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## Currency-Adjusted Order Intake Increased and Free Cash Flow Improved

Group Releases | Tuesday, July 28, 2015



**Order intake<sup>1</sup> increased by 3.9%. Growing order intake in the water and power markets more than offset reduced activity in the oil and gas market. Order intake gross margin<sup>1</sup> was at the previous year's level. Sales and operational EBITA on an adjusted<sup>1</sup> basis decreased by 3.8% and by 18.7%, respectively. For the full year 2015, Sulzer expects order intake<sup>1</sup> to decrease slightly. The company is lowering its guidance for sales and operational EBITA on an adjusted<sup>1</sup> basis and now expects a moderate decrease.**

### Overview of key figures for the first half of 2015 (January 1–June 30)

(millions of CHF)	H1 2015	H1 2014	Δ	Δ adj. <sup>1</sup>
Order intake	1 584.1	1 583.4	0.0%	3.9%
Order intake gross margin	32.9%	33.2%	−0.3 <sup>2</sup>	−0.12
Order backlog (June 30/Dec 31)	1 754.9	1 699.6	3.3%	
Sales	1 393.2	1 491.7	−6.6%	−3.8%
EBIT	47.6	99.2	−52.0%	
opEBITA	98.3	120.7	−18.6%	−18.7%
opROSA	7.1%	8.1%		
EBITDA	104.6	155.8	−32.9%	
ROSDA	7.5%	10.4%		
Net income attr. to shareholders <sup>3</sup>	26.8	483.5	−94.5%	
Basic EPS from continuing operations (in CHF)	0.79	1.87		
Free cash flow <sup>3</sup>	33.3	−40.1		
Net liquidity (June 30/Dec 31)	578.3	773.5		
Employees (FTEs) (June 30/Dec 31)	15 159	15 494	−2.2%	

### Abbreviations

EBIT:	Operating income
opEBITA:	Operating income before restructuring, amortization, and non-operational items
opROSA:	Return on sales before restructuring, amortization, and non-operational items (opEBITA/sales)
EBITDA:	Operating income before depreciation and amortization
ROSDA:	Return on sales before depreciation and amortization (EBITDA/sales)
EPS:	Basic earnings per share
FCF:	Free cash flow

### Performance in the first half of the year

Order intake<sup>1</sup> increased by 3.9%. The increase in order intake<sup>1</sup> was supported by order intake growth of 8.9% in the second quarter of 2015 compared with the second quarter of the previous year. Order intake in the first half of 2015 was positively affected by some large orders—for instance, a large order from the Middle East in the Tower Field Services business unit of Chemtech and a large order in the North Sea

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region for Pumps Equipment. The increased order intake in the water and power markets compensated for reduced activity in the oil and gas and the general industry markets. The market-oriented structure in our Pumps Equipment division and the restructuring in the Water business unit are showing positive effects. Order intake gross margin<sup>1</sup> was at the previous year's level.

Sales<sup>1</sup> and operational EBITA<sup>1</sup> in the first half of the year decreased by 3.8% and by 18.7%, respectively. Sulzer experienced ongoing headwinds in the oil and gas market. This led to suspensions of previously received orders amounting to CHF 114 million as of June 2015. These suspensions impacted the company's sales and operational ROSA, especially in the Pumps Equipment division. In China and Southeast Asia, Sulzer is facing shrinking markets and intense competition, particularly for Chemtech's Mass Transfer Technology business unit. In addition, the strength of the Swiss franc continues to impact operational ROSA which decreased to 7.1% (2014: 8.1%).

Lower volumes triggered targeted measures to adjust the capacity of the company. Sulzer is adapting its manufacturing footprint, and has streamlined its manufacturing capacities in the Pumps Equipment division in China, Brazil, and the USA. In the Chemtech division, the company has adapted the operational setup, and it has discontinued parts of its manufacturing activities in China, Singapore, Canada, and Switzerland. Sulzer is restructuring service centers and is improving operations in its Rotating Equipment Services division in the UK and other parts of Europe. To counter the adverse developments and adjust operations to current volumes, the company reduced its workforce by 635 at the end of June. Due to headcount additions from acquisitions and in some growing businesses, this results in a net reduction of 335 employees at group level in the first half of 2015.

Free cash flow improved to CHF 33.3 million from the same period of the previous year (2014: CHF – 40.1 million), leading to a net income to free cash flow conversion of 120%.

### Challenging market environment

The overall market environment remains challenging. Some companies have postponed projects, and the investment levels—especially from international oil companies—remain low. Despite these challenging market conditions, opportunities have been defined for Sulzer to grow in its key markets. The company was able to improve its order intake<sup>1</sup> by 3.9% compared with the same period last year. Order intake<sup>1</sup> for spare parts grew by 19%. In the oil and gas market, Sulzer is observing an ongoing shift from its traditional customers, such as international oil companies, to national oil companies that generally invest throughout the cycle. Sulzer obtained some large service contracts in the Middle East, and is well-positioned to take part in the continued growth in this region through its acquisition in Saudi Arabia.

