

An abstract, dynamic image of blue fluid motion, resembling ink or paint swirling in water. The colors range from light cyan to deep, vibrant blue, creating a sense of movement and fluidity. The background is white, making the blue elements stand out.

**SULZER**

# **BECAUSE LIFE IS FLUID**

Annual Report 2019

# Contents

<b>3</b>	<b>Letter to the shareholders</b>
<b>7</b>	<b>Sulzer at a glance</b>
7	Our company
8	Our key figures
<b>10</b>	<b>Focus</b>
<b>18</b>	<b>Business review</b>
19	Financial review
25	Business review divisions
<b>34</b>	<b>Sustainable development</b>
35	People and community
37	Environment
40	Safety
<b>42</b>	<b>Corporate governance</b>
43	Corporate structure and shareholders
44	Capital structure
45	Board of Directors
53	Executive Committee
54	Shareholder participation rights
55	Takeover and defense measures
56	Auditors
57	Risk management
59	Information policy
<b>60</b>	<b>Compensation report</b>
61	Letter to the shareholders
64	Special report
67	Compensation governance and principles
70	Compensation architecture for the CEO and EC members
79	Compensation of the Executive Committee for 2019
84	Compensation architecture for the Board of Directors
86	Compensation of the Board of Directors for 2019
89	Auditor's report
<b>90</b>	<b>Financial reporting</b>
91	Consolidated financial statements
<b>181</b>	<b>Financial statements of Sulzer Ltd</b>

# Letter to the shareholders



*Dear Shareholder,*

At Sulzer, we know that “Life is Fluid”. Whether in the form of liquids or gases, many of the world’s critical infrastructures involve displacing or processing fluids. We apply our expertise in fluid engineering to make a positive impact on millions of lives every day.

Our pumps play a key role in water systems around the globe, transporting Earth’s most precious resource to people across hundreds of kilometers and sustaining development of thriving cities. Our service teams maintain reliable power supplies for growing economies and populations to satisfy the ever-increasing energy demand.

Our separation technologies offer groundbreaking solutions that contribute to the circular economy, make chemistry work better, reduce waste and simplify life. And leading device manufacturers in the dental and healthcare industry, renowned cosmetic brands and more than half of the world’s adhesives manufacturers rely on Sulzer’s applicator systems.

Over the past year, our commitment to excellence in execution, our relentless focus on costs and our measures to further diversify our business and drive growth all continued to pay off, leading to strong 2019 financial results.

## Strong performance in 2019

In 2019, we were again able to generate significant organic growth, 6.3% for order intake and 10.8% for sales. Including acquisitions but excluding a negative currency impact, growth was at a strong 8.2% for order intake and 13.0% for sales. Continued positive developments in most of our end markets, and particularly in water and chemicals, created a supportive environment for our businesses throughout 2019 and into 2020. Organic growth was most pronounced in our Rotating Equipment Services division (+8.6%) in terms of order intake and in Pumps Equipment (+17.0%) in terms of sales. Chemtech added another 6.5% of organic order growth in 2019 after delivering 20.5% of growth in 2018. And Applicator Systems, despite seeing volumes impacted by disruptive forces in the cosmetics market, protected its high level of profitability.

Our acquisitions boosted our top line by 2%, while further diversifying our business and making it less cyclical.

Houston-based [GTC Technology](#), a company we acquired at the end of April 2019, brought us proprietary processes and systems for aromatization, C5 processing, BTX recovery and gas to liquids processing, supplementing our outstanding offering to process industries worldwide. The integration process is progressing well and GTC, which booked orders of CHF 70 million for the full year, contributed 2019 sales of CHF 35 million under Sulzer ownership.

We also grew our aftermarket activities through our July 2019 acquisition of [Alba Power](#), a leading service provider for aeroderivative gas turbines. These light and compact turbines are prevalent in the distributed power segment, a market that continues to develop as power generation becomes more decentralized. By diversifying our service offering, we continue to balance our end-market exposure away from the challenging utility power sector. Alba Power booked orders of CHF 36 million for the full year and contributed 2019 sales of CHF 20 million under Sulzer ownership.

In the last 12 months, we not only increased our volumes, but also our margins despite a pricing uplift from energy end markets which has yet to materialize. We achieved this through solid operational execution and by putting the finishing touches on our SFP transformation program, which delivered CHF 253 million of structural cost savings over five years. With a 10% opEBITA margin (opROSA), we reached double-digit profitability and delivered a record level of free cash flow, at CHF 213.4 million.

While we have closed the books on SFP, we continue to focus on optimizing our cost structure and enter 2020 with a solid backlog and positive end-market momentum.

## A force for sustainable solutions

Everyone at Sulzer understands that our purpose and responsibilities do not stop at delivering strong financial results. We aim to be a responsible corporate citizen and harness the power of fluid engineering to make life better, safer and more sustainable. Our expertise in pumping, agitation, mixing, separation and application technologies for fluids enable economies across the world to become more sustainable.

For that purpose, we develop solutions and equipment that deliver market-leading efficiency levels, enabling our customers to add more value, more sustainably. [We also look at our own activities](#) and track, report and reduce our overall environmental footprint, constantly striving to lower our energy consumption, greenhouse gas emissions, waste volumes and water usage.

We have introduced ESG (Environment, Social, Governance) metrics into our compensation framework. Starting in 2020, ESG is included in the personal objectives of all our long-term-incentive-eligible leaders, shining a spotlight on what our annual employee survey tells us is one of the main contributions our people expect from Sulzer. We continue to pursue significant advances in the areas of health and safety, emissions, water and energy-efficiency, waste management, community engagement and R&D for more efficient or sustainable products such as eco-packaging, biopolymers or energy-efficient pumps.

We have already implemented projects to deal with plastics in a more sustainable manner. [We enable technologies that turn plastic waste into fuel](#), becoming part of a solution to close the plastic loop. Last year, our efforts in sustainable packaging were recognized by Packaging Europe. In the most prestigious packaging innovation competition, Sulzer's [ecopaCC™](#) collapsible cartridge was awarded the [Sustainability Award](#) in the "Resource Efficiency" category.

## It really is all about people

Our employees are our most important asset. We recognize that people development is not only critical to ensuring employees have the necessary skills to do their jobs, but also drives employee satisfaction and commitment to Sulzer. In the 2019 Voice of Sulzer employee survey, with an overall participation rate of 85% (2018: 73%), 85% of the respondents said they felt sustainably engaged with the company. At Sulzer, 93% of our colleagues would "go the extra mile" to help the company succeed, and 82% would recommend Sulzer as a good place to work. The improvements in eight out of ten categories versus the 2018 survey show us that we are on the right track, acknowledging that there is still more work for all of us to do.

## Fostering diversity

Enriching our long tradition of supporting communities, we launched the "[Sulzer Scholarship for Women in Science and Engineering](#)" in 2019. Reflecting our worldwide presence and specific country requirements, we awarded 13 scholarships in 2019 – three in South Africa, four in Indonesia, four in China and two in India. At Sulzer, we value diverse teams. From the shop floor to our field service teams to our executive group, more than 80 nationalities encompassing people of all ages and convictions contribute together to the success of the company.

## Changes to the Executive Committee

We welcomed a new member to our leadership team in the past year. Girts Cimermans joined us on October 21, 2019 as Division President Applicator Systems and member of the Executive Committee. He succeeded Amaury de Menthère, who retired. Joining from HOYA Vision Care's USD 2 billion optical business where he served as CEO, Girts brings a wealth of experience in dental and medical devices that makes him uniquely suited to lead Sulzer's APS division.

## Outlook for 2020

Macroeconomic clouds formed on the horizon throughout 2019. Geopolitical risks have arisen with increased tensions in the Middle East and in other parts of the world. Trade wars continue to disrupt global flows, generating inefficiencies that weigh on both Sulzer and its customers. And it is too early to estimate the impact of the coronavirus, which is affecting our production in, and supply chain from, China in February 2020, and potentially beyond.

Still, we are confident about the prospects of our businesses in 2020. We enter the year with a healthy commercial pipeline, good end market momentum and a solid backlog.

Our confidence in Sulzer's future is reflected in the proposed dividend increase to CHF 4.00 (prior year: CHF 3.50). We expect continued growth in order intake and sales. On the back of two strong years of high single-digit organic growth and despite increasingly arbitrating for margin at the expense of volume, we still expect order intake to grow in the range of 2% to 4%, and sales to grow in the range of 1% to 3%. Our profitability should further increase, with a 2020 opEBITA margin (opROSA) of around 10.2% to 10.5%.

This journey has only been possible with the support of all our stakeholders, and especially our employees. We would like to thank them for their commitment and dedication that have made our businesses what they are today. We would also like to extend a special thank you to you, our shareholders, for your support and loyalty. Sulzer is a nimble 186-year-old innovator, and we look forward to continuing with you our exciting journey in 2020.

Kind regards,



Peter Löscher  
Chairman of the Board



Greg Poux-Guillaume  
CEO

Dive into our world of fluid engineering:

- [Fresh water for people in a desert city](#)
- [Stable power supply for Indonesia](#)
- [Turning plastic waste into fuel](#)
- [Helping dentists work more safely and precisely](#)

# Our company

Sulzer is a global leader in fluid engineering. We specialize in pumping, agitation, mixing, separation and application technologies for fluids of all types. Our customers benefit from our commitment to innovation, performance and quality and from our responsive network of 180 world-class manufacturing facilities and service centers across the globe.

## Pumps Equipment

The Pumps Equipment division specializes in pumping solutions specifically engineered for the processes of our customers. We provide pumps, agitators, compressors, grinders and screens developed through intensive research and development in fluid dynamics and advanced materials. We are a market leader in pumping solutions for water, oil and gas, power, chemicals and most industrial segments.

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## Rotating Equipment Services

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

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## Chemtech

The Chemtech division is the global market leader in innovative mass transfer, static mixing and polymer solutions for petrochemicals, refining, LNG, biopolymers and biofuels. Our 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.

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## Applicator Systems

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

## Our key figures

In 2019, Sulzer was again able to generate significant organic growth, 6.3% for order intake and 10.8% for sales. Acquisitions added roughly another 2% to those numbers, while further diversifying the company's business and making it less cyclical. The continued positive development in the vast majority of end markets, and particularly in the water and chemicals markets, resulted in growth for all divisions except Applicator Systems. Sulzer reached double-digit profitability and delivered a record level of free cash flow, at CHF 213.4 million.

### Key figures

millions of CHF	2019	2018	Change in +/-%	+/-% adjusted <sup>1)</sup>	+/-% organic <sup>2)</sup>
Order intake	3'747.2	3'531.5	6.1	8.2	6.3
Order intake gross margin	33.6%	33.3%			
Order backlog as of December 31	1'792.6	1'786.9	0.3	1.9	
Sales	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%			
Core net income	257.8	223.0	15.6		
Net income attributable to shareholders of Sulzer Ltd	154.0	113.7	35.4		
Basic earnings per share	4.52	3.56	27.1		
Free cash flow	213.4	181.3	17.7		
Net debt as of December 31	346.9	239.0			
Employees (number of full-time equivalents) as of December 31	16'506	15'572	6.0		

1) Adjusted for currency effects.

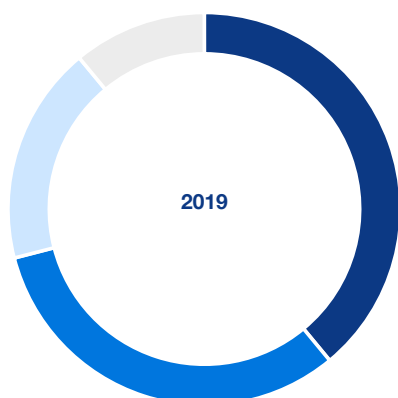
2) Adjusted for acquisition and currency effects.

### Stock market information

	2019	2018	2017	2016	2015
Registered share (in CHF)					
– high	113.40	137.50	129.90	107.80	120.10
– low	75.15	76.30	102.30	75.55	88.55
– year-end	108.00	78.05	118.20	105.00	94.35
Market capitalization as of December 31					
– number of shares outstanding	34'021'446	33'950'499	34'043'093	34'084'909	34'075'179
– in millions of CHF	3'674	2'650	4'024	3'579	3'215
– in percentage of equity	232%	163%	240%	226%	145%
P/E ratio as of December 31	23.9x	21.9x	48.4x	60.6x	43.5x
Dividend yield as of December 31	3.7%	4.5%	3.0%	3.3%	3.7%

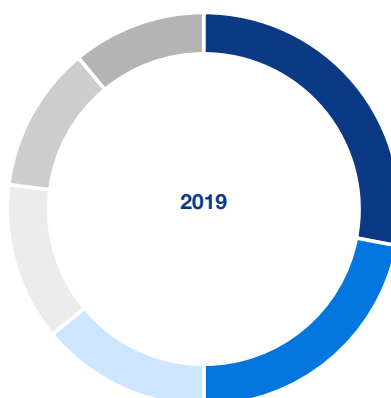


## Order intake by division



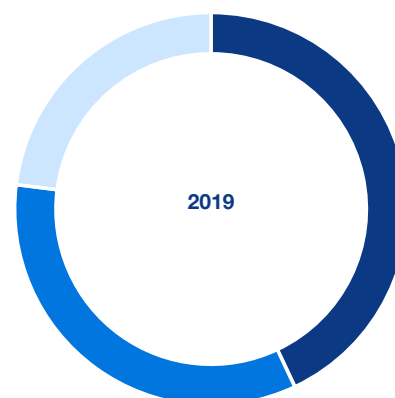
- 39% Pumps Equipment
- 32% Rotating Equipment Services
- 18% Chemtech
- 11% Applicator Systems

## Order intake by segment



- 28% Oil and gas
- 22% Chemicals
- 14% General industry
- 13% Water
- 12% Power
- 11% Applicator Systems markets

## Order intake by region



- 43% Europe, the Middle East and Africa
- 34% Americas
- 23% Asia-Pacific

## Data per share

CHF	2019	2018	2017	2016	2015
Net income attributable to a shareholder of Sulzer Ltd	4.52	3.56	2.44	1.73	2.17
Change from prior year	27%	46%	41%	-20%	-73%
Equity attributable to a shareholder of Sulzer Ltd	46.50	48.00	49.40	46.40	65.30
Ordinary dividend	4.00 <sup>1)</sup>	3.50	3.50	3.50	3.50
Special dividend	-	-	-	-	14.60
Payout ratio	88%	98%	143%	202%	161%
Average number of shares outstanding	34'026'442	31'934'459	34'084'133	34'102'610	34'035'862

1) Proposal to the Annual General Meeting.

## Shareholder structure as of December 31, 2019

Number of shares	Number of shareholders	Shareholding
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%
More than 100'000	16	58.2%
<b>Total registered shareholders and shares (excluding treasury shares Sulzer Ltd)</b>	<b>9'441</b>	<b>77.5%</b>



## Fresh water for people in a desert city

The water transmission system for Riyadh, the capital of the Kingdom of Saudi Arabia, is one of the largest of its kind. With a new major pipeline, the people of the desert city will receive another means of reliable freshwater supply. Sulzer provides custom-built pumps to transport the water to its destination.

Skyscrapers tower under a deep blue sky. In the heart of the buzzing city, you'd never think you're in the middle of a desert. Riyadh, home to seven million people, is the thriving capital of the Kingdom of Saudi Arabia. Few cities have developed as rapidly as Riyadh, from a small isolated desert village into the innovative metropolis it is today.

### The challenge of all great cities

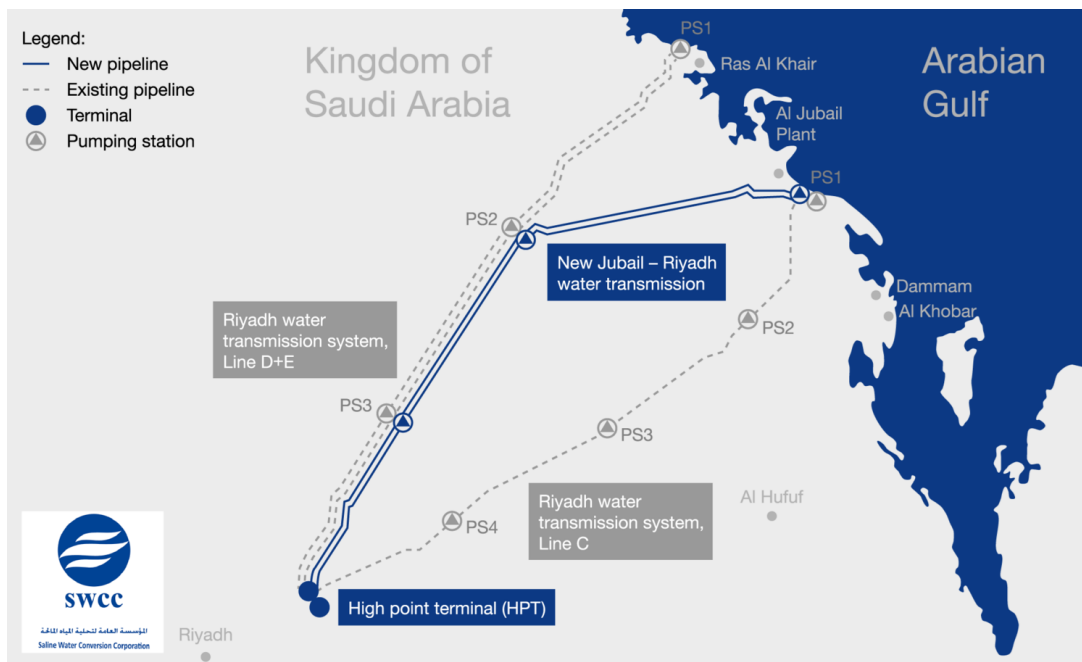
As the city of Riyadh develops further and becomes a home for more international and faster-growing communities, it becomes faced with the challenge of all great cities. Rapid population growth and urbanization place pressure on the infrastructure, energy demands and water needs.

Its location in the desert brings about an even greater challenge for their vision, facing obstacles in logistics and infrastructure. Imagine leveraging water sources that are hundreds of kilometers away from the destination!

### A journey of hundreds of kilometers

A functioning water supply is the key element of a flourishing city. Saudi Arabia is home to one of the world's largest water transmission systems in the world.

Water is extracted from the Arabian Gulf that stretches across a vast area of 1'000 km (620 miles) in the eastern province of the Kingdom of Saudi Arabia. The water is treated in desalination plants. After treatment, hundreds of kilometers of pipelines lead the valuable fresh water to Riyadh, moved forward tirelessly by highly efficient pumps.



The new Jubail-Riyadh water pipeline will supply the people of Riyadh with potable water, pumped through the desert all the way from the Arabian Gulf.

## A foresighted customer

Saline Water Conversion Corporation (SWCC), a major desalination company in Saudi Arabia, understands the challenges that come with a thriving city and its growing population. To enhance the water supply for future demands, the foresighted customer planned to build a new major pipeline to add to the existing giant water transmission system.

Sulzer was brought in early on in the project phase and provided its fluid engineering expertise to transport the water efficiently within the 412-km-long twin pipeline from the city of Jubail to Riyadh. With the help of its high-efficiency and easy-to-operate pumps, the new pipelines will deliver 1.2 million m<sup>3</sup> of potable water per day for the population and for industrial usage.

## Enabling communities to thrive, grow and expand

A project as ambitious as the Jubail-Riyadh water transmission system requires careful planning to navigate and overcome potential challenges. With planning and execution well underway, Sulzer is proud to be able to play a key role in supplying water that enables communities to thrive, grow and expand for the future.

[More stories about our products and services at www.sulzer.com/stories.](http://www.sulzer.com/stories)



## Stable power supply for Indonesia

Power plant operators need reliable plants that always deliver full power and never stand still. If a turbine is damaged, it needs to be repaired quickly. What normally takes up to a year, Sulzer Indonesia's service center can do with a mobile workshop on-site in just three months.

Countries of the Association of Southeast Asian Nations will account for almost two-thirds of global energy demand growth between now and 2040, according to the International Energy Agency. To keep up with the increasing demand, power plant operators depend on reliable plants.

### Corrosive steam wearing out the equipment

Steam turbines, converting heat into mechanical torque which in turn drives a generator, process variable and corrosive steam that degrades equipment over time. Under these conditions, damage can occur fast.

Frequently the blades need to be heavily repaired or replaced. In some cases, the rotor sees damage to seals and other diameters; in more severe cases, the rotor shaft can even separate in two.

### Losing valuable time and money

When a rotor shaft is damaged, it usually needs to be shipped to a service center for welding.

Steam turbines are large machines. They cost a lot of time and money to transport and customers lose valuable production time in the process. As if matters were not complicated enough, some power plants are located in areas that are difficult to access.



Sulzer Indonesia's mobile workshop allows the teams to repair large steam turbines directly at the customer's site.

## Boosting customers' reputation

The fast repair of critical rotating components is the main specialty of Sulzer's Rotating Equipment Services division. Its Indonesia workshop is unique in its ability to propose a mobile rotor welding process that allows it to repair rotor shafts entirely at the customer's site.

This reduces downtime, saves on transport costs and reduces potential rotor damage risk, which means insurance costs are also minimized. Overall, it helps customers to ensure a stable power supply for the population and to improve their reputation and profitability through shorter downtimes.

## Mobilizing equipment efficiently

The mobile workshop consists of a complete set of portable tools including lathes, welding equipment and balancing machines, which are packed into sea containers ready to be shipped to the customer's site.

The service engineers assemble the equipment in the turbine hall right beside the damaged turbine. They remove the rotor and place it on the lathe where all repairs are performed under observation from the customer.

## Keeping power plants running

Sulzer deals with all types of heavy damage to turbine equipment. Either in the company's own service centers or, wherever possible, directly at the customer's site with the mobile workshop.

Thanks to the innovative minds and skill set of the Indonesian team, our customers keep their power plants running and save millions of dollars.

[More stories about our products and services at www.sulzer.com/stories.](http://www.sulzer.com/stories)



## Turning plastic waste into fuel

All around the world, people are researching new approaches to deal with plastics in a more sustainable manner. For the project of building a revolutionary plant converting plastics into fuel, the Norwegian start-up Quantafuel chose Sulzer as a partner.

