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Financial Reporting

Notes to the Consolidated Financial Statements

Consolidated income statement
January 1–December 31

millions of CHF	Notes	2016	2015
Sales	3	2 876.7	2 971.0
Cost of goods sold		–1 997.3	–2 060.9
Gross profit		**879.4**	**910.1**
Selling and distribution expenses		–309.2	–303.9
General and administrative expenses		–324.6	–348.2
Research and development expenses	10	–71.4	–73.4
Other operating income and expenses, net	11	–58.9	–63.7
Operating income		**115.3**	**120.9**
Interest and securities income	12	5.2	6.5
Interest expenses	12	–17.4	–27.9
Other financial income and expenses, net	12	–7.1	–3.3
Share of profit/(loss) of associates	16	–0.8	3.7
Income before income tax expenses		**95.2**	**99.9**
Income tax expenses	13	–35.1	–24.9
Net income		**60.1**	**75.0**
Attributable to shareholders of Sulzer Ltd		59.0	73.9
Attributable to non-controlling interests		1.1	1.1
Earnings per share (in CHF)			
Basic earnings per share	25	1.73	2.17
Diluted earnings per share	25	1.72	2.16

Consolidated statement of comprehensive income

January 1–December 31

millions of CHF	Notes	2016	2015
Net income		**60.1**	**75.0**
Items that may be reclassified subsequently to the income statement			
Cash flow hedges, net of tax	29	–1.8	–3.5
Currency translation differences		–5.7	–154.4
Total of items that may be reclassified subsequently to the income statement		**–7.5**	**–157.9**
Items that will not be reclassified to the income statement			
Remeasurements of defined benefit obligations, net of tax	9	–82.1	–13.1
Total of items that will not be reclassified to the income statement		**–82.1**	**–13.1**
Total other comprehensive income		**–89.6**	**–171.0**
Total comprehensive income for the year		**–29.5**	**–96.0**
Attributable to shareholders of Sulzer Ltd		–30.3	–96.6
Attributable to non-controlling interests		0.8	0.6

Consolidated balance sheet
December 31

millions of CHF	Notes	2016	2015
Non-current assets			
Goodwill	14	780.1	679.8
Other intangible assets	14	335.3	246.4
Property, plant, and equipment	15	511.0	491.4
Associates	16	5.8	4.0
Other financial assets	17	13.1	11.6
Non-current receivables		7.0	7.1
Deferred income tax assets	13	157.6	133.7
Total non-current assets		**1 809.9**	**1 574.0**
Current assets			
Inventories	18	401.7	409.3
Advance payments to suppliers		82.0	79.8
Trade accounts receivable	20	883.2	851.1
Other accounts receivable and prepaid expenses	21	129.6	123.3
Marketable securities	23	–	208.3
Cash and cash equivalents	22	429.5	1 009.0
Total current assets		**1 926.0**	**2 680.8**
Total assets		**3 735.9**	**4 254.8**
Equity			
Share capital	24	0.3	0.3
Reserves		1 580.9	2 224.4
Equity attributable to shareholders of Sulzer Ltd		**1 581.2**	**2 224.7**
Non-controlling interest		9.8	9.5
Total equity		**1 591.0**	**2 234.2**
Non-current liabilities			
Non-current borrowings	26	458.3	7.2
Deferred income tax liabilities	13	95.6	69.4
Non-current income tax liabilities	13	2.6	2.6
Defined benefit obligations	9	339.6	294.8
Non-current provisions	27	73.8	73.5
Other non-current liabilities		10.4	24.6
Total non-current liabilities		**980.3**	**472.1**
Current liabilities			
Current borrowings	26	7.1	514.4
Current income tax liabilities	13	13.9	9.9
Current provisions	27	176.1	137.3
Trade accounts payable		379.3	323.8
Advance payments from customers		179.8	197.5
Other current and accrued liabilities	28	408.4	365.6
Total current liabilities		**1 164.6**	**1 548.5**
Total liabilities		**2 144.9**	**2 020.6**
Total equity and liabilities		**3 735.9**	**4 254.8**

Consolidated statement of changes in equity
January 1 – December 31

		Attributable to shareholders of Sulzer Ltd							
millions of CHF	Notes	Share capital	Retained earnings	Treasury shares	Cash flow hedge reserve	Currency translation adjustment	Total	Non-controlling interests	Total equity
Equity as of January 1, 2015		**0.3**	**2 720.3**	**–23.4**	**–5.7**	**–256.1**	**2 435.4**	**6.6**	**2 442.0**
Comprehensive income for the year:									
Net income			73.9				73.9	1.1	75.0
— Cash flow hedges, net of tax	29				–3.5		–3.5		–3.5
— Remeasurements of defined benefit obligations, net of tax	9		–13.1				–13.1		–13.1
— Currency translation differences						–153.9	–153.9	–0.5	–154.4
Other comprehensive income			–13.1		–3.5	–153.9	–170.5	–0.5	–171.0
Total comprehensive income for the year		**–**	**60.8**	**–**	**–3.5**	**–153.9**	**–96.6**	**0.6**	**–96.0**
Transactions with owners of the company:									
Changes in ownership in subsidiaries			–1.8				–1.8	0.9	–0.9
Transactions in treasury shares			–7.0	5.6			–1.4		–1.4
Share-based payments	32		8.3				8.3		8.3
Dividends			–119.2				–119.2	–1.9	–121.1
Change in scope of consolidation							–	3.3	3.3
Equity as of December 31, 2015	24	**0.3**	**2 661.4**	**–17.8**	**–9.2**	**–410.0**	**2 224.7**	**9.5**	**2 234.2**
Comprehensive income for the year:									
Net income			59.0				59.0	1.1	60.1
— Cash flow hedges, net of tax	29				–1.8		–1.8		–1.8
— Remeasurements of defined benefit obligations, net of tax	9		–82.1				–82.1		–82.1
— Currency translation differences						–5.4	–5.4	–0.3	–5.7
Other comprehensive income			–82.1		–1.8	–5.4	–89.3	–0.3	–89.6
Total comprehensive income for the year		**–**	**–23.1**	**–**	**–1.8**	**–5.4**	**–30.3**	**0.8**	**–29.5**
Transactions with owners of the company:									
Allocation of treasury shares to share plan participants			–4.1	4.1			–		–
Acquisition of treasury shares				–3.2			–3.2		–3.2
Share-based payments	32		7.5				7.5		7.5
Dividends			–617.5				–617.5	–0.5	–618.0
Equity as of December 31, 2016	24	**0.3**	**2 024.2**	**–16.9**	**–11.0**	**–415.4**	**1 581.2**	**9.8**	**1 591.0**

Consolidated statement of cash flows
January 1–December 31

millions of CHF	Notes	2016	2015
Cash and cash equivalents as of January 1		**1 009.0**	**1 194.7**
Net income		60.1	75.0
Interest and securities income	12	–5.2	–6.5
Interest expenses	12	17.4	27.9
Income tax expenses	13	35.1	24.9
Depreciation, amortization, and impairments	14,15	135.2	129.4
Income from disposals of subsidiaries; property, plant, and equipment; and financial instruments		–1.2	–0.1
Changes in inventories		43.0	49.6
Changes in advance payments to suppliers		3.4	–4.2
Changes in trade accounts receivable		–17.4	32.6
Changes in advance payments from customers		–21.5	3.9
Changes in trade accounts payable		49.8	–33.4
Change in provision for employee benefit plans		–37.9	9.4
Changes in provisions		35.3	3.2
Changes in other net current assets		37.2	0.6
Other non-cash items		–7.1	–2.1
Interest received		5.2	6.4
Interest paid		–15.1	–20.4
Income tax paid		–53.1	–73.4
Total cash flow from operating activities		**263.2**	**222.8**
Purchase of intangible assets		–1.4	–2.1
Purchase of property, plant, and equipment		–73.5	–71.6
Sale of property, plant, and equipment		12.2	6.7
Acquisitions of subsidiaries, net of cash acquired	4	–309.1	–70.1
Acquisitions of associates		–4.3	–
Divestitures of subsidiaries		–	0.2
Purchase of financial assets	17	–1.1	–0.5
Purchase of marketable securities		–	–253.6
Sale of marketable securities		208.4	149.0
Total cash flow from investing activities		**–168.8**	**–242.0**
Dividend		–617.5	–119.2
Purchase of treasury shares		–3.2	–3.5
Sale of treasury shares		–	2.1
Dividend paid to non-controlling interests		–0.5	–1.9
Changes in non-controlling interests		–	–0.1
Additions in non-current borrowings		451.5	0.6
Repayment of non-current borrowings		–2.5	–0.4
Additions in current borrowings		216.9	6.4
Repayment of current borrowings		–725.3	–16.5
Total cash flow from financing activities		**–680.6**	**–132.5**
Exchange gains/(losses) on cash and cash equivalents		6.7	–34.0
Net change in cash and cash equivalents		**–579.5**	**–185.7**
Cash and cash equivalents as of December 31	22	**429.5**	**1 009.0**

Notes to the Consolidated Financial Statements

1 General information

Sulzer Ltd (the "company") is a company domiciled in Switzerland. The address of the company's registered office is Neuwiesenstrasse 15 in Winterthur, Switzerland. The consolidated financial statements for the year ended December 31, 2016, comprise the company and its subsidiaries (together referred to as the "group" and individually as the "subsidiaries") and the group's interest in associates and joint ventures. The group specializes in pumping solutions, service solutions for rotating equipment, separation and mixing, and applicator technology. Sulzer was founded in 1834 in Winterthur, Switzerland, and employs around 14 000 people. The company serves clients in over 180 production and service sites around the world. Sulzer Ltd is listed on the SIX Swiss Exchange in Zurich, Switzerland (symbol: SUN).

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).They were authorized for issue by the Board of Directors on February 22, 2017.

Details of the group's accounting policies are included in note 35.

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:

— The acquisition of Geka, PC Cox, and Sulzer Rotating Equipment FZE (SRE FZE) resulted in an increase in property, plant, and equipment of CHF 49.4 million and the recognition of goodwill (CHF 121.3 million) and other intangible assets (CHF 134.3 million) at the date of acquisition (see note 4).
— As part of the Sulzer Full Potential Program (SFP), the group initiated several measures to adapt the global manufacturing footprint and the organizational setup. Restructuring measures resulted in restructuring expenses of CHF 57.0 million in 2016 (see note 11). Associated with restructuring initiatives, the group further recognized impairments on property, plant, and equipment of CHF 18.4 million (see note 11).
— The Swiss Pension Fund Board decided in June 2016 to reduce the guaranteed pension conversion rate by 1.0 percentage points over four years, beginning January 1, 2018. The plan amendments, recognized as past service cost, have had a positive impact of CHF 35.4 million in the income statement, of which CHF 8.2 million were recorded as cost of goods sold and CHF 27.2 million as general administrative expenses (see note 9).
— The bond with original nominal amount of CHF 500 million and remaining outstanding amount of CHF 493.4 million matured on July 11, 2016. In order to refinance this maturity, Sulzer has successfully issued new bonds via dual tranches of total CHF 450 million. Cash settlement of both the matured bond and the newly issued bonds was on July 11, 2016 (see note 26).

For a detailed discussion about the group's performance and financial position please refer to the financial review on pages 33 to 37.

3 Segment information

Segment information by divisions

millions of CHF	Pumps Equipment		Rotating Equipment Services		Chemtech	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
Order intake (unaudited)	**1 401.7**	**1 500.8**	**661.1**	**698.2**	**744.5**	**708.9**
Nominal growth (unaudited)	–6.6%	–13.0%	–5.3%	–3.7%	5.0%	–1.3%
Adjusted growth[1] (unaudited)	–5.4%	–6.7%	–3.1%	–0.9%	6.1%	1.4%
Order backlog as of December 31 (unaudited)	880.3	998.0	195.8	205.0	362.9	307.7
Sales[2]	**1 503.5**	**1 621.0**	**666.8**	**693.2**	**718.1**	**669.6**
Nominal growth	–7.2%	–7.6%	–3.8%	–4.3%	7.2%	–9.7%
Adjusted growth[1] (unaudited)	–6.2%	–1.6%	–1.9%	–1.9%	8.0%	–7.8%
opEBITA[3]	**86.3**	**118.1**	**66.2**	**70.8**	**82.1**	**67.4**
in % of sales[4]	5.7%	7.3%	9.9%	10.2%	11.4%	10.1%
in % of average capital employed	11.3%	15.8%	16.5%	16.8%	18.5%	16.6%
Restructuring expenses	–41.5	–23.8	1.8	–10.3	–16.1	–7.2
Amortization	–17.9	–17.2	–6.3	–6.3	–21.7	–16.7
Impairments on tangible and intangible assets	–8.8	–6.4	–3.8	–1.3	–5.9	–5.4
Non-operational items	–11.0	–7.9	–0.6	–1.5	–1.2	–4.6
EBIT[5]	**7.1**	**62.8**	**57.3**	**51.4**	**37.2**	**33.5**
Depreciation	–27.0	–29.2	–15.0	–14.7	–25.1	–26.3
Operating assets	1 512.2	1 557.9	594.6	624.8	1 273.8	846.9
Unallocated assets	–	–	–	–	–	–
Total assets as of December 31	1 512.2	1 557.9	594.6	624.8	1 273.8	846.9
Operating liabilities	740.8	688.8	158.5	210.4	596.0	324.5
Unallocated liabilities	–	–	–	–	–	–
Total liabilities as of December 31	740.8	688.8	158.5	210.4	596.0	324.5
Operating net assets	771.4	869.1	436.1	414.4	677.8	522.4
Unallocated net assets	–	–	–	–	–	–
Total net assets as of December 31	771.4	869.1	436.1	414.4	677.8	522.4
Capital expenditure	25.1	30.6	16.2	16.6	32.9	24.0
Employees (number of full-time equivalents) as of December 31	6 261	6 996	3 436	3 538	4 135	3 539

1) Adjusted for currency effects.
2) Sales between segments are not material.
3) Operating income before restructuring, amortization, impairments, and non-operational items.
4) Return on sales before restructuring, amortization, impairments, and non-operational items (opEBITA/sales).
5) Operating income.

Segment information by divisions

millions of CHF	Total Divisions		Others[2]		Total Sulzer	
	2016	2015	2016	2015	2016	2015
Order intake	**2 807.3**	**2 907.9**	**–9.8**	**–12.1**	**2 797.5**	**2 895.8**
Nominal growth (unaudited)	–3.5%	–8.2%	n/a	n/a	–3.4%	–8.4%
Adjusted growth[1] (unaudited)	–2.0%	–3.6%	n/a	n/a	–2.0%	–3.7%
Order backlog as of December 31 (unaudited)	1 439.0	1 510.7	0.1	–	1 439.1	1 510.7
Sales	**2 888.4**	**2 983.8**	**–11.7**	**–12.8**	**2 876.7**	**2 971.0**
Nominal growth	–3.2%	–7.4%	n/a	n/a	–3.2%	–7.5%
Adjusted growth[1] (unaudited)	–2.0%	–3.1%	n/a	n/a	–2.0%	–3.2%
opEBITA[3]	**234.6**	**256.3**	**4.3**	**–2.2**	**238.9**	**254.1**
in % of sales[4]	8.1%	8.6%	n/a	n/a	8.3%	8.6%
in % of average capital employed	16.7%	16.3%	n/a	n/a	15.7%	17.0%
Restructuring expenses	–55.8	–41.3	–1.2	0.1	–57.0	–41.2
Amortization	–45.9	–40.2	–1.4	–2.1	–47.3	–42.3
Impairments on tangible and intangible assets	–18.5	–13.1	0.1	0.1	–18.4	–13.0
Non-operational items	–12.8	–14.0	11.9	–22.7	–0.9	–36.7
EBIT[5]	**101.6**	**147.7**	**13.7**	**–26.8**	**115.3**	**120.9**
Depreciation	–67.1	–70.2	–2.4	–3.9	–69.5	–74.1
Operating assets	3 380.6	3 029.6	–216.4	–159.3	3 164.2	2 870.3
Unallocated assets	–	–	571.7	1 384.5	571.7	1 384.5
Total assets as of December 31	3 380.6	3 029.6	355.3	1 225.2	3 735.9	4 254.8
Operating liabilities	1 495.3	1 223.7	1.7	106.6	1 497.0	1 330.3
Unallocated liabilities	–	–	647.9	690.3	647.9	690.3
Total liabilities as of December 31	1 495.3	1 223.7	649.6	796.9	2 144.9	2 020.6
Operating net assets	1 885.3	1 805.9	–218.1	–265.9	1 667.2	1 540.0
Unallocated net assets	–	–	1 420.8	694.2	1 420.8	694.2
Total net assets as of December 31	1 885.3	1 805.9	1 202.7	428.3	3 088.0	2 234.2
Capital expenditure	74.2	71.2	0.7	2.5	74.9	73.7
Employees (number of full-time equivalents) as of December 31	13 832	14 073	173	180	14 005	14 253

[1] Adjusted for currency effects.
[2] The most significant activities under “Others” relate to the Corporate Center. Interdivisional order intake, sales, and operating assets and liabilities are eliminated in this column.
[3] Operating income before restructuring, amortization, impairments, and non-operational items.
[4] Return on sales before restructuring, amortization, impairments, and non-operational items (opEBITA/sales).
[5] Operating income.