### The Sulzer Full Potential program is gaining momentum

With the Sulzer Full Potential (SFP) program, the company is aiming to increase its operational ROSA by four to six percentage points from 2018 onwards above the 9.4% achieved in 2014. Measures to reach this target are on track. For example, the new global procurement organization will optimize procurement processes and leverage purchasing volumes throughout the corporation. Furthermore, the company is lowering the number of legal entities from 110 now to approximately 95 by the end of the year. This will help reduce the organization's complexity and costs.

For the full year 2015, the Sulzer Full Potential program will contribute approximately 0.6 percentage points to operational ROSA, helping to partially offset the impact from the abovementioned challenging market conditions. As the program ramps up in 2015, initial implementation costs will be higher than profit contributions.

The company continued to strengthen its portfolio of products and services and its global presence. In the first half of 2015, Sulzer acquired Precision Gas Turbine, Matis Interventions Sarl, and InterWeld Inc Ltd, and it completed the acquisition of Saudi Pump Factory. Combined revenues for 2015 are approximately CHF 41 million.

### Outlook

The markets remain highly volatile because of current developments in oil prices, regional conflicts, and geopolitical developments. The oil and gas market is expected to remain weak. The power, water, and general industry markets are forecast to remain on similar levels compared with 2014.

For the full year 2015, Sulzer expects order intake<sup>1</sup> to decrease slightly despite the positive development in the first half of the year.

Due to the suspension of orders in the oil and gas market, Sulzer is lowering its guidance for sales and operational EBITA on an adjusted<sup>1</sup> basis and now expects a moderate decrease for the full year 2015 compared with 2014.

### Results in detail

#### Pumps Equipment: increased order intake and market-orientated business units

Order intake<sup>1</sup> increased by 3.5% in the first half of 2015. Activity in the oil and gas market was low across all regions, particularly in the Americas and China. Order intake in the power market increased, particularly in EMEA<sup>4</sup>. Demand in the water market increased, due mainly to larger projects in the Middle East and Brazil. Despite market headwinds, order intake<sup>1</sup> for spare parts increased by 19%. Order intake gross margin<sup>1</sup> increased by 0.7 percentage points to 33.0%.

Sales<sup>1</sup> decreased by 5.9% in the first half of 2015. The decrease resulted from suspended orders in the Oil and Gas business unit, particularly in the Americas and in China. Sales in the water and power markets as well as in the parts, retrofit, and nuclear business increased, showing that the focus on market segments and the restructuring in the Water business unit are starting to pay off. Operational EBITA<sup>1</sup> decreased by 40.0%, impacted by suspended orders in oil and gas market and by internal reallocations. Operational ROSA was 4.4% (2014: 6.8%).

Pumps Equipment is now organized in three market-oriented business units Oil and Gas, Power, and Water, and a dedicated global Parts, Retrofit, and Nuclear organization. The division has established a global manufacturing network to make better use of its capacity and improve quality. In April, Sulzer acquired the French company Matis Interventions Sarl and further strengthened its position in the nuclear

business.

For the full year 2015, Pumps Equipment expects order intake <sup>1</sup> to decrease moderately. The division forecasts lower demand in the oil and gas market, especially in the Americas and in China. Higher order intake volumes in the power and water markets, particularly in EMEA<sup>4</sup>, are projected to partially offset the lower order intake in the oil and gas market.

#### Pumps Equipment key figures

(millions of CHF)	H1 2015	H1 2014	Δ	Δ adj. <sup>1</sup>
Order intake	834.8	851.3	−1.9%	3.5%
Order intake gross margin	33.0%	32.8%	0.2 <sup>2</sup>	0.7 <sup>2</sup>
Order backlog (June 30/Dec 31)	1 212.1	1 209.4	0.2%	
Sales	726.7	809.5	−10.2%	−5.9%
EBIT	20.5	43.4	−52.8%	
opEBITA	31.7	55.1	−42.5%	−40.0%
opROSA	4.4%	6.8%		
Employees (FTEs) (June 30/Dec 31)	7 306	7 365	−0.8%	

#### Rotating Equipment Services: increase in sales and extended service capabilities

Order intake <sup>1</sup> decreased by 2.2%, due to a high base in the first half of 2014, which included some large projects. Order intake in the Americas was higher, but decreased in EMEA<sup>4</sup>—especially in the North Sea region. Demand in the Asia-Pacific region was lower because of the absence of large power projects. Order intake gross margin <sup>1</sup> decreased by 0.6 percentage points.

