

Full Year 2015 Results Presentation

Greg Poux-Guillaume, CEO | Thomas Dittrich, CFO | February 25, 2016



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

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Agenda

Market Review

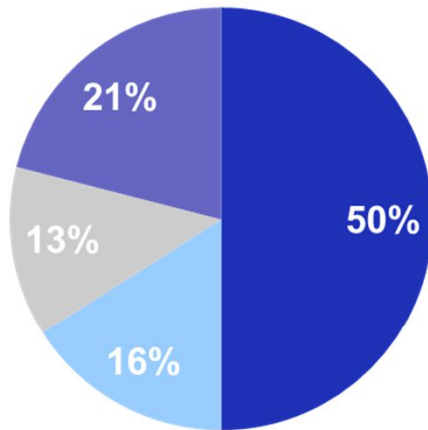
Sulzer Full Potential

Financial Review

Outlook

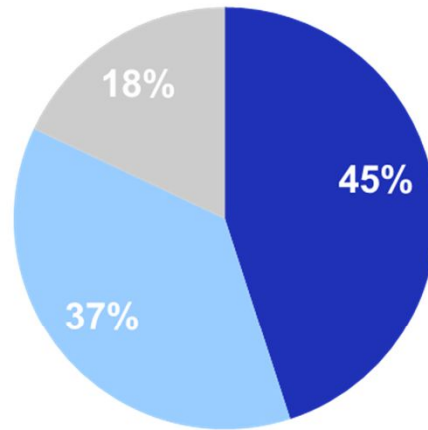
O&G exposure mitigated by geographic and aftermarket balance

Order intake 2015
split by market



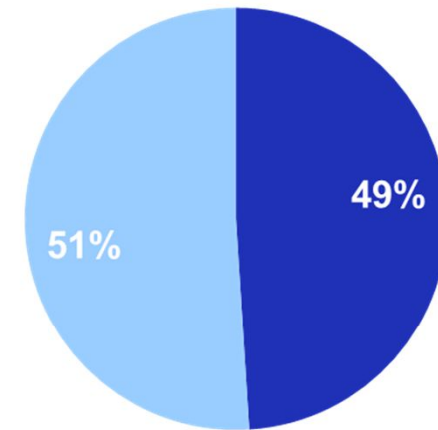
- Oil and Gas
- Power
- Water
- General Industry

Order intake 2015
split by region



- Europe, Middle East, Africa
- Americas
- Asia-Pacific

Order intake 2015
split by type



- Equipment
- Aftermarket

O&G market challenging

Oil and Gas



50%

Order intake
2015 vs 2014



(-13% ¹)

Upstream



~16%

- Activity strongly impacted
- Significant price pressure
- Aftermarket impacted by postponements of non-essential work

Midstream



~4%

- Midstream construction slowed notably

Downstream



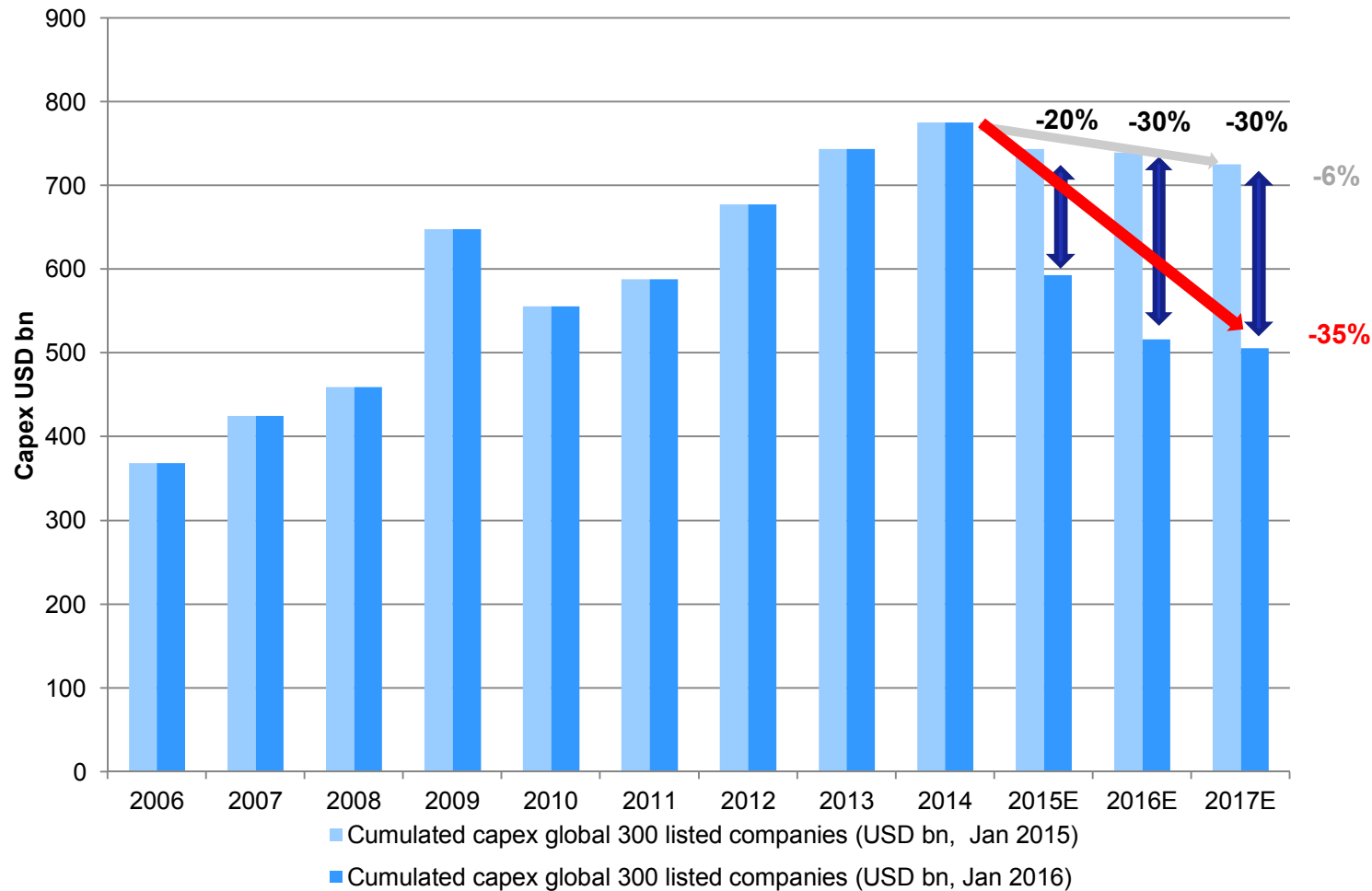
~30%

- High refinery utilization building opportunity pipeline
- Postponements of major non-essential maintenance work
- China challenging
- Petrochemical stable

OI share 2015

1. Adjusted for currency effects

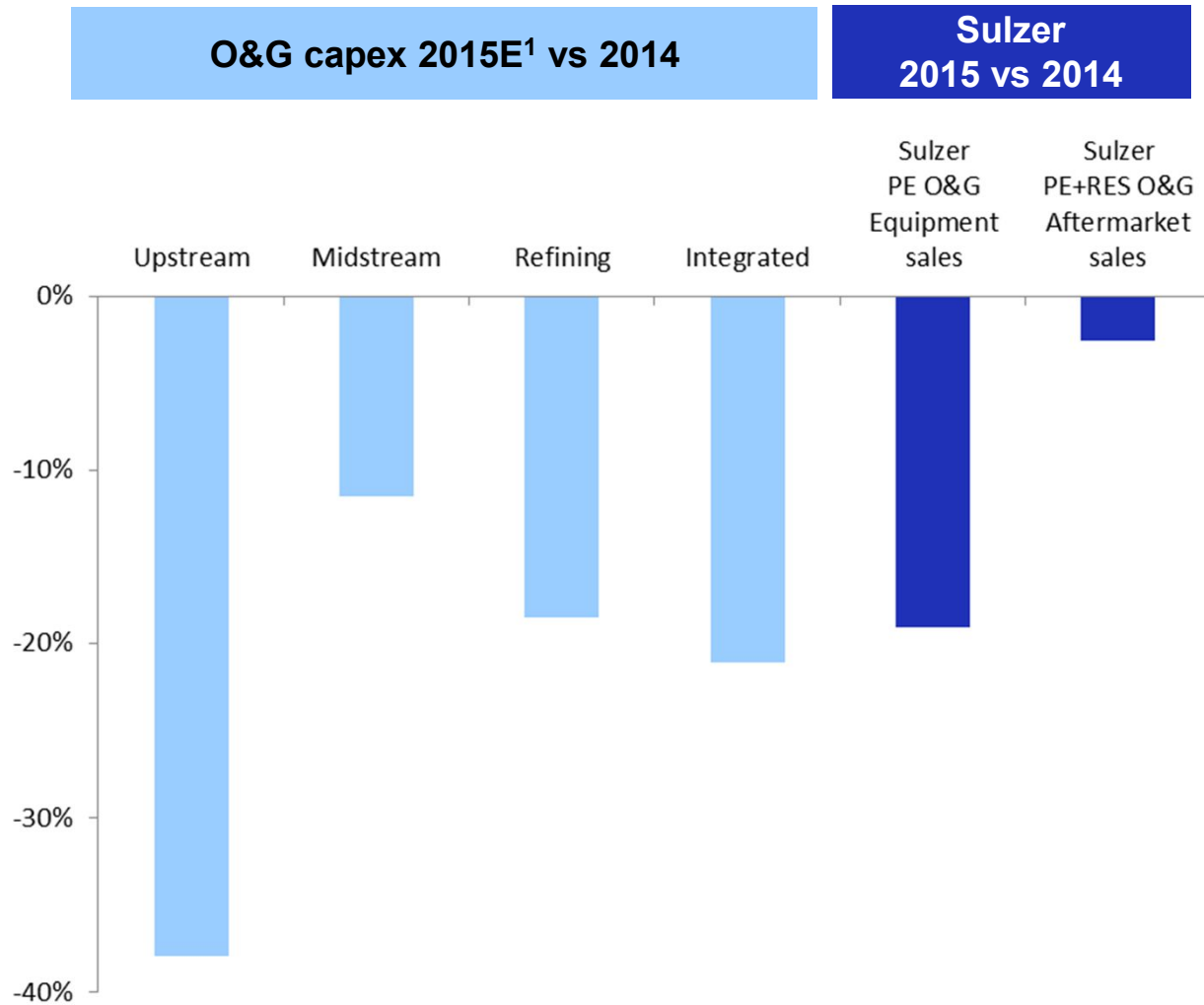
O&G capex expectations¹ reduced significantly over the last 12 months



In January 2015, oil and gas capex was expected to decrease by 6% until 2017. In January 2016 expectations foresee cuts of -35%.

