational ROSA declined from the previous year. The oil and gas market continued to impact the division's results. Sulzer announced the acquisition of the pump manufacturer Ensival Moret.

"We are very excited to welcome Ensival Moret to the Sulzer family. Together we can grow stronger in our general industry business by serving our customers' process needs."

César Montenegro, Division President Pumps Equipment

Forging ahead through acquisition and significant orders

In 2016, Sulzer's largest division Pumps Equipment extended its product offering. The company announced the acquisition of the pump manufacturer Ensival Moret. With this transaction, Sulzer closes specific product gaps in its pumps portfolio. For example, it adds axial flow and slurry pumps that are used in general industry markets such as fertilizers, sugar, mining, and chemicals. Ensival Moret generates roughly CHF 120 million of sales and employs more than 700 people.

Pumps Equipment won significant orders in the reporting year. It will supply pumps for a new desalination plant in Sohar, Oman. The facility has a capacity of 250 000 m^3 a day and is expected to go into operation in 2018. Sulzer's energy-efficient pumps help cope with the growing water demand in the North Batinah region. Further, Sulzer will deliver process pumps to Metsä Group's next-generation bio product mill in Äänekoski, Finland. The company will also supply a pump package to Fibria Celulose SA, a Brazilian forestry company and the world's leading eucalyptus pulp producer.

Decrease in order intake

Order intake decreased in 2016. The main reason was the significantly lower order intake in the oil and gas market (–20%). Despite the recovery of oil prices during the year, the industry continued to cut cost and hold investments back. Order intake in the power market increased significantly, driven by orders from the Middle East and Asia. Demand in the water and the general industry markets grew compared with the previous year. Order intake gross margin decreased, impacted by pricing pressure in the oil and gas market.

Regionally, Pumps Equipment reported lower order intake in Europe and strong growth in the Middle East. Order intake dropped significantly in the Americas. Demand in the Asia-Pacific region was strong and clearly above last year's level.

See abbreviations on page 33.

Decrease in sales and operational EBITA

In 2016, Pumps Equipment reported lower sales. The sales volume in the oil and gas market dropped significantly as a consequence of the lower order intake of the previous year. The power market grew significantly in terms of sales, in line with the increase in order intake in 2015. Sales in the water market were below the previous year's level, driven by a low first quarter. In general industry, the division reported a stable sales volume.

Operational EBITA and operational ROSA decreased significantly, which was due to the lower sales volume and pricing pressure.

Continued decrease of accident frequency and severity

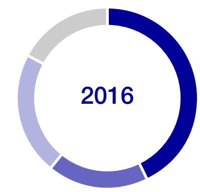
Pumps Equipment was able to further improve safety at its sites. In 2016, the frequency of accidents (accident frequency rate; AFR) further decreased to 1.3 cases per million working hours (2015: 1.6). According to benchmarks, the division is within the top tier of its industry when it comes to safety. With 33.8 lost days per million working hours, the severity of accidents (accident severity rate; ASR) also continued to improve year on year (2015: 39.3). The safety culture improvements can be traced back to the company's Safe Behavior Program (read more on page 48) that continues to mature within the organization. Besides sensitizing managers that it is their role to drive safety, the division focused on involving employees in safety observations and safety walks.

Key figures Pumps Equipment

millions of CHF	2016	2015	+/–%	Change in +/–%[1]
Order intake	1 401.7	1 500.8	–6.6	–5.4
Order intake gross margin	33.8%	34.2%		
Order backlog	880.3	998.0	–11.8	
Sales	1 503.5	1 621.0	–7.2	–6.2
EBIT	7.1	62.8	–88.7	
opEBITA	86.3	118.1	–26.9	–23.8
opROSA	5.7%	7.3%		
opROCEA	11.3%	15.8%		
Employees (number of full-time equivalents) as of December 31	6 261	6 996	–10.5	

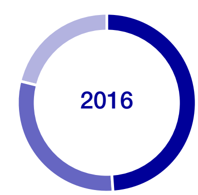
[1] Adjusted for currency effects.

Sales by market segment



- **43%** Oil and gas
- **18%** Power
- **22%** Water
- **17%** General industry

Sales by region



- **49%** Europe, Middle East, and Africa
- **30%** Americas
- **21%** Asia-Pacific

If not otherwise indicated, changes compared with the previous year are based on currency-adjusted figures.

See abbreviations on page 33.

