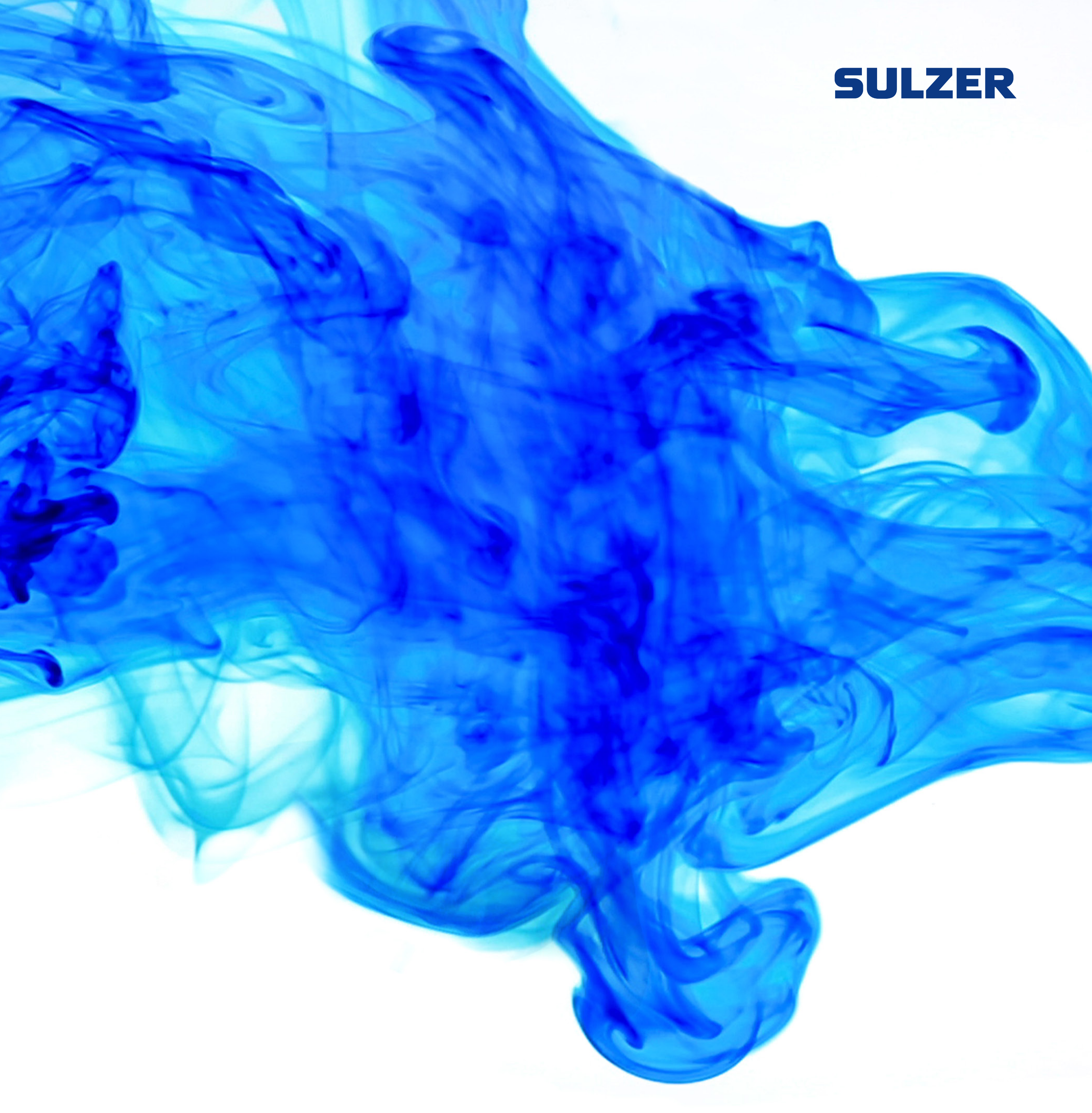
SULZER



BECAUSE LIFE IS FLUID

Geschäftsbericht 2019

Inhalt

Brief an die Aktionärinnen und Aktionäre

Sehr geehrte Aktionärinnen,
Sehr geehrte Aktionäre

Wir von Sulzer wissen: „Life is fluid“. Auf der ganzen Welt werden Flüssigkeiten und Gase im Rahmen kritischer Infrastrukturprojekte transportiert oder verarbeitet. Wir setzen unser Fachwissen im Bereich Fluid-Engineering ein, um tagtäglich das Leben von Millionen von Menschen positiv zu beeinflussen.

So erfüllen unsere Pumpen eine zentrale Funktion in Wassersystemen weltweit und helfen, die wertvollste Ressource unseres Planeten über Hunderte von Kilometern zu den Menschen zu transportieren und so die Entwicklung boomender Städte voranzutreiben. Unsere Serviceteams stellen die zuverlässige Stromversorgung für wachsende Volkswirtschaften und eine wachsende Bevölkerung sicher – um letztlich den ständig steigenden Energiebedarf zu decken.

Unsere Trenntechnologien bieten bahnbrechende Lösungen, die zur Kreislaufwirtschaft beitragen, chemische Prozesse besser funktionieren lassen, die Abfallmenge reduzieren und unser Leben erleichtern. Nicht zuletzt vertrauen führende Gerätehersteller der Dental- und Gesundheitsindustrie, renommierte Kosmetikmarken sowie mehr als die Hälfte der weltweiten Klebstoffhersteller auf die Applikationssysteme von Sulzer.

Auch im vergangenen Jahr haben wir uns darauf konzentriert, Projekte zuverlässig und schnell auszuführen. Wir haben den Fokus auf Kosten gelegt und Massnahmen ergriffen, um unser Geschäft weiter zu diversifizieren und das Wachstum voranzutreiben. Alle diese Schritte führten zu einem starken Finanzergebnis für 2019.

Starke Entwicklung im Jahr 2019

2019 ist es uns erneut gelungen, organisch deutlich zu wachsen. Der Bestellungseingang wuchs organisch um 6.3%, der Umsatz um 10.8%. Einschliesslich Akquisitionen und unter Ausklammerung negativer Währungseffekte belief sich das Wachstum beim Bestellungseingang auf solide 8.2% und beim Umsatz auf 13.0%. Anhaltend positive Entwicklungen in den meisten Endmärkten, insbesondere in den Bereichen Wasser und Chemie, schufen ein unterstützendes Umfeld für unser Unternehmen – im Jahr 2019 und bis in das Jahr 2020 hinein. Am stärksten fiel das organische Wachstum beim Bestellungseingang in unserer Division Rotating Equipment Services aus (+8.6%). Das höchste organische Wachstum beim Umsatz verzeichnete die Division Pumps Equipment (+17.0%). Chemtech trug 2019 weitere 6.5% zum organischen Bestellungseingang bei, nachdem es im Jahr 2018 bereits 20.5% des Wachstums geliefert hatte. Und Applicator Systems konnte seine hohe Profitabilität schützen, obwohl die Volumen durch disruptive Entwicklungen im Kosmetikmarkt abnahmen.

Unsere Akquisitionen trugen 2% zu unserem Umsatzwachstum bei und halfen, unser Geschäft weiter zu diversifizieren und weniger zyklisch zu machen. GTC Technology mit Sitz in Houston, ein Unternehmen, das wir Ende April 2019 übernommen haben, brachte uns proprietäre Verfahren und Systeme für die Aromatisierung, die C5-Verarbeitung (Technologie zur Gewinnung eines petrochemischen Produkts), die BTX-Rückgewinnung (Trennverfahren zur Gewinnung von BTX-Aromaten) und die Gas-zu-Flüssigkeit-Verarbeitung und ergänzte damit unser hervorragendes Angebot für die Prozessindustrie weltweit. Die Integration schreitet gut voran. GTC verbuchte für das gesamte Jahr Bestellungen in Höhe von CHF 70 Millionen und trug als Teil von Sulzer einen Umsatz von CHF 35 Millionen bei.

Ausserdem haben wir unsere Aftermarket-Aktivitäten ausgebaut, indem wir im Juli Alba Power erwarben, einen führenden unabhängigen Serviceanbieter für aeroderivative Gasturbinen. Die leichten und kompakten Turbinen sind weit verbreitet im Segment der dezentralen Stromversorgung, einem Markt, der sich mit der zunehmenden Dezentralisierung der Energieerzeugung weiterentwickelt. Durch die Diversifizierung unseres Serviceangebots verringern wir unsere Exponierung gegenüber dem anspruchsvollen Sektor der Versorgungsunternehmen. Alba Power verbuchte für das Gesamtjahr einen Bestellungseingang von CHF 36 Millionen und trug 2019 als Teil von Sulzer einen Umsatz von CHF 20 Millionen bei.

In den letzten zwölf Monaten steigerten wir nicht nur unser Umsatzvolumen, sondern auch unsere Margen, trotz eines noch nicht eingetretenen Preisanstiegs auf den Energieendmärkten. Dies gelang uns dank solider operativer Umsetzung und mit dem Abschluss unseres Transformationsprogramms, des Sulzer Full Potential-Programms (SFP), mit dem wir über einen Zeitraum von fünf Jahren strukturelle Einsparungen in Höhe von CHF 253 Millionen erzielt haben. Mit einer operativen EBITA-Marge (opROSA) von 10% erreichte die Profitabilität ein zweistelliges Niveau. Der Free Cash Flow betrug rekordhohe CHF 213.4 Millionen.

Während das SFP-Programm in unseren Büchern abgeschlossen ist, konzentrieren wir uns weiterhin auf die Optimierung unserer Kostenstruktur und starten mit einem soliden Auftragsbestand und einer positiven Endmarktdynamik in das Jahr 2020.

Nachhaltige Lösungen vorantreiben

Wir bei Sulzer sind uns bewusst, dass zu unserer Verantwortung nicht nur robuste Finanzergebnisse gehören. Wir wollen ein verantwortungsbewusster Corporate Citizen sein und nutzen unser Know-how im Fluid-Engineering, um das Leben der Menschen besser, sicherer und nachhaltiger zu machen. Mit unserer Fachexpertise im Bereich von Pump-, Rühr-, Misch-, Trenn- und Applikationstechnologien für Flüssigkeiten sorgen wir dafür, Wirtschaftssysteme auf der ganzen Welt nachhaltiger zu gestalten.

Zu diesem Zweck entwickeln wir Lösungen und Anlagen, die punkto Effizienz marktführend sind und es unseren Kunden ermöglichen, einen nachhaltigeren Mehrwert zu schaffen. Darüber hinaus betrachten wir auch unsere eigenen Aktivitäten kritisch. Wir verfügen über ein umfassendes Berichterstattungssystem, mit dem wir unseren ökologischen Fussabdruck messen. Dies erlaubt uns, Massnahmen zur Senkung unseres Energieverbrauchs, der Treibhausgasemissionen, des Abfallvolumens und des Wasserverbrauchs zu ergreifen.

Wir haben ESG-Kennzahlen (Kennzahlen aus den Bereichen Umwelt, Soziales, Governance) in unser Vergütungssystem aufgenommen. Ab 2020 sind ESG-Kennzahlen in den persönlichen Zielen aller unserer Führungskräfte, die für langfristige Anreize qualifiziert sind, enthalten. Damit rücken wir den Beitrag zum Gemeinwohl, den unsere Mitarbeitenden laut jährlicher Mitarbeiterbefragung von Sulzer erwarten, in den Mittelpunkt. Auch arbeiten wir daran, weiterhin bedeutende Fortschritte bei Arbeitssicherheit und Gesundheitsschutz, Emissionen, Wasser und Energieeffizienz, Abfallbewirtschaftung, gemeinnützigem Engagement sowie Forschungs- und Entwicklungsaktivitäten zugunsten von effizienteren oder nachhaltigeren Produkten wie ökologischen Verpackungen, Biopolymeren oder energieeffizienten Pumpen zu erzielen.

Wir haben bereits Projekte umgesetzt, die auf einen nachhaltigeren Umgang mit Kunststoffen abzielen. Mit Technologien, die Kunststoffabfälle in Treibstoff umwandeln, leisten wir ausserdem einen Beitrag zur Schliessung des Kunststoffkreislaufs. Im vergangenen Jahr würdigte Packaging Europe unsere Leistungen im Bereich nachhaltiger Verpackungen: Im bedeutendsten Wettbewerb für Verpackungsinnovationen wurde unsere faltbare Kartusche ecopaCC™ mit dem Nachhaltigkeitspreis in der Kategorie „Ressourceneffizienz“ ausgezeichnet.

Der Mensch im Mittelpunkt

Unsere Mitarbeitenden sind unser wertvollstes Gut. Sulzer ist sich bewusst, dass die Personalentwicklung nicht nur wichtig ist, um Mitarbeitende mit den nötigen Qualifikationen für ihre Arbeit auszustatten. Sie fördert auch die Mitarbeiterzufriedenheit und das Engagement für das Unternehmen. In der Mitarbeiterbefragung „Voice of Sulzer“ von 2019, deren Gesamtbeteiligungsquote bei 85% (2018: 73%) lag, gaben 85% der Befragten an, sich nachhaltig mit dem Unternehmen verbunden zu fühlen. Bei Sulzer würden 93% der Mitarbeitenden für den Erfolg des Unternehmens mehr tun als verlangt, und 82% würden Sulzer als guten Arbeitgeber empfehlen. Die Verbesserungen in acht von zehn Kategorien im Vergleich zur 2018 durchgeführten Umfrage verdeutlichen, dass wir auf dem richtigen Weg sind. Gleichzeitig räumen wir ein, dass es für uns alle noch viel zu tun gibt.

Vielfalt fördern

In Anlehnung an unsere lange Tradition des gemeinnützigen Engagements haben wir 2019 das „Sulzer-Stipendium für Frauen in Natur- und Ingenieurwissenschaften“ eingerichtet. Unter Berücksichtigung unserer globalen Präsenz und der spezifischen Länderanforderungen haben wir im vergangenen Jahr 13 Stipendien vergeben: drei in Südafrika, vier in Indonesien, vier in China und zwei in Indien. Bei Sulzer schätzen wir vielfältige Teams. Von den Werkshallen über die Aussendienstteams bis hin zu unserer Führungsgruppe finden Sie mehr als 80 Nationalitäten und Menschen aller Altersgruppen und Überzeugungen, die gemeinsam zum Erfolg des Unternehmens beitragen.

Änderungen in der Konzernleitung

Im vergangenen Jahr stiess ein neues Mitglied zu unserem Führungsteam. Am 21. Oktober 2019 trat Girts Cimermans als Divisionsleiter Applicator Systems und Mitglied der Konzernleitung bei Sulzer ein. Er folgt auf Amaury de Menthière, der in den Ruhestand trat. Girts Cimermans war vorher als CEO der USD 2 Milliarden schweren Optiksparte von HOYA Vision Care tätig. Er bringt einen reichen

Erfahrungsschatz auf dem Gebiet von Dental- und Medizinprodukten mit, weshalb er für die Leitung der Division Applicator Systems besonders geeignet ist.

Ausblick für 2020

Das makroökonomische Umfeld hat sich im Laufe des Jahres 2019 getrübt. Mit den zunehmenden Spannungen im Nahen Osten und in anderen Teilen der Welt haben die geopolitischen Risiken zugenommen. Handelskriege behindern den globalen Handelsfluss weiterhin und führen zu Ineffizienzen, die sowohl Sulzer als auch seine Kunden belasten. Ausserdem ist es noch zu früh, um die Auswirkungen des Corona-Virus vollständig abzuschätzen, das unsere Produktion in China und unsere Lieferkette von China aus im Februar 2020 und möglicherweise darüber hinaus beeinträchtigt.

Trotz der Risiken sind wir für das Jahr 2020 optimistisch, weil die Pipeline an Projekten in unseren Geschäftsbereichen weiterhin vielversprechend ist, unsere Endmärkte eine gute Dynamik aufweisen und wir einen soliden Auftragsbestand verzeichnen. Die vorgeschlagene Erhöhung unserer Dividende auf CHF 4.00 (Vorjahr: CHF 3.50) spiegelt unser Vertrauen in die Zukunft von Sulzer wider. Wir erwarten ein anhaltendes Wachstum bei Bestellungseingang und Umsatz. Vor dem Hintergrund zweier starker Jahre mit hohem einstelligem organischem Wachstum und trotz zunehmender Fokussierung auf die Marge auf Kosten des Volumens erwarten wir weiterhin ein Wachstum des Bestellungseingangs in der Grössenordnung von 2% bis 4% und des Umsatzes in der Grössenordnung von 1% bis 3%. Unsere Profitabilität dürfte weiter steigen und eine operative EBITA-Marge (opROSA) von etwa 10.2% bis 10.5% im Jahr 2020 erreichen.

Der bisherige Weg von Sulzer war nur mit der Unterstützung aller unserer Interessengruppen – insbesondere unserer Mitarbeitenden – möglich. Wir danken unseren Mitarbeitenden deshalb herzlich. Mit ihrem Engagement und ihrem Einsatz haben sie unsere Geschäftsbereiche zu dem gemacht, was sie heute sind. Ein besonderer Dank gilt auch Ihnen, unseren Aktionärinnen und Aktionären, für Ihre Unterstützung und Treue. Sulzer ist ein flinker 186-jähriger Pionier, und wir freuen uns darauf, unsere spannende Reise im Jahr 2020 gemeinsam mit Ihnen fortzusetzen.

Freundliche Grüsse

Peter Löscher
Verwaltungsratspräsident

Greg Poux-Guillaume
CEO

Tauchen Sie ein in unsere Welt des Fluid-Engineering:

- Frisches Wasser für die Wüstenstadt
- Stabile Stromversorgung für Indonesien
- Brennstoff aus Kunststoffmüll
- Damit Zahnärzte sicher und präzise arbeiten können

Unser Unternehmen

Sulzer ist ein weltweit führendes Unternehmen im Fluid-Engineering. Wir sind spezialisiert auf Pump-, Rühr-, Misch-, Trenn- und Applikationstechnologien für Flüssigkeiten aller Art. Unsere Kunden profitieren von unserer Verpflichtung zu Innovation, Leistung und Qualität sowie von unserem reaktionsschnellen Netzwerk aus 180 modernen Produktionsstätten und Servicezentren auf der ganzen Welt.

Pumps Equipment

Die Division Pumps Equipment ist auf Pumpenlösungen spezialisiert, die speziell für die Prozesse unserer Kunden entwickelt werden. Wir bieten Pumpen, Rührwerke, Kompressoren, Schredder und Siebe an, die mit intensiver Forschung und Entwicklung in den Bereichen Strömungsdynamik und moderne Materialien entstehen. Wir sind Marktführer bei Pumpenlösungen für Wasser, Öl und Gas, Energie, Chemie und die meisten Industriesegmente.

Rotating Equipment Services

Mit einem globalen Netzwerk von mehr als 100 Servicestandorten bietet die Division Rotating Equipment Services modernste Ersatzteile sowie Wartungs- und Reparaturlösungen für Pumpen, Turbinen, Kompressoren, Motoren und Generatoren. Wir warten sowohl unsere eigene Erstausrüstung als auch alle anderen rotierenden Geräte von Drittanbietern, die von unseren Kunden betrieben werden, um so die Nachhaltigkeit und die Kosteneffizienz über den Produktlebenszyklus zu maximieren. Unsere technologiebasierten Lösungen, die schnelle Ausführung und unser Know-how für komplexe Instandhaltungsprojekte stehen unseren Kunden vor ihrer Haustür zur Verfügung.

Chemtech

Die Division Chemtech ist Weltmarktführerin bei innovativen Stoffübergängen, beim statischen Mischen und bei Polymerlösungen für die Petrochemie, Raffinerien, LNG, Biopolymere und Biokraftstoffe. Unser Produktangebot reicht von Prozesskomponenten bis hin zu kompletten Separationsanlagen inklusive Lizenzierung. Der Kundensupport umfasst Ingenieur- und Aussendienstleistungen für Trennböden und Packungen, Kolonnenwartung, Schweissarbeiten und Anlagensanierungen.

Applicator Systems

Die Division Applicator Systems entwickelt und liefert mit ihren Marken Mixpac, Cox, Transcodent und Geka innovative Flüssigkeitsapplikatoren für die Dental-, Klebstoff-, Gesundheits- und Kosmetikmärkte. Unsere patentgeschützten Applikatoren basieren auf unserem Know-how in den Bereichen Kunststoffspritzguss, Mikrobürsten und Zweikomponentenmischen und machen die Produkte unserer Kunden präzise, sicher, einzigartig und nachhaltig.

Unsere Kennzahlen

2019 ist es Sulzer erneut gelungen, organisch deutlich zu wachsen. Der Bestellungseingang wuchs organisch um 6.3%, der Umsatz um 10.8%. Akquisitionen leisteten einen weiteren Beitrag von rund 2% zu diesem Wachstum. Gleichzeitig halfen sie, das Geschäft weiter zu diversifizieren und weniger zyklisch zu machen. Aufgrund der anhaltend positiven Entwicklung in den meisten Endmärkten, insbesondere Wasser und Chemie, wuchsen alle Divisionen ausser Applicator Systems. Die Profitabilität lag im zweistelligen Bereich und der Free Cash Flow erreichte ein Rekordniveau von CHF 213.4 Millionen.

Kennzahlen

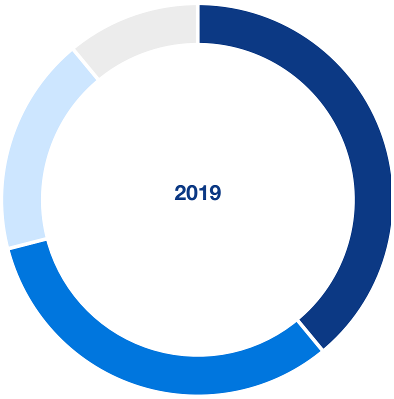
in Mio. CHF	2019	2018	Veränderung in +/–%	+/–% bereinigt[1]	+/–% organisch[2]
Bestellungseingang	3'747.2	3'531.5	6.1	8.2	6.3
Bruttomarge des Bestellungseingangs	33.6%	33.3%			
Auftragsbestand am 31. Dezember	1'792.6	1'786.9	0.3	1.9	
Umsatz	3'728.5	3'364.9	10.8	13.0	10.8
EBIT	241.0	183.8	31.1		
opEBITA	371.3	322.5	15.1	17.9	15.9
opROSA	10.0%	9.6%			
opROCEA	20.1%	18.1%			
Kern-Nettogewinn	257.8	223.0	15.6		
Nettogewinn, den Aktionären der Sulzer AG zustehend	154.0	113.7	35.4		
Unverwässerter Gewinn je Aktie	4.52	3.56	27.1		
Free Cash Flow	213.4	181.3	17.7		
Nettoverschuldung am 31. Dezember	346.9	239.0			
Mitarbeitende (Anzahl Vollzeitstellen) am 31. Dezember	16'506	15'572	6.0		

1) Bereinigt um Währungseffekte.
2) Bereinigt um Akquisitions- und Währungseffekte.

Börseninformationen

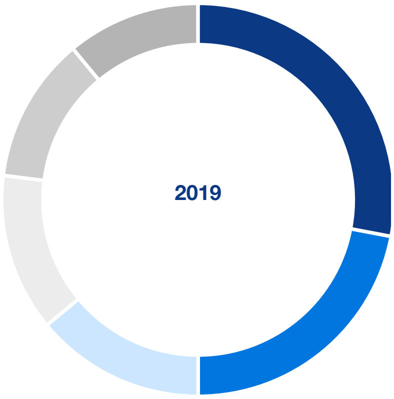
	2019	2018	2017	2016	2015
Namenaktie (in CHF)					
– höchst	113.40	137.50	129.90	107.80	120.10
– tiefst	75.15	76.30	102.30	75.55	88.55
– Jahresende	108.00	78.05	118.20	105.00	94.35
Börsenkapitalisierung per 31. Dezember					
– Anzahl ausstehender Aktien	34'021'446	33'950'499	34'043'093	34'084'909	34'075'179
– in Mio. CHF	3'674	2'650	4'024	3'579	3'215
– in Prozent des Eigenkapitals	232%	163%	240%	226%	145%
Kurs-Gewinn-Verhältnis per 31. Dezember	23.9x	21.9x	48.4x	60.6x	43.5x
Dividendenrendite per 31. Dezember	3.7%	4.5%	3.0%	3.3%	3.7%

Bestellungseingang nach Divisionen



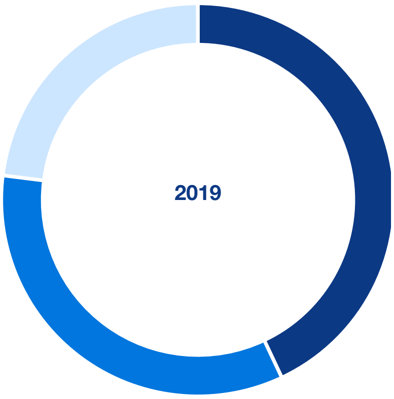
- **39%** Pumps Equipment
- **32%** Rotating Equipment Services
- **18%** Chemtech
- **11%** Applicator Systems

Bestellungseingang nach Marktsegmenten



- **28%** Öl und Gas
- **22%** Chemie
- **14%** Allgemeine Industrie
- **13%** Wasser
- **12%** Energie
- **11%** Märkte von Applicator Systems

Bestellungseingang nach Regionen



- **43%** Europa, Naher Osten und Afrika
- **34%** Nord-, Mittel- und Südamerika
- **23%** Asien-Pazifik

Angaben je Aktie

CHF	2019	2018	2017	2016	2015
Nettogewinn, einem Aktionär der Sulzer AG zustehend	4.52	3.56	2.44	1.73	2.17
Veränderung zum Vorjahr	27%	46%	41%	–20%	–73%
Eigenkapital, einem Aktionär der Sulzer AG zustehend	46.50	48.00	49.40	46.40	65.30
Ordentliche Dividende	4.00 1)	3.50	3.50	3.50	3.50
Sonderdividende	–	–	–	–	14.60
Payout ratio	88%	98%	143%	202%	161%
Durchschnittliche Anzahl ausstehender Aktien	34’026’442	31’934’459	34’084’133	34’102’610	34’035’862

1) Vorschlag an die Generalversammlung.

Aktionärsstruktur am 31. Dezember 2019

Anzahl Aktien	Anzahl Aktionäre	Anteil
1–100	4’086	0.7%
101–1’000	4’685	4.3%
1’001–10’000	537	4.5%
10’001–100’000	117	9.9%
Über 100’000	16	58.2%
Total registrierte Aktionäre und Aktien (ohne eigene Aktien Sulzer AG)	**9’441**	**77.5%**

Frisches Wasser für die Wüstenstadt

Das Wassertransportsystem für Riad, die Hauptstadt des Königreichs Saudi-Arabien, ist eines der grössten seiner Art. Mit einer neuen Grosspipeline bekommen die Menschen in der Wüstenstadt ein weiteres Transportmittel für die zuverlässige Süsswasserversorgung. Sulzer baut kundenspezifische Pumpen, um das Wasser an seinen Bestimmungsort zu transportieren.

Wolkenkratzer ragen in den tiefblauen Himmel. Im Herzen der pulsierenden Stadt würde man nicht denken, mitten in einer Wüste zu sein. Riad, Heimat von sieben Millionen Menschen, ist die blühende Hauptstadt des Königreichs Saudi-Arabien. Nur wenige Städte haben sich so schnell entwickelt wie Riad, von einem kleinen, isolierten Wüstendorf zu der innovativen Metropole, die sie heute ist.

