MIDYEAR REPORT 2019

Contents

Letter to the shareholders

Dear Shareholder,

Our momentum of 2018 has carried into 2019. In the first half of this year, our order intake reached CHF 1.9 billion, an increase of 8.7% compared with the same period last year. Sales were also strong, up by 13.1%, while operational EBITA grew by 15.4% to CHF 159 million for an improved operational ROSA of 9.0%.

Water and Chemtech driving order intake

In Pumps Equipment, the growth in Oil and Gas continued but the real story was Water, where orders increased by 20.6% organically. Our Municipal Water business grew in line with the market's GDP-like pace but we also booked two large orders in the Middle East worth a combined CHF 42 million. We will supply pumps to one of the largest water transportation systems in the world, transporting 1.2 million m^3 of potable water per day. We will also supply key pumps for a desalination plant, a business where we are market leaders in terms of efficiency. Sulzer-equipped desalination plants around the globe support the production of more than three million m^3 of freshwater per day.

Chemtech continued on its remarkable growth trend, with a 25.9% jump in orders compared to an already robust first semester of 2018, with all regions contributing. We benefited from a high level of investment in capacity increases for petrochemicals, buoyed in the case of the US by low gas prices.

Our Rotating Equipment Services business grew by a solid 7.3%, with all geographies contributing as our Pump Service business picked up. We also had a strong start to the year in Turbo Service.

In Applicator Systems, all segments performed well apart from Beauty, where volumes temporarily contracted as we modify our industrial base to increase our focus on the viral-marketing-driven “independents”, a more fragmented but faster-growing customer base.

The momentum in our order intake upswing continues. Sales also increased significantly, leading to double-digit growth of operational EBITA. Continued robust customer inquiries led us to raise our forecast for the full year.

Greg Poux-Guillaume, CEO

Trending towards double-digit profitability

Our robust order intake of the last two years is progressively driving up our sales, a trend which should continue as our markets continue to be healthy and as we convert the growing backlog from our longer-lead products, such as engineered pumps.

At half year 2019, Sulzer has already achieved its incremental full year savings target of CHF 10 million as a result of the timing of initiatives. The company therefore expects the cumulative savings for the SFP program to be slightly above the overall target of CHF 240 million by the end of 2019.

Finally, our margins in oil-and-gas-related activities are improving, thanks to our ability to increasingly arbitrate in favor of more profitable orders, combined with selective opportunities to price up as the capex recovery continues.

Extending the reach of Chemtech and Rotating Equipment Services

In the first half of 2019, we strengthened our Chemtech business by acquiring GTC Technology. This technology company offers proprietary processes and systems to produce aromatics and other petrochemicals. Through this, Chemtech expands its revenue base to process licensing and associated proprietary equipment and chemicals. GTC is headquartered in Houston, Texas, US, employs around 200 people and generated 2018 sales of CHF 48 million.

Further, we announced on July 2 our acquisition of Alba Power, a Scottish independent service provider for aero-derivative gas turbines, essentially jet engines converted into turbines. These light and compact turbines are used in distributed power and offshore or marine applications. With Alba, we will diversify our service portfolio and enter the decentralized power segment, a sizeable and growing market. Alba employs 80 people and generated 2018 sales of CHF 44 million.

Sulzer's strong balance sheet continues to position us well for acquisitions. The teams are looking at larger targets in the pumps and applicators business and smaller deals in chemicals and maintenance services.

Peter Löscher, Chairman of the Board of Directors

Turning carbon emissions into biofuels

Sulzer is a key technology provider to the pioneering EU-funded project "Steelanol". Steelmaking is a significant generator of CO_2. We will help ArcelorMittal turn carbon emissions into bioethanol fuels at its steel production plant in Ghent, Belgium, by supplying the distillation equipment. This plant will be the first industrial installation of its kind in Europe, producing 80 million liters of bioethanol annually. Once fully deployed, this project should reduce CO_2 emissions by 65%.

Eco-friendly alternative to conventional packaging

At the beginning of the year, our Applicator Systems division launched with ecopaCC™ an eco-friendly alternative to conventional packaging for adhesives applications. Transporting conventional plastic cartridges means sending a lot of air around the globe, and storing them takes up a lot of space. When these cartridges are emptied, the entire cartridge becomes waste. With Sulzer's ecopaCC™ collapsible cartridge, the packaging waste is reduced by up to 75%. The CO_2 emissions per item are also reduced due to the pre-collapsed packaging which saves space in storage and transportation.

Open, collaborative culture for our long-term success

We believe that sustainable growth is about culture, and we work hard to continue to become more open, collaborative and agile. We have simplified our decision-making structures, redesigned our site organizations to empower leaders and instill accountability. We have also transformed the way we communicate and collaborate internally, by introducing a social space for ideas and people to interact across the company, without the previous constraints of divisions and business areas.

Sulzer in Motion, our employee health and wellbeing initiative, is an important part of our cultural transformation. Led by employees volunteering across the company, sponsoring and organizing self-led initiatives around community, health and social responsibility, Sulzer in Motion embodies our values. Our journey continues, and we are excited about where we are heading.

Outlook for 2019

While we are not immune to the climate of economic uncertainty that percolates from some of the markets or geographies that we are active in, we do not see at this point signs of a slowdown in our leading indicators.

Based on sustained customer inquiries and our strong performance in the first half of this year, Sulzer is increasing its guidance. The company raises its forecast for order intake to grow by 6% to 9% (previously 2% to 5%), and sales to grow by 7% to 9% (previously 3% to 5%), adjusted for currency effects and including the two acquisitions mentioned earlier. Sulzer forecasts reaching an opEBITA margin (opEBITA in percent of sales) of around 10%.

We thank you, our shareholders, for your commitment and look forward to continuing our journey together. We also thank our loyal customers, our reliable partners, and our committed colleagues around the world who contribute every day to making Sulzer faster and better.

Sincerely,

Peter Löscher
Chairman of the Board

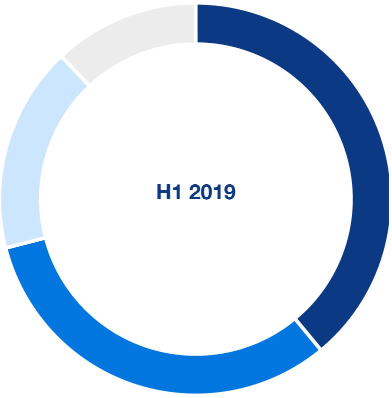
Greg Poux-Guillaume
CEO

Strong order intake – sales and operational EBITA grew by double digits

Order intake grew by 8.7% in the first half of 2019 compared with the same period of 2018, driven by increasing order volumes in the Water business and in Chemtech. Sales increased by 13.1%. Operational EBITA increased by 15.4%, resulting in an operational ROSA of 9.0%*.

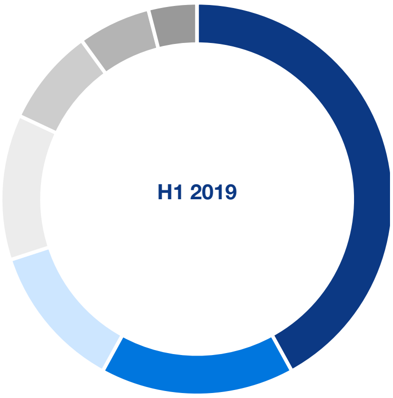
*If not otherwise indicated, changes from the previous year are based on currency-adjusted figures. These are reported without consideration of IFRS 16, applying the same accounting policies as in the previous year.

Sales by division



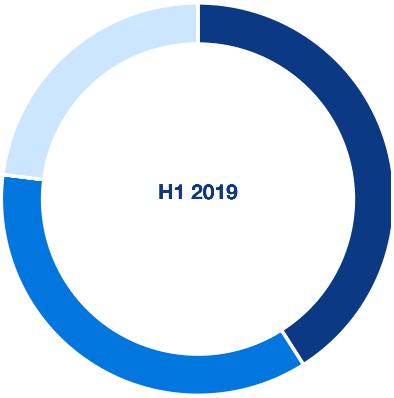
- **39%** Pumps Equipment
- **32%** Rotating Equipment Services
- **17%** Chemtech
- **12%** Applicator Systems

Sales by market segment



- **42%** Oil and Gas
- **16%** General Industry
- **12%** Water
- **12%** Power
- **8%** Adhesives, Dental, Healthcare
- **6%** Chemical Processing Industry
- **4%** Beauty

Sales by region



- **41%** Europe, the Middle East and Africa
- **36%** Americas
- **23%** Asia-Pacific

Key figures (January 1 – June 30)

millions of CHF	2019 (new accounting policies)[1]	2019 (previous accounting policies)[2]	2018[3]	Change in +/–%[4]	+/–% adjusted[5]	+/–% organic[6]
Order intake	1'933.3	1'933.3	1'801.4	7.3	8.7	7.5
Order intake gross margin	33.8%	33.8%	33.8%			
Order backlog as of June 30/ December 31	1'934.9	1'934.9	1'786.9	8.3		
Sales	1'773.8	1'773.8	1'591.4	11.5	13.1	12.1
EBIT	98.9	96.2	82.0	17.3		
opEBITA	161.5	158.8	139.7	13.6	15.4	14.4
opROSA	9.1%	9.0%	8.8%			
Net income attributable to shareholders of Sulzer Ltd	65.1	63.9	57.9	10.2		
Basic earnings per share	1.92	1.88	1.81	3.4		
Free cash flow	–11.6	–27.9	–29.8	6.6		
Net debt as of June 30/ December 31	485.1	377.9	239.0			
Employees (number of full-time equivalents) as of June 30/ December 31	16'289	16'289	15'572	4.6		

1) According to IFRS 16, see financial review and note 13 of the consolidated financial statements for details.

2) Without consideration of IFRS 16, applying the same accounting policies as in the prior year.

3) Adjusted due to the reassessment of a customer contract. See note 13 of the consolidated financial statements for details.

4) Comparing 2019 (previous accounting policies) with 2018.

5) Adjusted for currency effects. Comparing 2019 (previous accounting policies) with 2018.

6) Adjusted for acquisition and currency effects. Comparing 2019 (previous accounting policies) with 2018.

Business review

Strong organic growth and profitability increase

Order intake grew by 7.5% organically and by 8.7% including acquisitions. Sales increased by 13.1%, mostly driven by organic growth. Profitability increased to 9.0% supported by strong sales growth and continued savings from the Sulzer Full Potential (SFP) program of CHF 11 million. Free cash flow of CHF –27.9 million was in line with previous H1 performance, despite a volume-driven inventory buildup.

If not otherwise indicated, changes from the previous year are based on currency-adjusted figures. These are reported without consideration of IFRS 16, applying the same accounting policies as in the previous year.

Strong order growth

Order intake of CHF 1’933.3 million increased by 8.7% compared with the same period last year. Organic growth of 7.5% and CHF 21.8 million in orders from acquisitions drove this upsurge. Order intake gross margin remained stable at 33.8%. New orders in the oil and gas market showed better margins from improved order intake selectivity. Also the higher relative share of oil and gas orders and large project orders created an offsetting mix impact in the overall gross margin.

Sulzer delivered strong organic growth and continues to increase profitability.

