Financial reporting

Consolidated income statement

January 1 – June 30

millions of CHF	Notes	2018	2017
Sales	3	1'604.2	1'428.5
Cost of goods sold		–1'108.0	–981.8
Gross profit		**496.2**	**446.7**
Selling and distribution expenses		–180.2	–166.9
General and administrative expenses		–185.0	–174.2
Research and development expenses		–42.6	–39.2
Other operating income and expenses, net	6	2.1	–11.1
Operating income		**90.5**	**55.3**
Interest and securities income	7	1.5	1.8
Interest expenses	7	–10.8	–6.4
Other financial income and expenses, net	7	4.4	–0.3
Share of profit and loss of associates		0.7	–0.4
Income before income tax expenses		**86.3**	**50.0**
Income tax expenses	8	–20.0	–12.4
Net income		**66.3**	**37.6**
attributable to shareholders of Sulzer Ltd		64.3	36.9
attributable to non-controlling interests		2.0	0.7
Earnings per share (in CHF)			
Basic earnings per share		2.01	1.08
Diluted earnings per share		2.00	1.08

Consolidated statement of comprehensive income

January 1 – June 30

millions of CHF	Notes	2018	2017
Net income		**66.3**	**37.6**
Items that may be reclassified subsequently to the income statement			
Cash flow hedges, net of tax		–2.9	9.0
Currency translation differences		–36.4	–34.6
Total of items that may be reclassified subsequently to the income statement		**–39.3**	**–25.6**
Items that will not be reclassified to the income statement			
Remeasurements of defined benefit obligations, net of tax		19.5	22.2
Total of items that will not be reclassified to the income statement		**19.5**	**22.2**
Total other comprehensive income		**–19.8**	**–3.4**
Total comprehensive income for the period		**46.5**	**34.2**
attributable to shareholders of Sulzer Ltd		46.1	33.9
attributable to non-controlling interests		0.4	0.3

Consolidated balance sheet

millions of CHF	Notes	June 30, 2018	December 31, 2017	June 30, 2017
Non-current assets				
Goodwill		943.9	865.7	802.8
Other intangible assets		469.2	420.8	376.2
Property, plant and equipment		538.2	531.6	506.3
Associates		11.2	10.3	9.7
Other financial assets		14.6	13.6	16.9
Non-current receivables		7.7	8.8	7.5
Deferred income tax assets		145.3	139.7	153.7
Total non-current assets		**2’130.1**	**1’990.5**	**1’873.1**
Current assets				
Inventories		671.6	488.0	468.6
Current income tax receivables		21.9	27.2	17.9
Advance payments to suppliers		97.6	84.7	68.0
Contract assets		258.4	–	–
Trade accounts receivables		620.4	901.8	888.4
Other current receivables and prepaid expenses		150.0	136.3	139.7
Cash and cash equivalents		359.1	488.8	327.9
Total current assets		**2’179.0**	**2’126.8**	**1’910.5**
Total assets		**4’309.1**	**4’117.3**	**3’783.6**
Equity				
Share capital		0.3	0.3	0.3
Reserves		1’024.3	1’679.8	1’482.2
Equity attributable to shareholders of Sulzer Ltd		**1’024.6**	**1’680.1**	**1’482.5**
Non-controlling interest		22.5	22.3	13.6
Total equity		**1’047.1**	**1’702.4**	**1’496.1**
Non-current liabilities				
Non-current borrowings	10	458.1	458.7	458.9
Deferred income tax liabilities		99.8	104.8	120.0
Non-current income tax liabilities		1.5	2.3	2.6
Defined benefit obligations		213.6	239.1	301.3
Non-current provisions	11	77.6	77.6	74.4
Other non-current liabilities		18.4	17.6	24.2
Total non-current liabilities		**869.0**	**900.1**	**981.4**
Current liabilities				
Current borrowings	10	422.9	255.1	148.8
Current income tax liabilities		5.7	24.8	10.8
Current provisions	11	154.5	158.5	178.1

Contract liabilities		295.0	–	–
Trade accounts payables		449.8	433.8	376.1
Advance payments from customers		–	210.1	205.1
Other current and accrued liabilities	12	1’065.1	432.5	387.2
Total current liabilities		**2’393.0**	**1’514.8**	**1’306.1**
Total liabilities		**3’262.0**	**2’414.9**	**2’287.5**
Total equity and liabilities		**4’309.1**	**4’117.3**	**3’783.6**