Order Intake Declined — Strengthening Service Business in Russia

Order intake and sales decreased compared with 2015. Operational EBITA and operational ROSA declined slightly. Sulzer signed an agreement to acquire control of Rotec's gas turbine service business in Russia and further extended its one-stop service offering.

"Through Rotec GT, we are taking our service business in Russia to the next level. We are well on our way to becoming a one-stop service supplier with an extensive network across the globe."

Daniel Bischofberger, Division President Rotating Equipment Services

Becoming a one-stop service supplier

In 2016, Sulzer signed an agreement to acquire control of Rotec's gas turbine service business in Russia. Rotec GT, which has around 50 employees, is headquartered in Moscow and has a refurbishment center for gas turbine components in Ekaterinburg, Russia. The business will be combined with Sulzer Russia's turbo service activities. Through this transaction, Sulzer becomes a leading independent gas turbine service provider for Russia and the CIS countries with revenues of about CHF 40 million.

Three years ago, Rotating Equipment Services (RES) integrated the pump service center network that was previously managed within the Pumps Equipment (PE) division. In 2016, the company prepared for the transfer of the spare parts business from the PE to the RES division. The integration will be carried out in 2017. Customers benefit from a single access point for services and parts. Likewise, the division continued to establish service centers where a range of different products can be repaired under one roof (read more in the interview with new Division President Daniel Bischofberger on page 10). These are further milestones on the company's journey to becoming a one-stop service supplier.

Decrease in order intake

Compared with the previous year, order intake decreased in 2016. It was impacted by a decline in the general industry market. One of the reasons was weak electromechanical business in the UK, which suffered from the continuous change of the industrial landscape. Activity in the oil and gas and the power markets remained stable. Order intake gross margin decreased only slightly compared with 2015, because significant pricing pressure was largely offset by business mix effects.

Regionally, activity in the Asia-Pacific region decreased significantly. Europe, the Middle East, and Africa (EMEA) and the Americas decreased slightly compared with the previous year.

See abbreviations on page 33.

Sales and operational EBITA decreased

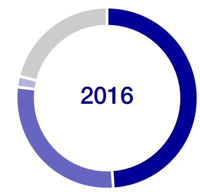
The division reported slightly lower sales in 2016. Sales in EMEA remained stable and increased slightly in North America. The sales volume in Central and Latin America declined, impacted by low oil prices. Sales in the Asia-Pacific region were down from the higher level in 2015, which had resulted from large gas turbine orders that year.

Operational EBITA decreased compared with 2015. This results from the lower sales volume that could only be partially offset by lower operating expenditures. Operational ROSA also declined slightly.

Significantly lower number of accidents

In 2016, the frequency of accidents (accident frequency rate; AFR) decreased to 1.9 cases per million working hours (2015: 2.5). With 44.9 lost days per million working hours, the division was able to decrease the accident severity rate (ASR; 2015: 60.5). This is a result of the company's Safe Behavior Program (SBP). An assessment of the program's implementation was conducted in 2016. The company continued to focus on reporting and analyzing minor and near accidents, which contributed to the strong performance. To further align the safety processes and programs throughout the regions, the division held regional QESH councils (quality, environment, safety, and health) with a focus on safe behavior at the workplace. Please read more about the company's safety and health efforts on page 48.

Sales by market segment



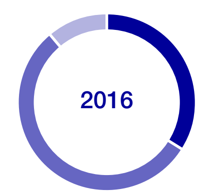
- **49%** Oil and gas
- **28%** Power
- **2%** Water
- **21%** General industry

Key figures Rotating Equipment Services

millions of CHF	2016	2015	+/–%	Change in +/–%[1]
Order intake	661.1	698.2	−5.3	−3.1
Order intake gross margin	30.3%	30.5%		
Order backlog	195.8	205.0	−4.5	
Sales	666.8	693.2	−3.8	−1.9
EBIT	57.3	51.4	11.5	
opEBITA	66.2	70.8	−6.5	−7.2
opROSA	9.9%	10.2%		
opROCEA	16.5%	16.8%		
Employees (number of full-time equivalents) as of December 31	3436	3538	−2.9	

[1] Adjusted for currency effects.

Sales by region



- **34%** Europe, Middle East, and Africa
- **55%** Americas
- **11%** Asia-Pacific

See abbreviations on page 33.

If not otherwise indicated, changes compared with the previous year are based on currency-adjusted figures.

