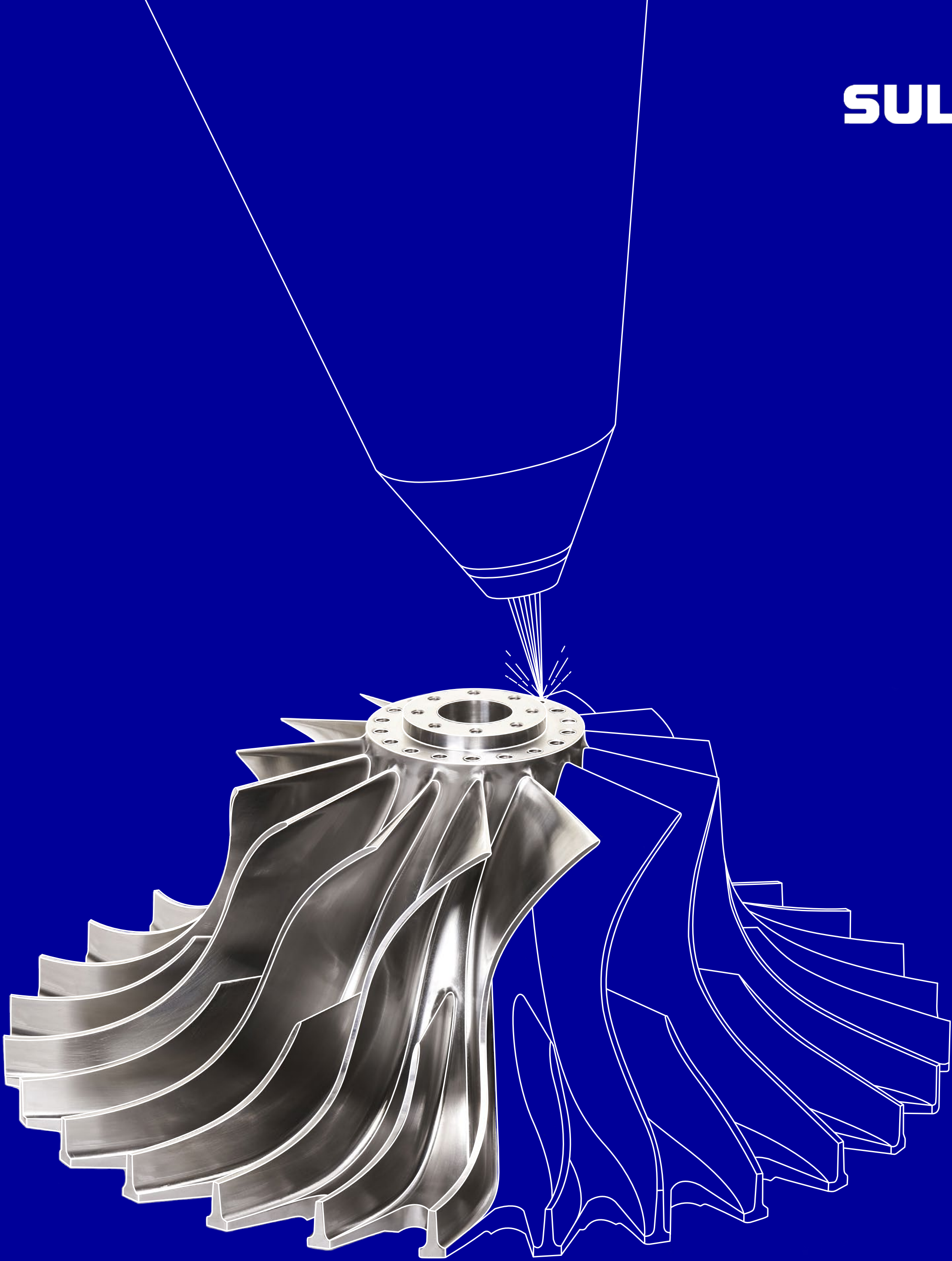
SULZER



INDUSTRIAL AGILITY

Annual Report 2017

Contents

Letter to the shareholders

Dear Shareholder,

Markets are changing faster than ever before. Technology has upended the oil and gas landscape, taking the USA in a few years from the status of net importer to surpassing Saudi Arabia as an oil producing nation. It has made data, ours and our customers', the most valuable commodity of all. It has allowed us to enter new markets, but has also empowered a new breed of competitors in domains where significant industrial assets used to be a prerequisite to compete. And it makes the world a global village, creating limitless opportunities for efficient collaboration across our company and beyond.

The "fourth industrial revolution," "Industry 4.0": these terms pepper the speech of every CEO and the strategy presentations of their companies. Sulzer is no exception, but our digital transformation is first and foremost an enabler towards our main goal: to achieve industrial agility. To compete in a world where change is the only constant, Sulzer needs to combine the recognition it enjoys for quality and innovation with the ability to react quickly to changing markets, changing customer needs and changing environmental constraints.

Sulzer is ready. We are reinventing our business for tomorrow. We are using additive manufacturing to produce the next generation of pump impellers and to speed up the development of mascara brushes. We are using digital tools to turn our pumps into smart devices and to enable the Sulzer factory of the future. But we are also changing the way we work so that we can deliver spare parts in a matter of hours rather than weeks.

So dive into this first Annual Report available exclusively online and learn more about how we are connecting our businesses, increasing productivity and driving growth.

Performance in 2017

We had significant commercial and operational successes in 2017 and delivered on what we promised. The oil and gas markets remained challenging but downstream started rebounding. We do not yet expect a wider rebound this year but are optimistic as we look beyond 2018.

In 2017, we recorded encouraging organic order growth in addition to the strong contribution from our acquisitions. At CHF 3.2 billion, order intake grew by 11.8% on a currency-adjusted basis and by 2.2% organically. Sales increased by 5.2% to CHF 3.0 billion on the strength of our acquisitions, while declining organically as a result of a low opening order backlog.

Operational profitability (opEBITA) reached CHF 255.4 million, an increase of 5.3% on a currency-adjusted basis compared with 2016. Savings of CHF 61 million from the Sulzer Full Potential (SFP) program and the contribution of acquisitions more than offset the impact of headwinds. Profitability increased to 8.4%, despite a CHF 10 million one-time charge for a discontinued business activity in Chemtech.

While SFP continues to deliver strong results, we have shifted our focus to becoming a more agile company to support our profitable growth.

Greg Poux-Guillaume CEO

Building on the successes of SFP

SFP achieved additional savings of CHF 61 million in 2017 – and there is more to come.

When we launched SFP three years ago, we set as a goal a 2018 financial objective and implementation horizon. The depth of the oil and gas market downturn has been more pronounced than anticipated, and its recovery slower. But SFP is on track to over-deliver, ahead of time and within budget. And we still have ideas for making Sulzer leaner and more agile. Consequently, we have decided to extend SFP for one more year and to raise the previously communicated target of CHF 200 million of savings from 2018 onwards to CHF 230 million of savings from 2019 onwards.

In 2018, Sulzer expects its SFP program to deliver incremental cost savings of approximately CHF 25 million to cumulatively reach CHF 210 million. SFP helped us get Sulzer back on track, now it will be fueling our margin recovery. And we are not done yet.

Delivering on acquisitions

We continued to follow the acquisition path we set out in 2016. We successfully closed four acquisitions in 2017:

- Ensival Moret, closed in February 2017: added axial flow and slurry pump technologies to our portfolio;
- VIEC, closed in February 2017: added separation technology for the upstream oil and gas market segment;
- Rotec GT, closed in June 2017: extended our gas turbine service business in Russia;
- Transcodent, closed in September 2017: strengthened our Applicator Systems' dental segment where we already are a global market leader.

Furthermore, we announced the acquisition of JWC Environmental, LLC, in December 2017 (closed in January 2018). JWC is a leading provider of solids reduction and removal products for the wastewater business. It complements our existing water products and improves our access to the US municipal wastewater treatment market.

The effect from acquisitions closed in 2016 and 2017 amounted to CHF 269 million in order intake and to CHF 276 million in sales in 2017. For 2018, we continue to combine an active M&A pipeline with a strong focus on value creation.

Changes to the Board of Directors and the Executive Committee

Jill Lee, who has been a Sulzer Board member for six years and is currently member of the Audit Committee, is joining the Executive Committee of Sulzer as Chief Financial Officer on April 5, 2018. She will not stand for reelection to Sulzer's Board of Directors at the April 4 General Assembly. Jill is succeeding Thomas Dittrich, who will leave Sulzer in March after four years of decisive contributions to our transformation plan.

Michael Streicher, who has been with Sulzer's pump business for more than 20 years, succeeded César Montenegro as Division President Pumps Equipment and Sulzer Executive Committee member on January 1, 2018. César Montenegro is completing his handover to his chosen successor and will formally retire in April 2018 after 40 years of unparalleled contributions to Sulzer.

We are excited that – with Jill as the new CFO and Michael as the new President of our Pumps Equipment division – we can welcome two excellent colleagues to our Executive Committee. They both have intricate knowledge of the company, and they will ensure a smooth and seamless transition.

Peter Löscher Chairman of the Board of Directors

Outlook for 2018

Sulzer expects that the oil and gas market, which accounts for approximately 40% of our sales, will gradually recover and translate into a commercial rebound for Sulzer mostly visible in 2019. The power market is expected to decline, while all other Sulzer markets are expected to continue on their current growth path in 2018. This should lead to a slight increase in organic order level for the company, supplemented by additional volume from newly acquired businesses.

For the full year 2018, including acquisitions signed in 2017 and adjusted for currency effects, order intake is expected to grow by 5 to 7% and sales to grow by 4 to 6%. Sulzer expects opEBITA margin at around 9.5% (opEBITA in percent of sales).

Dear Shareholder, we are excited about the year ahead of us. We are continuing our transformation and we are working hard to build on our solid foundation for growth. We thank you for your support and continued trust. The spirit that makes Sulzer unique is very much alive today. Thank you for being part of it.

Sincerely,

Peter Löscher
Chairman of the Board

Greg Poux-Guillaume
CEO

Dive in and learn more about industrial agility at Sulzer:

- The next generation of impeller manufacturing
- Speeding up the development of mascara brushes
- Turning pumps into smart devices
- Sulzer’s future factories: smart and learning
- Faster than ever: delivering pump spare parts within 48 hours

Our company

Sulzer's core is flow control and applicators. We specialize in pumping solutions, services for rotating equipment, and separation, mixing, and application technology. Our customers benefit from a network of over 180 production and service sites in more than 40 countries around the world.

Pumps Equipment

Pump technology and solutions

We provide a wide range of pumping solutions, related equipment, and services. Customers benefit from extensive research and development. We supply highly efficient products that help reduce emissions and energy consumption. Our state-of-the-art production and testing facilities around the globe ensure customer proximity.

Our market focus is on:

- The production, transport, and processing of crude oil and its derivates
- The supply, treatment, and transport of water as well as wastewater treatment
- Fossil-fired, nuclear, and renewable power generation
- Specific general industries, such as pulp and paper, fertilizers, and other markets

Rotating Equipment Services

Service solutions for rotating equipment

We offer service solutions for rotating equipment such as turbines, pumps, compressors, motors, generators, and other adjacent equipment for Sulzer and third-party equipment. Our services are dedicated to improving customers' processes and business performance. Fast and flexible execution tailored to customers' needs reduces maintenance time and costs. With our global network of service centers, we offer a one-stop shop for all services and solutions close to the customer. These include maintenance, repair, replacement parts, and retrofit/upgrades. As a fully integrated maintenance partner, Sulzer can manage projects from the design stage right through to final installation and commissioning on-site.

Our market focus is on:

- Gas and steam turbines
- Compressors
- Generators and electrical motors
- Pumps in the oil and gas markets, power markets, and many other markets

Chemtech

Separation and mixing technology and associated services

We offer separation and mixing technology, process solutions, and field services for the oil and gas, hydrocarbon, and chemical processing industry. Our advanced and economical solutions set standards in the field of mass transfer and static mixing.

Our market focus is on:

- High-performance tower internals and separators
- Process engineering and skid solutions
- Service for towers and static equipment

Applicator Systems

Systems for liquid applications

We offer products and services for liquid application and mixing technology. Our customers benefit from advanced solutions in the field of precise applications as well as one- and two-component mixing and dispensing systems. Our global network ensures local knowledge and competence.

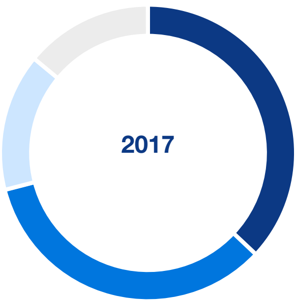
Our market focus is on:

- Mixing and dispensing systems for the adhesives and dental markets
- Precise application systems for liquid color cosmetics and beauty accessories
- One- and two-component application systems for healthcare markets

Our key figures

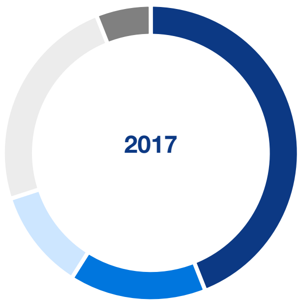
In 2017, Sulzer returned to organic order intake growth. Order intake increased by 11.8% on a currency-adjusted basis and by 2.2% organically. Sales increased by 5.2% on a currency-adjusted basis and decreased by 4.4% organically. Operational EBITA rose compared with the previous year, and the operational EBITA margin increased slightly to 8.4%.

Sales by division



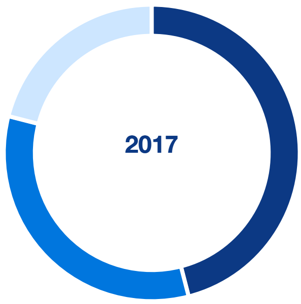
- **37%** Pumps Equipment
- **34%** Rotating Equipment Services
- **15%** Chemtech
- **14%** Applicator Systems

Sales by market segment



- **44%** Oil and gas
- **15%** Power
- **11%** Water
- **24%** General industry
- **6%** Beauty

Sales by region



- **46%** Europe, Middle East, and Africa
- **33%** Americas
- **21%** Asia-Pacific

Key figures

millions of CHF	2017	2016	Change in +/–%	+/–% adjusted[1]	+/–% organic[2]
Order intake	3'155.7	2'797.5	12.8	11.8	2.2
Order intake gross margin	34.4%	34.0%			
Order backlog as of December 31	1'593.5	1'439.1	10.7		
Sales	3'049.0	2'876.7	6.0	5.2	–4.4
EBIT	136.5	115.3	18.4		
opEBITA	255.4	238.9	6.9	5.3	–2.9
opROSA	8.4%	8.3%			
opROCEA	15.8%	15.7%			
Net income attributable to shareholders of Sulzer Ltd	83.2	59.0	41.0		
Basic earnings per share	2.44	1.73	41.2		
Free cash flow	127.0	200.5	–36.7		
Net liquidity	–225.0	–35.9			
Employees (number of full-time equivalents) as of December 31	14'732	14'005	5.2		

1) Adjusted for currency effects.
2) Adjusted for acquisition and currency effects.

15’000

Employees

Roughly 15’000 employees from all over the world work at Sulzer.

180

Production and service locations

Sulzer’s production and service network spreads across the globe.

CHF 3.0 billion

Sales in 2017

Sulzer generated sales of CHF 3.0 billion in 2017.

Data per share

CHF	2017	2016	2015	2014	2013
Net income attributable to a shareholder of Sulzer Ltd	2.44	1.73	2.17	8.09	6.89
Change from prior year	41%	–20%	–73%	17%	–23%
Equity attributable to a shareholder of Sulzer Ltd	49.40	46.40	65.30	71.60	68.70
Ordinary dividend	3.50 [1]	3.50	3.50	3.50	3.20
Special dividend	–	–	14.60	–	–
Payout ratio	143%	202%	161%	43%	46%
Average number of shares outstanding	34’086’386	34’102’610	34’035’862	34’007’309	33’999’429

1) Proposal to the Annual General Meeting.

Stock market information

	2017	2016	2015	2014	2013
Registered share (in CHF)					
– high	129.90	107.80	120.10	143.90	171.00
– low	102.30	75.55	88.55	94.95	129.60
– year-end	118.20	105.00	94.35	106.00	143.90
Market capitalization as of December 31					
– number of shares outstanding	34’043’093	34’084’909	34’075’179	34’007’430	33’979’955
– in millions of CHF	4’024	3’579	3’215	3’605	4’890
– in percentage of equity	240%	226%	145%	148%	209%
P/E ratio as of December 31	48.4x	60.6x	43.5x	13.1x	20.9x
Dividend yield as of December 31	3.0%	3.3%	3.7%	3.3%	2.2%

Shareholder structure as of December 31, 2017

Number of shares	Number of shareholders	Shareholding
1–100	3’391	0.5%
101–1’000	27	2.5%
1’001–10’000	303	2.4%
10’001–100’000	63	5.6%
More than 100’000	8	69.9%

Our highlights

The year 2017 brought us many highlights. We gained momentum and triggered growth through a series of acquisitions. We reinforced Sulzer's distinguished culture of innovation by launching the group-wide Sulzer Innovation Awards. And we continued to contribute to the communities in which we operate, as we did recently in South Africa.

Growing through acquisitions throughout our portfolio

In 2017, we continued to expand our portfolio and presence through acquisitions across our product and service offering. We set up a new division called Applicator Systems (APS) as of January 1, 2017. APS specializes in fluid applicators for industries such as dental, healthcare, beauty, construction, and adhesives. With the acquisition of Transcodent in September, we strengthened the division's dental segment, where Sulzer is already a global market leader.

For our Pumps Equipment division, we closed the acquisition of pumps manufacturer Ensival Moret (EM) at the end of January 2017. EM added axial flow and slurry pump technologies to the Sulzer portfolio. Furthermore, we announced the acquisition of JWC Environmental, LLC in December 2017 (closed in January 2018). JWC is a leading provider of solids reduction and removal products for the wastewater business. The acquisition improved our access to the key US municipal wastewater treatment market.

In our service division, we closed the acquisition of Rotec GT at the end of June 2017. The Rotec GT gas turbine service business focuses on the Russian market and significantly increased our presence in an important market for such services.

A smaller but very promising acquisition is the Vessel Internal Electrostatic Coalescer (VIEC) technology, closed in January 2017. We expect this separation technology to be a winning upstream application as soon as the market rebounds.

Sulzer Innovation Awards: and the winners are …

Innovation will be key to the success of Sulzer tomorrow. The Sulzer Innovation Awards are about celebrating those innovations that have created the most value for our business. They are also about promoting and strengthening Sulzer's distinguished culture of innovation and recognizing the efforts and essential contributions of our talented employees around the world.

The proud winners of the first group-wide Sulzer Innovation Awards (from left to right): Chris Langham, Claudia Pudack, Halbe Jansen, Simon Gassmann, Thomas Felix, Marcelo Inforsati, and Matt Bourne.

In 2017, the Executive Committee selected three winners from 99 nominations:

Multiblok™ suspension crystallizer

The new Multiblok™ crystallizer is a modular system with standardized alternating scraped crystallization and mixing segments stacked on top of each other. This is a brand-new concept that increases flexibility in plant capacity, optimizes engineering and fabrication costs, and reduces the footprint of the installation, in particular for large plants. Sulzer has protected the unique design of the crystallizer by applying for a patent.

Advanced ordering service for electromechanical coils

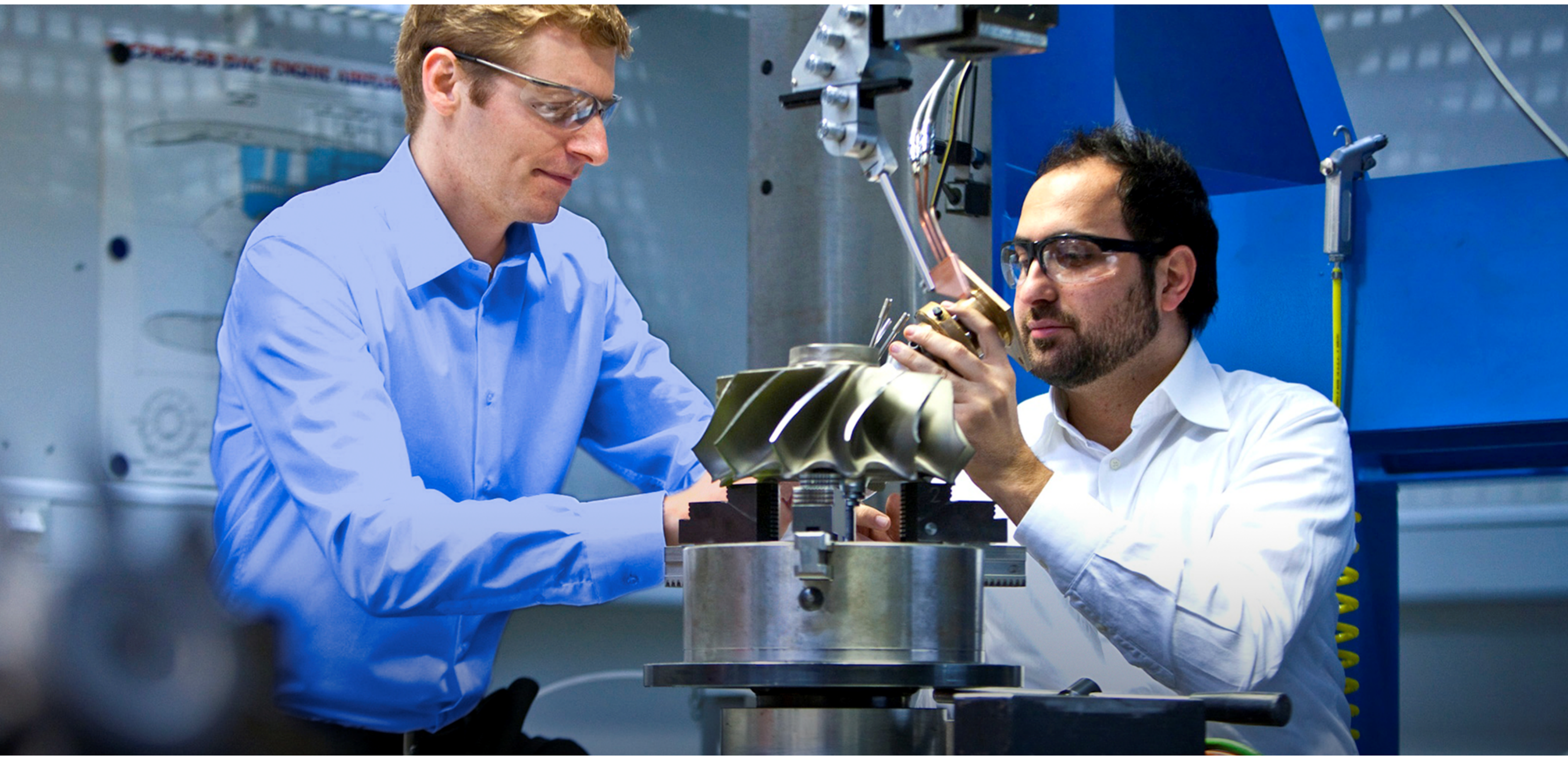
The advanced ordering service for electromechanical coils is a highly detailed online database of 3D designs for high-voltage coils. The database was created to speed up the quotation process for customers and to facilitate the exchange of knowledge within Sulzer. Customers sometimes had to wait days for a quotation in the past. Now, they can go online and access a full suite of drawings as well as a quotation within minutes.

Subsea pump

The Sulzer subsea pump for multiphase pumping leverages the potential of subsea oil production. New hydraulics, a 2 MW permanent magnet motor, and new control concepts are just some of the innovative features of this product. The subsea pump reduces costs and production downtime and supports the depletion of existing oil fields. We have already sold several pumps with our partner TechnipFMC.

Donating modular units for a good cause

Shortly after Sulzer had completed major gas turbine overhauls at Eskom’s Ankerlig power plant near Cape Town, South Africa, it came to our attention that the non-profit organization Orion was looking for assistance. The organization cares for severely mentally and physically disabled people in South Africa. It creates a future for people with disabilities by providing professional therapeutic and development services. In August 2017, Sulzer donated four movable, modular units that had been used during the Eskom project. The units will be used as a training room, as an art center, as a staff room, and for additional storage.



The next generation of impeller manufacturing

Sulzer and a well-known compressor manufacturer are co-developing an innovative manufacturing process for closed impellers. Thanks to the new process, Sulzer will be able to offer high-quality parts with radically low lead times. The ambitious goal is to offer closed impellers within 48 hours to our customers.

An impeller is the rotating component of a pump. It transfers the energy from the motor to the fluid and accelerates the fluid to build up pressure. In contrast to an open impeller, a closed impeller additionally has a front shroud attached to it.

Because of the unique geometry of closed pump impellers, the only way to produce these components to date has been to use casting technologies. However, with these technologies there are risks of small internal and surface defects, fair-but-limited surface quality, and slight geometrical inaccuracies. These issues not only affect the overall performance of the part but also determine how much post-processes – like surface treatment and balancing – are necessary.

Another factor, even for so-called rapid casting technologies, is the relatively long lead time to produce a finished part.

Combining additive and subtractive technologies

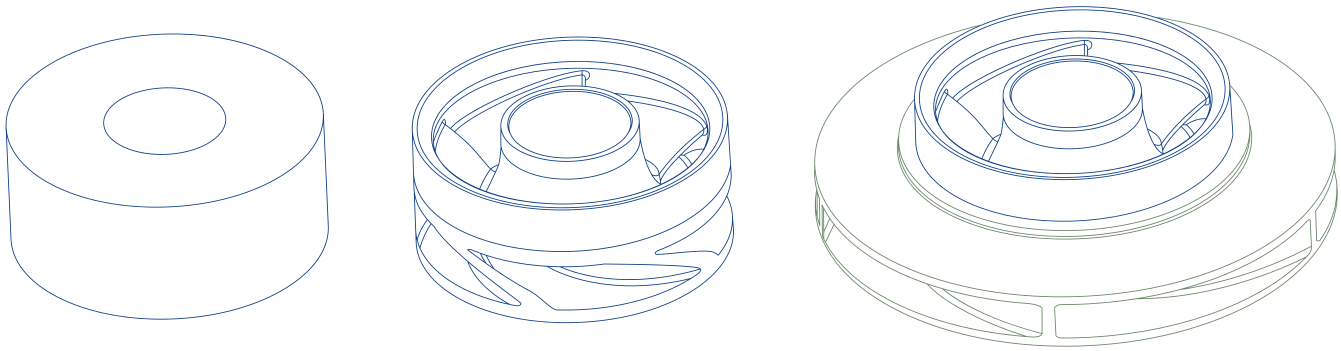
The solution to much faster and better impeller production lies in a technology that has been used by Sulzer for many years already – laser metal deposition (LMD). The key is to use LMD to build up 3D geometries additively, then to use classic 5-axis milling to achieve high-quality surfaces and accuracy.

The hybrid process brings even greater advantages than the widely known selective laser melting process (SLM) – often referred to as 3D metal printing – to certain industries, including the pump industry. The deposition rate is about one magnitude (5–15 times) higher than classic SLM. At the same time, the amount of additive material within a component can be significantly reduced, which keeps the overall process cost reasonable. Further, support structures for additive buildups can be avoided. The state-of-the-art 5-axis milling process achieves high precision and surface quality. Hybrid manufacturing also makes our product development cycles faster because we can produce prototypes and get feedback from customers much faster.

Closed pump impellers in 48 hours

To improve the process, all involved parameters like laser power, powder feed, speed, focal position, etc. need to be optimized. In addition, CAM (computer-aided manufacturing) software tools need to utilize the capabilities of such hybrid manufacturing processes. Most CAM software is programmed to fulfill subtractive manufacturing tasks. The additive generation of more than just a coating layer – especially in the way the LMD process adds material – only recently became a requirement.

To optimize the parameters and to automate the toolpath programming, Sulzer joined forces with a well-known compressor manufacturer. With the dedication and experience of both companies, the teams are convinced that they will be able to achieve their ambitious common goal of offering high-quality closed impellers within 48 hours to customers starting in mid-2018. This is a radical drop from the current standard of 25–35 days of production time using traditional casting methods.



The development of a closed impeller through hybrid manufacturing: (1) wrought billet; (2) impeller core machined to final geometry; (3) completed impeller achieved through additive manufacturing and subsequent milling steps.

Applying hybrid manufacturing to other parts

Hybrid manufacturing is neither limited to impellers alone nor to single materials. Therefore, future developments aim to use hybrid manufacturing for other pump components or to use different materials within one part. One example of the use of different materials is the application of a wear-resistant coating via LMD during the manufacturing process. This coating can be applied in the respective impeller area to replace an impeller wear ring.

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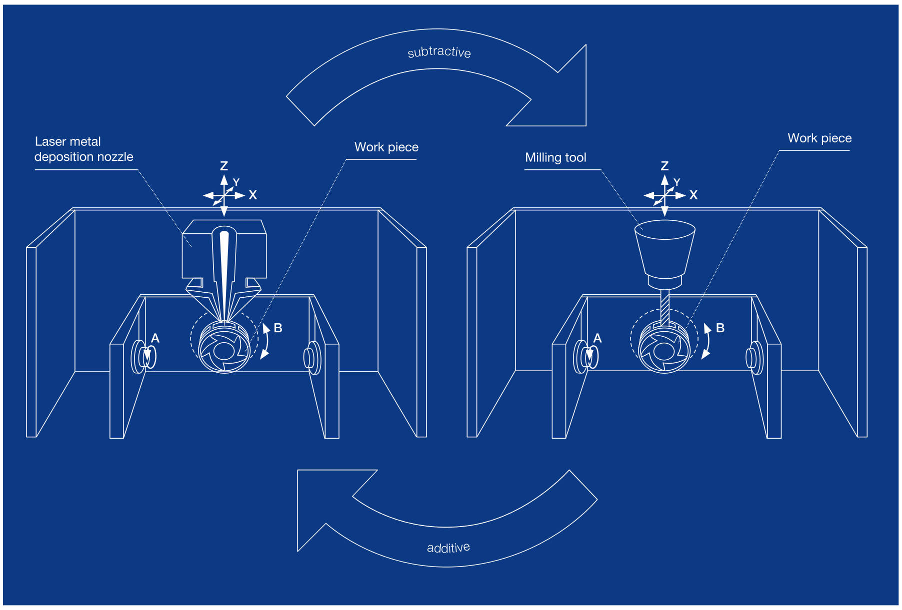
How hybrid manufacturing works

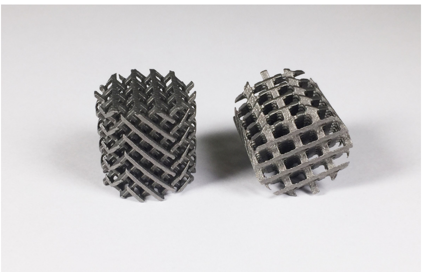
In the conventional machining process, also called subtractive manufacturing, material is removed from a bar, forging, or casting. In additive manufacturing, also known as 3D printing, layers of material are formed one by one under computer control to create a three-dimensional object. Hybrid manufacturing combines additive and subtractive production technologies.

Additive and subtractive manufacturing are combined in one machine tool. The patent-pending hybrid production process for a closed impeller starts with a small wrought billet, which is machined to its final geometry with 5-axis milling operations. This milling step is only possible because the radial dimension of this core part is smaller than the size of the final impeller. Thus, all channels are accessible with milling tools. When the impeller core is finished, the remaining geometry for the final impeller is radially built up via laser metal deposition (LMD). The added material is then milled to the final geometry and surface quality. Depending on tool accessibility, this additive step with subsequent final machining can be repeated several times in order to grow the impeller radially to its final diameter.



Functional principle of hybrid manufacturing, the combination of subtractive and additive manufacturing.

Additive manufacturing for unusual sizes and features



Sulzer has created small-scale static mixers using additive manufacturing. In this way, the company was able to make design adjustments and to produce unusual sizes and features more efficiently.

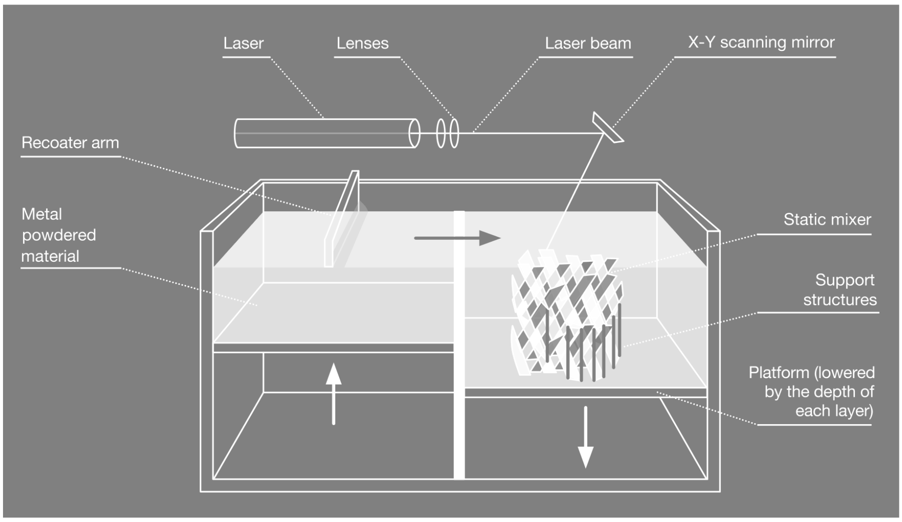
Static mixers are mixing elements installed in a pipe or duct. They function without moving parts and are used to achieve specific mixing and dispersion in continuous processes. Sulzer produces mixers for the fiber production, polymer technology, water treatment, chemical, or food production industries.

Long-time experience with additive manufacturing

Already ten years ago, the Chemtech division used selective laser sintering for small-scale static mixers. Additive manufacturing was, for example, used a lot for the development process of the SMX plus mixer and the SMR plus heat exchanger. Static mixing elements made by selective laser melting (SLM) have been and still are occasionally manufactured and sold to customers for cases requiring unconventional sizes or features. The main application area of SLM is for prototyping, to produce support parts, small batch size parts, or tools. At the moment, it is still too expensive for mass production.

How selective laser melting (SLM) works

A laser melting machine distributes a thin layer of metal powder onto a build platform. The powder is melted layer by layer with the help of a laser that is directed with a flexible scanning mirror.



Functional principle of the selective laser melting process, also called SLM.

Speeding up the development of mascara brushes

The development of mascara brush prototypes usually takes up to 18 weeks. By using a new plastic powder for the production process, Sulzer's Applicator Systems division was able to develop a prototype within one week.

Time is money, and the world of beauty is no exception to this rule. Before a new mascara finds its way into the stores, it goes through an extensive development process. Although they may look similar, all mascaras are different. Eyelashes are individual, and different cultures prefer different styles. Therefore, it is important to conduct tests under real conditions once the R&D department has designed a new model.

Too stiff to use for tests

So far, mascara brush prototypes have been produced from a hard plastic material using a 3D CAD (computer-aided design) drawing. This could take up to 18 weeks because the manufacturer had to make a drawing, create visual patterns through 3D printing, adjust the drawings to customer needs, and create a pilot tool for the injection molding process. For every single mascara bristle, a small hole – called a cavity – needed to be milled into the injection mold. With the prototype, customers had the opportunity to evaluate the brushes visually. However, the bristles were too stiff to actually test them under real conditions. Further, the production process took a long time and was expensive.

Experimenting with new materials and technologies

Researchers constantly uncover new materials that can be processed using 3D printing. Today, the processes are still cost-intensive and are used primarily for the production of prototypes or components in small quantities. Geka has used 3D printing technology for mascara brush prototypes since 2007.

Thanks to the new material and method, our product designers were able to accelerate the development process of mascara brush prototypes. We can introduce products to the market more quickly, and they meet customer requirements even better.

Amaury de Menthiere Division President Applicator Systems

To speed up the development process, the teams were looking for alternative methods and materials for the production of prototypes. Eventually, they were successful: A new type of plastic came onto the market. This specific material ensures that each individual bristle is stable enough to separate the eyelashes yet elastic enough not to hurt the eyes.