Information about reportable segments

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

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

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

Chemtech — separation, mixing, and service solutions:
This division offers products and services for separation, reaction, liquid application, and mixing technology. The market focus is on (a) separation solutions, (b) tower field services, (c) liquid application systems for the dental, healthcare, and cosmetics markets, and (d) two-component mixing and dispensing systems. Customers benefit from advanced solutions in the fields of process technology and separation equipment, as well as two-component mixing and dispensing systems.

Applicator Systems:
Starting January 1, 2017, Sulzer has separated the business for liquid applications and mixing technologies, previously reported in the Chemtech division, into a new division called Applicator Systems. The market focus is on (a) mixing and dispenser systems and (b) liquid application systems for the dental, healthcare, and cosmetics markets. As of December 31, 2016, the business was still reported within the Chemtech division, in line with the reports reviewed by the Chief Executive Officer.

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 reconciling and other items, e.g., adjustments made in preparing the financial statements, and interdivisional order intake, sales, and operating assets and liabilities elimination.

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

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

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

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

Segment information by region

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

millions of CHF	Non-current assets by region		Sales by region	
	2016	2015	2016	2015
Europe, Middle East, Africa	1 203.3	1 003.2	1 271.8	1 214.0
— thereof Switzerland	161.9	171.9	22.7	19.4
— thereof Germany	292.5	21.3	199.1	160.7
— thereof United Kingdom	159.9	171.4	143.9	191.2
— thereof Sweden	259.8	295.9	40.0	41.5
— thereof other countries	329.2	342.7	866.1	801.2
Americas	290.5	279.3	1 041.9	1 134.9
— thereof USA	238.3	227.3	735.9	778.0
— thereof Brazil	23.9	20.8	101.3	89.9
— thereof other countries	28.3	31.2	204.7	267.0
Asia-Pacific	138.3	137.1	563.0	622.1
— thereof China	68.2	76.8	206.4	236.2
— thereof India	22.2	17.5	49.9	51.6
— thereof other countries	47.9	42.8	306.7	334.3
Total	**1 632.1**	**1 419.6**	**2 876.7**	**2 971.0**

4 Acquisitions of subsidiaries

Acquisitions in 2016

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.

Net assets acquired

millions of CHF	Geka	PC Cox	SRE FZE	Total
Intangible assets	122.6	11.7	–	134.3
Property, plant, and equipment	46.7	2.1	0.6	49.4
Cash and cash equivalents	8.2	8.5	1.0	17.7
Trade accounts receivable	32.9	4.1	1.2	38.2
Other current assets	38.2	4.0	0.8	43.0
Liabilities with third parties	−35.7	−9.8	−1.4	−46.9
Deferred tax liabilities	−34.6	−2.3	–	−36.9
Net identifiable assets	**178.3**	**18.3**	**2.2**	**198.8**
Goodwill	117.1	4.0	0.2	121.3
Total consideration	**295.4**	**22.3**	**2.4**	**320.1**
Satisfied by:				
Purchase price paid in cash	295.4	22.3	1.2	318.9
Existing 49% shareholding in SRE FZE	–	–	1.2	1.2
Total consideration	**295.4**	**22.3**	**2.4**	**320.1**

Geka

On August 23, 2016, Sulzer acquired a 100% controlling interest in Geka for CHF 295.4 million. The headquarters of Geka is in Bechhofen, Germany, and the company has approximately 900 employees. Geka is a leading manufacturer of applicator devices for the cosmetics industry with an emerging business in healthcare. Through this transaction, Sulzer almost doubles the size of its most profitable business unit, Sulzer Mixpac Systems (SMS), a business unit of the Chemtech division. SMS adds Geka's leading position in the cosmetics segment to its current leadership in the dental and industrial adhesives segments. The goodwill is attributable to synergies from combined solutions and shared services. None of the goodwill is expected to be deductible for tax purposes. Transaction cost recognized in the income statement amount to CHF –1.4 million. Since the acquisition date, the acquired business has contributed order intake of CHF 63.3 million, sales of CHF 63.3 million, and net income of CHF –0.2 million to the group.

PC Cox

On April 4, 2016, Sulzer acquired a 100% controlling interest of PC Cox for CHF 22.3 million.The headquarters of PC Cox is in Newbury, UK, and the company has approximately 170 employees. PC Cox is a leading manufacturer of handheld sealant and adhesive dispensers for industrial applications. Through the acquisition, Sulzer Mixpac Systems, a business unit of the Chemtech division, becomes a leading manufacturer of dispensers for industrial applications. The goodwill is attributable to synergies from combined solutions and shared services. None of the goodwill is expected to be deductible for tax purposes. Transaction costs recognized in the income statement amount to CHF –0.6 million. Since the acquisition date, the acquired business has contributed order intake of CHF 15.9 million, sales of CHF 15.3 million, and net income of CHF –0.3 million to the group.

Sulzer Rotating Equipment FZE (SRE FZE)

Having previously held 49% of the issued share capital of SRE FZE, Sulzer acquired on December 21, 2016 the remaining share capital for CHF 1.2 million and obtained control of SRE FZE. The company is located in Dubai, United Arab Emirates, and it has approximately 21 employees. The company provides services for rotating equipment for oil and gas and power customers in Southern Iraq. The remeasurement of the group's existing 49% interest in SRE FZE resulted in no profit or loss.

Acquired receivables

The fair value of acquired trade accounts receivable is CHF 38.2 million. The gross contractual amount for trade account receivables due is CHF 38.8 million, of which CHF 0.6 million is expected to be uncollectible at the date of acquisition.

Pro forma revenue and profit contribution

Had all above acquisitions occurred on January 1, 2016, management estimates that total net sales of the group would amount to CHF 2 992.0 million, and the consolidated net income would be CHF 60.0 million.

Cash flow from acquisitions of subsidiaries

millions of CHF	2016	2015
Cash consideration paid	–318.9	–45.6
Contingent consideration paid	–7.7	–22.0
Cash acquired	17.7	0.8
Payments for acquisitions in prior years	–0.2	–3.3
Total cash flow from acquisitions, net of cash acquired	**–309.1**	**–70.1**

Contingent consideration

millions of CHF	2016	2015
Balance as of January 1	22.1	56.5
Assumed in a business combination	–	6.7
Payment of contingent consideration	–7.7	–22.0
Release to other operating income	–4.8	–12.9
Currency translation difference	–0.1	–6.2
Total contingent consideration as of December 31	**9.5**	**22.1**

As of December 31, 2016, there was a decrease of CHF 4.8 million recognized in the income statement for the contingent consideration arrangements, as the assumed probability-adjusted gross profit and EBITDA (earnings before interests, taxes, depreciation, and amortization) was recalculated.

5 Critical accounting estimates and judgments

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

Contingent considerations

As of December 31, 2016, total contingent considerations resulting from business combinations amounted to CHF 9.5 million (December 31, 2015: CHF 22.1 million). The total payments under contingent considerations arrangements could be up to CHF 15.0 million (December 31, 2015: CHF 55.0 million). The estimated amounts are the expected payments, determined by considering the possible scenarios of forecast sales and other performance criteria, probabilities of occurrence, and the use of simulation models. The estimates could change substantially over time as new facts emerge and scenarios develop.

Employee benefit plans

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

Income taxes

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

Goodwill and other intangible assets

As of December 31, 2016, total goodwill amounted to CHF 780.1 million (December 31, 2015: CHF 679.8 million). In accordance with the accounting policies set forth in section 35.6 “Intangible assets,” the group carries out an annual impairment test on goodwill in the fourth quarter of the year, or when indications of a potential impairment exist. The recoverable amount from cash-generating units is measured on the basis of value-in-use calculations influenced materially by the terminal growth rate, the discount rate, and the projected cash flows. Information about assumptions and estimation uncertainties that have significant risk of resulting in a material adjustment in the year ending December 31, 2016, are disclosed in note 14.

Revenue recognition

The group uses the percentage of completion method (PoC) in accounting for major long-term contracts. The use of the PoC method requires the group to estimate the proportional revenue and costs. If circumstances arise that may change the original estimates of revenues, costs, or extent of progress toward completion, estimates are revised. These revisions may result in increases or decreases in estimated revenues or costs and are reflected in income in the period in which the circumstances that give rise to the revision become known by management. Revenue from the application of the PoC method recognized in the year 2016 amounted to CHF 597.2 million (2015: CHF 469.8 million). Further details are disclosed in note 19.

Provisions

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

6 Financial risk management

6.1 Financial risk factors

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

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

a) Market risk

(I) Foreign exchange risk

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

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

The following tables show the hypothetical influence on the income statement for 2016 and 2015 related to foreign exchange risk of financial instruments. The volatility used for the calculation is the one-year historic volatility on December 31 for the relevant currency pair and year. For 2016, the currency pair with the most significant exposure and inherent risk was the EUR versus the USD. If, on December 31, 2016, the EUR had increased by 8.3% against the USD with all other variables held constant, profit after tax for the year would have been CHF 0.5 million lower mainly due to foreign exchange losses on USD-denominated financial assets. A decrease of the rate would have caused a gain of the same amount.

Hypothetical impact of foreign exchange risk on income statement

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

millions of CHF				2015
Currency pair	EUR/ CHF	EUR/ RUB	EUR/ CNY	EUR/ USD
Exposure	−10.4	−3.4	5.4	−5.4
Volatility	22.6%	27.8%	12.6%	12.3%
Effect on profit after tax (rate increase)	−1.8	−0.7	0.5	−0.5
Effect on profit after tax (rate decrease)	1.8	0.7	−0.5	0.5

The following tables show the hypothetical influence on equity for 2016 and 2015 related to foreign exchange risk of financial instruments for the most important currency pairs as at December 31 of the respective year. The volatility used for the calculation is the one-year historic volatility on December 31 for the relevant currency pair and year. Most of the hypothetical effect on equity is a result of fair value changes of derivative financial instruments designated as hedges of future cash flows in foreign currencies.

Hypothetical impact of foreign exchange risk on equity

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

millions of CHF							2015
Currency pair	USD/ CHF	EUR/ CHF	USD/ MXN	USD/ BRL	EUR/ USD	GBP/ USD	USD/ INR
Exposure	−43.0	−29.0	−48.6	−23.7	39.2	47.9	−40.6
Volatility	22.9%	22.6%	10.9%	21.2%	12.3%	8.4%	6.3%
Effect on equity, net of taxes (rate increase)	−7.4	−4.9	−4.0	−3.8	3.6	3.0	−1.9
Effect on equity, net of taxes (rate decrease)	7.4	4.9	4.0	3.8	−3.6	−3.0	1.9

(II) Price risk

As of December 31, 2016, the group was not exposed to significant price risk related to investments in equity securities either classified as “available-for-sale” or at “fair value through profit or loss.”

(III) Interest rate sensitivity

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

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

Hypothetical impact of interest rate risk on income statement

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

millions of CHF				2015
			Impact on post-tax profit	
Variable-interest-bearing assets (net)	Amount	Sensitivity in basis points	rate increase	rate decrease
CHF	331.0	100	2.5	–2.5
USD	212.3	100	1.6	–1.6
CNY	58.9	100	0.4	–0.4
INR	31.6	100	0.2	–0.2
EUR	–28.0	100	–0.2	0.2

On December 31, 2016, if the interest rates on USD-denominated assets net of liabilities had been 100 basis points higher with all other variables held constant, post-tax profit for the year would have been CHF 1.4 million higher (2015: CHF 1.6 million higher), mainly as a result of higher interest income on cash and cash equivalents. A decrease of interest rates on USD-denominated assets net of liabilities would have caused a loss of the same amount. As of December 31, 2016, the CHF amount exposed to interest rate risk was reduced compared with 2015, mainly because of the dividend payment of CHF 617.5 million to the shareholders, which reduced the cash held in CHF accordingly.

b) Credit risk

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

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

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

c) Liquidity risk

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

Management anticipates the future development of the group's liquidity reserve on the basis of expected cash flows by performing regular group-wide cash forecasts. In 2015, the syndicated credit line of CHF 500 million has been extended to 2020, with two further one-year extension options, and in 2016, the credit line has been extended to 2021 accordingly. If special needs arise, financing will be reviewed case by case.

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

Maturity profile of financial liabilities

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

millions of CHF						2015
	Carrying amount	<1 year	1–2 years	3–5 years	>5 years	Total
Borrowings	521.6	522.0	5.9	1.8	0.2	529.9
Trade accounts payable	323.8	323.8	–	–	–	323.8
Other current and non-current liabilities	79.4	54.8	17.0	6.2	1.4	79.4

6.2 Capital risk management

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

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

The following table shows the net debt/EBITDA ratio as at December 31, 2016 and 2015. The change of the net liquidity into a net debt situation is mainly due to the extraordinary dividend paid, as well as due to the acquisitions completed in 2016.

Net debt/EBITDA ratio

millions of CHF	2016	2015
Net liquidity/(net debt)	−35.9	695.7
EBITDA	250.5	250.3
Net debt/EBITDA	0.14	−2.78

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

The increase in the gearing ratio during 2016 resulted from a decrease in equity mainly due to the extraordinary dividend paid in 2016.

As of December 31, 2016 and 2015, the gearing ratio was as follows:

Gearing ratio

millions of CHF	2016	2015
Borrowings	465.4	521.6
Equity attributable to shareholders of Sulzer Ltd	1 581.2	2 224.7
Borrowings-to-equity ratio (gearing)	0.29	0.23

6.3 Fair value estimation

The following tables present the carrying amounts and fair values of financial assets and liabilities as of December 31, 2016 and 2015, 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, or a fund investment classified as at fair value through profit or loss held in 2015 and sold during 2016) 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. Other financial assets measured at fair value through profit or loss include time deposits and other interest-bearing investments with maturities between 3 and 12 months, and their fair value is determined based on discounted cash flows. All these investments have been sold during 2016.