Herausforderung für alle grossen Städte

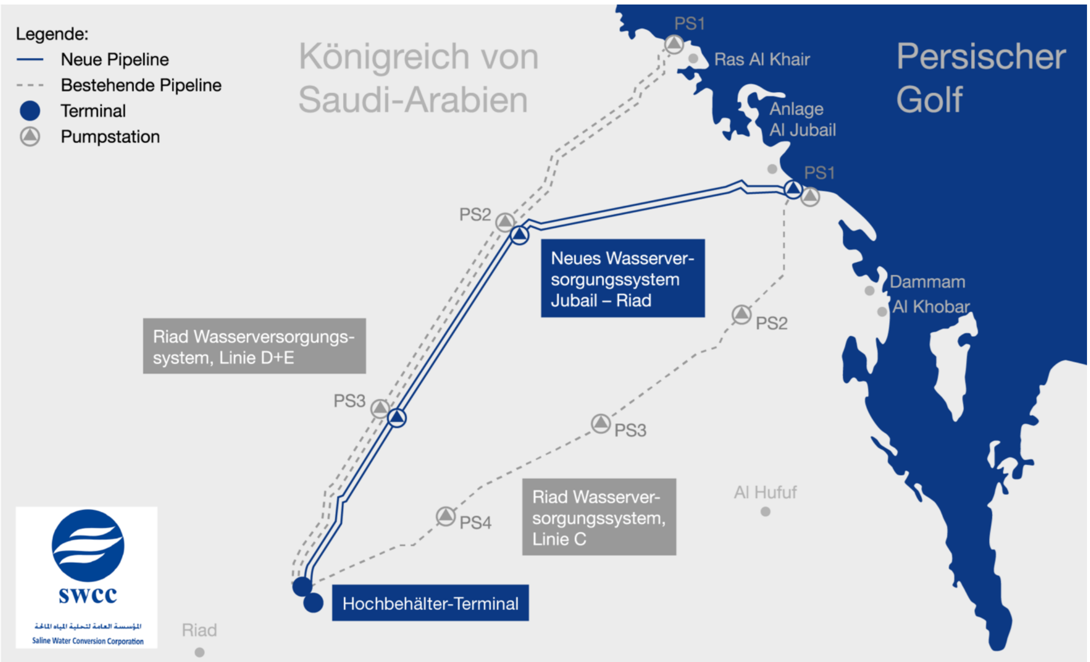
Während sich Riad weiterentwickelt und zu einem Zuhause für internationalere und schneller wachsende Gemeinschaften wird, steht sie vor der Herausforderung aller grossen Städte. Rasantes Bevölkerungswachstum und Urbanisierung setzen die Infrastruktur, den Energiebedarf und den Wasserbedarf unter Druck.

Die Lage in der Wüste ist eine zusätzliche Herausforderung für Logistik und Infrastruktur. Nutzbare Wasserquellen sind Hunderte von Kilometern vom Ziel entfernt.

Eine lange Reise

Eine funktionierende Wasserversorgung ist der Schlüssel für eine florierende Stadt. Saudi-Arabien hat daher eines der weltweit grössten Wasserversorgungssysteme der Welt gebaut.

Wasser wird aus dem Persischen Golf gewonnen, der sich über eine Länge von 1’000 km (620 Meilen) entlang der östlichen Provinz des Königreichs Saudi-Arabien erstreckt. Das Wasser wird in Entsalzungsanlagen aufbereitet. Danach treiben hocheffiziente Pumpen das wertvolle Frischwasser unermüdlich durch Hunderte von Kilometern lange Rohrleitungen nach Riad.



Die neue Wasserleitung von Al Jubail nach Riad wird die Bevölkerung mit Wasser versorgen, das vom Persischen Golf durch die Wüste gepumpt wird.

Ein vorausschauender Kunde

Die Saline Water Conversion Corporation (SWCC), ein grosses Entsalzungsunternehmen in Saudi-Arabien, stellt sich den Herausforderungen, die sich aus einer florierenden Stadt und ihrer wachsenden Bevölkerung ergeben. Um die Wasserversorgung für zukünftige Anforderungen zu verbessern, plante der vorausschauende Kunde den Bau einer neuen Grosspipeline zur Erweiterung des schon bestehenden riesigen Wasserleitungssystems.

Sulzer wurde frühzeitig in die Projektphase einbezogen und stellte sein Know-how zur Verfügung, um das Wasser innerhalb der 412 km langen Zwillingsleitung von der Stadt Al Jubail nach Riad effizient zu transportieren. Mit Hilfe der hocheffizienten und einfach zu bedienenden Pumpen werden die neuen Rohrleitungen 1.2 Millionen m^3 Trinkwasser pro Tag für die Bevölkerung und die Industrie liefern.

Für die Zukunft

Ein so ehrgeiziges Projekt wie das Wassertransportsystem Al Jubail – Riad erfordert eine sorgfältige Planung, um alle Herausforderungen zu meistern. Planung und Ausführung sind weit fortgeschritten und Sulzer ist stolz darauf, eine Schlüsselrolle bei der Wasserversorgung spielen zu können, die es den Gemeinden ermöglicht, weiter zu gedeihen, zu wachsen und zu expandieren.

Weitere Storys über unsere Produkte und Services finden Sie auf www.sulzer.com/stories.

Stabile Stromversorgung für Indonesien

Kraftwerksbetreiber brauchen zuverlässige Anlagen, die immer die volle Leistung liefern und nie stillstehen. Wenn eine Turbine beschädigt ist, muss sie schnell repariert werden. Was normalerweise bis zu ein Jahr dauert, erledigt das Servicezentrum von Sulzer Indonesien mit einer mobilen Werkstatt in nur drei Monaten an Ort und Stelle.

Die Länder des Verbandes südostasiatischer Nationen (ASEAN) werden laut der Internationalen Energieagentur bis 2040 für fast zwei Drittel des weltweiten Wachstums der Energienachfrage verantwortlich sein. Um mit der steigenden Nachfrage Schritt zu halten, sind Kraftwerksbetreiber auf zuverlässige Anlagen angewiesen.

Korrosiver Dampf verschleisst die Maschinen

Dampfturbinen, die Hitze in mechanische Energie umwandeln und damit einen Generator antreiben, arbeiten in geothermischen Kraftwerken mit variabel zusammengesetztem und korrosivem Dampf, der die Anlagen mit der Zeit verschleisst. Unter diesen Bedingungen können schnell Schäden auftreten.

Häufig müssen die Schaufeln der Turbine repariert oder ersetzt werden. In einigen Fällen entstehen Schäden an den Dichtungen und Laufflächen des Rotors, in schwereren Fällen kann die Rotorwelle sogar zerbrechen.

Zeit ist Geld

Wenn eine Rotorwelle beschädigt ist, muss sie in der Regel zum Schweissen an ein Servicezentrum geschickt werden.

Dampfturbinen sind grosse Maschinen. Ihr Transport und der Verlust wertvoller Produktionszeit kosten viel Geld. Und als ob die Dinge nicht kompliziert genug wären, befinden sich manche Kraftwerke in schwer zugänglichen Gebieten.

Die mobile Werkstatt von Sulzer Indonesien ermöglicht es den Teams, grosse Dampfturbinen direkt beim Kunden zu reparieren.

Reputation verbessern

Die schnelle Reparatur von kritischen rotierenden Komponenten ist die Spezialität der Division Rotating Equipment Services von Sulzer. Deren indonesische Werkstatt ist einzigartig, weil das Team ein mobiles Rotorschweissverfahren anbietet, mit dem Rotorwellen komplett beim Kunden repariert werden können.

Dies reduziert Ausfallzeiten, spart Transportkosten und reduziert das Risiko von transportbedingten Rotorschäden, wodurch wiederum die Versicherungskosten sinken. Insgesamt hilft das Verfahren den Kunden, eine stabile Stromversorgung für die Bevölkerung sicherzustellen und die eigene Reputation sowie Rentabilität wegen kürzerer Ausfallzeiten zu verbessern.

Effiziente Mobilisierung von Geräten

Die mobile Werkstatt besteht aus einem kompletten Satz tragbarer Werkzeuge einschliesslich Drehmaschinen, Schweissgeräten und Auswuchtmaschinen, die in Seecontainer verpackt zum Versand an den Kunden bereitstehen.

Die Servicetechniker montieren die Geräte in der Turbinenhalle direkt neben der beschädigten Turbine. Sie entfernen den Rotor und legen ihn auf die Drehmaschine, wo alle Reparaturen unter Beobachtung des Kunden ausgeführt werden.

Kraftwerke in Betrieb halten

Sulzer befasst sich mit allen Arten von schweren Schäden an Turbinenausrüstungen – entweder in den eigenen Servicezentren oder, wo immer möglich, mit der mobilen Werkstatt direkt beim Kunden.

Dank der innovativen Denkweise und der Kompetenz des indonesischen Teams halten unsere Kunden ihre Kraftwerke in Betrieb und sparen Millionen von Dollar.

Weitere Storys über unsere Produkte und Services finden Sie auf www.sulzer.com/stories.

Brennstoff aus Kunststoffmüll

Weltweit forschen Menschen an neuen Möglichkeiten für einen nachhaltigeren Umgang mit Kunststoff. Das norwegische Start-up-Unternehmen Quantafuel wählte Sulzer als Partner für den Bau einer revolutionären Anlage, die Kunststoffmüll in Brennstoff umwandelt.

Die meisten Kunststoffe halten ewig. Sie sind nicht biologisch abbaubar und brauchen bis zu 1’000 Jahre, um zu zerfallen. Während die Langlebigkeit von Materialien in der Regel eine gute Eigenschaft ist, werden diese haltbaren Kunststoffe meist zur Herstellung von kurzlebigen Einwegprodukten verwendet.

Laut einer aktuellen Studie hat die Menschheit bis 2015 8.3 Milliarden Tonnen Kunststoffe produziert. Davon endeten rund 80% als Abfall, nur 9% konnten recycelt werden.

Heute landen jedes Jahr rund 8 Millionen Tonnen Kunststoffabfälle im Meer. Überall auf der Welt wird nach Wegen gesucht, das Volumen von Kunststoffabfällen zu reduzieren.

Eine vielversprechende Alternative

Quantafuel, ein norwegisches Start-up-Unternehmen, hat sich der Mission verschrieben, nicht recycelbare Abfälle in Treibstoff umzuwandeln. Kürzlich hat das Unternehmen ein chemisches Recycling-Verfahren vorgestellt, dass Kunststoffpolymere wieder in Kohlenwasserstoffe umwandelt.

Quantafuel kombiniert Abfallbehandlung mit chemischem Recycling und gelangt so zu recycelten Kohlenwasserstoffen. Damit lassen sich Produkte herstellen, die eigentlich auf Erdöl basieren, wie Brennstoffe oder wiederum neue Kunststoffe. Damit sinkt die Abfallmenge und der CO_2-Fussabdruck der natürlichen Öl- und Gasressourcen wird kleiner.

Die Aufbereitungsanlage von Quantafuel, ausgestattet mit den Fraktionierungssystemen von Sulzer, recycelt Kunststoffabfälle und verwandelt sie in wertvolle Ressourcen wie Treibstoff und andere erdölbasierte Produkte.

Die richtige Fraktionierung macht den Unterschied

Nach erfolgreicher Pilotphase entschied sich Quantafuel, in Skive, Dänemark, die erste komplette Anlage für einen kontinuierlichen Prozess zu errichten. Dabei hing die Prozesseffektivität des Unternehmens von einer effizienten und skalierbaren Fraktionierungstechnologie ab.

Die führende Position von Sulzer in der Separations- und Mischtechnik sowie die langjährige Erfahrung in der Konstruktion und Herstellung von Skid-montierten Anlagen machten Sulzer zum idealen Partner für Quantafuel.

Erfolg nach weniger als zehn Monaten

Bei diesem Projekt war vor allem die schnelle Markteinführung entscheidend. Sulzer musste bei den langen Fertigungszeiten für diese komplexen Separationsanlagen Reaktionsfähigkeit und Effizienz beweisen.

Dank seiner Expertise war Sulzer in der Lage, die flexiblen Fraktionierungseinheiten in der Rekordzeit von weniger als zehn Monaten zu planen, herzustellen und ihre Installation abzuschliessen.

Der Beginn einer neuen Kunststoffindustrie

Die fertige Anlage ist einzigartig. Sie kann täglich 66 Tonnen Kunststoff recyceln und in 53 Tonnen Kohlenwasserstoffe verwandeln, die als Brennstoff oder zur Herstellung einer Vielzahl von Chemikalien verwendet werden können.

Quantafuel war von dem auf Skids montierten System sehr beeindruckt. Beide Unternehmen freuen sich, weitere weltweit geplante Kunststoff-zu-Brennstoff-Anlagen zu realisieren.

Sulzer unterstützt Kunden bei einer Reihe von nachhaltigen Projekten, die die Art und Weise revolutionieren, wie wir recyceln und Emissionen reduzieren. Dies könnte der Beginn einer neuen und nachhaltigeren Kunststoffindustrie sein.

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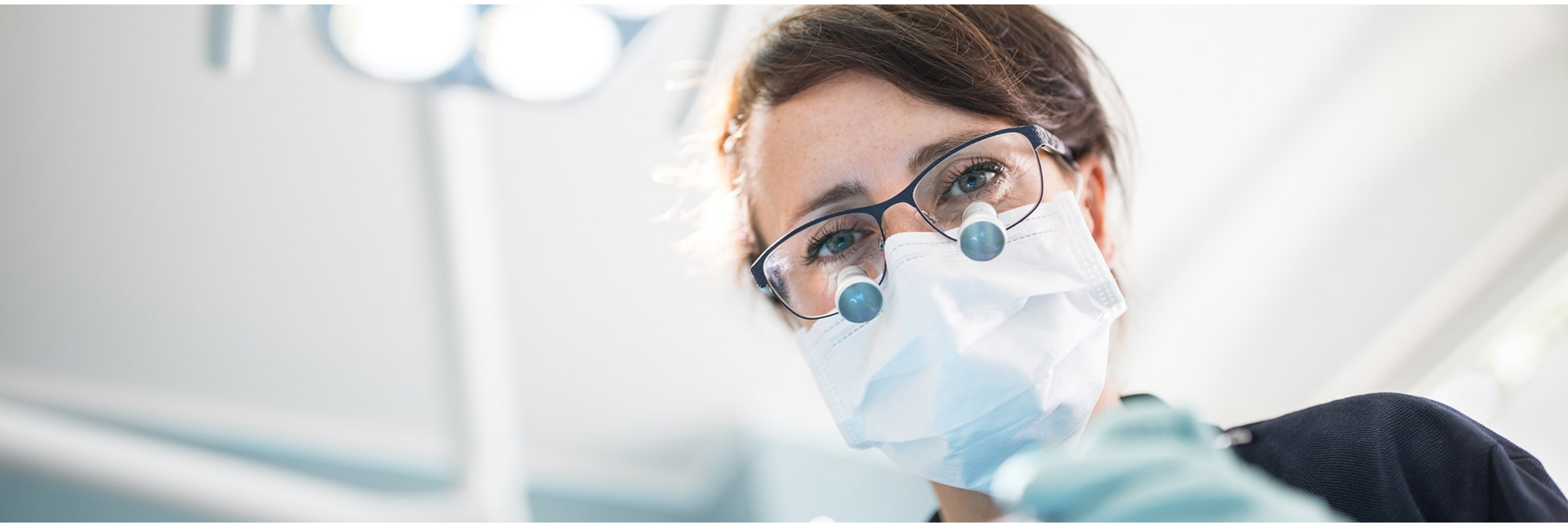


Damit Zahnärzte sicher und präzise arbeiten können

Zahnärzte haben eine komplexe und sehr anspruchsvolle Aufgabe – von einer schnelleren und sichereren Behandlung profitieren Ärzte und ihre Patienten gleichermassen. Sulzer entwickelte eine spezielle Spritze, mit der Oralchirurgen bei Zahnimplantaten intuitiv, schnell und sicher operieren können.

Beim Ersatz beschädigter oder fehlender Zähne durch ein Zahnimplantat vermissten viele Zahnärzte ein All-in-one-Gerät, mit dem sie Biomaterial in einem Arbeitsgang direkt im Kiefer auftragen können. Auf Anregung langjähriger Partner und Kunden haben wir uns der Herausforderung gestellt, ein solches Gerät zu entwickeln.

Die Kunst des Zahnersatzes

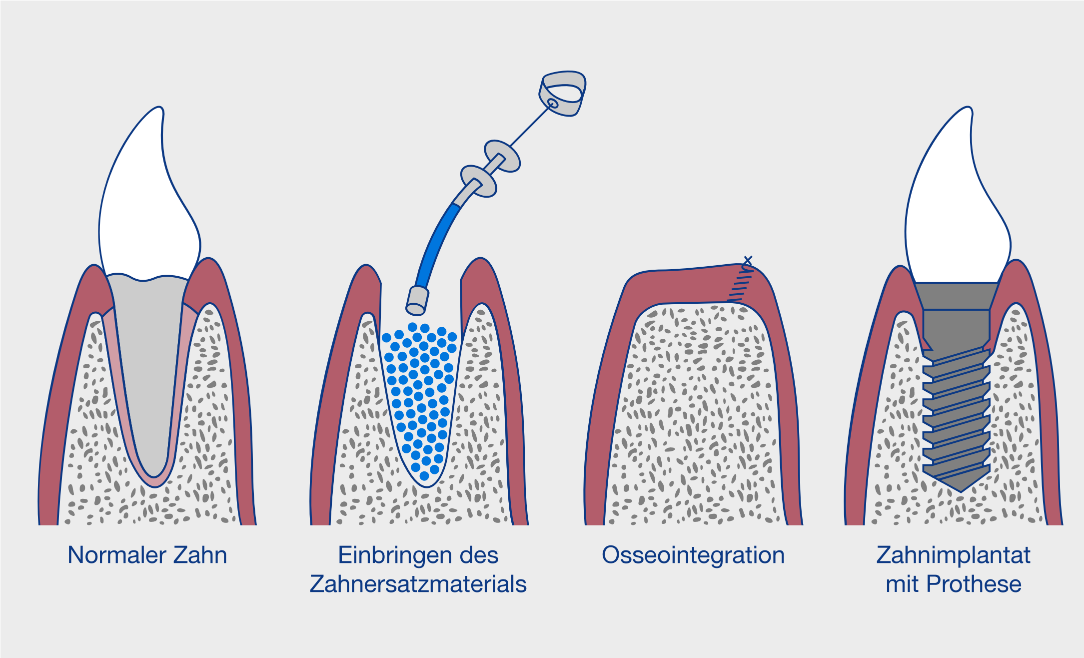
Der Einsatz von Zahnimplantaten ist ein modernes Verfahren bei beschädigten oder fehlenden Zähnen. Ein Zahnimplantat ist ein Bauteil aus Metall oder Keramik, das in den Kieferknochen eingesetzt wird. Die Implantate übernehmen die Funktion einer künstlichen Zahnwurzel, an der verschiedene Zahnprothesen – wie Einzelzähne, Brücken oder Kronen – befestigt werden können.

Oft ist das Loch, das ein fehlender Zahn in einem Kieferknochen hinterlässt, zu gross, um ein Implantat direkt zu befestigen. In solchen Fällen wird das Loch zunächst mit einem Knochenersatzmaterial aufgefüllt – ganz ähnlich, wie Löcher in Wänden mit Gips aufgefüllt werden. Es dauert etwa drei bis sechs Monate, bis das Ersatzmaterial vollständig in den natürlichen Knochen integriert und durch ihn ersetzt ist. Anschliessend kann das Implantat in den neu gewachsenen Knochen geschraubt und sicher fixiert werden.

Ohne Glas und Spatel

Traditionell bereitet der Chirurg das Ersatzmaterial in einem Glas vor und trägt es mit einem Spatel auf. Da dies zeitaufwändig ist und zu Materialverlust führt, war der Markt bereit für neue und innovative Lösungen.

Sulzer entwickelte eine Dentalspritze, die während der Operation Biomaterial direkt in den Knochen einbringen kann. Die neuartige Lösung erleichtert dem Zahnarzt die Arbeit, beschleunigt die Behandlung deutlich und reduziert den Materialverlust.



Mit der neuen Spritze von Sulzer können Zahnärzte Biomaterial direkt in den Knochen einbringen. Dies macht die Behandlung sicherer und einfacher.

Intuitiv und hygienisch

Wegen des einzigartigen geschwungenen Designs der Spritze kann der Zahnarzt sie mit einer Hand bedienen und der Blick auf den Behandlungsort bleibt frei. Mit der Spritze können sowohl Granulate als auch Pasten verarbeitet werden. Zudem kann das Knochenersatzmaterial in der Spritze steril gelagert werden, bis es zum Einsatz kommt.

Im Einsatz für das Gesundheitswesen

Wir arbeiten mit führenden Herstellern von Biomaterialien und zahnmedizinischen Geräten zusammen, um die Anwendung von Biomaterialien sicherer und präziser zu machen. Unsere Applikationssysteme helfen, die Zeit der Chirurgen in den Operationssälen einfacher und effektiver zu gestalten.

Weitere Storys über unsere Produkte und Services finden Sie auf www.sulzer.com/stories.

Lagebericht

Starkes Auftragswachstum, verbesserte Profitabilität und rekordhoher Free Cash Flow

Der Bestellungseingang verzeichnete ein organisches Wachstum von 6.3% und von 8.2% einschliesslich Akquisitionen. Der Umsatz stieg organisch um 10.8% dank eines höheren Auftragsbestands zu Beginn des Geschäftsjahres und um 13.0% unter Einschluss der Akquisitionen. Die Profitabilität (opROSA) konnte aufgrund der Einsparungen von CHF 23 Millionen aus dem Sulzer Full Potential-Programm (SFP) und der höheren Bruttomarge um 0.4 Prozentpunkte auf 10.0% gesteigert werden. Der Free Cash Flow belief sich auf CHF 213.4 Millionen.

Sofern nicht anders angegeben, basieren alle Veränderungen zum Vorjahr auf währungsbereinigten Werten.

Starkes Auftragswachstum

Im Vergleich zu 2018 stieg der Bestellungseingang um 8.2%. Dieser Anstieg beruhte auf einem organischen Wachstum von 6.3% sowie einem Auftragsvolumen von CHF 68.3 Millionen aus Akquisitionen. Begünstigt durch eine höhere Selektivität bei den Bestellungen stieg die Bruttomarge des Bestellungseingangs nominal um 0.3 Prozentpunkte auf 33.6%.

Sulzer erreichte 2019 ein profitables Wachstum sowie einen Free Cash Flow in Rekordhöhe.

Jill Lee, Chief Financial Officer

Der Bestellungseingang in der Division Pumps Equipment nahm um 8.3% zu, wobei 0.3% Akquisitionen zuzurechnen waren. Das starke organische Wachstum war der grösseren Anzahl von Bestellungen in den Segmenten Wasser und Chemie zu verdanken, die organisch je 16% zunahmen. In der Division Rotating Equipment Services stieg der Bestellungseingang um 10.7%. Davon entfielen 8.6% auf organisches Wachstum und 2.1% auf Akquisitionen. Der Bestellungseingang in der Division Chemtech wuchs um 12.8% dank des starken organischen Wachstums von 6.5%. Die Akquisition von GTC trug CHF 38.1 Millionen bei. In der Division Applicator Systems gingen die Aufträge um 4.3% zurück. Während das Segment Beauty um 14.3% unter dem Vorjahreswert lag, legte Applicator Systems in den anderen Märkten um 2.8% zu. Der gesamte Bestellungseingang von Sulzer erhöhte sich in der Region Asien-Pazifik, in Nordamerika sowie in der Region Europa, Naher Osten und Afrika (EMEA).

Die Währungseffekte bescherten dem Bestellungseingang ein Minus von CHF 74.2 Millionen. Die Schwäche des Euro, des britischen Pfunds, des chinesischen Renminbi und des brasilianischen Real wurde nur teilweise vom stärkeren US-Dollar wettgemacht.

Per 31. Dezember 2019 belief sich der Auftragsbestand auf CHF 1’792.6 Millionen (31. Dezember 2018: CHF 1’786.9 Millionen). Die negativen Währungseffekte beliefen sich insgesamt auf CHF 28.6 Millionen.

Bestellungen

	2019	2018
Bestellungseingang	3’747.2	3’531.5
Bruttomarge des Bestellungseingangs	33.6%	33.3%
Auftragsbestand am 31. Dezember	1’792.6	1’786.9

Solides organisches Wachstum und Akquisitionen resultieren in höherem Umsatz

Der Umsatz belief sich 2019 auf CHF 3’728.5 Millionen, was einer Zunahme um 13.0% entspricht. Grund für diesen Anstieg waren ein solides organisches Wachstum von 10.8%, bedingt durch den höheren Auftragsbestand zu Jahresbeginn und den kräftigen Bestellungseingang im Verlauf des Jahres sowie akquisitionsbezogene Umsätze in Höhe von CHF 71.8 Millionen. Die negativen Währungseffekte beliefen sich insgesamt auf CHF 72.2 Millionen.

Der Umsatz im Öl- und Gasmarkt verzeichnete mit 37.8% ein kräftiges Wachstum, das dem hohen Auftragsbestand zu verdanken war. Der Umsatz stieg in der chemischen Industrie um 19.5% und im Wassermarkt um 4.7% nach einem starken Wachstum im Jahr 2018. Der Umsatz in der allgemeinen Industrie wuchs um 1.0%, während er im Energiemarkt um 3.3% zurückging, was dem tieferen Auftragsbestand zum Jahresbeginn geschuldet war.

Der Umsatz konnte in allen Regionen gesteigert werden, wobei diese Entwicklung in Nord-, Mittel- und Südamerika am ausgeprägtesten war.

Verbesserung der Bruttomarge

Die Bruttomarge stieg von 29.1% im Jahr 2018 auf 30.1% im Jahr 2019. Die Verbesserungen in allen Divisionen wurden teilweise durch negative Mixeffekte aufgehoben. Durch die höheren Umsatzvolumen erhöhte sich der Bruttogewinn auf CHF 1’121.2 Millionen (2018: CHF 978.3 Millionen).

Steigerung der Profitabilität (opROSA) auf 10.0%

Das operative EBITA (opEBITA) belief sich auf CHF 371.3 Millionen (2018: CHF 322.5 Millionen). Dies entspricht einem Anstieg um 17.9%. Der höhere Umsatz, die Einsparungen in Höhe von CHF 23 Millionen aus dem Sulzer Full Potential-Programm (SFP) sowie der Beitrag der Akquisitionen vermochten die negativen Mixeffekte mehr als auszugleichen. Auf organischer Basis stieg das opEBITA um 15.9% gegenüber 2018.

Die Betriebskosten ohne Amortisation, Wertminderung auf immaterielle Anlagen und Sachanlagen, Restrukturierungsaufwand und übrige nicht operative Positionen erhöhten sich um 10.4%, was teilweise auf mit Akquisitionen verbundene Zusatzkosten zurückzuführen war. In Relation zum Umsatz gesetzt, sanken die Betriebskosten 2019 im Vergleich zum Vorjahr.

Überleitung vom EBIT zum opEBITA

in Mio. CHF	2019	2018
EBIT	**241.0**	**183.8**
Amortisation	64.5	69.0
Wertminderungen von immateriellen Anlagen und Sachanlagen	4.4	4.4
Restrukturierungskosten	23.1	13.1
Nicht operative Positionen[1)]	38.3	52.0
opEBITA	**371.3**	**322.5**

1) Übrige nicht operative Positionen beinhalten wesentliche akquisitionsbezogene Kosten, Gewinne und Verluste aus dem Verkauf von Geschäftsbereichen oder Immobilien (inklusive aufgelöster Rückstellungen) und bestimmte nicht operative Positionen, die nicht wiederkehrend sind oder nicht regelmässig in dieser Grössenordnung auftreten.