The material was set but the process not yet. The teams made many attempts to find the best manufacturing process. The solution was an additive manufacturing technology called selective laser sintering (SLS).

Cutting production time by 17 weeks

Thanks to the new method, Sulzer accelerated the development process considerably. The customer now receives a prototype within one week instead of 18 weeks. Thanks to the new material, the customer can actually test the prototypes. In the case of customer-specific adaptations, the drawings can be immediately adjusted and new brushes produced through 3D printing.

Today, there are still quality differences between 3D printed and injection-molded prototypes. The surface of the 3D printed brushes and the amount of the mascara mass that is applied to the eyelashes may not be exactly the same as with injection molding. However, customers are able to gain sufficient information from the prototypes to make decisions.

The development process is faster, products are introduced to the market more quickly, and the final product meets customer requirements even better.

With technology progressing fast, additive manufacturing processes will not only be used for prototypes but be introduced into Sulzer's factories in the foreseeable future.

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"In short: we want to grow profitably"

Sulzer is expanding its applicator business. Amaury de Menthiere, Division President of the new Applicator Systems (APS) division, explains why mascara and co. fit in well at Sulzer and where he wants to take the new division.

Amaury de Menthiere, Division President Applicator Systems

Sulzer's acquisition of Geka surprised many people. How do mascara, lipgloss, and co. fit in at the Swiss industrial company?

Amaury de Menthiere: Many know Sulzer as a pump manufacturer for the oil and gas, power, and water markets. But Sulzer is a lot more than that. With its Mixpac business, the company has been delivering applicators for the adhesives, dental, and healthcare markets for a long time.

How does Geka fit in? You just need to have a look at the shop floors; Mixpac and Geka use almost the same production machines. Both businesses manufacture their products through injection molding processes. We use the same type of equipment for the assembly of the molded parts. We also have the same approach to assess quality and operational excellence. The markets may be different but the production process is essentially the same.

What are the advantages of the new setup?

Through the combination of Mixpac and Geka, we can bundle the sourcing of machines, injection molds, and plastics. This saves money. Another advantage is our geographical footprint. Geka is mostly active in Europe as well as North and South America. Mixpac has a strong presence in Switzerland and China. Thus, the two companies complement each other well in terms of locations. From the Geka location in Brazil, employees of Mixpac are beginning to gain access to the local dental market. And Mixpac's China site is being used to source injection molds for Geka in China.

In a nutshell, our new Applicator Systems division is the largest in its industry and the only one that is globally active. This meets the demands of our customers who want the same products around the world.

What does the portfolio of the new Applicator Systems division include?

We offer products and services for liquid application, and we offer mixing technology for the adhesives, dental, healthcare, and cosmetics markets. These products include precise applications systems as well as one- and two-component mixing and dispensing systems. For example, we manufacture the applicators for adhesives that are used to mount windshields in cars. We also produce applicators that your dentist uses when applying a dental filling. And we develop and manufacture cosmetics products such as mascara, lip gloss, and eyeliner.

What are your plans for APS?

In short: we want to grow profitably. Our sales were roughly CHF 420 million in 2017. Our goal is to bring these up to CHF 800 million to CHF 1 billion in a few years. How will we achieve this? By acquiring companies but also by developing our existing business further. For our beauty business, we are expanding our manufacturing site in Bechhofen, Germany, and doubling its size. Further, we are building a new factory in Poland to drive our industrial business. We plan to stay in niche markets with high requirements to preserve our healthy profitability.

What is important for customers in the applicator business?

The method of applying the material is becoming more important. Nowadays, it is more common that the customers choose the application system first and buy adhesives, sealants, and fillings based on this. Therefore, the expediency, quality, and performance of the application systems are becoming an important selling point. But in the end, being able to choose the right system for the content and the application is what makes us successful. This is the reason why APS is constantly improving its capability to test the different combinations and solutions and to recommend the best application system to its customers.

Sulzer is investing in additive manufacturing (AM) technologies. What role does AM play in your division?

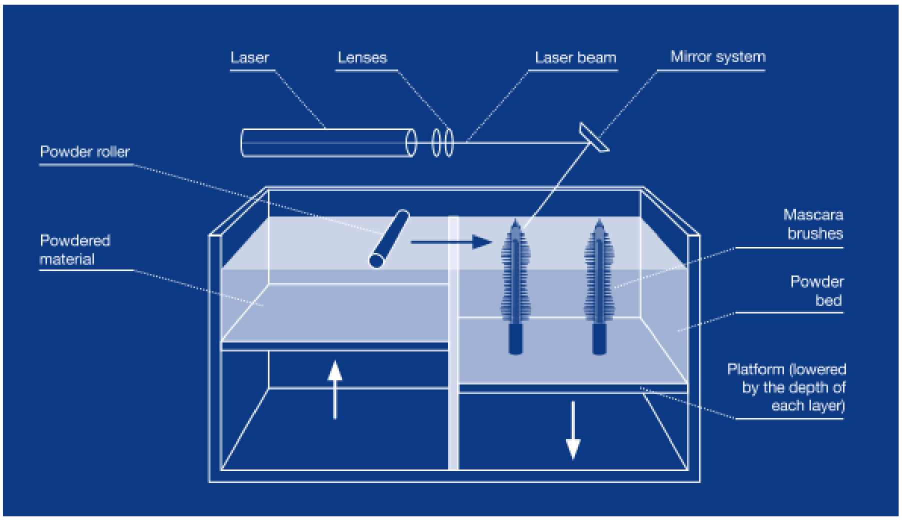
Additive manufacturing is becoming more and more important. We have produced prototypes of mascara brushes by 3D printing technologies for some years now. As new materials and methods enter the market and the technology becomes more affordable, we will be ready to use AM for actual products in due time.

How selective laser sintering works

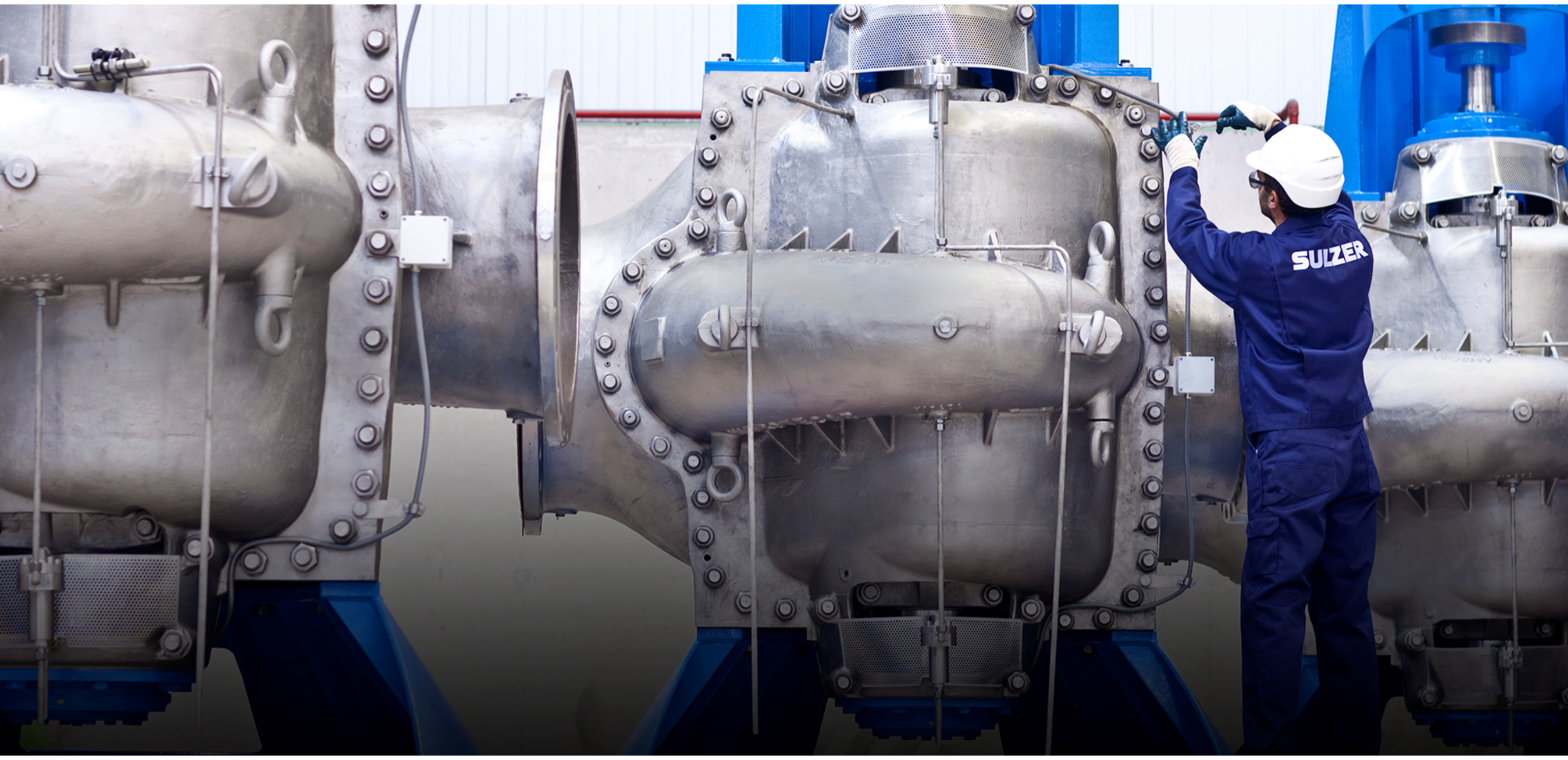
Selective laser sintering (SLS) is a relatively new technology within additive manufacturing. So far, it has mainly been used at Sulzer for rapid prototyping and to produce small series of components. As the commercialization of additive manufacturing continues, companies are discovering SLS for more and more production purposes.

A laser sintering system applies a thin layer of powdered material to a construction platform. By means of a laser beam and a movable mirror, the material is selectively fused. After lowering the construction platform, the next powder layer is applied.

This process is repeated until the component has been built up in the powder bed – layer by layer. The slight drawback to this technique is that the components do not have the same surface structure as parts made using injection molding.



Functional principle of the selective laser sintering process, also called SLS.



Turning pumps into smart devices

Whereas monitoring systems are common for big, engineered pumps in critical applications, smaller process pumps rarely come with such a feature. Sulzer is developing a smart sensor for process pumps. The sensor can measure the temperature and vibration of pumps in the field and transfer this information wirelessly to a cloud database.

It is 5 p.m. on a Wednesday afternoon. You have done your work as plant engineer in a pulp and paper factory for the day and are looking forward to spending the evening with your family. On your way out, your phone vibrates. You look at the screen: “High vibration on the bearing unit of process pump 11! There are 250 hours of life remaining. Click here for details.”

You open the Sulzer app on your mobile phone. A dashboard appears. You check the performance measurements of your pump. They confirm that the bearing unit needs to be replaced. You click on the Webshop icon. The correct spare part is indicated by the system. You order the component. Sulzer will now deliver your spare part. It is 5:15 p.m. You have just avoided an unplanned outage that would have taken you days and cost your company a lot of money otherwise. Now it’s time to go home and enjoy the evening with your family.

Closing the gap

Thanks to a sensor in the pump and an automatic warning system, the employee in the example above was able to quickly solve an arising problem. Whereas such control features are common in complex pumps in high-risk areas such as the oil and gas industry, configured pumps rarely come with this option.

As technology becomes more affordable, sensors for medium-sized pumps are delivering tangible benefits to the customer. It is especially worth monitoring equipment in pulp and paper factories, as well as the sugar, food, and fertilizer industries.

Many pumps in the field run until they fail. Because Sulzer knows that reliability is key to saving costs for our customers, we are changing this situation.

Connecting pumps to the Internet

Sulzer is developing a new device that connects non-instrumented pumps to the Internet and enables data collection.

With Sulzer's sensor solutions and applications, we turn your pumps into smart devices. You will be in control of your installed pumps base – anytime and anywhere you need.

Ralf Gerdes Head Global Technology

Sulzer's smart sensor is attached to the pumps, and it registers the pumps' temperature and vibration values – without any wiring. It then transfers this data to a cloud. The data is displayed on a dashboard – either on a desktop or mobile app.

Sulzer customers have all the information they need about their pumps in one place: the bill of material, analytics of temperature and vibration of the pump, and a Webshop where they can directly order spare parts. There is no need to spend time looking up a pump's specification. Everything is available in the app.

Finland and Switzerland – a team effort

The idea for such a device came up at Sulzer in Finland and Switzerland at around the same time. By listening to customers, the teams soon recognized the vast potential of smart sensors for process pumps. They joined efforts and worked out the manifold specifications for such a sensor – from sourcing to material to IT requirements.

In 2018, the sensor will be tested at customer facilities. Afterwards, it will be ready to use in the field. In the near future, Sulzer's goal is to deliver its new process pumps with the integrated sensor so customers benefit from the entire package.

Interested in more stories about our products and services? Check them out at www.sulzer.com/stories.

Making order out of data chaos with BLUE BOX™

See how Sulzer's intelligent software solution BLUE BOX makes your energy efficiency visible and identifies pumping challenges in near real time.

In industries such as oil and gas and power generation, a large amount of data is gathered for the day-to-day operation of a pumping installation. Bringing order to this data chaos is complex and time-consuming. However, there is a lot of benefit in analyzing that data and taking actions based on the insights gained: It delivers significant savings, optimizes the asset's lifespan, and reduces operational risks.

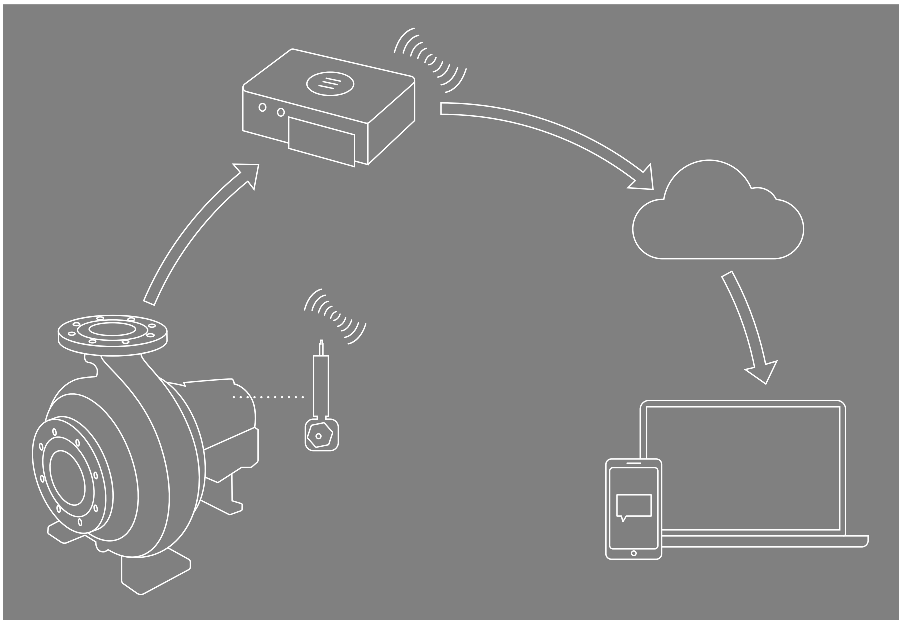
Sulzer has developed an innovative, integrated, and intelligent software solution called BLUE BOX. It identifies unreliable and inefficient pumps in near real time and helps customers optimize their pumping systems.

Learn more at www.sulzer.com/bluebox.

Listen to what your pumps have to say

Have you ever wondered how your pumps are performing in the field? With Sulzer's IoT-ready device that collects data you will have all the information you need about your pumps.

Sulzer's smart sensor is attached to the pumps in the field. It registers the pumps' temperature and vibration values – without any wiring. The gateway receives the data from the sensor and transfers it to a cloud. You can access all the data on a dashboard – either on your desktop or on your mobile app.



A sensor transfers the information about the pump's performance via gateway to a cloud. Customers can directly access this data on their computer or mobile device.

Diagnosing your pumps – optimizing performance

DOC BOX by Sulzer is a set of services to help you optimize your pumps' reliability, efficiency, and performance.

Pumping systems may suffer from various issues throughout their operational lifespan. Often these problems are hidden. High vibration, temperature, pressure pulsations, and other factors may affect the equipment and cause it to run problematically. The pump or pump system may even have undergone several interventions, yet no solution is apparent. Performance issues with any single pump can have a big impact on overall productivity.

Ultimately, it takes a specific combination of technology, expertise, and experience to resolve the situation. Sulzer's DOC BOX is able to precisely diagnose the issues of your critical assets.

How does it work? DOC BOX is temporarily deployed to "problem pumps" that are insufficiently instrumented. It collects data while in operation and transforms it into insights. In this way, DOC BOX has the potential to deliver significant savings and improve the overall profitability of customers' applications.

Sulzer’s future factories: smart and learning

The fourth industrial revolution is not only about new technologies, it is about changing the way of doing business and winning through information. Sulzer has reorganized its pumps engineering, manufacturing, and supply chain into an integrated global factory network. Each element of the network will be smart and contribute to constant learning. In this way, we will be able to cut delivery times and offer Sulzer’s recognized quality at competitive prices at the same time.

Through the ages, the world has seen many technological revolutions. We are living in the digital age, and markets are changing faster than ever before. Companies are reinventing their business models for tomorrow.

Sulzer is reorganizing and digitally enabling its global pumps manufacturing and supply chain network.

Four virtual factory families

In the past, each Sulzer factory manufactured several different pump types. It worked more or less autonomously and had its own order pipeline, supply chain, and processes.

Digitalization is changing the way we do business. It influences our products, our fabrication, and our business processes. And this is just the beginning.

Robert Laflamme Head Global Operations

We have now organized our factories around the world into factory families according to our four different delivery models: standard, configured, pre-engineered, and engineered pumps. One factory family consists of all factories that manufacture the same pump types and work to the same processes. The four families can be managed in real time and on a global level – virtually like four factories.

This allows us to fulfill the different customer needs in an ideal way: speed (reduced delivery time), competitive prices, customer proximity, and traceability of products and components. All factories around the globe will fully live up to common Sulzer quality standards.

Furthermore, the new setup allows us to balance the workload among the factories, to stimulate help and exchange within each factory family, and to roll out new improvements quickly around the world.

Bringing digitalization to the shop floors

Digitalization is not only vital when it comes to managing the factory network, it will also bring improvements on the shop floor level.

With smart factories, we will be able to flexibly adapt our products, our suppliers, our technologies, and our manufacturing network to better satisfy customer and market demands.

Enno Danke Head Global Manufacturing Technology

Especially in the engineered pumps business, which has low volumes and high variance, the traditional way of manufacturing with only limited automation still predominates. Each project is tailored to the customer. Hence, the process steps are not usually repetitive, the tools used are not typically connected, and issues are typically resolved through direct interaction of experts from different departments. So, improvements rely on singular analysis and suggestions of our employees who cannot tap into a regular pool of structured information.

Making data accessible and understandable

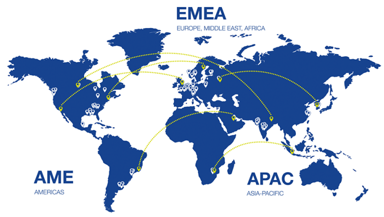
The foundation for fast learning and improvement is the right information. So we can have structured real-time data available at every process step, we are connecting our machine tools, deploying connected manual tools, and setting up touch screens at the different workplaces on the shop floors.

The paperless factory gives real-time feedback on the work center status because the production orders are digitally started, routed, and confirmed. Our technicians can easily record the reasons and amount of time they spend solving issues and waiting. They can access digital models and work instructions to overcome ambiguities. Also, they can easily connect to experts in other functions without always having to call for a physical meeting.

All the data collected needs then to be aggregated, put into context, and analyzed for us to continually improve. Thus, analytical and creative capabilities are becoming more important. We are investing in our Sulzer Production System team to stimulate and support the organization with this.

Interested in more stories about our products and services? Check them out at www.sulzer.com/stories.

From isolated shops to a network of focused factories



Digitalization has enabled Sulzer to set up a connected factory network.

Sulzer has converted its network from insular factories that all operated fairly autonomously to a connected factory network that can be managed virtually. This change brings many advantages both for customers and for Sulzer:

- Speed: We can prevent local bottlenecks in the network and, thus, reduce our lead times. It takes considerably less time from the beginning of a project to its completion, and delivery of products is faster.
- Cost: We can offer our products at competitive prices because we can tap into regional cost advantages within the customer sourcing restrictions.
- Proximity: We are close to our customers and can manufacture products regionally because we have at least one factory for every delivery model type in every region.
- Traceability: When required, we can trace back every detail about the pump: where its components came from, where it was assembled, who the suppliers were, and so on.

Humans and robots working together side by side

Better fulfilling our customer demands and becoming more competitive to grow our business are at the core of Sulzer's digital strategy. Pump manufacturing has many complex steps, but many are also simple and repetitive. With the advances in sensors, collaborative smart robots ("cobots") are gradually becoming cost-effective.

This is also true for our industry, especially with regard to small pumps. The cobots are designed to work in line or even side-by-side with humans. So, we can selectively enhance our production to offload simple tasks or to assist with non-ergonomic tasks. These cobots are connected to our central systems.

To globally manage all the information for operations and for improvements, Sulzer is aligning and integrating the software tools that are used around the world. From requirements management to computer-aided design (CAD), computer-aided engineering (CAE), computer-aided manufacturing (CAM), and planning to manufacturing execution system (MES) – everything is managed in a seamless digital toolchain.

Our smart and learning factories will make us a faster and better partner for our customers. They will create exciting new opportunities for our employees. They will drive growth and increase cost competitiveness for our shareholders.

Faster than ever: delivering pump spare parts within 48 hours

In a world where everything gets faster and faster, delivery time becomes a decisive success factor in the service business. Sulzer's Rotating Equipment Services division was able to cut our average delivery time from ten weeks to eight days – and we aspire to be even faster.

Outages at a customer's site are costly. Equipment that fails needs a fast replacement. Thus, lead time is a decisive success factor in the service business. Early in 2016, Sulzer initiated Project JUMP.

The name says it all; the goal was to make a significant jump in the speed of delivery. Accordingly, the team set a quite radical target: manufacturing and getting certain types of pump spare parts (simple, turned, and consumables) ready to be shipped within 48 hours – down from a historical average of more than ten weeks.

If you do the math, this means that Sulzer aspires to be 35 times faster than in the past. Such acceleration not only requires a lot of motivation from everybody involved, it requires new ways of doing things.

Thinking in days instead of months

Not only was the target radical, the implementation was, too. The teams in all locations around the world where pump parts are manufactured initiated new processes. Visualization played an important role. Every department received a monitor that displays their orders on a real-time basis and shows the project status as well as targets for the transactions.

Project JUMP has brought us a huge leap forward and has opened other great opportunities for future improvement. Rotating Equipment Services is getting faster and better for our customers.

Daniel Bischofberger Division President Rotating Equipment Services

Other measures included speeding up deliveries from partner companies, standardizing raw materials, establishing new machines in cell layout, and introducing a new production planning and scheduling software.

However, one of the most important things was a change of mindset. Employees are now starting to think in hours or days instead of weeks or months.

From ten weeks to eight days

By the end of 2017, we were able to reduce the average time in which our parts were ready to be shipped to eight days. A third of these orders were delivered within 48 hours. “We are proud of this achievement. However, we are not done yet,” says Daniel Bischofberger, Division President Rotating Equipment Services. The next step is increasing the percentage of spare parts that can be delivered to the customer within 48 hours. Moreover, we want to apply the project to more and more categories of parts. “We’ll continue to implement Project JUMP on a global scale. Our teams work relentlessly to get our products to our customers faster than ever,” Daniel Bischofberger says.

Project JUMP

Thanks to JUMP, Sulzer managed to reduce the average time in which pump parts were ready to be shipped from ten weeks to eight days.

Interested in more stories about our products and services? Check them out at www.sulzer.com/stories.

Faster and better with an online ordering tool for coils

With the development of an advanced ordering service for electromechanical coils, Sulzer was able to significantly improve the way that designs for high-voltage coils are shared with Sulzer engineers and customers alike.

The electric motor has been with us for almost 200 years. Very little has changed regarding the complex engineering calculations necessary to build or repair the modern day electric motor. In addition, the skills required to perform a successful repair on a motor or generator are still predominantly manual.

How can you transfer something that is perceived as being “old technology” to the digital age? How can digitalization help speed up the quotation process for the customers? The answer was an advanced ordering service for coils that Sulzer developed. It is an online database of 3D designs for high-voltage coils.

In the past, a customer sometimes had to wait days for a quotation that included drawings because the production of high-quality technical drawings was often a bottleneck in the company. With the new online tool, customers can now access a full suite of drawings as well as generate a quotation online within minutes. All they have to do is enter their specifications into the online platform – much like a car configurator.

The new process has significantly improved efficiency. The team is now able to create the quotation as well as a full suite of drawings within hours instead of several days.

Design your own mascara

To satisfy customers’ needs for design flexibility and cost-effectiveness, Sulzer is developing an online configurator for our beauty offering.

Longer eyelashes? Thicker lashes? More volume? The requirements for mascara brushes are manifold. Likewise, design requirements for the bottle and caps are customer-specific.

Though big cosmetic firms have the means to create new designs and to pay for the tools to produce the mascara, independent brands often lack these financial means. At the same time, they appreciate a certain design freedom.

Sulzer’s Applicator Systems division is developing an online configurator for our beauty offering. Customers can select from a range of standard components and packaging options and combine them into an individual product.

In this way, the mascara is customized at an affordable price. The product does not have to be developed from scratch and does not require extra tools in the manufacturing process. This also shortens the development process and thereby drives speed to market.

Business review

Return to organic order growth, improved profitability, and solid free cash flow despite market headwinds

Order intake grew by 2.2% organically and by 11.8% including acquisitions. Sales increased by 5.2% on acquisitions but declined organically as a result of a low order backlog entering the year. Sulzer Full Potential (SFP) program savings of CHF 61 million more than offset the impact of continuing market headwinds. Profitability increased to 8.4%, including a CHF 10 million (0.3%) one-time charge in the Chemtech division for a discontinued business activity. Free cash flow was CHF 127 million despite significant restructuring-related cash outlay.

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

Encouraging organic order growth and strong contribution from acquisitions

Order intake increased by 11.8% (nominally 12.8%). CHF 269.1 million from acquisitions and 2.2% organic growth drove this upsurge. Order intake gross margin increased nominally by 0.4 percentage points to 34.4% as business mix effects more than offset the margin erosion from price pressure in the energy markets.

Sulzer delivered strong financial results in 2017, despite continuing market headwinds. We are well on track with our SFP program and should see its full impact on our operating margins as volumes pick up.

Thomas Dittrich Chief Financial Officer

Order intake in the Pumps Equipment division increased significantly by 8.1%, fueled by the Ensival Moret acquisition, which contributed 6.6%, which supplemented the organic growth of 1.5%. Organic growth was driven by oil and gas and general industry orders, which compensated for a strong organic decline in power. Order intake in the water market remained broadly flat on fewer large infrastructure projects, while municipal water order intake grew by 3%. In the Rotating Equipment Services division, order intake grew by 4.9% as a result of the Rotec acquisition. Orders decreased organically by 0.9%, which compared well against the broader market. This was mainly due to lower orders in the turbo services segment in a weak and highly competitive power market. Order intake in the Chemtech division grew by 5.9% (organically 5.1%) supported by the rebound of the Chinese market and strong growth in Europe. In the Applicator Systems division, orders increased by 55.7%. The strong growth resulted from two factors: the acquisitions of Geka, PC Cox, and Transcodent as well as healthy organic growth of 6.0%. Overall, Sulzer’s order intake grew in all regions, except the Middle East and Africa.

Currency translation effects amounted to a positive CHF 26.9 million, due to a stronger Russian ruble and euro, partly offset by a weaker British pound.

As of December 31, 2017, the order backlog amounted to CHF 1’593.5 million (December 31, 2016: CHF 1’439.1 million).

Orders

millions of CHF	2017	2016
Order intake	3’155.7	2’797.5
Order intake gross margin	34.4%	34.0%
Order backlog as of December 31	1’593.5	1’439.1

Higher sales due to acquisitions

Sales amounted to CHF 3’049.0 million – an increase of 5.2% (nominal: 6.0%). This rise was driven by CHF 276.4 million of acquisition-related sales, which offset an organic sales decline of 4.4%. Positive currency translation effects totaled CHF 23.8 million.

In 2017, sales in the general industry segment recorded strong growth, driven by the Geka and Ensival Moret acquisitions and organic growth. This offset slightly lower sales in all other segments. Organically, Sulzer recorded a 7.6% sales decline in the energy segment.

Sales increased in Europe, Middle East, and Africa (EMEA), and Asia-Pacific, while the Americas region was down from the previous year. Consequently, the share of sales in emerging markets increased from 38% in 2016 to 41% in 2017.

Improved gross margin

Gross margin slightly increased from 30.6% in 2016 to 30.7%. Gross margin was positively affected by the larger share of higher-margin business and the effect of the global factory footprint reduction. This offset the price erosion effect in the oil and gas and in the power markets and a CHF 10 million one-time charge in the Chemtech division for a discontinued business activity. Total gross profit increased to CHF 936.6 million (2016: CHF 879.4 million) as a result of higher sales volumes.

Operational return on sales increased to 8.4%

Operational EBITA (opEBITA) amounted to CHF 255.4 million compared with CHF 238.9 million in 2016, an increase of 5.3% (nominally 6.9%). Savings of CHF 61 million from SFP and the contribution of acquisitions more than offset the impact of headwinds. OpEBITA decreased organically by 2.9% compared with 2016.

Operating expenses excluding amortization, impairment on property, plant, and equipment, restructuring expenses, and other non-operational items increased by 7.0% because acquisition-related cost additions were higher than SFP savings.

Operational ROSA (opROSA) increased to 8.4% compared with 8.3% in 2016, including the above-mentioned CHF 10 million (0.3%) one-time charge in 2017.

Operational key performance ratios

	2017	2016
opROSA	8.4%	8.3%
opROCEA	15.8%	15.7%

The divisions achieved the following profitability figures (opROSA):

- Pumps Equipment: –0.3% (2016: 1.1%). The lower profitability was due to the significant new equipment sales decline and margin deterioration as well as the slightly negative contribution from newly acquired Ensival Moret.
- Rotating Equipment Services: 13.9% (2016: 13.8%). The profitability was organically flat and increased by 0.1 percentage points with the Rotec acquisition.

- Chemtech: 5.2% (2016: 4.0%). The profitability increase resulted from higher sales and lower operating expenses. Excluding the CHF 10 million one-time charge for a discontinued business activity in the Tower Field Service business unit, the Chemtech opROSA would have been 7.3%.
- Applicator Systems: 20.5% (2016: 23.6%). The division reported lower profitability due to the first full-year consolidation of the Geka business, acquired in August 2016. On a comparable basis, opROSA increased from pro forma 20.1% in 2016 by 0.4 percentage points to 20.5% in 2017.

Bridge from EBIT to operational EBITA

millions of CHF	2017	2016
EBIT	**136.5**	**115.3**
Amortization	53.8	47.3
Impairment on tangible and intangible assets	15.4	18.4
Restructuring expenses	21.7	57.0
Non-operational items[1)]	28.0	0.9
opEBITA	**255.4**	**238.9**
opROSA	8.4%	8.3%

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.

Restructuring expenses and SFP program costs impacted operating income

As part of the SFP program, Sulzer has continued to adapt its global factory footprint and streamline its organization. Restructuring expenses significantly decreased compared to 2016. In 2017, restructuring expenses were mainly associated with measures taken in France, China, Brazil, Switzerland and Ireland.

In 2017, other non-operational items amounted to CHF –28.0 million. SFP-related expenses (CHF 26.0 million) and acquisition-related expenses (CHF 8.0 million) were partly offset by the income from a dispute settlement with the purchaser of the group’s locomotive business. In 2016, other non-operational items amounted to CHF –0.9 million. SFP-related expenses (CHF 26.9 million), acquisition-related expenses, and other items were offset by the favorable effect resulting from a lower conversion rate of the Swiss pension plans (CHF 35.4 million).

Consequently, EBIT amounted to CHF 136.5 million compared with CHF 115.3 million in 2016. Return on sales (ROS) was 4.5% compared with 4.0% in 2016.

Financial income: lower interest expenses

Total financial expenses amounted to CHF 10.8 million compared with CHF 19.3 million in 2016. Interest expenses were down by CHF 2.2 million as a result of the 2016 bond refinancing at favorable conditions. Other financial income/(expenses) amounted to CHF +0.3 million compared with CHF –7.1 million in 2016, mainly due to significantly reduced hedging costs and currency revaluation effects.

In 2017, Sulzer incurred expenses of CHF 0.3 million from a joint venture compared with CHF 0.8 million in the prior year. This relates to a joint venture in China for the service of gas turbines.

Slightly lower adjusted effective tax rate

Income tax expenses slightly increased to CHF 38.2 million (2016: CHF 35.1 million) despite a 28.2% upsurge of the pre-tax income. The effective tax rate declined from 36.9% in 2016 to 30.5% in 2017. Adjusted for the effects of restructuring expenses in both years and the impact of the US tax reform enacted in late 2017, the effective income tax rate declined from 24.3% in 2016 to 23.4% in 2017.

Higher core net income

In 2017, net income amounted to CHF 87.2 million compared with CHF 60.1 million in the previous year. Core net income excluding the tax-adjusted effects of non-operational items totaled CHF 178.3 million compared with CHF 153.8 million in 2016. Basic earnings per share increased from CHF 1.73 in 2016 to CHF 2.44 in 2017.

Improved balance sheet efficiency

Total assets as of December 31, 2017, amounted to CHF 4’117.3 million, which is an increase of CHF 381.4 million from 2016, as a result of acquisitions and currency translation effects.

Non-current assets increased nominally by CHF 180.6 million mainly due to higher goodwill (CHF 85.6 million), other intangibles (CHF 85.5 million), and higher property, plant, and equipment (CHF 20.6 million), while deferred income tax assets decreased by CHF 17.9 million to CHF 139.7 million. Goodwill, other intangible assets, and property, plant, and equipment increased by CHF 123.2 million on a currency-adjusted basis, mainly due to acquisitions.

Current assets increased nominally by CHF 200.8 million, due to higher working capital and higher cash and cash equivalents.

Total liabilities nominally increased by CHF 270.0 million to CHF 2’414.9 million as of December 31, 2017. An increase in borrowings (CHF 248.4 million), trade accounts payable (CHF 54.5 million), advance payments from customers (CHF 30.3 million), and other current and accrued liabilities (CHF 24.1 million) was partly offset by lower defined benefit obligations (CHF 100.5 million).

Equity nominally increased by CHF 111.4 million to CHF 1’702.4 million. This was mainly driven by net income (CHF 87.2 million), the remeasurement of the defined benefit obligation (CHF 91.8 million), and currency translation effects (CHF 54.6 million) which were partly offset by the Sulzer dividend payment (CHF 119.4 million).

Net debt to EBITDA increased from 0.14 in 2016 to 0.81, mainly due to an increase in short-term debt as a result of acquisitions.

Solid free cash flow

Free cash flow amounted to CHF 127.0 million compared with CHF 200.5 million reported in the prior year. The decrease was mainly due to CHF 31.1 million higher cash-out for restructuring (2017: CHF –59.0 million, 2016: CHF –27.9 million) and CHF 34.4 million lower contribution from net working capital (2017: CHF +22.9 million, 2016: CHF +57.3 million). The lower contribution from net working capital came from higher inventories on strong 2017 order growth, while inventory levels had decreased in 2016.

Cash flow from investing activities totaled CHF –230.8 million compared with CHF –168.8 million in the prior year. Cash-out for acquisitions amounted to CHF –162.5 million compared with CHF –313.4 million in 2016. Capital expenditures amounted to CHF 81.2 million, slightly above the CHF 74.9 million in 2016.