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

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

Fair value table

millions of CHF						December 31, 2016
	Notes	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets measured at fair value						
Financial assets at fair value through profit or loss	23	–	–	–	–	–
Available-for-sale financial assets	17	4.5	4.5	–	4.5	–
Derivative assets — non-current	29	–	–	–	–	–
Derivative assets — current	21, 29	6.6	6.6	–	6.6	–
Total financial assets measured at fair value		**11.1**	**11.1**	**–**	**11.1**	**–**
Financial assets not measured at fair value						
Loans and receivables	17	8.6				
Non-current receivables (excluding non-current derivative assets)		7.0				
Trade accounts receivables	20	883.2				
Other accounts receivables (excluding current derivative assets)	21	82.9				
Cash and cash equivalents	22	429.5				
Total financial assets not measured at fair value		**1 411.2**	**–**	**–**	**–**	**–**
Financial liabilities measured at fair value						
Derivative liabilities — non-current	29	0.2	0.2	–	0.2	–
Derivative liabilities — current	28, 29	9.2	9.2	–	9.2	–
Contingent considerations	4	9.5	9.5	–	–	9.5
Total financial liabilities measured at fair value		**18.9**	**18.9**	**–**	**9.4**	**9.5**
Financial liabilities not measured at fair value						
Outstanding bond	26	450.4	452.9	452.9	–	–
Bank loans and other borrowings	26	15.0				
Other non-current liabilities (excluding non-current derivative liabilities)		10.2				
Trade accounts payable		379.3				
Other current liabilities (excluding current derivative liabilities)	28	44.2				
Total financial liabilities not measured at fair value		**899.1**	**452.9**	**452.9**	**–**	**–**

Fair value table

millions of CHF					December 31, 2015	
	Notes	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets measured at fair value						
Financial assets at fair value through profit or loss	23	208.3	208.3	98.4	109.9	–
Available-for-sale financial assets	17	4.5	4.5	–	4.5	–
Derivative assets — non-current	29	–	–	–	–	–
Derivative assets — current	21, 29	6.4	6.4	–	6.4	–
Total financial assets measured at fair value		**219.2**	**219.2**	**98.4**	**120.8**	**–**
Financial assets not measured at fair value						
Loans and receivables	17	7.1				
Non-current receivables (excluding non-current derivative assets)		7.1				
Trade accounts receivables	20	851.1				
Other accounts receivables (excluding current derivative assets)	21	78.4				
Cash and cash equivalents	22	1 009.0				
Total financial assets not measured at fair value		**1 952.7**	**–**	**–**	**–**	**–**
Financial liabilities measured at fair value						
Derivative liabilities — non-current	29	0.4	0.4	–	0.4	–
Derivative liabilities — current	28, 29	11.2	11.2	–	11.2	–
Contingent considerations	4	22.1	22.1	–	–	22.1
Total financial liabilities measured at fair value		**33.7**	**33.7**	**–**	**11.6**	**22.1**
Financial liabilities not measured at fair value						
Outstanding bond	26	499.6	506.4	506.4	–	–
Bank loans and other borrowings	26	22.0				
Other non-current liabilities (excluding non-current derivative liabilities)		24.2				
Trade accounts payable		323.8				
Other current liabilities (excluding current derivative liabilities)	28	43.6				
Total financial liabilities not measured at fair value		**913.2**	**506.4**	**506.4**	**–**	**–**

7 Corporate risk management

Sulzer has an integrated risk management system that is under constant scrutiny for further improvement. A defined risk management process and four common tools (risk assessment schedule, risk-profiling matrix, risk description schedule, loss control schedule) are applied in order to assess and control all key risks, to implement and maintain risk financing and risk transfer measures, to monitor the results, and to define and implement corrective actions if required. In order to reflect the organizational changes towards a more market-oriented approach, the risk management process was adapted accordingly. Key risks were assessed on business unit level and consolidated on group level. The business units together with the divisions and the group functions generate their respective key risk-profiling matrices and complete and update the related risk control schedules on an annual basis. These schedules identify specific risk exposures and the related risk objectives, list existing loss controls, address their effectiveness, list (where required) additional or alternative loss controls, and determine responsibilities and time frames for their implementation. The business units' key risk-profiling matrices are reviewed at the group level and are then consolidated into a Sulzer key risk-profiling matrix. The head of Risk Management informs the Audit Committee at least once a year of the current risks and risk mitigation as well as of the progress toward achieving major risk objectives. The assessment of risk management processes is included within the charter and scope of Group Internal Audit.

8 Personnel expenses

millions of CHF	2016	2015
Salaries and wages	795.8	802.4
Defined contribution plan expenses	30.1	23.9
Defined benefit plan expenses/(income)	–16.6	29.0
Cost of share-based payment transactions	7.5	8.3
Other personnel costs	154.3	157.2
Total personnel expenses	**971.1**	**1 020.8**

Pension plan amendments in Switzerland in 2016 had a positive impact of CHF 35.4 million in the income statement and were recorded as a reduction of defined benefit expenses. For further details refer to note 9.

9 Employee benefit plans

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

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

millions of CHF	Funded plans Switzerland	Funded plans United Kingdom	Funded plans USA	Funded plans Others	Unfunded plans	Total 2015
Reconciliation of the amount recognized in the balance sheet as of December 31						
Present value of funded defined benefit obligation	−1 326.2	−598.3	−63.6	−54.6	–	−2 042.7
Fair value of plan assets	1 239.6	478.6	41.3	45.1	–	1 804.6
Overfunding (+)/underfunding (–)	**−86.6**	**−119.7**	**−22.3**	**−9.5**	**–**	**−238.1**
Present value of unfunded defined benefit obligation	–	–	–	–	−45.8	−45.8
Adjustment to asset ceiling	−1.3	–	–	–	–	−1.3
Asset (+)/liability (–) recognized in the balance sheet	**−87.9**	**−119.7**	**−22.3**	**−9.5**	**−45.8**	**−285.2**
— thereof as liabilities under defined benefit obligation	−97.5	−119.7	−22.3	−9.5	−45.8	−294.8
— thereof as prepaid expenses	9.6	–	–	–	–	9.6

Sulzer operates major funded defined benefit ("DB") pension plans in Switzerland, UK, Ireland, and the USA. Unfunded defined benefit plans relate to German pension benefit plans. The plans are exposed to actuarial risks, e.g. longevity risk, currency risk, interest rate risk, and the funded plans additionally to market (investment) risk.

In Switzerland, Sulzer contributes to two pension plans funded via two different pension funds, i.e. a base plan for all employees and a supplementary plan for employees with salaries exceeding a certain limit. Both plans provide benefits depending on the pension savings at retirement. They include certain legal minimum interest credits to the pension savings (i.e. investment return) and guaranteed rates of conversion of pension savings into an annuity at retirement. In addition, the plans offer death in service and disability benefits. The two pension funds are collective funds administrating pension plans of Sulzer group companies and also unrelated companies. In case of a material underfunding of the pension plans, the regulations include predefined steps, such as higher contribution by employer and employees or lower interest on pension savings, to eliminate the underfunding. The pension funds are legally separated from the group. The vast majority of the active participants in the two pension funds are employed by companies not belonging to the Sulzer group. The Board of Trustees for the base plan comprises ten employee and ten employer representatives. Based on the actual market environment, the average discount rate decreased in 2016 to 0.5% (2015: 0.7%). The lower discount rate resulted in lower return on plan assets and higher DBOs. The income statement effect for 2016 was an income of CHF 17.9 million, impacted by pension plan amendments (2015: expense of CHF 18.0 million). The Swiss Pension Fund Board decided in June 2016 to reduce the guaranteed pension conversion rate by 1.0 percentage points over four years, beginning January 1, 2018. The plan amendments, recognized as past service cost, have had a positive impact of CHF 35.4 million in the income statement, of which CHF 8.2 million were recorded as cost of goods sold and CHF 27.2 million as general administrative expenses.

In the UK, Sulzer operates two funded defined benefit plans managed as sections of the Sulzer Pension Scheme. The Company operates a defined benefit scheme in the UK which is a final salary plan and provides benefits linked to salary at retirement or earlier date of leaving service. The scheme consists of two sections, of which both sections are closed to new entrants and future accruals. The scheme is managed by six trustees forming the Board. Both plans are multi-employer schemes with Sulzer (UK) Holding being the principal sponsor. Based on the persistent low market interest rate, the discount rate decreased to 2.5% (2015: 3.6%), which resulted in higher net pension liabilities of CHF 186.5 million in 2016 (2015: CHF 119.7 million). The total expense recognized in the income statement in 2016 was CHF 4.0 million compared to CHF 13.3 million in 2015, due to income from past service cost and lower employer contribution.

In the USA, Sulzer operates non-contributory defined benefit retirement plans covering substantially all of their employees. The salaried plans provide benefits that are based on years of service and the employee's compensation, averaged over the five highest consecutive years preceding retirement. The hourly plans' benefits are based on years of service and a flat dollar benefit multiplier. All plans were closed for new entrants. In 2016, an expense of CHF 0.9 million was recognized in the income statement (2015: an expense of CHF 0.7 million). The discount rate remained unchanged in 2016 at 4.0%. The amount recognized in other comprehensive income (OCI) in 2016 was CHF –0.6 million (2015: CHF 4.3 million).

In Germany, Sulzer operates a range of different DB pension plans. The majority of these plans are unfunded and benefits are paid directly by the employer to the beneficiaries as they became due. All DB plans are closed for new joiners and a new defined contribution plan for all employees was introduced in 2007. Existing employees who participated in the DB plans continued to be eligible for these DB pensions but became also eligible for the new defined contribution pensions. However, benefits received under the defined contribution plan are offset against the benefits under the DB plans. The different DB plans offer retirement pension, disability pension, and survivor's pension benefits.

Employee benefit plans

millions of CHF	2016	2015
Reconciliation of effect of asset ceiling		
Adjustment to asset ceiling at January 1	–1.3	–2.4
Change in effect of asset ceiling excl. interest income/(expense)	–1.0	1.1
Adjustment to asset ceiling at December 31	**–2.3**	**–1.3**
Reconciliation of asset (+)/liability (–) recognized in the balance sheet		
Asset (+)/liability (–) recognized at January 1	–285.2	–270.2
Defined benefit cost recognized in the income statement	9.8	–35.8
Defined benefit cost recognized in OCI	–98.2	–13.6
Employer contribution	28.3	25.7
Acquired through business combination	–7.0	–
Currency translation differences	22.4	8.7
Asset (+)/liability (–) recognized at December 31	**–329.9**	**–285.2**
Components of defined benefit cost in the income statement		
Current service cost (employer)	–20.8	–28.4
Interest cost	–33.5	–38.1
Interest income on plan assets	26.7	31.3
Past service cost	37.6	–
Effects of curtailments and settlement	0.4	0.2
Other administrative cost	–0.6	–0.8
Income/(expense) recognized in the income statement	**9.8**	**–35.8**
— thereof charged to personnel expenses	16.6	–29.0
— thereof charged to financial expense	–6.8	–6.8
Components of defined benefit cost in OCI		
Actuarial gain/(loss) on defined benefit obligation	–202.5	54.6
Return on plan assets excl. interest income	104.9	–69.5
Change in effect of asset ceiling excl. interest expense/income	–1.0	1.1
Return on reimbursement right excl. interest income	0.4	0.2
Defined benefit cost recognized in OCI[1)]	**–98.2**	**–13.6**

[1)] The tax effect on defined benefit cost recognized in OCI amounted to CHF 16.1 million (2015: CHF 0.5 million).

Employee benefit plans

millions of CHF	2016	2015
Reconciliation of defined benefit obligation		
Defined benefit obligation as of January 1	−2 088.5	−2 219.1
Interest cost	−33.5	−38.1
Current service cost (employer)	−20.8	−28.4
Contributions by plan participants	−9.0	−9.1
Past service cost	37.6	–
Benefits paid/deposited	128.2	111.5
Effects of curtailments and settlement	2.6	0.2
Acquired through business combination	−20.0	–
Other administrative cost	−0.6	−0.9
Actuarial gain (+)/loss (–) on obligation	−202.5	54.6
Currency translation differences	95.6	40.8
Defined benefit obligation as of December 31[1]	**−2 110.9**	**−2 088.5**
Reconciliation of the fair value of plan assets		
Fair value of plan assets as of January 1	1 804.6	1 951.3
Interest income on plan assets	26.7	31.3
Employer contribution	28.3	25.7
Contributions by plan participants	9.0	9.1
Benefits paid/deposited	−128.0	−111.3
Effects of curtailments and settlement	−2.2	–
Acquired through business combination	13.0	–
Return on plan assets excl. interest income	104.9	−69.5
Currency translation differences	−73.0	−32.0
Fair value of plan assets as of December 31	**1 783.3**	**1 804.6**
Total plan assets at fair value — quoted market price		
Cash and cash equivalents	134.6	95.3
Equity instruments third parties	598.6	646.1
Debt instruments third parties	526.6	558.3
Real estate funds	30.0	33.7
Investment funds	4.0	0.2
Others	38.3	34.0
Total assets at fair value — quoted market price as of December 31	**1 332.1**	**1 367.6**
Total plan assets at fair value — non-quoted market price		
Properties occupied by or used by third-parties (real estate)	267.0	265.8
Others	184.2	171.2
Total assets at fair value — non-quoted market price as of December 31	**451.2**	**437.0**
Best estimate of contributions for upcoming financial year		
Contributions by the employer	25.0	28.6

[1] The defined benefit obligation 2016 includes the funded part (CHF 2 064.5 million) and the unfunded part (CHF 46.4 million).

Employee benefit plans

millions of CHF	2016	2015
Components of defined benefit obligation, split		
Defined benefit obligation at December 31 for active members	–334.8	–475.7
Defined benefit obligation at December 31 for pensioners	–1 367.9	–1 362.5
Defined benefit obligation at December 31 for deferred members	–408.2	–250.3
Total defined benefit obligation at December 31	–2 110.9	–2 088.5
Components of actuarial gain/(losses) on obligations		
Actuarial gain/(loss) arising from changes in financial assumptions	–158.0	17.7
Actuarial gain/(loss) arising from changes in demogr. assumptions	–27.5	4.4
Actuarial gain/(loss) arising from experience adjustments	–17.0	32.5
Total actuarial gain/(loss) on defined benefit obligation	–202.5	54.6
Components of economic benefit available		
Economic benefits available in form of reduction in future contribution	9.8	10.5
Total economic benefit available	9.8	10.5
Maturity profile of defined benefit obligation		
Weighted average duration of defined benefit obligation in years	13.5	12.7

Since the defined benefit obligation for the Swiss and UK pension plans represents more than 94% (2015: 94%) of the group, the following significant actuarial assumptions apply exclusively to the two countries:

millions of CHF	2016		2015	
Principal actuarial assumptions as of December 31	Switzerland	United Kingdom	Switzerland	United Kingdom
Discount rate for active employees	0.8%	2.5%	1.1%	3.6%
Discount rate for pensioners	0.4%	2.5%	0.6%	3.6%
Future salary increases	1.0%	0.0%	1.0%	3.4%
Future pension increases	0.0%	2.5%	0.0%	2.5%
Life expectancy at retirement age (male/female) in years	22/24	22/24	22/24	22/24

millions of CHF	2016	2015
Sensitivity analysis of defined benefit obligation		
Discount rate (decrease 0.25%)	–75.6	–67.3
Discount rate (increase 0.25%)	71.0	71.6
Future salary growth (decrease 0.25%)	3.7	3.5
Future salary growth (increase 0.25%)	–3.8	4.9
Life expectancy (decrease 1 year)	113.4	115.7
Life expectancy (increase 1 year)	–111.7	–105.2

10 Research and development expenses

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

millions of CHF	2016	2015
Pumps Equipment	33.3	32.8
Rotating Equipment Services	0.5	1.3
Chemtech	37.5	37.6
Others	0.1	1.7
Total	**71.4**	**73.4**

11 Other operating income and expenses

millions of CHF	2016	2015
Income from release of contingent consideration	4.8	12.9
Income from sale of property, plant, and equipment	3.1	0.3
Release of real estate provision	–	6.8
Operating currency exchange gains, net	4.1	–
Other operating income	11.4	14.5
Total other operating income	**23.4**	**34.5**
Restructuring expenses	–57.0	–41.2
Impairments of tangible and intangible assets	–18.4	–13.0
Cost for mergers and acquisitions	–5.0	–3.4
Loss from PP&E sold	–1.9	–0.5
Expenses related to defined benefit plans	–	–8.8
Loss from legal cases	–	–10.8
Operating currency exchange losses, net	–	–3.8
Other operating expenses	–	–16.7
Total other operating expenses	**–82.3**	**–98.2**
Total other operating income and expenses, net	**–58.9**	**–63.7**

During 2016, the group reassessed the achievement of the earn-out targets related to contingent consideration arrangements. The reassessment resulted in an income of CHF 4.8 million (2015: CHF 12.9 million).

In 2015, the group released a provision of CHF 6.8 million for warranties made relating to the sale of Sulzer Real Estate Ltd in 2010.

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

Following the restructuring announcements in 2016, the group recognized restructuring cost of CHF 57.0 million (2015: CHF 41.2 million). As part of the Sulzer Full Potential (SFP) program, Sulzer has initiated several measures to adapt the global manufacturing capacities and streamline the organizational setup. The restructuring expenses are mainly associated with restructuring plans in Switzerland, Sweden, Germany, and Brazil. These measures entailed a reduction of roughly 1 350 full-time equivalents. The group further performed impairment tests on the related production machines and facilities leading to impairments of CHF 18.4 million (2015: CHF 13.0 million). For more details refer to note 15.