Consolidated statement of changes in equity

January 1 – June 30

		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, 2017		**0.3**	**2'024.2**	**–16.9**	**–11.0**	**–415.4**	**1'581.2**	**9.8**	**1'591.0**
Comprehensive income for the period:									
Net income			36.9				36.9	0.7	37.6
– Cash flow hedges, net of tax					9.0		9.0		9.0
– Remeasurements of defined benefit obligations, net of tax			22.2				22.2		22.2
– Currency translation differences						–34.2	–34.2	–0.4	–34.6
Other comprehensive income			22.2		9.0	–34.2	–3.0	–0.4	–3.4
Total comprehensive income for the period		**–**	**59.1**	**–**	**9.0**	**–34.2**	**33.9**	**0.3**	**34.2**
Transactions with owners of the company:									
Put option liability			–13.9				–13.9		–13.9
Allocation of treasury shares to share plan participants			–5.9	5.9			–		–
Acquisition of treasury shares	9			–4.7			–4.7		–4.7
Share-based payments			5.4				5.4		5.4
Dividends	9		–119.4				–119.4	–0.7	–120.1
Change in scope of consolidation							–	4.2	4.2
Equity as of June 30, 2017		**0.3**	**1'949.5**	**–15.7**	**–2.0**	**–449.6**	**1'482.5**	**13.6**	**1'496.1**
Equity as of December 31, 2017		**0.3**	**2'069.4**	**–22.1**	**–6.5**	**–361.0**	**1'680.1**	**22.3**	**1'702.4**
Adjustment on initial application of IFRS 9, net of tax	13		–6.6				–6.6		–6.6
Adjustment on initial application of IFRS 15, net of tax	13		–29.4				–29.4		–29.4
Equity as of January 1, 2018		**0.3**	**2'033.4**	**–22.1**	**–6.5**	**–361.0**	**1'644.1**	**22.3**	**1'666.4**
Comprehensive income for the period:									
Net income			64.3				64.3	2.0	66.3
– Cash flow hedges, net of tax					–2.9		–2.9		–2.9
– Remeasurements of defined benefit obligations, net of tax			19.5				19.5		19.5
– Currency translation differences						–34.8	–34.8	–1.6	–36.4
Other comprehensive income			19.5		–2.9	–34.8	–18.2	–1.6	–19.8
Total comprehensive income for the period		**–**	**83.8**	**–**	**–2.9**	**–34.8**	**46.1**	**0.4**	**46.5**
Transactions with owners of the company:									
Changes in ownership in subsidiaries							–	0.6	0.6
Allocation of treasury shares to share plan participants			–5.3	5.3			–		–
Acquisition of treasury shares	9			–551.4			–551.4		–551.4
Share-based payments			4.9				4.9		4.9
Dividends	9		–119.1				–119.1	–0.8	–119.9
Equity as of June 30, 2018		**0.3**	**1'997.7**	**–568.2**	**–9.4**	**–395.8**	**1'024.6**	**22.5**	**1'047.1**

Consolidated statement of cash flows

January 1 – June 30

millions of CHF	Notes	2018	2017
Cash and cash equivalents as of January 1		**488.8**	**429.5**
Net income		66.3	37.6
Interest and securities income	7	–1.5	–1.8
Interest expenses	7	10.8	6.4
Income tax expenses	8	20.0	12.4
Depreciation, amortization and impairments		70.6	73.9
Income from disposals of property, plant and equipment	6	–4.7	–3.8
Changes in inventories		–94.1	–40.2
Changes in advance payments to suppliers		–9.5	13.2
Changes in contract assets		–67.2	–
Changes in trade accounts receivables		40.4	4.8
Changes in advance payments from customers		–	13.5
Changes in contract liabilities		5.8	–
Changes in trade accounts payables		15.8	–25.1
Change in provision for employee benefit plans		0.7	–4.0
Changes in provisions		–2.7	–3.5
Changes in other net current assets		–8.8	–36.3
Other non-cash items		4.8	–8.5
Interest received		1.5	1.8
Interest paid		–6.0	–2.3
Income tax paid		–39.2	–28.6
Total cash flow from operating activities		**3.0**	**9.5**
Purchase of intangible assets		–1.8	–1.7
Purchase of property, plant and equipment		–42.4	–34.1
Sale of property, plant and equipment		10.9	8.5
Acquisitions of subsidiaries, net of cash acquired	4	–209.2	–79.6
Acquisitions of associates		–	–4.6
Divestitures of subsidiaries		0.6	–
Purchase of financial assets		–0.6	–0.1
Sale of financial assets		–	0.4
Total cash flow from investing activities		**–242.5**	**–111.2**
Dividend	9	–43.1	–119.4
Dividend paid to non-controlling interests		–0.8	–0.7
Purchase of treasury shares		–5.8	–4.7
Additions in non-current borrowings	10	–	0.4
Repayment of non-current borrowings	10	–0.4	–0.8
Additions in current borrowings	10	409.0	339.9
Repayment of current borrowings	10	–240.8	–203.0
Total cash flow from financing activities		**118.1**	**11.7**

Exchange losses on cash and cash equivalents		–8.3	–11.6
Net change in cash and cash equivalents		**–129.7**	**–101.6**
Cash and cash equivalents as of June 30		**359.1**	**327.9**

Notes to the consolidated financial statements

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 unaudited consolidated interim financial statements for the six months ended June 30, 2018, comprise the company and its subsidiaries (together referred to as the “group” and individually as the “subsidiaries”) and the group’s interest in associates and joint ventures. The group specializes in pumping solutions, service solutions for rotating equipment, separation and mixing, and applicator technology. Sulzer was founded in 1834 in Winterthur, Switzerland, and employs around 15’000 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 interim financial statements have been prepared in accordance with the requirements of IAS 34 “Interim financial reporting”. This is the first set of consolidated financial statements where IFRS 9 “Financial Instruments” and IFRS 15 “Revenue from Contracts with Customers” have been applied. Details and changes of the group’s accounting policies are described in note 13.

2 Significant events and transactions during the reporting period

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

- As of January 10, 2018, the group acquired 100% of the issued shares in JWC Environmental, LLC (“JWC”) for CHF 211.3 million. JWC is headquartered in Santa Ana, California, US, and employs around 230 people. The company is a leading provider of highly engineered, mission-critical solids reduction and removal products such as grinders, screens and dissolved air flotation systems for municipal, industrial and commercial wastewater applications. The acquisition resulted in an increase in property, plant and equipment of CHF 11.3 million and the recognition of goodwill (CHF 91.8 million) and other intangible assets (CHF 87.6 million) at the date of acquisition (see note 4).
- As part of the Sulzer Full Potential (SFP) program, the group initiated several measures to adapt the global manufacturing footprint and the organizational setup. Restructuring measures resulted in restructuring expenses of CHF 5.9 million in the first half of 2018 (half year 2017: CHF 5.7 million). Associated with restructuring initiatives, the group further recognized impairments on tangible and intangible assets of CHF 0.7 million (half year 2017: CHF 13.4 million).
- This is the first set of consolidated financial statements where IFRS 9 “Financial Instruments” and IFRS 15 “Revenue from Contracts with Customers” have been applied. The application of these new accounting standards resulted in an increase in allowance for doubtful trade accounts receivables and also impacted recognition of sales, costs of goods sold and gross profit for some construction contracts. Details and changes of the group’s accounting policies are described in note 13.
- Sulzer purchased five million treasury shares from Renova. The purchase price for the five million shares Sulzer acquired, came to CHF 109.13 for a transaction value of CHF 545.7 million. The related purchase price is recognized as “other current and accrued liabilities” in the balance sheet.

