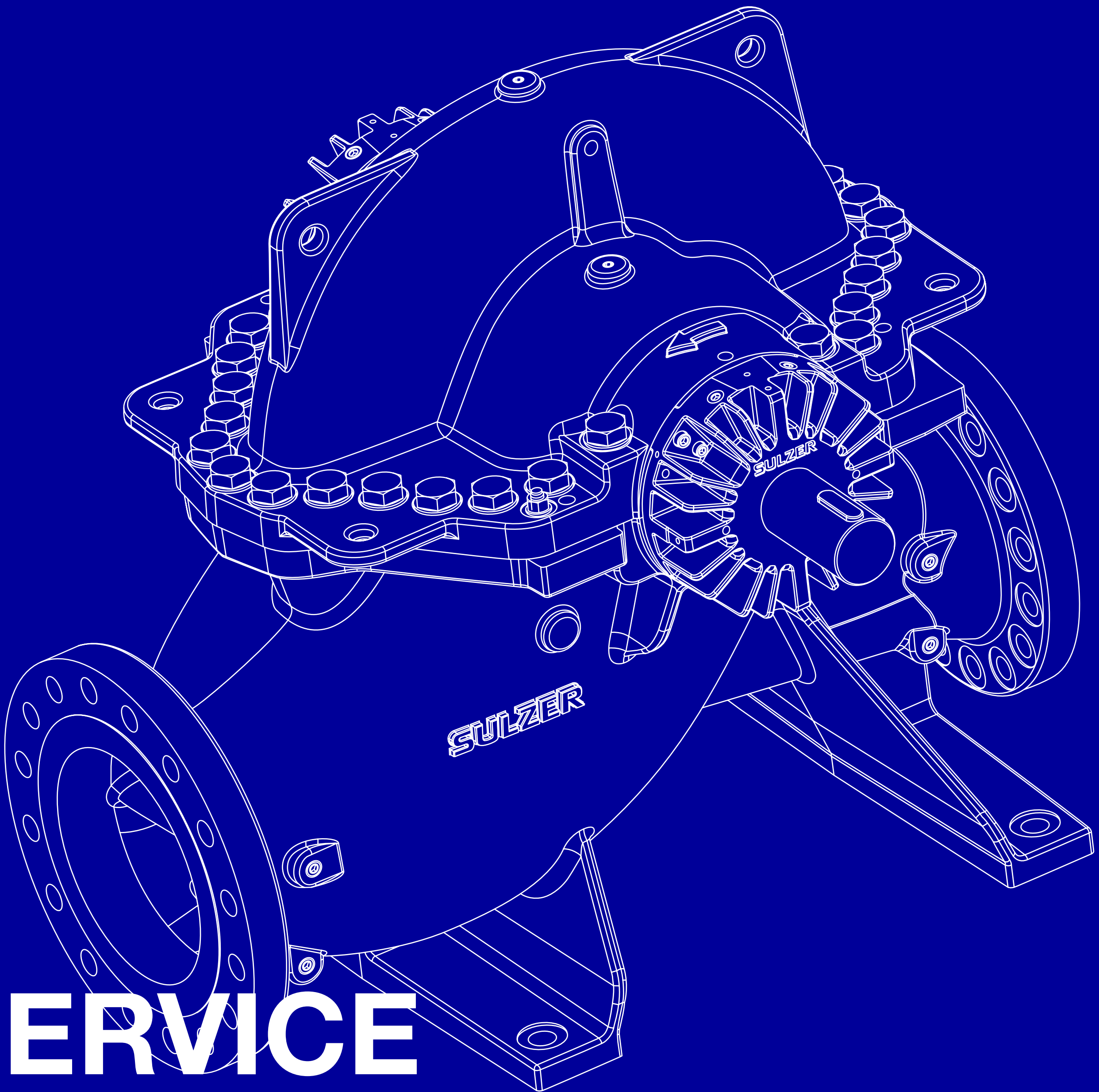
SULZER



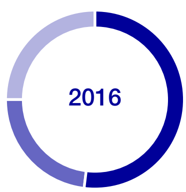
SERVICE EXCELLENCE THROUGH INNOVATION

The Company 2016

Facts and Figures

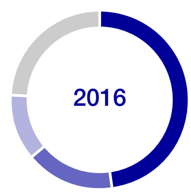
In 2016, Sulzer proved resilient in a challenging market environment. Currency-adjusted order intake and sales decreased by 2%. Except for the oil and gas market, activity in all other markets—power, water, general industry—increased. Order intake gross margin remained stable. Operational EBITA and operational ROSA declined.

Sales by division



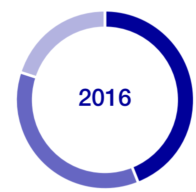
- **52%** Pumps Equipment
- **23%** Rotating Equipment Services
- **25%** Chemtech

Sales by market segment



- **48%** Oil and gas
- **16%** Power
- **12%** Water
- **24%** General industry

Sales by region



- **44%** Europe, Middle East, and Africa
- **36%** Americas
- **20%** Asia-Pacific

Key figures

millions of CHF	2016	2015	Change in +/– %	+/– %[1]
Order intake	2 797.5	2 895.8	–3.4	–2.0
Order intake gross margin	34.0%	33.8%		
Order backlog	1 439.1	1 510.7	–4.7	
Sales	2 876.7	2 971.0	–3.2	–2.0
EBIT	115.3	120.9	–4.6	
opEBITA	238.9	254.1	–6.0	–4.4
opROSA	8.3%	8.6%		
opROCEA	15.7%	17.0%		
Net income attributable to shareholders of Sulzer Ltd	59.0	73.9	–20.2	
Basic earnings per share from continuing operations	1.73	2.17	–20.3	
Free cash flow	200.5	155.8	28.7	
Net liquidity	–35.9	695.7		
Employees (number of full-time equivalents) as of December 31	14 005	14 253	–1.7	

[1] Adjusted for currency effects.

14 000

Employees

Close to 14 000 employees from all over the world work at Sulzer.

180

Production and service locations

Sulzer's production and service network spreads across the globe.

CHF 2.9 billion

Sales in 2016

Sulzer generated sales of CHF 2.9 billion in 2016.

“Sulzer proved resilient in a challenging market environment”

Interview with Peter Löscher, Chairman of the Board of Directors, and Greg Poux-Guillaume, Chief Executive Officer

Sulzer looks back on a rich history of more than 180 years. What, in your opinion, does the Sulzer brand stand for today?

PETER LÖSCHER | Sulzer has a distinguished industrial history. Throughout its 183 years of existence, the company has experienced significant changes. And what I find particularly impressive: whenever Sulzer has faced a market challenge, the company has been able to reinvent itself and emerge from that phase stronger than before.

GREG POUX-GUILLAUME | Our brand is very strong. It is a symbol for engineering expertise, high-quality products and solutions, and it stands for innovation. Our people are true experts in their fields and are passionate about what they do. We set ourselves the highest standards in terms of quality. Being a reliable, fast, and trusted partner for our customers is our top priority.

Mr. Poux-Guillaume, you have been CEO for more than a year. Can you draw a conclusion? What was your highlight in 2016?

GPG | 2016 was certainly a year of transformation for us. Sulzer is a great company with high-quality products and services and talented people. I am very proud to be a part of this company and of this management team. Our primary goal is to make Sulzer a sustainable leader in its segments, and we have made good progress towards that.

However, it has also been a tough year. The market environment remains very challenging in oil and gas, which is half of our business. We had to take some difficult but necessary measures to downsize and reposition the company. Looking back at 2016, it was great for me to see that Sulzer remained resilient in a complex market environment with a lot of headwinds. I believe in the future of Sulzer, and I am excited to lead the team shaping it.

Sulzer’s service offering is growing. How important is the service business for you?

GPG | Our service share has steadily increased over the last few years. We currently generate roughly 50% of our sales in the aftermarket. The service and spare parts business is more resilient in the current market environment, and it tends to have higher margins than the new equipment business. So, yes, service is very important to us and takes a significant position in our strategic thoughts.

PL | The service business is becoming increasingly competitive as new equipment volumes wane. Traditional manufacturing companies are realizing the immense value of aftermarket services such as maintenance and repairs or long-term service agreements, for instance. And customers are looking for the full package—service partners who are fast, reliable, offer competitive prices, and have the ability to innovate. Sulzer has all that and more.

