SULZER

MEDIA RELEASE

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H1 2018: Strong organic order growth and profitability increase

In the first half of 2018, Sulzer's rebound continued. Order intake increased by 11.6% and by 6.5% organically. Sales increased by 10.5% and by 5.4% organically. The operational EBITA margin (opROSA) increased by more than one percentage point to 8.5%, driven by volume and cost savings. Orders in the USA grew by 15% organically in Q2, confirming that Sulzer has not been impacted by the sanctions placed in April 2018 on its former majority shareholder. Sulzer increases its guidance for order intake and sales for the full year.

CEO Greg Poux-Guillaume said: "Our commercial momentum was strong in the first half of 2018 and we expect that trend to continue in the second half of the year."

Key figures for the first half of 2018 (Jan 1 – June 30)

millions of CHF	**2018 (New accounting policies)[1]**	**2018 (Previous accounting policies)[2]**	2017	Change in +/–%[3]	+/–% adjusted[4]	+/–% organic[5]
Order intake	**1'801.4**	**1'801.4**	1'594.6	13.0	11.6	6.5
Order intake gross margin	**33.8%**	**33.8%**	34.2%			
Order backlog as of June 30 / December 31	**1'891.7**	**1'807.2**	1'593.3	13.4		
Sales	**1'604.2**	**1'600.3**	1'428.5	12.0	10.5	5.4
EBIT	**90.5**	**78.0**	55.3	41.1		
opEBITA	**148.2**	**135.7**	106.1	27.9	27.0	16.8
opROSA	**9.2%**	**8.5%**	7.4%			
Net income attributable to shareholders of Sulzer Ltd	**64.3**	**54.6**	36.9	47.9		
Basic earnings per share	**CHF 2.01**	**CHF 1.71**	1.1	57.5		
Free cash flow	**– 29.8**	**– 29.8**	– 2.5	1'093.3		
Net liquidity as of June 30/ December 31	**– 521.9**	**– 521.9**	– 225.0	132.0		
Employees as of June 30/ December 31 (number of full-time equivalents)	**15'031**	**15'031**	14'732	2.0		

Abbreviations:

EBIT:	Operating income
ROS:	Return on sales (EBIT/sales)
opEBITA:	Operating income before restructuring, amortization, impairments and non-operational items
opROSA:	Return on sales before restructuring, amortization, impairments and non-operational items (opEBITA/sales)

[1] According to IFRS 15, see financial review and note 13 of the midyear report.
[2] Without consideration of IFRS 15, applying the same accounting policies as in the prior year.
[3] Comparing previous accounting policies 2018 with 2017.
[4] Adjusted for currency effects. Comparing the previous accounting policies 2018 with 2017.
[5] Adjusted for acquisition and currency effects. Comparing the previous accounting policies 2018 with 2017.

Order intake grew in all markets except power

In the first half of 2018, Sulzer's order intake momentum was strong across all divisions, with orders increasing by 11.6% (6.5% organically) compared with the same period of the previous year. All the divisions grew organically.

All markets contributed to the increase in order intake except power. The oil and gas downstream market started to recover in early 2017, and was followed by the start of the rebound of the upstream market in 2018. While volumes recover, the company expects price pressure to continue until 2019. The global power market, which accounts for 13% of Sulzer's order intake, will continue to be challenging in the midterm. Gas turbine services are under price pressure and there are fewer projects for conventional power plants around the world. Sulzer's water business is growing strongly, further supported by the recent acquisition of JWC Environmental, LLC (JWC). Sulzer's industry businesses are also showing very positive trends. Order intake grew across all regions and particularly in the Americas (20.1%).

Order intake in the Pumps Equipment division increased by 21.3%. The increase stems from 12.1% organic growth, particularly in the oil and gas market, with additional volume coming from JWC. Order intake in the Rotating Equipment Services division grew by 6.5% as a result of organic growth of 3.1% plus acquisitions. The Chemtech division grew by 5.0%, driven by Europe, the Middle East and Africa (EMEA) as well as Latin America. Order intake in the Applicator Systems division increased by 6.3% through the acquisition of Transcodent. Dental and Adhesives grew organically by 7.5%. Beauty was impacted by a decision of a large customer to move from a First Generation product to the Second Generation product, shifting significant volume to 2019 and averaging down the APS organic growth to 1.3% for the semester.

Strong sales growth

Sales increased by 10.5%. This rise was driven by 5.4% organic growth and CHF 73.2 million from acquisitions. Sales grew in all market segments except power.

Operational EBITA (opEBITA) grew double digits on the back of higher volumes and continued cost improvements. Compared with the same period of the previous year, operational ROSA increased to 8.5% from 7.4%.

Restructuring expenses remained broadly stable compared with the first half of 2017. Consequently, EBIT amounted to CHF 78.0 million, an increase of 41.1% on a year-on-year basis.

Free cash flow impacted by volume-driven inventory buildup

Sulzer's free cash flow generation is usually back-loaded. Free cash flow amounted to CHF –29.8 million compared with CHF –2.5 million reported in the first half of 2017. The increase in order backlog of approx. CHF 210 million since the end of last year led to an inventory buildup and resulted in an increased net working capital.