1. Bloomberg figures and consensus estimates as of January 20, 2016

O&G upstream capex hit the hardest – Sulzer compares well to market development



1. Bloomberg figures and consensus estimates as of January 20, 2016

Other Sulzer segments proved resilient

Power



16%

Order intake
2015 vs 2014



- Good activity levels in Asia driven by China and India
- US driven by gas, EMEA overall slow
- Low O&G activity levels drove increased competition in power

Water



13%



- Solid municipal water market in US and China
- Engineered Water: active desalination in Middle East and South East Asia
- Large water infrastructure projects active globally

General Industry



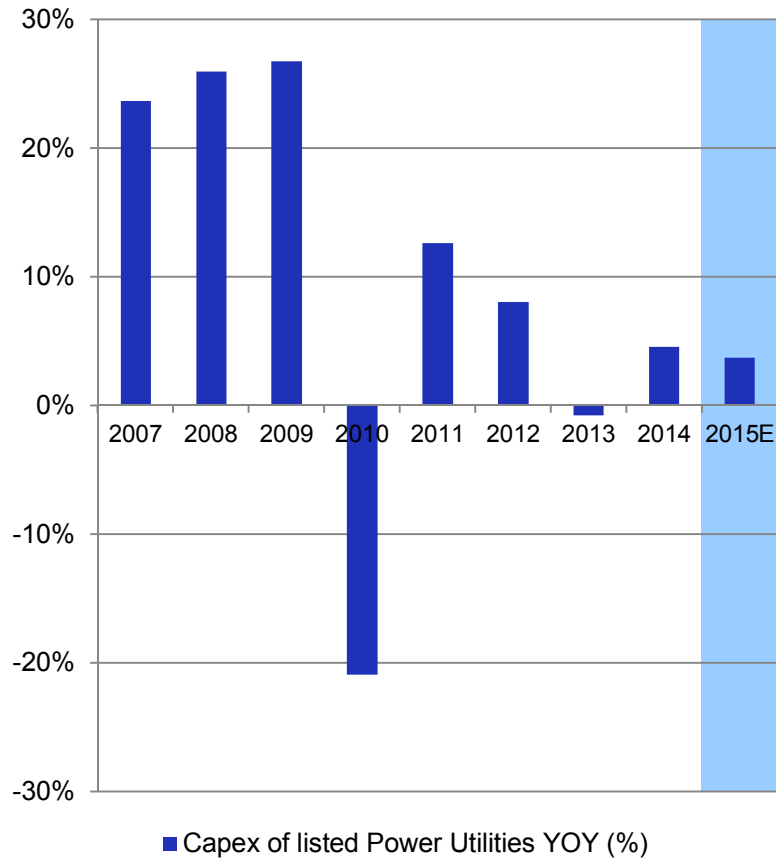
21%



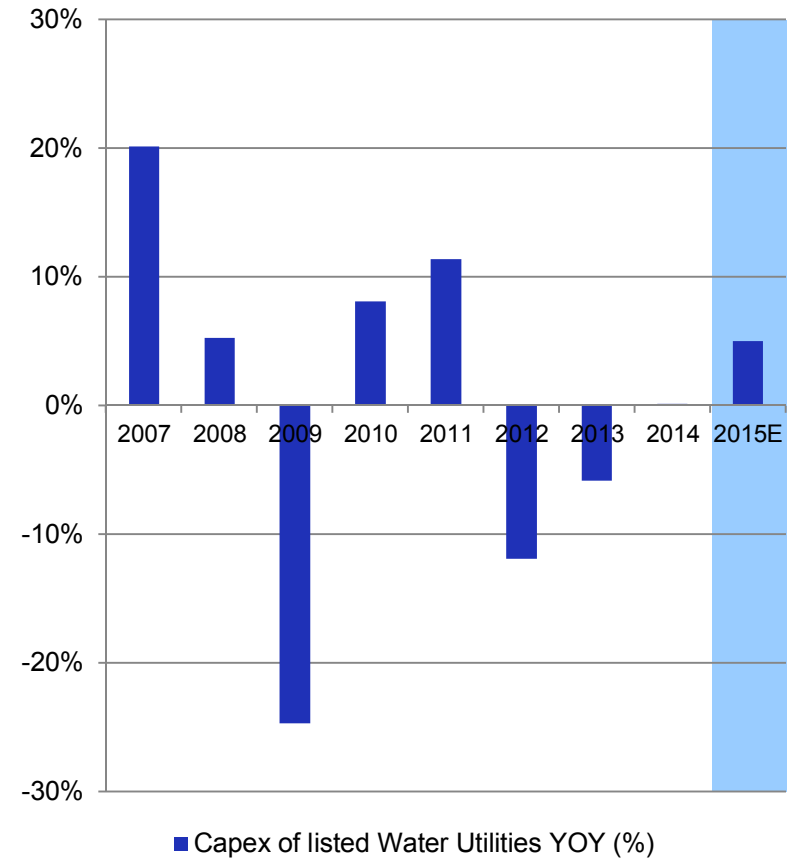
- Overall positive environment particularly in Pulp and Paper and in Healthcare
- Weaker Metals and Mining, impacting also aftermarket
- China remained key demand driver for many segments
- Pricing pressures increased

Decent growth in the Power and Water markets

Capex development of listed Power Utilities¹

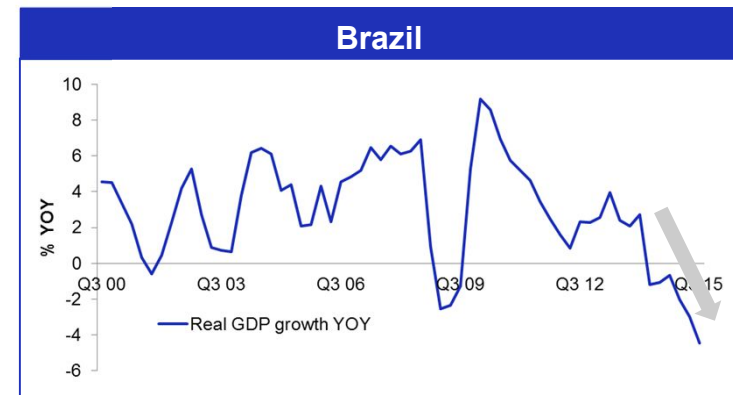
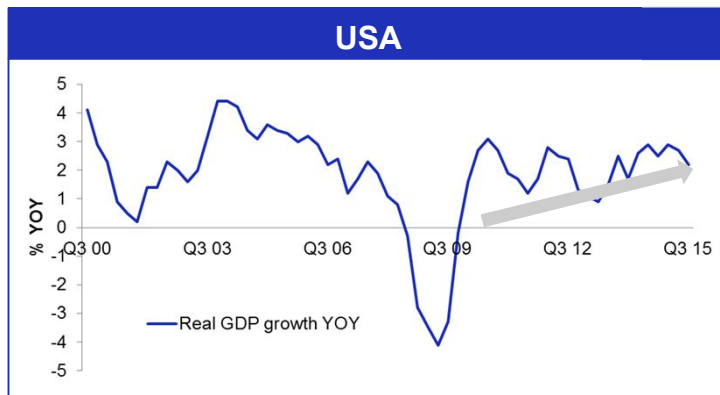
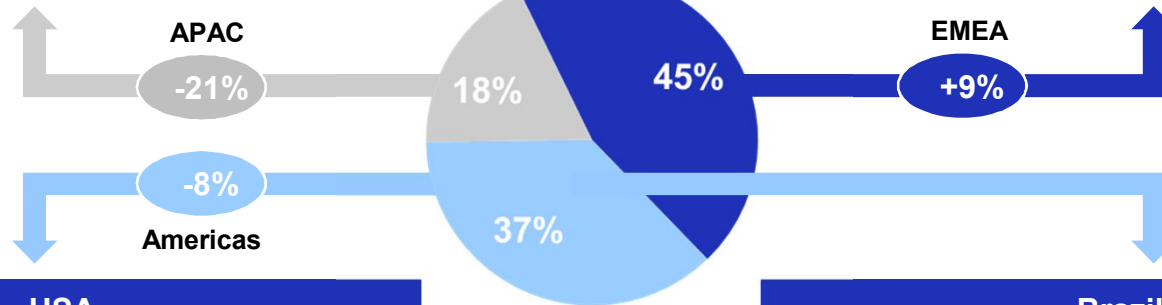
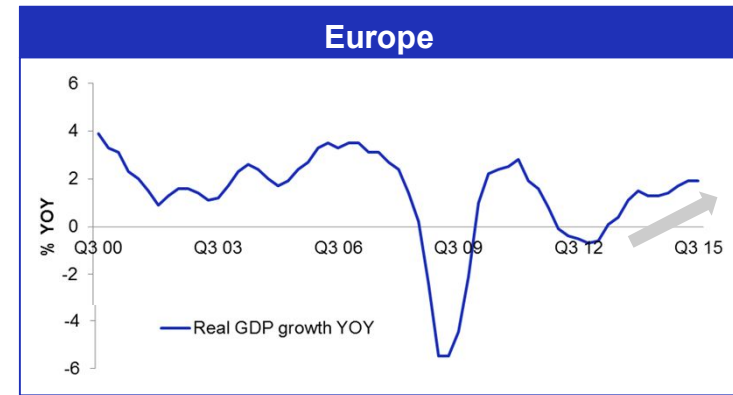
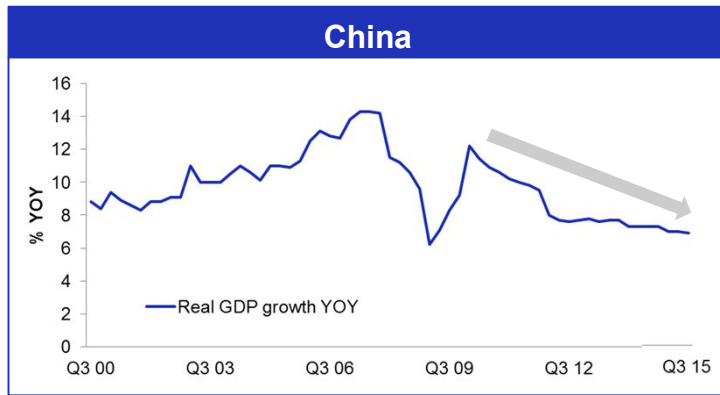