Cash flow from financing activities totaled CHF 106.3 million compared with CHF –680.6 million in 2016. Dividend payments amounted to CHF 119.4 million in 2017. In the previous year, dividend payments amounted to 617.5 million, which included a special dividend of CHF 498.1 million. Additional borrowings increased available cash by CHF 239.3 million (2016: CHF –59.4 million). Exchange gains on cash amounted to CHF 0.1 million compared with a gain of CHF 6.7 million in 2016.

Outlook 2018

Sulzer expects that the oil and gas market, which accounts for approximately 40% of its sales, will gradually recover and translate into a commercial rebound mostly visible in 2019. The power market is expected to decline, while all other Sulzer markets are expected to continue on their current growth path in 2018. This should lead to a slight increase in organic order level for the company, supplemented by additional volume from newly acquired businesses.

Sulzer delivered to date cumulative SFP savings of CHF 185 million, ahead of the previously communicated range of CHF 160 to 180 million. Sulzer decided to extend its SFP program by an additional year. The company is therefore raising its cumulative savings target from the previously communicated CHF 200 million (from 2018 onwards) to CHF 230 million (from 2019 onwards). In 2018, Sulzer expects its SFP program to deliver incremental cost savings of approximately CHF 25 million to cumulatively reach CHF 210 million.

For the full year 2018, including acquisitions signed in 2017 and adjusted for currency effects, order intake is expected to grow by 5 to 7% and sales to grow by 4 to 6%. Sulzer expects opEBITA margin at around 9.5% (opEBITA in percent of sales).

Abbreviations

EBIT: Operating income
ROS: Return on sales (EBIT/sales)
opEBITA: Operating income before restructuring, amortization, impairments, and non-operational items
opROSA: Return on sales before restructuring, amortization, impairments, and non-operational items (opEBITA/sales)
opROCEA: Return on capital employed (opEBITA/average capital employed)
EBITDA: Operating income before depreciation and amortization

Order intake returned to organic growth

Pumps Equipment reported growing order intake on a currency-adjusted basis and organically. Sales, operational EBITA, and operational ROSA decreased. Sulzer announced the acquisition of JWC Environmental, LLC, a leading supplier of wastewater equipment, and completed the acquisition of pump manufacturer Ensival Moret.

Extending pumping portfolio for industrial and wastewater applications

In the first quarter of 2017, Sulzer completed the acquisition of Ensival Moret. The French company offers a wide range of industrial pumps with strong positions in a variety of industrial applications such as fertilizers, sugar, mining, and chemicals.

It is an honor to take over from César as Division President Pumps Equipment. I am determined to take our business to the next level.

Michael Streicher Division President Pumps Equipment (as of January 1, 2018)

At year-end, Sulzer announced the acquisition of the US company JWC Environmental, LLC (JWC) (completed in January 2018). JWC is a leading provider of products to reduce and remove solids, such as grinders, screens, and dissolved air flotation systems for municipal, industrial, and commercial wastewater applications. The acquisition strengthened Sulzer's wastewater treatment offering through complementary equipment and improved its access to the key US municipal wastewater treatment market.

After 40 successful years with Sulzer, César Montenegro, Division President of Sulzer's Pumps Equipment division, chose to formally retire and stepped down from the Executive Committee as of December 31, 2017. Michael Streicher succeeded César Montenegro on January 1, 2018, as Division President Pumps Equipment and Sulzer Executive Committee member.

Returning to organic order intake growth

In 2017, the Pumps Equipment division reported growing order intake on a currency-adjusted basis (8.1%) and organically (1.5%) compared with the previous year. The organic increase was largely triggered by the improved oil and gas market. Order intake in the water market remained flat on fewer large orders for the engineered water business in 2017, despite 3% organic growth in Municipal Water. Order intake in the power market decreased, due to project delays in a highly competitive market. Order intake in the general industry markets grew organically and supported by the Ensival Moret acquisition.

Regionally, Europe, the Middle East, and Africa grew on a currency-adjusted basis but decreased organically. Demand in the Americas and Asia-Pacific regions grew significantly.

Our order intake grew organically in 2017. Healthy growth in general industry and early signs of recovery in oil and gas upstream helped us fill our order pipeline.

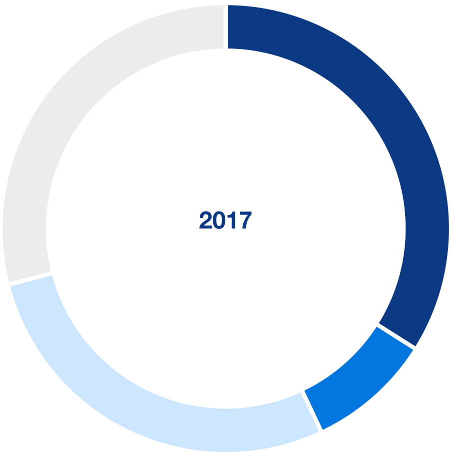
César Montenegro Division President Pumps Equipment (until December 31, 2017)

Decreasing sales, operational EBITA, and operational ROSA

Compared with 2016, sales decreased on a currency-adjusted basis (–4.3%) and organically (–12.9%). This was largely due to the significantly lower sales volumes from the energy markets (oil and gas and power) because of the lower order backlog at the beginning of 2017.

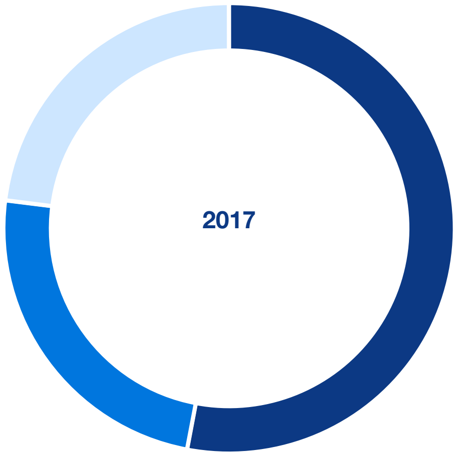
Operational EBITA decreased, impacted by lower organic sales volumes and the Ensival Moret acquisition. The slightly negative operational EBITA resulted in an operational ROSA of –0.3%.

Sales by market segment



- **34%** Oil and gas
- **9%** Power
- **28%** Water
- **29%** General industry

Sales by region



- **53%** Europe, Middle East, and Africa
- **24%** Americas
- **23%** Asia-Pacific

Higher accident frequency rate

In 2017, Pumps Equipment could not sustain its excellent safety performance that it achieved over the past five years. The division reported an increased accident frequency rate (AFR) of 2.2 cases per million working hours (2016: 1.3). The accident severity rate (ASR) amounted to 41.4 lost days per million working hours (2016: 33.8). The main reason for the increase is a high amount of accidents in the Asia-Pacific region. In Europe, the Middle East, and Africa, the number of accidents decreased considerably, whereas it remained stable in the Americas. The newly acquired companies were able to halve their number of accidents compared with 2016. In 2018, Sulzer will pay special attention to and implement measures at its sites in the Asia-Pacific region. Please read more about the company's safety and health efforts in the chapter "Social sustainability".

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

Key figures Pumps Equipment

millions of CHF	2017	2016 3)	Change in +/–%	+/–% adjusted 1)	+/–% organic 2)
Order intake	1’189.7	1’090.4	9.1	8.1	1.5
Order intake gross margin	28.3%	26.7%			
Order backlog as of December 31	847.0	697.4	21.5		
Sales	1’122.7	1’159.0	–3.1	–4.3	–12.9
EBIT	–61.7	–64.9	n/a		
opEBITA	–3.7	13.0	n/a	n/a	n/a
opROSA	–0.3%	1.1%			
opROCEA	–0.6%	1.8%			
Employees (number of full-time equivalents) as of December 31	5’453	5’156	5.8		

1) Adjusted for currency effects.

2) Adjusted for acquisition and currency effects.

3) Reclassified numbers according to new operational structure, effective since January 1, 2017.

Abbreviations

EBIT: Operating income

opEBITA: Operating income before restructuring, amortization, impairments, and non-operational items

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

opROCEA: Return on capital employed (opEBITA/average capital employed)

Order intake increased

In 2017, Rotating Equipment Services reported growing order intake on a currency-adjusted basis, whereas organic order intake remained broadly stable. Sales, operational EBITA, and operational ROSA increased. Sulzer closed the acquisition of Rotec GT to become a sizeable player in the Russian gas turbine service market.

Becoming a leading independent gas turbine service provider in Russia

In the second quarter of the year, Sulzer closed the acquisition of a controlling stake in Rotec's gas turbine maintenance business (Rotec GT). Rotec GT, headquartered in Moscow (Russia), is active mainly in the Russian market. Through this acquisition, Sulzer has become a leading independent gas turbine service provider for Russia and the CIS countries.

We are very pleased with the development of our Rotec acquisition. It gave us a new platform and strengthened our presence in Russia.

Daniel Bischofberger Division President Rotating Equipment Services

Sulzer changed its reporting structure and shifted the pumps spare parts business from Pumps Equipment to Rotating Equipment Services. Thereby customers benefit from a single access point for services and parts.

Higher order intake

In 2017, order intake increased on a currency-adjusted basis (4.9%) and remained broadly stable organically (–0.9%), which compared well against the broader market.

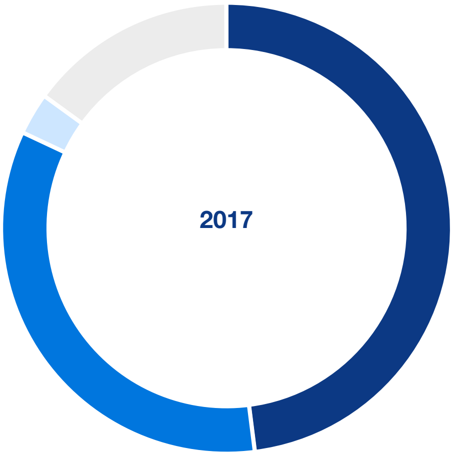
Regionally, the Americas and Asia-Pacific grew. Europe, the Middle East, and Africa also increased on a currency-adjusted basis but decreased organically. The organic decline was due to lower orders in the turbo services business, impacted by a challenging market environment for gas turbines.

Sales, operational EBITA, and operational ROSA increased

Rotating Equipment Services reported an increase in sales on a currency-adjusted basis (1.6%) and an organic sales decrease (–2.1%) compared with 2016. The decline was driven by lower volumes in the oil and gas as well as the power markets.

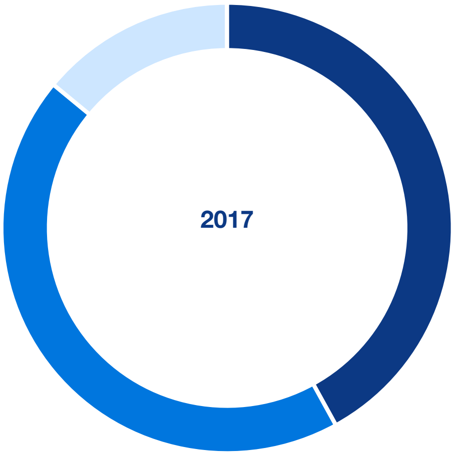
Operational EBITA increased on a currency-adjusted basis (2.4%) and decreased organically (–1.8%). Despite pricing pressure, operational ROSA increased to 13.9%.

Sales by market segment



- **48%** Oil and gas
- **34%** Power
- **3%** Water
- **15%** General industry

Sales by region



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

Increased number of accidents

In 2017, the accident frequency rate (AFR) increased slightly to 2.0 cases per million working hours (2016: 1.9), driven by an increase in the number of incidents in the Americas region. With 42.6 lost days per million working hours, the division was able to slightly decrease the accident severity rate (ASR; 2016: 44.9). The Sulzer Safe Behavior Program has been rolled out to all new entities in the division. The company intensified intra-divisional exchange of lessons learned to improve safe behavior at the workplace. In 2018, the target is to increase the number of safety walks and observations to identify unsafe conditions and behavior. Moreover, all new entities will be ISO- and OHSAS-certified in 2018. Please read more about the company's safety and health efforts in the chapter "Social sustainability".

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

Key figures Rotating Equipment Services

millions of CHF	2017	2016[3]	Change in +/–%	+/–% adjusted[1]	+/–% organic[2]
Order intake	1’071.0	1’009.7	6.1	4.9	–0.9
Order intake gross margin	38.0%	38.0%			
Order backlog as of December 31	364.4	378.7	–3.8		
Sales	1’034.5	1’011.3	2.3	1.6	–2.1
EBIT	134.4	129.3	3.9		
opEBITA	144.0	139.5	3.2	2.4	–1.8
opROSA	13.9%	13.8%			
opROCEA	28.4%	25.9%			
Employees (number of full-time equivalents) as of December 31	4’485	4’541	–1.2		

1) Adjusted for currency effects.

2) Adjusted for acquisition and currency effects.

3) Reclassified numbers according to new operational structure, effective since January 1, 2017.

Abbreviations

EBIT: Operating income

opEBITA: Operating income before restructuring, amortization, impairments, and non-operational items

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

opROCEA: Return on capital employed (opEBITA/average capital employed)

Solid organic growth

Chemtech reported growing order intake and sales in 2017. Compared with the previous year, operational EBITA and operational ROSA improved. Sulzer expanded its separation capabilities through the closing of the Vessel Internal Electrostatic Coalescer (VIEC) acquisition and through two exclusive license partnerships for oil and gas processing technologies.

Licensed technologies for oil and gas processing

Sulzer closed the acquisition of Wärtsilä's Vessel Internal Electrostatic Coalescer (VIEC) technology in the first quarter of 2017. The patented technology separates oil from water in a highly efficient manner.

We drove sales and introduced new technologies in 2017. Supported by the market rebound, Chemtech had a successful year.

Torsten Wintergerste Division President Chemtech

ExxonMobil has exclusively licensed its new patented cMIST™ technology to the Chemtech division. cMIST efficiently removes water vapor present during the production of natural gas. Furthermore, Sulzer's Chemtech division has been granted an exclusive license covering the wash tank technology for oil processing patented by Total. The main purpose of this technology is to enhance the removal of water, salt, and contaminants from oil and emulsions.

With the creation of the new Applicator Systems division as of January 1, 2017, Sulzer Mixpac Systems, Geka, and PC Cox no longer report as part of the Chemtech division.

Order intake up by 5.1% organically

In 2017, order intake increased by 5.9% on a currency-adjusted basis and by 5.1% organically compared with the previous year. This development was driven by the rebound of the downstream market and the chemical processing industry, mainly in China. The introduction of new technologies supported growth as well. Order intake in the Separation Technology business unit was strong, especially for installations in the Asia-Pacific region. Order intake in the Tower Field Service business unit remained on last year's level.

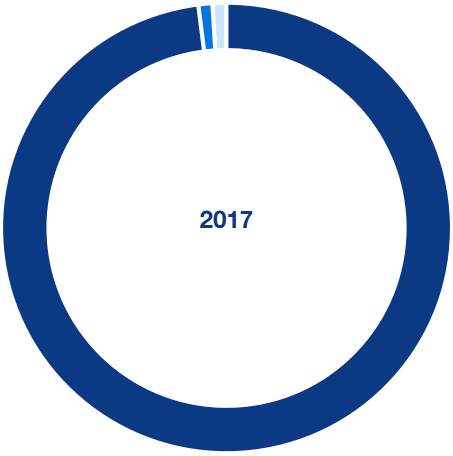
Regionally, order intake in Europe and Asia-Pacific grew strongly. Orders in the Middle East and the Americas remained flat. Order intake in Africa declined due to one big project in the previous year.

Growing sales, operational EBITA, and operational ROSA

In 2017, Chemtech reported growing sales, both on a currency-adjusted basis (7.0%) and organically (6.2%). The increase mostly stemmed from the positive development in the oil and gas market.

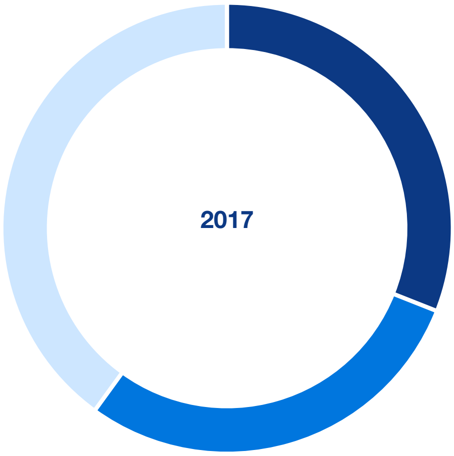
Operational EBITA increased strongly on a currency-adjusted basis (35.2%) and organically (39.7%). The increase was triggered by a higher sales volume and operational improvement measures. Accordingly, operational ROSA increased significantly to 7.3% before a CHF 10 million one-time charge for a discontinued business activity in Tower Field Services.

Sales by market segment



98% Oil and gas
1% Power
1% General industry

Sales by region



31% Europe, Middle East, and Africa
29% Americas
40% Asia-Pacific

Safety performance stabilized

In 2017, Chemtech was able to stabilize its safety performance and reduce the number of accidents. The accident frequency rate (AFR) at Chemtech dropped to 1.5 cases per million working hours (2016: 2.8). The accident severity rate (ASR) decreased to 84.7 lost days per million working hours (2016: 88.5). An increased number of safety walks and a stronger focus on work in confined spaces and lessons learned supported the development. Please read more about the company's safety and health efforts in the chapter "Social sustainability".

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

Key figures Chemtech

millions of CHF	2017	2016[3]	Change in +/–%	+/–% adjusted[1]	+/–% organic[2]
Order intake	502.0	471.9	6.4	5.9	5.1
Order intake gross margin	31.0%	30.2%			
Order backlog as of December 31	315.3	304.9	3.4		
Sales	478.4	446.1	7.2	7.0	6.2
EBIT	11.0	–2.5	n/a		
opEBITA	25.0	18.0	38.9	35.2	39.7
opROSA	5.2%	4.0%			
opROCEA	11.3%	8.0%			
Employees (number of full-time equivalents) as of December 31	2’878	2’570	12.0		

1) Adjusted for currency effects.

2) Adjusted for acquisition and currency effects.

3) Reclassified numbers according to new operational structure, effective since January 1, 2017.

Abbreviations

EBIT: Operating income

opEBITA: Operating income before restructuring, amortization, impairments, and non-operational items

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

opROCEA: Return on capital employed (opEBITA/average capital employed)

Strengthening the applicator systems portfolio

At the beginning of 2017, Sulzer established a fourth division called Applicator Systems (APS). Order intake, sales, and operational EBITA increased in 2017 compared with the previous year. With the acquisition of Transcodent, Sulzer further strengthened its leading position in the dental market segment.

New division Applicator Systems up and running

On January 1, 2017, Sulzer changed its reporting structure for increased transparency and customer focus: The combination of the Sulzer Mixpac Systems (SMS) business unit and the recently acquired Geka and PC Cox businesses are now being reported as the new Applicator Systems division. APS offers a global platform for high-precision plastic molding, assembly, decoration, and filling technologies for mixing and applicator solutions. The division serves customers in the dental, industrial adhesives, and beauty (particularly mascara) segments.

Our acquired businesses supplemented our solid organic growth. With Transcodent, we were able to round out our dental portfolio and became a full-line supplier for dental applications. The integration is well underway.

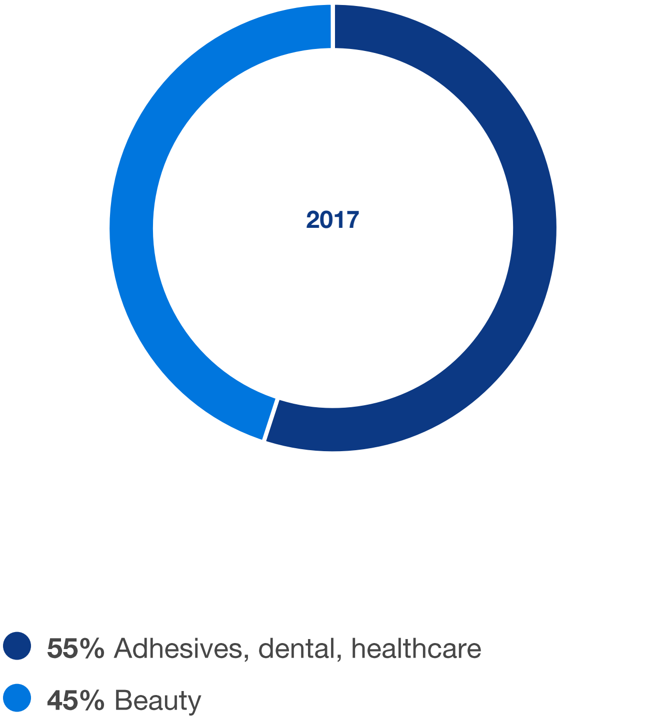
Amaury de Menthiere Division President Applicator Systems

In the third quarter of 2017, Sulzer acquired Transcodent. The company, headquartered in Kiel, Germany, is a leading provider of multiple dose and unit dose application systems, needles, tips, and capsules for the dental market. The acquisition further strengthened the Applicator Systems division of Sulzer in its dental segment, where Sulzer is already a global market leader.

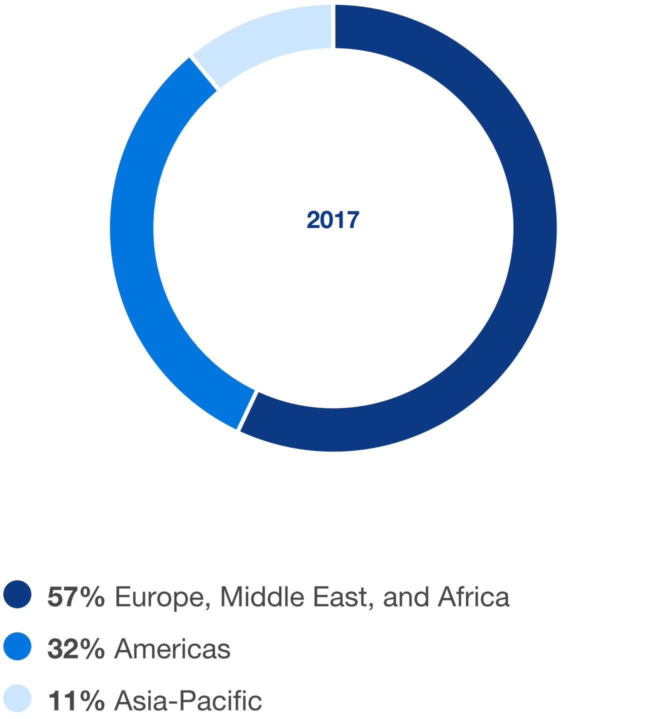
Solid organic order intake and sales growth

In 2017, order intake increased on a currency-adjusted basis (55.7%) and organically (6.0%) compared with 2016. Sales, which track orders closely in this division, increased by 54.9% and organically by 5.0%. The acquisitions of PC Cox, Geka, and Transcodent contributed CHF 135.8 million to sales in 2017. Organic growth was driven by high sales volumes in the industrial adhesives segment. All product lines and geographies contributed to growth.

Sales by market segment



Sales by region



Higher operational EBITA

In 2017, operational EBITA increased significantly, both on a currency-adjusted basis (34.8%) and organically (10.3%). Operational ROSA, while diluted by the Geka acquisition which closed in the third quarter of 2016, actually increased on a comparable basis from pro forma 20.1% in 2016 to 20.5% in 2017.

Implementing Sulzer's safety culture

In 2017, Applicator Systems focused on integrating Sulzer's safety standards and driving progress in its newly acquired businesses. The division reported an accident frequency rate (AFR) of 7.2 cases per million working hours in 2017. The accident severity rate (ASR) amounted to 50.4 lost days per million working hours. APS paid particular attention to an increased management focus on safety matters, driving safety ownership, and implementing Sulzer's safety culture. As a result, all sites of APS met or exceeded their safety performance targets in 2017. Please read more about the company's safety and health efforts in the chapter "Social sustainability".

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

Key figures Applicator Systems

millions of CHF	2017	2016[3]	Change in +/–%	+/–% adjusted[1]	+/–% organic[2]
Order intake	426.3	272.6	56.4	55.7	6.0
Order intake gross margin	43.9%	49.5%			
Order backlog as of December 31	64.7	58.0	11.6		
Sales	423.5	272.0	55.7	54.9	5.0
EBIT	63.2	39.7	59.2		
opEBITA	86.8	64.1	35.4	34.8	10.3
opROSA	20.5%	23.6%			
opROCEA	22.7%	29.1%			
Employees (number of full-time equivalents) as of December 31	1’716	1’562	9.9		

1) Adjusted for currency effects.
2) Adjusted for acquisition and currency effects.
3) Reclassified numbers according to new operational structure, effective since January 1, 2017.

Abbreviations

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opROCEA: Return on capital employed (opEBITA/average capital employed)

Sustainable development

Values and behaviors at the heart of our company culture

As Sulzer continues to evolve, the way we make decisions, work, think, and interact together has also evolved. Sulzer refreshed its values and defined behaviors to underline what we believe in and to help employees grow and improve.

In 2017, Sulzer engaged over 150 colleagues from all across the world to refresh and re-energize how employees identify with the current Sulzer values, and to define the specific behaviors that represent our preferred ways of working. We have taken this feedback and co-created a simple and pragmatic set of values and behaviors.

Our spirit makes us unique: We continuously strive to be faster and better, we win together with our customers, and we build on the strengths and diversity of our people.

Armand Sohet Chief Human Resources Officer

The values essentially remain the same – Customer Partnership, Operational Excellence, and Committed People. The central meaning of each value has been updated to reflect how employees relate to these values in today's Sulzer. Additionally, a set of behaviors has been defined that mirrors how people live these values today. These desired behaviors will provide guidance in how the organization appraises performance, identifies strong performers, and assesses talent. They will also play a large role in screening and attracting new talent.

Operational Excellence

We continuously strive to be faster and better.

Customer Partnership

Together, we win.

Committed People

We build on the strengths and diversity of our people.

Sulzer in Motion: healthy body, healthy mind

For Sulzer, committed people means happy, healthy, and energized people. The company introduced an initiative in 2017 to promote health, fitness, and collaboration: Sulzer in Motion. The initiative encompassed various actions (from small local actions to company-wide movement and healthy lifestyle initiatives) around the world. It seeks to foster collaboration and team spirit, to develop new healthy habits within the working environment and beyond, and to make Sulzer a more vibrant place to work. Since its launch, various sports groups have emerged in the different countries, employees have participated in sports competitions, and programs such as annual health fairs or regular blood pressure checks have been introduced.

Sulzer in Motion

Read more about our values and behaviors at www.sulzer.com.

Energy use increased – waste and water use reduced

Sulzer is aware of its environmental responsibility and designs products with the highest efficiency levels. In 2017, the company's own environmental performance was strongly affected by several major changes in Sulzer's organization and business mix.

Since pumps can consume a large portion of the energy of your operations, they should run as efficiently and with as few emissions as possible. Sulzer's design teams recognize these issues and develop new and more energy-efficient products and solutions constantly.

More efficient, less energy consumption

High efficiency levels and low energy consumption characterize Sulzer's products. They use as little material as possible while conforming to the company's high quality standards. Because it is not always necessary to replace your existing equipment, Sulzer offers revamps, retrofits, and upgrades to increase efficiency and extend its lifetime – irrespective of the brand. To achieve ideal efficiency levels throughout the product life cycle, Sulzer advises its customers on the safe and efficient installation, operation, maintenance, and disposal of their equipment.

Businesses with diverse footprints

The company reports on its energy consumption, greenhouse gas emissions, waste production, and water consumption, because Sulzer considers these as material for its operations. The company's overall goal is to maintain, but ideally to improve, performance measured against working hours compared with the previous year. Sulzer's products and services differ widely from one another; its 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, Sulzer follows a local approach to reducing its environmental impact. The business units and local sites evaluate their footprints and set their agendas individually.

The changing technology and business mix within Sulzer have driven a significant reduction in our waste stream and water usage in 2017.

Rajiv Damani Head of Group Environment, Safety and Health

Comprehensive reporting system

Sulzer has a comprehensive reporting system in place to collect financial and extrafinancial data at the site level. The company uses the number of total working hours as a reference. The total number of working hours remained steady because the reduction of working hours through restructuring measures was offset by additional working hours from newly acquired businesses. In 2017, 76% of total working hours reported on environmental data (2016: 78%). The number is slightly lower than in the previous year because the newly acquired businesses are not yet fully integrated into the environmental data collection process. The coverage of HR and occupational health and safety data is 100% (of total working hours). The organization collects extrafinancial 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, 2016, to September 30, 2017.

— The reporting cycle for HR data and the health and safety performance was January 1, 2017, to December 31, 2017.

Large shifts in energy use, water consumption, and waste patterns

In 2017, Sulzer's environmental performance was strongly affected by several major changes in Sulzer's organization and business mix. The company continued to implement restructuring measures and to consolidate its real estate portfolio. At the same time, Sulzer grew with the creation of the new Applicator Systems (APS) division and several acquisitions.

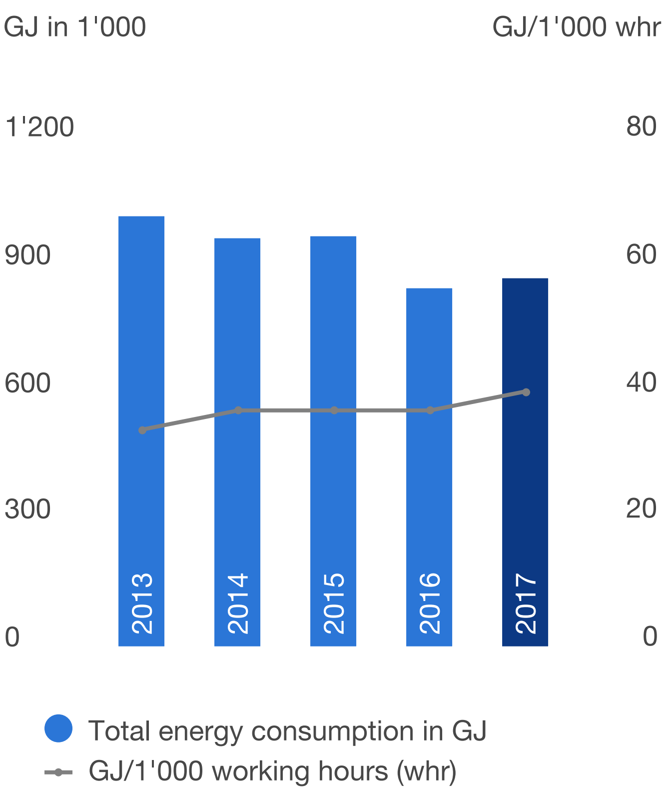
Because of the closing of the foundry in Karhula, a major consumer of district heating, energy, and water, and one of the highest contributors to Sulzer's waste stream, disappeared from the Sulzer portfolio. At the same time, the Geka business, which uses a lot of energy, was integrated. These large shifts in use and waste patterns make it difficult to compare Sulzer's environmental impact on a like-for-like basis with previous years.

Overall energy use increased slightly by 1.5%, and the rate of energy consumption per 1'000 working hours increased by 7.5%. This increase is mainly associated with the APS business; it uses injection-molding machinery that consumes a lot of energy and its rate of utilization is very high.

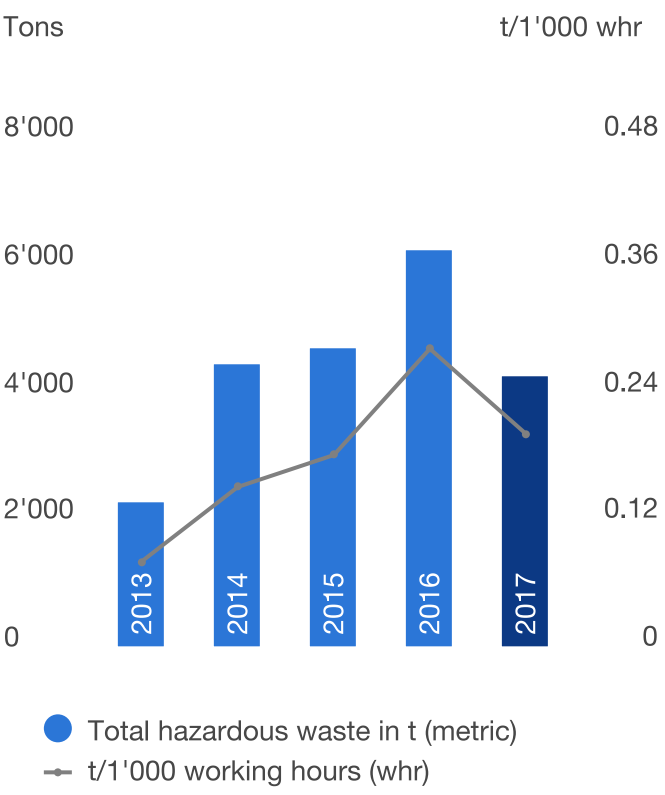
The amount of greenhouse gas emissions (GHG) increased by 27.2%. In 2017, Sulzer expanded the scope 3 reporting boundary and included air travel emissions. They were the largest contributor to the company's GHG footprint, adding more than 21% compared with last year's emissions.

The closing of the Karhula foundry resulted in a reduction of more than 93% in waste generated at this facility. It also contributed significantly to the overall reduction in Sulzer's water use (31.5% less m^3 per 1'000 working hours) and total waste production (26.1% fewer tons per 1'000 working hours).

Energy consumption



Hazardous waste



Key figures

		2017	2016[1)]	Change in +/–%
Energy	**GJ**	**872'335**	**845'056**	**1.5**
Energy consumption per working hours (whr)	GJ per 1'000 whr	40.0	37.3	7.5
Share of electricity	%	58.6	56.8	
Share of gases	%	25.3	23.0	
Share of fuels	%	9.7	11.7	
Share of fuel oils	%	1.8	1.5	
Share of district heating	%	3.7	6.1	
Share of other sources	%	<1	<1	
Greenhouse gas emissions	**tons CO_2 eq.**	**116'338**	**91'440**	**27.2**
GHG emissions per working hours	tons CO_2 eq. per 1'000 whr	5.4	4.0	34.0
GHG scope 1[2)]	tons CO_2 eq.	18'366	17'690	3.8
GHG scope 2[3)]	tons CO_2 eq.	59'934	56'970	5.2
GHG scope 3[4)]	tons CO_2 eq.	38'038	16'780	126.7
Waste	**Tons**	**19'029**	**27'015**	**–29.6**
Waste per working hours	Tons per 1'000 whr	0.9	1.2	–26.1
By treatment:				
Recycling	%	58.4	77.4	
Waste to landfill / incineration / other treatment	%	41.6	22.6	
By hazardousness:				
Non-hazardous waste	%	77.5	76.7	
Hazardous waste	%	22.5	23.3	
Water	**m^3**	**1'163'905**	**1'600'383**	**–27.3**
Water consumption per working hours	m^3 per 1'000 whr	53.8	70.8	–31.5

1) The historical values have been adjusted to account for the changes in the organization and may not be identical to those reported previously.
2) Direct emissions from Sulzer stemming from primary energy sources such as natural gas and fuels used on-site.
3) Indirect emissions from secondary (converted) energy sources such as electricity and district heating.
4) Indirect emissions from the production and transport of fuels and gases not included in scopes 1 or 2.

Find further sustainability data at www.sulzer.com/sustainability.

Growing and improving in a safe work environment

Sulzer aims to offer its people a safe and fun place to work. With help of the Sulzer Safe Behavior Program, the company sets itself ambitious goals to improve its safety performance continually. Sulzer encourages regular dialogue and provides specific feedback to help employees grow and improve.

In 2017, Sulzer started to integrate the acquisitions announced in 2016. The newly acquired businesses added more than 800 new employees. They started to adopt Sulzer's safety and health standards as well as reporting systems during the reporting year. Many of these businesses started from a position of high accident rates and low investment in safety compared with the standards expected of the existing Sulzer businesses. Sulzer focused on providing management and employee training and workshops about workplace safety. Thanks to these efforts, the new businesses made remarkable progress and managed to improve their safety performance significantly throughout the year. The new Applicator Systems division was able to cut its major accident rate by almost 60% from 2016. Although only acquired in the second quarter of 2017, the Ensival Moret business managed to reduce its accident rate by roughly 50%.