Most plastics last forever. They are not biodegradable and take up to 1'000 years to decompose. While longevity of materials is usually a good property, these durable plastics are used to manufacture short-lived, disposable products.

According to a recent study, mankind had produced 8.3 billion tons of plastics by 2015. Of these, roughly 80% ended up as waste, with only 9% that could be recycled.

Today, around 8 million tons of plastic waste end up in the sea every year. All around the world, people are researching solutions that can help reduce the volume of plastic waste.

### A promising alternative

Quantafuel, a Norwegian start-up, has recently developed a promising alternative; their mission is to turn non-recyclable waste into fuel. The company's chemicals recycling process converts plastic polymers back into hydrocarbons, which can then be used by different downstream industrial processes that currently rely on fossil fuels.

By integrating chemicals recycling with waste treatment, Quantafuel enables the use of recycled hydrocarbons to produce fuels and other petroleum-based products including new plastic materials. Thereby, they decrease waste whilst reducing the carbon footprint of natural oil and gas resources.



Quantafuel's processing plant, equipped with Sulzer's fractionation units, recycles plastic waste and turns it into valuable resources such as fuel for cars and other petroleum-based products.

## The right fractionation process and equipment

After successfully piloting its technology, Quantafuel decided to set up its first full-scale plant for continuous processing in Skive, Denmark.

Quantafuel's process effectiveness was contingent on incorporating an efficient and scalable fractionation technology. Sulzer's leading position in separation and mixing technology coupled with our extensive experience in the design and fabrication of skid-mounted plants, made us the ideal partner for Quantafuel.

## Success in under ten months

Speed to market was particularly crucial in this project. Sulzer needed to ensure responsiveness and efficiency despite the long manufacturing lead times for these complex pieces of separation equipment.

Thanks to its expertise, Sulzer was able to design, fabricate and complete the installation of flexible fractionation units in record time – less than ten months.

## The dawn of a new plastics industry

The resulting plant culminated in a unique, fully integrated solution that will be able to recycle 66 metric tons of plastic every day to generate 53 metric tons of hydrocarbon feed that can be used as fuel or to produce a wide range of chemicals.

Quantafuel was extremely impressed with the skid-mounted system. Both companies look forward to developing the next plastic-to-fuel plants that are being planned around the world.

Sulzer supports customers in a number of sustainable projects that are revolutionizing the way we recycle and reduce emissions. This could be the dawn of a new, more sustainable plastics industry.

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## Helping dentists work more safely and precisely

Dentists have a complex and highly demanding job – so making treatment faster and safer benefits them and patients alike. Sulzer developed a special syringe solution that allows oral surgeons to perform dental implant surgery intuitively, quickly and safely.

When replacing damaged or missing teeth with a dental implant, dentists often found they were lacking an all-in-one device to directly apply biomaterial into the bone. Approached by long-term partners and customers, we took on the challenge.

### The art of replacing teeth

Using tooth implants is a state-of-the-art procedure for damaged or missing teeth. A dental implant is a component made of metal or ceramic material that is inserted into the jawbone. These implants take over the function of an artificial tooth root, to which various tooth prostheses – such as single teeth, bridges or crowns – can be fixed.

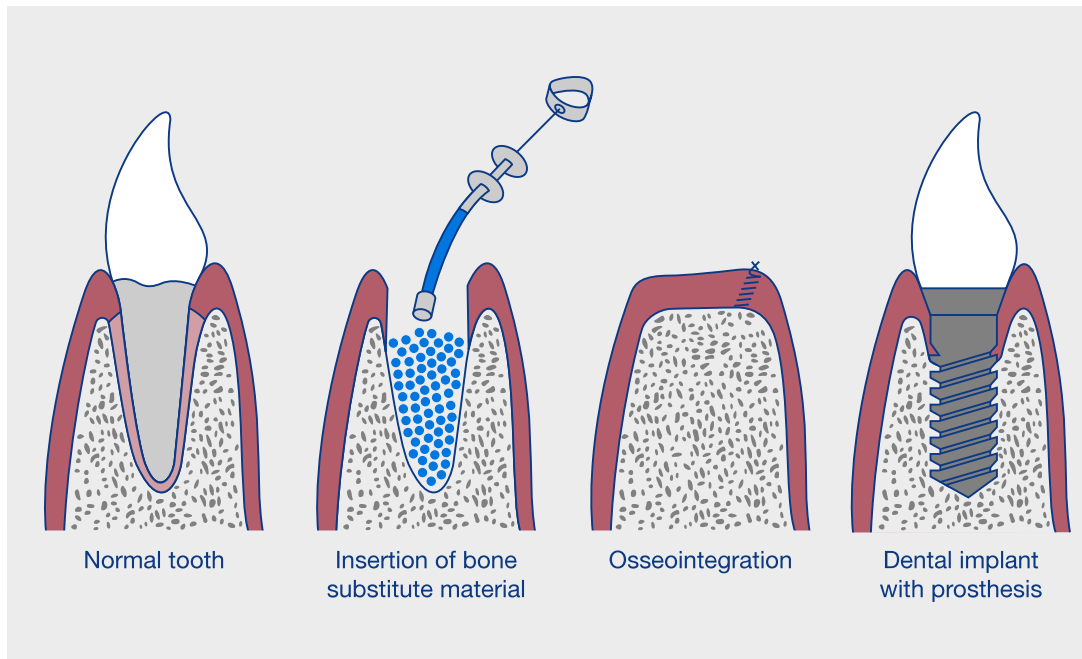
Often, the hole in a jawbone is too large for an implant to be fixed into. The solution is to fill in a bone substitute material – like any normal filler for walls. It takes about three to six months until it is fully integrated into and replaced by the natural bone. The implant can then be drilled into the newly grown bone and will be securely fixed for a strong and lasting solution.

### No longer in a jar

Traditionally, the surgeon would prepare the material in a jar and apply it with a spatula. Given that this is time-consuming and leads to loss of material, the market was in need of innovative solutions.

Sulzer developed a dental syringe that can apply biomaterial directly into the bone during surgery. The novel solution makes the procedure easier for dentists, speeds up the treatment significantly, and reduces loss of material.





With Sulzer's dental syringe solution, dentists can apply biomaterial directly into the bone. This makes treatment of patients safer and easier.

## Intuitive and hygienic

The unique curved design of the syringe allows dentists to operate it with one hand only and gives them a much better view of the bone defect they need to treat.

With the syringe, the bone replacement material can be stored in a sterile manner until it is needed. Whether the bone replacement material is in the form of granulate or paste, both can be inserted precisely and reliably.

## Supporting players in the health sector

We work together with leading biomaterial producers and device manufacturers to make biomaterial delivery safer and more precise.

Our application systems help make surgeons' time in the operating rooms easier and more effective.

[More stories about our products and services at www.sulzer.com/stories.](http://www.sulzer.com/stories)



# Business review

**19 Financial review**

**25 Business review divisions**

25 Pumps Equipment

27 Rotating Equipment Services

29 Chemtech

32 Applicator Systems

## Strong order growth, improved profitability and record free cash flow

Order intake grew by 6.3% organically and by 8.2% including acquisitions. Sales increased by 10.8% organically, supported by higher order backlog entering the year, and by 13.0% including acquisitions. Profitability (opROSA) increased by 0.4 percentage points to 10.0%, driven by CHF 23 million savings from the Sulzer Full Potential (SFP) program and increased gross margin. Free cash flow amounted to CHF 213.4 million.

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

### Strong order growth

Order intake increased by 8.2% compared with 2018. 6.3% organic growth and CHF 68.3 million from acquisitions drove this upsurge. Order intake gross margin increased nominally by 0.3 percentage points to 33.6%, influenced by higher order selectivity.



*Sulzer achieved profitable growth along with record free cash flow in 2019.*

**Jill Lee**, Chief Financial Officer

Order intake in Pumps Equipment increased by 8.3%, with 0.3% coming from acquisition. The strong organic growth was the result of higher orders in the water and chemicals segments which grew 16% each organically. In Rotating Equipment Services, order intake grew by 10.7%, 8.6% organically and 2.1% from acquisitions. Order intake in Chemtech grew by 12.8%, supported by strong organic growth of 6.5%. The GTC acquisition contributed CHF 38.1 million. In Applicator Systems, orders decreased by 4.3%. While the beauty segment was 14.3% below last year, APS grew in the remaining markets by 2.8%. Sulzer's total order intake grew in Asia-Pacific and North America, as well as in Europe, the Middle East and Africa.

Currency translation effects had a negative impact on order intake of CHF 74.2 million, due to the weaker euro, British pound, Chinese renminbi and Brazilian real, partly offset by the stronger US dollar.

As of December 31, 2019, the order backlog amounted to CHF 1'792.6 million (December 31, 2018: CHF 1'786.9 million). Negative currency translation effects totaled CHF 28.6 million.

### Orders

millions of CHF	2019	2018
Order intake	3'747.2	3'531.5
Order intake gross margin	33.6%	33.3%
Order backlog as of December 31	1'792.6	1'786.9

## Higher sales on strong organic growth and acquisitions

Sales amounted to CHF 3'728.5 million in 2019 – an increase of 13.0%. This rise was driven by strong organic growth of 10.8% on the back of higher order backlog entering the year, the strong order intake during the year and CHF 71.8 million of acquisition-related sales. Negative currency translation effects totaled CHF 72.2 million.

Sales grew strongly in the oil and gas market at 37.8%, boosted by high order backlog. Sales to the chemical industry increased by 19.5% and by 4.7% to the water market after strong growth already in 2018. Sales to the general industries increased by 1.0%, whereas they declined by 3.3% to the power market due to a lower backlog at the beginning of the year.

Sales grew across all regions, most pronounced in the Americas.

## Gross margin improvement

Gross margin increased from 29.1% in 2018 to 30.1% in 2019. Improvements in all divisions were partly offset by a negative mix effect. Total gross profit increased to CHF 1'121.2 million (2018: CHF 978.3 million), supported by higher sales volumes.

## Profitability (opROSA) increased to 10.0%

Operational EBITA (opEBITA) amounted to CHF 371.3 million compared with CHF 322.5 million in 2018, an increase of 17.9%. Higher sales, savings of CHF 23 million achieved from SFP and the contribution from acquisitions more than offset the negative mix impact. OpEBITA increased organically by 15.9% compared with 2018.

Operating expenses excluding amortization, impairments on tangible and intangible assets, restructuring expenses and other non-operational items increased by 10.4%, partly influenced by the acquisition-related cost additions. Set in relation to sales, operating expenses decreased in comparison to the previous year.

## Bridge from EBIT to opEBITA

millions of CHF	2019	2018
<b>EBIT</b>	<b>241.0</b>	<b>183.8</b>
Amortization	64.5	69.0
Impairments on tangible and intangible assets	4.4	4.4
Restructuring expenses	23.1	13.1
Non-operational items <sup>1)</sup>	38.3	52.0
<b>opEBITA</b>	<b>371.3</b>	<b>322.5</b>

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

Operational ROSA (opROSA) increased to 10.0%, up from 9.6% in 2018. The divisions achieved the following profitability figures (opROSA):

- Pumps Equipment: 4.0% (2018: 3.2%). The profitability increased on higher volumes and solid execution despite the negative mix effect.
- Rotating Equipment Services: 14.1% (2018: 13.7%). Profitability increased due to strong sales growth with a favorable mix and cost management.
- Chemtech: 9.6% (2018: 8.9%): Sales growth and better project execution improved profitability.

- Applicator Systems: 21.0% (2018: 21.1%). Strong operational performance of the adhesives, dental and healthcare segment led to stable profitability, despite considerable market shifts in beauty.

## ROS and opROSA calculation

millions of CHF	2019	2018
EBIT	241.0	183.8
Sales	3'728.5	3'364.9
<b>ROS</b>	<b>6.5%</b>	<b>5.5%</b>
opEBITA	371.3	322.5
Sales	3'728.5	3'364.9
<b>opROSA</b>	<b>10.0%</b>	<b>9.6%</b>

## Non-operational costs impacted operating income (EBIT)

Plans to consolidate two production facilities in Germany have led to an expense of CHF 27.8 million, consisting of both restructuring provisions and non-operational costs. In the last year of the SFP program, Sulzer has continued to streamline its organizational setup. SFP-related non-operational expenses were CHF 23.0 million and SFP-related restructuring expenses were CHF 2.0 million. Overall, with the SFP program the company achieved cumulative savings of CHF 253 million.

EBIT amounted to CHF 241.0 million, an increase of 34.2% compared with CHF 183.8 million in 2018. Return on sales (ROS) was 6.5% compared with 5.5% in 2018.

## Financial result

Interest expenses on borrowings and lease liabilities increased to CHF 21.1 million (2018: CHF 15.4 million). This is mainly due to the interest expenses on bonds issued in the second half of 2018 and interest expenses on lease liabilities resulting 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.

## Lower effective tax rate

Income tax expenses increased to CHF 55.1 million (2018: CHF 49.2 million) due to higher pre-tax income. The effective tax rate declined from 29.7% in 2018 to 25.9% in 2019. Adjusted for effects of reorganization expenses in Germany and prior year tax base adjustments in Mexico and Russia, the normalized tax rate remained stable at 23.1%.

## Higher core net income

In 2019, net income amounted to CHF 157.7 million compared with CHF 116.5 million in the previous year. Core net income excluding the tax-adjusted effects of non-operational items totaled CHF 257.8 million compared with CHF 223.0 million in 2018. Basic earnings per share increased from CHF 3.56 in 2018 to CHF 4.52 in 2019.

## Bridge from net income to core net income

millions of CHF	2019	2018
<b>Net income</b>	<b>157.7</b>	<b>116.5</b>
Amortization	64.5	69.0
Impairments on tangible and intangible assets	4.4	4.4
Restructuring expenses	23.1	13.1
Non-operational items <sup>1)</sup>	38.3	52.0
Tax impact on above items	-30.1	-32.0
<b>Core net income</b>	<b>257.8</b>	<b>223.0</b>

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

## Improved balance sheet efficiency

Total assets as of December 31, 2019 amounted to CHF 5'109.5 million, which is a nominal increase of CHF 211.2 million from 2018. Higher business volume and acquisitions contributed to the increase. The main driver, however, was the introduction of the new accounting standard IFRS 16 "Leases".

Non-current assets increased by CHF 114.3 million to CHF 2'172.0 million mainly due to the addition of leased assets following the introduction of IFRS 16 (CHF 112.6 million). Current assets increased nominally by CHF 96.9 million. Better net working capital management contributed to an inventory reduction of CHF 84.0 million. Contract assets grew by CHF 150.1 million and trade account receivables by CHF 23.6 million from higher sales. Cash and cash equivalents decreased by CHF 59.7 million, while current financial assets increased by CHF 57.5 million.

Total liabilities nominally increased by CHF 258.3 million to CHF 3'515.6 million as of December 31, 2019. The main reasons were the addition of lease liabilities due to IFRS 16 (CHF 109.7), an increase in contract liabilities (CHF 88.4 million) due to higher sales of project business, as well as an increase on the outstanding dividend payments to Tiwel Holding Ltd by CHF 38.1 million.

Equity decreased nominally by CHF 47.1 million to CHF 1'593.9 million. This was mainly driven by dividend distribution (CHF 119.2 million), currency translation effects (CHF 63.9 million) and the remeasurement of the defined benefit obligation (CHF 24.8 million). These were partly offset by net income (CHF 157.7 million).

Net debt increased from CHF 239.0 million in 2018 to CHF 346.9 million in 2019, mainly due to the adoption of the new accounting standard IFRS 16 "Leases" (CHF 109.7 million). Net debt to EBITDA on December 31, 2019, corresponded to 0.84 including IFRS 16 impact and 0.63 excluding IFRS 16 impact (0.73 per December 31, 2018). Increased EBITDA contributed to a like-for-like improvement of 10 points in the net debt to EBITDA ratio compared with 2018.

## Record free cash flow

Cash flow from operating activities amounted to CHF 319.6 million, compared with CHF 260.8 million in 2018. This increase was mainly due to the higher net income and a CHF 34.0 million impact due to the adoption of IFRS 16 "Leases", partly offset by increased interest payments. Inventory reduction contributed CHF 82.8 million to cash flow. Despite higher sales, overall net working capital remained stable. Free cash flow amounted to CHF 213.4 million compared with CHF 181.3 million in the prior year. This was driven by the higher cash flow from operating activities, partly offset by higher capital expenditure.

## Bridge from cash flow from operating activities to free cash flow (FCF)

millions of CHF	2019	2018
<b>Cash flow from operating activities</b>	<b>319.6</b>	<b>260.8</b>
Purchase of intangible assets	-6.0	-6.9
Sale of intangible assets	0.5	0.0
Purchase of property, plant and equipment	-108.9	-89.3
Sale of property, plant and equipment	8.1	16.6
<b>Free cash flow</b>	<b>213.4</b>	<b>181.3</b>

Cash-out from investing activities totaled CHF 242.6 million compared with CHF 297.4 million in the prior year. Cash-out for acquisitions amounted to CHF 78.5 million compared with CHF 217.5 million in 2018. Capital expenditure amounted to CHF 142.1 million (thereof CHF 27.2 million IFRS 16 “Leases” impact), above the CHF 96.2 million in 2018. The group also invested in fixed-term deposits of CHF 57.1 million.

Cash flow from financing activities totaled CHF -123.2 million compared with CHF 669.1 million in 2018 when additional bonds were issued. In 2019, dividend payments amounted to CHF 81.2 million, compared with CHF 43.1 million in 2018. While the Sulzer dividend remained unchanged at CHF 3.50 per share, CHF 38.1 million of net dividend payments to Sulzer’s main shareholder Tiwel could still not be transferred as a result of US sanctions. Payments for leases amounted to CHF 34.0 million as a result of the adoption of IFRS 16. Exchange losses on cash amounted to CHF 13.5 million, compared with a loss of CHF 26.1 million in 2018.

## Outlook 2020

Macroeconomic clouds formed on the horizon throughout 2019. Geopolitical risks have arisen with increased tensions in the Middle East and in other parts of the world. Trade wars continue to disrupt global flows, generating inefficiencies that weigh on both Sulzer and its customers. And it is too early to estimate the impact of the coronavirus, which is affecting our production in, and supply chain from, China in February 2020, and potentially beyond.

Still, we are confident about the prospects of our businesses in 2020. We enter the year with a healthy commercial pipeline, good end market momentum and a solid backlog.

Our confidence in Sulzer’s future is reflected in the proposed dividend increase to CHF 4.00 (prior year: CHF 3.50). We expect continued growth in order intake and sales. On the back of two strong years of high single-digit organic growth and despite increasingly arbitrating for margin at the expense of volume, we still expect order intake to grow in the range of 2% to 4%, and sales to grow in the range of 1% to 3%. Our profitability should further increase, with a 2020 opEBITA margin (opROSA) of around 10.2% to 10.5%.

## Impact of IFRS 16 “Leases”

Sulzer has adapted its reporting to reflect the adoption of IFRS 16 “Leases”. It replaced IAS 17 “Leases”. IFRS 16 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. A lessee is required to recognize a lease asset representing its right to use the underlying lease asset and a lease liability representing its obligation to make lease payments. Exceptions apply to leases with a term of less than 12 months and leases of low-value items.

The main impact of the new accounting standard is to bring operating leases onto the balance sheet. As a result of initially applying IFRS 16, the group recognized CHF 107.3 million of lease assets as of January 1, 2019, previously classified as operating leases. The lease liabilities increased by the same amount. As of December 31, 2019, the lease assets amounted to CHF 112.6 million and the lease liabilities totaled CHF 109.7 million. More details are provided in [note 16](#) of the consolidated financial statements.

In 2019, IFRS 16 had a positive effect on opEBITA (CHF 2.7 million) and free cash flow (CHF 34.0 million). The difference in the profit is related to the recognition of depreciation and interest expenses, instead of operating lease expenses as part of the costs of goods sold and operating expenses. The difference in the cash flow is related to the recognition of payments for leasing as part of the financing activities, instead of cash flow from operating activities.

The information presented for 2018 has not been restated. In the consolidated financial statements ([note 34](#)), a table summarizes the impact of the new accounting standards on the financial statements.

### Abbreviations

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EBIT: Earnings before interest and taxes

ROS: Return on sales

opEBITA: Operational earnings before interest, taxes and amortization

opROSA: Operational return on sales adjusted

EBITDA: Earnings before interest, taxes, depreciation and amortization

FCF: Free cash flow

For the definition of the alternative performance measures, please refer to [“Supplementary information”](#).



# Continued growth in order intake, sales and profitability

In 2019, Pumps Equipment reported growth in order intake and sales. Operational EBITA increased significantly from 2018, leading to an improved operational ROSA. The division continued to focus on growing its water business, which achieved record order intake in 2019.

## Highest ever order intake in water

Sulzer's pumps play a key role in some of the biggest desalination and water transport projects in the world. Based on the company's good positioning in, and continued focus on, the water market, Pumps Equipment secured two large orders for desalination and pipeline pumps in the Middle East. Providing highly efficient equipment with low energy consumption, Sulzer supports customers produce fresh water and transport it in pipelines to populations. These projects and continued growth momentum in the municipal water business helped the division achieve its highest ever water order intake in 2019.

*Pumps Equipment continues to benefit from its strong market position, growing order intake in all market segments. Combined with our focus on operational excellence, we drove our profitability up by 80 basis points.*



**Frédéric Lalanne**, Division President Pumps Equipment

## Key figures Pumps Equipment

millions of CHF	2019	2018	Change in +/-%	+/-% adjusted <sup>1)</sup>	+/-% organic <sup>2)</sup>
Order intake	1'458.9	1'372.1	6.3	8.3	8.0
Order intake gross margin	27.4%	26.3%			
Order backlog as of December 31	924.3	982.9	-6.0		
Sales	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%			
Employees (number of full-time equivalents) as of December 31	5'759	5'713	0.8		

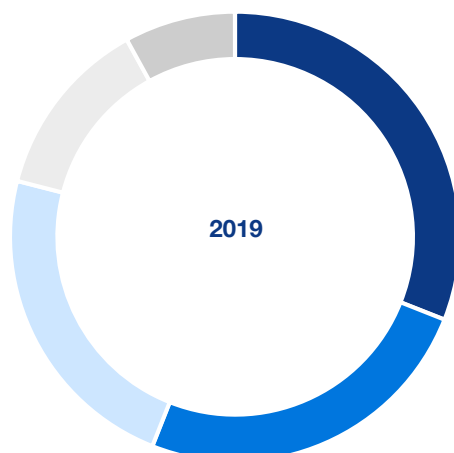
1) Adjusted for currency effects.

