



Financial reporting

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Consolidated income statement

January 1 – December 31

millions of CHF	Notes	2019	2018
Sales	3, 20	3'728.5	3'364.9
Cost of goods sold		-2'607.3	-2'386.6
Gross profit		1'121.2	978.3
Selling and distribution expenses		-374.6	-354.4
General and administrative expenses		-408.5	-384.4
Research and development expenses	10	-85.6	-86.4
Other operating income and expenses, net	11	-11.5	30.8
Operating income (EBIT)		241.0	183.8
Interest and securities income	12	6.6	2.9
Interest expenses	12	-24.9	-20.3
Other financial income and expenses, net	12	-10.0	-1.5
Share of profit and loss of associates	17	0.1	0.7
Income before income tax expenses		212.8	165.6
Income tax expenses	13	-55.1	-49.2
Net income		157.7	116.5
attributable to shareholders of Sulzer Ltd		154.0	113.7
attributable to non-controlling interests		3.7	2.8
Earnings per share (in CHF)			
Basic earnings per share	25	4.52	3.56
Diluted earnings per share	25	4.48	3.53

Consolidated statement of comprehensive income

January 1 – December 31

millions of CHF	Notes	2019	2018
Net income		157.7	116.5
Items that may be reclassified subsequently to the income statement			
Cash flow hedges, net of tax	29	4.3	-2.2
Currency translation differences		-63.9	-90.6
Total of items that may be reclassified subsequently to the income statement		-59.6	-92.7
Items that will not be reclassified to the income statement			
Remeasurements of defined benefit obligations, net of tax	9	-24.8	55.9
Total of items that will not be reclassified to the income statement		-24.8	55.9
Total other comprehensive income		-84.4	-36.9
Total comprehensive income for the period		73.3	79.6
attributable to shareholders of Sulzer Ltd		69.5	78.2
attributable to non-controlling interests		3.7	1.4

Consolidated balance sheet

December 31

millions of CHF	Notes	2019	2018
Non-current assets			
Goodwill	14	920.8	923.4
Other intangible assets	14	430.1	439.4
Property, plant and equipment	15	544.4	527.0
Lease assets	16, 34	112.6	–
Associates	17	10.7	13.4
Other non-current financial assets	18	12.6	9.4
Non-current receivables		6.3	6.2
Deferred income tax assets	13	134.4	138.9
Total non-current assets		2'172.0	2'057.7
Current assets			
Inventories	19	574.9	658.9
Current income tax receivables		22.8	29.0
Advance payments to suppliers		73.6	79.9
Contract assets	20	355.2	205.1
Trade accounts receivable	21	645.9	622.3
Other current receivables and prepaid expenses	22	172.0	150.2
Current financial assets	18	57.5	–
Cash and cash equivalents	23	1'035.5	1'095.2
Total current assets		2'937.5	2'840.6
Total assets		5'109.5	4'898.3
Equity			
Share capital	24	0.3	0.3
Reserves		1'580.4	1'629.5
Equity attributable to shareholders of Sulzer Ltd		1'580.7	1'629.9
Non-controlling interests		13.1	11.2
Total equity		1'593.9	1'641.0
Non-current liabilities			
Non-current borrowings	26	1'199.2	1'316.3
Non-current lease liabilities	16, 34	82.3	–
Deferred income tax liabilities	13	79.4	89.5
Non-current income tax liabilities	13	2.6	2.3
Defined benefit obligations	9	201.0	160.9
Non-current provisions	27	73.4	74.4
Other non-current liabilities		6.2	3.6
Total non-current liabilities		1'644.1	1'646.8
Current liabilities			
Current borrowings	26	131.0	18.0
Current lease liabilities	16, 34	27.4	–
Current income tax liabilities	13	33.3	32.0
Current provisions	27	135.3	139.6
Contract liabilities	20	344.8	256.4
Trade accounts payable		522.4	521.8
Other current and accrued liabilities	28	677.3	642.6
Total current liabilities		1'871.5	1'610.4
Total liabilities		3'515.6	3'257.3
Total equity and liabilities		5'109.5	4'898.3

Consolidated statement of changes in equity

January 1 – December 31

millions of CHF	Notes	Attributable to shareholders of Sulzer Ltd						Non-controlling interests	Total equity
		Share capital	Retained earnings	Treasury shares	Cash flow hedge reserve	Currency translation adjustment	Total		
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	29				-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			11.7				11.7	-10.6	1.1
Allocation of treasury shares to share plan participants			-7.0	7.0			-		-
Purchase of treasury shares	24			-563.8			-563.8		-563.8
Sale of treasury shares	24		12.6	544.8			557.4		557.4
Share-based payments	31		15.1				15.1		15.1
Dividends	24		-119.1				-119.1	-1.9	-121.0
Equity as of December 31, 2018	24	0.3	2'123.6	-34.0	-8.6	-451.4	1'629.9	11.2	1'641.0
Equity as of January 1, 2019		0.3	2'123.6	-34.0	-8.6	-451.4	1'629.9	11.2	1'641.0
Comprehensive income for the period:									
Net income			154.0				154.0	3.7	157.7
- Cash flow hedges, net of tax	29				4.3		4.3		4.3
- Remeasurements of defined benefit obligations, net of tax	9		-24.8				-24.8		-24.8
- Currency translation differences						-63.9	-63.9	0.0	-63.9
Other comprehensive income			-24.8		4.3	-63.9	-84.4	0.0	-84.4
Total comprehensive income for the period		-	129.1	-	4.3	-63.9	69.5	3.7	73.3
Transactions with owners of the company:									
Allocation of treasury shares to share plan participants									
Allocation of treasury shares to share plan participants			-19.6	19.6			-		-
Purchase of treasury shares	24			-11.1			-11.1		-11.1
Share-based payments	31		11.7				11.7		11.7
Dividends	24		-119.2				-119.2	-1.7	-121.0
Equity as of December 31, 2019	24	0.3	2'125.4	-25.6	-4.3	-515.1	1'580.7	13.1	1'593.9

Consolidated statement of cash flows

January 1 – December 31

millions of CHF	Notes	2019	2018
Cash and cash equivalents as of January 1		1'095.2	488.8
Net income		157.7	116.5
Interest and securities income	12	-6.6	-2.9
Interest expenses	12	24.9	20.3
Income tax expenses	13	55.1	49.2
Depreciation, amortization and impairments	14, 15, 16	171.5	145.1
Income from disposals of property, plant and equipment	11, 15, 16	-0.4	-5.8
Changes in inventories		82.8	-98.4
Changes in advance payments to suppliers		7.0	6.1
Changes in contract assets		-148.4	-11.0
Changes in trade accounts receivable		-22.7	19.9
Changes in contract liabilities		89.5	-23.7
Changes in trade accounts payable		-8.0	106.2
Change in provision for employee benefit plans		-7.0	-2.8
Changes in provisions		-1.6	-21.3
Changes in other net current assets		-6.1	20.8
Other non-cash items		5.2	17.6
Interest received		6.6	2.9
Interest paid		-21.5	-12.2
Income tax paid		-58.6	-65.6
Total cash flow from operating activities		319.6	260.8
Purchase of intangible assets	14	-6.0	-6.9
Sale of intangible assets	14	0.5	-
Purchase of property, plant and equipment	15	-108.9	-89.3
Sale of property, plant and equipment	15	8.1	16.6
Acquisitions of subsidiaries, net of cash acquired	4	-78.5	-217.5
Divestitures of subsidiaries		0.0	0.7
Acquisitions of associates	17	-0.0	-1.2
Dividends from associates	17	0.1	0.1
Purchase of other non-current financial assets	18	-1.1	-0.6
Sale of other non-current financial assets	18	0.4	0.6
Purchase of current financial assets	18	-57.4	-
Total cash flow from investing activities		-242.6	-297.4
Dividend	24	-81.2	-43.1
Dividend paid to non-controlling interests		-1.7	-1.9
Purchase of treasury shares		-11.1	-454.9
Sale of treasury shares	24	-	557.4
Payments for leases	16, 34	-34.0	-
Changes in non-controlling interests		-	-14.3
Additions in non-current borrowings	26	0.3	859.4
Repayment of non-current borrowings	26	-0.0	-1.1
Additions in current borrowings	26	153.8	426.4
Repayment of current borrowings	26	-149.2	-658.9
Total cash flow from financing activities		-123.2	669.1
Exchange losses on cash and cash equivalents		-13.5	-26.1
Net change in cash and cash equivalents		-59.7	606.4
Cash and cash equivalents as of December 31	23	1'035.5	1'095.2

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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, 2019, 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, agitation, mixing, separation and application technologies for fluids of all types. Sulzer was founded in 1834 in Winterthur, Switzerland, and employs around 16’500 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 17, 2020.

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 April 30, 2019, the group acquired 100% of the issued shares in GTC Technology US, LLC (“GTC”) for CHF 43.5 million. GTC is headquartered in Houston, Texas, US, and employs around 200 people. The company is offering proprietary processes and systems for the production of aromatics and other petrochemicals. GTC combines its specialized expertise in the licensing of process-based plant engineering with long-standing industry experience. The acquisition resulted in an increase in intangible assets of CHF 19.5 million at the date of acquisition (see [note 4](#)).
- As of July 1, 2019, the group acquired 100% of the issued shares in Alba Power for CHF 54.4 million. Alba is headquartered in Scotland, UK, and employs around 80 people. The company is offering aeroderivative gas turbine services. The acquisition resulted in an increase in intangible assets of CHF 38.2 million at the date of acquisition (see [note 4](#)).
- Sulzer has continued to streamline the organizational setup. In 2019, restructuring expenses were mainly associated with the consolidation of two production facilities in Germany. The group recognized restructuring expenses of CHF 23.1 million in 2019 (2018: CHF 13.1 million). Associated with restructuring initiatives, the group further recognized impairments on tangible and intangible assets of CHF 4.4 million (2018: CHF 4.4 million).
- This is the first set of consolidated financial statements where IFRS 16 “Leases” has been applied. The application of this new accounting standard resulted in an increase of total assets and total liabilities of CHF 107.3 million. 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	
	2019	2018	2019	2018	2019	2018	2019	2018
Order intake (unaudited)¹⁾	1'458.9	1'372.1	1'193.2	1'109.7	670.0	600.1	425.1	449.6
Nominal growth (unaudited)	6.3%	16.3%	7.5%	5.9%	11.6%	19.7%	-5.4%	5.4%
Currency-adjusted growth (unaudited)	8.3%	16.5%	10.7%	7.6%	12.8%	20.5%	-4.3%	4.2%
Organic growth ²⁾ (unaudited)	8.0%	8.6%	8.6%	5.8%	6.5%	20.5%	-5.2%	0.3%
Order backlog as of December 31 (unaudited)	924.3	982.9	422.2	393.1	385.3	345.9	60.8	65.0
Sales recognized at a point in time	1'002.6	920.3	985.5	872.1	415.1	335.8	419.1	452.1
Sales recognized over time	474.3	363.8	181.6	191.6	248.8	227.4	1.5	1.7
Sales³⁾	1'477.0	1'284.2	1'167.0	1'063.7	664.0	563.2	420.6	453.8
Nominal growth	15.0%	n/a	9.7%	n/a	17.9%	n/a	-7.3%	n/a
Currency-adjusted growth (unaudited)	17.2%	n/a	12.8%	n/a	19.0%	n/a	-6.4%	n/a
Organic growth ²⁾ (unaudited)	17.0%	n/a	10.0%	n/a	12.7%	n/a	-7.4%	n/a
opEBITA (unaudited)	59.7	41.4	164.5	146.1	63.8	50.0	88.2	95.7
opROSA (unaudited)	4.0%	3.2%	14.1%	13.7%	9.6%	8.9%	21.0%	21.1%
Restructuring expenses	-5.2	-8.8	-2.6	-3.4	-0.8	1.1	-13.7	-1.6
Amortization	-30.0	-35.5	-8.1	-7.4	-6.2	-5.2	-19.0	-19.6
Impairments on tangible and intangible assets	-	-0.7	-	0.0	-1.0	-	-1.3	-3.7
Non-operational items (unaudited)	-12.6	-23.5	-1.6	-4.4	-1.9	-31.4	-14.1	-6.9
EBIT	11.9	-27.2	152.2	130.8	54.0	14.5	40.2	63.8
Depreciation	-34.8	-26.4	-28.2	-17.1	-13.8	-8.2	-22.9	-19.5
Operating assets	1'605.5	1'670.1	960.8	860.2	590.9	483.0	608.3	623.4
Unallocated assets	-	-	-	-	-	-	-	-
Total assets as of December 31	1'605.5	1'670.1	960.8	860.2	590.9	483.0	608.3	623.4
Operating liabilities	730.6	739.1	363.2	347.7	364.5	289.8	108.6	76.3
Unallocated liabilities	-	-	-	-	-	-	-	-
Total liabilities as of December 31	730.6	739.1	363.2	347.7	364.5	289.8	108.6	76.3
Operating net assets	874.9	931.0	597.6	512.5	226.4	193.1	499.7	547.1
Unallocated net assets	-	-	-	-	-	-	-	-
Total net assets as of December 31	874.9	931.0	597.6	512.5	226.4	193.1	499.7	547.1
Capital expenditure (2019 incl. lease assets)	-41.0	-32.6	-36.6	-23.1	-22.1	-6.6	-41.3	-31.5
Employees (number of full-time equivalents) as of December 31	5'759	5'713	4'900	4'721	3'803	3'063	1'821	1'864

1) Order intake from external customers.

2) Adjusted for currency and acquisition effects.

3) Sales from external customers.