For a detailed discussion about the group’s performance and financial position please refer to the “Business review.”

3 Segment information

Segment information by divisions

	Pumps Equipment		Rotating Equipment Services		Chemtech		Applicator Systems	
millions of CHF	2018	2017	2018	2017	2018	2017	2018	2017
Order intake[1]	**719.8**	**581.8**	**572.1**	**537.2**	**280.0**	**265.5**	**229.5**	**210.1**
Nominal growth	23.7%	4.1%	6.5%	5.0%	5.5%	7.4%	9.2%	97.8%
Currency adjusted growth	21.3%	5.2%	6.5%	4.5%	5.0%	7.7%	6.3%	100.0%
Organic growth[2]	12.1%	–0.9%	3.1%	1.8%	5.0%	7.5%	1.3%	5.4%
Order backlog as of June 30/December 31	1’051.1	847.0	431.5	364.4	342.0	315.3	65.2	64.7
Sales recognized at point in time	417.9	n/a	432.1	n/a	155.6	n/a	229.0	n/a
Sales recognized over time	177.0	n/a	80.5	n/a	112.1	n/a	–	n/a
Sales[3]	**594.9**	**514.6**	**512.6**	**474.1**	**267.7**	**231.3**	**229.0**	**208.5**
opEBITA[4]	**7.7**	**–12.7**	**69.9**	**60.9**	**22.3**	**11.4**	**48.5**	**45.1**
in % of sales[5]	1.3%	–2.5%	13.6%	12.8%	8.3%	4.9%	21.2%	21.6%
Restructuring expenses	–4.2	–2.7	–1.0	–1.4	–	–0.9	–0.3	–
Amortization	–17.4	–11.2	–3.7	–3.1	–2.7	–2.6	–9.8	–7.9
Impairments on tangible and intangible assets	–0.5	–9.0	–	–2.1	–	–2.2	–0.3	–
Non-operational items	–4.2	–1.2	–	3.5	–5.3	0.3	–2.0	–1.7
EBIT[6]	**–18.6**	**–36.8**	**65.2**	**57.8**	**14.3**	**6.0**	**36.1**	**35.5**
Depreciation	–12.2	–12.2	–8.5	–8.3	–4.1	–4.3	–10.7	–10.3
Operating assets	1’735.0	1’445.6	856.3	880.6	507.0	463.7	641.6	655.3
Unallocated assets	–	–	–	–	–	–	–	–
Total assets as of June 30/December 31	1’735.0	1’445.6	856.3	880.6	507.0	463.7	641.6	655.3
Operating liabilities	760.9	685.3	306.8	319.8	259.7	234.1	73.9	71.5
Unallocated liabilities	–	–	–	–	–	–	–	–
Total liabilities as of June 30/December 31	760.9	685.3	306.8	319.8	259.7	234.1	73.9	71.5
Operating net assets	974.1	760.3	549.5	560.8	247.3	229.6	567.7	583.8
Unallocated net assets	–	–	–	–	–	–	–	–
Total net assets as of June 30/December 31	974.1	760.3	549.5	560.8	247.3	229.6	567.7	583.8
Capital expenditure	13.2	9.6	11.8	8.4	3.7	4.6	15.1	12.6
Employees (number of full-time equivalents) as of June 30/December 31	5’670	5’453	4’610	4’485	2’747	2’878	1’790	1’716

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

2) Adjusted for currency and acquisition effects.

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

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

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

6) Operating income.

Segment information by divisions

	Total Divisions		Others[7]		Total Sulzer	
millions of CHF	2018	2017	2018	2017	2018	2017
Order intake[1]	**1’801.4**	**1’594.6**	**–**	**–**	**1’801.4**	**1’594.6**
Nominal growth	13.0%	12.0%	n/a	n/a	13.0%	12.0%
Currency adjusted growth	11.6%	12.5%	n/a	n/a	11.6%	12.5%
Organic growth[2]	6.5%	1.9%	n/a	n/a	6.5%	1.9%
Order backlog as of June 30/December 31	1’889.8	1’591.4	1.9	2.1	1’891.7	1’593.5
Sales recognized at point in time	1’234.6	n/a	–	n/a	1’234.6	n/a
Sales recognized over time	369.6	n/a	–	n/a	369.6	n/a
Sales[3]	**1’604.2**	**1’428.5**	**–**	**–**	**1’604.2**	**1’428.5**
opEBITA[4]	**148.4**	**104.7**	**–0.2**	**1.4**	**148.2**	**106.1**
in % of sales[5]	9.3%	7.3%	n/a	n/a	9.2%	7.4%
Restructuring expenses	–5.5	–5.0	–0.4	–0.7	–5.9	–5.7
Amortization	–33.6	–24.8	–0.5	–0.6	–34.1	–25.4
Impairments on tangible and intangible assets	–0.7	–13.3	–	–0.1	–0.7	–13.4
Non-operational items	–11.5	0.9	–5.5	–7.2	–17.0	–6.3
EBIT[6]	**97.0**	**62.5**	**–6.6**	**–7.2**	**90.5**	**55.3**
Depreciation	–35.5	–35.1	–0.2	–	–35.7	–35.1
Operating assets	3’739.9	3’445.2	15.1	–9.4	3’755.0	3’435.8
Unallocated assets	–	–	554.1	681.5	554.1	681.5
Total assets as of June 30/December 31	3’739.9	3’445.2	569.2	672.1	4’309.1	4’117.3
Operating liabilities	1’401.3	1’310.7	118.6	106.6	1’519.9	1’417.3
Unallocated liabilities	–	–	1’742.1	997.6	1’742.1	997.6
Total liabilities as of June 30/December 31	1’401.3	1’310.7	1’860.7	1’104.2	3’262.0	2’414.9
Operating net assets	2’338.6	2’134.5	–103.5	–116.0	2’235.1	2’018.5
Unallocated net assets	–	–	–1’188.0	–316.1	–1’188.0	–316.1
Total net assets as of June 30/December 31	2’338.6	2’134.5	–1’291.5	–432.1	1’047.1	1’702.4
Capital expenditure	43.8	35.2	0.7	0.7	44.5	35.9
Employees (number of full-time equivalents) as of June 30/December 31	14’817	14’532	214	200	15’031	14’732