Optimizing financing mix

Sulzer has increased its financial flexibility by raising CHF 400 million in the Swiss capital market via a dual tranche issuance as of July 6, 2018. The first tranche of CHF 110 million has a term of two years and carries a coupon of 0.25% at a price of 100%. The second tranche of CHF 290 million has a term of five years and carries a coupon of 1.3% at a price of 100%.

Savings target of the full year already achieved

The extension of the Sulzer Full Potential program (SFP) is benefiting the company without jeopardizing its ability to capitalize on the market rebound. Sulzer has already achieved in the first half of 2018 its incremental full-year savings target of CHF 25 million and is raising its 2018 target to CHF 35 million to reach a cumulative CHF 220 million. This will help to compensate continuing margin pressure in the energy markets. Sulzer confirms its SFP run rate savings target of CHF 230 million from 2019 onwards.

No long-term impact of temporary sanctions

On April 6, the US Department of the Treasury's Office of Foreign Assets Control (OFAC) identified Sulzer's then majority shareholder Renova as a specially designated national subject to sanctions. The company subsequently negotiated with Renova the purchase of five million of its own shares at a price of CHF 109.13 per share, thereby bringing Renova's shareholding to 48.83%. OFAC approved the transaction and confirmed that Sulzer is no longer considered part of the Renova group and therefore free from sanctions. While this issue disrupted the company's business, it was resolved within three working days and operations were back to normal within a week.

Sulzer's performance in the US in the second quarter was strong, despite the sanctions in April, with an order growth of 15% organically. Sales also increased organically on a high single-digit basis.

Sulzer estimates one-off costs linked to the sanctions will be significantly less than ten million CHF, to be treated as non-operational. The company does not foresee any long-term consequences on its performance.

Outlook 2018

Sulzer believes that the oil and gas market, which accounts for approximately 40% of its sales, will continue to recover gradually. The power market will continue to be under pressure, while all other Sulzer markets are expected to continue on their current growth path in 2018. This will lead to an increase in organic order level, supplemented by additional volume from newly acquired businesses.

The good performance of Sulzer in the first half allows the company to increase its guidance for order intake and sales for the full year 2018. Including acquisitions and adjusted for currency effects, order intake is expected to grow by 7 to 10% (previously 5 to 7%) and sales to grow by 6 to 8% (previously 4 to 6%). The company confirms its guidance for the operational EBITA margin (opEBITA in percent of sales) to be around 9.5%.

Impact of IFRS 15

Sulzer has adapted its reporting to reflect the application of IFRS 15 ‘Revenue from Contracts with Customers’. IFRS 15 determines whether, how much and when to recognize sales from contracts with customers. In the first half of 2018, IFRS 15 had a positive effect on sales (CHF 3.9 million) and opEBITA (CHF 12.5 million). Consequently, the application of IFRS 15 increased opROSA by 0.7 percentage points. These differences are related to projects where sales, cost of goods sold and profit were recognized over time according to the previous accounting standards. According to IFRS 15, sales, cost and profit of these projects are recognized later at a certain point in time. For a full discussion of the differences, see note 13 of the Midyear report 2018 at https://report.sulzer.com/myr18/en.

If not otherwise indicated, changes from the previous year are based on currency-adjusted figures. These are reported without consideration of IFRS 15, applying the same accounting policies as in the prior year.

Midyear results online: report.sulzer.com/myr18
Result presentation: www.sulzer.com/myr18

*Sulzer Ltd will hold a short **conference call** on the occasion of the publication of the midyear results 2018:*

***Date**: Wednesday, July 25, 2018*
***Time**: 09:00 a.m. CET / 03:00 a.m. EST*

The presentation can be followed by webcast (audio slides) or by dialing-in to the conference call. To access the webcast or to dial in to the conference call, use the following links and numbers, respectively:

Webcast	*www.sulzer.com/myr18-webcast*
Dial-in	
Local – London, United Kingdom:	*+44 (0)207 107 0613*
National free phone – United Kingdom:	*0800 279 3956*
Local – New York, United States of America:	*+1 (1)631 570 5613*
National free phone – United States of America:	*001 (1)866 291 4166*
Local – Geneva, Switzerland:	*+41(0)58 310 5000*
National free phone – Switzerland	*080 000 1750*

Please dial in 5 minutes before the start of the conference call.

Playback webcast
The playback will be available shortly after the event under the webcast link above.

Key dates in 2018

October 25	*Order intake Jan. – Sept. 2018*

Sulzer's core strengths are flow control and applicators. We specialize in pumping solutions and services for rotating equipment, as well as separation, mixing and application technology. Our customers benefit from a network of over 180 production and service sites around the world. Sulzer has been headquartered in Winterthur, Switzerland, since 1834. In 2017, we achieved sales of roughly CHF 3 billion with around 14'700 employees. Our shares are traded on the SIX Swiss Exchange (SIX: SUN). www.sulzer.com

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