Segment information by divisions

millions of CHF	Total divisions		Others ⁴⁾		Total Sulzer	
	2019	2018	2019	2018	2019	2018
Order intake (unaudited)¹⁾	3'747.2	3'531.5	–	–	3'747.2	3'531.5
Nominal growth (unaudited)	6.1%	11.9%	–	–	6.1%	11.9%
Currency-adjusted growth (unaudited)	8.2%	12.5%	–	–	8.2%	12.5%
Organic growth ²⁾ (unaudited)	6.3%	8.4%	–	–	6.3%	8.4%
Order backlog as of December 31 (unaudited)	1'792.6	1'786.9	–	–	1'792.6	1'786.9
Sales recognized at a point in time	2'822.3	2'580.3	–	–	2'822.3	2'580.3
Sales recognized over time	906.2	784.6	–	–	906.2	784.6
Sales³⁾	3'728.5	3'364.9	–	–	3'728.5	3'364.9
Nominal growth	10.8%	n/a	–	–	10.8%	n/a
Currency-adjusted growth (unaudited)	13.0%	n/a	–	–	13.0%	n/a
Organic growth ²⁾ (unaudited)	10.8%	n/a	–	–	10.8%	n/a
opEBITA (unaudited)	376.2	333.2	–4.9	–10.7	371.3	322.5
opROSA (unaudited)	10.1%	9.9%	n/a	n/a	10.0%	9.6%
Restructuring expenses	–22.2	–12.7	–1.0	–0.4	–23.1	–13.1
Amortization	–63.4	–67.8	–1.1	–1.3	–64.5	–69.0
Impairments on tangible and intangible assets	–2.3	–4.4	–2.1	–	–4.4	–4.4
Non-operational items (unaudited)	–30.1	–66.3	–8.2	14.3	–38.3	–52.0
EBIT	258.3	181.8	–17.3	2.0	241.0	183.8
Depreciation	–99.6	–71.2	–3.0	–0.5	–102.6	–71.7
Operating assets	3'765.5	3'636.6	35.6	–26.7	3'801.1	3'610.0
Unallocated assets	–	–	1'308.4	1'288.4	1'308.4	1'288.4
Total assets as of December 31	3'765.5	3'636.6	1'344.0	1'261.7	5'109.5	4'898.3
Operating liabilities	1'566.9	1'452.9	135.8	79.7	1'702.7	1'532.5
Unallocated liabilities	–	–	1'812.9	1'724.7	1'812.9	1'724.7
Total liabilities as of December 31	1'566.9	1'452.9	1'948.7	1'804.4	3'515.6	3'257.3
Operating net assets	2'198.6	2'183.8	–100.2	–106.4	2'098.4	2'077.4
Unallocated net assets	–	–	–504.5	–436.4	–504.5	–436.4
Total net assets as of December 31	2'198.6	2'183.8	–604.7	–542.7	1'593.9	1'641.0
Capital expenditure (2019 incl. lease assets)	–140.9	–93.8	–1.2	–2.4	–142.1	–96.2
Employees (number of full-time equivalents) as of December 31	16'284	15'361	222	211	16'506	15'572

1) Order intake from external customers.

2) Adjusted for currency and acquisition effects.

3) Sales from external customers.

4) The most significant activities under “Others” relate to Corporate Center.

For the definition of opEBITA, opROSA and adjustments for currency and acquisition effects, reference is made to the “[Supplementary information](#)” and for the reconciliation statements to the “[Financial review](#)”.

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

The Pumps Equipment division specializes in pumping solutions specifically engineered for the processes of its customers. The division provides pumps, agitators, compressors, grinders and screens developed through intensive research and development in fluid dynamics and advanced materials. The focus is on pumping solutions for water, oil and gas, power, chemicals and most industrial segments.

Rotating Equipment Services

Through a network of over 100 service sites around the world, the Rotating Equipment Services division provides cutting-edge parts as well as maintenance and repair solutions for pumps, turbines, compressors, motors and generators. The division services Sulzer original equipment, but also all associated third-party rotating equipment run by the customers, maximizing its sustainability and life cycle cost-effectiveness. The division's technology-based solutions, fast execution and expertise in complex maintenance projects are available at its customers' doorstep.

Chemtech

The Chemtech division focuses on innovative mass transfer, static mixing and polymer solutions for petrochemicals, refining, LNG, biopolymers and biofuels. The division's product offering ranges from process components to complete separation process plants, including licensing. Customer support covers engineering services and field services to tray and packing installation, tower maintenance, welding and plant turnaround projects.

Applicator Systems

Through its Mixpac, Cox, Transcodent and Geka brands, the Applicator Systems division develops and delivers innovative fluid applicators for the dental, adhesives, healthcare and beauty markets. The division's IP-protected applicator solutions leverage its expertise in plastic-injection molding, micro-brushes and two-component mixing to make the customers' products precise, safe, unique and more sustainable.

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 opEBITA to assess the performance of the operating segments. However, the Chief Executive Officer also receives information about the segments' order intake and backlog, sales, and operating assets and liabilities on a monthly basis.

Sales from external customers reported to the Chief Executive Officer are 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 sales.

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

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	2019	2018
Europe, Middle East, Africa	1'346.7	1'289.4
– thereof Germany	275.4	326.4
– thereof Switzerland	234.1	161.4
– thereof United Kingdom	222.4	150.7
– thereof Sweden	192.9	222.2
– thereof Netherlands	124.1	123.7
Americas	524.0	479.3
– thereof USA	479.3	437.1
Asia-Pacific	148.0	134.5
– thereof China	60.1	60.7
Total	2'018.7	1'903.2

Sales by region

millions of CHF	2019				Total Sulzer
	Pumps Equipment	Rotating Equipment Services	Chemtech	Applicator Systems	
Europe, Middle East, Africa	576.7	534.7	195.4	232.7	1'539.6
– thereof Germany	60.2	50.5	36.9	91.5	239.1
– thereof United Kingdom	26.5	142.1	6.7	19.6	194.8
– thereof Russia	42.1	75.5	13.8	1.3	132.7
– thereof Saudi Arabia	60.2	39.9	22.5	0.1	122.7
– thereof France	35.0	28.0	5.0	27.0	94.9
Americas	511.3	480.6	173.4	156.0	1'321.3
– thereof USA	345.3	377.1	103.4	139.9	965.8
Asia-Pacific	389.0	151.6	295.2	31.8	867.7
– thereof China	211.2	25.0	169.7	14.9	420.8
Total	1'477.0	1'167.0	664.0	420.6	3'728.5

millions of CHF	2018				Total Sulzer
	Pumps Equipment	Rotating Equipment Services	Chemtech	Applicator Systems	
Europe, Middle East, Africa	554.6	458.9	190.0	265.4	1'468.9
– thereof Germany	51.0	50.4	23.9	94.5	219.8
– thereof United Kingdom	27.7	108.5	4.5	29.1	169.8
– thereof Russia	30.3	79.8	15.4	1.7	127.2
– thereof Saudi Arabia	43.8	23.4	26.9	0.0	94.1
– thereof France	13.9	31.8	7.3	28.6	81.5
Americas	383.2	453.1	128.0	143.2	1'107.6
– thereof USA	267.8	346.4	70.2	128.5	812.9
Asia-Pacific	346.4	151.6	245.1	45.3	788.4
– thereof China	230.1	35.6	145.3	16.1	427.1
Total	1'284.2	1'063.7	563.2	453.8	3'364.9

Segment information by market segment

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

Sales by market segment

					2019
millions of CHF	Pumps Equipment	Rotating Equipment Services	Chemtech	Applicator Systems	Total Sulzer
Oil and gas	355.8	422.3	217.7	–	995.8
Chemicals	232.9	198.2	414.8	–	845.9
General industry	340.4	195.7	23.4	–	559.5
Water	432.7	38.2	0.9	–	471.8
Power	115.2	312.6	7.2	–	435.1
Adhesives, dental, healthcare	–	–	–	274.1	274.1
Beauty	–	–	–	146.5	146.5
Total	1'477.0	1'167.0	664.0	420.6	3'728.5

					2018 ¹⁾
millions of CHF	Pumps Equipment	Rotating Equipment Services	Chemtech	Applicator Systems	Total Sulzer
Oil and gas	238.7	304.2	194.1	–	737.0
Chemicals	162.9	211.7	346.0	–	720.7
General industry	336.7	178.9	18.2	–	533.8
Water	430.4	28.9	0.7	–	460.0
Power	115.4	340.0	4.2	–	459.6
Adhesives, dental, healthcare	–	–	–	274.1	274.1
Beauty	–	–	–	179.7	179.7
Total	1'284.2	1'063.7	563.2	453.8	3'364.9

1) 2018 numbers are adjusted to reflect changes in the market segment definition.

4 Acquisitions of subsidiaries

Acquisitions in 2019

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	GTC Technology US, LLC	Alba Power	Other	Total
Intangible assets	19.5	38.2	5.3	63.1
Property, plant and equipment	4.0	3.9	–	8.0
Lease assets	5.7	0.1	–	5.8
Cash and cash equivalents	12.6	3.2	–	15.9
Trade accounts receivable	9.3	4.4	–	13.7
Other current assets	0.8	1.4	–	2.2
Borrowings	–0.4	–	–	–0.4
Lease liabilities	–5.7	–0.1	–	–5.8
Provisions	–	–0.7	–	–0.7
Other liabilities	–6.9	–4.1	–0.7	–11.7
Deferred tax liabilities	–2.3	–5.4	–	–7.7
Net identifiable assets	36.8	41.1	4.6	82.4
Goodwill recognized in balance sheet	6.8	13.3	0.7	20.8
Total consideration	43.5	54.4	5.3	103.2
Purchase price paid in cash	39.9	54.4	–	94.3
Purchase price not yet paid	–	–	5.3	5.3
Contingent consideration	3.6	–	–	3.6
Total consideration	43.5	54.4	5.3	103.2

GTC Technology US, LLC

On April 30, 2019, Sulzer acquired a 100% controlling interest of GTC Technology US, LLC (“GTC”) for CHF 43.5 million, of which CHF 39.9 million was paid in cash and CHF 3.6 million arose from a contingent consideration agreement. The headquarters of GTC are located in Houston, Texas, USA. GTC employs 200 people and is a technology company offering proprietary processes and systems for the production of aromatics and other petrochemicals. This acquisition strengthens Sulzer Chemtech’s leadership in petrochemical processes and expands its revenue base to process licensing and associated proprietary equipment and chemicals. The goodwill is attributable to synergies by leveraging cross-selling opportunities. None of the goodwill is expected to be deductible for tax purposes. Transaction costs recognized in the income statement amount to CHF 0.3 million. Since the acquisition date, GTC contributed order intake of CHF 37.9 million, sales of CHF 35.4 million and net income of CHF 0.1 million to the group.

Contingent consideration

The contingent consideration is dependent on patents, technology and licensing, as well as order intake from the company’s product portfolio. The total liability is limited at CHF 3.6 million. The calculation of the contingent consideration is based on management assessments that the criteria will be achieved at a probability of 100%.

Acquired receivables

The fair value of acquired trade accounts receivable is CHF 9.3 million. The gross contractual amount for trade account receivables due is CHF 11.4 million, of which CHF 2.2 million is expected to be uncollectible at the date of acquisition.

Alba Power

On July 1, 2019, Sulzer acquired a 100% controlling interest of the Scottish aeroderivative gas turbine service provider Alba Power for CHF 54.4 million. The Alba Power facilities are located in Aberdeen (UK), Houston (US) and Ontario (CA). The company employs 80 people. Through this acquisition, Sulzer diversifies its gas turbine service business into distributed power and offshore as well as marine applications where there are sizable, active markets and numerous cross-selling synergies with its existing pump, motor, generator and turbo service customers. Founded in 2003, Alba Power offers a wide range of services to its clients including field service, inspection, repair and overhaul. None of the goodwill is expected to be deductible for tax purposes. Transaction costs recognized in the income statement amount to CHF 1.0 million. Since the acquisition date, Alba Power contributed order intake of CHF 13.4 million, sales of CHF 19.7 million and net income of CHF 2.3 million to the group.

Acquired receivables

The fair value of acquired trade accounts receivable is CHF 4.4 million. The gross contractual amount for trade account receivables due is CHF 6.9 million, of which CHF 2.5 million is expected to be uncollectible at the date of acquisition.

Pro forma sales and profit contribution

Had all above acquisitions occurred on January 1, 2019, management estimates that total net sales of the group would amount to CHF 3'756.0 million, and the consolidated net income would be CHF 156.9 million.

Cash flow from acquisitions of subsidiaries

millions of CHF	2019	2018
Cash consideration paid	-94.3	-220.8
Contingent consideration paid	-	-2.7
Cash acquired	15.9	6.4
Payments for acquisitions in prior years	-	-0.4
Total cash flow from acquisitions, net of cash acquired	-78.5	-217.5

Contingent consideration

millions of CHF	2019	2018
Balance as of January 1	0.9	5.1
Assumed in a business combination	3.6	-
Payment of contingent consideration	-	-2.7
Release to other operating income	-0.9	-1.5
Currency translation differences	-0.1	-0.1
Total contingent consideration as of December 31	3.5	0.9

Following a reassessment of the contingent consideration agreements in 2019, CHF 0.9 million of the contingent consideration was recognized in the income statement as the assumed probability-adjusted gross profit and EBITDA (earnings before interests, taxes, depreciation and amortization) was not achieved.

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.

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

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 first quarter of the year (after the budget and the three-year strategic plan have been approved by the Board of Directors in February), 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, 2019, are disclosed in [note 14](#). The accounting policies are disclosed in [note 34](#).

Lease assets and lease liabilities

The group has applied judgment to determine the lease term for lease contracts that include renewal and termination options. The assessment of whether the group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and lease assets recognized. This assessment is depending on economic incentives, such as removal and relocation costs.

Further details are disclosed in [note 16](#) and [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 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.

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 20](#) 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 27](#) 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. The group is exposed to transactional foreign currency risk to the extent that sales, purchases, license fees, borrowings and other balance sheet items are denominated in currencies other than the functional currencies of group companies. The functional currencies of group companies are primarily CHF, EUR, USD, CNY and GBP. 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. The group's management policy is to apply the following hedge ratios:

Contractual FX-exposure

- 90% – 100% of the exposure

Non-contractual FX-exposure

- 100% of the forecasted exposure for the next 1–3 months

- 60% of the forecasted exposure for the next 4–6 months
- 40% of the forecasted exposure for the next 7–12 months

The group uses forward exchange contracts to hedge its currency risk, most with a maturity of less than one year from the reporting date. The contracts are generally designated for hedge accounting as cash flow hedges. The group determines the existence of an economic relationship between the hedging instruments and the hedged item based on the currency, amount and timing of the respective cash flows. For hedges of foreign currency purchases, the group enters into hedge relationships where the critical terms of the hedging instrument match exactly with the terms of the hedged item. The group therefore performs a qualitative assessment of effectiveness. If changes in circumstances affect the terms of the hedged item such that the critical terms no longer match exactly with the critical terms of the hedging instrument, the group uses the hypothetical derivative method to assess effectiveness. In hedges of foreign currency purchases, ineffectiveness may arise if the timing of the forecast transaction changes from what was originally estimated.

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 2019 and 2018 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 2019, the currency pair with the most significant exposure and inherent risk was the USD versus the CHF. If, on December 31, 2019, the USD had increased by 5.5% against the CHF with all other variables held constant, profit after tax for the year would have been CHF 0.6 million higher due to foreign exchange gains on USD-denominated financial assets. A decrease of the rate would have caused a loss of the same amount.