Jill Lee, Chief Financial Officer

Order intake in the Pumps Equipment division increased by 5.9%. The increase stemmed from 5.5% organic growth, supported strongly by large projects in the Water market and growth in the Oil and Gas market. Order intake in the Rotating Equipment Services division grew by 7.3%: the majority because of organic growth and the remainder as a result of the Brithinee Electric acquisition. All market segments showed positive development. The Chemtech division grew by 25.9% driven by 23.3% in organic growth, with all regions contributing. The inorganic growth came from the GTC acquisition. Order intake in the Applicator Systems division remained flat. Growth in the Adhesives, Dental and Healthcare business unit was offset by a decline in Beauty. Sulzer’s total order intake grew in all regions.

As of June 30, 2019, the order backlog had increased by CHF 148 million to CHF 1’934.9 million from CHF 1’786.9 million on December 31, 2018.

Double-digit sales growth

Sales amounted to CHF 1’773.8 million – an increase of 13.1%. This rise was driven by 12.1% organic growth and CHF 15.7 million from acquisitions.

Sales grew strongly in the Oil and Gas market at 28.1%, boosted by high order backlog and supported by slight contribution from acquisitions. The Chemical Processing Industry increased by 26.1% and the General Industries market grew by 4.7%. The Power market declined by 0.5%, also due to a lower backlog at the beginning of the year. The Water market declined by 0.7% after a strong increase in 2018.

Sales increased in all regions, most pronouncedly in the Americas. The share of sales in emerging markets remained stable at 43%.

Lower gross margin due to mix

Gross margin decreased to 30.0% compared with 30.6% in the same period last year. This drop was due to a larger share of new equipment business in the lower-margin Energy market within the sales mix. Total gross profit increased to CHF 532.0 million (first half of 2018: CHF 487.7 million) as a result of the higher sales volume.

Operational return on sales increased to 9.0%

Operational EBITA (opEBITA) amounted to CHF 158.8 million compared with CHF 139.7 million in the first half of 2018, an increase of 15.4%. Positive contributions from higher sales volume, SFP savings of CHF 11 million, proportionally lower operating expenses, and acquisitions more than offset the above-mentioned mix effects on gross profit. OpEBITA increased organically by 14.4%.

Operating expenses excluding amortization, impairments on tangible and intangible assets, restructuring expenses, and other non-operational items increased by 8.1%. This increase is mostly attributable to higher selling expenses as well as operational expenses of the companies acquired.

Operational EBITA margin (opROSA) increased to 9.0% compared with 8.8% in the first half year of 2018.

Bridge from EBIT to operational EBITA (January 1 – June 30)

millions of CHF	2019 (new accounting policies)[1]	2019 (previous accounting policies)[2]	2018[3]
EBIT	**98.9**	**96.2**	**82.0**
Amortization	31.3	31.3	34.1
Impairments on tangible and intangible assets	0.5	0.5	0.7
Restructuring expenses	16.2	16.2	5.9
Non-operational items[4]	14.6	14.6	17.0
opEBITA	**161.5**	**158.8**	**139.7**

1) According to IFRS 16, see financial review and note 13 of the consolidated financial statements for details.
2) Without consideration of IFRS 16, applying the same accounting policies as in the prior year.
3) Adjusted due to the reassessment of a customer contract. See note 13 of the consolidated financial statements for details.
4) 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.

Non-operational costs impacted operating income

As well as concluding the SFP program during 2019, Sulzer is continuing to adapt its global manufacturing capacities to evolving market and business conditions. Up to June 2019, SFP-related non-operational expenses were CHF 7.8 million. Plans to consolidate two factories in Germany are underway, for which restructuring provisions of CHF 14.4 million and non-operational costs of CHF 6.4 million were recorded in the first half of 2019.

Consequently, EBIT amounted to CHF 96.2 million, an increase of 18.2% compared with CHF 82.0 million in the first half of 2018. Return on sales (ROS) was 5.4% compared with 5.2% in the first half of 2018.

Higher financial expenses

Total financial expenses amounted to CHF 10.5 million, compared with CHF 4.9 million in the first half of 2018. The increase arose mainly due to negative currency effects on financial instruments.

Stable effective tax rate

Income tax expense increased to CHF 19.6 million (2018: CHF 17.8 million) mainly due to higher pretax income. The effective tax rate for the first half of 2019 was stable at 22.8% compared with 22.9% in the first half of 2018.

Higher core net income

In the first half of 2019, net income amounted to CHF 65.3 million compared with CHF 60.0 million in the previous year. Core net income, which excludes restructuring expenses, amortization, impairments, non-operational items and the tax-adjusted effects of non-operational items, totaled CHF 113.6 million, compared with CHF 104.4 million in the first half of 2018. Basic earnings per share increased from CHF 1.81 in the first half of 2018 to CHF 1.88 in the first half of 2019, primarily due to higher profit.

Key balance sheet positions

Total assets as of June 30, 2019, amounted to CHF 4’931.0 million, which is a nominal increase of CHF 32.7 million from December 31, 2018. Non-current assets remained broadly stable at CHF 2’061.1 million, because lower goodwill (CHF 15.4 million) was offset by higher property, plant and equipment (CHF 15.6 million), and deferred income tax assets (CHF 5.0 million). Current assets increased nominally by CHF 29.2 million. Inventories (CHF 31.9 million) and supplier advances (CHF 7.1 million) grew on the back of an increase in order backlog of CHF 148 million since the end of last year. Trade accounts receivables decreased by CHF 20.6 million despite sales growth. Cash and cash equivalents decreased by CHF 156.6 million.

Total liabilities nominally increased by CHF 98.0 million to CHF 3’355.3 million as of June 30, 2019. The main reasons were an increase in contract liabilities (CHF 105.8 million) due to higher sales of project business, as well as the CHF 41.7 million in outstanding dividend payments to Tiwel Holding AG.

Equity decreased nominally by CHF 65.3 million to CHF 1’575.7 million. This was mainly driven by the Sulzer dividend (CHF 119.2 million) and currency translation effects (CHF 26.5 million). These were partly offset by net income (CHF 65.3 million), and the remeasurement of the defined benefit obligation (CHF 15.5 million).

Volume-driven inventory buildup impacted free cash flow

Sulzer’s free cash flow generation is usually back-end loaded. Excluding the positive impact of 16.3 million on free cash flow from IFRS 16 implementation, free cash flow amounted to CHF –27.9 million in the first half of 2019, slightly better than the CHF –29.8 million reported in the same period last year. Free cash flow was negative because the higher order backlog of CHF 148 million necessitated inventory buildup.

Cash flow from investing activities totaled CHF –85.0 million compared with CHF –242.5 million in the first half of 2018. In the first half of 2019, cash flow from investing activities was influenced by CHF 33.7 million for the acquisition of GTC and CHF 51.7 million for purchases of property, plant and equipment. In the first half of 2018, cash flow from investing activities was driven by CHF 209.2 million for the acquisition of JWC and CHF 42.4 million for purchases of property, plant and equipment.

Cash flow from financing activities totaled CHF –94.5 million compared with CHF 118.1 million in the first half of 2018. In the first half of 2019, Sulzer mostly compensated mature borrowings. The net change in cash since January 1, 2019, amounted to CHF –156.6 million, including exchange losses on cash and cash equivalents of CHF 3.9 million.

Outlook 2019

While Sulzer is not immune to the climate of economic uncertainty that percolates from some of the markets or geographies that the company is active in, it does not see at this point signs of a slowdown in its leading indicators.

At half year 2019, Sulzer has already achieved its incremental full-year savings target of CHF 10 million as a result of the timing of initiatives. The company therefore expects the cumulative savings for the SFP program to be slightly above the overall target of CHF 240 million by the end of 2019. This will help to compensate for continuing margin pressure in the energy markets.

Based on sustained customer inquiries and the company's strong performance in the first half of this year, Sulzer is increasing its guidance. The company raises its forecast for order intake to grow by 6% to 9% (previously 2% to 5%), and sales to grow by 7% to 9% (previously 3% to 5%), adjusted for currency effects and including acquisitions. Sulzer forecasts reaching an opEBITA margin (opEBITA in percent of sales) of around 10%.

Impact of IFRS 16 "Leases"

Sulzer has adapted its reporting to reflect the application of IFRS 16 "Leases". It replaced IAS 17 "Leases". IFRS 16 introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months. A lessee is required to recognize a lease asset representing its right to use the underlying lease asset and a lease liability representing its obligation to make lease payments.

In the first half of 2019, IFRS 16 had a positive effect on opEBITA (CHF 2.7 million) and free cash flow (CHF 16.3 million). Consequently, the application of IFRS 16 increased opROSA by 0.1 percentage points. The difference in the profit is related to the recognition of depreciation and interest expenses, instead of operating lease expenses. The difference in the cash flow is related to the recognition of payments for leasing as part of the financing activities, instead of cash flow from operating activities.

The information presented for 2018 has not been restated. In the business review, the group disclosed the figures for the first half of 2019 according to the new accounting standards and the old accounting standards. The changes in percent shown in the tables and mentioned in the text compare 2019 figures according to the previous accounting standard with 2018 figures as previously reported (like for like). In the interim consolidated financial statements (note 13), a table summarizes the impact of the new accounting standards on the financial statements.

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)

Growth in order intake, sales and profitability

In the first six months of 2019, Pumps Equipment recorded an increase in order intake. Sales, operational EBITA and operational ROSA also grew. Sulzer received two large pump orders in the water market totaling CHF 42 million.

Winning major orders in water transportation and desalination

In the first six months of 2019, Sulzer was awarded two large projects for desalination and pipeline pumps in the Middle East with a total value of CHF 42 million. Sulzer's pumps are market leaders in terms of efficiency. They help customers produce freshwater for millions of people every day and transport it through pipelines to where it's needed.

Our pumps are installed in some of the biggest desalination and water transport projects in the world. We provide our customers with the most efficient equipment on the market, supported by our highly valued technical application knowledge.

Frédéric Lalanne, Division President Pumps Equipment

Increase in order intake

In the first half of 2019, Pumps Equipment's order intake grew organically by 5.5%. Adapting to the changing markets, the division focused on the growing segments in the water, energy and industry markets.

Order intake in the Water market rose by 22.0%, driven by the two projects mentioned above and by a high demand in the wastewater treatment business. Orders from the Oil and Gas market increased by 7.1%, driven by a solid demand in the downstream business, mainly in the Middle East and Asia. Orders from Power customers decreased on higher selectivity compared with the first half of 2018 but were up sequentially. Order intake in the General Industry markets remained stable.

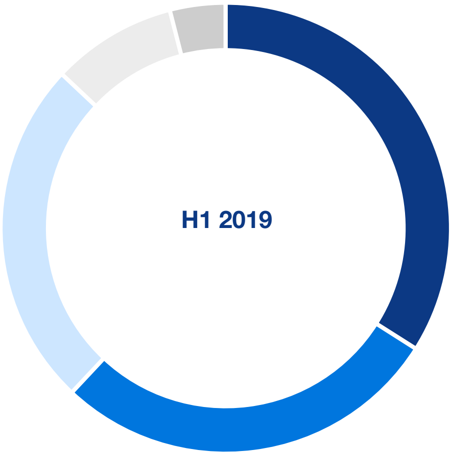
Sales and profitability increased significantly

Sales increased in the first six months, with particularly strong performance in the Oil and Gas business.

