

Financial reporting



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Consolidated income statement

January 1 – December 31

millions of CHF	Notes	2018	2017
Sales	3	3'364.9	3'049.0
Cost of goods sold		-2'386.6	-2'112.4
Gross profit		978.3	936.6
Selling and distribution expenses		-354.4	-337.2
General and administrative expenses		-384.4	-362.7
Research and development expenses	10	-86.4	-81.0
Other operating income and expenses, net	11	30.8	-19.2
Operating income		183.8	136.5
Interest and securities income	12	2.9	4.1
Interest expenses	12	-20.3	-15.2
Other financial income and expenses, net	12	-1.5	0.3
Share of profit and loss of associates	16	0.7	-0.3
Income before income tax expenses		165.6	125.4
Income tax expenses	13	-49.2	-38.2
Net income		116.5	87.2
attributable to shareholders of Sulzer Ltd		113.7	83.2
attributable to non-controlling interests		2.8	4.0
Earnings per share (in CHF)			
Basic earnings per share	24	3.56	2.44
Diluted earnings per share	24	3.53	2.42

Consolidated statement of comprehensive income

January 1 – December 31

millions of CHF	Notes	2018	2017
Net income		116.5	87.2
Items that may be reclassified subsequently to the income statement			
Cash flow hedges, net of tax	28	-2.2	4.5
Currency translation differences		-90.6	54.6
Total of items that may be reclassified subsequently to the income statement		-92.8	59.1
Items that will not be reclassified to the income statement			
Remeasurements of defined benefit obligations, net of tax	9	55.9	91.8
Total of items that will not be reclassified to the income statement		55.9	91.8
Total other comprehensive income		-36.9	150.9
Total comprehensive income for the period		79.6	238.1
attributable to shareholders of Sulzer Ltd		78.2	233.9
attributable to non-controlling interests		1.4	4.2

Consolidated balance sheet

December 31

millions of CHF	Notes	2018	2017
Non-current assets			
Goodwill	14	923.4	865.7
Other intangible assets	14	439.4	420.8
Property, plant and equipment	15	527.0	531.6
Associates	16	13.4	10.3
Other financial assets	17	9.4	13.6
Non-current receivables		6.2	8.8
Deferred income tax assets	13	138.9	139.7
Total non-current assets		2'057.7	1'990.5
Current assets			
Inventories	18	658.9	488.0
Current income tax receivables		29.0	27.2
Advance payments to suppliers		79.9	84.7
Contract assets	19	205.1	–
Trade accounts receivable	20	622.3	901.8
Other current receivables and prepaid expenses	21	150.2	136.3
Cash and cash equivalents	22	1'095.2	488.8
Total current assets		2'840.6	2'126.8
Total assets		4'898.3	4'117.3
Equity			
Share capital	23	0.3	0.3
Reserves		1'629.5	1'679.8
Equity attributable to shareholders of Sulzer Ltd		1'629.9	1'680.1
Non-controlling interests		11.2	22.3
Total equity		1'641.0	1'702.4
Non-current liabilities			
Non-current borrowings	25	1'316.3	458.7
Deferred income tax liabilities	13	89.5	104.8
Non-current income tax liabilities	13	2.3	2.3
Defined benefit obligations	9	160.9	239.1
Non-current provisions	26	74.4	77.6
Other non-current liabilities		3.6	17.6
Total non-current liabilities		1'646.8	900.1
Current liabilities			
Current borrowings	25	18.0	255.1
Current income tax liabilities	13	32.0	24.8
Current provisions	26	139.6	158.5
Contract liabilities	19	256.4	–
Trade accounts payable		521.8	433.8
Advance payments from customers		–	210.1
Other current and accrued liabilities	27	642.6	432.5
Total current liabilities		1'610.4	1'514.8
Total liabilities		3'257.3	2'414.9
Total equity and liabilities		4'898.3	4'117.3

Consolidated statement of changes in equity

January 1 – December 31

millions of CHF	Notes	Attributable to shareholders of Sulzer Ltd					Total	Non-controlling interests	Total equity
		Share capital	Retained earnings	Treasury shares	Cash flow hedge reserve	Currency translation adjustment			
Equity as of January 1, 2017		0.3	2'024.2	-16.9	-11.0	-415.4	1'581.2	9.8	1'591.0
Comprehensive income for the period:									
Net income			83.2				83.2	4.0	87.2
- Cash flow hedges, net of tax	28				4.5		4.5		4.5
- Remeasurements of defined benefit obligations, net of tax	9		91.8				91.8		91.8
- Currency translation differences						54.4	54.4	0.2	54.6
Other comprehensive income			91.8		4.5	54.4	150.7	0.2	150.9
Total comprehensive income for the period		-	175.0	-	4.5	54.4	233.9	4.2	238.1
Transactions with owners of the company:									
Changes in ownership in subsidiaries									
Put option liability			-14.6				-14.6		-14.6
Allocation of treasury shares to share plan participants			-6.6	6.6			0.0		0.0
Acquisition of treasury shares	23			-11.8			-11.8		-11.8
Share-based payments	31		10.8				10.8		10.8
Dividends	23		-119.4				-119.4	-1.5	-120.9
Equity as of December 31, 2017	23	0.3	2'069.4	-22.1	-6.5	-361.0	1'680.1	22.3	1'702.4
Adjustment on initial application of IFRS 9, net of tax	34		-6.6				-6.6		-6.6
Adjustment on initial application of IFRS 15, net of tax	34		-21.9			-1.2	-23.1	-0.1	-23.1
Equity as of January 1, 2018		0.3	2'040.9	-22.1	-6.5	-362.2	1'650.4	22.2	1'672.6
Comprehensive income for the period:									
Net income			113.7				113.7	2.8	116.5
- Cash flow hedges, net of tax	28				-2.2		-2.2		-2.2
- Remeasurements of defined benefit obligations, net of tax	9		55.9				55.9		55.9
- Currency translation differences						-89.2	-89.2	-1.3	-90.6
Other comprehensive income			55.9		-2.2	-89.2	-35.5	-1.3	-36.9
Total comprehensive income for the period		-	169.6	-	-2.2	-89.2	78.2	1.4	79.6
Transactions with owners of the company:									
Changes of non-controlling interests without a change in control									
Allocation of treasury shares to share plan participants			-7.0	7.0			-		-
Treasury shares acquired	23			-563.8			-563.8		-563.8
Treasury shares sold	23		12.6	544.8			557.4		557.4
Share-based payments	31		15.1				15.1		15.1
Dividends	23		-119.1				-119.1	-1.9	-121.0
Equity as of December 31, 2018	23	0.3	2'123.6	-34.0	-8.6	-451.4	1'629.9	11.2	1'641.0

Consolidated statement of cash flows

January 1 – December 31

millions of CHF	Notes	2018	2017
Cash and cash equivalents as of January 1		488.8	429.5
Net income		116.5	87.2
Interest and securities income	12	-2.9	-4.1
Interest expenses	12	20.3	15.2
Income tax expenses	13	49.2	38.2
Depreciation, amortization and impairments	14,15	145.1	140.9
Income from disposals of property, plant and equipment	11,15	-5.8	-4.4
Changes in inventories		-98.4	-35.7
Changes in advance payments to suppliers		6.1	-0.5
Changes in contract assets		-11.0	-
Changes in trade accounts receivable		19.9	36.4
Changes in advance payments from customers		-	10.5
Changes in contract liabilities		-23.7	-
Changes in trade accounts payable		106.2	12.2
Change in provision for employee benefit plans		-2.8	-1.0
Changes in provisions		-21.3	-30.9
Changes in other net current assets		20.8	-8.6
Other non-cash items		17.6	-7.9
Interest received		2.9	4.0
Interest paid		-12.2	-8.0
Income tax paid		-65.6	-59.8
Total cash flow from operating activities		260.8	183.7
Purchase of intangible assets	14	-6.9	-2.6
Purchase of property, plant and equipment	15	-89.3	-78.6
Sale of property, plant and equipment	11, 15	16.6	12.8
Acquisitions of subsidiaries, net of cash acquired	4	-217.5	-157.9
Acquisitions of associates	16	-1.2	-4.6
Dividends from associates	16	0.1	-
Divestitures of subsidiaries		0.7	-
Purchase of financial assets	17	-0.6	-0.3
Sale of financial assets	17	0.6	0.4
Total cash flow from investing activities		-297.4	-230.8
Dividend	23	-43.1	-119.4
Dividend paid to non-controlling interests		-1.9	-1.5
Purchase of treasury shares		-454.9	-11.8
Sale of treasury shares	23	557.4	-
Changes in non-controlling interests	4	-14.3	-0.3
Additions in non-current borrowings	25	859.4	0.5
Repayment of non-current borrowings	25	-1.1	-1.7
Additions in current borrowings	25	426.4	534.6
Repayment of current borrowings	25	-658.9	-294.1
Total cash flow from financing activities		669.1	106.3
Exchange losses on cash and cash equivalents		-26.1	0.1
Net change in cash and cash equivalents		606.4	59.3
Cash and cash equivalents as of December 31	22	1'095.2	488.8

1 General information

Sulzer Ltd (the “company”) is a company domiciled in Switzerland. The address of the company’s registered office is Neuwiesenstrasse 15 in Winterthur, Switzerland. The consolidated financial statements for the year ended December 31, 2018, comprise the company and its subsidiaries (together referred to as the “group” and individually as the “subsidiaries”) and the group’s interest in associates and joint ventures. The group specializes in pumping solutions, service solutions for rotating equipment, separation and mixing, and applicator technology. Sulzer was founded in 1834 in Winterthur, Switzerland, and employs around 15’500 people. The company serves clients in over 180 production and service sites around the world. Sulzer Ltd is listed on the SIX Swiss Exchange in Zurich, Switzerland (symbol: SUN).

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). They were authorized for issue by the Board of Directors on February 12, 2019.

Details of the group’s accounting policies are included in [note 34](#).

2 Significant events and transactions during the reporting period

The financial position and performance of the group was particularly affected by the following events and transactions during the reporting period:

- As of January 10, 2018, the group acquired 100% of the issued shares in JWC Environmental, LLC (“JWC”) for CHF 211.3 million. JWC is headquartered in Santa Ana, California, US, and employs around 230 people. The company is a leading provider of highly engineered, mission-critical solids reduction and removal products such as grinders, screens and dissolved air flotation systems for municipal, industrial and commercial wastewater applications. The acquisition resulted in an increase in property, plant and equipment of CHF 11.5 million and the recognition of goodwill (CHF 88.7 million) and other intangible assets (CHF 90.7 million) at the date of acquisition (see [note 4](#)).
- On April 11, 2018, Sulzer purchased five million treasury shares from Renova. The purchase price for the five million shares Sulzer acquired came to CHF 109.13 per share for a transaction value of CHF 545.7 million. On September 18, Sulzer placed the five million treasury shares with domestic and international investors. The placement price of CHF 112 per share results in a capital gain of CHF 12.6 million (CHF 14.3 million before transaction costs) which increases Sulzer’s equity (see [note 23](#)).
- On July 6, 2018, Sulzer issued two new bonds via dual tranches of CHF 400 million in total. The first tranche of CHF 110 million has a term of two years, carries a coupon of 0.25% and has an effective interest rate of 0.37%. The second tranche of CHF 290 million has a term of five years, carries a coupon of 1.3% and has an effective interest rate of 1.35%. On October 22, 2018, Sulzer issued two new bonds via dual tranches of CHF 460 million in total. The first tranche of CHF 210 million has a term of three years, carries a coupon of 0.625% and has an effective interest rate of 0.71%. The second tranche of CHF 250 million has a term of six years, carries a coupon of 1.6% and has an effective interest rate of 1.62%. For more information refer to [note 25](#).

- As part of the Sulzer Full Potential (SFP) program, Sulzer has continued to adapt its global manufacturing footprint and streamline the organizational setup. In 2018, restructuring expenses were mainly associated with measures taken in Brazil, Germany, the US, France, the Netherlands and Belgium. The group recognized restructuring expenses of CHF 13.1 million (2017: CHF 21.7 million). Associated with restructuring initiatives, the group further recognized impairments on property, plant and equipment of CHF 4.4 million (2017: CHF 15.4 million). For more information refer to [note 26](#).
- This is the first set of consolidated financial statements where IFRS 9 “Financial Instruments” and IFRS 15 “Revenue from Contracts with Customers” have been applied. The application of these new accounting standards resulted in an increase in allowance for doubtful trade accounts receivable and also impacted recognition of sales, costs of goods sold and gross profit for some construction contracts. Details and changes of the group’s accounting policies are described in [note 34](#).

For a detailed discussion about the group’s performance and financial position please refer to the “[Financial review](#).”

3 Segment information

Segment information by divisions

millions of CHF	Pumps Equipment		Rotating Equipment Services		Chemtech		Applicator Systems	
	2018	2017	2018	2017	2018	2017	2018	2017
Order intake (unaudited)¹⁾	1'372.1	1'180.2	1'109.7	1'047.7	600.1	501.5	449.6	426.3
Nominal growth (unaudited)	16.3%	10.6%	5.9%	6.2%	19.7%	6.3%	5.4%	56.4%
Currency adjusted growth (unaudited)	16.5%	9.6%	7.6%	5.0%	20.5%	5.8%	4.2%	55.7%
Organic growth ²⁾ (unaudited)	8.6%	2.9%	5.8%	-0.9%	20.5%	5.0%	0.3%	6.0%
Order backlog as of December 31 (unaudited)	982.9	847.0	393.1	364.4	345.9	315.3	65.0	66.8
Sales recognized at a point in time	920.3	n/a	872.1	n/a	335.8	n/a	452.1	n/a
Sales recognized over time	363.8	n/a	191.6	n/a	227.4	n/a	1.7	n/a
Sales³⁾	1'284.2	1'120.0	1'063.7	1'029.5	563.2	478.0	453.8	421.6
opEBITA (unaudited)⁴⁾	41.4	-3.7	146.1	144.0	50.0	25.0	95.7	86.8
in % of sales (unaudited) ⁵⁾	3.2%	-0.3%	13.7%	13.9%	8.9%	5.2%	21.1%	20.5%
in % of average capital employed (unaudited)	5.8%	-0.6%	26.6%	28.4%	24.6%	11.3%	22.9%	22.7%
Restructuring expenses	-8.8	-15.0	-3.4	-3.8	1.1	-1.7	-1.6	-0.3
Amortization	-35.5	-23.2	-7.4	-6.8	-5.2	-5.6	-19.6	-17.0
Impairments on property, plant and equipment	-0.7	-10.5	0.0	-2.3	-	-2.6	-3.7	-
Non-operational items (unaudited)	-23.5	-9.3	-4.4	3.3	-31.4	-4.1	-6.9	-6.3
EBIT (Operating income)	-27.2	-61.7	130.8	134.4	14.5	11.0	63.8	63.2
Depreciation	-26.4	-23.7	-17.1	-17.6	-8.2	-9.2	-19.5	-20.8
Operating assets	1'670.1	1'445.6	860.2	880.6	483.0	463.7	623.4	655.3
Unallocated assets	-	-	-	-	-	-	-	-
Total assets as of December 31	1'670.1	1'445.6	860.2	880.6	483.0	463.7	623.4	655.3
Operating liabilities	739.1	685.3	347.7	319.8	289.8	234.1	76.3	71.5
Unallocated liabilities	-	-	-	-	-	-	-	-
Total liabilities as of December 31	739.1	685.3	347.7	319.8	289.8	234.1	76.3	71.5
Operating net assets	931.0	760.3	512.5	560.8	193.1	229.6	547.1	583.8
Unallocated net assets	-	-	-	-	-	-	-	-
Total net assets as of December 31	931.0	760.3	512.5	560.8	193.1	229.6	547.1	583.8
Capital expenditure	-32.6	-21.9	-23.1	-19.2	-6.6	-10.0	-31.5	-28.9
Employees (number of full-time equivalents) as of December 31	5'713	5'453	4'721	4'485	3'063	2'878	1'864	1'716

1) Order intake from external customers. Adjusted prior-year comparatives accordingly.

2) Adjusted for currency and acquisition effects.

3) Sales from external customers. Adjusted prior-year comparatives accordingly.

4) Operating income before restructuring, amortization, impairments and non-operational items.

5) Return on sales before restructuring, amortization, impairments and non-operational items (opEBITA/sales).

Segment information by divisions

millions of CHF	Total Divisions		Others ⁶⁾		Total Sulzer	
	2018	2017	2018	2017	2018	2017
Order intake (unaudited)¹⁾	3'531.5	3'155.7	-	-	3'531.5	3'155.7
Nominal growth (unaudited)	11.9%	12.8%	n/a	n/a	11.9%	12.8%
Currency adjusted growth (unaudited)	12.5%	11.2%	n/a	n/a	12.5%	11.8%
Organic growth ²⁾ (unaudited)	8.4%	2.2%	n/a	n/a	8.4%	2.2%
Order backlog as of December 31 (unaudited)	1'786.9	1'593.5	-	-	1'786.9	1'593.5
Sales recognized at a point in time	2'580.3	n/a	-	-	2'580.3	n/a
Sales recognized over time	784.6	n/a	-	-	784.6	n/a
Sales³⁾	3'364.9	3'049.0	-	-	3'364.9	3'049.0
opEBITA (unaudited)⁴⁾	333.2	252.1	-10.7	3.3	322.5	255.4
in % of sales (unaudited) ⁵⁾	9.9%	8.2%	n/a	n/a	9.6%	8.4%
in % of average capital employed (unaudited)	17.7%	14.8%	n/a	n/a	18.1%	15.8%
Restructuring expenses	-12.7	-20.8	-0.4	-0.9	-13.1	-21.7
Amortization	-67.8	-52.6	-1.3	-1.2	-69.0	-53.8
Impairments on property, plant and equipment	-4.4	-15.4	-	-	-4.4	-15.4
Non-operational items (unaudited)	-66.3	-16.4	14.3	-11.6	-52.0	-28.0
EBIT (Operating income)	181.8	146.9	2.0	-10.4	183.8	136.5
Depreciation	-71.2	-71.3	-0.5	-0.4	-71.7	-71.7
Operating assets	3'636.6	3'445.2	-26.7	-9.4	3'610.0	3'435.8
Unallocated assets	-	-	1'288.4	681.5	1'288.4	681.5
Total assets as of December 31	3'636.6	3'445.2	1'261.7	672.1	4'898.3	4'117.3
Operating liabilities	1'452.9	1'310.7	79.7	106.6	1'532.5	1'417.3
Unallocated liabilities	-	-	1'724.7	997.6	1'724.7	997.6
Total liabilities as of December 31	1'452.9	1'310.7	1'804.4	1'104.2	3'257.3	2'414.9
Operating net assets	2'183.8	2'134.5	-106.4	-116.0	2'077.4	2'018.5
Unallocated net assets	-	-	-436.4	-316.1	-436.4	-316.1
Total net assets as of December 31	2'183.8	2'134.5	-542.7	-432.1	1'641.0	1'702.4
Capital expenditure	-93.8	-80.0	-2.4	-1.2	-96.2	-81.2
Employees (number of full-time equivalents) as of December 31	15'361	14'532	211	200	15'572	14'732

1) Order intake from external customers. Adjusted prior-year comparatives accordingly.

2) Adjusted for currency and acquisition effects.

3) Sales from external customers. Adjusted prior-year comparatives accordingly.

4) Operating income before restructuring, amortization, impairments and non-operational items.

5) Return on sales before restructuring, amortization, impairments and non-operational items (opEBITA/sales).

6) The most significant activities under "Others" relate to Corporate Center.

Information about reportable segments

Operating segments are determined based on the reports reviewed by the Chief Executive Officer that are used to measure performance, make strategic decisions, and allocate resources to the segments. The business is managed on a divisional basis and the reported segments have been identified as follows:

Pumps Equipment—pump technology and solutions:

This division offers a wide range of pumping solutions and related equipment. The market focus is on (a) production, transport and processing of crude oil and its derivatives, (b) supply, treatment and transport of water as well as wastewater collection, (c) fossil-fired, nuclear and renewable power generation, and (d) specific general industries, e.g. pulp and paper, fertilizers and other markets.

Rotating Equipment Services—provider of service solutions for rotating equipment:

This division offers a full range of repair and maintenance services. The market focus is on industrial gas and steam turbines, turbocompressors, generators and motors, and pumps.

Chemtech—separation, mixing and service solutions:

This division offers products and services for separation, extraction, reaction, polymer application and mixing technology. The market focus is on separation solutions and tower field services.

Applicator Systems—systems for liquid applications:

The division offers products for liquid applications and for mixing technologies. The market focus is on mixing and dispenser systems and liquid application systems for the dental, healthcare and cosmetics markets.

Others:

Certain expenses related to the Corporate Center are not attributable to a particular segment and are reviewed as a whole across the group. Also included are the eliminations for operating assets and liabilities.

The Chief Executive Officer primarily uses a measure of adjusted earnings before interest, tax and amortization (operational EBITA) to assess the performance of the operating segments. However, the Chief Executive Officer also receives information about the segments' order intake and backlog, revenue, and operating assets and liabilities on a monthly basis.

Operational EBITA (opEBITA) excludes amortization, restructuring expenses, and impairments when the impairment is the result of an isolated, non-recurring event. It also excludes certain non-operational items that are non-recurring or do not regularly occur in similar magnitude such as acquisition-related expenses, gains and losses from sale of businesses or real estate, expenses related to the Sulzer Full Potential program, or amendments to the pension plans.

Revenue from external customers reported to the Chief Executive Officer is measured in a manner consistent with that in the income statement. There are no significant sales between the segments. No individual customer represents a significant portion of the group's revenue.

Operating assets and liabilities are assets or liabilities related to the operating activities of an entity and contributing to the operating income.

Segment information by region

The allocation of assets is based on their geographical location. Non-current assets exclude other financial assets, deferred tax assets and employee benefit assets. The allocation of sales from external customers is based on the location of the customer.

Non-current assets by region

millions of CHF	2018	2017
Europe, Middle East, Africa – thereof:	1'289.4	1'392.6
Germany	326.4	360.0
Sweden	222.2	261.9
Switzerland	161.4	158.1
United Kingdom	150.7	164.2
Netherlands	123.7	128.7
other countries	305.0	319.7
Americas – thereof:	479.3	294.5
USA	437.1	247.1
Brazil	19.7	22.9
Canada	11.5	12.3
other countries	11.0	12.2
Asia-Pacific – thereof:	134.5	141.3
China	60.7	66.6
India	27.7	23.2
Australia	26.0	30.2
other countries	20.0	21.3
Total	1'903.2	1'828.4

Sales by region

millions of CHF	2018				Total Sulzer
	Pumps Equipment	Rotating Equipment Services	Chemtech	Applicator Systems	
Europe, Middle East, Africa – thereof:	554.6	458.9	190.0	265.4	1'468.9
Germany	51.0	50.4	23.9	94.5	219.8
United Kingdom	27.7	108.5	4.5	29.1	169.8
Russia	30.3	79.8	15.4	1.7	127.2
Saudi Arabia	43.8	23.4	26.9	0.0	94.1
other countries	401.9	196.8	119.4	140.1	858.0
Americas – thereof:	383.2	453.1	128.0	143.2	1'107.6
USA	267.8	346.4	70.2	128.5	812.9
Brazil	32.4	22.9	27.2	9.8	92.3
Canada	43.6	25.4	12.8	1.4	83.1
Argentina	1.5	16.3	5.8	0.8	24.4
other countries	37.9	42.2	12.0	2.7	94.8
Asia-Pacific – thereof:	346.4	151.6	245.1	45.3	788.4
China	230.1	35.6	145.3	16.1	427.1
India	25.9	6.7	30.2	0.4	63.3
Australia	14.7	37.9	4.4	1.2	58.2
South Korea	13.8	15.4	22.3	4.2	55.7
other countries	61.8	56.0	42.9	23.4	184.1
Total	1'284.2	1'063.7	563.2	453.8	3'364.9

	2017				
millions of CHF	Pumps Equipment	Rotating Equipment Services	Chemtech	Applicator Systems	Total Sulzer
Europe, Middle East, Africa – thereof:	595.1	426.8	150.9	238.8	1'411.6
Germany	61.2	42.1	20.2	81.1	204.7
United Kingdom	27.7	109.0	4.3	23.2	164.3
Russia	38.4	64.8	10.4	2.2	115.8
Saudi Arabia	29.3	20.9	36.5	0.1	86.8
other countries	438.4	190.0	79.5	132.1	840.0
Americas – thereof:	273.1	455.9	137.0	137.6	1'003.5
USA	167.1	346.5	78.5	121.4	713.6
Brazil	34.6	21.9	22.9	11.0	90.4
Canada	29.6	26.3	20.8	1.2	77.9
Argentina	0.5	19.0	0.9	0.4	20.7
other countries	41.4	42.2	13.8	3.5	100.9
Asia-Pacific – thereof:	251.8	146.8	190.1	45.2	633.9
China	103.4	26.2	83.2	13.3	226.1
India	25.1	8.7	30.0	0.2	64.0
Australia	15.7	39.3	12.1	0.7	67.8
South Korea	13.3	12.9	20.2	3.6	50.1
other countries	94.2	59.7	44.7	27.4	225.9
Total	1'120.0	1'029.5	478.0	421.6	3'049.0

Segment information by market segment

The following table shows the allocation of sales from external customers by market segments:

Sales by market segment

	2018				
millions of CHF	Pumps Equipment	Rotating Equipment Services	Chemtech	Applicator Systems	Total Sulzer
Oil and gas	368.8	430.2	469.2	–	1'268.1
General industry	321.5	178.9	18.2	–	518.6
Water	445.6	28.9	0.7	–	475.3
Power	115.4	340.0	4.2	–	459.6
Adhesives, dental, healthcare	–	–	–	274.1	274.1
Chemical processing industry	32.9	85.7	71.0	–	189.6
Beauty	–	–	–	179.7	179.7
Total	1'284.2	1'063.7	563.2	453.8	3'364.9

	2017				
millions of CHF	Pumps Equipment	Rotating Equipment Services	Chemtech	Applicator Systems	Total Sulzer
Oil and gas	331.6	401.1	415.8	–	1'148.5
General industry	327.5	158.3	4.8	–	490.6
Water	312.3	25.0	1.9	–	339.2
Power	101.1	352.4	5.2	–	458.5
Adhesives, dental, healthcare	–	–	–	233.6	233.6
Chemical processing industry	47.5	92.8	50.3	–	190.6
Beauty	–	–	–	188.0	188.0
Total	1'120.0	1'029.5	478.0	421.6	3'049.0

4 Acquisitions of subsidiaries

Acquisitions in 2018

The following table summarizes the recognized amounts of assets acquired and liabilities assumed at the date of acquisition, including the resulting goodwill and the total consideration paid. If new information obtained within one year of the date of acquisition about facts and circumstances that existed at the date of acquisition identifies adjustments to the amounts recognized below, then the accounting for the acquisition will be revised.