Hypothetical impact of foreign exchange risk on income statement

millions of CHF		2019			
Currency pair		USD/CHF	USD/ARS	USD/CAD	EUR/USD
Exposure		14.9	3.4	9.4	-9.0
Volatility		5.5%	24.9%	5.1%	4.9%
Effect on profit after tax (rate increase)		0.6	0.6	0.4	-0.3
Effect on profit after tax (rate decrease)		-0.6	-0.6	-0.4	0.3

millions of CHF		2018			
Currency pair		EUR/RUB	USD/INR	USD/ARS	EUR/ZAR
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

The following tables show the hypothetical influence on equity for 2019 and 2018 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							2019
Currency pair	USD/MXN	USD/BRL	GBP/USD	USD/INR	EUR/USD	USD/CHF	EUR/INR
Exposure	37.8	-20.8	31.1	-43.1	40.6	36.0	24.6
Volatility	8.7%	12.9%	8.2%	5.8%	4.9%	5.5%	6.8%
Effect on equity, net of taxes (rate increase)	2.4	-2.0	1.9	-1.9	1.5	1.5	1.2
Effect on equity, net of taxes (rate decrease)	-2.4	2.0	-1.9	1.9	-1.5	-1.5	-1.2

millions of CHF							2018
Currency pair	USD/BRL	USD/MXN	GBP/USD	USD/CHF	EUR/USD	EUR/RUB	EUR/BRL
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

(II) Price risk

As of December 31, 2019, 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		2019		
Variable-interest-bearing assets (net)	Amount	Sensitivity in basis points	Impact on post-tax profit	
			rate increase	rate decrease
USD	251.0	100	1.9	-1.9
CHF	217.1	100	1.6	-1.6
EUR	210.9	100	1.6	-1.6
CNY	108.7	100	0.8	-0.8
GBP	25.2	100	0.2	-0.2

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

On December 31, 2019, 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 1.9 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, 2018, 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 2.1 million higher, as a result of higher interest income on USD-denominated 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 20](#) and on the credit risk out of trade accounts receivable, please refer to [note 21](#).

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

					2019
millions of CHF	Carrying amount	<1 year	1–5 years	>5 years	Total
Borrowings	1'330.2	144.0	1'107.3	125.6	1'376.8
Lease liabilities	109.7	27.4	66.4	15.9	109.7
Trade accounts payable	522.4	522.4	–	–	522.4
Other current and non-current liabilities (excluding derivative liabilities)	293.4	287.2	5.6	0.6	293.4
Derivative liabilities	8.2	8.2	0.0	–0.0	8.2
– thereof outflow		434.6	0.4	0.0	435.0
– thereof inflow		426.4	0.4	0.0	426.8

					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 (excluding derivative liabilities)	240.8	222.6	18.1	0.1	240.8
Derivative liabilities	8.7	8.4	0.2	–	8.7
– thereof outflow		445.7	5.4	–	451.1
– thereof inflow		437.3	5.2	–	442.5

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, 2019 and 2018.

Net debt/EBITDA ratio

millions of CHF	2019	2018
Cash and cash equivalents	-1'035.5	-1'095.2
Current financial assets	-57.5	-
Non-current borrowings	1'199.2	1'316.3
Non-current lease liabilities	82.3	-
Current borrowings	131.0	18.0
Current lease liabilities	27.4	-
Net debt as of December 31	346.9	239.0
EBIT	241.0	183.8
Depreciation	102.6	71.7
Impairments on tangible and intangible assets	4.4	4.4
Amortization	64.5	69.0
EBITDA	412.5	329.0
Net debt	346.9	239.0
EBITDA	412.5	329.0
Net debt/EBITDA ratio	0.84	0.73

The lease liabilities have been restated as of January 1, 2019, due to the first time application of IFRS 16 "Leases". Further details are provided in [note 34](#). Without consideration of the lease liabilities, applying the same accounting policies as in the prior year, the net debt/EBITDA ratio would be 0.63.

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

As of December 31, 2019 and 2018, the gearing ratio was as follows:

Gearing ratio (borrowings-to-equity ratio)

millions of CHF	2019	2018
Non-current borrowings	1'199.2	1'316.3
Non-current lease liabilities	82.3	-
Current borrowings	131.0	18.0
Current lease liabilities	27.4	-
Total borrowings and lease liabilities	1'439.9	1'334.3
Equity attributable to shareholders of Sulzer Ltd	1'580.7	1'629.9
Gearing ratio (borrowings-to-equity ratio)	0.91	0.82

The lease liabilities have been restated as of January 1, 2019, due to the first time application of IFRS 16 "Leases". Further details are provided in [note 34](#). Without consideration of the lease liabilities, applying the same accounting policies as in the prior year, the gearing ratio would be 0.84.

For the definition of net debt, EBITDA and gearing ratio, please refer to "[Supplementary information](#)".

6.3 Fair value estimation

The following tables present the carrying amounts and fair values of financial assets and liabilities as of December 31, 2019 and 2018, 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, 2019								
		Carrying amount				Fair value				
millions of CHF	Notes	Fair value hedging instruments	Fair value through profit or loss	Financial assets at amortized cost	Other financial liabilities	Total carrying amount	Level 1	Level 2	Level 3	Total fair value
Financial assets measured at fair value										
Other non-current financial assets (at fair value)	18		10.3			10.3	0.3	–	10.0	10.3
Derivative assets – non-current	29	0.1				0.1	–	0.1	–	0.1
Derivative assets – current	22, 29	6.7				6.7	–	6.7	–	6.7
Total financial assets measured at fair value		6.8	10.3	–	–	17.1	0.3	6.8	10.0	17.1
Financial assets not measured at fair value										
Other non-current financial assets (at amortized cost)	18			2.4		2.4				
Non-current receivables (excluding non-current derivative assets)				6.2		6.2				
Trade accounts receivable	21			645.9		645.9				
Other current receivables (excluding current derivative assets and other taxes)	22			87.9		87.9				
Current financial assets (at amortized cost)	18			57.5		57.5				
Cash and cash equivalents	23			1'035.5		1'035.5				
Total financial assets not measured at fair value		–	–	1'835.3	–	1'835.3				
Financial liabilities measured at fair value										
Derivative liabilities – non-current	29	0.0				0.0	–	0.0	–	0.0
Derivative liabilities – current	28, 29	8.2				8.2	–	8.2	–	8.2
Contingent considerations	4		3.5			3.5	–	–	3.5	3.5
Total financial liabilities measured at fair value		8.2	3.5	–	–	11.7	–	8.2	3.5	11.7
Financial liabilities not measured at fair value										
Outstanding non-current bonds	26				1'199.2	1'199.2	1'234.0	–	–	1'234.0
Other non-current liabilities (excluding non-current derivative liabilities)					6.2	6.2				
Outstanding current bonds	26				109.9	109.9	110.3	–	–	110.3
Other current borrowings and bank loans	26				21.1	21.1				
Trade accounts payable					522.4	522.4				
Other current liabilities (excluding current derivative liabilities, other taxes and contingent considerations)	28				257.8	257.8				
Total financial liabilities not measured at fair value		–	–	–	2'116.7	2'116.7				

Fair value table

										December 31, 2018				
										Carrying amount	Fair value			
millions of CHF	Notes	Fair value hedging instruments	Fair value through profit or loss	Financial assets at amortized cost	Other financial liabilities	Total carrying amount	Level 1	Level 2	Level 3	Total fair value				
Financial assets measured at fair value														
Other non-current financial assets (at fair value)	18		6.8			6.8	0.2	–	6.6	6.8				
Derivative assets – current	22, 29	6.4				6.4	–	6.4	–	6.4				
Total financial assets measured at fair value		6.4	6.8			13.1	0.2	6.4	6.6	13.1				
Financial assets not measured at fair value														
Other non-current financial assets (at amortized cost)	18			2.7		2.7								
Non-current receivables (excluding non-current derivative assets)				6.2		6.2								
Trade accounts receivable	21			622.3		622.3								
Other current receivables (excluding current derivative assets and other taxes)	22			24.3		24.3								
Cash and cash equivalents	23			1'095.2		1'095.2								
Total financial assets not measured at fair value		–	–	1'750.7	–	1'750.7								
Financial liabilities measured at fair value														
Derivative liabilities – non-current	29	0.2				0.2	–	0.2	–	0.2				
Derivative liabilities – current	28, 29	8.4				8.4	–	8.4	–	8.4				
Contingent considerations	4		0.9			0.9	–	–	0.9	0.9				
Total financial liabilities measured at fair value		8.7	0.9			9.6	–	8.7	0.9	9.6				
Financial liabilities not measured at fair value														
Outstanding non-current bonds	26				1'308.7	1'308.7	1'312.6	–	–	1'312.6				
Other non-current borrowings	26				7.6	7.6								
Other current borrowings and bank loans	26				18.0	18.0								
Other non-current liabilities (excluding non-current derivative liabilities)					3.6	3.6								
Trade accounts payable					521.8	521.8								
Other current liabilities (excluding current derivative liabilities, other taxes and contingent considerations)					211.3	211.3								
Total financial liabilities not measured at fair value					2'070.9	2'070.9								

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	2019	2018
Salaries and wages	949.4	889.4
Defined contribution plan expenses	29.0	25.7
Defined benefit plan expenses	16.0	21.8
Cost of share-based payment transactions	12.5	15.1
Social benefit costs	144.9	141.2
Other personnel costs	39.2	36.5
Total personnel expenses	1'191.1	1'129.7

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	2019					Total
	Funded plans Switzerland	Funded plans United Kingdom	Funded plans USA	Funded plans Others	Unfunded plans	
Present value of funded defined benefit obligation	-1'109.5	-575.2	-69.3	-83.2	-	-1'837.2
Fair value of plan assets (funded plans)	1'140.7	463.3	46.4	65.0	-	1'715.4
Overfunding / (underfunding)	31.2	-111.9	-22.9	-18.2	-	-121.8
Present value of unfunded defined benefit obligation	-	-	-	-	-46.8	-46.8
Asset / (liability) recognized in the balance sheet	31.2	-111.9	-22.9	-18.2	-46.8	-168.6
- thereof as liabilities under defined benefit obligation	-0.9	-111.9	-22.9	-18.5	-46.8	-201.0
- thereof as other current receivables and prepaid expenses	32.1	-	-	0.3	-	32.4

						2018
millions of CHF	Funded plans Switzerland	Funded plans United Kingdom	Funded plans USA	Funded plans Others	Unfunded plans	Total
Present value of funded defined benefit obligation	-1'106.0	-511.0	-60.8	-78.5	-	-1'756.3
Fair value of plan assets	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

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 decreased in 2019 compared to 2018 (from 0.9% to 0.3% for active employees and from 0.6% to 0.1% for pensioners). The plan assets increased compared to 2018 due to a higher return on plan assets. The total expenses recognized in the income statement in 2019 were CHF 15.3 million (2018: CHF 15.2 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 decreased by 0.9 percentage points to 2.1% (2018: 3.0%). The net pension liabilities increased from CHF 78.5 million in 2018 to CHF 111.9 million, due to changes in financial and demographic assumptions. The total expenses recognized in the income statement in 2019 were CHF 3.1 million compared to CHF 3.4 million in 2018.

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 2019, an expense of CHF 1.3 million was recognized in the income statement (2018: CHF 0.7 million). The

discount rate decreased to 3.0% in 2019 (2018: 4.2%). The amount recognized in other comprehensive income (OCI) in 2019 was CHF –6.6 million (2018: CHF –3.0 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	2019	2018
Reconciliation of effect of asset ceiling		
Adjustment to asset ceiling at January 1	–0.9	–1.6
Change in effect of asset ceiling excl. interest income / (expenses)	0.9	0.7
Adjustment to asset ceiling at December 31	–	–0.9
Reconciliation of asset / (liability) recognized in the balance sheet		
Asset / (liability) recognized at January 1	–148.5	–225.8
Defined benefit income / (expense) recognized in the income statement	–19.9	–26.7
Defined benefit income / (expense) recognized in OCI	–29.2	68.7
Employer contribution	23.4	27.4
Currency translation differences	5.6	7.9
Asset / (liability) recognized at December 31	–168.6	–148.5
Components of defined benefit income / (expense) in the income statement		
Current service cost (employer)	–18.0	–21.3
Interest expense	–27.1	–25.0
Interest income on plan assets	23.3	20.1
Past service cost	–	–0.7
Effects of curtailments and settlement	3.4	1.0
Other administrative cost	–1.5	–0.8
Income / (expense) recognized in the income statement	–19.9	–26.7
– thereof charged to personnel expenses	–16.0	–21.8
– thereof charged to financial expense	–3.8	–4.9
Components of defined benefit gain / (loss) in OCI		
Actuarial gain / (loss) on defined benefit obligation	–145.2	140.8
Return on plan assets excl. interest income	114.9	–73.0
Change in effect of asset ceiling excl. interest expense / (income)	0.9	0.8
Return on reimbursement right excl. interest income / (expenses)	0.2	0.1
Defined benefit gain / (loss) recognized in OCI¹⁾	–29.2	68.7

1) The tax effect on defined benefit cost recognized in OCI amounted to CHF 4.3 million (2018: CHF –12.8 million).

Employee benefit plans

millions of CHF	2019	2018
Reconciliation of defined benefit obligation		
Defined benefit obligation as of January 1	-1'805.1	-2'048.5
Interest expense	-27.1	-25.0
Current service cost (employer)	-18.0	-21.3
Contributions by plan participants	-10.0	-9.7
Past service cost	-	-0.7
Benefits paid/deposited	120.9	124.0
Effects of curtailments and settlement	3.4	2.8
Other administrative cost	-1.5	-0.8
Actuarial gain / (loss)	-145.2	140.8
Currency translation differences	-1.4	33.3
Defined benefit obligation as of December 31¹⁾	-1'884.0	-1'805.1
Reconciliation of the fair value of plan assets		
Fair value of plan assets as of January 1	1'657.5	1'824.3
Interest income on plan assets	23.3	20.1
Employer contribution	23.4	27.4
Contributions by plan participants	10.0	9.6
Benefits paid/deposited	-120.9	-124.0
Effects of curtailments and settlement	-	-1.8
Return on plan assets excl. interest income	114.9	-73.0
Currency translation differences	7.2	-25.1
Fair value of plan assets as of December 31	1'715.4	1'657.5
Total plan assets at fair value – quoted market price		
Cash and cash equivalents	90.8	49.1
Equity instruments	587.2	539.7
Debt instruments	443.8	476.2
Real estate funds	36.7	41.0
Investment funds	4.1	3.8
Others	81.0	79.0
Total assets at fair value – quoted market price as of December 31	1'243.6	1'188.8
Total plan assets at fair value – non-quoted market price		
Properties occupied by or used by third parties (real estate)	290.6	280.7
Others	181.2	188.0
Total assets at fair value – non-quoted market price as of December 31	471.8	468.7
Best estimate of contributions for upcoming financial year		
Contributions by the employer	30.9	26.2

1) The defined benefit obligation includes the funded part and the unfunded part.