Operational EBITA more than doubled compared with the first half of the previous year as a result of improved quality of order execution and supply chain management. Operational ROSA increased from 1.3% to 2.7%.

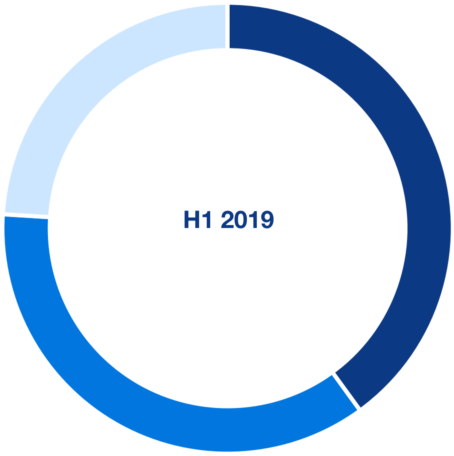
If not otherwise indicated, changes from the previous year are based on currency-adjusted figures. These are reported without consideration of IFRS 16, applying the same accounting policies as in the previous year.

Sales by market segment



- **34%** Oil and Gas
- **28%** Water
- **25%** General Industry
- **9%** Power
- **4%** Chemical Processing Industry

Sales by region



- **40%** Europe, the Middle East and Africa
- **36%** Americas
- **24%** Asia-Pacific

Key figures Pumps Equipment (January 1 – June 30)

millions of CHF	2019 (new accounting policies)[1]	2019 (previous accounting policies)[2]	2018	Change in +/–%[3]	+/–% adjusted[4]	+/–% organic[5]
Order intake	752.5	752.5	719.8	4.5	5.9	5.5
Order intake gross margin	27.4%	27.4%	27.6%			
Order backlog as of June 30/ December 31	1’042.2	1’042.2	982.9	6.0		
Sales	690.3	690.3	594.9	16.0	17.8	17.3
EBIT	–0.1	–1.1	–18.6	93.9		
opEBITA	20.0	18.9	7.7	146.2	146.3	144.1
opROSA	2.9%	2.7%	1.3%			
Employees (number of full-time equivalents) as of June 30/ December 31	5’778	5’778	5’713	1.1		

1) According to IFRS 16, see financial review and note 13 of the consolidated financial statements for details.
2) Without consideration of IFRS 16, applying the same accounting policies as in the prior year.
3) Comparing 2019 (previous accounting policies) with 2018.
4) Adjusted for currency effects. Comparing 2019 (previous accounting policies) with 2018.
5) Adjusted for acquisition and currency effects. Comparing 2019 (previous accounting policies) with 2018.

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)

Increase in order intake, sales and operational EBITA

Rotating Equipment Services reported growing order intake in the first six months of 2019. Sales and operational EBITA also grew, whereas operational ROSA decreased slightly. Sulzer acquired Alba Power, a leading independent service provider for aero-derivative gas turbines, thus diversifying into distributed power.

Diversifying into the distributed power industry

On July 2, 2019, Sulzer announced the acquisition of Alba Power, a leading independent service provider for aero-derivative gas turbines in Aberdeen, UK. With that, Sulzer has diversified its gas turbine service business into distributed power and offshore as well as marine applications. There are sizable, active markets and numerous cross-selling synergies with its existing pump, motor, generator and turbo service customers. Alba Power employs 80 people and generated sales of CHF 44 million with a profit margin above 20% in 2018.

By welcoming Alba Power to our team, we are diversifying our service offering for gas turbines into distributed power and offshore as well as marine applications. It's an excellent opportunity for cross-selling to our existing customers.

Daniel Bischofberger, Division President Rotating Equipment Services

Further, the division is advancing a powerful global initiative to streamline the processes of its operations. The project aims at faster delivery by using a standardized repair approach and digitalization. This will enable the division to provide the same excellent quality at double the speed.

All product lines contributed to order growth

Order intake increased in the first half of 2019 compared with the same period of the previous year. All product lines – Pump Services, Turbo Services and Electromechanical Services – contributed to growth, with a particularly strong demand for Pump Services. Order intake grew in all regions and was most pronounced in Europe, the Middle East and Africa (EMEA).

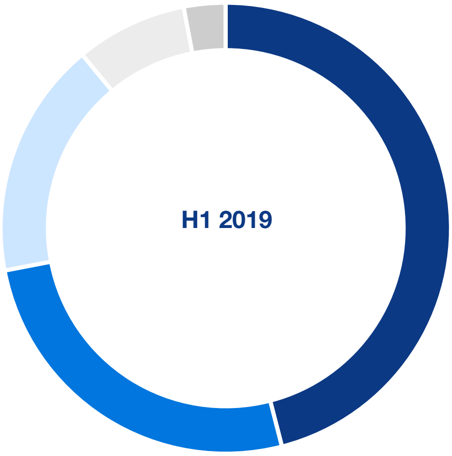
Increase of sales and operational EBITA – operational ROSA decreased

Sales increased considerably compared with the first six months of 2018. Growth in Pump Services and Electromechanical Services more than offset a decrease in Turbo Services.

Higher volumes led to an increase of operational EBITA. Operational ROSA, on the other hand, decreased slightly to 12.0% from 12.3% in the first half of 2018, due to timing impact.

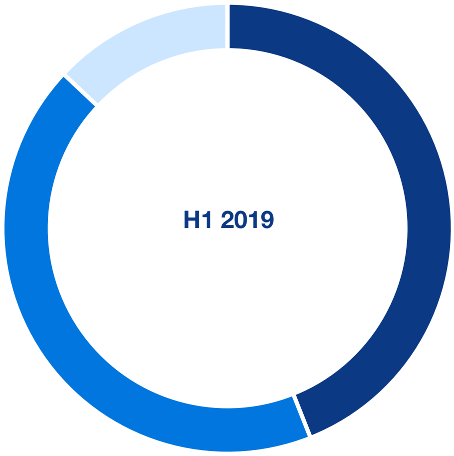
If not otherwise indicated, changes from the previous year are based on currency-adjusted figures. These are reported without consideration of IFRS 16, applying the same accounting policies as in the previous year.

Sales by market segment



46% Oil and Gas
26% Power
17% General Industry
8% Chemical Processing Industry
3% Water

Sales by region



44% Europe, the Middle East and Africa
43% Americas
13% Asia-Pacific

Key figures Rotating Equipment Services (January 1 – June 30)

millions of CHF	2019 (new accounting policies) 1)	2019 (previous accounting policies) 2)	2018 3)	Change in +/–% 4)	+/–% adjusted 5)	+/–% organic 6)
Order intake	602.2	602.2	572.1	5.3	7.3	6.2
Order intake gross margin	39.4%	39.4%	37.4%			
Order backlog as of June 30/ December 31	429.4	429.4	393.1	9.2		
Sales	561.4	561.4	499.8	12.3	14.9	13.7
EBIT	64.1	63.4	56.6	12.1		
opEBITA	67.9	67.2	61.4	9.5	12.6	12.3
opROSA	12.1%	12.0%	12.3%			
Employees (number of full-time equivalents) as of June 30/ December 31	4'882	4'882	4'721	3.4		

1) According to IFRS 16, see financial review and note 13 of the consolidated financial statements for details.
2) Without consideration of IFRS 16, applying the same accounting policies as in the prior year.
3) Adjusted due to the reassessment of a customer contract. See note 13 of the consolidated financial statements for details.
4) Comparing 2019 (previous accounting policies) with 2018.
5) Adjusted for currency effects. Comparing 2019 (previous accounting policies) with 2018.
6) Adjusted for acquisition and currency effects. Comparing 2019 (previous accounting policies) with 2018.

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)

Significant growth in order intake, sales and profitability

The Chemtech division reported double-digit growth of its order intake, sales and operational EBITA. Operational ROSA also increased strongly. Sulzer acquired GTC Technology US, LLC, and is supporting a pioneering project to turn carbon emissions into biofuels.

Strengthening petrochemical business

In the first half of 2019, Sulzer acquired the US company GTC Technology US, LLC. GTC develops technologies and commercializes licensed processes, including proprietary equipment and chemicals, for the petrochemical industry worldwide. The company, which employs around 200 employees, strengthens Chemtech's leadership in petrochemical processes and provides a market entry into the attractive technology licensing business.

With the acquisition of GTC, we further reinforced our position as a technology supplier for the petrochemical industry.

Torsten Wintergerste, Division President Chemtech

Chemtech is reinforcing its reputation in innovative process engineering services and equipment. It is supporting the EU-funded project "Steelanol", which aims to turn carbon emissions into biofuels. Chemtech will supply distillation equipment to ArcelorMittal's steel production plant in Ghent, Belgium, to help convert waste gases into approximately 80 million liters of bioethanol every year.

Double-digit order growth

Chemtech reported an increase of its order intake by 25.9% (23.3% organic) in the first half of 2019 compared with the same period of the previous year. This robust growth was driven by strategic initiatives and particularly good development in the oil and gas market. The GTC acquisition added CHF 7.8 million in order intake.

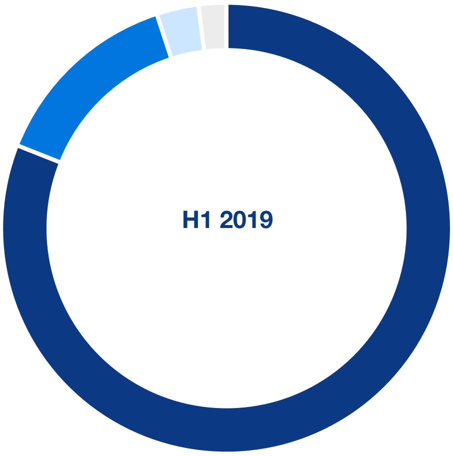
Increase in sales, operational EBITA and operational ROSA

Sales increased by 14.4% in the first half of 2019, driven by the strong order backlog, especially in Separation Technology, and by efficiency improvements in the division's factories.

Operational EBITA rose by 24.1%, thanks to higher volumes and a better product mix. Operational ROSA increased to 8.9% from 8.3% in the same period last year.

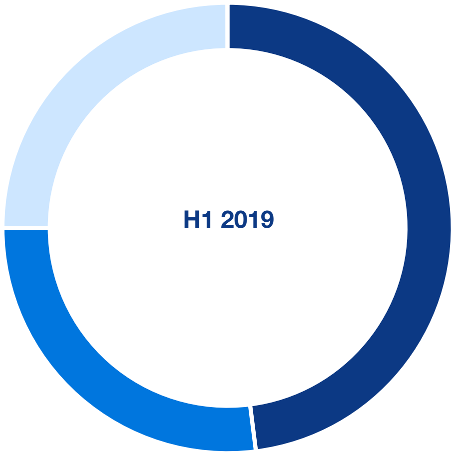
If not otherwise indicated, changes from the previous year are based on currency-adjusted figures. These are reported without consideration of IFRS 16, applying the same accounting policies as in the previous year.