How was Sulzer’s performance in 2016? Did you reach your targets?

GPG | We did well in a very challenging year. Our order intake decreased to CHF 2.8 billion—a 2% drop due to headwinds from the oil and gas market. Still, Sulzer maintained or even gained market share. Our sales were also down by 2% to CHF 2.9 billion but the comprehensive Sulzer Full Potential (SFP) measures allowed us to save another CHF 88 million. Thus, we were able to mitigate most of the pricing and volume erosion, which lead to an operational profitability that is down by only 30 basis points. We delivered a strong free cash flow above last year’s level in a market where customers had less money and stretched out their payment terms. Overall, we beat our guidance on all of the key performance indicators: we fulfilled our promises. There is still a lot to do, but we are heading in the right direction.

“Our aftermarket business is more resilient and tends to have higher margins than new equipment. Sulzer has significant development potential in the service business which is exciting.”

Greg Poux-Guillaume, CEO

PL | Despite these difficult circumstances, we were able to generate value for our shareholders. While our core net income per share was down, we demonstrated our strong cash generation ability despite considerable market headwinds. The Board of Directors is therefore pleased to propose an ordinary dividend that is on last year’s level of CHF 3.50 per share at the Annual General Meeting on April 6, 2017.

The oil and gas market continues to be very demanding for all market players. How do you see the development in this market in 2016?

GPG | Headwinds in the oil and gas market have persisted. The pricing environment continued to deteriorate in 2016 in this market and we do not expect this pressure to abate in 2017. Customers have cut their capital expenditures and operating costs, leading to significant overcapacity in the industry. This tends to make companies more aggressive in terms of pricing as they await the rebound in the cycle.

Towards the end of the year, OPEC decided to cut its oil output and triggered a number of non-OPEC nations to follow this decision. This prospect strengthened the rebound of oil prices to over USD 50, a good development for our industry. But we remain cautious and have not changed the course of our SFP plan. So far, oil production is still surpassing demand and we have not seen an impact on our commercial pipeline. The commercial rebound we are expecting is not just a question of absolute oil prices; it also hinges on the confidence of oil companies in a sustainable recovery of the market.

When do you expect a commercial recovery in the oil and gas market?

PL | As a supplier to the oil and gas industry, we are close to the end of the value chain. When international or national oil companies start investing again, this trend usually transforms into orders for Sulzer six to eight months later. Like many market participants, we expect that supply and demand will rebalance sometime in the second half of 2017. This means that the commercial rebound for Sulzer’s products and services is more likely to occur in 2018.

How did Sulzer perform in the other markets in 2016?

GPG | In terms of order intake in 2016, we grew in most of our other markets, including power and water. General industry, which encompasses everything else, was also healthy and boosted in part by the acquisitions we closed. Sulzer’s current struggles are oil-and-gas related and we should not lose sight of the fact that the other half of our business is performing well.

What is the status of the Sulzer Full Potential (SFP) program? What did you achieve in 2016?

GPG | Our objective with the SFP program is to save CHF 200 million on a 2018 run rate. Today, more than 90% of those savings have been secured through actions that we have already launched. We announced all significant restructuring measures in 2016. We saved CHF 88 million in 2016, and we expect another CHF 40 to 60 million of savings for 2017. So, SFP is progressing very well. We are ahead of schedule, and we will deliver the numbers we promised to deliver.

PL | We were an early mover in terms of taking out costs and optimizing our factory footprint. We have one of the most comprehensive transformation programs in the industry, and it is generating results, making Sulzer more efficient, agile, and competitive. As soon as volumes recover, this effect will become visible in our bottom line.

Sulzer acquired five businesses in 2016.

GPG | Yes, we have said that we are targeting small to midsize acquisitions at the right price, and we managed to execute on that plan.

Peter Löscher, Chairman of the Board of Directors, and Greg Poux-Guillaume, CEO, discussing the past year at Sulzer.

Greg Poux-Guillaume looks back on an exciting yet demanding year at Sulzer.

We more than doubled the size of our applicator business, leading us to carve it out of Chemtech and create a new division. In April, we took over PC Cox, a leading manufacturer of industrial dispensers. We then closed the acquisition of Geka in August. Through this, we diversified our applicator business into the beauty segment and gave it unrivalled industrial scale. Since January 1, 2017, these businesses have been part of our new Applicator Systems division, a leader in proprietary B2B mixing and applicator solutions.

We also grew on the pumps side. In December, we signed an agreement to acquire the pump manufacturer Ensival Moret. With this transaction, we managed to close specific product gaps in our pumps portfolio relating to axial flow pumps and slurry pumps, thereby bringing additional reach to our pumps business in the general industry segments. We also expanded our turbo equipment service footprint by acquiring control of Rotec's gas turbine service business in Russia. This acquisition makes us a leading player in a promising energy market where localization is a must. Finally, we bought a product range from Wärtsilä to strengthen our upstream separation business in Chemtech.

What is your merger and acquisitions strategy?

PL I We target companies that fill gaps in our product portfolio and strengthen our presence in certain regions or segments. We concentrate on small and midsize acquisitions that can be integrated into our company quickly and where one plus one equals more than two.

GPG I Sulzer has an active and ongoing M&A pipeline, but it is all about value. I believe that our recent track record of deal execution will demonstrate that when we can get the right asset at the right price, we get things done. But we also know when to walk away.

How do you see your competitive landscape evolving and what does it mean for Sulzer?

PL I The flow control industry has all the markings of an industry that should consolidate. Being part of that through an industrial combination that creates significant value is always an option. But our main focus is on our transformation plan. The best value creation lever for our shareholders will remain the implementation of the SFP program. We have supportive, long-term shareholders and our focus is on what we can control.

You said that innovation is a key component of Sulzer's brand. How do you make sure it remains a priority during your transformation?

GPG I With the introduction of many new products in 2016, we have proven that innovation is and will remain a key pillar of our strategy and our culture. It is true that during a transformation, priorities need to be set. But we have not compromised on innovation, and we are celebrating that through the Sulzer Innovation Awards we launched recently. Once a year, we will celebrate outstanding Sulzer innovations and their inventors. Our company is bursting with talent and creativity; it is an inspiration to us all.

“We always strive for something more with our products and solutions. Being a reliable, fast, and trusted partner for our customers is our top priority.”

Peter Löscher, Chairman of the Board of Directors

The year 2016 brought many changes in the top management. Why?

GPG I There is certainly a market dimension to this. Four of our top five competitors in the pumps industry announced a CEO change in 2016. Market conditions change and companies adapt their leadership team to reflect that—much like in sports. In our case, we had a Division President retire and another take an extended leave of absence for family reasons. Our top Human Resources position had also been vacant for six months. And we did not have a Chief Commercial and Marketing Officer. That was a weakness in a challenging commercial environment where Sulzer had to learn to work better as a team. All of this came to a head at the same time and gave us the opportunity to not only strengthen the team but also diversify our talent pool. We believe that we now have the stable, dynamic management team that will take Sulzer to the next level.

PL I The Board of Directors was very pleased to welcome two new members: Axel C. Heitmann and Mikhail Lifshitz. Both have rich experience from their activities as board members and leaders of international companies. They had to step into the large shoes of Klaus Sturany, who did not stand for reelection. And the Board is convinced that with Greg and his team, Sulzer has the right leadership.

Looking ahead, what do you expect for 2017 in terms of financial performance?

GPG I It will be a transition year. We will reach the end of our cost-cutting measures in 2017—before the market rebound we expect for 2018. So, we are expecting a challenging year during which we will work hard to maintain volumes and to protect our profitability while we complete our transformation. But it is all about execution, and 2016 gives us solid reasons to believe that Sulzer can and will execute.

Mr. Löscher, what is your vision for Sulzer?

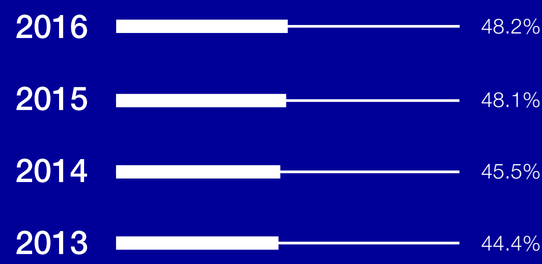
PL I Sulzer will be an employer of choice for the best talent and a preferred partner to our customers. We are creating an agile organization that can adapt quickly to changing market conditions. And we will grow profitably. I am convinced that Sulzer’s strong brand, its passionate employees, and its extraordinary products and solutions are the key ingredients to overcoming these challenging times. We are well on the way to achieving our goals, and we will continue to follow this path with all our energy.