Employee benefit plans

millions of CHF	2019	2018
Components of defined benefit obligation, split		
Defined benefit obligation for active members	-348.8	-318.5
Defined benefit obligation for pensioners	-1'180.4	-1'193.5
Defined benefit obligation for deferred members	-354.8	-293.1
Total defined benefit obligation at December 31	-1'884.0	-1'805.1
Components of actuarial gain / (losses) on obligations		
Actuarial gain / (loss) arising from changes in financial assumptions	-165.1	104.7
Actuarial gain / (loss) arising from changes in demographic assumptions	7.2	50.2
Actuarial gain / (loss) arising from experience adjustments	12.7	-14.1
Total actuarial gain / (loss) on defined benefit obligation	-145.2	140.8
Maturity profile of defined benefit obligation		
Weighted average duration of defined benefit obligation in years	13.5	13.2

Since the defined benefit obligation for the Swiss and UK pension plans represents 89% (2018: 92%) of the group, the following significant actuarial assumptions apply exclusively to these two countries:

Principal actuarial assumptions as of December 31

	2019		2018	
	Funded plans Switzerland	Funded plans United Kingdom	Funded plans Switzerland	Funded plans United Kingdom
Discount rate for active employees	0.3%	2.1%	0.9%	3.0%
Discount rate for pensioners	0.1%	2.1%	0.6%	3.0%
Future salary increases	1.0%	0.0%	1.0%	0.0%
Future pension increases	0.0%	2.6%	0.0%	2.7%
Life expectancy at retirement age (male/female) in years	23/25	21/23	23/25	22/23

Sensitivity analysis of defined benefit obligation

millions of CHF	2019	2018
Discount rate (decrease 0.25 percentage points)	-64.4	-58.3
Discount rate (increase 0.25 percentage points)	62.1	55.7
Future salary growth (decrease 0.25 percentage points)	5.0	5.2
Future salary growth (increase 0.25 percentage points)	-3.6	-1.5
Life expectancy (decrease 1 year)	97.7	89.0
Life expectancy (increase 1 year)	-95.1	-85.5

10 Research and development expenses

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

millions of CHF	2019	2018
Pumps Equipment	43.3	45.1
Rotating Equipment Services	1.1	1.1
Chemtech	18.0	17.2
Applicator Systems	22.9	22.5
Others	0.4	0.5
Total	85.6	86.4

11 Other operating income and expenses

millions of CHF	2019	2018
Income from release of contingent consideration	0.9	1.5
Gain from sale of property, plant and equipment	0.7	6.0
Operating currency exchange gains, net	–	2.2
Other operating income	18.0	40.2
Total other operating income	19.6	49.9
Restructuring expenses	–23.1	–13.1
Impairments on tangible and intangible assets	–4.4	–4.4
Cost for mergers and acquisitions	–2.1	–1.4
Loss from sale of property, plant and equipment	–0.3	–0.2
Operating currency exchange losses, net	–1.1	–
Total other operating expenses	–31.1	–19.1
Total other operating income and expenses, net	–11.5	30.8

During 2019, the group reassessed the achievement of the earn-out targets related to contingent consideration arrangements. The reassessment resulted in an income of CHF 0.9 million (2018: CHF 1.5 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.

Sulzer has continued to streamline the organizational setup. For 2019, the group recognized restructuring costs of CHF 23.4 million (2018: CHF 14.9 million), partly offset by released restructuring provisions of CHF 0.2 million (2018: CHF 1.8 million). Restructuring costs are mainly associated with the consolidation of two production facilities in Germany. The group further performed impairment tests on the related production machines and facilities leading to impairments of CHF 2.1 million (2018: CHF 4.4 million). For more details refer to [note 15](#).

Impairments on other intangible assets amounted to CHF 2.3 million (2018: CHF 0.0 million) and were mainly related to computer software (see also [note 14](#)).

The functional allocation of the total restructuring expenses and impairments is as follows: Cost of goods sold CHF –11.4 million (2018: CHF –4.1 million), selling and distribution expenses CHF –1.5 million (2018: CHF –1.8 million), general and administrative expenses CHF –14.0 million (2018: CHF –11.1 million) and research and development expenses CHF –0.6 million (2018: CHF –0.5 million).

12 Financial income and expenses

millions of CHF	2019	2018
Interest and securities income	6.6	2.9
Total interest and securities income	6.6	2.9
Interest expenses on borrowings and lease liabilities	–21.1	–15.4
Interest expenses on employee benefit plans	–3.8	–4.9
Total interest expenses	–24.9	–20.3
Total interest income and expenses, net	–18.3	–17.4
Income from investments and other financial assets	0.0	0.5
Fair value changes	–2.6	8.6
Other financial expenses	–2.3	–2.0
Currency exchange gains/losses, net	–5.1	–8.7
Total other financial income and expenses, net	–10.0	–1.5
Total financial income and expenses, net	–28.3	–18.9
– thereof fair value changes on financial assets at fair value through profit and loss	–2.6	8.6
– thereof other income from financial assets at fair value through profit and loss	0.0	0.5
– thereof interest income on financial assets at amortized costs	6.6	2.9
– thereof other financial expenses	–2.3	–2.0
– thereof currency exchange gains/losses, net	–5.1	–8.7
– thereof interest expenses on borrowings	–17.8	–15.4
– thereof interest expenses on lease liabilities	–3.3	-
– thereof interest expenses on employee benefit plans	–3.8	–4.9

In 2019, interest expenses increased to CHF 21.1 million (2018: CHF 15.4 million), mainly due to interest expenses on bonds issued in the second half of 2018 and interest expenses on lease liabilities which resulted from the first time application of IFRS 16 “Leases”.

Total financial expenses increased to CHF 28.3 million (2018: CHF 18.9 million), mainly as a result of higher interest expenses and fair value changes on financial assets at fair value through profit and loss.

The “Fair value changes” are largely related to 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 to hedge foreign exchange risks.

13 Income taxes

millions of CHF	2019	2018
Current income tax expenses	–65.2	–69.4
Deferred income tax income	10.1	20.3
Total income tax expenses	–55.1	–49.2

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	2019	2018
Income before income tax expenses	212.8	165.6
Weighted average tax rate	22.5%	22.0%
Income taxes at weighted average tax rate	-48.0	-36.4
Income taxed at different tax rates	11.8	5.9
Effect of tax loss carryforwards and allowances for deferred income tax assets	-1.2	-7.9
Expenses not deductible for tax purposes	-7.8	-5.8
Effect of changes in tax rates and legislation	-1.5	-3.7
Prior year items and others	-8.4	-1.3
Total income tax expenses	-55.1	-49.2
Effective income tax rate	25.9%	29.7%

The effective income tax rate for 2019 is 25.9% (2018: 29.7%). The effect of expenses not deductible for tax purposes in the amount of CHF 7.8 million is mainly related to higher disallowances of group charges and interests in China. Prior year items and others increased to CHF 8.4 million due to expenses related to a business reorganization in Germany in the amount of CHF 2.2 million and tax base adjustments in Russia and Mexico for prior years. Excluding these one-time effects, the effective income tax rate for 2019 would have been 23.1%.

The effective income tax rate for 2018 of 29.7% was impacted by restructuring expenses in China and expenses in the UK with no corresponding tax effects. Excluding these extraordinary effects, the effective income tax rate in 2018 would have been 23.1%.

In Switzerland changes to the tax laws at the Swiss federal as well as cantonal levels were substantially enacted in 2019. More specifically, the Swiss public voted to adopt the Federal Act on Tax Reform and AHV Financing ("TRAF") on May 19, 2019. The cantonal regimes were abolished as per January 1, 2020. Other relevant changes for the group include a decrease in the Canton of Zurich tax rate, effective from January 1, 2021. In this respect, the group has carried out a remeasurement of its deferred tax positions, resulting in an immaterial impact.

Income tax liabilities

millions of CHF	2019	2018
Balance as of January 1	34.3	27.1
Acquired through business combination	1.2	0.3
Additions	55.7	35.5
Released as no longer required	-7.3	-1.6
Utilized	-47.3	-25.7
Currency translation differences	-0.6	-1.3
Total income tax liabilities as of December 31	35.9	34.3
- thereof non-current	2.6	2.3
- thereof current	33.3	32.0

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

millions of CHF	2019			2018		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Intangible assets	13.6	-86.1	-72.5	12.4	-96.1	-83.7
Property, plant and equipment	5.2	-13.7	-8.5	6.2	-12.0	-5.8
Other financial assets	5.9	-1.3	4.6	4.5	-0.0	4.5
Inventories	20.7	-3.2	17.6	17.6	-12.7	4.9
Other assets	16.9	-19.2	-2.3	34.1	-10.1	24.0
Defined benefit obligations	29.1	-1.3	27.9	20.4	-0.1	20.3
Non-current provisions	16.0	-1.2	14.8	14.5	-2.2	12.3
Current provisions	17.9	-0.4	17.5	22.6	-0.8	21.8
Other liabilities	28.6	-6.0	22.6	27.4	-9.2	18.2
Tax loss carryforwards	32.6	-	32.6	32.3	-	32.3
Elimination of intercompany profits	0.8	-	0.8	0.6	-	0.6
Tax assets/liabilities	187.3	-132.3	55.0	192.7	-143.3	49.4
Offset of assets and liabilities	-52.9	52.9	-	-53.8	53.8	-
Net recorded deferred income tax assets and liabilities	134.4	-79.4	55.0	138.9	-89.5	49.4

Cumulative deferred income taxes recorded in equity as of December 31, 2019, amounted to CHF 16.4 million (2018: CHF 13.8 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	2019					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	-83.7	14.6	-	-4.0	0.6	-72.5
Property, plant and equipment	-5.8	-3.0	-	-	0.3	-8.5
Other financial assets	4.5	0.1	-	-	-	4.6
Inventories	4.9	16.8	-	-3.7	-0.4	17.6
Other assets	24.0	-24.5	-1.8	-	-	-2.3
Defined benefit obligations	20.3	3.1	4.3	-	0.1	27.9
Non-current provisions	12.3	2.9	-	-	-0.4	14.8
Current provisions	21.8	-3.9	-	-	-0.4	17.5
Other liabilities	18.2	4.7	-	-	-0.3	22.6
Tax loss carryforwards	32.3	-0.8	-	-	1.1	32.6
Elimination of intercompany profits	0.6	0.2	-	-	-	0.8
Total	49.4	10.1	2.5	-7.7	0.6	55.0

						2018
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	-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
Defined benefit obligations	35.1	-1.5	-12.8	-	-0.5	20.3
Non-current provisions	14.2	-1.4	-	-	-0.5	12.3
Current provisions	19.2	3.4	-	-	-0.8	21.8
Other 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

Tax loss carryforwards (TLCF)

					2019
millions of CHF	Amount	Potential tax assets	Valuation allowance	Carrying amount	TLCF
Expiring in the next 3 years	0.6	0.1	-0.1	-0.0	0.9
Expiring in 4–7 years	24.0	5.4	-3.1	2.3	14.6
Available without limitation	246.0	46.3	-16.1	30.2	104.7
Total tax loss carryforwards as of December 31	270.7	51.8	-19.3	32.6	120.2

					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

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 120.2 million (2018: CHF 110.3 million).

14 Goodwill and other intangible assets

millions of CHF						2019
	Goodwill	Trademarks and licenses	Research and development	Computer software	Customer relationship	Total
Acquisition cost						
Balance as of January 1	1'263.4	214.0	13.8	52.1	574.4	2'117.7
Acquired through business combination	20.8	12.3	–	0.0	50.8	83.9
Additions	–	1.0	0.7	2.9	1.4	6.0
Disposals	–	–2.1	–0.0	–1.3	–0.8	–4.2
Currency translation differences	–23.3	–4.3	0.2	–0.8	–16.1	–44.3
Balance as of December 31	1'260.8	220.8	14.6	52.9	609.8	2'159.0
Accumulated amortization						
Balance as of January 1	340.0	128.1	8.3	43.0	235.6	754.9
Additions	–	14.5	1.6	2.9	45.4	64.5
Disposals	–	–1.3	–0.0	–2.3	–0.1	–3.7
Impairments	–	0.1	0.0	2.2	–	2.3
Currency translation differences	–	–3.0	–0.1	–0.5	–6.4	–10.0
Balance as of December 31	340.0	138.3	9.8	45.4	274.5	808.0
Net book value						
As of January 1	923.4	85.9	5.6	9.1	338.8	1'362.8
As of December 31	920.8	82.5	4.9	7.6	335.2	1'350.9

In 2019 the group sold other intangible assets with a book value of CHF 0.5 million for CHF 0.5 million resulting in a net gain of CHF 0.0 million (2018: no sales of 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

Goodwill impairment test

During 2019, the Tower Field Service business has been integrated into the Separation Technology business. Therefore, the two Chemtech cash-generating units Tower Field Service and Separation Technology have been combined into one cash-generating unit Chemtech.

millions of CHF	2019			2018		
	Goodwill	Growth rate residual value	Pre-tax discount rate	Goodwill	Growth rate residual value	Pre-tax discount rate
Pumps Equipment	378.8	2.0%	9.0%	394.0	2.0%	9.0%
Rotating Equipment Services – region EMEA	153.2	2.0%	10.7%	139.2	2.0%	10.7%
Rotating Equipment Services – region APAC	7.7	2.0%	12.0%	7.9	2.0%	12.0%
Rotating Equipment Services – region AME	70.4	2.0%	10.8%	71.9	2.0%	10.8%
Chemtech – Tower Field Service	–	n/a	n/a	18.6	1.0%	10.2%
Chemtech – Separation Technology	–	n/a	n/a	70.3	2.0%	9.8%
Chemtech	93.3	1.5%	10.0%	–	n/a	n/a
Applicator Systems	217.4	1.0%	6.1%	221.5	1.0%	6.1%
Total goodwill as of December 31	920.8			923.4		

Goodwill is allocated to the smallest cash-generating unit at which goodwill is monitored for internal management purposes (i.e. division or business unit). The recoverable amount of these units is determined over a five-year cash flow projection period.