Net assets acquired

millions of CHF	JWC Environmental, LLC	Other	Total
Intangible assets	90.7	6.1	96.8
Property, plant and equipment	11.5	-0.3	11.1
Cash and cash equivalents	3.6	2.8	6.4
Trade accounts receivable	17.2	3.2	20.4
Other current assets	11.6	1.7	13.3
Other liabilities with third parties	-11.9	-2.2	-14.2
Deferred tax liabilities	-	-1.1	-1.1
Net identifiable assets	122.6	10.0	132.7
Goodwill recognized in balance sheet	88.7	-	88.7
Negative goodwill recognized in income statement	-	-0.6	-0.6
Total consideration	211.3	9.4	220.8
Purchase price paid in cash	211.3	9.4	220.8
Total consideration	211.3	9.4	220.8

JWC Environmental, LLC

On January 10, 2018, Sulzer acquired a 100% controlling interest of JWC Environmental, LLC ("JWC") for CHF 211.3 million. The headquarters of JWC is located in Santa Ana, California, US. JWC employs approximately 230 employees and is a leading provider of highly engineered, mission-critical solids reduction and removal products such as grinders, screens and dissolved air flotation system for municipal, industrial and commercial wastewater applications. The transaction allows Sulzer to grow its wastewater treatment offering through complementary equipment as well as to improve its access to the municipal and industrial wastewater market in North America. Furthermore, Sulzer intends to strongly pursue and support JWC's geographic expansion into markets in EMEA and Asia. Significant sales synergies are expected through growth in JWC's markets outside North America. JWC will operate as part of Sulzer's Pumps Equipment division. The goodwill is attributable to significant synergies by leveraging scale and cross-selling opportunities. None of the goodwill is expected to be deductible for tax purposes. Transaction cost recognized in the income statement amount to CHF -1.4 million. Since the acquisition date, JWC contributed order intake of CHF 87.1 million, sales of CHF 84.6 million, and net income of CHF -2.9 million to the group.

Other

Medmix Systems AG

On August 31, 2018, Sulzer acquired 100% controlling interest of Medmix Systems AG ("Medmix") for CHF 4.2 million. Medmix is based in Rotkreuz, Switzerland, and employs 12 people. The acquisition of Medmix extends the Applicator Systems division's portfolio of mixing and dispensing devices, adding a healthcare segment to leading positions in dental, adhesives and beauty.

Brithinee Electric

On November 5, 2018, Sulzer acquired 100% controlling interest of Brithinee Electric for CHF 5.2 million. Brithinee Electric is based in Colton, California, US, and employs 46 people. Through this acquisition, Sulzer expands its electromechanical services business into Southern California and gains access to the Californian wind, cement and water markets with established offerings and customers.

Rotec

During 2017, Sulzer acquired 51% of the business of Rotec GT, the gas turbine maintenance division of the Rotec Group. Sulzer obtained control of the acquired business. Rotec GT is considered to be a related party to the group (controlled by the major shareholder). During 2018, Sulzer acquired the outstanding 49% of Sulzer Turbo Services Rus LLC (formerly the gas turbine maintenance division of the Rotec Group) for CHF 14.3 million, after the seller exercised its put option. The transaction was priced on an arm's length basis and was settled in cash prior to December 31, 2018.

Acquired receivables

The fair value of acquired trade accounts receivable is CHF 20.4 million. The gross contractual amount for trade account receivables due is CHF 21.0 million, of which CHF 0.6 million is expected to be uncollectible at the date of acquisition.

Pro forma revenue and profit contribution

Had all above acquisitions occurred on January 1, 2018, management estimates that total net sales of the group would amount to CHF 3'379.3 million, and the consolidated net income would be CHF 117.5 million.

Cash flow from acquisitions of subsidiaries

millions of CHF	2018	2017
Cash consideration paid	-220.8	-162.7
Contingent consideration paid	-2.7	-2.2
Cash acquired	6.4	7.2
Payments for acquisitions in prior years	-0.4	-0.2
Total cash flow from acquisitions, net of cash acquired	-217.5	-157.9

Contingent consideration

millions of CHF	2018	2017
Balance as of January 1	5.1	9.5
Payment of contingent consideration	-2.7	-2.2
Release to other operating income	-1.5	-2.6
Currency translation differences	-0.1	0.4
Total contingent consideration as of December 31	0.9	5.1

As of December 31, 2018, there was a decrease of CHF 1.5 million recognized in the income statement for the contingent consideration arrangements, as the assumed probability-adjusted gross profit and EBITDA (earnings before interests, taxes, depreciation and amortization) was recalculated.

Acquisitions in 2017

The following table summarizes the recognized amounts of assets acquired and liabilities assumed at the date of acquisition, including the resulting goodwill and the total consideration paid.

millions of CHF	Ensival Moret	VIEC	Rotec GT	Transcodent	Total
Intangible assets	52.9	5.2	11.0	42.1	111.2
Property, plant and equipment	16.9	0.5	5.9	4.7	28.0
Cash and cash equivalents	7.0	–	–	0.2	7.2
Trade accounts receivable	22.2	–	–	3.3	25.5
Other current assets	48.1	0.1	1.9	6.2	56.3
Borrowings	–6.3	–	–	–2.5	–8.8
Other liabilities with third parties	–75.1	–	–	–3.0	–78.1
Deferred tax liabilities	–16.2	–1.4	–2.2	–	–19.8
Net identifiable assets	49.5	4.4	16.6	51.0	121.5
Non-controlling interests	–	–	–8.3	–	–8.3
Fair value of 49% preexisting interest in Sulzer TS Russia			–0.4		–0.4
Goodwill	18.2	–	7.5	24.6	50.3
Total consideration	67.7	4.4	15.4	75.6	163.1
Purchase price paid in cash	67.7	4.4	15.0	75.6	162.7
Paid in shares of Sulzer TS Russia			0.4		0.4
Total consideration	67.7	4.4	15.4	75.6	163.1

5 Critical accounting estimates and judgments

All estimates and assessments are continually reviewed and are based on historical experience and other factors, including expectations regarding future events that appear reasonable under the given circumstances. The group makes estimates and assumptions that relate to the future. By their nature, these estimates will only rarely correspond to actual subsequent events. The estimates and assumptions that carry a significant risk, in the form of a substantial adjustment to the present values of assets and liabilities within the next financial year, are set out below.

Employee benefit plans

The present value of the pension obligation and the plan assets depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Assumptions used in determining the defined benefit obligation and the plan assets include the discount rate, future salary and pension increases, and mortality rates. The assumptions are reviewed and reassessed at the end of each year based on observable market data, i.e. interest rate of high-quality corporate bonds denominated in the corresponding currency and asset management studies. Further details are provided in [note 9](#) and [note 34](#).

Income taxes

The group is obliged to pay income taxes in numerous jurisdictions. Assumptions are required in order to determine income tax provisions. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of the business. The group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. Management believes that the estimates are reasonable, and that the recognized liabilities for income-tax-related uncertainties are adequate. Further details are disclosed in [note 13](#).

Goodwill and other intangible assets

The group carries out an annual impairment test on goodwill in the fourth quarter of the year, or when indications of a potential impairment exist. The recoverable amount from cash-generating units is measured on the basis of value-in-use calculations with the terminal growth rate, the discount rate, and the projected cash flows as the main variables. Information about assumptions and estimation uncertainties that have significant risk of resulting in a material adjustment in the year ending December 31, 2018, are disclosed in [note 14](#). The accounting policies are disclosed in [note 34](#).

Sales

At contract inception, the group assesses the goods or services promised in a contract with a customer and identifies each promise to transfer to the customer as a performance obligation. The group considers the terms of the contract and all other relevant facts, including the economic substance of the transaction. Judgment is needed to determine whether there is a single performance obligation or multiple separate performance obligations. In typical engineering contracts, engineering, production and installation are treated as one single performance obligation.

If the consideration promised in a contract includes a variable amount (e.g. expected liquidated damages, early payment discounts, volume discounts), the group estimates the amount of consideration to which the group will be entitled in exchange for transferring the promised goods or services to a customer. The amount of the variable consideration is estimated by using either of the following methods, depending on which method the group expects to better predict the amount of consideration to which it will be entitled: the expected value or the most likely amount. The method selected is applied consistently throughout the contract and to similar types of contracts when estimating the effect of uncertainty on the amount of variable consideration to which the group is entitled. Depending on the outcome of the respective transactions, actual payments may differ from these estimates.

To allocate the transaction price to each performance obligation on a relative standalone selling price basis, the group determines the standalone selling price at contract inception of the distinct good or service underlying each performance obligation in the contract and allocates the transaction price in proportion to those standalone selling prices. If the standalone selling price is not directly observable, then the group estimates the amount with the expected cost plus margin method.

The group is recognizing sales either over time or at a point in time. Sales are recognized over time if any of the conditions described in [note 34](#) is met. To determine the method, the right to payment condition is the one with the most critical estimates. The group estimates if an enforceable right to payment (including reasonable profit margin) for performance up to date exists in case the customer terminates the contract for convenience. For this estimate the group reviews the contracts and considers relevant laws, legal precedents and customary business practice.

Applying the over time method requires the group to estimate the proportional sales and costs. To measure the stage of completion, generally the cost-to-cost method is applied. Work progress of sub-suppliers is considered to determine the stage of completion. If circumstances arise that may change the original estimates of sales, costs or extent of progress toward completion, estimates are revised. These revisions may result in increases or decreases in estimated sales or costs and are reflected in income in the period in which the circumstances that give rise to the revision become known by management.

Further details are disclosed in [note 19](#) and [note 34](#).

Provisions

Provisions are made, among other reasons, for warranties, disputes, litigation and restructuring. A provision is recognized in the balance sheet when the group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. The nature of these costs is such that judgment has to be applied to estimate the timing and amount of cash outflows. Depending on the outcome of the respective transactions, actual payments may differ from these estimates. Further details are disclosed in [note 26](#) and [note 34](#).

6 Financial risk management

6.1 Financial risk factors

The group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk, and price risk), credit risk and liquidity risk. The group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the group's financial performance. The group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by a central treasury department (Group Treasury). Group Treasury identifies, evaluates, and hedges financial risks in close cooperation with the group's subsidiaries. Principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity exist in writing.

a) Market risk

(I) Foreign exchange risk

The group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency that is not the entity's functional currency. Management has set up a policy to require subsidiaries to manage their foreign exchange risk against their functional currency. The subsidiaries are required to hedge their major foreign exchange risk exposure using forward contracts or other standard instruments, usually transacted with Group Treasury.

Presently, most of the contracts are designated as cash flow hedges. External foreign exchange contracts are designated as hedges of foreign exchange risk on specific assets, liabilities or future transactions on a gross basis. The group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. If required, currency exposure arising from the net assets of the group's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies. Derivative financial instruments are only used on an ad hoc basis to manage foreign currency translation risk.

The following tables show the hypothetical influence on the income statement for 2018 and 2017 related to foreign exchange risk of financial instruments. The volatility used for the calculation is the one-year historic volatility on December 31 for the relevant currency pair and year. For 2018, the currency pair with the most significant exposure and inherent risk was the EUR versus the RUB. If, on December 31, 2018, the EUR had increased by 13.3% against the RUB with all other variables held constant, profit after tax for the year would have been CHF 1.1 million lower mainly due to foreign exchange losses on EUR-denominated financial liabilities. A decrease of the rate would have caused a gain of the same amount.

Hypothetical impact of foreign exchange risk on income statement

millions of CHF	2018			
	EUR/RUB	USD/INR	USD/ARS	EUR/ZAR
Currency pair				
Exposure	-12.1	18.0	4.1	-7.1
Volatility	13.3%	6.6%	27.4%	14.4%
Effect on profit after tax (rate increase)	-1.1	0.8	0.8	-0.7
Effect on profit after tax (rate decrease)	1.1	-0.8	-0.8	0.7

millions of CHF	2017			
	EUR/BRL	USD/INR	EUR/ZAR	EUR/USD
Currency pair				
Exposure	-12.2	19.8	-5.2	-7.4
Volatility	14.1%	4.4%	15.5%	7.3%
Effect on profit after tax (rate increase)	-1.2	0.6	-0.6	-0.4
Effect on profit after tax (rate decrease)	1.2	-0.6	0.6	0.4

The following tables show the hypothetical influence on equity for 2018 and 2017 related to foreign exchange risk of financial instruments for the most important currency pairs as per December 31 of the respective year. The volatility used for the calculation is the one-year historic volatility on December 31 for the relevant currency pair and year. Most of the hypothetical effect on equity is a result of fair value changes of derivative financial instruments designated as hedges of future cash flows in foreign currencies.

Hypothetical impact of foreign exchange risk on equity

millions of CHF	2018						
	USD/BRL	USD/MXN	GBP/USD	USD/CHF	EUR/USD	EUR/RUB	EUR/BRL
Currency pair							
Exposure	42.5	-34.6	48.0	-37.9	33.8	17.8	-8.7
Volatility	15.6%	13.1%	8.2%	6.5%	7.2%	13.3%	15.2%
Effect on equity, net of taxes (rate increase)	4.6	-3.2	2.8	-1.7	1.7	1.7	-0.9
Effect on equity, net of taxes (rate decrease)	-4.6	3.2	-2.8	1.7	-1.7	-1.7	0.9

millions of CHF	2017						
	GBP/USD	USD/CHF	USD/MXN	EUR/USD	EUR/CHF	USD/INR	EUR/INR
Currency pair							
Exposure	50.2	-53.1	-30.9	34.3	-42.3	-27.8	-15.4
Volatility	8.9%	7.1%	12.2%	7.3%	4.9%	4.4%	7.2%
Effect on equity, net of taxes (rate increase)	3.1	-2.6	-2.6	1.7	-1.4	-0.9	-0.8
Effect on equity, net of taxes (rate decrease)	-3.1	2.6	2.6	-1.7	1.4	0.9	0.8

(II) Price risk

As of December 31, 2018, the group was not exposed to significant price risk related to investments in equity securities.

(III) Interest rate sensitivity

The group's interest rate risk arises from interest-bearing assets and liabilities. Assets and liabilities at variable rates expose the group to cash flow interest rate risk. Assets and liabilities at fixed rates only expose the group to fair value interest rate risk in the case of debt instruments that are classified as at fair value through profit or loss. The group analyzes its interest rate exposure on a net basis, and if required, enters into derivative instruments in order to keep the volatility of net interest income or expense limited. Currently, the group has not entered into such derivative financial instruments related to interest rate risk management. The group's non-current interest-bearing liabilities mainly comprise six bonds with a fixed interest rate.

The following table shows the hypothetical influence on the income statement for variable-interest-bearing assets net of liabilities at variable interest rates, assuming market interest rate levels would have increased/decreased by 100 basis points. For the most significant currencies, USD, CHF, EUR, CNY and GBP, increasing interest rates would have had a positive impact on the income statement, since the value of variable-interest-bearing assets (comprising mainly cash and cash equivalents) exceed the value of variable-interest-bearing liabilities.

Hypothetical impact of interest rate risk on income statement

millions of CHF		2018		
Variable-interest-bearing assets (net)	Amount	Sensitivity in basis points	Impact on post-tax profit	
			rate increase	rate decrease
USD	294.8	100	2.1	-2.1
CHF	265.4	100	1.9	-1.9
EUR	262.6	100	1.8	-1.8
CNY	66.8	100	0.5	-0.5
GBP	40.1	100	0.3	-0.3

millions of CHF		2017		
Variable-interest-bearing assets (net)	Amount	Sensitivity in basis points	Impact on post-tax profit	
			rate increase	rate decrease
USD	-150.1	100	-1.0	1.0
CHF	127.8	100	0.9	-0.9
CNY	49.9	100	0.3	-0.3
EUR	45.7	100	0.3	-0.3
INR	38.9	100	0.3	-0.3

On December 31, 2018, if the interest rates on USD-denominated assets net of liabilities had been 100 basis points higher with all other variables held constant, post-tax profit for the year would have been CHF 2.1 million higher, as a result of higher interest income on USD-denominated assets. A decrease of interest rates on USD-denominated assets net of liabilities would have caused a loss of the same amount. As of December 31, 2017, if the interest rates had been 100 basis points higher with all other variables held constant, post-tax profit for the year would have been CHF 1.0 million lower, mainly as a result of higher interest expenses on short-term borrowings, because at this time the USD-denominated liabilities exceeded the assets.

b) Credit risk

Credit risk arises from cash and cash equivalents, derivative financial instruments, and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding

receivables, contract assets and committed transactions. The maximum exposure to credit risk per class of financial assets is outlined in the fair value table in note 6.3. Not exposed to credit risks are equity securities.

Credit risks of banks and financial institutions are monitored and managed centrally. Generally, only independently rated parties with a strong credit rating are accepted, and the total volume of transactions is split among several banks to reduce the individual risk with one bank.

For every customer with a large order volume, an individual risk assessment of the credit quality of the customer is performed that considers independent ratings, financial position, past experience and other factors. Additionally, bank guarantees and letters of credit are requested. For more details on the credit risk out of contract assets, please refer to [note 19](#) and on the credit risk out of trade accounts receivable, please refer to [note 20](#).

c) Liquidity risk

Prudent liquidity risk management includes the maintenance of sufficient cash and marketable securities, the availability of funding from an adequate number of committed credit facilities, and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Group Treasury maintains flexibility in funding through a committed credit line.

Management anticipates the future development of the group's liquidity reserve on the basis of expected cash flows by performing regular group-wide cash forecasts. In 2017, the second of the two one-year extension options of the syndicated credit line of CHF 500 million was executed, and thus the credit line was extended to 2022. If special needs arise, financing will be reviewed case by case.

The following table analyzes the group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows calculated with the year-end closing rates. Borrowings include the notional amount as well as interest payments.

Maturity profile of financial liabilities

		2018			
millions of CHF	Carrying amount	<1 year	1–5 years	>5 years	Total
Borrowings	1'334.3	30.9	975.0	380.1	1'386.0
Trade accounts payable	521.8	521.8	–	–	521.8
Other current and non-current liabilities (including derivative liabilities)	249.5	245.9	18.3	0.1	264.3

		2017			
millions of CHF	Carrying amount	<1 year	1–5 years	>5 years	Total
Borrowings	713.8	263.8	340.1	129.8	733.7
Trade accounts payable	433.8	433.8	–	–	433.8
Other current and non-current liabilities (including derivative liabilities)	88.7	71.1	17.3	0.3	88.7

6.2 Capital risk management

The group's objectives when managing capital are to safeguard the group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to

maintain an optimal capital structure to reduce the cost of capital. In this respect, the group aims at maintaining an investment grade credit rating, either as a perceived rating or an external rating issued by a credit rating agency.

In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The following table shows the net debt/EBITDA ratio as at December 31, 2018 and 2017.

Net debt/EBITDA ratio

millions of CHF	2018	2017
Net debt	-239.0	-225.0
EBITDA	329.0	277.4
Net debt/EBITDA	0.73	0.81

Another important ratio for the group is the gearing ratio (debt-to-equity ratio), which is calculated as total financial debt divided by equity attributable to shareholders of Sulzer Ltd. The equity capital as shown in the balance sheet corresponds to the managed equity capital.

The increase in the gearing ratio during 2018 resulted mainly from the increase in borrowings.

As of December 31, 2018 and 2017, the gearing ratio was as follows:

Gearing ratio

millions of CHF	2018	2017
Borrowings	1'334.3	713.8
Equity attributable to shareholders of Sulzer Ltd	1'629.9	1'680.1
Borrowings-to-equity ratio (gearing)	0.82	0.42

6.3 Fair value estimation

The following tables present the carrying amounts and fair values of financial assets and liabilities as of December 31, 2018 and 2017, including their levels in the fair value hierarchy. For financial assets and financial liabilities not measured at fair value in the balance sheet, fair value information is not provided if the carrying amount is a reasonable approximation of fair value.

Fair values are categorized into three different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

The fair value of financial instruments traded in active markets, including the outstanding bonds, is based on quoted market prices at the balance sheet date. Such instruments are included in level 1.

The fair values included in level 2 are based on valuation techniques using observable market input data. This may include discounted cash flow analysis, option pricing models or reference to other instruments that are substantially the same, while always making maximum use of market inputs and relying as little as possible on entity-specific inputs. The fair values of forward contracts are measured based on broker quotes for foreign exchange rates and interest rates.

Fair values measured using unobservable inputs are categorized within level 3 of the fair value hierarchy. This applies particularly to contingent considerations in business combinations.

Contingent considerations are linked to the fulfillment of certain parameters, mainly related to earn-out clauses and technology transfer. For more information please refer to [note 4](#).

Fair value table

						December 31, 2018
millions of CHF	Notes	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets measured at fair value						
Other financial assets (at fair value)	17	6.8	6.8	0.2	–	6.6
Derivative assets – current	21, 28	6.4	6.4	–	6.4	–
Total financial assets measured at fair value		13.1	13.1	0.2	6.4	6.6
Financial assets not measured at fair value						
Other financial assets (at amortized cost)	17	2.7				
Non-current receivables (excluding non-current derivative assets)		6.2				
Contract assets	19	205.1				
Trade accounts receivable	20	622.3				
Other current receivables (excluding current derivative assets and other taxes)	21	24.3				
Cash and cash equivalents	22	1'095.2				
Total financial assets not measured at fair value		1'955.7	–	–	–	–
Financial liabilities measured at fair value						
Derivative liabilities – non-current	28	0.2	0.2	–	0.2	–
Derivative liabilities – current	27, 28	8.4	8.4	–	8.4	–
Contingent considerations	4	0.9	0.9	–	–	0.9
Total financial liabilities measured at fair value		9.6	9.6	–	8.7	0.9
Financial liabilities not measured at fair value						
Outstanding bonds	25	1'308.7	1'312.6	1'312.6	–	–
Other non-current borrowings	25	7.6				
Other current borrowings and bank loans	25	18.0				
Other non-current liabilities		3.6				
Trade accounts payable		521.8				
Other current liabilities (excluding current derivative liabilities, other taxes and contingent considerations)		211.3				
Total financial liabilities not measured at fair value		2'070.9	1'312.6	1'312.6	–	–

Fair value table

December 31, 2017						
millions of CHF	Notes	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets measured at fair value						
Derivative assets – non-current	28	0.2	0.2	–	0.2	–
Derivative assets – current	21, 28	7.3	7.3	–	7.3	–
Total financial assets measured at fair value		7.5	7.5	–	7.5	–
Financial assets not measured at fair value						
Loans and receivables	17	9.4				
Available-for-sale financial assets	17	4.2				
Non-current receivables (excluding non-current derivative assets)		8.6				
Trade accounts receivable	20	901.8				
Other current receivables (excluding current derivative assets and other taxes)	21	27.0				
Cash and cash equivalents	22	488.8				
Total financial assets not measured at fair value		1'439.8	–	–	–	–
Financial liabilities measured at fair value						
Derivative liabilities – current	28	6.8	6.8	–	6.8	–
Contingent considerations	4	5.1	5.1	–	–	5.1
Put option liability	4	14.6	14.6	–	–	14.6
Total financial liabilities measured at fair value		26.5	26.5	–	6.8	19.7
Financial liabilities not measured at fair value						
Outstanding bonds	25	450.4	456.0	456.0	–	–
Other non-current borrowings	25	8.3				
Other current borrowings and bank loans	25	255.1				
Other non-current liabilities (excluding put option liability)		3.0				
Trade accounts payable		433.8				
Other current liabilities (excluding current derivative liabilities, other taxes and contingent considerations)		23.9				
Total financial liabilities not measured at fair value		1'174.5	456.0	456.0	–	–

7 Corporate risk management

Sulzer maintains an integrated risk management system that is under constant scrutiny for further improvement. A defined risk management process and four common tools (risk assessment schedule, risk-profiling matrix, risk description schedule, loss control schedule) are applied in order to assess and control all key risks, to implement and maintain risk financing and risk transfer measures, to monitor the results, and to define and implement corrective actions if required.