Sales by market segment



- **81%** Oil and Gas
- **14%** Chemical Processing Industry
- **3%** General Industry
- **2%** Power

Sales by region



- **48%** Asia-Pacific
- **27%** Europe, the Middle East and Africa
- **25%** Americas

Key figures Chemtech (January 1 – June 30)

millions of CHF	2019 (new accounting policies)[1]	2019 (previous accounting policies)[2]	2018	Change in +/–%[3]	+/–% adjusted[4]	+/–% organic[5]
Order intake	350.3	350.3	280.0	25.1	25.9	23.3
Order intake gross margin	29.7%	29.7%	31.4%			
Order backlog as of June 30/ December 31	390.7	390.7	345.9	13.0		
Sales	303.8	303.8	267.7	13.5	14.4	13.0
EBIT	24.1	23.9	14.3	66.7		
opEBITA	27.3	27.1	22.3	21.2	24.1	24.1
opROSA	9.0%	8.9%	8.3%			
Employees (number of full-time equivalents) as of June 30/ December 31	3'576	3'576	3'063	16.7		

1) According to IFRS 16, see financial review and note 13 of the consolidated financial statements for details.
2) Without consideration of IFRS 16, applying the same accounting policies as in the prior year.
3) Comparing 2019 (previous accounting policies) with 2018.
4) Adjusted for currency effects. Comparing 2019 (previous accounting policies) with 2018.
5) Adjusted for acquisition and currency effects. Comparing 2019 (previous accounting policies) with 2018.

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)

Stable order intake and higher profitability

Applicator Systems reported flat order intake levels and a decrease in sales in the first half of 2019. Operational EBITA declined, whereas operational ROSA increased. Dental, Adhesives and Healthcare continue to perform well as Beauty adapts to a changing market.

From adhesives to beauty – bringing innovative solutions to the market

Sulzer's innovative teams brought new products to market: ecopaCC™ and Mixpeel™. The ecopaCC™ collapsible cartridge, which is used in the application of adhesives, offers customers sustainable solutions and cost savings. Mixpeel™ is a packaging and dispensing solution where clients benefit from ease of use, an improved filling procedure, additional fill volume, reduced waste and enhanced performance.

With the acquisition of Medmix Systems AG last year, Sulzer has added applicators for tissue treatment, bone repair, oral surgery and drug delivery to its portfolio. The company was integrated smoothly and Medmix is contributing healthy growth to Sulzer's Healthcare segment.

Our innovation pipeline is full of exciting products and solutions. With the launch of new products and our expertise in multiple technologies, we help our customers tackle their sustainability challenges.

Amaury de Menthiere, Division President Applicator Systems

The division's Geka business developed a 3D and augmented reality configurator for mascara. With this tool, customers have online access to Geka's product catalog and can design and decorate their own makeup packaging dynamically.

Same order intake level and lower sales

Order intake remained flat and sales decreased compared with the first six months of 2018. Profitable growth in the Adhesives, Dental and Healthcare business unit was offset by lower volumes in Beauty.

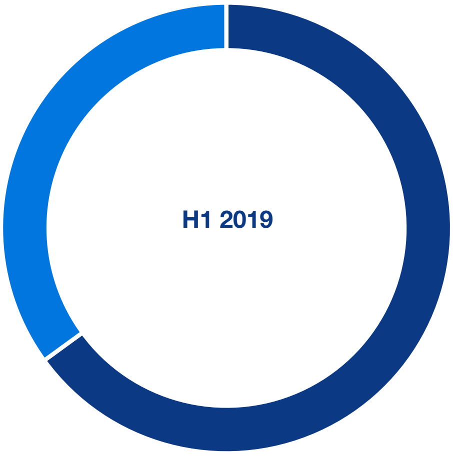
While Sulzer remains the market leader in brush-based beauty applications, the company is investing in a significant transformation of its industrial base to better serve the viral-marketing-driven "independents". These emerging players are driving the market growth, a trend that should benefit Sulzer over time.

Operational EBITA declined – operational ROSA increased

Operational EBITA declined due to volume shortfall. Operational ROSA increased to 21.5% from 21.2% in the same period of 2018 because of a favorable mix.

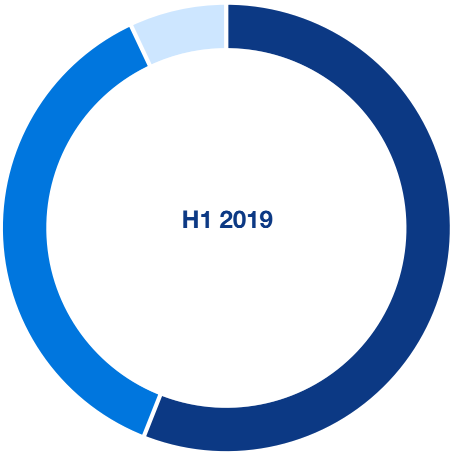
If not otherwise indicated, changes from the previous year are based on currency-adjusted figures. These are reported without consideration of IFRS 16, applying the same accounting policies as in the previous year.

Sales by market segment



- **65%** Adhesives, Dental, Healthcare
- **35%** Beauty

Sales by region



- **56%** Europe, the Middle East and Africa
- **37%** Americas
- **7%** Asia-Pacific

Key figures Applicator Systems (January 1 – June 30)

millions of CHF	2019 (new accounting policies)1)	2019 (previous accounting policies)2)	2018	Change in +/–% 3)	+/–% adjusted4)	+/–% organic5)
Order intake	228.4	228.4	229.5	–0.5	0.1	–2.1
Order intake gross margin	46.4%	46.4%	47.5%			
Order backlog as of June 30/ December 31	72.6	72.6	65.0	11.6		
Sales	218.2	218.2	229.0	–4.7	–4.3	–5.9
EBIT	15.9	15.6	36.1	–56.7		
opEBITA	47.3	47.0	48.5	–3.1	–3.2	–5.3
opROSA	21.7%	21.5%	21.2%			
Employees (number of full-time equivalents) as of June 30/ December 31	1’831	1’831	1’864	–1.8		

1) According to IFRS 16, see financial review and note 13 of the consolidated financial statements for details.
2) Without consideration of IFRS 16, applying the same accounting policies as in the prior year.
3) Comparing 2019 (previous accounting policies) with 2018.
4) Adjusted for currency effects. Comparing 2019 (previous accounting policies) with 2018.
5) Adjusted for acquisition and currency effects. Comparing 2019 (previous accounting policies) with 2018.

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)

Financial reporting

Consolidated income statement

January 1 – June 30

millions of CHF	Notes	2019	2018
Sales	3	1'773.8	1'591.4
Cost of goods sold		–1'241.8	–1'103.7
Gross profit		**532.0**	**487.7**
Selling and distribution expenses		–187.4	–180.2
General and administrative expenses		–196.7	–185.0
Research and development expenses		–43.3	–42.6
Other operating income and expenses, net	6	–5.7	2.1
Operating income		**98.9**	**82.0**
Interest and securities income	7	2.9	1.5
Interest expenses	7	–12.4	–10.8
Other financial income and expenses, net	7	–2.5	4.4
Share of profit and loss of associates		–0.8	0.7
Income before income tax expenses		**86.2**	**77.8**
Income tax expenses	8	–19.6	–17.8
Net income		**66.5**	**60.0**
attributable to shareholders of Sulzer Ltd		65.1	57.9
attributable to non-controlling interests		1.4	2.0
Earnings per share (in CHF)			
Basic earnings per share		1.92	1.81
Diluted earnings per share		1.90	1.80

Consolidated statement of comprehensive income

January 1 – June 30

millions of CHF	Notes	2019	2018
Net income		**66.5**	**60.0**
Items that may be reclassified subsequently to the income statement			
Cash flow hedges, net of tax		3.1	–2.9
Currency translation differences		–26.5	–36.4
Total of items that may be reclassified subsequently to the income statement		**–23.5**	**–39.3**
Items that will not be reclassified to the income statement			
Remeasurements of defined benefit obligations, net of tax		15.5	19.5
Total of items that will not be reclassified to the income statement		**15.5**	**19.5**
Total other comprehensive income		**–8.0**	**–19.8**
Total comprehensive income for the period		**58.6**	**40.2**
attributable to shareholders of Sulzer Ltd		57.2	39.8
attributable to non-controlling interests		1.3	0.4

Consolidated balance sheet

millions of CHF	Notes	June 30, 2019	December 31, 2018	June 30, 2018
Non-current assets				
Goodwill		908.0	923.4	943.9
Other intangible assets		440.7	439.4	469.2
Property, plant and equipment		535.0	527.0	538.2
Lease assets	13	104.7	–	–
Associates		12.5	13.4	11.2
Other financial assets		10.1	9.4	14.7
Non-current receivables		6.0	6.2	7.7
Deferred income tax assets		143.9	138.9	145.3
Total non-current assets		**2'160.9**	**2'057.7**	**2'130.1**
Current assets				
Inventories		690.8	658.9	671.6
Current income tax receivables		28.1	29.0	21.9
Advance payments to suppliers		87.0	79.9	97.6
Contract assets		335.6	205.1	258.4
Trade accounts receivable		601.7	622.3	620.4
Other current receivables and prepaid expenses		188.0	150.2	149.9
Cash and cash equivalents		938.6	1'095.2	359.1
Total current assets		**2'869.8**	**2'840.6**	**2'178.9**
Total assets		**5'030.7**	**4'898.3**	**4'309.1**
Equity				
Share capital	9	0.3	0.3	0.3
Reserves		1'565.1	1'629.5	1'024.3
Equity attributable to shareholders of Sulzer Ltd		**1'565.4**	**1'629.9**	**1'024.6**
Non-controlling interests		11.5	11.2	22.5
Total equity		**1'576.9**	**1'641.0**	**1'047.1**
Non-current liabilities				
Non-current borrowings	10	1'308.9	1'316.3	458.1
Non-current lease liabilities	13	79.2	–	–
Deferred income tax liabilities		94.0	89.5	99.8
Non-current income tax liabilities		2.3	2.3	1.5
Defined benefit obligations		154.7	160.9	213.6
Non-current provisions	11	69.8	74.4	77.6
Other non-current liabilities		6.0	3.6	18.3
Total non-current liabilities		**1'714.8**	**1'646.8**	**869.0**
Current liabilities				
Current borrowings	10	7.7	18.0	422.9
Current lease liabilities	13	28.0	–	–
Current income tax liabilities		28.3	32.0	5.7
Current provisions	11	142.4	139.6	154.5
Contract liabilities		362.2	256.4	295.0
Trade accounts payable		468.1	521.8	449.8
Other current and accrued liabilities	12	702.3	642.6	1'065.1
Total current liabilities		**1'739.0**	**1'610.4**	**2'393.0**
Total liabilities		**3'453.8**	**3'257.3**	**3'262.0**
Total equity and liabilities		**5'030.7**	**4'898.3**	**4'309.1**