In order to prepare the impairment test based on approved budgets, the group shifted the yearly impairment test from December to March. The growth rate for the residual value and pre-tax discount rate for the 2019 impairment test are therefore identical to 2018, as disclosed in the table above. As of December 31, 2019, there is no indication for goodwill impairment. Updating the impairment test would not have resulted in a goodwill impairment.

The calculation uses the budget for the first period (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 and the three-year strategic plan have been approved by the Board of Directors in February 2019. 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 assumption change is not reasonably possible.

	2019			2018		
	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
millions of CHF						
Pumps Equipment	275.6	-2.5%	2.0%	217.6	-1.8%	1.5%
Rotating Equipment Services – region EMEA	626.5			717.0		
Rotating Equipment Services – region APAC	109.7			109.0		
Rotating Equipment Services – region AME	405.6			401.1		
Chemtech – Tower Field Service	–			30.3		
Chemtech – Separation Technology	–			671.6		
Chemtech	677.2			–		
Applicator Systems	1'798.8			1'750.0		
Total headroom as of December 31	3'893.4			3'896.6		

15 Property, plant and equipment

	2019				Total
	Land and buildings	Machinery and technical equipment	Other non-current assets	Assets under construction	
millions of CHF					
Acquisition cost					
Balance as of January 1	379.8	725.5	185.0	47.3	1'337.7
Acquired through business combination	3.6	3.9	0.5	-	8.0
Additions	3.6	33.2	14.1	58.0	108.9
Disposals	-1.3	-21.7	-9.3	-	-32.3
Reclassifications	0.7	20.8	7.9	-32.8	-3.3
Currency translation differences	-5.7	-5.1	-4.2	-1.1	-16.0
Balance as of December 31	380.8	756.6	193.9	71.5	1'402.9
Accumulated depreciation					
Balance as of January 1	170.2	498.5	149.5	-	818.3
Additions	13.0	43.3	11.9	-	68.2
Disposals	-1.1	-16.2	-7.1	-	-24.5
Reclassifications	-1.0	0.2	3.3	-	2.4
Impairments	0.2	1.7	0.2	-	2.1
Currency translation differences	-2.8	-1.8	-3.3	-	-8.0
Balance as of December 31	178.4	525.7	154.4	-	858.5
Net book value					
As of January 1	209.6	227.0	35.5	47.3	519.4
As of December 31	202.4	230.9	39.5	71.5	544.4

Property, plant and equipment has been adjusted as of January 1, 2019, due to the first time application of IFRS 16 “Leases”. Further details are provided in [note 34](#).

The group performed impairment tests on production machines and facilities, resulting in impairments of CHF 2.1 million as of December 31, 2019 (December 31, 2018: CHF 4.4 million), all of which were charged to other operating expenses.

In 2019 the group sold property, plant and equipment with a book value of CHF 7.8 million for CHF 8.1 million resulting in a net gain of CHF 0.4 million (2018: book value of CHF 10.7 million sold for CHF 16.6 million resulted in a net gain of CHF 5.8 million).

	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	–	1.5
Net book value as of December 31	5.7	1.5	0.3	–	7.6
Leasing commitments (present value) as of December 31	6.5	1.8	0.3	–	8.6

The contractual commitments to acquire property, plant and equipment as of December 31, 2019, amounted to CHF 6.9 million (December 31, 2018: CHF 6.5 million).

16 Leases

The group has applied IFRS 16 “Leases” as of January 1, 2019, using the modified retrospective approach, under which comparative information is not restated. Accordingly, no information for 2018 is presented.

Lease assets

millions of CHF	2019			Total
	Land and buildings, leased	Machinery and technical equipment, leased	Other non-current assets, leased	
Balance as of January 1	95.8	4.6	14.5	114.9
Acquired through business combination	5.7	–	0.1	5.8
Additions	13.8	3.9	9.5	27.2
Disposals	–0.7	–0.2	–0.5	–1.4
Depreciation	–25.2	–1.9	–7.3	–34.4
Remeasurements	–3.6	–	–	–3.6
Contract modifications	–0.1	–	0.1	–0.0
Reclassifications	8.1	–0.4	–2.0	5.7
Currency translation differences	–1.2	–0.0	–0.3	–1.6
Total lease assets as of December 31	92.6	5.8	14.1	112.6

Lease liabilities

millions of CHF	2019		Total
	Non-current lease liabilities	Current lease liabilities	
Balance as of January 1	87.3	28.6	115.9
Acquired through business combination	5.8	–	5.8
Additions	20.9	6.3	27.2
Repayments	–4.0	–30.1	–34.1
Remeasurements	–2.7	–0.8	–3.6
Contract modifications	–0.2	0.0	–0.1
Reclassifications	–23.7	23.7	–
Currency translation differences	–1.1	–0.4	–1.5
Total lease liabilities as of December 31	82.3	27.4	109.7

Other disclosures

millions of CHF	2019
Expenses relating to short-term leases	–17.4
Expenses relating to low-value asset leases, excluding short-term leases of low-value assets	–4.2
Expenses relating to variable lease payments not included in the lease liability	–2.7
Income from subleasing right-of-use assets	0.5
Interest expenses on lease liabilities	–3.3
Cash outflow for leases	–34.0

The lease assets as of January 1, 2019, have been restated by CHF 114.9 million (net book value) and the lease liabilities by CHF 115.9 million. Further details are provided in [Note 34](#).

17 Associates

millions of CHF	2019	2018
Balance as of January 1	13.4	10.3
Additions	0.0	2.4
Reclassifications	-2.6	-
Share of profit/loss of associates	0.1	0.7
Dividend payments received	-0.1	-0.1
Currency translation differences	-0.2	0.1
Total investments in associates as of December 31	10.7	13.4

18 Other financial assets

millions of CHF	2019		
	Financial assets at fair value through profit and loss	Financial assets at amortized costs	Total
Balance as of January 1	6.8	2.7	9.4
Changes in scope of consolidation	-	0.2	0.2
Additions	1.2	57.2	58.4
Disposals	-	-0.4	-0.4
Reclassifications	2.6	-	2.6
Currency translation differences	-0.3	0.1	-0.2
Balance as of December 31	10.3	59.8	70.1
- thereof non-current	10.3	2.4	12.6
- thereof current	0.0	57.5	57.5

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
- thereof non-current	6.8	2.7	9.4
- thereof current	-	-	-

Financial assets that belong to the categories “financial assets at fair value through profit and loss” include investments in equity securities.

During 2019, the group invested CHF 57.1 million in fixed-term deposits with maturities between 4 to 12 months.

19 Inventories

millions of CHF	2019	2018
Raw materials, supplies and consumables	203.9	240.0
Work in progress	252.0	303.5
Finished products and trade merchandise	119.0	115.4
Total inventories as of December 31	574.9	658.9

In 2019, Sulzer recognized write-downs of CHF 23.2 million (2018: CHF 17.7 million) in the income statement. Total accumulated write-downs on inventories amounted to CHF 80.8 million as of December 31, 2019 (2018: CHF 74.3 million). Material expenses in 2019 amounted to CHF 1'434.9 million (2018: CHF 1'223.4 million).

20 Assets and liabilities related to contracts with customers

millions of CHF	2019	2018
Sales recognized over time related to ongoing performance obligations	482.7	431.4
Sales recognized over time related to satisfied performance obligations	423.4	353.2
Sales recognized over time	906.2	784.6
Sales recognized at a point in time	2'822.3	2'580.3
Sales	3'728.5	3'364.9
– thereof sales recognized included in the contract liability balance at the beginning of the period	256.4	291.1
– thereof sales recognized from performance obligations satisfied (or partially satisfied) in previous periods	1.4	1.1
Cost of goods sold recognized over time related to ongoing performance obligations	–386.2	–330.2
Cost of goods sold recognized over time related to satisfied performance obligations	–330.1	–270.6
Cost of goods sold recognized over time	–716.3	–600.8
Cost of goods sold recognized at a point in time	–1'891.0	–1'785.8
Cost of goods sold	–2'607.3	–2'386.6
Gross profit recognized over time related to ongoing performance obligations	96.5	101.2
Gross profit recognized over time related to satisfied performance obligations	93.3	82.6
Gross profit recognized over time	189.9	183.8
Gross profit recognized at a point in time	931.3	794.5
Gross profit	1'121.2	978.3
Contract assets from sales recognized over time relating to ongoing performance obligations	779.2	638.7
Expected loss rate	0.2%	0.1%
Allowance for expected losses	–1.2	–0.3
Netting with contract liabilities	–422.8	–433.3
Contract assets	355.2	205.1
Advance payments from customers relating to point in time contracts	239.2	229.8
Advance payments from customers relating to over time contracts	528.3	459.9
Netting with contract assets	–422.8	–433.3
Contract liabilities	344.8	256.4
Order backlog (aggregate amount of transaction price allocated to unsatisfied performance obligations)	1'792.6	1'786.9
– thereof expected to be recognized as revenue within 12 months	1'637.3	1'661.6
– thereof expected to be recognized in more than 12 months	155.3	125.3

Total sales recognized over time increased from CHF 784.6 million in 2018 to CHF 906.2 million in 2019. As a result contract assets increased by CHF 150.1 million and contract liabilities by CHF 88.4 million.

21 Trade accounts receivable

Aging structure of trade accounts receivable

millions of CHF	2019				2018			
	Expected loss rate	Gross amount	Allowance	Net book value	Expected loss rate	Gross amount	Allowance	Net book value
Not past due	0.1%	446.7	-0.5	446.1	0.1%	408.6	-0.5	408.1
Past due								
1–30 days	0.8%	84.6	-0.7	83.9	0.6%	86.9	-0.5	86.4
31–60 days	2.4%	36.2	-0.9	35.4	1.8%	35.3	-0.6	34.7
61–120 days	3.3%	30.6	-1.0	29.6	7.3%	30.3	-2.2	28.1
>120 days	46.4%	94.9	-44.1	50.9	40.3%	109.1	-44.0	65.1
Total trade accounts receivable as of December 31		693.0	-47.1	645.9		670.2	-47.9	622.3

Allowance for doubtful trade accounts receivable

millions of CHF	2019	2018
Balance as of January 1	47.9	60.4
Additions	13.4	12.8
Released as no longer required	-10.5	-19.2
Utilized	-5.3	-4.6
Currency translation differences	1.6	-1.6
Balance as of December 31	47.1	47.9

Approximately 36% (2018: 39%) of the gross amount of trade accounts receivable were past due, and an allowance of CHF 47.1 million (2018: CHF 47.9 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.

Accounts receivable by geographical region

millions of CHF	2019	2018
Europe, Middle East, Africa	298.7	311.2
– thereof United Kingdom	61.0	59.1
– thereof Saudi Arabia	34.7	14.0
– thereof Germany	31.7	42.5
– thereof France	22.5	24.2
– thereof Russia	17.5	20.6
Americas	164.8	148.6
– thereof USA	103.0	108.1
Asia-Pacific	182.3	162.6
– thereof China	116.8	107.4
Total as of December 31	645.9	622.3

22 Other current receivables and prepaid expenses

millions of CHF	2019	2018
Taxes (VAT, withholding tax)	77.5	68.8
Derivative financial instruments	6.7	6.4
Other current receivables	23.4	24.3
Total other current receivables as of December 31	107.6	99.4
Prepaid contributions to employee benefit plans	32.4	12.4
Other prepaid expenses	32.1	38.4
Total prepaid expenses as of December 31	64.5	50.8
Total other current receivables and prepaid expenses as of December 31	172.0	150.2

For further details on “Derivative financial instruments,” refer to [note 29](#) and for “Prepaid contributions to employee benefit plans,” refer to [note 9](#). Other current receivables and prepaid expenses do not include any material positions that are past due or impaired.

23 Cash and cash equivalents

millions of CHF	2019	2018
Cash	802.2	1'029.7
Cash equivalents	233.3	65.5
Total cash and cash equivalents as of December 31	1'035.5	1'095.2

As of December 31, 2019, the group held restricted cash and cash equivalents of CHF 11.5 million (2018: CHF 24.7 million).

24 Share capital

thousands of CHF	2019		2018	
	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, 2019		Dec 31, 2018	
	Number of shares	in %	Number of shares	in %
Viktor Vekselberg (direct shareholder: Tiwel Holding AG)	16'728'414	48.82	16'728'414	48.82

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, 2019, amounted to 240'924 treasury shares (December 31, 2018: 311'871 shares).

The 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 3, 2019, the Annual General Meeting approved an ordinary dividend of CHF 3.50 (2018: ordinary dividend of CHF 3.50) per share to be paid out of reserves. The dividend was paid to shareholders on April 9, 2019. The total amount of the dividend is CHF 119.2 million (2018: CHF 119.1 million), thereof paid dividends of CHF 81.2 million (2018: CHF 43.1 million) and unpaid dividends of CHF 38.1 million (2018: CHF 76.0 million). The dividend payments to the group's main shareholder Tiwel Holding AG could still not be transferred as a result of US sanctions. The unpaid dividends are reflected in the balance sheet position "other current and accrued liabilities" (see [note 28](#)).

The Board of Directors decided to propose to the Annual General Meeting 2020 a dividend for the year 2019 of CHF 4.00 per share (2018: CHF 3.50).

25 Earnings per share

	2019	2018
Net income attributable to shareholders of Sulzer Ltd (millions of CHF)	154.0	113.7
Issued number of shares	34'262'370	34'262'370
Adjustment for the average treasury shares held	-235'928	-2'327'911
Average number of shares outstanding as of December 31	34'026'442	31'934'459
Adjustment for share participation plans	313'212	329'591
Average number of shares for calculating diluted earnings per share as of December 31	34'339'654	32'264'050
Earnings per share, attributable to a shareholder of Sulzer Ltd (in CHF) as of December 31		
Basic earnings per share	4.52	3.56
Diluted earnings per share	4.48	3.53

26 Borrowings

millions of CHF	2019		
	Non-current borrowings	Current borrowings	Total
Balance as of January 1	1'308.7	16.9	1'325.6
Acquired through business combination	0.4	-	0.4
Additions	0.3	153.8	154.1
Repayments	-0.0	-149.2	-149.2
Reclassifications	-110.1	110.1	-
Currency translation differences	-0.0	-0.7	-0.7
Total borrowings as of December 31	1'199.2	131.0	1'330.2

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

The borrowings have been adjusted as of January 1, 2019, due to the first time application of IFRS 16 "Leases". Further details are provided in [note 34](#).