Key risks are assessed on business unit level and consolidated on group level. The business units together with the divisions and the group functions generate their respective key risk-profiling matrices and complete and update the related risk control schedules on an annual basis. These schedules identify specific risk exposures and the related risk objectives, list existing loss controls, address their effectiveness, list (where required) additional or alternative loss controls, and determine responsibilities and time frames for their implementation. The business units' key risk-profiling matrices are reviewed at the group level and are then consolidated into a Sulzer key risk-profiling matrix. The head of Risk Management informs the Audit Committee at least once a year of the

current risks and risk mitigation as well as of the progress toward achieving major risk objectives. The assessment of risk management processes is included within the charter and scope of Group Internal Audit.

8 Personnel expenses

millions of CHF	2018	2017
Salaries and wages	889.4	853.1
Defined contribution plan expenses	25.7	25.7
Defined benefit plan expenses	21.8	18.7
Cost of share-based payment transactions	15.1	10.8
Social benefit costs	141.2	137.2
Other personnel costs	36.5	32.7
Total personnel expenses	1'129.7	1'078.2

9 Employee benefit plans

The defined benefit obligation for the active members of pension plans is the present value of accrued pension obligations at balance sheet date considering future salary and pension increases as well as turnover rates (using the Project Unit Credit Method). The defined benefit obligation for the retirees is the present value of the current and future pension benefits considering future pension increases.

Reconciliation of the amount recognized in the balance sheet as of December 31

millions of CHF	2018					Total
	Funded plans Switzerland	Funded plans United Kingdom	Funded plans USA	Funded plans Others	Unfunded plans	
Present value of funded defined benefit obligation	-1'106.0	-511.0	-60.8	-78.5	-	-1'756.3
Fair value of plan assets (funded plans)	1'116.6	432.5	44.5	63.9	-	1'657.5
Overfunding / (underfunding)	10.6	-78.5	-16.3	-14.6	-	-98.8
Present value of unfunded defined benefit obligation	-	-	-	-	-48.8	-48.8
Adjustment to asset ceiling	-0.9	-	-	-	-	-0.9
Asset / (liability) recognized in the balance sheet	9.7	-78.5	-16.3	-14.6	-48.8	-148.5
- thereof as liabilities under defined benefit obligation	-2.6	-78.5	-16.3	-14.7	-48.8	-160.9
- thereof as other current receivables and prepaid expenses	12.3	-	-	0.1	-	12.4

millions of CHF	2017					Total
	Funded plans Switzerland	Funded plans United Kingdom	Funded plans USA	Funded plans Others	Unfunded plans	
Present value of funded defined benefit obligation	-1'218.3	-634.4	-65.4	-79.5	-	-1'997.6
Fair value of plan assets	1'210.6	502.3	45.9	65.5	-	1'824.3
Overfunding / (underfunding)	-7.7	-132.1	-19.5	-14.0	-	-173.3
Present value of unfunded defined benefit obligation	-	-	-	-	-50.9	-50.9
Adjustment to asset ceiling	-1.6	-	-	-	-	-1.6
Asset / (liability) recognized in the balance sheet	-9.3	-132.1	-19.5	-14.0	-50.9	-225.8
- thereof as liabilities under defined benefit obligation	-22.5	-132.1	-19.5	-14.1	-50.9	-239.1
- thereof as other current receivables and prepaid expenses	13.2	-	-	0.1	-	13.3

Sulzer operates major funded defined benefit pension plans in Switzerland, UK and the USA. Unfunded defined benefit plans relate to German pension benefit plans. The plans are exposed to actuarial risks, e.g. longevity risk, currency risk, interest rate risk and the funded plans additionally to market (investment) risk.

In Switzerland, Sulzer contributes to two pension plans funded via two different pension funds, i.e. a base plan for all employees and a supplementary plan for employees with salaries exceeding a certain limit. Both plans provide benefits depending on the pension savings at retirement. They include certain legal minimum interest credits to the pension savings (i.e. investment return) and guaranteed rates of conversion of pension savings into an annuity at retirement. In addition, the plans offer death in service and disability benefits. The two pension funds are collective funds administrating pension plans of Sulzer group companies and also unrelated companies. In case of a material underfunding of the pension plans, the regulations include predefined steps, such as higher contribution by employer and employees or lower interest on pension savings, to eliminate the underfunding. The pension funds are legally separated from the group. The vast majority of the active participants in the two pension funds are employed by companies not belonging to the Sulzer group. The Board of Trustees for the base plan comprises ten employee and ten employer representatives. The average discount rate slightly increased in 2018 compared to 2017 (from 0.7% to 0.9% for active employees and from 0.4% to 0.6% for pensioners). More active plan participants and fewer retirees resulted in a lower defined benefit obligation in 2018 compared to 2017. The plan assets decreased compared to 2017 due to less return on plan assets. The total expenses recognized in the income statement in 2018 were CHF 15.2 million (2017: CHF 15.3 million).

In the UK, the plan is a final salary plan and provides benefits linked to salary at closure to future accrual adjusted for inflation to retirement or earlier date of leaving service. The scheme is fully closed to new entrants and future accruals. The scheme is managed by six trustees forming the Board. The plan is a multi-employer scheme with Sulzer (UK) Holding being the principal sponsor. The discount rate increased by 0.5 percentage points to 3.0% (2017: 2.5%). The net pension liabilities decreased from CHF 132.1 million in 2017 to CHF 78.5 million, due to changes in financial and demographic assumptions. The total expenses recognized in the income statement in 2018 were CHF 3.4 million compared to CHF 5.1 million in 2017.

In the USA, Sulzer operates non-contributory defined benefit retirement plans. The salaried plans provide benefits that are based on years of service and the employee's compensation, averaged over the five highest consecutive years preceding retirement. The hourly plans' benefits are based on years of service and a flat dollar benefit multiplier. All plans were closed for new entrants. In 2018, an expense of CHF 0.7 million was recognized in the income statement (2017: CHF 0.9 million). The discount rate increased to 4.2% in 2018 (2017: 3.6%). The amount recognized in other comprehensive income (OCI) in 2018 was CHF -3.0 million (2017: CHF -1.1 million).

In Germany, Sulzer operates a range of different defined benefit pension plans. The majority of these plans are unfunded and benefits are paid directly by the employer to the beneficiaries as they became due. All defined benefit plans are closed for new joiners and a new defined contribution plan for all employees was introduced in 2007. Existing employees who participated in the defined benefit plans continued to be eligible for these defined benefit pensions but became also eligible for the new defined contribution pensions. However, benefits received under the defined contribution plan are offset against the benefits under the defined benefit plans. The different defined benefit plans offer retirement pension, disability pension, and survivor's pension benefits.

Employee benefit plans

millions of CHF	2018	2017
Reconciliation of effect of asset ceiling		
Adjustment to asset ceiling at January 1	-1.6	-2.3
Change in effect of asset ceiling excl. interest income / (expense)	0.7	0.7
Adjustment to asset ceiling at December 31	-0.9	-1.6
Reconciliation of asset / (liability) recognized in the balance sheet		
Asset / (liability) recognized at January 1	-225.8	-329.9
Defined benefit income / (expense) recognized in the income statement	-26.7	-25.7
Defined benefit income / (expense) recognized in OCI	68.7	113.6
Employer contribution	27.4	29.8
Acquired through business combination	-	-2.7
Currency translation differences	7.9	-10.9
Asset / (liability) recognized at December 31	-148.5	-225.8
Components of defined benefit income / (expense) in the income statement		
Current service cost (employer)	-21.3	-18.2
Interest expense	-25.0	-27.4
Interest income on plan assets	20.1	20.4
Past service cost	-0.7	-0.1
Effects of curtailments and settlement	1.0	0.2
Other administrative cost	-0.8	-0.6
Income / (expense) recognized in the income statement	-26.7	-25.7
- thereof charged to personnel expenses	-21.8	-18.7
- thereof charged to financial expense	-4.9	-7.0
Components of defined benefit gain / (loss) in OCI		
Actuarial gain / (loss) on defined benefit obligation	140.8	29.4
Return on plan assets excl. interest income	-73.0	83.4
Change in effect of asset ceiling excl. interest expense / (income)	0.8	0.7
Return on reimbursement right excl. interest income	0.1	0.1
Defined benefit gain / (loss) recognized in OCI¹⁾	68.7	113.6

1) The tax effect on defined benefit cost recognized in OCI amounted to CHF -12.8 million (2017: CHF -21.8 million).

Employee benefit plans

millions of CHF	2018	2017
Reconciliation of defined benefit obligation		
Defined benefit obligation as of January 1	-2'048.5	-2'110.9
Interest expense	-25.0	-27.4
Current service cost (employer)	-21.3	-18.2
Contributions by plan participants	-9.7	-9.7
Past service cost	-0.7	-0.1
Benefits paid/deposited	124.0	139.7
Effects of curtailments and settlement	2.8	0.2
Acquired through business combination	-	-13.5
Other administrative cost	-0.8	-0.6
Actuarial gain / (loss)	140.8	29.4
Currency translation differences	33.3	-37.4
Defined benefit obligation as of December 31 ¹⁾	-1'805.1	-2'048.5
Reconciliation of the fair value of plan assets		
Fair value of plan assets as of January 1	1'824.3	1'783.3
Interest income on plan assets	20.1	20.4
Employer contribution	27.4	29.8
Contributions by plan participants	9.6	9.7
Benefits paid/deposited	-124.0	-139.7
Effects of curtailments and settlement	-1.8	-0.2
Acquired through business combination	-	10.8
Return on plan assets excl. interest income	-73.0	83.4
Currency translation differences	-25.1	26.8
Fair value of plan assets as of December 31	1'657.5	1'824.3
Total plan assets at fair value – quoted market price		
Cash and cash equivalents	49.1	94.5
Equity instruments	539.7	623.0
Debt instruments	476.2	513.4
Real estate funds	41.0	32.7
Investment funds	3.8	3.4
Others	79.0	76.3
Total assets at fair value – quoted market price as of December 31	1'188.8	1'343.3
Total plan assets at fair value – non-quoted market price		
Properties occupied by or used by third parties (real estate)	280.7	272.0
Others	188.0	209.0
Total assets at fair value – non-quoted market price as of December 31	468.7	481.0
Best estimate of contributions for upcoming financial year		
Contributions by the employer	26.2	26.0

1) The defined benefit obligation 2018 includes the funded part (CHF 1'756.3 million) and the unfunded part (CHF 48.8 million).

Employee benefit plans

millions of CHF	2018	2017
Components of defined benefit obligation, split		
Defined benefit obligation for active members	-318.5	-354.7
Defined benefit obligation for pensioners	-1'193.5	-1'325.0
Defined benefit obligation for deferred members	-293.1	-368.8
Total defined benefit obligation at December 31	-1'805.1	-2'048.5
Components of actuarial gain / (losses) on obligations		
Actuarial gain / (loss) arising from changes in financial assumptions	104.7	-7.1
Actuarial gain / (loss) arising from changes in demographic assumptions	50.2	19.6
Actuarial gain / (loss) arising from experience adjustments	-14.1	16.9
Total actuarial gain / (loss) on defined benefit obligation	140.8	29.4
Components of economic benefit available		
Economic benefits available in form of refund	-32.6	-
Economic benefits available in form of reduction in future contribution	257.8	453.9
Total economic benefit available	225.2	453.9
Maturity profile of defined benefit obligation		
Weighted average duration of defined benefit obligation in years	13.2	13.8

Since the defined benefit obligation for the Swiss and UK pension plans represents 92% (2017: 91%) of the group, the following significant actuarial assumptions apply exclusively to these two countries:

Principal actuarial assumptions as of December 31

	2018		2017	
	Funded plans Switzerland	Funded plans United Kingdom	Funded plans Switzerland	Funded plans United Kingdom
Discount rate for active employees	0.9%	3.0%	0.7%	2.5%
Discount rate for pensioners	0.6%	3.0%	0.4%	2.5%
Future salary increases	1.0%	0.0%	1.0%	0.0%
Future pension increases	0.0%	2.7%	0.0%	2.5%
Life expectancy at retirement age (male/female) in years	23/25	22/23	23/25	22/24

Sensitivity analysis of defined benefit obligation

millions of CHF	2018	2017
Discount rate (decrease 0.25 percentage points)	-58.3	-71.7
Discount rate (increase 0.25 percentage points)	55.7	67.5
Future salary growth (decrease 0.25 percentage points)	5.2	3.1
Future salary growth (increase 0.25 percentage points)	-1.5	-3.2
Life expectancy (decrease 1 year)	89.0	105.5
Life expectancy (increase 1 year)	-85.5	-104.2

10 Research and development expenses

A breakdown of the research and development expenses per division is shown in the table below:

millions of CHF	2018	2017
Pumps Equipment	45.1	39.0
Rotating Equipment Services	1.1	1.4
Chemtech	17.2	16.3
Applicator Systems	22.5	23.8
Others	0.5	0.5
Total	86.4	81.0

11 Other operating income and expenses

millions of CHF	2018	2017
Income from release of contingent consideration	1.5	2.6
Gain from sale of property, plant and equipment	6.0	4.6
Operating currency exchange gains, net	2.2	1.3
Other operating income	40.2	13.7
Total other operating income	49.9	22.2
Restructuring expenses	-13.1	-21.7
Impairments of property, plant and equipment	-4.4	-15.4
Cost for mergers and acquisitions	-1.4	-4.1
Loss from sale of property, plant and equipment	-0.2	-0.2
Total other operating expenses	-19.1	-41.4
Total other operating income and expenses, net	30.8	-19.2

During 2018, the group reassessed the achievement of the earn-out targets related to contingent consideration arrangements. The reassessment resulted in an income of CHF 1.5 million (2017: CHF 2.6 million).

Other operating income includes income from litigation cases, government grants and incentives, and recharges to third parties not qualifying as sales from customers. During 2018, the group sold unquoted equity instruments previously measured at cost to Sulzer Vorsorgeeinrichtung, Sulzer's pension fund in Switzerland. The transaction price was CHF 31.7 million and the resulting profit CHF 28.5 million. The transaction was priced on an arm's length basis and was settled in cash prior to December 31, 2018.

As part of the Sulzer Full Potential (SFP) program, Sulzer has continued to adapt its global manufacturing footprint and streamline the organizational setup. In 2018, restructuring expenses were mainly associated with measures taken in Brazil, Germany, the US, France, the Netherlands and Belgium. The group recognized restructuring provisions of CHF 14.9 million (2017: CHF 21.7 million). Associated with restructuring initiatives, the group further recognized impairments on property, plant and equipment of CHF 4.4 million (2017: CHF 15.4 million). For more details refer to [note 15](#).

The functional allocation of the total restructuring expenses and impairments is as follows: Cost of goods sold CHF -4.1 million (2017: CHF -20.0 million), selling and distribution expenses CHF -

1.8 million (2017: CHF –3.7 million), general and administrative expenses CHF –11.1 million (2017: CHF –13.4 million) and research and development expenses CHF –0.5 million (2017: CHF 0.0 million).

12 Financial income and expenses

millions of CHF	2018	2017
Interest and securities income	2.9	4.1
Total interest and securities income	2.9	4.1
Interest expenses	–15.4	–8.2
Interest expenses on employee benefit plans	–4.9	–7.0
Total interest expenses	–20.3	–15.2
Total interest income and expenses, net	–17.4	–11.1
Income from investments and other financial assets	0.5	0.8
Fair value changes	8.6	1.2
Other financial expenses	–2.0	–1.2
Currency exchange gains/losses, net	–8.7	–0.5
Total other financial income and expenses, net	–1.5	0.3
Total financial income and expenses, net	–18.9	–10.8
– thereof fair value changes on financial assets at fair value through profit and loss	8.6	1.2
– thereof other income from financial assets at fair value through profit and loss	0.5	0.8
– thereof interest income on financial assets at amortized costs	2.9	4.1
– thereof other financial expenses	–2.0	–1.2
– thereof currency exchange gains/losses, net	–8.7	–0.5
– thereof interest expenses on borrowings	–15.4	–8.2
– thereof interest expenses on employee benefit plans	–4.9	–7.0

Interest expenses increased mainly due to the higher level of borrowings under the syndicated credit facility. Total interest expenses on bonds increased to CHF 5.4 million (2017: CHF 2.2 million). Interest expenses related to other borrowings increased to CHF 10.0 million (2017: CHF 6.0 million) due to the higher levels of other borrowings and increased borrowing rates.

The “Fair value changes” largely comprise the fair valuation of derivative financial instruments that are classified as financial assets or financial liabilities at fair value through profit and loss and that are used as hedging instruments with regard to foreign exchange risks.

13 Income taxes

millions of CHF	2018	2017
Current income tax expenses	–69.4	–55.4
Deferred income tax income	20.3	17.2
Total income tax expenses	–49.2	–38.2

The weighted average tax rate results from applying each subsidiary’s statutory income tax rate to the income before taxes. Since the group operates in countries that have differing tax laws and rates, the consolidated weighted average effective tax rate will vary from year to year according to variations in income per country and changes in applicable tax rates.

Reconciliation of income tax expenses

millions of CHF	2018	2017
Income before income tax expenses	165.6	125.4
Weighted average tax rate	22.0%	22.8%
Income taxes at weighted average tax rate	-36.4	-28.6
Income taxed at different tax rates	5.9	6.1
Effect of tax loss carryforwards and allowances for deferred income tax assets	-7.9	-4.6
Expenses not deductible for tax purposes	-5.8	-4.3
Effect of changes in tax rates and legislation	-3.7	-4.8
Prior year items and others	-1.3	-2.0
Total income tax expenses	-49.2	-38.2
Effective income tax rate	29.7%	30.5%

The effective income tax rate for 2018 is 29.7% (2017: 30.5%). The effect of tax loss carryforwards and allowances for deferred income tax assets in the amount of CHF 7.9 million is mainly related to restructuring expenses in China and expenses in the UK with no corresponding tax effect. The effect of changes in tax rates and legislation of CHF 3.7 million is mainly related to final US Tax Reform adjustments in the amount of CHF 2.7 million. Excluding these one-time effects, the effective income tax rate for 2018 would have been 23.1%. The effective income tax rate for 2017 of 30.5% was impacted by the enacted US Tax Reform and various restructuring expenses with no corresponding tax effects. Excluding these extraordinary effects, the effective income tax rate in 2017 would have been 23.4%.

Income tax liabilities

millions of CHF	2018	2017
Balance as of January 1	27.1	16.5
Acquired through business combination	0.3	2.0
Additions	35.5	51.9
Released as no longer required	-1.6	-
Utilized	-25.7	-44.3
Currency translation differences	-1.3	1.0
Total income tax liabilities as of December 31	34.3	27.1
- thereof non-current	2.3	2.3
- thereof current	32.0	24.8

Summary of deferred income tax assets and liabilities in the balance sheet

millions of CHF	2018			2017		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Intangible assets	12.4	-96.1	-83.7	0.5	-107.7	-107.2
Property, plant and equipment	6.2	-12.0	-5.8	7.4	-10.9	-3.5
Other financial assets	4.5	-0.0	4.5	0.2	-0.1	0.1
Inventories	17.6	-12.7	4.9	22.1	-4.5	17.6
Other assets	34.1	-10.1	24.0	19.7	-18.6	1.1
Non-current provisions	14.5	-2.2	12.3	16.7	-2.5	14.2
Defined benefit plans	20.4	-0.1	20.3	35.4	-0.3	35.1
Current provisions	22.6	-0.8	21.8	22.9	-3.7	19.2
Other current liabilities	27.4	-9.2	18.2	28.5	-8.9	19.6
Tax loss carryforwards	32.3	-	32.3	38.0	-	38.0
Elimination of intercompany profits	0.6	-	0.6	0.7	-	0.7
Tax assets/liabilities	192.7	-143.3	49.4	192.1	-157.2	34.9
Offset of assets and liabilities	-53.8	53.8	-	-52.4	52.4	-
Net recorded deferred income tax assets and liabilities	138.9	-89.5	49.4	139.7	-104.8	34.9

Cumulative deferred income taxes recorded in equity as of December 31, 2018, amounted to CHF 13.8 million (2017: CHF 25.9 million). In compliance with the exception clause of IAS 12, the group does not recognize deferred taxes on investments in subsidiaries in the balance sheet.

Movement of deferred income tax assets and liabilities in the balance sheet

millions of CHF	2018					Balance as of December 31
	Balance as of January 1	Recognized in profit or loss	Recognized in other comprehensive income	Acquisition of subsidiaries	Currency translation differences	
Intangible assets	-107.2	20.0	-	-0.7	4.2	-83.7
Property, plant and equipment	-3.5	-1.4	-	-	-0.9	-5.8
Other financial assets	0.1	4.3	-	-	-	4.5
Inventories	17.5	-12.0	-	-0.4	-0.2	4.9
Other assets	9.8	14.4	0.6	-	-0.8	24.0
Non-current provisions	14.2	-1.4	-	-	-0.5	12.3
Defined benefit plans	35.1	-1.5	-12.8	-	-0.5	20.3
Current provisions	19.2	3.4	-	-	-0.8	21.8
Other current liabilities	19.6	-1.0	-	-	-0.4	18.2
Tax loss carryforwards	38.0	-4.3	-	-	-1.4	32.3
Elimination of intercompany profits	0.7	-0.1	-	-	-	0.6
Total	43.6	20.3	-12.1	-1.1	-1.3	49.4

The deferred income tax assets and liabilities as of January 1, 2018, have been adjusted by CHF 8.7 million due to the new accounting standards IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers". Further details are provided in [note 34](#).

						2017
millions of CHF	Balance as of January 1	Recognized in profit or loss	Recognized in other comprehensive income	Acquisition of subsidiaries	Currency translation differences	Balance as of December 31
Intangible assets	-98.6	10.5	-	-19.1	-	-107.2
Property, plant and equipment	-10.8	7.4	-	-0.1	-	-3.5
Other financial assets	-0.7	1.9	-1.1	-	-	0.1
Inventories	17.7	-0.1	-	-0.6	0.6	17.6
Other assets	15.6	-14.2	-	-	-0.3	1.1
Non-current provisions	15.0	-1.0	-	-	0.2	14.2
Defined benefit plans	59.9	-4.1	-21.8	-	1.1	35.1
Current provisions	25.0	-5.5	-	-	-0.3	19.2
Other current liabilities	9.4	10.1	-	-	0.1	19.6
Tax loss carryforwards	28.8	12.2	-	-	-3.0	38.0
Elimination of intercompany profits	0.7	-	-	-	-	0.7
Total	62.0	17.2	-22.9	-19.8	-1.6	34.9

Tax loss carryforwards (TLCF)

	2018				
millions of CHF	Amount	Potential tax assets	Valuation allowance	Carrying amount	TLCF
Expiring in the next 3 years	13.6	2.0	-0.1	1.9	0.6
Expiring in 4-7 years	50.2	10.8	-4.5	6.2	14.1
Available without limitation	200.3	37.4	-13.3	24.1	95.6
Total tax loss carryforwards as of December 31	264.0	50.2	-17.9	32.3	110.3

	2017				
millions of CHF	Amount	Potential tax assets	Valuation allowance	Carrying amount	TLCF
Expiring in the next 3 years	3.9	0.9	-0.1	0.8	0.5
Expiring in 4-7 years	92.3	21.1	-3.1	18.0	14.3
Available without limitation	160.4	34.0	-14.8	19.2	71.4
Total tax loss carryforwards as of December 31	256.6	56.0	-18.0	38.0	86.2

Deferred income tax assets are recognized for tax loss carryforwards to the extent that the realization of the related tax benefit through future taxable profits is probable. No deferred income tax assets have been recognized on tax loss carryforwards in the amount of CHF 110.3 million (2017: CHF 86.2 million).