Consolidated statement of changes in equity

January 1 – June 30

		Attributable to shareholders of Sulzer Ltd							
millions of CHF	Notes	**Share capital**	**Retained earnings**	**Treasury shares**	**Cash flow hedge reserve**	**Currency translation adjustment**	**Total**	**Non-controlling interests**	**Total equity**
Equity as of January 1, 2018		**0.3**	**2'040.9**	**–22.1**	**–6.5**	**–362.2**	**1'650.4**	**22.3**	**1'672.6**
Comprehensive income for the period:									
Net income			57.9				57.9	2.0	60.0
– Cash flow hedges, net of tax					–2.9		–2.9		–2.9
– Remeasurements of defined benefit obligations, net of tax			19.5				19.5		19.5
– Currency translation differences						–34.8	–34.8	–1.6	–36.4
Other comprehensive income			19.5		–2.9	–34.8	–18.2	–1.6	–19.8
Total comprehensive income for the period		**–**	**77.4**	**–**	**–2.9**	**–34.8**	**39.8**	**0.4**	**40.2**
Transactions with owners of the company:									
Changes of non-controlling interests without a change in control							–	0.6	0.6
Allocation of treasury shares to share plan participants			–5.3	5.3			–		–
Purchase of treasury shares				–551.4			–551.4		–551.4
Share-based payments			4.9				4.9		4.9
Dividends	9		–119.1				–119.1	–0.8	–119.9
Equity as of June 30, 2018		**0.3**	**1'998.7**	**–568.2**	**–9.4**	**–397.0**	**1'024.6**	**22.5**	**1'047.1**
Equity as of January 1, 2019		**0.3**	**2'123.6**	**–34.0**	**–8.6**	**–451.4**	**1'629.9**	**11.2**	**1'641.0**
							–		
Comprehensive income for the period:							–		
Net income			65.1				65.1	1.4	66.5
– Cash flow hedges, net of tax		–	–	–	3.1	–	3.1	–	3.1
– Remeasurements of defined benefit obligations, net of tax		–	15.5	–	–	–	15.5	–	15.5
– Currency translation differences		–	–	–	–	–26.5	–26.5	–0.1	–26.5
Other comprehensive income		–	15.5	–	3.1	–26.5	–7.9	–0.1	–8.0
Total comprehensive income for the period		**–**	**80.6**	**–**	**3.1**	**–26.5**	**57.2**	**1.3**	**58.6**
Transactions with owners of the company:									
Allocation of treasury shares to share plan participants		–	–18.9	18.9	–	–	–		–
Purchase of treasury shares		–	–	–6.9	–	–	–6.9		–6.9
Share-based payments		–	4.5	–	–	–	4.5		4.5
Dividends	9	–	–119.2	–	–	–	–119.2	–1.0	–120.2
Equity as of June 30, 2019		**0.3**	**2'070.6**	**–22.1**	**–5.5**	**–477.9**	**1'565.4**	**11.5**	**1'576.9**

Consolidated statement of cash flows

January 1 – June 30

millions of CHF	Notes	2019	2018
Cash and cash equivalents as of January 1		**1'095.2**	**488.8**
Net income		66.5	60.0
Interest and securities income	7	–2.9	–1.5
Interest expenses	7	12.4	10.8
Income tax expenses	8	19.6	17.8
Depreciation, amortization and impairments		82.4	70.6
Income from disposals of property, plant and equipment	6	–0.1	–4.7
Changes in inventories		–30.8	–94.1
Changes in advance payments to suppliers		–7.5	–9.5
Changes in contract assets		–122.1	–58.6
Changes in trade accounts receivable		16.3	40.4
Changes in contract liabilities		107.7	5.8
Changes in trade accounts payable		–58.6	15.8
Change in provision for employee benefit plans		9.4	0.7
Changes in provisions		–0.1	–2.7
Changes in other net current assets		–24.3	–8.8
Other non-cash items		7.8	4.8
Interest received		2.9	1.5
Interest paid		–4.6	–6.0
Income tax paid		–31.0	–39.2
Total cash flow from operating activities		**43.1**	**3.0**
Purchase of intangible assets		–2.1	–1.8
Sale of intangible assets		0.3	–
Purchase of property, plant and equipment		–51.7	–42.4
Sale of property, plant and equipment		2.5	10.9
Acquisitions of subsidiaries, net of cash acquired	4	–33.7	–209.2
Divestitures of subsidiaries		0.0	0.6
Dividends from associates		0.1	–
Purchase of financial assets		–0.5	–0.6
Total cash flow from investing activities		**–85.0**	**–242.5**
Dividend	9	–77.5	–43.1
Dividend paid to non-controlling interests		–1.0	–0.8
Purchase of treasury shares		–6.9	–5.8
Payments for leases		–16.3	–
Additions in non-current borrowings	10	0.2	–
Repayment of non-current borrowings	10	–0.0	–0.4
Additions in current borrowings	10	59.6	409.0
Repayment of current borrowings	10	–68.9	–240.8
Total cash flow from financing activities		**–110.8**	**118.1**
Exchange losses on cash and cash equivalents		–3.9	–8.3
Net change in cash and cash equivalents		**–156.6**	**–129.7**
Cash and cash equivalents as of June 30		**938.6**	**359.1**

1 General information

Sulzer Ltd (the “company”) is a company domiciled in Switzerland. The address of the company’s registered office is Neuwiesenstrasse 15 in Winterthur, Switzerland. The unaudited consolidated interim financial statements for the six months ended June 30, 2019, comprise the company and its subsidiaries (together referred to as the “group” and individually as the “subsidiaries”) and the group’s interest in associates and joint ventures. The group specializes in pumping solutions, service solutions for rotating equipment, separation and mixing, and applicator technology. Sulzer was founded in 1834 in Winterthur, Switzerland, and employs around 16’300 people. The company serves clients in over 180 production and service sites around the world. Sulzer Ltd is listed on the SIX Swiss Exchange in Zurich, Switzerland (symbol: SUN).

The interim financial statements have been prepared in accordance with the requirements of IAS 34 “Interim financial reporting”. This is the first set of consolidated financial statements where IFRS 16 “Leases” has been applied. Details and changes of the group’s accounting policies are described in note 13.

2 Significant events and transactions during the reporting period

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

- As of April 30, 2019, the group acquired 100% of the issued shares in GTC Technology US, LLC (“GTC”) for CHF 43.2 million. GTC is headquartered in Houston, Texas, US, and employs around 200 people. The company is offering proprietary processes and systems for the production of aromatics and other petrochemicals. GTC combines its specialized expertise in the licensing of process-based plant engineering with long-standing industry experience. The acquisition resulted in an increase in intangible assets of CHF 38.5 million at the date of acquisition (see note 4).
- Sulzer has continued to adapt its global manufacturing footprint and streamline the organizational setup. In the first half of 2019, restructuring expenses were mainly associated with measures taken in Germany. The group recognized restructuring expenses of CHF 16.2 million in the first half of 2019 (half year 2018: CHF 5.9 million). Associated with restructuring initiatives, the group further recognized impairments on tangible and intangible assets of CHF 0.5 million (half year 2018: CHF 0.7 million).
- This is the first set of consolidated financial statements where IFRS 16 “Leases” has been applied. The application of this new accounting standard resulted in an increase of total assets and total liabilities of CHF 107.3 million. Details and changes of the group’s accounting policies are described in note 13.

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

3 Segment information

Segment information by divisions

	Pumps Equipment		Rotating Equipment Services		Chemtech		Applicator Systems	
millions of CHF	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Order intake[1)]	**752.5**	**719.8**	**602.2**	**572.1**	**350.3**	**280.0**	**228.4**	**229.5**
Nominal growth	4.5%	23.7%	5.3%	6.5%	25.1%	5.5%	–0.5%	9.2%
Currency adjusted growth	5.9%	21.3%	7.3%	6.5%	25.9%	5.0%	0.1%	6.3%
Organic growth[2)]	5.5%	12.1%	6.2%	3.1%	23.3%	5.0%	–2.1%	1.3%
Order backlog as of June 30/ December 31	1'042.2	982.9	429.4	393.1	390.7	345.9	72.6	65.0
Sales recognized at a point in time	466.6	417.9	463.6	419.3	181.5	155.6	218.2	229.0
Sales recognized over time	223.7	177.0	97.9	80.5	122.3	112.1	0.0	0.0
Total sales[3)]	**690.3**	**594.9**	**561.4**	**499.8**	**303.8**	**267.7**	**218.2**	**229.0**
Nominal growth	16.0%	n/a	12.3%	n/a	13.5%	n/a	–4.7%	n/a
Currency adjusted growth	17.8%	n/a	14.9%	n/a	14.4%	n/a	–4.3%	n/a
Organic growth[2)]	17.3%	n/a	13.7%	n/a	13.0%	n/a	–5.9%	n/a
opEBITA[4)]	**20.0**	**7.7**	**67.9**	**61.4**	**27.3**	**22.3**	**47.3**	**48.5**
in % of sales[5)]	2.9%	1.3%	12.1%	12.3%	9.0%	8.3%	21.7%	21.2%
Restructuring expenses	–0.5	–4.2	–0.4	–1.0	–0.4	–0.0	–14.4	–0.3
Amortization	–15.0	–17.4	–3.6	–3.7	–2.5	–2.7	–9.6	–9.8
Impairments on tangible and intangible assets	–0.1	–0.5	–0.0	–0.0	–0.0	0.0	–0.4	–0.3
Non-operational items	–4.5	–4.2	0.2	0.0	–0.2	–5.3	–6.9	–2.0
EBIT (operating income)	**–0.1**	**–18.6**	**64.1**	**56.6**	**24.1**	**14.3**	**15.9**	**36.1**
Depreciation	–17.9	–12.2	–12.5	–8.5	–5.9	–4.1	–12.7	–10.7
Operating assets	1'722.3	1'670.1	921.1	860.2	571.3	483.0	625.4	623.4
Unallocated assets	–	–	–	–	–	–	–	–
Total assets as of June 30/ December 31	**1'722.3**	**1'670.1**	**921.1**	**860.2**	**571.3**	**483.0**	**625.4**	**623.4**
Operating liabilities	746.4	739.1	390.0	347.7	322.7	289.8	112.0	76.3
Unallocated liabilities	–	–	–	–	–	–	–	–
Total liabilities as of June 30/ December 31	**746.4**	**739.1**	**390.0**	**347.7**	**322.7**	**289.8**	**112.0**	**76.3**
Operating net assets	975.9	931.0	531.1	512.5	248.6	193.1	513.4	547.1
Unallocated net assets	–	–	–	–	–	–	–	–

Total net assets as of June 30/ December 31	**975.9**	**931.0**	**531.1**	**512.5**	**248.6**	**193.1**	**513.4**	**547.1**
Capital expenditure	–16.9	–13.2	–14.5	–11.8	–9.2	–3.7	–18.7	–15.1
Employees (number of full-time equivalents) as of June 30/ December 31	5'778	5'713	4'882	4'721	3'576	3'063	1'831	1'864

1) Order intake from external customers.
2) Adjusted for currency and acquisition effects.
3) Sales from external customers.
4) Operating income before restructuring, amortization, impairments and non-operational items.
5) Return on sales before restructuring, amortization, impairments and non-operational items (opEBITA/sales).