Borrowings by currency

	2019			2018		
	millions of CHF	in %	Interest rate	millions of CHF	in %	Interest rate
CHF	1'310.7	98.5	0.9%	1'309.9	98.2	0.8%
INR	9.5	0.7	6.4%	4.0	0.3	5.4%
USD	3.6	0.3	2.8%	0.8	0.1	2.1%
EUR	3.4	0.3	0.6%	17.5	1.3	4.7%
Other	3.1	0.2	–	2.1	0.2	–
Total as of December 31	1'330.2	100.0	–	1'334.3	100.0	–

The group arranged a CHF 500 million syndicated credit facility with maturity date 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, 2019 and 2018, the syndicated facility was not used.

Outstanding bonds

millions of CHF	2019		2018	
	Amortized costs	Nominal	Amortized costs	Nominal
0.375% 07/2016–07/2022	325.2	325.0	325.3	325.0
0.875% 07/2016–07/2026	125.0	125.0	125.0	125.0
0.250% 07/2018–07/2020	109.9	110.0	109.8	110.0
1.300% 07/2018–07/2023	289.5	290.0	289.3	290.0
0.625% 10/2018–10/2021	209.7	210.0	209.5	210.0
1.600% 10/2018–10/2024	249.8	250.0	249.8	250.0
Total as of December 31	1'309.1	1'310.0	1'308.7	1'310.0
– thereof non-current	1'199.2	1'200.0	1'308.7	1'310.0
– thereof current	109.9	110.0	–	–

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

27 Provisions

millions of CHF	2019					Total
	Other employee benefits	Warranties/liabilities	Restructuring	Environmental	Other	
Balance as of January 1	49.4	78.9	10.1	15.1	60.5	213.9
Acquired through business combination	–	–	–	–	0.7	0.7
Additions	14.2	20.7	23.4	–	28.8	87.1
Released as no longer required	–	–11.2	–0.2	–	–11.7	–23.1
Utilized	–7.8	–19.4	–14.3	–0.5	–21.8	–63.7
Reclassifications	–	0.9	0.7	0.0	–1.6	–
Currency translation differences	–1.4	–2.3	0.4	0.1	–2.9	–6.2
Total provisions as of December 31	54.4	67.6	20.0	14.7	51.9	208.7
– thereof non-current	40.6	3.1	3.7	14.7	11.4	73.4
– thereof current	13.8	64.5	16.3	–	40.6	135.3

	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

The category “Other employee benefits” includes provisions for jubilee gifts, early retirement of senior managers and other obligations to employees.

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

Sulzer has continued to streamline the organizational setup. For 2019, the group recognized restructuring costs of CHF 23.4 million (2018: CHF 14.9 million), partly offset by released restructuring provisions of CHF 0.2 million (2018: CHF 1.8 million). Restructuring costs are mainly associated with the consolidation of two production facilities in Germany. The remaining restructuring provision as of December 31, 2019, is CHF 20 million, of which CHF 16.3 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 2020, by their nature the amounts and timing of any cash outflows are difficult to predict.

28 Other current and accrued liabilities

millions of CHF	2019	2018
Liability related to the purchase of treasury shares	104.2	108.9
Outstanding dividend payments	114.1	76.0
Taxes (VAT, withholding tax)	29.4	25.3
Derivative financial instruments	8.2	8.4
Notes payable	9.3	0.4
Other current liabilities	30.2	26.9
Total other current liabilities as of December 31	295.5	245.9
Contract-related costs	104.7	130.6
Salaries, wages and bonuses	113.7	101.1
Vacation and overtime claims	31.8	31.8
Other accrued liabilities	131.7	133.3
Total accrued liabilities as of December 31	381.8	396.7
Total other current and accrued liabilities as of December 31	677.3	642.6

The liability related to the purchase of treasury shares of CHF 104.2 million (2018: CHF 108.9 million) and the outstanding dividend payments of CHF 114.1 million (2018: CHF 76.0 million) are explained in [note 24](#).

29 Derivative financial instruments

millions of CHF	2019				2018			
	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	713.6	6.8	426.8	8.2	633.5	6.4	442.5	8.7
Total as of December 31	713.6	6.8	426.8	8.2	633.5	6.4	442.5	8.7
– thereof due in <1 year	705.6	6.7	426.4	8.2	633.3	6.4	437.3	8.4
– thereof due in 1–5 years	8.0	0.1	0.4	0.0	0.1	0.0	5.2	0.2

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, 2019, a net cumulative unrealized loss of CHF 5.2 million (2018: loss of CHF 11.3 million) with a deferred tax asset of CHF 0.9 million (2018: CHF 2.7 million) relating to these cash flow hedges were included in the Cash Flow Hedge Reserve. In 2019, a loss of CHF 5.7 million (2018: a loss of CHF 2.4 million) was reclassified from cash flow hedge reserves to profit and loss. There was no ineffectiveness that arose from cash flow hedges in 2019 (2018: 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, 2019, 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, 2019, the amount subject to such netting arrangements was CHF 5.3 million (2018: CHF 2.9 million). Considering the effect of these agreements the amount of derivative assets would reduce from CHF 6.8 million to CHF 1.5 million (2018: from CHF 6.4 million to CHF 3.5 million), and the amount of derivative liabilities would reduce from CHF 8.2 million to CHF 2.9 million (2018: from CHF 8.7 million to CHF 5.8 million).

30 Contingent liabilities

millions of CHF	2019	2018
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, 2019, 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	2019	2018
Restricted share unit plan	0.9	1.0
Performance share plan	11.6	14.1
Total charged to personnel expenses	12.5	15.1

Restricted share unit plan settled in Sulzer shares

This long-term incentive plan covers the Board of Directors. 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	2019	2018	2017	2016	2015	Total
Outstanding as of December 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
Outstanding as of January 1, 2019	–	8'283	4'952	6'794	–	20'029
Granted	10'551	–	–	–	–	10'551
Exercised	–	–2'761	–2'476	–6'794	–	–12'031
Forfeited	–	–	–	–	–	–
Outstanding as of December 31, 2019	10'551	5'522	2'476	–	–	18'549
Average fair value at grant date in CHF	97.76	118.20	98.00	72.61	102.18	

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 plans (PSP) is based on three performance conditions: operational income before restructuring, amortization, impairments and non-operational items (opEBITA) growth over the performance period (weighted 25%), average operational return on capital employed (opROCEA) (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%).

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	2019	2018	2017	2016	2015
Fair value at grant date	115.95	143.62	116.02	118.05	193.97
Share price at grant date	92.46	120.60	104.80	98.50	107.00
Expected volatility	29.64%	29.12%	25.10%	25.46%	28.07%
Risk-free interest rate	–0.57%	–0.42%	–0.56%	–0.73%	–0.72%

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	2019	2018	2017	2016	2015
Number of awards granted	112'857	74'467	76'818	116'472	21'665
Grant date	April 1, 2019	July 1, 2018	April 1, 2017	August 1, 2016	April 1, 2015
Performance period for cumulative EBIT	01/19–12/21	01/18–12/20	01/17–12/19	01/16–12/18	01/15–12/17
Performance period for TSR	01/19–12/21	01/18–12/20	01/17–12/19	01/16–12/18	04/15–03/18
Fair value at grant date in CHF	115.95	143.62	116.02	118.05	193.97

Performance share units

Grant year	2019	2018	2017	2016	2015	Total
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
Outstanding as of January 1, 2019	–	74'467	68'759	90'990	–	234'216
Granted	112'857	–	–	–	–	112'857
Exercised	–630	–1'673	–1'540	–90'990	–	–94'833
Forfeited	–1'588	–2'631	–382	–	–	–4'601
Outstanding as of December 31, 2019	110'639	70'163	66'837	–	–	247'639

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. The TSR floor for the PSP 2017 ended up not coming into play, as the effective TSR at the end of the PSP period was higher than 100%.

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

Key management compensation

thousands of CHF	2019				2018			
	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	1'282	1'030	230	2'542	1'226	1'155	257	2'638
Executive Committee	7'171	6'290	1'909	15'370	10'175	4'462	2'066	16'703

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, 2019, sales with related parties controlled by the major shareholder amounted to CHF 0.0 million (2018: CHF 3.1 million) with open receivables of CHF 0.0 million (2018: CHF 0.4 million). Open payables of CHF 218.3 million (2018: CHF 185.1 million) were recognized (thereof CHF 104.2 million related to the purchase of treasury shares and CHF 114.1 million outstanding dividend payments, see [note 24](#) and [note 28](#)). The income from released provisions for loss/unprofitable contracts/warranties/guarantees/liquidated damages recognized in the income statement amounted to CHF 0.0 million (2018: CHF 0.6 million). The warranty costs amounted to CHF 0.8 million (2018: CHF 0.0 million). The interest expenses amounted to CHF 0.1 million (2018: expense CHF 0.0 million).

Sales with ROTEC (Joint Stock Company ROTEC, Russia), where the Sulzer Board member Mikhail Lifshitz is the Chairman of the Board and holds a 31% stake, amounted to CHF 0.4 million (2018: CHF 0.0 million). Expenses with ROTEC amounted to CHF 0.3 million (2018: CHF 0.6 million).

Sales with associates in 2019 amounted to CHF 2.3 million (2018: CHF 11.4 million) with open receivables of CHF 0.0 million (2018: CHF 0.1 million). The income from released provisions for loss/unprofitable contracts/warranties/guarantees/liquidated damages recognized in the income statement amounted to CHF 0.0 million (2018: CHF 1.6 million). Income for services with associates amounted to CHF 0.3 million (2018: CHF 0.1 million). Expenses for services from associates amounted to CHF 0.0 million (2018: CHF 0.5 million). The warranty costs amounted to CHF 2.8 million (2018: 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.

33 Auditor remuneration

Fees for the audit services by KPMG as the appointed group auditor amounted to CHF 4.0 million (2018: CHF 4.0 million). Additional services provided by the group auditor amounted to a total of CHF 0.7 million (2018: CHF 1.7 million). This amount includes CHF 0.5 million (2018: CHF 1.1 million) for tax services and CHF 0.2 million for other services (2018: CHF 0.6 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 34.20 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 2019

IFRS 16 "Leases"

The group has initially adopted IFRS 16 "Leases" as of January 1, 2019.

IFRS 16 introduced a single, on-balance-sheet accounting model for lessees. As a result, the group has recognized lease assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments.

The group does not act as a lessor except for immaterial subleases as disclosed in [note 16](#).

The group has applied IFRS 16 using the modified retrospective approach. Accordingly, the comparative information presented for 2018 has not been restated. The changes of the accounting policies are disclosed below.

Definition of a lease

Previously the group determined at contract inception whether an arrangement was, or contained, a lease under IFRIC 4 "Determining whether an arrangement contains a lease". The group now assesses whether a contract is, or contains, a lease based on the new definition of a lease.

Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period in exchange for consideration.

Accounting policies for leases

For details on critical accounting estimates and judgments, refer to note 34.9.

Significant accounting estimates

For details on critical accounting estimates and judgments, refer to [note 5](#).

Transition

For finance leases, the carrying amount of the lease assets and the lease liability at January 1, 2019, were determined at the carrying amount of the lease assets and lease liability under IAS 17 immediately before that date.

For operating leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the group's incremental borrowing rate as of January 1, 2019. Lease assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

Impacts on transition

The following table summarizes the impact of IFRS 16 on the consolidated balance sheet as of January 1, 2019.

Consolidated balance sheet

millions of CHF	December 31, 2018, as originally presented	Adjustment IFRS 16 finance leases	Adjustment IFRS 16 operating leases	January 1, 2019, adjusted
Non-current assets				
Goodwill	923.4			923.4
Other intangible assets	439.4			439.4
Property, plant and equipment	527.0	-7.6		519.4
Lease assets	-	7.6	107.3	114.9
Associates	13.4			13.4
Other financial assets	9.4			9.4
Non-current receivables	6.2			6.2
Deferred income tax assets	138.9			138.9
Total non-current assets	2'057.7	-	107.3	2'165.1
Current assets				
Inventories	658.9			658.9
Current income tax receivables	29.0			29.0
Advance payments to suppliers	79.9			79.9
Contract assets	205.1			205.1
Trade accounts receivable	622.3			622.3
Other current receivables and prepaid expenses	150.2			150.2
Cash and cash equivalents	1'095.2			1'095.2
Total current assets	2'840.6	-	-	2'840.6
Total assets	4'898.3	-	107.3	5'005.6
Equity				
Share capital	0.3			0.3
Reserves	1'629.5			1'629.5
Equity attributable to shareholders of Sulzer Ltd	1'629.9	-	-	1'629.9
Non-controlling interests	11.2			11.2
Total equity	1'641.0	-	-	1'641.0
Non-current liabilities				
Non-current borrowings	1'316.3	-7.3		1'308.7
Non-current lease liabilities	-	7.3	80.0	87.3
Deferred income tax liabilities	89.5			89.5
Non-current income tax liabilities	2.3			2.3
Defined benefit obligations	160.9			160.9
Non-current provisions	74.4			74.4
Other non-current liabilities	3.6			3.6
Total non-current liabilities	1'646.8	-	80.0	1'726.5
Current liabilities				
Current borrowings	18.0	-1.3		16.9
Current lease liabilities	-	1.3	27.3	28.6
Current income tax liabilities	32.0			32.0
Current provisions	139.6			139.6
Contract liabilities	256.4			256.4
Trade accounts payable	521.8			521.8
Other current and accrued liabilities	642.6			642.6
Total current liabilities	1'610.4	-	27.3	1'638.0
Total liabilities	3'257.3	-	107.3	3'364.6
Total equity and liabilities	4'898.3	-	107.3	5'005.6

When measuring lease liabilities that were classified as operating leases, the group discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied is 2.3%.

millions of CHF	January 1, 2019
Operating lease commitments at December 31, 2018 as disclosed in the consolidated financial statements	127.3
Discounted using the incremental borrowing rate at January 1, 2019	-9.3
Recognition exemption for leases with less than 12 months of lease term at transition (short-term leases)	-3.0
Recognition exemption for leases of low value assets	-7.7
Total adjusted operating leases at December 31, 2018	107.3
Finance lease liabilities recognized at December 31, 2018	8.6
Total lease liabilities recognized at January 1, 2019	115.9
- thereof non-current lease liabilities	87.3
- thereof current lease liabilities	28.6