Die operative EBITA-Marge (opROSA) stieg auf 10.0%, verglichen mit 9.6% im Jahr 2018. Die Divisionen erzielten folgende Profitabilität (opROSA):

- Pumps Equipment: 4.0% (2018: 3.2%): Die Profitabilität erhöhte sich dank höherer Volumen und solider Umsetzung, obwohl es negative Mixeffekte gab.
- Rotating Equipment Services: 14.1% (2018: 13.7%): Die Profitabilität stieg aufgrund des starken Umsatzwachstums mit günstigem Mix und Kostenmanagement.
- Chemtech: 9.6% (2018: 8.9%): Das Umsatzwachstum und die bessere Projektabwicklung erhöhten die Profitabilität.
- Applicator Systems: 21.0% (2018: 21.1%): Die starke operative Entwicklung des Klebstoff-, Dental- und Gesundheitssegments führte zu einer stabilen Profitabilität, obwohl das Beauty-Geschäft in einem Umbruch steckt.

Berechnung von ROS und opROSA

in Mio. CHF	2019	2018
EBIT	241.0	183.8
Umsatz	3’728.5	3’364.9
ROS	**6.5%**	**5.5%**
opEBITA	371.3	322.5
Umsatz	3’728.5	3’364.9
opROSA	**10.0%**	**9.6%**

Nicht operative Kosten beeinflussten den Betriebsertrag (EBIT)

Die geplante Konsolidierung von zwei Fertigungsstätten in Deutschland verursachte einen Aufwand von CHF 27.8 Millionen, der sowohl Restrukturierungsrückstellungen als auch nicht operative Kosten umfasste. Auch im letzten Jahr des Sulzer Full Potential-Programms (SFP) setzte Sulzer die Optimierung seiner Organisationsstruktur fort. Im Zusammenhang mit dem SFP-Programm beliefen sich die nicht operativen Kosten auf CHF 23.0 Millionen und die Restrukturierungskosten auf CHF 2.0 Millionen. Insgesamt erzielte das Unternehmen mit dem SFP-Programm kumulierte Einsparungen von CHF 253 Millionen.

Das EBIT erhöhte sich gegenüber 2018 um 34.2% von CHF 183.8 Millionen auf CHF 241.0 Millionen. Die Umsatzrendite (ROS) betrug 6.5% (2018: 5.5%).

Finanzergebnis

Der Zinsaufwand für Anleihen und Leasingverbindlichkeiten erhöhte sich auf CHF 21.1 Millionen (2018: CHF 15.4 Millionen). Dies war vor allem auf den Zinsaufwand für in der zweiten Jahreshälfte 2018 emittierte Anleihen sowie den Zinsaufwand für Leasingverbindlichkeiten infolge der erstmaligen Anwendung von IFRS 16 „Leasingverhältnisse“ zurückzuführen.

Der gesamte Finanzaufwand erhöhte sich auf CHF 28.3 Millionen (2018: CHF 18.9 Millionen). Die Hauptgründe dafür waren der höhere Zinsaufwand und Änderungen bei erfolgswirksam zum beizulegenden Zeitwert ausgewiesenen Finanzanlagen.

Niedrigerer effektiver Steuersatz

Der Ertragssteueraufwand erhöhte sich auf CHF 55.1 Millionen (2018: CHF 49.2 Millionen), was auf den höheren Vorsteuererfolg zurückzuführen war. Der effektive Steuersatz reduzierte sich 2019 auf 25.9% (2018: 29.7%). Bereinigt um den Effekt der Restrukturierungsaufwendungen in Deutschland und Anpassungen der Steuerbemessungsgrundlage des Vorjahres in Mexiko und Russland blieb der normalisierte Steuersatz mit 23.1% stabil.

Höherer Kern-Nettogewinn

2019 lag der Nettogewinn bei CHF 157.7 Millionen, gegenüber CHF 116.5 Millionen im Vorjahr. Der Kern-Nettogewinn (ohne die steuerbereinigten Effekte durch übrige nicht operative Positionen) betrug 2019 CHF 257.8 Millionen (2018: CHF 223.0 Millionen). Der unverwässerte Gewinn je Aktie stieg 2019 auf CHF 4.52 (2018: CHF 3.56).

Überleitung vom Nettogewinn zum Kern-Nettogewinn

in Mio. CHF	2019	2018
Nettogewinn	**157.7**	**116.5**
Amortisation	64.5	69.0
Wertminderungen von immateriellen Anlagen und Sachanlagen	4.4	4.4
Restrukturierungskosten	23.1	13.1
Nicht operative Positionen[1]	38.3	52.0
Steuereffekt auf oben aufgeführte Positionen	–30.1	–32.0
Kern-Nettogewinn	**257.8**	**223.0**

1) Übrige nicht operative Positionen beinhalten wesentliche akquisitionsbezogene Kosten, Gewinne und Verluste aus dem Verkauf von Geschäftsbereichen oder Immobilien (inklusive aufgelöster Rückstellungen) und bestimmte nicht operative Positionen, die nicht wiederkehrend sind oder nicht regelmässig in dieser Grössenordnung auftreten.

Optimierte Bilanzeffizienz

Die Bilanzsumme lag per 31. Dezember 2019 bei CHF 5’109.5 Millionen und somit nominal um CHF 211.2 Millionen über dem Vorjahreswert. Das höhere Geschäftsvolumen und Akquisitionen trugen zu diesem Anstieg bei. Der Hauptgrund war jedoch die Einführung des neuen Rechnungslegungsstandards IFRS 16 „Leasingverhältnisse“.

Langfristige Vermögenswerte stiegen um CHF 114.3 Millionen auf CHF 2’172.0 Millionen, vor allem aufgrund der Zurechnung geleaster Vermögenswerte nach der Einführung von IFRS 16 (CHF 112.6 Millionen). Das Umlaufvermögen erhöhte sich nominal um CHF 96.9 Millionen. Das bessere Management des Nettoumlaufvermögens trug zur Reduzierung der Vorräte im Wert von CHF 84.0 Millionen bei. Die Vertragsvermögenswerte stiegen um CHF 150.1 Millionen und die Forderungen aus Lieferungen und Leistungen um CHF 23.6 Millionen dank der Umsatzsteigerung. Die flüssigen Mittel gingen um CHF 59.7 Millionen zurück, während die kurzfristigen Finanzanlagen um CHF 57.5 Millionen zunahmen.

Das gesamte Fremdkapital lag per 31. Dezember 2019 mit CHF 3’515.6 Millionen um CHF 258.3 Millionen über dem Vorjahr. Die Hauptgründe waren die Erfassung der Leasingverbindlichkeiten gemäss IFRS 16 (CHF 109.7 Millionen), der Anstieg der Vertragsverbindlichkeiten (CHF 88.4 Millionen) dank des höheren Umsatzes im Projektgeschäft sowie die Erhöhung der ausstehenden Dividendenzahlungen an Tiwel Holding AG um CHF 38.1 Millionen.

Das Eigenkapital verringerte sich nominal um CHF 47.1 Millionen auf CHF 1’593.9 Millionen. Dies war hauptsächlich auf die Dividendenausschüttung (CHF 119.2 Millionen), Währungseffekte (CHF 63.9 Millionen) und die Neubewertung der leistungsorientierten Vorsorgeverbindlichkeiten (CHF 24.8 Millionen) zurückzuführen. Teilweise wurde dies durch den Nettogewinn (CHF 157.7 Millionen) wettgemacht.

Die Nettofinanzschulden stiegen 2019 auf CHF 346.9 Millionen (2018: CHF 239.0 Millionen), wofür vor allem die Einführung des neuen Rechnungslegungsstandards IFRS 16 „Leasingverhältnisse“ (CHF 109.7 Millionen) verantwortlich war. Das Verhältnis der Nettofinanzschulden zum EBITDA belief sich per 31. Dezember 2019 einschliesslich der Auswirkungen von IFRS 16 auf 0.84 und unter Ausklammerung der Auswirkungen von IFRS 16 auf 0.63 (31. Dezember 2018: 0.73). Die Steigerung des EBITDA trug dazu bei, dass sich das Verhältnis der Nettofinanzschulden zum EBITDA gegenüber 2018 auf Like-for-like-Basis um 0.1 verbesserte.

Rekordhoher Free Cash Flow

Der Mittelfluss aus Geschäftstätigkeit betrug CHF 319.6 Millionen (2018: CHF 260.8 Millionen). Die Zunahme ist vor allem dem höheren Nettogewinn und den Auswirkungen der Einführung von IFRS 16 „Leasingverhältnisse“ im Wert von CHF 34.0 Millionen zuzuschreiben, wobei höhere Zinszahlungen den Effekt teilweise schmälerten. Die Reduzierung der Vorräte leistete einen Beitrag von CHF 82.8 Millionen zum Mittelfluss. Trotz des höheren Umsatzes blieb das Nettoumlaufvermögen insgesamt stabil. Der Free Cash Flow lag bei CHF 213.4 Millionen, im Vergleich zu CHF 181.3 Millionen im Vorjahr. Grund hierfür war der höhere Mittelfluss aus Geschäftstätigkeit, der teilweise durch höheren Investitionsaufwand reduziert wurde.

Überleitung vom Mittelfluss aus Geschäftstätigkeit zum Free Cash Flow

in Mio. CHF	**2019**	**2018**
Mittelfluss aus Geschäftstätigkeit	**319.6**	**260.8**
Erwerb von immateriellen Anlagen	–6.0	–6.9
Verkauf von immateriellen Anlagen	0.5	0.0
Erwerb von Sachanlagen	–108.9	–89.3
Verkauf von Sachanlagen	8.1	16.6
Free Cash Flow	**213.4**	**181.3**

Die Mittelabflüsse aufgrund von Investitionstätigkeit beliefen sich auf CHF 242.6 Millionen (2018: CHF 297.4 Millionen). Die Mittelabflüsse für Akquisitionen betrugen CHF 78.5 Millionen (2018: CHF 217.5 Millionen). Der Investitionsaufwand belief sich auf CHF 142.1 Millionen (davon CHF 27.2 Millionen aus IFRS 16 „Leasingverbindlichkeiten“) und lag damit über dem Vorjahreswert von CHF 96.2 Millionen. Der Konzern investierte zudem in Festgelder im Wert von CHF 57.1 Millionen.

Der Mittelfluss aus Finanzierungstätigkeit betrug insgesamt CHF –123.2 Millionen. 2018, als zusätzliche Finanzierungsinstrumente ausgegeben wurden, lag der Wert bei CHF 669.1 Millionen. Die Dividendenzahlungen beliefen sich 2019 auf CHF 81.2 Millionen, gegenüber CHF 43.1 Millionen im

Jahr 2018. Während die Dividende von Sulzer unverändert bei CHF 3.50 pro Aktie lag, konnten Nettodividendenzahlungen in Höhe von CHF 38.1 Millionen an Tiwel, den Hauptaktionär von Sulzer, infolge von US-Sanktionen noch immer nicht übertragen werden. Die Leasingzahlungen betrugen infolge der Einführung von IFRS 16 CHF 34.0 Millionen. Die Wechselkursverluste beliefen sich 2019 auf CHF 13.5 Millionen (2018: CHF 26.1 Millionen).

Ausblick für 2020

Das makroökonomische Umfeld hat sich im Laufe des Jahres 2019 getrübt. Mit den zunehmenden Spannungen im Nahen Osten und in anderen Teilen der Welt haben die geopolitischen Risiken zugenommen. Handelskriege behindern den globalen Handelsfluss weiterhin und führen zu Ineffizienzen, die sowohl Sulzer als auch seine Kunden belasten. Ausserdem ist es noch zu früh, um die Auswirkungen des Corona-Virus vollständig abzuschätzen, das unsere Produktion in China und unsere Lieferkette von China aus im Februar 2020 und möglicherweise darüber hinaus beeinträchtigt.

Trotz der Risiken sind wir für das Jahr 2020 optimistisch, weil die Pipeline an Projekten in unseren Geschäftsbereichen weiterhin vielversprechend ist, unsere Endmärkte eine gute Dynamik aufweisen und wir einen soliden Auftragsbestand verzeichnen. Die vorgeschlagene Erhöhung unserer Dividende auf CHF 4.00 (Vorjahr: CHF 3.50) spiegelt unser Vertrauen in die Zukunft von Sulzer wider. Wir erwarten ein anhaltendes Wachstum bei Bestellungseingang und Umsatz. Vor dem Hintergrund zweier starker Jahre mit hohem einstelligem organischem Wachstum und trotz zunehmender Fokussierung auf die Marge auf Kosten des Volumens erwarten wir weiterhin ein Wachstum des Bestellungseingangs in der Grössenordnung von 2% bis 4% und des Umsatzes in der Grössenordnung von 1% bis 3%. Unsere Profitabilität dürfte weiter steigen und eine operative EBITA-Marge (opROSA) von etwa 10.2% bis 10.5% im Jahr 2020 erreichen.

Einfluss von IFRS 16 „Leasingverhältnisse“

Sulzer hat die Finanzberichterstattung an den Rechnungslegungsstandard IFRS 16 „Leasingverhältnisse“ angepasst. Dieser ersetzt IAS 17 „Leasingverhältnisse“. IFRS 16 führt ein Verbuchungsmodell für den Leasingnehmer ein, mit der Verpflichtung, alle Aktiven und Passiven aus Leasingverhältnissen mit einer Laufzeit von mehr als zwölf Monaten zu bilanzieren. Der Leasingnehmer ist verpflichtet, das Nutzungsrecht für den Leasinggegenstand zu erfassen bzw. Verpflichtungen für die zu leistenden Leasingzahlungen zu bilanzieren. Ausnahmen gelten für Leasingverhältnisse mit einer Laufzeit von weniger als zwölf Monaten und Leasingverhältnisse für geringwertige Wirtschaftsgüter.

Die grösste Auswirkung des neuen Rechnungslegungsstandards ist, dass Operating-Leasingverhältnisse in die Bilanz aufgenommen werden. Im Zuge der erstmaligen Anwendung von IFRS 16 wies der Konzern per 1. Januar 2019 Leasinggegenstände im Wert von CHF 107.3 Millionen aus, die zuvor als Operating-Leasingverhältnisse eingestuft worden waren. Die Leasingverbindlichkeiten erhöhten sich um denselben Betrag. Per 31. Dezember 2019 beliefen sich die Leasinggegenstände auf CHF 112.6 Millionen und die Leasingverbindlichkeiten auf CHF 109.7 Millionen. Weitere Einzelheiten sind in Anmerkung 16 der Konzernrechnung angegeben.

2019 wirkte sich IFRS 16 positiv auf das opEBITA (CHF 2.7 Millionen) und den Free Cash Flow (CHF 34.0 Millionen) aus. Die Gewinndifferenz ergibt sich durch die Erfassung von Abschreibungen und Zinsaufwand anstelle von Aufwendungen für Operating-Leasingverhältnisse unter den Gestehungskosten der verkauften Produkte und den Betriebskosten. Die Differenz beim Mittelfluss entsteht durch die Erfassung von Leasingzahlungen als Teil der Finanzierungsaktivitäten anstelle von Mittelfluss aus Geschäftstätigkeit.

Die Informationen für das Berichtsjahr 2018 wurden nicht angepasst. In der Konzernrechnung (Anmerkung 34) werden die Auswirkungen der neuen Rechnungslegungsstandards auf die Jahresrechnung zusammengefasst.

Abkürzungen

EBIT: Ergebnis vor Zinsen und Steuern
ROS: Umsatzrendite
opEBITA: Operatives Ergebnis vor Zinsen, Steuern und Amortisationen
opROSA: Operative Umsatzrendite
EBITDA: Ergebnis vor Zinsen, Steuern, Abschreibungen und Amortisationen
FCF: Free Cash Flow
Die Definition der alternativen Leistungskennzahlen finden Sie unter „Ergänzende Informationen“ im Finanzteil (nur in englischer Sprache verfügbar).

Bestellungseingang, Umsatz und Profitabilität weiter gewachsen

2019 verzeichnete die Division Pumps Equipment einen Anstieg beim Bestellungseingang und Umsatz. Das operative EBITA nahm gegenüber 2018 deutlich zu, was in einer Zunahme der operativen ROSA resultierte. Die Division konzentrierte sich weiterhin auf das Wachstum im Wassermarkt, wo 2019 ein rekordhoher Bestellungseingang erzielt wurde.

Wassermarkt: höchster je erzielter Bestellungseingang

Die Pumpen von Sulzer sind eine wichtige Komponente einiger der weltweit grössten Entsalzungs- und Wassertransportprojekte. Dank der guten Positionierung des Unternehmens im Wassermarkt und der anhaltenden Fokussierung auf diesen Markt sicherte sich Pumps Equipment zwei grosse Aufträge für Entsalzungs- und Pipelinepumpen im Nahen Osten. Mit höchst effizienten Anlagen, die sich durch einen geringen Energieverbrauch auszeichnen, unterstützt Sulzer die Kunden bei der Produktion von Trinkwasser und dessen Transport mittels Pipelines zur Bevölkerung. Diese Projekte und die anhaltende Wachstumsdynamik im kommunalen Wassergeschäft trugen dazu bei, dass die Division im Jahr 2019 den bisher höchsten Bestellungseingang im Wassergeschäft verbuchte.

Pumps Equipment profitiert weiterhin von seiner starken Marktstellung und steigert den Bestellungseingang in allen Segmenten. Zusammen mit unserem Fokus auf Operational Excellence führte dies zu einer Verbesserung der Profitabilität um 80 Basispunkte.

Frédéric Lalanne, Divisionsleiter Pumps Equipment

Kennzahlen Pumps Equipment

in Mio. CHF	2019	2018	Veränderung in +/–%	+/–% bereinigt[1]	+/–% organisch[2]
Bestellungseingang	1’458.9	1’372.1	6.3	8.3	8.0
Bruttomarge des Bestellungseingangs	27.4%	26.3%			
Auftragsbestand am 31. Dezember	924.3	982.9	–6.0		
Umsatz	1’477.0	1’284.2	15.0	17.2	17.0
EBIT	11.9	–27.2	n/a		
opEBITA	59.7	41.4	44.0	56.8	56.3
opROSA	4.0%	3.2%			
Mitarbeitende (Anzahl Vollzeitstellen) am 31. Dezember	5’759	5’713	0.8		

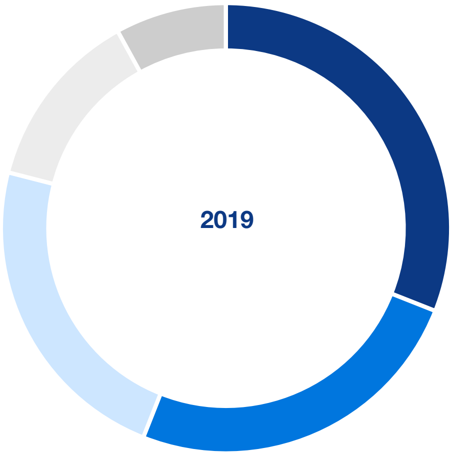
1) Bereinigt um Währungseffekte.
2) Bereinigt um Akquisitions- und Währungseffekte.

Anstieg des Bestellungseingangs

2019 nahm der Bestellungseingang von Pumps Equipment gegenüber 2018 um 8.3% zu. Hintergrund für diese Entwicklung waren die robusten Endmärkte. Besonders solide fiel der Bestellungseingang in den Märkten Wasser (+17.3%) und Chemie (+16.4%) aus.

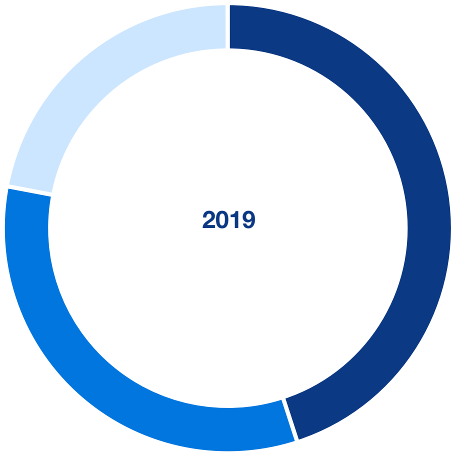
Aus Sicht der Regionen wuchsen Europa, der Nahe Osten und Afrika (EMEA) 17.1% und Asien-Pazifik 18.8% beim Bestellungseingang.

Bestellungseingang nach Marktsegmenten



- **31%** Wasser
- **25%** Öl und Gas
- **23%** Allgemeine Industrie
- **13%** Chemie
- **8%** Energie

Bestellungseingang nach Regionen



- **45%** Europa, Naher Osten und Afrika
- **33%** Nord-, Mittel- und Südamerika
- **22%** Asien-Pazifik

Mehr Umsatz und verbesserte Profitabilität

Im Vergleich zu 2018 bewegte sich der Umsatz im Energiemarkt auf Vorjahresniveau und stieg in den übrigen Marktsegmenten an. Das Wachstum war besonders stark bei Öl und Gas (50.5%) sowie Chemie (45.5%) aufgrund eines hohen Auftragsbestands und einer soliden Umsetzung.

Umsatzsteigerungen und Produktivitätsgewinne resultierten in einem gegenüber dem Vorjahr deutlich gestiegenen operativen EBITA. Die operative ROSA erhöhte sich um 80 Basispunkte auf 4.0%. Grund hierfür war die höhere Selektivität beim Bestellungseingang, welche den negativen Mixeffekt mehr als auszugleichen vermochte.

Kennzahlen zur Arbeitssicherheit 2019

Die Division Pumps Equipment verzeichnete 2019 einen weiteren Rückgang der Unfallhäufigkeit (AFR) auf 1.8 Fälle pro Million Arbeitsstunden (2018: 2.7). Die Schwere der Unfälle (ASR) verringerte sich ebenfalls markant auf 37.3 Ausfalltage pro Million Arbeitsstunden (2018: 107.3). Diese merkliche Abnahme ist auf die bessere Leistung bei der Arbeitssicherheit in der Region EMEA zurückzuführen. Weitere Informationen zu Arbeitssicherheit und Gesundheitsschutz des Unternehmens finden sich im Kapitel „Arbeitssicherheit“.

Sofern nicht anders angegeben, basieren alle Veränderungen zum Vorjahr auf währungsbereinigten Werten.

Abkürzungen

EBIT: Ergebnis vor Zinsen und Steuern
opEBITA: Operatives Ergebnis vor Zinsen, Steuern und Amortisationen
opROSA: Operative Umsatzrendite
Die Definition der alternativen Leistungskennzahlen finden Sie unter „Ergänzende Informationen“ im Finanzteil (nur in englischer Sprache verfügbar).

Alle Produktlinien mit Wachstum

Rotating Equipment Services erhöhte 2019 den Bestellungseingang und Umsatz im Vergleich zum Vorjahr. Die Division konnte die Profitabilität dank starker Entwicklung bei den Servicelösungen für Pumpen und des Marktsegments Energie signifikant steigern. Die Akquisition von Alba Power trug positiv zum Ergebnis bei und sorgte für eine weitere Diversifizierung des Serviceangebots der Division.

Erweiterung des Serviceangebots

Sulzer erwarb 2019 den schottischen Serviceanbieter für aeroderivative Gasturbinen Alba Power und diversifizierte damit das Serviceangebot in die Bereiche dezentrale Stromversorgung, Offshore- und Marineanwendungen. Im Gegensatz zu den grossen Gasturbinen sind die leicht und kompakt gebauten aeroderivativen Gasturbinen weniger starkem Marktdruck ausgesetzt und bieten hervorragende Möglichkeiten für das Cross-Selling an die bestehenden Kunden von Sulzer.

Die Strategie, unsere starke Marktstellung in den Bereichen Servicelösungen für Pumpen und Gasturbinen auszubauen, unsere Präsenz zu vergrössern und die Operational Excellence voranzutreiben, hat sich ausgezahlt. So vermochten wir Bestellungseingang, Umsatz und Profitabilität 2019 weiter zu steigern.

Daniel Bischofberger, Divisionsleiter Rotating Equipment Services

Kennzahlen Rotating Equipment Services

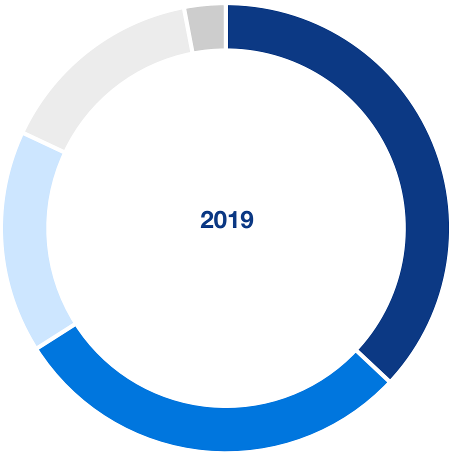
in Mio. CHF	2019	2018	Veränderung in +/–%	+/–% bereinigt[1]	+/–% organisch[2]
Bestellungseingang	1’193.2	1’109.7	7.5	10.7	8.6
Bruttomarge des Bestellungseingangs	38.6%	37.7%			
Auftragsbestand am 31. Dezember	422.2	393.1	7.4		
Umsatz	1’167.0	1’063.7	9.7	12.8	10.0
EBIT	152.2	130.8	16.4		
opEBITA	164.5	146.1	12.6	17.2	15.5
opROSA	14.1%	13.7%			
Mitarbeitende (Anzahl Vollzeitstellen) am 31. Dezember	4’900	4’721	3.8		

1) Bereinigt um Währungseffekte.
2) Bereinigt um Akquisitions- und Währungseffekte.

Höherer Bestellungseingang auf breiter Front

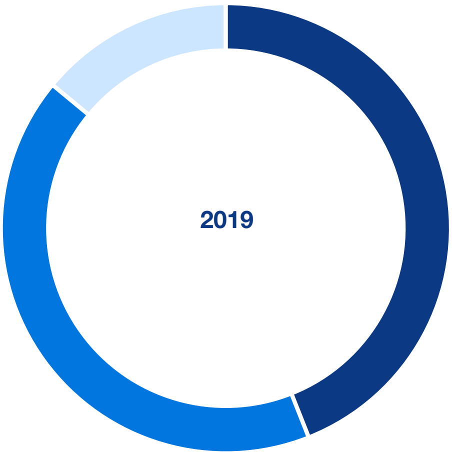
Die Division Rotating Equipment Services verzeichnete gegenüber dem Vorjahr einen um 10.7% höheren Bestellungseingang. Die Division nutzte ihre vorteilhafte Stellung im Markt für Gasturbinen und Servicelösungen für Pumpen, um Serviceaufträge für bei Kunden bereits installierten Pumpen von Sulzer zu gewinnen und so zu wachsen. Alle Geschäftsbereiche und Regionen entwickelten sich positiv. Am stärksten war das Wachstum mit 10.2% in der Region Europa, Naher Osten und Afrika (EMEA) sowie mit 11.0% in der Region Nord-, Mittel und Südamerika.

Bestellungseingang nach Marktsegmenten



- **37%** Öl und Gas
- **29%** Energie
- **16%** Chemie
- **15%** Allgemeine Industrie
- **3%** Wasser

Bestellungseingang nach Regionen



- **44%** Europa, Naher Osten und Afrika
- **42%** Nord-, Mittel- und Südamerika
- **14%** Asien-Pazifik

Mehr Umsatz und verbesserte Profitabilität

In sämtlichen Produktlinien konnte der Umsatz gesteigert werden. Die Akquisitionen von Brithinee Electric und Alba Power trugen 2019 CHF 29.8 Millionen zum Umsatzwachstum bei.

Das operative EBITA nahm infolge höherer Volumen bei leicht besseren Margen zu, was in einer gegenüber 2018 um 40 Basispunkte höheren operativen ROSA von 14.1% resultierte.

Kennzahlen zur Arbeitssicherheit 2019

Die Division Rotating Equipment Services vermeldete Ende 2019 im Vergleich zum Vorjahr eine signifikante Abnahme der Unfallhäufigkeit (AFR) von 2.1 auf 0.7 Fälle pro Million Arbeitsstunden. Die Verbesserung war hauptsächlich der Region EMEA geschuldet, wo man sich stärker auf die Arbeitsvorbereitungsplanung fokussiert hatte.