14 Intangible assets

						2018
millions of CHF	Goodwill	Trademarks and licenses	Research and development	Computer software	Customer relationship	Total
Acquisition cost						
Balance as of January 1	1'205.7	180.8	11.7	47.8	543.5	1'989.5
Acquired through business combination	88.7	40.9	–	0.3	55.6	185.5
Additions	–	0.1	0.3	6.5	–	6.9
Disposals	–	–3.2	–	–1.6	–0.6	–5.4
Currency translation differences	–31.0	–4.6	1.9	–1.0	–24.1	–58.8
Balance as of December 31	1'263.4	214.0	13.8	52.1	574.4	2'117.7
Accumulated amortization						
Balance as of January 1	340.0	119.0	4.4	42.6	197.0	703.0
Additions	–	15.5	1.9	2.7	48.9	69.0
Disposals	–	–3.1	–	–1.5	–0.6	–5.3
Currency translation differences	–	–3.4	2.0	–0.8	–9.7	–11.9
Balance as of December 31	340.0	128.1	8.3	43.0	235.6	754.9
Net book value						
As of January 1	865.7	61.8	7.3	5.2	346.5	1'286.5
As of December 31	923.4	85.9	5.6	9.1	338.8	1'362.8

						2017
millions of CHF	Goodwill	Trademarks and licenses	Research and development	Computer software	Customer relationship	Total
Acquisition cost						
Balance as of January 1	1'120.1	149.3	8.7	48.1	433.0	1'759.2
Acquired through business combination	50.3	25.9	2.2	0.1	83.0	161.5
Additions	–	0.1	0.5	1.9	0.1	2.6
Disposals	–	–0.3	–	–3.0	–	–3.3
Currency translation differences	35.3	5.8	0.3	0.7	27.4	69.5
Balance as of December 31	1'205.7	180.8	11.7	47.8	543.5	1'989.5
Accumulated amortization						
Balance as of January 1	340.0	105.0	2.5	43.0	153.3	643.8
Additions	–	11.8	1.8	2.5	37.7	53.8
Disposals	–	–0.3	–	–3.0	–	–3.3
Currency translation differences	–	2.5	0.1	0.1	6.0	8.7
Balance as of December 31	340.0	119.0	4.4	42.6	197.0	703.0
Net book value						
As of January 1	780.1	44.3	6.2	5.1	279.7	1'115.4
As of December 31	865.7	61.8	7.3	5.2	346.5	1'286.5

Goodwill impairment test

millions of CHF	2018			2017		
	Goodwill	Growth rate residual value	Pre-tax discount rate	Goodwill	Growth rate residual value	Pre-tax discount rate
Pumps Equipment	394.0	2.0%	9.0%	320.7	2.0%	9.2%
Rotating Equipment Services – region EMEA	139.2	2.0%	10.7%	146.7	2.0%	12.5%
Rotating Equipment Services – region APAC	7.9	2.0%	12.0%	8.6	2.0%	12.4%
Rotating Equipment Services – region AME	71.9	2.0%	10.8%	72.8	2.0%	12.8%
Chemtech – Separation Technology	18.6	1.0%	10.2%	71.7	2.0%	9.9%
Chemtech – Tower Field Service	70.3	2.0%	9.8%	19.4	1.0%	10.4%
Applicator Systems	221.5	1.0%	6.1%	225.8	1.0%	6.6%
Total goodwill as of December 31	923.4			865.7		

Goodwill is allocated to the smallest cash-generating unit at which goodwill is monitored for internal management purposes (i.e. division, business units or areas). The recoverable amount of these units is determined over a five-year cash flow projection period. The calculation uses the budget for next year (2019), the three-year strategic plan for subsequent two periods (2020–2021), and a management calculation for the next two periods (2022–2023). The budget has been reviewed by the Board of Directors. Cash flows beyond the planning period are extrapolated using a terminal value including the growth rates as stated above.

Sensitivity analyses

The recoverable amount from cash-generating units is measured on the basis of value-in-use calculations significantly impacted by the terminal growth rate used to determine the residual value, the discount rate, and the projected cash flows. The table below shows the amount which the estimated recoverable amount of the CGU is exceeding its carrying amount (headroom). Management has identified that for some CGUs a reasonably possible change in two key assumptions could cause the carrying amount to exceed the recoverable amount. The table shows the amount by which these two assumptions would need to change individually for the estimated recoverable amount to be equal to the carrying amount. Blank fields indicate that the field is not meaningful (not reasonably possible).

millions of CHF	2018			2017		
	Headroom	Terminal growth rate: Change required for carrying amount to equal recoverable amount	Pre-tax discount rate: Change required for carrying amount to equal recoverable amount	Headroom	Terminal growth rate: Change required for carrying amount to equal recoverable amount	Pre-tax discount rate: Change required for carrying amount to equal recoverable amount
Pumps Equipment	217.6	-1.8%	1.5%	250.9	-2.5%	2.1%
Rotating Equipment Services – region EMEA	717.0			454.5		
Rotating Equipment Services – region APAC	109.0			193.3		
Rotating Equipment Services – region AME	401.1			329.6		
Chemtech – Separation Technology	671.6			486.3		
Chemtech – Tower Field Service	30.3			52.4		
Applicator Systems	1'750.0			1'608.8		
Total headroom as of December 31	3'896.6			3'375.8		

15 Property, plant and equipment

	2018				
millions of CHF	Land and buildings	Machinery and technical equipment	Other non-current assets	Assets under construction	Total
Acquisition cost					
Balance as of January 1	402.5	750.0	182.6	36.0	1'371.1
Acquired through business combination	9.0	2.1	0.0	-	11.1
Additions	7.4	30.3	11.9	39.6	89.3
Disposals	-22.3	-48.3	-6.0	-	-76.6
Reclassifications	2.5	19.9	4.5	-26.9	-
Currency translation differences	-12.7	-26.5	-7.6	-1.3	-48.1
Balance as of December 31	386.4	727.5	185.6	47.3	1'346.8
Accumulated depreciation					
Balance as of January 1	178.2	512.3	149.0	-	839.5
Additions	13.4	46.4	11.9	-	71.7
Disposals	-15.4	-44.9	-5.6	-	-66.0
Impairments	-	4.3	0.1	-	4.4
Currency translation differences	-5.1	-18.6	-6.1	-	-29.8
Balance as of December 31	171.0	499.0	149.7	-	819.7
Net book value					
As of January 1	224.3	237.7	33.6	36.0	531.6
As of December 31	215.4	228.5	35.9	47.3	527.0
Thereof leased property, plant and equipment					
Acquisition cost of leased property, plant and equipment	6.6	2.0	0.5	-	9.1
Accumulated depreciation	0.8	0.4	0.2	-	1.4
Net book value as of December 31	5.8	1.6	0.3	-	7.7
Leasing commitments (present value) as of December 31	6.5	1.8	0.3	-	8.6

The group performed impairment tests on the related production machines and facilities, resulting in impairments of CHF 4.4 million as of December 31, 2018 (December 31, 2017: CHF 15.4 million), all of which were charged to other operating expenses.

In 2018 the group sold property, plant and equipment with a book value of CHF 10.7 million for CHF 16.6 million resulting in a net gain of CHF 5.8 million (2017: book value of CHF 8.4 million sold for CHF 12.8 million resulted in a net gain of CHF 4.4 million).

	2017				
millions of CHF	Land and buildings	Machinery and technical equipment	Other non-current assets	Assets under construction	Total
Acquisition cost					
Balance as of January 1	383.6	713.0	187.2	32.6	1'316.4
Acquired through business combination	10.5	15.0	1.5	1.0	28.0
Additions	7.0	30.8	8.7	32.1	78.6
Disposals	-12.4	-45.1	-20.5	-	-78.0
Reclassifications	7.7	19.8	2.3	-29.8	-
Currency translation differences	6.1	16.5	3.4	0.1	26.1
Balance as of December 31	402.5	750.0	182.6	36.0	1'371.1
Accumulated depreciation					
Balance as of January 1	164.8	488.6	152.0	-	805.4
Additions	13.4	47.3	11.0	-	71.7
Disposals	-6.9	-42.6	-20.1	-	-69.6
Impairments	4.4	8.8	2.2	-	15.4
Currency translation differences	2.5	10.2	3.9	-	16.6
Balance as of December 31	178.2	512.3	149.0	-	839.5
Net book value					
As of January 1	218.8	224.4	35.2	32.6	511.0
As of December 31	224.3	237.7	33.6	36.0	531.6
Thereof leased property, plant and equipment					
Acquisition cost of leased property, plant and equipment	7.0	1.5	0.3	-	8.8
Accumulated depreciation	0.7	0.2	0.3	-	1.2
Net book value as of December 31	6.3	1.3	-	-	7.6
Leasing commitments (present value) as of December 31	6.7	1.2	-	-	7.9

16 Associates

millions of CHF	2018	2017
Balance as of January 1	10.3	5.8
Additions	2.4	4.6
Share of profit/loss of associates	0.7	-0.3
Dividend payments received	-0.1	-
Currency translation differences	0.1	0.2
Total investments in associates as of December 31	13.4	10.3

17 Other financial assets

millions of CHF	2018		
	Financial assets at fair value through profit and loss	Financial assets at amortized costs	Total
Balance as of January 1	9.3	4.3	13.6
Additions	0.6	-	0.6
Disposals	-3.1	-0.6	-3.8
Currency translation differences	-	-1.0	-1.0
Balance as of December 31	6.8	2.7	9.4

millions of CHF	2017		
	Available-for-sale	Loans and receivables	Total
Balance as of January 1	4.5	8.6	13.1
Additions	-	0.3	0.3
Disposals	-0.4	-	-0.4
Currency translation differences	0.1	0.5	0.6
Balance as of December 31	4.2	9.4	13.6

The group reviewed its financial assets as of December 31, 2017, considering the new measurement categories provided under IFRS 9. The financial assets classified as “loans and receivables” have been classified as “financial assets at amortized costs”. The “available-for-sale financial assets” have been classified as “financial assets at fair value through profit and loss”.

Financial assets that belong to the categories “financial assets at fair value through profit and loss” include investments in equity securities. There is an exemption from measurement at fair value of such assets if its fair value cannot be measured reliably. The exemption applies to equity instruments that do not have a quoted price in an active market. The group therefore measures some of its fair value assets at cost.

During 2018, the group sold unquoted equity instruments previously measured at cost to Sulzer Vorsorgeeinrichtung, Sulzer’s pension fund in Switzerland. The transaction price was CHF 31.7 million and the resulting profit CHF 28.5 million. The transaction was priced on an arm’s length basis and was settled in cash prior to December 31, 2018.

18 Inventories

millions of CHF	2018	2017
Raw materials, supplies and consumables	240.0	199.0
Work in progress	303.5	178.0
Finished products and trade merchandise	115.4	111.0
Total inventories as of December 31	658.9	488.0

In 2018, Sulzer recognized write-downs of CHF 17.7 million (2017: CHF 13.0 million) in the income statement. Total accumulated write-downs on inventories amounted to CHF 74.3 million as of December 31, 2018 (2017: CHF 70.1 million). Material expenses in 2018 amounted to CHF 1'223.4 million (2017: CHF 1'102.6 million).

19 Assets and liabilities related to contracts with customers

millions of CHF	2018
Sales recognized over time related to ongoing performance obligations	431.4
Sales recognized over time related to satisfied performance obligations	353.2
Sales recognized over time	784.6
Sales recognized at a point in time	2'580.3
Sales	3'364.9
– thereof sales recognized included in the contract liability balance at the beginning of the period	291.1
– thereof sales recognized from performance obligations satisfied (or partially satisfied) in previous periods	1.1
Cost of goods sold recognized over time related to ongoing performance obligations	–330.2
Cost of goods sold recognized over time related to satisfied performance obligations	–270.6
Cost of goods sold recognized over time	–600.8
Cost of goods sold recognized at a point in time	–1'785.8
Cost of goods sold	–2'386.6
Gross profit recognized over time related to ongoing performance obligations	101.2
Gross profit recognized over time related to satisfied performance obligations	82.6
Gross profit recognized over time	183.8
Gross profit recognized at a point in time	794.5
Gross profit	978.3
Contract assets from sales recognized over time relating to ongoing performance obligations	638.7
Assets recognized from costs incurred to obtain a contract	–
Expected loss rate	0.1%
Allowance for expected losses	–0.3
Netting with contract liabilities	–433.3
Contract assets	205.1
Advance payments from customers relating to point in time contracts	229.8
Advance payments from customers relating to over time contracts	459.9
Netting with contract assets	–433.3
Contract liabilities	256.4
Order backlog (aggregate amount of transaction price allocated to unsatisfied performance obligations)	1'786.9
– thereof expected to be recognized as revenue within 12 months	1'661.6
– thereof expected to be recognized in more than 12 months	125.3

The group has applied IFRS 15 “Revenue from contracts with customers” as of January 1, 2018, using the cumulative effect method. Accordingly, the information for 2017 is not presented.

The contract assets as of January 1, 2018 have been restated by CHF 201.1 million and the contract liabilities by CHF 291.1 million. Further details are provided in [note 34](#).

Contract liabilities decreased by CHF 34.7 million due to less advance payments from customers relating to point in time contracts of CHF 32.9 million, more advance payments from customers relating to over time contracts of CHF 86.2 million and higher netting with contract liabilities of CHF 88.0 million (compared to the restated opening balance, see [note 34](#)).

20 Trade accounts receivable

Aging structure of trade accounts receivable

millions of CHF	2018				2017			
	Expected loss rate	Gross amount	Allowance	Net book value	Calculated loss rate	Gross amount	Allowance	Net book value
Not past due	0.1%	408.6	-0.5	408.1	0.1%	657.1	-0.4	656.7
- thereof receivables resulting from construction contracts	-	-	-	-	-	244.2	-	244.2
Past due								
1-30 days	0.6%	86.9	-0.5	86.4	0.8%	101.8	-0.8	101.0
31-60 days	1.8%	35.3	-0.6	34.7	1.5%	41.0	-0.6	40.4
61-120 days	7.3%	30.3	-2.2	28.1	2.5%	35.3	-0.9	34.4
>120 days	40.3%	109.1	-44.0	65.1	41.3%	118.0	-48.7	69.3
Total trade accounts receivable as of December 31		670.2	-47.9	622.3		953.2	-51.4	901.8

Allowance for doubtful trade accounts receivable

millions of CHF	2018	2017
Balance as of January 1	60.4	52.3
Additions	12.8	12.0
Released as no longer required	-19.2	-7.5
Utilized	-4.6	-6.7
Currency translation differences	-1.6	1.3
Balance as of December 31	47.9	51.4

Approximately 39% (2017: 31%) of the gross amount of trade accounts receivable were past due, and an allowance of CHF 47.9 million (2017: CHF 51.4 million) was recorded. The recoverability of trade accounts receivable is regularly reviewed, and the credit quality of new customers is thoroughly assessed. Due to the large and heterogeneous customer base, the credit risk from individual customers of the group is limited. The allowance for doubtful trade accounts receivable is based on expected credit losses. Further details are provided in [note 34](#).

The receivables from construction contracts have been adjusted to the new balance sheet position "contract assets" as of January 1, 2018, due to the new accounting standard IFRS 15 "Revenue from Contracts with Customers". Further details are provided in [note 34](#).

The allowance for doubtful trade accounts receivable as of January 1, 2018 has been adjusted by CHF 8.9 million due to the new accounting standard IFRS 9 "Financial Instruments". Further details are provided in [note 34](#).

Accounts receivable by geographical region

millions of CHF	2018	2017
Europe, Middle East, Africa	311.2	492.9
- thereof United Kingdom	59.1	123.8
- thereof Germany	42.5	66.7
- thereof France	24.2	40.3
- thereof Spain	21.5	39.7
- thereof Russia	20.6	28.5
- thereof South Africa	18.9	32.0
- thereof Switzerland	14.9	17.3
- thereof Saudi Arabia	14.0	12.8
- thereof Italy	13.4	14.0
- thereof Belgium	13.1	15.0
- thereof Finland	12.8	16.8
- thereof Netherlands	11.1	17.3
- thereof United Arab Emirates	10.2	33.6
- thereof other countries	34.9	35.1
Americas	148.6	194.0
- thereof USA	108.1	136.2
- thereof Brazil	19.3	19.0
- thereof Canada	8.9	10.9
- thereof Mexico	6.7	20.1
- thereof other countries	5.6	7.8
Asia-Pacific	162.6	214.9
- thereof China	107.4	117.0
- thereof India	23.9	44.1
- thereof Australia	9.8	13.5
- thereof Singapore	7.7	17.8
- thereof Indonesia	7.5	12.6
- thereof other countries	6.2	9.9
Total as of December 31	622.3	901.8

21 Other current receivables and prepaid expenses

millions of CHF	2018	2017
Taxes (VAT, withholding tax)	68.8	54.5
Derivative financial instruments	6.4	7.3
Other current receivables	24.3	27.0
Total other current receivables as of December 31	99.4	88.8
Prepaid contributions to employee benefit plans	12.4	13.3
Other prepaid expenses	38.4	34.2
Total prepaid expenses as of December 31	50.8	47.5
Total other current receivables and prepaid expenses as of December 31	150.2	136.3

For further details on the position “Derivative financial instruments,” refer to [note 28](#). Other current receivables and prepaid expenses do not include any material positions that are past due or impaired.

22 Cash and cash equivalents

millions of CHF	2018	2017
Cash	1'029.7	450.9
Cash equivalents	65.5	37.9
Total cash and cash equivalents as of December 31	1'095.2	488.8

As of December 31, 2018, the group held restricted cash and cash equivalents of CHF 24.7 million (2017: CHF 23.7 million).

23 Share capital

thousands of CHF	2018		2017	
	Number of shares	Share capital	Number of shares	Share capital
Balance as of December 31 (par value CHF 0.01)	34'262'370	342.6	34'262'370	342.6

The share capital amounts to CHF 342'623.70, made up of 34'262'370 shares with dividend entitlement and a par value of CHF 0.01. All shares are fully paid in and registered.

Share ownership

Sulzer shares are freely transferable provided that, when requested by the company to do so, buyers declare that they have purchased and will hold the shares in their own name and for their own account. Nominees shall only be entered in the share register with the right to vote, provided that they meet the following conditions: the nominee is subject to the supervision of a recognized banking and financial market regulator; the nominee has entered into an agreement with the Board of Directors concerning its status; the share capital held by the nominee does not exceed 3% of the registered share capital entered in the commercial register; and the names, addresses and number of shares of those individuals for whose accounts the nominee holds at least 0.5% of the share capital have been disclosed. The Board of Directors is also entitled, beyond these limits, to enter shares of nominees with voting rights in the share register, provided that the above-mentioned conditions are met (see also paragraph 6a of the Articles of Association at www.sulzer.com/governance).

Shareholders holding more than 3%

	Dec 31, 2018		Dec 31, 2017	
	Number of shares	in %	Number of shares	in %
Viktor Vekselberg (direct shareholder: Tiwel Holding AG)	16'728'414	48.82	-	-
Renova Group	-	-	21'728'914	63.42

Retained earnings

The retained earnings include prior years' undistributed income of consolidated companies and all remeasurements of the net liability for defined benefit plans.

Treasury shares

The total number of shares held by Sulzer Ltd as of December 31, 2018, amounted to 311'871 treasury shares (December 31, 2017: 219'277 shares).

On April 11, 2018, Sulzer purchased five million Sulzer shares from Renova. Renova thereafter reduced its shareholding to 48.82%. The purchase price for the five million shares Sulzer acquired, based on the volume-weighted average share price of the Sulzer shares as quoted on the SIX Swiss Exchange for the period from April 9, 2018, to (and including) April 13, 2018, came to CHF 109.13 per share for a transaction value of CHF 545.7 million (thereof CHF 108.9 million unpaid and recognized as "other current and accrued liabilities" in the balance sheet, see [note 27](#)). On September 18, Sulzer placed the five million treasury shares with domestic and international investors. The placement price of CHF 112 per share results in a capital gain of CHF 12.6 million (CHF 14.3 million before transaction costs) which increases Sulzer's equity.

The remaining amount of 311'871 treasury shares are mainly held for the purpose of issuing shares under the management share-based payment programs.

Cash flow hedge reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments where the hedged transaction has not yet occurred. Amounts are reclassified to profit or loss when the associated hedged transaction affects the income statement.

Currency translation reserve

The currency translation reserve comprises all foreign exchange differences arising on the translation of the financial statements of controlled entities, whose functional currency differs from the reporting currency of the group. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

Dividends

On April 4, 2018, the Annual General Meeting approved an ordinary dividend of CHF 3.50 (2017: ordinary dividend of CHF 3.50) per share to be paid out of reserves. The dividend was paid to shareholders on April 10, 2018. The total amount of the dividend is CHF 119.1 million (2017: CHF 119.4 million), thereof paid dividends of CHF 43.1 million (2017: CHF 119.4 million) and unpaid dividends of CHF 76.0 million (2017: CHF 0.0 million). The unpaid dividends are reflected in the balance sheet position "other current and accrued liabilities" (see [note 27](#)).

The Board of Directors decided to propose to the Annual General Meeting 2019 a dividend for the year 2018 of CHF 3.50 per share (2017: CHF 3.50).

24 Earnings per share

	2018	2017
Net income attributable to shareholders of Sulzer Ltd (millions of CHF)	113.7	83.2
Issued number of shares	34'262'370	34'262'370
Adjustment for the average treasury shares held	-2'327'911	-178'237
Average number of shares outstanding as of December 31	31'934'459	34'084'133
Adjustment for share participation plans	329'591	267'021
Average number of shares for calculating diluted earnings per share as of December 31	32'264'050	34'351'154
Earnings per share, attributable to a shareholder of Sulzer Ltd (in CHF) as of December 31		
Basic earnings per share	3.56	2.44
Diluted earnings per share	3.53	2.42

25 Borrowings

millions of CHF	2018		
	Non-current borrowings	Current borrowings	Total
Balance as of January 1	458.7	255.1	713.8
Additions	859.4	426.4	1'285.9
Repayments	-1.1	-658.9	-659.9
Reclassifications	-0.5	0.5	-
Currency translation differences	-0.2	-5.1	-5.3
Total borrowings as of December 31	1'316.3	18.0	1'334.3

millions of CHF	2017		
	Non-current borrowings	Current borrowings	Total
Balance as of January 1	458.3	7.1	465.4
Acquired through business combination	6.7	2.1	8.8
Additions	0.5	534.6	535.1
Repayments	-1.7	-294.1	-295.8
Reclassifications	-4.9	4.9	-
Currency translation differences	-0.2	0.5	0.3
Total borrowings as of December 31	458.7	255.1	713.8

Borrowings by currency

	2018			2017		
	millions of CHF	in %	Interest rate	millions of CHF	in %	Interest rate
CHF	1'309.9	98.2	0.8%	451.3	63.2	0.5%
EUR	17.5	1.3	4.7%	19.9	2.8	2.9%
INR	4.0	0.3	5.4%	6.0	0.9	8.1%
USD	0.8	0.1	2.1%	224.9	31.5	2.0%
BRL	–	–	–	4.5	0.6	8.0%
Other	2.1	0.2	–	7.2	1.0	–
Total as of December 31	1'334.3	100.0	–	713.8	100.0	–

During 2017, the CHF 500 million syndicated credit facility was extended for another year until May 2022. The facility is available for general corporate purposes including financing of acquisitions. The facility is subject to financial covenants based on net financial indebtedness and EBITDA, which were adhered to throughout the reporting period. As of December 31, 2018, the facility was not used, while at the end of 2017, CHF 224.6 million of the facility was used.

Outstanding bonds

millions of CHF	2018		2017	
	Amortized costs	Nominal	Amortized costs	Nominal
0.375% 07/2016–07/2022	325.3	325.0	325.4	325.0
0.875% 07/2016–07/2026	125.0	125.0	125.0	125.0
0.250% 07/2018–07/2020	109.8	110.0	–	–
1.300% 07/2018–07/2023	289.3	290.0	–	–
0.625% 10/2018–10/2021	209.5	210.0	–	–
1.600% 10/2018–10/2024	249.8	250.0	–	–
Total as of December 31	1'308.7	1'310.0	450.4	450.0

On July 6, 2018, Sulzer issued two new bonds via dual tranches of total CHF 400 million. The first tranche of CHF 110 million has a term of two years, carries a coupon of 0.25% and has an effective interest rate of 0.37%. The second tranche of CHF 290 million has a term of five years, carries a coupon of 1.3% and has an effective interest rate of 1.35%.

On October 22, 2018, Sulzer issued two new bonds via dual tranches of total CHF 460 million. The first tranche of CHF 210 million has a term of three years, carries a coupon of 0.625% and has an effective interest rate of 0.71%. The second tranche of CHF 250 million has a term of six years, carries a coupon of 1.6% and has an effective interest rate of 1.62%.

All the outstanding bonds are traded at the SIX Swiss Exchange.

26 Provisions

	2018					
millions of CHF	Other employee benefits	Warranties/liabilities	Restructuring	Environmental	Other	Total
Balance as of January 1	55.9	92.3	18.6	15.4	53.9	236.1
Acquired through business combination	–	1.4	0.3	–	0.1	1.8
Additions	8.9	21.0	14.9	0.1	31.0	75.9
Released as no longer required	–4.0	–10.6	–1.8	–	–4.3	–20.7
Utilized	–10.3	–22.2	–21.5	–0.2	–18.1	–72.4
Reclassifications	–	0.8	0.5	–	–1.3	–
Currency translation differences	–1.1	–3.8	–0.8	–0.2	–0.8	–6.8
Total provisions as of December 31	49.4	78.9	10.1	15.1	60.5	213.9
– thereof non-current	37.1	4.8	4.2	15.1	13.3	74.4
– thereof current	12.3	74.1	5.9	–	47.2	139.5

	2017					
millions of CHF	Other employee benefits	Warranties/liabilities	Restructuring	Environmental	Other	Total
Balance as of January 1	47.4	76.6	57.6	15.2	53.1	249.9
Acquired through business combination	0.5	7.0	0.1	–	4.4	12.0
Additions	10.7	36.4	22.0	0.2	19.6	88.9
Released as no longer required	–2.4	–4.8	–0.3	–	–4.0	–11.5
Utilized	–4.1	–27.6	–59.0	–	–14.5	–105.2
Reclassifications	3.7	–	–0.1	–0.2	–3.4	–
Currency translation differences	0.1	4.7	–1.7	0.2	–1.3	2.0
Total provisions as of December 31	55.9	92.3	18.6	15.4	53.9	236.1
– thereof non-current	36.8	6.1	3.4	15.4	15.9	77.6
– thereof current	19.1	86.2	15.2	–	38.0	158.5

The category “Other employee benefits” includes provisions for jubilee gifts, early retirement of senior managers and other obligations to employees. The additions and utilizations in “Other employee benefits” provision are mainly related to medical insurances of employees of the US entities.