Segment information by divisions

	Total divisions		Others[6]		Total Sulzer	
millions of CHF	**2019**	2018	**2019**	2018	**2019**	2018
Order intake[1]	**1'933.3**	**1'801.4**	**–**	**–**	**1'933.3**	**1'801.4**
Nominal growth	7.3%	13.0%	–	–	7.3%	13.0%
Currency adjusted growth	8.7%	11.6%	–	–	8.7%	11.6%
Organic growth[2]	7.5%	6.5%	–	–	7.5%	6.5%
Order backlog as of June 30/ December 31	1'934.9	1'786.9	–	–	1'934.9	1'786.9
Sales recognized at a point in time	1'329.9	1'221.9	–	–	1'329.9	1'221.9
Sales recognized over time	443.9	369.6	–	–	443.9	369.6
Total sales[3]	**1'773.8**	**1'591.4**	**–**	**–**	**1'773.8**	**1'591.4**
Nominal growth	11.5%	n/a	–	–	11.5%	n/a
Currency adjusted growth	13.1%	n/a	–	–	13.1%	n/a
Organic growth[2]	12.1%	n/a	–	–	12.1%	n/a
opEBITA[4]	**162.5**	**139.9**	**–0.9**	**–0.2**	**161.5**	**139.7**
in % of sales[5]	9.2%	8.8%	n/a	n/a	9.1%	8.8%
Restructuring expenses	–15.7	–5.5	–0.5	–0.4	–16.2	–5.9
Amortization	–30.8	–33.6	–0.5	–0.5	–31.3	–34.1
Impairments on tangible and intangible assets	–0.5	–0.7	–	–	–0.5	–0.7
Non-operational items	–11.4	–11.5	–3.2	–5.5	–14.6	–17.0
EBIT (operating income)	**104.0**	**88.5**	**–5.1**	**–6.6**	**98.9**	**82.0**
Depreciation	–49.0	–35.5	–1.6	–0.2	–50.6	–35.7
Operating assets	3'840.1	3'636.6	30.9	–26.7	3'871.0	3'610.0
Unallocated assets	–	–	1'159.7	1'288.4	1'159.7	1'288.4
Total assets as of June 30/ December 31	**3'840.1**	**3'636.6**	**1'190.6**	**1'261.7**	**5'030.7**	**4'898.3**
Operating liabilities	1'571.1	1'452.9	113.3	79.7	1'684.4	1'532.5
Unallocated liabilities	–	–	1'769.4	1'724.7	1'769.4	1'724.7

Total liabilities as of June 30/ December 31	**1’571.1**	**1’452.9**	**1’882.7**	**1’804.4**	**3’453.8**	**3’257.3**
Operating net assets	2’269.0	2’183.8	–82.4	–106.4	2’186.6	2’077.4
Unallocated net assets	–	–	–609.7	–436.4	–609.7	–436.4
Total net assets as of June 30/ December 31	**2’269.0**	**2’183.8**	**–692.1**	**–542.7**	**1’576.9**	**1’641.0**
Capital expenditure	–59.3	–43.8	–1.2	–0.7	–60.5	–44.5
Employees (number of full-time equivalents) as of June 30/ December 31	16’066	15’361	223	211	16’289	15’572

1) Order intake from external customers.
2) Adjusted for currency and acquisition effects.
3) Sales from external customers.
4) Operating income before restructuring, amortization, impairments and non-operational items.
5) Return on sales before restructuring, amortization, impairments and non-operational items (opEBITA/sales).
6) The most significant activities under “Others” relate to Corporate Center.

Information about reportable segments

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

Pumps Equipment — Pump technology and solutions

This division provides a wide range of pumping solutions, compressors and mixers, including spare parts and service. The focus is on:

- Production, transport and processing of crude oil and its derivates
- Supply, treatment and transport of water as well as wastewater treatment
- Fossil-fired, nuclear and renewable power generation
- Specific general industries, such as the pulp and paper, mining, metals, fertilizer, food and chemical process industries.

Rotating Equipment Services — Service solutions for rotating equipment

This division offers technology-based service solutions for complex rotating equipment maintenance, including gas and steam turbines, pumps, compressors, motors, generators and other adjacent equipment – be it Sulzer or third-party equipment. The focus is on:

- Oil and gas, power, transport, mining, water, heavy and process industries
- Gas and steam turbines, compressors, hot gas expanders
- Generators and electrical motors
- Pumps.

Chemtech — Separation and mixing technology and associated services

This division offers separation and mixing technology, process solutions and field services for the oil and gas, hydrocarbon and chemical processing industries. The 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

The division offers products and services for liquid application and mixing technology. The 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 the healthcare and medical 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 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.

Sales 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 sales from external customers is based on the location of the customer.

Sales by region

					2019
millions of CHF	Pumps Equipment	Rotating Equipment Services	Chemtech	Applicator Systems	Total Sulzer
Europe, the Middle East, Africa – thereof:	**277.3**	**248.7**	**81.9**	**122.5**	**730.4**
Germany	29.5	23.1	12.6	48.1	113.3
United Kingdom	12.0	60.6	3.4	11.4	87.3
Russia	16.8	36.7	4.6	0.4	58.4
Saudi Arabia	20.0	21.9	6.8	0.0	48.7
other countries	199.0	106.5	54.6	62.6	422.7
Americas – thereof:	**250.8**	**238.7**	**75.0**	**80.6**	**645.1**
USA	173.6	188.4	49.3	57.0	468.3
Brazil	29.2	11.5	13.7	5.3	59.7
Canada	29.1	10.1	6.0	0.6	45.8
Argentina	1.3	8.1	0.6	0.5	10.4
other countries	17.6	20.6	5.5	17.2	60.9
Asia-Pacific – thereof:	**162.3**	**74.0**	**146.9**	**15.1**	**398.2**
China	90.2	11.4	81.9	6.4	190.0
India	16.6	4.4	26.1	0.3	47.5
Australia	6.5	19.2	1.6	0.2	27.6
South Korea	8.5	5.4	7.2	2.0	23.0
other countries	40.5	33.6	30.0	6.1	110.1
Total	**690.3**	**561.4**	**303.8**	**218.2**	**1'773.8**

					2018
millions of CHF	Pumps Equipment	Rotating Equipment Services	Chemtech	Applicator Systems	Total Sulzer
Europe, the Middle East, Africa – thereof:	**240.2**	**208.9**	**87.4**	**135.4**	**671.9**
Germany	23.9	24.1	11.2	47.2	106.4
United Kingdom	17.2	51.4	2.3	14.6	85.5
Russia	15.2	31.5	5.6	0.9	53.2
Saudi Arabia	18.1	8.3	21.0	0.0	47.5
other countries	165.7	93.5	47.4	72.6	379.3
Americas – thereof:	**189.8**	**219.0**	**62.3**	**70.9**	**542.0**
USA	130.8	172.2	34.6	63.1	400.7
Brazil	15.6	10.8	14.5	4.9	45.7
Canada	24.4	13.4	6.6	0.7	45.0
Argentina	0.3	8.2	2.6	0.6	11.6
other countries	18.7	14.4	4.1	1.7	38.9

Asia-Pacific – thereof:	**165.0**	**72.0**	**118.1**	**22.7**	**377.7**
China	115.8	22.0	70.4	8.0	216.2
India	10.7	2.3	16.0	0.2	29.2
Australia	7.0	17.7	2.4	0.6	27.7
South Korea	5.4	5.1	7.9	2.2	20.6
other countries	26.1	24.9	21.4	11.8	84.1
Total	**594.9**	**499.8**	**267.7**	**229.0**	**1'591.4**

Segment information by market segment

The following tables show the allocation of sales from external customers by market segments:

Sales by market segment

					2019
millions of CHF	Pumps Equipment	Rotating Equipment Services	Chemtech	Applicator Systems	Total Sulzer
Oil and Gas	235.3	257.0	245.7	–	737.9
General Industry	174.7	97.8	8.0	–	280.5
Water	193.6	18.5	0.3	–	212.4
Power	57.6	144.9	6.1	–	208.6
Adhesives, Dental, Healthcare	–	–	–	141.6	141.6
Chemical Processing Industry	29.2	43.2	43.7	–	116.1
Beauty	–	–	–	76.6	76.6
Total	**690.3**	**561.4**	**303.8**	**218.2**	**1'773.8**

					2018
millions of CHF	Pumps Equipment	Rotating Equipment Services	Chemtech	Applicator Systems	Total Sulzer
Oil and Gas	163.7	185.7	234.8	–	584.2
General Industry	162.0	90.5	1.7	–	254.3
Water	205.4	11.7	0.3	–	217.4
Power	45.6	168.7	0.3	–	214.6
Adhesives, Dental, Healthcare	–	–	–	135.6	135.6
Chemical Processing Industry	18.3	43.3	30.5	–	92.1
Beauty	–	–	–	93.4	93.4
Total	**594.9**	**499.8**	**267.7**	**229.0**	**1'591.4**

4 Acquisitions of subsidiaries

Acquisitions in 2019

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

Net assets acquired

millions of CHF	GTC Technology US, LLC
Intangible assets	38.5
Property, plant and equipment	4.4
Lease assets	0.8
Cash and cash equivalents	6.2
Trade accounts receivable	9.8
Other current assets	11.9
Other liabilities	–20.9
Deferred tax liabilities	–9.4
Net identifiable assets	**41.3**
Goodwill recognized in balance sheet	1.9
Total consideration	**43.2**
Purchase price paid in cash	39.9
Contingent consideration	3.3
Total consideration	**43.2**

GTC Technology US, LLC

On April 30, 2019, Sulzer acquired a 100% controlling interest of GTC Technology US, LLC (“GTC”) for CHF 43.2 million, of which CHF 39.9 million was paid in cash and CHF 3.3 million arose from a contingent consideration agreement. The headquarters of GTC are located in Houston, Texas, USA. GTC employs 200 people and is a technology company offering proprietary processes and systems for the production of aromatics and other petrochemicals. This acquisition strengthens Sulzer Chemtech’s leadership in petrochemical processes and expands its revenue base to process licensing and associated proprietary equipment and chemicals. The goodwill is attributable to synergies by leveraging cross-selling opportunities. None of the goodwill is expected to be deductible for tax purposes. Transaction costs recognized in the income statement amount to CHF 0.2 million. Since the acquisition date, GTC contributed order intake of CHF 7.8 million, sales of CHF 3.8 million and net income of CHF 0.0 million to the group.

Contingent consideration

The contingent consideration is dependent on patents, technology and licensing, as well as order intake from the company’s product portfolio. The total liability is limited at CHF 3.3 million. The calculation of the contingent consideration is based on management assessments that the criteria will be achieved at a probability of 100%.

Acquired receivables

The fair value of acquired trade accounts receivable is CHF 9.8 million. The gross contractual amount for trade account receivables due is CHF 12.1 million, of which CHF 2.3 million is expected to be uncollectible at the date of acquisition.

Pro forma sales and profit contribution

Had the acquisition above occurred on January 1, 2019, management estimates that total net sales of the group would amount to CHF 1’790.9 million, and the consolidated net income would be CHF 67.5 million.