Peter Löscher wants to make Sulzer an employer of choice for the best talent.

NEW TREND: SERVICE BUSINESS

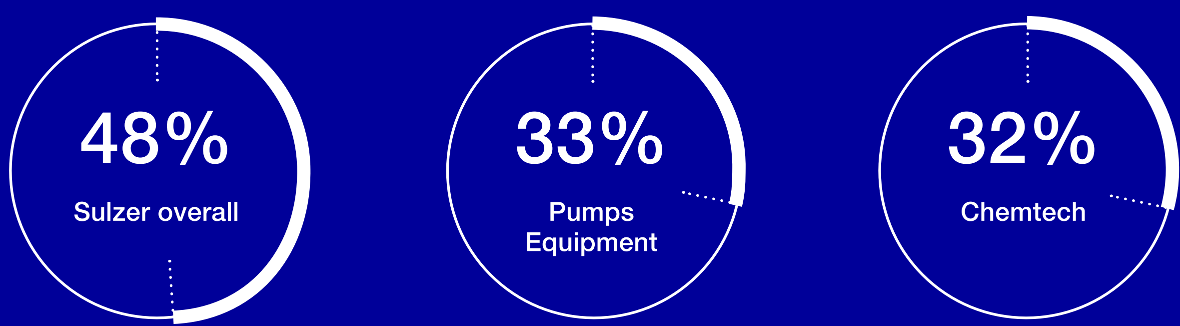
During the past years, more and more manufacturing companies have changed their business models. They have switched from only producing goods to offering a combination of products and services. Companies see the opportunity to generate additional revenues and strengthen customer loyalty. Over the next three years, it is expected that 65% of the global manufacturing industry will be headed in this direction.

Because the service business is becoming more and more competitive, it is vital for an established service provider such as Sulzer to expand its offering and presence. In 2016, the company took further steps to achieve these goals.



The share of sales of aftermarket services at Sulzer has increased steadily during the last few years.

Sales from services in 2016



Overall, the company generates 48% of its sales in the service business. Split by divisions, Rotating Equipment Services generates 100% of its sales with services. In Pumps Equipment, services make up 33% of sales. Chemtech's sales consist of 32% in the service business.

2016

- Sulzer acquired industrial dispenser manufacturer PC Cox, applicator producer Geka, pump manufacturer Ensival Moret, gas turbine maintenance provider Rotec GT, and Wärtsilä's vessel internal electrostatic coalescer (VIEC) business.
- The company introduced new pump types and agitators for the water market and developed a mixing tip with bendable cannula for the dental industry.
- Sulzer and FMC Technologies received an order to supply the pumping equipment for one of the subsea pumping modules in Shell's oil field off the coast of Brazil.
- Sohar SWRO Company LLC commissioned Sulzer to supply pumps for the new desalination plant in Sohar, Oman.

Solid Financial Performance Despite Continuing Market Headwinds

Order intake decreased by 2.0%. A further significant decline in the oil and gas market was partially compensated by growth in the other market segments and by acquisitions. Sales decreased by 2.0% as a result of lower orders and the lower order backlog at the beginning of the year. Sulzer Full Potential (SFP) program savings of CHF 88 million helped to partially offset the impact of the severe head-winds on profitability. Free cash flow improved markedly to CHF 201 million.

Growth in the power and water markets and the effect of acquisitions largely offset lower order volumes in the oil and gas market

Overall order intake decreased by 2.0% from 2015 (nominal: –3.4%). The effect of acquisitions amounted to CHF 110.7 million. Order intake gross margin slightly increased nominally by 0.2% to 34.0%, because the share of higher-margin aftermarket business increased and more than offset the margin erosion in the oil and gas market.

Order intake of the Pumps Equipment division decreased by 5.4%. Strong growth in the power market and slight growth in the water market were offset by the continuing decline of orders in the oil and gas market. In the Rotating Equipment Services division, order intake decreased by 3.1%. This was mainly due to the lower sales volume in the electromechanical business in Europe and the oil-and-gas-related downturn in the North Sea. Order intake in the Chemtech division grew by 6.1%. Order intake of Sulzer Mixpac Systems increased significantly as a result of healthy organic growth and additional volume from the Geka and PC Cox acquisitions. This more than compensated a sharp decline in order intake in the Tower Field Services business unit due to fewer large projects.

Order intake in the oil and gas market decreased significantly. The industry continued to cut cost and capital investments as expected, while oil prices began to recover during the year. Order intake grew strongly in the power market, driven by the Pumps Equipment division, and in the general industry market, mainly because of the Geka and PC Cox acquisitions.

Order levels decreased in the Americas and in Europe, the Middle East, and Africa (EMEA) due to the oil and gas market downturn and — in Europe — due to the weaker performance of the electromechanical business. Order intake significantly increased in Asia-Pacific, mainly supported by China, which recovered from the very low order levels last year.

Currency translation effects amounted to a negative CHF 40.9 million affected by a weaker British pound, South African rand, Chinese yuan, Mexican peso, US dollar, and euro.

“We delivered substantial cost savings and significantly improved free cash flow in a difficult market environment.”

Thomas Dittrich,
Chief Financial Officer

Orders

millions of CHF	2016	2015
Order intake	2 797.5	2 895.8
Order intake gross margin	34.0%	33.8%
Order backlog as of December 31	1 439.1	1 510.7

Free cash flow

CHF 200.5m

(2015: CHF 155.8m)

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)
opROCEA: Return on capital employed (opEBITA/average capital employed)
EBITDA: Operating income before depreciation and amortization

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

As of December 31, 2016, the order backlog amounted to CHF 1 439.1 million (December 31, 2015: CHF 1 510.7 million).

Sales slightly lower

Sales amounted to CHF 2 876.7 million—a decline of 2.0% (nominal: –3.2%). Negative currency translation effects totaled CHF 34.5 million and the effect of acquisitions amounted to CHF 90.6 million.

In 2016, strong growth in the power market and the effect from acquisitions were offset primarily by the significant sales decline in the oil and gas market. Sales in the water market were also below the prior-year level, mainly due to a low starting backlog and timing of projects.

Sales increased in EMEA, while the Americas and Asia-Pacific regions were down from the previous year. Consequently, the share of sales in emerging markets slid from 40% in 2015 down to 38% in 2016.

Gross margin positively affected by cost savings

Gross margin remained stable at 30.6%. The positive effect of the factory footprint optimization and a larger share of higher-margin aftermarket business offset the price erosion effect in the oil and gas market. Total gross profit decreased to CHF 879.4 million (2015: CHF 910.1 million) as a result of lower sales volumes.

Operational EBITA impacted by lower sales volumes

Operational EBITA (opEBITA) amounted to CHF 238.9 million compared with CHF 254.1 million in 2015, a decrease of 4.4% (nominal: –6.0%). Savings from the Sulzer Full Potential (SFP) program helped partially offset the lower sales volume and acquisition-related cost increases.

Operating expenses excluding amortization, impairment on property, plant, and equipment, restructuring expenses, and other non-operational items were down by 5.7%, ahead of the 2.0% sales decline. Savings measures in selling as well as administrative expenses were partly offset by acquisition-related cost increases. Research and development expenses slightly decreased.

Operational ROSA (opROSA) decreased to 8.3% compared with 8.6% in 2015.

Operational key performance ratios

	2016	2015
opROSA	8.3%	8.6%
opROCEA	15.7%	17.0%

opROSA

8.3%

(2015: 8.6%)

The divisions achieved the following profitability figures (opROSA):
— Pumps Equipment: 5.7% (2015: 7.3%). The lower profitability was due to headwinds in the oil and gas market that resulted in lower sales volumes and pricing pressure.
— Rotating Equipment Services: 9.9% (2015: 10.2%). This drop was mainly due to a lower sales volume that could only be partially offset by lower operating expenses.
— Chemtech: 11.4% (2015: 10.1%). This increase resulted mainly from a larger share of the high-margin Sulzer Mixpac Systems business.

See abbreviations on page 7.