Following the decision of the arbitral tribunal regarding a dispute with the purchaser of the locomotive business (sold in 1998), the group recognized, in addition to the existing provision, expenses of CHF 8.7 million as loss from legal cases in 2015.

The functional allocation of the total restructuring expenses and impairments is as follows:
Cost of goods sold CHF –52.7 million (2015: CHF –42.7 million), selling and distribution expenses CHF –2.9 million (2015: CHF –1.5 million), and general and administrative expenses CHF –19.8 million (2015: CHF –10.0 million).

12 Financial income and expenses

millions of CHF	2016	2015
Interest and securities income	5.2	6.5
Total interest and securities income	**5.2**	**6.5**
Interest expenses	–10.6	–21.1
Interest expenses on employee benefit plans	–6.8	–6.8
Total interest expenses	**–17.4**	**–27.9**
Net interest expenses	**–12.2**	**–21.4**
Income from investments and other financial assets	0.1	0.1
Fair value changes	2.0	12.8
Other financial income/(expenses)	–1.6	–1.4
Currency exchange gains/(losses) (net)	–7.6	–14.8
Total other financial expenses	**–7.1**	**–3.3**
Total financial expenses	**–19.3**	**–24.7**
— thereof from financial assets held at fair value through profit or loss	2.0	12.8
— thereof from loans and receivables	–4.0	–9.7
— thereof from borrowings	–10.6	–21.1
— thereof from investments	0.1	0.1
— thereof from employee benefit plans	–6.8	–6.8

The income on interest and securities slightly decreased, while interest expenses decreased significantly compared with 2015, mainly due to an extraordinary interest expense of CHF 5.2 million in 2015 related to the dispute with the purchaser of the locomotive business, as well as lower coupon expenses on the new CHF 450 million bond issued on July 11, 2016, replacing the maturing CHF 500 million bond (as further detailed in note 26). Thus, total interest expenses on bonds in 2016 reduced to CHF 7.4 million from CHF 12.0 million in 2015. The “Fair value changes” largely comprise the fair valuation of derivative financial instruments that are classified as financial assets or financial liabilities at fair value through profit or loss and that are used as hedging instruments with regard to foreign exchange risks.

13 Income taxes

millions of CHF	2016	2015
Current income tax expenses	-54.3	–52.9
Deferred income tax income	19.2	28.0
Total income tax expenses	**-35.1**	**–24.9**

The weighted average tax rate results from applying each subsidiary’s statutory income tax rate to the income before taxes. Since the group operates in countries that have differing tax laws and rates, the consolidated weighted average effective tax rate will vary from year to year according to variations in income per country and changes in applicable tax rates.

Reconciliation of income tax expenses

millions of CHF	2016	2015
Income/(loss) from continuing operations before income tax expenses	95.2	99.9
Weighted average tax rate	**23.1%**	**23.2%**
Income taxes at weighted average tax rate	–22.0	–23.2
Income taxed at different tax rates	3.4	13.0
Effect of tax loss carryforwards and allowances for deferred income tax assets	–6.0	–3.7
Expenses not deductible for tax purposes	–4.0	–4.3
Effect of changes in tax rates and legislation	–1.9	–1.0
Prior year items and others	–4.6	–5.7
Total income tax expenses	**–35.1**	**–24.9**
Effective income tax rate	36.9%	24.9%

The increase in the effective income tax rate to 36.9% (2015: 24.9%) is related to restructuring expenses with no corresponding tax effect. Excluding the restructuring expenses, the effective income tax rate would have been at 24.3%. Lower intercompany payments during 2016 resulted in a decrease of income taxed at different tax rates to CHF 3.4 million (2015: CHF 13.0 million).

Income tax liabilities

millions of CHF	2016	2015
Balance as of January 1	12.5	35.0
Acquired through business combination	3.8	0.7
Additions	51.6	54.7
Released as no longer required	–9.0	–13.4
Utilized	–40.5	–61.6
Currency translation differences	–1.9	–2.9
Total income tax liabilities as of December 31	**16.5**	**12.5**
— thereof non-current	2.6	2.6
— thereof current	13.9	9.9

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

			2016			2015
millions of CHF	Assets	Liabilities	Net	Assets	Liabilities	Net
Intangible assets	0.3	–98.9	–98.6	0.3	–70.1	–69.8
Property, plant, and equipment	4.6	–15.4	–10.8	2.9	–16.3	–13.4
Other financial assets	0.8	–1.5	–0.7	3.4	–0.8	2.6
Inventories	22.9	–5.2	17.7	20.6	–6.8	13.8
Other assets	27.1	–11.5	15.6	16.8	–9.2	7.6
Non-current provisions	17.3	–2.3	15.0	15.0	–2.8	12.2
Defined benefit plans	60.5	–0.6	59.9	52.4	–	52.4
Current provisions	25.5	–0.5	25.0	26.3	–1.2	25.1
Other current liabilities	24.4	–15.0	9.4	23.2	–15.5	7.7
Tax loss carryforwards	28.8	–	28.8	25.4	–	25.4
Elimination of intercompany profits	0.7	–	0.7	0.7	–	0.7
Tax assets/liabilities	**212.9**	**–150.9**	**62.0**	**187.0**	**–122.7**	**64.3**
Offset of assets and liabilities	–55.3	55.3	–	–53.3	53.3	–
Net recorded deferred income tax assets and liabilities	157.6	–95.6	62.0	133.7	–69.4	64.3

Cumulative deferred income taxes directly recorded in equity as of December 31, 2016, amounted to CHF 48.8 million (December 31, 2015: CHF 33.1 million). In compliance with the exception clause of IAS 12, the group does not recognize deferred taxes on investments in subsidiaries in the balance sheet.

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

						2016
millions of CHF	Balance as of January 1	Recognized in profit or loss	Recognized in other comprehensive income	Acquisition of subsidiaries	Currency translation differences	Balance as of December 31
Intangible assets	−69.8	6.2	–	−36.7	1.7	−98.6
Property, plant, and equipment	−13.4	1.8	–	0.8	–	−10.8
Other financial assets	2.6	−3.4	−0.4	–	0.5	−0.7
Inventories	13.8	4.2	–	−1.0	0.7	17.7
Other assets	7.6	6.1	–	–	1.9	15.6
Non-current provisions	12.2	2.5	–	–	0.3	15.0
Defined benefit plans	52.4	−4.9	16.1	–	−3.7	59.9
Current provisions	25.1	−1.2	–	–	1.1	25.0
Other current liabilities	7.7	5.4	–	–	−3.7	9.4
Tax loss carryforwards	25.4	2.5	–	–	0.9	28.8
Elimination of intercompany profits	0.7	–	–	–	–	0.7
Total	**64.3**	**19.2**	**15.7**	**−36.9**	**−0.3**	**62.0**

						2015
millions of CHF	Balance as of January 1	Recognized in profit or loss	Recognized in other comprehensive income	Acquisition of subsidiaries	Currency translation differences	Balance as of December 31
Intangible assets	−82.4	7.2	–	−0.3	5.7	−69.8
Property, plant, and equipment	−20.0	5.9	–	–	0.7	−13.4
Other financial assets	−1.1	1.1	0.8	–	1.8	2.6
Inventories	12.7	0.9	–	–	0.2	13.8
Other assets	17.6	−5.0	–	–	−5.0	7.6
Non-current provisions	9.7	3.2	–	–	−0.7	12.2
Defined benefit plans	50.7	−0.3	0.5	–	1.5	52.4
Current provisions	23.8	3.5	–	–	−2.2	25.1
Other current liabilities	0.5	5.8	–	–	1.4	7.7
Tax loss carryforwards	21.6	7.5	–	–	−3.7	25.4
Elimination of intercompany profits	2.5	−1.8	–	–	–	0.7
Total	**35.6**	**28.0**	**1.3**	**−0.3**	**−0.3**	**64.3**

Tax loss carryforwards

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

millions of CHF	Amount	Potential tax assets	Valuation allowance	Carrying amount	TLCF
					2015
Expiring in the next 3 years	10.1	1.9	−1.1	0.8	1.6
Expiring in 4–7 years	69.1	15.5	−4.7	10.8	23.3
Available without limitation	61.0	16.8	−3.0	13.8	12.1
Total tax loss carryforwards as of December 31	**140.2**	**34.2**	**−8.8**	**25.4**	**37.0**

Deferred income tax assets are recognized for tax loss carryforwards to the extent that the realization of the related tax benefit through future taxable profits is probable. No deferred income tax assets have been recognized on tax loss carryforwards in the amount of CHF 48.5 million (2015: CHF 37.0 million) and on restructuring provisions in the amount of CHF 32.0 million (2015: CHF 0.0 million).

14 Intangible assets

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

						2015
millions of CHF	Goodwill	Trademarks and licenses	Research and develop-ment	Computer software	Customer relationship	Total
Acquisition cost						
Balance as of January 1	1 033.7	144.6	9.6	44.7	348.3	1 580.9
Acquired through business combination	31.4	0.4	–	–	8.5	40.3
Additions	–	–	–	2.1	–	2.1
Disposals	–	–	–0.7	–0.7	–0.1	–1.5
Reclassifications	–	0.1	–0.1	0.7	–0.4	0.3
Currency translation differences	–45.3	–11.9	–2.5	–2.2	–23.9	–85.8
Balance as of December 31	**1 019.8**	**133.2**	**6.3**	**44.6**	**332.4**	**1 536.3**
Accumulated amortization						
Balance as of January 1	340.0	82.5	2.0	38.3	119.4	582.2
Additions	–	13.1	1.0	4.0	24.2	42.3
Disposals	–	–	–0.7	–0.7	–0.1	–1.5
Reclassifications	–	–	–	–	–0.1	–0.1
Impairments	–	–	1.1	–	–	1.1
Currency translation differences	–	–2.2	–2.3	–2.1	–7.3	–13.9
Balance as of December 31	**340.0**	**93.4**	**1.1**	**39.5**	**136.1**	**610.1**
Net book value						
As of January 1	693.7	62.1	7.6	6.4	228.9	998.7
As of December 31	679.8	39.8	5.2	5.1	196.3	926.2

Goodwill impairment test

			2016			2015
millions of CHF	Goodwill	Growth rate residual value	Pre-tax discount rate	Goodwill	Growth rate residual value	Pre-tax discount rate
Goodwill, net book value as of December 31 is allocated as follows	**780.1**			**679.8**		
Pumps Equipment — business unit Water	264.1	1.0%	10.6%	272.9	1.0%	11.0%
Pumps Equipment — other business units, individually not significant	25.2	2.0%	11.6%	25.3	2.0%	10.6%
Rotating Equipment Services — region EMEA	129.9	2.0%	10.0%	145.1	2.0%	10.8%
Rotating Equipment Services — other business units, individually not significant	82.6	2.0%	10.0%	79.2	2.0%	10.6%
Chemtech	278.3	1.0%	8.9%	157.3	0.0%	10.0%

Goodwill is allocated to the smallest cash-generating unit (CGU) at which the goodwill is monitored for internal management purposes (i.e. business units or areas). The fair value of these units is determined by calculating its value in use over a three-year cash flow projection period. The calculation uses the budget for next year and the two-year plan for subsequent periods that have been reviewed and approved by management. Cash flows beyond this planning period are extrapolated using a terminal value including the growth rates as stated above.

Sensitivity analyses

The recoverable amount from cash-generating units is measured on the basis of value-in-use calculations influenced materially by the terminal growth rate used to determine the residual value, the discount rate, and the projected cash flows. A reduction of the terminal growth rate by 1% or an increase of the pre-tax discount rate by 1% would not lead to an impairment for all the cash-generating units.

15 Property, plant, and equipment

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

Following restructuring announcements and underabsorption in 2016, the group performed impairment tests on the related production machines and facilities, resulting in impairments of CHF 18.4 million as of December 31, 2016 (December 31, 2015: CHF 11.9 million), all of which were charged to other operating expenses. The assets do not meet the criteria for classification as held for sale as of December 31, 2016. In 2016, fixed assets with a book value of CHF 11.0 million (2015: CHF 6.4 million) were sold for CHF 12.2 million (2015: CHF 6.7 million), resulting in a gain of CHF 1.2 million (2015: gain of CHF 0.3 million).

					2015
millions of CHF	Land and buildings	Machinery and technical equipment	Other non-current assets	Assets under construction	Total
Acquisition cost					
Balance as of January 1	381.1	701.4	198.6	34.7	1 315.8
Acquired through business combination	8.9	5.2	2.1	–	16.2
Additions	5.2	24.5	6.8	35.1	71.6
Disposals	−3.2	−35.6	−5.8	–	−44.6
Reclassifications	9.9	28.4	2.7	−41.4	−0.4
Currency translation differences	−24.7	−44.8	−14.7	−2.4	−86.6
Balance as of December 31	**377.2**	**679.1**	**189.7**	**26.0**	**1 272.0**
Accumulated depreciation					
Balance as of January 1	148.0	488.4	148.7	–	785.1
Additions	13.7	43.5	16.9	–	74.1
Disposals	−3.0	−30.6	−4.6	–	−38.2
Reclassifications	0.1	−0.3	0.4	–	0.2
Impairments	6.3	5.1	0.5	–	11.9
Currency translation differences	−9.6	−32.2	−10.7	–	−52.5
Balance as of December 31	**155.5**	**473.9**	**151.2**	**–**	**780.6**
Net book value					
As of January 1	233.1	213.0	49.9	34.7	530.7
As of December 31	221.7	205.2	38.5	26.0	491.4
Thereof leased property, plant, and equipment					
Acquisition cost of leased property, plant, and equipment	0.5	0.4	0.2	–	1.1
Accumulated depreciation	0.5	–	–	–	0.5
Net book value as of December 31	**–**	**0.4**	**0.2**	**–**	**0.6**
Leasing commitments (present value) as of December 31	**0.2**	**0.3**	**0.2**	**–**	**0.7**
Pledged assets as of December 31	**–**	**2.3**	**–**	**–**	**2.3**

16 Associates

millions of CHF	2016	2015
Balance as of January 1	4.0	2.5
Additions	5.0	0.1
Disposal as a result of the acquisition of SRE FZE	−1.1	–
Share of profit/(loss) of associates	−0.8	3.7
Dividend payments received	−0.7	−2.3
Currency translation differences	−0.6	–
Total investments in associates as of December 31	**5.8**	**4.0**

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

As of December 21, 2016, the group acquired 51% of the shares and voting interests in SRE FZE. As a result, the group's equity interest in SRE FZE increased from 49% to 100% (see note 4). Consequently, the associated share of 49% was eliminated from investments in associates.

17 Other financial assets

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

			2015
millions of CHF	Available-for-sale	Loans and receivables	Total
Balance as of January 1	4.5	7.4	11.9
Additions	–	0.5	0.5
Currency translation differences	–	–0.8	–0.8
Balance as of December 31	**4.5**	**7.1**	**11.6**

Financial assets that belong to the category "Available-for-sale financial assets" include investments in equity securities. The category "Loans and receivables" includes items with maturities beyond 12 months.

18 Inventories

millions of CHF	**2016**	**2015**
Raw materials, supplies, and consumables	134.6	120.9
Work in progress	180.8	207.6
Finished products and trade merchandise	86.3	80.8
Total inventories as of December 31	**401.7**	**409.3**

In 2016, Sulzer recognized write-downs of CHF 13.3 million (2015: CHF 22.5 million) in the income statement. Total accumulated write-downs on inventories amounted to CHF 69.4 million as of December 31, 2016 (2015: CHF 72.9 million). Material expenses in 2016 amounted to CHF 1 095.8 million (2015: CHF 1 137.6 million).