Die Schwere von Unfällen (ASR) erhöhte sich leicht von 53.7 im Jahr 2018 auf 60.7 Ausfalltage pro Million Arbeitsstunden im Jahr 2019. Wichtigste Ursache hierfür waren zwei schwere Unfälle, die sich 2018 ereignet hatten und auch noch 2019 die Statistik der Ausfalltage belasteten. Weitere Informationen zu Arbeitssicherheit und Gesundheitsschutz des Unternehmens finden sich im Kapitel „Arbeitssicherheit“.

Sofern nicht anders angegeben, basieren alle Veränderungen zum Vorjahr auf währungsbereinigten Werten.

Abkürzungen

EBIT: Ergebnis vor Zinsen und Steuern
opEBITA: Operatives Ergebnis vor Zinsen, Steuern und Amortisationen
opROSA: Operative Umsatzrendite
Die Definition der alternativen Leistungskennzahlen finden Sie unter „Ergänzende Informationen“ im Finanzteil (nur in englischer Sprache verfügbar).

Signifikantes Wachstum als Treiber für höhere Profitabilität

Chemtech erzielte 2019 abermals ein zweistelliges Wachstum beim Bestellungseingang, Umsatz und operativen EBITA. Die operative ROSA verbesserte sich ebenfalls weiter. Mit der Akquisition von GTC Technology verschaffte sich Sulzer Zugang zum attraktiven Geschäft mit lizenzierten Technologien.

Eintritt ins Technologielizenzgeschäft

Die wachsende petrochemische Industrie treibt die Nachfrage nach Technologieanbietern weiter an. Mit der Übernahme des US-Unternehmens GTC Technology Ende April 2019 ergänzte Sulzer sein Chemiegeschäft mit proprietären Prozessen und Systemen zur Herstellung von Aromaten und anderen Petrochemikalien. Die Akquisition passt hervorragend zu Sulzer, denn sie ermöglicht den Markteintritt in das attraktive Technologielizenzgeschäft und verringert gleichzeitig die Zyklizität des eigenen Geschäfts.

Die Akquisition von GTC Technology trug 2019 zum starken Wachstum von Bestellungseingang und Umsatz bei, gestützt auf einen intakten Investmentzyklus in den Sektoren Petrochemie und Raffinerie. Indem wir unser Know-how aus der Petrochemie für Anwendungen im Bereich erneuerbare Energien nutzen, unterstützen wir die Bemühungen von Quantafuel und Steelanol, eine Kreislaufwirtschaft zu etablieren.

Torsten Wintergerste, Divisionsleiter Chemtech

Kennzahlen Chemtech

in Mio. CHF	2019	2018	Veränderung in +/–%	+/–% bereinigt[1]	+/–% organisch[2]
Bestellungseingang	670.0	600.1	11.6	12.8	6.5
Bruttomarge des Bestellungseingangs	30.4%	31.3%			
Auftragsbestand am 31. Dezember	385.3	345.9	11.4		
Umsatz	664.0	563.2	17.9	19.0	12.7
EBIT	54.0	14.5	271.8		
opEBITA	63.8	50.0	27.5	30.0	24.0
opROSA	9.6%	8.9%			
Mitarbeitende (Anzahl Vollzeitstellen) am 31. Dezember	3’803	3’063	24.2		

1) Bereinigt um Währungseffekte.
2) Bereinigt um Akquisitions- und Währungseffekte.

Förderung der Kreislaufwirtschaft

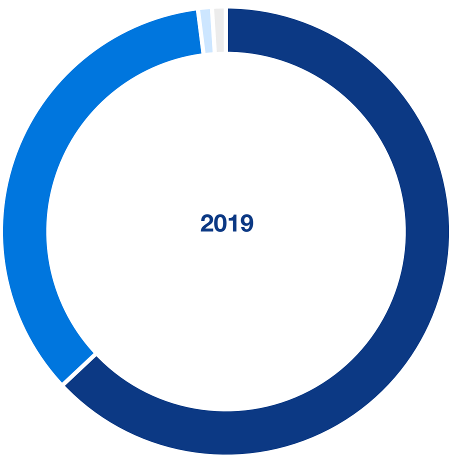
Dank der führenden Position bei Trenntechnologien spielt Sulzer eine Schlüsselrolle bei der Förderung der zyklischen Ressourcennutzung. Während weltweit neue Möglichkeiten für einen nachhaltigeren Umgang mit Kunststoffen erforscht werden, erhielt die Division Chemtech von Quantafuel den Auftrag für die Lieferung einer Fraktionierungsanlage für deren Pilotfabrik, in der bisher nicht wiederverwertbare Polymere in Treibstoff umgewandelt werden. Die Anlage in Dänemark ist die erste vieler weltweit geplanter Werke für die Umwandlung von Plastik zu Treibstoff. Quantafuel hat sich zudem entschieden, die Zusammenarbeit mit Sulzer für zukünftige Projekte weiterzuführen.

Überdies liefert Chemtech Destillationsanlagen für das von der EU finanzierte Projekt „Steelanol“, das eine Umwandlung von Kohlenstoffemissionen in Biotreibstoffe anstrebt. Chemtech nutzt das petrochemische Know-how für die Entwicklung von Anwendungen im Bereich erneuerbarer Energien. So unterstützt die Division den Stahlkonzern ArcelorMittal bei der Umwandlung von Kohlenstoff zu nachhaltigem Bioethanol in dessen Stahlwerk im belgischen Gent.

Starkes Wachstum beim Bestellungseingang

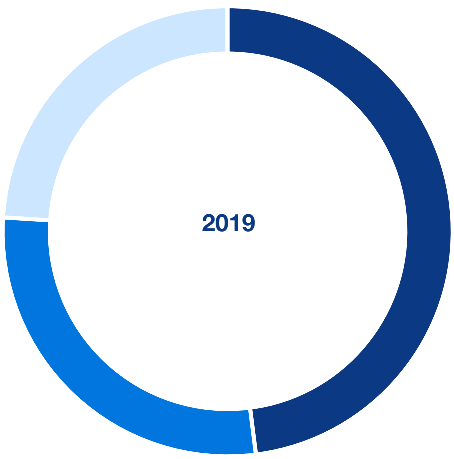
Chemtech verzeichnete ein Wachstum beim Bestellungseingang von 12.8%, basierend auf einer soliden Leistung der Geschäftseinheiten Trenntechnologie und Tower Field Services. Die jüngst übernommene GTC Technology trug ebenfalls zum organischen Wachstum bei. Die Region Asien-Pazifik steigerte ihren Bestellungseingang kräftig um 42.9%. Der Bestellungseingang in Nordamerika nahm um 17.4% zu, wohingegen er in der Region Europa, Naher Osten und Afrika (EMEA) um 7.3% niedriger ausfiel. Hintergrund war ein Basiseffekt und die Tatsache, dass 2018 dort einige Grossaufträge verbucht worden waren.

Bestellungseingang nach Marktsegmenten



- **63%** Chemie
- **35%** Öl und Gas
- **1%** Energie
- **1%** Allgemeine Industrie

Bestellungseingang nach Regionen



- **48%** Asien-Pazifik
- **28%** Europa, Naher Osten und Afrika
- **24%** Nord-, Mittel- und Südamerika

Markante Umsatz- und Profitabilitätszunahme

Wie beim Bestellungseingang vermochte die Division auch beim Umsatz nach einem bereits starken Jahr 2018 nochmals deutlich um 19.0% zuzulegen. Eine Entwicklung, die vom hohen Auftragsbestand und weiteren Effizienzsteigerungen in den Werken gestützt wurde. GTC Technology trug CHF 35.4 Millionen zum Umsatz bei.

Auf Basis der höheren Volumen und Effizienzgewinne nahm das operative EBITA 2019 stark zu, was in einer operativen ROSA von 9.6% resultierte. Dies entspricht einer Steigerung von 70 Basispunkten gegenüber 2018.

Kennzahlen zur Arbeitssicherheit 2019

Die Sicherheitsbemühungen von Chemtech haben sich im Berichtsjahr ausgezahlt. Die Division konnte die Unfallhäufigkeit von 1.8 Fällen pro Million Arbeitsstunden im Jahr 2018 auf 0.6 Fälle senken. Die Schwere der Unfälle (ASR) liess nach und betrug 41.5 Ausfalltage pro Million Arbeitsstunden (2018: 80.4).

Diese Verbesserung ist das Resultat eines Bewusstseinswandels mit stärkerem Fokus auf unsicherem Arbeitsverhalten statt auf unsicheren Arbeitsbedingungen. Die Sicherheitsrundgänge haben sich ebenfalls als sehr wirksam erwiesen. Überdies wurde die Division erneut nach den Normen ISO 14001 und OHSAS 18001 zertifiziert. Weitere Informationen zu Arbeitssicherheit und Gesundheitsschutz des Unternehmens finden sich im Kapitel „Arbeitssicherheit“.

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Abkürzungen

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Erfolgreiche Verteidigung unserer Profitabilität trotz anspruchsvollem Beauty-Markt

Applicator Systems verzeichnete eine anhaltend solide operative Profitabilität (opROSA) von 21.0%, trotz des schwierigen Umfelds im Beauty-Markt. Der Bestellungseingang, Umsatz und das operative EBITA waren 2019 rückläufig. Während Beauty sich an einen verändernden Markt anpasst, entwickelte sich das Klebstoff-, Dental- und Gesundheitssegment gut. Sulzer ernannte Girts Cimermans zum neuen Divisionsleiter Applicator Systems und Mitglied der Konzernleitung.

Neuer Divisionsleiter Girts Cimermans

Sulzer ernannte Girts Cimermans per 21. Oktober 2019 zum neuen Divisionsleiter Applicator Systems und Konzernleitungsmitglied. Er tritt damit die Nachfolge von Amaury de Menthière an, der in den Ruhestand trat. Girts Cimermans war vorher als CEO der USD 2 Milliarden schweren Optiksparte von HOYA Vision Care tätig. Er bringt einen reichen Erfahrungsschatz auf dem Gebiet von Dental- und Medizinprodukten mit, weshalb er für die Leitung der Division Applicator Systems besonders geeignet ist.

Ich freue mich, die Division Applicator Systems mit ihren gut etablierten und in ihren Märkten führenden Marken leiten zu dürfen. Auf diese hervorragende Basis wollen wir aufbauen, indem wir unseren Plan umsetzen, damit Applicator Systems wieder auf einen soliden Wachstumspfad zurückfindet.

Girts Cimermans, Divisionsleiter Applicator Systems

Kennzahlen Applicator Systems

in Mio. CHF	2019	2018	Veränderung in +/–%	+/–% bereinigt[1)]	+/–% organisch[2)]
Bestellungseingang	425.1	449.6	–5.4	–4.3	–5.2
Bruttomarge des Bestellungseingangs	46.3%	45.9%			
Auftragsbestand am 31. Dezember	60.8	65.0	–6.4		
Umsatz	420.6	453.8	–7.3	–6.4	–7.4
EBIT	40.2	63.8	–37.0		
opEBITA	88.2	95.7	–7.8	–7.6	–8.6
opROSA	21.0%	21.1%			
Mitarbeitende (Anzahl Vollzeitstellen) am 31. Dezember	1'821	1'864	–2.3		

1) Bereinigt um Währungseffekte.

2) Bereinigt um Akquisitions- und Währungseffekte.

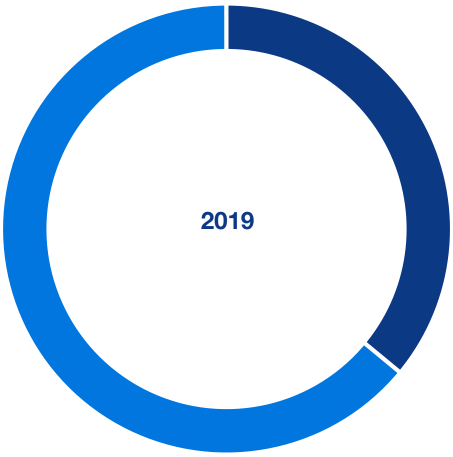
Die Bedürfnisse neuer Marktteilnehmer erfüllen

Applicator Systems ist weiterhin Marktführer. Derweil steckt das Segment Beauty in einem Umbruch und passt seine Produktionsprozesse einem sich schnell entwickelnden Markt an. So wird die Division das Werk in Bechhofen erweitern, um zusätzliche Kapazitäten im Bereich Dekoration bereitzustellen und die Vorlaufzeiten zu verkürzen. Das Unternehmen wird das Werk in Bamberg schliessen und die dortige Produktion nach Bechhofen verlagern.

Rückläufiger Bestellungseingang und Umsatz

Applicator Systems vermeldete für 2019 einen Rückgang beim Bestellungseingang und Umsatz gegenüber dem Vorjahr. Das Wachstum von 2.8% im Klebstoff-, Dental- und Gesundheitssegment vermochte den um 14.3% rückläufigen Bestellungseingang von Beauty nicht vollständig zu kompensieren. Der Bereich Klebstoffe erzielte ein Wachstum trotz eines schwachen Marktumfelds in der Automobil-, Elektronik- und Baubranche.

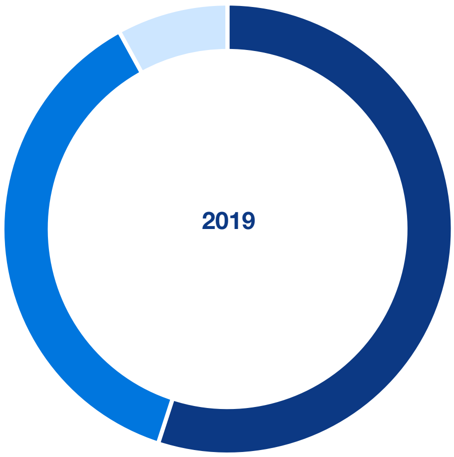
Bestellungseingang nach Marktsegmenten



36% Beauty

64% Klebstoffe, Dental- und Gesundheitsindustrie

Bestellungseingang nach Regionen



55% Europa, Naher Osten und Afrika

37% Nord-, Mittel- und Südamerika

8% Asien-Pazifik

Stabile Profitabilität

Die operative ROSA betrug unverändert 21.0%, was der starken operativen Leistung des Klebstoff-, Dental- und Gesundheitssegments zuzuschreiben war. Das operative EBITA nahm hingegen infolge des Rückgangs des Beauty-Volumens im Zuge der Erweiterung und Verlagerung der deutschen Werke ab.

Kennzahlen zur Arbeitssicherheit 2019

Die Division wies 2019 eine Unfallhäufigkeit (AFR) von 7.4 Fällen pro Million Arbeitsstunden auf (2018: 8.1). Die Verbesserung ist das Verdienst des Beauty-Segments, insbesondere des Werks in Bechhofen, welches beim Management das Bewusstsein für Zuständigkeiten bei der Sicherheit förderte. Weitere Informationen zu Arbeitssicherheit und Gesundheitsschutz des Unternehmens finden sich im Kapitel „Arbeitssicherheit“.

Sofern nicht anders angegeben, basieren alle Veränderungen zum Vorjahr auf währungsbereinigten Werten.

Abkürzungen

EBIT: Ergebnis vor Zinsen und Steuern
opEBITA: Operatives Ergebnis vor Zinsen, Steuern und Amortisationen
opROSA: Operative Umsatzrendite
Die Definition der alternativen Leistungskennzahlen finden Sie unter „Ergänzende Informationen“ im Finanzteil (nur in englischer Sprache verfügbar).

Nachhaltige Entwicklung

Menschen begeistern und Gemeinschaften unterstützen

Unsere Mitarbeitenden sind unser wertvollstes Gut und wir setzen auf ihre Stärken und Vielfalt. Neun von zehn Teilnehmenden der Mitarbeiterbefragung 2019 würdigten das engagierte und kooperative Arbeitsumfeld. Sulzer unterstützt aktiv die Gemeinschaften, in denen das Unternehmen präsent ist. Das Unternehmen treibt die Lösung wichtiger globaler Themen voran und verschreibt sich dem technologischen Fortschritt, um das Leben der Menschen zu verbessern.

Im ständigen Austausch mit Mitarbeitenden

Unsere Mitarbeitenden lobten das Unternehmen in unserer Mitarbeiterbefragung 2019, der Voice of Sulzer. Die Gesamtbeteiligung betrug 85%, was einer Steigerung um zwölf Prozentpunkte gegenüber dem Vorjahr entspricht. Die Fortschritte gegenüber dem letzten Jahr sind in allen Bereichen messbar, vor allem in der Kommunikation und der persönlichen Entwicklung.

82%

würden Sulzer als einen guten Arbeitsplatz empfehlen.

85%

aller Mitarbeitenden haben teilgenommen – eine Zunahme von 12 Prozentpunkten gegenüber 2018.

In 8 von 10 Kategorien schneidet Sulzer besser als 2018 ab.

7

In 7 von 10 Kategorien ist Sulzer genauso gut wie oder besser als die Vergleichsgruppe.

93%

der Mitarbeitenden würden für den Erfolg des Unternehmens mehr tun als verlangt.

85%

sind nachhaltig engagiert bei der Arbeit.

Lernen und sich entwickeln

Sulzer investiert in das Lernen am Arbeitsplatz und in gezielte Trainingsprogramme zur Steigerung der Managementeffektivität, zur Verbesserung der Kundenpartnerschaft, zur Sensibilisierung für digitale Technologien und vieles mehr. Als Reaktion auf das Ergebnis der Voice-of-Sulzer-Umfrage 2018 entwickelte und führte das Unternehmen die Sulzer Learning Pathways ein, einen globalen Lern- und Entwicklungsrahmen, um die verschiedenen Lernangebote sichtbarer und den Zugang zu diesen einfacher zu machen. Im Jahr 2019 nahmen die ersten 500 Personen an den virtuellen und persönlichen Schulungen unter diesem neuen Dach teil. Aufgrund der grossen Resonanz werden wir dieses ehrgeizige Programm 2020 ausweiten.

ESG-Ambitionen verwirklichen

Wir haben ESG-Kennzahlen (Kennzahlen aus den Bereichen Umwelt, Soziales, Governance) in unser Vergütungssystem aufgenommen. Ab 2020 sind ESG-Kennzahlen in den persönlichen Zielen unserer Führungskräfte, die für langfristige Anreize qualifiziert sind, enthalten. Damit rücken wir den Beitrag zum Gemeinwohl, den unsere Mitarbeitenden laut jährlicher Befragung von Sulzer erwarten, in den Mittelpunkt. Auch arbeiten wir daran, weiterhin bedeutende Fortschritte bei Arbeitssicherheit und Gesundheitsschutz, Emissionen, Wasser- und Energieeffizienz, Abfallbewirtschaftung, gemeinnützigem Engagement sowie Forschungs- und Entwicklungsaktivitäten zugunsten von effizienteren oder nachhaltigeren Produkten wie ökologischen Verpackungen, Biopolymeren oder energieeffizienten Pumpen zu erzielen.

Positive Veränderungen durch Vielfalt vorantreiben

Sulzer bietet schon lange in vielen Ländern Praktika, Lehrstellen und Förderprogramme für Studentinnen und Studenten an. Im Jahr 2019 lancierte das Unternehmen das „Sulzer-Stipendium für Frauen in Natur- und Ingenieurwissenschaften" für Studentinnen, die in diesem Bereich einen Universitätsabschluss anstreben. Der Präsenz von Sulzer und den speziellen Anforderungen der Länder entsprechend vergab das Unternehmen im Jahr 2019 13 Stipendien – drei in Südafrika, vier in Indonesien, vier in China und zwei in Indien.

Bei Sulzer arbeiten Menschen aller Altersgruppen und mit mehr als 80 Nationalitäten für den Erfolg des Unternehmens. Im Jahr 2019 betrug der Frauenanteil an der Belegschaft rund 17%, eine Zahl, die Sulzer stetig steigern will. Das Stipendium ist ein erster Schritt zur Förderung weiblicher Talente, die eine Karriere in den MINT-Disziplinen anstreben. Mit Hanne Birgitte Breinbjerg Sørensen und Jill Lee hat Sulzer weibliche Führungskräfte im Verwaltungsrat und in der Konzernleitung.

Gemeinschaften in Not unterstützen

Im Jahr 2019 nahmen Teams an der Winnovators Challenge teil, die von der WaterAid-Wohltätigkeitsorganisation organisiert wurde. Die Teams konkurrierten international um die Lösung realer Probleme beim Zugang zu sauberem Wasser und bei der Abwasserentsorgung in Kolumbien, Indien und im Königreich Eswatini. Das gesammelte Geld fliesst direkt in die Unterstützung der Gemeinden und die Umsetzung der Lösungen ein, die während des Wettbewerbes entwickelt wurden. Als global tätiges Unternehmen ist Sulzer stolz auf die Beiträge seiner Mitarbeitenden zur Unterstützung von Gemeinschaften, die dringend Hilfe benötigen. Im Jahr 2019 trugen sie dazu bei, mehrere Fischerboote für die von der Tsunami-Katastrophe in Indonesien am stärksten betroffenen Küstengemeinden zu spenden. Sulzer beteiligt sich auch am laufenden Tsunami-Rettungsprogramm, um sicherzustellen, dass die Boote ordnungsgemäss gewartet werden.

Sulzer-Mitarbeitende ergreifen die Initiative

Einzelpersonen und kleinere Gruppen organisieren Veranstaltungen, um eine Vielzahl von wohltätigen Zwecken auf der ganzen Welt zu unterstützen. Wir fördern diese lokalen Initiativen, um Bewusstsein zu schaffen und Geld zu sammeln, und unterstützen unsere Mitarbeitenden mit Zeit und Ressourcen.

Kennzahlen

		2019	2018	Veränderung in +/– %
Fluktuation (freiwillige Austritte)	%	6.7	7.4	
Anteil Frauen (an der Belegschaft)	%	17.3	18.0	
Mitarbeitende	Anzahl Vollzeitstellen	16'506	15'572	6.0

Weitere Daten zur Nachhaltigkeit finden Sie unter www.sulzer.com/sustainability.

Energie effizienter genutzt und mehr Transparenz

Sulzer ist ein ökologisch verantwortliches globales Industrieunternehmen. Wir konzentrieren uns auf die Entwicklung von Produkten mit marktführenden Wirkungsgraden. Im Jahr 2019 haben wir die Energie effizienter genutzt, den Anteil an Sondermüll reduziert und das Wassermanagement verbessert. Im Vorjahresvergleich haben wir den Umfang unserer Umweltberichterstattung erweitert, um mehr Wert zu schaffen und die Transparenz zu erhöhen.

Sulzers Produkte sind für sehr grosse Leistungen ausgelegt und beeindrucken durch ihre schiere Grösse. Die Entwicklungsabteilungen des Unternehmens verbessern daher laufend die Energieeffizienz dieser Produkte und Gesamtlösungen.

Im Dienste unserer Kunden und der Umwelt

Wir tragen unseren Teil zum Schutz der Umwelt bei und helfen gleichzeitig unseren Kunden, die effizientesten Lösungen für ihre Bedürfnisse zu finden – was ihnen Zeit, Platz und Geld spart. Aus diesem Grund haben Sulzer-Produkte einen starken Fokus auf Effizienz. Einige der Erfolge des Unternehmens in diesem Bereich waren im Jahr 2019:

- Reduzierung des Gesamtenergieverbrauchs von Mischprozessen mit der neuen Rührwerksfamilie SALOMIX™ in einer Vielzahl von Branchen.
- Unterstützung von Quantafuel beim Bau einer nachhaltigen Produktionsanlage für die Umwandlung von nicht recycelbaren Kunststoffabfällen in Brennstoff.
- Entwicklung nachhaltiger Verpackungen für Klebstoffe: Sulzer gewann mit der neu entwickelten Faltpackung ecopaCC™ den weltweit renommiertesten Innovationswettbewerb für Verpackungen in der Kategorie „Ressourceneffizienz“ von Packaging Europe.
- Verlängerung der Lebensdauer bestehender Anlagen unabhängig von der Marke mittels Modernisierungen, Retrofits und Upgrades zur Effizienzsteigerung.

Unterschiedliche ökologische Fussabdrücke

Sulzer veröffentlicht Daten zum Energieverbrauch, zu Treibhausgasemissionen, zur Abfallproduktion und zum Wasserverbrauch, da sie für die Betriebe des Unternehmens charakteristisch sind. Unser Ziel ist es, die Kennzahlen bezogen auf die Arbeitszeit (working hours, whr) kontinuierlich zu verbessern. Die Produkte und Dienstleistungen von Sulzer unterscheiden sich stark voneinander. Das Portfolio umfasst Pumpen, Separatoren und Applikatoren sowie Services für rotierendes Equipment oder Turnaround-Projekte. Diese Geschäfte haben sehr unterschiedliche ökologische Fussabdrücke. Sulzer verfolgt daher einen lokalen Ansatz zur Reduzierung der Umweltbelastung. Die Geschäftseinheiten und die einzelnen Standorte bewerten ihre Fussabdrücke individuell und bestimmen ihre Verbesserungsmassnahmen selbst.

Umfassendes Berichterstattungssystem

Sulzer hat ein umfassendes Berichterstattungssystem, um finanzielle und nicht finanzielle Daten auf Standortebene zu erfassen. Als Bezugsgrösse wird die Zahl der insgesamt geleisteten Arbeitsstunden verwendet. Die Anzahl der Arbeitsstunden hat im Jahr 2019 wegen verschiedener Akquisitionen zugenommen. Im Jahr 2019 lagen zu 78.8% aller geleisteten Arbeitsstunden Umweltdaten vor (2018: 78.5%). Der Anteil ist etwas höher als im Vorjahr, da die akquirierten

Unternehmen in den Erfassungsprozess für die Umweltdaten integriert wurden. Die Daten zu Personal, Arbeitssicherheit und Gesundheitsschutz umfassen 100% aller Arbeitsstunden. Sulzer erhebt nicht finanzielle Daten in zwei unterschiedlichen Berichterstattungszyklen und stellt mit regelmässigen internen Audits sicher, dass die gemeldeten Zahlen korrekt sind:

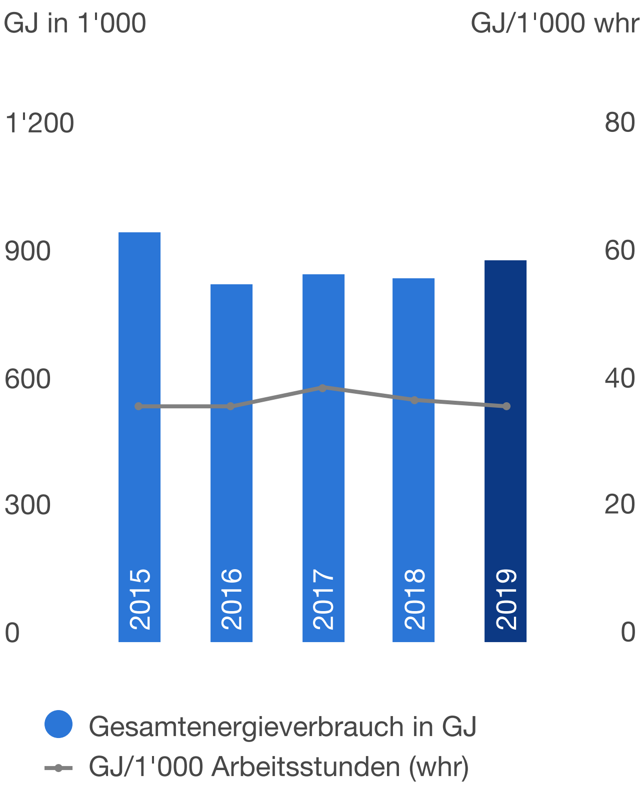
- Die Umweltdaten decken den Zeitraum vom 1. Oktober 2018 bis zum 30. September 2019 ab.
- Die Kennzahlen für Personal, Arbeitssicherheit und Gesundheitsschutz wurden vom 1. Januar 2019 bis zum 31. Dezember 2019 erhoben.