Bridge from EBIT to operational EBITA

millions of CHF	2016	2015
EBIT	**115.3**	**120.9**
Amortization	47.3	42.3
Impairment on tangible and intangible assets	18.4	13.0
Restructuring expenses	57.0	41.2
Adjustments for other non-operational items[1]	0.9	36.7
opEBITA	**238.9**	**254.1**
opROSA	**8.3%**	**8.6%**

[1] Other non-operational items include significant acquisition-related expenses, gains, and losses from sale of businesses or real estate (including release of provisions), and certain non-operational items that are non-recurring or do not regularly occur in similar magnitude.

Restructuring expenses and SFP program costs impacted operating income

As part of the SFP program, Sulzer has continued to implement planned actions to adapt its global manufacturing capacities and streamline its organizational setup. The measures resulted in higher restructuring expenses than in 2015. The costs were mainly associated with measures taken in Germany, Switzerland, Brazil, USA, Singapore, the United Kingdom, Sweden, and China. Overall, the number of full-time equivalents (FTE) came down from 14 253 at the end of 2015 to 14 005 at the end of 2016. This is mainly due to a reduction of roughly 1 350 FTE from SFP measures, partly offset by approximately 1 100 FTE from acquisitions.

Other non-operational items amounted to CHF –0.9 million in 2016. SFP-related expenses (CHF –26.9 million), acquisition-related expenses, and other items were offset by the favorable effect resulting from a lower conversion rate of the Swiss pension plans (CHF 35.4 million).

Consequently, EBIT amounted to CHF 115.3 million compared with CHF 120.9 million in 2015. Return on sales (ROS) was 4.0% compared with 4.1% in 2015.

Financial income: lower interest expenses

Total financial expenses amounted to CHF 19.3 million compared with CHF 24.7 million in 2015. Interest expenses were reduced by CHF 10.5 million, partly offset by lower interest income and higher other financial expenses. Lower interest expenses in 2016 resulted from the bond refinancing at favorable conditions at around mid-year (coupon expenses of CHF 7.4 million compared with CHF 12.0 million in 2015).

Furthermore, there were no significant extraordinary expenses in 2016; this stands in contrast to the CHF 5.2 million in 2015 that were related to the settlement of a dispute with the purchaser of the group's locomotive business.

See abbreviations on page 7.

Oil and gas market downturn impacted results from joint ventures

In 2016, Sulzer incurred a loss of CHF 0.8 million from joint ventures compared with a profit of CHF 3.7 million in the prior year. This relates to a joint venture in China for the service of gas turbines and a joint venture in the Middle East for the service of rotating equipment for its oil and gas and power customers.

Slightly lower adjusted effective tax rate

Income tax expenses increased to CHF 35.1 million (2015: CHF 24.9 million) on a broadly stable pre-tax income. This increase was due to restructuring expenses in 2016 without corresponding tax effect. The effective tax rate for 2016 amounted to 36.9% compared with 24.9% in 2015. Adjusted for the restructuring expense tax effect, the effective income tax rate for 2016 would have amounted to 24.3%.

Core net income

In 2016, net income amounted to CHF 60.1 million compared with CHF 75.0 million in the previous year. Core net income excluding the tax-adjusted effects of non-operational items totaled CHF 153.8 million compared with CHF 175.0 million in 2015. Basic earnings per share decreased from CHF 2.17 in 2015 to CHF 1.73 in 2016.

Improved balance sheet efficiency

Total assets as of December 31, 2016, amounted to CHF 3 735.9 million, which is a decrease of CHF 518.9 million from 2015.

Non-current assets increased nominally by CHF 235.9 million due to higher goodwill (CHF 100.3 million), other intangibles (CHF 88.9 million), and higher property, plant, and equipment (CHF 19.6 million). Goodwill, other intangible assets, and property, plant, and equipment increased by CHF 233.7 million on a currency-adjusted basis, mainly due to acquisitions.

Current assets decreased nominally by CHF 754.8 million, mainly due to the dividend payments to Sulzer shareholders of CHF 617.5 million in April 2016 as well as lower marketable securities and working capital.

Total liabilities nominally increased by CHF 124.3 million to CHF 2 144.9 million as of December 31, 2016. An increase of trade accounts payable (CHF 55.5 million), defined benefit obligations (CHF 44.8 million), provisions (CHF 39.1 million), and tax liabilities (CHF 30.2 million) was partly offset by lower borrowings (CHF 56.2 million).

Equity nominally decreased by CHF 643.2 million to CHF 1 591.0 million, mainly due to the above-mentioned dividend payments to Sulzer shareholders.

Net debt to EBITDA increased from –2.78 in 2015 to 0.14, mainly due to the special dividend payment and acquisitions.

See abbreviations on page 7.

Strong free cash flow

Free cash flow amounted to CHF 200.5 million compared with CHF 155.8 million reported in the prior year. This was driven by dynamic net working capital management, lower tax payments, and the fact that a substantial portion of restructuring expenses recorded in 2016 will only be paid in 2017.

Cash flow from investing activities totaled CHF –168.8 million compared with CHF –242.0 million in the prior year. Cash-out for acquisitions amounted to CHF –313.4 million compared with CHF –70.1 million in 2015. In 2016, marketable securities of CHF 208.4 million were sold to fund the dividends paid in April 2016, while in 2015 marketable securities were purchased (CHF –104.6 million). Capital expenditures amounted to CHF 74.9 million, broadly unchanged compared with CHF 73.7 million in 2015.

Cash flow from financing activities totaled CHF –680.6 million. It included the dividend payments of CHF 617.5 million (including the special dividend of CHF 498.1 million) compared with dividend payments of CHF 119.2 million in 2015. Repayments of borrowings reduced cash by CHF 59.4 million (2015: CHF 9.9 million). Exchange gains on cash amounted to CHF 6.7 million compared with a loss of CHF 34.0 million in 2015.

Outlook 2017

Sulzer expects that the oil and gas market, which accounted for approximately half of its revenue before recent acquisitions, will remain challenging in 2017 and that pricing pressure will persist throughout the year. Early signs of an impending recovery of oil CAPEX should only translate into a commercial rebound for Sulzer in 2018. Sulzer's other businesses are expected to grow slightly in 2017, leading to an organic order level for the company broadly stable versus 2016, supplemented by additional volume from newly acquired businesses.

Sulzer expects its SFP program to deliver incremental cost savings in 2017 in the range of CHF 40 to 60 million. The company confirms its overall target of CHF 200 million from 2018 onwards.

For the full year 2017, including acquisitions signed in 2016 and adjusted for currency effects, order intake is expected to grow by 5 to 8% and sales to grow by 3 to 5%. Sulzer expects opEBITA margin at around 8.5% (opEBITA in percent of sales).

See abbreviations on page 7.

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 250000 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 7.

Decrease in sales and operational EBITA

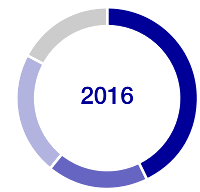
In 2016, Pumps Equipment reported lower sales. The sales volume in the oil and gas market dropped significantly as a consequence of the lower order intake of the previous year. The power market grew significantly in terms of sales, in line with the increase in order intake in 2015. Sales in the water 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 22) 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.

Sales by market segment



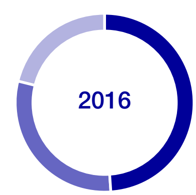
- **43%** Oil and gas
- **18%** Power
- **22%** Water
- **17%** General industry

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 region



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

See abbreviations on page 7.

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

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. 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 7.

Sales and operational EBITA decreased

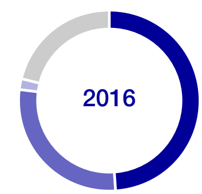
The division reported slightly lower sales in 2016. Sales in EMEA remained stable and increased slightly in North America. The sales volume in Central and Latin America declined, impacted by low oil prices. Sales in the Asia-Pacific region were down from the higher level in 2015, which had resulted from 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 22.

Sales by market segment



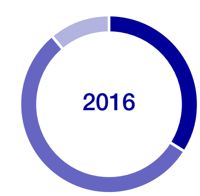
- **49%** Oil and gas
- **28%** Power
- **2%** Water
- **21%** General industry

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 7.

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 7.

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

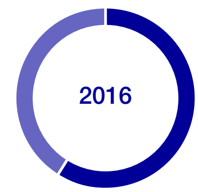
In 2016, the accident frequency rate (AFR) at Chemtech increased to 2.8 cases per million working hours (2015: 1.9). In parallel, the accident severity rate (ASR) increased to 88.5 lost days per million working hours (2015: 52.5). As such, Chemtech could not sustain the strong safety performance of the 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 22.