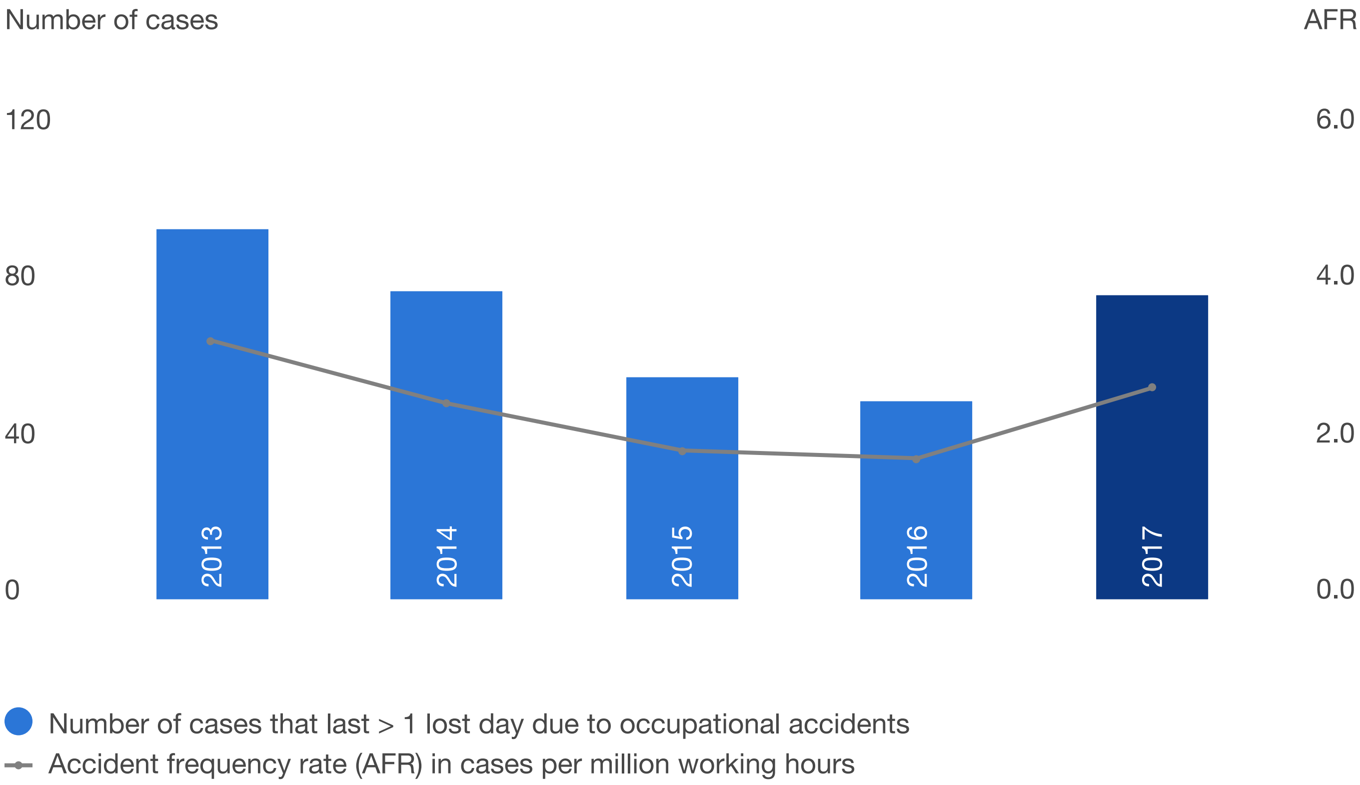
Striving for an accident frequency rate of 1.0 by 2020

The company's goal is to globally track and drive an ambitious yet realistic safety program. This program encompasses different businesses with both more and less mature safety cultures. This is why Sulzer's executive management set a road map to reduce the overall accident frequency rate (AFR, in cases per million working hours) to 1.0 by the end of 2020 (accidents of Sulzer employees excluding those of contractors). Accordingly, Sulzer's target for the accident frequency rate in 2017 was set at 2.8.

Increase in accidents because of newly acquired businesses

In 2017, Sulzer achieved an overall accident frequency rate of 2.7. The accident severity rate (ASR, in lost days per million working hours) amounted to 54.0. Overall, the company reported a total of 78 major accidents (accidents with one or more lost working days), resulting in 1'564 lost working days. Sulzer suffered no fatalities in 2017.

Accidents



The increase in AFR and ASR was mainly due to the higher accident rates of the newly acquired businesses. With the exception of the Pumps Equipment division, the more mature businesses within Sulzer were able to improve or maintain their safety performance. Because of Sulzer's training and emphasis on safety, the acquisitions managed to improve their safety performance significantly throughout the year.

Reinforcing the Safe Behavior Program

Despite the positive development in safety performance, it was a challenging year for Sulzer to maintain focus on its Safe Behavior Program (SBP). Sulzer recognizes that to match the goal set in the safety road map for 2018, the company must reinforce the SBP and realize more training opportunities globally. Together with the integration program, the SBP remains Sulzer's flagship safety vehicle.

Creating development experiences

In 2017, Sulzer stepped away from traditional classroom training and learning-centered development. The company now focuses on individual development planning and on creating development experiences. The Sulzer Management Training (SMT) program remains to enable junior managers mastering the basics of management. It educated 91 participants in 2017. In addition, Sulzer implemented the Leadership Orientation program. It offers the opportunity for strong contributors to work in a diverse, global team with a high level of interaction with the CEO and executive team. The pilot initiative included 30 high performers representing 14 different countries.

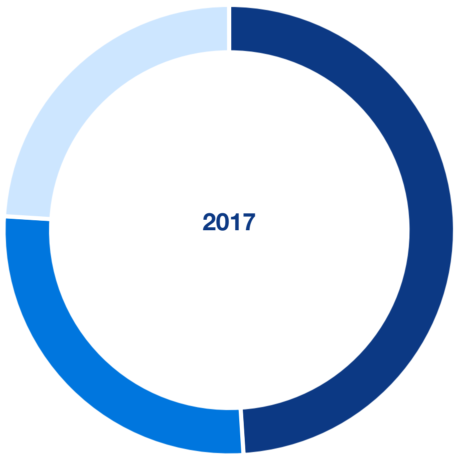
Sulzer continues to use the Learning Management System (LMS), a cloud-based learning platform. Newly implemented projects in 2017 include a platform for global technology to better leverage knowledge and information and a stronger focus on health and safety.

Measuring the how

Building on the momentum created in 2016, Sulzer is continuing to harmonize key people management processes globally, and going digital with them at every opportunity. The company revised, simplified, and adapted the entire performance management process – from setting objectives to annual appraisal. The process now includes a strong focus on driving higher levels of performance within the organization.

The annual performance appraisal was redesigned to incorporate the newly introduced behaviors. It now emphasizes that achievement is measured not only by what is done but also by how it is done. The behaviors are strongly linked to driving a high-performance culture. Although Sulzer has made many changes in its cultural transformation, the company has maintained the possibility for employees to exceed objectives and be rewarded fully for delivering outstanding performance.

Geographical spread of employees



49% Europe, Middle East, and Africa

27% Americas

24% Asia-Pacific

Building on diversity

Sulzer builds on the strengths and diversity of its people. All employees – regardless of their cultural backgrounds, nationalities, genders, and ages – have unique skills to contribute. Sulzer is always stronger than the sum of its parts. To foster the exchange among them, employees have the possibility to participate in job rotation programs, internships, and temporary relocations.

Sulzer's employees are deeply committed to personal responsibility, integrity, and ethical behavior. Every employee signs Sulzer's Code of Business Conduct. The company's compliance training sessions and Code of Business Conduct refresher courses ensure that Sulzer employees are fully aware of their individual ethical responsibilities and that they act accordingly. Read more in the "Corporate governance" section.

Key figures

		2017	2016	Change in +/–%
Accident frequency rate (AFR)	Cases per million working hours	2.7	1.8	42.0
Accident severity rate (ASR)	Lost days per million working hours	54.0	51.2	5.3
Health and safety training	Hours	107’546	119’153	–9.7
Voluntary attrition rate	%	9.0	8.0	
Share of women (of total workforce)	%	17.8	17.1	
Number of employees	FTE	14’732	14’005	5.2

Find further sustainability data at www.sulzer.com/sustainability.

Corporate governance

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 law. 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, 2017. Further information on corporate governance is published at www.sulzer.com/governance. The information in the following section is set out in the order defined by the SIX Swiss Exchange directive on information relating to corporate governance (RLCG), with subsections summarized as far as possible. Sulzer's consolidated financial statements comply with International Financial Reporting Standards (IFRS), and in certain sections, readers are referred to the Financial Reporting section in the Sulzer Annual Report 2017. 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, 2017, the market capitalization of all registered shares was CHF 4'049'812'134. Information on the major 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 that are strategically relevant.

Significant shareholders

According to notifications of Sulzer shareholders, one shareholder held more than 3% of Sulzer Ltd's share capital on December 31, 2017. On March 13, 2017 (published on the SIX disclosure platform on March 18, 2017), Viktor Vekselberg held 63.42% of Sulzer shares. The shares are directly held by Liwet Holding AG, Tiwel Holding AG, and Renova Innovation Technologies. All three are part of the Renova Group. For detailed information, see the respective disclosure notifications on www.six-exchange-regulation.com. For the positions held by Sulzer and information on shareholders, see note 23 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 can be viewed at www.sulzer.com/governance (under “Articles of Association”). There were no changes of the share capital in the last three financial reporting years.

Restrictions on transferability and nominee registrations

Sulzer shares are freely transferable provided that, when requested by the company to do so, buyers declare that they have purchased and will hold the shares in their own name and for their own account. Nominees shall only be entered in the share register with the right to vote if they meet the following conditions: the nominee is subject to the supervision of a recognized banking and financial market regulator; the nominee has entered into a written agreement with the Board of Directors concerning its status; the share capital held by the nominee does not exceed 3% of the registered share capital entered in the commercial register; and the names, addresses, and number of shares of those individuals for whose accounts the nominee holds at least 0.5% of the share capital have been disclosed. The Board of Directors is also entitled, beyond these limits, to enter shares of nominees with voting rights in the share register if the above-mentioned conditions are met (see also paragraph 6a of the Articles of Association at www.sulzer.com/governance). On December 31, 2017, nine nominees holding a total of 1’790’740 shares (5.23% 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 10 to the “Financial statements of Sulzer Ltd.”

Board of Directors

The Sulzer Board of Directors consists of eight members who are elected individually for one-year terms. None of them has ever held an executive position at Sulzer. Peter Löscher was reelected as Chairman of the Board of Directors at the Annual General Meeting 2017. All other board members were also reelected for a one-year term.

All members of the Board of Directors are non-executive. None of the members of the Board of Directors has 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. Exceptions are Marco Musetti and Mikhail Lifshitz who have a business relationship with Sulzer's largest shareholder. Marco Musetti is an employee of Renova Management AG. Mikhail Lifshitz is High-tech Asset Business Development Director of Renova Group, Russia, and Chairman of the Board of JSC Rotec, Russia, a company belonging to the Renova Group. As of December 31, 2017, sales with related parties controlled by the major shareholder Renova Group amounted to CHF 22.6 million (2016: CHF 0.8 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. All Board members were reelected for terms of one year at the Annual General Meeting of April 6, 2017. Accordingly, during 2017, the Board of Directors comprised eight members: two from Austria, one from Italy, one from Singapore, one from Russia, one from Germany, and two from Switzerland. Jill Lee and Thomas Glanzmann will not stand for reelection to the Board of Directors at the Annual General Meeting of April 4, 2018. Professional expertise and international experience played a key role in the selection of the members. The members of the Board of Directors and their CVs can be viewed at www.sulzer.com/board.

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

Internal organization

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

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

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

The Board of Directors and its committees

Board of Directors
Peter Löscher (Chairman)
Matthias Bichsel (Vice Chairman)
Jill Lee
Marco Musetti
Thomas Glanzmann
Gerhard Roiss
Axel C. Heitmann
Mikhail Lifshitz

Audit Committee
Thomas Glanzmann (Chairman as of December 11, 2017)
Jill Lee (Chairwoman until December 11, 2017)
Axel C. Heitmann

Nomination and Remuneration Committee
Thomas Glanzmann (Chairman)
Jill Lee
Marco Musetti

Strategy Committee
Peter Löscher (Chairman)
Matthias Bichsel
Gerhard Roiss
Mikhail Lifshitz

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 six 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 2017, the Board held five half-day meetings in February, May, July, October, and December, and five shorter Board meetings. The latter lasted up to one hour on average. 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	2018	10			2
Matthias Bichsel	Switzerland	Vice Chairman of the Board, Member SC	March 2014	2018	10			2
Jill Lee	Singapore	Chairwoman/ Member AC[1] , Member NRC	April 2011	2018	8	4	6	1
Marco Musetti	Italy	Member NRC	April 2011	2018	10		6	
Thomas Glanzmann	Switzerland	Chairman NRC, Chairman/ Member AC[2]	April 2012	2018	9	4	6	
Gerhard Roiss	Austria	Member SC	April 2015	2018	8			1
Axel C. Heitmann	Germany	Member AC	April 2016	2018	10	4		1
Mikhail Lifshitz	Russia	Member SC	April 2016	2018	9			2

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

1) Chairwoman AC until December 11, 2017, afterwards member AC.

2) Member AC until December 11, 2017, afterwards Chairman AC.

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

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

Audit Committee

The Audit Committee (members listed above) assesses the midyear and annual consolidated financial statements and, in particular, the activities – including effectiveness and independence – of the internal and statutory auditor, as well as the cooperation between the two bodies. It also assesses the Internal Control System (ICS), risk management, and compliance; at least one meeting per year is dedicated to risk management and compliance. The regulations of the Audit Committee can be viewed at www.sulzer.com/governance (under "Regulations"). The CEO, the CFO, the Group General Counsel (at least partially), the Head of Group Internal Audit (who is also the Secretary of this committee), and the external auditor-in-charge, attend the meetings of the Audit Committee. In 2017, 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 Accounting, Group IT, Group Compliance and Risk Management, and Group Taxes gave presentations to the Audit Committee in 2017. 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 can be viewed at www.sulzer.com/governance (under "Regulations"). The CEO and the Chief Human Resources Officer (who is also the Secretary of this committee) attend the meetings of the Nomination and Remuneration Committee. In 2017, five meetings were held in January, February, July, and December, taking on average between one and two hours. Furthermore, the NRC held one conference call. External experts from Mercer and klingler provided benchmarking services (see section "Method of determination of compensation: benchmarking and annual target-setting process" in chapter "Compensation governance and principles" of the Compensation Report) and supported the Nomination and Remuneration Committee in in reviewing the compensation packages of the members of the Board of Directors and the Executive Committee.

Strategy Committee

The Strategy Committee (members listed above) advises the Board of Directors on strategic matters (such as material acquisitions, divestitures, alliances, and joint ventures) as well as strategic planning and definition of development priorities. The regulations of the Strategy Committee can be viewed at www.sulzer.com/governance (under "Regulations"). In 2017, two meetings in May and September took place, taking three hours on average. The CEO and the CFO attended both meetings.

Division of powers between the Board of Directors and the CEO

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

Management structure

Board of Directors

Chief Executive Officer
Greg Poux-Guillaume*

Chief Financial Officer
Thomas Dittrich (until March 18, 2018)
Jill Lee (as of April 5, 2018)

Division President Pumps Equipment
Michael Streicher (as of Jan 1, 2018)
César Montenegro (until Dec 31, 2017)

Chief Commercial and Marketing Officer
Frédéric Lalanne

Division President Rotating Equipment Services
Daniel Bischofberger

Chief Human Resources Officer
Armand Sohet

Division President Chemtech
Torsten Wintergerste

*) CFO ad interim from March 19 to April 4, 2018.

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 six-month rolling forecast of the key figures. 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 chairmen 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 every three years it establishes a 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 Chairman 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, to plan and coordinate internal and external audits, and to prepare audit instructions for the attention of the statutory auditors of the individual companies. 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 34 audits in the year under review. One of the focal points is the Internal Control System (ICS). The results of each audit are discussed in detail with the companies and (where necessary) the divisions concerned, and key measures are agreed upon. The Chairman of the Board of Directors, the members of the Audit Committee, the CEO, the CFO, the Group General Counsel, as well as the respective Division President and other line managers of the audited entity receive a copy of the audit report. Significant findings and recommendations are also presented to and discussed with the Executive Committee and the Group General Counsel during the monthly Executive Committee meetings. Twice a year, the divisions present the status of key measures agreed on. A follow-up process is in place for all Group internal audits, which allows efficient and effective monitoring of how the improvement measures are being implemented. Each year, the Head of Group Internal Audit compiles a report summarizing activities and results. This report is distributed to members of the Board of Directors and the members of the Executive Committee, and it is presented to the Executive Committee and the Audit Committee. It is discussed in both committees and, thereafter, reported to the Board of Directors.

Risk management and compliance

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

Strong values and building up a strong ethical and compliance culture

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

Risk assessment

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

Internal rules and tools

Sulzer has a Code of Business Conduct, which can be viewed in 18 languages at www.sulzer.com/governance (under "Code of Business Conduct"). Every employee of the company (including employees of newly acquired businesses) has to confirm in writing that he or she has read and understood this code, and will comply with it. Every member of the Sulzer Management Group (approximately 100 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 28, 2017, and can be downloaded from www.sulzer.com/sustainability or directly here.

Rules

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

- Bribery and corruption risks: Sulzer has had a group-wide antibribery and anticorruption program in place since 2010. This program includes a Web-based process that addresses the due diligence of intermediaries, a corporate-wide directive for offering and receiving gifts and hospitalities, and an e-training (in 13 languages) to familiarize Sulzer employees with the requirements of the directive.

- Antitrust and anticompetition risks: Sulzer has an antitrust guideline and a directive addressing behaviors in trade associations in place.
- Export control risks: Employees involved in export activities have to comply with all applicable export and re-export laws and regulations. Sulzer rolled out and implemented its global Trade Control Directive in all legal entities concerned. Every exporting legal entity has an ICP (internal control program) in place which includes processes, defines responsibilities on export control matters and other requirements important to comply with export compliance laws and regulations.
- Further risks (e.g., stock exchange laws and regulations; human-resource-related issues; intellectual property and know-how; privacy and data protection laws; product liability; environment, quality, safety, and health, etc.): Focused rules and processes address these and many other potential risks. Sulzer has processes that ensure compliance with insider laws as well as stock exchange reporting and notification duties. Local compliance officers performed 79 face-to-face compliance training sessions in 2017.

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, Middle East, and Africa (EMEA); and Asia-Pacific (APAC). The local Compliance Officers ultimately report – via Regional Compliance Officers – 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 also reports to the Group General Counsel. To ensure the consistent rollout of Group Compliance initiatives, a dotted reporting line exists between the Regional Compliance Officers and the Head of Compliance and Risk Management. 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 2017, Sulzer employees completed over 23'300 e-learning courses.

Controls and sanctions

Group Function Legal carried out three audits of the contract review process in 2017. These audits were conducted within the framework of the audits done by Group Internal Audit and followed the same audit process. Group Function Environment, Safety, and Health (ESH) carried out seven audits 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 2017 and at least 11 employees had to leave Sulzer because of violations of Sulzer's Code of Business Conduct. Others received warnings or were transferred internally. However, most of the reports received concerned non-material issues.

Continuous improvement

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

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

Executive Committee

The Executive Committee consists of the Chief Executive Officer (CEO), the Chief Financial Officer (CFO), the Chief Human Resources Officer (CHRO), the Chief Commercial and Marketing Officer (CCMO), and three Division Presidents. Michael Streicher succeeded César Montenegro as Division President Pumps Equipment and Sulzer Executive Committee member on January 1, 2018. César Montenegro chose to formally retire. Jill Lee was appointed as Chief Financial Officer and member of the Executive Committee, effective April 5, 2018. She is succeeding Thomas Dittrich, who has decided to leave Sulzer for a professional opportunity.

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

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

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

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

Shareholder participation rights

Restrictions and representation of voting rights

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

Statutory quorum

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

Convocation of the Shareholders’ Meeting and submission of agenda items

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

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 6, 2017, 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. None of the contracts with members of the Board of Directors contains a change of control clause. If there is a change of control (which, for members of the Executive Committee, also includes a replacement of the majority of the members of the Board of Directors) or a public takeover bid that is not supported by the Board of Directors, all allocated restricted share units (RSU) are automatically vested and the performance share units (PSU) are automatically converted into shares on a pro rata basis without being subject to blocking restrictions.

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. 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 2017, 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 opinions of the CFO and the Head of Group Internal Audit. 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, compliance risks are assessed regularly as part of the company's integrated risk management process. The results are discussed with the management and the Audit Committee.

Risk	Risk exposure	Main loss controls
External and markets		
Market assessment	Market developments that are assessed inappropriately could lead to missed business opportunities or losses.	— Continuous monitoring and assessment of market developments — Systematic midrange planning based on market developments and expectations
Geopolitical shocks	A geopolitical shock event could have an impact on operations and travel. Also, it could imply currency risks and default risks of countries and banks.	— Monitoring of exposure in critical countries — Monitoring of debt situation of countries and banks — Continuous monitoring of raw material prices and inflation indicators — Sulzer's global presence mitigates the effect of geopolitical shocks
Strategic		
Innovation	Failure in R&D and innovation activities could negatively impact the ability to operate and to grow the business. Insufficient investments in innovation to maintain technology leadership and develop innovative products.	— Stage-Gate® process and key performance indicators to ensure quality of the development — Product Development Council with strong focus on strategic plans and value engineering — Prototypes and own test beds to test products before market release — Core Technology Council for development of basic technology — Focus on innovation with strategic customers — Innovation projects — Implementation of an expert development program for key critical resources
Operational		
Attraction and retention	Failure to attract, retain, and develop people could lead to a lack of critical skills and knowledge, which hinders both daily operations and growth potential.	— Anchoring company values and behaviors — Employee Opinion Survey — Robust internal communications strategy — Engagement in workshops and collaborative activities — Creating development experiences and opportunities — Salary grading and benchmarking
Health and safety	An unsafe working environment could lead to harm to people, reputational damage, fines, as well as liability claims and could have a serious economic impact.	— Health and safety directives, guidelines, programs (e.g., Safe Behavior Program), and training — OHSAS 18001 certifications — Monthly health and safety controlling and regular audits — Global network of health and safety officers
Environmental	Environmental damage could lead to harm to people and nature, reputational damage, fines, as well as liability claims and could have a serious economic impact.	— Mitigation in comprehensive environmental due diligence (EDD) projects for acquisitions and divestitures — Elimination of environmentally damaging substances through Prohibited Substances List
Compliance	Non-compliant or unethical behavior could lead to reputational damage, fines, and liability claims.	— Active fostering of high ethical standards by tone from the top and middle management — Continuous monitoring and assessment of potential exposures — Sulzer Code of Business Conduct and a number of supporting regulations (e.g., anticorruption, antitrust, trade control) — Third-party due diligence process

		— Global network of compliance and trade compliance officers — Compliance training (incl. e-learning) and audits — Speak-up culture, compliance hotline, and sanctions
Quality of products and services	Failure of high-quality products and services could lead to repeated work, reputational damage, or liability claims.	— Quality management and assurance systems tailored to specific businesses — Third-party accreditation — Competence development programs and training of employees — Test centers
Business interruptions	Business interruption, such as a fire, could cause damage to people, property, and equipment. It could have a negative effect on the ability to operate at the affected site.	— Crisis and emergency management systems (at global and local level) — Risk management policy and guidelines — Global manufacturing footprint and global procurement — Disaster recovery plans in IT
Financial		
Financial markets	The unpredictability of financial markets may have a negative effect on Sulzer’s financial performance and its ability to raise or access capital.	— Group financial policy — Foreign exchange risk policy — Trading loss limits for financial instruments
Credit	Credit risks arising from financial institutions and from customers could have a negative effect on Sulzer’s financial performance and ability to operate.	— For financial institutions, only parties with a strong credit quality are accepted (third-party rated) — Individual risk assessment of customers with large order volumes — Continuous monitoring of country risks
Liquidity	Failure in liquidity risk management may have a negative effect on Sulzer’s financial performance and its ability to operate.	— Continuous liquidity monitoring — Management of liquidity reserves at group level — Cash flow program to optimize liquidity and cash flow management — Efficient use of available cash through cash pooling

Information policy

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

Key dates in 2018

- February 28: Annual results 2017
- April 4: Annual General Meeting 2018
- April 19: Order intake Q1 2018
- July 25: Midyear results 2018
- October 25: Order intake Q1–Q3 2018

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

Material changes

The text makes reference to any material changes occurring between the balance sheet date (December 31, 2017) and the copy deadline for the Annual Report (February 27, 2018).

Compensation report

Incentives for sustainable performance

Winterthur, February 27, 2018

Dear shareholder

On behalf of the Board of Directors and the Nomination and Remuneration Committee of Sulzer, please find enclosed our 2017 Compensation Report.

The purpose of the Sulzer compensation policy is to enable the company to attract, retain, and motivate the talent that is key to the company's performance and long-term success. With that in mind, our compensation programs have been designed to reward performance that delivers sustainable growth, and long-term shareholder value creation.

During the reporting year, the Board of Directors and the Nomination and Remuneration Committee continued to review Sulzer's compensation policy and programs to ensure that they are aligned with the company's strategy and shareholders' interests. We also reviewed our compliance with the regulatory requirements and concluded that no fundamental changes were necessary. Furthermore, the Nomination and Remuneration Committee performed its regular activities throughout the year such as the performance goal setting at the beginning of the year and the performance assessment at year end, as well as a review of the global job evaluation methodology and the benchmarking process. We also reviewed the compensation of the members of the Board and of the Executive Committee and oversaw the preparation of the Compensation Report presented to the 2018 Annual General Meeting (AGM).

A continued focus of the Nomination and Remuneration Committee was on the development and the succession planning of the Executive Committee. Consequently, we appointed the new Division President Pumps Equipment, Michael Streicher, on January 1, 2018 from within the company. Michael succeeds César Montenegro who is retiring after 40 years with Sulzer. This internal promotion speaks for our structured succession planning and talent development process. We also appointed a strong successor to the CFO, Jill Lee, who has been a Board member of Sulzer since 2011 and assumes her position in April 2018. She has significant understanding and knowledge of the company which will ensure a smooth transition and continuity of the role.

On the following pages, you will find further information on our activities and on the Sulzer compensation system and governance. This Compensation Report will be submitted for a non-binding, consultative shareholders' vote at the AGM in April 2018. Shareholders will also vote on the maximum aggregate compensation amount to the Board for the term from the 2018 AGM to the 2019 AGM and on the maximum aggregate Executive Committee compensation for 2019.

Looking ahead, we are committed to regularly assess and review our compensation programs to ensure that they are effective. We will also continue the open dialogue with you, our shareholders, and your representatives.

Sincerely,

Thomas Glanzmann
Chairman of the Nomination and Remuneration Committee

Compensation governance and principles

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

Nomination and Remuneration Committee

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

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

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

The table below describes the levels of authority:

	CEO	NRC	Board	Shareholders' Meeting
Selection criteria and succession planning for Board of Directors		proposes	approves	
Selection criteria and succession planning for Executive Committee	proposes	reviews	approves	
Compensation policy and programs		proposes	approves	
Aggregate maximum compensation amounts 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. At the 2017 Annual General Meeting, Thomas Glanzmann (Chairman), Jill Lee, and Marco Musetti were reelected as members of the NRC.

The NRC meets as often as the business requires, but at least twice a year. In 2017, the NRC held four regular meetings, one extraordinary meeting, and one conference call that were attended by all members. Besides the standard agenda items, the NRC concentrated its efforts on the selection and nomination of the new Executive Committee members for the position of Division President Pumps Equipment and Chief Financial Officer, as well as on the review of the global job evaluation methodology and the benchmarking process, including the related third-party providers.

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, the committee appointed Mercer and klingler consultants to provide consulting and benchmarking services on compensation matters. 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 regulate the principles of compensation. They include the following provisions related to compensation (read the full version of the Articles of Association at www.sulzer.com/governance, under “Articles of Association”):

- Principles of compensation: 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: 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: 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: the company may not grant loans or credits to members of the Board of Directors and of the Executive Committee.

Compensation principles

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

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

Method of determination of compensation: benchmarking and annual target-setting process

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 regularly benchmarked against that of similar roles in comparable companies. For this purpose, the Nomination and Remuneration Committee selected a peer group of international industrial companies headquartered in Switzerland based on their revenue and number of employees (see box “compensation benchmark”). 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
- Actelion[1)]
- Clariant
- Georg Fischer
- Lonza
- OC Oerlikon
- Rieter
- Schindler
- Sika
- Sonova
- Syngenta[1)]
- Tetra Laval Group

1) Still a Swiss listed company at the time of benchmarking.

The intention is to pay target compensation around the median of the relevant market. For the Executive Committee, sustainable superior performance is rewarded through actual variable compensation significantly above the market median.

The compensation effectively paid out depends on the performance of the company and/or the divisions and on the achievement of individual performance objectives. Performance objectives are defined at the beginning of the year during annual target setting. Achievement is assessed against each of those objectives after year-end and directly influences the variable incentive payouts.

Performance appraisal

→ **Target setting**
Definition of two to four individual performance objectives at the beginning of the year

→ **Performance assessment**
Performance assessment at year-end

→ **Compensation determination**
Determination of incentive payouts on the basis of the company’s/division’s performance and achievement of individual objectives

Compensation architecture

Compensation of the Board of Directors

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. Further, Board members are entitled to a lump sum to cover business expenses. The RSU 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 (see box “Compensation benchmark” in section “Compensation governance and principles” of this Compensation Report). 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. The compensation structure and amounts were reviewed in 2017 and remained unchanged. They are described in the table below.

Annual compensation of the Board of Directors[1)]

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

Compensation of the Executive Committee

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.

In line with the pay-for-performance principle, a significant portion of the compensation of the CEO and the other members of the Executive Committee consists of variable incentives based on performance. The compensation is structured as follows:

Fixed compensation:

- Base salary (cash)
- Retirement and fringe benefits

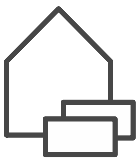
Variable compensation:

- Short-term annual bonus (cash)
- Long-term incentives (performance share plan)

Overview of compensation elements

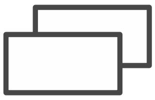
Fixed compensation

Base salary
Base salary



Benefits
Pension and social security contributions, fringe benefits

Variable compensation



Short-term incentive plan
Bonus plan

Long-term incentive plan
Performance share plan (PSP)

Compensation elements for the members of the Executive Committee

	Base salary	Benefits	Short-term incentive plan (bonus plan)	Long-term incentive plan (PSP 2017)
Main parameters	Function, level of role, profile of incumbent (skill set, experience)	Pension and social security contributions, fringe benefits	Achievement of financial and individual objectives	Achievement of long-term, company-wide objectives
Key drivers	Labor market	Protection against risks, labor market	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)
Link to compensation principles	Competitive compensation	Competitive compensation	Pay for performance	Sustainable growth and value creation
Vehicle	Cash	Pension and insurance plans, perquisites	Cash	Performance share units (PSU) settled in shares
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.
Grant/payment date	Monthly	Monthly and/or annually	March of the following year	April 1, 2017
Performance period	–	–	1 year (January 1, 2017–December 31, 2017)	3 years (January 1, 2017–December 31, 2019)
Vesting date	–	–	–	December 31, 2019

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. Positions are evaluated according to the Mercer International Position Evaluation (IPE). The IPE is a proprietary global job evaluation methodology based on a series of business-related factors to determine internal job levels. Application of the IPE methodology provides an organizing framework based on a job's value within the context of an organization and the wider commercial environment. The IPE implementation follows a simple process focusing on organization structure, the complexities of the business, and the alignment of jobs to the business. The IPE serves as a basis to build the internal salary structure.

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. The target bonus is expressed as a percentage of annual base salary according to the level of the role in the IPE framework. It amounts to 90% for the CEO and to 60% for the other members of the Executive Committee.

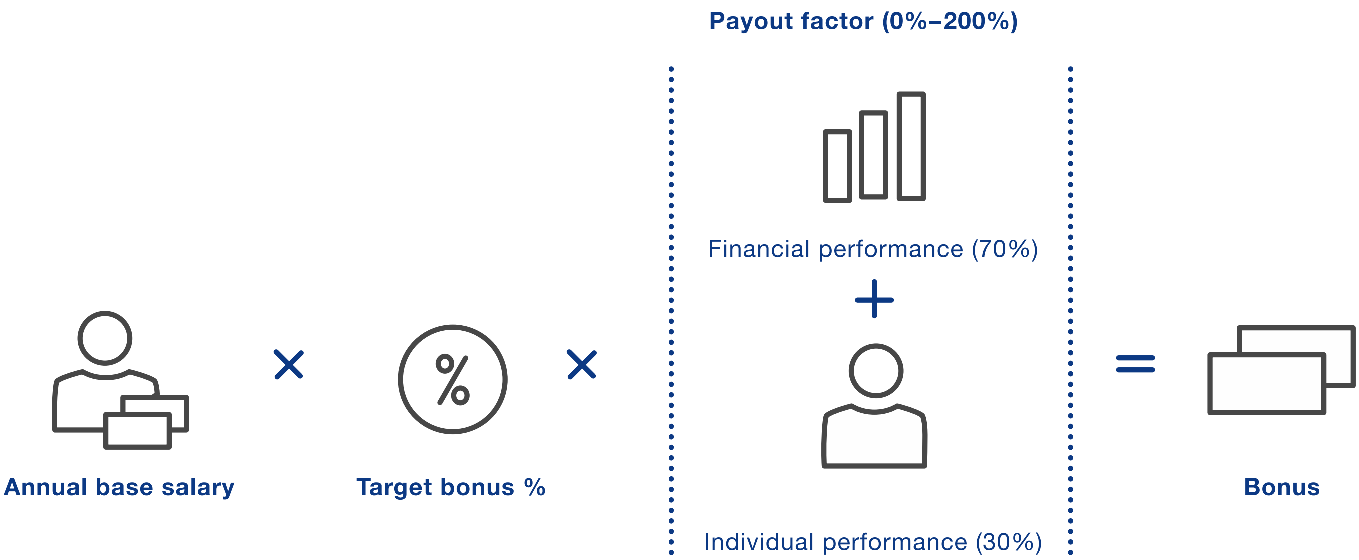
For the CEO and the other members of the Executive Committee, 70% of the bonus is based on the achievement of financial objectives at company and/or division level, and 30% is based on the achievement of individual objectives as described below:

Category	Weight	Objectives	Rationale		CEO/CFO/ CHRO/ CCMO	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%	Sulzer Full Potential initiatives (SFP)	Sulzer's transformation into a truly market-oriented, globally operating, and integrated company	Individual	10%	10%
		Growth initiatives	Include initiatives that support the growth of Sulzer, such as M&A projects, breaking into new markets or new accounts	Individual	10%	10%
		Faster and better	Initiatives focused on the profitability of Sulzer, with objectives linked to speed ("faster") and quality ("better")	Individual	10%	10%
				Total	**100%**	**100%**

The objectives are set within the annual target-setting process. For each financial objective, an expected level of performance is determined ("target"). In addition, a threshold of performance below which the respective payout factor is zero and a maximum level of performance above which the respective payout factor is capped are determined for each objective as well. The payout level between the threshold, the target, and the maximum is calculated by linear interpolation.

The actual bonus payout depends on the weighted average of the payout factors achieved for each objective and can range from 0% to 200% of the target bonus. The bonus is paid out in cash in March of the following year.

Bonus calculation



Sulzer strives for transparency in relation to pay for performance. However, 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 at the end of the performance cycle (see section “Compensation of the Executive Committee” in chapter “Compensation of the Board of Directors and the Executive Committee”).