Effizientere Nutzung von Energie

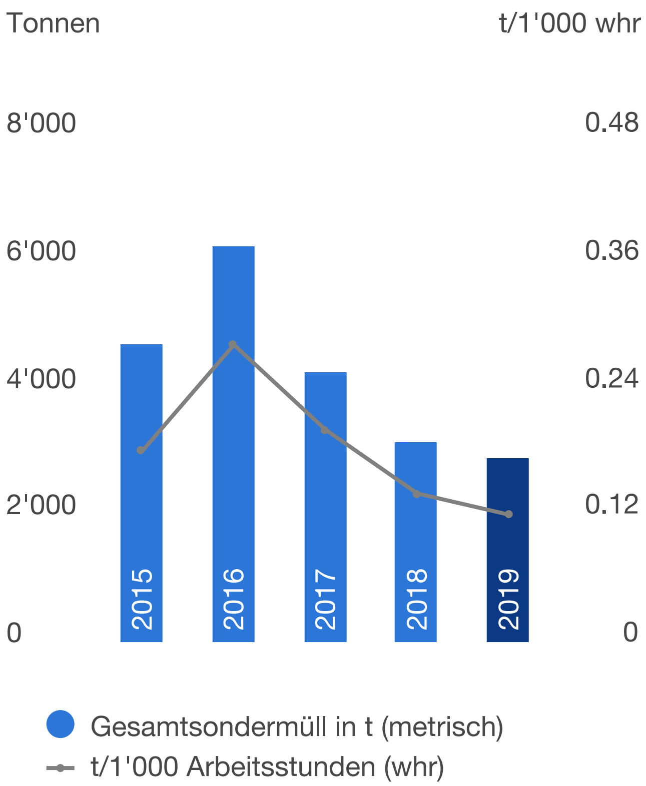
Der Energieverbrauch pro 1’000 Arbeitsstunden sank im Jahr 2019 um 1.4%, da die Energie effizienter genutzt wurde. Der Rückgang wäre noch stärker ausgefallen, wenn nicht mehrere Grossprojekte in der Division Pumps Equipment dem entgegengewirkt hätten. Aufgrund des Wachstums von Sulzer im Jahr 2019 stieg die Umweltbelastung insgesamt an, wenn auch langsamer als die Produktionssteigerung (+4.9% beim Gesamtenergieverbrauch gegenüber 8.2% Auftragssteigerung).

Im Jahr 2019 verringerte sich der spezifische Treibhausgas-Fussabdruck (pro 1’000 Arbeitsstunden) um 4.0%, wohingegen die Treibhausgasemissionen in absoluten Zahlen um 4.4% zunahmen. Dazu trugen unter anderem ein Anstieg der CO_2-Emissionen aus dem Benzin- und Dieselverbrauch sowie die Aufnahme neuer Standorte in das Berichtssystem bei.

Energieverbrauch



Sondermüll



Geringerer Anteil an Sondermüll und verbessertes Wassermanagement

Die gesamte Abfallmenge stieg um 15.7%. Diese Entwicklung steht im Zusammenhang mit akquirierten Standorten, die in das Berichtssystem von Sulzer integriert wurden. Zudem setzten einige Standorte die LEAN-Prozesse noch konsequenter um, was mit der Reinigung von Produktionsanlagen verbunden war und zu zusätzlichen Abfallmengen führte. Gleichzeitig konnte der Anteil der Sonderabfälle, die eine Sonderbehandlung erfordern, um 3.5 Prozentpunkte gesenkt werden.

Der Wasserverbrauch von Sulzer stieg insgesamt um 10.6% an. Der Anstieg ist auf Kundenanforderungen für spezifische Produkte in der Division Applicator Systems (APS) zurückzuführen, die im Produktionsprozess mehr Wasser verbrauchen, sowie auf die Aufnahme neuer Standorte in das Berichtssystem. Auf Basis der Reduktion des Wasserverbrauchs um 20% im Jahr 2018 verbesserten die Geschäftsbereiche im Jahr 2019 das Wassermanagement in ihren Prozessen und Anlagen. Dies führte dazu, dass der Gesamtwasserverbrauch pro 1’000 Arbeitsstunden nur leicht zunahm, ebenfalls aufgrund des APS-Produktmixes.

Kennzahlen

		2019	2018	Veränderung in +/– %
Energie	**GJ**	**902’751**	**860’753**	**4.9**
Energieverbrauch je Arbeitsstunden (whr)	GJ je 1’000 whr	36.9	38.3	–1.4
Stromanteil	%	56.6	58.1	
Gasanteil	%	25.3	27.3	
Treibstoffanteil	%	13.8	10.4	
Brennstoffanteil	%	1.3	1.1	
Fernwärmeanteil	%	3.0	3.2	
Anteil anderer Quellen	%	<1	<1	
Treibhausgasemissionen (GHG)	**Tonnen CO_2 eq.**	**118’805**	**113’764**	**4.4**
Treibhausgasemissionen je Arbeitsstunden (whr)	Tonnen CO_2 eq. je 1’000 whr	4.8	5.1	–4.0
GHG Scope 1 1)	Tonnen CO_2 eq.	21’245	18’979	12.0
GHG Scope 2 2)	Tonnen CO_2 eq.	56’214	55’998	0.4
GHG Scope 3 3)	Tonnen CO_2 eq.	41’346	38’787	7.0
Abfälle	**Tonnen**	**20’998**	**18’142**	**15.7**
Abfälle je Arbeitsstunden	Tonnen je 1’000 whr	0.9	0.8	11.1
Nach Behandlungsart:				
Recycling	%	44.9	45.3	
Abfälle an Deponien/Abfallverbrennungsanlagen/andere Entsorgung	%	55.1	54.7	
Nach Gefährlichkeit:				
Nichtsonderabfall	%	86.1	82.6	
Sonderabfall	%	13.9	17.4	
Wasser	**m^3**	**1’029’302**	**930’530**	**10.6**
Wasserverbrauch je Arbeitsstunden	m^3 je 1’000 whr	42.0	41.4	1.6

1) Direkte Emissionen von Sulzer, die auf lokal genutzte Primärenergiequellen wie Erdgas und Treibstoffe zurückzuführen sind.
2) Indirekte Emissionen aus sekundären (umgewandelten) Energiequellen wie Strom und Fernwärme.
3) Indirekte Emissionen durch die Produktion und den Transport von Treibstoffen und Gasen, die nicht in den Scopes 1 und 2 erfasst sind.

Weiter Daten zur Nachhaltigkeit finden Sie unter www.sulzer.com/sustainability.

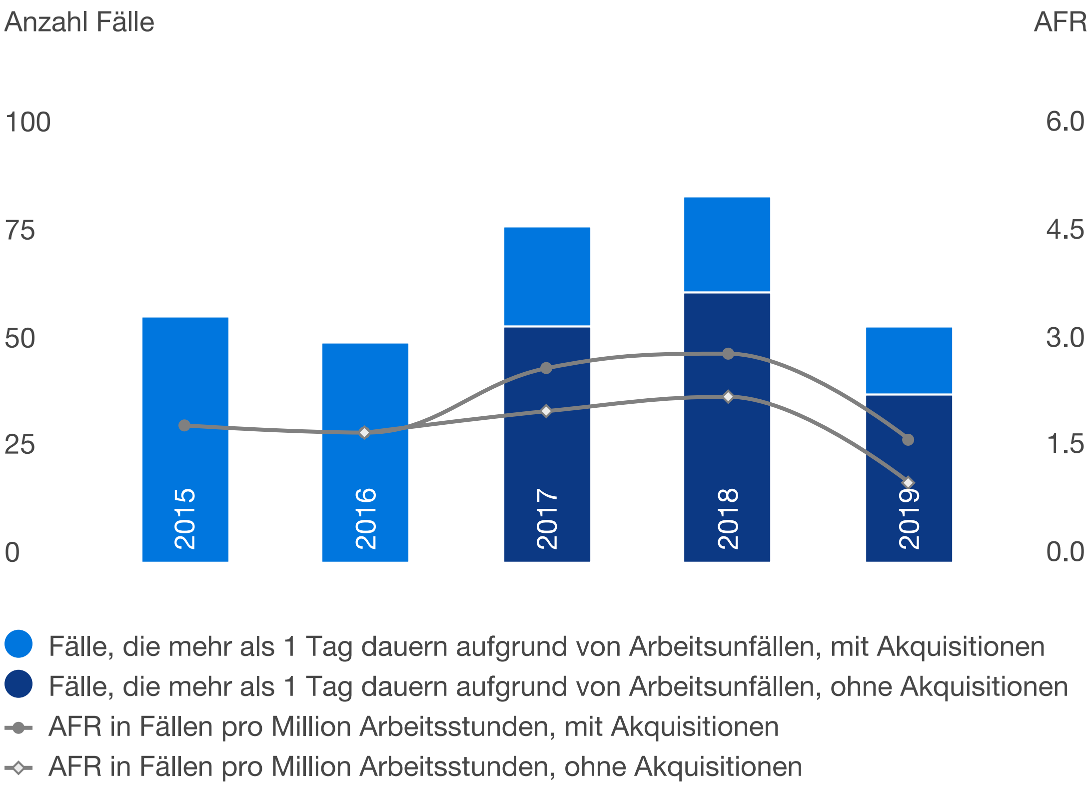
Tief verwurzelte Sicherheitskultur führt zu Rekordtief bei den Unfallzahlen

Sulzers Sicherheitskultur ist tief im Unternehmen verwurzelt und wird von allen geteilt. Spezielle Systeme und Programme sorgen dafür, dass die Mitarbeitenden ihrer Arbeit in einer sicheren Umgebung nachgehen können. Im Jahr 2019 gelang es, die Unfallhäufigkeitsrate auf 1.7 Fälle pro Million Arbeitsstunden zu senken. Das ist der niedrigste Wert, den Sulzer je erreicht hat.

Im Jahr 2019 verbesserten wir unsere Sicherheitsleistung erheblich und erreichten die niedrigste Unfallhäufigkeitsrate (Accident Frequency Rate, AFR) aller Zeiten. Die Unfallhäufigkeitsquote sank um 41.3% auf 1.7 Fälle pro Million Arbeitsstunden. Ohne Akquisitionen hätte die Unfallhäufigkeitsrate 1.1 betragen und wäre damit dem langfristigen Unternehmensziel einer AFR von weniger als 1.0 sehr nahegekommen. Zwei der vier Divisionen unterschritten diesen Wert im Jahr 2019 schon. Unsere akquirierten Geschäfte senkten ihre Unfallrate mithilfe unseres Sicherheitsprogramms auf Basis eines leistungsfähigen Managementsystems. Die schwere der Unfälle (Accident Severity Rate, ASR) ging insgesamt ebenfalls deutlich um 28.1% auf 58.3 Ausfalltage pro Million Arbeitsstunden zurück.

Die positive Entwicklung basiert auf Initiativen, die in den vergangenen zwei Jahren lanciert wurden. Darunter sind Risikoanalysen auf Standortebene, erhöhte Aufmerksamkeit des Managements und verbesserte funktionale Unterstützung. Mit einer AFR von 1.7 bleiben wir eines der führenden Unternehmen im Bereich Sicherheit und liegen über dem Benchmark für die allgemeine Industrie.

Arbeitsunfälle



Bessere Unterstützung der Geschäftseinheiten mit veränderter ESH-Organisation

Im Jahr 2019 stellten wir einen neuen Leiter der Konzernabteilung ESH (Umweltschutz, Sicherheit, Gesundheit) und zwei neue Leiter für die ESH-Abteilungen der Divisionen Rotating Equipment Services und Chemtech ein, um unsere Sicherheitskultur weiter zu stärken.

Um den Wissensaustausch zwischen allen Sulzer-Geschäftsbereichen zu fördern, vereinbarte das ESH-Kompetenzzentrum gemeinsame Schwerpunkte. Die ESH-Kompetenz und -Leitung sollen gestärkt und eine effektive Kommunikation zum Thema Sicherheit innerhalb von Sulzer gewährleistet werden.

Zusätzlich führten die Mitglieder des Kompetenzzentrums Schulungen zur Risikobeurteilung und zum Safe Behavior Program (SBP, Programm für sicheres Verhalten) von Sulzer durch, um den ESH-Beauftragten an den Standorten unsere Strategie näherzubringen. Eingebettet in das SBP nahmen Sulzer-Mitarbeitende im Berichtsjahr an mehr als 63’000 Sicherheitsrundgängen und Beobachtungen teil.

Initiativen der Divisionen verankern das Safe Behavior Program

Sulzer hat in den vergangenen Jahren mehrere Initiativen gestartet, um das Gefahrenbewusstsein der Mitarbeitenden zu schärfen, die Teilnahme am Sicherheitsprogramm zu fördern und den Kompetenzaustausch zu unterstützen. Im Jahr 2019 ergriffen die Divisionen folgende Massnahmen:

- Rotating Equipment Services führte ein Instrument zur Beurteilung von Aktivitäten mit hohem Gefährdungsgrad ein;
- Chemtech arbeitete daran, die Führungsqualitäten der Vorgesetzten und die Qualität der Ursachenanalyse zu verbessern;
- Pumps Equipment konzentrierte sich auf das SBP und auf die Schulung der Mitarbeitenden neu akquirierter Unternehmen;
- Applicator Systems stellte die Umsetzung von konsistenten Sicherheitsstandards in allen ihren Produktionsstätten sowie die Risikobewertung und die Verbesserung der Ursachenanalyse in den Mittelpunkt.

AFR von unter 1.0 rückt näher

Auf der Grundlage der Erfolge im Jahr 2019 sind wir entschlossen, unser ehrgeiziges Ziel einer AFR von weniger als 1.0 bald zu erreichen. Daher werden wir Massnahmen ergreifen, um unsere Sicherheitsleistung weiter zu verbessern und die bestehenden Standards immer wieder zu hinterfragen.

Kennzahlen

		2019	2018	Veränderung in +/– %
Unfallhäufigkeitsrate (AFR)	Fälle pro Million Arbeitsstunden	1.7	2.9	–41.3
Schwere von Unfällen (ASR)	Ausfalltage pro Million Arbeitsstunden	58.3	81.1	–28.1
Schulung für Arbeitssicherheit und Gesundheitsschutz	Stunden	105’471	117’599	–10.3

Weitere Daten zur Nachhaltigkeit finden Sie unter www.sulzer.com/sustainability.

Corporate governance

English only

Corporate structure and shareholders

The rigorous application of sound corporate governance helps to consolidate and strengthen trust in the company. Sulzer is subject to Swiss corporate and stock exchange laws and applies the Swiss Code of Best Practice for Corporate Governance.

Sulzer Ltd is subject to the laws of Switzerland, in particular Swiss corporation and stock exchange laws. The company also applies the Swiss Code of Best Practice for Corporate Governance. The rigorous application of sound corporate governance helps to consolidate and strengthen trust in the company. Sulzer has had a single share class and has separated the functions of Chairman of the Board of Directors and CEO for many years. Since the Annual General Meeting of April 8, 2009, only individuals who have never held executive positions at Sulzer have been members of the Board of Directors. Unless otherwise indicated, the following information refers to the situation on December 31, 2019. Further information on corporate governance is published at www.sulzer.com/governance. The information in the following section is set out in the order defined by the SIX Swiss Exchange directive on information relating to corporate governance (RLCG), with subsections summarized as far as possible. Sulzer's consolidated financial statements comply with International Financial Reporting Standards (IFRS), and in certain sections readers are referred to the Financial Reporting section in the Sulzer Annual Report 2019. Sulzer reports about the compensation of the Board of Directors and the Executive Committee in the Compensation Report.

Corporate structure

The operational corporate structure is shown in the graphic in the chapter "Board of Directors" of this Corporate Governance report and under note 3 to the "Consolidated financial statements" in the Financial Reporting section. Sulzer Ltd is the only Sulzer company listed on a stock exchange. It is based in Winterthur, Switzerland. Its shares are listed and traded on the SIX Swiss Exchange in Zurich (Securities No. 3838891/ISIN CH0038388911). On December 31, 2019, the market capitalization of all registered shares was CHF 3'700'335'960. Information on the subsidiaries included in the consolidation can be found under note 36 to the "Consolidated financial statements." The list comprises all consolidated direct subsidiaries of Sulzer Ltd as well as all further consolidated subsidiaries.

Significant shareholders

According to notifications of Sulzer shareholders, one shareholder held more than 3% of Sulzer Ltd's share capital on December 31, 2019. As published on the SIX disclosure platform on May 29, 2018, Viktor Vekselberg held 48.82% of Sulzer shares. The shares are directly held by Tiwel Holding AG. For information on shareholders of Sulzer Ltd that have reported shareholdings of over 3% or a reduction of shareholdings below 3% in the financial year 2019, please refer to the website of the Disclosure Office of the SIX Swiss Exchange www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html. For the positions held by Sulzer and information on shareholders, see note 24 to the "Consolidated financial statements." There are no cross-shareholdings where the capital or voting stakes on either side exceed the threshold of 3%.

Capital structure

Share capital

The fully paid-up share capital of Sulzer Ltd amounts to CHF 342’623.70 and is divided into 34’262’370 registered shares with a par value of CHF 0.01 per share. Each registered share entitles the holder to one vote at the Shareholders’ Meeting. There is neither any authorized nor conditional capital, nor are there any participation or dividend certificates. The latest version of the Articles of Association is available at www.sulzer.com/governance (under “Articles of Association”). There were no changes of the share capital in the last three financial reporting years.

Restrictions on transferability and nominee registrations

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 if 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 a written 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 if the above-mentioned conditions are not met (see also paragraph 6a of the Articles of Association at www.sulzer.com/governance). On December 31, 2019, eight nominees holding a total of 1’417’282 shares (4.14% of total shares) had entered into agreements concerning their status. No exceptions have been granted. All of those shares have been entered in the share register with voting rights. There are no transfer restrictions and no privileges under the Articles of Association. A removal or amendment of the transfer restriction requires a shareholders’ resolution with a majority of at least two-thirds of the votes represented.

Convertible bonds and options

No convertible bonds or warrants are currently outstanding. Details of the restricted share units issued to the members of the Board of Directors (from 2009) as well as performance share and restricted share units issued to the members of the Executive Committee (in 2010 and yearly as from 2013) are set out under note 31 to the “Consolidated financial statements” and under note 11 to the “Financial statements of Sulzer Ltd.”

Board of Directors

Members of the Board of Directors are elected individually for one-year terms. At the Annual General Meeting of April 3, 2019, all members were reelected, and Peter Löscher was reelected as Chairman of the Board of Directors. The Board consists of seven members. None of them has ever held an executive position at Sulzer.

All members of the Board of Directors are non-executive. None of the members of the Board of Directors have ever belonged to the management of a Sulzer company or to the Executive Committee, nor do any significant business relationships exist between members of the Board of Directors and Sulzer Ltd or a subsidiary of Sulzer Ltd. Mikhail Lifshitz is the Chairman of the Board and holds a 31% stake of Joint Stock Company ROTEC, Russia. Sales with ROTEC 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). 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). For further information, see note 32 to the "Consolidated financial statements." There are no interlocking directorships.

Elections and terms of office

The Articles of Association stipulate that the Board of Directors of Sulzer Ltd shall comprise five to nine members. Each member is elected individually. The term for members of the Board of Directors is one year. At the Annual General Meeting of April 3, 2019, all Board members were reelected to the Board of Directors, all for terms of one year. The Board consists of seven members: two from Austria, one from Denmark, one from Italy, one from Russia, and two from Switzerland. Professional expertise and international experience played a key role in the selection of the members. The members of the Board of Directors and their CVs can be viewed at www.sulzer.com/board.

According to the Board of Directors and Organization Regulations, the term of office of a Board member ends no later than on the date of the Annual General Meeting in the year when the member reaches the age of 70. The Board of Directors can make exceptions up to but not exceeding the year in which the member reaches the age of 73.

Internal organization

The Board of Directors constitutes itself, except for the Chairman of the Board of Directors who is elected by the Shareholders' Meeting. The Board of Directors appoints from among its members the Vice Chairman of the Board of Directors and the members of the Board committees, except for the members of the Nomination and Remuneration Committee, who are elected by the Shareholders' Meeting. There are currently three standing Board committees (for their constitutions, see below):

- the Audit Committee (AC)
- the Nomination and Remuneration Committee (NRC)
- the Strategy Committee (SC)

The Board of Directors and Organization Regulations and the relevant Committee Regulations, which are published at www.sulzer.com/governance (under "Regulations"), define the division of responsibilities between the Board of Directors and the CEO. They also define the authorities and responsibilities of the Chairman of the Board of Directors and of the three standing Board committees.

The Board of Directors and its committees

BOARD OF DIRECTORS
Peter Löscher (Chairman)
Matthias Bichsel (Vice Chairman)
Lukas Braunschweiler
Mikhail Lifshitz
Marco Musetti
Gerhard Roiss
Hanne Birgitte Breinbjerg Sørensen

AUDIT COMMITTEE
Hanne Birgitte Breinbjerg Sørensen (Chairwoman)
Gerhard Roiss
Marco Musetti

NOMINATION AND REMUNERATION COMMITTEE
Gerhard Roiss (Chairman)
Marco Musetti
Hanne Birgitte Breinbjerg Sørensen

STRATEGY COMMITTEE
Peter Löscher (Chairman)
Matthias Bichsel
Mikhail Lifschitz
Lukas Braunschweiler

Operating principles of the Board of Directors and its committees

All decisions are made by the full Board of Directors. For each application, written documentation is distributed to the members of the Board of Directors prior to the meeting. The Board of Directors and the committees meet as often as required by circumstances. The Board of Directors meets at least five times per year, the Audit Committee and the Nomination and Remuneration Committee meet at least three times per year, and the Strategy Committee meets at least twice per year. In 2019, the Board held five half-day meetings, one shorter meeting for the constitution of the Board after the Annual General Meeting and two conference calls lasting about 45 minutes. For further details, see the table below. The CEO, the CFO and the Group General Counsel (who is the Secretary of the Board of Directors) also generally attend the Board meetings in an advisory role. Other members of the Executive Committee are invited to attend Board meetings as required to discuss the midterm planning, the strategy and the budget, as well as division-specific items (such as large investments and acquisitions).

The committees do not make any decisions, but rather review and discuss the matters assigned to them and submit the required proposals to the full Board of Directors for a decision. At the next full Board meeting following the committee meeting, the Chairpersons of the committees report to the full Board of Directors on all matters discussed, including key findings, opinions and recommendations.

Board of Directors

Name	Nationality	Position	Entry	Elected until	Attending meetings of the Board	AC	NRC	SC
Peter Löscher	Austria	Chairman, Chairman SC	March 2014	2020	8			3
Matthias Bichsel	Switzerland	Vice Chairman of the Board, member SC	March 2014	2020	8			3
Hanne Birgitte Breinbjerg Sørensen	Denmark	Chairwoman AC, member NRC	April 2018	2020	7	3	4	
Lukas Braunschweiler	Switzerland	Member SC	April 2018	2020	8			3
Mikhail Lifshitz	Russia	Member SC	April 2016	2020	7			2
Marco Musetti	Italy/ Switzerland	Member NRC and AC	April 2011	2020	8	4	4	1
Gerhard Roiss	Austria	Chairman NRC and member AC	April 2015	2020	8	4	4	

AC = Audit Committee, NRC = Nomination and Remuneration Committee, SC = Strategy Committee

Additional mandates of members of the Board of Directors outside the Sulzer group

According to Sulzer's Articles of Association (published at www.sulzer.com/governance, under "Articles of Association"), the maximum number of additional mandates held by members of the Board of Directors outside the Sulzer group is ten (of which a maximum of four mandates may be with listed companies) (Art. 33). Exceptions (e.g. for mandates held at the request of Sulzer or mandates in charity organizations) are defined in the Articles of Association (Art. 33 paragraphs a, b and c).

Audit Committee

The Audit Committee (members listed above) assesses the midyear and annual consolidated financial statements and, in particular, the activities – including effectiveness and independence – of the internal and statutory auditor, as well as the cooperation between the two bodies. It also assesses the Internal Control System (ICS), risk management and compliance; at least one meeting per year is dedicated to risk management and compliance. The regulations of the Audit Committee can be viewed at www.sulzer.com/governance (under "Regulations"). The CEO, the CFO, the Group General Counsel (at least partially), the Head of Group Internal Audit (who is also the Secretary of this committee) and the external auditor-in-charge, attend the meetings of the Audit Committee. In 2019, the Audit Committee held four meetings in February, July, September and December. The meetings lasted on average between two and three hours. The statutory auditor attended all of these meetings. Internal experts, such as the Group General Counsel and the Heads of Group Internal Audit, Group Treasury, Group Accounting, Group IT, Group Compliance and Risk Management, and Group Taxes gave presentations to the Audit Committee in 2019. In February, the Audit Committee is informed of compliance exposures as a result of periodic risk assessments, and it receives an overview of compliance cases under investigation. In September, the Audit Committee is briefed on the present state of risk management within the company and on the results of the risk management process – a process to systematically identify and evaluate significant risks and introduce countermeasures. In the same meeting, an update on Sulzer's compliance approach, including the respective ongoing and planned activities, is provided. The major current compliance cases (if any) are reported to and discussed by the Audit Committee regularly.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee (members listed above) assesses the criteria for the election and reelection of Board members and the nomination of candidates for the top two management levels. It deals with succession planning. It also regularly assesses the compensation systems and recommends compensation for the members of the Board of Directors and the Executive Committee (including bonus targets for the latter) on behalf of the Board of Directors and in accordance with its specifications. It carries out broadly based compensation benchmarks with an international comparison group, supported by studies of consulting firms such as Mercer and Willis Towers Watson, and it scrutinizes the work of internal and external consultants. The members of the Nomination and Remuneration Committee are elected by the Shareholders' Meeting. The regulations of the Nomination and Remuneration Committee are available at www.sulzer.com/governance (under "Regulations"). The CEO and the Chief Human Resources Officer (who is also the Secretary of this committee) attend the meetings of the Nomination and Remuneration Committee. In 2019, four regular meetings were held in January, July, September and December, taking on average between one and two hours. Furthermore, the NRC held two meetings by conference call (30 to 45 minutes). Independent third-party market compensation data was provided to the NRC, especially by Mercer with respect to executive management's remuneration.

Strategy Committee

The Strategy Committee (members listed above) advises the Board of Directors on strategic matters (such as material acquisitions, divestitures, alliances and joint ventures) as well as strategic planning and definition of development priorities. The regulations of the Strategy Committee can be viewed at www.sulzer.com/governance (under "Regulations"). In 2019, three meetings took place in February, May and September, taking two hours each.

Division of powers between the Board of Directors and the CEO

The Board of Directors has largely delegated executive management powers to the CEO. However, it is still responsible for matters that cannot be delegated in accordance with Art. 716a of the Swiss Code of Obligations. These matters include corporate strategy, the approval of midterm planning and the annual budget, as well as key personnel decisions and the preparation of the Compensation Report. The same applies to acquisition and divestiture decisions involving an enterprise value exceeding CHF 30 million, investments in fixed assets exceeding CHF 15 million, major corporate restructurings, approval of dispute settlements with an impact on operating income of more than CHF 20 million, approval of research and development projects exceeding CHF 10 million, as well as other matters relevant to the company, and decisions that must be made by law by the Board of Directors. The competency regulations and the nature of the collaboration between the Board of Directors and the Executive Committee can be viewed in the organizational regulations at www.sulzer.com/governance (under "Regulations").