Impacts for the period

Consolidated balance sheet

millions of CHF	December 31, 2019 (as reported)	Adjustments	December 31, 2019 (without adoption of IFRS 16)
Non-current assets			
Lease assets	112.6	-100.5	12.1
Total non-current assets	2'172.0	-100.5	2'071.5
Current assets			
Total current assets	2'937.5	-	2'937.5
Total assets	5'109.5	-100.5	5'009.0
Equity			
Reserves	1'580.4	0.5	1'580.9
Equity attributable to shareholders of Sulzer Ltd	1'580.7	0.5	1'581.3
Total equity	1'593.9	0.5	1'594.4
Non-current liabilities			
Non-current lease liabilities	82.3	-75.0	7.3
Total non-current liabilities	1'644.1	-75.0	1'569.1
Current liabilities			
Current lease liabilities	27.4	-26.1	1.3
Total current liabilities	1'871.5	-26.1	1'845.4
Total liabilities	3'515.6	-101.0	3'414.5
Total equity and liabilities	5'109.5	-100.5	5'008.9

As a result of initially applying IFRS 16, the group recognized CHF 100.5 million of lease assets and CHF 101.0 million of lease liabilities as of December 31, 2019, for leases previously classified as operating leases.

millions of CHF	2019 (as reported)	Adjustments	2019 (without adoption of IFRS 16)
EBIT	241.0	-2.7	238.2
Interest expenses	-24.9	3.3	-21.6
Income before income tax expenses	212.8	0.5	213.3
Net income	157.7	0.5	158.2

As a result of initially applying IFRS 16, the group has recognized depreciation and interest expenses, instead of operating lease expenses, related to leases under IFRS 16. During 2019, the group recognized CHF 34.4 million of depreciation charges and CHF 3.3 million of interest expenses. Due to the recognition of the depreciation and interest expenses compared to the operating lease

expenses, the application of IFRS 16 had a negative impact of CHF 0.5 million on the group's net income.

millions of CHF	2019 (as reported)	Adjustments	2019 (without adoption of IFRS 16)
Cash and cash equivalents as of January 1	1'095.2	-	1'095.2
Net income	157.7	0.5	158.2
Interest expenses	24.9	-3.3	21.6
Depreciation, amortization and impairments	171.5	-34.4	137.1
Other non-cash items	5.2	-0.1	5.1
Interest paid	-21.5	3.3	-18.2
Total cash flow from operating activities	319.6	-34.0	285.6
Total cash flow from investing activities	-242.6	-	-242.6
Payments for leases	-34.0	34.0	-
Total cash flow from financing activities	-123.2	34.0	-89.1
Net change in cash and cash equivalents	-59.7	-	-59.7
Cash and cash equivalents as of December 31	1'035.5	-	1'035.5

As a result of initially applying IFRS 16, the group has recognized leasing payments for the principal portion of the lease liability as part of the financing activities, instead of operating activities (shift from operating activities to financing activities). During 2019, the group recognized CHF 34.0 million of payments for leasing.

Lease assets and lease liabilities

For details on the positions "Lease assets" and "Lease liabilities", refer to [note 16](#).

Deferred taxes

The group reflects the future tax impacts of leases and recognizes deferred taxes. When recognizing deferred taxes the group has assessed the lease assets and lease liabilities together as single or 'integrally linked' transactions and assessed the net temporary differences. For details on the deferred taxes, refer to [note 13](#).

Practical expedients

In applying IFRS 16 for the first time, the group used the following practical expedients permitted by the standard:

- The accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019, as short-term leases.
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

IFRIC 23 “Uncertainty over Income Tax Treatments”

IFRIC 23 became effective as of January 1, 2019. The interpretation clarifies how the recognition and measurement requirements of IAS 12 are applied where there is uncertainty over income tax treatments. The group’s existing accounting policy for uncertain income tax treatments is consistent with the requirements in IFRIC 23.

Other IFRS standards and interpretations

A number of other new standards have become effective as of January 1, 2019, but they do not have a material effect on the group’s financial statements.

b) Standards, amendments and interpretations issued but not yet effective which the group has decided not to early adopt in 2019

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 2019 and 2018:

CHF	2019		2018	
	Average rate	Year-end rate	Average rate	Year-end rate
1 EUR	1.11	1.09	1.16	1.13
1 GBP	1.27	1.27	1.31	1.25
1 USD	0.99	0.97	0.98	0.99
100 CNY	14.38	13.91	14.80	14.32
100 INR	1.41	1.36	1.43	1.41

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

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 Lease assets and lease liabilities

The group recognizes lease assets and lease liabilities for most leases (these leases are on-balance-sheet). However, the group has elected not to recognize lease assets and lease liabilities for some leases of low value assets and short-term leases. The group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The group presents lease assets and lease liabilities as separate line items in the balance sheet.

The group recognizes lease assets and lease liabilities at the lease commencement date. The asset is initially measured at cost and subsequently at cost less any accumulated depreciation and impairment losses and adjusted for certain remeasurements. The lease liability is initially measured at the present value of the lease payments that are not paid on commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the group's incremental borrowing rate. In most cases, the group uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised, or a termination option is reasonably certain not to be exercised.

34.10 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.

34.11 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.

34.12 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.

34.13 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.

34.14 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.

34.15 Cash and cash equivalents

Cash and cash equivalents comprise bills, postal giros 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.

34.16 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.

34.17 Trade payables

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

34.18 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.

34.19 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.

34.20 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 27).

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.”

34.21 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.

34.22 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.

34.23 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 the segment information (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.

34.24 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.

34.25 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 17, 2020. They are subject to approval at the Annual General Meeting, which will be held on April 15, 2020. 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, 2019

	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	•				
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	•				
Czech Republic	GTC Technology Europe s.r.o. ¹⁾ , Brno	100%	CZK 28'053'000			•	•	•
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		•	•	•	•
	Sulzer Mixpac Deutschland GmbH, Kiel	100%	EUR 26'000		•	•	•	•
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	•	•	•	•	•
	Sulzer 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			•	•	
	Alba Power Ltd. ¹⁾ , Aberdeen	100%	GBP 1		•	•	•	•
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., Lomm	100%	EUR 10'010'260	•				

	Sulzer Capital B.V., Lomm	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	•		•		
Romania	GTC Technology Romania Srl ¹⁾ , Bucharest	100%	RON 1'345'070			•		
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, 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 310'335'340	•				
	Geka Manufacturing Corporation, Elgin, Illinois	100%	USD 603'719			•	•	•
	JWC Environmental Inc., Santa Ana, California	100%	USD 220'818'520		•	•	•	•
	Sulzer GTC Technology US Inc. ¹⁾ , Houston, Texas	100%	USD 1		•	•	•	•
	GTC Technology International LP ¹⁾ , Houston, Texas	100%	USD 5'698'387	•				

	Alba Power Inc. ¹⁾ , Austin, Texas	100%	USD 0.01			•		•
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., Cotia	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., Nouaceur	100%	MAD 3'380'000	•				•
Nigeria	Sulzer Pumps (Nigeria) Ltd., Lagos	100%	NGN 5'000'000	•			•	•
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	•		•		
	GTC Process Technology (India) Pvt. Ltd. ¹⁾ , Gurgaon	100%	INR 37'540'000		•	•	•	•
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	•		•	•	•
	GTC Process Technology (Singapore) Pte. Ltd. ¹⁾ , Singapore	100%	SGD 150'000				•	
South Korea	Sulzer Korea Ltd., Seoul	100%	KRW 222'440'000	•			•	
	GTC Technology Korea Co. Ltd. ¹⁾ , Seoul	100%	KRW 4'870'000'000			•	•	•
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 282'069'324	•		•	•	•
	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	•			•	•
	GTC (Beijing) Technology Inc. ¹⁾ , Beijing	100%	USD 150'000		•	•	•	•
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 2019.



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, 2019 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, 2019, 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



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, 2019, revenue from customer contracts amounts to CHF 3,728.5 million, contract assets amount to CHF 355.2 million, contract liabilities to CHF 344.8 million, the balance of work in progress (WIP) amounts to CHF 252.0 million and trade accounts receivable amount to CHF 645.9 million.

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 to 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 cancelations 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.

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](#)
- [Note 20 to the consolidated financial statements](#)
- [Note 21 to the consolidated financial statements](#)

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.

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 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.



Accounting for warranties and other cost to fulfil contract obligations

Key Audit Matter

As per December 31, 2019, provisions in the amount of CHF 67.6 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 27 to the consolidated financial statements](#)



Valuation of goodwill

Key Audit Matter

As at December 31, 2019, Sulzer’s balance sheet included goodwill amounting to CHF 920.8 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 17, 2020

KPMG AG, Räflestrasse 28, PO Box, CH 8036 Zurich

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Supplementary Information

Alternative performance measures (APM)

The financial information included in this report includes certain Alternative Performance Measures (APMs) which are not accounting measures as defined by IFRS. These APMs should not be used instead of, or considered as alternatives to, the group's consolidated financial results based on IFRS. These APMs may not be comparable to similarly titled measures disclosed by other companies. All APMs presented relate to the performance of the current reported period and comparative periods.

Definition of alternative performance measures (APM)

Order intake

Order intake includes all registered orders of the period which will be recorded or have already been recorded as sales. The reported value of an order corresponds to the undiscounted value of revenues that the group expects to recognize following delivery of goods or services subject to the order, less any trade discounts and excluding value added or sales tax. Adjustments, corrections and cancellations resulting from updating the order backlog, are respectively included in the amount of the order intake.

Order intake gross margin

The order intake gross margin is defined as the expected gross profit of order intake divided by order intake.

Order backlog

Order backlog represents the undiscounted value of revenues the group expects to generate from orders on hand at the end of the reporting period.

ROS (return on sales)

ROS measures the profitability relative to sales. ROS is calculated by dividing EBIT by sales.

opEBITA (operational earnings before interest, taxes and amortization)

OpEBITA is used to determine the profitability of the business, without considering impairments, restructuring expenses and other non-operational items and before interest, taxes and amortization. Other non-operational items include significant acquisition-related expenses, gains and losses from sale of businesses or real estate, and certain non-operational items that are non-recurring or do not occur in similar magnitude.

opROSA (operational return on sales adjusted)

OpROSA measures how the group turns sales into operating profits. Other terms used for opROSA are opEBITA margin, profitability or opEBITA in percent of sales. OpROSA is calculated by dividing opEBITA by sales.

opROCEA (operational return on capital employed adjusted)

OpROCEA measures how the group generates operational profits from its capital employed. OpROCEA is calculated by dividing opEBITA by average capital employed. It is also called opEBITA in percent of average capital employed.

Capital employed

Capital employed refers to the amount of capital investment the group uses to operate and provides an indication of how the group is investing its money. For the calculation of the capital employed, please refer to the reconciliation statement below.

EBITDA (earnings before interest, taxes, depreciation and amortization)

The group uses EBITDA to determine the net debt/EBITDA ratio. EBITDA is defined as EBIT before depreciation and amortization.

Core net income

Core net income is used to determine the dividend proposal. Sulzer's long-term target is to maintain a dividend payout ratio of approximately 40-70% of core net income with due consideration to liquidity and funding requirements as well as continuity. Core net income is defined as net income before tax-adjusted effects on restructuring, amortization, impairments and non-operational items.

FCF (free cash flow)

Free cash flow is used to assess the group's ability to generate the cash required to conduct and maintain its operations. It also indicates the group's ability to generate cash to finance dividend payments, repay debt and to undertake merger and acquisition activities. Free cash flow is calculated based on the IFRS cash flow from operating activities and adjusted for capital expenditures (investments in property, plant and equipment and intangible assets).

Net debt

Net debt is used to monitor the group's overall short- and long-term liquidity. Net debt is calculated as the sum of total current and non-current borrowings and lease liabilities less cash and cash equivalents and current financial assets.

Net debt/EBITDA ratio

Net debt/EBITDA is a ratio measuring the amount of income generated and available to pay down debt before covering interest, taxes, depreciations and amortization expenses. The net debt/EBITDA ratio is used as a measurement of leverage. It is calculated as net debt divided by EBITDA.

Gearing ratio (borrowings-to-equity ratio)

The gearing ratio compares the borrowings and lease liabilities relative to the equity. The gearing ratio represents the group's leverage, comparing how much of the business funding comes from borrowed funds (lenders) versus company owners (shareholders). The gearing ratio is defined as borrowings and lease liabilities divided by equity attributable to shareholders of Sulzer Ltd.

Currency-adjusted growth

Certain percentage changes in the financial review and the business review divisions have been calculated using constant exchange rates which allow for an assessment of the group's financial performance with the effects of exchange rate fluctuations eliminated. The currency-adjusted growth is calculated by applying the previous year's exchange rates for the current year and calculating the growth without currency effects.

Organic growth

Organic growth measures changes with the same period in the previous year after adjusting for effects arising from acquisitions, divestments and foreign exchange differences.

The impact of the organic growth is determined as follows:

- Currency-adjusted growth as described above
- For the current-year acquisitions, by deducting the currency-adjusted amount generated during the current-year by the acquired entities

- For previous year acquisitions, by deducting the currency-adjusted amount generated over the months during which the acquired entities were not consolidated in the previous year
- For current-year disposals, by adding the currency-adjusted amount generated by the divested entities in the previous year over the months during which those entities were no longer consolidated in the current-year
- For the previous year disposals, by adding for the current year the currency-adjusted amount generated in the previous year by the divested entities

Reconciliation statements for alternative performance measures (APM)

For reconciliation statements of opEBITA, opROSA, core net income and free cash flow, please refer to the “[Financial review](#)”, for EBITDA, net debt and gearing ratio to [note 6](#) and for opROCEA to the table below.