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

2) Adjusted for currency and acquisition effects.

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

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

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

6) Operating income.

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

Information about reportable segments

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

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

Rotating Equipment Services—provider of service solutions for rotating equipment:
This division offers a full range of repair and maintenance services. The market focus is on industrial gas and steam turbines, turbocompressors, generators and motors, and pumps.

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

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

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

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

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

Sales from external customers reported to the Chief Executive Officer is measured in a manner consistent with that in the income statement. 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 operating income.

4 Acquisitions of subsidiaries

Acquisitions in 2018

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

Net assets acquired

millions of CHF	JWC Environmental, LLC
Intangible assets	87.6
Property, plant and equipment	11.3
Cash and cash equivalents	3.6
Trade accounts receivables	17.2
Other current assets	11.7
Other liabilities with third parties	–11.9
Net identifiable assets	**119.5**
Goodwill	91.8
Total consideration	**211.3**
Purchase price paid in cash	211.3
Total consideration	**211.3**

JWC Environmental, LLC

On January 10, 2018, Sulzer acquired a 100% controlling interest of JWC Environmental, LLC ("JWC") for CHF 211.3 million. JWC's main manufacturing facilities are based in Santa Ana, California, US. JWC employs approximately 230 employees and offers highly engineered, mission-critical solids reduction and removal products such as grinders, screens and dissolved air flotation system for municipal, industrial and commercial wastewater applications. Through the acquisition, Sulzer wants to grow its wastewater treatment offering through complementary equipment as well as to improve its access to the municipal and industrial wastewater market in North America. JWC operates as part of Sulzer's Pumps Equipment division. The goodwill is attributable to significant synergies by leveraging scale and cross-selling opportunities. None of the goodwill is expected to be deductible for tax purposes. Transaction cost recognized in the income statement amount to CHF –0.3 million. Since the acquisition date, the acquired business contributed order intake of CHF 47.4 million, sales of CHF 39.2 million, and net income of CHF 1.0 million to the group.

Acquired receivables

The fair value of acquired trade accounts receivable is CHF 17.2 million. The gross contractual amount for trade account receivables due is CHF 17.3 million, of which CHF 0.1 million is expected to be uncollectible at the date of acquisition.

Pro forma sales and profit contribution

Had the acquisition above occurred on January 1, 2018, management estimates that total net sales of the group would amount to CHF 1'604.8 million, and the consolidated net income would be CHF 66.0 million.

Cash flow from acquisitions of subsidiaries

millions of CHF	2018	2017
Cash consideration paid	–211.3	–86.6
Contingent consideration paid	–1.4	–
Cash acquired	3.6	7.0
Payments for acquisitions in prior years	–0.1	–
Total cash flow from acquisitions, net of cash acquired	**–209.2**	**–79.6**

Contingent consideration

millions of CHF	2018	2017
Balance as of January 1	5.1	9.5
Payment of contingent consideration	–1.4	–2.2
Release to other operating income	–1.4	–2.6
Currency translation differences	0.1	0.4
Total contingent consideration as of June 30/December 31	**2.4**	**5.1**

As of June 30, 2018, there was a decrease of CHF 1.4 million recognized in the income statement for the contingent consideration arrangements, as the assumed probability-adjusted gross profit and EBITDA (earnings before interests, taxes, depreciation and amortization) was recalculated.

5 Financial instruments

The following tables present the carrying amounts and fair values of financial assets and liabilities as of June 30, 2018, and December 31, 2017, including their levels in the fair value hierarchy. For financial assets and financial liabilities not measured at fair value in the balance sheet, fair value information is not provided if the carrying amount is a reasonable approximation of fair value.

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

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

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

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

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

Fair value table

millions of CHF	Notes	Carrying amount	Fair value	Level 1	Level 2	Level 3
						June 30, 2018
Financial assets measured at fair value						
Derivative assets – current		5.9	5.9	–	5.9	–
Total financial assets measured at fair value		**5.9**	**5.9**	**–**	**5.9**	**–**
Financial assets not measured at fair value						
Other financial assets		14.6				
Non-current receivables (excluding non-current derivative assets)		7.6				
Contract assets	13	258.4				
Trade accounts receivable		620.4				
Other current receivables (excluding current derivative assets and other taxes)		22.2				
Cash and cash equivalents		359.1				
Total financial assets not measured at fair value		**1’282.4**	**–**	**–**	**–**	**–**
Financial liabilities measured at fair value						
Derivative liabilities – non-current		0.6	0.6	–	0.6	–
Derivative liabilities – current		11.6	11.6	–	11.6	–
Contingent considerations	4	2.4	2.4	–	–	2.4
Put option liability		14.6	14.6	–	–	14.6
Total financial liabilities measured at fair value		**29.2**	**29.2**	**–**	**12.2**	**17.0**
Financial liabilities not measured at fair value						
Outstanding bond	10	450.3	437.7	437.7	–	–
Other non-current borrowings	10	7.8				
Other current borrowings and bank loans		422.9				
Other non-current liabilities (excluding put option liability)		3.6				
Trade accounts payables		449.8				
Other current liabilities (excluding current derivative liabilities, other taxes and contingent considerations)		644.2				
Total financial liabilities not measured at fair value		**1’978.6**	**437.7**	**437.7**	**–**	**–**