2) Adjusted for acquisition and currency effects.

## Order intake increased

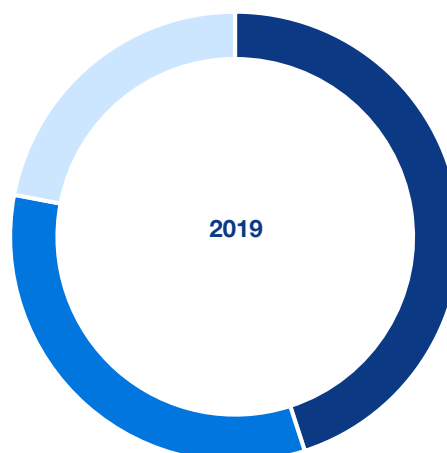
In 2019, Pumps Equipment's order intake increased by 8.3% over 2018, based on robust end markets. Order intake was particularly strong in the water (+17.3%) and chemicals (+16.4%) market segments. The division grew orders by 17.1% in Europe, the Middle East and Africa (EMEA) and by 18.8% in Asia-Pacific.

### Order intake by segment



- 31% Water
- 25% Oil and gas
- 23% General industry
- 13% Chemicals
- 8% Power

### Order intake by region



- 45% Europe, the Middle East and Africa
- 33% Americas
- 22% Asia-Pacific

## Improved sales and profitability

Sales were stable in power and grew in all other segments. With 50.5% and 45.5%, respectively, growth was particularly strong in oil and gas and chemicals, on the back of a high order backlog and solid execution.

Operational EBITA increased significantly compared with 2018 as a result of higher sales and efficiency gains. Operational ROSA grew by 80 basis points to 4.0% as a result of order intake selectivity, more than offsetting a negative mix effect.

## Safety performance in 2019

In 2019, Pumps Equipment reported a continued improvement in its accident frequency rate (AFR) to 1.8 cases per million working hours (2018: 2.7). The accident severity rate (ASR) also significantly decreased to 37.3 lost days per million working hours (2018: 107.3). This is due to the improved safety performance in the EMEA region. Please read more about the company's health and safety efforts in the chapter "Safety".

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

### Abbreviations

EBIT: Earnings before interest and taxes

opEBITA: Operational earnings before interest, taxes and amortization

opROSA: Operational return on sales adjusted

For the definition of the alternative performance measures, please refer to "Supplementary information".

## Growing in all product lines

Rotating Equipment Services improved order intake and sales compared with 2018. The division was able to increase profitability significantly on a strong performance in pump services and power. The acquisition of Alba Power contributed positively to the results and further diversified the division's service offering.

### Expanded service offering

In 2019, Sulzer acquired Alba Power, a Scottish aeroderivative gas turbine service provider, expanding its service offering into distributed power, offshore and marine applications. The light and compact aeroderivative gas turbines are not facing the same pressures as the large gas turbine market and provide an excellent opportunity for cross-selling to Sulzer's existing customers.

*Our strategy to build on our strong position in pump services and the gas turbine power market, expand our footprint and drive operational excellence has paid off. We grew on orders, sales and profitability in 2019.*



**Daniel Bischofberger**, Division President Rotating Equipment Services

### Key figures Rotating Equipment Services

millions of CHF	2019	2018	Change in +/-%	+/-% adjusted <sup>1)</sup>	+/-% organic <sup>2)</sup>
Order intake	1'193.2	1'109.7	7.5	10.7	8.6
Order intake gross margin	38.6%	37.7%			
Order backlog as of December 31	422.2	393.1	7.4		
Sales	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%			
Employees (number of full-time equivalents) as of December 31	4'900	4'721	3.8		

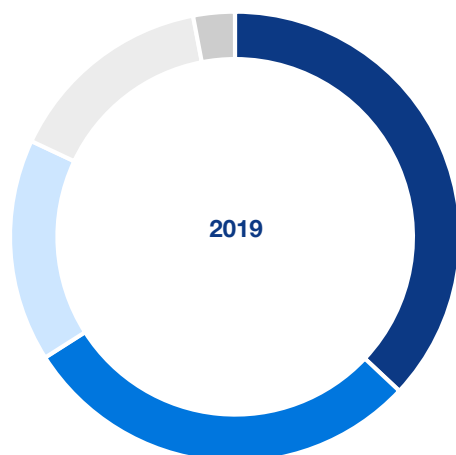
1) Adjusted for currency effects.

2) Adjusted for acquisition and currency effects.

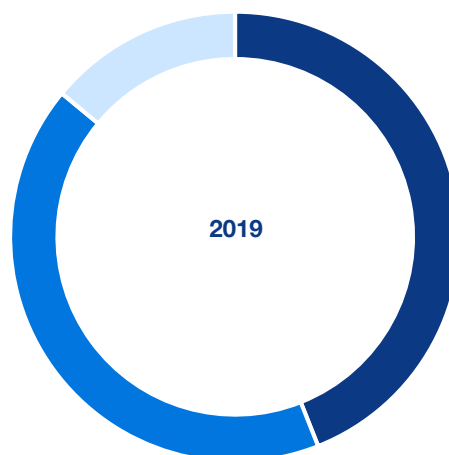
### Order intake increased across the board

In Rotating Equipment Services, order intake was up by 10.7% from last year. The division leveraged its favorable position in the gas turbine power market as well as in pump services, capitalizing on opportunities in Sulzer's installed pumps base to grow strongly across the board. All businesses and regions developed positively.

Growth was most pronounced in Europe, the Middle East and Africa (EMEA, 10.2%) as well as the Americas (11.0%).

**Order intake by segment**

- 37% Oil and gas
- 29% Power
- 16% Chemicals
- 15% General industry
- 3% Water

**Order intake by region**

- 44% Europe, the Middle East and Africa
- 42% Americas
- 14% Asia-Pacific

**Improved sales and profitability**

Sales grew significantly in all product lines. The acquisitions of Brithinee Electric and Alba Power contributed CHF 29.8 million to sales growth.

Operational EBITA grew on higher volumes with slightly increased margins, leading to an operational ROSA of 14.1%, up 40 basis points from 2018.

**Safety performance in 2019**

In 2019, RES reported a significant decrease in its accident frequency rate (AFR) from 2.1 in 2018 to 0.7 cases per million working hours at year-end. The improvement stems mainly from the EMEA region, achieved through focusing more on pre-work planning.

The accident severity rate (ASR) increased slightly from 53.7 in 2018 to 60.7 lost days per million working hours in 2019, mainly due to two severe accidents that had occurred in 2018 and continued to add lost time into 2019. Please read more about the company's health and safety efforts in the chapter "Safety".

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

**Abbreviations**

EBIT: Earnings before interest and taxes

opEBITA: Operational earnings before interest, taxes and amortization

opROSA: Operational return on sales adjusted

For the definition of the alternative performance measures, please refer to "Supplementary information".

## Significant growth driving further improvement in profitability

Chemtech's double-digit increase in order intake, sales and operational EBITA continued in 2019. Operational ROSA also further improved. Sulzer acquired GTC Technology, gaining access to the attractive technology licensing business.

### Gaining access to technology licensing

The petrochemical industry is growing and demand for technology suppliers is on the rise. With the [acquisition of the US-headquartered GTC Technology](#) at the end of April 2019, Sulzer complemented its offering with proprietary processes and systems for the production of aromatics and other petrochemicals. The acquisition is an excellent strategic fit, providing a market entry into the attractive technology licensing business and making Sulzer's business less cyclical.



*The acquisition of GTC Technology supported our strong order and sales growth in 2019, on the back of an intact investment cycle in petrochemicals and refining. By transferring our know-how from petrochemical to renewable applications, we support Quantafuel and Steelanol in fostering a circular economy.*

**Torsten Wintergerste**, Division President Chemtech

### Key figures Chemtech

millions of CHF	2019	2018	Change in +/--%	+/--% adjusted <sup>1)</sup>	+/--% organic <sup>2)</sup>
Order intake	670.0	600.1	11.6	12.8	6.5
Order intake gross margin	30.4%	31.3%			
Order backlog as of December 31	385.3	345.9	11.4		
Sales	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%			
Employees (number of full-time equivalents) as of December 31	3'803	3'063	24.2		

1) Adjusted for currency effects.

2) Adjusted for acquisition and currency effects.

### Fostering a circular economy

Sulzer's leading separation technologies play a key role in fostering a circular economy. Amidst an increase in research of new approaches to deal with plastics in a more sustainable manner, [Sulzer's Chemtech division was chosen to deliver fractionation equipment to Quantafuel's revolutionary plant that turns non-recyclable plastic waste into fuel](#). The plant in Denmark is the first of many planned "plastic to fuel" facilities around the world, and Quantafuel decided to continue the collaboration with Sulzer for its future projects.

Chemtech also delivers distillation equipment to the EU-funded project “Steelanol”, aimed at turning carbon emissions into biofuels. By transferring its knowledge from the petrochemical industry to renewable applications, Chemtech supports ArcelorMittal’s steel production plant in Belgium to recycle carbon into sustainable bioethanol.

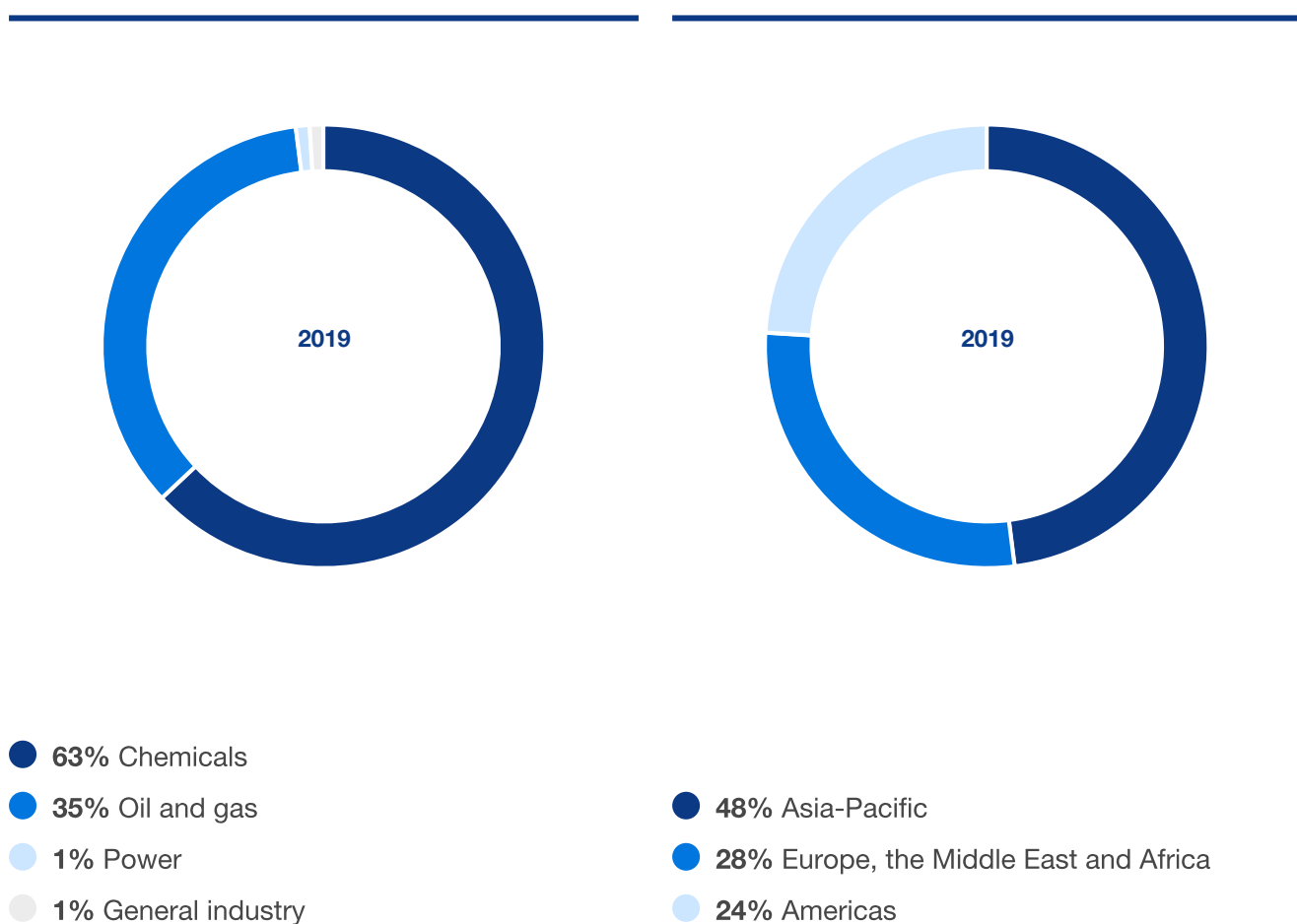
## Strong order growth

Chemtech’s order intake grew by 12.8% based on a healthy performance of both separation technology and tower field services. The newly acquired GTC technology complemented organic growth.

Regionally, order intake increased by 42.9% in Asia-Pacific and by 17.4% in North America. It was 7.3% lower in the Europe, the Middle East and Africa (EMEA) region due to a base effect, as some large orders had been booked in this region in 2018.

Order intake by segment

Order intake by region



## Significant increase in sales and profitability

In line with order intake growth, sales increased by 19.0% following an already strong 2018. This was supported by a high order backlog and by delivering further efficiency improvements in factories. GTC technology added CHF 35.4 million to sales.

Based on higher volumes and efficiency gains, operational EBITA grew strongly in 2019, leading to an operational ROSA of 9.6%, 70 basis points higher than in 2018.

## Safety performance in 2019

Chemtech's significant efforts in safety in the reporting year paid off. The division managed to reduce the accident frequency rate to 0.6 cases per million working hours from 1.8 cases in 2018. The accident severity rate improved to 41.5 lost days per million working hours (2018: 80.4).

The improved performance was based on driving a change in mindset to focus on unsafe behavior rather than unsafe conditions. The safety walks have also proven to be very effective. In addition, the division retained its global certifications in compliance with the ISO standards 14001 and OHSAS 18001. You can read more about the company's safety and health efforts in the chapter "[Safety](#)".

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

### Abbreviations

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EBIT: Earnings before interest and taxes

opEBITA: Operational earnings before interest, taxes and amortization

opROSA: Operational return on sales adjusted

For the definition of the alternative performance measures, please refer to "[Supplementary information](#)".

## Successfully defending our profitability despite a challenging beauty market

Applicator Systems' operational profitability (opROSA) remained robust at 21.0% despite a challenging beauty market. Order intake, sales and operational EBITA decreased in 2019. Whilst the beauty segment is adapting to market shifts, the adhesives, dental and healthcare segment performed well. Sulzer appointed Girts Cimermans as the new Division President Applicator Systems and member of the Executive Committee.

### New Division President Girts Cimermans

As of October 21, 2019, Sulzer appointed Girts Cimermans as President of the Applicator Systems division and member of the Executive Committee. He succeeded Amaury de Menthère, who retired. Joining from HOYA Vision Care's USD 2 billion optical business where he served as CEO, Girts Cimermans brings a wealth of experience in dental and medical devices that makes him uniquely suited to lead Sulzer's APS division.

*I'm very excited to lead APS with brands that are well-known and respected as key players in the markets they serve. Building on this great base, we will execute our plan to return APS to a solid growth path.*



**Girts Cimermans**, Division President Applicator Systems

### Key figures Applicator Systems

millions of CHF	2019	2018	Change in +/-%	+/-% adjusted <sup>1)</sup>	+/-% organic <sup>2)</sup>
Order intake	425.1	449.6	-5.4	-4.3	-5.2
Order intake gross margin	46.3%	45.9%			
Order backlog as of December 31	60.8	65.0	-6.4		
Sales	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%			
Employees (number of full-time equivalents) as of December 31	1'821	1'864	-2.3		

1) Adjusted for currency effects.

2) Adjusted for acquisition and currency effects.

### Serving the needs of new market participants

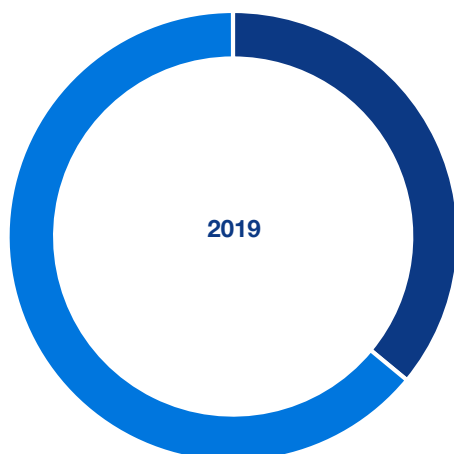
While Applicator Systems (APS) continues to be the market leader, the division's beauty segment is in transition to adapt industrial assets to a fast evolving market. In order to add further decoration capabilities and shorten lead times, the division will expand its factory in Bechhofen. The company will transition production from the Bamberg factory to Bechhofen, leading to the closure of the Bamberg factory.



## Order intake and sales decreased

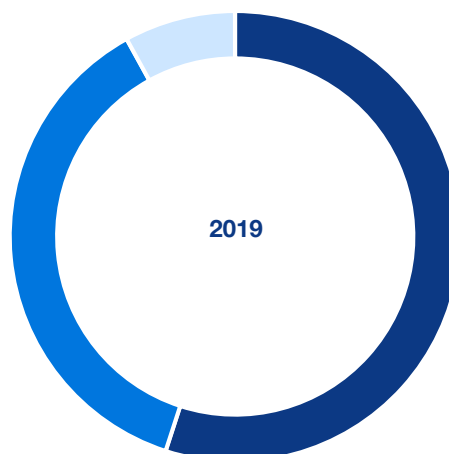
In 2019, Applicator Systems reported a decrease in orders and sales compared with 2018. Order intake growth in the adhesives, dental and healthcare segment of 2.8% did not fully offset the order decrease of 14.3% in beauty. The adhesives growth was secured despite a soft market in automotive, electronics and construction.

### Order intake by segment



- 36% Beauty
- 64% Adhesives, dental and healthcare

### Order intake by region



- 55% Europe, the Middle East and Africa
- 37% Americas
- 8% Asia-Pacific

## Stable profitability

Operational ROSA remained at a stable 21.0% due to strong operational performance of the adhesives, dental and healthcare segment. Operational EBITA decreased on the drop in beauty volumes as the division transitions its German factories.

## Safety performance in 2019

In 2019, the division reported an accident frequency rate (AFR) of 7.4 cases per million working hours (2018: 8.1). The decrease was driven by the beauty business unit, especially Bechhofen, which focused on driving safety ownership for line managers in 2019. You can read more about the company's health and safety efforts in the chapter "[Safety](#)".

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

### Abbreviations

EBIT: Earnings before interest and taxes

opEBITA: Operational earnings before interest, taxes and amortization

opROSA: Operational return on sales adjusted

For the definition of the alternative performance measures, please refer to "[Supplementary information](#)".



# Sustainable development

- 35 People and community
- 37 Environment
- 40 Safety

## Engaging people and supporting global communities

Our employees are our most important asset and we build on the strengths and diversity of our people. Nine out of ten respondents to the company's 2019 employee survey recognized its committed and collaborative work environment. Sulzer actively supports the communities where it is present. Sulzer is a force for positive change on key global issues, driving technological advancement and enhancing people's lives.

### In constant dialogue with our employees

Our employees gave the company a thumbs up in our 2019 employee engagement survey, the Voice of Sulzer, which registered an 85% overall participation rate – a 12 point increase on the previous year.

The advances from last year are measurable across all areas, and most in the categories of communications and personal development.



### Learning and development

Sulzer invests in learning on-the-job and targeted training programs aimed at increasing management effectiveness, improving customer partnership, building awareness of digital technologies and more.

In response to feedback from the 2018 Voice of Sulzer survey, the company developed and introduced the Sulzer Learning Pathways, a global learning and development framework to increase visibility of and access to different learning opportunities. In 2019, the first 500 people participated in virtual and in-person training courses offered under this new umbrella, with great feedback. We will continue this ambitious roll-out in 2020.

## Leveraging ESG ambitions

We have introduced ESG (Environment, Social, Governance) metrics into our compensation framework. Starting in 2020, ESG is included in the personal objectives of all our long-term-incentive eligible leaders, shining a spotlight on what our annual employee survey tells us is one of the main contributions our people expect from Sulzer. We continue to pursue significant advances in the areas of health and safety, emissions, water and energy efficiency, waste management, community engagement and R&D for more efficient or sustainable products such as eco-packaging, biopolymers or energy-efficient pumps.

## Diversity – A force for positive change

Sulzer has a long and continuing tradition of providing internship, apprenticeship and university support programs for students in many countries. In 2019, the company launched the “[Sulzer Scholarship for Women in Science and Engineering](#)” for female students studying towards university degrees in this area. Reflecting Sulzer’s presence and the unique requirements of the countries, in 2019 the company awarded 13 scholarships – three in South Africa, four in Indonesia, four in China and two in India.

At Sulzer, diverse teams with more than 80 nationalities and people of all ages work closely together for the success of the company. In 2019, roughly 17% of the total workforce were women, a number Sulzer strives to increase steadily. The scholarship is a first step towards fostering female talent to pursue a career in STEM disciplines. With Hanne Birgitte Breinbjerg Sørensen and Jill Lee, female leaders are represented in Sulzer’s Board of Directors and the Executive Committee, respectively.

## Supporting communities in need

In 2019, Sulzer teams participated in the Winnovators challenge, organized by the charity WaterAid. The teams competed internationally to solve real-world clean water access and sanitation issues in Colombia, India and eSwatini.

Money raised goes directly towards supporting these communities and implementing the innovative solutions that were proposed during the challenge.