19 Percentage of completion contracts

millions of CHF	**2016**	**2015**
Contract revenue recognized for the year	**597.2**	**469.8**
Net receivables resulting from construction contracts as of December 31	230.2	190.7
Net liabilities resulting from construction contracts as of December 31	–32.1	–31.9
Advance payments received from customers for construction contracts as of December 31	–388.4	–399.1

Sales recognized in accordance with the percentage of completion method for the year 2016 amounted to CHF 597.2 million (thereof related to ongoing contracts CHF 353.3 million), which corresponds to 20.8% of total sales (2015: CHF 469.8 million, or 15.8% of sales). The costs related to these sales amounted to CHF 434.8 million (thereof related to ongoing contracts CHF 276.9 million) and to CHF 338.3 million in 2015. The impact on gross profit was CHF 162.4 million (thereof related to ongoing contracts CHF 76.4 million), which corresponds to 18.5% of total gross profit (2015: CHF 131.5 million, 14.4%; amount related to ongoing contracts CHF 63.3 million).

20 Trade accounts receivable

Aging structure of trade accounts receivable

			2016			2015
millions of CHF	Gross amount	Allowance	Net book value	Gross amount	Allowance	Net book value
Not past due	654.8	−0.3	654.5	613.8	−1.0	612.8
Past due						
1–30 days	102.2	−0.6	101.6	85.7	−0.5	85.2
31–60 days	35.8	−0.5	35.3	38.8	−0.6	38.2
61–120 days	35.0	−1.4	33.6	33.9	−2.0	31.9
>120 days	107.7	−49.5	58.2	116.6	−33.6	83.0
Total trade accounts receivable as of December 31	**935.5**	**−52.3**	**883.2**	**888.8**	**−37.7**	**851.1**

Allowance for doubtful trade accounts receivable

millions of CHF	2016	2015
Balance as of January 1	37.7	39.7
Additions	27.6	15.8
Released as no longer required	−8.9	−9.8
Utilized	−4.8	−5.0
Currency translation differences	0.7	−3.0
Balance as of December 31	**52.3**	**37.7**

Approximately 30% (2015: 31%) of the gross amount of trade accounts receivable were past due, and an allowance of CHF 52.3 million (2015: CHF 37.7 million) was recorded. The recoverability of trade accounts receivable is regularly reviewed, and the credit quality of new customers is thoroughly assessed. Due to the large and heterogeneous customer base, the credit risk of the group is limited.

Accounts receivable by geographical region

millions of CHF	Accounts receivable by region	
	2016	**2015**
Europe, Middle East, Africa	437.3	453.2
— thereof United Kingdom	120.6	167.2
— thereof Germany	65.5	54.1
— thereof Switzerland	24.6	39.6
— thereof other countries	226.6	192.3
Americas	232.2	203.5
— thereof USA	145.1	143.4
— thereof Mexico	15.6	27.0
— thereof other countries	71.5	33.1
Asia-Pacific	213.7	194.4
— thereof China	135.8	134.1
— thereof India	31.8	25.1
— thereof other countries	46.1	35.2
Total as of December 31	**883.2**	**851.1**

21 Other accounts receivable and prepaid expenses

millions of CHF	2016	2015
Receivables from tax authorities	57.4	59.9
Derivative financial instruments	6.6	6.4
Other accounts receivable	25.5	18.5
Total other accounts receivable as of December 31	**89.5**	**84.8**
Insurance premiums	–	2.5
Prepaid contributions to employee benefit plans	9.7	9.6
Other prepaid expenses	30.4	26.4
Total prepaid expenses as of December 31	**40.1**	**38.5**
Total other accounts receivable and prepaid expenses as of December 31	**129.6**	**123.3**

For further details on the position “Derivative financial instruments,” refer to note 29. Other accounts receivable do not include any material positions that are past due or impaired.

22 Cash and cash equivalents

millions of CHF	2016	2015
Cash	397.5	902.2
Cash equivalents	32.0	106.8
Total cash and cash equivalents as of December 31	**429.5**	**1 009.0**

As of December 31, 2016 and 2015, the group held no significant restricted cash and cash equivalents.

23 Marketable securities

millions of CHF	2016	2015
Designated at fair value through profit or loss	–	208.3
Total marketable securities as of December 31	**–**	**208.3**

Marketable securities designated at fair value through profit or loss as of December 31, 2015, mainly comprised an investment in a fund investing in short-term bonds with high credit ratings. Further, during 2015, the group invested in time deposits and other interest-bearing investments with maturity between 3 and 12 months. During 2016, all these marketable securities were sold.

24 Share capital

	2016		2015	
thousands of CHF	Number of shares	Share capital	Number of shares	Share capital
Balance as of December 31 (par value CHF 0.01)	**34 262 370**	**342.6**	**34 262 370**	**342.6**

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

Share ownership

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

Shareholders holding more than 3%

	Dec 31, 2016		Dec 31, 2015	
	Number of shares	in %	Number of shares	in %
Renova Group	21 728 414	63.42	21 728 414	63.42
T. Rowe Price Associates	n/a	n/a	1 051 364	3.07

Sulzer Ltd is not aware of any agreements between the shareholders named above regarding the shares held or regarding the execution of voting rights.

Retained earnings

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

Treasury shares

The total number of shares held by Sulzer Ltd as of December 31, 2016, amounted to 177 461 treasury shares (December 31, 2015: 187 191 shares), which are mainly held for the purpose of issuing shares under the management share-based payment programs.

Cash flow hedge reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments where the hedged transaction has not yet occurred. Amounts are reclassified to profit or loss when the associated hedged transaction affects the income statement.

Currency translation reserve

The currency translation reserve comprises all foreign exchange differences arising on the translation of the financial statements of controlled entities, whose functional currency differs from the reporting currency of the group. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

Dividends

On April 7, 2016, the Annual General Meeting approved an ordinary dividend of CHF 3.50 (2015: CHF 3.50) per share and a special dividend of CHF 14.60 (2015: CHF 0.00) per share to be paid out of reserves. The dividend was paid to shareholders on April 13, 2016. The total amount of the dividend paid was CHF 617.5 million (2015: CHF 119.2 million).

The Board of Directors decided to propose to the Annual General Meeting 2017 a dividend for the year 2016 of CHF 3.50 per share (2015: ordinary dividend CHF 3.50 and special dividend CHF 14.60).

25 Earnings per share

	2016	2015
Net income attributable to shareholders of Sulzer Ltd (millions of CHF)	**59.0**	**73.9**
Issued number of shares	34 262 370	34 262 370
Adjustment for the average treasury shares held	–159 760	–226 508
Average number of shares outstanding as of December 31	**34 102 610**	**34 035 862**
Adjustment for share participation plans	228 043	148 139
Average number of shares for calculating diluted earnings per share as of December 31	**34 330 653**	**34 184 001**
Earnings per share, attributable to a shareholder of Sulzer Ltd (in CHF) as of December 31		
Basic earnings per share	1.73	2.17
Diluted earnings per share	1.72	2.16

26 Borrowings

			2016			2015
millions of CHF	Short-term	Long-term	Total	Short-term	Long-term	Total
Bonds	–	450.4	450.4	499.6	–	499.6
Bank and other loans	6.9	5.4	12.3	14.5	6.5	21.0
Leasing obligations	0.2	2.5	2.7	0.3	0.7	1.0
Total borrowings as of December 31	**7.1**	**458.3**	**465.4**	**514.4**	**7.2**	**521.6**
— thereof due in <1 year	7.1	–	7.1	514.4	–	514.4
— thereof due in 1–5 years	–	7.0	7.0	–	7.0	7.0
— thereof due in >5 years	–	451.3	451.3	–	0.2	0.2

Borrowings by currency

			2016			2015
	millions of CHF	in %	Interest rate	millions of CHF	in %	Interest rate
BRL	4.8	1.0	8.0%	7.0	1.3	8.0%
CHF	450.5	96.8	0.5%	499.7	95.8	2.4%
EUR	1.7	0.4	4.8%	0.3	0.1	2.9%
KRW	1.8	0.4	2.8%	1.8	0.3	2.9%
SAR	1.8	0.4	2.9%	8.8	1.7	4.2%
Other	4.8	1.0	–	4.0	0.8	–
Total as of December 31	**465.4**	**100.0**	**–**	**521.6**	**100.0**	**–**

In 2015, Sulzer arranged a CHF 500 million syndicated credit facility with maturity date in May 2020 with two one-year extension options. During 2016, the facility was extended for one year until May 2021. The facility is available for general corporate purposes including financing of acquisitions. The facility is subject to financial covenants based on net financial indebtedness and EBITDA, which were adhered to throughout the reporting period. The facility was not used as per December 31, 2016 due to the group's liquidity situation, and also the amount of other borrowings was further reduced compared with 2015.

Outstanding bond

	2016		2015	
millions of CHF	Amortized costs	Nominal	Amortized costs	Nominal
2.25% 07/2011–07/2016	–	–	499.6	500.0
0.375% 07/2016–07/2022	325.5	325.0	–	–
0.875% 07/2016–07/2026	124.9	125.0	–	–
Total as of December 31	**450.4**	**450.0**	**499.6**	**500.0**

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

27 Provisions

millions of CHF	Other employee benefits	Warranties/ liabilities	Restructuring	Environmental	Other	Total
Balance as of January 1, 2016	42.9	77.9	27.7	16.1	46.2	210.8
Acquired through business combination	1.0	0.1	–	–	1.7	2.8
Additions	33.3	18.2	65.2	0.1	18.2	135.0
Released as no longer required	−1.0	−3.2	−8.2	–	−3.1	−15.5
Utilized	−30.3	−16.8	−27.9	−0.2	−9.0	−84.2
Currency translation differences	1.5	0.4	0.8	−0.8	−0.9	1.0
Total provisions as of December 31, 2016	**47.4**	**76.6**	**57.6**	**15.2**	**53.1**	**249.9**
— thereof non-current	33.9	4.0	2.8	15.2	17.9	73.8
— thereof current	13.5	72.6	54.8	–	35.2	176.1

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

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

As part of the Sulzer Full Potential (SFP) program, Sulzer has initiated several measures to adapt the global manufacturing capacities and streamline the organizational setup. Restructuring provisions are mainly associated with measures started in Switzerland, Sweden, Germany, and Brazil. These measures entailed a reduction of roughly 1 350 full-time equivalents. In 2016, the group recognized restructuring provisions of CHF 65.2 million. The remaining provision as of December 31, 2016, is CHF 57.6 million, of which CHF 54.8 million is expected to be utilized within one year.

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

“Other” includes provisions that do not fit into the aforementioned categories. A large number of these provisions refer to indemnities, in particular related from divestitures. In addition, provisions for ongoing asbestos lawsuits and other legal claims are included. Based on the currently known facts, Sulzer is of the opinion that the resolution of the open cases will not have material effects on its liquidity or financial condition. Although Sulzer expects a large part of the category “Other” to be realized in 2017, by their nature the amounts and timing of any cash outflows are difficult to predict.

28 Other current and accrued liabilities

millions of CHF	2016	2015
Taxes (VAT, withholding tax)	18.9	19.3
Derivative financial instruments	9.2	11.2
Other current liabilities	25.3	24.3
Total other current liabilities as of December 31	**53.4**	**54.8**
Vacation and overtime claims	27.5	26.7
Salaries, wages, and bonuses	96.8	82.5
Contract-related costs	123.5	103.7
Other accrued liabilities	107.2	97.9
Total accrued liabilities as of December 31	**355.0**	**310.8**
Total other current and accrued liabilities as of December 31	**408.4**	**365.6**

29 Derivative financial instruments

	2016				2015			
	Derivative assets		Derivative liabilities		Derivative assets		Derivative liabilities	
millions of CHF	Notional value	Fair value	Notional value	Fair value	Notional value	Fair value	Notional value	Fair value
Forward exchange contracts	375.8	6.6	394.6	9.4	437.5	6.4	589.5	11.6
Total as of December 31	**375.8**	**6.6**	**394.6**	**9.4**	**437.5**	**6.4**	**589.5**	**11.6**
— thereof due in <1 year	374.8	6.6	382.8	9.2	437.3	6.4	571.7	11.2
— thereof due in 1–2 years	1.0	–	11.7	0.2	0.2	–	17.7	0.4
— thereof due in 3–5 years	–		0.1		–		0.1	

The notional and the fair value of derivative assets and liabilities include current and also non-current derivative financial instruments. The cash flow hedges of the expected future sales were assessed as highly effective. As at December 31, 2016, net cumulative unrealized losses of CHF 14.2 million (2015: loss of CHF 12.8 million) with a deferred tax asset of CHF 3.2 million (2015: CHF 3.6 million) relating to these cash flow hedges were included in other comprehensive income. In 2016, a gain of CHF 1.0 million (2015: a loss of CHF 3.1 million) cash flow hedge reserve was recognized in profit or loss. There was no ineffectiveness that arose from cash flow hedges in 2016 (2015: CHF 0.0 million). The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets in the balance sheet.

The hedged, highly probable forecast transactions denominated in foreign currency are mostly expected to occur at various dates during the next 12 months. Gains and losses recognized in the hedging reserve (cash flow hedges) in equity on forward foreign exchange contracts as of December 31, 2016, are recognized either in sales, cost of goods sold, or in other operating income/expenses in the period or periods during which the hedged transaction affects the income statement. This is generally within 12 months from the balance sheet date unless the gain or loss is included in the initial amount recognized for the purchase of fixed assets, in which case recognition is over the lifetime of the asset (five to ten years).

The group enters into derivative financial instruments under enforceable master netting arrangements. These agreements do not meet the criteria for offsetting derivative assets and derivative liabilities in the consolidated balance sheet. As per December 31, 2016, the amount subject to such netting arrangements was CHF 3.2 million (2015: CHF 3.8 million). Considering the effect of these agreements, the amount of derivative assets would be reduced from CHF 6.6 million to CHF 3.4 million (2015: from CHF 6.4 million to CHF 2.6 million), and the amount of derivative liabilities would be reduced from CHF 9.4 million to CHF 6.2 million (2015: from CHF 11.6 million to CHF 7.8 million).

30 Other financial commitments

			2016			2015
millions of CHF	Rented premises	Other	Total	Rented premises	Other	Total
Maturity <1 year	22.0	7.0	29.0	20.4	9.0	29.4
Maturity 1–5 years	51.8	11.7	63.5	51.8	12.3	64.1
Maturity >5 years	16.5	0.2	16.7	23.1	–	23.1
Operating lease as of December 31	**90.3**	**18.9**	**109.2**	**95.3**	**21.3**	**116.6**
Total commitments for future investments and acquisitions as of December 31	**0.1**	**2.4**	**2.5**	**0.7**	**1.6**	**2.3**

31 Contingent liabilities

millions of CHF	2016	2015
Guarantees in favor of third parties	10.0	10.0
Total contingent liabilities as of December 31	**10.0**	**10.0**

As of December 31, 2016, guarantees provided to third parties amounted to CHF 10 million and expiration in 2022 regarding certain environmental matters related to disposed business.

32 Share participation plans

Share-based payments charged to personnel expenses

millions of CHF	2016	2015
Restricted share unit plan	2.6	9.6
Performance share plan	4.9	–1.3
Total charged to personnel expenses	**7.5**	**8.3**

Restricted share unit plan settled in Sulzer shares

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

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

Restricted share units

Grant year	2016	2015	2014	2013	2012	Total
Outstanding as of January 1, 2015	–	–	68 259	25 512	14 342	108 113
Granted	–	98 035	3 426	993	–	102 454
Exercised	–	–20 621	–32 046	–16 212	–13 204	–82 083
Forfeited	–	–	–3 713	–1 682	–1 138	–6 533
Outstanding as of December 31, 2015	**–**	**77 414**	**35 926**	**8 611**	**–**	**121 951**
Outstanding as of January 1, 2016	–	77 414	35 926	8 611	–	121 951
Granted	21 603	–	–	–	–	21 603
Exercised	–	–13 552	–16 250	–8 611	–	–38 413
Forfeited	–	–150	–55	–	–	–205
Outstanding as of December 31, 2016	**21 603**	**63 712**	**19 621**	**–**	**–**	**104 936**
Average fair value at grant date in CHF	72.61	102.18	122.00	166.61	129.13	

Performance share plan settled in Sulzer shares

This long-term incentive plan covers the members of the Executive Committee and, starting 2016, also covers the members of the Sulzer Management Group. Performance share units (PSU) are granted annually depending on the organizational position of the employee.