Management structure

Board of Directors

Chief Executive Officer
Greg Poux-Guillaume

Chief Financial Officer
Jill Lee

Division President Rotating Equipment Services
Daniel Bischofberger

Chief Human Resources Officer
Armand Sohet

Division President Chemtech
Torsten Wintergerste

Division President Pumps Equipment
Frédéric Lalanne

Division President Applicator Systems*
Girts Cimermans (from October 21, 2019)

*This function has not been part of the Executive Committee before the appointment of Girts Cimermans.

Information and control instruments

Each member of the Board of Directors receives a copy of the monthly financial statements (January to May and July to November), plus the midyear and annual financial statements. These include information about the balance sheet, the income and cash flow statements, and key figures for the company and its divisions. They incorporate comments on the respective business results and a rolling forecast for the current business year. The CEO and CFO report at every Board meeting on business developments and all matters relevant to the company; once each year, the Board receives the forecasted annual results. During these meetings, the Chairs of the committees also report on all matters discussed by their committees and on the key findings and assessments, and they submit proposals accordingly. Each year, the Board of Directors discusses and approves the budget for the following year and the midterm plan, which is also subject to periodic review. The Chairman of the Board of Directors regularly consults with the CEO and other representatives of the Executive Committee. In addition, the Board of Directors receives a status update on investor relations on a regular basis.

Group Internal Audit

Group Internal Audit reports functionally directly to the Chair of the Audit Committee, but administratively to the CFO. Meetings between internal audit and the statutory auditor take place regularly. They are used to prepare for the meetings of the Audit Committee, to review the interim and final reports of the statutory auditor, and to plan and coordinate internal and external audits. Group companies are audited by Group Internal Audit based on an audit plan that is approved by the Audit Committee. Depending on the risk category, such audits are carried out on a rotational basis either annually or every second, third or fourth year. Group Internal Audit carried out 47 audits in the year under review. One of the focal points is the Internal Control System (ICS). The results of each audit are discussed in detail with the companies and (where necessary) the divisions concerned, and key measures are agreed upon. The Chairman of the Board of Directors, the members of the Audit Committee, the CEO, the CFO, the Group General Counsel as well as the respective Division President and other line managers of the audited entity receive a copy of the audit report. Significant findings and recommendations are also presented to and discussed with the Executive Committee and the Group General Counsel during the monthly Executive Committee meetings. Twice a year, the divisions present the status of key measures agreed on. A follow-up process is in place for all Group internal audits, which allows efficient and effective monitoring of how the improvement measures are being implemented. Each year, the Head of Group Internal Audit compiles a report summarizing activities and results. This report is distributed to members of the Board of Directors and the members of the Executive Committee, and it is presented to the Executive Committee and the Audit Committee. It is discussed in both committees and, thereafter, reported to the Board of Directors.

Risk management and compliance

Sulzer has established and implemented a comprehensive, value- and risk-based compliance program that focuses on prevention, detection and response. It consists of the following main elements:

Strong values and building up a strong ethical and compliance culture

Sulzer puts a high priority on conducting its business with integrity, in compliance with all applicable laws and internal rules (“a clean deal or no deal”), and on accepting only reasonable risks. Sulzer follows a “zero tolerance” compliance approach. The Board of Directors and the Executive Committee are convinced that compliant and ethical behavior in all aspects and on all levels is a precondition for successful and sustainable business. The ethical tone is set at the top, carried through to the middle, and is transmitted to the entire organization. Sulzer also fosters a speak-up culture and encourages employees to address potentially non-compliant behaviors. Retaliation against good faith whistleblowers will not be tolerated.

Risk assessment

As part of Sulzer’s integrated risk management process, compliance risks are assessed regularly and mitigated with appropriate and risk-based actions. The results are discussed both with the management and with the Audit Committee. The Audit Committee dedicates at least one full meeting per year to risk management and compliance. An overview of the main risks and corresponding mitigation measures is provided in the chapter “Risk management” of this corporate governance report.

Internal rules and tools

Sulzer has a Code of Business Conduct, which can be viewed in 18 languages at www.sulzer.com/governance (under “Code of Business Conduct”). Every employee of the company (including employees of newly acquired businesses) has to confirm in writing that he or she has read and understood this code, and will comply with it. Every member of the Sulzer Management Group (approximately 150 managers), the heads of the operating companies, the headquarters, regional and local compliance officers as well as the legal entity controllers must reconfirm this compliance commitment in writing annually. Furthermore, Sulzer joined the UN Global Compact initiative in 2010. The latest Communication on Progress Report was published on July 26, 2019, and can be downloaded from www.sulzer.com/sustainability or directly here.

Rules

Although Sulzer follows a behavior- and principle-based approach, compliance directives and processes have been implemented as elements of the governance framework. Sulzer focuses on the major compliance risks, e.g.:

- Bribery and corruption risks: Sulzer has had a group-wide antibribery and anticorruption program in place since 2010. This program includes a Web-based process that addresses the due diligence of intermediaries, a corporate-wide directive for offering and receiving gifts and hospitalities, and an e-training (in 13 languages) to familiarize Sulzer employees with the requirements of the directive.
- Antitrust and anticompetition risks: Sulzer has an antitrust guideline and a directive addressing behaviors in trade associations in place.
- Export control risks: Employees involved in export activities have to comply with all applicable export and re-export laws and regulations. Sulzer rolled out and implemented its global Trade Control Directive in all legal entities concerned. Every exporting legal entity has an ICP (internal control program) in place which includes processes, defines responsibilities on export control matters and other requirements important to comply with export compliance laws and regulations.
- Further risks (e.g. stock exchange laws and regulations; human-resource-related issues; intellectual property and know-how; privacy and data protection laws; product liability; environment, quality, safety and health, etc.): Focused rules and processes address these and many other potential risks. Sulzer has processes that ensure compliance with insider laws as well as stock exchange reporting and notification duties. Local compliance officers performed 40 face-to-face compliance training sessions in 2019.

Tools

Sulzer has a compliance hotline and an incident reporting system that provides employees with one of many options for reporting (potential) violations of laws or internal rules. Reports can be made anonymously or openly via a free hotline or a dedicated website. The company has a directive that sets clear rules for internal investigations. Further tools are available to all employees on Sulzer’s intranet (e.g. presentations addressing the major exposures; draft agreements; sales and procurement handbooks with compliance-specific explanations and standard clauses). Sulzer has a compliance risk assessment process in place to identify and assess potential compliance risks on a local entity level and to define appropriate measures. For newly acquired companies, Sulzer set up a post-merger integration process consisting of a systematic post-merger compliance risk analysis, which provides the foundation for risk-based mitigation actions.

Organization

Since 2013, Sulzer has had a “Legal, Compliance and Risk Management” group function (headed by the Group General Counsel). Within this organization, a line reporting structure is in place for the three regions: Americas (AME); Europe, the Middle East and Africa (EMEA); and Asia-Pacific (APAC). The local Compliance Officers ultimately report – via Regional Compliance Officers and the Head of Risk Management and Compliance – to the Group General Counsel (who is also the Chief Compliance Officer). In addition, the headquartered Compliance and Risk Management team steers and runs the group-wide compliance program and all compliance investigations. The Head of Risk Management and Compliance reports to the Group General Counsel. To ensure the consistent rollout of Group Compliance initiatives, the compliance organization uses direct reporting lines. The Group General Counsel informs the Board of Directors and the Executive Committee regularly about legal matters and key changes in legislation that may affect Sulzer, as well as on important litigation. Twice a year, the Audit Committee receives a report about any pending or threatened litigation with worst-case exposure exceeding CHF 0.5 million. Further information on reports to the Audit Committee is provided in the “Audit Committee” section above.

Awareness building and trainings

Sulzer puts substantial effort into training its employees. Training is carried out through e-learning programs (new programs are rolled out and existing programs are updated every year), in person or through Web conferences. In 2019, Sulzer employees completed 11’500 e-learning courses.

Controls and sanctions

The Group Function Legal supports the audits done by Group Internal Audit following the same audit process. The Group Function Environment, Safety and Health (ESH) carried out four internal audits according to Sulzer standards, and organized 16 external health and safety compliance audits. The focal points were primarily environmental protection and workplace safety. The results of each of these audits were discussed directly with the responsible managers, and an agreement was reached on any improvements required. The latest status of the company’s risks relating to environment, safety and health is reported to the Audit Committee once a year. Apart from these formal audits, internal investigations (triggered by reports from the compliance hotlines, e-mails, telephone calls or other avenues of communication) were carried out during 2019 and at least two employees had to leave Sulzer because of violations of Sulzer’s Code of Business Conduct. Others received warnings or faced other disciplinary measures. However, most of the reports received concerned non-material issues.

Continuous improvement

It is Sulzer’s goal to constantly improve its compliance and risk management approach. Findings of audits and internal investigations are assessed, internal processes and rules are adjusted, and training modules are improved. Sulzer always reviews compliance violations to determine whether they are rooted in a process weakness. If that is found to be the case, the process will be improved and risk-mitigating measures will be set up.

CVs of the members of the Sulzer Board of Directors can be found at www.sulzer.com/board.

Executive Committee

The Executive Committee consists of the Chief Executive Officer (CEO), the Chief Financial Officer (CFO), the Chief Human Resources Officer (CHRO) and four Division Presidents. From January 1, 2019, Frédéric Lalanne succeeded Michael Streicher as President of the Pumps Equipment division. The Chief Commercial and Marketing (CCMO) role that Frédéric Lalanne held no longer exists as such and has been replaced by a Head of Business Development role which is not part of the Executive Committee. On October 21, 2019, Girts Cimermans joined the Executive Committee as the new President of the Applicator Systems division, replacing Amaury de Menthière (not part of the Executive Committee) who decided to retire.

The Board of Directors delegates executive management powers to the CEO. The CEO delegates the appropriate powers to the members of the Executive Committee. The Division Presidents define and attain business targets for their respective divisions in accordance with group-wide goals. The Board of Directors and Organization Regulations govern, among other things, the transfer of responsibilities from the Board of Directors to the CEO (the regulations can be viewed at www.sulzer.com/governance, under “Regulations”). There are no management contracts with third parties. None of the Executive Committee members has a contract with a notice period exceeding 12 months. The members of the Executive Committee and their CVs can be viewed at www.sulzer.com/management.

Additional mandates of members of the Executive Committee outside the Sulzer group

No member of the Executive Committee may hold more than five mandates, of which no more than one may be in listed companies (Articles of Association, Art. 33; published at www.sulzer.com/governance, under “Articles of Association”). Exceptions (e.g. for mandates held at the request of Sulzer or mandates in charity organizations) are defined in the Articles of Association (Art. 33, paragraphs a, b and c).

CVs of the members of the Executive Committee can be found at www.sulzer.com/management.

Shareholder participation rights

Restrictions and representation of voting rights

Only nominees are subject to restrictions (see section "Capital structure" of this corporate governance report). No exceptions were granted during the reporting year, and no measures to remove these restrictions are planned. According to the Articles of Association, a shareholder may be represented at a Shareholders' Meeting by its legal representative, another shareholder with the right to vote, or the independent proxy. Shares held by a shareholder may be represented by only one person.

Statutory quorum

Changes to the Articles of Association may only be approved by a majority of at least two-thirds of the voting rights represented at the Shareholders' Meeting; share capital increases are carried out, however, upon an absolute majority of the votes represented. The dissolution or a merger of the company can only be decided upon if at least half the shares issued are represented at the Shareholders' Meeting and two-thirds thereof vote in favor of the corresponding proposal (see also paragraph 16 of the Articles of Association).

Convocation of the Shareholders' Meeting and submission of agenda items

The applicable regulations regarding requesting the convocation of an extraordinary Shareholders' Meeting are in line with the applicable law regarding the convocation of a Shareholders' Meeting. Shareholders representing at least 2% of the share capital may submit items for inclusion on the agenda of a Shareholders' Meeting. Such submissions must be requested in writing at least two months prior to the meeting and must specify the agenda items and proposals of the shareholder concerned (see also paragraph 12 of the Articles of Association).

Entry in the share register

Voting rights may be exercised by shareholders who are registered in the share register on the record date stated in the invitation to the respective Shareholders' Meeting.

Independent proxy

At the Annual General Meeting of April 3, 2019, Proxy Voting Services GmbH was elected as the independent proxy for a term of office extending until completion of the next Annual General Meeting. The Articles of Association do not contain rules on the granting of instructions to the independent proxy and the electronic participation in the Shareholders' meeting which deviate from the default Swiss law.

Takeover and defense measures

The Articles of Association contain no opting-out or opting-up clauses. If there is a change of control, all allocated restricted share units (RSU) are automatically vested. Also, the performance share units (PSU) are converted into shares on a pro rata basis and based on actual achievement of the performance targets, without being subject to blocking restrictions. A change of control includes an acquisition of, or a public takeover offer in relation to, more than 33.33% (RSU) or 50% or more (PSU) of the voting rights.

Auditors

The statutory auditor is elected at the Annual General Meeting for a one-year term of office. KPMG AG has been acting as the statutory auditor since 2013. The acting external auditor-in-charge is François Rouiller (since March 27, 2013). The external auditor-in-charge is replaced every seven years. As of 2020, Rolf Hauenstein from KPMG will be the new auditor-in-charge. The Audit Committee is in charge of supervising and monitoring the statutory auditor, and it reports to the Board of Directors (see section “Audit Committee” in the chapter “Board of Directors” of this corporate governance report). The members of the Audit Committee receive summaries of audit findings and improvement proposals at least once a year. The external auditor-in-charge and his deputy were invited to attend meetings of the Audit Committee. In 2019, the statutory auditor was present at all four Audit Committee meetings. The Audit Committee or its Chairperson meets separately with the Head of Group Internal Audit and the statutory auditor at least once a year to assess (among other things) the independence of the internal and statutory auditors. The Audit Committee evaluates the work done by the statutory auditor based on the documents, reports and presentations provided by the statutory auditor, as well as on the materiality and objectivity of their statements. To do so, the committee gathers the opinion of the CFO. The Audit Committee reviews the fee paid to the auditor regularly and compares it with the auditing fees paid by other internationally active Swiss industrial companies. Said fee is negotiated by the CFO and approved by the Board of Directors. Further information on the auditor, in particular the auditor’s fees and any additional fees received by the auditor for advisory services outside its statutory audit mandate, is listed under note 33 to the “Consolidated financial statements.” All advisory services provided outside the statutory audit mandate (essentially, consulting services related to audit and accounting as well as legal and tax advisory services) are compliant with the applicable independence rules.

Risk management

At Sulzer, risks are assessed regularly as part of the company's integrated risk management process. The results are discussed with the management and the Audit Committee.

Risk	Risk exposure	Main loss controls
External and markets		
Market assessment	Market developments that are assessed inappropriately could lead to missed business opportunities or losses.	— Continuous monitoring and assessment of market developments — Systematic midrange planning based on market developments and expectations
Geopolitical shocks	A geopolitical shock event could have an impact on operations and travel. Also, it could imply currency risks and default risks of countries and banks.	— Monitoring of exposure in critical countries — Monitoring of debt situation of countries and banks — Continuous monitoring of raw material prices and inflation indicators — Sulzer's global presence mitigates the effect of geopolitical shocks
Strategic		
Innovation	Failure in R&D and innovation activities could negatively impact the ability to operate and to grow the business. Insufficient investments in innovation to maintain technology leadership and develop innovative products.	— A phased process, technical risk manageability assessments and key performance indicators to ensure quality of the development — Product Development Council with strong focus on strategic plans and digitalization — Prototypes and own test beds to test and validate products before market release — Core Technology Council for research of basic technology — Focus on innovation with strategic customers — Innovation and ideation projects — Implementation of an expert development program for key critical resources
Operational		
Attraction and retention	Failure to attract, retain and develop people could lead to a lack of critical skills and knowledge, which hinders both daily operations and growth potential.	— Ensuring that Sulzer's people and performance efforts are anchored to the company's values and behaviors — Ongoing feedback through employee opinion survey "Voice of Sulzer" — Robust internal communications strategy — Ongoing engagement in workshops and collaborative activities — Visibility and access to creating development experiences and opportunities — Consistent approach to salary grading and benchmarking
Health and safety	An unsafe working environment could lead to harm to people, reputational damage, fines as well as liability claims and could have a serious economic impact.	— Health and safety directives, guidelines, programs (e.g. Safe Behavior Program) and training — OHSAS 18001 certifications — Monthly health and safety controlling and regular audits — Global network of health and safety officers
Environmental	Environmental damage could lead to harm to people and nature, reputational damage, fines as well as liability claims and could have a serious economic impact.	— Mitigation in comprehensive environmental due diligence (EDD) projects for acquisitions and divestitures — Elimination of environmentally damaging substances through Prohibited Substances List

Compliance	Non-compliant or unethical behavior could lead to reputational damage, fines and liability claims.	— Active fostering of high ethical standards by tone from the top and middle management — Continuous monitoring and assessment of potential exposures — Sulzer Code of Business Conduct and a number of supporting regulations (e.g. anticorruption, antitrust, trade control) — Third-party due diligence process — Global network of compliance and trade compliance officers — Compliance training (incl. e-learning) and audits — Speak-up culture, compliance hotline and sanction checks
Quality of products and services	Failure of high-quality products and services could lead to repeated work, reputational damage or liability claims.	— Quality management and assurance systems tailored to specific businesses — Third-party accreditation — Competence development programs and training of employees — Test centers
Business interruptions	Business interruption, such as a fire, could cause damage to people, property and equipment. It could have a negative effect on the ability to operate at the affected site. Security incidents could impact the IT infrastructure or systems, which could result in a business interruption.	— Crisis and emergency management systems (at global and local level) — Risk management policy and guidelines — Global manufacturing footprint and global procurement — IT security standards, measures and incident response team — Disaster recovery plans in IT
Financial		
Financial markets	The unpredictability of financial markets may have a negative effect on Sulzer's financial performance and its ability to raise or access capital.	— Group financial policy — Foreign exchange risk policy — Trading loss limits for financial instruments
Credit	Credit risks arising from financial institutions and from customers could have a negative effect on Sulzer's financial performance and ability to operate.	— For financial institutions, only parties with a strong credit quality are accepted (third-party rated) — Individual risk assessment of customers with large order volumes — Continuous monitoring of country risks
Liquidity	Failure in liquidity risk management may have a negative effect on Sulzer's financial performance and its ability to operate.	— Continuous liquidity monitoring — Management of liquidity reserves at group level — Cash flow program to optimize liquidity and cash flow management — Efficient use of available cash through cash pooling

Information policy

Sulzer Ltd reports on its order intake every quarter (media releases) and on its financial results every half year. In each case, it also comments on business performance and outlook. In addition, the company reports on important events on an ongoing basis (ad hoc publications). The reporting referred to in the Compensation Report (including the respective references to the Financial Reporting section) complies with the recommendations on the content of the Compensation Report as laid out in section 38 of annex 1 to the Swiss Code of Best Practice for Corporate Governance.

Key dates in 2020

- February 19: Annual results 2019
- April 15: Annual General Meeting 2020
- April 21: Order intake Q1 2020
- July 24: Midyear results 2020
- October 29: Order intake Q1–Q3 2020

These dates and any changes can be viewed at www.sulzer.com/events. Media releases (sent via e-mail) can be subscribed to at www.sulzer.com/newsletter. Other information is available on the Sulzer website www.sulzer.com.

Material changes

The text makes reference to any material changes occurring between the balance sheet date (December 31, 2019) and the copy deadline for the Annual Report (February 17, 2020).

Compensation report

English only

Paying for sustainable performance

Winterthur, February 17, 2020

Dear Shareholder,

On behalf of the Board of Directors and the Nomination and Remuneration Committee (NRC), I am pleased to present the Compensation Report for 2019. I appreciated the ongoing opportunity in 2019 to work together with my colleagues and our stakeholders towards ensuring that the Sulzer compensation structure continues to reflect best practice standards, proves to be attractive and competitive for employees, rewards sustainable performance and drives value creation for our shareholders.

In April 2018, Sulzer was unexpectedly exposed to existence-threatening US sanctions. The Executive Committee took effective countermeasures in a very short time to avert the sanctions. Therefore, this crisis also demanded that effective measures be taken to mitigate its negative consequences for Executive Committee's compensation in a fair manner. These measures have only been applied for the duration of this extraordinary situation and to offset its effects, and we consider the crisis to be over at this stage. Therefore, we include an additional section in this year's Compensation Report, which explains measures taken.

Executive Committee's compensation

Our Executive Committee's compensation system stands for a modern and tailor-made system to lead Sulzer successfully through the next years:

- A significant portion of variable compensation ensures a strong pay-for-performance orientation.
- Performance criteria are selected to provide appropriate incentives to achieve operational and strategic goals, thereby ensuring a strong alignment with Sulzer's corporate strategy.
- Variable compensation is granted in the form of performance share units, which are subject to malus and clawback provisions, to align interests of the Executive Committee with those of shareholders.
- Share Ownership Guidelines are introduced in 2020 obliging the Executive Committee members to hold Sulzer shares for the term of their office.
- Compensation levels are competitive and in line with market practice to attract and retain highly qualified employees who will keep Sulzer on the road to success through severe crises and beyond.

Paying for performance: our year 2019

In 2019, Sulzer successfully progressed on its growth path. The company acquired and integrated GTC Technology end of April and Alba Power in July, which in both cases supplements and further boosts local expertise and delivery power in important target markets. This is all part of Sulzer's growth-based business strategy, which is reflected in our compensation models.

The compensation model and structure for EC members remained unchanged, and – apart from an increase in the LTI (long-term incentives) for two individuals – there was no increase in base salaries, target STI (short-term incentives) levels or regular LTI grant amounts. In 2019, the roles of two current EC members were reevaluated. This reevaluation, which also comprised market benchmarking, led to higher LTI grant entitlements. The Board also recognized the EC's continued exceptional performance during and since the US sanctions episode. In this context, the Board decided to award all EC members a special grant of performance share units in addition to the regular annual LTI grants (details in special report).

The cash compensation for the EC was 25% lower in 2019 than in 2018. The aggregate EC compensation, including potential payments made over time, is reduced by 8.0% year on year and is below the maximum amount previously approved by the AGM for the respective period.

For 2020, two major changes to the current system have been decided. Firstly, mandatory shareholding requirements for members of the Executive Committee will be introduced. According to these Share Ownership Guidelines (SOG) the members of the Executive Committee are obliged to hold shares until the end of their service period. The value of the shares to be held is set at 200% of the gross base salary for the CEO and 100% of the gross base salary for the other members of the Executive Committee. Secondly, the TSR threshold for the industrial peer group will be set "back to normal" at the 25th percentile as before the US sanctions.

On October 21, 2019, Girts Cimermans joined Sulzer as the new President of our Applicator Systems (APS) division, succeeding Amaury De Menthière, who retired at the end of the year. As the new leader of APS, Girts will focus on profitably expanding the business and strengthening the APS offering, as well as capitalizing on opportunities across our diverse business segments. In the same context, the Board decided that the role of Division President APS should now be part of the Executive Committee (EC), with immediate effect.

Board of Directors compensation

The aggregate Board of Directors compensation paid in 2019 was below the maximum amounts previously approved by the AGM for the respective periods. An external and independent third-party expert assessed the Board compensation in the context of market benchmarks. Based on these findings, the NRC has suggested to revise the additional fees for chairmanship and membership in the Board committees. No additional changes to Board compensation were deemed necessary.

The aggregate Board of Directors compensation paid in 2019 was 3.6% lower than in 2018, and 5.7% lower than in 2017, the latter reflecting the resizing of the Board in 2018.

Governance

The Nomination and Remuneration Committee (NRC) performed its regular activities in 2019, including recommending EC performance targets to the Board, compensation of Board, CEO and EC members. You will find further information on the NRC's activities, as well as compensation models and governance, in the following pages.

At the AGM in 2020, you will be asked to vote on the maximum aggregate compensation for the Board for its 2020–2021 term and on the maximum aggregate compensation for the EC for 2021. For the second consecutive year, the maximum aggregate for the Board will remain flat. Notwithstanding the addition of the new EC member, the maximum aggregate for the EC will be reduced by CHF 2 million.

As per practice, this Compensation Report will be submitted for a non-binding, consultative vote to our shareholders. We encourage and pursue an open, regular dialogue with our stakeholders. Your constructive input is highly valued and appreciated as we continue to improve and align our compensation system. On behalf of Sulzer, the NRC and the Board, I thank you for your supportive feedback and for your continued trust in our company.

Sincerely,

Gerhard Roiss
Chairman of the Nomination and Remuneration
Committee

Special report

A return to normalcy – from extraordinary compensation decisions recognizing exceptional performance in an extreme situation.

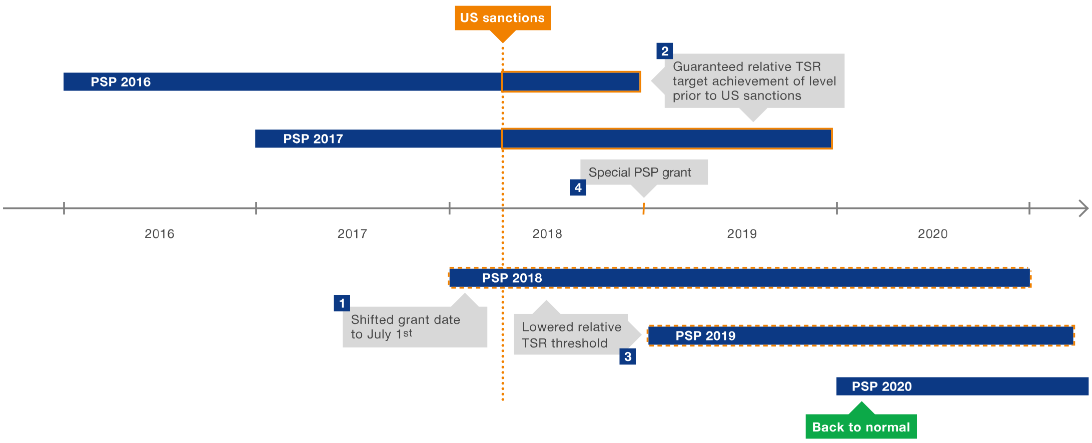
In 2018, Sulzer's business was impacted by exceptional, existence-threatening circumstances. Against this background, Sulzer's Executive Committee members were granted special concessions for the successful resolution of the impending consequences.

What happened?

Renova became the target of US sanctions on the afternoon of Friday, April 6th, 2018, which immediately severely affected Sulzer's business, as these sanctions were extended to all companies held by Renova as a majority shareholder and entities doing "significant" business with a sanctioned company. Already on Saturday the company credit cards were no longer working. In addition, Sulzer was no longer allowed to acquire new businesses and transactions in dollars were prohibited with immediate effect. The situation was dramatic. Sulzer was in danger of becoming insolvent within a short period of time, since a large part of our business is conducted in dollars. Another immediate consequence was a drastic collapse in the share price.

In order to protect Sulzer from further sanctions and to work towards the cancellation of already imposed sanctions, the Executive Committee negotiated an immediate share buyback with Renova in order to reduce its shareholding below 50% and affirm Sulzer's independence vis-à-vis US authorities. Sulzer's Executive Committee's decisive and fast reaction averted the US sanctions within three days by taking the most appropriatea course of action and implementing it expediently.

Timing of the events and our reactions



How did the Nomination and Remuneration Committee react?

1. We changed the PSU grant date in 2018 to allow for a grant unaffected by US sanctions

In line with the flexibility provided for by the PSP regulation, the PSU grant date in 2018 was shifted from April 1 to July 1 to allow the share price to stabilize after the massive fluctuations triggered by the US sanctions. This shift mitigated short-term volatility concerns by having the PSU grants based on a less volatile three-month average price, which also included the off-exchange share buyback of

5.00 million shares in the same period. This shift of the PSU grant date in 2018 was a one-time adjustment to reflect the extraordinary circumstances at that time.