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	

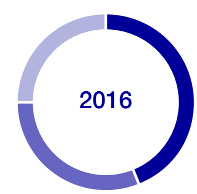
[1] Adjusted for currency effects.

Sales by market segment



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

Sales by region



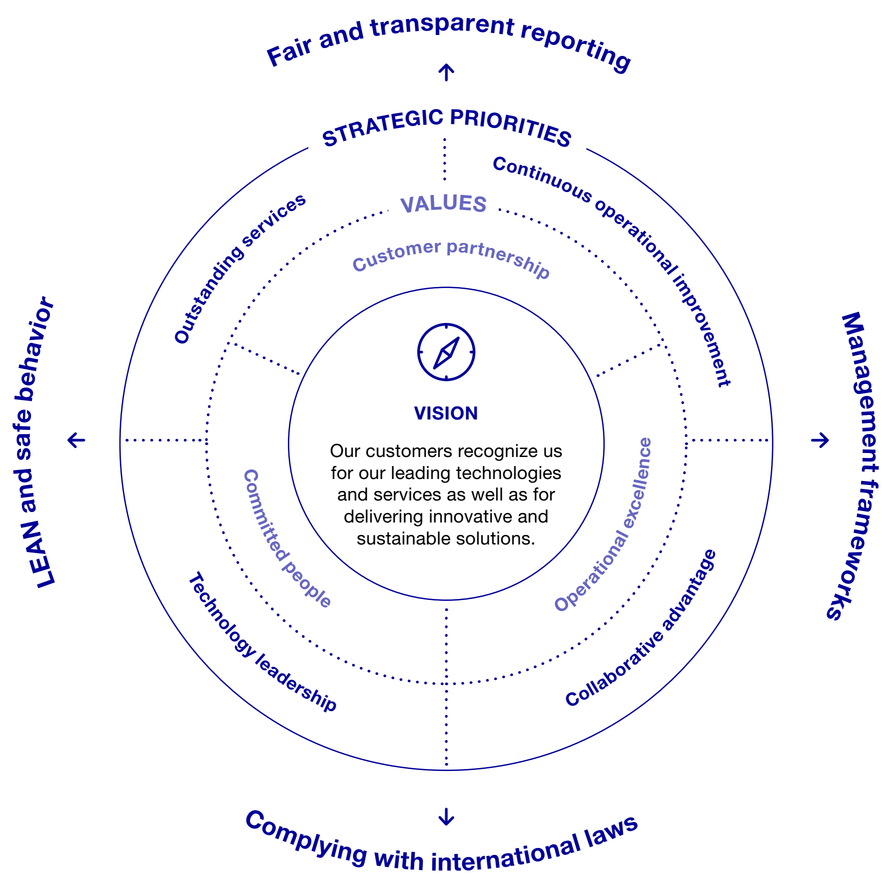
- **44%** Europe, Middle East, and Africa
- **31%** Americas
- **25%** Asia-Pacific

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

See abbreviations on page 7.

Committed to Sustainable Business Practices

Sulzer builds its activities on its vision, values, and strategic priorities. Through a centralized reporting system and local initiatives, Sulzer monitors and drives its sustainability efforts globally and locally.



The Sulzer vision constitutes the core of the company's global activities. Sulzer's values act as an inner compass and guide all activities. Based on them, Sulzer's four strategic priorities define the overall direction of the company.

Sulzer has a transparent reporting system in place to benchmark its extrafinancial performance from year to year. The company collects its group-wide financial and extrafinancial data on a centralized reporting platform. The group function ESH (environment, safety, and health) is in charge of data management. It defines standards and initiatives that are implemented locally. Two of the most important activities are Sulzer's Safe Behavior Program (SBP, read more on page 22) and Sulzer LEAN, a waste reduction initiative.

Sulzer complies with international and national laws and standards. The company participates in the OECD Guidelines for Multinational Enterprises, the United Nations' Universal Declaration of Human Rights and its protocols, the UN Global Compact, and the ILO's Declaration on Fundamental Principles and Rights at Work.

Global Research and Development Network Reduces Time to Market

Sulzer commits itself to designing, developing, and manufacturing innovative, reliable, and resource-conserving solutions. The company's global research and development network supports manifold innovation projects and helps reduce time to market.

Because markets are changing fast, it is critical for companies to shorten their innovation cycles and reduce time to market. Hence, technology experts around the world support Sulzer in the development of products and services. In 2016, Sulzer invested CHF 71.4 million, or 2.5% relative to sales, in research and development (R&D) (2015: CHF 73.4 million, 2.5% of sales).

Sharing and exchanging knowledge across borders

As a global company, Sulzer has built an extensive and international research and development network. Its R&D competence centers around the world support core technology and engineering projects in reducing time to market. For example, the Technical Resource Center in Navi Mumbai, India, was inaugurated ten years ago. Around 100 employees—from mechanical engineers to IT specialists—provide R&D services to all major Sulzer sites.

Collaboration is pivotal for every player in the industry. Sulzer has maintained relationships with academic institutions such as the ETH (Swiss Federal Institute of Technology) and Texas A&M for a long time. The company also collaborates with customers and suppliers during various stages of its product development.

Driving innovation in wastewater treatment

Wastewater has changed dramatically in recent years. It contains less water and more solids and fibrous materials. This change places tough new demands on collection networks. In 2016, Sulzer introduced the highly efficient recirculation pump for wastewater treatment, launched new lifting station types for the automatic pumping of wastewater and sewage, and presented standardized agitators for the wastewater industry. The future-proof solutions not only respond to the changing conditions but also reduce customers' operating costs and environmental footprint.

Introducing new products and solutions across markets

To complement its strong presence in the desalination and wastewater markets, Sulzer introduced an extended product portfolio that also covers clean water applications. The design and innovative construction of the clean water equipment lead to energy savings and improve customers' processes. In the pulp and paper industry, Sulzer supplied the largest medium-consistency pump that has ever been manufactured. In the oil and gas market, the company helped to lower the cost of a floating production, storage, and offloading (FPSO) ship offshore Angola through an innovative oil-cleaning process.

Near real-time monitoring to make informed decisions

The Internet of Things has a considerable impact on innovation and technology. Remote-control programs help operators monitor and maintain their plants in near real time. Sulzer provides web-based control and monitoring solutions specifically designed for the water market. With a software called AquaWeb, operators are able to examine the status of their pumping stations in near real time. The data helps identify unreliable and inefficient pumps, which cause costs. Based on these findings, customers can make informed decisions and modernize their equipment—for example with Sulzer's retrofit solutions. The software also contains an alarm function: as soon as performance deteriorates, automated alarms warn the operator. Before sending an engineer on-site, the program allows the operator to reset motor protection devices remotely. This helps customers improve the efficiency, performance, and reliability of their equipment.

"In a competitive environment with difficult market conditions, it is a decisive advantage to have a global R&D network. It helps us reduce time to market and develop solutions close to our customers."

Ralf Gerdes,
Head Global Technology

Number of patents

31

(2015: 30)

R&D investments

CHF 71m

(2.5% of sales)
(2015: CHF 73m/2.5% of sales)

Reducing Environmental Footprint of Products and Organization

Sulzer's commitment to environmental sustainability is twofold: The company reduces its own environmental footprint and develops innovative and highly efficient solutions for its customers. They help save energy and reduce operating costs.

"We enable our sites to take individual measures to reduce the environmental footprint."

Rajiv Damani,
Head of Group Environment, Safety, and Health

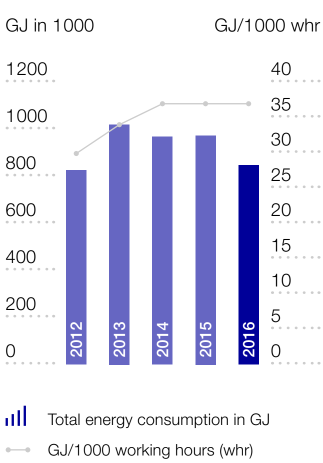
Sulzer's products and solutions are important elements of customers' operations. The greater part of life cycle energy consumption and emissions originates at customers' sites. Products that help reduce energy consumption and emissions are thus important to supporting customers in maintaining their business sustainably. Sulzer has substantial expertise in providing energy-efficient solutions and the company offers service and training for safe and efficient operation of the equipment.