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

The performance share plan (PSP) rewards 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. The PSP is a plan with annual grants and is available exclusively to the members of the Executive Committee and of the Sulzer Management Group (defined by the job level in the IPE framework). The grant value is determined based on the level of the executive’s role. It amounts to CHF 1’440’000 for the CEO and to between CHF 330’000 and CHF 400’000 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.

Each PSU is a conditional right to a certain number of shares of the company. The PSU are subject to a three-year performance period with three performance conditions:

- Operational EBITA growth, weighted with 25%;
- Average opROCEA, weighted with 25%;
- Relative total shareholder return (TSR) weighted with 50% and measured against two different peer groups: 75% 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 below).

Peer group for relative TSR performance of PSP 2017

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

The Board of Directors has the right to change the composition of the peer group 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 a new peer company. There is a predefined successor list of companies to support the Board of Directors in the selection process.

For each performance condition of the PSP, an achievement factor is calculated based on the following formula:

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 shares is calculated by multiplying the initial number of PSU granted by the weighted average of the achievement factor of each performance condition as follows:

Number of PSU granted x [(achievement factor opEBITA growth x 25%) + (achievement factor opROCEA x 25%) + (achievement factor relative TSR x 50%)] = number of performance shares vested

The number of vested shares is subject to an absolute cap based on the level of the executive’s role in the GGS framework. The absolute vesting cap amounts to CHF 3’600’000 for the CEO and between CHF 825’000 and CHF 1’000’000 for other Executive Committee members. The fair value of the PSU at grant date has been calculated using the Monte Carlo simulation.

Number of PSU vested

Number of PSU granted ×	Achievement opEBITA growth (0–250%)x25% +	Achievement average opROCEA (0–250%)x25% +	Achievement relative TSR (0–250%)x50% =	Number of PSU granted
Number of PSU granted Grant values are defined based on the level of the role in the GGS framework: • CEO: CHF 1’440’000 • EC: CHF 330’000 to CHF 400’000	**Factor based on operational EBITA growth** Operational EBITA growth is the percentage change between opEBITA in the last fiscal year before the start of the performance period and opEBITA in the last fiscal year of the performance period. • Threshold: not disclosed • Target: any performance between target entry point and target end point (not disclosed) • Cap: not disclosed	**Factor based on average opROCEA** Average opROCEA is the sum of adjusted opROCE based on audited figures in each fiscal year of the performance period, divided by the number of such years. • Threshold: not disclosed • Target: any performance between target entry point and target end point (not disclosed) • Cap: not disclosed	**Factor based on relative TSR** Relative TSR is defined as share price growth plus dividends during the vesting period divided by the ending share price, measured against peers. **Industrial peers (75%)** • Threshold: 25th percentile • Target: median • Cap: 75th percentile **SMIM (25%)** • Threshold: SMIM –10 percentage points • Target: SMIM • Cap: SMIM +10 percentage points	**Number of PSU vested** The maximum vesting value is capped at a multiple of the value at grant: • CEO: CHF 3’600’000 • EC: CHF 825’000 to CHF 1’000’000

Sulzer strives for transparency in relation to pay for performance. The target achievement level of relative performance objectives are not considered confidential and are thus disclosed (see above). However, disclosure of internal 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 at the end of the performance cycle.

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

- Termination by the employer for cause: unvested PSU forfeit.
- Termination of employment for any other reason (not for cause and not following a change of control): for Executive Committee members, 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.
- Termination following a change of control: unvested PSU immediately vest based on a performance assessment by the Board of Directors on the date of the change of control.

Clawback and malus provisions: the Board of Directors may determine that an award 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 10 to the “Financial Statements of Sulzer Ltd.”

Discontinued restricted share unit plan (variable, fixed grant value, share-based remuneration)

The RSU plan that was in place as a long-term incentive for members of the Executive Committee since 2009 was discontinued in 2013 when the PSP 2013 was introduced. The RSU plan was discontinued in 2016 for all other participants who are not members of the Executive Committee. As of 2016, those participants also receive awards under the PSP as described above.

However, RSU may still be granted to newly hired Executive Committee members to compensate for deferred awards forfeited at their previous employer because of joining Sulzer.

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 146’629 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.

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.

Compensation of the Board of Directors and the Executive Committee

Compensation of the Board of Directors

In 2017, the Board of Directors received a total compensation of CHF 2’694’962 (previous year: CHF 2’722’620). Of this total, CHF 1’271’869 was in the form of cash fees (previous year: CHF 1’254’035); CHF 1’155’000 was in RSU (previous year: CHF 1’092’500); CHF 268’093 was in the form of social security contributions (previous year: CHF 265’417), and CHF 0 was in the form of other payments (previous year: CHF 110’668).

This is a decrease of 1% from the previous year. On one side, two members of the Board were paid for the full year in 2017 (pro rata in 2016), on the other side, there was no special cash payment in 2017 (special cash payment related to extra-ordinary dividend in 2016). Those two effects nearly neutralize each other and led to a slight decrease of the overall Board compensation by 1%. The structure and level of the Board compensation remained unchanged compared with the previous year.

The portion of compensation delivered in RSU amounts to 56% of the cash compensation for the Chairman, and to between 87% and 125% for the other members of the Board of Directors. The RSU are subject to a staged three-year vesting period.

Compensation of the Board of Directors (audited)

					2017					2016
thousands of CHF	Cash Fees[6]	Restricted share unit (RSU) plan[7]	Social security contri-butions[8]	Other	Total	Cash Fees[6]	Restricted share unit (RSU) plan[7]	Social security contri-butions[8]	Other[9]	Total
Board of Directors	**1’272**	**1’155**	**268**	**0**	**2’695**	**1’254**	**1’093**	**265**	**111**	**2’723**
Peter Löscher, Chairman[1]	446	250	69	0	765	452	250	72	32	807
Matthias Bichsel, Vice Chairman	133	155	33	0	322	138	155	35	19	347
Thomas Glanzmann[2]	144	125	30	0	299	149	125	31	16	322
Jill Lee[3]	144	125	30	0	299	145	125	31	16	317
Marco Musetti	102	125	27	0	253	114	125	29	16	284
Gerhard Roiss	100	125	25	0	250	104	125	28	11	268
Axel C. Heitmann[4]	102	125	27	0	253	76	94	20	0	189
Mikhail Lifshitz[5]	102	125	27	0	253	76	94	20	0	189

1) Chairman of the Board of Directors and Chairman of the Strategy Committee.
2) Chairman of the Nomination and Remuneration Committee. Chairman of the Audit Committee since December 11, 2017.
3) Chairwoman of the Audit Committee until Deceber 11, 2017.
4) Member of the Board of Directors since April 7, 2016.
5) Member of the Board of Directors since April 7, 2016.
6) Disclosed gross.
7) RSU awards granted in 2017 had a fair value of CHF 105.09 at grant date. The amount represents the full fair value of grants made in 2017.
8) 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. As of 2016, RSU are provided net of social security as well.
9) Special cash payment of CHF 14.60 per RSU in order to compensate for the fact that RSU granted in 2014 and 2015 did not entitle Board members to the extraordinary dividend payment distributed to shareholders in 2016.

At the 2017 and 2016 AGM respectively, shareholders approved a maximum aggregate compensation amount of CHF 2’897’000 for the Board of Directors for the period of office from the 2017 AGM until the 2018 AGM and of CHF 2’802’000 for the period of office from the 2016 AGM until the 2017 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 2017–AGM 2018	2017	Jan 1, 2017 to 2017 AGM	Jan 1, 2018 to 2018 AGM	2017 AGM to 2018 AGM	2017 AGM	2017 AGM
Board (total)	**2’694’962**	**390’292**	**388’062**	**2’692’732**	**2’897’000**	**92.9%**
AGM 2016–AGM 2017	2016	Jan 1, 2016 to 2016 AGM	Jan 1, 2017 to 2017 AGM	2016 AGM to 2017 AGM	2016 AGM	2016 AGM
Board (total)	**2’722’620**	**320’292**	**362’854**	**2’765’182**	**2’802’000**	**98.7%**

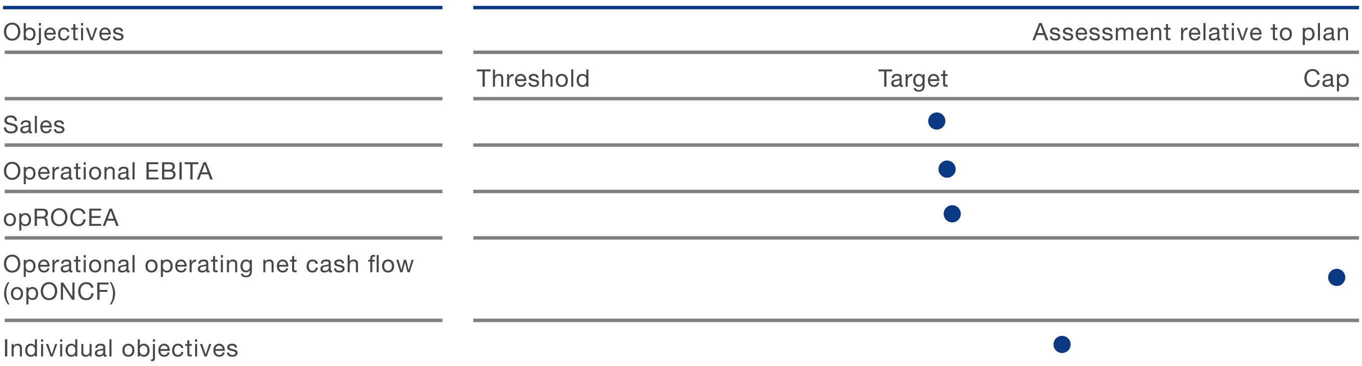
As of December 31, 2016, and 2017, there were no outstanding loans or credits granted to the members of the Board of Directors, former members of the Board of Directors or related parties (audited).

In 2016 and 2017, no compensation was granted to former members of the Board of Directors or related parties (audited).

Compensation of the Executive Committee

Performance in 2017

In 2017, Sulzer again made good progress towards its transformation goals. Financial targets were exceeded despite an unsupportive energy market environment. We grew through acquisitions but also organically in all divisions. The financial component of the bonus ranged from 100% to 134% of targeted payout (on average 124%) and significant progress on our transformation path led to a high level of achievement of individual objectives. This translated into an overall bonus payout factor ranging from 100% to 139% (on average 125%) for the members of the Executive Committee.



In 2017, the performance-based grant awarded under the PSP 2014 has vested. The PSP 2014 was based on the relative TSR performance and on cumulative EBIT, both calculated over the performance period from January 1, 2014, until December 31, 2016. The overall vesting amounted to 129%.

The PSP 2015 vested on December 31, 2017. However, the final payout calculation will be made based on the volume-weighted average share price of the three months following vesting date (January to March 2018) and is therefore not known at the time of publication of this report. The vesting level of the PSP 2015 will be disclosed in the 2018 Compensation Report. For the 2015 PSP awards, the peer group had to be updated, with the newly merged TechnipFMC (former peer group company Technip) being replaced by Xylem, chosen out of a proposal of three companies from the predefined successor list of companies.

Compensation awarded to the Executive Committee in 2017

In 2017, the Executive Committee received a total compensation of CHF 13’956’248 (previous year: CHF 19’476’608). Of this total, CHF 8’109’048 was in cash (previous year: CHF 8’306’400); CHF 3’785’036 was in PSUs (previous year: CHF 6’529’346); CHF 1’783’861 was in pension and social security contributions (previous year: CHF 2’517’275), and CHF 278’302 was in other payments (previous year: CHF 1’523’497).

This is an overall decrease of 40% from the previous year. The main reason for this decrease is the new composition of the EC in 2017: in the previous year, there were several overlaps between leaving EC members who still received their compensation during the contractual notice period, and newly appointed EC members. These overlaps resulted in a higher compensation figure in 2016.

Otherwise, the following explanatory comments can be provided:

- On a like-for-like basis (EC members employed in both years 2017 and 2016), the base salaries of the EC members increased by 3% on average;
- Other payments have substantially decreased compared with the previous year. This is due to the fact that unlike in the previous year, there was no replacement payment to new EC members and no special cash payment (in 2016, a special cash payment related to the extraordinary dividend was paid out);
- On a like-for-like basis, the cash bonus payment increased by 10% due to a higher payout percentage (refer to the comments above on performance achieved in 2017);
- On a like-for-like basis, the grant value of long-term incentives (LTI) remained unchanged compared with the previous year.

Compensation of the Executive Committee (audited)

thousands of CHF	Base salary	Bonus[2)]	Other[3)]	Restricted share unit (RSU) plan	Performance share plan (PSP)[5)]	Pension and social security contributions[6)]	Total
							2017
Highest single compensation, Greg Poux-Guillaume, CEO	1’009	1’259	147	–	1’531	420	4’367
Total Executive Committee[1)]	4’367	3’742	278	–	3’785	1’784	13’956

thousands of CHF	Base salary	Bonus[2)]	Other[7)]	Restricted share unit (RSU) plan[4)]	Performance share plan (PSP)[5)]	Pension and social security contributions[6)]	Total
							2016
Highest single compensation, Greg Poux-Guillaume, CEO	950	1’005	747	0	2’201	510	5’413
Total Executive Committee[1)]	4’727	3’579	1’523	600	6’529	2’517	19’477

1) Members of the Executive Committee: Greg Poux-Guillaume, CEO since December 1, 2015; Klaus Stahlmann, CEO until August 10, 2015. The total Executive Committee compensation 2016 includes the compensation of Klaus Stahlmann during the 12-month notice period that ended in August 2016; Thomas Dittrich, CFO; Fabrice Billard, Chief Strategy Officer until July 2016; César Montenegro, Division President Pumps Equipment until December 2017; Peter Alexander, Division President Rotating Equipment Services until August 2016; Daniel Bischofberger, Division President Rotating Equipment Services since September 2016; Oliver Bailer, Division President Chemtech until June 2016; Torsten Wintergerste, Division President Chemtech since June 2016; Armand Sohet, Chief Human Resources Officer since March 2016; Frédéric Lalanne, Chief Commercial and Marketing Officer since June 2016.

2) Expected bonus for the performance years 2017 and 2016 respectively, that is paid out in the following year (accrual principle). Includes pro rata short-term incentive (STI) payments for EC members whose employment contracts started or were terminated during the year.

3) Other consists of housing allowances, schooling allowances, private use of company car, tax services, holiday compensation, and child allowances.

4) Replacement awards to compensate for forfeited remuneration at the previous employer as a result of joining Sulzer. The amount represents the full fair value at grant.

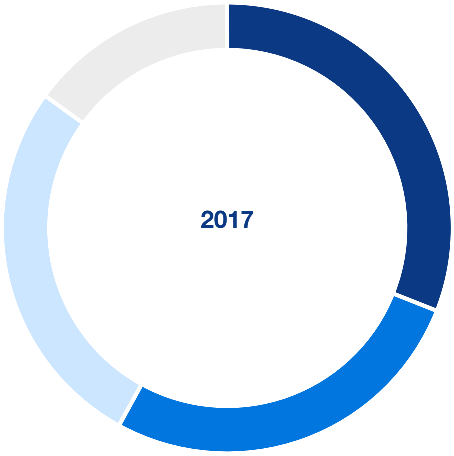
5) Represents the full fair value of the PSU granted under the PSP 2017 and PSP 2016, respectively. Based on the three-year business plan that has been approved by the Board of Directors in 2017, the underlying targets for the PSP 2016 have been recalibrated. This change had no impact on the fair value at the date of modification.

6) Includes the employer contribution to social security (including the expected employer contributions on equity awards), based on the fair value of all grants made in 2017 and 2016, respectively (RSU and PSP).

7) Other consists of housing allowances, schooling allowances, private use of company car, tax services, holiday compensation, and child allowances. Also includes a special cash payment of CHF 98’730 in 2016 for a new EC member as compensation for forfeited incentives at the previous employer as a result of joining Sulzer and a special cash payment of CHF 14.60 per RSU in order to compensate for the fact that RSU granted in 2014 and 2015 did not entitle Executive Committee members to the extraordinary dividend payment distributed to shareholders in 2016.

For the entire Executive Committee, the variable component (without replacement award) represented 117% of the fixed component (base salary, other, pension and social security contributions). The relationship between the fixed and the variable components of compensation 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.

Executive Committee



31% Base salary
27% Bonus
27% Grant of PSU
15% Benefits

The total compensation of CHF 13'956'248 awarded to the members of the Executive Committee for the 2017 financial year is within the maximum aggregate compensation amount of CHF 20'810'000 that was approved by the shareholders at the 2016 AGM.

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

As of December 31, 2016 and 2017, there were no outstanding loans or credits granted to the members of the Executive Committee or former members of the Executive Committee (audited).

In 2016 and 2017, no compensation was granted to former members of the Executive Committee or related parties (audited).

Shareholdings of the Board of Directors and the Executive Committee

Shareholdings of the Board of Directors

As of the end of 2016 and 2017, the members of the Board of Directors held the following shares in the company:

Shareholdings at December 31, 2017

	2017		
	Sulzer shares	Restricted share units (RSU)	Total share awards and shares
Board of Directors	**31'044**	**23'483**	**54'527**
Peter Löscher	–	5'244	5'244
Matthias Bichsel	3'624	3'253	6'877
Thomas Glanzmann	6'841	2'625	9'466
Axel C. Heitmann	526	2'243	2'769
Jill Lee	5'320	2'625	7'945
Mikhail Lifshitz	526	2'243	2'769
Marco Musetti	4'917	2'625	7'542
Gerhard Roiss	9'290	2'625	11'915

Shareholdings at December 31, 2016

	2016		
	Sulzer shares	Restricted share units (RSU)	Total share awards and shares
Board of Directors	**50'998**	**22'157**	**73'155**
Peter Löscher	28'131	5'363	33'494
Matthias Bichsel	1'157	3'244	4'401
Thomas Glanzmann	5'591	2'684	8'275
Axel C. Heitmann	–	1'578	1'578
Jill Lee	4'070	2'684	6'754
Mikhail Lifshitz	–	1'578	1'578
Marco Musetti	3'667	2'684	6'351
Gerhard Roiss	8'382	2'342	10'724

Shareholdings of the Executive Committee

As of the end of 2016 and 2017, the members of the Executive Committee held the following shares in the company:

Shareholdings at December 31, 2017

	2017					
	Sulzer shares	Restricted share units (RSU)	Total share awards and shares	Performance share units (PSU) 2015	Performance share units (PSU) 2016	Performance share units (PSU) 2017
Executive Committee	**46'835**	**22'546**	**69'381**	**6'594**	**37'266**	**32'624**
Greg Poux-Guillaume	9'682	15'121	24'803	942	18'641	13'196
Daniel Bischofberger	–	–	–	–	1'424	3'024
Thomas Dittrich	21'000	–	21'000	2'826	5'178	3'666
Frédéric Lalanne	–	7'026	7'026	–	2'314	3'024
César Montenegro	14'844	–	14'844	2'826	5'178	3'666
Armand Sohet	–	–	–	–	3'560	3'024
Torsten Wintergerste	1'309	399	1'708	–	971	3'024

Shareholdings at December 31, 2016

	2016					
	Sulzer shares	Restricted share units (RSU)	Total share awards and shares	Performance share units (PSU) 2014	Performance share units (PSU) 2015	Performance share units (PSU) 2016
Executive Committee	**28'726**	**43'029**	**71'755**	**3'278**	**6'594**	**37'266**
Greg Poux-Guillaume	–	30'242	30'242	–	942	18'641
Daniel Bischofberger	–	–	–	–	–	1'424
Thomas Dittrich	14'000	4'921	18'921	964	2'826	5'178
Frédéric Lalanne	–	7'026	7'026	–	–	2'314
César Montenegro	13'858	–	13'858	2'314	2'826	5'178
Armand Sohet	–	–	–	–	–	3'560
Torsten Wintergerste	868	840	1'708	–	–	971

KPMG

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, 2017. 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 chapter “Compensation of the Board of Directors and the Executive Committee” 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, 2017 of Sulzer Ltd complies with Swiss law and articles 14 – 16 of the Ordinance.

KPMG AG

François Rouiller
Licensed Audit Expert
Auditor in Charge

Nanda Buess
Licensed Audit Expert

Zurich, February 27, 2018

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

Financial reporting

Notes to the consolidated financial statements

Consolidated income statement

January 1–December 31

millions of CHF	Notes	2017	2016
Sales	3	3'049.0	2'876.7
Cost of goods sold		–2'112.4	–1'997.3
Gross profit		**936.6**	**879.4**
Selling and distribution expenses		–337.2	–309.2
General and administrative expenses		–362.7	–324.6
Research and development expenses	10	–81.0	–71.4
Other operating income and expenses, net	11	–19.2	–58.9
Operating income		**136.5**	**115.3**
Interest and securities income	12	4.1	5.2
Interest expenses	12	–15.2	–17.4
Other financial income and expenses, net	12	0.3	–7.1
Share of loss of associates	16	–0.3	–0.8
Income before income tax expenses		**125.4**	**95.2**
Income tax expenses	13	–38.2	–35.1
Net income		**87.2**	**60.1**
Attributable to shareholders of Sulzer Ltd		83.2	59.0
Attributable to non-controlling interests		4.0	1.1
Earnings per share (in CHF)			
Basic earnings per share	24	2.44	1.73
Diluted earnings per share	24	2.42	1.72

Consolidated statement of comprehensive income

January 1–December 31

millions of CHF	Notes	2017	2016
Net income		**87.2**	**60.1**
Items that may be reclassified subsequently to the income statement			
Cash flow hedges, net of tax	28	4.5	–1.8
Currency translation differences		54.6	–5.7
Total of items that may be reclassified subsequently to the income statement		**59.1**	**–7.5**
Items that will not be reclassified to the income statement			
Remeasurements of defined benefit obligations, net of tax	9	91.8	–82.1
Total of items that will not be reclassified to the income statement		**91.8**	**–82.1**
Total other comprehensive income		**150.9**	**–89.6**
Total comprehensive income for the year		**238.1**	**–29.5**
Attributable to shareholders of Sulzer Ltd		233.9	–30.3
Attributable to non-controlling interests		4.2	0.8

Consolidated balance sheet

December 31

millions of CHF	Notes	2017	2016
Non-current assets			
Goodwill	14	865.7	780.1
Other intangible assets	14	420.8	335.3
Property, plant, and equipment	15	531.6	511.0
Associates	16	10.3	5.8
Other financial assets	17	13.6	13.1
Non-current receivables		8.8	7.0
Deferred income tax assets	13	139.7	157.6
Total non-current assets		**1'990.5**	**1'809.9**
Current assets			
Inventories	18	488.0	401.7
Current income tax receivables		27.2	15.0
Advance payments to suppliers		84.7	82.0
Trade accounts receivable	20	901.8	883.2
Other current receivables and prepaid expenses	21	136.3	114.6
Cash and cash equivalents	22	488.8	429.5
Total current assets		**2'126.8**	**1'926.0**
Total assets		**4'117.3**	**3'735.9**
Equity			
Share capital	23	0.3	0.3
Reserves		1'679.8	1'580.9
Equity attributable to shareholders of Sulzer Ltd		**1'680.1**	**1'581.2**
Non-controlling interest		22.3	9.8
Total equity		**1'702.4**	**1'591.0**
Non-current liabilities			
Non-current borrowings	25	458.7	458.3
Deferred income tax liabilities	13	104.8	95.6
Non-current income tax liabilities	13	2.3	2.6
Defined benefit obligations	9	239.1	339.6
Non-current provisions	26	77.6	73.8
Other non-current liabilities		17.6	10.4
Total non-current liabilities		**900.1**	**980.3**
Current liabilities			
Current borrowings	25	255.1	7.1
Current income tax liabilities	13	24.8	13.9
Current provisions	26	158.5	176.1
Trade accounts payable		433.8	379.3

Advance payments from customers		210.1	179.8
Other current and accrued liabilities	27	432.5	408.4
Total current liabilities		**1’514.8**	**1’164.6**
Total liabilities		**2’414.9**	**2’144.9**
Total equity and liabilities		**4’117.3**	**3’735.9**

Consolidated statement of changes in equity

January 1–December 31

millions of CHF	Notes	Attributable to shareholders of Sulzer Ltd: Share capital	Retained earnings	Treasury shares	Cash flow hedge reserve	Currency translation adjustment	Total	Non-controlling interests	Total equity
Equity as of January 1, 2016		**0.3**	**2'661.4**	**–17.8**	**–9.2**	**–410.0**	**2'224.7**	**9.5**	**2'234.2**
Comprehensive income for the year:									
Net income			59.0				59.0	1.1	60.1
– Cash flow hedges, net of tax	28				–1.8		–1.8		–1.8
– Remeasurements of defined benefit obligations, net of tax	9		–82.1				–82.1		–82.1
– Currency translation differences						–5.4	–5.4	–0.3	–5.7
Other comprehensive income			–82.1		–1.8	–5.4	–89.3	–0.3	–89.6
Total comprehensive income for the year		**–**	**–23.1**	**–**	**–1.8**	**–5.4**	**–30.3**	**0.8**	**–29.5**
Transactions with owners of the company:									
Allocation of treasury shares to share plan participants			–4.1	4.1			0.0		0.0
Acquisition of treasury shares				–3.2			–3.2		–3.2
Share-based payments	31		7.5				7.5		7.5
Dividends			–617.5				–617.5	–0.5	–618.0
Equity as of December 31, 2016	**23**	**0.3**	**2'024.2**	**–16.9**	**–11.0**	**–415.4**	**1'581.2**	**9.8**	**1'591.0**
Comprehensive income for the year:									
Net income			83.2				83.2	4.0	87.2
– Cash flow hedges, net of tax	28				4.5		4.5		4.5
– Remeasurements of defined benefit obligations, net of tax	9		91.8				91.8		91.8
– Currency translation differences						54.4	54.4	0.2	54.6
Other comprehensive income			91.8		4.5	54.4	150.7	0.2	150.9
Total comprehensive income for the year		**–**	**175.0**	**–**	**4.5**	**54.4**	**233.9**	**4.2**	**238.1**
Transactions with owners of the company:									
Changes in ownership in subsidiaries							0.0	9.8	9.8
Put option liability	4		–14.6				–14.6		–14.6
Allocation of treasury shares to share plan participants			–6.6	6.6			0.0		0.0
Acquisition of treasury shares				–11.8			–11.8		–11.8
Share-based payments	31		10.8				10.8		10.8
Dividends			–119.4				–119.4	–1.5	–120.9
Equity as of December 31, 2017	**23**	**0.3**	**2'069.4**	**–22.1**	**–6.5**	**–361.0**	**1'680.1**	**22.3**	**1'702.4**

Consolidated statement of cash flows

January 1–December 31

millions of CHF	Notes	2017	2016
Cash and cash equivalents as of January 1		**429.5**	**1'009.0**
Net income		87.2	60.1
Interest and securities income	12	–4.1	–5.2
Interest expenses	12	15.2	17.4
Income tax expenses	13	38.2	35.1
Depreciation, amortization, and impairments	14,15	140.9	135.2
Income from disposals of property, plant, and equipment		–4.4	–1.2
Changes in inventories		–35.7	43.0
Changes in advance payments to suppliers		–0.5	3.4
Changes in trade accounts receivable		36.4	–17.4
Changes in advance payments from customers		10.5	–21.5
Changes in trade accounts payable		12.2	49.8
Change in provision for employee benefit plans		–1.0	–37.9
Changes in provisions		–30.9	35.3
Changes in other net current assets		–8.6	37.2
Other non-cash items		–7.9	–7.1
Interest received		4.0	5.2
Interest paid		–8.0	–15.1
Income tax paid		–59.8	–53.1
Total cash flow from operating activities		**183.7**	**263.2**
Purchase of intangible assets		–2.6	–1.4
Purchase of property, plant, and equipment		–78.6	–73.5
Sale of property, plant, and equipment		12.8	12.2
Acquisitions of subsidiaries, net of cash acquired	4	–157.9	–309.1
Acquisitions of associates	16	–4.6	–4.3
Purchase of financial assets	17	–0.3	–1.1
Sale of financial assets	17	0.4	–
Sale of marketable securities		–	208.4
Total cash flow from investing activities		**–230.8**	**–168.8**
Dividend		–119.4	–617.5
Purchase of treasury shares		–11.8	–3.2
Dividend paid to non-controlling interests		–1.5	–0.5
Changes in non-controlling interests		–0.3	–
Additions in non-current borrowings	25	0.5	451.5
Repayment of non-current borrowings	25	–1.7	–2.5
Additions in current borrowings	25	534.6	216.9
Repayment of current borrowings	25	–294.1	–725.3
Total cash flow from financing activities		**106.3**	**–680.6**
Exchange gains on cash and cash equivalents		0.1	6.7
Net change in cash and cash equivalents		**59.3**	**–579.5**
Cash and cash equivalents as of December 31	**22**	**488.8**	**429.5**

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, 2017, comprise the company and its subsidiaries (together referred to as the “group” and individually as the “subsidiaries”) and the group’s interest in associates and joint ventures. The group specializes in pumping solutions, service solutions for rotating equipment, separation and mixing, and applicator technology. Sulzer was founded in 1834 in Winterthur, Switzerland, and employs around 14’700 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 27, 2018.

Details of the group’s accounting policies are included in note 34.

2 Significant events and transactions during the reporting period

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

- As of January 1, 2017, the spare parts business for pumps was transferred from the Pumps Equipment to the Rotation Equipment Services division. The group also changed the operational structure of its organization resulting in a change of the reportable segments and cash-generating units. For more information refer to note 3 and note 14.
- As of January 1, 2017, the group separated the business for liquid applications and mixing technology, previously reported in the Chemtech division, into a new division called Applicator Systems. Comparative segment information in note 3 have been prepared accordingly.
- The acquisitions of Ensival Moret, Rotec GT, VIEC, and Transcodent resulted in an increase in property, plant, and equipment of CHF 28.0 million and the recognition of goodwill of CHF 50.3 million and other intangible assets of CHF 111.2 million at the date of acquisition (see note 4).
- As part of the Sulzer Full Potential (SFP) program, the group initiated several measures to adapt the global manufacturing footprint and the organizational setup. Restructuring measures resulted in restructuring expenses of CHF 21.7 million in 2017 (2016: CHF 57.0 million). Associated with restructuring initiatives, the group further recognized impairments on property, plant, and equipment of CHF 15.4 million (2016: CHF 18.4 million).
- As of December 22, 2017 the “Tax Cuts and Jobs Act” (US Tax Reform) has been enacted reducing amongst others the US Federal Corporate Income Tax Rate from 35% to 21% as of January 1, 2018, onwards. The new Federal Income Tax Rate has been applied for the calculation of the deferred tax positions of the US entities. Furthermore, the effect of the revaluation of existing foreign tax credits and the impact of the Transition Tax has been taken into consideration for the preparation of note 13.

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	
	2017	2016[6)]	2017	2016[6)]	2017	2016[6)]	2017	2016[6)]
Order intake	**1'189.7**	**1'090.4**	**1'071.0**	**1'009.7**	**502.0**	**471.9**	**426.3**	**272.6**
Nominal growth (unaudited)	9.1%	–7.7%	6.1%	–5.3%	6.4%	–10.2%	56.4%	48.8%
Currency adjusted growth (unaudited)	8.1%	–6.9%	4.9%	–3.1%	5.9%	–8.8%	55.7%	48.7%
Organic growth[1)] (unaudited)	1.5%	–8.6%	–0.9%	–4.2%	5.1%	–8.9%	6.0%	5.4%
Order backlog as of December 31 (unaudited)	847.0	697.4	364.4	378.7	315.3	304.9	64.7	58.0
Sales[2)]	**1'122.7**	**1'159.0**	**1'034.5**	**1'011.3**	**478.4**	**446.1**	**423.5**	**272.0**
Nominal growth	–3.1%	–8.6%	2.3%	–2.1%	7.2%	–8.2%	55.7%	48.3%
Currency adjusted growth (unaudited)	–4.3%	–8.0%	1.6%	–0.1%	7.0%	–7.2%	54.9%	48.1%
Organic growth[1)] (unaudited)	–12.9%	–8.3%	–2.1%	–0.9%	6.2%	–7.2%	5.0%	5.2%
opEBITA[3)]	**–3.7**	**13.0**	**144.0**	**139.5**	**25.0**	**18.0**	**86.8**	**64.1**
in % of sales[4)]	–0.3%	1.1%	13.9%	13.8%	5.2%	4.0%	20.5%	23.6%
in % of average capital employed	–0.6%	1.8%	28.4%	25.9%	11.3%	8.0%	22.7%	29.1%
Restructuring expenses	–15.0	–40.2	–3.8	0.5	–1.7	–12.6	–0.3	–3.5
Amortization	–23.2	–17.9	–6.8	–6.3	–5.6	–6.3	–17.0	–15.4
Impairments on tangible and intangible assets	–10.5	–8.8	–2.3	–3.8	–2.6	–5.4	–	–0.5
Non-operational items	–9.3	–11.0	3.3	–0.6	–4.1	3.8	–6.3	–5.0
EBIT[5)]	**–61.7**	**–64.9**	**134.4**	**129.3**	**11.0**	**–2.5**	**63.2**	**39.7**
Depreciation	–23.7	–20.8	–17.6	–21.2	–9.2	–10.2	–20.8	–14.9
Operating assets	1'445.6	1'351.8	880.6	813.3	463.7	441.1	655.3	559.5
Unallocated assets	–	–	–	–	–	–	–	–
Total assets as of December 31	1'445.6	1'351.8	880.6	813.3	463.7	441.1	655.3	559.5
Operating liabilities	685.3	623.9	319.8	275.4	234.1	213.3	71.5	63.6
Unallocated liabilities	–	–	–	–	–	–	–	–
Total liabilities as of December 31	685.3	623.9	319.8	275.4	234.1	213.3	71.5	63.6
Operating net assets	760.3	727.9	560.8	537.9	229.6	227.8	583.8	495.9
Unallocated net assets	–	–	–	–	–	–	–	–
Total net assets as of December 31	760.3	727.9	560.8	537.9	229.6	227.8	583.8	495.9
Capital expenditure	21.9	19.3	19.2	21.9	10.0	13.1	28.9	19.9

Employees (number of full-time equivalents) as of December 31	5'453	5'156	4'485	4'541	2'878	2'570	1'716	1'562

1) Adjusted for currency and acquisition effects.

2) Sales between segments are not material.

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

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

5) Operating income.

6) Reclassified numbers according to new operational structure, effective since January 1, 2017.