Capex development of major listed Water Utilities¹



1. Bloomberg figures and consensus estimates as of January 20, 2016

Slowing growth in China and decline in Brazil impacted Sulzer's order intake



OI %YOY

Agenda

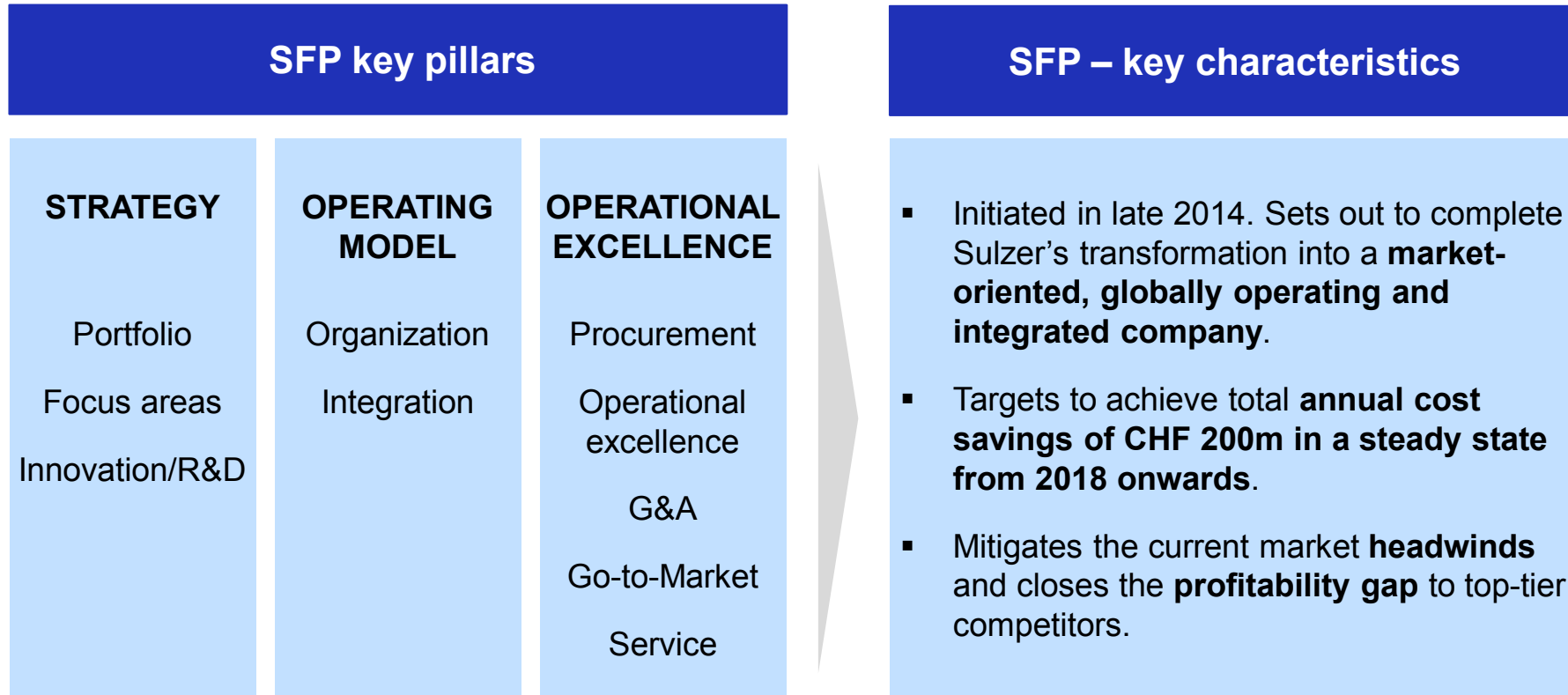
Market Review

Sulzer Full Potential

Financial Review

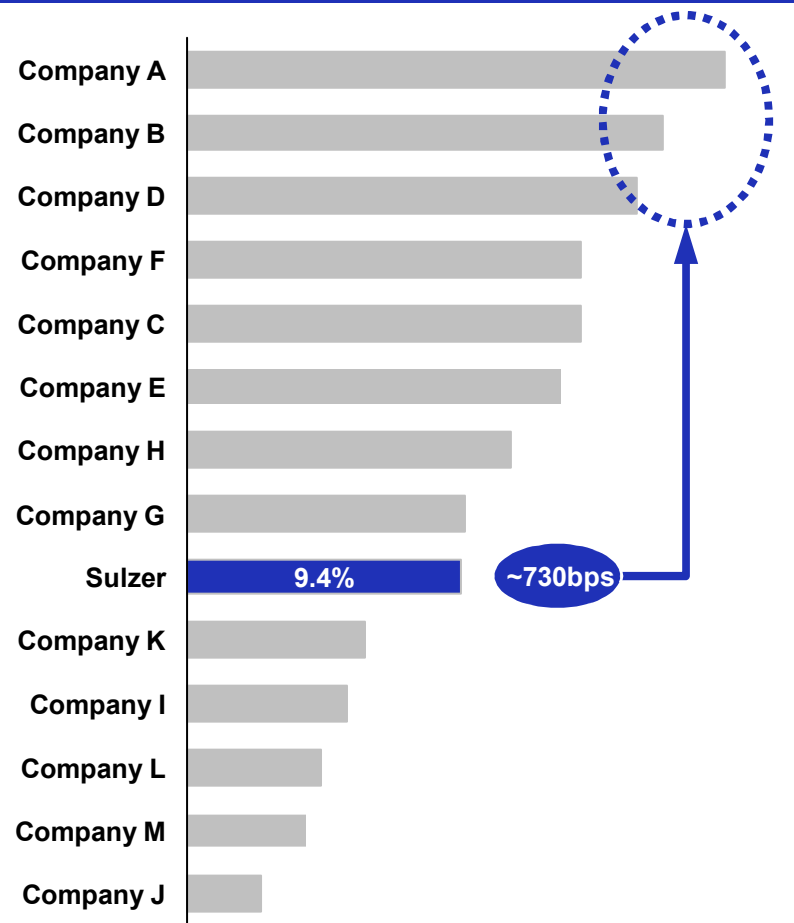
Outlook

Sulzer Full Potential program guides our transformation journey

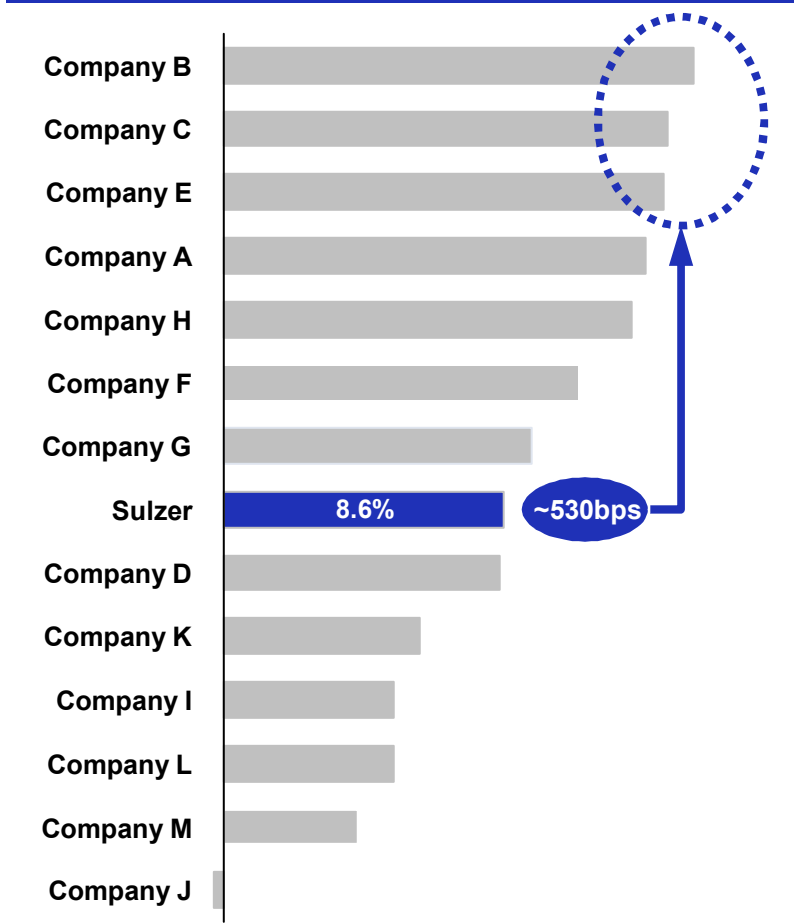


Profitability gap to top-tier competitors narrowed by ~200bps

2014 profitability comparison

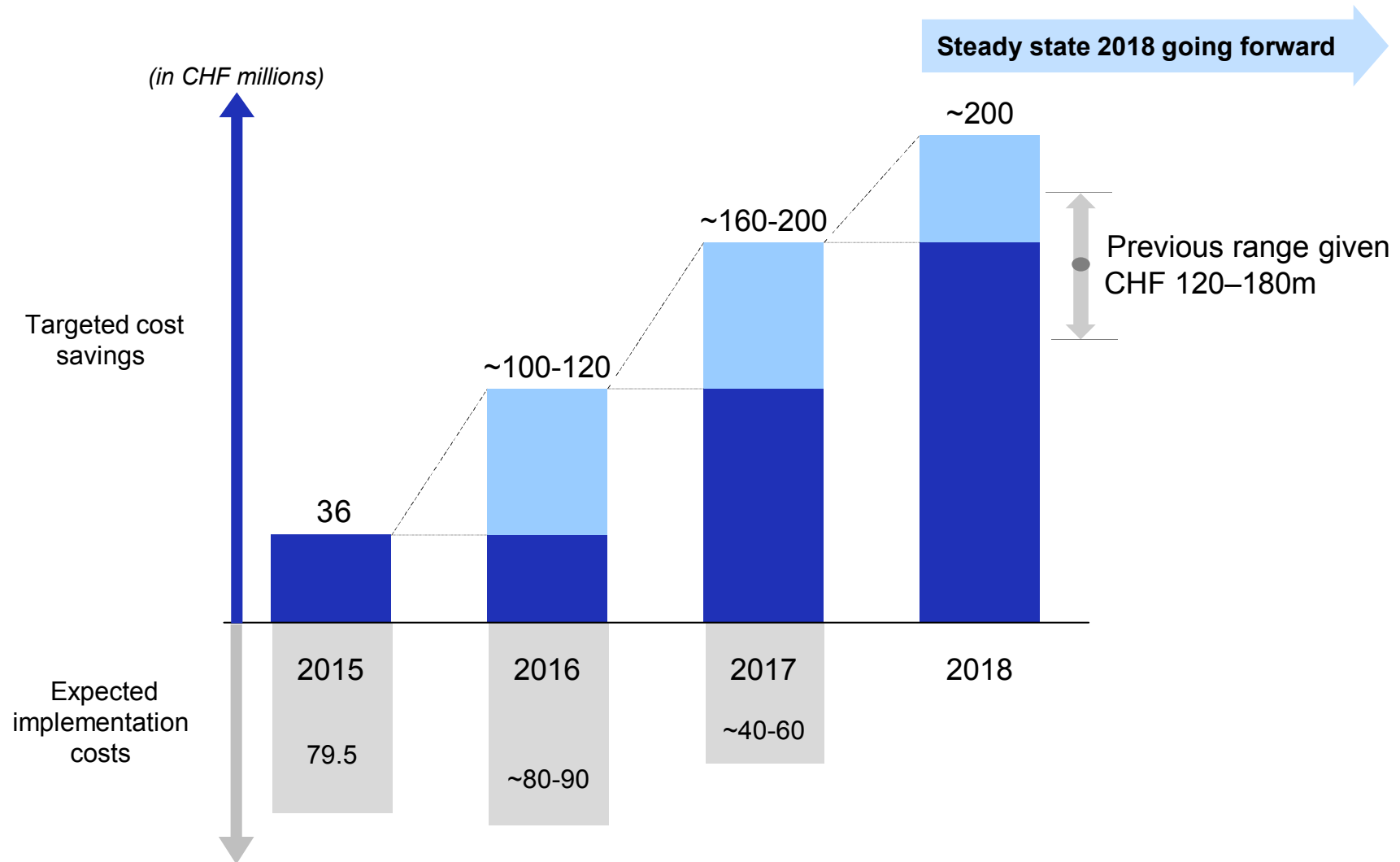


Expected 2015 profitability¹



1. Bloomberg figures and consensus estimates as of January 20, 2016

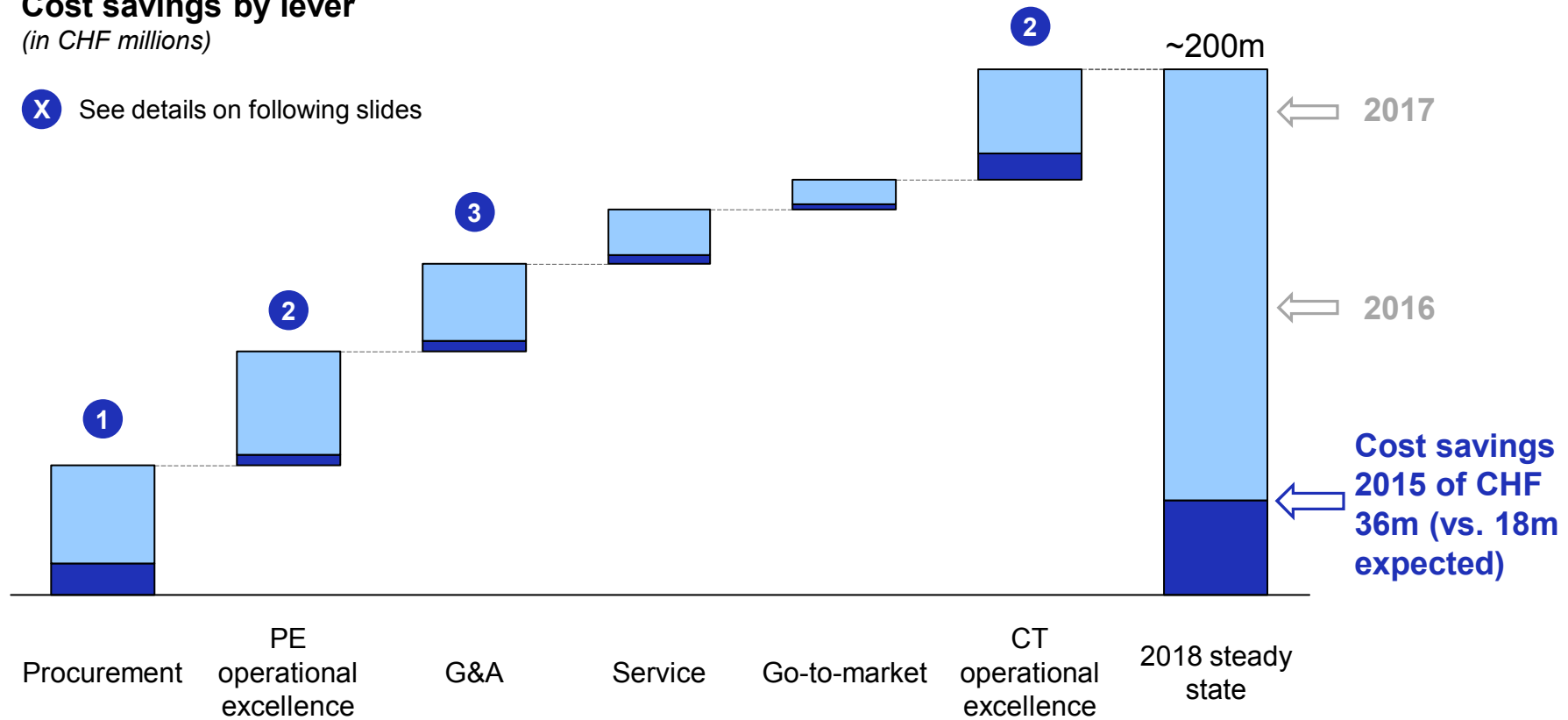
SFP targets cost savings of approx. CHF 200m by 2018¹ with implementation costs of 1.0–1.2x



SFP off to a good start in 2015

Cost savings by lever (in CHF millions)

X See details on following slides



- Comprehensive program across all functions and divisions
- Procurement, G&A and Operational Excellence are the main levers
- Short term (2015) impact delivered by procurement and CT Operational Excellence

1 New procurement organization fully staffed and with significant success already in 2015



Objectives

- Establish new **global procurement organization** and **advanced sourcing processes**
- Clearly defined **sourcing strategy by category**
- Establish **full spend transparency** and strict **demand control**
- Reduce **direct spend by ~5%** across major categories, reduce **indirect spend by ~9%**

Achievements

- **Savings achieved based on both short-term re-negotiations and reengineered mid-/ long term procurement processes/strategies**
- **Direct categories: shift to best cost region for machined castings and motors delivered ~CHF 4m savings**
- **Indirect categories: logistics, travel and insurance of ~CHF 10m combined**

2 Strengthen operational capabilities to compete efficiently in the years to come



Objectives

- **Adjust global footprint** to market demand and develop **global production strategy**
- Leverage best cost regions to **improve cost of components** without compromising quality
- **Right-size capacities** according to market requirements and **increase productivity**
- Reduce **overall operating cost by 10%**

Achievements