The category “Warranties/liabilities” includes provisions for warranties, customer claims, penalties, litigation and legal cases relating to goods delivered or services rendered.

As part of the Sulzer Full Potential (SFP) program, Sulzer has continued to adapt its global manufacturing footprint and streamline the organizational setup. In 2018, restructuring expenses were mainly associated with measures taken in Brazil, Germany, the US, France, the Netherlands and Belgium. The group recognized restructuring provisions of CHF 14.9 million (2017: CHF 22.0 million). The remaining provision as of December 31, 2018, is CHF 10.1 million, of which CHF 5.9 million is expected to be utilized within one year.

“Environmental” mainly consists of expected costs related to inherited liabilities.

“Other” includes provisions that do not fit into the aforementioned categories. A large number of these provisions refer to indemnities, in particular related from divestitures. In addition, provisions for ongoing asbestos lawsuits and other legal claims are included. Based on the currently known facts,

Sulzer is of the opinion that the resolution of the open cases will not have material effects on its liquidity or financial condition. Although Sulzer expects a large part of the category "Other" to be realized in 2019, by their nature the amounts and timing of any cash outflows are difficult to predict.

27 Other current and accrued liabilities

millions of CHF	2018	2017
Liability related to the purchase of treasury shares	108.9	–
Outstanding dividend payments	76.0	–
Taxes (VAT, withholding tax)	25.3	29.4
Derivative financial instruments	8.4	6.8
Notes payable	0.4	–
Other current liabilities	26.9	29.0
Total other current liabilities as of December 31	245.9	65.2
Contract-related costs	130.6	112.6
Salaries, wages and bonuses	101.1	96.4
Vacation and overtime claims	31.8	32.1
Other accrued liabilities	133.3	126.2
Total accrued liabilities as of December 31	396.7	367.3
Total other current and accrued liabilities as of December 31	642.6	432.5

The liability related to the purchase of treasury shares of CHF 108.9 million (2017: CHF 0 million) and the outstanding dividend payments of CHF 76.0 million (2017: CHF 0 million) are explained in [note 23](#).

28 Derivative financial instruments

millions of CHF	2018				2017			
	Derivative assets		Derivative liabilities		Derivative assets		Derivative liabilities	
	Notional value	Fair value	Notional value	Fair value	Notional value	Fair value	Notional value	Fair value
Forward exchange contracts	633.5	6.4	442.5	8.7	546.3	7.5	540.1	6.8
Total as of December 31	633.5	6.4	442.5	8.7	546.3	7.5	540.1	6.8
– thereof due in <1 year	633.3	6.4	437.3	8.4	540.5	7.3	540.0	6.8
– thereof due in 1–2 years	0.1	0.0	5.2	0.2	5.8	0.2	0.1	0.0

The notional value and the fair value of derivative assets and liabilities include current and also non-current derivative financial instruments. The cash flow hedges of the expected future sales were assessed as highly effective. As at December 31, 2018, a net cumulative unrealized loss of CHF 11.3 million (2017: loss of CHF 8.6 million) with a deferred tax asset of CHF 2.7 million (2017: CHF 2.1 million) relating to these cash flow hedges were included in the Cash Flow Hedge Reserve. In 2018, a loss of CHF 2.4 million (2017: a gain of CHF 3.2 million) cash flow hedge reserve was recognized in profit or loss. There was no ineffectiveness that arose from cash flow hedges in 2018 (2017: CHF 0.0 million). The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets in the balance sheet.

The hedged, highly probable forecast transactions denominated in foreign currency are mostly expected to occur at various dates during the next 12 months. Gains and losses recognized in the hedging reserve (cash flow hedges) in equity on forward foreign exchange contracts as of December 31, 2018, are recognized either in sales, cost of goods sold, or in other operating income/expenses in the period or periods during which the hedged transaction affects the income statement. This is generally within 12 months from the balance sheet date unless the gain or loss is included in the initial amount recognized for the purchase of fixed assets, in which case recognition is over the lifetime of the asset (five to ten years).

The group enters into derivative financial instruments under enforceable master netting arrangements. These agreements do not meet the criteria for offsetting derivative assets and derivative liabilities in the consolidated balance sheet. As per December 31, 2018, the amount subject to such netting arrangements was CHF 2.9 million (2017: CHF 3.5 million). Considering the effect of these agreements the amount of derivative assets would reduce from CHF 6.4 million to CHF 3.5 million (2017: from CHF 7.5 million to CHF 4.0 million), and the amount of derivative liabilities would reduce from CHF 8.7 million to CHF 5.8 million (2017: from CHF 6.8 million to CHF 3.3 million).

29 Other financial commitments

millions of CHF	2018			2017		
	Rented premises	Other	Total	Rented premises	Other	Total
Maturity <1 year	23.8	14.9	38.7	17.9	7.8	25.7
Maturity 1–5 years	61.1	11.0	72.1	46.1	11.8	57.9
Maturity >5 years	15.4	1.1	16.5	14.5	1.4	15.9
Operating lease as of December 31	100.3	27.0	127.3	78.5	21.0	99.5
Contractual commitments for property, plant and equipment as of December 31	3.8	2.7	6.5	-	2.4	2.4

30 Contingent liabilities

millions of CHF	2018	2017
Guarantees in favor of third parties	10.0	10.0
Total contingent liabilities as of December 31	10.0	10.0

As of December 31, 2018, guarantees provided to third parties regarding certain environmental matters related to disposed business amounted to CHF 10 million. The guarantees will expire in 2022.

31 Share participation plans

Share-based payments charged to personnel expenses

millions of CHF	2018	2017
Restricted share unit plan	1.0	2.2
Performance share plan	14.1	8.6
Total charged to personnel expenses	15.1	10.8

Restricted share unit plan settled in Sulzer shares

This long-term incentive plan covers the Board of Directors and until 2015 the members of the Sulzer Management Group. Restricted share units (RSU) are granted annually depending on the organizational position of the employee. Vesting of the RSU is subject to continuous employment over the vesting period. Awards to members of the Board of Directors automatically vest with the departure from the Board. The plan features graded vesting over a three-year period. One RSU award is settled with one Sulzer share at the end of the vesting period. The fair value of the RSU granted is measured at the grant date closing share price of Sulzer Ltd, and discounted over the vesting period using a discount rate that is based on the yield of Swiss government bonds for the duration of the vesting period. Participants are not entitled to dividends declared during the vesting period. Consequently, the grant date fair value of the RSU is reduced by the present value of the dividends expected to be paid during the vesting period.

Restricted share units

Grant year	2018	2017	2016	2015	2014	Total
Outstanding as of December 1, 2017	-	-	21'603	63'712	19'621	104'936
Granted	-	11'001	-	-	-	11'001
Exercised	-	-	-4'859	-30'388	-19'527	-54'774
Forfeited	-	-	-	-884	-94	-978
Outstanding as of December 31, 2017	-	11'001	16'744	32'440	-	60'185
Outstanding as of January 1, 2018	-	11'001	16'744	32'440	-	60'185
Granted	9'288	-	-	-	-	9'288
Exercised	-144	-6'049	-9'950	-32'440	-	-48'583
Forfeited	-861	-	-	-	-	-861
Outstanding as of December 31, 2018	8'283	4'952	6'794	-	-	20'029
Average fair value at grant date in CHF	118.20	98.00	72.61	102.18	122.00	

Performance share plan settled in Sulzer shares

This long-term incentive plan covers the members of the Executive Committee and since 2016 also the members of the Sulzer Management Group. Performance share units (PSU) are granted annually depending on the organizational position of the employee.

Vesting of the PSU is subject to continuous employment and to the achievement of performance conditions over the performance period. Participants are not entitled to dividends declared during the vesting period. Vesting of the performance share plan (PSP) 2018, 2017 and 2016 is based on three performance conditions: operational EBITA growth over the performance period (weighted 25%), average operational ROCEA (weighted 25%), and on Sulzer's total return to shareholders (TSR), compared to a selected group of ten peer companies and the SMIM Index (weighted 50%). Vesting of the PSP 2015 is based on two equally weighted performance conditions: cumulated operational EBITA and on Sulzer's total return to shareholders (TSR), compared to a selected group of 30 peer companies.

TSR is measured with a starting value of the volume-weighted average share price (VWAP) over the first three months of the first year, and an ending value of the VWAP over the last three months of the vesting period. The rank of Sulzer's TSR at the end of the performance period determines the effective number of total shares. The exercise price of the PSU is zero.

The following inputs were used to determine the fair value of the PSU at grant date using a Monte Carlo simulation:

Grant year	2018	2017	2016	2015	2014
Fair value at grant date	143.62	116.02	118.05	193.97	206.63
Share price at grant date	120.60	104.80	98.50	107.00	121.50
Expected volatility	29.12%	25.10%	25.46%	28.07%	32.25%
Risk-free interest rate	-0.42%	-0.56%	-0.73%	-0.72%	0.09%

The expected volatility of the Sulzer share, the peer group companies, and the SMIM Index is determined by the historical volatility. The zero yield curves of those countries in which the companies and indices are listed were used as the relevant risk-free rates. Historical data was used to arrive at an estimate for the correlation between Sulzer, the peer companies, and the SMIM Index. For the TSR calculation, it is assumed that all the dividends are reinvested immediately. This has the same economic implication as waiving the payment of dividends. Accordingly, the expected dividend yield is zero.

Performance share units – terms of awards

Grant year	2018	2017	2016	2015	2014
Number of awards granted	74'467	76'818	116'472	21'665	15'965
Grant date	July 1, 2018	April 1, 17	August 1, 16	April 1, 15	April 1, 14
Performance period for cumulative EBIT	01/18–12/20	01/17–12/19	01/16–12/18	01/15–12/17	01/14–12/16
Performance period for TSR	01/18–12/20	01/17–12/19	01/16–12/18	04/15–03/18	04/14–03/17
Fair value at grant date in CHF	143.62	116.02	118.05	193.97	206.63

Performance share units

Grant year	2018	2017	2016	2015	2014	Total
Outstanding as of January 1, 2017	-	-	108'866	8'996	5'245	123'107
Granted	-	76'818	-	-	1'523	78'341
Exercised	-	-191	-4'169	-2'002	-6'768	-13'130
Forfeited	-	-497	-6'902	-400	-	-7'799
Outstanding as of December 31, 2017	-	76'130	97'795	6'594	-	180'519
Outstanding as of January 1, 2018	-	76'130	97'795	6'594	-	180'519
Granted	74'467	-	-	-	-	74'467
Exercised	-	-2'395	-4'762	-6'594	-	-13'751
Forfeited	-	-4'976	-2'043	-	-	-7'019
Outstanding as of December 31, 2018	74'467	68'759	90'990	-	-	234'216

The Board of Directors decided in May 2018 to set TSR floors reflecting the exceptional market conditions and share price collapse following the US sanctions against Russia and the collateral damages to Sulzer. The introduction of the floor led to a step-up in the market valuation of the respective PSU, which is the difference between the fair value of the modified PSU granted and the original PSU, both measured as at the date of the modification. The step-up in the fair value of CHF 40.62 per PSU for the PSP 2016 and CHF 18.91 per PSU for the PSP 2017 is expensed over the remaining vesting period of the affected plans. The fair value was measured using the same pricing model as for the grant date fair value.

32 Transactions with members of the Board of Directors, Executive Committee and related parties

Key management compensation

thousands of CHF	2018				2017			
	Short-term benefits	Equity-based compensation	Pension and social security contributions	Total	Short-term benefits	Equity-based compensation	Pension and social security contributions	Total
Board of Directors	1'226	1'155	257	2'638	1'272	802	268	2'342
Executive Committee	10'175	4'462	2'066	16'703	8'387	5'746	1'784	15'917

Equity-based compensation for 2018 is based on the full fair value of the PSU granted under the PSP 2018. Equity-based compensation for 2017 is valued according to the requirements of IFRS 2. There are no outstanding loans with members of the Board of Directors or the Executive Committee as per balance sheet date. No shares have been granted to members of the Board of Directors, the Executive Committee, or related persons, with the exception of shares granted in connection with equity-settled plans and service awards.

Related parties

As of December 31, 2018, sales with related parties controlled by the major shareholder amounted to CHF 3.1 million (2017: CHF 22.6 million) with open receivables of CHF 0.4 million (2017: CHF 17.3 million). Open payables of CHF 185.1 million (2017: CHF 0.4 million) were recognized (thereof CHF 108.9 million related to the purchase of treasury shares and CHF 76.0 million outstanding dividend payments, see [note 23](#) and [note 27](#)). The income from released provisions for loss/unprofitable contracts/warranties/guarantees/liquidated damages recognized in the income statement amounted to CHF 0.6 million (2017: expense CHF 1.3 million).

Sales with associates in 2018 amounted to CHF 11.4 million (2017: CHF 6.1 million) with open receivables of CHF 0.1 million (2017: CHF 2.0 million). Open payables with associates amounted to CHF 0.0 million (2017: CHF 1.3 million). The income from released provisions for loss/unprofitable contracts/warranties/guarantees/liquidated damages recognized in the income statement amounted to CHF 1.6 million (2017: expense CHF 2.5 million). Income for services with associates amounted to CHF 0.1 million (2017: CHF 0.1 million). Expenses for services from associates amounted to CHF 0.5 million (2017: CHF 0.0 million).

During 2018, the group sold unquoted equity instruments previously measured at cost to Sulzer Vorsorgeeinrichtung, Sulzer's pension fund in Switzerland. The transaction price was CHF 31.7 million and the resulting profit CHF 28.5 million. The transaction was priced on an arm's length basis and was settled in cash prior to December 31, 2018.

During 2017, Sulzer acquired 51% of the business of Rotec GT, the gas turbine maintenance division of the Rotec Group. Sulzer obtained control of the acquired business. Rotec GT is considered to be a related party to the group (controlled by the major shareholder). During 2018, Sulzer acquired the outstanding 49% of Sulzer Turbo Services Rus LLC (formerly the gas turbine maintenance division of the Rotec Group) for CHF 14.3 million, after the seller exercised its put option. The transaction was priced on an arm's length basis and was settled in cash prior to December 31, 2018. For more information please refer to [note 4](#).

33 Auditor remuneration

Fees for the audit services by KPMG as the appointed group auditor amounted to CHF 4.0 million (2017: CHF 2.9 million). Additional services provided by the group auditor amounted to a total of CHF 1.7 million (2017: CHF 1.0 million). This amount includes CHF 1.1 million (2017: CHF 0.7 million) for tax and legal advisory services and CHF 0.6 million for other consulting services (2017: CHF 0.3 million).

34 Key accounting policies and valuation methods

34.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) using the historical cost convention except for the following:

- financial assets at fair value through profit and loss and financial assets at fair value through other comprehensive income, and
- net position from defined benefit plans, where plan assets are measured at fair value and the plan liabilities are measured at the present value of the defined benefit obligation (see note 34.19 a).

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by all subsidiaries.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the group's accounting policies. The areas involving a higher degree of judgment or complexity or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in [note 5](#) "Critical accounting estimates and judgments."

Rounding

Due to rounding, numbers presented throughout the consolidated financial statements may not add up precisely to the totals provided. All ratios, percentages and variances are calculated using the underlying amount rather than the presented rounded amount.

Tables

Within tables, blank fields generally indicate that the field is not applicable or not meaningful, or that information is not available as of the relevant date or for the relevant period. Dashes (-) generally indicate that the respective figure is zero on an actual or rounded basis.

34.2 Change in accounting policies

a) Standards, amendments and interpretations which are effective for 2018

The group has initially adopted IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" from January 1, 2018. A number of other new standards are effective from January 1, 2018, but they do not have a material effect on the group's financial statements.

The effect of initially applying these standards is mainly attributed to the following:

- An increase in the allowance for doubtful trade accounts receivable.
- A different timing in the recognition of sales, costs of goods sold and gross profit for some construction contracts.

The following table summarizes the impact of the two new accounting standards on the consolidated balance sheet as of January 1, 2018.

millions of CHF	December 31, 2017, as originally presented	Adjustment IFRS 9	Adjustment IFRS 15	January 1, 2018, adjusted
Non-current assets				
Goodwill	865.7			865.7
Other intangible assets	420.8			420.8
Property, plant and equipment	531.6			531.6
Associates	10.3			10.3
Other financial assets	13.6			13.6
Non-current receivables	8.8			8.8
Deferred income tax assets	139.7	2.1	6.4	148.2
Total non-current assets	1'990.5	2.1	6.4	1'999.0
Current assets				
Inventories	488.0		87.4	575.4
Current income tax receivables	27.2			27.2
Advance payments to suppliers	84.7		4.6	89.3
Contract assets	-		201.1	201.1
Trade accounts receivable	901.8	-8.9	-244.1	648.8
Other current receivables and prepaid expenses	136.3			136.3
Cash and cash equivalents	488.8			488.8
Total current assets	2'126.8	-8.9	49.0	2'166.9
Total assets	4'117.3	-6.8	55.4	4'165.9
Equity				
Share capital	0.3			0.3
Reserves	1'679.8	-6.6	-23.1	1'650.1
Equity attributable to shareholders of Sulzer Ltd	1'680.1	-6.6	-23.1	1'650.4
Non-controlling interests	22.3		-0.1	22.2
Total equity	1'702.4	-6.6	-23.1	1'672.6
Non-current liabilities				
Non-current borrowings	458.7			458.7
Deferred income tax liabilities	104.8	-0.2		104.6
Non-current income tax liabilities	2.3			2.3
Defined benefit obligations	239.1			239.1
Non-current provisions	77.6			77.6
Other non-current liabilities	17.6			17.6
Total non-current liabilities	900.1	-0.2	-	899.9
Current liabilities				
Current borrowings	255.1			255.1
Current income tax liabilities	24.8			24.8
Current provisions	158.5			158.5
Contract liabilities	-		291.1	291.1
Trade accounts payable	433.8			433.8
Advance payments from customers	210.1		-210.1	-
Other current and accrued liabilities	432.5		-2.4	430.1
Total current liabilities	1'514.8	-	78.6	1'593.4
Total liabilities	2'414.9	-0.2	78.6	2'493.3
Total equity and liabilities	4'117.3	-6.8	55.4	4'165.9

IFRS 9 “Financial Instruments”

IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 “Financial Instruments: Recognition and Measurement”.

The group has adopted IFRS 9 using the simplified approach to providing for expected credit losses by using the lifetime expected loss provision for all trade receivables.

The table above (combined table IFRS 9 and IFRS 15) summarizes the impact of the new accounting standards on the balance sheet as of January 1, 2018.

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI), and fair value through profit or loss (FVTPL). The standard eliminated the IAS 39 categories of held to maturity, loans and receivables, and available for sale.

The group has reviewed its financial assets and financial liabilities as of December 31, 2017. The financial assets classified as loans and receivables as well as the financial liabilities valued at amortized costs have been classified as financial instruments at amortized costs. The fair values of forward foreign exchange contracts not used for hedge accounting have been classified as financial instruments at fair value through profit or loss.

The accounting for financial liabilities is unchanged, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the group does not have any such liabilities.

The new hedge accounting rules aligned the accounting for hedging instruments more closely with the group’s risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduced a more principles-based approach. However, the group has not identified new hedge relationships. The group’s hedge relationships as of December 31, 2017 qualify as continuing hedges upon the adoption of IFRS 9. As a consequence, there is no significant impact on the accounting for these hedging relationships.

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as was the case under IAS 39. It applies to financial assets classified at amortized cost such as trade accounts receivable and contract assets. Based on this impairment methodology, the allowance for doubtful trade accounts receivable increased (see table above). There is no impact for contract assets or other financial assets.

IFRS 15 “Revenue from Contracts with Customers”

IFRS 15 establishes a comprehensive framework for determining if, when and how much sales are recognized. It replaced IAS 18 “Revenue”, IAS 11 “Construction Contracts” and IFRIC 13 “Customer Loyalty Programs”.

The group has applied IFRS 15 “Revenue from contracts with customers” as of January 1, 2018, using the cumulative effect method (cumulative catch-up effect in retained earnings). Accordingly, the information presented for 2017 has not been adjusted – i.e. it is presented as previously reported under IAS 18, IAS 11 and related interpretations.

The table above (combined table IFRS 9 and IFRS 15) summarizes the impact of the new accounting standards on the balance sheet as of January 1, 2018.

The details of the new accounting policies and the nature of the changes to previous accounting policies are set out below.

Under IFRS 15, sales are recognized when a customer obtains control of the goods or services. Determining the timing of the transfer of control requires judgment. There are two ways to recognize sales, costs of goods sold and the corresponding profit margin:

- **Point in time method:** Sales recognition when the performance obligation is satisfied at a certain point in time.
- **Over time method** (previous accounting policies: Percentage of completion method, POC): Sales, costs and profit margin recognition in line with the progress of the project.

The core principle of IFRS 15 is that an entity should recognize sales as a transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services.

New balance sheet items

Following the adoption of IFRS 15, the group discloses two new balance sheet items, which are defined as follows:

- **Contract assets:** Represent the group's right to consideration in exchange for goods or services before the final customer invoice has been issued. When the group performs services or transfers goods in advance of receiving consideration, the group recognizes a contract asset. If the final invoice has been issued and the right to consideration depends only on the passage of time, contract assets are reclassified to "trade accounts receivable". According to the previous accounting policies, the group disclosed contract assets (receivables resulting from construction contracts) as "trade accounts receivable".
- **Contract liabilities:** Represent the group's obligation to transfer goods or services to a customer for which the group has received consideration (or the amount is due) from the customer. A contract liability applies if the group receives consideration in advance of performance. According to the previous accounting policies, the group disclosed such liabilities as "advance payments from customers".

Because of this change in presentation in the balance sheet, the positions "trade accounts receivable" and "advance payments from customers" decreased after applying IFRS 15.

Change from over time method to point in time method

The significant part of the adjustments (besides the new balance sheet positions as described above) results from limitations in applying the over time method. This is mainly due to construction contracts without right to payment clauses in cases of termination for convenience. For some construction contracts for which the group recognized sales and profit over time according to the previous accounting standards, these limitations led to point in time sales, costs and profit recognition under IFRS 15. With these changes, sales, costs and profit recognition generally occurs later for such contracts. Sales, costs of goods sold and the corresponding profit margin of ongoing construction contracts without right to payment clauses have been reversed as of January 1, 2018 and will be recognized at point in time (or have already been recognized during the period).

The change from the over time method to the point in time method leads to the following main impacts:

- Lower receivables from construction contracts (disclosed as “trade accounts receivable” according to the previous accounting policies and as “contract assets” under IFRS 15).
- Higher inventories.
- Lower netting between receivables from construction contracts and advance payments from customers leads to higher receivables from construction contracts and higher advance payments from customers.

Explanation of balance sheet impact

As a result of the aforementioned impacts (new balance sheet items and change from over time method to point in time method), the significant adjustments for IFRS 15 are as follows (see also tables below):

- **Inventories:** Lower receivables from construction contracts leads to higher inventories.
- **Contract assets:** Different disclosure of receivables from construction contracts in the balance sheet leads to this new balance sheet item under IFRS 15.
- **Trade accounts receivable:** Separate disclosure of receivables from construction contracts in the balance sheet leads to lower accounts receivable under IFRS 15. The change from the over time to the point in time method leads to lower receivables from construction contracts under IFRS 15. Lower netting between receivables from construction contracts and advance payments from customers leads to higher receivables from construction contracts.
- **Contract liabilities:** Different disclosure of advance payments from customers in the balance sheet leads to this new balance sheet item under IFRS 15.
- **Advance payments from customers:** Lower netting between receivables from construction contracts and advance payments from customers leads to higher advance payments from customers. Different disclosure of advance payments from customers as contract liabilities leads to zero advance payments from customers under IFRS 15.

Impacts of adopting IFRS 15

The following tables summarize the impacts of adopting IFRS 15 on the group’s consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet and consolidated statement of cash flows as of December 31, 2018.