Vesting of the PSU is subject to continuous employment and to the achievement of performance conditions over the performance period. Participants are not entitled to dividends declared during the vesting period. Vesting of the PSP 2016 is based on three performance conditions: operational EBITA growth over the performance period (weighted 25%), average ROCEA (weighted 25%), and on Sulzer's total return to shareholders (TSR), compared to a selected group of ten peer companies and the SMIM Index (weighted 50%). Vesting of the PSP 2014 and 2015 is based on two equally weighted performance conditions: cumulated operational EBITA and on Sulzer's total return to shareholders (TSR), compared to a selected group of 30 peer companies.

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

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

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

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

Performance share units — terms of awards

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

Performance share units

Grant year	2016	2015	2014	2013	Total
Outstanding as of January 1, 2015	–	–	13 651	26 458	40 109
Granted	–	21 665	–	–	21 665
Exercised	–	–	–	–5 717	–5 717
Forfeited	–	–7 865	–6 439	–15 881	–30 185
Outstanding as of December 31, 2015	**–**	**13 800**	**7 212**	**4 860**	**25 872**
Outstanding as of January 1, 2016	–	13 800	7 212	4 860	25 872
Granted	116 472	5 228	4 281	–	125 981
Exercised	–217	–1 748	–2 533	–808	–5 306
Forfeited	–7 389	–8 284	–3 715	–4 052	–23 440
Outstanding as of December 31, 2016	**108 866**	**8 996**	**5 245**	**–**	**123 107**

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

Key management compensation

thousands of CHF	2016				2015			
	Short-term benefits	Equity-based compen-sation	Pension and social security contribu-tions	Total	Short-term benefits	Equity-based compen-sation	Pension and social security contribu-tions	Total
Board of Directors	1 365	468	265	2 098	1 068	1 570	135	2 773
Executive Committee	9 829	4 076	2 517	16 422	5 375	57	1 781	7 213

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

Related parties

As of December 31, 2016, sales with related parties controlled by the major shareholder (Renova Group) amounted to CHF 0.8 million (2015: CHF 9.2 million) with open receivables of CHF 0.0 million (2015: CHF 2.0 million). Open payables of CHF 3.7 million (2015: CHF 0.6 million) were recognized. Provision for loss/unprofitable contracts/warranties/guarantees/liquidated damages recognized in the income statement amounted to CHF 0.4 million (2015: CHF 0.0 million). Expenses for services from a company controlled by the major shareholder of Sulzer amounted to CHF 0.2 million (2015: CHF 0.7 million).

Sales with the associated company Hua Rui recorded in 2016 amounted to CHF 0.3 million (2015: CHF 2.5 million) with open receivables of CHF 0.2 million (2015: CHF 0.0 million). Open payables with associates amounted to CHF 2.6 million (2015: CHF 1.0 million).

34 Auditor remuneration

Fees for the audit services by KPMG as the appointed group auditor amounted to CHF 2.7 million (2015: CHF 2.7 million). Additional services provided by the group auditor amounted to a total of CHF 0.7 million (2015: CHF 0.5 million). This amount includes CHF 0.4 million (2015: CHF 0.3 million) for tax and legal advisory services and CHF 0.3 million for other consulting services (2015: CHF 0.2 million).

35 Key accounting policies and valuation methods

35.1 Basis of preparation

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

- financial instruments at fair value through profit or loss which are measured at fair value (incl. derivative financial instruments),
- available-for-sale financial instruments, and
- net position from defined benefit plans, where plan assets are measured at fair value and the plan liabilities are measured at the present value of the defined benefit obligation (see 35.19 a).

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

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

35.2 Change in accounting policies

a) Standards, amendments, and interpretations which are effective for 2016

The group has adopted the following new standards and amendments with a date of initial application of January 1, 2016. The adoption of these amendments did not have any impact on the current period.

— Amendment to IAS 1 ‘Presentation of Financial Statements’. The amendments clarify guidance in IAS 1 on materiality and aggregation of the presentation of subtotals, the structure of financial statements, and the disclosure of accounting policies.
— Amendments to IAS 16 ‘Property, Plant, and Equipment’ and IAS 38 ‘Intangible Assets’. The amendments clarify the acceptable methods of depreciation and amortization.
— Amendments deriving from the annual improvement program 2012–2014 addressing specific aspects in various standards.

b) Standards, amendments, and interpretations issued but not yet effective which the group has decided not to early adopt in 2016

A number of new standards and amendments to standards have been published that are not mandatory for December 31, 2016 reporting periods and have not been early adopted by the group. None of these are expected to have a significant effect on the consolidated financial statements of the group, except the following:

— Amendments to IAS 7 ‘Statement of Cash Flows’, requires disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments are effective for annual reporting periods beginning on or after January 1, 2017.
— Amendments to IAS 12 ‘Income Taxes’. The amendments clarify the recognition of a deductible temporary differences for unrealized losses. The amendments are effective for annual reporting periods beginning on or after January 1, 2017.
— IFRS 9 ‘Financial Instruments’, published in July 2014, replaces the existing guidance in IAS 39 ‘Financial Instruments: Recognition and Measurement’. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018. The group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9.
— IFRS 15 ‘Revenue from Contracts with Customers’ establishes a comprehensive framework for determining whether, how much, and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 ‘Revenue’, IAS 11 ‘Construction Contracts’, and IFRIC 13 ‘Customer Loyalty Programs’. The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. Under IFRS 15, an entity recognizes revenue when a performance obligation is satisfied. IFRS 15 is effective for annual reporting periods beginning on or after January 1, 2018. Sulzer has started a project and is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15. At this stage, the group is not able to estimate the impact of the new standard on the group’s financial statements. Sulzer will assess the impact in more detail over the next year.
— IFRS 16 ‘Leases’, published in January 2016, introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Sulzer has started a project and is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16. So far, the most significant impact identified is that the Group will recognize new assets and liabilities for its operating leases of buildings and equipment. In addition, the nature of expenses related to those leases will now change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. IFRS 16 is effective for annual periods beginning on or after January 1, 2019.

35.3 Consolidation

a) Business combinations

The group accounts for business combinations using the acquisition method when control is transferred to the group (see 35.3 b). The consideration transferred in the acquisition is measured at the fair value of the assets given, the liabilities incurred to the former owner of the acquiree, and the equity interest issued by the group. Any goodwill arising is tested annually for impairment (see 35.6 a). Any gain on a bargain purchase is recognized in the income statement immediately. Acquisition-related costs are expensed as incurred, except if related to the issue of debt or equity securities. Identifiable assets acquired, and liabilities and contingent liabilities assumed in a business combination, are measured initially at their fair values at the acquisition date.

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

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

b) Subsidiaries

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

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

c) Non-controlling interests

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

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

d) Associates and joint ventures

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

e) Transactions eliminated on consolidation

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

35.4 Segment reporting

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

35.5 Foreign currency translation

a) Functional and presentation currency

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

The following table shows the major currency exchange rates for the reporting periods 2016 and 2015:

CHF	2016		2015	
	Average rate	Year-end rate	Average rate	Year-end rate
1 EUR	1.09	1.07	1.07	1.08
1 GBP	1.33	1.25	1.47	1.47
1 USD	0.99	1.02	0.96	0.99
100 CNY	14.83	14.68	15.32	15.23
100 INR	1.47	1.50	1.50	1.49

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

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

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

c) Subsidiaries

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

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

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

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

35.6 Intangible assets

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

a) Goodwill

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

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

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

b) Trademarks and licenses

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

c) Research and development

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

d) Computer software

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

e) Customer relationships

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

35.7 Property, plant, and equipment

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

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

The useful lives are as follows:

Buildings	20–50 years
Machinery	5–15 years
Technical equipment	5–10 years
Other non-current assets	max. 5 years

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

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

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

35.9 Financial assets

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

a) Financial assets at fair value through profit or loss

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

b) Available-for-sale financial assets

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

c) Loans and receivables

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

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

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

35.10 Derivative financial instruments and hedging activities

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

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

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

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

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

35.11 Offsetting financial instruments

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

35.12 Inventories

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

35.13 Trade receivables

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

35.14 Cash and cash equivalents

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

35.15 Share capital

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

35.16 Trade payables

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

35.17 Borrowings

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

35.18 Current and deferred income taxes

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

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

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

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

35.19 Employee benefits

a) Defined benefit plans

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

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

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

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

b) Defined contribution plans

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

c) Other employee benefits

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

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

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

35.20 Share-based compensation

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

a) Performance share plan (PSP)

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

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

b) Restricted share plan (RSP)

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

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

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

35.21 Provisions

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

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

35.22 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and rendering of services in the ordinary course of the group's activities. Revenue is shown net of value-added tax, returns, rebates, and discounts and after eliminating sales within the group. The group recognizes revenue when the amount of revenue can be reliably measured, when it is probable that future economic benefits will flow to the entity, and when specific criteria have been met.

a) Sale of goods/products

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

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

- it is probable that any future economic benefit associated with the revenue will flow to the entity,
- the revenue can be measured reliably,
- the cost incurred or to be incurred can be measured reliably,
- the entity (seller) has transferred significant risks and rewards of ownership to the buyer; basis of the risk/reward terms are the agreed clauses with the customer in the sales contract, generally linked to the internationally accepted Incoterms, and
- the entity (seller) has retained neither continuing managerial involvement nor effective control over the goods.

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

b) Rendering of services

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

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

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

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

c) Percentage of completion method (PoC)

Major long-term customer orders are reported using the percentage of completion method (PoC), based on the percentage of costs to date compared with the total estimated contract costs, contractual milestones, or performance. The income statement contains a share of sales, including an estimated share of profit, while the balance sheet includes the corresponding trade accounts receivable after adjustment for advance payments received. When it appears probable that the total costs of an order will exceed the expected income, the total amount of expected loss is recognized immediately in the income statement.

d) Other revenue

Revenue from the use of entity assets by third parties yielding interest, royalties, and dividends in the form of:
- interest charges for the use of cash or cash equivalents or amounts due to the entity,
- royalty charges for the use of long-term assets (e.g. patents, trademarks, copyrights, and computer software), and
- dividend distribution of profits to holders of equity investments in proportion to their holdings of a particular class of capital.

Interest is recognized using the effective interest method. Royalties are recognized on an accrual basis in accordance with the substance of the relevant agreement. Dividends are recognized when the shareholder's right to receive payment is established.

35.23 Assets and disposal groups held for sale

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

35.24 Dividend distribution

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

36 Subsequent events after the balance sheet date

The Board of Directors authorized these consolidated financial statements for issue on February 22, 2017. They are subject to approval at the Annual General Meeting, which will be held on April 6, 2017. At the time when these consolidated financial statements were authorized for issue, the Board of Directors and the Executive Committee were not aware of any events that would materially affect these financial statements.

37 Major subsidiaries

December 31, 2016

December 31, 2016 **Europe**	Subsidiary	Sulzer ownership and voting rights	Registered capital (including paid-in capital in the USA and Canada)	Direct participation by Sulzer Ltd	Research & development	Production & engineering	Sales	Service
Switzerland	Sulzer Chemtech AG, Winterthur	100%	CHF 10 000 000	●	●	●	●	●
	Sulzer Mixpac AG, Haag	100%	CHF 100 000	●	●	●	●	
	Sulzer Markets and Technology AG, Winterthur	100%	CHF 4 000 000	●		●	●	●
	Sulzer Management AG, Winterthur	100%	CHF 500 000	●				
	Tefag AG, Winterthur	100%	CHF 500 000	●				
	Sulzer International AG, Winterthur	100%	CHF 100 000	●				
Belgium	Sulzer Pumps Wastewater Belgium N.V./S.A., St. Stevens-Woluwe	100%	EUR 123 947	●			●	●
Germany	Sulzer Pumpen (Deutschland) GmbH, Bruchsal	100%	EUR 3 000 000	●	●	●	●	●
	Sulzer Pumps Wastewater Germany GmbH, Bonn	100%	EUR 300 000	●			●	●
	Sulzer Pump Solutions Germany GmbH, Lohmar	100%	EUR 1 000 000			●		
	Sulzer Chemtech GmbH, Linden	100%	EUR 300 000	●			●	●
	Sulzer Pumps Grundbesitz Germany GmbH, Lohmar	100%	EUR 300 000	●		●		
	Black Deutschland GmbH[1], Bechhofen	100%	EUR 870 000	●				
	Geka GmbH[1], Bechhofen	100%	EUR 878 600		●	●	●	●
Denmark	Sulzer Mixpac Denmark A/S, Greve	100%	DKK 500 000	●	●	●	●	●
	Sulzer Pumps Denmark A/S, Farum	100%	DKK 500 000	●			●	●
Finland	Sulzer Pumps Finland Oy, Kotka	100%	EUR 16 000 000	●	●	●	●	●
France	Sulzer Pompes France SASU, Mantes	100%	EUR 6 600 000	●	●	●	●	●
Greece	Sulzer Pumps Wastewater Greece A.E., Athens	100%	EUR 117 400	●				
Great Britain	Sulzer Pumps (UK) Ltd., Leeds	100%	GBP 9 610 000		●	●	●	●
	Sulzer Chemtech (UK) Ltd., Stockton on Tees	100%	GBP 100 000				●	●
	Dowding & Mills Plc., Birmingham	100%	GBP 15 409 555			●	●	●
	Sulzer (UK) Holdings Ltd., Leeds	100%	GBP 6 100 000	●				
	Sulzer Mixpac (UK) Ltd.[1], Newbury	100%	GBP 1 000 000			●	●	
Ireland	Sulzer Pump Solutions Ireland Ltd., Wexford	100%	EUR 2 222 500	●	●	●	●	●
	Sulzer Finance (Ireland) Limited, Wexford	100%	EUR 100	●				
Italy	Sulzer Pumps Wastewater Italy S.r.l., Casalecchio di Reno	100%	EUR 600 000	●			●	
	Sulzer Chemtech Italia S.r.l., Milano	100%	EUR 100 000	●			●	
Norway	Sulzer Pumps Wastewater Norway A/S, Sandvika	100%	NOK 502 000	●			●	●
	Sulzer Pumps Norway A/S, Klepp Stasjon	100%	NOK 500 000	●			●	●
The Netherlands	Sulzer Pumps Wastewater Netherlands B.V., Maastricht-Airport	100%	EUR 15 882				●	●
	Sulzer Chemtech Nederland B.V., Breda	100%	EUR 1 134 451				●	●
	Sulzer Turbo Services Rotterdam B.V., Europoort	100%	EUR 18 000			●	●	●
	Advanced Separation Company (Ascom) B.V., Arnhem	100%	EUR 18 000		●	●	●	
	Process Laboratories Netherlands (PROLAB NL) B.V., Arnhem	100%	EUR 18 000		●			●
	Sulzer Turbo Services Venlo B.V., Lomm	100%	EUR 444 704		●	●	●	●
	Sulzer Netherlands Holding B.V., Breda	100%	EUR 10 010 260	●				
	Sulzer Capital B.V., Breda	100%	EUR 50 000					

[1] Acquired in 2016.