- **Reorganization of PE division** into three market-oriented business units
- Introduction of a **dedicated global aftermarket organization**
- **PE division: adapted manufacturing footprint and streamlined capacities**
- **CT division: adapted operational setup**

G&A transformation targets cost reduction of >20%



Objectives

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

Achievements

- **Harmonized** finance processes with strong orientation towards **shared service options**
- **Successful IT cost improvement** (e.g. consolidation of data centers and networks)
- **Simplified organizational setup** with reduction of **24 legal entities**
- **Shift of resources** to best cost regions for all support functions

Agenda

Market Review

Sulzer Full Potential

Financial Review

Outlook

FY2015 impacted by headwinds in O&G

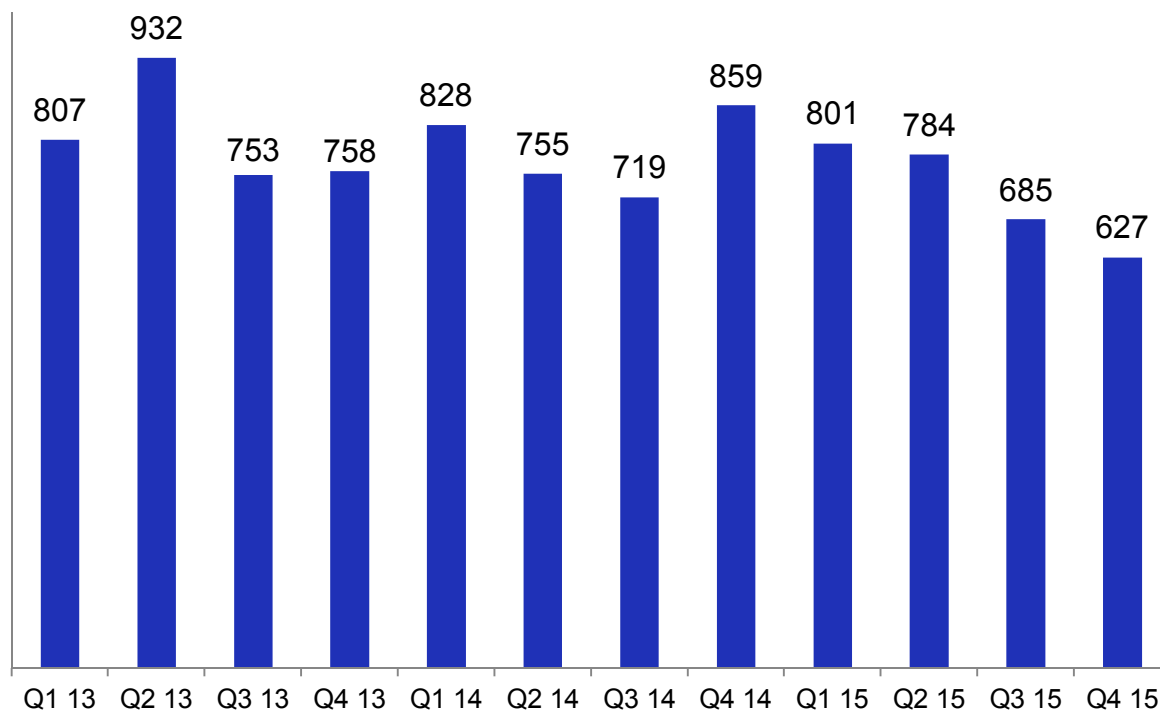
	Key figures				Commentary
<i>In CHF millions</i>	2015	2014 ¹	YOY	YOY adj. ²	
Order intake	2'895.8	3'160.8	-8.4%	-3.7%	■ Q4 orders down 22% YOY ²
<i>Order intake gross margin</i>	33.8%	33.5%	0.3pp	0.4pp	■ Order intake gross margin slightly up on mix effects
Order backlog (<i>Dec 31</i>)	1'510.7	1'699.6	-11.1%	-4.6%	■ More than half of order backlog decrease driven by FX
Sales	2'971.0	3'212.1	-7.5%	-3.2%	■ Sales decreased due to headwinds in O&G market, negatively impacting opROSA
opEBITA	254.1	302.9	-16.1%	-11.8%	
<i>opROSA %</i>	8.6%	9.4%			
EBIT	120.9	271.0	-55.4%	-53.2%	■ EBIT decreased mainly due to market headwinds and SFP related costs of CHF 79.5m
<i>ROS %</i>	4.1%	8.4%	-		
Core net income	175.0	205.4	-14.8%		
Core EPS (in CHF)	5.11	5.95	-14.1%		■ Free cash flow improved due to lower volumes and collection focus
Free cash flow	155.8	98.0	59.0%		
FTEs (<i>Dec 31</i>)	14'253	15'494	-8.0%		

1. 2014 figures exclude impairment of CHF340m in EBIT

2. Adjusted for currency effects

Q4 orders reflecting intensified O&G market weakness

Key figures



Commentary

- Drivers of Q4 order intake:
 - PE fell by 27% YOY¹ on decline in O&G and water markets and a very high comparable base
 - RES increased by 8% YOY¹, driven by a strong power and general industries markets
 - CT decreased by 33% YOY¹, driven by decline in O&G and high comparable base
- FX impact in Q4 CHF -40.2m (CHF -148.9m for FY2015)
- Acquisition effect in Q4 CHF 7.2m (CHF 36.2m for FY2015)