Sales <sup>1</sup> increased by 3.4%, driven by a very strong performance in the USA, supported by operational improvements in the pumps service business. In EMEA<sup>4</sup>, sales decreased due to low demand and project delays, especially in the turbine service business for the power industry. Asia-Pacific was also impacted by lower volumes. Operational EBITA <sup>1</sup> was flat. Low volumes and under-absorption in EMEA<sup>4</sup> and Asia-Pacific were compensated by the strong Americas region. Restructuring in several locations is ongoing and additional improvement measures are under review. Operational ROSA was 8.3% (2014: 8.2%).

Sulzer acquired the business of Precision Gas Turbine Inc. (Florida), extending its range of gas turbine services. The gas turbine service joint venture in China was awarded its first long-term services and parts contracts.

The division expects similar order intake <sup>1</sup> levels in all regions compared with 2014, despite a challenging market environment and political uncertainties in key areas.

#### Rotating Equipment Services key figures

(millions of CHF)	H1 2015	H1 2014	Δ	Δ adj. <sup>1</sup>
Order intake	364.0	379.9	−4.2%	−2.2%
Order intake gross margin	30.6%	31.3%	−0.7 <sup>2</sup>	−0.6 <sup>2</sup>
Order backlog (June 30/Dec 31)	224.1	212.2	5.6%	
Sales	334.0	327.5	2.0%	3.4%
EBIT	22.7	24.1	−5.8%	
opEBITA	27.8	26.7	4.1%	−0.5%
opROSA	8.3%	8.2%		
Employees (FTEs) (June 30/Dec 31)	3 659	3 709	−1.3%	

#### Chemtech: increased order intake and enhanced product portfolio

In the first half of 2015, order intake <sup>1</sup> increased by 12.7%. The increase in order intake was driven mainly by a large order from the Middle East in the Tower Field Services business unit. Excluding the large order, demand in the oil and gas market was flat compared with the same period in 2014. Within this market, the Americas as well as EMIRA<sup>5</sup> performed well, whereas demand was weak in Asia, particularly in China. The Process Technology business unit and the markets served by Sulzer Mixpac Systems (general industry) were on the previous year's level. Order intake gross margin <sup>1</sup> decreased by 2.1 percentage points.

Sales <sup>1</sup> decreased by 4.6%. The main reason was weak contributions from the Process Technology and Mass Transfer Technology business units in Asia, which were partially offset by growth in the Americas. Operational EBITA <sup>1</sup> decreased by 27.3%, impacted by lower margins and lower volumes in the Mass

Transfer Technology and Process Technology business units. The strong Swiss franc further negatively affected the profitability of the Swiss-based businesses. Operational ROSA was 10.0% (2014: 13.1%).

Sulzer acquired the business of InterWeld Inc Ltd (Northern Ireland), which complements its existing offering of welding solutions. Because of the challenging market environment, particularly in China and Southeast Asia, and the strong Swiss franc, Sulzer announced measures to adapt Chemtech's operational setup of.

For the full year 2015, Chemtech expects a slight increase in order intake<sup>1</sup>. Demand in the general industry is forecast to increase slightly. Activity in the oil and gas market is expected to remain flat. The markets in EMRA<sup>5</sup> are projected to be flat while the Americas is expected to continue on a high level. The Asia-Pacific region is forecast to remain challenging.

#### Chemtech key figures

(millions of CHF)	H1 2015	H1 2014	Δ	Δ adj. <sup>1</sup>
Order intake	391.1	354.0	10.5%	12.7%
Order intake gross margin	34.2%	36.3%	-2.1 <sup>2</sup>	-2.1 <sup>2</sup>
Order backlog (June 30/Dec 31)	319.3	282.0	13.2%	
Sales	338.8	357.3	-5.2%	-4.6%
EBIT	22.8	40.0	-43.0%	
opEBITA	33.8	46.7	-27.6%	-27.3%
opROSA	10.0%	13.1%		
Employees (FTEs) (June 30/Dec 31)	4 020	4 287	-6.2%	

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

<sup>2</sup> Figure in percentage points.

<sup>3</sup> Includes continuing and discontinued operations for 2014.

<sup>4</sup> Europe, Middle East, and Africa.

<sup>5</sup> Europe, Middle East, India, Russia, and Africa.

#### Webcast presentation for analysts, investors and journalists

The webcast presentation is scheduled for today at 4:00 p.m. CET / 10:00 a.m. EST. The presentation can be followed by webcast (audio slides). Please use the following link: [www.sulzer.com/webcast](http://www.sulzer.com/webcast). The playback of the webcast will be available shortly after the event under the same link.

#### Conference Call

For those of you who intend to ask questions, please use the conference call option and download the slides from our website beforehand. To all other participants we recommend following the presentation via webcast. Participants are requested to dial in 5–10 minutes prior to the start of the presentation.

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#### Key dates in 2015

October 15	Order intake Jan. – Sept. 2015
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