As a global company, we help communities in need of urgent help. In 2019, we donated several fiber fishing boats to coastal communities worst hit by the Tsunami disaster in Indonesia. Sulzer is also participating in the ongoing Tsunami Recovery Program to ensure that the boats are properly maintained.

## Sulzer employees taking the initiative

All across Sulzer, individuals and smaller groups organize or participate in events to support a wide range of charitable causes around the world. We encourage these numerous local initiatives to raise funds and awareness and often support our employees with time and/or resources to assist their cause.

### Key figures

		2019	2018	Change in +/-%
Voluntary attrition rate	%	6.7	7.4	
Share of women (of total workforce)	%	17.3	18.0	
Number of employees	FTE	16'506	15'572	6.0

Please find further sustainability data at [www.sulzer.com/sustainability](http://www.sulzer.com/sustainability).

## Increased efficiency of energy use and more transparency

Sulzer is an environmentally responsible global industrial company. We focus on designing products with market-leading efficiency levels, we utilize energy more efficiently, reduce the share of hazardous waste and improve water management. Compared with last year, we have increased the scope of our environmental reporting in order to add more value and increase transparency.

Sulzer products can be impressive in the sheer size and scale of the function they are delivering. Sulzer's design teams consistently work to develop more energy-efficient products and solutions.

### Serving customers and the environment

We believe strongly in doing our part to protect the environment while simultaneously helping customers to find the most efficient solutions for their needs – saving them time, space and money. It is for this reason we put a strong emphasis on making our products more efficient. Some of the company's achievements in this area in 2019 were:

- Reducing the overall power consumption of mixing applications with the [new SALOMIX™ agitator family](#) in a wide range of industries.
- [Supporting Quantafuel's sustainable downstream plant in converting non-recyclable plastic waste into fuel.](#)
- Creating sustainable packaging for adhesives; Sulzer won the world's most prestigious packaging innovation competition in the "resource efficiency" category from Packaging Europe with its newly developed [ecopaCC™ collapsible packaging](#).
- Offering [revamps, retrofits and upgrades](#) to increase efficiency and extend the lifetime of existing equipment, irrespective of the brand.

### Businesses with diverse footprints

Sulzer reports on its energy consumption, greenhouse gas emissions, waste production and water consumption as they are material for our operations. Our goal is to continuously improve performance measured against working hours (whr) compared with the previous year. Our products and services differ widely from one another; our portfolio encompasses pumps, separation equipment and applicators as well as services for rotating equipment or for turnaround projects. These businesses have different requirements and different ecological footprints. Thus, the business units and local sites evaluate their footprints and set their agendas individually to reduce their environmental impact.

### Comprehensive reporting system

Sulzer has a comprehensive reporting system in place to collect financial and non-financial data at site level. The number of total working hours are used as a reference. The total number of working hours increased in 2019, mainly due to the impact of newly acquired businesses. In the reporting year, 78.8% of total working hours reported on environmental data (2018: 78.5%). The number is slightly higher than in the previous year because acquired businesses have been integrated into the environmental data collection process. The coverage of HR and occupational health and safety data

is 100% (of total working hours). Sulzer collects non-financial data according to two different reporting cycles and confirms the accuracy of the figures through regular internal audits:

- The reporting period for environmental data was October 1, 2018, to September 30, 2019.
- The reporting cycle for HR data and the health and safety performance was January 1, 2019, to December 31, 2019.

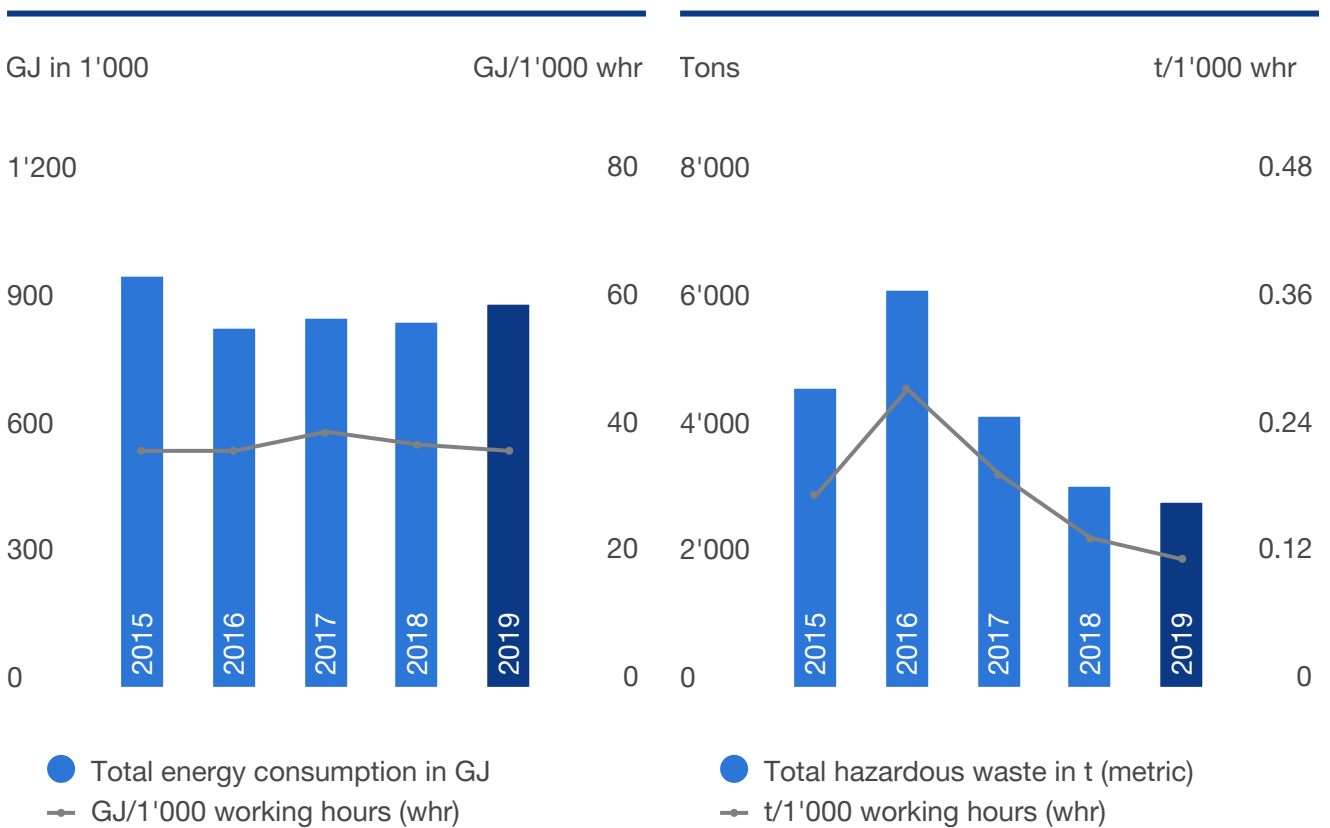
### More efficient usage of energy

The rate of energy consumption per 1'000 working hours decreased by 1.4% in 2019, since efforts to use energy more efficiently paid off. The decrease would have been bigger but was somewhat offset by several large projects in the Pumps Equipment division. Due to Sulzer's growth in 2019, the overall environmental impact increased, although slower than the company's output (energy usage up 4.9% versus total revenue growth of 8.2%).

In 2019, GHG emissions relative to 1'000 working hours decreased by 4.0%, whereas the total greenhouse gas (GHG) emissions in absolute terms increased by 4.4%. Contributing factors included an increase in CO<sub>2</sub> emissions from petrol and diesel used and a broader scope of reporting sites.

#### Energy consumption

#### Hazardous waste



### Decreased share of hazardous waste and better water management

The total waste grew by 15.7%. This increase is primarily linked to newly acquired sites that were integrated into Sulzer's reporting system. In addition, certain sites implemented LEAN processes even more thoroughly, which involved cleaning up manufacturing facilities and resulted in additional waste. At the same time, we were able to decrease the share of hazardous waste requiring special treatment by 3.5 percentage points.

Sulzer's use of water grew by 10.6%. The majority of the increase stems from customer demands in the Applicator Systems (APS) division for specific products that consume more water in the production process, and from adding new sites to the reporting system. Building on the 20% reduction in water use in 2018, the divisions further improved water management in their processes and facilities in 2019. This led to an only slight increase in the overall water consumption per 1'000 working hours, also due to the APS product mix.

## Key figures

		2019	2018	Change in +/-%
<b>Energy</b>	<b>GJ</b>	<b>902'751</b>	<b>860'753</b>	<b>4.9</b>
Energy consumption per working hours (whr)	GJ per 1'000 whr	36.9	38.3	-1.4
Share of electricity	%	56.6	58.1	
Share of gases	%	25.3	27.3	
Share of fuels	%	13.8	10.4	
Share of fuel oils	%	1.3	1.1	
Share of district heating	%	3.0	3.2	
Share of other sources	%	<1	<1	
<b>Greenhouse gas emissions</b>	<b>tons CO<sub>2</sub> eq.</b>	<b>118'805</b>	<b>113'764</b>	<b>4.4</b>
GHG emissions per working hours	tons CO <sub>2</sub> eq. per 1'000 whr	4.8	5.1	-4.0
GHG scope 1 <sup>1)</sup>	tons CO <sub>2</sub> eq.	21'245	18'979	12.0
GHG scope 2 <sup>2)</sup>	tons CO <sub>2</sub> eq.	56'214	55'998	0.4
GHG scope 3 <sup>3)</sup>	tons CO <sub>2</sub> eq.	41'346	38'787	7.0
<b>Waste</b>	<b>tons</b>	<b>20'998</b>	<b>18'142</b>	<b>15.7</b>
Waste per working hours	tons per 1'000 whr	0.9	0.8	11.1
<b>By treatment:</b>				
Recycling	%	44.9	45.3	
Waste to landfill / incineration / other treatment	%	55.1	54.7	
<b>By hazardousness:</b>				
Non-hazardous waste	%	86.1	82.6	
Hazardous waste	%	13.9	17.4	
<b>Water</b>	<b>m<sup>3</sup></b>	<b>1'029'302</b>	<b>930'530</b>	<b>10.6</b>
Water consumption per working hours	m <sup>3</sup> per 1'000 whr	42.0	41.4	1.6

1) Direct emissions from Sulzer stemming from primary energy sources such as natural gas and fuels used on-site.

2) Indirect emissions from secondary (converted) energy sources such as electricity and district heating.

3) Indirect emissions from the production and transport of fuels and gases not included in scopes 1 or 2.

Please find further sustainability data at [www.sulzer.com/sustainability](http://www.sulzer.com/sustainability).

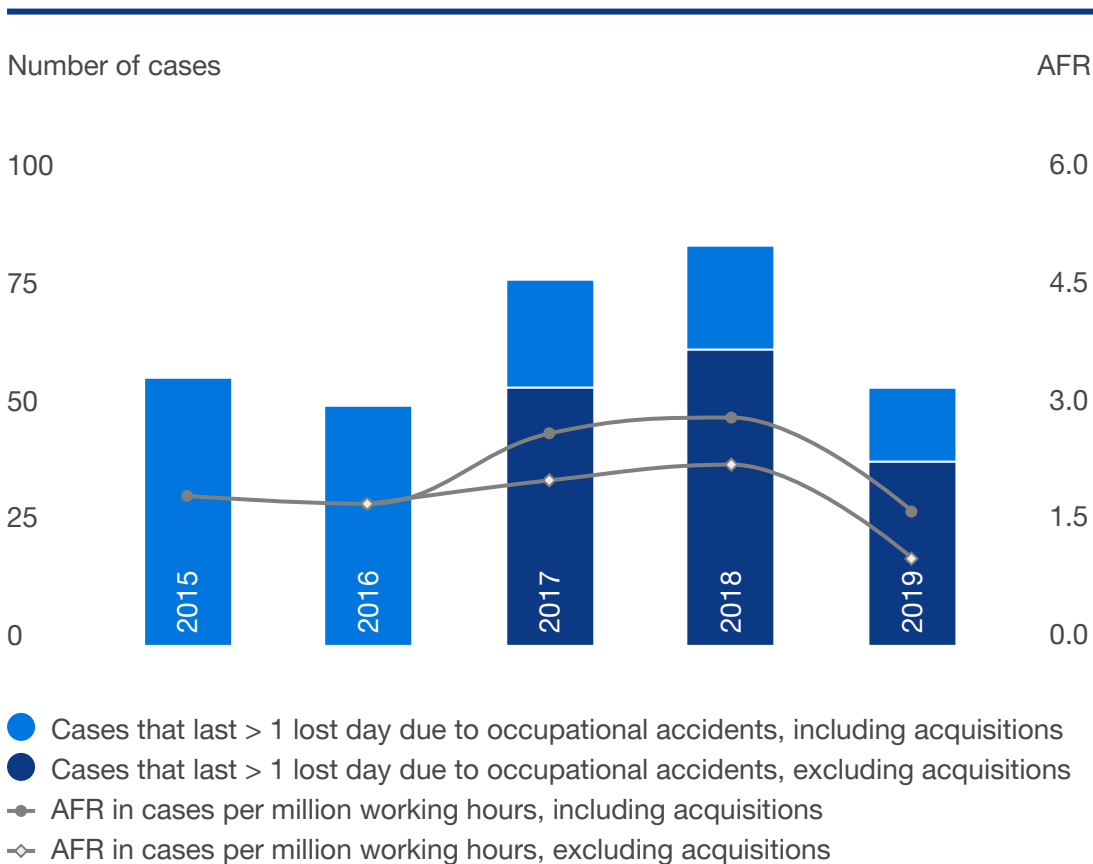
# Record low number of accidents based on deeply-rooted safety culture

Sulzer has a safety culture that is deeply rooted and shared by all. We have systems and programs in place to ensure employees can work in a safe environment. In 2019, we managed to reduce the accident frequency rate (AFR) to 1.7 cases per million working hours, our lowest AFR ever.

In 2019, we improved our safety performance considerably and reached our lowest ever accident frequency rate (AFR). AFR decreased by 41.3% to 1.7 cases per million working hours. Excluding acquisitions, AFR would have been 1.1, which is at target corridor of an AFR of less than 1.0. Two out of the four divisions already managed to achieve an AFR of less than 1.0 in 2019. Our acquired businesses were able to reduce their accident rates by adopting Sulzer’s strong management system based safety program.

The overall accident severity rate (ASR) also declined significantly by 28.1% to 58.3 lost days per million working hours. The improved development is based on many initiatives launched in the past two years, such as through risk analyses at site level, increased management attention and improved functional support. With an AFR of 1.7, we remain one of the leading companies in safety, ahead of the benchmark for general industries.

## Accidents





## Changes in the ESH organization for better business support

In 2019, we hired a new Head of Group ESH (Environment, Safety and Health) and two new Divisional ESH Heads for Rotating Equipment Services and Chemtech to further strengthen our safety culture.

To foster knowledge exchange across all Sulzer businesses, the ESH Competence Center agreed on common focus areas to increase ESH competence and leadership, as well as to ensure effective communication on safety throughout Sulzer.

In addition, members of the Competence Center delivered several training sessions to new ESH officers on risk assessment and Sulzer's Safe Behavior Program (SBP) to align them with our safety strategy. Embedded within the SBP, Sulzer employees participated in more than 63'000 safety walks and observations during the year.

## Divisional initiatives to anchor Safe Behavior Program

In recent years, Sulzer launched several initiatives to increase the hazard awareness of employees, to encourage participation in the safety program and to foster the sharing of competence. In 2019, the divisions took the following measures:

- Rotating Equipment Services launched a tool to assess its high hazard activities;
- Chemtech worked on increasing supervisor leadership and the quality of root cause analysis;
- Pumps Equipment focused on SBP and on training newly acquired businesses;
- Applicator Systems focused on achieving a consistent safety standard methodology in all their manufacturing facilities as well as on risk assessment and improvement of root cause analysis.

## Getting closer to an AFR of less than 1.0

Based on our successes in 2019, we are committed to reach our ambitious goals of an AFR of less than 1.0. Therefore, we continue to take measures to further improve our safety performance and to challenge existing standards.

### Key figures

		2019	2018	Change in +/-%
Accident frequency rate (AFR)	Cases per million working hours	1.7	2.9	-41.3
Accident severity rate (ASR)	Lost days per million working hours	58.3	81.1	-28.1
Health and safety training	Hours	105'471	117'599	-10.3

Please find further sustainability data at [www.sulzer.com/sustainability](http://www.sulzer.com/sustainability).



# Corporate governance

- 43 Corporate structure and shareholders
- 44 Capital structure
- 45 Board of Directors
- 53 Executive Committee
- 54 Shareholder participation rights
- 55 Takeover and defense measures
- 56 Auditors
- 57 Risk management
- 59 Information policy

# 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](http://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](http://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](http://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](http://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](http://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](http://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

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### BOARD OF DIRECTORS

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

<p>.....</p> <p><b>AUDIT COMMITTEE</b></p> <p><b>Hanne Birgitte Breinbjerg Sørensen</b> (Chairwoman)  <b>Gerhard Roiss</b>  <b>Marco Musetti</b></p>	<p>.....</p> <p><b>NOMINATION AND REMUNERATION COMMITTEE</b></p> <p><b>Gerhard Roiss</b> (Chairman)  <b>Marco Musetti</b>  <b>Hanne Birgitte Breinbjerg Sørensen</b></p>	<p>.....</p> <p><b>STRATEGY COMMITTEE</b></p> <p><b>Peter Löscher</b> (Chairman)  <b>Matthias Bichsel</b>  <b>Mikhail Lifshitz</b>  <b>Lukas Braunschweiler</b></p>
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## 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](http://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](http://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](http://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](http://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](http://www.sulzer.com/governance) (under "Regulations").



## Management structure



\*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](http://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](http://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](http://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 Menthère (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](http://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](http://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](http://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](http://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
<b>External and markets</b>		
Market assessment	Market developments that are assessed inappropriately could lead to missed business opportunities or losses.	<ul style="list-style-type: none"> <li>– Continuous monitoring and assessment of market developments</li> <li>– Systematic midrange planning based on market developments and expectations</li> </ul>
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.	<ul style="list-style-type: none"> <li>– Monitoring of exposure in critical countries</li> <li>– Monitoring of debt situation of countries and banks</li> <li>– Continuous monitoring of raw material prices and inflation indicators</li> <li>– Sulzer's global presence mitigates the effect of geopolitical shocks</li> </ul>
<b>Strategic</b>		
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.	<ul style="list-style-type: none"> <li>– A phased process, technical risk manageability assessments and key performance indicators to ensure quality of the development</li> <li>– Product Development Council with strong focus on strategic plans and digitalization</li> <li>– Prototypes and own test beds to test and validate products before market release</li> <li>– Core Technology Council for research of basic technology</li> <li>– Focus on innovation with strategic customers</li> <li>– Innovation and ideation projects</li> <li>– Implementation of an expert development program for key critical resources</li> </ul>
<b>Operational</b>		
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.	<ul style="list-style-type: none"> <li>– Ensuring that Sulzer's people and performance efforts are anchored to the company's values and behaviors</li> <li>– Ongoing feedback through employee opinion survey "Voice of Sulzer"</li> <li>– Robust internal communications strategy</li> <li>– Ongoing engagement in workshops and collaborative activities</li> <li>– Visibility and access to creating development experiences and opportunities</li> <li>– Consistent approach to salary grading and benchmarking</li> </ul>
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.	<ul style="list-style-type: none"> <li>– Health and safety directives, guidelines, programs (e.g. Safe Behavior Program) and training</li> <li>– OHSAS 18001 certifications</li> <li>– Monthly health and safety controlling and regular audits</li> <li>– Global network of health and safety officers</li> </ul>
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.	<ul style="list-style-type: none"> <li>– Mitigation in comprehensive environmental due diligence (EDD) projects for acquisitions and divestitures</li> <li>– Elimination of environmentally damaging substances through Prohibited Substances List</li> </ul>

<b>Compliance</b>	Non-compliant or unethical behavior could lead to reputational damage, fines and liability claims.	<ul style="list-style-type: none"> <li>– Active fostering of high ethical standards by tone from the top and middle management</li> <li>– Continuous monitoring and assessment of potential exposures</li> <li>– Sulzer Code of Business Conduct and a number of supporting regulations (e.g. anticorruption, antitrust, trade control)</li> <li>– Third-party due diligence process</li> <li>– Global network of compliance and trade compliance officers</li> <li>– Compliance training (incl. e-learning) and audits</li> <li>– Speak-up culture, compliance hotline and sanction checks</li> </ul>
<b>Quality of products and services</b>	Failure of high-quality products and services could lead to repeated work, reputational damage or liability claims.	<ul style="list-style-type: none"> <li>– Quality management and assurance systems tailored to specific businesses</li> <li>– Third-party accreditation</li> <li>– Competence development programs and training of employees</li> <li>– Test centers</li> </ul>
<b>Business interruptions</b>	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.	<ul style="list-style-type: none"> <li>– Crisis and emergency management systems (at global and local level)</li> <li>– Risk management policy and guidelines</li> <li>– Global manufacturing footprint and global procurement</li> <li>– IT security standards, measures and incident response team</li> <li>– Disaster recovery plans in IT</li> </ul>
<b>Financial</b>		
<b>Financial markets</b>	The unpredictability of financial markets may have a negative effect on Sulzer's financial performance and its ability to raise or access capital.	<ul style="list-style-type: none"> <li>– Group financial policy</li> <li>– Foreign exchange risk policy</li> <li>– Trading loss limits for financial instruments</li> </ul>
<b>Credit</b>	Credit risks arising from financial institutions and from customers could have a negative effect on Sulzer's financial performance and ability to operate.	<ul style="list-style-type: none"> <li>– For financial institutions, only parties with a strong credit quality are accepted (third-party rated)</li> <li>– Individual risk assessment of customers with large order volumes</li> <li>– Continuous monitoring of country risks</li> </ul>
<b>Liquidity</b>	Failure in liquidity risk management may have a negative effect on Sulzer's financial performance and its ability to operate.	<ul style="list-style-type: none"> <li>– Continuous liquidity monitoring</li> <li>– Management of liquidity reserves at group level</li> <li>– Cash flow program to optimize liquidity and cash flow management</li> <li>– Efficient use of available cash through cash pooling</li> </ul>

# 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](http://www.sulzer.com/events). Media releases (sent via e-mail) can be subscribed to at [www.sulzer.com/newsletter](http://www.sulzer.com/newsletter). Other information is available on the Sulzer website [www.sulzer.com](http://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

- 61 Letter to the shareholders
- 64 Special report
- 67 Compensation governance and principles
- 70 Compensation architecture for the CEO and EC members
- 79 Compensation of the Executive Committee for 2019
- 84 Compensation architecture for the Board of Directors
- 86 Compensation of the Board of Directors for 2019
- 89 Auditor's report

# 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,

A handwritten signature in blue ink, consisting of a large, stylized initial 'G' followed by a long, sweeping horizontal line that ends in a small hook.