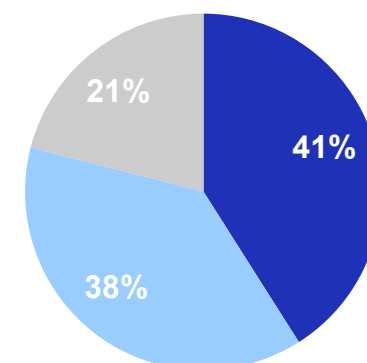
1. Adjusted for currency effects

Order suspensions in O&G and China slowdown resulted in lower sales

Sales

<i>In CHF millions</i>	2015	2014	YOY	YOY adj. ¹
Total Sulzer	2'971.0	3'212.1	-7.5%	-3.2%
Total Divisions	2'983.8	3'221.0	-7.4%	-3.1%
Pumps Equipment	1621.0	1754.9	-7.6%	-1.6%
Rotating Equipment Services	693.2	724.6	-4.3%	-1.9%
Chemtech	669.6	741.5	-9.7%	-7.8%
Adj./Eliminations	-12.8	-8.9		

By region



- Europe, Middle East, Africa
- Americas
- Asia-Pacific

- PE impacted by headwinds in the O&G including suspensions of previously received orders
- RES suffered from weak markets in Power and General Industries mainly in Europe
- CT heavily impacted by China slowdown
- Total effect from acquisitions/divestitures: CHF 41.8m
- Total effect from currency translation: CHF -137.9m
- Share of sales from emerging markets: 40% (2014: 42%)

1. Adjusted for currency effects

OpEBITA declined on lower volumes and price pressure

Operational EBITA

<i>In CHF millions</i>	2015	2014	YOY	YOY adj. ¹
Total Sulzer	254.1	302.9	-16.1%	-11.8%
<i>opROSA %</i>	8.6%	9.4%		
Divisions	256.3	318.7	-19.9%	-15.8%
<i>opROSA %</i>	8.6%	9.9%		
Pumps Equipment	118.1	160.6	-26.4%	-19.4%
<i>opROSA %</i>	7.3%	9.2%		
Rotating Equipment Services	70.8	64.5	9.6%	8.8%
<i>opROSA %</i>	10.2%	8.9%		
Chemtech	67.4	93.6	-28.0 %	-25.5%
<i>opROSA %</i>	10.1%	12.6%		
Others	-2.2	-15.8		

PE with lower margins on lower volumes in O&G, FX impact and internal reallocation of costs

CT margins lower as a result of lower volumes in Separation Technology

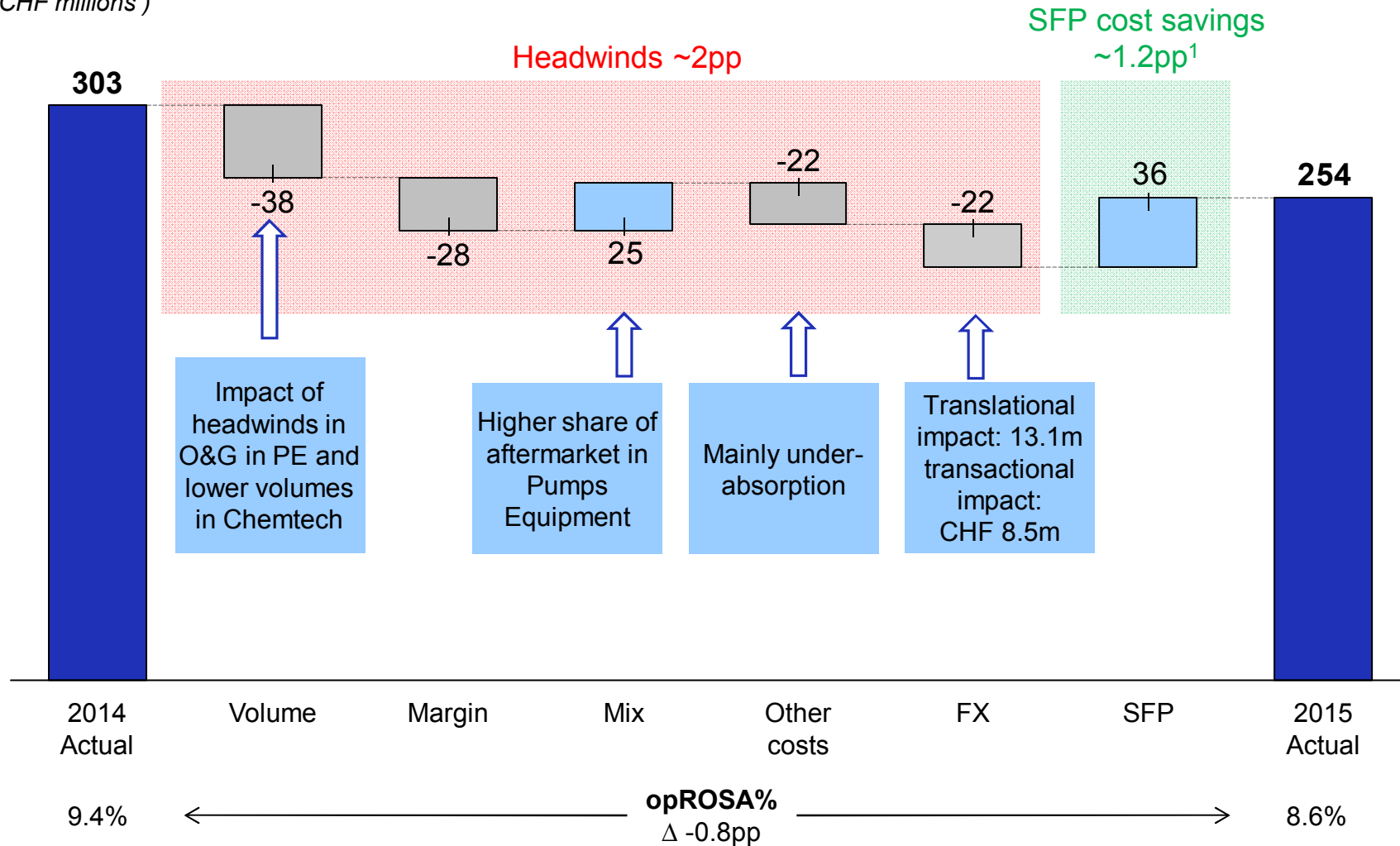
Others improved as a result of internal reallocation of costs

- Total effect from currency translation: CHF 13.2m
- Net costs amounting to CHF 11.4m were charged out to divisions

Sulzer Full Potential partially offset headwinds

Operational EBITA

(in CHF millions)

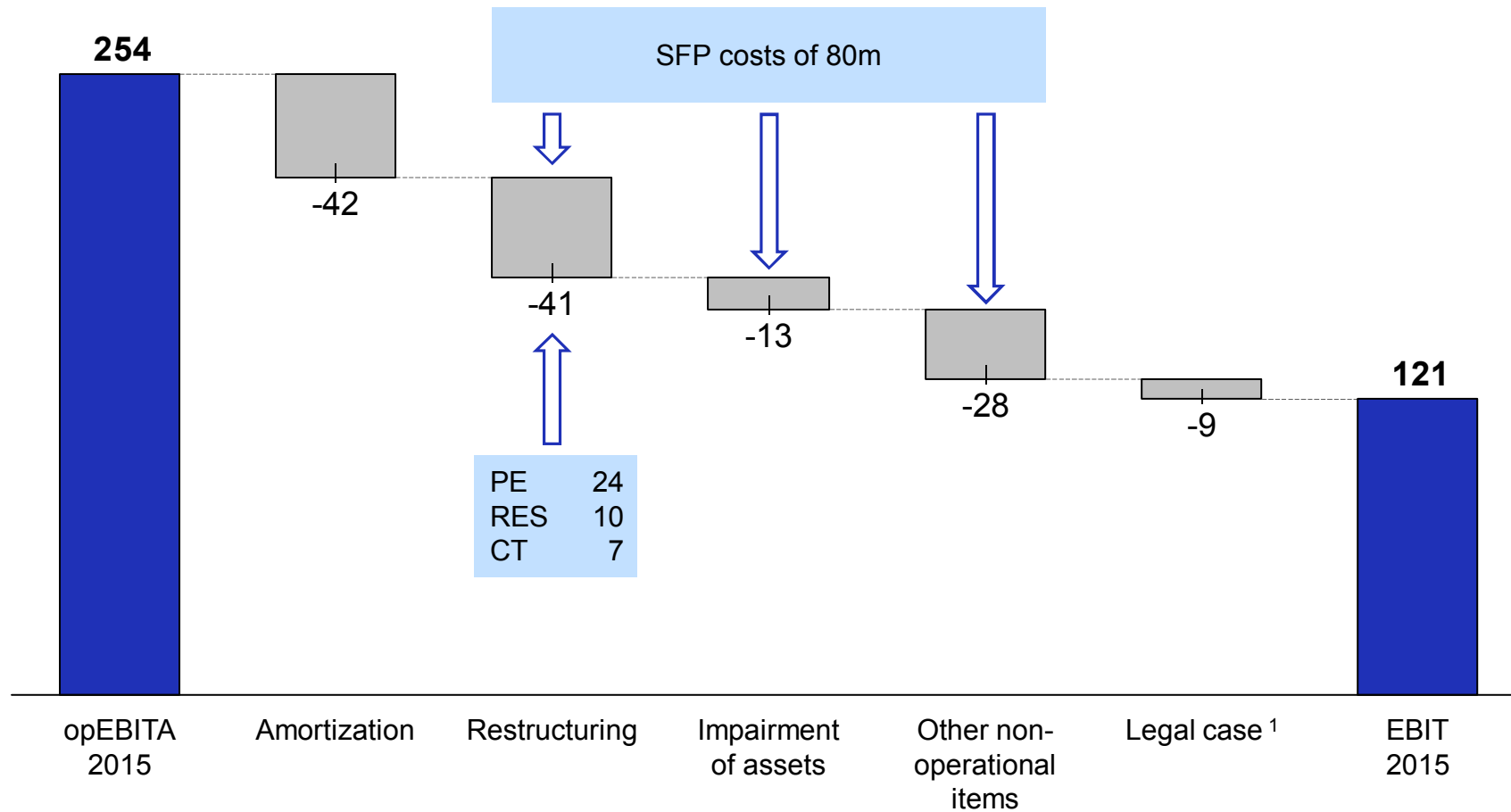


1. Calculated based on 2015 sales

EBIT impacted by SFP costs of CHF 80m and legal case of CHF9m

Operational EBITA to EBIT

(in CHF millions)