Consolidated income statement

January 1 – December 31

millions of CHF	Notes	2018 (as reported)	Adjustments	2018 (amounts without adoption of IFRS 15)
Sales	3	3'364.9	39.7	3'404.5
Cost of goods sold		-2'386.6	-39.9	-2'426.5
Gross profit		978.3	-0.3	978.0
Selling and distribution expenses		-354.4	-	-354.4
General and administrative expenses		-384.4	-	-384.4
Research and development expenses	10	-86.4	-	-86.4
Other operating income and expenses, net	11	30.8	0.0	30.8
Operating income		183.8	-0.3	183.6
Interest and securities income	12	2.9	-	2.9
Interest expenses	12	-20.3	-	-20.3
Other financial income and expenses, net	12	-1.5	-	-1.5
Share of profit and loss of associates	16	0.7	-	0.7
Income before income tax expenses		165.6	-0.3	165.4
Income tax expenses	13	-49.2	-0.1	-49.3
Net income		116.5	-0.4	116.1
attributable to shareholders of Sulzer Ltd		113.7	-0.7	113.0
attributable to non-controlling interests		2.8	0.3	3.1
Earnings per share (in CHF)				
Basic earnings per share	24	3.56	-0.02	3.54
Diluted earnings per share	24	3.53	-0.02	3.50

Consolidated statement of comprehensive income

January 1 – December 31

millions of CHF	Notes	2018 (as reported)	Adjustments	2018 (amounts without adoption of IFRS 15)
Net income		116.5	-0.4	116.1
Items that may be reclassified subsequently to the income statement				
Cash flow hedges, net of tax	28	-2.2	-	-2.2
Currency translation differences		-90.6	-	-90.6
Total of items that may be reclassified subsequently to the income statement		-92.8	-	-92.8
Items that will not be reclassified to the income statement				
Remeasurements of defined benefit obligations, net of tax	9	55.9	-	55.9
Total of items that will not be reclassified to the income statement		55.9	-	55.9
Total other comprehensive income		-36.9	-	-36.9
Total comprehensive income for the period		79.6	-0.4	79.2
attributable to shareholders of Sulzer Ltd		78.2	-0.4	77.8
attributable to non-controlling interests		1.4	-	1.4

Consolidated balance sheet

December 31

millions of CHF	Notes	2018 (as reported)	Adjustments	2018 (amounts without adoption of IFRS 15)
Non-current assets				
Goodwill	14	923.4	–	923.4
Other intangible assets	14	439.4	–	439.4
Property, plant and equipment	15	527.0	–	527.0
Associates	16	13.4	–	13.4
Other financial assets	17	9.4	–	9.4
Non-current receivables		6.2	–	6.2
Deferred income tax assets	13	138.9	–5.4	133.6
Total non-current assets		2'057.7	–5.4	2'052.4
Current assets				
Inventories	18	658.9	–114.6	544.3
Current income tax receivables		29.0	–	29.0
Advance payments to suppliers		79.9	–	79.9
Contract assets	19	205.1	–205.1	–
Trade accounts receivable	20	622.3	311.5	933.8
Other current receivables and prepaid expenses	21	150.2	–	150.2
Cash and cash equivalents	22	1'095.2	–	1'095.2
Total current assets		2'840.6	–8.1	2'832.4
Total assets		4'898.3	–13.5	4'884.8
Equity				
Share capital	23	0.3	–	0.3
Reserves		1'629.5	21.1	1'650.6
Equity attributable to shareholders of Sulzer Ltd		1'629.9	21.1	1'651.0
Non-controlling interests		11.2	0.3	11.5
Total equity		1'641.0	21.4	1'662.4
Non-current liabilities				
Non-current borrowings	25	1'316.3	–	1'316.3
Deferred income tax liabilities	13	89.5	0.9	90.4
Non-current income tax liabilities	13	2.3	–	2.3
Defined benefit obligations	9	160.9	–	160.9
Non-current provisions	26	74.4	–	74.4
Other non-current liabilities		3.6	–	3.6
Total non-current liabilities		1'646.8	0.9	1'647.7
Current liabilities				
Current borrowings	25	18.0	–	18.0
Current income tax liabilities	13	32.0	–	32.0
Current provisions	26	139.6	–	139.6
Contract liabilities		256.4	–256.4	–
Trade accounts payable		521.8	–	521.8
Advance payments from customers		–	219.7	219.7
Other current and accrued liabilities	27	642.6	0.9	643.6
Total current liabilities		1'610.4	–35.8	1'574.6
Total liabilities		3'257.3	–34.9	3'222.3
Total equity and liabilities		4'898.3	–13.5	4'884.8

Consolidated statement of cash flows

January 1 – December 31

millions of CHF	Notes	2018 (as reported)	Adjustments	2018 (amounts without adoption of IFRS 15)
Cash and cash equivalents as of January 1		488.8	-	488.8
Net income		116.5	-0.4	116.1
Interest and securities income	12	-2.9	-	-2.9
Interest expenses	12	20.3	-	20.3
Income tax expenses	13	49.2	0.1	49.3
Depreciation, amortization and impairments	14,15	145.1	-	145.1
Income from disposals of property, plant and equipment	11,15	-5.8	-	-5.8
Changes in inventories		-98.4	32.4	-66.0
Changes in advance payments to suppliers		6.1	-4.4	1.7
Changes in contract assets		-11.0	11.0	-
Changes in trade accounts receivable		19.9	-79.7	-59.8
Changes in advance payments from customers		-	18.6	18.6
Changes in contract liabilities		-23.7	23.7	-
Changes in trade accounts payable		106.2	-	106.2
Change in provision for employee benefit plans		-2.8	-	-2.8
Changes in provisions		-21.3	-	-21.3
Changes in other net current assets		20.8	-1.4	19.3
Other non-cash items		17.6	-	17.6
Interest received		2.9	-	2.9
Interest paid		-12.2	-	-12.2
Income tax paid		-65.6	-	-65.6
Total cash flow from operating activities		260.8	-	260.8
Purchase of intangible assets	14	-6.9	-	-6.9
Purchase of property, plant and equipment	15	-89.3	-	-89.3
Sale of property, plant and equipment	11, 15	16.6	-	16.6
Acquisitions of subsidiaries, net of cash acquired	4	-217.5	-	-217.5
Acquisitions of associates	16	-1.2	-	-1.2
Dividends from associates	16	0.1	-	0.1
Divestitures of subsidiaries		0.7	-	0.7
Purchase of financial assets	17	-0.6	-	-0.6
Sale of financial assets	17	0.6	-	0.6
Total cash flow from investing activities		-297.4	-	-297.4
Dividend	23	-43.1	-	-43.1
Dividend paid to non-controlling interests		-1.9	-	-1.9
Purchase of treasury shares		-454.9	-	-454.9
Sale of treasury shares	23	557.4	-	557.4
Changes in non-controlling interests		-14.3	-	-14.3
Additions in non-current borrowings	25	859.4	-	859.4
Repayment of non-current borrowings	25	-1.1	-	-1.1
Additions in current borrowings	25	426.4	-	426.4
Repayment of current borrowings	25	-658.9	-	-658.9
Total cash flow from financing activities		669.1	-	669.1
Exchange losses on cash and cash equivalents		-26.1	-	-26.1
Net change in cash and cash equivalents		606.4	-	606.4
Cash and cash equivalents as of December 31	22	1'095.2	-	1'095.2

b) Standards, amendments and interpretations issued but not yet effective which the group has decided not to early adopt in 2018

The group has not early adopted any new or amended standards in preparing these consolidated financial statements.

IFRS 16 “Leases”

IFRS 16, published in January 2016, introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

The group is required to adopt IFRS 16 from January 1, 2019. The group has assessed the estimated impact that initial application will have on its consolidated financial statements, as described below. The actual impacts of adopting the standard may change because the group has not finalized the validation of the results of the assessments.

The group will recognize new assets and liabilities for its operating leases of buildings and equipment. The nature of expenses related to those leases will change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

The undiscounted operating lease commitments as of December 31, 2018 amounted to CHF 127.3 million (see [note 29](#)). This includes short-term leases as well as low-value asset leases that will be recognized on a straight-line basis as expense in the income statement. For the remaining lease commitments, the group expects to recognize lease liabilities and leased assets in the range of CHF 105 to CHF 120 million. This does not include leased assets and lease liabilities on finance lease agreements of CHF 8.6 million (see [note 15](#)) and CHF 7.7 million, respectively.

No significant impact is expected for the group's finance leases.

The group has no significant sub-leases and is therefore not acting as a lessor.

The group plans to apply IFRS 16 initially on January 1, 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance, with no restatement of comparative information.

IFRIC 23 “Uncertainty over Income Tax Treatments”

IFRIC 23, published in June 2017, clarifies how the recognition and measurement requirements of IAS 12 are applied where there is uncertainty over income tax treatments. IFRIC 23 is effective for periods beginning on or after January 1, 2019.

The group has reviewed its uncertain tax positions and has adapted its procedures accordingly. The estimated impact of the application of the clarification of the standard is assessed to be not significant on the amount of reported tax provisions for uncertain tax positions.

Other IFRS standards and interpretations

There are no other IFRS standards or interpretations not yet effective that would be expected to have a material impact on the group.

34.3 Consolidation

a) Business combinations

The group accounts for business combinations using the acquisition method when control is transferred to the group (see 34.3 b). The consideration transferred in the acquisition is measured at the fair value of the assets given, the liabilities incurred to the former owner of the acquiree, and the equity interest issued by the group. Any goodwill arising is tested annually for impairment (see 34.6 a). Any gain on a bargain purchase is recognized in the income statement immediately. Acquisition-related costs are expensed as incurred, except if related to the issue of debt or equity securities. Identifiable assets acquired, and liabilities and contingent liabilities assumed in a business combination, are measured initially at their fair values at the acquisition date.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognized in the income statement.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards), then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. The determination is based on the difference between the market-based measure of the replacement awards compared with the market-based measure of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service.

b) Subsidiaries

Subsidiaries are all entities controlled by the group. The group controls an entity when it is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

According to the full consolidation method, all assets and liabilities as well as income and expenses of the subsidiaries are included in the consolidated financial statements. The share of non-controlling interests in the net assets and results is presented separately as non-controlling interests in the consolidated balance sheet and income statement, respectively.

c) Non-controlling interests

The group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, at the non-controlling interest's proportionate share of the recognized amounts of the acquiree's identifiable net assets. Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions.

When the group loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any related non-controlling interest and other components of equity. Any resulting gain or loss is recognized in the income statement. Any interest retained in the former subsidiary is measured at fair value when control is lost.

d) Associates and joint ventures

Associates are those entities in which the group has significant influence, but no control, over the financial and operating policies. Significant influence is presumed to exist when the group holds, directly or indirectly, between 20% and 50% of the voting rights. Joint ventures are those entities over whose activities the group has joint control, established by contractual agreement and requiring

unanimous consent for strategic, financial and operating decisions. Associates and joint ventures are accounted for using the equity method and are initially recognized at cost.

e) Transactions eliminated on consolidation

All material intercompany transactions and balances and any unrealized gains arising from intercompany transactions are eliminated in preparing the consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

34.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Executive Officer. The Chief Executive Officer, who is responsible for allocating resources and assessing performance (e.g. operating income) of the operating segments, has been identified as chief operating decision maker.

34.5 Foreign currency translation

a) Functional and presentation currency

Items included in the financial statements of subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Swiss francs (CHF).

The following table shows the major currency exchange rates for the reporting periods 2018 and 2017:

CHF	2018		2017	
	Average rate	Year-end rate	Average rate	Year-end rate
1 EUR	1.16	1.13	1.11	1.17
1 GBP	1.31	1.25	1.27	1.32
1 USD	0.98	0.99	0.98	0.98
100 CNY	14.80	14.32	14.58	14.99
100 INR	1.43	1.41	1.51	1.53

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

c) Subsidiaries

The results and balance sheet positions of all the subsidiaries (excluding the ones with hyperinflationary economy) that have a functional currency different from the presentation currency of the group are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet, and
- income and expenses for each income statement are translated at average exchange rates.

Translation differences resulting from consolidation are taken to other comprehensive income. In the event of a sale or liquidation of foreign subsidiaries, exchange differences that were recorded in other

comprehensive income are recognized in the income statement as part of the gain or loss on sale or liquidation.

If a loan is made to a group company, and the loan in substance forms part of the group's investment in the group company, translation differences arising from the loan are recognized directly in other comprehensive income as foreign currency translation differences. When the group company is sold or partially disposed of, and control no longer exists, gains and losses accumulated in equity are reclassified to the income statement as part of the gain or loss on disposal.

34.6 Intangible assets

The intangible assets with finite useful life are amortized in line with the expected useful life, usually on a straight-line basis. The period of useful life is to be assessed according to business rather than legal criteria. This assessment is made at least once a year. An impairment might be required in the event of sudden or unforeseen value changes.

a) Goodwill

Goodwill represents the difference between the consideration transferred and the fair value of the group's share in the identifiable net asset value of the acquired business at the time of acquisition. Any goodwill arising as a result of a business combination is included within intangible assets.

Goodwill is subject to an annual impairment test and valued at its original acquisition cost less accumulated impairment losses. In cases where circumstances indicate a potential impairment, impairment tests are conducted more frequently. Profits and losses arising from the sale of a business include the book value of the goodwill assigned to the business being sold.

For impairment testing goodwill is allocated to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. Goodwill originating from the acquisition of an associated company is included in the book value of the participation in associated companies.

b) Trademarks and licenses

Trademarks, licenses and similar rights acquired from third parties are stated at acquisition cost. Such assets are amortized over their expected useful life, generally not exceeding ten years.

c) Research and development

Expenditure on research activities is recognized in the income statement as incurred. Development costs for major projects are capitalized only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the group intends and has sufficient resources to complete development and to use or sell the asset. Otherwise, it is recognized in the income statement as incurred. Subsequently such assets are measured at cost less accumulated amortization (max. five years) and any accumulated impairment loss.

d) Computer software

Acquired computer software licenses are capitalized on the basis of the cost incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives (three to max. five years).

e) Customer relationships

As part of a business combination, acquired customer rights are recorded at fair value (cost at the time of acquisition). These costs are amortized over their estimated useful lives, generally not exceeding 15 years.

34.7 Property, plant and equipment

Property, plant and equipment is stated at acquisition cost less depreciation and impairments. Acquisition cost includes expenditure that is directly attributable to the acquisition of the item. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that the future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced item is derecognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is provided on a straight-line basis over the estimated useful life. Land is stated at cost and is not depreciated.

The useful lives are as follows:

Buildings 20 – 50 years

Machinery 5 – 15 years

Technical equipment 5 – 10 years

Other non-current assets max. 5 years

Property, plant and equipment financed by long-term financial leases is capitalized and amortized in the same way as other assets. The applicable leasing commitments are shown as liabilities and are included under long-term borrowings. An asset's carrying amount is impaired immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

34.8 Impairment of property, plant and equipment and intangible assets

Assets with a finite useful life are only tested for impairment if relevant events or changes in circumstances indicate that the book value is no longer recoverable. An impairment loss is recorded equal to the excess of the carrying value over the recoverable amount. The recoverable amount is the higher of the fair value of the asset less disposal costs and its value in use. The value in use is based on the estimated cash flow over a five-year period and the extrapolated projections for subsequent years. The results are discounted using an appropriate pre-tax, long-term interest rate. For the purposes of the impairment test, assets are grouped together at the lowest level for which separate cash flows can be identified (cash-generating units).

34.9 Financial assets

Financial assets are classified into the following three categories:

- financial assets at fair value through profit or loss (FVTPL),
- financial assets at fair value through other comprehensive income (FVOCI),
- financial assets measured at amortized cost.

The classification depends on the business model for managing the financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income

(FVOCI). The group reclassifies debt investments when and only when its business model for managing those assets changes.

Debt instruments

Financial assets at fair value through profit or loss (FVTPL)

Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognized in profit or loss and presented within other operating income and expenses or other financial income and expenses, depending on the nature of the investment, in the period in which it arises.

Financial assets at fair value through other comprehensive income (FVOCI)

Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

Financial assets measured at amortized cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

Equity instruments

The group subsequently measures all equity investments at fair value. Where the group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss as other income when the group's right to receive payments is established. A gain or loss on an equity investment that is subsequently measured at FVTPL is recognized in profit or loss and presented within other operating income and expenses or other financial income and expenses, depending on the nature of the investment, in the period in which it arises.

There is an exemption from measurement at fair value of such assets if its fair value cannot be measured reliably. The exemption applies to equity instruments that do not have a quoted price in an active market. The group therefore measures some of its fair value assets at cost.

34.10 Derivative financial instruments and hedging activities

The group uses derivative financial instruments, such as forward currency contracts, other forward contracts and options, to hedge its risks associated with fluctuations in foreign currencies arising from operational and financing activities. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on the derivatives during the year that do not qualify for hedge accounting are taken directly into profit or loss.

The group applies hedge accounting to secure the foreign currency risks of future cash flows which have a high probability of occurrence. These hedges are classified as “cash flow hedges,” whereas the hedge instrument is recorded on the balance sheet at fair value and the effective portions are booked against “Other comprehensive income” in the column “cash flow hedge reserve.” If the hedge relates to a non-financial transaction which will subsequently be recorded on the balance sheet, the adjustments accumulated under “other comprehensive income” at that time will be included in the initial book value of the asset or liability. In all other cases, the cumulative changes of fair value of the hedging instrument that have been recorded in other comprehensive income are included as a charge or credit to income when the forecasted transaction is recognized or when hedge accounting is discontinued as the criteria are no longer met. In general, the fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date.

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion on the hedge is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the income statement. Gains and losses accumulated in equity are included in the income statement when the foreign operation is partially disposed of or sold.

At the inception of the transaction, the group documents the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

34.11 Offsetting financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts, and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

34.12 Inventories

Raw materials, supplies and consumables are stated at the lower of cost or net realizable value. Finished products and work in progress are stated at the lower of production cost or net realizable value. Production cost includes the costs of materials, direct and indirect manufacturing costs, and contract-related costs of construction. Inventories are valued by reference to weighted average costs. Provisions are made for slow-moving and excess inventories.

34.13 Trade receivables

Trade and other accounts receivable are recognized initially at fair value and subsequently measured at amortized cost, less allowances for doubtful trade accounts receivable.

The allowance for doubtful trade accounts receivable is based on expected credit losses. These are based on historical observed default rates over the expected life of the trade receivables and are adjusted for forward-looking information such as development of gross domestic product (GDP) and oil price development.

34.14 Cash and cash equivalents

Cash and cash equivalents comprise bills, postal giro and bank accounts, together with other short-term highly liquid investments with a maturity of three months or less from the date of acquisition. Bank overdrafts are reported within borrowings in the current liabilities.

34.15 Share capital

Ordinary shares are classified as equity. Costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects. When share capital is repurchased, the amount of the consideration paid, which includes directly attributable cost, is net of any tax effects and is recognized as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity and the resulting surplus or deficit on the transaction is transferred to/from retained earnings.

34.16 Trade payables

Trade payables and other payables are stated at face value. The respective value corresponds approximately to the amortized cost.

34.17 Borrowings

Financial debt is stated at fair value when initially recognized, after recognition of transaction costs. In subsequent periods, it is valued at amortized cost. Any difference between the amount borrowed (after deduction of transaction costs) and the repayment amount is reported in the income statement over the duration of the loan using the effective interest method. Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

34.18 Current and deferred income taxes

The current income tax charge comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. It is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the group's subsidiaries and associates operate and generate taxable income. The management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

The liability method is used to provide deferred taxes on all temporary differences between the tax base of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred taxes are valued by applying tax rates (and regulations) substantially enacted on the balance sheet date or any that have essentially been legally approved and are expected to apply at the time when the deferred tax asset is realized or the deferred tax liability is settled.

Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income, in which case it is recognized directly in equity or other comprehensive income.

Deferred tax assets are recognized for unused tax losses and deductible temporary differences to the extent that it is probable that a taxable profit will be available against which they can be used. Deferred tax liabilities arising as a result of temporary differences relating to investments in subsidiaries and associated companies are applied, unless the group can control when temporary differences are reversed and it is unlikely that they will be reversed in the foreseeable future.

34.19 Employee benefits

a) Defined benefit plans

The group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the group, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest income on plan assets), and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in OCI. The group determines the net interest expense/(income) on the net defined benefit liability/(asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability/(asset), taking into account any changes in the net defined benefit liability/(asset) during the period as a result of contributions and benefit payments. Net interest expenses and other expenses related to defined benefit plans are recognized in the income statement.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in the income statement. The group recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

b) Defined contribution plans

Defined contribution plans are defined to be pure savings plans, under which the employer makes certain contributions into a separate legal entity (fund) and does not have a legal or an extendible (constructive) liability to contribute any additional amounts in the event this entity does not have enough funds to pay out benefits. A "constructive" commitment exists when it can be assumed that the employer will voluntarily make additional contributions in order not to endanger the relationship with its employees. Company contributions to such plans are considered in the income statement as personnel expenses.

c) Other employee benefits

Some subsidiaries provide other employee benefits like "Early retirement benefits" or "Jubilee gifts" to their employees. Early retirement benefits are defined as termination benefits for employees accepting voluntary redundancy in exchange for those benefits. Jubilee gifts are other long-term benefits. For example, in Switzerland, Sulzer makes provisions for jubilee benefits based on a Swiss local directive. The provisions are reported in the category "Other employee benefits" ([note 26](#)).

Short-term benefits are payable within 12 months after the end of the period in which the employees render the related employee service. In the case of liabilities of a long-term nature, the discounting effects and employee turnover are to be taken into consideration.

Obligations to employees arising from restructuring measures are included under the category "Restructuring provisions."

34.20 Share-based compensation

Sulzer operates two equity-settled share-based payment plans. A performance share plan (PSP) covers the members of the Executive Committee and starting 2016 also the members of the Sulzer Management Group. A restricted share plan (RSP) covers the members of the Board of Directors and until 2015 also covered the members of the Sulzer Management Group.

a) Performance share plan (PSP)

The fair value of the employee services received in exchange for the grant of the performance share units is recognized as a personnel expense with a corresponding increase in equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the share units granted, excluding the impact of any non-market vesting conditions (e.g. profitability targets). At each balance sheet date, the group reassesses its estimates of the number of share units that are expected to vest. It recognizes the impact of the reassessment of original estimates, if any, in the income statement, and a corresponding adjustment to equity. The fair value of performance share units granted is measured by external valuation specialists based on a Monte Carlo simulation.

The group accrues for the expected cost of social charges in connection with the allotment of shares under the PSP. The dilution effect of the share-based awards is considered when calculating diluted earnings per share.

b) Restricted share plan (RSP)

The fair value of the employee services received in exchange for the grant of the share units is recognized as a personnel expense with a corresponding increase in equity. The total amount expensed is recognized over the vesting period, which is the period over which the specified service conditions are expected to be met.

The fair value of the restricted share units granted for services rendered is measured at the Sulzer closing share price at grant date, and discounted over the vesting period using a discount rate that is based on the yield of Swiss government bonds with maturities matching the duration of the vesting period. Participants are not entitled to dividends declared during the vesting period. The grant date fair value of the restricted share units is consequently reduced by the present value of dividends expected to be paid during the vesting period.

The group accrues for the expected cost of social charges in connection with the allotment of shares under the RSP. The dilutive effect of the share-based awards is considered when calculating diluted earnings per share.

34.21 Provisions

Provisions are recognized when: the group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognized for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required is determined by considering the class of obligation as a whole. A provision is recognized even if the likelihood of an outflow with respect to a single item included in the class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as interest expense.

34.22 Sales

Sales comprises the fair value of the consideration received or receivable for the sale of goods and rendering of services in the ordinary course of the group's activities. This includes standard products (off the rack) as well as configured and engineered or tailor-made products. Sales are shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the group.

The core principle is that sales are recognized at an amount that reflects the consideration to which the group expects to be entitled in exchange for transferring goods or services to a customer.

Sales are recognized when (or as) the group satisfies a performance obligation by transferring a promised good or service (that is, an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset.

A customer obtains control of a good or service if it has the ability to direct the use of, and obtain substantially all of the remaining benefits from, that good or service (e.g. use, consume, sale, hold). A customer could have the future right to direct the use of the asset and obtain substantially all of the benefits from it (for example, upon making a prepayment for a specified product).

There are two methods to recognize sales:

- **Over time method:** Sales, costs and profit margin recognition in line with the progress of the project.
- **Point in time method:** Sales recognition when the performance obligation is satisfied at a certain point in time.

The group determines at contract inception, whether control of each performance obligation transfers to a customer over time or at a point in time. Arrangements where the performance obligations are satisfied over time are not limited to services arrangements. The assessment of whether control transfers over time or at a point in time is critical to the timing of revenue recognition.

Over time method (OT)

Sales are recognized over time if any of the following is met:

- Customer simultaneously receives/consumes as the group performs
- The group creates/enhances an asset and customer controls it during this process
- Created asset has no alternative use for the customer and the group has enforceable right to payment (including reasonable profit margin) for performance up to date if the customer terminates the contract for convenience.

The group has construction contracts without right to payment clauses in cases of termination for convenience by the customer. The group applies the point in time method to recognize sales for such contracts.