Cash flow from acquisitions of subsidiaries

millions of CHF	2019	2018
Cash consideration paid	–39.9	–211.3
Contingent consideration paid	-	–1.4
Cash acquired	6.2	3.6
Payments for acquisitions in prior years	-	–0.1
Total cash flow from acquisitions, net of cash acquired	**–33.7**	**–209.2**

Contingent consideration

millions of CHF	2019	2018
Balance as of January 1	0.9	5.1
Assumed in a business combination	3.3	-
Payment of contingent consideration	-	–1.4
Release to other operating income	-	–1.4
Currency translation differences	–0.1	0.1
Total contingent consideration as of June 30/December 31	**4.1**	**2.4**

5 Financial instruments

The following tables present the carrying amounts and fair values of financial assets and liabilities as of June 30, 2019, and December 31, 2018, including their levels in the fair value hierarchy. For financial assets and financial liabilities not measured at fair value in the balance sheet, fair value information is not provided if the carrying amount is a reasonable approximation of fair value.

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

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

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

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

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

Fair value table

						June 30, 2019
millions of CHF	Notes	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets measured at fair value						
Other financial assets (at fair value)		7.3	7.3	0.2	–	7.1
Derivative assets – non-current		0.1	0.1	–	0.1	–
Derivative assets – current		9.6	9.6	–	9.6	–
Total financial assets measured at fair value		**16.9**	**16.9**	**0.2**	**9.7**	**7.1**
Financial assets not measured at fair value						
Other financial assets (at amortized cost)		2.8				
Non-current receivables (excluding non-current derivative assets)		5.9				
Contract assets		335.6				
Trade accounts receivable		601.7				
Other current receivables (excluding current derivative assets and other taxes)		30.2				
Cash and cash equivalents		938.6				
Total financial assets not measured at fair value		**1’914.9**	**–**	**–**	**–**	**–**
Financial liabilities measured at fair value						
Derivative liabilities – non-current		0.1	0.1	–	0.1	–
Derivative liabilities – current		7.7	7.7	–	7.7	–
Contingent considerations	4	4.1	4.1	–	–	4.1
Total financial liabilities measured at fair value		**11.8**	**11.8**	**–**	**7.7**	**4.1**
Financial liabilities not measured at fair value						
Outstanding bonds	10	1’308.9	1’343.7	1’343.7	–	–
Non-current lease liabilities		79.2				
Other current borrowings and bank loans		7.7				
Other non-current liabilities		6.0				
Current lease liabilities		28.0				
Trade accounts payable		468.1				
Other current liabilities (excluding current derivative liabilities, other taxes and contingent considerations)		262.7				
Total financial liabilities not measured at fair value		**2’160.5**	**1’343.7**	**1’343.7**	**–**	**–**

Fair value table

						December 31, 2018
millions of CHF	Notes	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets measured at fair value						
Other financial assets (at fair value)		6.8	6.8	0.2	–	6.6
Derivative assets – current		6.4	6.4	–	6.4	–
Total financial assets measured at fair value		**13.1**	**13.1**	**0.2**	**6.4**	**6.6**
Financial assets not measured at fair value						
Other financial assets (at amortized cost)		2.7				
Non-current receivables (excluding non-current derivative assets)		6.2				
Contract assets		205.1				
Trade accounts receivable		622.3				
Other current receivables (excluding current derivative assets and other taxes)		24.3				
Cash and cash equivalents		1’095.2				
Total financial assets not measured at fair value		**1’955.7**	**–**	**–**	**–**	**–**
Financial liabilities measured at fair value						
Derivative liabilities – non-current		0.2	0.2	–	0.2	–
Derivative liabilities – current		8.4	8.4	–	8.4	–
Contingent considerations	4	0.9	0.9	–	–	0.9
Total financial liabilities measured at fair value		**9.6**	**9.6**	**–**	**8.7**	**0.9**
Financial liabilities not measured at fair value						
Outstanding bonds	10	1’308.7	1’312.6	1’312.6	–	–
Other non-current borrowings	10	7.6				
Other current borrowings and bank loans	10	18.0				
Other non-current liabilities		3.6				
Trade accounts payable		521.8				
Other current liabilities (excluding current derivative liabilities, other taxes and contingent considerations)		211.3				
Total financial liabilities not measured at fair value		**2’070.9**	**1’312.6**	**1’312.6**	**–**	**–**

6 Other operating income and expenses

millions of CHF	2019	2018
Income from release of contingent consideration	–	1.4
Gain from sale of property, plant and equipment	0.1	4.7
Operating currency exchange gains, net	2.4	–
Other operating income	9.4	4.4
Total other operating income	**12.0**	**10.5**
Restructuring expenses	–16.2	–5.9
Impairments on tangible and intangible assets	–0.5	–0.7
Cost for mergers and acquisitions	–0.8	–0.8
Loss from sale of property, plant and equipment	–0.1	–
Operating currency exchange losses, net	–	–0.7
Other operating expenses	–	–0.3
Total other operating expenses	**–17.7**	**–8.4**
Total other operating income and expenses, net	**–5.7**	**2.1**

During 2019, the group reassessed the achievement of the earn-out targets related to contingent consideration arrangements. The reassessment did not result in a change of contingent considerations (half year 2018: income of CHF 1.4 million).

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

Sulzer has continued to adapt its global manufacturing footprint and streamline the organizational setup. For the half year 2019, the group recognized restructuring costs of CHF 16.2 million (half year 2018: CHF 5.9 million). Restructuring costs are mainly associated with measures in Germany. The group further performed impairment tests on the related production machines and facilities leading to impairments of CHF 0.5 million (half year 2018: CHF 0.7 million).

The functional allocation of the total restructuring expenses and impairments is as follows: cost of goods sold CHF –12.0 million (half year 2018: CHF –1.2 million), selling and distribution expenses CHF 0.0 million (half year 2018: CHF –0.1 million), general and administrative expenses CHF –4.8 million (half year 2018: CHF –5.1 million) and research and development expenses CHF 0.0 million (half year 2018: CHF –0.2 million).

7 Financial income and expenses

millions of CHF	2019	2018
Interest and securities income	2.9	1.5
Total interest and securities income	**2.9**	**1.5**
Interest expenses	–10.0	–7.8
Interest expenses on employee benefit plans	–2.4	–3.0
Total interest expenses	**–12.4**	**–10.8**
Total interest income and expenses, net	**–9.5**	**–9.3**
Fair value changes	4.7	2.1
Other financial expenses	–1.2	–0.6
Currency exchange gains/losses, net	–6.0	2.9
Total other financial income and expenses, net	**–2.5**	**4.4**
Total financial income and expenses, net	**–12.0**	**–4.9**
– thereof fair value changes on financial assets at fair value through profit and loss	4.7	2.1
– thereof other income from financial assets at fair value through profit and loss	0.0	0.1
– thereof interest income on financial assets at amortized costs	2.9	1.5
– thereof other financial expenses	–1.2	–0.6
– thereof currency exchange gains/losses, net	–6.0	2.9
– thereof interest expenses on borrowings	–8.5	–7.7
– thereof interest expenses on lease liabilities	–1.5	-
– thereof interest expenses on employee benefit plans	–2.4	–3.0

“Interest expenses” increased from CHF 7.8 million in the first half year 2018 to CHF 10.0 million for the same period 2019. This is mainly due to the interest expenses on bonds issued in the second half of 2018 and interest expenses on lease liabilities resulting from the first time application of IFRS 16 “Leases”.

Comparing the first half of 2019 with the same period of 2018, total financial expenses increased from CHF –4.9 million to CHF –12.0 million because of negative currency effects on financial instruments and the first time application of IFRS 16 “Leases”.

8 Income taxes

Income tax expenses comprise current and deferred tax. Income tax expenses are recognized based on the estimated income tax rate for the full financial year. The estimated average annual tax rate used for the year 2019 is 22.8%, compared with 22.9% for the six months ended June 30, 2018.

9 Share capital

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

Treasury shares

The total number of shares held by Sulzer Ltd as of June 30, 2019, amounted to 205’999 treasury shares (December 31, 2018: 311’871 shares).

The treasury shares are mainly held for the purpose of issuing shares under the management share-based payment programs.

Dividends

On April 3, 2019, the Annual General Meeting approved an ordinary dividend of CHF 3.50 (2018: ordinary dividend of CHF 3.50) per share to be paid out of reserves. The dividend was paid to shareholders on April 9, 2019. The total amount of the dividend is CHF 119.2 million (2018: CHF 119.1 million), thereof paid dividends of CHF 77.5 million (2018: CHF 43.1 million) and unpaid dividends of CHF 41.7 million (2018: CHF 76.0 million). The unpaid dividends are reflected in the balance sheet position “other current and accrued liabilities” (see note 12).

10 Borrowings

			2019
millions of CHF	Non-current borrowings	Current borrowings	Total
Balance as of January 1	1’308.7	16.9	1’325.6
Additions	0.2	59.6	59.8
Repayments	–0.0	–68.9	–68.9
Total borrowings as of June 30	**1’308.9**	**7.7**	**1’316.6**

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

The borrowings have been adjusted as of January 1, 2019, due to the first time application of IFRS 16 “Leases”. Further details are provided in note 13.

As of June 30, 2019, and December 31, 2018, the syndicated facility was not used.

Outstanding bonds

	2019		2018	
millions of CHF	Amortized costs	Nominal	Amortized costs	Nominal
0.375% 07/2016–07/2022	325.3	325.0	325.3	325.0
0.875% 07/2016–07/2026	125.0	125.0	125.0	125.0
0.250% 07/2018–07/2020	109.9	110.0	109.8	110.0
1.300% 07/2018–07/2023	289.4	290.0	289.3	290.0
0.625% 10/2018–10/2021	209.7	210.0	209.5	210.0
1.600% 10/2018–10/2024	249.8	250.0	249.8	250.0
Total as of June 30/December 31	**1’308.9**	**1’310.0**	**1’308.7**	**1’310.0**

As of June 30, 2019, the group has six outstanding bonds all traded at the SIX Swiss Exchange.

11 Provisions

						2019
millions of CHF	Other employee benefits	Warranties/ liabilities	Restructuring	Environmental	Other	Total
Balance as of January 1	49.4	78.9	10.1	15.1	60.5	213.9
Additions	6.8	6.8	16.7	–	12.9	43.2
Released as no longer required	-	–5.2	–0.4	–	–7.9	–13.6
Utilized	–4.2	–5.7	–6.8	–0.0	–12.2	–28.9
Reclassifications	–	–	0.7	–	–0.7	–
Currency translation differences	–0.5	–0.7	–0.5	–0.1	–0.5	–2.3
Total provisions as of June 30/ December 31	**51.5**	**74.0**	**19.8**	**15.0**	**51.9**	**212.3**
– thereof non-current	35.7	3.4	3.2	15.0	12.6	69.8
– thereof current	15.8	70.6	16.6	–	39.4	142.4

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.

Sulzer has continued to adapt its global manufacturing footprint and streamline the organizational setup. In the first half of 2019, restructuring expenses were mainly associated with measures taken in Germany. The group recognized restructuring provisions of CHF 16.7 million. The remaining provision as of June 30, 2019, is CHF 19.8 million, of which CHF 16.6 million is expected to be utilized within one year.