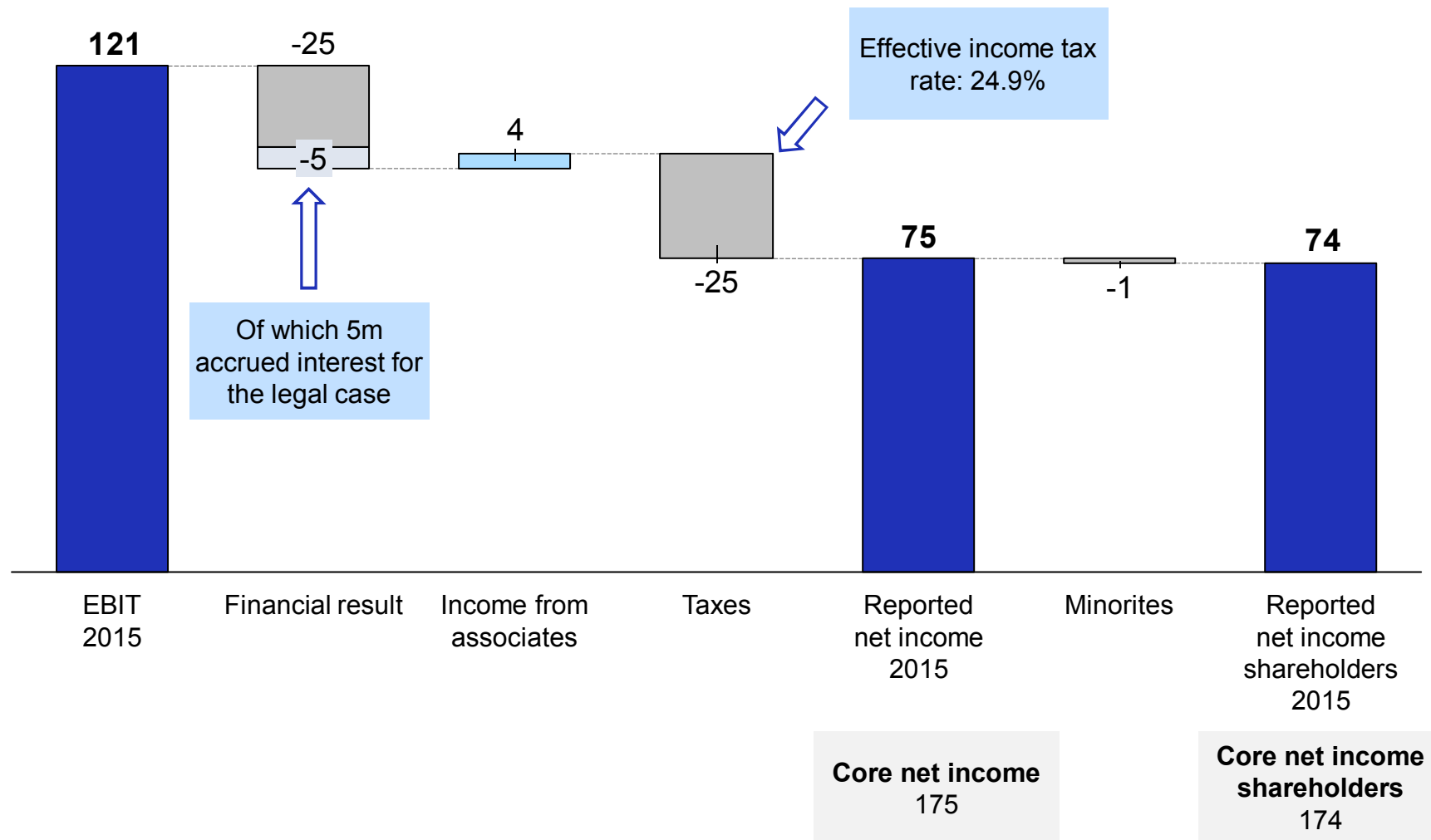


1. Following the decision of the arbitral tribunal in a legal case relating to a dispute with the purchaser of the locomotive business (sold in 1998), Sulzer recognized in addition to the existing provision CHF 8.7m in cost of goods sold and CHF 5.2m as interest expenses.

Tax rate declined to 24.9% in 2015 from 28.3% in 2014

EBIT to Net income shareholders

(in CHF millions)

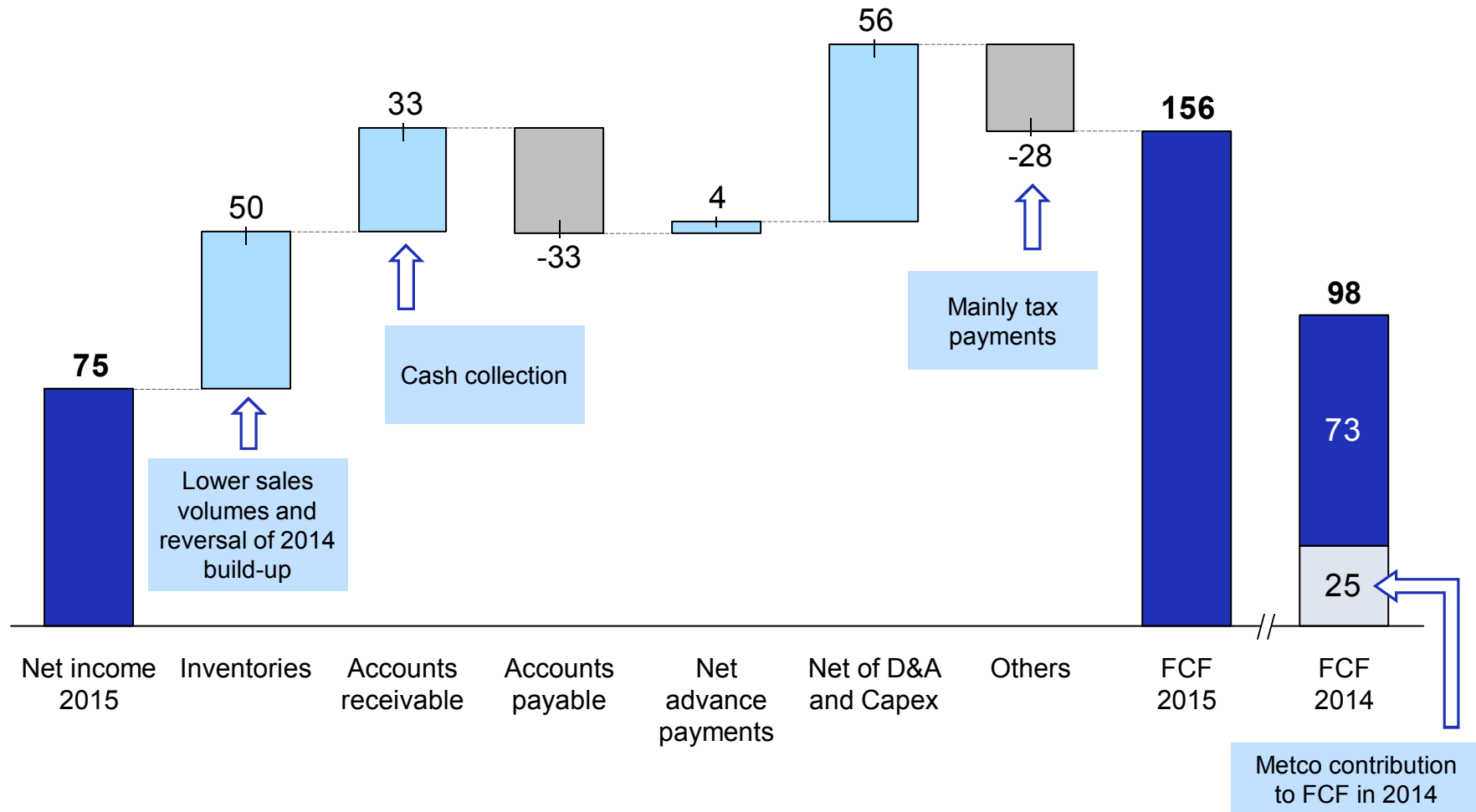


Free cash flow improved by CHF 58m, resulting in net income to FCF conversion of >100%



Free Cash Flow

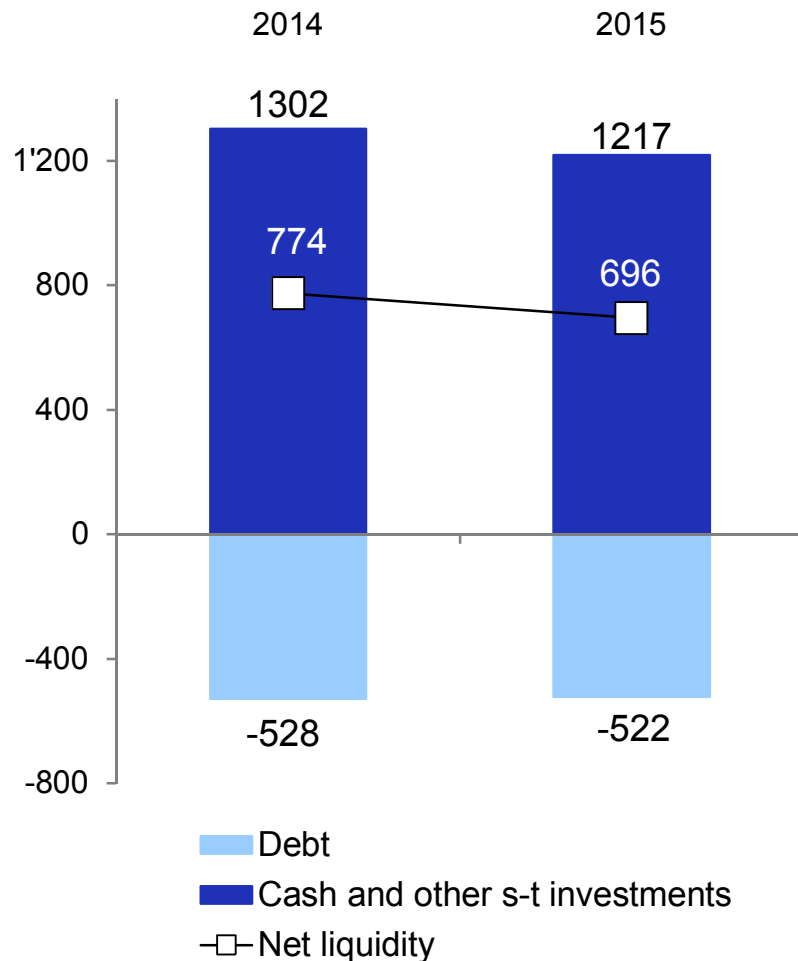
(in CHF millions)



Strong balance sheet, with net cash of CHF 696m

Balance Sheet

(in CHF millions)