2. We guaranteed the relative TSR performance prior to US sanctions for PSP tranches 2016 and 2017

The US sanctions targeting Renova in April 2018 were deemed to be an extraordinary event, given its dramatic mid-term impact on the share price of Sulzer and this despite sustained strong operational performance and positive strategic developments. The PSP regulation in its article 15 allows for corrections in case of extreme market situations or in the event of activities or decisions of large Sulzer shareholders which have a significant impact on Sulzer's TSR. In order to quickly reassure the Executive Committee and ensure its focus on the acute problems, the effects of the sanctions on Sulzer's TSR performance – which have direct impact on the payout value of the active PSP tranches – were compensated by the following:

The relative TSR performance which had been achieved directly prior to the event was assessed and guaranteed. The TSR component of the PSP (weighted at 50%) was affected while the two other components – opEBITA growth and opROCEA – stayed unchanged. The relative TSR performance was 100% for PSP 2017 and 213% for PSP 2016 just before the sanctions occurred. This guarantee was given for the PSP tranches granted in 2016 and 2017. No other tranches were affected. The guarantee led to a higher payout of the PSP 2016 at 213% versus 120% without guarantee. For the payout of the PSP 2017, the guarantee was not applied as the actual performance ended up higher than the guarantee. The introduction of the pre-April guaranteed TSR target achievement level in May 2018 resulted in a one-time step-up in fair value of outstanding tranches (PSP 2016 and PSP 2017) which was duly disclosed in the compensation tables of the Annual Report 2018.

3. We lowered the relative TSR threshold to allow for a volatile share development

The threshold for Sulzer's relative TSR performance in the industrial peer group was lowered from the 25th percentile to the 10th percentile. The lowered TSR threshold at the 10th percentile has been in place for two PSP tranches in 2018 and 2019. We understand that this adjusted TSR curve is not perceived as ambitious enough for our investors under normal circumstances. As we regard the immediate and mid-term effects of the US sanctions as settled, the original TSR threshold at the 25th percentile is reinstated as of 2020. Please note that as the TSR stayed higher than 100%, the temporarily lowered TSR threshold didn't come into play and didn't benefit management.

4. We decided on a special PSP grant for the Executive Committee in 2019 (spread over 2019 and 2020 for the CEO)

The Board of Directors recognized the Executive Committee's continued exceptional performance during and since the US sanctions episode. The executive team successfully protected the company and worked in the interest of all our shareholders, customers and employees. Team stability remains paramount as we work to put this unfortunate incident behind us. In this context, the Board decided to award all Executive Committee members a special grant of performance share units in addition to the regular annual PSP grant in 2019. This special grant, subject to the usual three-year progressive vesting, both rewards outstanding management team performance during and after the sanctions and acts as a retention instrument in a turbulent period. This special grant is a one-off reward. For the CEO, the special grant is spread over the 2019 and 2020 PSP tranches. It is disclosed in the respective Annual Report's compensation tables. Even with the special grant, the compensation for the CEO in 2019 was 6.5% lower than in 2018.

	Regular PSP grant 2019	**Special PSP grant 2019**	**Special PSP grant 2020**
CEO	CHF 1'440'000	CHF 720'000	CHF 720'000

How do we proceed? Back to normal

We consider the substantial effects of the US sanctions on Sulzer's business to be over and therefore see no need for further exceptions. We understand that our shareholder's guidelines on compensation underpinning your votes are against "exceptions". We though believe that no policy, no plan rules and no contingency plans would have ever been able to ex-ante address what happened to our company in April 2018. We feel highly confident in our leadership team and their performance in safely navigating Sulzer through the eye of the storm. From 2020 we will return to "normal" regarding our compensation plans and decisions. We hope that transparency provided will help to understand and support our decisions.

Compensation governance and principles

Compensation policies and plans at Sulzer reward performance, sustainable growth and long-term shareholder value creation. The compensation programs are competitive, internally equitable, straightforward and transparent. The Compensation Report is prepared in accordance with the Ordinance against Excessive Compensation in Listed Stock Corporations (Compensation Ordinance), the SIX Swiss Exchange Directive on Information relating to Corporate Governance (RLCG) and the principles of the Swiss Code of Best Practice for Corporate Governance.

Nomination and Remuneration Committee

The Articles of Association, the Board of Directors and Organization Regulations, and the Nomination and Remuneration Committee Regulations (please find them at www.sulzer.com/governance, under "Regulations") define the functions of the Nomination and Remuneration Committee (NRC). The NRC supports the Board of Directors in nominating and assessing candidates for positions to the Board of Directors and Executive Committee positions, in establishing and reviewing the compensation strategy and principles, and in preparing the respective proposals to the Shareholders' Meeting regarding the compensation of the members of the Board of Directors and of the Executive Committee.

The NRC is responsible for the following activities and submits all proposals concerning these activities to the Board of Directors, which has the final decision authority:

- Periodic assessment of the membership structure of the Board of Directors, determination of selection principles, and identification of potential candidates to the Board of Directors
- Succession planning for the CEO and Executive Committee positions (two upper management levels)
- Periodic assessment of the compensation policy and programs
- Determination of performance targets for the CEO and the Executive Committee positions for the purpose of the incentive plans
- Preparation of the respective proposals to the Shareholders' Meeting on the maximum aggregate amounts of compensation for the Board of Directors and for the Executive Committee
- Determination of the target compensation for the CEO and for the Executive Committee positions
- Preparation of the Compensation Report

The table below describes the levels of authority:

	CEO	NRC	Board	Shareholders' Meeting
Selection criteria and succession planning for Board of Directors		proposes	approves	
Selection criteria and succession planning for Executive Committee	proposes	reviews	approves	
Compensation policy and programs		proposes	approves	
Aggregate maximum compensation amounts for the Executive Committee and for the Board of Directors to be submitted to vote at the Annual General Meeting		proposes	reviews	approves (binding vote)
Individual compensation of the members of the Board of Directors		proposes	approves	
Compensation of the CEO		proposes	approves	
Individual compensation of the members of the Executive Committee	proposes	reviews	approves	
Performance objectives and assessment of the CEO		proposes	approves	
Performance objectives and assessment of the Executive Committee	proposes	reviews	approves	
Compensation Report		proposes	approves	consultative vote

The NRC consists of a maximum of three members who are non-executive and independent and who are elected individually and annually by the Shareholders' Meeting for the period of office until the following ordinary Annual General Meeting (AGM). At the 2019 AGM, Gerhard Roiss (Chairman), Marco Musetti and Hanne Birgitte Breinbjerg Sørensen were reelected as members of the NRC.

The NRC meets as often as the business requires, but at least twice a year. In 2019, the NRC held four regular meetings that were attended by all members. Besides the standard agenda items, the NRC concentrated its efforts on talent pipeline and succession planning for positions on the Board of Directors and the Executive Committee, including the recruitment of a new Division President APS; market review of Board and management remuneration models and levels; and considerations regarding an exceptional one-off grant of performance share units to Sulzer's management, as further detailed in this Compensation Report.

The CEO and the Chief Human Resources Officer, who serves as the Secretary of the NRC, generally attend the meetings. The Chairman of the Committee may invite other executives to join the meeting in an advisory capacity, when appropriate. However, the CEO and any other executives do not participate in the meetings, or parts of it, when their own remuneration and/or performance is discussed.

The Chairman of the NRC reports to the next meeting of the full Board of Directors on the activities of the NRC and the matters debated. The Chairman, as far as necessary, submits the respective proposals for approval by the Board of Directors. The minutes of the NRC meetings are available to all members of the Board of Directors.

The NRC may appoint third-party companies to provide independent advice or perform services as it deems necessary for the fulfillment of its duties. In the reporting year, independent third-party market compensation data was provided to the NRC, especially by Mercer with respect to executive management's remuneration. They have no other mandate with Sulzer.

Shareholders' role and engagement

The company is keen to receive shareholders' feedback on the compensation policy and programs, and it began the practice of holding a consultative vote on the Compensation Report in 2011. Further, the company regularly meets with shareholders and shareholder representatives to understand their perspectives. At the Annual General Meeting, shareholders approve the maximum aggregate compensation amounts for the Board of Directors and for the Executive Committee in an annual binding vote.

Further, the Articles of Association, which are also subject to shareholders' approval, regulate the principles of compensation. They include the following provisions related to compensation (full version of the Articles of Association: www.sulzer.com/governance, under "Articles of Association"):

- Principles of compensation (Article 31): non-executive members of the Board of Directors receive fixed compensation only. Members of the Executive Committee receive fixed and variable compensation elements. The variable compensation may include short-term and long-term variable compensation components. These are governed by performance metrics that take into account the performance of the company, the group or parts of it, targets in relation to the market, other companies or comparable benchmarks and/or individual targets, as well as strategic and/or financial objectives. Compensation may be paid in the form of cash, shares, options, financial instruments or similar units, in kind, in services, or in other types of benefits;
- Shareholders' binding vote on remuneration (Article 29): the Shareholders' Meeting shall approve the maximum aggregate amount of compensation for the Board of Directors for the next term of office and the maximum aggregate amount of compensation for the Executive Committee for the following financial year. The Board of Directors shall submit the annual Compensation Report to an advisory vote at the Annual General Meeting;
- Additional amount for members of the Executive Committee hired after the vote on remuneration by the Shareholders' Meeting (Article 30): to the extent that the maximum aggregate amount of compensation as approved by the Shareholders' Meeting does not suffice, up to 40% of the maximum aggregate amount of compensation approved for the Executive Committee is available, without further approval, for the compensation of the members of the Executive Committee who were appointed after the Annual General Meeting;
- Loans, credit facilities, and post-employment benefits for members of the Board of Directors and of the Executive Committee (Article 34): the company may not grant loans or credits to members of the Board of Directors and of the Executive Committee.

Compensation architecture for the CEO and EC members

Compensation principles

The compensation of the Executive Committee is driven by the main principle of pay for performance. The compensation policy and programs are designed to reward performance, sustainable growth and long-term shareholder value creation, while offering competitive remuneration to be able to attract and retain highly qualified employees. The compensation principles are:

Pay for performance	A substantial portion of the compensation is delivered in the form of variable incentives based on company and individual performance.
Strategy alignment	The performance criteria are selected to create adequate incentives for achieving the operational and strategic objectives.
Ownership	Part of the compensation is delivered in the form of company equity to foster ownership and to align the interests of executives with those of shareholders.
Market competitiveness	Compensation levels are competitive and in line with market practice to attract and retain highly qualified employees.
Internal equity	The internal compensation structure is based on a job-grading methodology applied globally.
Transparency	Compensation programs are straightforward and transparently explained in the Compensation Report.

Method of determination of compensation: benchmarking

To ensure compensation levels that are competitive and in line with market practice, the compensation of the Board of Directors and of the Executive Committee is benchmarked against that of similar roles in comparable companies every one to two years. For this purpose, the NRC selected a peer group of international industrial companies headquartered in Switzerland based on their revenue and number of employees. Sulzer is positioned between the first quartile and median of the peer group.

Compensation benchmark

The comparison group reflects Sulzer's ambitious business strategy:

- ABB
- Clariant
- Georg Fischer
- Lonza
- OC Oerlikon
- Rieter
- Schindler
- Sika
- Sonova
- Tetra Laval Group

The intention is to pay target compensation around the median of the relevant market. Nevertheless, compensation increases are not granted based on benchmark results alone. The role and responsibility as well as current performance of the individual Executive Committee member is assessed at the same time. A globally applied job-grading fosters internal equity.

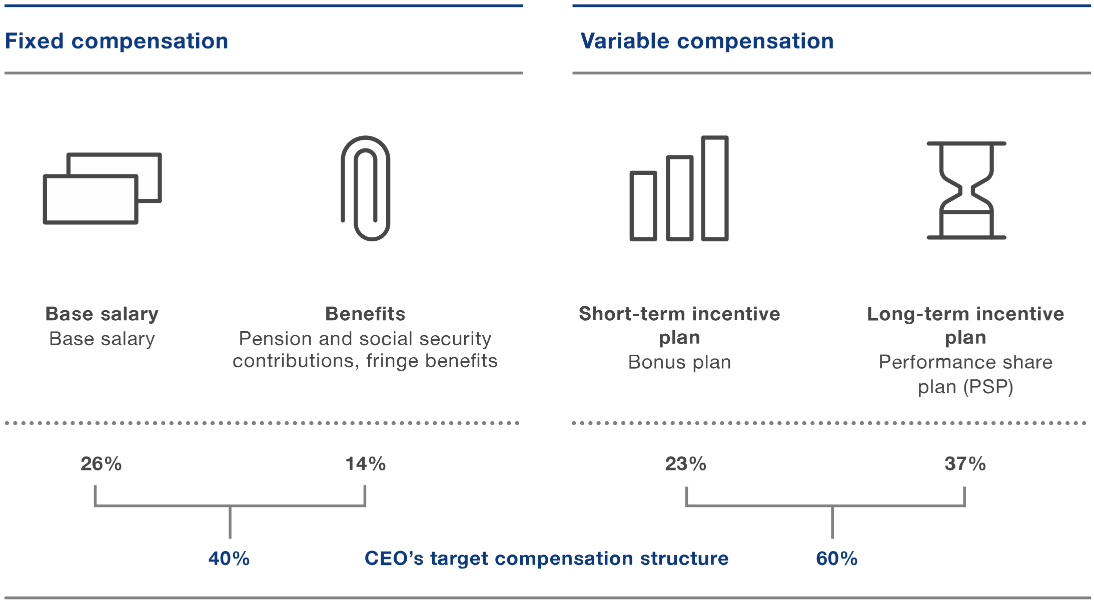
The compensation of the Executive Committee is governed by internal regulations such as the total reward policy, the bonus plan, the performance share plan and benefits plans. The compensation of the Executive Committee is reviewed by the NRC annually and, if necessary, adjusted and approved by decision of the Board of Directors based on a proposal by the NRC. The compensation of the Executive Committee summarizes as follows:

Compensation elements for the members of the Executive Committee

	Base salary	Benefits	Short-term incentive plan (bonus plan)	Long-term incentive plan (PSP 2019)	Share ownership guidelines (SOG)
Main parameters	Function, level of role, profile of incumbent (skill set, experience)	Pension and social security contributions, fringe benefits	Achievement of annual financial and individual objectives	Achievement of long-term, company-wide objectives, share price development	Level of role
Key drivers	Labor market, internal job-grading	Protection against risks, labor market, internal job-grading	Operational EBITA, sales, operational operating net cash flow (opONCF)	Operational EBITA growth, operational return on average capital employed adjusted (opROCEA), relative total shareholder return (TSR)	Share price development
Link to compensation principles	Competitive compensation	Competitive compensation	Pay for performance, strategy alignment	Pay for performance, strategy alignment, ownership	Ownership
Vehicle	Cash	Pension and insurance plans, perquisites	Cash	Performance share units (PSU) settled in shares	Obligation to privately invest in Sulzer shares and to hold these shares until the end of the service period
Amount	Fixed	Fixed	Variable, capped at 200% of target bonus. Target bonus amounts to 90% of annual base salary for the CEO and 60% of annual base salary for the other members of the Executive Committee.	Variable. Grant value is defined based on the Global Grade and corresponds to CHF 1’440’000 for the CEO and between CHF 330’000 and CHF 400’000 for the other members of the Executive Committee (EC). Vesting payout percentage is capped at 250% and vesting value is capped at CHF 3’600’000 for the CEO and at CHF 825’000 to CHF 1’000’000 for the other members of the EC. Malus and clawback provisions implemented.	CEO: 200% of base salary. Other members of the Executive Committee: 100% of base salary.
Grant/vesting/payment date	Monthly	Monthly and/or annually	March of the following year	Grant: April 1, 2019 Vesting: December 31, 2021 Share delivery: March 2022	–
Performance period	–	–	1 year (January 1, 2019–December 31, 2019)	3 years (January 1, 2019–December 31, 2021)	–

The compensation of the Executive Committee contains fixed, performance-independent elements to provide a secure income and to ensure that no unreasonable risks are taken. In order to create reasonable incentives for the Executive Committee, align interests of Executive Committee and shareholders, ensure pay for performance and implement the company’s strategy into the Executive Committee’s compensation, it contains also short-term and long-term performance-dependent elements:

Overview of compensation elements



In line with the pay-for-performance principle, a significant portion (over 50%) of the compensation of the CEO and the other members of the Executive Committee consists of variable incentives based on performance. Furthermore, the compensation structure ensures sustainable long-term growth as the long-term variable compensation makes up the largest portion of the target total compensation (see "Overview of compensation elements").

Base salary (fixed, in cash)

The base salary is determined at the discretion of the Board of Directors based on the market value of the respective position and the incumbent's qualifications, skills set and experience. An internal job grading provides orientation and fosters internal equity.

Benefits

Members of the Executive Committee participate in the regular employee pension fund applicable to all employees in Switzerland. The retirement plan consists of a basic plan that covers annual earnings up to CHF 147'876 per year and a supplementary plan in which income over this limit, up to the ceiling set by law, is insured (including variable cash remuneration). The contributions are age-related and are shared between the employer and the employee.

Furthermore, each member of the Executive Committee is entitled to a representation allowance in line with the expense regulations for all members of management in Switzerland and approved by the tax authorities.

Bonus (variable, performance-based, cash remuneration)

The bonus rewards the financial performance of the company and/or its businesses, as well as the achievement of individual performance objectives over one calendar year. Performance objectives are defined at the beginning of the year during annual target setting. Achievement is assessed against each of those objectives after year-end and directly influences the variable incentive payouts.

Performance appraisal

→ Target setting	→ Performance assessment	→ Compensation determination
Definition of two to four individual performance objectives at the beginning of the year	Performance assessment at year-end	Determination of incentive payouts on the basis of the company's/division's performance and achievement of individual objectives

The target bonus is expressed as a percentage of annual base salary. It amounts to 90% for the CEO and to 60% for the other members of the Executive Committee. For the CEO and the other members of the Executive Committee, 70% of the bonus is based on the achievement of financial objectives at company and/or division level, and 30% is based on the achievement of individual objectives as described below:

Category	Weight	Objectives	Rationale		CEO/CFO/ CHRO	Division President
Financial performance	70%	Operational EBITA in % of sales	Measure of profitability (bottom line)	Sulzer	25%	7.5%
				Division		17.5%
		Sales	Measure of growth (top line)	Sulzer	25%	7.5%
				Division		17.5%
		Operational operating net cash flow (opONCF)	Measure of cash generated by the revenues	Sulzer	20%	6%
				Division		14%
Individual performance	30%	Cost optimization	Objectives linked to cost and profitability in context with "Sulzer Full Potential" initiative	Individual	10%	10%
		Growth initiatives	Include initiatives that support the growth of Sulzer, such as M&A projects, breaking into new markets or new accounts	Individual	10%	10%
		Faster and better	Initiatives focused on the profitability of Sulzer, with objectives linked to speed ("faster") and quality ("better")	Individual	10%	10%
				Total	**100%**	**100%**

The objectives are set within the annual target-setting process. For each financial objective, the following parameters are set upfront:

- An expected level of performance ("target"), the achievement of which leads to a payout factor (on the respective performance metric) of 100%.
- A minimum level of performance ("threshold") below which the respective payout factor is zero.
- A maximum level of performance ("cap") above which the respective payout factor is capped at 200%. With respect to the financial objectives, a performance of 200% of the target figure is required to achieve a payout factor of 200%.

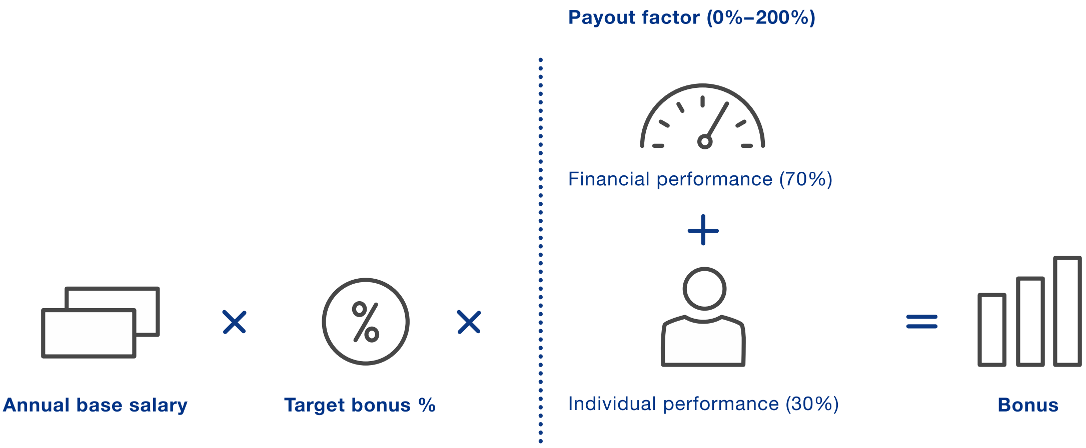
Between threshold and target, as well as between target and cap, the payout factor is interpolated linearly.

In order to measure individual performance, each Executive Committee member is given different personal objectives for each of the three individual performance categories ("Cost optimization", "Growth initiatives" and "Faster and Better") at the beginning of the financial year. "Cost optimization", for example, includes objectives like cost saving (travel spend reduction, real estate costs reduction, etc.) whereas objectives for the category "Faster and Better" are, among others, on time delivery percentage improvement, employee engagement progression (measured through external opinion survey) or health and safety accident frequency rates (AFR) reduction. "Growth initiatives" include for example successful completion of M&A actions or sales growth in specific countries. The CEO reviews the individual performance based on the personal objectives of each EC member which in turn is reviewed by the NRC, the CEO's individual performance is assessed by the NRC.

Sulzer strives for transparency in relation to pay for performance. However, further disclosure of financial and individual objectives may create a competitive disadvantage to the company, because it renders sensitive insights into Sulzer's strategy. To ensure transparency while avoiding competitive risk, Sulzer provides a general performance assessment for each financial objective as well as the aggregated individual performance at the end of the performance cycle (see chapter "Compensation of the Executive Committee for 2019").

On the basis of this performance assessment, a payout factor is determined for each financial objective as a result of the actual performance. The weighted average of the resulting payout factors on each performance metric will be multiplied by the target bonus amount to derive the actual bonus which will be paid out in March of the following year.

Bonus calculation



The objectives for the bonus plan are linked to Sulzer's strategic goal of promoting sustainable and profitable growth of the company. They are chosen to provide different incentives for growth and shareholder value creation.

Strategic link of bonus plan

	Growth	Profitability	Long-term shareholder value creation
Bonus Plan	✓	✓	✓
Operational EBITA		✓	
Sales	✓		
opONCF			✓
Cost optimization		✓	
Growth Initiatives	✓		✓
Faster and better		✓	

Performance share plan (variable, performance-based, share-based remuneration)

The long-term shareholder orientation and value creation is incentivized by a performance share plan (PSP) granting performance share units to the members of the Executive Committee. Performance share units (PSU) are a conditional right to a certain number of shares of the company, subject to ongoing employment and to the achievement of strategic/financial performance targets on group level over the three-year performance period. The performance share plan selected participants based on the performance of the company over three years and aligns the interests of the participants with those of the shareholders by delivering a substantial portion of the compensation as company equity. This emphasizes and supports Sulzer's focus on pay for performance and sustainable growth, with a long-term perspective and additional retention effect on employees.

The performance share plan (PSP) is a plan with annual grants and is available exclusively to the members of the Executive Committee and of the Sulzer Management Group. The grant value is determined based on the level of the executive's role and amounts to CHF 1'440'000 for the CEO and to between CHF 330'000 and CHF 400'000 (determined by the Board of Directors) for the other members of the Executive Committee. The number of performance share units (PSU) granted is calculated by dividing the grant value by the three-month volume-weighted average share price before the grant date.

The key performance criteria being measured over the three-year performance period of PSU are:

- Operating income before restructuring, amortization, impairments and non-operational items (opEBITA) growth, weighted with 25%;
- Average operational return on capital employed (opROCEA), weighted with 25%;
- Relative total shareholder return (TSR) weighted with 50% and measured against two different peer groups: 75% of this part of the performance measurement is based on the performance against international peers measured as percentile ranking, and 25% is based on the performance against the companies of the Swiss Market Index Mid (SMIM) measured as a delta (see box "Peer group for relative TSR performance of PSP 2019").

Peer group for relative TSR performance of PSP 2019

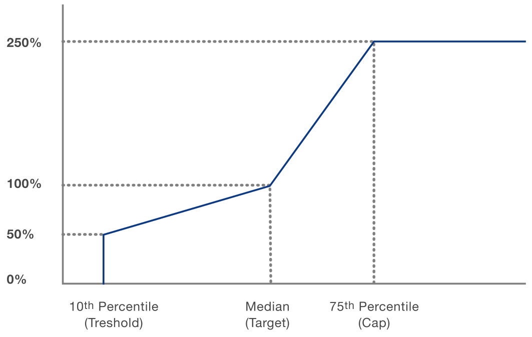
International peers		Swiss Market Index Mid (SMIM)
• Ebara	• Pentair	All companies of the SMIM
• Flowserve	• SPX Flow	
• ITT	• Weir	
• Kirloskar Brothers	• Wood Group	
• KSB	• Xylem	

Both peer groups did not change in the reporting year. The Board of Directors can alter the composition of the peer group if deemed necessary, e.g. in case of a merger or acquisition or any other change leading to a delisting or a fundamental change in the scope of the business of a peer group company. In such a situation, the Board will select new peer companies. There is a predefined successor list of companies to support the Board of Directors in the selection process.

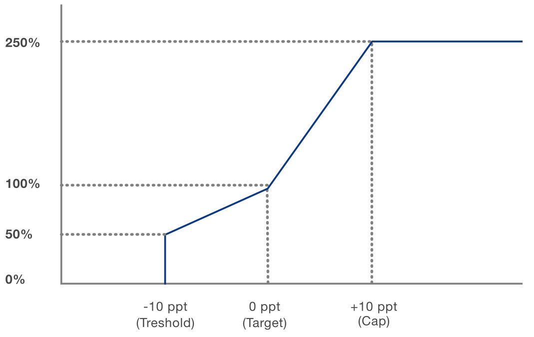
The Board of Directors deems these metrics to be the most relevant key performance indicators for the sustainable development of the Sulzer group, combining growth, profitability and shareholder return in comparison to the relevant peers and markets.

For each performance condition of the PSP, a threshold, target and cap performance level is determined, which in turn determines the achievement factor. Sulzer strives for transparency in relation to pay for performance and discloses all information whose exposure cannot lead to strategic disadvantages.

In 2019: Relative TSR – Industrial peers

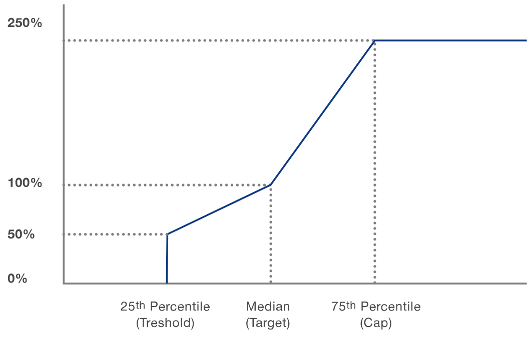


Relative TSR – SMIM



From 2020, the threshold for the relative TSR in the industrial peer group will be changed back to the 25th percentile (as described in detail in chapter "Special report"). The performance metric for the relative TSR in the SMI Mid remains unchanged.

From 2020: Relative TSR – Industrial peers



Disclosure of internal financial objectives may create a competitive disadvantage to the company because it renders sensitive insights into Sulzer's strategy. To ensure transparency while avoiding competitive risk, Sulzer provides a general performance assessment for each performance criteria at the end of the performance cycle based on the following metric (see chapter "Compensation of the Executive Committee for 2019").