The over time method is based on the percentage of costs to date compared with the total estimated contract costs (cost-to-cost method). In rare cases, other methods, such as a milestones method, may be used for a particular project assuming that the stage of completion can be better estimated than by applying the cost-to-cost method. Work progress of sub-suppliers is considered to determine the stage of completion. If circumstances arise that may change the original estimates of sales, costs or extent of progress toward completion, estimates are revised. These revisions may

result in increases or decreases in estimated sales or costs, and are reflected in income in the period in which the circumstances that give rise to the revision become known by management.

The income statement contains a share of sales, including an estimated share of profit. The balance sheet includes the corresponding contract assets if the assets exceed the advance payments from the customer of the project. When it appears probable that the total costs of an order will exceed the expected income, the total amount of expected loss is recognized immediately in the income statement.

Point in time method (PIT)

A performance obligation is satisfied at a point in time if none of the criteria for satisfying a performance obligation over time is met. Sales are recognized when (or as) the customer obtains control of that asset (depending on incoterms). The following points indicate that a customer has obtained control of an asset:

- The entity has a present right to payment
- The customer has legal title
- The customer has physical possession
- The customer has the significant risks and rewards of ownership
- The customer has accepted the asset

For contracts applying the point in time method, the transfer of risks and rewards of ownership (depending on international commercial terms) typically depicts the transfer in control most appropriately.

Contract classification per division

Sales are measured based on the consideration specified in a contract with a customer. Sales are recognized over time if any of the conditions above is met. If none of the criteria for satisfying a performance obligation over time is met, sales are recognized at a point in time.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, and the related revenue recognition method.

Contract classification	Characteristics	Typical sales recognition method	
		Created asset has no alternative use for the customer and the group has enforceable right to payment (including reasonable profit margin) for performance up to date if the customer terminates the contract for convenience	Created asset has alternative use for the customer or the group has no enforceable right to payment (including reasonable profit margin) for performance up to date if the customer terminates the contract for convenience
Pumps Equipment			
Standard business	<ul style="list-style-type: none"> – Standard products made to stock – New pumps – Spare parts 	n/a	PIT
Configured business	<ul style="list-style-type: none"> – Preconfigured products – Assembled and packaged on customer order 	OT	PIT
Engineered business	<ul style="list-style-type: none"> – Highly customized products – Engineered to order according to customer's specifications 	OT	PIT
Rotating Equipment Services			
Repair	<ul style="list-style-type: none"> – Turbo – Electromechanical – Pumps 	OT	PIT
Parts	<ul style="list-style-type: none"> – Gas turbines components – Coils – Pumps spares – Retrofits – Off-the-shelf articles or manufactured on customer order – Others (tool container, remote monitoring, other spare parts) 	OT	PIT
Services	<ul style="list-style-type: none"> – Overhaul / field service – Site setup – Disassembly / reassembly – Installation / commissioning – Technical support – Refurb / retrofit – Relocation – Long-term service agreement (LTSA) / long-term parts agreement (LTPA) – Customized services according to customer's specifications 	OT	PIT OT for field services (asset that the customer controls)
Chemtech			
Rush orders	<ul style="list-style-type: none"> – Off-the-shelf articles of stock materials – Articles purchased for sale 	n/a	PIT
Components	<ul style="list-style-type: none"> – Standard configured to customer's requirements – Tailor made to customer's requirements – Replacement of components – Standard mechanical engineering – Supervision – Installation workforce – Combined order for Separation Technology (ST) & Tower Field Services (TFS) 	OT	PIT
Services / Engineered solutions	<ul style="list-style-type: none"> – Studies – Engineering – Site project management – Supervision – Key equipment – Installation – Procurement of equipment, spare parts 	OT	PIT OT for certain service contracts where the customer simultaneously receives the service
Applicator Systems			
Rush orders	<ul style="list-style-type: none"> – Off-the-shelf articles of stock materials (production to stock) 	n/a	PIT

Disaggregation of sales

In [note 3](#) sales are disaggregated by:

- Divisions (group's reportable segments)
- Timing of sales recognition (sales recognition method: over time, point in time) and divisions
- Market segments and divisions
- Geographical regions and divisions

Payment terms

The group's general terms and conditions of supply require payments within 30 days after the invoice date.

If the group's general terms and conditions apply for a contract, the group is entitled to issue the invoices as follows: for one-third of the contract value within five days after effective date (date when the purchase order has been accepted by the supplier, or the date of the latest signing), for one-third after expiration of half of the delivery time, and for one-third within 45 days prior to delivery. Payments for prices calculated on a time basis are invoiced on a bi-weekly basis or after completion of the scope of supply, whichever occurs first.

Other payment terms may apply if otherwise defined in the customer contract, the purchase order, the respective change order or the quotation.

Variable considerations

If the consideration promised in a contract includes a variable amount (e.g. liquidated damages, early payment discount, volume discounts), the group estimate the amount of consideration to which the group will be entitled in exchange for transferring the promised goods or services to a customer. The amount of the variable consideration is estimated by using either of the following methods, depending on which method the group expect to better predict the amount of consideration to which it will be entitled: the expected value method or the most likely amount method. The method selected is applied consistently throughout the contract and to similar types of contracts when estimating the effect of uncertainty on the amount of variable consideration to which the group is entitled.

The group's general terms and conditions of supply foresee the following warranty periods. Except in cases where the scope of supply is limited to services only, the warranty period ends on the earliest of the dates below:

- After 12 months from the initial operation of the scope of supply
- After 18 months from delivery of the scope of supply
- In the event that delivery is delayed or impeded for reasons beyond the supplier's control, after 18 months from the date of the supplier's notification that the scope of supply is ready for dispatch

Where the scope of supply is limited to services only, the warranty period ends six months after completion of such services.

If the group fails to meet the delivery date for more than two calendar weeks due to reasons for which the group is directly responsible, and provided that the purchase order expressly provides liquidated damages for such failure, the purchaser is entitled to demand that the group pays liquidated damages at the rate stated in the purchase order.

The group's obligation for warranties, liquidated damages and other obligations is accounted for as a variable consideration in the sales and recognized as a provision.

Allocation of the transaction price

To allocate the transaction price to each performance obligation on a relative stand-alone selling price basis, the group determines the stand-alone selling price at contract inception of the distinct good or service underlying each performance obligation in the contract and allocates the transaction price in proportion to those stand-alone selling prices. If the stand-alone selling price is not directly observable, then the group estimates the amount with the expected cost plus margin method.

34.23 Assets and disposal groups held for sale

A non-current asset or a group of assets is classified as "held for sale" if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the management must be committed to sell the assets, the assets must be actively marketed for sale, and the sale is expected to be completed within one year. A non-current asset or a group of assets classified as "held for sale" shall be measured at the lower of its carrying amount or fair value less selling cost.

34.24 Dividend distribution

Dividend distribution to the shareholders of Sulzer Ltd is resolved upon decision at the Annual General Meeting and will be paid in the same reporting period.

35 Subsequent events after the balance sheet date

The Board of Directors authorized these consolidated financial statements for issue on February 12, 2019. They are subject to approval at the Annual General Meeting, which will be held on April 3, 2019. At the time when these consolidated financial statements were authorized for issue, the Board of Directors and the Executive Committee were not aware of any events that would materially affect these financial statements.

36 Major subsidiaries

December 31, 2018

	Subsidiary	Sulzer ownership and voting rights	Registered capital (including paid-in capital in the USA and Canada)	Direct participation by Sulzer Ltd	Research and development	Production and engineering	Sales	Service
Europe								
Switzerland	Sulzer Chemtech AG, Winterthur	100%	CHF 10'000'000	•	•	•	•	•
	Sulzer Mixpac AG, Haag	100%	CHF 100'000	•	•	•	•	
	Sulzer Markets and Technology AG, Winterthur	100%	CHF 4'000'000	•				
	Sulzer Management AG, Winterthur	100%	CHF 500'000	•				
	Tefag AG, Winterthur	100%	CHF 500'000	•				
	Sulzer International AG, Winterthur	100%	CHF 100'000	•				
	Medmix Systems AG ¹⁾ , Rotkreuz	100%	CHF 178'572	•	•	•	•	•
Belgium	Sulzer Pumps Wastewater Belgium N.V./S.A., St. Stevens-Woluwe	100%	EUR 123'947	•			•	•
	Ensival Moret International SA, Thimister-Clermont	100%	EUR 9'400'000	•				
	Ensival Moret Belgium SA, Thimister-Clermont	100%	EUR 7'400'000	•				
Germany	Sulzer Pumpen (Deutschland) GmbH, Bruchsal	100%	EUR 3'000'000	•	•	•	•	•
	Sulzer Pumps Wastewater Germany GmbH, Bonn	100%	EUR 300'000	•			•	•
	Sulzer Chemtech GmbH, Linden	100%	EUR 300'000	•			•	•
	Sulzer APS Deutschland Holding GmbH, Bechhofen	100%	EUR 870'000	•				
	Geka GmbH, Bechhofen	100%	EUR 878'600		•	•	•	•
	Transcodent GmbH & Co. KG, Kiel	100%	EUR 2'000		•	•	•	•
Denmark	Sulzer Mixpac Denmark A/S, Farum	100%	DKK 500'000	•				
	Sulzer Pumps Denmark A/S, Farum	100%	DKK 500'000	•			•	•
Finland	Sulzer Pumps Finland Oy, Kotka	100%	EUR 16'000'000	•	•	•	•	•
France	Sulzer Pompes France SASU, Buchelay	100%	EUR 6'600'000	•	•	•	•	•
	Ensival Moret France SASU, Saint-Quentin	100%	EUR 10'000'000	•		•	•	•
Great Britain	Sulzer Pumps (UK) Ltd., Leeds	100%	GBP 9'610'000		•	•	•	•
	Sulzer Chemtech (UK) Ltd., Stockton on Tees	100%	GBP 100'000				•	•
	Sulzer Electro Mechanical Services (UK) Ltd., Birmingham	100%	GBP 48'756			•	•	•
	Sulzer (UK) Holdings Ltd., Leeds	100%	GBP 6'100'000	•				
	Sulzer Mixpac (UK) Ltd., Hungerford	100%	GBP 1'000'000			•	•	

Ireland	Sulzer Pump Solutions Ireland Ltd., Wexford	100%	EUR 2'222'500	•	•	•	•	•
	Sulzer Finance (Ireland) Limited, Wexford	100%	EUR 100	•				
Italy	Sulzer Italy S.r.l., Casalecchio di Reno	100%	EUR 600'000	•			•	
Norway	Sulzer Pumps Wastewater Norway A/S, Sandvika	100%	NOK 502'000	•			•	•
	Sulzer Pumps Norway A/S, Klepp Stasjon	100%	NOK 500'000	•			•	•
The Netherlands	Sulzer Pumps Wastewater Netherlands B.V., Maastricht-Airport	100%	EUR 15'882				•	•
	Sulzer Chemtech Nederland B.V., Breda	100%	EUR 1'134'451				•	•
	Sulzer Turbo Services Rotterdam B.V., Europoort	100%	EUR 18'000			•	•	•
	Advanced Separation Company (Ascom) B.V., Arnhem	100%	EUR 18'000		•	•	•	
	Process Laboratories Netherlands (PROLAB NL) B.V., Arnhem	100%	EUR 18'000		•			•
	Sulzer Turbo Services Venlo B.V., Lomm	100%	EUR 444'704		•	•	•	•
	Sulzer Netherlands Holding B.V., Breda	100%	EUR 10'010'260	•				
	Sulzer Capital B.V., Breda	100%	EUR 50'000					
Austria	Sulzer Austria GmbH, Wiener Neudorf	100%	EUR 350'000	•			•	•
Poland	Sulzer Turbo Services Poland Sp. z o.o., Lublin	100%	PLN 2'427'000			•		•
	Sulzer Pumps Wastewater Poland Sp. z o.o., Warsaw	100%	PLN 800'000	•			•	•
	Sulzer Mixpac Poland Sp. z o.o., Nowa Wies Wroclawska	100%	PLN 5'000	•		•		
Russia	ZAO Sulzer Pumps, St. Petersburg	100%	RUB 8'000'000	•			•	
	Sulzer Pumps Rus LLC, Moscow	100%	RUB 6'000'600	•			•	•
	Sulzer Turbo Services Rus LLC, Moscow	100%	RUB 14'705'882	•				•
	Sulzer Chemtech LLC, Serpukhov	100%	RUB 55'500'000	•		•	•	•
Sweden	Sulzer Pumps Sweden AB, Vadstena	100%	SEK 3'000'000	•	•	•	•	•
Spain	Sulzer Pumps Spain S.A., Madrid	100%	EUR 1'750'497	•		•	•	•
	Sulzer Pumps Wastewater Spain S.A., Rivas Vaciamadrid	100%	EUR 2'000'000				•	•
North America								
Canada	Sulzer Pumps (Canada) Inc., Burnaby	100%	CAD 2'771'588			•	•	•
	Sulzer Chemtech Canada Inc., Edmonton	100%	CAD 1'000'000	•		•	•	•
	Sulzer Rotating Equipment Services (Canada) Ltd., Edmonton	100%	CAD 7'000'000	•		•	•	•
	JWC Environmental Canada ULC ¹⁾ , Burnaby	100%	CAD 1'832'816			•	•	
USA	Sulzer Pumps (US) Inc., Houston, Texas	100%	USD 40'381'108		•	•	•	•

	Sulzer Pumps Solutions Inc., Easley, South Carolina	100%	USD 27'146'250			•	•	•
	Sulzer Pump Services (US) Inc., Houston, Texas	100%	USD 1'000			•	•	•
	Sulzer Chemtech USA, Inc., Tulsa, Oklahoma	100%	USD 47'895'000	•		•	•	•
	Sulzer Mixpac USA Inc., Salem, New Hampshire	100%	USD 100				•	
	Sulzer Turbo Services Houston Inc., La Porte, Texas	100%	USD 18'840'000			•	•	•
	Sulzer Turbo Services New Orleans Inc., Belle Chasse, Louisiana	100%	USD 4'006'122			•	•	•
	Sulzer Electro-Mechanical Services (US) Inc., Pasadena, Texas	100%	USD 12'461'286			•	•	•
	Sulzer US Holding Inc., Houston, Texas	100%	USD 200'561'040	•				
	Geka Manufacturing Corporation, Elgin	100%	USD 603'719			•	•	•
	JWC Environmental Inc. ¹⁾ , Santa Ana	100%	USD 220'818'520		•	•	•	•
Mexico	Sulzer Pumps México, S.A. de C.V., Cuautitlán Izcalli	100%	MXN 4'887'413	•		•	•	•
	Sulzer Chemtech, S. de R.L. de C.V., Cuautitlán Izcalli	100%	MXN 231'345'500	•		•	•	•
Central and South America								
Argentina	Sulzer Turbo Services Argentina S.A., Buenos Aires	100%	ARS 9'730'091	•		•	•	•
Brazil	Sulzer Brasil S.A., Jundiaí	100%	BRL 81'789'432	•		•	•	•
	Sulzer Pumps Wastewater Brasil Ltda., Jundiaí	100%	BRL 37'966'785	•		•	•	•
	Sulzer Services Brasil, Triunfo	100%	BRL 40'675'856	•				•
	Geka do Brasil Indústria e Comércio de Embalagens Ltda., Sao Paulo	100%	BRL 15'009'794	•		•	•	•
Chile	Sulzer Bombas Chile Ltda., Vitacura	100%	CLP 46'400'000	•			•	
Colombia	Sulzer Pumps Colombia S.A.S., Cota	100%	COP 7'142'000'000	•			•	•
Venezuela	Sulzer Pumps (Venezuela) S.A., Barcelona	100%	VES 2'000				•	•
Africa								
South Africa	Sulzer Pumps (South Africa) (Pty) Ltd., Elandsfontein	75%	ZAR 100'450'000		•	•	•	•
	Sulzer (South Africa) Holdings (Pty) Ltd., Elandsfontein	100%	ZAR 16'476	•		•	•	•
Morocco	Sulzer Maroc S.A.R.L. A.U., Ain Sebaa	100%	MAD 3'380'000	•				•
Nigeria	Sulzer Pumps (Nigeria) Ltd., Lagos	100%	NGN 10'000'000	•			•	•
Zambia	Sulzer Zambia Ltd., Chingola	100%	ZMK 15'000'000	•			•	•
Middle East								
United Arab Emirates	Sulzer Pumps Middle East FZCO, Dubai	100%	AED 500'000	•			•	•
	Sulzer Rotating Equipment FZE, Dubai	100%	USD 272'000				•	•
Saudi Arabia	Sulzer Saudi Pump Company Limited, Riyadh	75%	SAR 44'617'000	•		•	•	•

Bahrain	Sulzer Chemtech Middle East S.P.C., Al Seef	100%	BHD 50'000	•		•		
Asia								
India	Sulzer Pumps India Pvt. Ltd., Navi Mumbai	99%	INR 25'000'000	•		•	•	
	Sulzer India Pvt. Ltd., Pune	100%	INR 34'500'000	•		•	•	
	Sulzer Tech India Pvt. Ltd., Navi Mumbai	100%	INR 100'000	•		•		
Indonesia	PT. Sulzer Indonesia, Purwakarta	95%	IDR 28'234'800'000	•		•	•	
Japan	Sulzer Daiichi K.K., Tokyo	60%	JPY 30'000'000	•		•		
	Sulzer Japan Ltd., Tokyo	100%	JPY 30'000'000	•		•	•	
Malaysia	Sulzer Pumps Wastewater Malaysia Sdn. Bhd., Selangor Darul Ehsan	100%	MYR 500'000	•		•		
Singapore	Sulzer Singapore Pte. Ltd., Singapore	100%	SGD 1'000'000	•		•	•	
South Korea	Sulzer Korea Ltd., Seoul	100%	KRW 222'440'000	•		•		
Thailand	Sulzer Chemtech Co., Ltd., Rayong	100%	THB 25'000'000	•			•	
People's Republic of China	Sulzer Dalian Pumps & Compressors Ltd., Dalian	100%	CHF 21'290'000	•		•	•	
	Sulzer Pumps Suzhou Ltd., Suzhou	100%	CNY 82'069'324	•		•	•	
	Sulzer Pump Solutions (Kunshan) Co., Ltd., Kunshan	100%	USD 5'760'000	•		•		
	Sulzer Shanghai Eng. & Mach. Works Ltd., Shanghai	100%	CNY 61'432'607	•	•	•	•	
	Sulzer Pumps Wastewater Shanghai Co. Ltd., Shanghai	100%	USD 1'550'000	•		•	•	
Australia								
	Sulzer Australia Pty Ltd., Brisbane	100%	AUD 5'308'890			•	•	
	Sulzer Australia Holding Pty Ltd., Brendale	100%	AUD 34'820'100	•				

1) Acquired in 2018.



Statutory Auditor's Report

To the General Meeting of Sulzer Ltd, Winterthur

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Sulzer Ltd and its subsidiaries (the Group), which comprise the “[Consolidated balance sheet](#)” as at December 31, 2018 and the “[Consolidated income statement](#)”, “[Consolidated statement of comprehensive income](#)”, “[Consolidated statement of changes in equity](#)” and “[Consolidated statement of cash flows](#)” for the year then ended, and “[Notes to the consolidated financial statements](#)”, including a summary of significant accounting policies.

In our opinion the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for Opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key Audit Matters



Customer contracts – accuracy of revenue recognition, valuation of contract assets, work in progress (WIP), trade accounts receivable and accuracy of contract liabilities



Accounting for warranties and other cost to fulfil contract obligations



Valuation of goodwill

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



Customer contracts – accuracy of revenue recognition, valuation of contract assets, work in progress (WIP), trade accounts receivable and accuracy of contract liabilities

Key Audit Matter

As per December 31, 2018, revenue from customer contracts amounts to CHF 3,364.9 million, contract assets amount to CHF 205.1 million, contract liabilities to CHF 256.4 million, the balance of work in progress (WIP) amounts to CHF 303.5 million and trade accounts receivable amount to CHF 622.3 million.

Following the first-time application of the new revenue recognition standard (IFRS 15, Revenue from Contracts with Customers), the Group adopted its accounting policies and adjusted its opening balances as at January 1, 2018, applying the cumulative effect method with no restatement of the comparative period.

Under IFRS 15 revenue is recognised when a performance obligation is satisfied by transferring control over a promised good or service.

Revenue and related costs from long-term customer orders (construction and service contracts) are recognized over time (OT), provided they fulfill the criteria of International Financial Reporting Standards, specifically having the right for payment in case of termination for convenience. The OT method allows recognizing revenues by reference to the stage of completion of the contract. The application of the OT method is complex and requires judgments by management when estimating the stage of completion, total project costs and the costs to complete the work. Incorrect assumptions and estimates can lead to revenue being recognized in the wrong reporting period or in amounts inadequate to the actual stage of completion, and therefore to an incorrect result for the period.

During order fulfillment, contractual obligations may need to be reassessed. In addition, change orders or cancellations have to be considered. As a result, total estimated project costs may exceed total contract revenues and therefore require write-offs of contract assets, receivables and the immediate recognition of the expected loss as a provision.

Regarding the projects recognized at a point in time (PIT), the risks include inappropriate revenue recognition from revenue being recorded in the wrong accounting period or at amounts not justified as well as overstated WIP that requires impairment adjustments.

Our response

Our procedures included, among others, obtaining an understanding of the project execution processes and relevant controls relating to the accounting for customer contracts.

With regard to the implementation of IFRS 15 we verified management's conclusion from assessing different types of contracts and the accuracy of the Group's revised accounting policies in light of the industry specific circumstances and our understanding of the business. We tested the appropriateness of the accounting treatment on a sample basis and recalculated the resulting adjustments recorded in the opening balance. In addition, we verified the accuracy of IFRS 15 related disclosures.

For the revenue recognized throughout the year, we tested selected key controls, including results reviews by management, for their operating effectiveness and performed procedures to gain sufficient audit evidence on the accuracy of the accounting for customer contracts and related financial statement captions.

These procedures included reading significant new contracts to understand the terms and conditions and their impact on revenue recognition. We performed enquiries with management to understand their project risk assessments and inspected meeting minutes from project reviews performed by management to identify relevant changes in their assessments and estimates. We challenged these estimates and judgments made for OT projects including comparing estimated project financials between reporting periods and assessed the historical accuracy of these estimates.

On a sample basis, we reconciled revenue to the supporting documentation, validated estimates of costs to complete, tested the mathematical accuracy of calculations and the adequacy of project accounting. We also examined costs included within contract assets on a sample basis by verifying the amounts back to source documentation and tested their recoverability through comparing the net realizable values as per the agreements with estimated cost to complete.

We further performed testing for PIT projects on a sample basis to confirm the appropriate application of revenue recognition policies and to verify valuation of WIP balances. This included reconciling accounting entries to supporting documentation. When doing this, we specifically put emphasis on those transactions occurring close before or after the balance sheet date to obtain sufficient evidence over the accuracy of cut-off.

For further information on customer contracts – accuracy of revenue recognition, valuation of contract assets, work in progress (WIP), trade accounts receivable and accuracy of contract liabilities refer to the following:

— [Note 19 to the consolidated financial statements](#)



Accounting for warranties and other cost to fulfil contract obligations

Key Audit Matter

As per December 31, 2018, provisions in the amount of CHF 78.9 million are held on the balance sheet to cover expected costs arising from product warranties. Additional expected costs to fulfil contract obligations and for onerous contracts are recorded as other provisions.

Sulzer is exposed to claims from customers for not meeting contractual obligations. Remedying measures, addressing technical shortcomings or settlement negotiations with clients may take several months and cause additional costs. The assessment of these costs to satisfy order related obligations contains management assumptions with a higher risk of material misjudgment.

Our response

Based on our knowledge gained through contract and project reviews, we assessed the need for and the accuracy of provisions and deductions in revenue for variable consideration for expected liquidated damages.

We further challenged management's contract risk assessments by enquiries, inspection of meeting minutes and review of correspondence with customers where available.

Where milestones or contract specifications were not met, we challenged the recognition and appropriateness of variable consideration and provisions by recalculating the amounts, obtaining written management statements and evidence from supporting documents such as correspondence with clients or legal assessments of external counsels where available.

We also took into account the historical accuracy of estimates made by management through retrospective reviews. In order to gain a complete and clear understanding of legal matters we further performed enquiry procedures with the office of Sulzer's General Counsel and reviewed relevant documents.

For further information on accounting for warranties and other cost to fulfil contract obligations to the following:

— [Note 26 to the consolidated financial statements](#)



Valuation of goodwill

Key Audit Matter

As at December 31, 2018, Sulzer's balance sheet included goodwill amounting to CHF 923.4 million.

Goodwill has to be assessed for impairment on a yearly basis by management using a discounted cash flow model to individually determine the value in use of goodwill balances. This requires the use of a number of key assumptions and judgments, including the estimated future cash flows, long-term growth rates, profitability levels and discount rates applied as well as the determination of the cash generating units ("CGUs" for the goodwill impairment testing).

The goodwill balance is significant compared to total assets and there are a number of judgments involved in performing the impairment test. Furthermore, the economic conditions continue to be challenging in some of Sulzer's key markets, specifically the oil and gas sector. With half of its business within this market segment, Sulzer's financial performance is significantly affected by the low oil prices and the resulting subdued demand and price pressure from its oil and gas customers.