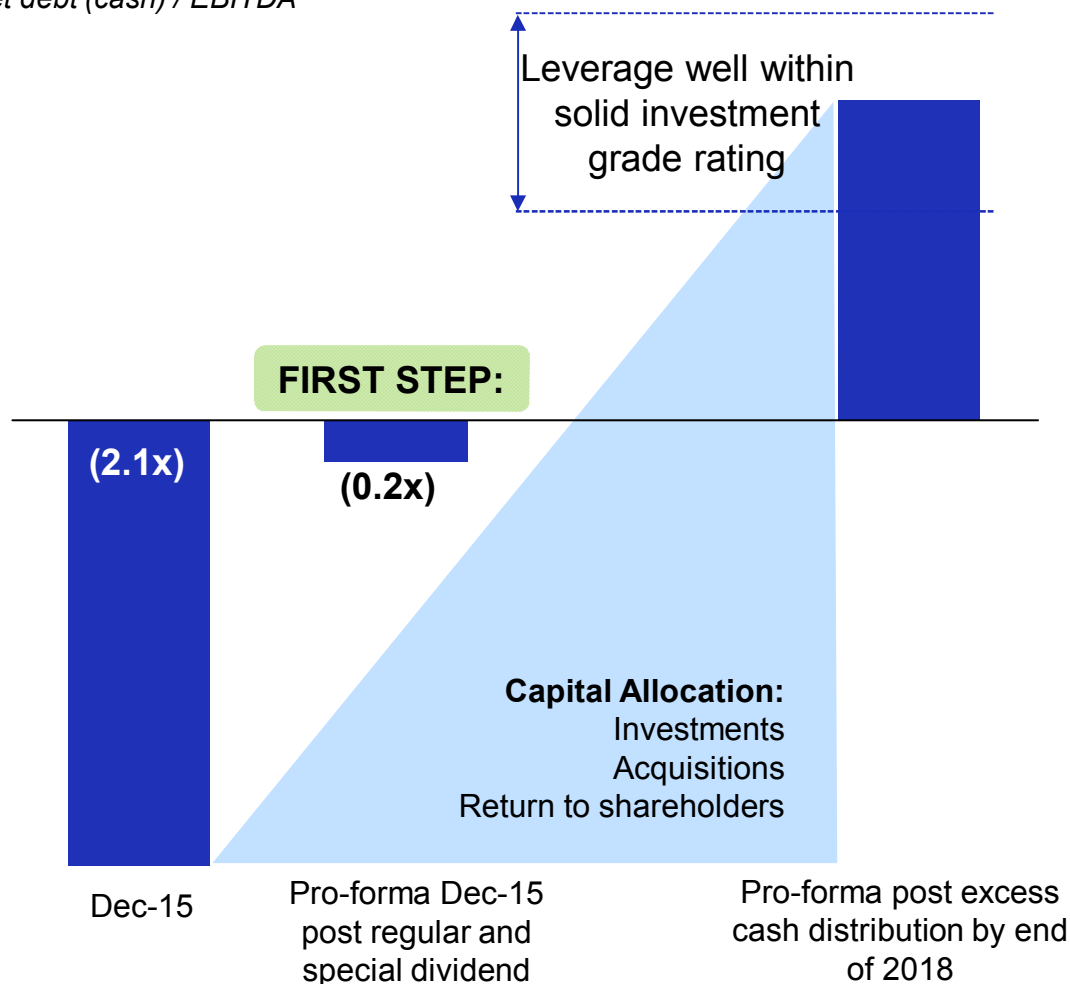
Balance sheet December 2015:

- Total net cash of: CHF 696m
- FCF of CHF 156m (98m in 2014)
- Dividend payment of CHF 119m
- Acquisitions of CHF 70m
- Negative FX impact of CHF 34m

Capital structure optimized via CHF 500m special dividend, M&A and SFP

Optimize capital structure

Net debt (cash) / EBITDA¹



Commentary

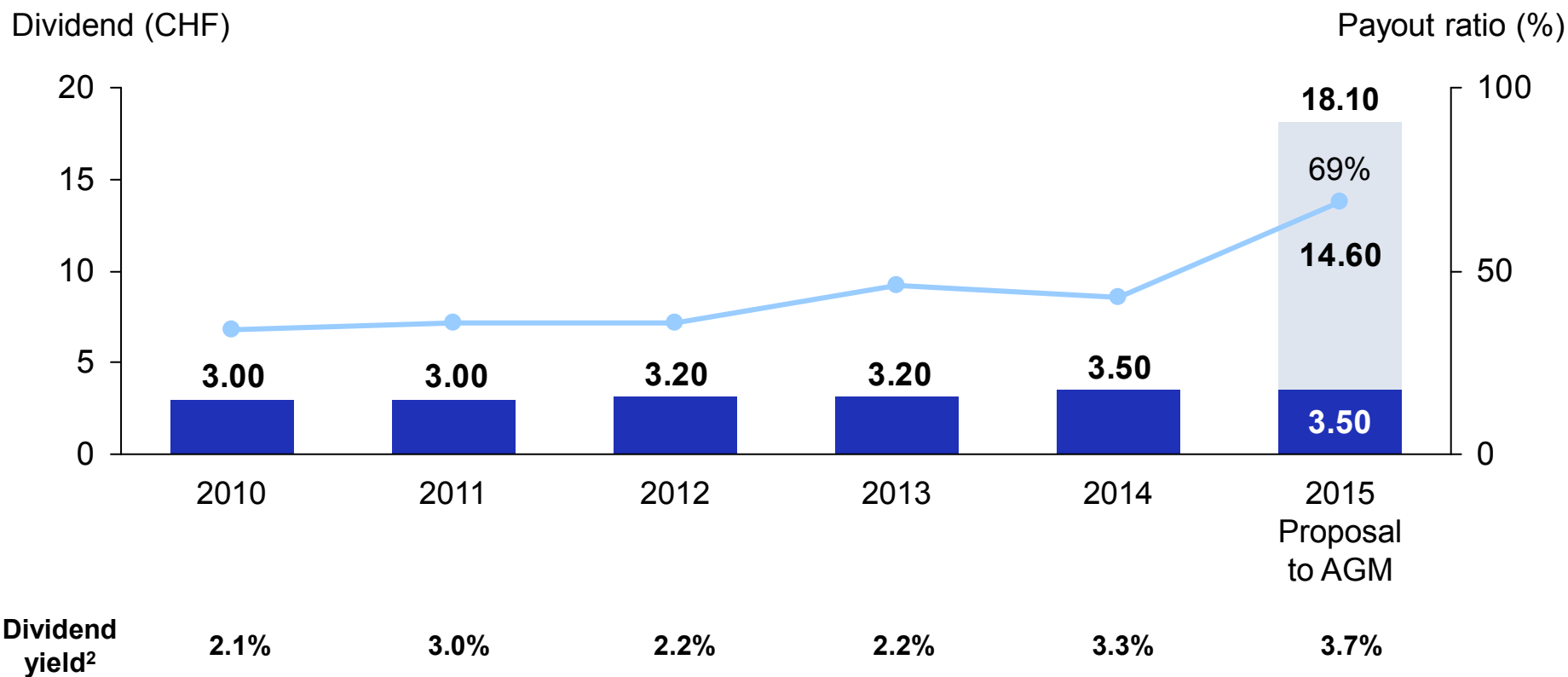
- **Confidence in free cash flow generation and strong start of SFP**
- **Keeping headroom for accretive M&A while optimizing capital structure**
- **One-time special dividend of CHF 500m to be paid in 2016.**
- **Post special dividend, Sulzer with net cash position and one of the strongest balance sheets in its industry**
- **Approval for ordinary and special dividend at AGM on April 7, 2016.**

1. opEBITA plus depreciation.

Sulzer proposes CHF 14.60 one time special dividend

Dividend

- Ordinary dividend per share (lhs)
- Special dividend per share (lhs)
- Payout ratio of ordinary dividend (rhs)¹



1. Based on DPS / reported EPS (core EPS for 2015)
 2. Dividend yield = ordinary dividend per share / share price on Dec 31.

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Sulzer Full Potential

Financial Review

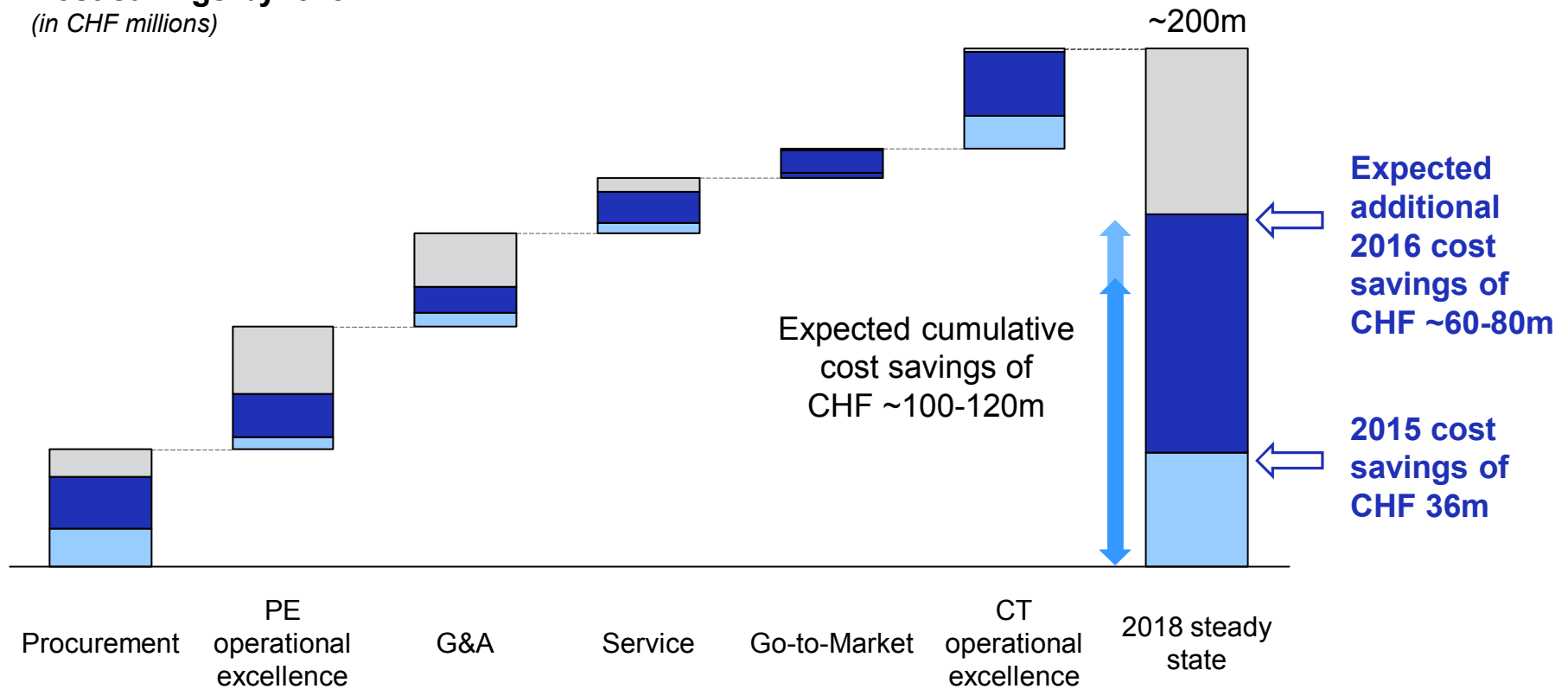
Outlook

Market assessment for 2016: O&G continues to be weak, flat to slight growth in other segments