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.

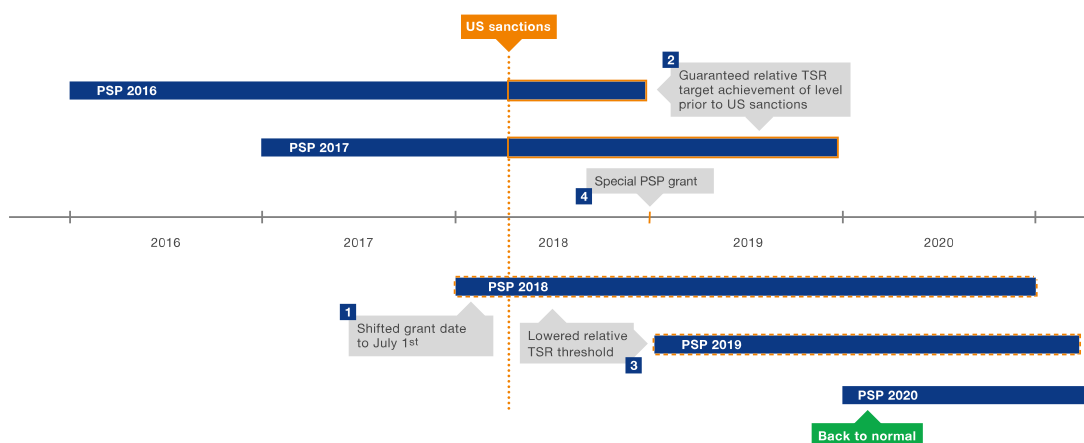
In 2018, Sulzer's business was impacted by exceptional, existence-threatening circumstances. Against this background, Sulzer's Executive Committee members were granted special concessions for the successful resolution of the impending consequences.

## What happened?

Renova became the target of US sanctions on the afternoon of Friday, April 6<sup>th</sup>, 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 appropriate 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](http://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](http://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:

<b>Pay for performance</b>	A substantial portion of the compensation is delivered in the form of variable incentives based on company and individual performance.
<b>Strategy alignment</b>	The performance criteria are selected to create adequate incentives for achieving the operational and strategic objectives.
<b>Ownership</b>	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.
<b>Market competitiveness</b>	Compensation levels are competitive and in line with market practice to attract and retain highly qualified employees.
<b>Internal equity</b>	The internal compensation structure is based on a job-grading methodology applied globally.
<b>Transparency</b>	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.

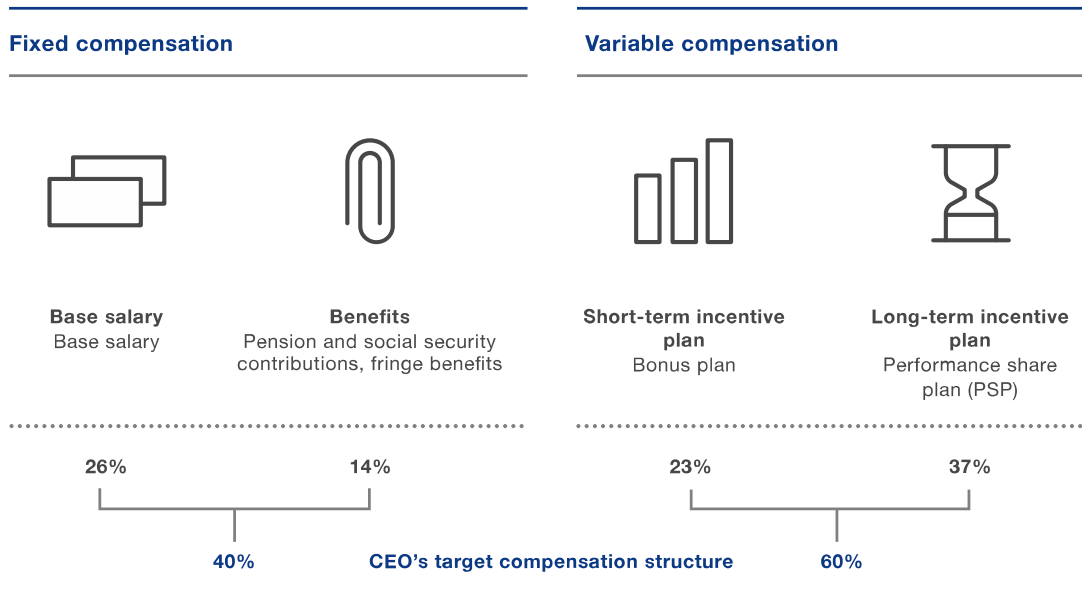
The compensation of the Executive Committee is governed by internal regulations such as the total reward policy, the bonus plan, the performance share plan and benefits plans. The compensation of the Executive Committee is reviewed by the NRC annually and, if necessary, adjusted and approved by decision 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

→ <b>Target setting</b> Definition of two to four individual performance objectives at the beginning of the year	→ <b>Performance assessment</b> Performance assessment at year-end	→ <b>Compensation determination</b> Determination of incentive payouts on the basis of the company's/division's performance and achievement of individual objectives
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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%
				<b>Total</b>	<b>100%</b>	<b>100%</b>

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.

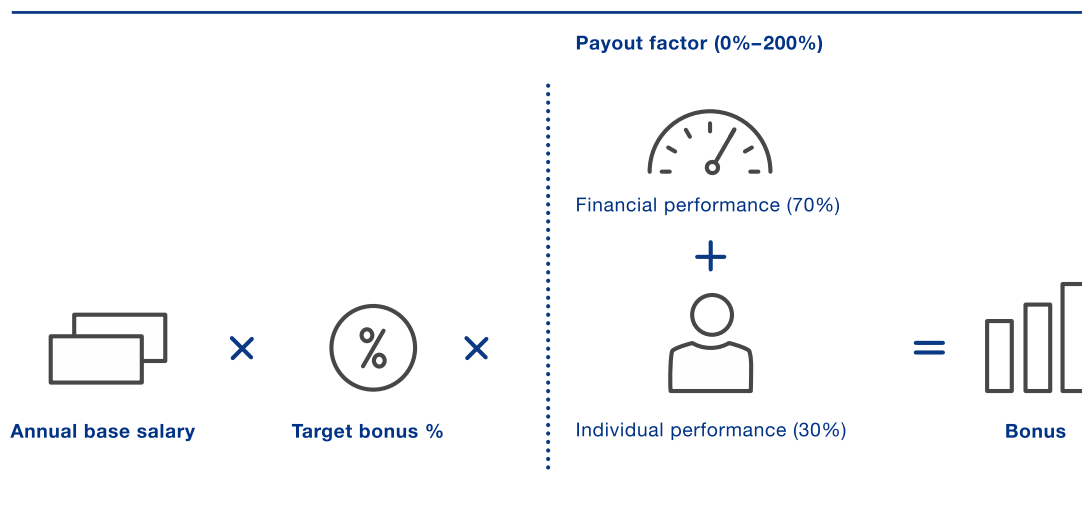
In order to measure individual performance, each Executive Committee member is given different personal objectives for each of the three individual performance categories ("Cost optimization", "Growth initiatives" and "Faster and Better") at the beginning of the financial year. "Cost optimization", for 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
<b>Bonus Plan</b>	✓	✓	✓
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

- Ebara
- Flowserve
- ITT
- Kirloskar Brothers
- KSB

- Pentair
- SPX Flow
- Weir
- Wood Group
- Xylem

#### Swiss Market Index Mid (SMIM)

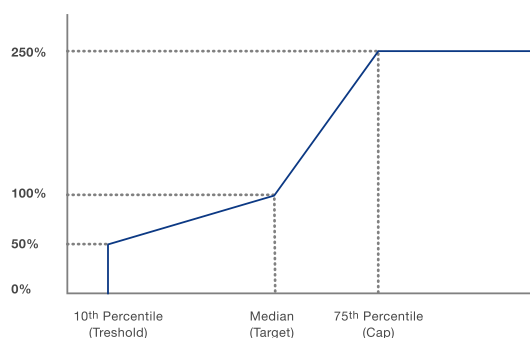
All companies of the SMIM

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.

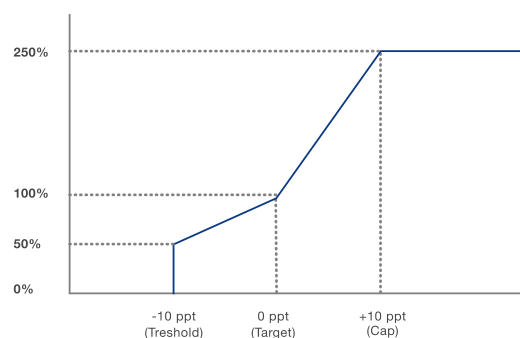
The Board of Directors deems these metrics to be the most relevant key performance indicators for the sustainable development of the Sulzer group, combining growth, profitability and shareholder return in comparison to the relevant peers and markets.

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**

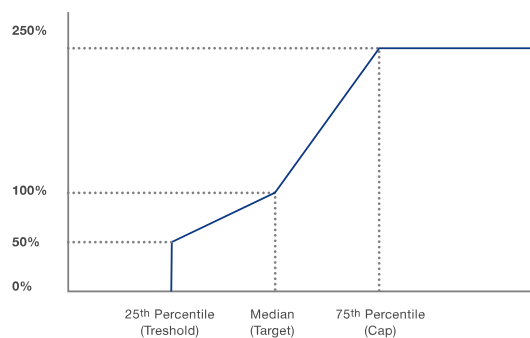


**Relative TSR – SMIM**



From 2020, the threshold for the relative TSR in the industrial peer group will be changed back to the 25<sup>th</sup> 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

<b>Number of PSU granted</b>	<b>×</b>	<b>Achievement opEBITA growth (0–250%)x25%</b>	<b>+</b>	<b>Achievement average opROCEA (0–250%)x25%</b>	<b>+</b>	<b>Achievement relative TSR (0–250%)x50%</b>	<b>=</b>	<b>Number of PSU vested</b>
<b>Number of PSU granted</b> Grant values are defined based on the level of the role: • CEO: CHF 1'440'000 • EC: CHF 330'000 to CHF 400'000		<b>Factor based on operational EBITA growth</b> 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.		<b>Factor based on average opROCEA</b> 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.		<b>Factor based on relative TSR</b> Relative TSR is defined as share price growth plus dividends during the vesting period divided by the ending share price, measured against peers.		<b>Number of PSU vested</b> 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%



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



**Base salary**  
Base salary

24%



**Benefits**  
Pension and social security contributions, fringe benefits

14%

38%

##### Variable compensation



**Short-term incentive plan**  
Bonus plan

21%



**Long-term incentive plan**  
Performance share plan (PSP)

41%

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%
<b>Total</b>	<b>70%</b>	<b>132.5%</b>

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:

<b>KPI</b>	<b>Weighting</b>	<b>Payout factor</b>
opEBITA	25%	150%
opROCEA	25%	127%
Rel. TSR	50%	120%
<b>Total</b>	<b>100%</b>	<b>129%</b>

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)			
		Restricted share units (RSU)	Performance share units (PSU) 2017	Performance share units (PSU) 2018	Performance share units (PSU) 2019
<b>Executive Committee</b>	<b>68'838</b>	<b>–</b>	<b>25'292</b>	<b>28'133</b>	<b>54'251</b>
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)			
		Restricted share units (RSU)	Performance share units (PSU) 2016	Performance share units (PSU) 2017	Performance share units (PSU) 2018
<b>Executive Committee</b>	<b>34'035</b>	<b>3'513</b>	<b>28'852</b>	<b>26'667</b>	<b>31'071</b>
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<sup>1)</sup>

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 <sup>2)</sup>	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
<b>Additional committee fees:</b>			
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)

thousands of CHF	2019				2018			
	Cash fees <sup>8)</sup>	Restricted share unit (RSU) plan <sup>9)</sup>	Social security contributions <sup>10)</sup>	Total	Cash fees <sup>8)</sup>	Restricted share unit (RSU) plan	Social security contributions <sup>10)</sup>	Total
<b>Board of Directors</b>	<b>1'282</b>	<b>1'030</b>	<b>230</b>	<b>2'542</b>	<b>1'226</b>	<b>1'155</b>	<b>257</b>	<b>2'638</b>
Peter Löscher, Chairman <sup>1)</sup>	446	250	64	760	446	250	69	765
Matthias Bichsel, Vice Chairman	140	155	32	327	133	155	33	322
Hanne Birgitte Breinbjerg Sørensen <sup>2)</sup>	168	125	30	323	108	125	27	260
Lukas Braunschweiler <sup>3)</sup>	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 <sup>4)</sup>	165	125	25	315	132	125	16	273
Axel C. Heitmann <sup>5)</sup>	–	–	–	–	40	125	23	187
Thomas Glanzmann <sup>6)</sup>	–	–	–	–	40	0	4	44
Jill Lee <sup>7)</sup>	–	–	–	–	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
<b>Board (total)</b>	<b>2'542'208</b>	<b>324'428</b>	<b>354'767</b>	<b>2'572'548</b>	<b>2'984'000</b>	<b>86.2%</b>
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
<b>Board (total)</b>	<b>2'637'654</b>	<b>387'961</b>	<b>366'336</b>	<b>2'616'029</b>	<b>2'984'000</b>	<b>87.7%</b>

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
<b>Board of Directors</b>	<b>47'461</b>	<b>18'549</b>	<b>66'010</b>
Peter Löscher	17'121	4'692	21'813
Matthias Bichsel	6'801	2'911	9'712
Hanne Birgitte Breinbjerg Sorensen	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
<b>Board of Directors</b>	<b>38'114</b>	<b>16'516</b>	<b>54'630</b>
Peter Löscher	14'607	4'647	19'254
Matthias Bichsel	5'241	2'884	8'125
Hanne Birgitte Breinbjerg Sorensen	–	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, Räfelstrasse 28, PO Box, CH-8036 Zurich

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# Financial reporting

## **91 Consolidated financial statements**

- 91 Consolidated income statement
- 92 Consolidated statement of comprehensive income
- 93 Consolidated balance sheet
- 94 Consolidated statement of changes in equity
- 95 Consolidated statement of cash flows
- 96 Notes to the consolidated financial statements
- 169 Auditor's report
- 175 Supplementary information

## **181 Financial statements of Sulzer Ltd**

- 182 Balance sheet of Sulzer Ltd
- 183 Income statement of Sulzer Ltd
- 184 Statement of changes in equity of Sulzer Ltd
- 185 Notes to the financial statements of Sulzer Ltd
- 190 Proposal of the Board of Directors for the appropriation of the available profit
- 191 Auditor's report

# 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
<b>Gross profit</b>		<b>1'121.2</b>	<b>978.3</b>
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
<b>Operating income (EBIT)</b>		<b>241.0</b>	<b>183.8</b>
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
<b>Income before income tax expenses</b>		<b>212.8</b>	<b>165.6</b>
Income tax expenses	13	-55.1	-49.2
<b>Net income</b>		<b>157.7</b>	<b>116.5</b>
attributable to shareholders of Sulzer Ltd		154.0	113.7
attributable to non-controlling interests		3.7	2.8
<b>Earnings per share (in CHF)</b>			
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
<b>Net income</b>		<b>157.7</b>	<b>116.5</b>
<b>Items that may be reclassified subsequently to the income statement</b>			
Cash flow hedges, net of tax	29	4.3	-2.2
Currency translation differences		-63.9	-90.6
<b>Total of items that may be reclassified subsequently to the income statement</b>		<b>-59.6</b>	<b>-92.7</b>
<b>Items that will not be reclassified to the income statement</b>			
Remeasurements of defined benefit obligations, net of tax	9	-24.8	55.9
<b>Total of items that will not be reclassified to the income statement</b>		<b>-24.8</b>	<b>55.9</b>
<b>Total other comprehensive income</b>		<b>-84.4</b>	<b>-36.9</b>
<b>Total comprehensive income for the period</b>		<b>73.3</b>	<b>79.6</b>
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
<b>Non-current assets</b>			
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
<b>Total non-current assets</b>		<b>2'172.0</b>	<b>2'057.7</b>
<b>Current assets</b>			
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
<b>Total current assets</b>		<b>2'937.5</b>	<b>2'840.6</b>
<b>Total assets</b>		<b>5'109.5</b>	<b>4'898.3</b>
<b>Equity</b>			
Share capital	24	0.3	0.3
Reserves		1'580.4	1'629.5
<b>Equity attributable to shareholders of Sulzer Ltd</b>		<b>1'580.7</b>	<b>1'629.9</b>
Non-controlling interests		13.1	11.2
<b>Total equity</b>		<b>1'593.9</b>	<b>1'641.0</b>
<b>Non-current liabilities</b>			
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
<b>Total non-current liabilities</b>		<b>1'644.1</b>	<b>1'646.8</b>
<b>Current liabilities</b>			
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
<b>Total current liabilities</b>		<b>1'871.5</b>	<b>1'610.4</b>
<b>Total liabilities</b>		<b>3'515.6</b>	<b>3'257.3</b>
<b>Total equity and liabilities</b>		<b>5'109.5</b>	<b>4'898.3</b>

# 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	
<b>Equity as of January 1, 2018</b>		<b>0.3</b>	<b>2'040.9</b>	<b>-22.1</b>	<b>-6.5</b>	<b>-362.2</b>	<b>1'650.4</b>	<b>22.2</b>	<b>1'672.6</b>	
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	
<b>Total comprehensive income for the period</b>		<b>-</b>	<b>169.6</b>	<b>-</b>	<b>-2.2</b>	<b>-89.2</b>	<b>78.2</b>	<b>1.4</b>	<b>79.6</b>	
Transactions with owners of the company:										
Changes of non-controlling interests without a change in control										
Allocation of treasury shares to share plan participants			11.7				11.7	-10.6	1.1	
Allocation of treasury shares to share plan participants			-7.0	7.0			-		-	
Purchase of treasury shares	24			-563.8			-563.8		-563.8	
Sale of treasury shares	24		12.6	544.8			557.4		557.4	
Share-based payments	31		15.1				15.1		15.1	
Dividends	24		-119.1				-119.1	-1.9	-121.0	
<b>Equity as of December 31, 2018</b>	<b>24</b>	<b>0.3</b>	<b>2'123.6</b>	<b>-34.0</b>	<b>-8.6</b>	<b>-451.4</b>	<b>1'629.9</b>	<b>11.2</b>	<b>1'641.0</b>	
<b>Equity as of January 1, 2019</b>		<b>0.3</b>	<b>2'123.6</b>	<b>-34.0</b>	<b>-8.6</b>	<b>-451.4</b>	<b>1'629.9</b>	<b>11.2</b>	<b>1'641.0</b>	
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	
<b>Total comprehensive income for the period</b>		<b>-</b>	<b>129.1</b>	<b>-</b>	<b>4.3</b>	<b>-63.9</b>	<b>69.5</b>	<b>3.7</b>	<b>73.3</b>	
Transactions with owners of the company:										
Allocation of treasury shares to share plan participants										
Allocation of treasury shares to share plan participants			-19.6	19.6			-		-	
Purchase of treasury shares	24			-11.1			-11.1		-11.1	
Share-based payments	31		11.7				11.7		11.7	
Dividends	24		-119.2				-119.2	-1.7	-121.0	
<b>Equity as of December 31, 2019</b>	<b>24</b>	<b>0.3</b>	<b>2'125.4</b>	<b>-25.6</b>	<b>-4.3</b>	<b>-515.1</b>	<b>1'580.7</b>	<b>13.1</b>	<b>1'593.9</b>	

# Consolidated statement of cash flows

January 1 – December 31

millions of CHF	Notes	2019	2018
<b>Cash and cash equivalents as of January 1</b>		<b>1'095.2</b>	<b>488.8</b>
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
<b>Total cash flow from operating activities</b>		<b>319.6</b>	<b>260.8</b>
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	-
<b>Total cash flow from investing activities</b>		<b>-242.6</b>	<b>-297.4</b>
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
<b>Total cash flow from financing activities</b>		<b>-123.2</b>	<b>669.1</b>
Exchange losses on cash and cash equivalents		-13.5	-26.1
<b>Net change in cash and cash equivalents</b>		<b>-59.7</b>	<b>606.4</b>
<b>Cash and cash equivalents as of December 31</b>	<b>23</b>	<b>1'035.5</b>	<b>1'095.2</b>

## Notes to the consolidated financial statements

97	01	General information
97	02	Significant events and transactions during the reporting period
98	03	Segment information
103	04	Acquisitions of subsidiaries
105	05	Critical accounting estimates and judgments
107	06	Financial risk management
116	07	Corporate risk management
116	08	Personnel expenses
116	09	Employee benefit plans
121	10	Research and development expenses
121	11	Other operating income and expenses
122	12	Financial income and expenses
122	13	Income taxes
126	14	Goodwill and other intangible assets
129	15	Property, plant and equipment
131	16	Leases
132	17	Associates
132	18	Other financial assets
133	19	Inventories
134	20	Assets and liabilities related to contracts with customers
135	21	Trade accounts receivable
136	22	Other current receivables and prepaid expenses
136	23	Cash and cash equivalents
136	24	Share capital
138	25	Earnings per share
138	26	Borrowings
139	27	Provisions
141	28	Other current and accrued liabilities
141	29	Derivative financial instruments
142	30	Contingent liabilities
142	31	Share participation plans
144	32	Transactions with members of the Board of Directors, Executive Committee and related parties
145	33	Auditor remuneration
146	34	Key accounting policies and valuation methods
164	35	Subsequent events after the balance sheet date
164	36	Major subsidiaries



## 1 General information

Sulzer Ltd (the “company”) is a company domiciled in Switzerland. The address of the company’s registered office is Neuwiesenstrasse 15 in Winterthur, Switzerland. The consolidated financial statements for the year ended December 31, 2019, comprise the company and its subsidiaries (together referred to as the “group” and individually as the “subsidiaries”) and the group’s interest in associates and joint ventures. The group specializes in pumping, agitation, mixing, separation and application technologies for fluids of all types. Sulzer was founded in 1834 in Winterthur, Switzerland, and employs around 16’500 people. The company serves clients in over 180 production and service sites around the world. Sulzer Ltd is listed on the SIX Swiss Exchange in Zurich, Switzerland (symbol: SUN).