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

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

12 Other current and accrued liabilities

millions of CHF	2019	2018
Liability related to the purchase of treasury shares	108.6	108.9
Outstanding dividend payments	117.7	76.0
Taxes (VAT, withholding tax)	29.3	25.3
Derivative financial instruments	7.7	8.4
Notes payable	0.5	0.4
Other current liabilities	36.7	26.9
Total other current liabilities as of June 30/December 31	**300.5**	**245.9**
Contract-related costs	102.3	130.6
Salaries, wages and bonuses	83.3	101.1
Vacation and overtime claims	36.5	31.8
Other accrued liabilities	179.7	133.3
Total accrued liabilities as of June 30/December 31	**401.8**	**396.7**
Total other current and accrued liabilities as of June 30/December 31	**702.3**	**642.6**

13 Accounting policies

13.1 Basis of preparation

The interim financial statements have been prepared in accordance with the requirements of IAS 34 Interim Financial Reporting. The accounting policies applied are consistent with those applied in the consolidated financial statements for the year 2018 and corresponding interim reporting period, except for the adoption of new and amended standards as set out below.

These interim financial statements do not include all the notes of the type normally included in an annual financial report. Accordingly, these financial statements are to be read in conjunction with the financial statements for the year ended December 31, 2018, and any public announcements made by Sulzer during the interim reporting period.

13.2 Change in accounting policies

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

IFRS 16 “Leases”

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

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

The group does not act as a lessor.

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

Definition of a lease

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

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

Accounting policies for leases

The group leases many assets, including properties, production equipment and other non-current assets.

The group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risk and rewards of ownership. Under IFRS 16, the group recognizes lease assets and lease liabilities for most leases (these leases are on-balance-sheet).

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

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

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

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

Significant accounting estimates

The group has applied judgment to determine the lease term for lease contracts that include renewal options. The assessment of whether the group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and lease assets recognized.

Transition

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

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

Impacts on transition

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

Consolidated balance sheet

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

Current borrowings	18.0	–1.3		16.9
Current lease liabilities	–	1.3	27.3	28.6
Current income tax liabilities	32.0			32.0
Current provisions	139.6			139.6
Contract liabilities	256.4			256.4
Trade accounts payable	521.8			521.8
Other current and accrued liabilities	642.6			642.6
Total current liabilities	**1'610.4**	**–**	**27.3**	**1'638.0**
Total liabilities	**3'257.3**	**–**	**107.3**	**3'364.6**
Total equity and liabilities	**4'898.3**	**–**	**107.3**	**5'005.6**

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

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

Impacts for the period

Consolidated balance sheet

millions of CHF	June 30, 2019 (as reported)	Adjustments	June 30, 2019 (amounts without adoption of IFRS 16)
Non-current assets			
Lease assets	104.7	–99.8	4.9
Total non-current assets	**2'160.9**	**–99.8**	**2'061.1**
Current assets			
Total current assets	**2'869.8**	**–**	**2'869.8**
Total assets	**5'030.7**	**–99.8**	**4'931.0**
Equity			
Reserves	1'565.1	–1.3	1'563.8
Equity attributable to shareholders of Sulzer Ltd	**1'565.4**	**–1.3**	**1'564.2**
Total equity	**1'576.9**	**–1.3**	**1'575.7**
Non-current liabilities			
Non-current lease liabilities	79.2	–71.8	7.3

Total non-current liabilities	**1’714.8**	**–71.8**	**1’643.0**
Current liabilities			
Current lease liabilities	28.0	–26.7	1.3
Total current liabilities	**1’739.0**	**–26.7**	**1’712.3**
Total liabilities	**3’453.8**	**–98.5**	**3’355.3**
Total equity and liabilities	**5’030.7**	**–99.8**	**4’931.0**

As a result of initially applying IFRS 16, the group recognized CHF 99.8 million of lease assets and CHF 98.5 million of lease liabilities as of June 30, 2019, previously classified as operating leases.

Consolidated income statement

millions of CHF	2019 (as reported)	Adjustments	2019 (amounts without adoption of IFRS 16)
Operating income	**98.9**	**–2.7**	**96.2**
Interest expenses	–12.4	1.5	–10.9
Income before income tax expenses	**86.2**	**–1.3**	**84.9**
Net income	**66.5**	**–1.3**	**65.3**

As a result of initially applying IFRS 16, the group has recognized depreciation and interest expenses, instead of operating lease expenses, related to leases under IFRS 16. During the six months ended on June 30, 2019, the group recognized CHF 15.6 million of depreciation charges and CHF 1.5 million of interest expenses. Due to the recognition of the depreciation and interest expenses compared to the operating lease expenses, the application of IFRS 16 had a positive impact of CHF 1.3 million on the group’s net income.

Consolidated statement of cash flows

millions of CHF	2019 (as reported)	Adjustments	2019 (amounts without adoption of IFRS 16)
Cash and cash equivalents as of January 1	**1’095.2**	**–**	**1’095.2**
Net income	66.5	–1.3	65.3
Interest expenses	12.4	–1.5	10.9
Depreciation, amortization and impairments	82.4	–15.6	66.8
Other non-cash items	7.8	0.5	8.4
Interest paid	–4.6	1.5	–3.1
Total cash flow from operating activities	**43.1**	**–16.3**	**26.8**
Total cash flow from investing activities	**–85.0**	**–**	**–85.0**
Payments for leases	–16.3	16.3	–
Total cash flow from financing activities	**–110.8**	**16.3**	**–94.5**
Net change in cash and cash equivalents	**–156.6**	**–**	**–156.6**
Cash and cash equivalents as of June 30	**938.6**	**–**	**938.6**

As a result of initially applying IFRS 16, the group has recognized leasing payments as part of the financing activities, instead of operating activities (shift from operating activities to financing activities). During the six months ended on June 30, 2019, the group recognized CHF 16.3 million of payments for leasing.

Lease assets overview

				2019
millions of CHF	Land and buildings, leased	Machinery and technical equipment, leased	Other non-current assets, leased	Total
Acquisition cost				
Balance as of January 1	96.6	5.0	14.7	116.3
Acquired through business combination	0.8	-	-	0.8
Additions	3.5	0.3	2.9	6.8
Disposals	–0.1	–0.2	–0.2	–0.5
Remeasurements	–0.7	-	–0.0	–0.7
Contract modifications	–0.1	-	-	–0.1
Reclassifications	2.3	–0.5	–1.7	–0.0
Currency translation differences	–0.8	–0.0	–0.2	–1.0
Balance as of June 30	**101.5**	**4.6**	**15.5**	**121.6**
Accumulated depreciation				
Balance as of January 1	0.8	0.4	0.2	1.5
Additions	11.5	1.0	3.1	15.6
Currency translation differences	0.0	–0.1	–0.0	–0.1
Balance as of June 30	**12.3**	**1.3**	**3.3**	**16.9**
Net book value				
As of January 1	95.8	4.6	14.5	114.9
As of June 30	89.2	3.3	12.2	104.7

Practical expedients

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

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

IFRIC 23 “Uncertainty over Income Tax Treatments”

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

Other IFRS standards and interpretations

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

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

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

13.3 Reassessment of a customer contract

During the second half of the year 2018, the group reassessed the accounting treatment of a customer contract in the Rotating Equipment Services (RES) division. Following the reassessment, the group changed the sales recognition method from the point in time method (PIT method) to the over time method (OT method).

Consequently, certain figures in the consolidated opening balance as of January 1, 2018, in the consolidated income statement and the consolidated statement of cash flows for the period January 1 to June 30, 2018, have been adjusted. The figures in the consolidated balance sheet as of June 30, 2018 have not been adjusted.

The following tables summarize the impact on the group's consolidated financial statements.

Consolidated balance sheet

millions of CHF	January 1, 2018, as previously reported	Adjustments	January 1, 2018, after reassessment
Non-current assets			
Deferred income tax assets	150.5	–2.2	148.2
Total non-current assets	**2'001.3**	**–2.2**	**1'999.0**
Current assets			
Contract assets	192.4	8.6	201.1
Total current assets	**2'158.3**	**8.6**	**2'166.9**
Total assets	**4'159.6**	**6.3**	**4'165.9**
Equity			
Reserves	1'643.8	6.3	1'650.1
Equity attributable to shareholders of Sulzer Ltd	**1'644.1**	**6.3**	**1'650.4**
Total equity	**1'666.4**	**6.3**	**1'672.6**
Non-current liabilities			
Total non-current liabilities	**899.9**	**–**	**899.9**
Current liabilities			
Total current liabilities	**1'593.3**	**–**	**1'593.3**
Total liabilities	**2'493.2**	**–**	**2'493.2**
Total equity and liabilities	**4'159.6**	**6.3**	**4'165.9**

Consolidated income statement

millions of CHF	January 1 - June 30, 2018, as previously reported	Adjustments	January 1 - June 30, 2018, after reassessment
Sales	1’604.2	–12.8	1’591.4
Cost of goods sold	–1’108.0	4.3	–1’103.7
Gross profit	**496.3**	**–8.5**	**487.7**
Operating income	**90.5**	**–8.5**	**82.0**
Income before income tax expenses	**86.3**	**–8.5**	**77.8**
Income tax expenses	–20.0	2.2	–17.8
Net income	**66.3**	**–6.3**	**60.0**
attributable to shareholders of Sulzer Ltd	64.2	–6.3	57.9
Earnings per share (in CHF)			
Basic earnings per share	2.01	–0.20	1.81
Diluted earnings per share	2.00	–0.20	1.80

Consolidated statement of cash flows

millions of CHF	January 1 - June 30, 2018, as previously reported	Adjustments	January 1 - June 30, 2018, after reassessment
Cash and cash equivalents as of January 1	**488.8**	**–**	**488.8**
Net income	66.3	–6.3	60.0
Income tax expenses	20.0	–2.2	17.8
Changes in contract assets	–67.2	8.6	–58.6
Total cash flow from operating activities	**3.0**	**–**	**3.0**

14 Subsequent events after the balance sheet date

On July 1, 2019, the group acquired the Scottish aero-derivative gas turbine service provider Alba Power. The company employs 80 people and generated sales of CHF 44 million in 2018. Through this acquisition, Sulzer diversifies its gas turbine service business into distributed power and offshore as well as marine applications where there are sizable, active markets and numerous cross-selling synergies with its existing pump, motor, generator and turbo service customers. Founded in 2003, Alba Power offers a wide range of services to its clients including field service, inspection, repair and overhaul. Its facilities are located in Aberdeen (UK), Houston (US) and Ontario (CA).

The financial effects of this transaction have not been recognized as at June 30, 2019. The operating results and assets and liabilities of the acquired company will be consolidated from July 1, 2019.

The Board of Directors authorized these consolidated interim financial statements for issue on July 23, 2019. At the time when these consolidated interim financial statements were authorized for issue, the Board of Directors and the Executive Committee were not aware of any other events that would materially affect these financial statements.

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

Imprint

Published by:

Sulzer Ltd, Winterthur, Switzerland

Concept/Layout:

wirDesign, Berlin Braunschweig, Germany

Publishing system:

ns.wow by mms solutions AG, Zurich, Switzerland

Photographs:

- Getty images/nikamata (Cover)
- Geri Krischker, Zurich, Switzerland

Disclaimer

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

Rounding

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

Tables

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

Languages

Parts of the Sulzer Midyear Report 2019 are also available in German (i.e. Letter to the shareholders, Our key figures and Business review). The original version is in English.