Designing energy-efficient products

Product designers take the entire life cycle into account. Pumps typically use a lot of energy. This is why Sulzer's design teams pay particular attention to the energy efficiency during product development. The company puts a strong focus on highest efficiency levels that reduce energy consumption. Optimized products use as little material as possible without compromising quality. In addition to designing efficient products, Sulzer offers revamps, retrofits, and upgrades to increase the efficiency and extend the lifetime of already installed pumps.

Delivering a product to the customer's site is not the end of the job. Unintended or incorrect use can lead to environmental damage. Sulzer consults its customers on the safe and efficient installation, operation, maintenance, and disposal of their equipment. Although the company does not operate its own take-back programs, it supports its customers with optimized ecological and economic solutions for proper dismantling and disposal.

Energy consumption



Maintaining or improving environmental performance

The environmental footprint of Sulzer's operations mainly stems from energy consumption, greenhouse gas emissions, and hazardous as well as non-hazardous waste. Sulzer makes the most effort in areas where it has the scale and resources to make an impact. Because of the diversity of Sulzer's businesses, the business units evaluate their environmental footprint and set their own agendas for reducing their impact. Although having a car fleet policy makes sense in the service business, it is less suitable for manufacturing plants that do not have many cars. Overall, the company's minimum target is to maintain but ideally to improve performance measured against working hours.

In 2016, Sulzer continued to focus on sharing expertise across the company. A newly formed environment committee fosters the exchange of best practices. Furthermore, Sulzer is in the pilot phase of an environmental awareness training for its locations.

Reporting transparently and systematically

Sulzer collects extrafinancial data systematically at the site level. The company uses the number of total working hours as a reference. Overall, 78% of total working hours report on environmental data. This is slightly less than in 2015, because several smaller service centers were excluded from the data collection process. The coverage of HR and occupational health and safety data is 100% (of total working hours). The organization collects extrafinancial data according to two different reporting cycles: The reporting period for environmental data is October 1, 2015, to September 30, 2016. The reporting cycle for HR data and the health and safety performance is January 1, 2016, to December 31, 2016. Regular internal audits make sure that the reporting of the figures is accurate.

Fluctuations in energy, greenhouse gas emissions, waste, and water data

The year 2016 was characterized by the company's ongoing transformation. To adapt to the market environment, Sulzer has reduced capacities. This results in larger fluctuations in energy consumption, greenhouse gas emissions, waste, and water consumption at individual sites.

On the whole, both energy consumption and waste were reduced by 13% and almost 8% respectively, largely due to reduced utilization rates. The rate of energy consumption per 1000 working hours remained stable. Waste production per 1000 working hours increased slightly because the company cleared out obsolete inventory and stock.

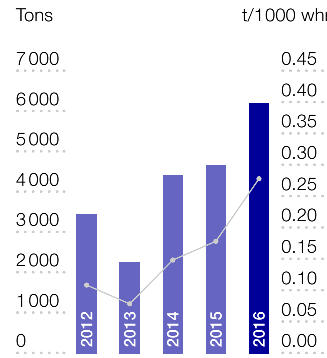
In contrast, the total consumption of water increased significantly by 22%. This increase was almost entirely due to two factors: First, the successfully growing Sulzer Mixpac Systems business was able to increase production significantly in 2016. It invested heavily in new and more efficient plants and equipment, which also consume considerably higher amounts of water for cooling parts and molds. Second, one of the larger manufacturing plants implemented changes to its cooling systems and used ground water instead of an aging refrigerant system. If these two factors are excluded, water consumption was reduced throughout the company. Again, this is largely due to reduced utilization and adjustments in capacities.

Key figures

		2016	2015	Change in +/– %
Energy	**GJ**	**845 056**	**970 832**	**–13.0**
— Energy consumption per working hours (whr)	GJ per 1 000 whr	37.3	37.2	0.1
— Share of electricity	%	56.8	54.9	3.4
— Share of gases	%	23.0	23.7	–3.1
— Share of fuels	%	11.7	12.4	–6.1
— Share of fuel oils	%	1.5	1.6	–5.9
— Share of district heating	%	6.1	6.7	–8.5
— Share of other sources	%	< 1	< 1	–
Greenhouse gas emissions	**tons CO_2 eq.**	**91 440**	**105 960**	**–13.7**
— GHG emissions per working hours	tons CO_2 eq. per 1 000 whr	4.03	4.06	–0.7
— GHG scope 1 [1]	tons CO_2 eq.	17 690	20 560	–14.0
— GHG scope 2 [2]	tons CO_2 eq.	56 970	66 290	–14.1
— GHG scope 3 [3]	tons CO_2 eq.	16 780	19 110	–12.2
Waste	**tons**	**26 811**	**29 071**	**–7.8**
— Waste per working hours	tons per 1 000 whr	1.2	1.1	6.1
By treatment				
— Recycling	%	77.4	66.5	16.4
— Waste to landfill/incineration/other treatment	%	22.6	33.5	–32.6
By hazardousness				
— Non-hazardous waste	%	76.7	83.8	–8.5
— Hazardous waste	%	23.3	16.2	43.9
Water	**m^3**	**1 600 383**	**1 311 922**	**22.0**
— Water consumption per working hours	m^3 per 1 000 whr	70.6	50.3	40.3

[1] Direct emissions from Sulzer stemming from primary energy sources such as natural gas and fuels used on-site.
[2] Indirect emissions from secondary (converted) energy sources such as electricity and district heating.
[3] Indirect emissions from the production and transport of fuels and gases not included in scopes 1 or 2.

Hazardous waste



Total hazardous waste in t (metric)
t/1000 working hours (whr)

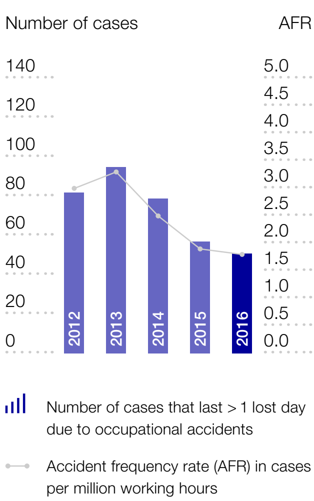
Find further sustainability data at www.sulzer.com/sustainability

Driving Safety Excellence and Fostering Cultural Exchange

Sulzer wants its employees to be safe and healthy, and the company continues to carry out its Safe Behavior Program. To develop people skills, Sulzer offers effective and pragmatic training opportunities. The company strives for a performance-rewarding culture that encourages its employees to speak up and exchange ideas globally.

Improving safety is increasingly difficult with conventional safety control measures. An organization needs to enable its employees to recognize hazards and anticipate risks while empowering them to act in the interests of each other's safety. To achieve a mature safety culture, Sulzer has had its Safe Behavior Program (SBP) in place for four years. Since then, the company has achieved a 38% drop in its accident rate. Raising awareness for safe behavior and developing skills is key for Sulzer.

Accidents



Maintaining low accident frequency rate

In 2016, Sulzer was able to sustain the previous year's performance and reached an accident frequency rate of below two cases per million working hours. Nevertheless, the health and safety organization faced severe challenges last year. In total, Sulzer suffered 51 cases of major accidents, which resulted in 1 414 lost working days. Tragically, one employee died while working at a customer's site early in the year. Thus, Sulzer is critically examining the entire system of operational health and safety management in its service activities.

Sulzer continues to implement the SBP as its main vehicle for driving improvement in the safety culture. In 2016, the company paid particular attention to developing and raising the safety program competence of both novice health and safety experts and critical management teams. In total, Sulzer held three environment, safety, and health (ESH) training sessions and an additional five management workshops in Asia, Europe, and the Americas. In total, over 150 ESH professionals and middle- to senior-level managers received training.

Effective, applicable, and pragmatic people development

Sulzer recognizes that people development is not only critical to ensuring employees have the necessary knowledge and skills to do their jobs; it also drives employee satisfaction and company commitment. Hence, Sulzer provides effective, applicable, and pragmatic development opportunities.

The company takes a diverse and varied approach to training topics. The Sulzer Management Training (SMT) program, developed in 2014, enables junior managers to master the basics of management topics. It facilitates the transition from individual contributor to manager. SMT includes web-based, classroom, and peer group activities. In 2016, Sulzer carried out the SMT program in all three regions. More than 60 participants earned their completion certificates.