Fair value table

						December 31, 2017
millions of CHF	Notes	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets measured at fair value						
Derivative assets – non-current		0.2	0.2	–	0.2	–
Derivative assets – current		7.3	7.3	–	7.3	–
Total financial assets measured at fair value		**7.5**	**7.5**	**–**	**7.5**	**–**
Financial assets not measured at fair value						
Loans and receivables		9.4				
Available-for-sale financial assets		4.2				
Non-current receivables (excluding non-current derivative assets)		8.6				
Trade accounts receivable		901.8				
Other current receivables (excluding current derivative assets and other taxes)		27.0				
Cash and cash equivalents		488.8				
Total financial assets not measured at fair value		**1'439.8**	**–**	**–**	**–**	**–**
Financial liabilities measured at fair value						
Derivative liabilities – current		6.8	6.8	–	6.8	–
Contingent considerations	4	5.1	5.1	–	–	5.1
Put option liability		14.6	14.6	–	–	14.6
Total financial liabilities measured at fair value		**26.5**	**26.5**	**–**	**6.8**	**19.7**
Financial liabilities not measured at fair value						
Outstanding bond	10	450.4	456.0	456.0	–	–
Other non-current borrowings	10	8.3				
Other current borrowings and bank loans		255.1				
Other non-current liabilities (excluding put option liability)		3.0				
Trade accounts payables		433.8				
Other current liabilities (excluding current derivative liabilities, other taxes and contingent considerations)		23.9				
Total financial liabilities not measured at fair value		**1'174.5**	**456.0**	**456.0**	**–**	**–**

6 Other operating income and expenses

millions of CHF	2018	2017
Income from release of contingent consideration	1.4	1.6
Gain from sale of property, plant and equipment	4.7	3.9
Operating currency exchange gains, net	–	1.2
Other operating income	4.4	3.9
Total other operating income	**10.5**	**10.6**
Restructuring expenses	–5.9	–5.7
Impairments of tangible and intangible assets	–0.7	–13.4
Cost for mergers and acquisitions	–0.8	–2.2
Loss from sale of property, plant and equipment	–	–0.1
Operating currency exchange losses, net	–0.7	–
Other operating expenses	–0.3	–0.3
Total other operating expenses	**–8.4**	**–21.7**
Total other operating income and expenses, net	**2.1**	**–11.1**

During 2018, the group reassessed the achievement of the earn-out targets related to contingent consideration arrangements. The reassessment resulted in an income of CHF 1.4 million (half year 2017: CHF 1.6 million).

Other operating income includes income from litigation cases, government grants and incentives, and recharges to third parties not qualifying as sales from customers.

As part of the Sulzer Full Potential (SFP) program Sulzer has initiated several measures to adapt the global manufacturing capacities and streamline the organizational setup. For the half year 2018, the group recognized restructuring costs of CHF 5.9 million (half year 2017: CHF 5.7 million). Restructuring costs are mainly associated with measures in Germany, Belgium, Brazil and Switzerland. The group further performed impairment tests on the related production machines and facilities leading to impairments of CHF 0.7 million (half year 2017: CHF 13.4 million).

The functional allocation of the total restructuring expenses and impairments is as follows: cost of goods sold CHF –1.2 million (half year 2017: CHF –12.1 million), selling and distribution expenses CHF –0.1 million (half year 2017: CHF –0.6 million), general and administrative expenses CHF –5.1 million (half year 2017: CHF –6.4 million) and research and development CHF –0.2 million (half year 2017: CHF 0.0 million).

7 Financial income and expenses

millions of CHF	2018	2017
Interest and securities income	1.5	1.8
Total interest and securities income	**1.5**	**1.8**
Interest expenses	–7.8	–3.8
Interest expenses on employee benefit plans	–3.0	–2.6
Total interest expenses	**–10.8**	**–6.4**
Total interest income and expenses, net	**–9.3**	**–4.6**
Fair value changes	2.1	0.5
Other financial expenses	–0.6	–0.1
Currency exchange gains/losses, net	2.9	–0.7
Total other financial income and expenses, net	**4.4**	**–0.3**
Total financial income and expenses, net	**–4.9**	**–4.9**

“Interest expenses” increased from CHF 3.8 million in the first half-year 2017 to CHF 7.8 million for the same period of 2018. This is mainly due to increased level of borrowings under the CHF 500 million syndicated credit facility.

“Fair value changes”, which comprise the fair valuation of derivative financial instruments used as hedging instruments, changed from CHF 0.5 million in the first half-year 2017 to CHF 2.1 million in the first half-year 2018 and “currency exchange gains/losses, net” changed from CHF –0.7 million in the first half-year 2017 to CHF 2.9 million in the first half-year 2018.

Comparing the first half of 2018 with the same period of 2017, total financial expenses are unchanged at CHF –4.9 million.

8 Income taxes

Income tax expenses comprise current and deferred tax. Income tax expenses are recognized based on the estimated income tax rate for the full financial year. The estimated average annual tax rate used for the year 2018 is 23.2%, compared with 24.8% for the six months ended June 30, 2017, mainly due to the change in profitability of the group’s entities in the respective countries.

9 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.

Treasury shares

The total number of shares held by Sulzer Ltd as of June 30, 2018, amounted to 5’215’212 treasury shares (December 31, 2017: 219’277 shares).