Level of performance	Achievement factor
• Below threshold	0%
• Threshold	50%
• Target	100%
• Cap	250%
• Points in between	Linear interpolation

On the vesting date, the number of vested PSU is calculated by multiplying the initial number of PSU granted by the weighted average of the achievement factor of each performance condition. For each vested PSU, a Sulzer share will be delivered to the participant.

Number of PSU vested

Number of PSU granted	×	Achievement opEBITA growth (0–250%)x25%	+	Achievement average opROCEA (0–250%)x25%	+	Achievement relative TSR (0–250%)x50%	=	Number of PSU vested
Number of PSU granted Grant values are defined based on the level of the role: • CEO: CHF 1'440'000 • EC: CHF 330'000 to CHF 400'000		**Factor based on operational EBITA growth** Operational EBITA growth is the percentage change between opEBITA in the last fiscal year before the start of the performance period and opEBITA in the last fiscal year of the performance period.		**Factor based on average opROCEA** Average opROCEA is the sum of adjusted opROCE based on audited figures in each fiscal year of the performance period, divided by the number of such years.		**Factor based on relative TSR** Relative TSR is defined as share price growth plus dividends during the vesting period divided by the ending share price, measured against peers.		**Number of PSU vested** The maximum vesting value is capped at a multiple of the value at grant: • CEO: CHF 3'600'000 • EC: CHF 825'000 to CHF 1'000'000

However, while the above-mentioned performance assessment impacts the number of PSU vested and, consequently, the number of shares delivered, there might also be an increase in value per share over the three-year performance period, which may have a relevant impact on the actually delivered total value after three years. Therefore, the number of vested PSU is subject to an absolute value cap representing, in each case, 2.5 times the original grant value.

The objectives for the PSP are linked to Sulzer's strategic goal of promoting sustainable and profitable growth of the company. They are chosen to provide different incentives for growth and shareholder value creation.

Strategic link of PSP

	Growth	Profitability	Long-term shareholder value creation
PSP	✓	✓	✓
Operational EBITA growth	✓	✓	✓
opROCEA		✓	
Relative TSR	✓	✓	✓

In case of termination of employment, the following provisions apply:

Type of termination	Provision
By the employer for cause	Unvested PSU forfeit
As a result of retirement	Vesting and performance measurement of PSU continues according to plan, no early allocation of the shares.
Any other reason	The number of unvested PSU vest on a pro rata basis (number of months between grant date and termination date) according to the achievement factor at the end of the vesting period. There is no early allocation of the shares.

Upon the occurrence of a change of control, PSU will vest immediately on a pro rata basis, subject to a performance assessment by the Board of Directors. In such a case, the Board of Directors may also determine a cash settlement of the awards.

Malus and clawback

The Board of Directors may determine that a PSU is forfeited in full or in part (malus) or that a vested award will be recovered in full or in part (clawback) in situations of material misstatement of the financial results, an error in assessing a performance condition or in the information or assumptions on which the award was granted or vested, serious reputational damage to the company, gross negligence, or willful misconduct on the part of the participant.

Further information on share-based compensation can be found in note 31 to the "Consolidated Financial Statements of Sulzer Ltd."

Contracts of employment

The employment contracts of the Executive Committee are of undetermined duration and have a notice period of maximum 12 months. Members of the Executive Committee are not entitled to any impermissible severance or change of control payments. The employment contracts of the Executive Committee may include non-competition agreements with a time limit of one year and with a maximum total compensation of one annual target compensation.

Shareholding requirements

There are currently no contractual shareholding requirements for Executive Committee members or other employees. Beginning 2020, such shareholding requirements for members of the Executive Committee will be introduced. According to these Share Ownership Guidelines (SOG) the members of the Executive Committee are obliged to hold part of their shares until the end of their service period. The value of the shares to be held is set at 200% of the annual gross base salary for the CEO and 100% of the annual gross base salary for the other members of the Executive Committee.

Function	**Shareholding requirement in % of base salary**
CEO	200%
Other EC members	100%

Compensation of the Executive Committee for 2019

In 2019, the Executive Committee received a total compensation of CHF 15’370’180 (previous year: CHF 16’703’113). Of this total, CHF 6’845’153 was in cash (previous year: CHF 7’773’076); CHF 6’290’403 was in PSU (previous year: CHF 4’462’417); CHF 1’908’991 was in pension and social security contributions (previous year: CHF 2’066’420), and CHF 325’632 was in other payments (previous year: CHF 2’401’200).

Compensation of the Executive Committee (audited)

	2019						
	Cash compensation					Deferred compensation based on future performance	
thousands of CHF	Base salary	Bonus[2]	Other[3]	Pension and social security contributions[4]	Total cash-based compensation	Estimated value of share-based grant under the Performance Share Plan (PSP)[5]	Total (incl. conditional share-based grant)
Highest single compensation, Greg Poux-Guillaume, CEO	1’021	1’183	67	493	2’765	2’709	5’474
Total Executive Committee[1]	**3’663**	**3’182**	**326**	**1’909**	**9’080**	**6’290**	**15’370**

	2018						
	Cash compensation					Deferred compensation based on future performance	
thousands of CHF	Base salary	Bonus[2]	Other[3]	Pension and social security contributions[4]	Total cash-based compensation	Estimated value of share-based grant under the Performance Share Plan (PSP)[5]	Total (incl. conditional share-based grant)
Highest single compensation, Greg Poux-Guillaume, CEO	1’021	1’375	1’081	528	4’005	1’841	5’846
Total Executive Committee[1]	**4’090**	**3’683**	**2’401**	**2’066**	**12’241**	**4’462**	**16’703**

1) The total Executive Committee compensation for 2019 includes the compensation of Greg Poux-Guillaume, CEO since December 1, 2015; Jill Lee, CFO since April 2018; Daniel Bischofberger, Division President Rotating Equipment Services since September 2016; Torsten Wintergerste, Division President Chemtech since June 2016; Armand Sohet, Chief Human Resources Officer since March 2016; Frédéric Lalanne, Division President Pumps Equipment since January 2019; Girts Cimermans, Division President Applicator Systems since October 21, 2019. The total Executive Committee compensation for 2018 includes Greg Poux-Guillaume, CEO since December 1, 2015; Thomas Dittrich, CFO until March 2018; Jill Lee, CFO since April 2018; Michael Streicher, Division President Pumps Equipment until December 2018; Daniel Bischofberger, Division President Rotating Equipment Services since September 2016; Torsten Wintergerste, Division President Chemtech since June 2016; Armand Sohet, Chief Human Resources Officer since March 2016; Frédéric Lalanne, Chief Commercial and Marketing Officer until December 2018.
2) Expected bonus for the performance years 2019 and 2018 respectively, that is paid out in the following year (accrual principle). Includes pro rata short-term incentive (STI) payments for EC members whose employment contracts started or were terminated during the year.
3) Other consists of housing allowances, relocation allowance, schooling allowances, tax services and child allowances. For 2018, this category also includes the step-up in fair value of outstanding PSU (PSP 2016 and PSP 2017) resulting from the Board’s 2018 decision 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.
4) Includes the employer contribution to social security (including the expected employer contributions on equity awards), based on the fair value of all grants made in 2019 and 2018, respectively (PSP).
5) Represents the full fair value of the PSU granted under the PSP in 2019 (including regular annual grants as well as one-off special grant as further detailed in the Compensation Report, which were granted on the same date and based on the same reference price as the regular annual grants) and 2018 respectively. PSU granted in 2019 had a fair value of CHF 115.95 at grant date, based on a third-party fair value calculation. While the share price to convert the grant value into a number of granted PSU is based on the three-month weighted average share price before the grant date (CHF 92.46 per PSU for April 2019 grants), the disclosed fair values are calculated on the grant dates by using market value approaches, which typically leads to differences between the original grant value according to the compensation architecture and the disclosed fair market values.

The total compensation of CHF 15’370’180 awarded to the members of the Executive Committee for the 2019 financial year is within the maximum aggregate compensation amount of CHF 21’505’000 that was approved by the shareholders at the 2018 AGM.

No severance payments to members of the Executive Committee were made during the reporting year.

As of December 31, 2018 and December 31, 2019, there were no outstanding loans or credits granted to the members of the Executive Committee or former members of the Executive Committee (audited).

In 2018 and 2019, no compensation was granted to former members of the Executive Committee or related parties (audited).

Compensation for the Executive Committee: pay-for-performance assessment

In 2019, Sulzer successfully progressed on its expansion path. We acquired and integrated:

- End of April 2019: GTC Technology
- July 2019: Alba Power

In both cases, this will supplement and further boost our local expertise and delivery power.

In the following, we elaborate further on how the relevant business performance impacted the variable compensation models of our Executive Committee. More detailed information about Sulzer’s operational and strategic performance in 2019 can be found in the financial report.

a) Total compensation and pay for performance relation

Total compensation of Executive Committee

Fixed compensation		Variable compensation	
Base salary Base salary	**Benefits** Pension and social security contributions, fringe benefits	**Short-term incentive plan** Bonus plan	**Long-term incentive plan** Performance share plan (PSP)
24%	14%	21%	41%
38%		62%	

Total compensation of EC

In 2019, the Executive Committee received a total compensation of CHF 15’370’180 (previous year: CHF 16’703’113). This is an overall decrease of 8.0% from the previous year. The main changes compared with the previous year are as follows:

- The roles and corresponding job sizes of two current EC members were reevaluated. This reevaluation and subsequent market benchmarking led to higher LTI grant entitlements.
- Since October 2019, the role of the Division President APS newly also forms part of the EC, and as such the respective compensation is included in the 2019 compensation table for the Executive Committee.
- The exceptional one-off grant of additional performance share units under the PSP as further detailed in section c) below.

For the entire Executive Committee, the variable component amounted to between 40% and 246% of the fixed component (base salary, other, pension and social security contributions). This pay for performance relation reflects Sulzer's high-performance orientation. Further, it represents the company's strong emphasis on aligning the interests of the Executive Committee and the shareholders to create long-term shareholder value and profitable growth.

On a like-for-like basis (EC members employed in both 2019 and 2018), the base salaries of the EC members increased by 1.1% on average. Regarding cash bonus payments and LTI amounts, see the following paragraphs.

b) Short-term incentive (cash bonus payouts)

In 2019, Sulzer again made good progress towards its transformation goals. We grew organically but also through acquisitions in all divisions. The financial component of the bonus ranged from 109% to 133% of targeted payout (on average 127%) and significant progress on our transformation path led to a high level of achievement of individual objectives. The financial performance on group level was as follows:

KPI	Weighting	Payout factor
Operational EBITA in % of sales	25%	130.7%
Sales	25%	97.3%
opONCF	20%	179.6%
Total	**70%**	**132.5%**

The individual performance was set at 120% to consider the exceptional team performance. For the newly appointed Executive Committee member Girts Cimermans, individual performance was determined at 100%. In recent years, however, the individual performance was very diverse among the members of the Executive Committee.

Overall, this translated into an overall bonus payout factor ranging from 106% to 129% (on average 124%) for the members of the Executive Committee.

c) Long-term incentive (PSP)

We are convinced that the conditional awards to receive Sulzer shares, subject to operational return on capital employed (opROCEA), operating income before restructuring, amortization, impairments and non-operational items (opEBITA) and total shareholder return (TSR) performance as well as ongoing employment through the three-year vesting period:

- constitutes a very attractive element of variable long-term remuneration for our key management;
- supports and underlines the company's focus on excellent, sustainable performance;
- and provides for a strong alignment of interests with shareholders also in the longer term.

The PSP framework (apart from the specific performance targets for each grant cycle), eligibility and grant entitlement remained unchanged in 2019 compared to previous years.

The roles and corresponding job sizes of two current EC members were reevaluated which resulted, based on a corresponding benchmark, in a higher LTI grant entitlement for those two individuals. This is reflected in the PSP grant amounts disclosed in this report.

The special grant in 2019 for the EC members is included in the PSP grant amounts disclosed in the above compensation tables.

The PSP 2017 vested on December 31, 2019. The relevant key performance indicators (KPI's) were operating income before restructuring, amortization, impairments and non-operational items (opEBITA) growth, operational return on capital employed (opROCEA) and relative total shareholder return (TSR) over the three-year period from 2017 to 2019. Operational performance in this period was very good, even beyond expectations. The result was a total payout factor of 129% for the PSP 2017, which reflects growth and performance, both against budget targets and against market peers, in the three-year period from 2017 to 2019. The total payout factor results as follows:

KPI	Weighting	Payout factor
opEBITA	25%	150%
opROCEA	25%	127%
Rel. TSR	50%	120%
Total	**100%**	**129%**

Overall, the PSP vesting levels fairly reflected the operational performance, also against direct peers, over the respective three-year performance cycles, so Sulzer fully achieved the desired strong link between sustainable company performance and competitive long-term incentive payouts.

Shareholdings of the Executive Committee

As of the end of 2018 and 2019, the members of the Executive Committee held the following shares in the company:

Shareholdings at December 31, 2019

	2019				
	Sulzer shares	**Share units under vesting in equity plans (RSU and PSP)**			
	Sulzer shares	Restricted share units (RSU)	Performance share units (PSU) 2017	Performance share units (PSU) 2018	Performance share units (PSU) 2019
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

Shareholdings at December 31, 2018

	2018				
	Sulzer shares	**Share units under vesting in equity plans (RSU and PSP)**			
	Sulzer shares	Restricted share units (RSU)	Performance share units (PSU) 2016	Performance share units (PSU) 2017	Performance share units (PSU) 2018
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
Torsten Wintergerste	1’708	–	971	3’024	2’938
Michael Streicher	764	–	1’942	1’375	2’938

Compensation architecture for the Board of Directors

The compensation of the Board of Directors is fixed and does not contain any performance-based variable component. This ensures that the Board of Directors is truly independent in fulfilling its supervisory duties towards the Executive Committee.

The compensation of the Board of Directors is governed by a compensation regulation, is reviewed by the Nomination and Remuneration Committee (NRC) annually and, if necessary, adjusted by a decision of the full Board of Directors based on a proposal by the NRC.

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. Each RSU represents a right to receive a Sulzer share free of charge after a certain period, as further detailed below. Further, Board members are entitled to a lump sum to cover business expenses. The RSU component strengthens the long-term alignment of the interests of the Board members with those of the shareholders. To reinforce the focus of the Board of Directors on the long-term strategy and to strengthen its independence from the Executive Committee, the compensation of the Board of Directors contains no performance-related elements and Board members are not entitled to pension benefits.

The amount of compensation for the Chairman and for the other members of the Board of Directors is determined based on the relevant compensation benchmarks. The compensation reflects the responsibility and complexity of their respective function, the professional and personal requirements placed on them, and the expected time required to fulfill their duties. At the end of 2018, an independent external third party (with no further mandates at Sulzer) provided to the NRC specific market data regarding Board compensation. Based on those data and considering the increased importance of committees, the NRC performed an assessment and decided to increase the committee fees for Committee Chairmanship and Committee membership, effective for the compensation period starting at the AGM 2019. The ongoing Board compensation structure and amounts are described in the table below:

Annual compensation of the Board of Directors[1)]

in CHF	Cash component (net of social security contributions)	Grant value of restricted share units (net of social security contributions)	Lump-sum expenses
Base fee for Board Chairmanship[2)]	420’000	250’000	10’000
Base fee for Board Vice Chairmanship	100’000	155’000	5’000
Base fee for Board membership	70’000	125’000	5’000
Additional committee fees:			
Committee Chairmanship	60’000 (previously 40’000)		
Committee membership	35’000 (previously 25’000)		

1) Compensation for the period of service (from AGM to AGM).

2) The Chairman of the Board of Directors does not receive additional remuneration for committee activities.

The members of the Board of Directors are remunerated for their service during their term of office (from AGM to AGM). The cash remuneration is paid in quarterly installments for Board members and monthly installments for the Chairman; the expense lump sum is paid out in December and the RSU are granted once a year. The number of RSU is determined by dividing the fixed grant value by the volume-weighted average share price of the last ten trading days before the grant date, which lies between the date of the publication of the year-end results and the Annual General Meeting. 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 the company. 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. Although the value of the RSU grant is fixed (at grant), it then fluctuates with the share price during the vesting period, which means that the value at vesting can differ from the value at grant.

Compensation of the Board of Directors for 2019

In 2019, the Board of Directors received a total compensation of CHF 2’542’208 (previous year: CHF 2’637’654). Of this total, CHF 1’281’957 was in the form of cash fees (previous year: CHF 1’225’730); CHF 1’030’000 was in RSU (previous year: CHF 1’155’000) and CHF 230’251 was in the form of social security contributions (previous year: CHF 256’923).

The aggregate Board compensation paid in 2019 was 3.6% lower than in 2018, which is due to the lower number of Board members since May 2018.

Apart from the increase of the committee fees, the structure and level of the Board compensation remained unchanged compared with the previous year.

The portion of compensation delivered in restricted share units (RSU) amounts to 56% of the cash compensation for the Chairman, and to between 74% and 114% for the other active members of the Board of Directors. The RSU are subject to a staged three-year vesting period.

Compensation of the Board of Directors (audited)

	2019				2018			
thousands of CHF	Cash fees 8)	Restricted share unit (RSU) plan 9)	Social security contri-butions 10)	Total	Cash fees 8)	Restricted share unit (RSU) plan	Social security contri-butions 10)	Total
Board of Directors	**1’282**	**1’030**	**230**	**2’542**	**1’226**	**1’155**	**257**	**2’638**
Peter Löscher, Chairman 1)	446	250	64	760	446	250	69	765
Matthias Bichsel, Vice Chairman	140	155	32	327	133	155	33	322
Hanne Birgitte Breinbjerg Sørensen 2)	168	125	30	323	108	125	27	260
Lukas Braunschweiler 3)	109	125	26	260	76	125	25	226
Mikhail Lifshitz	109	125	26	260	102	125	27	253
Marco Musetti	144	125	28	297	117	125	28	270
Gerhard Roiss 4)	165	125	25	315	132	125	16	273
Axel C. Heitmann 5)	–	–	–	–	40	125	23	187
Thomas Glanzmann 6)	–	–	–	–	40	0	4	44
Jill Lee 7)	–	–	–	–	32	0	4	36

1) Chairman of the Board of Directors and Chairman of the Strategy Committee.
2) Member of the Board of Directors and Chairwoman of the Audit Committee since April 4, 2018.
3) Member of the Board of Directors since April 4, 2018.
4) Member of the Board of Directors since April 1, 2015. Chairman of the Nomination and Remuneration Committee since April 4, 2018.
5) Member of the Board of Directors until May 25, 2018.
6) Chairman of the Nomination and Remuneration Committee until April 4, 2018.
7) Chairwoman of the Audit Committee until December 11, 2017. Member of the Board of Directors until April 4, 2018.
8) Disclosed gross.
9) RSU awards granted in 2019 had a fair value of CHF 97.76 at grant date. The amount represents the full fair value of grants made in 2019.
10) The amount includes mandatory social security contributions on the cash fees and estimated contributions on the RSU (based on their fair value at grant) and includes both the employer and employee contributions paid by the company on behalf of the Board members.

At the 2019 and 2018 AGM respectively, shareholders approved a maximum aggregate compensation amount of CHF 2’984’000 for the Board of Directors for the period of office from the 2019 AGM until the 2020 AGM and of CHF 2’984’000 for the period of office from the 2018 AGM until the 2019 AGM. The table below shows the reconciliation between the compensation that is/will be paid out for the two periods of office and the maximum aggregate compensation amounts approved by the shareholders.

Reconciliation between the reported Board compensation and the amount approved by the shareholders at the Annual General Meeting

	Compensation earned during financial year as reported (A)	Minus compensation earned from Jan to AGM of financial year (B)	Plus compensation accrued from Jan to AGM of year following financial year (C)	Total compensation earned for the period from AGM to AGM (A-B+C)	Amount approved by shareholders at respective AGM	Ratio between compensation earned for the period from AGM to AGM versus amount approved by shareholders
AGM 2019–AGM 2020	2019	Jan 1, 2019 to 2019 AGM	Jan 1, 2020 to 2020 AGM	2019 AGM to 2020 AGM	2019 AGM	2019 AGM
Board (total)	**2’542’208**	**324’428**	**354’767**	**2’572’548**	**2’984’000**	**86.2%**
AGM 2018–AGM 2019	2018	Jan 1, 2018 to 2018 AGM	Jan 1, 2019 to 2019 AGM	2018 AGM to 2019 AGM	2018 AGM	2018 AGM
Board (total)	**2’637’654**	**387’961**	**366’336**	**2’616’029**	**2’984’000**	**87.7%**

As of December 31, 2018 and December 31, 2019, there were no outstanding loans or credits granted to the members of the Board of Directors, former members of the Board of Directors or related parties (audited).

In 2018 and 2019, no compensation was granted to former members of the Board of Directors or related parties (audited).

Shareholdings of the Board of Directors

As of the end of 2018 and 2019, the members of the Board of Directors held the following shares in the company:

Shareholdings at December 31, 2019

	2019		
	Sulzer shares	Restricted share units (RSU)	Total share awards and shares
Board of Directors	**47’461**	**18’549**	**66’010**
Peter Löscher	17’121	4’692	21’813
Matthias Bichsel	6’801	2’911	9’712
Hanne Birgitte Breinbjerg Sørensen	249	1’951	2’200
Lukas Braunschweiler	335	1’951	2’286
Mikhail Lifshitz	3’622	2’348	5’970
Marco Musetti	7’480	2’348	9’828
Gerhard Roiss	11’853	2’348	14’201

Shareholdings at December 31, 2018

	2018		
	Sulzer shares	Restricted share units (RSU)	Total share awards and shares
Board of Directors	**38’114**	**16’516**	**54’630**
Peter Löscher	14’607	4’647	19’254
Matthias Bichsel	5’241	2’884	8’125
Hanne Birgitte Breinbjerg Sørensen	–	1’005	1’005
Lukas Braunschweiler	–	1’005	1’005
Mikhail Lifshitz	1’449	2’325	3’774
Marco Musetti	6’222	2’325	8’547
Gerhard Roiss	10’595	2’325	12’920

Report of the Statutory Auditor

To the General Meeting of Sulzer Ltd, Winterthur

We have audited the Compensation Report of Sulzer Ltd for the year ended December 31, 2019. The audit was limited to the information according to articles 14-16 of the Ordinance against Excessive compensation in Stock Exchange Listed Companies (Ordinance) contained in the tables and sections labeled "audited" in the chapters "Compensation of the Executive Committee for 2019" and "Compensation of the Board of Directors for 2019" of the Compensation Report.

Responsibility of the Board of Directors

The Board of Directors is responsible for the preparation and overall fair presentation of the Compensation Report in accordance with Swiss law and the Ordinance against Excessive compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

Auditor's Responsibility

Our responsibility is to express an opinion on the Compensation Report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Compensation Report complies with Swiss law and articles 14 – 16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the Compensation Report with regard to compensation, loans and credits in accordance with articles 14 – 16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the Compensation Report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the Compensation Report.

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

Opinion

In our opinion, the Compensation Report for the year ended December, 31 2019 of Sulzer Ltd complies with Swiss law and articles 14 – 16 of the Ordinance.

KPMG AG

François Rouiller
Licensed Audit Expert
Auditor in Charge

Simon Niklaus
Licensed Audit Expert

Zurich, February 17, 2020

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

Financial reporting

English only

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

		Attributable to shareholders of Sulzer Ltd							
millions of CHF	Notes	Share capital	Retained earnings	Treasury shares	Cash flow hedge reserve	Currency translation adjustment	**Total**	Non-controlling interests	**Total equity**
Equity as of January 1, 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			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		–	–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**

Notes to the consolidated financial statements

English only

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

	Pumps Equipment		Rotating Equipment Services		Chemtech		Applicator Systems	
millions of CHF	**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
Sales[3]	**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

	Total divisions		Others[4]		Total Sulzer	
millions of CHF	**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
Sales[3]	**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

					2019
millions of CHF	Pumps Equipment	Rotating Equipment Services	Chemtech	Applicator Systems	Total Sulzer
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**

					2018
millions of CHF	Pumps Equipment	Rotating Equipment Services	Chemtech	Applicator Systems	Total Sulzer
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
			Impact on post-tax profit	
Variable-interest-bearing assets (net)	Amount	Sensitivity in basis points	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
			Impact on post-tax profit	
Variable-interest-bearing assets (net)	Amount	Sensitivity in basis points	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

						2019
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	–1'109.5	–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 OCI[1]	**–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 31 1)	**–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

	2019			2018		
millions of CHF	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

	2019					
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	–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**

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
						2018
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)

millions of CHF	Amount	Potential tax assets	Valuation allowance	Carrying amount	TLCF
					2019
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**

millions of CHF	Amount	Potential tax assets	Valuation allowance	Carrying amount	TLCF
					2018
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

						2019
millions of CHF	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).

millions of CHF	Goodwill	Trademarks and licenses	Research and development	Computer software	Customer relationship	Total
						2018
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.

	2019			2018		
millions of CHF	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		
millions of CHF	Headroom	Terminal growth rate: Change required for carrying amount to equal recoverable amount	Pre-tax discount rate: Change required for carrying amount to equal recoverable amount	Headroom	Terminal growth rate: Change required for carrying amount to equal recoverable amount	Pre-tax discount rate: Change required for carrying amount to equal recoverable amount
Pumps Equipment	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
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	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).

millions of CHF	Land and buildings	Machinery and technical equipment	Other non-current assets	Assets under construction	Total
					2018
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

	2019			
millions of CHF	Land and buildings, leased	Machinery and technical equipment, leased	Other non-current assets, leased	Total
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

	2019		
millions of CHF	Non-current lease liabilities	Current lease liabilities	Total
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

			2019
millions of CHF	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

			2018
millions of CHF	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

	2019				2018			
millions of CHF	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

	2019		2018	
thousands of CHF	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

			2019
millions of CHF	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**

			2018
millions of CHF	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

	2019		2018	
millions of CHF	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

	2019					
millions of CHF	Other employee benefits	Warranties/ liabilities	Restructuring	Environmental	Other	**Total**
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

	2019				2018			
	Derivative assets		Derivative liabilities		Derivative assets		Derivative liabilities	
millions of CHF	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

	2019				2018			
thousands of CHF	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:

	2019		2018	
CHF	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 of 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	— Standard products made to stock — New pumps — Spare parts	n/a	PIT
Configured business	— Preconfigured products — Assembled and packaged on customer order	OT	PIT
Engineered business	— Highly customized products — Engineered to order according to customer's specifications	OT	PIT
Rotating Equipment Services			
Repair	— Turbo — Electromechanical — Pumps	OT	PIT
Parts	— 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	— 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	— Off-the-shelf articles of stock materials — Articles purchased for sale	n/a	PIT
Components	— 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	— 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	— 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.

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.

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

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, Räffelstrasse 28, PO Box, CH 8036 Zurich

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

	Order intake					Sales				
millions of CHF	**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**

	Order backlog					Employees[1)]				
millions of CHF	**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**

	OpEBITA					OpROSA				
millions of CHF	**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 location[1)]

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.

Financial statements of Sulzer Ltd

English only

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

	2019		2018	
millions of CHF	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

	2019		2018	
millions of CHF	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 Sørensen	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 Sørensen	–	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

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Disclaimer

This report may contain forward-looking statements, including, but not limited to, projections of financial developments and future performance of materials and products, containing risks and uncertainties. These statements are subject to change based on known and unknown risks and various other factors that could cause the actual results or performance to differ materially from the statements made herein.

Rounding

Due to rounding, numbers presented throughout this report 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.

Languages

Parts of the Sulzer Annual Report 2019 have been translated into German. Please note that the English-language version of the Sulzer Annual Report is the binding version.