The Learning Management System (LMS), a cloud-based platform, makes development activities available on a global scale. The learning history ensures that the development of competencies remains transparent and is available in the long run. LMS accommodates over 7 000 users, 2 500 active training offerings, and is available in six languages.

Rewarding contributions and results

In 2016, Sulzer further refined its talent management and employee review processes. Running from the very top of the organization through to local management, the processes enable improved succession planning. To share talent information better across the globe, the succession planning online tool was further developed. Sulzer's goal is to build an even stronger high-performance culture where contributions and results are valued and rewarded. Thus, the company is streamlining and harmonizing its performance evaluation processes.

Assuming ethical responsibility

Sulzer values and fosters performance. The company also remains deeply committed to personal responsibility, integrity, and ethical behavior. Every employee signs Sulzer's Code of Business Conduct. The company's compliance training sessions and Code of Business Conduct refresher courses ensure that Sulzer employees are fully aware of their individual ethical responsibilities and that they act accordingly.

Appreciating cultural diversity and exchange

Sulzer welcomes a diverse workforce. People of different cultural backgrounds, nationalities, genders, and ages collaborate and share ideas across the company. Through job rotation programs, internships, and temporary relocations, Sulzer fosters cultural exchange. The company also believes in a speak-up culture and encourages its employees to communicate openly. With tools such as an "ask your CEO" e-mail address, CEO Skype meetings that everyone can participate in, and the intranet, the company provides easy access to the top management.

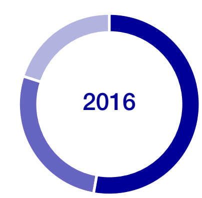
Key figures

		2016	2015	Change in +/– %
Accident frequency rate (AFR)	Cases per million working hours	1.8	1.9	–5.3
Accident severity rate (ASR)	Lost days per million working hours	51.2	48.1	6.4
Health and safety training	hours	119 153	106 610	11.7
Voluntary attrition rate	%	8.0	7.5	0.5
Share of women (of total workforce)	%	17.1	14.5	2.5
Leaders from internal talent pipeline	%	56.0	60.0	–6.7
Number of employees	FTE	14 005	14 253	–1.7

"In our offices, manufacturing plants, and service centers, you meet open-minded people from all over the world who are excited to share ideas and solve problems. This international spirit is reflected in everything we do."

Armand Sohet,
Chief Human Resources Officer

Geographical spread of employees



- **53%** Europe, Middle East, and Africa
- **27%** Americas
- **20%** Asia-Pacific

Find further sustainability data at www.sulzer.com/sustainability

Consolidated income statement
January 1 – December 31

millions of CHF	Notes	2016	2015
Sales	3	2 876.7	2 971.0
Cost of goods sold		–1 997.3	–2 060.9
Gross profit		**879.4**	**910.1**
Selling and distribution expenses		–309.2	–303.9
General and administrative expenses		–324.6	–348.2
Research and development expenses	10	–71.4	–73.4
Other operating income and expenses, net	11	–58.9	–63.7
Operating income		**115.3**	**120.9**
Interest and securities income	12	5.2	6.5
Interest expenses	12	–17.4	–27.9
Other financial income and expenses, net	12	–7.1	–3.3
Share of profit/(loss) of associates	16	–0.8	3.7
Income before income tax expenses		**95.2**	**99.9**
Income tax expenses	13	–35.1	–24.9
Net income		**60.1**	**75.0**
Attributable to shareholders of Sulzer Ltd		59.0	73.9
Attributable to non-controlling interests		1.1	1.1
Earnings per share (in CHF)			
Basic earnings per share	25	1.73	2.17
Diluted earnings per share	25	1.72	2.16

Consolidated statement of comprehensive income

January 1–December 31

millions of CHF	Notes	2016	2015
Net income		**60.1**	**75.0**
Items that may be reclassified subsequently to the income statement			
Cash flow hedges, net of tax	29	–1.8	–3.5
Currency translation differences		–5.7	–154.4
Total of items that may be reclassified subsequently to the income statement		**–7.5**	**–157.9**
Items that will not be reclassified to the income statement			
Remeasurements of defined benefit obligations, net of tax	9	–82.1	–13.1
Total of items that will not be reclassified to the income statement		**–82.1**	**–13.1**
Total other comprehensive income		**–89.6**	**–171.0**
Total comprehensive income for the year		**–29.5**	**–96.0**
Attributable to shareholders of Sulzer Ltd		–30.3	–96.6
Attributable to non-controlling interests		0.8	0.6

Consolidated balance sheet
December 31

millions of CHF	Notes	2016	2015
Non-current assets			
Goodwill	14	780.1	679.8
Other intangible assets	14	335.3	246.4
Property, plant, and equipment	15	511.0	491.4
Associates	16	5.8	4.0
Other financial assets	17	13.1	11.6
Non-current receivables		7.0	7.1
Deferred income tax assets	13	157.6	133.7
Total non-current assets		**1 809.9**	**1 574.0**
Current assets			
Inventories	18	401.7	409.3
Advance payments to suppliers		82.0	79.8
Trade accounts receivable	20	883.2	851.1
Other accounts receivable and prepaid expenses	21	129.6	123.3
Marketable securities	23	–	208.3
Cash and cash equivalents	22	429.5	1 009.0
Total current assets		**1 926.0**	**2 680.8**
Total assets		**3 735.9**	**4 254.8**
Equity			
Share capital	24	0.3	0.3
Reserves		1 580.9	2 224.4
Equity attributable to shareholders of Sulzer Ltd		**1 581.2**	**2 224.7**
Non-controlling interest		9.8	9.5
Total equity		**1 591.0**	**2 234.2**
Non-current liabilities			
Non-current borrowings	26	458.3	7.2
Deferred income tax liabilities	13	95.6	69.4
Non-current income tax liabilities	13	2.6	2.6
Defined benefit obligations	9	339.6	294.8
Non-current provisions	27	73.8	73.5
Other non-current liabilities		10.4	24.6
Total non-current liabilities		**980.3**	**472.1**
Current liabilities			
Current borrowings	26	7.1	514.4
Current income tax liabilities	13	13.9	9.9
Current provisions	27	176.1	137.3
Trade accounts payable		379.3	323.8
Advance payments from customers		179.8	197.5
Other current and accrued liabilities	28	408.4	365.6
Total current liabilities		**1 164.6**	**1 548.5**
Total liabilities		**2 144.9**	**2 020.6**
Total equity and liabilities		**3 735.9**	**4 254.8**

Consolidated statement of changes in equity
January 1–December 31

		Attributable to shareholders of Sulzer Ltd							
millions of CHF	Notes	Share capital	Retained earnings	Treasury shares	Cash flow hedge reserve	Currency translation adjustment	Total	Non-controlling interests	Total equity
Equity as of January 1, 2015		**0.3**	**2720.3**	**–23.4**	**–5.7**	**–256.1**	**2435.4**	**6.6**	**2442.0**
Comprehensive income for the year:									
Net income			73.9				73.9	1.1	75.0
— Cash flow hedges, net of tax	29				–3.5		–3.5		–3.5
— Remeasurements of defined benefit obligations, net of tax	9		–13.1				–13.1		–13.1
— Currency translation differences						–153.9	–153.9	–0.5	–154.4
Other comprehensive income			–13.1		–3.5	–153.9	–170.5	–0.5	–171.0
Total comprehensive income for the year		**–**	**60.8**	**–**	**–3.5**	**–153.9**	**–96.6**	**0.6**	**–96.0**
Transactions with owners of the company:									
Changes in ownership in subsidiaries			–1.8				–1.8	0.9	–0.9
Transactions in treasury shares			–7.0	5.6			–1.4		–1.4
Share-based payments	32		8.3				8.3		8.3
Dividends			–119.2				–119.2	–1.9	–121.1
Change in scope of consolidation							–	3.3	3.3
Equity as of December 31, 2015	24	**0.3**	**2661.4**	**–17.8**	**–9.2**	**–410.0**	**2224.7**	**9.5**	**2234.2**
Comprehensive income for the year:									
Net income			59.0				59.0	1.1	60.1
— Cash flow hedges, net of tax	29				–1.8		–1.8		–1.8
— Remeasurements of defined benefit obligations, net of tax	9		–82.1				–82.1		–82.1
— Currency translation differences						–5.4	–5.4	–0.3	–5.7
Other comprehensive income			–82.1		–1.8	–5.4	–89.3	–0.3	–89.6
Total comprehensive income for the year		**–**	**–23.1**	**–**	**–1.8**	**–5.4**	**–30.3**	**0.8**	**–29.5**
Transactions with owners of the company:									
Allocation of treasury shares to share plan participants			–4.1	4.1			–		–
Acquisition of treasury shares				–3.2			–3.2		–3.2
Share-based payments	32		7.5				7.5		7.5
Dividends			–617.5				–617.5	–0.5	–618.0
Equity as of December 31, 2016	24	**0.3**	**2024.2**	**–16.9**	**–11.0**	**–415.4**	**1581.2**	**9.8**	**1591.0**