On April 11, Sulzer purchased five million Sulzer shares from Renova. Renova thereby reduced its shareholding to 48.83%. The purchase price for the five million shares Sulzer acquired, based on the volume-weighted average share price of the Sulzer shares as quoted on the SIX Swiss Exchange for the period from April 9, 2018, to (and including) April 13, 2018, came to CHF 109.13 for a transaction value of CHF 545.7 million. The related purchase price is recognized as “other current and accrued liabilities” in the balance sheet.

The remaining amount of 215’212 treasury shares are mainly held for the purpose of issuing shares under the management share-based payment programs.

Dividends

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

10 Borrowings

			June 30, 2018
millions of CHF	Non-current borrowings	Current borrowings	**Total**
Balance as of January 1, 2018	458.7	255.1	713.8
Additions	–	409.0	409.0
Repayments	–0.4	–240.8	–241.2
Currency translation differences	–0.2	–0.5	–0.7
Total borrowings as of June 30, 2018	**458.1**	**422.9**	**881.0**

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

As of June 30, 2018, the use of the syndicated facility was CHF 328.2 million (as of December 31, 2017: CHF 224.6 million).

Outstanding bonds

	2018		2017	
millions of CHF	Amortized costs	Nominal	Amortized costs	Nominal
0.375% 07/2016–07/2022	325.3	325.0	325.4	325.0
0.875% 07/2016–07/2026	125.0	125.0	125.0	125.0
Total as of June 30/December 31	**450.3**	**450.0**	**450.4**	**450.0**

On July 11, 2016, Sulzer issued two bonds via dual tranches of total CHF 450 million. The first tranche of CHF 325 million has a term of six years and carries a coupon of 0.375% and has an effective interest rate of 0.77%. The second tranche of CHF 125 million has a term of ten years and carries a coupon of 0.875% and has an effective interest rate of 1.65%.

On June 19, 2018, Sulzer successfully issued two new bonds via dual tranches of total CHF 400 million. The first tranche of CHF 110 million has a term of two years and carries a coupon of 0.25% at a price of 100%. The second tranche of CHF 290 million has a term of five years and carries a coupon of 1.3% at a price of 100%. Cash settlement of the newly issued bonds was after the balance sheet date on July 6, 2018. The outstanding bonds and the newly issued bonds are traded at the SIX Swiss Exchange.

11 Provisions

millions of CHF	Other employee benefits	Warranties/ liabilities	Restructuring	Environmental	Other	Total
Balance as of January 1, 2018	55.9	92.3	18.6	15.4	53.9	236.1
Acquired through business combination	–	1.4	0.3	–	–	1.7
Additions	6.2	11.8	6.0	–	10.4	34.4
Released as no longer required	–2.1	–2.3	–0.1	–	–0.4	–4.9
Utilized	–3.2	–6.7	–11.7	–0.1	–10.7	–32.4
Reclassifications	–	–	0.4	–	–0.4	–
Currency translation differences	–0.3	–1.4	–0.5	–	–0.6	–2.8
Total provisions as of June 30, 2018	**56.5**	**95.1**	**13.0**	**15.3**	**52.2**	**232.1**
– thereof non-current	37.1	6.6	3.1	15.3	15.5	77.6
– thereof current	19.4	88.5	9.9	–	36.7	154.5

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

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

As part of the Sulzer Full Potential (SFP) program, Sulzer has initiated several measures to adapt the global manufacturing capacities and streamline the organizational setup. The ongoing restructuring program is mainly associated with measures in Germany, Belgium, Brazil and Switzerland. The group recognized restructuring provisions of CHF 6.0 million. The remaining provision as of June 30, 2018, is CHF 13.0 million, of which CHF 9.9 million is expected to be utilized within one year.

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

“Other” includes provisions that do not fit into the aforementioned categories. A large number of these provisions refer to indemnities, in particular related from divestitures. In addition, provisions for ongoing asbestos lawsuits and other legal claims are included. Based on the currently known facts, Sulzer is of the opinion that the resolution of the open cases will have no material effects on its liquidity or financial condition. Although Sulzer expects a large part of the category “Other” to be realized in one year, by their nature the amounts and timing of any cash outflows are difficult to predict.

12 Other current and accrued liabilities

millions of CHF	2018	2017
Taxes (VAT, withholding tax)	29.9	29.4
Derivative financial instruments	11.6	6.8
Outstanding dividend payments	76.0	–
Liability related to the purchase of treasury shares	545.7	–
Other current liabilities	24.9	29.0
Total other current liabilities as of June 30/December 31	**688.1**	**65.2**
Vacation and overtime claims	31.4	32.1
Salaries, wages and bonuses	78.4	96.4
Contract-related costs	124.0	112.6
Other accrued liabilities	143.2	126.2
Total accrued liabilities as of June 30/December 31	**377.0**	**367.3**
Total other current and accrued liabilities as of June 30/December 31	**1’065.1**	**432.5**

13 Accounting policies

13.1 Basis of preparation

The interim financial statements have been prepared in accordance with the requirements of IAS 34 Interim Financial Reporting. The accounting policies applied are consistent with those applied in the consolidated financial statements for the year 2017 and corresponding interim reporting period, except for the adoption of new and amended standards as set out below.

These interim financial statements do not include all the notes of the type normally included in an annual financial report. Accordingly, these financial statements are to be read in conjunction with the financial statements for the year ended December 31, 2017, and any public announcements made by Sulzer during the interim reporting period.