Segment information by divisions

millions of CHF	Total Divisions		Others[2]		Total Sulzer	
	2017	**2016[6]**	**2017**	**2016[6]**	**2017**	**2016**
Order intake	**3'189.0**	**2'844.6**	**–33.3**	**–47.1**	**3'155.7**	**2'797.5**
Nominal growth (unaudited)	12.1%	–3.8%	n/a	n/a	12.8%	–3.4%
Currency adjusted growth (unaudited)	11.1%	–2.4%	n/a	n/a	11.8%	–2.0%
Organic growth[1] (unaudited)	1.7%	–6.2%	n/a	n/a	2.2%	–5.8%
Order backlog as of December 31 (unaudited)	1'591.4	1'439.0	2.1	0.1	1'593.5	1'439.1
Sales	**3'059.1**	**2'888.4**	**–10.1**	**–11.7**	**3'049.0**	**2'876.7**
Nominal growth	5.9%	–2.8%	n/a	n/a	6.0%	–3.2%
Currency adjusted growth (unaudited)	5.1%	–1.7%	n/a	n/a	5.2%	–2.0%
Organic growth[1] (unaudited)	–4.5%	–4.7%	n/a	n/a	–4.4%	–5.1%
opEBITA[3]	**252.1**	**234.6**	**3.3**	**4.3**	**255.4**	**238.9**
in % of sales[4]	8.2%	8.1%	n/a	n/a	8.4%	8.3%
in % of average capital employed	14.8%	14.6%	n/a	n/a	15.8%	15.7%
Restructuring expenses	–20.8	–55.8	–0.9	–1.2	–21.7	–57.0
Amortization	–52.6	–45.9	–1.2	–1.4	–53.8	–47.3
Impairments on tangible and intangible assets	–15.4	–18.5	–	0.1	–15.4	–18.4
Non-operational items	–16.4	–12.8	–11.6	11.9	–28.0	–0.9
EBIT[5]	**146.9**	**101.6**	**–10.4**	**13.7**	**136.5**	**115.3**
Depreciation	–71.3	–67.1	–0.4	–2.4	–71.7	–69.5
Operating assets	3'445.2	3'165.7	–9.4	–1.5	3'435.8	3'164.2
Unallocated assets	–	–	681.5	571.7	681.5	571.7
Total assets as of December 31	3'445.2	3'165.7	672.1	570.2	4'117.3	3'735.9
Operating liabilities	1'310.7	1'176.2	106.6	320.8	1'417.3	1'497.0
Unallocated liabilities	–	–	997.6	647.9	997.6	647.9
Total liabilities as of December 31	1'310.7	1'176.2	1'104.2	968.7	2'414.9	2'144.9
Operating net assets	2'134.5	1'989.5	–116.0	–322.3	2'018.5	1'667.2
Unallocated net assets	–	–	–316.1	–76.2	–316.1	–76.2
Total net assets as of December 31	2'134.5	1'989.5	–432.1	–398.5	1'702.4	1'591.0
Capital expenditure	80.0	74.2	1.2	0.7	81.2	74.9
Employees (number of full-time equivalents) as of December 31	14'532	13'829	200	176	14'732	14'005

1) Adjusted for currency and acquisition effects.
2) The most significant activities under "Others" relate to the Corporate Center. Interdivisional order intake and sales are eliminated in this column.
3) Operating income before restructuring, amortization, impairments, and non-operational items.
4) Return on sales before restructuring, amortization, impairments, and non-operational items (opEBITA/sales).
5) Operating income.
6) Reclassified numbers according to new operational structure, effective since January 1, 2017.

Information about reportable segments

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

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

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

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

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

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

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

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

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

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

Segment information by region

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

millions of CHF	Non-current assets by region		Sales by region	
	2017	2016	2017	2016
Europe, Middle East, Africa	1’392.6	1’203.3	1’411.6	1’271.8
– thereof Switzerland	158.1	161.9	22.3	22.7
– thereof Germany	360.0	292.5	204.7	199.1
– thereof United Kingdom	164.2	159.9	164.3	143.9
– thereof Sweden	261.9	259.8	46.3	40.0
– thereof other countries	448.4	329.2	974.0	866.1
Americas	294.5	290.5	1’003.5	1’041.9
– thereof USA	247.1	238.3	713.6	735.9
– thereof Brazil	22.9	23.9	90.4	101.3
– thereof other countries	24.5	28.3	199.5	204.7
Asia-Pacific	141.3	138.3	633.9	563.0
– thereof China	66.6	68.2	226.1	206.4
– thereof India	23.2	22.2	64.0	49.9
– thereof other countries	51.5	47.9	343.8	306.7
Total	**1’828.4**	**1’632.1**	**3’049.0**	**2’876.7**

Segment information by market segment

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

millions of CHF	Sales by market segments	
	2017	2016
Oil and gas	1’339.1	1’382.7
Power	458.5	459.4
Water	339.2	344.0
General industries	912.2	690.6
Total	**3’049.0**	**2’876.7**

4 Acquisitions of subsidiaries

Acquisitions in 2017

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

Ensival Moret (EM)

On February 1, 2017, Sulzer acquired a 100% controlling interest of Ensival Moret (EM) for CHF 67.7 million. EM's main manufacturing facilities are based in Saint Quentin, France, and Thimister, Belgium. EM employs approximately 730 employees and offers a wide range of industrial pumps with leading positions in a broad range of industrial applications such as fertilizers, sugar, mining, and chemicals. Through the acquisition, Sulzer closed specific product gaps in its general industry pumps portfolio, such as axial flow pumps. Combining the complementary product portfolios enables Sulzer to become a full line supplier in most industrial process applications. EM has been integrated into Sulzer's Pumps Equipment manufacturing network and the scope of the acquired business has therefore changed. The goodwill is attributable to significant synergies by leveraging scale and cross-selling opportunities. None of the goodwill is expected to be deductible for tax purposes. Transaction cost recognized in the income statement amount to CHF –0.9 million. Since the acquisition date, the acquire contributed order intake of CHF 72.7 million, sales of CHF 101.9 million, and net income of CHF –16.5 million to the group.

Vessel Internal Electrostatic Coalescer (VIEC)

On February 1, 2017, Sulzer acquired 100% controlling interest of Vessel Internal Electrostatic Coalescer (VIEC) for CHF 4.4 million. VIEC is based in Anker, Norway, and employs 13 people. VIEC's patented technology separates oil from water in a highly efficient manner and reduces operating costs due to its exclusive in-vessel design. This acquisition allows Sulzer to further extend its Chemtech upstream product portfolio for advanced oil and water separation applications. Transaction cost recognized in the income statement amount to CHF –0.1 million. Since the acquisition date, the acquire contributed order intake of CHF 3.8 million, sales of CHF 3.3 million, and net income of CHF –1.1 million to the group.

Rotec GT

On June 30, 2017, Sulzer acquired 51% of the business of Rotec GT, the gas turbine maintenance division of the Rotec Group, for CHF 15.4 million, of which CHF 15.0 million was paid in cash and CHF 0.4 million in shares of a subsidiary measured at fair value. Sulzer obtained control of the acquired business. Rotec GT is considered to be a related party to the group. Sulzer holds a call option to purchase 49%, and the Rotec Group holds a put option to sell 49%, after January 1, 2019. Sulzer recognized a liability of CHF 14.6 million against retained earnings, for the present value of the exercise price of the put option. The present value calculation is based on expected revenue, target EBITDA margin, and a predefined multiple.

Remeasurements of the liability will be recognized against retained earnings. Sulzer did not recognize the call option, since the criteria as financial asset are not met.

Rotec GT is headquartered in Moscow, Russia, and has a service center for the refurbishment of gas turbine components in Ekaterinburg as well as an office for field service resources in St. Petersburg. With the service center in Ekaterinburg, Sulzer will have a strong local footprint. The business will be integrated into Sulzer's Rotating Equipment Services division. The goodwill is attributable to synergies from combined solutions and shared services. None of the goodwill is expected to be deductible for tax purposes. Transaction cost recognized in the income statement of the group amount to CHF –0.6 million. Since the acquisition date, the acquired business contributed order intake of CHF 66.5 million, sales of CHF 42.4 million, and net income of CHF 4.5 million to the group.

Transcodent

On September 29, 2017, Sulzer acquired 100% controlling interest of Transcodent for CHF 75.6 million. Transcodent is based in Kiel, Germany, and employs 71 people. Transcodent is a leading provider of multiple dose and unit dose application systems, needles, tips, and capsules for the dental market. The acquisition further strengthens the Applicator Systems division of Sulzer in its dental segment, where Sulzer is already a global market leader. Transcodent has been integrated into Sulzer's Applicator Systems manufacturing network and the scope of the acquired business has therefore changed. The goodwill is attributable to significant synergies by leveraging scale and cross-selling opportunities. None of the goodwill is expected to be deductible for tax purposes. Transaction cost recognized in the income statement amount to CHF –0.1 million. Since the acquisition date, the acquire contributed order intake of CHF 4.6 million, sales of CHF 4.5 million, and net income of CHF –0.2 million to the group.

Acquired receivables

The fair value of acquired trade accounts receivable is CHF 25.5 million. The gross contractual amount for trade account receivables due is CHF 26.2 million, of which CHF 0.7 million is expected to be uncollectible at the date of acquisition.

Pro forma revenue and profit contribution

Had all above acquisitions occurred on January 1, 2017, management estimates that total net sales of the group would amount to CHF 3'093.0 million, and the consolidated net income would be CHF 89.6 million.

Cash flow from acquisitions of subsidiaries

millions of CHF	2017	2016
Cash consideration paid	–162.7	–318.9
Contingent consideration paid	–2.2	–7.7
Cash acquired	7.2	17.7
Payments for acquisitions in prior years	–0.2	–0.2
Total cash flow from acquisitions, net of cash acquired	**–157.9**	**–309.1**

Contingent consideration

millions of CHF	2017	2016
Balance as of January 1	9.5	22.1
Payment of contingent consideration	–2.2	–7.7
Release to other operating income	–2.6	–4.8
Currency translation differences	0.4	–0.1
Total contingent consideration as of December 31	**5.1**	**9.5**

As of December 31, 2017, there was a decrease of CHF 2.6 million recognized in the income statement for the contingent consideration arrangements, as the assumed probability-adjusted gross profit and EBITDA (earnings before interests, taxes, depreciation, and amortization) was recalculated.

5 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.

Contingent considerations

As of December 31, 2017, total contingent considerations resulting from business combinations amounted to CHF 5.1 million (December 31, 2016: CHF 9.5 million). The total payments under contingent considerations arrangements could be up to CHF 12.4 million (December 31, 2016: CHF 15.0 million). The estimated amounts are the expected payments, determined by considering the possible scenarios of forecast sales and other performance criteria, probabilities of occurrence, and the use of simulation models. The estimates could change substantially over time as new facts emerge and scenarios develop.

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.

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

As of December 31, 2017, total goodwill amounted to CHF 865.7 million (December 31, 2016: CHF 780.1 million). In accordance with the accounting policies set forth in section 34.6 “Intangible assets,” the group carries out an annual impairment test on goodwill in the fourth quarter of the year, or when indications of a potential impairment exist. The recoverable amount from cash-generating units is measured on the basis of value-in-use calculations with the terminal growth rate, the discount rate, and the projected cash flows as the main variables. Information about assumptions and estimation uncertainties that have significant risk of resulting in a material adjustment in the year ending December 31, 2017, are disclosed in note 14.

Revenue recognition

The group uses the percentage of completion method (POC) in accounting for major long-term construction contracts. The use of the POC method requires the group to estimate the proportional revenue and costs. If circumstances arise that may change the original estimates of revenues, costs, or extent of progress toward completion, estimates are revised. These revisions may result in increases or decreases in estimated revenues or costs and are reflected in income in the period in which the circumstances that give rise to the revision become known by management. Revenue from the application of the POC method recognized in the year 2017 amounted to CHF 568.8 million (2016: CHF 597.2 million). Further details are disclosed in note 19.

Provisions

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

6 Financial risk management

6.1 Financial risk factors

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

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

a) Market risk

(I) Foreign exchange risk

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

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

The following tables show the hypothetical influence on the income statement for 2017 and 2016 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 2017, the currency pair with the most significant exposure and inherent risk was the EUR versus the BRL. If, on December 31, 2017, the EUR had increased by 14.1% against the BRL with all other variables held constant, profit after tax for the year would have been CHF 1.2 million lower mainly due to foreign exchange losses on EUR-denominated financial liabilities. A decrease of the rate would have caused a gain of the same amount.

Hypothetical impact of foreign exchange risk on income statement

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

millions of CHF				2016
Currency pair	EUR/USD	EUR/RUB	EUR/CNY	USD/INR
Exposure	–7.8	3.0	6.8	7.9
Volatility	8.3%	20.6%	7.7%	5.1%
Effect on profit after tax (rate increase)	–0.5	0.5	0.4	0.3
Effect on profit after tax (rate decrease)	0.5	–0.5	–0.4	–0.3

The following tables show the hypothetical influence on equity for 2017 and 2016 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 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							2017
Currency pair	GBP/USD	USD/CHF	USD/MXN	EUR/USD	EUR/CHF	USD/INR	EUR/INR
Exposure	50.2	–53.1	–30.9	34.3	–42.3	–27.8	–15.4
Volatility	8.9%	7.1%	12.2%	7.3%	4.9%	4.4%	7.2%
Effect on equity, net of taxes (rate increase)	3.1	–2.6	–2.6	1.7	–1.4	–0.9	–0.8
Effect on equity, net of taxes (rate decrease)	–3.1	2.6	2.6	–1.7	1.4	0.9	0.8

millions of CHF							2016
Currency pair	USD/MXN	GBP/USD	USD/CHF	USD/INR	EUR/USD	USD/BRL	EUR/CHF
Exposure	–44.5	49.0	–42.1	–56.6	34.9	–15.1	–30.4
Volatility	17.0%	14.1%	7.9%	5.1%	8.3%	18.4%	4.5%
Effect on equity, net of taxes (rate increase)	–5.7	5.2	–2.5	–2.2	2.2	–2.1	–1.0
Effect on equity, net of taxes (rate decrease)	5.7	–5.2	2.5	2.2	–2.2	2.1	1.0

(II) Price risk

As of December 31, 2017, the group was not exposed to significant price risk related to investments in equity securities either classified as “available-for-sale” or at “fair value through profit or loss.”

(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 two 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 USD, increasing interest rates would have had a negative impact on the income statement, since the value of variable-interest-bearing liabilities would exceed the value of variable-interest-bearing assets. For the other most significant currencies, CHF, CNY, EUR, and INR, 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) would exceed the value of variable-interest-bearing liabilities.

Hypothetical impact of interest rate risk on income statement

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

millions of CHF				**2016**
			Impact on post-tax profit	
Variable-interest-bearing assets (net)	Amount	Sensitivity in basis points	rate increase	rate decrease
USD	191.6	100	1.4	–1.4
EUR	43.0	100	0.3	–0.3
CNY	40.5	100	0.3	–0.3
CHF	36.5	100	0.3	–0.3
INR	23.3	100	0.2	–0.2

On December 31, 2017, if the interest rates on USD-denominated liabilities net of assets had been 100 basis points higher with all other variables held constant, post-tax profit for the year would have been CHF 1.0 million lower, mainly as a result of higher interest expenses on short-term borrowings. A decrease of interest rates on USD-denominated assets net of liabilities would have caused a gain of the same amount. As of December 31, 2016, if the interest rates had been 100 basis points higher with all other variables held constant, post-tax profit for the year would have been CHF 1.4 million higher, because at this time the USD-denominated assets exceeded the liabilities.

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 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 classified as available-for-sale.

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 trade accounts receivable, please refer to note 20.

c) Liquidity risk

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

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

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

Maturity profile of financial liabilities

millions of CHF						2017
	Carrying amount	<1 year	1–2 years	3–5 years	>5 years	Total
Borrowings	713.8	263.8	4.1	336.0	129.8	733.7
Trade accounts payable	433.8	433.8	–	–	–	433.8
Other current and non-current liabilities (including derivative liabilities)	88.7	71.1	16.8	0.5	0.3	88.7

millions of CHF						2016
	Carrying amount	<1 year	1–2 years	3–5 years	>5 years	Total
Borrowings	465.4	10.1	8.7	9.3	454.0	482.1
Trade accounts payable	379.3	379.3	–	–	–	379.3
Other current and non-current liabilities	63.8	53.4	9.2	–	1.2	63.8

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, 2017 and 2016. The increase of net debt in 2017 is particularly due to the additional borrowings needed mainly to finance the acquisitions.

Net debt/EBITDA ratio

millions of CHF	2017	2016
Net debt	–225.0	–35.9
EBITDA	277.4	250.5
Net debt/EBITDA	0.81	0.14

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

The increase in the gearing ratio during 2017 resulted mainly from the increase in borrowings.

As of December 31, 2017 and 2016, the gearing ratio was as follows:

Gearing ratio

millions of CHF	2017	2016
Borrowings	713.8	465.4
Equity attributable to shareholders of Sulzer Ltd	1’680.1	1’581.2
Borrowings-to-equity ratio (gearing)	0.42	0.29

6.3 Fair value estimation

The following tables present the carrying amounts and fair values of financial assets and liabilities as of December 31, 2017 and 2016, including their levels in the fair value hierarchy. For financial assets and financial liabilities not measured at fair value in the balance sheet, fair value information is not provided if the carrying amount is a reasonable approximation of fair value.

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

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

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

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

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

Fair value table

millions of CHF						December 31, 2017
	Notes	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets measured at fair value						
Derivative assets – non-current	28	0.2	0.2	–	0.2	–
Derivative assets – current	21, 28	7.3	7.3	–	7.3	–
Total financial assets measured at fair value		**7.5**	**7.5**	**–**	**7.5**	**–**
Financial assets not measured at fair value						
Loans and receivables	17	9.4				
Available-for-sale financial assets	17	4.2				
Non-current receivables (excluding non-current derivative assets)		8.6				
Trade accounts receivable	20	901.8				
Other current receivables (excluding current derivative assets and other taxes)	21	27.0				
Cash and cash equivalents	22	488.8				
Total financial assets not measured at fair value		**1'439.8**	**–**	**–**	**–**	**–**
Financial liabilities measured at fair value						
Derivative liabilities – current	27, 28	6.8	6.8	–	6.8	–
Contingent considerations	4	5.1	5.1	–	–	5.1
Put option liability	4	14.6	14.6	–	–	14.6
Total financial liabilities measured at fair value		**26.5**	**26.5**	**–**	**6.8**	**19.7**
Financial liabilities not measured at fair value						
Outstanding bond	25	450.4	456.0	456.0	–	–
Other non-current borrowings	25	8.3				
Other current borrowings and bank loans	25	255.1				
Other non-current liabilities (excluding put option liability)		3.0				
Trade accounts payable		433.8				
Other current liabilities (excluding current derivative liabilities, other taxes, and contingent considerations)		23.9				
Total financial liabilities not measured at fair value		**1'174.5**	**456.0**	**456.0**	**–**	**–**

Fair value table

millions of CHF						December 31, 2016
	Notes	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets measured at fair value						
Derivative assets – current	21, 28	6.6	6.6	–	6.6	–
Total financial assets measured at fair value		**6.6**	**6.6**	**–**	**6.6**	**–**
Financial assets not measured at fair value						
Loans and receivables	17	8.6				
Available-for-sale financial assets	17	4.5				
Non-current receivables (excluding non-current derivative assets)		7.0				
Trade accounts receivable	20	883.2				
Other accounts receivable (excluding current derivative assets)	21	82.9				
Cash and cash equivalents	22	429.5				
Total financial assets not measured at fair value		**1'415.7**	**–**	**–**	**–**	**–**
Financial liabilities measured at fair value						
Derivative liabilities – non-current	28	0.2	0.2	–	0.2	–
Derivative liabilities – current	27, 28	9.2	9.2	–	9.2	–
Contingent considerations	4	9.5	9.5	–	–	9.5
Total financial liabilities measured at fair value		**18.9**	**18.9**	**–**	**9.4**	**9.5**
Financial liabilities not measured at fair value						
Outstanding bond	25	450.4	452.9	452.9	–	–
Other non-current borrowings	25	7.9				
Other current borrowings and bank loans	25	7.1				
Other non-current liabilities (excluding non-current derivative liabilities)		10.2				
Trade accounts payable		379.3				
Other current liabilities (excluding current derivative liabilities)	27	44.2				
Total financial liabilities not measured at fair value		**899.1**	**452.9**	**452.9**	**–**	**–**

7 Corporate risk management

Sulzer maintains an integrated risk management system that is under constant scrutiny for further improvement. A defined risk management process and four common tools (risk assessment schedule, risk-profiling matrix, risk description schedule, loss control schedule) are applied in order to assess and control all key risks, to implement and maintain risk financing and risk transfer measures, to monitor the results, and to define and implement corrective actions if required. In order to reflect the organizational changes towards a more market-oriented approach, the risk management process was adapted accordingly. Key risks were 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	2017	2016
Salaries and wages	853.1	795.8
Defined contribution plan expenses	25.7	30.1
Defined benefit plan expenses/(income)	18.7	–16.6
Cost of share-based payment transactions	10.8	7.5
Social benefit costs	137.2	126.7
Other personnel costs	32.7	27.6
Total personnel expenses	**1'078.2**	**971.1**

In 2016, pension plan amendments in Switzerland had a positive impact of CHF 35.4 million to the income statement 2016 and were recorded as a reduction of defined benefit plan expenses. In 2017, no comparable effect was recognized.

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.

						2017
millions of CHF	Funded plans Switzerland	Funded plans United Kingdom	Funded plans USA	Funded plans Others	Unfunded plans	Total
Reconciliation of the amount recognized in the balance sheet as of December 31						
Present value of funded defined benefit obligation	–1'218.3	–634.4	–65.4	–79.5	–	–1'997.6
Fair value of plan assets	1'210.6	502.3	45.9	65.5	–	1'824.3
Overfunding / (underfunding)	**–7.7**	**–132.1**	**–19.5**	**–14.0**	**–**	**–173.3**
Present value of unfunded defined benefit obligation	–	–	–	–	–50.9	–50.9
Adjustment to asset ceiling	–1.6	–	–	–	–	–1.6
Asset / (liability) recognized in the balance sheet	**–9.3**	**–132.1**	**–19.5**	**–14.0**	**–50.9**	**–225.8**
– thereof as liabilities under defined benefit obligation	–22.5	–132.1	–19.5	–14.1	–50.9	–239.1
– thereof as prepaid expenses	13.2	–	–	0.1	–	13.3

						2016
millions of CHF	Funded plans Switzerland	Funded plans United Kingdom	Funded plans USA	Funded plans Others	Unfunded plans	Total
Reconciliation of the amount recognized in the balance sheet as of December 31						
Present value of funded defined benefit obligation	–1'271.2	–666.2	–64.9	–62.2	–	–2'064.5
Fair value of plan assets	1'213.4	479.7	42.8	47.4	–	1'783.3
Overfunding / (underfunding)	**–57.8**	**–186.5**	**–22.1**	**–14.8**	**–**	**–281.2**
Present value of unfunded defined benefit obligation	–	–	–	–	–46.4	–46.4
Adjustment to asset ceiling	–2.2	–	–	–0.1	–	–2.3
Asset / (liability) recognized in the balance sheet	**–60.0**	**–186.5**	**–22.1**	**–14.9**	**–46.4**	**–329.9**
– thereof as liabilities under defined benefit obligation	–69.6	–186.5	–22.1	–15.0	–46.4	–339.6
– thereof as prepaid expenses	9.6	–	–	0.1	–	9.7

Sulzer operates major funded defined benefit pension plans in Switzerland, UK, Ireland, 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 remained stable in 2017 compared to 2016. Fewer active plan participants and retirees resulted in a lower defined benefit obligation in 2017 compared to 2016. Despite having fewer active members and retirees the plan assets remained stable compared to 2016 due to a good return on plan assets. The total expenses recognized in the income statement in 2017 were CHF 15.3 million (2016: income of CHF 17.9 million, impacted by pension plan amendments). The Swiss Pension Fund Board decided in June 2016 to reduce the guaranteed pension conversion rate by 1.0 percentage points over four years, beginning January 1, 2018. The plan amendments, recognized as past service cost, have had a positive impact of CHF 35.4 million in the income statement 2016.

In the UK, Sulzer merged its two funded defined benefit plans into one funded defined benefit plan. 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 remained stable at 2.5% (2016: 2.5%). The net pension liabilities decreased from CHF 186.5 million in 2016 to CHF 132.1 million, due to changes in financial and demographic assumptions. The total expenses recognized in the income statement in 2017 were CHF 5.1 million compared to CHF 4.0 million in 2016.

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 2017, an expense of CHF 0.9 million was recognized in the income statement (2016: an expense of CHF 0.9 million). The discount rate decreased to 3.6% in 2017 (2016: 4.0%). The amount recognized in other comprehensive income (OCI) in 2017 was CHF –1.1 million (2016: CHF –0.6 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	2017	2016
Reconciliation of effect of asset ceiling		
Adjustment to asset ceiling at January 1	–2.3	–1.3
Change in effect of asset ceiling excl. interest income / (expense)	0.7	–1.0
Adjustment to asset ceiling at December 31	**–1.6**	**–2.3**
Reconciliation of asset / (liability) recognized in the balance sheet		
Asset / (liability) recognized at January 1	–329.9	–285.2
Defined benefit income / (loss) recognized in the income statement	–25.7	9.8
Defined benefit income / (loss) recognized in OCI	113.6	–98.2
Employer contribution	29.8	28.3
Acquired through business combination	–2.7	–7.0
Currency translation differences	–10.9	22.4
Asset / (liability) recognized at December 31	**–225.8**	**–329.9**
Components of defined benefit income / (expense) in the income statement		
Current service cost (employer)	–18.2	–20.8
Interest cost	–27.4	–33.5
Interest income on plan assets	20.4	26.7
Past service cost	–0.1	37.6
Effects of curtailments and settlement	0.2	0.4
Other administrative cost	–0.6	–0.6
Income / (expense) recognized in the income statement	**–25.7**	**9.8**
– thereof charged to personnel expenses	–18.7	16.6
– thereof charged to financial expense	–7.0	–6.8
Components of defined benefit gain / (loss) in OCI		
Actuarial gain / (loss) on defined benefit obligation	29.4	–202.5
Return on plan assets excl. interest income	83.4	104.9
Change in effect of asset ceiling excl. interest expense / (income)	0.7	–1.0
Return on reimbursement right excl. interest income	0.1	0.4
Defined benefit gain / (loss) recognized in OCI[1)]	**113.6**	**–98.2**

1) The tax effect on defined benefit cost recognized in OCI amounted to CHF –21.8 million (2016: CHF 16.1 million)

Employee benefit plans

millions of CHF	2017	2016
Reconciliation of defined benefit obligation		
Defined benefit obligation as of January 1	–2’110.9	–2’088.5
Interest cost	–27.4	–33.5
Current service cost (employer)	–18.2	–20.8
Contributions by plan participants	–9.7	–9.0
Past service cost	–0.1	37.6
Benefits paid/deposited	139.7	128.2
Effects of curtailments and settlement	0.2	2.6
Acquired through business combination	–13.5	–20.0
Other administrative cost	–0.6	–0.6
Actuarial gain / (loss) on obligation	29.4	–202.5
Currency translation differences	–37.4	95.6
Defined benefit obligation as of December 31 [1)]	**–2’048.5**	**–2’110.9**
Reconciliation of the fair value of plan assets		
Fair value of plan assets as of January 1	1’783.3	1’804.6
Interest income on plan assets	20.4	26.7
Employer contribution	29.8	28.3
Contributions by plan participants	9.7	9.0
Benefits paid/deposited	–139.7	–128.0
Effects of curtailments and settlement	–0.2	–2.2
Acquired through business combination	10.8	13.0
Return on plan assets excl. interest income	83.4	104.9
Currency translation differences	26.8	–73.0
Fair value of plan assets as of December 31	**1’824.3**	**1’783.3**
Total plan assets at fair value – quoted market price		
Cash and cash equivalents	94.5	134.6
Equity instruments third parties	623.0	598.6
Debt instruments third parties	513.4	526.6
Real estate funds	32.7	30.0
Investment funds	3.4	4.0
Others	76.3	38.3
Total assets at fair value – quoted market price as of December 31	**1’343.3**	**1’332.1**
Total plan assets at fair value – non-quoted market price		
Properties occupied by or used by third-parties (real estate)	272.0	267.0
Others	209.0	184.2
Total assets at fair value – non-quoted market price as of December 31	**481.0**	**451.2**
Best estimate of contributions for upcoming financial year		
Contributions by the employer	26.0	25.0

1) The defined benefit obligation 2017 includes the funded part (CHF 1’997.6 million) and the unfunded part (CHF 50.9 million).

Employee benefit plans

millions of CHF	2017	2016
Components of defined benefit obligation, split		
Defined benefit obligation for active members	–354.7	–334.8
Defined benefit obligation for pensioners	–1’325.0	–1’367.9
Defined benefit obligation for deferred members	–368.8	–408.2
Total defined benefit obligation at December 31	–2’048.5	–2’110.9
Components of actuarial gain / (losses) on obligations		
Actuarial gain / (loss) arising from changes in financial assumptions	–7.1	–158.0
Actuarial gain / (loss) arising from changes in demographic assumptions	19.6	–27.5
Actuarial gain / (loss) arising from experience adjustments	16.9	–17.0
Total actuarial gain / (loss) on defined benefit obligation	29.4	–202.5
Components of economic benefit available		
Economic benefits available in form of reduction in future contribution	453.9	343.1
Total economic benefit available	453.9	343.1
Maturity profile of defined benefit obligation		
Weighted average duration of defined benefit obligation in years	13.8	13.5

Since the defined benefit obligation for the Swiss and UK pension plans represents more than 91% (2016: 94%) of the group, the following significant actuarial assumptions apply exclusively to these two countries:

	2017		2016	
Principal actuarial assumptions as of December 31	Funded plans Switzerland	Funded plans United Kingdom	Funded plans Switzerland	Funded plans United Kingdom
Discount rate for active employees	0.7%	2.5%	0.8%	2.5%
Discount rate for pensioners	0.4%	2.5%	0.4%	2.5%
Future salary increases	1.0%	0.0%	1.0%	0.0%
Future pension increases	0.0%	2.5%	0.0%	2.5%
Life expectancy at retirement age (male/female) in years	23/25	22/24	22/24	22/24

millions of CHF	2017	2016
Sensitivity analysis of defined benefit obligation		
Discount rate (decrease 0.25%)	–71.7	–75.6
Discount rate (increase 0.25%)	67.5	71.0
Future salary growth (decrease 0.25%)	3.1	3.7
Future salary growth (increase 0.25%)	–3.2	–3.8
Life expectancy (decrease 1 year)	105.5	113.4
Life expectancy (increase 1 year)	–104.2	–111.7

10 Research and development expenses

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

millions of CHF	2017	2016[1)]
Pumps Equipment	39.0	30.8
Rotating Equipment Services	1.4	3.0
Chemtech	16.3	17.2
Applicator Systems	23.8	20.3
Others	0.5	0.1
Total	**81.0**	**71.4**

1) Reclassified numbers according to new operational structure, effective since January 1, 2017.

11 Other operating income and expenses

millions of CHF	2017	2016
Income from release of contingent consideration	2.6	4.8
Gain from sale of property, plant, and equipment	4.6	3.1
Operating currency exchange gains, net	1.3	4.1
Other operating income	13.7	11.4
Total other operating income	**22.2**	**23.4**
Restructuring expenses	–21.7	–57.0
Impairments of tangible and intangible assets	–15.4	–18.4
Cost for mergers and acquisitions	–4.1	–5.0
Loss from sale of property, plant, and equipment	–0.2	–1.9
Total other operating expenses	**–41.4**	**–82.3**
Total other operating income and expenses, net	**–19.2**	**–58.9**

During 2017, the group reassessed the achievement of the earn-out targets related to contingent consideration arrangements. The reassessment resulted in an income of CHF 2.6 million (2016: CHF 4.8 million).

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

As part of the Sulzer Full Potential (SFP) program, Sulzer has initiated several measures to adapt the global manufacturing capacities and streamline the organizational setup. In 2017, the group recognized restructuring costs of CHF 21.7 million (2016: CHF 57.0 million). Restructuring costs are mainly associated with measures started in France, China, Brazil, Switzerland, and Ireland. The group further performed impairment tests on the related production machines and facilities leading to impairments of CHF 15.4 million (2016: CHF 18.4 million). For more details refer to note 15.

The functional allocation of the total restructuring expenses and impairments is as follows: Cost of goods sold CHF –20.0 million (2016: CHF –52.7 million), selling and distribution expenses CHF –3.7 million (2016: CHF –2.9 million), and general and administrative expenses CHF –13.4 million (2016: CHF –19.8 million).

12 Financial income and expenses

millions of CHF	2017	2016
Interest and securities income	4.1	5.2
Total interest and securities income	**4.1**	**5.2**
Interest expenses	–8.2	–10.6
Interest expenses on employee benefit plans	–7.0	–6.8
Total interest expenses	**–15.2**	**–17.4**
Net interest expenses	**–11.1**	**–12.2**
Income from investments and other financial assets	0.8	0.1
Fair value changes	1.2	2.0
Other financial expenses	–1.2	–1.6
Currency exchange losses (net)	–0.5	–7.6
Total other financial income/(expenses), net	**0.3**	**–7.1**
Total financial expenses	**–10.8**	**–19.3**
– thereof from financial assets held at fair value through profit or loss	1.2	2.0
– thereof from loans and receivables	2.4	–4.0
– thereof from borrowings	–8.2	–10.6
– thereof from investments	0.8	0.1
– thereof from employee benefit plans	–7.0	–6.8

The income on interest and securities decreased, and also interest expenses decreased compared with 2016, mainly due to lower coupon expenses on the CHF 450 million bond issued on July 11, 2016, replacing the matured CHF 500 million bond. Thus, total interest expenses on bonds in 2017 reduced to CHF 2.2 million from CHF 7.4 million in 2016. On the other hand, due to the increased level of other borrowings, interest expenses related to other borrowings increased from CHF 3.2 million in 2016 to CHF 6.0 million in 2017. The “Fair value changes” largely comprise the fair valuation of derivative financial instruments that are classified as financial assets or financial liabilities at fair value through profit or loss and that are used as hedging instruments with regard to foreign exchange risks.

13 Income taxes

millions of CHF	2017	2016
Current income tax expenses	–55.4	–54.3
Deferred income tax income	17.2	19.2
Total income tax expenses	**–38.2**	**–35.1**

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	2017	2016
Income before income tax expenses	125.4	95.2
Weighted average tax rate	**22.8%**	**23.1%**
Income taxes at weighted average tax rate	–28.6	–22.0
Income taxed at different tax rates	6.1	3.4
Effect of tax loss carryforwards and allowances for deferred income tax assets	–4.6	–6.0
Expenses not deductible for tax purposes	–4.3	–4.0
Effect of changes in tax rates and legislation	–4.8	–1.9
Prior year items and others	–2.0	–4.6
Total income tax expenses	**–38.2**	**–35.1**
Effective income tax rate	30.5%	36.9%

The effective income tax rate of 30.5% (2016: 36.9%) is mainly impacted by the enacted US Tax Reform and restructuring expenses in China with no corresponding tax effect. The negative effect of the US Federal Corporate Income Tax Rate reduction from 35.0% to 21.0% amounts to CHF 4.1 million due to the revaluation of deferred tax assets and the further combined effects of CHF 3.6 million. Excluding these one-time effects, the effective income tax rate would have been at 23.4%. The effective income tax rate for 2016 of 36.9% was impacted by various restructuring expenses with no corresponding tax effects. Excluding the restructuring expenses, the effective income tax rate would have been at 24.3%.

Income tax liabilities

millions of CHF	2017	2016
Balance as of January 1	16.5	12.5
Acquired through business combination	2.0	3.8
Additions	51.9	51.6
Released as no longer required	–	–9.0
Utilized	–44.3	–40.5
Currency translation differences	1.0	–1.9
Total income tax liabilities as of December 31	**27.1**	**16.5**
– thereof non-current	2.3	2.6
– thereof current	24.8	13.9

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

	2017			2016		
millions of CHF	Assets	Liabilities	Net	Assets	Liabilities	Net
Intangible assets	0.5	–107.7	–107.2	0.3	–98.9	–98.6
Property, plant, and equipment	7.4	–10.9	–3.5	4.6	–15.4	–10.8
Other financial assets	0.2	–0.1	0.1	0.8	–1.5	–0.7
Inventories	22.1	–4.5	17.6	22.9	–5.2	17.7
Other assets	19.7	–18.6	1.1	27.1	–11.5	15.6
Non-current provisions	16.7	–2.5	14.2	17.3	–2.3	15.0
Defined benefit plans	35.4	–0.3	35.1	60.5	–0.6	59.9
Current provisions	22.9	–3.7	19.2	25.5	–0.5	25.0
Other current liabilities	28.5	–8.9	19.6	24.4	–15.0	9.4
Tax loss carryforwards	38.0	–	38.0	28.8	–	28.8
Elimination of intercompany profits	0.7	–	0.7	0.7	–	0.7
Tax assets/liabilities	**192.1**	**–157.2**	**34.9**	**212.9**	**–150.9**	**62.0**
Offset of assets and liabilities	–52.4	52.4	–	–55.3	55.3	–
Net recorded deferred income tax assets and liabilities	139.7	–104.8	34.9	157.6	–95.6	62.0

Cumulative deferred income taxes recorded in equity as of December 31, 2017, amounted to CHF 25.9 million (December 31, 2016: CHF 48.8 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

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

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
						2016
Intangible assets	–69.8	6.2	–	–36.7	1.7	–98.6
Property, plant, and equipment	–13.4	1.8	–	0.8	–	–10.8
Other financial assets	2.6	–3.4	–0.4	–	0.5	–0.7
Inventories	13.8	4.2	–	–1.0	0.7	17.7
Other assets	7.6	6.1	–	–	1.9	15.6
Non-current provisions	12.2	2.5	–	–	0.3	15.0
Defined benefit plans	52.4	–4.9	16.1	–	–3.7	59.9
Current provisions	25.1	–1.2	–	–	1.1	25.0
Other current liabilities	7.7	5.4	–	–	–3.7	9.4
Tax loss carryforwards	25.4	2.5	–	–	0.9	28.8
Elimination of intercompany profits	0.7	–	–	–	–	0.7
Total	**64.3**	**19.2**	**15.7**	**–36.9**	**–0.3**	**62.0**

Tax loss carryforwards

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

millions of CHF	Amount	Potential tax assets	Valuation allowance	Carrying amount	TLCF
					2016
Expiring in the next 3 years	0.8	0.2	–0.2	–	0.8
Expiring in 4–7 years	85.0	19.4	–4.5	14.9	20.4
Available without limitation	78.1	19.0	–5.1	13.9	27.3
Total tax loss carryforwards as of December 31	**163.9**	**38.6**	**–9.8**	**28.8**	**48.5**

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 86.2 million (2016: CHF 48.5 million).