Consolidated statement of cash flows

January 1 – December 31

millions of CHF	Notes	2016	2015
Cash and cash equivalents as of January 1		**1 009.0**	**1 194.7**
Net income		60.1	75.0
Interest and securities income	12	–5.2	–6.5
Interest expenses	12	17.4	27.9
Income tax expenses	13	35.1	24.9
Depreciation, amortization, and impairments	14,15	135.2	129.4
Income from disposals of subsidiaries; property, plant, and equipment; and financial instruments		–1.2	–0.1
Changes in inventories		43.0	49.6
Changes in advance payments to suppliers		3.4	–4.2
Changes in trade accounts receivable		–17.4	32.6
Changes in advance payments from customers		–21.5	3.9
Changes in trade accounts payable		49.8	–33.4
Change in provision for employee benefit plans		–37.9	9.4
Changes in provisions		35.3	3.2
Changes in other net current assets		37.2	0.6
Other non-cash items		–7.1	–2.1
Interest received		5.2	6.4
Interest paid		–15.1	–20.4
Income tax paid		–53.1	–73.4
Total cash flow from operating activities		**263.2**	**222.8**
Purchase of intangible assets		–1.4	–2.1
Purchase of property, plant, and equipment		–73.5	–71.6
Sale of property, plant, and equipment		12.2	6.7
Acquisitions of subsidiaries, net of cash acquired	4	–309.1	–70.1
Acquisitions of associates		–4.3	–
Divestitures of subsidiaries		–	0.2
Purchase of financial assets	17	–1.1	–0.5
Purchase of marketable securities		–	–253.6
Sale of marketable securities		208.4	149.0
Total cash flow from investing activities		**–168.8**	**–242.0**
Dividend		–617.5	–119.2
Purchase of treasury shares		–3.2	–3.5
Sale of treasury shares		–	2.1
Dividend paid to non-controlling interests		–0.5	–1.9
Changes in non-controlling interests		–	–0.1
Additions in non-current borrowings		451.5	0.6
Repayment of non-current borrowings		–2.5	–0.4
Additions in current borrowings		216.9	6.4
Repayment of current borrowings		–725.3	–16.5
Total cash flow from financing activities		**–680.6**	**–132.5**
Exchange gains/(losses) on cash and cash equivalents		6.7	–34.0
Net change in cash and cash equivalents		**–579.5**	**–185.7**
Cash and cash equivalents as of December 31	22	**429.5**	**1 009.0**

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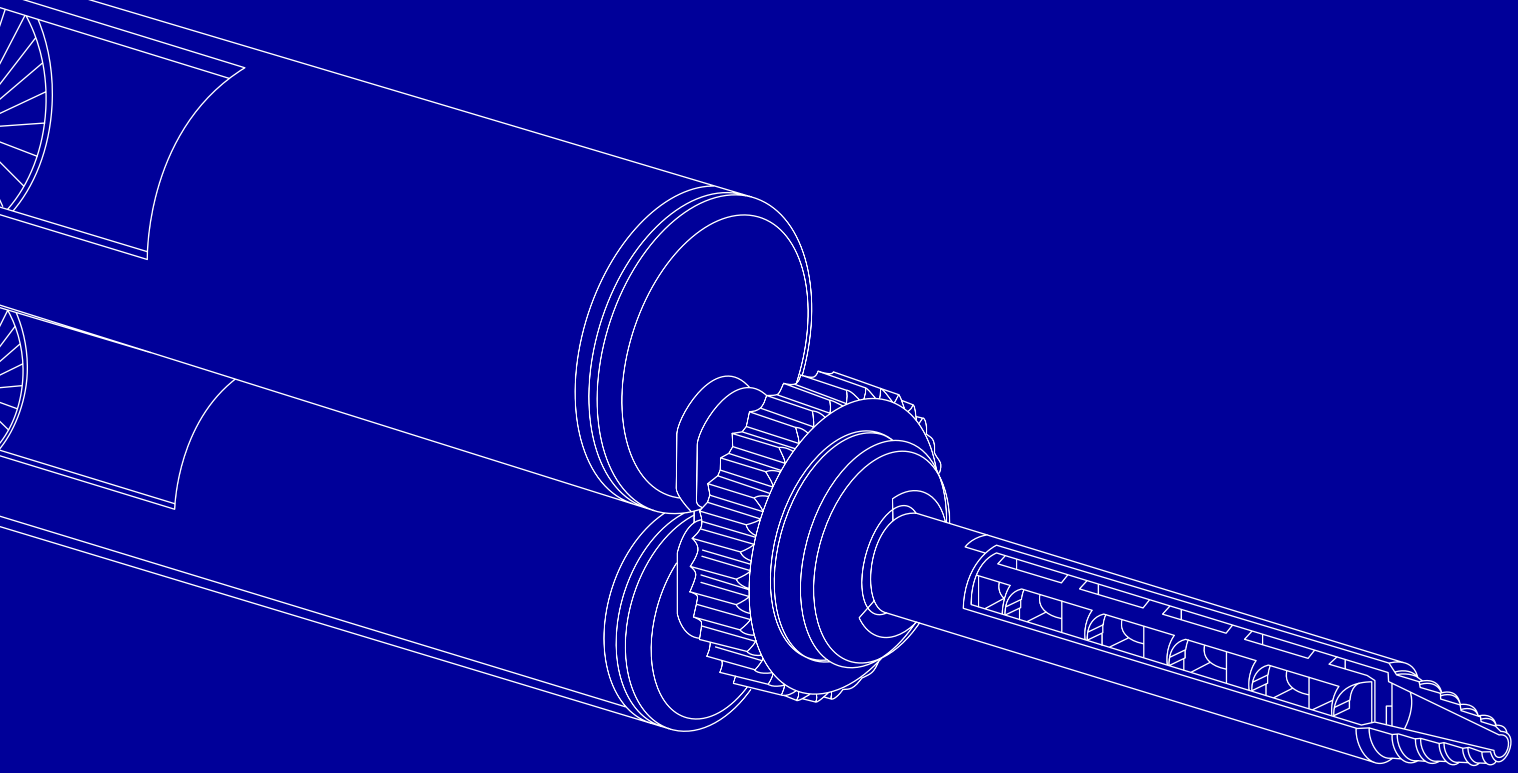

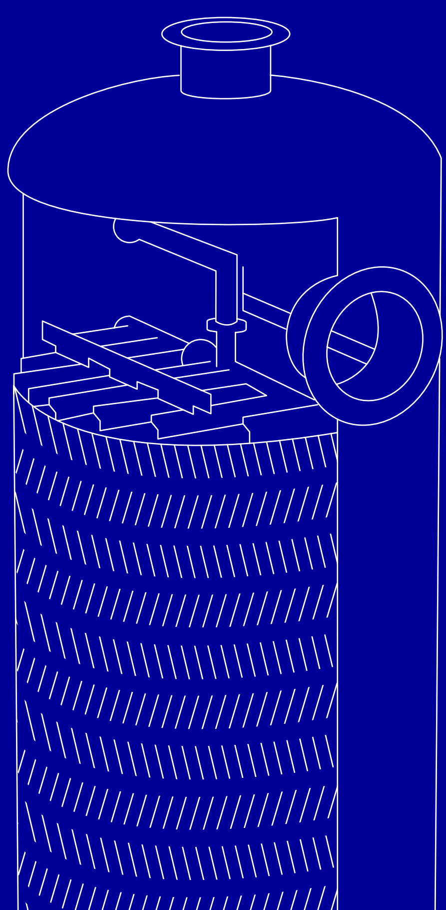

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