13.2 Change in accounting policies

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

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

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

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

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

Consolidated balance sheet

millions of CHF	December 31, 2017, as originally presented	Adjustment IFRS 9	Adjustment IFRS 15	January 1, 2018, adjusted
Non-current assets				
Goodwill	865.7			865.7
Other intangible assets	420.8			420.8
Property, plant and equipment	531.6			531.6
Associates	10.3			10.3
Other financial assets	13.6			13.6
Non-current receivables	8.8			8.8
Deferred income tax assets	139.7	2.1	8.7	150.5
Total non-current assets	**1'990.5**	**2.1**	**8.7**	**2'001.3**
Current assets				
Inventories	488.0		87.5	575.5
Current income tax receivables	27.2			27.2
Advance payments to suppliers	84.7		4.6	89.3
Contract assets	–		192.4	192.4
Trade accounts receivables	901.8	–8.9	–244.1	648.8
Other current receivables and prepaid expenses	136.3			136.3
Cash and cash equivalents	488.8			488.8
Total current assets	**2'126.8**	**–8.9**	**40.4**	**2'158.3**
Total assets	**4'117.3**	**–6.8**	**49.1**	**4'159.6**
Equity				
Share capital	0.3			0.3
Reserves	1'679.8	–6.6	–29.4	1'643.8
Equity attributable to shareholders of Sulzer Ltd	**1'680.1**	**–6.6**	**–29.4**	**1'644.1**
Non-controlling interest	22.3			22.3
Total equity	**1'702.4**	**–6.6**	**–29.4**	**1'666.4**
Non-current liabilities				
Non-current borrowings	458.7			458.7
Deferred income tax liabilities	104.8	–0.2		104.6
Non-current income tax liabilities	2.3			2.3
Defined benefit obligations	239.1			239.1
Non-current provisions	77.6			77.6
Other non-current liabilities	17.6			17.6
Total non-current liabilities	**900.1**	**–0.2**	**–**	**899.9**
Current liabilities				
Current borrowings	255.1			255.1
Current income tax liabilities	24.8			24.8
Current provisions	158.5			158.5
Contract liabilities	–		291.1	291.1
Trade accounts payables	433.8			433.8
Advance payments from customers	210.1		–210.1	–

Other current and accrued liabilities	432.5		–2.5	430.0
Total current liabilities	**1'514.8**	**–**	**78.5**	**1'593.3**
Total liabilities	**2'414.9**	**–0.2**	**78.5**	**2'493.2**
Total equity and liabilities	**4'117.3**	**–6.8**	**49.1**	**4'159.6**

IFRS 9 "Financial Instruments"

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

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

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

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

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

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

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

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

IFRS 15 "Revenue from Contracts with Customers"

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

The group has adopted IFRS 15 using the cumulative effect method, initially applying this standard as of January 1, 2018 (cumulative catch-up effect in retained earnings). Accordingly, the information presented for 2017 has not been adjusted – i.e. it is presented as previously reported under IAS 18, IAS 11 and related interpretations.

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

The following tables summarize the impacts of adopting IFRS 15 on the group's interim consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet and consolidated statement of cash flows as of June 30, 2018.

Consolidated income statement
January 1 – June 30

millions of CHF	Notes	2018 (as reported)	Adjustments	2018 (amounts without adoption of IFRS 15)
Sales	3	1'604.2	–3.9	1'600.3
Cost of goods sold		–1'108.0	–8.6	–1'116.6
Gross profit		**496.2**	**–12.5**	**483.7**
Selling and distribution expenses		–180.2	–	–180.2
General and administrative expenses		–185.0	–	–185.0
Research and development expenses		–42.6	–	–42.6
Other operating income and expenses, net	6	2.1	–	2.1
Operating income		**90.5**	**–12.5**	**78.0**
Interest and securities income	7	1.5	–	1.5
Interest expenses	7	–10.8	–	–10.8
Other financial income and expenses, net	7	4.4	–	4.4
Share of profit of associates		0.7	–	0.7
Income before income tax expenses		**86.3**	**–12.5**	**73.8**
Income tax expenses	8	–20.0	2.8	–17.2
Net income		**66.3**	**–9.7**	**56.6**
attributable to shareholders of Sulzer Ltd		64.3	–9.7	54.6
attributable to non-controlling interests		2.0	–	2.0
Earnings per share (in CHF)				
Basic earnings per share		2.01	–0.30	1.71
Diluted earnings per share		2.00	–0.30	1.70

Consolidated statement of comprehensive income

January 1 – June 30

millions of CHF	Notes	2018 (as reported)	Adjustments	2018 (amounts without adoption of IFRS 15)
Net income		**66.3**	**–9.7**	**56.6**
Items that may be reclassified subsequently to the income statement				
Cash flow hedges, net of tax		–2.9	–	–2.9
Currency translation differences		–36.4	–	–36.4
Total of items that may be reclassified subsequently to the income statement		**–39.3**	**–**	**–39.3**
Items that will not be reclassified to the income statement				
Remeasurements of defined benefit obligations, net of tax		19.5	–	19.5
Total of items that will not be reclassified to the income statement		**19.5**	**–**	**19.5**
Total other comprehensive income		**–19.8**	**–**	**–19.8**
Total comprehensive income for the period		**46.5**	**–9.7**	**36.8**
attributable to shareholders of Sulzer Ltd		46.1	–9.7	36.4
attributable to non-controlling interests		0.4	–	0.4