14 Intangible assets

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

						2016
millions of CHF	Goodwill	Trademarks and licenses	Research and development	Computer software	Customer relationship	Total
Acquisition cost						
Balance as of January 1	1’019.8	133.2	6.3	44.6	332.4	1’536.3
Acquired through business combination	121.3	11.2	2.2	0.8	120.1	255.6
Additions	–	–	0.2	1.2	–	1.4
Disposals	–	0.1	–	–1.0	–6.6	–7.5
Reclassifications	–	–	–	1.6	–	1.6
Currency translation differences	–21.0	4.8	–	0.9	–12.9	–28.2
Balance as of December 31	**1’120.1**	**149.3**	**8.7**	**48.1**	**433.0**	**1’759.2**
Accumulated amortization						
Balance as of January 1	340.0	93.4	1.1	39.5	136.1	610.1
Additions	–	13.5	1.4	3.7	28.7	47.3
Disposals	–	0.1	–	–1.0	–6.6	–7.5
Currency translation differences	–	–2.0	–	0.8	–4.9	–6.1
Balance as of December 31	**340.0**	**105.0**	**2.5**	**43.0**	**153.3**	**643.8**
Net book value						
As of January 1	679.8	39.8	5.2	5.1	196.3	926.2
As of December 31	780.1	44.3	6.2	5.1	279.7	1’115.4

Goodwill impairment test

The following events during the reporting period resulted in a new definition of the cash-generating units (CGUs):

- As of January 1, 2017, the spare parts business for pumps was transferred from the Pumps Equipment to the Rotating Equipment Services division. The group also changed the operational structure of its organization. The cash-generating unit Water and the other business units of the Pumps Equipment division have been combined into the cash-generating unit Pumps Equipment.
- As of January 1, 2017, the group separated the business for liquid applications and mixing technology, previously reported in the Chemtech division, into a new division and cash-generating unit called Applicator Systems.

The respective goodwill has been reallocated to the cash-generating units as follows:

	2017	2016		
millions of CHF	Goodwill	Goodwill, as reported	Goowill transferred, based on new structure	Goodwill, restated
Goodwill, net book value as of December 31 is allocated as follows	**865.7**	**780.1**	**–0.0**	**780.1**
Pumps Equipment – business unit Water	–	264.1	–264.1	–
Pumps Equipment – other business units, individually not significant	–	25.2	–25.2	–
Pumps Equipment	320.7	–	286.6	286.6
Rotating Equipment Services – region EMEA	146.7	129.9	0.8	130.7
Rotating Equipment Services – region APAC	8.6	8.4	–	8.4
Rotating Equipment Services – region AME	72.8	74.2	1.9	76.1
Chemtech – Separation Technology	71.7	69.0	–	69.0
Chemtech – Tower Field Service	19.4	19.3	0.8	20.1
Applicator Systems (previous Chemtech SMS)	225.8	190.0	–0.8	189.2

Goodwill is allocated to the smallest cash-generating unit at which goodwill is monitored for internal management purposes (i.e. division, business units, or areas). The fair value of these units is determined by calculating its value in use over a five-year cash flow projection period. The calculation uses the budget for next year (2018), the three-year strategic plan for subsequent two periods (2019–2020), and a management calculation for the next two periods (2021–2022). The budget has been reviewed by the Board of Directors. Cash flows beyond this planning period are extrapolated using a terminal value including the growth rates as stated below:

	2017		2016	
	Growth rate residual value	Pre-tax discount rate	Growth rate residual value	Pre-tax discount rate
Pumps Equipment – business unit Water	–	–	1.0%	10.6%
Pumps Equipment – other business units, individually not significant	–	–	2.0%	11.6%
Pumps Equipment	2.0%	9.2%	–	–
Rotating Equipment Services – region EMEA	2.0%	12.5%	2.0%	10.0%
Rotating Equipment Services – other business units, individually not significant	–	–	2.0%	10.0%
Rotating Equipment Services – region APAC	2.0%	12.4%	–	–
Rotating Equipment Services – region AME	2.0%	12.8%	–	–
Chemtech	–	–	1.0%	8.9%
Chemtech – Separation Technology	2.0%	9.9%	–	–
Chemtech – Tower Field Service	1.0%	10.4%	–	–
Applicator Systems	1.0%	6.6%	–	–

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. A reduction of the terminal growth rate by 1% or an increase of the pre-tax discount rate by 1% would not lead to an impairment for all the cash-generating units.

15 Property, plant, and equipment

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

Following restructuring announcements and under absorption in 2017, the group performed impairment tests on the related production machines and facilities, resulting in impairments of CHF 15.4 million as of December 31, 2017 (December 31, 2016: CHF 18.4 million), all of which were charged to other operating expenses. The impairment losses recognized in 2017 are mainly related to test beds and production machines which are not used anymore in the production process. The recoverable amount of these assets has been determined to be nil, since there is no market to dispose the assets externally. In 2017 the group sold three buildings in Canada, Denmark, and Finland with a book value of CHF 4.3 million for CHF 8.1 million resulting in a gain of CHF 3.8 million. Other fixed assets with a book value of CHF 4.1 million (2016: CHF 11.0 million) were sold for CHF 4.7 million (2016: CHF 12.2 million) resulting in a gain of CHF 0.6 million (2016: gain of CHF 1.2 million).

					2016
millions of CHF	Land and buildings	Machinery and technical equipment	Other non-current assets	Assets under construction	Total
Acquisition cost					
Balance as of January 1	377.2	679.1	189.7	26.0	1'272.0
Acquired through business combination	9.9	31.1	2.7	5.7	49.4
Additions	9.0	25.3	8.7	30.5	73.5
Disposals	–14.8	–36.5	–17.5	–	–68.8
Reclassifications	3.6	21.4	2.6	–29.2	–1.6
Currency translation differences	–1.3	–7.4	1.0	–0.4	–8.1
Balance as of December 31	**383.6**	**713.0**	**187.2**	**32.6**	**1'316.4**
Accumulated depreciation					
Balance as of January 1	155.5	473.9	151.2	–	780.6
Additions	12.4	42.7	14.4	–	69.5
Disposals	–8.9	–33.9	–15.0	–	–57.8
Impairments	6.8	11.0	0.6	–	18.4
Currency translation differences	–1.0	–5.1	0.8	–	–5.3
Balance as of December 31	**164.8**	**488.6**	**152.0**	**–**	**805.4**
Net book value					
As of January 1	221.7	205.2	38.5	26.0	491.4
As of December 31	218.8	224.4	35.2	32.6	511.0
Thereof leased property, plant, and equipment					
Acquisition cost of leased property, plant, and equipment	2.1	1.1	0.3	–	3.5
Accumulated depreciation	2.1	0.2	0.2	–	2.5
Net book value as of December 31	**–**	**0.9**	**0.1**	**–**	**1.0**
Leasing commitments (present value) as of December 31	**1.7**	**0.8**	**0.1**	**–**	**2.6**
Pledged assets as of December 31	**0.4**	**0.2**	**–**	**–**	**0.6**

16 Associates

millions of CHF	**2017**	**2016**
Balance as of January 1	5.8	4.0
Additions	4.6	5.0
Disposal as a result of the acquisition of SRE FZE	0.0	–1.1
Share of loss of associates	–0.3	–0.8
Dividend payments received	0.0	–0.7
Currency translation differences	0.2	–0.6
Total investments in associates as of December 31	**10.3**	**5.8**

In 2017, Sulzer paid in line with the proportion of ownership CHF 4.6 million to its associated company Hua Rui in China (2016: CHF 4.8 million). Sulzer's share in the associated company remained accordingly at 49%.

As of December 21, 2016, the group acquired 51% of the shares and voting interests in SRE FZE. As a result, the group's equity interest in SRE FZE increased from 49% to 100%. Consequently, the associated share of 49% was eliminated from investments in associates.

17 Other financial assets

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

			2016
millions of CHF	Available-for-sale	Loans and receivables	Total
Balance as of January 1	4.5	7.1	11.6
Additions	–	1.1	1.1
Currency translation differences	–	0.4	0.4
Balance as of December 31	**4.5**	**8.6**	**13.1**

Financial assets that belong to the category "Available-for-sale financial assets" include investments in equity securities. There is an exemption from measurement at fair value of an available-for-sale asset 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 its available-for-sale assets at cost.

18 Inventories

millions of CHF	2017	2016
Raw materials, supplies, and consumables	199.0	134.6
Work in progress	178.0	180.8
Finished products and trade merchandise	111.0	86.3
Total inventories as of December 31	**488.0**	**401.7**

In 2017, Sulzer recognized write-downs of CHF 13.0 million (2016: CHF 13.3 million) in the income statement. Total accumulated write-downs on inventories amounted to CHF 70.1 million as of December 31, 2017 (2016: CHF 69.4 million). Material expenses in 2017 amounted to CHF 1'102.6 million (2016: CHF 1'095.8 million).

19 Construction contracts

millions of CHF	2017	2016
Revenue recognized from construction contracts	**568.8**	**597.2**
Receivable from construction contracts	670.0	586.5
Netting	–425.8	–356.3
Net receivables resulting from construction contracts as of December 31	244.2	230.2
Advance and progress payments received from customers for construction contracts as of December 31	458.2	388.4
Netting	–425.8	–356.3
Net liabilities resulting from construction contracts as of December 31	32.4	32.1

Sales recognized from construction contracts in accordance with the percentage of completion method (POC) for the year 2017 amounted to CHF 568.8 million (thereof related to ongoing construction contracts CHF 395.5 million), which corresponds to 18.7% of total sales (2016: CHF 597.2 million, or 20.8% of sales; thereof related to ongoing construction contracts CHF 353.3 million). The costs related to these sales amounted to CHF 436.9 million (thereof related to ongoing construction contracts CHF 321.2 million) and to CHF 434.8 million (thereof related to ongoing construction contracts of CHF 273.9 million) in 2016. The impact on gross profit was CHF 131.9 million (thereof related to ongoing construction contracts CHF 74.3 million), which corresponds to 14.1% of total gross profit (2016: CHF 162.4 million, which corresponds to 18.5%; amount related to ongoing construction contracts CHF 76.4 million).

20 Trade accounts receivable

Aging structure of trade accounts receivable

	2017			2016		
millions of CHF	Gross amount	Allowance	Net book value	Gross amount	Allowance	Net book value
Not past due	657.1	–0.4	656.7	654.8	–0.3	654.5
– thereof receivables resulting from construction contracts	244.2	–	244.2	230.2	–	230.2
Past due						
1–30 days	101.8	–0.8	101.0	102.2	–0.6	101.6
31–60 days	41.0	–0.6	40.4	35.8	–0.5	35.3
61–120 days	35.3	–0.9	34.4	35.0	–1.4	33.6
>120 days	118.0	–48.7	69.3	107.7	–49.5	58.2
Total trade accounts receivable as of December 31	**953.2**	**–51.4**	**901.8**	**935.5**	**–52.3**	**883.2**

Allowance for doubtful trade accounts receivable

millions of CHF	2017	2016
Balance as of January 1	52.3	37.7
Additions	12.0	27.6
Released as no longer required	–7.5	–8.9
Utilized	–6.7	–4.8
Currency translation differences	1.3	0.7
Balance as of December 31	**51.4**	**52.3**

Approximately 31% (2016: 30%) of the gross amount of trade accounts receivable were past due, and an allowance of CHF 51.4 million (2016: CHF 52.3 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.

Accounts receivable by geographical region

millions of CHF	2017	2016
Europe, Middle East, Africa	492.9	437.3
– thereof United Kingdom	123.8	120.6
– thereof Germany	66.7	65.5
– thereof Spain	39.7	37.7
– thereof France	40.3	27.7
– thereof United Arab Emirates	33.6	43.2
– thereof South Africa	32.0	28.7
– thereof Switzerland	17.3	24.6
– thereof other countries	139.5	89.3
Americas	194.0	232.2
– thereof USA	136.2	145.1
– thereof Mexico	20.1	15.6
– thereof Brazil	19.0	45.7
– thereof other countries	18.7	25.8
Asia-Pacific	214.9	213.7
– thereof China	117.0	135.8
– thereof India	44.1	31.8
– thereof other countries	53.8	46.1
Total as of December 31	**901.8**	**883.2**

21 Other current receivables and prepaid expenses

millions of CHF	2017	2016
Taxes (VAT, withholding tax)	54.5	42.4
Derivative financial instruments	7.3	6.6
Other current receivables	27.0	25.5
Total other current receivables as of December 31	**88.8**	**74.5**
Prepaid contributions to employee benefit plans	13.3	9.7
Other prepaid expenses	34.2	30.4
Total prepaid expenses as of December 31	**47.5**	**40.1**
Total other current receivables and prepaid expenses as of December 31	**136.3**	**114.6**

For further details on the position “Derivative financial instruments,” refer to note 28. Other accounts receivable do not include any material positions that are past due or impaired.

22 Cash and cash equivalents

millions of CHF	2017	2016
Cash	450.9	397.5
Cash equivalents	37.9	32.0
Total cash and cash equivalents as of December 31	**488.8**	**429.5**

As of December 31, 2017, the group held restricted cash and cash equivalents of CHF 23.7 million (2016: CHF 0.0 million)

23 Share capital

	2017		2016	
thousands of CHF	Number of shares	Share capital	Number of shares	Share capital
Balance as of December 31 (par value CHF 0.01)	**34’262’370**	**342.6**	**34’262’370**	**342.6**

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

Share ownership

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

Shareholders holding more than 3%

		Dec 31, 2017		Dec 31, 2016
	Number of shares	in %	Number of shares	in %
Renova Group	21’728’914	63.42	21’728’414	63.42

Retained earnings

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

Treasury shares

The total number of shares held by Sulzer Ltd as of December 31, 2017, amounted to 219’277 treasury shares (December 31, 2016: 177’461 shares), which 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 6, 2017, the Annual General Meeting approved an ordinary dividend of CHF 3.50 (2016: ordinary dividend of CHF 3.50 and a special dividend of CHF 14.60) per share to be paid out of reserves. The dividend was paid to shareholders on April 12, 2017. The total amount of the dividend paid was CHF 119.4 million (2016: CHF 617.5 million).

The Board of Directors decided to propose to the Annual General Meeting 2018 a dividend for the year 2017 of CHF 3.50 per share (2016: CHF 3.50).

24 Earnings per share

	2017	2016
Net income attributable to shareholders of Sulzer Ltd (millions of CHF)	**83.2**	**59.0**
Issued number of shares	34’262’370	34’262’370
Adjustment for the average treasury shares held	–178’237	–159’760
Average number of shares outstanding as of December 31	**34’084’133**	**34’102’610**
Adjustment for share participation plans	267’021	228’043
Average number of shares for calculating diluted earnings per share as of December 31	**34’351’154**	**34’330’653**
Earnings per share, attributable to a shareholder of Sulzer Ltd (in CHF) as of December 31		
Basic earnings per share	2.44	1.73
Diluted earnings per share	2.42	1.72

25 Borrowings

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

			December 31, 2016
millions of CHF	Non-current borrowings	Current borrowings	**Total**
Balance as of January 1, 2016	7.2	514.4	521.6
Acquired through business combination	1.7	–	1.7
Additions	451.5	216.9	668.4
Repayments	–2.5	–725.3	–727.8
Reclassifications	–0.6	0.6	–
Currency translation differences	1.0	0.5	1.5
Total borrowings as of December 31, 2016	**458.3**	**7.1**	**465.4**

Borrowings by currency

			2017			**2016**
	millions of CHF	in %	Interest rate	millions of CHF	in %	Interest rate
BRL	4.5	0.6	8.0%	4.8	1.0	8.0%
CHF	451.3	63.2	0.5%	450.5	96.8	0.5%
EUR	19.9	2.8	2.9%	1.7	0.4	4.8%
INR	6.0	0.9	8.1%	1.1	0.2	6.3%
USD	224.9	31.5	2.0%	0.5	0.1	1.0%
Other	7.2	1.0	–	6.8	1.5	–
Total as of December 31	**713.8**	**100.0**	**–**	**465.4**	**100.0**	**–**

During 2017, the CHF 500 million syndicated credit facility was extended for another year until May 2022. As of December 31, 2017, the use of the facility was CHF 224.6 million, while at the end of 2016 the facility was not used.

Outstanding bond

		2017		**2016**
millions of CHF	Amortized costs	Nominal	Amortized costs	Nominal
0.375% 07/2016–07/2022	325.4	325.0	325.5	325.0
0.875% 07/2016–07/2026	125.0	125.0	124.9	125.0
Total as of December 31	**450.4**	**450.0**	**450.4**	**450.0**

On July 11, 2016, Sulzer issued two bonds via dual tranches of total CHF 450 million. The first tranche of CHF 325 million has a term of six years and carries a coupon of 0.375% and has an effective interest rate of 0.35%. The second tranche of CHF 125 million has a term of ten years and carries a coupon of 0.875% and has an effective interest rate of 0.88%. The bonds are traded at the SIX Swiss Exchange.

26 Provisions

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

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

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

As part of the Sulzer Full Potential (SFP) program, Sulzer has initiated several measures to adapt the global manufacturing capacities and streamline the organizational setup. Restructuring provisions are mainly associated with measures started in France, China, Brazil, Switzerland, and Ireland. The group recognized restructuring provisions of CHF 22.0 million. The remaining provision as of December 31, 2017, is CHF 18.6 million, of which CHF 15.2 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 2018, by their nature the amounts and timing of any cash outflows are difficult to predict.

27 Other current and accrued liabilities

millions of CHF	2017	2016
Taxes (VAT, withholding tax)	29.4	18.9
Derivative financial instruments	6.8	9.2
Other current liabilities	29.0	25.3
Total other current liabilities as of December 31	**65.2**	**53.4**
Vacation and overtime claims	32.1	27.5
Salaries, wages, and bonuses	96.4	96.8
Contract-related costs	112.6	123.5
Other accrued liabilities	126.2	107.2
Total accrued liabilities as of December 31	**367.3**	**355.0**
Total other current and accrued liabilities as of December 31	**432.5**	**408.4**

28 Derivative financial instruments

	2017				2016			
	Derivative assets		Derivative liabilities		Derivative assets		Derivative liabilities	
millions of CHF	Notional value	Fair value	Notional value	Fair value	Notional value	Fair value	Notional value	Fair value
Forward exchange contracts	546.3	7.5	540.1	6.8	375.8	6.6	394.6	9.4
Total as of December 31	**546.3**	**7.5**	**540.1**	**6.8**	**375.8**	**6.6**	**394.6**	**9.4**
– thereof due in <1 year	540.5	7.3	540.0	6.8	374.8	6.6	382.8	9.2
– thereof due in 1–2 years	5.8	0.2	0.1	0.0	1.0	0.0	11.7	0.2
– thereof due in 3–5 years	–	–	–	–	–	–	0.1	–

The notional 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, 2017, a net unrealized losses of CHF 8.6 million (2016: loss of CHF 14.2 million) with a deferred tax asset of CHF 2.1 million (2016: CHF 3.2 million) relating to these cash flow hedges were included in the Cash Flow Hedge Reserve. In 2017, a gain of CHF 3.2 million (2016: a gain of CHF 1.0 million) cash flow hedge reserve was recognized in profit or loss. There was no ineffectiveness that arose from cash flow hedges in 2017 (2016: 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, 2017, 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, 2017, the amount subject to such netting arrangements was CHF 3.5 million (2016:

CHF 3.2 million). Considering the effect of these agreements the amount of derivative assets would reduce from CHF 7.5 million to CHF 4.0 million (2016: from CHF 6.6 million to CHF 3.4 million), and the amount of derivative liabilities would reduce from CHF 6.8 million to CHF 3.3 million (2016: from CHF 9.4 million to CHF 6.2 million).

29 Other financial commitments

			2017			2016
millions of CHF	Rented premises	Other	Total	Rented premises	Other	Total
Maturity <1 year	17.9	7.8	25.7	22.0	7.0	29.0
Maturity 1–5 years	46.1	11.8	57.9	51.8	11.7	63.5
Maturity >5 years	14.5	1.4	15.9	16.5	0.2	16.7
Operating lease as of December 31	**78.5**	**21.0**	**99.5**	**90.3**	**18.9**	**109.2**
Contractual commitments for property, plant, and equipment as of December 31	**–**	**2.4**	**2.4**	**0.1**	**2.4**	**2.5**

30 Contingent liabilities

millions of CHF	**2017**	**2016**
Guarantees in favor of third parties	10.0	10.0
Total contingent liabilities as of December 31	**10.0**	**10.0**

As of December 31, 2017, 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	**2017**	**2016**
Restricted share unit plan	2.2	2.6
Performance share plan	8.6	4.9
Total charged to personnel expenses	**10.8**	**7.5**

Restricted share unit plan settled in Sulzer shares

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

During 2015, the Renova shareholder group exceeded the threshold of 50% of the voting rights in Sulzer Ltd., qualifying as a Change of Control under the RSU plan. The Change of Control triggered the accelerated vesting of all outstanding RSU and entitled the plan participants to immediately receive shares. The group offered the plan participants the opportunity to continue participating in the RSU plans. If the plan participants waived the right to accelerated vesting and the immediate allocation of shares and agreed to hold the RSU through to the end of their original vesting periods, plan participants, not including the members of the Board of Directors and the Executive Committee, received additional RSU in a number equal to 20% of the number of unvested RSU that the plan participants held at the time of the Change of Control. The additional RSU granted will vest at the same date as the last tranche of the original RSU.

Restricted share units

Grant year	2017	2016	2015	2014	2013	Total
Outstanding as of December 1, 2016	–	–	77’414	35’926	8’611	121’951
Granted	–	21’603	–	–	–	21’603
Exercised	–	–	–13’552	–16’250	–8’611	–38’413
Forfeited	–	–	–150	–55	–	–205
Outstanding as of December 31, 2016	**–**	**21’603**	**63’712**	**19’621**	**–**	**104’936**
Outstanding as of January 1, 2017	–	21’603	63’712	19’621	–	104’936
Granted	11’001	–	–	–	–	11’001
Exercised	–	–4’859	–30’388	–19’527	–	–54’774
Forfeited	–	–	–884	–94	–	–978
Outstanding as of December 31, 2017	**11’001**	**16’744**	**32’440**	**–**	**–**	**60’185**
Average fair value at grant date in CHF	98.00	72.61	102.18	122.00	166.61	

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 PSP 2016 and 2017 is based on three performance conditions: operational EBITA growth over the performance period (weighted 25%), average ROCEA (weighted 25%), and on Sulzer’s total return to shareholders (TSR), compared to a selected group of ten peer companies and the SMIM Index (weighted 50%). Vesting of the PSP 2015 is based on two equally weighted performance conditions: cumulated operational EBITA and on Sulzer’s total return to shareholders (TSR), compared to a selected group of 30 peer companies.

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

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

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

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

Performance share units-terms of awards

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

Performance share units

Grant year	2017	2016	2015	2014	2013	Total
Outstanding as of January 1, 2016	–	–	13'800	7'212	4'860	25'872
Granted	–	116'472	5'228	4'281	–	125'981
Exercised	–	–217	–1'748	–2'533	–808	–5'306
Forfeited	–	–7'389	–8'284	–3'715	–4'052	–23'440
Outstanding as of December 31, 2016	**–**	**108'866**	**8'996**	**5'245**	**–**	**123'107**
Outstanding as of January 1, 2017	–	108'866	8'996	5'245	–	123'107
Granted	76'818	–	–	1'523	–	78'341
Exercised	–191	–4'169	–2'002	–6'768	–	–13'130
Forfeited	–497	–6'902	–400	–	–	–7'799
Outstanding as of December 31, 2017	**76'130**	**97'795**	**6'594**	**–**	**–**	**180'519**

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

Key management compensation

	2017				2016			
thousands of CHF	Short-term benefits	Equity-based compensation	Pension and social security contributions	Total	Short-term benefits	Equity-based compensation	Pension and social security contributions	Total
Board of Directors	1'272	802	268	2'342	1'365	468	265	2'098
Executive Committee	8'387	5'746	1'784	15'917	9'829	4'076	2'517	16'422

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

Related parties

As of December 31, 2017, sales with related parties controlled by the major shareholder Renova Group amounted to CHF 22.6 million (2016: CHF 0.8 million) with open receivables of CHF 17.3 million (2016: CHF 0.0 million). Open payables of

CHF 0.4 million (2016: CHF 3.7 million) were recognized. Provision for loss/unprofitable contracts/warranties/guarantees/liquidated damages recognized in the income statement amounted to CHF 1.3 million (2016: CHF 0.4 million). Expenses for services from a company controlled by the major shareholder of Sulzer amounted to CHF 0.0 million (2016: CHF 0.2 million).

Sales with associates in 2017 amounted to CHF 6.1 million (2016: CHF 0.3 million) with open receivables of CHF 2.0 million (2016: CHF 0.2 million). Open payables with associates amounted to CHF 1.3 million (2016: CHF 2.6 million). Provision for loss/unprofitable contracts/warranties/guarantees/liquidated damages recognized in the income statement amounted to CHF 2.5 million (2016: CHF 0.0 million). Income for services with associates amounted to CHF 0.1 million (2016: CHF 0.0 million).

During 2017, Sulzer acquired 51% of the business of Rotec GT, the gas turbine maintenance division of the Rotec Group. Sulzer obtained control of the acquired business. Rotec GT is considered to be a related party to the group. For more information please refer to note 4.

33 Auditor remuneration

Fees for the audit services by KPMG as the appointed group auditor amounted to CHF 2.9 million (2016: CHF 2.7 million). Additional services provided by the group auditor amounted to a total of CHF 1.0 million (2016: CHF 0.7 million). This amount includes CHF 0.7 million (2016: CHF 0.4 million) for tax and legal advisory services and CHF 0.3 million for other consulting services (2016: CHF 0.3 million).

34 Key accounting policies and valuation methods

34.1 Basis of preparation

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

- financial instruments at fair value through profit or loss which are measured at fair value (incl. derivative financial instruments),
- available-for-sale financial instruments, and
- net position from defined benefit plans, where plan assets are measured at fair value and the plan liabilities are measured at the present value of the defined benefit obligation (see note 34.19 a).

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

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

34.2 Change in accounting policies

a) Standards, amendments, and interpretations which are effective for 2017

The group has adopted the following new standards and amendments with a date of initial application of January 1, 2017. The adoption of these amendments did not have any impact on the current period.

- Amendments to IAS 7 ‘Statement of Cash Flows,’ requires disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.
- Amendments to IAS 12 ‘Income Taxes,’ clarify the recognition of deductible temporary differences for unrealized losses.
- Amendments deriving from the improvement program 2014–2016 addressing ‘Disclosure of interests in other entities.’

b) Standards, amendments, and interpretations issued but not yet effective which the group has decided not to early adopt in 2017

IFRS 9 ‘Financial Instruments,’ published in July 2014, replaces the existing guidance in IAS 39 ‘Financial Instruments: Recognition and Measurement.’ IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating provisions for impairments on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI), and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables, and available for sale. The group has reviewed its financial assets and financial liabilities. The financial assets currently classified as loans and receivables as well as the financial liabilities valued at amortized costs will be classified as financial instruments at amortized costs. The fair values of forward foreign exchange contracts not used for hedge accounting will be classified as financial instruments at fair value through profit or loss.

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

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

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortized cost such as trade accounts receivable and contract assets under IFRS 15 ‘Revenue from Contracts with Customer.’

The group applies the simplified approach to providing for expected credit losses by using the lifetime expected loss provision for all trade receivables. Based on the impairment methodology described above, the group has estimated that the application of IFRS 9 impairment requirements as of January 1, 2018, will result in an increase in the loss allowance for trade accounts receivable in the range of CHF 8 million to CHF 12 million as reported in the table below.

The group will apply the new requirements of IFRS 9 as of January 1, 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

IFRS 15 ‘Revenue from Contracts with Customers’ establishes a comprehensive framework for determining whether, how much, and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 ‘Revenue,’ IAS 11 ‘Construction Contracts,’ and IFRIC 13 ‘Customer Loyalty Programs.’ The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. Under IFRS 15, an entity recognizes revenue when a performance obligation is satisfied. IFRS 15 is effective for annual reporting periods beginning on or after January 1, 2018.

The standard is to be applied either (i) retrospectively to each prior reporting period presented, with the option to elect certain defined practical expedients, or (ii) retrospectively with the cumulative effect of initially applying the update recognized at the date of adoption in retained earnings (with additional disclosure as to the impact on individual financial statement lines affected). The group applies the modified retrospective transition method (option ii). Under this method, in the consolidated financial statements 2018, the 2017 comparative information will be prepared under IAS 11/IAS 18, with a cumulative catch-up effect in retained earnings as of January 1, 2018.

A significant part of the estimated impact is due to limitations in applying the so called over time method, which allows revenue and profit recognition in line with the progress of the project. For some construction contracts for which the group recognizes revenue and profit over time, these limitations will lead to a point in time revenue and profit recognition. This is mainly due to missing right to payment clauses in the construction contracts in cases of termination for convenience. With this change, revenue and profit recognition generally occurs later.

Based on analyzed sales orders, the group currently does not anticipate that IFRS 15 will have a significant impact on its sales. Under the new accounting standard it is possible that more judgments and estimates would be required than under existing standards, including identifying the separate performance obligations in a contract, estimating any variable consideration elements, and allocating the transaction price to each separate performance obligation. The update also requires additional disclosures about the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

Estimated impact of adoption of IFRS 9 and IFRS 15:

The group has assessed the estimated impact that the initial application of IFRS 9 and IFRS 15 will have on its consolidated financial statements. The estimated impact of the adoption of these standards on the group equity as of January 1, 2018, is based on assessments undertaken to date and is summarized below. The actual impact of adopting the standards as of January 1, 2018, may change because the group has not finalized the validation of the results of the assessments.

The following table shows the estimated impact:

millions of CHF	Equity attributable to shareholders of Sulzer Ltd
As reported at December 31, 2017	1’680
Estimated adjustments due to adoption of IFRS 9 before taxes	–8 to –12
Deferred taxes impact due to adoption of IFRS 9	1 to 3
Estimated adjustments due to adoption of IFRS 15 before taxes	–40 to –80
Deferred taxes impact due to adoption of IFRS 15	7 to 20
Estimated adjusted opening balance at January 1, 2018	1’590 to 1’655

IFRS 16 ‘Leases,’ published in January 2016, introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. The group has started a project and is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16. So far, the most significant impact identified is that the group will recognize new assets and liabilities for its operating leases of buildings and equipment. In addition, the nature of expenses related to those leases will now change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. As of December 31, 2017, operating leases reported in note 29 amount to CHF 99.5 million, which reflect the best estimation on the balance sheet impact to the group. IFRS 16 is effective for annual periods beginning on or after January 1, 2019.

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

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 2017 and 2016:

CHF		2017		2016
	Average rate	Year-end rate	Average rate	Year-end rate
1 EUR	1.11	1.17	1.09	1.07
1 GBP	1.27	1.32	1.33	1.25
1 USD	0.98	0.98	0.99	1.02
100 CNY	14.58	14.99	14.83	14.68
100 INR	1.51	1.53	1.47	1.50

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.

Changes in the fair value of monetary items, denominated in foreign currency classified as available-for-sale are analyzed between translation differences resulting from changes in the amortized cost of the item and other changes in the carrying amount of the item. Translation differences related to changes in the amortized costs are recognized in profit or loss; other changes in the carrying amount are recognized in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities, such as equities held at fair value through profit or loss, are recognized in the income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale, are included in the available-for-sale reserve in other comprehensive income.

c) Subsidiaries

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

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

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

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

34.6 Intangible assets

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

a) Goodwill

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

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

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

b) Trademarks and licenses

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

c) Research and development

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

d) Computer software

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

e) Customer relationships

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

34.7 Property, plant, and equipment

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

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

The useful lives are as follows:
Buildings 20 – 50 years
Machinery 5 –15 years
Technical equipment 5 –10 years
Other non-current assets max. 5 years

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

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

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

34.9 Financial assets

Financial assets, including marketable securities, are classified into the following three categories: "financial assets at fair value through profit or loss," "available-for-sale financial assets," and "loans and receivables." Classification depends on the purpose for which the financial assets were acquired. Management determines the classification of assets at the date of purchase.

a) Financial assets at fair value through profit or loss

Assets in this category are either designated to this category upon initial recognition or are classified as held for trading. Financial assets designated at fair value from inception are those that are managed and their performance is evaluated on a fair value basis, in accordance with a documented investment strategy. Derivative financial assets not designated in a hedge relationship are also classified as held for trading and are presented as current assets or in case maturity is later than 12 months from the balance sheet date as non-current assets.

b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

c) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in the current assets, unless the maturity is greater than 12 months after the balance sheet date. These are classified as non-current assets. The group initially recognizes loans and receivables on the date when they are originated. All other financial assets are recognized on the trade date.

Financial assets are initially measured at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the income statement. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortized cost using the effective interest method. With the exception of derivative financial instruments designated in a “cash flow hedge” or a “net investment hedge” gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss are recognized in the income statement line “Other financial income” in the period they arise. Changes in the fair value of financial assets classified as available-for-sale are recognized in equity. When these assets are sold or impaired, the accumulated fair value adjustments recorded in equity are reclassified and booked to the financial income. The group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired.

Financial assets are derecognized when the right to receive cash flows from the investments has expired or has been transferred and the group has transferred all substantial risks and rewards of ownership.

34.10 Derivative financial instruments and hedging activities

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

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

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

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

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

34.11 Offsetting financial instruments

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

34.12 Inventories

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

34.13 Trade receivables

Trade and other accounts receivable are stated at nominal value less provision for impairments. The respective value corresponds approximately to the amortized cost. Trade receivables are classified as loans and receivables. A provision for impairment of trade receivables is established when there is objective evidence that the group will not be able to collect all the amounts due according to the original payment terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. Receivables are subject to regular review and adequate impairment is considered. The amount of the impairment provision is the difference between the carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. An impairment charge is booked within selling and marketing expenses in the income statement and the carrying amount of the trade receivable is deducted through an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Any subsequent recoveries of amounts previously written off are credited against selling and marketing costs in the income statement.

34.14 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.