37 Major subsidiaries

December 31, 2016

December 31, 2016 Europe	Subsidiary	Sulzer ownership and voting rights	Registered capital (including paid-in capital in the USA and Canada)	Direct participation by Sulzer Ltd	Research & development	Production & engineering	Sales	Service
Austria	Sulzer Austria GmbH, Wiener Neudorf	100%	EUR 350 000	●			●	●
Poland	Sulzer Turbo Services Poland Sp. z o.o., Lublin	100%	PLN 2 427 000			●		●
	Sulzer Pumps Wastewater Poland Sp. z o.o., Warszawa	100%	PLN 800 000	●			●	●
Russia	ZAO Sulzer Pumps, St. Petersburg	100%	RUB 8 000 000	●			●	
	Sulzer Pumps Rus LLC, Moscow	100%	RUB 6 000 600	●			●	●
	Sulzer Turbo Services Rus LLC, Moscow	100%	RUB 7 500 000	●				●
	Sulzer Chemtech LLC, Serpukhov	100%	RUB 55 500 000	●		●	●	●
Sweden	Sulzer Pumps Sweden AB, Norrköping	100%	SEK 3 000 000	●	●	●	●	●
Spain	Sulzer Pumps Spain S.A., Madrid	100%	EUR 1 750 497	●		●	●	●
	Sulzer Pumps Wastewater Spain S.A., Rivas Vaciamadrid	100%	EUR 2 000 000				●	●
Turkey	Sulzer Pompa Çözümleri Ltd. Sti., Istanbul	100%	TRY 800 000	●				
North America								
Canada	Sulzer Pumps (Canada) Inc., Burnaby	100%	CAD 2 771 588			●	●	●
	Sulzer Chemtech Canada Inc., Edmonton	100%	CAD 1 000 000	●		●	●	●
	Sulzer Rotating Equipment Services (Canada) Ltd., Edmonton	100%	CAD 7 000 000	●		●	●	●
USA	Sulzer Pumps (US) Inc., Houston, Texas	100%	USD 40 381 108		●	●	●	●
	Sulzer Pumps Solutions Inc., Easley, South Carolina	100%	USD 27 146 250			●	●	●
	Sulzer Pump Services (US) Inc., Houston, Texas	100%	USD 1 000			●	●	●
	Sulzer Chemtech USA, Inc., Tulsa, Oklahoma	100%	USD 47 895 000		●	●	●	●
	Sulzer Mixpac USA Inc., Salem, New Hampshire	100%	USD 100				●	
	Sulzer Turbo Services Houston Inc., La Porte, Texas	100%	USD 18 840 000			●	●	●
	Sulzer Turbo Services New Orleans Inc., Belle Chasse, Louisiana	100%	USD 4 006 122			●	●	●
	Sulzer Electro-Mechanical Services (US) Inc., Pasadena, Texas	100%	USD 12 461 286			●	●	●
	Sulzer US Holding Inc., Houston, Texas	100%	USD 200 561 040	●				
	Geka Manufacturing Corporation[1], Elgin	100%	USD 603 719			●	●	●
Mexico	Sulzer Pumps México, S.A. de C.V., Cuautitlán Izcalli	100%	MXN 4 887 413	●		●	●	●
	Sulzer Chemtech, S. de R.L. de C.V., Cuautitlán Izcalli	100%	MXN 31 345 500	●		●	●	●

[1] Acquired in 2016.

December 31, 2016 Central and South America	Subsidiary	Sulzer ownership and voting rights	Registered capital (including paid-in capital in the USA and Canada)	Direct participation by Sulzer Ltd	Research & development	Production & engineering	Sales	Service
Argentina	Sulzer Turbo Services Argentina S.A., Buenos Aires	100%	ARS 9 730 091	●		●	●	●
Brazil	Sulzer Brasil S.A., Jundiaí	100%	BRL 82 054 659	●		●	●	●
	Sulzer Pumps Wastewater Brasil Ltda., Curitiba	100%	BRL 18 166 785	●		●	●	●
	Sulzer Services Brasil, Triunfo	100%	BRL 40 675 856	●				●
Chile	Sulzer Bombas Chile Ltda., Vitacura	100%	CLP 46 400 000	●			●	
Ecuador	Sulzer-Ecuador S.A., Quito	100%	USD 12 500	●			●	
Colombia	Sulzer Pumps Colombia S.A.S., Cota	100%	COP 7 142 000 000	●			●	●
Venezuela	Sulzer Pumps (Venezuela) S.A., Barcelona	100%	VEB 200 000 000				●	●
	Sulzer Turbo Services Venezuela S.A., Caracas	100%	VEB 5 000	●				
Africa								
South Africa	Sulzer Pumps (South Africa) (Pty) Ltd., Elandsfontein	75%	ZAR 100 450 000		●	●	●	●
	Sulzer (South Africa) Holdings (Pty) Ltd., Elandsfontein	100%	ZAR 16 476	●		●	●	●
	Sulzer Chemtech (Pty) Ltd., Johannesburg	100%	ZAR 121	●				
	Sulzer Pumps Wastewater South Africa (Pty) Ltd., Johannesburg	100%	ZAR 1 001	●			●	●
Morocco	Sulzer Maroc S.A.R.L. A.U., Ain Sebaa	100%	MAD 3 380 000	●				●
Nigeria	Sulzer Pumps (Nigeria) Ltd., Lagos	100%	NGN 10 000 000	●			●	●
Zambia	Sulzer Zambia Ltd., Chingola	100%	ZMK 15 000 000	●			●	●
Middle East								
United Arab Emirates	Sulzer Pumps Middle East FZCO, Dubai	100%	AED 500 000	●			●	●
	Sulzer Rotating Equipment FZE[1], Dubai	100%	USD 272 000				●	●
Saudi Arabia	Sulzer Saudi Pump Company Limited, Riyadh	75%	SAR 44 617 000	●		●	●	●
Bahrain	Sulzer Chemtech Middle East S.P.C., Al Seef	100%	BHD 50 000	●			●	

[1] Acquired in 2016.

37 Major subsidiaries

December 31, 2016

December 31, 2016 Asia	Subsidiary	Sulzer ownership and voting rights	Registered capital (including paid-in capital in the USA and Canada)	Direct participation by Sulzer Ltd	Research & development	Production & engineering	Sales	Service
India	Sulzer Pumps India Ltd., Navi Mumbai	99%	INR 25 000 000	●		●	●	●
	Sulzer India Pvt. Ltd., Pune	100%	INR 34 500 000	●		●	●	●
	Sulzer Tech India Pvt. Ltd., Navi Mumbai	100%	INR 100 000	●		●		
Indonesia	PT. Sulzer Indonesia, Purwakarta	100%	IDR 28 234 800 000	●		●	●	●
	PT Sulzer Pumps Indonesia, Purwakarta	100%	USD 300 000	●				
Japan	Sulzer Daiichi K.K., Tokyo	60%	JPY 30 000 000	●			●	
	Sulzer Japan Ltd., Tokyo	100%	JPY 10 000	●		●	●	●
Malaysia	Sulzer Pumps Wastewater Malaysia Sdn. Bhd., Selangor Darul Ehsan	100%	MYR 500 000	●			●	
	Advanced Separation Company Asia SDN BHD, Kuala Lumpur	100%	MYR 2	●				
Singapore	Sulzer Singapore Pte. Ltd., Singapore	100%	SGD 1 000 000	●		●	●	●
South Korea	Sulzer Korea Ltd., Seoul	100%	KRW 222 440 000	●			●	
Thailand	Sulzer Chemtech Co., Ltd., Rayong	100%	THB 25 000 000	●				●
People's Republic of China	Sulzer Dalian Pumps & Compressors Ltd., Dalian	100%	CHF 21 290 000	●		●	●	●
	Sulzer Pumps Suzhou Ltd., Suzhou	100%	CNY 82 069 324	●		●	●	●
	Sulzer Pump Solutions (Kunshan) Co., Ltd., Kunshan	100%	USD 5 760 000	●		●		
	Sulzer Shanghai Eng. & Mach. Works Ltd., Shanghai	100%	CNY 61 432 607	●	●	●	●	●
	Sulzer Pumps Wastewater Shanghai Co. Ltd., Shanghai	100%	USD 1 550 000	●			●	●
Australia								
	Sulzer Chemtech Pty Ltd., Brisbane	100%	AUD 500 000	●				
	Sulzer Australia Pty Ltd., Brisbane	100%	AUD 5 308 890				●	●
	Sulzer Australia Holding Pty Ltd., Melbourne	100%	AUD 34 820 100	●				

Statutory Auditor’s Report

To the General Meeting of Sulzer Ltd, Winterthur

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Sulzer Ltd and its subsidiaries (the Group), which comprise the consolidated balance sheet as at December 31, 2016 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements (pages 93 to 152) give a true and fair view of the consolidated financial position of the Group as at December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for Opinion

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

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

Key Audit Matters

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

Provisions for liquidated damages and warranty

Valuation of trade accounts receivable and WIP considering counterparty default risks

Valuation of goodwill

Accounting for the acquisition of GEKA

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

KPMG

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

Key Audit Matter

As per December 31, 2016, revenue from customer contracts amounts to CHF 2,876.7 million, WIP balance amounts to CHF 180.8 million and trade accounts receivable amount to CHF 883.2 million.

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

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

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

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

Our response

Our procedures included among others obtaining an understanding of the project execution processes and relevant controls relating to the accounting for customer contracts. We tested selected key controls, including results reviews done by management, for their operating effectiveness and performed procedures to gain sufficient audit evidence on the accuracy of the accounting for customer contracts and related financial statement captions.

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

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

We also examined costs included within WIP balances on a sample basis by verifying the amounts back to source documentation and tested their recoverability through comparing the net realizable values as per the agreements with estimated cost to complete.

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

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

— Note 19 to the consolidated financial statements, page 127

Provisions for liquidated damages and warranty

Key Audit Matter

As per December 31, 2016, provisions in the amount of CHF 76.6 million are held on the balance sheet to cover expected costs arising from uncertain contract outcomes, in particular for liquidated damages and product warranties.

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

Our response

Based on our knowledge gained through contract and project reviews, we assessed the need for and the accuracy of provisions. We further challenged management's contract risk assessments by enquiries, inspection of meeting minutes and review of correspondence with customers where available.

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

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

For further information on provisions for liquidated damages and warranty refer to the following:

— Note 27 to the consolidated financial statements, page 132

KPMG

Valuation of trade accounts receivable and WIP considering counterparty default risks

Key Audit Matter

Total balances from trade accounts receivable and WIP amount to CHF 1,064.0 million as at December 31, 2016.

Sulzer carries significant receivables on its balance sheet from customers in the oil and gas industry or such where the funding for order depends on cash flows from this industry.

A number of companies, including state owned enterprises, in this sector are under financial stress due to the low oil prices. Since the beginning of 2015, there is significant headwind in the oil and gas market, which is increasing the risk of financial difficulties or even default of Sulzer clients. Therefore, there is a higher risk on the recoverability of these balances.

Our response

Our procedures included assessing the activities related to credit control and the receivables collection processes.

We considered management's assumptions and challenged the appropriateness of estimates used in the allowance calculation, based on an ageing analysis of amounts due, the existence of credit insurances, past payment practices as well as recent bad debt experience of customers in the oil and gas industry.

We also considered management's assessment of country risks in the case of public enterprises that are in financial difficulties and the results from selected customer's confirmation of outstanding balances. We further tested subsequent payments and vouched cash received after year-end to bank records.

For further information on valuation of trade accounts receivable and WIP considering counterparty default risks refer to the following:

— Note 18 to the consolidated financial statements, page 127

— Note 20 to the consolidated financial statements, page 128

Valuation of goodwill

Key Audit Matter

As at December 31, 2016, Sulzer's balance sheet included goodwill amounting to CHF 780.1 million.

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

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

Our response

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

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

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

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

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

— Note 14 to the consolidated financial statements, page 123

KPMG

Accounting for the acquisition GEKA

Key Audit Matter	Our response
During the reporting year, Sulzer acquired GEKA for a total consideration of CHF 295.4 million. As part of the acquisition accounting, International Financial Reporting Standards require the recognition and measurement of the identifiable assets acquired and liabilities assumed at their fair values, resulting in the recognition of goodwill in cases where the total consideration exceeds the fair value of the net assets acquired. There is an inherent uncertainty in assessing the fair values of the assets acquired and liabilities assumed. In particular, the valuation of intangible assets such as customer relationships and technology require estimates to be made by management. In determining the fair values of these intangible assets, management uses a valuation model that incorporates, amongst others, assumptions in respect of future revenues and margins, useful lives, customer attrition and royalty rates and discount rates.	We read the purchase agreement to understand the key terms and conditions of the transaction and their implications on the accounting. We agreed the consideration transferred to the agreement and traced payments made to bank statements. Regarding the identification and valuation of intangible assets, we involved our own valuation specialists. They supported us in gaining sufficient assurance over the adequacy of valuation methodologies and the assumptions used. In addition, we discussed and challenged the underlying business forecasts with management and tested the calculations for their accuracy. We further reconciled the amounts as per the purchase price allocation to the opening balance sheet. We also considered the adequacy of the disclosures for the transaction in the consolidated financial statements.

For further information on the accounting for the acquisition of GEKA refer to the following:

— Note 4 to the consolidated financial statements, page 104

Other Information in the Annual Report

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

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

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

Responsibility of the Board of Directors for the Consolidated Financial Statements

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.

— Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
— Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
— Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements

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

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

KPMG AG

François Rouiller
Licensed Audit Expert
Auditor in Charge

Nanda Buess
Licensed Audit Expert

Zurich, February 22, 2017

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

Five-year summaries of key financial data

Key figures from consolidated income statement and statement of cash flows

millions of CHF		2016	2015	2014	2013	2012
Order intake		2797.5	2895.8	3160.8	3249.9	3343.4
Order intake gross margin		34.0%	33.8%	33.5%	33.5%	34.5%
Order backlog		1439.1	1510.7	1699.6	1672.1	1753.6
Sales		2876.7	2971.0	3212.1	3263.9	3340.7
Operating income	EBIT	115.3	120.9	−69.0	264.0	328.7
Operational EBITA	opEBITA	238.9	254.1	302.9	304.1	378.4
Operational EBITA margin (operational EBITA/sales)	opROSA	8.3%	8.6%	9.4%	9.3%	11.3%
Return on capital employed (operational EBITA in % of average capital employed)[1)]	opROCEA	15.7%	17.0%	17.1%	14.6%	18.1%
Net income attributable to shareholders of Sulzer Ltd		59.0	73.9	275.0	234.4	302.9
— in percentage of equity attributable to shareholders of Sulzer Ltd	ROE	3.7%	3.3%	11.3%	10.0%	13.7%
Reported EPS	EPS	1.73	2.17	8.09	6.89	8.91
Depreciation		−69.5	−74.1	−79.2	−73.0	−66.8
Amortization		−47.3	−42.3	−43.3	−41.6	−41.5
Impairments[2)]		−18.4	−13.0	−0.4	–	−0.2
Research and development expenses		−71.4	−73.4	−76.2	−70.6	−66.9
Capital expenditure		74.9	73.7	96.0	80.5	93.0
Free cash flow		200.5	155.8	98.0	218.7	347.9
FCF conversion (free cash flow/net income)		3.34	2.08	0.35	0.93	1.12
Employees (number of full-time equivalents) as of December 31		14005	14253	15494	15382	15537
Personnel expenses		971.1	1020.8	1046.2	1047.4	1019.8

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

[2)] Amortization does not include impairment on goodwill.

Key figures from consolidated balance sheet

millions of CHF	2016	2015	2014	2013	2012
Non-current assets	1 809.9	1 574.0	1 681.9	1 891.5	2 237.8
— thereof property, plant, and equipment	511.0	491.4	530.7	492.0	650.0
Current assets	1 926.0	2 680.8	2 971.1	2 652.4	2 371.7
— thereof cash and cash equivalents and marketable securities	429.5	1 217.3	1 301.5	528.7	513.1
Total assets	3 735.9	4 254.8	4 653.0	4 543.9	4 609.5
Equity attributable to shareholders of Sulzer Ltd	1 581.2	2 224.7	2 435.4	2 334.4	2 216.6
Non-current liabilities	980.3	472.1	994.5	825.3	956.5
— thereof long-term borrowings	458.3	7.2	510.3	515.9	533.0
Current liabilities	1 164.6	1 548.5	1 216.5	1 377.9	1 429.6
— thereof short-term borrowings	7.1	514.4	17.7	56.6	76.0
Net liquidity[1]	−35.9	695.7	773.5	−36.2	−95.9
Equity ratio[2]	42.3%	52.3%	52.4%	51.4%	48.1%
Borrowings-to-equity ratio (gearing)	0.29	0.23	0.22	0.25	0.27

[1] Cash and cash equivalents and marketable securities, less short- and long-term borrowings from continuing and discontinued operations.
[2] Equity attributable to shareholders of Sulzer Ltd in relation to total assets.