Consolidated balance sheet

millions of CHF	Notes	June 30, 2018 (as reported)	Adjustments	June 30, 2018 (amounts without adoption of IFRS 15)
Non-current assets				
Goodwill		943.9	–	943.9
Other intangible assets		469.2	–	469.2
Property, plant and equipment		538.2	–	538.2
Associates		11.2	–	11.2
Other financial assets		14.6	–	14.6
Non-current receivables		7.7	–	7.7
Deferred income tax assets		145.3	–5.7	139.6
Total non-current assets		**2'130.1**	**–5.7**	**2'124.4**
Current assets				
Inventories		671.6	–96.7	574.9
Current income tax receivables		21.9	–	21.9
Advance payments to suppliers		97.6	0.4	98.0
Contract assets		258.4	–258.4	–
Trade accounts receivables		620.4	298.1	918.5
Other current receivables and prepaid expenses		150.0	–	150.0
Cash and cash equivalents		359.1	–	359.1
Total current assets		**2'179.0**	**–56.6**	**2'122.4**
Total assets		**4'309.1**	**–62.3**	**4'246.8**
Equity				
Share capital		0.3	–	0.3
Reserves		1'024.3	19.5	1'043.8
Equity attributable to shareholders of Sulzer Ltd		**1'024.6**	**19.5**	**1'044.1**
Non-controlling interest		22.5	–	22.5
Total equity		**1'047.1**	**19.5**	**1'066.6**
Non-current liabilities				
Non-current borrowings	10	458.1	–	458.1
Deferred income tax liabilities		99.8	–	99.8
Non-current income tax liabilities		1.5	–	1.5
Defined benefit obligations		213.6	–	213.6
Non-current provisions	11	77.6	–	77.6
Other non-current liabilities		18.4	–	18.4
Total non-current liabilities		**869.0**	**–**	**869.0**
Current liabilities				
Current borrowings	10	422.9	–	422.9
Current income tax liabilities		5.7	–	5.7
Current provisions	11	154.5	–	154.5
Contract liabilities		295.0	–295.0	–
Trade accounts payables		449.8	–	449.8

Advance payments from customers		–	210.5	210.5
Other current and accrued liabilities	12	1’065.1	2.7	1’067.8
Total current liabilities		**2’393.0**	**–81.8**	**2’311.2**
Total liabilities		**3’262.0**	**–81.8**	**3’180.2**
Total equity and liabilities		**4’309.1**	**–62.3**	**4’246.8**

Consolidated statement of cash flows
January 1 – June 30

millions of CHF	Notes	2018 (as reported)	Adjustments	2018 (amounts without adoption of IFRS 15)
Cash and cash equivalents as of January 1		**488.8**	**–**	**488.8**
Net income		66.3	–9.7	56.6
Interest and securities income	7	–1.5	–	–1.5
Interest expenses	7	10.8	–	10.8
Income tax expenses	8	20.0	–2.9	17.1
Depreciation, amortization and impairments		70.6	–	70.6
Income from disposals of property, plant and equipment	6	–4.7	–	–4.7
Changes in inventories		–94.1	10.1	–84.0
Changes in advance payments to suppliers		–9.5	–4.4	–13.9
Changes in contract assets		–67.2	67.2	–
Changes in trade accounts receivables		40.4	–56.5	–16.1
Changes in advance payments from customers		–	1.2	1.2
Changes in contract liabilities		5.8	–5.8	–
Changes in trade accounts payables		15.8	0.6	16.4
Change in provision for employee benefit plans		0.7	–	0.7
Changes in provisions		–2.7	–	–2.7
Changes in other net current assets		–8.8	0.2	–8.6
Other non-cash items		4.8	–	4.8
Interest received		1.5	–	1.5
Interest paid		–6.0	–	–6.0
Income tax paid		–39.2	–	–39.2
Total cash flow from operating activities		**3.0**	**–**	**3.0**
Purchase of intangible assets		–1.8	–	–1.8
Purchase of property, plant and equipment		–42.4	–	–42.4
Sale of property, plant and equipment		10.9	–	10.9
Acquisitions of subsidiaries, net of cash acquired	4	–209.2	–	–209.2
Acquisitions of associates		–	–	–
Divestitures of subsidiaries		0.6	–	0.6
Purchase of financial assets		–0.6	–	–0.6
Sale of financial assets		–	–	–
Total cash flow from investing activities		**–242.5**	**–**	**–242.5**
Dividend	9	–43.1	–	–43.1
Purchase of treasury shares	9	–5.8	–	–5.8
Dividend paid to non-controlling interests		–0.8	–	–0.8
Additions in non-current borrowings	10	–	–	–
Repayment of non-current borrowings	10	–0.4	–	–0.4
Additions in current borrowings	10	409.0	–	409.0
Repayment of current borrowings	10	–240.8	–	–240.8
Total cash flow from financing activities		**118.1**	**–**	**118.1**
Exchange losses on cash and cash equivalents		–8.3	–	–8.3

Net change in cash and cash equivalents		**–129.7**	**–**	**–129.7**
Cash and cash equivalents as of June 30		**359.1**	**–**	**359.1**

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

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

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

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

New balance sheet items

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

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

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

Change from over time method to point in time method

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

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

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

Explanation of balance sheet impact

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

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

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

IFRS 16 “Leases”

IFRS 16, published in January 2016, introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. The group has started a project and is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16. So far, the most significant impact identified is that the group will recognize new assets and liabilities for its operating leases of buildings and equipment. In addition, the nature of expenses related to those leases will now change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. As of December 31, 2017, operating leases amounted to CHF 99.5 million, which reflect the best estimation on the balance sheet impact to the group. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The group has not yet determined which transition approach to apply.

IFRIC 23 “Uncertainty over Income Tax Treatments”

IFRIC 23, published in June 2017, clarifies how the recognition and measurement requirements of IAS 12 are applied where there is uncertainty over income tax treatments. IFRIC 23 is effective for periods beginning on or after January 1, 2019. The group is currently assessing the potential impact on its consolidated financial statements resulting from the application of IFRIC 23. The group has not yet determined which transition approach to apply.

14 Subsequent events after the balance sheet date

The Board of Directors authorized these consolidated interim financial statements for issue on July 24, 2018. At the time when these consolidated interim financial statements were authorized for issue, the Board of Directors and the Executive Committee were not aware of any other events that would materially affect these financial statements.