SFP targets and milestones to be achieved in 2016

Cost savings by lever
(in CHF millions)



Major milestones 2016

- Procurement: address unexplored spending and implement systematic category management
- Continue to adjust manufacturing footprint and drive modularization of products in Pumps Equipment
- G&A cost take-out, first wave of financial processes optimization/outsourcing

Financial guidance 2016¹

Order Intake²	down 5–10%
Sales²	down 5–10%
Operational ROSA³ %	around 8%

1. As of February 25, 2016
2. Adjusted for currency effects
3. Operational EBITA divided by sales

Summary

- **Significant market headwinds in 2015 expected to continue in 2016**

- **Unleashing Sulzer's Full Potential**
 - SFP accelerated and **cost savings target increased** from CHF 120-180m to CHF ~200m from 2018 onwards
 - **Additional cost savings** of CHF ~60-80m expected in 2016
 - Sulzer **narrowed profitability gap** versus top tier competitors in 2015

- **Commitment to financial discipline**
 - **Confidence** in Sulzer's **strong free cash flow generation** and **SFP**
 - Keeping sufficient **headroom for accretive M&A**, Sulzer to **optimize its capital structure**
 - Sulzer to **return significant part of excess cash** to shareholders via a **special dividend of CHF 14.60 per share**, in addition to the 3.7% yield from the ordinary dividend of CHF 3.50 per share
 - Post special dividend, Sulzer will continue to have a **net cash position** and one of the **strongest balance sheets** in its industry

Key reporting dates 2016 and contacts

Financial Calendar

April 7 th , 2016	AGM
April 21 st , 2016	Q1 Order Intake
July 28 th , 2016	H1 Report
October 20 th , 2016	Q3 Order Intake

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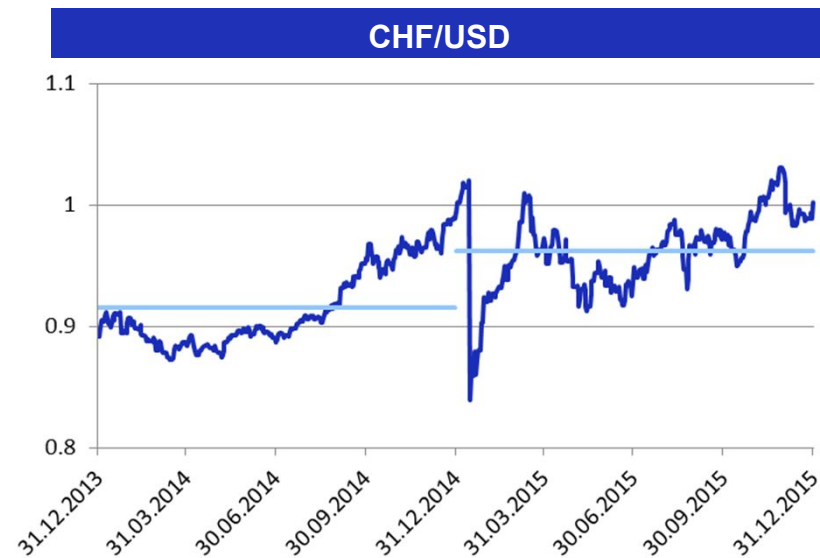
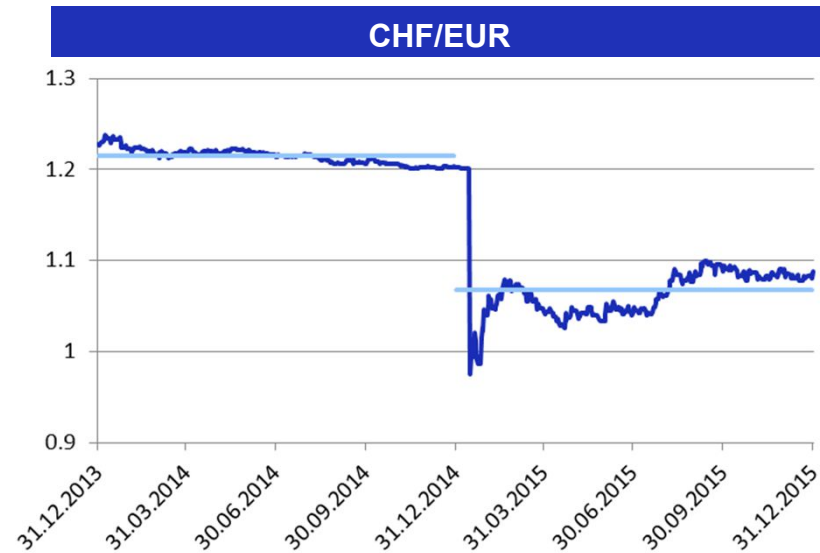
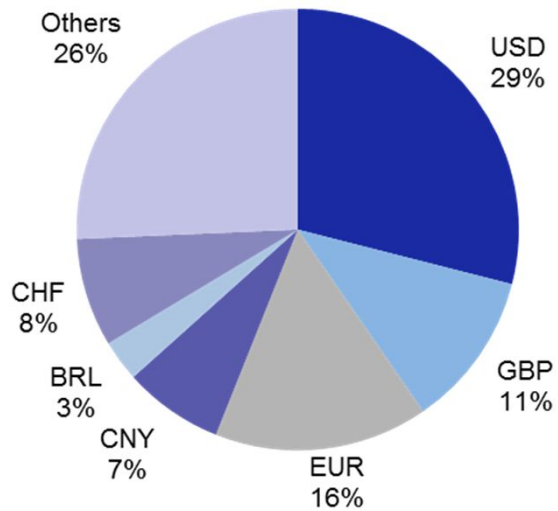
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Reconciliations and supplementary slides

Swiss franc recovered, but not fully against Euro

Sulzer FX exposure

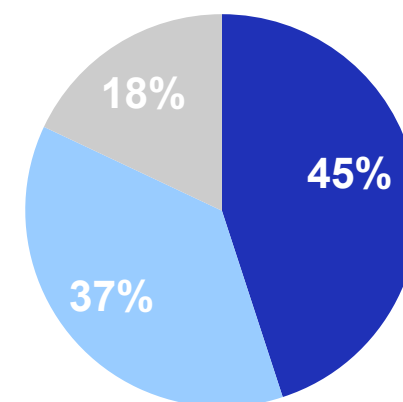


Increasing headwinds in O&G resulted in lower order intake

Order intake

<i>In CHF millions</i>	2015	2014	YOY	YOY adj. ¹
Total Sulzer	2'895.8	3'160.8	-8.4%	-3.7%
Total Divisions	2'907.9	3'169.1	-8.2%	-3.6%
Pumps Equipment	1'500.8	1'725.5	-13.0%	-6.7%
Rotating Equipment Services	698.2	725.2	-3.7%	-0.9%
Chemtech	708.9	718.4	-1.3%	1.4%
Adj./Eliminations	-12.1	-8.3		

by region



- Europe, Middle East, Africa
- Americas
- Asia-Pacific

- Pumps Equipment orders down on oil and gas, only partially offset by a strong performance in power and water
- Rotating Equipment Services almost flat with a strong performance in power in Q4
- Chemtech orders slightly up for FY2015, large projects in TFS more than offset weakness in oil and gas equipment
- Total effect from currency translation: CHF -148.9m
- Total effect from acquisitions/divestitures: CHF 36.2m
- Share of orders from emerging markets: 42% (2014: 45%)

1. Adjusted for currency effects

Group charges, divisional shifts and transactional FX impact YoY comparison

<i>In CHF millions</i>	PE	RES	CT	Others	Total
Adjustments for charges/shifts/FX					
opEBITA 2015 (as reported)	118.1	70.8	67.4	-2.2	254.1
<i>opROSA</i>	7.3%	10.2%	10.1%		8.6%
Group charges	4.2	4.9	2.3	-11.4	
Divisional shifts	15.8	-15.8			
transactional FX gains(-)/loss(+)	2.1	-0.5	2.2	0.0	3.8
Adj. opEBITA 2015	140.2	59.4	71.9	-13.6	257.9
<i>adj. opROSA 2015</i>	8.6%	8.6%	10.7%		8.7%
opEBITA 2014 (as reported)	160.6	64.6	93.6	-15.8	302.9
<i>opROSA</i>	9.1%	8.9%	12.6%		9.4%
transactional FX gains(-)/loss(+)	-5.8	-0.6	1.3	1.4	-3.7
Adj. opEBITA 2014	154.8	64.1	94.9	-14.5	299.2
<i>adj. opROSA 2014</i>	8.8%	8.8%	12.8%		9.3%

Operational EBITA to EBIT bridges for divisions

<i>In CHF millions</i>	PE	RES	CT	Divisions	Others	Total
opEBITA 2015	118.1	70.8	67.4	256.3	-2.2	254.1
Restructuring costs	-23.8	-10.3	-7.2	-41.3	0.1	-41.2
Amortization	-17.2	-6.3	-16.7	-40.2	-2.1	-42.3
Impairments tangible and intangible assets	-6.4	-1.3	-5.4	-13.1	0.1	-13.0
Legal case					-8.7	-8.7
Other non-operational items	-7.9	-1.5	-4.6	-14.0	-14.0	-28.0
EBIT 2015	62.8	51.4	33.5	147.7	-26.8	120.9
<i>as % of sales</i>	3.9%	7.4%	5.0%	5.0%		4.1%

Financial result impacted by legal case

<i>In CHF millions</i>	2015	2014 ¹	YOY	YOY adj. ²
EBIT	120.9	271.0	-55.4%	-53.2%
Financial income (net)	-24.7	-16.7	-47.9%	
Share of profit/(loss) of associates	3.7			
Income before taxes (EBT)	99.9	254.3	-60.7%	
Income tax expenses	-24.9	-71.9	-65.4%	
<i>tax rate (%)</i>	24.9%	28.3%		
Net income <i>continuing operations</i>	75.0	182.4	-58.9%	
o/w minorities	1.1	3.1		
o/w attributable to Sulzer shareholders	73.9	179.3	-58.8%	

- Financial income includes interest expenses on legal case amounting to CHF 5.2m

1. 2014 figures exclude impairment of CHF340m in EBIT, EBT and net income
 2. Adjusted for currency effects

Core net income

<i>In CHF millions</i>	2015	2014
Net income reported	75.0	278.1
Metco divestiture	–	-435.7
Impairment on tangible and intangible assets	13.0	340.4
Amortization	42.3	43.3
Restructuring expenses	41.2	11.2
Other non-operational items	36.7	-23.0
Tax impact	-33.2	-8.9
Core net income	175.0	205.4
Minorities	-1.1	-3.1
Core net income to shareholders	173.9	202.3
Average number of shares outstanding (m)	34.036	34.007
Core EPS	5.11	5.95

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