OpROCEA reconciliation statement

millions of CHF	2019	2018
Total assets	5'109.5	4'898.3
/./ Other intangible assets	-430.1	-439.4
/./ Cash and cash equivalents	-1'035.5	-1'095.2
/./ Current financial assets	-57.5	-0.0
/./ Total current and non-current income and deferred tax assets and liabilities	-42.0	-44.2
/./ Total non-current liabilities	-1'644.1	-1'646.8
/./ Total current liabilities	-1'871.5	-1'610.4
Non-current borrowings	1'199.2	1'316.3
Current borrowings	131.0	18.0
Liability related to the purchase of treasury shares	104.2	108.9
Outstanding dividend payments	114.1	76.0
Adjustment for average calculation and currency translation differences	270.7	195.4
Average capital employed	1'848.1	1'776.8
opEBITA	371.3	322.5
Average capital employed	1'848.1	1'776.8
opROCEA	20.1%	18.1%

Five-year summaries of key financial data

Key figures from consolidated income statement and statement of cash flows

millions of CHF		2019	2018	2017	2016	2015
Order intake		3'747.2	3'531.5	3'155.7	2'797.5	2'895.8
Order intake gross margin		33.6%	33.3%	34.4%	34.0%	33.8%
Order backlog		1'792.6	1'786.9	1'593.5	1'439.1	1'510.7
Sales		3'728.5	3'364.9	3'049.0	2'876.7	2'971.0
Operating income	EBIT	241.0	183.8	136.5	115.3	120.9
Operational EBITA	opEBITA	371.3	322.5	255.4	238.9	254.1
Operational EBITA margin (operational EBITA/sales)	opROSA	10.0%	9.6%	8.4%	8.3%	8.6%
Net income attributable to shareholders of Sulzer Ltd		154.0	113.7	83.2	59	73.9
– in percentage of equity attributable to shareholders of Sulzer Ltd	ROE	9.7%	7.0%	5.0%	3.7%	3.3%
Reported EPS	EPS	4.52	3.56	2.44	1.73	2.17
Depreciation		–102.6	–71.7	–71.7	–69.5	–74.1
Amortization		–64.5	–69.0	–53.8	–47.3	–42.3
Impairments of tangible and intangible assets		–4.4	–4.4	–15.4	–18.4	–13.0
Research and development expenses		–85.6	–86.4	–81.0	–71.4	–73.4
Personnel expenses		–1'191.1	–1'129.7	–1'078.2	–971.1	–1'020.8
Capital expenditure		–142.1	–96.2	–81.2	–74.9	–73.7
Free cash flow		213.4	181.3	127.0	200.5	155.8
FCF conversion (free cash flow/net income)		1.35	1.56	1.46	3.34	2.08
Employees (number of full-time equivalents) as of December 31		16'506	15'572	14'732	14'005	14'253

Key figures from consolidated balance sheet

millions of CHF		2019	2018	2017	2016	2015
Non-current assets		2'172.0	2'057.7	1'990.5	1'809.9	1'574.0
– thereof property, plant and equipment		544.4	527.0	531.6	511.0	491.4
Current assets		2'937.5	2'840.6	2'126.8	1'926.0	2'680.8
– thereof cash and cash equivalents		1'035.5	1'095.2	488.8	429.5	1'217.3
Total assets		5'109.5	4'898.3	4'117.3	3'735.9	4'254.8
Equity attributable to shareholders of Sulzer Ltd		1'580.7	1'629.9	1'680.1	1'581.2	2'224.7
Non-current liabilities		1'644.1	1'646.8	900.1	980.3	472.1
– thereof long-term borrowings		1'199.2	1'316.3	458.7	458.3	7.2
Current liabilities		1'871.5	1'610.4	1'514.8	1'164.6	1'548.5
– thereof short-term borrowings		131.0	18.0	255.1	7.1	514.4
Net debt		346.9	239.0	225.0	35.9	–695.7
Equity ratio ¹⁾		30.9%	33.3%	40.8%	42.3%	52.3%
Borrowings-to-equity ratio (gearing)		0.84	0.82	0.42	0.29	0.23

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

Five-year summaries by division

millions of CHF	Order intake					Sales				
	2019	2018	2017	2016	2015	2019	2018	2017	2016	2015
Pumps Equipment	1'458.9	1'372.1	1'180.2	1'066.8	1'152.8	1'477.0	1'284.2	1'120.0	1'155.3	1'276.8
Rotating Equipment Services	1'193.2	1'109.7	1'047.7	986.4	1'034.1	1'167.0	1'063.7	1'029.5	1'003.4	1'024.6
Chemtech	670.0	600.1	501.5	471.8	525.7	664.0	563.2	478.0	446.0	486.2
Applicator Systems	425.1	449.6	426.3	272.6	183.2	420.6	453.8	421.6	272.0	183.4
Total	3'747.2	3'531.5	3'155.7	2'797.5	2'895.8	3'728.5	3'364.9	3'049.0	2'876.7	2'971.0

millions of CHF	Order backlog					Employees ¹⁾				
	2019	2018	2017	2016	2015	2019	2018	2017	2016	2015
Pumps Equipment	924.3	982.9	847.0	697.4	998.0	5'759	5'713	5'453	5'156	6'996
Rotating Equipment Services	422.2	393.1	364.4	378.7	205.0	4'900	4'721	4'485	4'541	3'538
Chemtech	385.3	345.9	315.3	304.9	307.7	3'803	3'063	2'878	2'570	3'539
Applicator Systems	60.8	65.0	66.8	58.0	0.0	1'821	1'864	1'716	1'562	0
Divisions	1'792.6	1'786.9	1'593.5	1'439.0	1'510.7	16'284	15'361	14'532	13'829	14'073
Others	0.0	-0.0	0.0	0.1	0.0	222	211	200	176	180
Total	1'792.6	1'786.9	1'593.5	1'439.1	1'510.7	16'506	15'572	14'732	14'005	14'253

millions of CHF	OpEBITA					OpROSA				
	2019	2018	2017	2016	2015	2019	2018	2017	2016	2015
Pumps Equipment	59.7	41.4	-3.7	13.0	118.1	4.0%	3.2%	-0.3%	1.1%	9.2%
Rotating Equipment Services	164.5	146.1	144.0	139.5	70.8	14.1%	13.7%	13.9%	13.8%	6.9%
Chemtech	63.8	50.0	25.0	18.0	67.4	9.6%	8.9%	5.2%	4.0%	13.9%
Applicator Systems	88.2	95.7	86.8	64.1	0.0	21.0%	21.1%	20.5%	23.6%	n/a
Divisions	376.2	333.2	252.1	234.6	256.3	10.1%	9.9%	8.2%	8.1%	8.6%
Others	-4.9	-10.7	3.3	4.3	-2.2	n/a	n/a	n/a	n/a	n/a
Total	371.3	322.5	255.4	238.9	254.1	10.0%	9.6%	8.4%	8.3%	8.6%

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

Five-year summaries by region

Order intake by region

millions of CHF	2019	2018	2017	2016	2015
Europe, Middle East, Africa	1'612.2	1'535.9	1'422.1	1'254.8	1'303.7
Americas	1'290.2	1'297.1	1'038.2	949.8	1'065.3
Asia-Pacific	844.8	698.5	695.4	592.9	526.8
Total	3'747.2	3'531.5	3'155.7	2'797.5	2'895.8

Sales by region

millions of CHF	2019	2018	2017	2016	2015
Europe, Middle East, Africa	1'539.5	1'468.9	1'411.6	1'271.8	1'214.0
Americas	1'321.3	1'107.6	1'003.5	1'041.9	1'134.9
Asia-Pacific	867.5	788.4	633.9	563.0	622.1
Total	3'728.3	3'364.9	3'049.0	2'876.7	2'971.0

Employees by company location¹⁾

millions of CHF	2019	2018	2017	2016	2015
Europe, Middle East, Africa	7'751	7'462	7'279	6'804	6'504
Americas	4'579	4'374	3'911	3'822	4'139
Asia-Pacific	4'176	3'737	3'542	3'379	3'610
Total	16'506	15'572	14'732	14'005	14'253

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

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Balance sheet of Sulzer Ltd

December 31

millions of CHF	Notes	2019	2018
Current assets			
Cash and cash equivalents	3	253.0	334.3
Fixed-term deposits		50.0	–
Accounts receivable from subsidiaries		213.6	190.6
Prepaid expenses and other current accounts receivable		3.3	2.3
Total current assets		519.9	527.2
Non-current assets			
Loans to subsidiaries		644.5	648.1
Financial assets		7.4	6.6
Investments in subsidiaries	4	2'182.2	2'106.5
Total non-current assets		2'834.1	2'761.2
Total assets		3'354.0	3'288.4
Current liabilities			
Current interest-bearing liabilities	6	109.9	–
Current interest-bearing liabilities with subsidiaries		7.0	10.4
Current liabilities with subsidiaries		12.1	1.7
Current liabilities with shareholders		218.3	184.9
Accrued liabilities and other current liabilities		13.7	10.6
Current provisions		4.7	4.6
Total current liabilities		365.7	212.2
Non-current liabilities			
Non-current interest-bearing liabilities	6	1'199.2	1'308.7
Non-current provisions		35.7	37.2
Total non-current liabilities		1'234.9	1'345.9
Total liabilities		1'600.6	1'558.1
Equity			
Registered share capital	5	0.3	0.3
Legal capital reserves		205.5	205.5
Reserves from capital contribution		201.0	201.0
Voluntary retained earnings			
– Free reserves		1'185.5	1'185.5
– Retained earnings		52.8	37.8
– Net profit for the year		133.9	134.2
Treasury shares	5	–25.6	–34.0
Total equity		1'753.4	1'730.3
Total equity and liabilities		3'354.0	3'288.4

Income statement of Sulzer Ltd

January 1 – December 31

millions of CHF	Notes	2019	2018
Income			
Investment income	9	161.5	125.1
Financial income		34.9	57.2
Other income	10	47.6	64.7
Total income		244.0	247.0
Expenses			
Administrative expenses	8	76.2	45.5
Financial expenses		30.5	14.3
Investment and loan expenses	9	–	49.0
Other expenses		2.7	2.4
Direct taxes		0.7	1.6
Total expenses		110.1	112.8
Net profit for the year		133.9	134.2

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, 2018	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
Dividend						–119.2		–119.2
Allocation of net income					15.0	–15.0		–
Net profit for the year						133.9		133.9
Change in treasury shares							8.4	8.4
Equity as of December 31, 2019	0.3	205.5	201.0	1'185.5	52.8	133.9	–25.6	1'753.4

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 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, 2019 and 2018, the syndicated facility was not 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, 2019		Dec 31, 2018	
	Number of shares	in %	Number of shares	in %
Viktor Vekselberg (direct shareholder: Tiwel Holding AG)	16'728'414	48.82	16'728'414	48.82

Treasury shares held by Sulzer Ltd

millions of CHF	2019		2018	
	Number of shares	Total transaction amount	Number of shares	Total transaction amount
Balance as of January 1	311'871	34.0	219'277	22.1
Purchase	110'400	11.1	5'159'149	563.7
Sale	–	–	–5'000'000	–544.8
Share-based remuneration	–181'347	–19.6	–66'555	–7.0
Balance as of December 31	240'924	25.6	311'871	34.0

The total number of treasury shares held by Sulzer Ltd as of December 31, 2019, amounted to 240'924 (December 31, 2018: 311'871 shares), which are mainly held for the purpose of issuing shares under the management share-based payment programs.

6 Interest-bearing liabilities

millions of CHF	2019		2018	
	Book value	Nominal	Book value	Nominal
0.375% 07/2016–07/2022	325.2	325.0	325.3	325.0
0.875% 07/2016–07/2026	125.0	125.0	125.0	125.0
0.250% 07/2018–07/2020	109.9	110.0	109.8	110.0
1.300% 07/2018–07/2023	289.5	290.0	289.3	290.0
0.625% 10/2018–10/2021	209.7	210.0	209.5	210.0
1.600% 10/2018–10/2024	249.8	250.0	249.8	250.0
Total as of December 31	1'309.1	1'310.0	1'308.7	1'310.0
– thereof non-current	1'199.2	1'200.0	1'308.7	1'310.0
– thereof current	109.9	110.0	–	–

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

7 Contingent liabilities

millions of CHF	2019	2018
Guarantees, sureties and comfort letters for subsidiaries		
– to banks and insurance companies	1'317.3	1'336.1
– to customers	206.1	252.6
– to others	574.0	527.3
Guarantees for third parties	10.0	10.0
Total contingent liabilities as of December 31	2'107.4	2'126.0

As of December 31, 2019, CHF 309.9 million (2018: CHF 321.3 million) of guarantees, sureties and comfort letters for subsidiaries to banks and insurance companies were utilized.

8 Administrative expenses

millions of CHF	2019	2018
Compensation of Board of Directors	3.0	2.6
Other administrative expenses	73.2	42.9
Total administrative expenses	76.2	45.5

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, recharges from subsidiaries and cost related to the Sulzer Full Potential program. In 2019, the higher other administrative expenses are mainly related to recharges from subsidiaries.

9 Investment income and investment and loan expenses

In 2019, the investment income contains ordinary and extraordinary dividend payments from subsidiaries amounting to CHF 161.5 million (2018: CHF 125.1 million).

The investment and loan expenses contain allowances on investments and loans amounting to CHF 0.0 million in 2019 (2018: CHF 49.0 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 38.7 million (2018: CHF 36.2 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.

	2019				
	Sulzer shares	Restricted share units (RSU) ¹⁾	Performance share units (PSU) 2017 ²⁾	Performance share units (PSU) 2018 ³⁾	Performance share units (PSU) 2019 ⁴⁾
Board of Directors	47'461	18'549	–	–	–
Peter Löscher	17'121	4'692	–	–	–
Matthias Bichsel	6'801	2'911	–	–	–
Hanne Birgitte Breinbjerg Sorensen	249	1'951	–	–	–
Lukas Braunschweiler	335	1'951	–	–	–
Mikhail Lifshitz	3'622	2'348	–	–	–
Marco Musetti	7'480	2'348	–	–	–
Gerhard Roiss	11'853	2'348	–	–	–
Executive Committee	68'838	–	25'292	28'133	54'251
Greg Poux-Guillaume	46'181	–	13'196	12'820	23'363
Daniel Bischofberger	2'562	–	3'024	2'938	6'491
Frédéric Lalanne	4'492	–	3'024	2'938	6'491
Jill Lee	7'945	–	–	3'561	6'491
Armand Sohet	4'204	–	3'024	2'938	5'355
Torsten Wintergerste	3'454	–	3'024	2'938	5'355
Girts Cimermans	–	–	–	–	705

1) Restricted share units assigned by Sulzer.

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

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

4) The average fair value of one performance share unit 2019 at grant date amounted to CHF 115.95.

	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.

Granted Sulzer shares to members of the Board of Directors

	2019		2018	
	Quantity	Value in CHF	Quantity	Value in CHF
Allocated to members of the Board of Directors	10'551	1'031'419	9'288	1'155'710

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	2019	2018
Net profit for the year	133'900'000	134'200'000
Unallocated profit carried forward from previous year	52'791'210	37'838'775
Total available profit	186'691'210	172'038'775
Ordinary dividend	–136'085'784	–119'247'565
Balance carried forward	50'605'426	52'791'210
Dividend distribution per share CHF 0.01		
Gross dividend	4.00	3.50
Withholding tax (35%)	–1.40	–1.23
Net dividend	2.60	2.27

The Board of Directors proposes the payment of a dividend of CHF 4.00 per share to the Annual General Meeting on April 15, 2020. 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, 2019, 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, 2019 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 17, 2020

KPMG AG, Räflestrasse 28, PO Box, CH-8036 Zurich

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