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). They were authorized for issue by the Board of Directors on February 17, 2020.

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

## 2 Significant events and transactions during the reporting period

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

- As of April 30, 2019, the group acquired 100% of the issued shares in GTC Technology US, LLC (“GTC”) for CHF 43.5 million. GTC is headquartered in Houston, Texas, US, and employs around 200 people. The company is offering proprietary processes and systems for the production of aromatics and other petrochemicals. GTC combines its specialized expertise in the licensing of process-based plant engineering with long-standing industry experience. The acquisition resulted in an increase in intangible assets of CHF 19.5 million at the date of acquisition (see [note 4](#)).
- As of July 1, 2019, the group acquired 100% of the issued shares in Alba Power for CHF 54.4 million. Alba is headquartered in Scotland, UK, and employs around 80 people. The company is offering aeroderivative gas turbine services. The acquisition resulted in an increase in intangible assets of CHF 38.2 million at the date of acquisition (see [note 4](#)).
- Sulzer has continued to streamline the organizational setup. In 2019, restructuring expenses were mainly associated with the consolidation of two production facilities in Germany. The group recognized restructuring expenses of CHF 23.1 million in 2019 (2018: CHF 13.1 million). Associated with restructuring initiatives, the group further recognized impairments on tangible and intangible assets of CHF 4.4 million (2018: CHF 4.4 million).
- This is the first set of consolidated financial statements where IFRS 16 “Leases” has been applied. The application of this new accounting standard resulted in an increase of total assets and total liabilities of CHF 107.3 million. Details and changes of the group’s accounting policies are described in [note 34](#).

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

### 3 Segment information

#### Segment information by divisions

millions of CHF	Pumps Equipment		Rotating Equipment Services		Chemtech		Applicator Systems	
	2019	2018	2019	2018	2019	2018	2019	2018
<b>Order intake (unaudited)<sup>1)</sup></b>	<b>1'458.9</b>	<b>1'372.1</b>	<b>1'193.2</b>	<b>1'109.7</b>	<b>670.0</b>	<b>600.1</b>	<b>425.1</b>	<b>449.6</b>
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 <sup>2)</sup> (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
<b>Sales<sup>3)</sup></b>	<b>1'477.0</b>	<b>1'284.2</b>	<b>1'167.0</b>	<b>1'063.7</b>	<b>664.0</b>	<b>563.2</b>	<b>420.6</b>	<b>453.8</b>
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 <sup>2)</sup> (unaudited)	17.0%	n/a	10.0%	n/a	12.7%	n/a	-7.4%	n/a
<b>opEBITA (unaudited)</b>	<b>59.7</b>	<b>41.4</b>	<b>164.5</b>	<b>146.1</b>	<b>63.8</b>	<b>50.0</b>	<b>88.2</b>	<b>95.7</b>
<b>opROSA (unaudited)</b>	<b>4.0%</b>	<b>3.2%</b>	<b>14.1%</b>	<b>13.7%</b>	<b>9.6%</b>	<b>8.9%</b>	<b>21.0%</b>	<b>21.1%</b>
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
<b>EBIT</b>	<b>11.9</b>	<b>-27.2</b>	<b>152.2</b>	<b>130.8</b>	<b>54.0</b>	<b>14.5</b>	<b>40.2</b>	<b>63.8</b>
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	-	-	-	-	-	-	-	-
<b>Total assets as of December 31</b>	<b>1'605.5</b>	<b>1'670.1</b>	<b>960.8</b>	<b>860.2</b>	<b>590.9</b>	<b>483.0</b>	<b>608.3</b>	<b>623.4</b>
Operating liabilities	730.6	739.1	363.2	347.7	364.5	289.8	108.6	76.3
Unallocated liabilities	-	-	-	-	-	-	-	-
<b>Total liabilities as of December 31</b>	<b>730.6</b>	<b>739.1</b>	<b>363.2</b>	<b>347.7</b>	<b>364.5</b>	<b>289.8</b>	<b>108.6</b>	<b>76.3</b>
Operating net assets	874.9	931.0	597.6	512.5	226.4	193.1	499.7	547.1
Unallocated net assets	-	-	-	-	-	-	-	-
<b>Total net assets as of December 31</b>	<b>874.9</b>	<b>931.0</b>	<b>597.6</b>	<b>512.5</b>	<b>226.4</b>	<b>193.1</b>	<b>499.7</b>	<b>547.1</b>
Capital expenditure (2019 incl. lease assets)	-41.0	-32.6	-36.6	-23.1	-22.1	-6.6	-41.3	-31.5
Employees (number of full-time equivalents) as of December 31	5'759	5'713	4'900	4'721	3'803	3'063	1'821	1'864

1) Order intake from external customers.

2) Adjusted for currency and acquisition effects.

3) Sales from external customers.

## Segment information by divisions

millions of CHF	Total divisions		Others <sup>4)</sup>		Total Sulzer	
	2019	2018	2019	2018	2019	2018
<b>Order intake (unaudited)<sup>1)</sup></b>	<b>3'747.2</b>	<b>3'531.5</b>	–	–	<b>3'747.2</b>	<b>3'531.5</b>
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 <sup>2)</sup> (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
<b>Sales<sup>3)</sup></b>	<b>3'728.5</b>	<b>3'364.9</b>	–	–	<b>3'728.5</b>	<b>3'364.9</b>
Nominal growth	10.8%	n/a	–	–	10.8%	n/a
Currency-adjusted growth (unaudited)	13.0%	n/a	–	–	13.0%	n/a
Organic growth <sup>2)</sup> (unaudited)	10.8%	n/a	–	–	10.8%	n/a
<b>opEBITA (unaudited)</b>	<b>376.2</b>	<b>333.2</b>	<b>–4.9</b>	<b>–10.7</b>	<b>371.3</b>	<b>322.5</b>
<b>opROSA (unaudited)</b>	<b>10.1%</b>	<b>9.9%</b>	<b>n/a</b>	<b>n/a</b>	<b>10.0%</b>	<b>9.6%</b>
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
<b>EBIT</b>	<b>258.3</b>	<b>181.8</b>	<b>–17.3</b>	<b>2.0</b>	<b>241.0</b>	<b>183.8</b>
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
<b>Total assets as of December 31</b>	<b>3'765.5</b>	<b>3'636.6</b>	<b>1'344.0</b>	<b>1'261.7</b>	<b>5'109.5</b>	<b>4'898.3</b>
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
<b>Total liabilities as of December 31</b>	<b>1'566.9</b>	<b>1'452.9</b>	<b>1'948.7</b>	<b>1'804.4</b>	<b>3'515.6</b>	<b>3'257.3</b>
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
<b>Total net assets as of December 31</b>	<b>2'198.6</b>	<b>2'183.8</b>	<b>–604.7</b>	<b>–542.7</b>	<b>1'593.9</b>	<b>1'641.0</b>
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
<b>Europe, Middle East, Africa</b>	<b>1'346.7</b>	<b>1'289.4</b>
– 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
<b>Americas</b>	<b>524.0</b>	<b>479.3</b>
– thereof USA	479.3	437.1
<b>Asia-Pacific</b>	<b>148.0</b>	<b>134.5</b>
– thereof China	60.1	60.7
<b>Total</b>	<b>2'018.7</b>	<b>1'903.2</b>

## Sales by region

millions of CHF	2019				Total Sulzer
	Pumps Equipment	Rotating Equipment Services	Chemtech	Applicator Systems	
<b>Europe, Middle East, Africa</b>	<b>576.7</b>	<b>534.7</b>	<b>195.4</b>	<b>232.7</b>	<b>1'539.6</b>
– 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
<b>Americas</b>	<b>511.3</b>	<b>480.6</b>	<b>173.4</b>	<b>156.0</b>	<b>1'321.3</b>
– thereof USA	345.3	377.1	103.4	139.9	965.8
<b>Asia-Pacific</b>	<b>389.0</b>	<b>151.6</b>	<b>295.2</b>	<b>31.8</b>	<b>867.7</b>
– thereof China	211.2	25.0	169.7	14.9	420.8
<b>Total</b>	<b>1'477.0</b>	<b>1'167.0</b>	<b>664.0</b>	<b>420.6</b>	<b>3'728.5</b>

millions of CHF	2018				Total Sulzer
	Pumps Equipment	Rotating Equipment Services	Chemtech	Applicator Systems	
<b>Europe, Middle East, Africa</b>	<b>554.6</b>	<b>458.9</b>	<b>190.0</b>	<b>265.4</b>	<b>1'468.9</b>
– 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
<b>Americas</b>	<b>383.2</b>	<b>453.1</b>	<b>128.0</b>	<b>143.2</b>	<b>1'107.6</b>
– thereof USA	267.8	346.4	70.2	128.5	812.9
<b>Asia-Pacific</b>	<b>346.4</b>	<b>151.6</b>	<b>245.1</b>	<b>45.3</b>	<b>788.4</b>
– thereof China	230.1	35.6	145.3	16.1	427.1
<b>Total</b>	<b>1'284.2</b>	<b>1'063.7</b>	<b>563.2</b>	<b>453.8</b>	<b>3'364.9</b>

## 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
<b>Total</b>	<b>1'477.0</b>	<b>1'167.0</b>	<b>664.0</b>	<b>420.6</b>	<b>3'728.5</b>

					2018 <sup>1)</sup>
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
<b>Total</b>	<b>1'284.2</b>	<b>1'063.7</b>	<b>563.2</b>	<b>453.8</b>	<b>3'364.9</b>

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
<b>Net identifiable assets</b>	<b>36.8</b>	<b>41.1</b>	<b>4.6</b>	<b>82.4</b>
Goodwill recognized in balance sheet	6.8	13.3	0.7	20.8
<b>Total consideration</b>	<b>43.5</b>	<b>54.4</b>	<b>5.3</b>	<b>103.2</b>
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
<b>Total consideration</b>	<b>43.5</b>	<b>54.4</b>	<b>5.3</b>	<b>103.2</b>

#### 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
<b>Total cash flow from acquisitions, net of cash acquired</b>	<b>-78.5</b>	<b>-217.5</b>

### 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
<b>Total contingent consideration as of December 31</b>	<b>3.5</b>	<b>0.9</b>

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
<b>Net identifiable assets</b>	<b>122.6</b>	<b>10.0</b>	<b>132.7</b>
Goodwill recognized in balance sheet	88.7	-	88.7
Negative goodwill recognized in income statement	-	-0.6	-0.6
Total consideration	211.3	9.4	220.8
Purchase price paid in cash	211.3	9.4	220.8
Total consideration	211.3	9.4	220.8

## 5 Critical accounting estimates and judgments

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

### Employee benefit plans

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

### Income taxes

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

## Goodwill and other intangible assets

The group carries out an annual impairment test on goodwill in the first quarter of the year (after the budget and the three-year strategic plan have been approved by the Board of Directors in February), or when indications of a potential impairment exist. The recoverable amount from cash-generating units is measured on the basis of value-in-use calculations with the terminal growth rate, the discount rate, and the projected cash flows as the main variables. Information about assumptions and estimation uncertainties that have significant risk of resulting in a material adjustment in the year ending December 31, 2019, are disclosed in [note 14](#). The accounting policies are disclosed in [note 34](#).

## Lease assets and lease liabilities

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

Further details are disclosed in [note 16](#) and [note 34](#).

## Sales

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

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

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

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

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

Further details are disclosed in [note 20](#) and [note 34](#).

## Provisions

Provisions are made, among other reasons, for warranties, disputes, litigation and restructuring. A provision is recognized in the balance sheet when the group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. The nature of these costs is such that judgment has to be applied to estimate the timing and amount of cash outflows. Depending on the outcome of the respective transactions, actual payments may differ from these estimates. Further details are disclosed in [note 27](#) and [note 34](#).

## 6 Financial risk management

### 6.1 Financial risk factors

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

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

#### a) Market risk

##### (I) Foreign exchange risk

The group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. The group is exposed to transactional foreign currency risk to the extent that sales, purchases, license fees, borrowings and other balance sheet items are denominated in currencies other than the functional currencies of group companies. The functional currencies of group companies are primarily CHF, EUR, USD, CNY and GBP. Management has set up a policy to require subsidiaries to manage their foreign exchange risk against their functional currency. The subsidiaries are required to hedge their major foreign exchange risk exposure using forward contracts or other standard instruments, usually transacted with Group Treasury. The group's management policy is to apply the following hedge ratios:

##### Contractual FX-exposure

- 90% – 100% of the exposure

##### Non-contractual FX-exposure

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

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

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

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

The following tables show the hypothetical influence on the income statement for 2019 and 2018 related to foreign exchange risk of financial instruments. The volatility used for the calculation is the one-year historic volatility on December 31 for the relevant currency pair and year. For 2019, the currency pair with the most significant exposure and inherent risk was the USD versus the CHF. If, on December 31, 2019, the USD had increased by 5.5% against the CHF with all other variables held constant, profit after tax for the year would have been CHF 0.6 million higher due to foreign exchange gains on USD-denominated financial assets. A decrease of the rate would have caused a loss of the same amount.

### Hypothetical impact of foreign exchange risk on income statement

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

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

The following tables show the hypothetical influence on equity for 2019 and 2018 related to foreign exchange risk of financial instruments for the most important currency pairs as per December 31 of the respective year. The volatility used for the calculation is the one-year historic volatility on

December 31 for the relevant currency pair and year. Most of the hypothetical effect on equity is a result of fair value changes of derivative financial instruments designated as hedges of future cash flows in foreign currencies.

### Hypothetical impact of foreign exchange risk on equity

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

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

#### (II) Price risk

As of December 31, 2019, the group was not exposed to significant price risk related to investments in equity securities.

#### (III) Interest rate sensitivity

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

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

## Hypothetical impact of interest rate risk on income statement

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

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

On December 31, 2019, if the interest rates on USD-denominated assets net of liabilities had been 100 basis points higher with all other variables held constant, post-tax profit for the year would have been CHF 1.9 million higher, as a result of higher interest income on USD-denominated assets. A decrease of interest rates on USD-denominated assets net of liabilities would have caused a loss of the same amount. As of December 31, 2018, if the interest rates had been 100 basis points higher with all other variables held constant, post-tax profit for the year would have been CHF 2.1 million higher, as a result of higher interest income on USD-denominated assets.

### b) Credit risk

Credit risk arises from cash and cash equivalents, derivative financial instruments, and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables, contract assets and committed transactions. The maximum exposure to credit risk per class of financial assets is outlined in the fair value table in note 6.3. Not exposed to credit risks are equity securities.

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

For every customer with a large order volume, an individual risk assessment of the credit quality of the customer is performed that considers independent ratings, financial position, past experience and other factors. Additionally, bank guarantees and letters of credit are requested. For more details on the credit risk out of contract assets, please refer to [note 20](#) and on the credit risk out of trade accounts receivable, please refer to [note 21](#).

### c) Liquidity risk

Prudent liquidity risk management includes the maintenance of sufficient cash and marketable securities, the availability of funding from an adequate number of committed credit facilities, and the

ability to close out market positions. Due to the dynamic nature of the underlying businesses, Group Treasury maintains flexibility in funding through a committed credit line.

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

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

## Maturity profile of financial liabilities

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

					2018
millions of CHF	Carrying amount	<1 year	1–5 years	>5 years	Total
Borrowings	1'334.3	30.9	975.0	380.1	1'386.0
Trade accounts payable	521.8	521.8	–	–	521.8
Other current and non-current liabilities (excluding derivative liabilities)	240.8	222.6	18.1	0.1	240.8
Derivative liabilities	8.7	8.4	0.2	–	8.7
– thereof outflow		445.7	5.4	–	451.1
– thereof inflow		437.3	5.2	–	442.5

## 6.2 Capital risk management

The group's objectives when managing capital are to safeguard the group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In this respect, the group aims at maintaining an investment grade credit rating, either as a perceived rating or an external rating issued by a credit rating agency.

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

The following table shows the net debt/EBITDA ratio as at December 31, 2019 and 2018.

## Net debt/EBITDA ratio

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

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	-
<b>Total borrowings and lease liabilities</b>	<b>1'439.9</b>	<b>1'334.3</b>
Equity attributable to shareholders of Sulzer Ltd	1'580.7	1'629.9
<b>Gearing ratio (borrowings-to-equity ratio)</b>	<b>0.91</b>	<b>0.82</b>

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
<b>Financial assets measured at fair value</b>										
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
<b>Total financial assets measured at fair value</b>		<b>6.8</b>	<b>10.3</b>	<b>–</b>	<b>–</b>	<b>17.1</b>	<b>0.3</b>	<b>6.8</b>	<b>10.0</b>	<b>17.1</b>
<b>Financial assets not measured at fair value</b>										
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				
<b>Total financial assets not measured at fair value</b>		<b>–</b>	<b>–</b>	<b>1'835.3</b>	<b>–</b>	<b>1'835.3</b>				
<b>Financial liabilities measured at fair value</b>										
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
<b>Total financial liabilities measured at fair value</b>		<b>8.2</b>	<b>3.5</b>	<b>–</b>	<b>–</b>	<b>11.7</b>	<b>–</b>	<b>8.2</b>	<b>3.5</b>	<b>11.7</b>
<b>Financial liabilities not measured at fair value</b>										
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				
<b>Total financial liabilities not measured at fair value</b>		<b>–</b>	<b>–</b>	<b>–</b>	<b>2'116.7</b>	<b>2'116.7</b>				

## 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				
<b>Financial assets measured at fair value</b>														
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				
<b>Total financial assets measured at fair value</b>		<b>6.4</b>	<b>6.8</b>			<b>13.1</b>	<b>0.2</b>	<b>6.4</b>	<b>6.6</b>	<b>13.1</b>				
<b>Financial assets not measured at fair value</b>														
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								
<b>Total financial assets not measured at fair value</b>		<b>–</b>	<b>–</b>	<b>1'750.7</b>	<b>–</b>	<b>1'750.7</b>								
<b>Financial liabilities measured at fair value</b>														
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				
<b>Total financial liabilities measured at fair value</b>		<b>8.7</b>	<b>0.9</b>			<b>9.6</b>	<b>–</b>	<b>8.7</b>	<b>0.9</b>	<b>9.6</b>				
<b>Financial liabilities not measured at fair value</b>														
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								
<b>Total financial liabilities not measured at fair value</b>					<b>2'070.9</b>	<b>2'070.9</b>								

## 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
<b>Total personnel expenses</b>	<b>1'191.1</b>	<b>1'129.7</b>

## 9 Employee benefit plans

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

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

millions of CHF	2019					Total
	Funded plans Switzerland	Funded plans United Kingdom	Funded plans USA	Funded plans Others	Unfunded plans	
Present value of funded defined benefit obligation	-1'109.5	-575.2	-69.3	-83.2	-	-1'837.2
Fair value of plan assets (funded plans)	1'140.7	463.3	46.4	65.0	-	1'715.4
<b>Overfunding / (underfunding)</b>	<b>31.2</b>	<b>-111.9</b>	<b>-22.9</b>	<b>-18.2</b>	<b>-</b>	<b>-121.8</b>
Present value of unfunded defined benefit obligation	-	-	-	-	-46.8	-46.8
<b>Asset / (liability) recognized in the balance sheet</b>	<b>31.2</b>	<b>-111.9</b>	<b>-22.9</b>	<b>-18.2</b>	<b>-46.8</b>	<b>-168.6</b>
- 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
<b>Overfunding / (underfunding)</b>	<b>10.6</b>	<b>-78.5</b>	<b>-16.3</b>	<b>-14.6</b>	<b>-</b>	<b>-98.8</b>
Present value of unfunded defined benefit obligation	-	-	-	-	-48.8	-48.8
Adjustment to asset ceiling	-0.9	-	-	-	-	-0.9
<b>Asset / (liability) recognized in the balance sheet</b>	<b>9.7</b>	<b>-78.5</b>	<b>-16.3</b>	<b>-14.6</b>	<b>-48.8</b>	<b>-148.5</b>
- 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
<b>Reconciliation of effect of asset ceiling</b>		
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
<b>Adjustment to asset ceiling at December 31</b>	<b>–</b>	<b>–0.9</b>
<b>Reconciliation of asset / (liability) recognized in the balance sheet</b>		
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
<b>Asset / (liability) recognized at December 31</b>	<b>–168.6</b>	<b>–148.5</b>
<b>Components of defined benefit income / (expense) in the income statement</b>		
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
<b>Income / (expense) recognized in the income statement</b>	<b>–19.9</b>	<b>–26.7</b>
– thereof charged to personnel expenses	–16.0	–21.8
– thereof charged to financial expense	–3.8	–4.9
<b>Components of defined benefit gain / (loss) in OCI</b>		
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
<b>Defined benefit gain / (loss) recognized in OCI<sup>1)</sup></b>	<b>–29.2</b>	<b>68.7</b>

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
<b>Reconciliation of defined benefit obligation</b>		
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
<b>Defined benefit obligation as of December 31<sup>1)</sup></b>	<b>-1'884.0</b>	<b>-1'805.1</b>
<b>Reconciliation of the fair value of plan assets</b>		
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
<b>Fair value of plan assets as of December 31</b>	<b>1'715.4</b>	<b>1'657.5</b>
<b>Total plan assets at fair value – quoted market price</b>		
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
<b>Total assets at fair value – quoted market price as of December 31</b>	<b>1'243.6</b>	<b>1'188.8</b>
<b>Total plan assets at fair value – non-quoted market price</b>		
Properties occupied by or used by third parties (real estate)	290.6	280.7
Others	181.2	188.0
<b>Total assets at fair value – non-quoted market price as of December 31</b>	<b>471.8</b>	<b>468.7</b>
<b>Best estimate of contributions for upcoming financial year</b>		
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
<b>Components of defined benefit obligation, split</b>		
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
<b>Total defined benefit obligation at December 31</b>	<b>-1'884.0</b>	<b>-1'805.1</b>
<b>Components of actuarial gain / (losses) on obligations</b>		
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
<b>Total actuarial gain / (loss) on defined benefit obligation</b>	<b>-145.2</b>	<b>140.8</b>
<b>Maturity profile of defined benefit obligation</b>		
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
<b>Total</b>	<b>85.6</b>	<b>86.4</b>

## 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
<b>Total other operating income</b>	<b>19.6</b>	<b>49.9</b>
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	–
<b>Total other operating expenses</b>	<b>–31.1</b>	<b>–19.1</b>
<b>Total other operating income and expenses, net</b>	<b>–11.5</b>	<b>30.8</b>

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
<b>Total interest and securities income</b>	<b>6.6</b>	<b>2.9</b>
Interest expenses on borrowings and lease liabilities	–21.1	–15.4
Interest expenses on employee benefit plans	–3.8	–4.9
<b>Total interest expenses</b>	<b>–24.9</b>	<b>–20.3</b>
<b>Total interest income and expenses, net</b>	<b>–18.3</b>	<b>–17.4</b>
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
<b>Total other financial income and expenses, net</b>	<b>–10.0</b>	<b>–1.5</b>
<b>Total financial income and expenses, net</b>	<b>–28.3</b>	<b>–18.9</b>
– 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
<b>Total income tax expenses</b>	<b>–55.1</b>	<b>–49.2</b>

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
<b>Weighted average tax rate</b>	<b>22.5%</b>	<b>22.0%</b>
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
<b>Total income tax expenses</b>	<b>-55.1</b>	<b>-49.2</b>
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
<b>Total income tax liabilities as of December 31</b>	<b>35.9</b>	<b>34.3</b>
- thereof non-current	2.6	2.3
- thereof current	33.3	32.0

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

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

Cumulative deferred income taxes recorded in equity as of December 31, 2019, amounted to CHF 16.4 million (2018: CHF 13.8 million). In compliance with the exception clause of IAS 12, the group does not recognize deferred taxes on investments in subsidiaries in the balance sheet.