34.15 Share capital

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

34.16 Trade payables

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

34.17 Borrowings

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

34.18 Current and deferred income taxes

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

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

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

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

34.19 Employee benefits

a) Defined benefit plans

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

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

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

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

b) Defined contribution plans

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

c) Other employee benefits

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

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

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

34.20 Share-based compensation

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

a) Performance share plan (PSP)

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

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

b) Restricted share plan (RSP)

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

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

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

34.21 Provisions

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

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

34.22 Revenue recognition

Revenue 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. Revenue is shown net of value-added tax, returns, rebates, and discounts and after eliminating sales within the group. The group recognizes revenue when the amount of revenue can be reliably measured, when it is probable that future economic benefits will flow to the entity, and when specific criteria have been met.

a) Sale of goods/products

Revenue from the sale of goods/products derives in the ordinary course of business. Goods and products are described as ordinary when they are part of the official product range of the organization. Goods and products are those items produced/engineered and/or purchased for resale. This includes standard products (off the rack) as well as (pre-)engineered or tailor-made products.

Revenue from the sale of goods is recognized when all of the conditions stated below are fulfilled. The return rights of products and goods are also considered. The conditions for the recognition of revenue from sale of goods and products are as follows:

- it is probable that any future economic benefit associated with the revenue will flow to the entity,
- the revenue can be measured reliably,
- the cost incurred or to be incurred can be measured reliably,
- the entity (seller) has transferred significant risks and rewards of ownership to the buyer; basis of the risk/reward terms are the agreed clauses with the customer in the sales contract, generally linked to the internationally accepted Incoterms, and

- the entity (seller) has retained neither continuing managerial involvement nor effective control over the goods.

Revenue is recognized only when it is probable that it is collectible and measurable. Revenue can only be collectible when there is a binding sales agreement. Once revenue is recognized, any subsequent uncertainty about the collectibility of the revenue is recognized as an expense/adjustment to the amount receivable rather than as an adjustment to revenue.

b) Rendering of services

The rendering of services involves an entity performing an agreed task for a customer. This service may involve asset maintenance; professional services; and the construction, development, or customization of assets. Service contracts may be single-element contracts, in which the entity renders one type of service, or multiple-element contracts that provide for the delivery of more than one service, or may include the delivery of goods as well as services. Services are often performed within the reporting period.

Services that are provided over a period beyond the reporting period involve estimates. Revenue is then recognized according to the stage, or percentage, of completion of the contract. The method used to determine the stage of completion will depend on the nature of the contract. A consistent approach is taken to the revenue recognition of similar contracts.

Revenue from rendering of services is recognized by reference to the stage of completion of the transaction when the following conditions are cumulatively met:

- the amount of revenue can be measured reliably,
- the flow of economic benefits to the entity is probable,
- the state of completion at the period end can be measured reliably, and
- the cost incurred to date and the cost to completion can be measured reliably.

c) Construction contracts

Major long-term construction contracts are reported using the percentage of completion method (POC), based on the percentage of costs to date compared with the total estimated contract costs, contractual milestones, or performance. The income statement contains a share of sales, including an estimated share of profit. The balance sheet includes the corresponding net trade accounts receivable (after adjustment for advance payments received) if the receivables exceed the advance payments from the customer of the project. The same is applicable when net advance payments from customers (after adjustment of trade accounts receivable) exceed the receivables 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.

34.23 Assets and disposal groups held for sale

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

34.24 Dividend distribution

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

35 Subsequent events after the balance sheet date

On January 11, 2018, the group acquired 100% of the issued shares in JWC Environmental LLC, ("JWC") for CHF 210 million, adjusted for an acquired tax asset. JWC is headquartered in Santa Ana, California, US, and employs around 230 people. The company is a leading provider of highly engineered, mission-critical solids reduction and removal products such as grinders, screens, and dissolved air flotation systems for municipal, industrial, and commercial wastewater applications.

The financial effects of this transaction have not been recognized at December 31, 2017. The operating results and assets and liabilities of the acquired company will be consolidated from January 11, 2018. The initial accounting for the business combination is incomplete at the time the Board of Directors authorized these consolidated financial statements for issue.

The Board of Directors authorized these consolidated financial statements for issue on February 27, 2018. They are subject to approval at the Annual General Meeting, which will be held on April 4, 2018. 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 other events that would materially affect these financial statements.

36 Major subsidiaries

December 31, 2017

December 31, 2017 Europe	Subsidiary	Sulzer ownership and voting rights	Registered capital (including paid-in capital in the USA and Canada)	Direct participation by Sulzer Ltd	Research & development	Production & engineering	Sales	Service
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[1], Thimister-Clermont	100%	EUR 9'400'000	●				
	Ensival Moret Belgium SA[1], Thimister-Clermont	100%	EUR 7'400'000					
Germany	Sulzer Pumpen (Deutschland) GmbH, Bruchsal	100%	EUR 3'000'000	●	●	●	●	●
	Sulzer Pumps Wastewater Germany GmbH, Bonn	100%	EUR 300'000	●			●	●
	Sulzer Pump Solutions Germany GmbH, Lohmar	100%	EUR 1'000'000			●		
	Sulzer Chemtech GmbH, Linden	100%	EUR 300'000	●			●	●
	Sulzer Pumps Grundbesitz Germany GmbH, Lohmar	100%	EUR 300'000	●		●		
	Sulzer APS Deutschland Holding GmbH, Bechhofen	100%	EUR 870'000	●				
	Geka GmbH, Bechhofen	100%	EUR 878'600		●	●	●	●
	Transcodent GmbH & Co. KG[1], Kiel	100%	EUR 2'000		●	●	●	●
Denmark	Sulzer Mixpac Denmark A/S, Greve	100%	DKK 500'000	●	●	●	●	●
	Sulzer Pumps Denmark A/S, Farum	100%	DKK 500'000	●			●	●
Finland	Sulzer Pumps Finland Oy, Kotka	100%	EUR 16'000'000	●	●	●	●	●
France	Sulzer Pompes France SASU, Buchelay	100%	EUR 6'600'000	●	●	●	●	●
	Ensival Moret France SASU[1], Saint-Quentin	100%	EUR 10'000'000					
Greece	Sulzer Pumps Wastewater Greece A.E., Athens	100%	EUR 117'400	●				
Great Britain	Sulzer Pumps (UK) Ltd., Leeds	100%	GBP 9'610'000		●	●	●	●
	Sulzer Chemtech (UK) Ltd., Stockton on Tees	100%	GBP 100'000				●	●
	Sulzer Electro Mechanical Services (UK) Ltd., Birmingham	100%	GBP 48'756			●	●	●
	Sulzer (UK) Holdings Ltd., Leeds	100%	GBP 6'100'000	●				
	Sulzer Mixpac (UK) Ltd., Hungerford	100%	GBP 1'000'000			●	●	
Ireland	Sulzer Pump Solutions Ireland Ltd., Wexford	100%	EUR 2'222'500	●	●	●	●	●

	Sulzer Finance (Ireland) Limited, Wexford	100%	EUR 100	●				
Italy	Sulzer Italy S.r.l., Casalecchio di Reno	100%	EUR 600’000	●			●	
Norway	Sulzer Pumps Wastewater Norway A/S, Sandvika	100%	NOK 502’000	●			●	●
	Sulzer Pumps Norway A/S, Klepp Stasjon	100%	NOK 500’000	●			●	●
The Netherlands	Sulzer Pumps Wastewater Netherlands B.V., Maastricht-Airport	100%	EUR 15’882				●	●
	Sulzer Chemtech Nederland B.V., Breda	100%	EUR 1’134’451				●	●
	Sulzer Turbo Services Rotterdam B.V., Europoort	100%	EUR 18’000			●	●	●
	Advanced Separation Company (Ascom) B.V., Arnhem	100%	EUR 18’000		●	●	●	
	Process Laboratories Netherlands (PROLAB NL) B.V., Arnhem	100%	EUR 18’000		●			●
	Sulzer Turbo Services Venlo B.V., Lomm	100%	EUR 444’704		●	●	●	●
	Sulzer Netherlands Holding B.V., Breda	100%	EUR 10’010’260	●				
	Sulzer Capital B.V., Breda	100%	EUR 50’000					
Austria	Sulzer Austria GmbH, Wiener Neudorf	100%	EUR 350’000	●			●	●
Poland	Sulzer Turbo Services Poland Sp. z o.o., Lublin	100%	PLN 2’427’000			●		●
	Sulzer Pumps Wastewater Poland Sp. z o.o., Warsaw	100%	PLN 800’000	●			●	●
	Sulzer Mixpac Poland Sp. z o.o., Nowa Wies Wroclawska	100%	PLN 5’000	●		●		
Russia	ZAO Sulzer Pumps, St. Petersburg	100%	RUB 8’000’000	●			●	
	Sulzer Pumps Rus LLC, Moscow	100%	RUB 6’000’600	●			●	●
	Sulzer Turbo Services Rus LLC, Moscow	51%	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				●	●
Turkey	Sulzer Pompa Çözümleri Ltd. Sti., Istanbul	100%	TRY 800’000	●				
North America								
Canada	Sulzer Pumps (Canada) Inc., Burnaby	100%	CAD 2’771’588			●	●	●
	Sulzer Chemtech Canada Inc., Edmonton	100%	CAD 1’000’000	●		●	●	●
	Sulzer Rotating Equipment Services (Canada) Ltd., Edmonton	100%	CAD 7’000’000	●		●	●	●
USA	Sulzer Pumps (US) Inc., Houston, Texas	100%	USD 40’381’108		●	●	●	●
	Sulzer Pumps Solutions Inc., Easley, South Carolina	100%	USD 27’146’250			●	●	●
	Sulzer Pump Services (US) Inc., Houston, Texas	100%	USD 1’000			●	●	●

	Sulzer Chemtech USA, Inc., Tulsa, Oklahoma	100%	USD 47’895’000		●	●	●	●
	Sulzer Mixpac USA Inc., Salem, New Hampshire	100%	USD 100				●	
	Sulzer Turbo Services Houston Inc., La Porte, Texas	100%	USD 18’840’000			●	●	●
	Sulzer Turbo Services New Orleans Inc., Belle Chasse, Louisiana	100%	USD 4’006’122			●	●	●
	Sulzer Electro-Mechanical Services (US) Inc., Pasadena, Texas	100%	USD 12’461’286			●	●	●
	Sulzer US Holding Inc., Houston, Texas	100%	USD 200’561’040	●				
	Geka Manufacturing Corporation, Elgin	100%	USD 603’719			●	●	●
Mexico	Sulzer Pumps México, S.A. de C.V., Cuautitlán Izcalli	100%	MXN 4’887’413	●		●	●	●
	Sulzer Chemtech, S. de R.L. de C.V., Cuautitlán Izcalli	100%	MXN 231’345’500	●		●	●	●
Central and South America								
Argentina	Sulzer Turbo Services Argentina S.A., Buenos Aires	100%	ARS 9’730’091	●		●	●	●
Brazil	Sulzer Brasil S.A., Jundiaí	100%	BRL 82’054’659	●		●	●	●
	Sulzer Pumps Wastewater Brasil Ltda., Jundiaí	100%	BRL 30’166’785	●		●	●	●
	Sulzer Services Brasil, Triunfo	100%	BRL 40’675’856	●				●
	Geka do Brasil Indústria e Comércio de Embalagens Ltda., Sao Paulo	100%	BRL 15’009’794	●		●	●	●
Chile	Sulzer Bombas Chile Ltda., Vitacura	100%	CLP 46’400’000	●			●	
Ecuador	Sulzer-Ecuador S.A., Quito	100%	USD 12’500	●			●	
Colombia	Sulzer Pumps Colombia S.A.S., Cota	100%	COP 7’142’000’000	●			●	●
Venezuela	Sulzer Pumps (Venezuela) S.A., Barcelona	100%	VEB 200’000’000				●	●
	Sulzer Turbo Services Venezuela S.A., Caracas	100%	VEB 5’000	●				
Africa								
South Africa	Sulzer Pumps (South Africa) (Pty) Ltd., Elandsfontein	75%	ZAR 100’450’000		●	●	●	●
	Sulzer (South Africa) Holdings (Pty) Ltd., Elandsfontein	100%	ZAR 16’476	●		●	●	●
	Sulzer Chemtech (Pty) Ltd., Johannesburg	100%	ZAR 121	●				
	Sulzer Pumps Wastewater South Africa (Pty) Ltd., Johannesburg	100%	ZAR 1’001	●			●	●
Morocco	Sulzer Maroc S.A.R.L. A.U., Ain Sebaa	100%	MAD 3’380’000	●				●
Nigeria	Sulzer Pumps (Nigeria) Ltd., Lagos	100%	NGN 10’000’000	●			●	●
Zambia	Sulzer Zambia Ltd., Chingola	100%	ZMK 15’000’000	●			●	●
Middle East								
United Arab Emirates	Sulzer Pumps Middle East FZCO, Dubai	100%	AED 500’000	●			●	●
	Sulzer Rotating Equipment FZE, Dubai	100%	USD 272’000				●	●

Saudi Arabia	Sulzer Saudi Pump Company Limited, Riyadh	75%	SAR 44’617’000	●		●	●	●
Bahrain	Sulzer Chemtech Middle East S.P.C., Al Seef	100%	BHD 50’000	●			●	
Asia								
India	Sulzer Pumps India Ltd., Navi Mumbai	99%	INR 25’000’000	●		●	●	●
	Sulzer India Pvt. Ltd., Pune	100%	INR 34’500’000	●		●	●	●
	Sulzer Tech India Pvt. Ltd., Navi Mumbai	100%	INR 100’000	●		●		
Indonesia	PT. Sulzer Indonesia, Purwakarta	100%	IDR 28’234’800’000	●		●	●	●
	PT Sulzer Pumps Indonesia, Purwakarta	100%	USD 300’000	●				
Japan	Sulzer Daiichi K.K., Tokyo	60%	JPY 30’000’000	●			●	
	Sulzer Japan Ltd., Tokyo	100%	JPY 10’000	●		●	●	●
Malaysia	Sulzer Pumps Wastewater Malaysia Sdn. Bhd., Selangor Darul Ehsan	100%	MYR 500’000	●			●	
	Advanced Separation Company Asia SDN BHD, Kuala Lumpur	100%	MYR 2	●				
Singapore	Sulzer Singapore Pte. Ltd., Singapore	100%	SGD 1’000’000	●		●	●	●
South Korea	Sulzer Korea Ltd., Seoul	100%	KRW 222’440’000	●			●	
Thailand	Sulzer Chemtech Co., Ltd., Rayong	100%	THB 25’000’000	●				●
People’s Republic of China	Sulzer Dalian Pumps & Compressors Ltd., Dalian	100%	CHF 21’290’000	●		●	●	●
	Sulzer Pumps Suzhou Ltd., Suzhou	100%	CNY 82’069’324	●		●	●	●
	Sulzer Pump Solutions (Kunshan) Co., Ltd., Kunshan	100%	USD 5’760’000	●		●		
	Sulzer Shanghai Eng. & Mach. Works Ltd., Shanghai	100%	CNY 61’432’607	●	●	●	●	●
	Sulzer Pumps Wastewater Shanghai Co. Ltd., Shanghai	100%	USD 1’550’000	●			●	●
Australia								
	Sulzer Chemtech Pty Ltd., Brisbane	100%	AUD 500’000	●				
	Sulzer Australia Pty Ltd., Brisbane	100%	AUD 5’308’890				●	●
	Sulzer Australia Holding Pty Ltd., Brendale	100%	AUD 34’820’100	●				

1) Acquired in 2017.

KPMG

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, 2017 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 consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for Opinion

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

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

Key Audit Matters

Key Audit Matters

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

Provisions for liquidated damages and warranty

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 work in progress (WIP) and trade accounts receivable

Key Audit Matter

As per December 31, 2017, revenue from customer contracts amounts to CHF 3,049.0 million, the balance of WIP amounts to CHF 178.0 million and trade accounts receivable amount to CHF 901.8 million.

Revenue and related costs from long-term customer orders (construction and service contracts) are recognized by applying the Percentage of Completion (PoC) method, provided they fulfill the criteria of International Financial Reporting Standards. The PoC method allows recognizing revenues by reference to the stage of completion of the contract. The application of the PoC 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 WIP or PoC receivables and the immediate recognition of the expected loss.

Sulzer further recognizes revenue from the sale of goods when the significant risks and rewards of ownership are transferred to the buyer and all the other relevant conditions are fulfilled.

Regarding the non-PoC projects, the risk includes inappropriate revenue recognition from revenue being recorded in the wrong accounting period or at amounts not justified.

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

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

On a sample basis, we reconciled revenue to the supporting documentation, validated estimates of costs to complete, tested the mathematical accuracy of calculations and the adequacy of project accounting.

We also examined costs included within WIP balances 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 non-PoC projects on a sample basis to confirm the appropriate application of revenue recognition policies. This included reconciling accounting entries to supporting documentation. When doing this, we specifically put emphasis on those transactions occurring close before or after the balance sheet date to obtain sufficient evidence over the accuracy of cut-off.

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

— Note 19 to the consolidated financial statements

Provisions for liquidated damages and warranty

Key Audit Matter

As per December 31, 2017, provisions in the amount of CHF 92.3 million are held on the balance sheet to cover expected costs arising from uncertain contract outcomes, in particular for liquidated damages and product warranties.

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. 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 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 provisions for liquidated damages and warranty refer to the following:

— Note 26 to the consolidated financial statements

Valuation of goodwill

Key Audit Matter

As at December 31, 2017, Sulzer's balance sheet included goodwill amounting to CHF 865.7 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	Nanda Buess Licensed Audit Expert

Zurich, February 27, 2018

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

Five-year summaries of key financial data

Key figures from consolidated income statement and statement of cash flows

millions of CHF		2017	2016	2015	2014	2013
Order intake		3'155.7	2'797.5	2'895.8	3'160.8	3'249.9
Order intake gross margin		34.4%	34.0%	33.8%	33.5%	33.5%
Order backlog		1'593.5	1'439.1	1'510.7	1'699.6	1'672.1
Sales		3'049.0	2'876.7	2'971.0	3'212.1	3'263.9
Operating income	EBIT	136.5	115.3	120.9	–69.0	264.0
Operational EBITA	opEBITA	255.4	238.9	254.1	302.9	304.1
Operational EBITA margin (operational EBITA/sales)	opROSA	8.4%	8.3%	8.6%	9.4%	9.3%
Return on capital employed (operational EBITA in % of average capital employed)[1]	opROCEA	15.8%	15.7%	17.0%	17.1%	14.6%
Net income attributable to shareholders of Sulzer Ltd		83.2	59.0	73.9	275	234.4
– in percentage of equity attributable to shareholders of Sulzer Ltd	ROE	5.0%	3.7%	3.3%	11.3%	10.0%
Reported EPS	EPS	2.44	1.73	2.17	8.09	6.89
Depreciation		–71.7	–69.5	–74.1	–79.2	–73.0
Amortization		–53.8	–47.3	–42.3	–43.3	–41.6
Impairments[2]		–15.4	–18.4	–13.0	–0.4	0.0
Research and development expenses		–81.0	–71.4	–73.4	–76.2	–70.6
Capital expenditure		81.2	74.9	73.7	96.0	80.5
Free cash flow		127.0	200.5	155.8	98.0	218.7
FCF conversion (free cash flow/net income)		1.46	3.34	2.08	0.35	0.93
Employees (number of full-time equivalents) as of December 31		14'732	14'005	14'253	15'494	15'382
Personnel expenses		1'078.2	971.1	1'020.8	1'046.2	1'047.4

1) Since 2014 opEBITA/operational capital employed (excl. other intangible assets). For 2013 and earlier capital employed.

2) Impairments does not include impairment on goodwill.

Key figures from consolidated balance sheet

millions of CHF		2017	2016	2015	2014	2013
Non-current assets		1'990.5	1'809.9	1'574.0	1'681.9	1'891.5
– thereof property, plant, and equipment		531.6	511.0	491.4	530.7	492.0
Current assets		2'126.8	1'926.0	2'680.8	2'971.1	2'652.4
– thereof cash and cash equivalents and marketable securities		488.8	429.5	1'217.3	1'301.5	528.7
Total assets		4'117.3	3'735.9	4'254.8	4'653.0	4'543.9
Equity attributable to shareholders of Sulzer Ltd		1'680.1	1'581.2	2'224.7	2'435.4	2'334.4
Non-current liabilities		900.1	980.3	472.1	994.5	825.3
– thereof long-term borrowings		458.7	458.3	7.2	510.3	515.9
Current liabilities		1'514.8	1'164.6	1'548.5	1'216.5	1'377.9
– thereof short-term borrowings		255.1	7.1	514.4	17.7	56.6
Net liquidity[1]		–225.0	–35.9	695.7	773.5	–36.2
Equity ratio[2]		40.8%	42.3%	52.3%	52.4%	51.4%
Borrowings-to-equity ratio (gearing)		0.42	0.29	0.23	0.22	0.25

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

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

Five-year summaries by division

	Order intake					Sales				
millions of CHF	**2017[3)]**	**2016[3)]**	**2015**	**2014**	**2013**	**2017[3)]**	**2016[3)]**	**2015**	**2014**	**2013**
Divisions	**3'189.0**	**2'844.6**	**2'907.9**	**3'169.1**	**3'250.7**	**3'059.1**	**2'888.4**	**2'983.8**	**3'221.0**	**3'270.9**
Pumps Equipment	1'189.7	1'090.4	1'500.8	1'725.5	1'801.5	1'122.7	1'159.0	1'621.0	1'754.9	1'821.6
Rotating Equipment Services	1'071.0	1'009.7	698.2	725.2	699.3	1'034.5	1'011.3	693.2	724.6	705.6
Chemtech	502.0	471.9	708.9	718.4	749.9	478.4	446.1	669.6	741.5	743.7
Applicator Systems	426.3	272.6	0.0	0.0	0.0	423.5	272.0	0.0	0.0	0.0
Others	**–33.3**	**–47.1**	**–12.1**	**–8.3**	**–0.8**	**–10.1**	**–11.7**	**–12.8**	**–8.9**	**–7.0**
Total	**3'155.7**	**2'797.5**	**2'895.8**	**3'160.8**	**3'249.9**	**3'049.0**	**2'876.7**	**2'971.0**	**3'212.1**	**3'263.9**

	Order backlog					Employees[1)]				
millions of CHF	**2017[3)]**	**2016[3)]**	**2015**	**2014**	**2013**	**2017[3)]**	**2016[3)]**	**2015**	**2014**	**2013**
Divisions	**1'591.4**	**1'439.0**	**1'510.7**	**1'703.6**	**1'672.1**	**14'532**	**13'829**	**14'073**	**15'361**	**15'198**
Pumps Equipment	847.0	697.4	998.0	1'209.4	1'190.9	5'453	5'156	6'996	7'365	7'389
Rotating Equipment Services	364.4	378.7	205.0	212.2	190.7	4'485	4'541	3'538	3'709	3'642
Chemtech	315.3	304.9	307.7	282.0	290.5	2'878	2'570	3'539	4'287	4'167
Applicator Systems	64.7	58.0	0.0	0.0	0.0	1'716	1'562	0	0	0
Others	**2.1**	**0.1**	**0.0**	**–4.0**	**0.0**	**200**	**176**	**180**	**133**	**184**
Total	**1'593.5**	**1'439.1**	**1'510.7**	**1'699.6**	**1'672.1**	**14'732**	**14'005**	**14'253**	**15'494**	**15'382**

	Operational EBITA					Operational capital employed				
millions of CHF	**2017[3)]**	**2016[3)]**	**2015**	**2014**	**2013**	**2017[3)]**	**2016[3)]**	**2015**	**2014**	**2013[2)]**
Divisions	**252.1**	**234.6**	**256.3**	**318.7**	**332.9**	**1'727.8**	**1'605.0**	**1'574.6**	**1'866.9**	**2'158.7**
Pumps Equipment	–3.7	13.0	118.1	160.6	166.9	617.3	760.6	746.3	1'115.6	n/a
Rotating Equipment Services	144.0	139.5	70.8	64.5	71.0	506.5	400.6	422.0	408.7	n/a
Chemtech	25.0	18.0	67.4	93.6	95.0	221.5	223.8	406.3	342.6	412.8
Applicator Systems	86.8	64.1	0.0	0.0	0.0	382.5	220.0	0.0	0.0	0.0
Others	**3.3**	**4.3**	**–2.2**	**–15.8**	**–28.8**	**–113.0**	**–85.1**	**–76.8**	**–99.6**	**–68.9**
Total	**255.4**	**238.9**	**254.1**	**302.9**	**304.1**	**1'614.8**	**1'519.9**	**1'497.8**	**1'767.3**	**2'089.8**

1) Number of full-time equivalents as of December 31.
2) Since 2014 operational capital employed (excl. other intangible assets). For 2013 and earlier capital employed.
3) Reclassified numbers according to new operational structure, effective since January 1, 2017.

Five-year summaries by region

Order intake by region

millions of CHF	2017	2016	2015	2014	2013
Europe, Middle East, Africa	1'422.1	1'254.8	1'303.7	1'305.5	1'329.7
Americas	1'038.2	949.8	1'065.3	1'165.4	1'123.2
Asia-Pacific	695.4	592.9	526.8	689.9	797.0
Total	**3'155.7**	**2'797.5**	**2'895.8**	**3'160.8**	**3'249.9**

Sales by region

millions of CHF	2017	2016	2015	2014	2013
Europe, Middle East, Africa	1'411.6	1'271.8	1'214.0	1'264.7	1'402.4
Americas	1'003.5	1'041.9	1'134.9	1'177.4	1'130.0
Asia-Pacific	633.9	563.0	622.1	770.0	731.5
Total	**3'049.0**	**2'876.7**	**2'971.0**	**3'212.1**	**3'263.9**

Capital employed (average) by company location

millions of CHF	2017	2016	2015	2014	2013[1]
Europe, Middle East, Africa	1'061.5	941.8	875.5	1'152.4	1'365.1
Americas	384.5	391.8	415.8	406.6	481.0
Asia-Pacific	168.8	186.3	206.5	208.3	243.7
Total	**1'614.8**	**1'519.9**	**1'497.8**	**1'767.3**	**2'089.8**

1) Since 2014 operational capital employeed (excl. other intangible assets). For 2013 and earlier capital employed.

Employees by company location[1]

	2017	2016	2015	2014	2013
Europe, Middle East, Africa	7'279	6'804	6'504	6'607	6'749
Americas	3'911	3'822	4'139	4'545	4'361
Asia-Pacific	3'542	3'379	3'610	4'342	4'272
Total	**14'732**	**14'005**	**14'253**	**15'494**	**15'382**

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

Balance sheet of Sulzer Ltd

December 31

millions of CHF	Notes	2017	2016
Current assets			
Cash and cash equivalents	3	125.8	1.9
Accounts receivable from subsidiaries		44.4	65.8
Prepaid expenses and other current accounts receivable		2.7	2.4
Total current assets		**172.9**	**70.1**
Non-current assets			
Loans to subsidiaries		652.6	819.1
Financial assets		9.1	9.2
Investments in subsidiaries	4	1’785.6	1’497.1
Total non-current assets		**2’447.3**	**2’325.4**
Total assets		**2’620.2**	**2’395.5**
Current liabilities			
Current interest-bearing liabilities		224.6	–
Current interest-bearing liabilities with subsidiaries		38.0	43.7
Current liabilities with subsidiaries		45.1	78.6
Accrued liabilities and other current liabilities		13.0	17.2
Current provisions		4.7	5.3
Total current liabilities		**325.4**	**144.8**
Non-current liabilities			
Non-current interest-bearing liabilities	6	450.4	450.4
Non-current liabilities with subsidiaries		79.1	–
Non-current provisions		38.2	37.9
Total non-current liabilities		**567.7**	**488.3**
Total liabilities		**893.1**	**633.1**
Equity			
Registered share capital	5	0.3	0.3
Legal capital reserves		205.5	205.5
Voluntary retained earnings			
– Free reserves		1’386.5	1’486.5
– Retained earnings		67.6	82.2
– Net profit for the year		89.3	4.8
Treasury shares	5	–22.1	–16.9
Total equity		**1’727.1**	**1’762.4**
Total equity and liabilities		**2’620.2**	**2’395.5**

Income statement of Sulzer Ltd

January 1–December 31

millions of CHF	Notes	2017	2016
Income			
Investment income	9	122.9	86.2
Financial income		45.2	42.8
Other income		37.3	38.0
Total income		**205.4**	**167.0**
Expenses			
Administrative expenses	8	61.8	60.9
Financial expenses		13.5	14.2
Investment and loan expenses	9	36.8	82.3
Other expenses		3.9	3.5
Direct taxes		0.1	1.3
Total expenses		**116.1**	**162.2**
Net profit for the year		**89.3**	**4.8**

Statement of changes in equity of Sulzer Ltd

January 1–December 31

millions of CHF	Share capital	Legal reserves	Free reserves	Retained earnings	Net income	Treasury shares	Total
Equity as of January 1, 2016	**0.3**	**205.5**	**1’786.5**	**170.6**	**229.2**	**–17.9**	**2’374.2**
Dividend					–617.6		–617.6
Allocation of net income			–300.0	–88.4	388.4		–
Net profit for the year					4.8		4.8
Change in treasury shares						1.0	1.0
Equity as of December 31, 2016	**0.3**	**205.5**	**1’486.5**	**82.2**	**4.8**	**–16.9**	**1’762.4**
Dividend					–119.4		–119.4
Allocation of net income			–100.0	–14.6	114.6		–
Net profit for the year					89.3		89.3
Change in treasury shares						–5.2	–5.2
Equity as of December 31, 2017	**0.3**	**205.5**	**1’386.5**	**67.6**	**89.3**	**–22.1**	**1’727.1**

1 General information

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

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

2 Key accounting policies and principles

Treasury shares

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

Investments in subsidiaries and third parties

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

Non-current interest-bearing liabilities

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

Share-based payments

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

Foregoing a cash flow statement and additional disclosures in the notes

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

3 Cash and cash equivalents

Sulzer Ltd arranged a CHF 500 million syndicated credit facility with maturity date May 2020 with two one-year extension options. During 2017 the facility was extended by another year until May 2022. The facility is available for general corporate purposes including financing of acquisitions. The facility is subject to financial covenants based on net financial indebtedness and EBITDA, which were adhered to throughout the reporting period. As of December 31, 2017, the use of the facility was CHF 224.6 million, which is disclosed as current interest-bearing liabilities, while at the end of 2016 the 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 a par value of CHF 0.01. All shares are fully paid in and registered.

Shareholders holding more than 3%

	Dec 31, 2017		Dec 31, 2016	
	Number of shares	in %	Number of shares	in %
Renova Group	21’728’914	63.42	21’728’414	63.42

Treasury shares held by Sulzer Ltd

	2017		2016	
millions of CHF	Number of shares	Total transaction amount	Number of shares	Total transaction amount
Balance as of January 1	177’461	16.9	187’191	17.9
Purchase	109’720	11.8	33’989	3.1
Share-based remuneration	–67’904	–6.6	–43’719	–4.1
Balance as of December 31	**219’277**	**22.1**	**177’461**	**16.9**

The total number of treasury shares held by Sulzer Ltd as of December 31, 2017, amounted to 219’277 (December 31, 2016: 177’461 shares), which are mainly held for the purpose of issuing shares under the management share-based payment programs.

6 Non-current interest-bearing liabilities

	2017		2016	
millions of CHF	Book value	Nominal	Book value	Nominal
0.375% 07/2016–07/2022	325.4	325.0	325.5	325.0
0.875% 07/2016–07/2026	125.0	125.0	124.9	125.0
Total as of December 31	**450.4**	**450.0**	**450.4**	**450.0**

On July 11, 2016, Sulzer issued new bonds via dual tranches of CHF 450 million in total. The first tranche of CHF 325 million has a term of six years and carries a coupon of 0.375% and has an effective interest rate of 0.35%. The second tranche of CHF 125 million has a term of ten years and carries a coupon of 0.875% and has an effective interest rate of 0.88%. The bonds were issued to refinance the CHF 500 million bond maturing in July 2016 and are traded at the SIX Swiss Exchange.

7 Contingent liabilities

millions of CHF	**2017**	**2016**
Guarantees, sureties, comfort letters for subsidiaries		
– to banks and insurance companies	1’393.4	1’316.4
– to customers	268.8	404.4
– to others	251.1	110.9
Guarantees for third parties	10.0	10.0
Total contingent liabilities as of December 31	**1’923.3**	**1’841.7**

As of December 31, 2017, CHF 342.0 million (2016: CHF 272.8 million) of guarantees, sureties, and comfort letters for subsidiaries to banks and insurance companies were utilized.

8 Administrative expenses

millions of CHF	2017	2016
Compensation of Board of Directors	2.3	2.1
Other administrative expenses	59.5	58.8
Total administrative expenses	**61.8**	**60.9**

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

9 Investment income and investment and loan expenses

In 2017, the investment income contains ordinary and extraordinary dividend payments from subsidiaries amounting to CHF 122.9 million (2016: CHF 86.2 million).

The investment and loan expenses contain allowances on investments and loans amounting to CHF 36.8 million (2016: CHF 82.3 million).

10 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.

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

1) Restricted share units assigned by Sulzer.

2) The average fair value of one performance share unit 2015 at grant date amounted to CHF 193.97.

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

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

					2016
	Sulzer shares	Restricted share units (RSU)[1]	Performance share units (PSU) 2014[2]	Performance share units (PSU) 2015[3]	Performance share units (PSU) 2016[4]
Board of Directors	**50'998**	**22'157**	**–**	**–**	**–**
Peter Löscher	28'131	5'363	–	–	–
Matthias Bichsel	1'157	3'244	–	–	–
Thomas Glanzmann	5'591	2'684	–	–	–
Axel C. Heitmann	–	1'578	–	–	–
Jill Lee	4'070	2'684	–	–	–
Mikhail Lifshitz	–	1'578	–	–	–
Marco Musetti	3'667	2'684	–	–	–
Gerhard Roiss	8'382	2'342	–	–	–
Executive Committee	**28'726**	**43'029**	**3'278**	**6'594**	**37'266**
Greg Poux-Guillaume	–	30'242	–	942	18'641
Daniel Bischofberger	–	–	–	–	1'424
Thomas Dittrich	14'000	4'921	964	2'826	5'178
Frédéric Lalanne	–	7'026	–	–	2'314
César Montenegro	13'858	–	2'314	2'826	5'178
Armand Sohet	–	–	–	–	3'560
Torsten Wintergerste	868	840	–	–	971

1) Restricted share units assigned by Sulzer.
2) The average fair value of one performance share unit 2014 at grant date amounted to CHF 206.63.
3) The average fair value of one performance share unit 2015 at grant date amounted to CHF 193.97.
4) The average fair value of one performance share unit 2016 at grant date amounted to CHF 118.05.

Granted Sulzer shares to members of the Board of Directors

	2017		2016	
	Quantity	Value in CHF	Quantity	Value in CHF
Allocated to members of the Board of Directors	11'001	1'156'119	14'577	1'156'248

11 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.

Appropriation of net profit

in CHF	2017	2016
Net profit for the year	89’300’000	4’800’000
Unallocated profit carried forward from previous year	67’624’595	82’184’595
Total available profit	**156’924’595**	**86’984’595**
Proposal by the Board of Directors: **Appropriation from free reserves**	**–**	**100’000’000**
Ordinary dividend	**–119’150’826**	**–119’360’001**
Balance carried forward	**37’773’769**	**67’624’595**
Distribution per share CHF 0.01		
Gross dividend	3.50	3.50
less 35% withholding tax	1.23	1.23
Net payment	**2.27**	**2.27**

The Board of Directors proposes the payment of a dividend of CHF 3.50 per share to the Annual General Meeting on April 4, 2018. The company will not pay a dividend on treasury shares held by Sulzer Ltd or one of its subsidiaries.

KPMG

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 chapters "Balance sheet of Sulzer Ltd" as at December 31, 2017, "Income statement of Sulzer Ltd", "Statement of changes in equity of Sulzer Ltd", and "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, 2017 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

Nanda Buess
Licensed Audit Expert

Zurich, February 27, 2018

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

Investor contacts

Head of Investor Relations

Christoph Ladner
Head of Investor Relations

Sulzer Ltd
Neuwiesenstrasse 15
8401 Winterthur
Switzerland

Phone +41 52 262 30 22
Fax +41 52 262 32 62

Contact form | Route

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