Five-year summaries by division

	Order intake					Sales				
millions of CHF	**2016**	**2015**	**2014**	**2013**	**2012**	**2016**	**2015**	**2014**	**2013**	**2012**
Divisions	**2 807.3**	**2 907.9**	**3 169.1**	**3 250.7**	**3 334.6**	**2 888.4**	**2 983.8**	**3 221.0**	**3 270.9**	**3 332.6**
Pumps Equipment/Sulzer Pumps[3]	1 401.7	1 500.8	1 725.5	1 801.5	2 094.3	1 503.5	1 621.0	1 754.9	1 821.6	2 097.5
Rotating Equipment Services/ Sulzer Turbo Services[3]	661.1	698.2	725.2	699.3	535.2	666.8	693.2	724.6	705.6	510.5
Chemtech	744.5	708.9	718.4	749.9	705.1	718.1	669.6	741.5	743.7	724.6
Others	**–9.8**	**–12.1**	**–8.3**	**–0.8**	**8.8**	**–11.7**	**–12.8**	**–8.9**	**–7.0**	**8.1**
Total	**2 797.5**	**2 895.8**	**3 160.8**	**3 249.9**	**3 343.4**	**2 876.7**	**2 971.0**	**3 212.1**	**3 263.9**	**3 340.7**

	Order backlog					Employees[1]				
millions of CHF	**2016**	**2015**	**2014**	**2013**	**2012**	**2016**	**2015**	**2014**	**2013**	**2012**
Divisions	**1 439.0**	**1 510.7**	**1 703.6**	**1 672.1**	**1 754.3**	**13 832**	**14 073**	**15 361**	**15 198**	**15 362**
Pumps Equipment/Sulzer Pumps[3]	880.3	998.0	1 209.4	1 190.9	1 309.1	6 261	6 996	7 365	7 389	8 573
Rotating Equipment Services/ Sulzer Turbo Services[3]	195.8	205.0	212.2	190.7	151.6	3 436	3 538	3 709	3 642	2 703
Chemtech	362.9	307.7	282.0	290.5	293.6	4 135	3 539	4 287	4 167	4 086
Others	**0.1**	**–**	**–4.0**	**–**	**–0.7**	**173**	**180**	**133**	**184**	**175**
Total	**1 439.1**	**1 510.7**	**1 699.6**	**1 672.1**	**1 753.6**	**14 005**	**14 253**	**15 494**	**15 382**	**15 537**

	Operational EBITA					Operational capital employed				
millions of CHF	**2016**	**2015**	**2014**	**2013**	**2012**	**2016**	**2015**	**2014**	**2013[2]**	**2012[2]**
Divisions	**234.6**	**256.3**	**318.7**	**332.9**	**373.1**	**1 605.0**	**1 574.6**	**1 866.9**	**2 158.7**	**2 270.1**
Pumps Equipment/Sulzer Pumps[3]	86.3	118.1	160.6	166.9	228.1	760.6	746.3	1 115.6	n/a	1 464.6
Rotating Equipment Services/ Sulzer Turbo Services[3]	66.2	70.8	64.5	71.0	61.7	400.6	422.0	408.7	n/a	371.5
Chemtech	82.1	67.4	93.6	95.0	83.3	443.8	406.3	342.6	412.8	434.0
Others	**4.3**	**–2.2**	**–15.8**	**–28.8**	**5.3**	**–85.1**	**–76.8**	**–99.6**	**–68.9**	**–26.2**
Total	**238.9**	**254.1**	**302.9**	**304.1**	**378.4**	**1 519.9**	**1 497.8**	**1 767.3**	**2 089.8**	**2 243.9**

1) Number of full-time equivalents as of December 31.
2) Since 2014 operational capital employed (excl. other intangible assets). For 2013 and earlier capital employed.
3) Values for the year 2012 are based on the former divisional structure with Sulzer Pumps, Sulzer Turbo Services, and Sulzer Chemtech.

Five-year summaries by region

Order intake by region

millions of CHF	2016	2015	2014	2013	2012
Europe, Middle East, Africa	1 254.8	1 303.7	1 305.5	1 329.7	1 431.2
Americas	949.8	1 065.3	1 165.4	1 123.2	1 214.9
Asia-Pacific	592.9	526.8	689.9	797.0	697.3
Total	**2 797.5**	**2 895.8**	**3 160.8**	**3 249.9**	**3 343.4**

Sales by region

millions of CHF	2016	2015	2014	2013	2012
Europe, Middle East, Africa	1 271.8	1 214.0	1 264.7	1 402.4	1 421.2
Americas	1 041.9	1 134.9	1 177.4	1 130.0	1 145.5
Asia-Pacific	563.0	622.1	770.0	731.5	774.0
Total	**2 876.7**	**2 971.0**	**3 212.1**	**3 263.9**	**3 340.7**

Capital employed (average) by company location

millions of CHF	2016	2015	2014	2013[1)]	2012[1)]
Europe, Middle East, Africa	941.8	875.5	1 152.4	1 365.1	1 500.2
Americas	391.8	415.8	406.6	481.0	497.0
Asia-Pacific	186.3	206.5	208.3	243.7	246.7
Total	**1 519.9**	**1 497.8**	**1 767.3**	**2 089.8**	**2 243.9**

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

Employees by company location[1)]

	2016	2015	2014	2013	2012
Europe, Middle East, Africa	6 804	6 504	6 607	6 749	6 938
Americas	3 822	4 139	4 545	4 361	4 653
Asia-Pacific	3 379	3 610	4 342	4 272	3 946
Total	**14 005**	**14 253**	**15 494**	**15 382**	**15 537**

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

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Financial Statements of Sulzer Ltd

Balance sheet of Sulzer Ltd
December 31

millions of CHF	Notes	2016	2015
Current assets			
Cash and cash equivalents	3	1.9	563.3
Marketable securities		–	98.4
Accounts receivable from subsidiaries		65.8	392.9
Other current accounts receivable		0.2	1.2
Prepaid expenses		2.2	1.8
Total current assets		**70.1**	**1 057.6**
Non-current assets			
Loans to subsidiaries		819.1	472.9
Other loans and financial assets		4.5	4.5
Investments in subsidiaries	4	1 497.1	1 465.4
Investments in third parties		4.7	3.6
Total non-current assets		**2 325.4**	**1 946.4**
Total assets		**2 395.5**	**3 004.0**
Current liabilities			
Current interest-bearing liabilities	6	–	499.6
Current interest-bearing liabilities with subsidiaries		43.7	21.9
Current liabilities with subsidiaries		78.6	22.1
Other current liabilities		0.5	2.6
Accrued liabilities		16.7	20.1
Current provisions		5.3	5.7
Total current liabilities		**144.8**	**572.0**
Non-current liabilities			
Non-current interest-bearing liabilities	6	450.4	–
Non-current provisions		37.9	57.8
Total non-current liabilities		**488.3**	**57.8**
Total liabilities		**633.1**	**629.8**
Equity			
Registered share capital	5	0.3	0.3
Legal capital reserves		205.5	205.5
Voluntary retained earnings			
— Free reserves		1 486.5	1 786.5
— Retained earnings		82.2	170.6
— Net profit for the year		4.8	229.2
Treasury shares	5	–16.9	–17.9
Total equity		**1 762.4**	**2 374.2**
Total equity and liabilities		**2 395.5**	**3 004.0**

Income statement of Sulzer Ltd
January 1 – December 31

millions of CHF	Notes	2016	2015
Income			
Investment income	9	86.2	278.5
Financial income		42.8	46.7
Other income		38.0	40.2
Total income		**167.0**	**365.4**
Expenses			
Administrative expenses	8	60.9	72.8
Financial expenses		14.2	36.8
Investment and loan expenses	9	82.3	22.4
Other expenses		3.5	2.0
Direct taxes		1.3	2.2
Total expenses		**162.2**	**136.2**
Net profit for the year		**4.8**	**229.2**

Statement of changes in equity of Sulzer Ltd
January 1 – December 31

millions of CHF	Share capital	Legal reserves	Free reserves	Retained earnings	Net income	Treasury shares	Total
Equity as of January 1, 2015	**0.3**	**205.5**	**1 486.5**	**15.5**	**575.0**	**–27.0**	**2 255.8**
Dividend					–119.9		–119.9
Allocation of net income			300.0	155.1	–455.1		–
Net profit for the year					229.2		229.2
Change in treasury shares						9.1	9.1
Equity as of December 31, 2015	**0.3**	**205.5**	**1 786.5**	**170.6**	**229.2**	**–17.9**	**2 374.2**
Dividend					–617.5		–617.5
Allocation of net income			–300.0	–88.4	388.3		–0.1
Net profit for the year					4.8		4.8
Change in treasury shares						1.0	1.0
Equity as of December 31, 2016	**0.3**	**205.5**	**1 486.5**	**82.2**	**4.8**	**–16.9**	**1 762.4**

Notes to the Financial Statements of Sulzer Ltd

1 General information

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

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

2 Key accounting policies and principles

Treasury shares

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

Investments in subsidiaries and third parties

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

Marketable securities

Marketable securities mainly comprise an investment in a fund investing in short-term bonds with high credit ratings and are valued at their quoted market price as at the balance sheet date. A valuation adjustment reserve has not been accounted for.

Interest-bearing liabilities

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

Share-based payments

Should treasury shares be used for share-based payment programs, the difference between the acquisition costs and any consideration paid by the plan participants at grant date is recognized as compensation to the Board of Directors.

Foregoing a cash flow statement and additional disclosures in the notes

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

3 Cash and cash equivalents

In 2015, Sulzer Ltd arranged a CHF 500 million syndicated credit facility with maturity date in May 2020 with two one-year extension options. During 2016, the facility was extended for one year until May 2021. The facility is available for general corporate purposes including financing of acquisitions. The facility is subject to financial covenants based on net financial indebtedness and EBITDA, which were adhered to throughout the reporting period. The facility was not used as per December 31, 2016.

4 Investments in subsidiaries

A list of the major subsidiaries held directly or indirectly by Sulzer Ltd is included in note 37 of the consolidated financial statements.

5 Registered share capital

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

Shareholders holding more than 3%

	Dec 31, 2016		Dec 31, 2015	
	Number of shares	in %	Number of shares	in %
Renova Group	21 728 414	63.42	21 728 414	63.42
T. Rowe Price Associates	n/a	n/a	1 051 364	3.07

Treasury shares held by Sulzer Ltd

	2016		2015	
millions of CHF	Number of shares	Total transaction amount	Number of shares	Total transaction cost
Balance as of January 1	187 191	17.9	254 940	27.0
Revaluation	–	–	–	–3.5
Purchase	33 989	3.1	37 298	3.8
Sale	–	–	–22 964	–2.0
Share-based remuneration	–43 719	–4.1	–82 083	–7.4
Balance as of December 31	**177 461**	**16.9**	**187 191**	**17.9**

The total number of treasury shares held by Sulzer Ltd as of December 31, 2016, amounted to 177 461 (December 31, 2015: 187 191 shares), which are mainly held for the purpose of issuing shares under the management share-based payment programs.

6 Interest-bearing liabilities

	2016		2015	
millions of CHF	Book value	Nominal	Book value	Nominal
2.25% 07/2011–07/2016	–	–	499.6	500.0
0.375% 07/2016–07/2022	325.5	325.0	–	–
0.875% 07/2016–07/2026	124.9	125.0	–	–
Total as of December 31	**450.4**	**450.0**	**499.6**	**500.0**

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

7 Contingent liabilities

millions of CHF	2016	2015
Guarantees, sureties, comfort letters for subsidiaries		
— to banks and insurance companies	1 316.4	1 268.4
— to customers	404.4	360.1
— to others	110.9	45.1
Guarantees for third parties	10.0	10.0
Total contingent liabilities as of December 31	**1 841.7**	**1 683.6**

As of December 31, 2016, CHF 272.8 million (2015: CHF 336.2 million) of guarantees, sureties, and comfort letters for subsidiaries to banks and insurance companies were utilized.

8 Administrative expenses

millions of CHF	2016	2015
Compensation of Board of Directors	2.1	2.3
Other administrative expenses	58.8	70.5
Total administrative expenses	**60.9**	**72.8**

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

9 Investment income and investment and loan expenses

In 2016, the investment income contains ordinary and extraordinary dividend payments from subsidiaries amounting to CHF 86.2 million (2015: CHF 131.3 million). In 2015, Sulzer Pumps Ltd was merged with Sulzer Ltd. The merger gain amounted to CHF 135.2 million and is included in investment income.

The investment and loan expenses contain allowances on investments and loans amounting to CHF 105.7 million (2015: CHF 18.4 million) and release of hidden reserves amounting to CHF 25.0 million.

10 Share participation of the Board of Directors, Executive Committee, and related parties

Restricted share units for members of the Board

The compensation of the Board of Directors consists of a fixed cash component and a restricted share unit (RSU) component with a fixed grant value. The number of RSU is determined by dividing the fixed grant value by the volume-weighted share price of the last ten days prior to the grant date. One-third of the RSU each vest after the first, second, and third anniversaries of the grant date, respectively. Upon vesting, one vested RSU is converted into one share of Sulzer Ltd. The vesting period for RSU granted to the members of the Board of Directors ends no later than on the date on which the member steps down from the Board.

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

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

					2015
	Sulzer shares	Restricted share units (RSU)[1]	Performance share units (PSU) 2013[2]	Performance share units (PSU) 2014[3]	Performance share units (PSU) 2015[4]
Board of Directors	**45 633**	**13 149**	**–**	**–**	**–**
Peter Löscher	26 684	3 657	–	–	–
Matthias Bichsel	342	2 103	–	–	–
Thomas Glanzmann	4 616	2 081	–	–	–
Jill Lee	3 095	2 081	–	–	–
Marco Musetti	2 692	2 081	–	–	–
Gerhard Roiss	4 000	1 146	–	–	–
Klaus Sturany	4 204	–	–	–	–
Executive Committee	**33 301**	**40 976**	**4 860**	**7 212**	**13 800**
Greg Poux-Guillaume	–	30 242	–	–	942
Peter Alexander	10 928	–	4 860	1 967	2 402
Oliver Bailer	1 303	231	–	1 967	2 402
Fabrice Billard	1 187	–	–	–	2 402
Thomas Dittrich	7 000	9 842	–	964	2 826
César Montenegro	12 883	661	–	2 314	2 826

[1] Restricted share units assigned by Sulzer.
[2] The average fair value of one performance share unit 2013 at grant date amounted to CHF 294.14.
[3] The average fair value of one performance share unit 2014 at grant date amounted to CHF 206.63.
[4] The average fair value of one performance share unit 2015 at grant date amounted to CHF 193.97.

Granted Sulzer shares to members of the Board of Directors

	2016		2015	
	Quantity	Value in CHF	Quantity	Value in CHF
Allocated to members of the Board of Directors	14 577	1 156 248	8 948	980 980

11 Subsequent events after the balance sheet date

At the time when these financial statements were authorized for issue, the Board of Directors were not aware of any events that would materially affect these financial statements.

Appropriation of net profit

in CHF	2016	2015
Net profit for the year	4 800 000	229 200 000
Unallocated profit carried forward from previous year	82 184 595	170 532 721
Total available profit	**86 984 595**	**399 732 721**
Proposal by the Board of Directors: Appropriation from free reserves	**100 000 000**	**300 000 000**
Ordinary dividend	**–119 297 182**	**–119 415 384**
Special dividend	**–**	**–498 132 743**
Balance carried forward	**67 687 413**	**82 184 595**
Distribution per share CHF 0.01		
Gross dividend	3.50	18.10
less 35% withholding tax	1.23	6.34
Net payment	**2.27**	**11.76**

The Board of Directors proposes the payment of a dividend of CHF 3.50 per share to the Annual General Meeting on April 6, 2017. The company will not pay a dividend on treasury shares held by Sulzer Ltd or one of its subsidiaries.

Statutory Auditor's Report

To the General Meeting of Sulzer Ltd, Winterthur

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Sulzer Ltd, which comprise the balance sheet as at December 31, 2016, the income statement and the statement of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the financial statements (pages 165 to 174) for the year ended December 31, 2016 comply with Swiss law and the company's articles of incorporation.

Basis for Opinion

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

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

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

We have determined that there are no key audit matters to communicate in our report.

Responsibility of the Board of Directors for the Financial Statements

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

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

KPMG

Auditor’s Responsibilities for the Audit of the Financial Statements

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

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

— Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.

— Conclude on the appropriateness of the Board of Directors’ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the entity to cease to continue as a going concern.

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

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

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

KPMG

Report on Other Legal and Regulatory Requirements

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

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

KPMG AG

François Rouiller Licensed Audit Expert Auditor in Charge	Nanda Buess Licensed Audit Expert

Zurich, February 22, 2017

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