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

millions of CHF	2019					Balance as of December 31
	Balance as of January 1	Recognized in profit or loss	Recognized in other comprehensive income	Acquisition of subsidiaries	Currency translation differences	
Intangible assets	-83.7	14.6	-	-4.0	0.6	-72.5
Property, plant and equipment	-5.8	-3.0	-	-	0.3	-8.5
Other financial assets	4.5	0.1	-	-	-	4.6
Inventories	4.9	16.8	-	-3.7	-0.4	17.6
Other assets	24.0	-24.5	-1.8	-	-	-2.3
Defined benefit obligations	20.3	3.1	4.3	-	0.1	27.9
Non-current provisions	12.3	2.9	-	-	-0.4	14.8
Current provisions	21.8	-3.9	-	-	-0.4	17.5
Other liabilities	18.2	4.7	-	-	-0.3	22.6
Tax loss carryforwards	32.3	-0.8	-	-	1.1	32.6
Elimination of intercompany profits	0.6	0.2	-	-	-	0.8
<b>Total</b>	<b>49.4</b>	<b>10.1</b>	<b>2.5</b>	<b>-7.7</b>	<b>0.6</b>	<b>55.0</b>

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

### Tax loss carryforwards (TLCF)

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

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

Deferred income tax assets are recognized for tax loss carryforwards to the extent that the realization of the related tax benefit through future taxable profits is probable. No deferred income tax assets have been recognized on tax loss carryforwards in the amount of CHF 120.2 million (2018: CHF 110.3 million).

## 14 Goodwill and other intangible assets

millions of CHF						2019
	Goodwill	Trademarks and licenses	Research and development	Computer software	Customer relationship	Total
<b>Acquisition cost</b>						
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
<b>Balance as of December 31</b>	<b>1'260.8</b>	<b>220.8</b>	<b>14.6</b>	<b>52.9</b>	<b>609.8</b>	<b>2'159.0</b>
<b>Accumulated amortization</b>						
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
<b>Balance as of December 31</b>	<b>340.0</b>	<b>138.3</b>	<b>9.8</b>	<b>45.4</b>	<b>274.5</b>	<b>808.0</b>
<b>Net book value</b>						
As of January 1	923.4	85.9	5.6	9.1	338.8	1'362.8
As of December 31	920.8	82.5	4.9	7.6	335.2	1'350.9

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

						2018
millions of CHF	Goodwill	Trademarks and licenses	Research and development	Computer software	Customer relationship	Total
<b>Acquisition cost</b>						
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
<b>Balance as of December 31</b>	<b>1'263.4</b>	<b>214.0</b>	<b>13.8</b>	<b>52.1</b>	<b>574.4</b>	<b>2'117.7</b>
<b>Accumulated amortization</b>						
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
<b>Balance as of December 31</b>	<b>340.0</b>	<b>128.1</b>	<b>8.3</b>	<b>43.0</b>	<b>235.6</b>	<b>754.9</b>
<b>Net book value</b>						
As of January 1	865.7	61.8	7.3	5.2	346.5	1'286.5
As of December 31	923.4	85.9	5.6	9.1	338.8	1'362.8

## Goodwill impairment test

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

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

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

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

The calculation uses the budget for the first period (2019), the three-year strategic plan for subsequent two periods (2020–2021), and a management calculation for the next two periods (2022–2023). The budget and the three-year strategic plan have been approved by the Board of Directors in February 2019. Cash flows beyond the planning period are extrapolated using a terminal value including the growth rates as stated above.

## Sensitivity analyses

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

	2019			2018		
	Headroom	Terminal growth rate: Change required for carrying amount to equal recoverable amount	Pre-tax discount rate: Change required for carrying amount to equal recoverable amount	Headroom	Terminal growth rate: Change required for carrying amount to equal recoverable amount	Pre-tax discount rate: Change required for carrying amount to equal recoverable amount
<b>millions of CHF</b>						
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		
<b>Total headroom as of December 31</b>	<b>3'893.4</b>			<b>3'896.6</b>		



## 15 Property, plant and equipment

millions of CHF	2019				Total
	Land and buildings	Machinery and technical equipment	Other non-current assets	Assets under construction	
<b>Acquisition cost</b>					
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
<b>Balance as of December 31</b>	<b>380.8</b>	<b>756.6</b>	<b>193.9</b>	<b>71.5</b>	<b>1'402.9</b>
<b>Accumulated depreciation</b>					
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
<b>Balance as of December 31</b>	<b>178.4</b>	<b>525.7</b>	<b>154.4</b>	<b>-</b>	<b>858.5</b>
<b>Net book value</b>					
As of January 1	209.6	227.0	35.5	47.3	519.4
As of December 31	202.4	230.9	39.5	71.5	544.4

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

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

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

	2018				
millions of CHF	Land and buildings	Machinery and technical equipment	Other non-current assets	Assets under construction	Total
<b>Acquisition cost</b>					
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
<b>Balance as of December 31</b>	<b>386.4</b>	<b>727.5</b>	<b>185.6</b>	<b>47.3</b>	<b>1'346.8</b>
<b>Accumulated depreciation</b>					
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
<b>Balance as of December 31</b>	<b>171.0</b>	<b>499.0</b>	<b>149.7</b>	<b>–</b>	<b>819.7</b>
<b>Net book value</b>					
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
<b>Thereof leased property, plant and equipment</b>					
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
<b>Net book value as of December 31</b>	<b>5.7</b>	<b>1.5</b>	<b>0.3</b>	<b>–</b>	<b>7.6</b>
<b>Leasing commitments (present value) as of December 31</b>	<b>6.5</b>	<b>1.8</b>	<b>0.3</b>	<b>–</b>	<b>8.6</b>

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

## 16 Leases

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

### Lease assets

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

### Lease liabilities

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

### 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
<b>Total investments in associates as of December 31</b>	<b>10.7</b>	<b>13.4</b>

## 18 Other financial assets

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

millions of CHF	2018		
	Financial assets at fair value through profit and loss	Financial assets at amortized costs	Total
Balance as of January 1	9.3	4.3	13.6
Additions	0.6	-	0.6
Disposals	-3.1	-0.6	-3.8
Currency translation differences	-	-1.0	-1.0
<b>Balance as of December 31</b>	<b>6.8</b>	<b>2.7</b>	<b>9.4</b>
- 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
<b>Total inventories as of December 31</b>	<b>574.9</b>	<b>658.9</b>

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
<b>Sales recognized over time</b>	<b>906.2</b>	<b>784.6</b>
Sales recognized at a point in time	2'822.3	2'580.3
<b>Sales</b>	<b>3'728.5</b>	<b>3'364.9</b>
– 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
<b>Cost of goods sold recognized over time</b>	<b>–716.3</b>	<b>–600.8</b>
Cost of goods sold recognized at a point in time	–1'891.0	–1'785.8
<b>Cost of goods sold</b>	<b>–2'607.3</b>	<b>–2'386.6</b>
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
<b>Gross profit recognized over time</b>	<b>189.9</b>	<b>183.8</b>
Gross profit recognized at a point in time	931.3	794.5
<b>Gross profit</b>	<b>1'121.2</b>	<b>978.3</b>
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
<b>Contract assets</b>	<b>355.2</b>	<b>205.1</b>
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
<b>Contract liabilities</b>	<b>344.8</b>	<b>256.4</b>
Order backlog (aggregate amount of transaction price allocated to unsatisfied performance obligations)	1'792.6	1'786.9
– thereof expected to be recognized as revenue within 12 months	1'637.3	1'661.6
– thereof expected to be recognized in more than 12 months	155.3	125.3

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

## 21 Trade accounts receivable

### Aging structure of trade accounts receivable

millions of CHF	2019				2018			
	Expected loss rate	Gross amount	Allowance	Net book value	Expected loss rate	Gross amount	Allowance	Net book value
Not past due	0.1%	446.7	-0.5	446.1	0.1%	408.6	-0.5	408.1
<b>Past due</b>								
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
<b>Total trade accounts receivable as of December 31</b>		<b>693.0</b>	<b>-47.1</b>	<b>645.9</b>		<b>670.2</b>	<b>-47.9</b>	<b>622.3</b>

### 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
<b>Balance as of December 31</b>	<b>47.1</b>	<b>47.9</b>

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
<b>Europe, Middle East, Africa</b>	<b>298.7</b>	<b>311.2</b>
– 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
<b>Americas</b>	<b>164.8</b>	<b>148.6</b>
– thereof USA	103.0	108.1
<b>Asia-Pacific</b>	<b>182.3</b>	<b>162.6</b>
– thereof China	116.8	107.4
<b>Total as of December 31</b>	<b>645.9</b>	<b>622.3</b>

## 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
<b>Total other current receivables as of December 31</b>	<b>107.6</b>	<b>99.4</b>
Prepaid contributions to employee benefit plans	32.4	12.4
Other prepaid expenses	32.1	38.4
<b>Total prepaid expenses as of December 31</b>	<b>64.5</b>	<b>50.8</b>
<b>Total other current receivables and prepaid expenses as of December 31</b>	<b>172.0</b>	<b>150.2</b>

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
<b>Total cash and cash equivalents as of December 31</b>	<b>1'035.5</b>	<b>1'095.2</b>

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

## 24 Share capital

thousands of CHF	2019		2018	
	Number of shares	Share capital	Number of shares	Share capital
<b>Balance as of December 31 (par value CHF 0.01)</b>	<b>34'262'370</b>	<b>342.6</b>	<b>34'262'370</b>	<b>342.6</b>

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

## 26 Borrowings

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

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

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	–
<b>Total as of December 31</b>	<b>1'330.2</b>	<b>100.0</b>	<b>–</b>	<b>1'334.3</b>	<b>100.0</b>	<b>–</b>

The group arranged a CHF 500 million syndicated credit facility with maturity date May 2022. The facility is available for general corporate purposes including financing of acquisitions. The facility is subject to financial covenants based on net financial indebtedness and EBITDA, which were adhered to throughout the reporting period. As of December 31, 2019 and 2018, the syndicated facility was not used.

## Outstanding bonds

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

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

## 27 Provisions

millions of CHF	2019					Total
	Other employee benefits	Warranties/liabilities	Restructuring	Environmental	Other	
Balance as of January 1	49.4	78.9	10.1	15.1	60.5	213.9
Acquired through business combination	–	–	–	–	0.7	0.7
Additions	14.2	20.7	23.4	–	28.8	87.1
Released as no longer required	–	–11.2	–0.2	–	–11.7	–23.1
Utilized	–7.8	–19.4	–14.3	–0.5	–21.8	–63.7
Reclassifications	–	0.9	0.7	0.0	–1.6	–
Currency translation differences	–1.4	–2.3	0.4	0.1	–2.9	–6.2
<b>Total provisions as of December 31</b>	<b>54.4</b>	<b>67.6</b>	<b>20.0</b>	<b>14.7</b>	<b>51.9</b>	<b>208.7</b>
– 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
<b>Total provisions as of December 31</b>	<b>49.4</b>	<b>78.9</b>	<b>10.1</b>	<b>15.1</b>	<b>60.5</b>	<b>213.9</b>
– 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
<b>Total other current liabilities as of December 31</b>	<b>295.5</b>	<b>245.9</b>
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
<b>Total accrued liabilities as of December 31</b>	<b>381.8</b>	<b>396.7</b>
<b>Total other current and accrued liabilities as of December 31</b>	<b>677.3</b>	<b>642.6</b>

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

## 29 Derivative financial instruments

millions of CHF	2019				2018			
	Derivative assets		Derivative liabilities		Derivative assets		Derivative liabilities	
	Notional value	Fair value	Notional value	Fair value	Notional value	Fair value	Notional value	Fair value
Forward exchange contracts	713.6	6.8	426.8	8.2	633.5	6.4	442.5	8.7
<b>Total as of December 31</b>	<b>713.6</b>	<b>6.8</b>	<b>426.8</b>	<b>8.2</b>	<b>633.5</b>	<b>6.4</b>	<b>442.5</b>	<b>8.7</b>
– 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
<b>Total contingent liabilities as of December 31</b>	<b>10.0</b>	<b>10.0</b>

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
<b>Total charged to personnel expenses</b>	<b>12.5</b>	<b>15.1</b>

#### 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
<b>Outstanding as of December 31, 2018</b>	<b>–</b>	<b>8'283</b>	<b>4'952</b>	<b>6'794</b>	<b>–</b>	<b>20'029</b>
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	–	–	–	–	–	–
<b>Outstanding as of December 31, 2019</b>	<b>10'551</b>	<b>5'522</b>	<b>2'476</b>	<b>–</b>	<b>–</b>	<b>18'549</b>
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
<b>Outstanding as of December 31, 2018</b>	<b>–</b>	<b>74'467</b>	<b>68'759</b>	<b>90'990</b>	<b>–</b>	<b>234'216</b>
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
<b>Outstanding as of December 31, 2019</b>	<b>110'639</b>	<b>70'163</b>	<b>66'837</b>	<b>–</b>	<b>–</b>	<b>247'639</b>

The Board of Directors decided in May 2018 to set TSR floors reflecting the exceptional market conditions and share price collapse following the US sanctions against Russia and the collateral damages to Sulzer. The introduction of the floor led to a step-up in the market valuation of the respective PSU, which is the difference between the fair value of the modified PSU granted and the original PSU, both measured as at the date of the modification. The step-up in the fair value of CHF 40.62 per PSU for the PSP 2016 and CHF 18.91 per PSU for the PSP 2017 is expensed over the remaining vesting period of the affected plans. The fair value was measured using the same pricing model as for the grant date fair value. The TSR floor for the PSP 2017 ended up not coming into play, as the effective TSR at the end of the PSP period was higher than 100%.

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

### Key management compensation

thousands of CHF	2019				2018			
	Short-term benefits	Equity-based compensation	Pension and social security contributions	Total	Short-term benefits	Equity-based compensation	Pension and social security contributions	Total
Board of Directors	1'282	1'030	230	2'542	1'226	1'155	257	2'638
Executive Committee	7'171	6'290	1'909	15'370	10'175	4'462	2'066	16'703



There are no outstanding loans with members of the Board of Directors or the Executive Committee as per balance sheet date. No shares have been granted to members of the Board of Directors, the Executive Committee, or related persons, with the exception of shares granted in connection with equity-settled plans and service awards.

### Related parties

As of December 31, 2019, sales with related parties controlled by the major shareholder amounted to CHF 0.0 million (2018: CHF 3.1 million) with open receivables of CHF 0.0 million (2018: CHF 0.4 million). Open payables of CHF 218.3 million (2018: CHF 185.1 million) were recognized (thereof CHF 104.2 million related to the purchase of treasury shares and CHF 114.1 million outstanding dividend payments, see [note 24](#) and [note 28](#)). The income from released provisions for loss/unprofitable contracts/warranties/guarantees/liquidated damages recognized in the income statement amounted to CHF 0.0 million (2018: CHF 0.6 million). The warranty costs amounted to CHF 0.8 million (2018: CHF 0.0 million). The interest expenses amounted to CHF 0.1 million (2018: expense CHF 0.0 million).

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

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

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

### 33 Auditor remuneration

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

## 34 Key accounting policies and valuation methods

### 34.1 Basis of preparation

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

- financial assets at fair value through profit and loss and financial assets at fair value through other comprehensive income, and
- net position from defined benefit plans, where plan assets are measured at fair value and the plan liabilities are measured at the present value of the defined benefit obligation (see note 34.20 a).

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

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

#### Rounding

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

#### Tables

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

### 34.2 Change in accounting policies

#### a) Standards, amendments and interpretations which are effective for 2019

##### IFRS 16 "Leases"

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

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

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

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

#### Definition of a lease

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

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

#### Accounting policies for leases

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

#### Significant accounting estimates

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

#### Transition

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

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

#### Impacts on transition

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

## Consolidated balance sheet

millions of CHF	December 31, 2018, as originally presented	Adjustment IFRS 16 finance leases	Adjustment IFRS 16 operating leases	January 1, 2019, adjusted
<b>Non-current assets</b>				
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
<b>Total non-current assets</b>	<b>2'057.7</b>	<b>-</b>	<b>107.3</b>	<b>2'165.1</b>
<b>Current assets</b>				
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
<b>Total current assets</b>	<b>2'840.6</b>	<b>-</b>	<b>-</b>	<b>2'840.6</b>
<b>Total assets</b>	<b>4'898.3</b>	<b>-</b>	<b>107.3</b>	<b>5'005.6</b>
<b>Equity</b>				
Share capital	0.3			0.3
Reserves	1'629.5			1'629.5
<b>Equity attributable to shareholders of Sulzer Ltd</b>	<b>1'629.9</b>	<b>-</b>	<b>-</b>	<b>1'629.9</b>
Non-controlling interests	11.2			11.2
<b>Total equity</b>	<b>1'641.0</b>	<b>-</b>	<b>-</b>	<b>1'641.0</b>
<b>Non-current liabilities</b>				
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
<b>Total non-current liabilities</b>	<b>1'646.8</b>	<b>-</b>	<b>80.0</b>	<b>1'726.5</b>
<b>Current liabilities</b>				
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
<b>Total current liabilities</b>	<b>1'610.4</b>	<b>-</b>	<b>27.3</b>	<b>1'638.0</b>
<b>Total liabilities</b>	<b>3'257.3</b>	<b>-</b>	<b>107.3</b>	<b>3'364.6</b>
<b>Total equity and liabilities</b>	<b>4'898.3</b>	<b>-</b>	<b>107.3</b>	<b>5'005.6</b>

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
<b>Total adjusted operating leases at December 31, 2018</b>	<b>107.3</b>
Finance lease liabilities recognized at December 31, 2018	8.6
<b>Total lease liabilities recognized at January 1, 2019</b>	<b>115.9</b>
- 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)
<b>Non-current assets</b>			
Lease assets	112.6	-100.5	12.1
<b>Total non-current assets</b>	<b>2'172.0</b>	<b>-100.5</b>	<b>2'071.5</b>
<b>Current assets</b>			
<b>Total current assets</b>	<b>2'937.5</b>	<b>-</b>	<b>2'937.5</b>
<b>Total assets</b>	<b>5'109.5</b>	<b>-100.5</b>	<b>5'009.0</b>
<b>Equity</b>			
Reserves	1'580.4	0.5	1'580.9
<b>Equity attributable to shareholders of Sulzer Ltd</b>	<b>1'580.7</b>	<b>0.5</b>	<b>1'581.3</b>
<b>Total equity</b>	<b>1'593.9</b>	<b>0.5</b>	<b>1'594.4</b>
<b>Non-current liabilities</b>			
Non-current lease liabilities	82.3	-75.0	7.3
<b>Total non-current liabilities</b>	<b>1'644.1</b>	<b>-75.0</b>	<b>1'569.1</b>
<b>Current liabilities</b>			
Current lease liabilities	27.4	-26.1	1.3
<b>Total current liabilities</b>	<b>1'871.5</b>	<b>-26.1</b>	<b>1'845.4</b>
<b>Total liabilities</b>	<b>3'515.6</b>	<b>-101.0</b>	<b>3'414.5</b>
<b>Total equity and liabilities</b>	<b>5'109.5</b>	<b>-100.5</b>	<b>5'008.9</b>

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)
<b>EBIT</b>	<b>241.0</b>	<b>-2.7</b>	<b>238.2</b>
Interest expenses	-24.9	3.3	-21.6
<b>Income before income tax expenses</b>	<b>212.8</b>	<b>0.5</b>	<b>213.3</b>
<b>Net income</b>	<b>157.7</b>	<b>0.5</b>	<b>158.2</b>

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)
<b>Cash and cash equivalents as of January 1</b>	<b>1'095.2</b>	-	<b>1'095.2</b>
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
<b>Total cash flow from operating activities</b>	<b>319.6</b>	<b>-34.0</b>	<b>285.6</b>
<b>Total cash flow from investing activities</b>	<b>-242.6</b>	-	<b>-242.6</b>
Payments for leases	-34.0	34.0	-
<b>Total cash flow from financing activities</b>	<b>-123.2</b>	<b>34.0</b>	<b>-89.1</b>
<b>Net change in cash and cash equivalents</b>	<b>-59.7</b>	-	<b>-59.7</b>
<b>Cash and cash equivalents as of December 31</b>	<b>1'035.5</b>	-	<b>1'035.5</b>

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

#### Lease assets and lease liabilities

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

#### Deferred taxes

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

#### Practical expedients

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

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

### **IFRIC 23 “Uncertainty over Income Tax Treatments”**

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

### **Other IFRS standards and interpretations**

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

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

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

## **34.3 Consolidation**

### **a) Business combinations**

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

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

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

### **b) Subsidiaries**

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

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

### c) Non-controlling interests

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

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

### d) Associates and joint ventures

Associates are those entities in which the group has significant influence, but no control, over the financial and operating policies. Significant influence is presumed to exist when the group holds, directly or indirectly, between 20% and 50% of the voting rights. Joint ventures are those entities over whose activities the group has joint control, established by contractual agreement and requiring unanimous consent for strategic, financial and operating decisions. Associates and joint ventures are accounted for using the equity method and are initially recognized at cost.