Our response

As a first step, we assessed the appropriateness of the CGUs identified. Our audit procedures then included, amongst others, evaluating the methodical and mathematical accuracy of the model used for the impairment testing, the appropriateness of the assumptions, and the methodology used by management to prepare its cash flow forecasts. We involved our own valuation specialists to support our procedures.

We thereby focused on those CGUs with the most significant goodwill balances or where reasonably possible changes of key assumptions would lead to an impairment and performed the following procedures amongst others:

- gaining an understanding and assessing the reasonableness of business plans by comparing them to prior year's assumptions;
- comparing business plan data against budgets and two-year plans as approved by management;
- recalculating the value in use calculations;
- challenging the robustness of the key assumptions used to determine the value in use, including the allocation of goodwill to the adequate CGUs, cash flow forecasts, long-term growth rates and the discount rates based on our understanding of the commercial prospects of the related CGUs and by comparing them with publicly available data, where possible;
- conducting sensitivity analysis, taking into account the historical forecasting accuracy; and
- comparing the sum of calculated values in use to the market capitalization of the Group.

We also considered the appropriateness of disclosures in the consolidated financial statements.

For further information on valuation of goodwill refer to the following:

- [Note 14 to the consolidated financial statements](#)

Other Information in the Annual Report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements of the Company, the compensation report and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibility of the Board of Directors for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Swiss law, ISAs and Swiss Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In accordance with article 728a para. 1 item 3 CO and the Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

KPMG AG



François Rouiller
Licensed Audit Expert
Auditor in Charge



Simon Niklaus
Licensed Audit Expert

Zurich, February 12, 2019

KPMG AG, Badenerstrasse 172, PO Box, CH-8036 Zurich

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Five-year summaries of key financial data

Key figures from consolidated income statement and statement of cash flows

millions of CHF		2018 ¹⁾	2017	2016	2015	2014
Order intake		3'531.5	3'155.7	2'797.5	2'895.8	3'160.8
Order intake gross margin		33.3%	34.4%	34.0%	33.8%	33.5%
Order backlog		1'786.9	1'593.5	1'439.1	1'510.7	1'699.6
Sales		3'364.9	3'049.0	2'876.7	2'971.0	3'212.1
Operating income	EBIT	183.8	136.5	115.3	120.9	-69.0
Operational EBITA	opEBITA	322.5	255.4	238.9	254.1	302.9
Operational EBITA margin (operational EBITA/sales)	opROSA	9.6%	8.4%	8.3%	8.6%	9.4%
Return on capital employed (operational EBITA in % of average capital employed)	opROCEA	18.1%	15.8%	15.7%	17.0%	17.1%
Net income attributable to shareholders of Sulzer Ltd		113.7	83.2	59.0	73.9	275.0
- in percentage of equity attributable to shareholders of Sulzer Ltd	ROE	7.0%	5.0%	3.7%	3.3%	11.3%
Reported EPS	EPS	3.56	2.44	1.73	2.17	8.09
Depreciation		-71.7	-71.7	-69.5	-74.1	-79.2
Amortization		-69.0	-53.8	-47.3	-42.3	-43.3
Impairments of tangible and intangible assets		-4.4	-15.4	-18.4	-13.0	-0.4
Research and development expenses		-86.4	-81.0	-71.4	-73.4	-76.2
Personnel expenses		-1'129.7	-1'078.2	-971.1	-1'020.8	-1'046.2
Capital expenditure		-96.2	-81.2	-74.9	-73.7	-96.0
Free cash flow		173.9	127.0	200.5	155.8	98.0
FCF conversion (free cash flow/net income)		1.49	1.46	3.34	2.08	0.35
Employees (number of full-time equivalents) as of December 31		15'572	14'732	14'005	14'253	15'494

1) According to IFRS 15, see financial review and note 34 of the consolidated financial statements for details.

Key figures from consolidated balance sheet

millions of CHF		2018 ¹⁾	2017	2016	2015	2014
Non-current assets		2'057.7	1'990.5	1'809.9	1'574.0	1'681.9
- thereof property, plant and equipment		527.0	531.6	511.0	491.4	530.7
Current assets		2'840.6	2'126.8	1'926.0	2'680.8	2'971.1
- thereof cash and cash equivalents and marketable securities		1'095.2	488.8	429.5	1'217.3	1'301.5
Total assets		4'898.3	4'117.3	3'735.9	4'254.8	4'653.0
Equity attributable to shareholders of Sulzer Ltd		1'629.9	1'680.1	1'581.2	2'224.7	2'435.4
Non-current liabilities		1'646.8	900.1	980.3	472.1	994.5
- thereof long-term borrowings		1'316.3	458.7	458.3	7.2	510.3
Current liabilities		1'610.4	1'514.8	1'164.6	1'548.5	1'216.5
- thereof short-term borrowings		18.0	255.1	7.1	514.4	17.7
Net liquidity ²⁾		-239.0	-225.0	-35.9	695.7	773.5
Equity ratio ³⁾		33.3%	40.8%	42.3%	52.3%	52.4%
Borrowings-to-equity ratio (gearing)		0.82	0.42	0.29	0.23	0.22

1) According to IFRS 15, see financial review and note 34 of the consolidated financial statements for details.

2) Cash and cash equivalents and marketable securities, less short-term and long-term borrowings.

3) Equity attributable to shareholders of Sulzer Ltd in relation to total assets.

Five-year summaries by division

millions of CHF	Order intake					Sales				
	2018 ¹⁾	2017	2016	2015	2014	2018 ¹⁾	2017	2016	2015	2014
Pumps Equipment	1'372.1	1'180.2	1'066.8	1'152.8	1'377.1	1'284.2	1'120.0	1'155.3	1'276.8	1'405.5
Rotating Equipment Services	1'109.7	1'047.7	986.4	1'034.1	1'065.3	1'063.7	1'029.5	1'003.4	1'024.6	1'065.2
Chemtech	600.1	501.5	471.8	525.7	538.3	563.2	478.0	446.0	486.2	563.6
Applicator Systems	449.6	426.3	272.6	183.2	180.0	453.8	421.6	272.0	183.4	177.8
Total	3'531.5	3'155.7	2'797.5	2'895.8	3'160.8	3'364.9	3'049.0	2'876.7	2'971.0	3'212.1

millions of CHF	Order backlog					Employees ²⁾				
	2018 ¹⁾	2017	2016	2015	2014	2018 ¹⁾	2017	2016	2015	2014
Pumps Equipment	982.9	847.0	697.4	998.0	1'209.4	5'713	5'453	5'156	6'996	7'365
Rotating Equipment Services	393.1	364.4	378.7	205.0	212.2	4'721	4'485	4'541	3'538	3'709
Chemtech	345.9	315.3	304.9	307.7	282.0	3'063	2'878	2'570	3'539	4'287
Applicator Systems	65.0	66.8	58.0	0.0	0.0	1'864	1'716	1'562	0	0
Divisions	1'786.9	1'593.5	1'439.0	1'510.7	1'703.6	15'361	14'532	13'829	14'073	15'361
Others	-0.0	0.0	0.1	0.0	-4.0	211	200	176	180	133
Total	1'786.9	1'593.5	1'439.1	1'510.7	1'699.6	15'572	14'732	14'005	14'253	15'494

millions of CHF	Operational EBITA					Operational capital employed				
	2018 ¹⁾	2017	2016	2015	2014	2018 ¹⁾	2017	2016	2015	2014
Pumps Equipment	41.4	-3.7	13.0	118.1	160.6	717.7	617.3	760.6	746.3	1'115.6
Rotating Equipment Services	146.1	144.0	139.5	70.8	64.5	548.2	506.5	400.6	422.0	408.7
Chemtech	50.0	25.0	18.0	67.4	93.6	203.1	221.5	223.8	406.3	342.6
Applicator Systems	95.7	86.8	64.1	0.0	0.0	418.2	382.5	220.0	0.0	0.0
Divisions	333.2	252.1	234.6	256.3	318.7	1'887.3	1'727.8	1'605.0	1'574.6	1'866.9
Others	-10.7	3.3	4.3	-2.2	-15.8	-110.6	-113.0	-85.1	-76.8	-99.6
Total	322.5	255.4	238.9	254.1	302.9	1'776.8	1'614.8	1'519.9	1'497.8	1'767.3

1) According to IFRS 15, see financial review and note 34 of the consolidated financial statements for details.

2) Number of full-time equivalents as of December 31.

Five-year summaries by region

Order intake by region

millions of CHF	2018 ¹⁾	2017	2016	2015	2014
Europe, Middle East, Africa	1'535.9	1'422.1	1'254.8	1'303.7	1'305.5
Americas	1'297.1	1'038.2	949.8	1'065.3	1'165.4
Asia-Pacific	698.5	695.4	592.9	526.8	689.9
Total	3'531.5	3'155.7	2'797.5	2'895.8	3'160.8

Sales by region

millions of CHF	2018 ¹⁾	2017	2016	2015	2014
Europe, Middle East, Africa	1'468.9	1'411.6	1'271.8	1'214.0	1'264.7
Americas	1'107.6	1'003.5	1'041.9	1'134.9	1'177.4
Asia-Pacific	788.4	633.9	563.0	622.1	770.0
Total	3'364.9	3'049.0	2'876.7	2'971.0	3'212.1

Capital employed (average) by company location

millions of CHF	2018 ¹⁾	2017	2016	2015	2014
Europe, Middle East, Africa	1'155.3	1'061.5	941.8	875.5	1'152.4
Americas	456.9	384.5	391.8	415.8	406.6
Asia-Pacific	164.5	168.8	186.3	206.5	208.3
Total	1'776.8	1'614.8	1'519.9	1'497.8	1'767.3

Employees by company location²⁾

millions of CHF	2018 ¹⁾	2017	2016	2015	2014
Europe, Middle East, Africa	7'462	7'279	6'804	6'504	6'607
Americas	4'374	3'911	3'822	4'139	4'545
Asia-Pacific	3'737	3'542	3'379	3'610	4'342
Total	15'572	14'732	14'005	14'253	15'494

1) According to IFRS 15, see financial review and note 34 of the consolidated financial statements for details.

2) Number of full-time equivalents as of December 31.

Balance sheet of Sulzer Ltd

December 31

millions of CHF	Notes	2018	2017
Current assets			
Cash and cash equivalents	3	334.3	125.8
Accounts receivable from subsidiaries		190.6	44.4
Prepaid expenses and other current accounts receivable		2.3	2.7
Total current assets		527.2	172.9
Non-current assets			
Loans to subsidiaries		648.1	652.6
Financial assets		6.6	9.1
Investments in subsidiaries	4	2'106.5	1'785.6
Total non-current assets		2'761.2	2'447.3
Total assets		3'288.4	2'620.2
Current liabilities			
Current interest-bearing liabilities		–	224.6
Current interest-bearing liabilities with subsidiaries		10.4	38.0
Current liabilities with subsidiaries		1.7	45.1
Current liabilities with shareholders		184.9	–
Accrued liabilities and other current liabilities		10.6	13.0
Current provisions		4.6	4.7
Total current liabilities		212.2	325.4
Non-current liabilities			
Non-current interest-bearing liabilities	6	1'308.7	450.4
Non-current liabilities with subsidiaries		–	79.1
Non-current provisions		37.2	38.2
Total non-current liabilities		1'345.9	567.7
Total liabilities		1'558.1	893.1
Equity			
Registered share capital	5	0.3	0.3
Legal capital reserves		205.5	205.5
Reserves from capital contribution		201.0	–
Voluntary retained earnings			
– Free reserves		1'185.5	1'386.5
– Retained earnings		37.8	67.6
– Net profit for the year		134.2	89.3
Treasury shares	5	–34.0	–22.1
Total equity		1'730.3	1'727.1
Total equity and liabilities		3'288.4	2'620.2

Income statement of Sulzer Ltd

January 1–December 31

millions of CHF	Notes	2018	2017
Income			
Investment income	9	125.1	122.9
Financial income		57.2	45.2
Other income	10	64.7	37.3
Total income		247.0	205.4
Expenses			
Administrative expenses	8	45.5	61.8
Financial expenses		14.3	13.5
Investment and loan expenses	9	49.0	36.8
Other expenses		2.4	3.9
Direct taxes		1.6	0.1
Total expenses		112.8	116.1
Net profit for the year		134.2	89.3

Statement of changes in equity of Sulzer Ltd

January 1–December 31

millions of CHF	Share capital	Legal reserves	Reserves from capital contribution	Free reserves	Retained earnings	Net income	Treasury shares	Total
Equity as of January 1, 2017	0.3	205.5	-	1'486.5	82.2	4.8	-16.9	1'762.4
Dividend						-119.4		-119.4
Allocation of net income				-100.0	-14.6	114.6		-
Net profit for the year						89.3		89.3
Change in treasury shares							-5.2	-5.2
Equity as of December 31, 2017	0.3	205.5	-	1'386.5	67.6	89.3	-22.1	1'727.1
Dividend						-119.1		-119.1
Allocation of net income					-29.8	29.8		-
Net profit for the year						134.2		134.2
Change in treasury shares							-11.9	-11.9
Allocation to reserves from capital contribution			201.0	-201.0				-
Equity as of December 31, 2018	0.3	205.5	201.0	1'185.5	37.8	134.2	-34.0	1'730.3

1 General information

Sulzer Ltd, Winterthur, Switzerland (the Company), is the parent company of the Sulzer Group. Its financial statements are prepared in accordance with Swiss law and serve as complementary information to the consolidated financial statements.

These financial statements were prepared according to the provisions of the Swiss Law on Accounting and Financial Reporting (32nd title of the Swiss Code of Obligations). Where not prescribed by law, the significant accounting and valuation principles applied are described below.

2 Key accounting policies and principles

Treasury shares

Treasury shares are recognized at acquisition cost and deducted from shareholders' equity at the time of acquisition. In case of a resale, the gain or loss is recognized through the income statement as financial income or financial expenses.

Investments in subsidiaries and third parties

The participations are valued at acquisition cost or if the value is lower, at value in use, using generally accepted valuation principles.

Non-current interest-bearing liabilities

Non-current interest-bearing liabilities are recognized in the balance sheet at amortized cost. Discounts and issue costs for bonds are amortized on a straight-line basis over the bond's maturity period.

Share-based payments

Sulzer Ltd operates a share-based payment program that covers the Board of Directors. Restricted share units (RSU) are granted annually. The plan features graded vesting over a three-year period. One RSU award is settled with one Sulzer share at the end of the vesting period. Awards automatically vest with the departure from the Board. The fair value of the Sulzer share at vesting date is recognized as compensation to the Board of Directors.

Foregoing a cash flow statement and additional disclosures in the notes

As Sulzer Ltd has prepared its consolidated financial statements in accordance with a recognized accounting standard (IFRS), it has decided to forego presenting additional information on audit fees and interest-bearing liabilities in the notes as well as a cash flow statement in accordance with the law.

3 Cash and cash equivalents

Sulzer Ltd arranged a CHF 500 million syndicated credit facility with maturity date May 2020 with two one-year extension options. During 2017 the facility was extended for another year until May 2022. The facility is available for general corporate purposes including financing of acquisitions. The facility is subject to financial covenants based on net financial indebtedness and EBITDA, which were adhered to throughout the reporting period. As of December 31, 2018, the facility was not used, while at the end of 2017, CHF 224.6 million of the facility was used.

4 Investments in subsidiaries

A list of the major subsidiaries held directly or indirectly by Sulzer Ltd is included in [note 36](#) of the consolidated financial statements.

5 Registered share capital

The share capital amounts to CHF 342'623.70, made up of 34'262'370 shares with dividend entitlement and a par value of CHF 0.01. All shares are fully paid in and registered.

Shareholders holding more than 3%

	Dec 31, 2018		Dec 31, 2017	
	Number of shares	in %	Number of shares	in %
Viktor Vekselberg (direct shareholder: Tiwel Holding AG)	16'728'414	48.82	-	-
Renova Group	-	-	21'728'914	63.42

Treasury shares held by Sulzer Ltd

millions of CHF	2018		2017	
	Number of shares	Total transaction amount	Number of shares	Total transaction amount
Balance as of January 1	219'277	22.1	177'461	16.9
Purchase	5'159'149	563.7	109'720	11.8
Sale	-5'000'000	-544.8	-	-
Share-based remuneration	-66'555	-7.0	-67'904	-6.6
Balance as of December 31	311'871	34.0	219'277	22.1

The total number of treasury shares held by Sulzer Ltd as of December 31, 2018, amounted to 311'871 (December 31, 2017: 219'277 shares), which are mainly held for the purpose of issuing shares under the management share-based payment programs.

6 Non-current interest-bearing liabilities

millions of CHF	2018		2017	
	Book value	Nominal	Book value	Nominal
0.375% 07/2016-07/2022	325.3	325.0	325.4	325.0
0.875% 07/2016-07/2026	125.0	125.0	125.0	125.0
0.250% 07/2018-07/2020	109.8	110.0	-	-
1.300% 07/2018-07/2023	289.3	290.0	-	-
0.625% 10/2018-10/2021	209.5	210.0	-	-
1.600% 10/2018-10/2024	249.8	250.0	-	-
Total as of December 31	1'308.7	1'310.0	450.4	450.0

On July 6, 2018, Sulzer issued two bonds via dual tranches of CHF 400 million in total. The first tranche of CHF 110 million has a term of two years and carries a coupon of 0.25% and has an effective interest rate of 0.37%. The second tranche of CHF 290 million has a term of five years and carries a coupon of 1.3% and has an effective interest rate of 1.35%.

On October 22, 2018, Sulzer issued two bonds via dual tranches of CHF 460 million in total. The first tranche of CHF 210 million has a term of three years and carries a coupon of 0.625% and has an effective interest rate of 0.71%. The second tranche of CHF 250 million has a term of six years and carries a coupon of 1.6% and has an effective interest rate of 1.62%.

All the outstanding bonds are traded at the SIX Swiss Exchange.

7 Contingent liabilities

millions of CHF	2018	2017
Guarantees, sureties and comfort letters for subsidiaries		
– to banks and insurance companies	1'336.1	1'393.4
– to customers	252.6	268.8
– to others	527.3	251.1
Guarantees for third parties	10.0	10.0
Total contingent liabilities as of December 31	2'126.0	1'923.3

As of December 31, 2018, CHF 321.3 million (2017: CHF 342.0 million) of guarantees, sureties and comfort letters for subsidiaries to banks and insurance companies were utilized.

8 Administrative expenses

millions of CHF	2018	2017
Compensation of Board of Directors	2.6	2.3
Other administrative expenses	42.9	59.5
Total administrative expenses	45.5	61.8

Sulzer Ltd does not have any employees. The compensation to the Board of Directors includes share-based payments and remuneration. Other administrative expenses contain management services and cost related to the Sulzer Full Potential program.

9 Investment income and investment and loan expenses

In 2018, the investment income contains ordinary and extraordinary dividend payments from subsidiaries amounting to CHF 125.1 million (2017: CHF 122.9 million).

The investment and loan expenses contain allowances on investments and loans amounting to CHF 49.0 million (2017: CHF 36.8 million).

10 Other income

During 2018, the company sold unquoted equity instruments previously measured at cost to Sulzer Vorsorgeeinrichtung, Sulzer's pension fund. The transaction price was CHF 31.7 million and the resulting profit CHF 28.5 million. The transaction was priced on an arm's length basis and was settled in cash prior to December 31, 2018.

The income from trademark license amounts to CHF 36.2 million (2017: CHF 36.7 million).

11 Share participation of the Board of Directors, Executive Committee and related parties

Restricted share units for members of the Board

The compensation of the Board of Directors consists of a fixed cash component and a restricted share unit (RSU) component with a fixed grant value. The number of RSU is determined by dividing the fixed grant value by the volume-weighted share price of the last ten days prior to the grant date. One-third of the RSU each vest after the first, second and third anniversaries of the grant date, respectively. Upon vesting, one vested RSU is converted into one share of Sulzer Ltd. The vesting period for RSU granted to the members of the Board of Directors ends no later than on the date on which the member steps down from the Board.

	2018				
	Sulzer shares	Restricted share units (RSU) ¹⁾	Performance share units (PSU) 2016 ²⁾	Performance share units (PSU) 2017 ³⁾	Performance share units (PSU) 2018 ⁴⁾
Board of Directors	38'114	16'516	–	–	–
Peter Löscher	14'607	4'647	–	–	–
Matthias Bichsel	5'241	2'884	–	–	–
Hanne Birgitte Breinbjerg Sorensen	–	1'005	–	–	–
Lukas Braunschweiler	–	1'005	–	–	–
Mikhail Lifshitz	1'449	2'325	–	–	–
Marco Musetti	6'222	2'325	–	–	–
Gerhard Roiss	10'595	2'325	–	–	–
Executive Committee	34'035	3'513	28'852	26'667	31'071
Greg Poux-Guillaume	21'381	–	18'641	13'196	12'820
Daniel Bischofberger	–	–	1'424	3'024	2'938
Frédéric Lalanne	2'237	3'513	2'314	3'024	2'938
Jill Lee	7'945	–	–	–	3'561
Armand Sohet	–	–	3'560	3'024	2'938
Michael Streicher	764	–	1'942	1'375	2'938
Torsten Wintergerste	1'708	–	971	3'024	2'938

1) Restricted share units assigned by Sulzer.

2) The average fair value of one performance share unit 2016 at grant date amounted to CHF 118.05.

3) The average fair value of one performance share unit 2017 at grant date amounted to CHF 116.02.

4) The average fair value of one performance share unit 2018 at grant date amounted to CHF 143.62.

	2017				
	Sulzer shares	Restricted share units (RSU) ¹⁾	Performance share units (PSU) 2015 ²⁾	Performance share units (PSU) 2016 ³⁾	Performance share units (PSU) 2017 ⁴⁾
Board of Directors	31'044	23'483	–	–	–
Peter Löscher	–	5'244	–	–	–
Matthias Bichsel	3'624	3'253	–	–	–
Thomas Glanzmann	6'841	2'625	–	–	–
Axel C. Heitmann	526	2'243	–	–	–
Jill Lee	5'320	2'625	–	–	–
Mikhail Lifshitz	526	2'243	–	–	–
Marco Musetti	4'917	2'625	–	–	–
Gerhard Roiss	9'290	2'625	–	–	–
Executive Committee	46'835	22'546	6'594	37'266	32'624
Greg Poux-Guillaume	9'682	15'121	942	18'641	13'196
Daniel Bischofberger	–	–	–	1'424	3'024
Thomas Dittrich	21'000	–	2'826	5'178	3'666
Frédéric Lalanne	–	7'026	–	2'314	3'024
César Montenegro	14'844	–	2'826	5'178	3'666
Armand Sohet	–	–	–	3'560	3'024
Torsten Wintergerste	1'309	399	–	971	3'024

- 1) Restricted share units assigned by Sulzer.
- 2) The average fair value of one performance share unit 2015 at grant date amounted to CHF 193.97.
- 3) The average fair value of one performance share unit 2016 at grant date amounted to CHF 118.05.
- 4) The average fair value of one performance share unit 2017 at grant date amounted to CHF 116.02.

Granted Sulzer shares to members of the Board of Directors

	2018		2017	
	Quantity	Value in CHF	Quantity	Value in CHF
Allocated to members of the Board of Directors	9'288	1'155'710	11'001	1'156'119

12 Subsequent events after the balance sheet date

At the time when these financial statements were authorized for issue, the Board of Directors were not aware of any events that would materially affect these financial statements.

Proposal of the Board of Directors for the appropriation of the available profit

in CHF	2018	2017
Net profit for the year	134'200'000	89'300'000
Unallocated profit carried forward from previous year	37'838'775	67'624'595
Total available profit	172'038'775	156'924'595
Ordinary dividend	-118'826'747	-119'150'826
Balance carried forward	53'212'028	37'773'769
Distribution per share CHF 0.01		
Gross dividend	3.50	3.50
less 35% withholding tax	1.23	1.23
Net payment	2.27	2.27

The Board of Directors proposes the payment of a dividend of CHF 3.50 per share to the Annual General Meeting on April 3, 2019. The company will not pay a dividend on treasury shares held by Sulzer Ltd or one of its subsidiaries.



Statutory Auditor's Report

To the General Meeting of Sulzer Ltd, Winterthur

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Sulzer Ltd, which comprise the “[Balance sheet of Sulzer Ltd](#)” as at December 31, 2018, the “[Income statement of Sulzer Ltd](#)”, the “[Statement of changes in equity of Sulzer Ltd](#)” for the year then ended, and the “[Notes to the financial statements of Sulzer Ltd](#)”, including a summary of significant accounting policies.

In our opinion the financial statements for the year ended December 31, 2018 comply with Swiss law and the company's articles of incorporation.

Basis for Opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Report on Key Audit Matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. We have determined that there are no key audit matters to communicate in our report.

Responsibility of the Board of Directors for the Financial Statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee

that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Swiss law and Swiss Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In accordance with article 728a para. 1 item 3 CO and the Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

KPMG AG



François Rouiller
Licensed Audit Expert
Auditor in Charge



Simon Niklaus
Licensed Audit Expert

Zurich, February 12, 2019

KPMG AG, Badenerstrasse 172, PO Box, CH-8036 Zurich

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