Increase in Order Intake Through Acquisitions

Order intake and sales increased in 2016. The acquisitions more than offset the organic decline. The division reported a higher operational EBITA and operational ROSA. Through three important acquisitions, Chemtech expanded its product portfolio and diversified into new segments.

"In 2016, Chemtech raised its profitability thanks to three acquisitions and operational improvements. At the same time, we significantly expanded and diversified our product portfolio."

Torsten Wintergerste, Division President Chemtech

Growing and diversifying product portfolio

In 2016, Sulzer took important steps to grow and further diversify its product portfolio. In August, Sulzer acquired Geka, headquartered in Bechhofen, Germany. Geka produces applicator devices for the cosmetics industry with an emerging business in healthcare. Through this acquisition, Sulzer almost doubled the sales of its most profitable business unit Sulzer Mixpac Systems (SMS), and the company entered into the beauty segment. Further, Sulzer took over PC Cox Group Ltd, a leading manufacturer of industrial dispensers headquartered in Newbury, UK. The combination of SMS, Geka, and PC Cox is being reported as the new division Applicator Systems as of January 1, 2017.

In December 2016, Sulzer signed a binding agreement to acquire a unique oil separation technology from Wärtsilä — the vessel internal electrostatic coalescer business. This business, based in Asker, Norway, strengthens Chemtech's upstream separation business. Further, the division successfully started up a new fatty acid plant for a customer in Malaysia. Sulzer's latest developments in the field of distillation, fractionation, and hydrogenation enable the highly efficient separation of various fatty acid fractions. With the support of this technology, producers can quickly adapt their production outputs to the current volatile market demand.

Increase in order intake

Chemtech reported growing order intake in 2016. The additional orders from the acquisitions more than offset the organic decrease in order intake in the Tower Field Services (TFS) business unit. The TFS business had fewer large projects compared with the previous year. The overall business suffered from lacking oil and gas upstream projects globally. Order intake in the general industry market increased because of the strong performance of Sulzer Mixpac Systems and the acquisitions. Order intake gross margin increased.

Regionally, the division reported growing order intake in Europe, the Middle East, and Africa as well as in the Asia-Pacific region. Demand in the Americas was down compared with the previous year.

See abbreviations on page 33.

Higher sales and operational EBITA

In 2016, sales increased compared with the previous year, due to the PC Cox and Geka acquisitions. The other Chemtech businesses — Separation Technology and Tower Field Services — reported lower sales because of the challenging oil and gas market that particularly affected the downstream business in the Americas.

The acquisitions and operational improvements led to a significantly higher operational EBITA and operational ROSA compared with the previous year.

Fall-back in safety performance

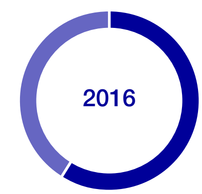
In 2016, the accident frequency rate (AFR) at Chemtech increased to 2.8 cases per million working hours (2015: 1.9). In parallel, the accident severity rate (ASR) increased to 88.5 lost days per million working hours (2015: 52.5). As such, Chemtech could not sustain the strong safety performance of the previous years 2014 and 2015. Unfortunately, Chemtech had to report a fatality in the TFS business unit. The company is implementing corrective and preventive actions based on this tragic incident. Please read more about the company's safety and health efforts on page 48.

Key figures Chemtech

millions of CHF	2016	2015	+/–%	Change in +/–%[1]
Order intake	744.5	708.9	5.0	6.1
Order intake gross margin	37.3%	35.6%		
Order backlog	362.9	307.7	17.9	
Sales	718.1	669.6	7.2	8.0
EBIT	37.2	33.5	11.0	
opEBITA	82.1	67.4	21.8	23.0
opROSA	11.4%	10.1%		
opROCEA	18.5%	16.6%		
Employees (number of full-time equivalents) as of December 31	4 135	3 539	16.8	

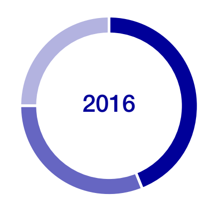
[1] Adjusted for currency effects.

Sales by market segment



- **59%** Oil and gas
- **41%** General industry

Sales by region



- **44%** Europe, Middle East, and Africa
- **31%** Americas
- **25%** Asia-Pacific

See abbreviations on page 33.

If not otherwise indicated, changes compared with the previous year are based on currency-adjusted figures.