### e) Transactions eliminated on consolidation

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

## 34.4 Segment reporting

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

## 34.5 Foreign currency translation

### a) Functional and presentation currency

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

The following table shows the major currency exchange rates for the reporting periods 2019 and 2018:

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

### b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the



settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

### **c) Subsidiaries**

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

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

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

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

## **34.6 Intangible assets**

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

### **a) Goodwill**

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

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

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

### **b) Trademarks and licenses**

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

### **c) Research and development**

Expenditure on research activities is recognized in the income statement as incurred. Development costs for major projects are capitalized only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the

group intends and has sufficient resources to complete development and to use or sell the asset. Otherwise, it is recognized in the income statement as incurred. Subsequently such assets are measured at cost less accumulated amortization (max. five years) and any accumulated impairment loss.

#### **d) Computer software**

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

#### **e) Customer relationships**

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

### **34.7 Property, plant and equipment**

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

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

The useful lives are as follows:

Buildings 20 – 50 years

Machinery 5 – 15 years

Technical equipment 5 – 10 years

Other non-current assets max. 5 years

### **34.8 Impairment of property, plant and equipment and intangible assets**

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

### **34.9 Lease assets and lease liabilities**

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

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

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

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

### 34.10 Financial assets

Financial assets are classified into the following three categories:

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

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

#### Debt instruments

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

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

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

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

##### Financial assets measured at amortized cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or

loss arising on derecognition is recognized directly in profit or loss and presented in other gains/ (losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

### Equity instruments

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

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

### 34.11 Derivative financial instruments and hedging activities

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

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

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

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

At the inception of the transaction, the group documents the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The group also documents its assessment, both at hedge

inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

### 34.12 Offsetting financial assets and liabilities

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

### 34.13 Inventories

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

### 34.14 Trade receivables

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

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

### 34.15 Cash and cash equivalents

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

### 34.16 Share capital

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

### 34.17 Trade payables

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

### 34.18 Borrowings

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

### 34.19 Current and deferred income taxes

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

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

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

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

### 34.20 Employee benefits

#### a) Defined benefit plans

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

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

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

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

### **b) Defined contribution plans**

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

### **c) Other employee benefits**

Some subsidiaries provide other employee benefits like “Early retirement benefits” or “Jubilee gifts” to their employees. Early retirement benefits are defined as termination benefits for employees accepting voluntary redundancy in exchange for those benefits. Jubilee gifts are other long-term benefits. For example, in Switzerland Sulzer makes provisions for jubilee benefits based on a Swiss local directive. The provisions are reported in the category “Other employee benefits” (note 27).

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

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

## **34.21 Share-based compensation**

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

### **a) Performance share plan (PSP)**

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

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

### **b) Restricted share plan (RSP)**

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

The fair value of the restricted share units granted for services rendered is measured at the Sulzer closing share price at grant date, and discounted over the vesting period using a discount rate that is based on the yield of Swiss government bonds with maturities matching the duration of the vesting

period. Participants are not entitled to dividends declared during the vesting period. The grant date fair value of the restricted share units is consequently reduced by the present value of dividends expected to be paid during the vesting period.

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

### 34.22 Provisions

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

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

### 34.23 Sales

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

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

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

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

There are two methods to recognize sales:

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

The group determines at contract inception, whether control of each performance obligation transfers to a customer over time or at a point in time. Arrangements where the performance



obligations are satisfied over time are not limited to services arrangements. The assessment of whether control transfers over time or at a point in time is critical to the timing of revenue recognition.

### **Over time method (OT)**

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

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

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

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

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

### **Point in time method (PIT)**

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

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

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

### **Contract classification per division**

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

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

Contract classification	Characteristics	Typical sales recognition method	
		Created asset has no alternative use for the customer and the group has enforceable right to payment (including reasonable profit margin) for performance up to date if the customer terminates the contract for convenience	Created asset has alternative use for the customer or the group has no enforceable right to payment (including reasonable profit margin) for performance up to date if the customer terminates the contract for convenience
<b>Pumps Equipment</b>			
Standard business	<ul style="list-style-type: none"> <li>– Standard products made to stock</li> <li>– New pumps</li> <li>– Spare parts</li> </ul>	n/a	PIT
Configured business	<ul style="list-style-type: none"> <li>– Preconfigured products</li> <li>– Assembled and packaged on customer order</li> </ul>	OT	PIT
Engineered business	<ul style="list-style-type: none"> <li>– Highly customized products</li> <li>– Engineered to order according to customer's specifications</li> </ul>	OT	PIT
<b>Rotating Equipment Services</b>			
Repair	<ul style="list-style-type: none"> <li>– Turbo</li> <li>– Electromechanical</li> <li>– Pumps</li> </ul>	OT	PIT
Parts	<ul style="list-style-type: none"> <li>– Gas turbines components</li> <li>– Coils</li> <li>– Pumps spares</li> <li>– Retrofits</li> <li>– Off-the-shelf articles or manufactured on customer order</li> <li>– Others (tool container, remote monitoring, other spare parts)</li> </ul>	OT	PIT
Services	<ul style="list-style-type: none"> <li>– Overhaul / field service</li> <li>– Site setup</li> <li>– Disassembly / reassembly</li> <li>– Installation / commissioning</li> <li>– Technical support</li> <li>– Refurb / retrofit</li> <li>– Relocation</li> <li>– Long-term service agreement (LTSA) / long-term parts agreement (LTPA)</li> <li>– Customized services according to customer's specifications</li> </ul>	OT	PIT OT for field services (asset that the customer controls)
<b>Chemtech</b>			
Rush orders	<ul style="list-style-type: none"> <li>– Off-the-shelf articles of stock materials</li> <li>– Articles purchased for sale</li> </ul>	n/a	PIT
Components	<ul style="list-style-type: none"> <li>– Standard configured to customer's requirements</li> <li>– Tailor-made to customer's requirements</li> <li>– Replacement of components</li> <li>– Standard mechanical engineering</li> <li>– Supervision</li> <li>– Installation workforce</li> <li>– Combined order for Separation Technology (ST) &amp; Tower Field Services (TFS)</li> </ul>	OT	PIT
Services / Engineered solutions	<ul style="list-style-type: none"> <li>– Studies</li> <li>– Engineering</li> <li>– Site project management</li> <li>– Supervision</li> <li>– Key equipment</li> <li>– Installation</li> <li>– Procurement of equipment, spare parts</li> </ul>	OT	PIT OT for certain service contracts where the customer simultaneously receives the service
<b>Applicator Systems</b>			
Rush orders	<ul style="list-style-type: none"> <li>– Off-the-shelf articles of stock materials (production to stock)</li> </ul>	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
<b>Europe</b>								
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. <sup>1)</sup> , 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 <sup>1)</sup> , 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				•	•
<b>North America</b>								
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. <sup>1)</sup> , Houston, Texas	100%	USD 1		•	•	•	•
	GTC Technology International LP <sup>1)</sup> , Houston, Texas	100%	USD 5'698'387	•				

	Alba Power Inc. <sup>1)</sup> , 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	•		•	•	•
<b>Central and South America</b>								
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				•	•
<b>Africa</b>								
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	•			•	•
<b>Middle East</b>								
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	•			•	
<b>Asia</b>								
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. <sup>1)</sup> , 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. <sup>1)</sup> , Singapore	100%	SGD 150'000				•	
South Korea	Sulzer Korea Ltd., Seoul	100%	KRW 222'440'000	•			•	
	GTC Technology Korea Co. Ltd. <sup>1)</sup> , 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. <sup>1)</sup> , Beijing	100%	USD 150'000		•	•	•	•
<b>Australia</b>								
	Sulzer Australia Pty Ltd., Brisbane	100%	AUD 5'308'890				•	•
	Sulzer Australia Holding Pty Ltd., Brendale	100%	AUD 34'820'100	•				

1) Acquired in 2019.





# Statutory Auditor’s Report

To the General Meeting of Sulzer Ltd, Winterthur

## Report on the Audit of the Consolidated Financial Statements

### Opinion

We have audited the consolidated financial statements of Sulzer Ltd and its subsidiaries (the Group), which comprise the “[Consolidated balance sheet](#)” as at December 31, 2019 and the “[Consolidated income statement](#)”, “[Consolidated statement of comprehensive income](#)”, “[Consolidated statement of changes in equity](#)” and “[Consolidated statement of cash flows](#)” for the year then ended, and “[Notes to the consolidated financial statements](#)”, including a summary of significant accounting policies.

In our opinion the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

### Basis for Opinion

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

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

### Key Audit Matters



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



Accounting for warranties and other cost to fulfil contract obligations



Valuation of goodwill

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



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

### Key Audit Matter

As per December 31, 2019, revenue from customer contracts amounts to CHF 3,728.5 million, contract assets amount to CHF 355.2 million, contract liabilities to CHF 344.8 million, the balance of work in progress (WIP) amounts to CHF 252.0 million and trade accounts receivable amount to CHF 645.9 million.

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

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

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

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

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

- [Note 19 to the consolidated financial statements](#)
- [Note 20 to the consolidated financial statements](#)
- [Note 21 to the consolidated financial statements](#)

### Our response

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

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

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

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

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



## Accounting for warranties and other cost to fulfil contract obligations

### Key Audit Matter

As per December 31, 2019, provisions in the amount of CHF 67.6 million are held on the balance sheet to cover expected costs arising from product warranties. Additional expected costs to fulfil contract obligations and for onerous contracts are recorded as other provisions.

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

### Our response

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

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

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

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

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

- [Note 27 to the consolidated financial statements](#)



## Valuation of goodwill

### Key Audit Matter

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

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

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

### Our response

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

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

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

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

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

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

### Other Information in the Annual Report

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

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

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

### **Responsibility of the Board of Directors for the Consolidated Financial Statements**

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

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

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

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

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

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

### Report on Other Legal and Regulatory Requirements

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

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

KPMG AG



François Rouiller  
Licensed Audit Expert  
Auditor in Charge



Simon Niklaus  
Licensed Audit Expert

Zurich, February 17, 2020

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

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# Supplementary Information

## Alternative performance measures (APM)

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

## Definition of alternative performance measures (APM)

### Order intake

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

### Order intake gross margin

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

### Order backlog

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

### ROS (return on sales)

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

### opEBITA (operational earnings before interest, taxes and amortization)

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

### opROSA (operational return on sales adjusted)

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

### opROCEA (operational return on capital employed adjusted)

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

### Capital employed

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

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

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

**Core net income**

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

**FCF (free cash flow)**

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

**Net debt**

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

**Net debt/EBITDA ratio**

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

**Gearing ratio (borrowings-to-equity ratio)**

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

**Currency-adjusted growth**

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

**Organic growth**

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

The impact of the organic growth is determined as follows:

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



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

## Reconciliation statements for alternative performance measures (APM)

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

### OpROCEA reconciliation statement

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

## 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 <sup>1)</sup>		30.9%	33.3%	40.8%	42.3%	52.3%
Borrowings-to-equity ratio (gearing)		0.84	0.82	0.42	0.29	0.23

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

## Five-year summaries by division

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

millions of CHF	Order backlog					Employees <sup>1)</sup>				
	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
<b>Divisions</b>	<b>1'792.6</b>	<b>1'786.9</b>	<b>1'593.5</b>	<b>1'439.0</b>	<b>1'510.7</b>	<b>16'284</b>	<b>15'361</b>	<b>14'532</b>	<b>13'829</b>	<b>14'073</b>
Others	0.0	-0.0	0.0	0.1	0.0	222	211	200	176	180
<b>Total</b>	<b>1'792.6</b>	<b>1'786.9</b>	<b>1'593.5</b>	<b>1'439.1</b>	<b>1'510.7</b>	<b>16'506</b>	<b>15'572</b>	<b>14'732</b>	<b>14'005</b>	<b>14'253</b>

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

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
<b>Total</b>	<b>3'747.2</b>	<b>3'531.5</b>	<b>3'155.7</b>	<b>2'797.5</b>	<b>2'895.8</b>

### 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
<b>Total</b>	<b>3'728.3</b>	<b>3'364.9</b>	<b>3'049.0</b>	<b>2'876.7</b>	<b>2'971.0</b>

### Employees by company location<sup>1)</sup>

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
<b>Total</b>	<b>16'506</b>	<b>15'572</b>	<b>14'732</b>	<b>14'005</b>	<b>14'253</b>

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

## Financial statements of Sulzer Ltd

- 182 Balance sheet of Sulzer Ltd
- 183 Income statement of Sulzer Ltd
- 184 Statement of changes in equity of Sulzer Ltd
- 185 Notes to the financial statements of Sulzer Ltd
  - 185 01 | General information
  - 185 02 | Key accounting policies and principles
  - 185 03 | Cash and cash equivalents
  - 185 04 | Investments in subsidiaries
  - 186 05 | Registered share capital
  - 186 06 | Interest-bearing liabilities
  - 187 07 | Contingent liabilities
  - 187 08 | Administrative expenses
  - 187 09 | Investment income and investment and loan expenses
  - 187 10 | Other income
  - 187 11 | Share participation of the Board of Directors,  
Executive Committee and related parties
- 189 12 | Subsequent events after the balance sheet date
- 190 Proposal of the Board of Directors for the appropriation  
of the available profit
- 191 Auditor's report

# Balance sheet of Sulzer Ltd

December 31

millions of CHF	Notes	2019	2018
<b>Current assets</b>			
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
<b>Total current assets</b>		<b>519.9</b>	<b>527.2</b>
<b>Non-current assets</b>			
Loans to subsidiaries		644.5	648.1
Financial assets		7.4	6.6
Investments in subsidiaries	4	2'182.2	2'106.5
<b>Total non-current assets</b>		<b>2'834.1</b>	<b>2'761.2</b>
<b>Total assets</b>		<b>3'354.0</b>	<b>3'288.4</b>
<b>Current liabilities</b>			
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
<b>Total current liabilities</b>		<b>365.7</b>	<b>212.2</b>
<b>Non-current liabilities</b>			
Non-current interest-bearing liabilities	6	1'199.2	1'308.7
Non-current provisions		35.7	37.2
<b>Total non-current liabilities</b>		<b>1'234.9</b>	<b>1'345.9</b>
<b>Total liabilities</b>		<b>1'600.6</b>	<b>1'558.1</b>
<b>Equity</b>			
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
<b>Total equity</b>		<b>1'753.4</b>	<b>1'730.3</b>
<b>Total equity and liabilities</b>		<b>3'354.0</b>	<b>3'288.4</b>

# Income statement of Sulzer Ltd

January 1 – December 31

millions of CHF	Notes	2019	2018
<b>Income</b>			
Investment income	9	161.5	125.1
Financial income		34.9	57.2
Other income	10	47.6	64.7
<b>Total income</b>		<b>244.0</b>	<b>247.0</b>
<b>Expenses</b>			
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
<b>Total expenses</b>		<b>110.1</b>	<b>112.8</b>
<b>Net profit for the year</b>		<b>133.9</b>	<b>134.2</b>

# 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
<b>Equity as of January 1, 2018</b>	<b>0.3</b>	<b>205.5</b>	<b>–</b>	<b>1'386.5</b>	<b>67.6</b>	<b>89.3</b>	<b>–22.1</b>	<b>1'727.1</b>
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				–
<b>Equity as of December 31, 2018</b>	<b>0.3</b>	<b>205.5</b>	<b>201.0</b>	<b>1'185.5</b>	<b>37.8</b>	<b>134.2</b>	<b>–34.0</b>	<b>1'730.3</b>
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
<b>Equity as of December 31, 2019</b>	<b>0.3</b>	<b>205.5</b>	<b>201.0</b>	<b>1'185.5</b>	<b>52.8</b>	<b>133.9</b>	<b>–25.6</b>	<b>1'753.4</b>



## 1 General information

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

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

## 2 Key accounting policies and principles

### Treasury shares

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

### Investments in subsidiaries and third parties

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

### Non-current interest-bearing liabilities

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

### Share-based payments

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

### Foregoing a cash flow statement and additional disclosures in the notes

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

## 3 Cash and cash equivalents

Sulzer Ltd arranged a CHF 500 million syndicated credit facility with maturity date May 2022. The facility is available for general corporate purposes including financing of acquisitions. The facility is subject to financial covenants based on net financial indebtedness and EBITDA, which were adhered to throughout the reporting period. As of December 31, 2019 and 2018, the syndicated facility was not used.

## 4 Investments in subsidiaries

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

## 5 Registered share capital

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

### Shareholders holding more than 3%

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

### Treasury shares held by Sulzer Ltd

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

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

## 6 Interest-bearing liabilities

millions of CHF	2019		2018	
	Book value	Nominal	Book value	Nominal
0.375% 07/2016–07/2022	325.2	325.0	325.3	325.0
0.875% 07/2016–07/2026	125.0	125.0	125.0	125.0
0.250% 07/2018–07/2020	109.9	110.0	109.8	110.0
1.300% 07/2018–07/2023	289.5	290.0	289.3	290.0
0.625% 10/2018–10/2021	209.7	210.0	209.5	210.0
1.600% 10/2018–10/2024	249.8	250.0	249.8	250.0
<b>Total as of December 31</b>	<b>1'309.1</b>	<b>1'310.0</b>	<b>1'308.7</b>	<b>1'310.0</b>
– 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
<b>Total contingent liabilities as of December 31</b>	<b>2'107.4</b>	<b>2'126.0</b>

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
<b>Total administrative expenses</b>	<b>76.2</b>	<b>45.5</b>

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) <sup>1)</sup>	Performance share units (PSU) 2017 <sup>2)</sup>	Performance share units (PSU) 2018 <sup>3)</sup>	Performance share units (PSU) 2019 <sup>4)</sup>
<b>Board of Directors</b>	<b>47'461</b>	<b>18'549</b>	–	–	–
Peter Löscher	17'121	4'692	–	–	–
Matthias Bichsel	6'801	2'911	–	–	–
Hanne Birgitte Breinbjerg Sorensen	249	1'951	–	–	–
Lukas Braunschweiler	335	1'951	–	–	–
Mikhail Lifshitz	3'622	2'348	–	–	–
Marco Musetti	7'480	2'348	–	–	–
Gerhard Roiss	11'853	2'348	–	–	–
<b>Executive Committee</b>	<b>68'838</b>	–	<b>25'292</b>	<b>28'133</b>	<b>54'251</b>
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) <sup>1)</sup>	Performance share units (PSU) 2016 <sup>2)</sup>	Performance share units (PSU) 2017 <sup>3)</sup>	Performance share units (PSU) 2018 <sup>4)</sup>
<b>Board of Directors</b>	<b>38'114</b>	<b>16'516</b>	–	–	–
Peter Löscher	14'607	4'647	–	–	–
Matthias Bichsel	5'241	2'884	–	–	–
Hanne Birgitte Breinbjerg Sorensen	–	1'005	–	–	–
Lukas Braunschweiler	–	1'005	–	–	–
Mikhail Lifshitz	1'449	2'325	–	–	–
Marco Musetti	6'222	2'325	–	–	–
Gerhard Roiss	10'595	2'325	–	–	–
	–	–	–	–	–
<b>Executive Committee</b>	<b>34'035</b>	<b>3'513</b>	<b>28'852</b>	<b>26'667</b>	<b>31'071</b>
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
<b>Total available profit</b>	<b>186'691'210</b>	<b>172'038'775</b>
Ordinary dividend	–136'085'784	–119'247'565
<b>Balance carried forward</b>	<b>50'605'426</b>	<b>52'791'210</b>
<b>Dividend distribution per share CHF 0.01</b>		
Gross dividend	4.00	3.50
Withholding tax (35%)	–1.40	–1.23
<b>Net dividend</b>	<b>2.60</b>	<b>2.27</b>

The Board of Directors proposes the payment of a dividend of CHF 4.00 per share to the Annual General Meeting on April 15, 2020. The company will not pay a dividend on treasury shares held by Sulzer Ltd or one of its subsidiaries.



# Statutory Auditor’s Report

**To the General Meeting of Sulzer Ltd, Winterthur**

## **Report on the Audit of the Financial Statements**

### **Opinion**

We have audited the financial statements of Sulzer Ltd, which comprise the “[Balance sheet of Sulzer Ltd](#)” as at December 31, 2019, the “[Income statement of Sulzer Ltd](#)”, the “[Statement of changes in equity of Sulzer Ltd](#)” for the year then ended, and the “[Notes to the financial statements of Sulzer Ltd](#)”, including a summary of significant accounting policies.

In our opinion the financial statements for the year ended December 31, 2019 comply with Swiss law and the company’s articles of incorporation.

### **Basis for Opinion**

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

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

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

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

### **Responsibility of the Board of Directors for the Financial Statements**

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

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

### **Auditor’s Responsibilities for the Audit of the Financial Statements**

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

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

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

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

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

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

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

## Report on Other Legal and Regulatory Requirements

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



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

KPMG AG



François Rouiller  
Licensed Audit Expert  
Auditor in Charge



Simon Niklaus  
Licensed Audit Expert

Zurich, February 17, 2020

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

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# 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.