



SULZER

SUSTAINABLE INNOVATION

Annual Report 2020

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Letter to the shareholders



Dear Shareholder,

Last year at this point in time, when the world turned its eyes to China battling a novel virus, we wrote that it was still too early to assess the impact of COVID-19 on Sulzer, anticipating that it would very likely burden us beyond our China business.

Soon after, the coronavirus found its way across continents and country borders, challenging our private and professional lives. Thanks to our rapid response, our global network, Sulzer's geographical and industrial diversification, and dedicated employees who went above and beyond the call of duty to continue to support customers under the strictest safety regulations, we were able to mitigate to a large extent the impact of the pandemic on our business.

Performance in 2020

Amid strong market headwinds and a global recession, Sulzer once again proved to be resilient: Compared with the full year 2019, orders only softened by 2.2% (–3.8% organic) and sales by 4.6% (–5.6% organic), delivering on our guidance. Our diversified portfolio underpinned by our broad regional presence and solid operational execution were key drivers for this performance.

Our service business continued to be strong, with year-on-year order growth of 2.5%. Chemtech's overall order intake remained on the previous year's level on a dynamic Chemicals market and a 29.2% rise in orders in China, Chemtech's major market. In Pumps Equipment, order intake softened by 4.1%. The water market continued to grow, with orders up 2.3%, excluding two large Engineered Water orders in 2019. Orders in Energy decreased by 1.9%, on fewer investments in a volatile environment. Applicator Systems' business came to an abrupt but temporary halt following the

closing of stores, factories and dental clinics in the second quarter, resulting in an order intake decline of 11.0% for the full year 2020. Along with the lifting of country lockdowns, APS rebounded with good momentum in the second half of 2020, culminating in year-on-year growth in the fourth quarter.

Robust operational profitability due to swift cost cutting

To mitigate the short-term impact of market disruptions by the pandemic, we took quick actions to squeeze our operating expenses by CHF 59 million.

Additionally, in anticipation of the downturn in Energy-related markets, we started to ramp down the related capacities. The teams executed the rigorous measures swiftly and without distractions, proving our agility to adapt to a fast-changing market environment. The recurring savings, targeted for a total of CHF 70 million, already started to have a positive impact in 2020 and will be largely realized this year.

Together, these measures helped us achieve an operational profitability of 9.0% (2019: 10.0%), despite the sudden deterioration of the business environment.

With our disciplined net working capital management, we have again delivered a record free cash flow of CHF 272 million, strengthening our already solid balance sheet.

Boosting our presence in medical and water

In line with our strategy to complement our portfolio with bolt-on acquisitions in fast-growing markets such as medical and water, we have announced exciting transactions of strategic importance.

[Haselmeier](#), an acquisition we announced in August and closed five weeks later, provides Sulzer access to the highly attractive drug delivery devices market. With its self-injection pens for reproductive health, diabetes or osteoporosis patients, Haselmeier is a great fit to our APS business and leverages our precision injection-molding expertise. Through this CHF 119 million transaction, we welcomed to Sulzer 230 people who had generated sales of CHF 40 million in 2019, and booked additional sales of CHF 7.4 million for the fourth quarter 2020.

With the acquisition of the Swedish company [Nordic Water](#), announced in January and closed on February 1, 2021, Sulzer strengthened its wastewater treatment offering and gained further access to the clean water market, an exciting and fast-growing segment where Sulzer is already present. This leading supplier of water treatment technology, which we bought for CHF 128 million, employs 200 people in six countries and has annual sales of around CHF 80 million.

Fostering sustainable innovation

With these transactions, we continued Sulzer's industrial repositioning towards higher growth markets. Today, we have strong positions in sustainable ventures such as water treatment, energy efficiency, recycling, biomaterial applications, low carbon solutions and healthcare.

As we speak, Sulzer is scaling up a [new groundbreaking textile recycling technology](#) in partnership with fashion giant H&M, aiming at revolutionizing the textile industry. On the following pages, we provide further insights into some of our projects in the area of sustainable applications, including [the development of plastic recycling and biopolymers in Switzerland](#), [the supply of fresh water to Brazil's drought-affected areas](#) and [our artificial intelligence solution for solar power plants in the middle of the desert](#).

Continuing to embed ESG in our business model

As we look to the future, we will continue to make sustainable innovation part of all we do. The groundwork has been laid: Our Board's Strategy and Sustainability Committee oversees all our sustainability initiatives and has already integrated ESG (Environment, Social, Governance) objectives into our compensation framework.

Gender pay parity at Sulzer

At Sulzer, we value diversity in all forms, as is reflected in our shared values and behaviors. This includes equal pay for equal work irrespective of gender. We are proud to say that there is no material earnings gap at Sulzer: The salaries between men and women for equal work on average across the entire company vary by a small 3% whereas global industry benchmarks suggest a 15% gap.

Changes to the Board of Directors

At the 2020 Annual General Meeting, Alexey Moskov was elected as new and additional member of the Board of Directors for a one-year term of office, bringing it back up to eight members. All eight are independents, and two are representatives of our largest shareholder Tiwel.

Outlook for 2021

For 2021, Sulzer expects a progressive return to pre-pandemic levels. The first half of the year at least will continue to be impacted by the pandemic, with regional lockdowns hampering business interactions. Our business most impacted by the lockdowns in 2020, Applicator Systems, should build on its strong H2 2020 rebound to return to pre-pandemic volumes by the middle of 2021. Progress with vaccination should bring an acceleration to all Sulzer businesses in the second half of the year.

Sulzer order intake in 2020 was only down 2% for the year, on the back of a strong first half where we were up almost 2%. As such, we have a robust baseline and expect orders to be up 3% to 6% in 2021 on a currency-adjusted basis. Sales were down 4.6% in 2020 and should grow by 5% to 7% on a currency-adjusted basis. Operational profitability will benefit from the rebound in Applicator Systems and a significant uplift from our structural cost-cutting measures to return to pre-pandemic levels, close to 10%.

The storm is not over yet. The world is still in a global health crisis, with far-reaching consequences on our lives. However, we have good reason to believe that we are in good shape to continue weathering it. Throughout the year, we at Sulzer worked closely together as a team to change, adapt and execute swiftly, all while holding our spirits high. We've seen many encouraging stories of support and "going the extra mile" during 2020, and we extend our heartfelt thanks to our employees for their commitment and excellent performance. We also thank our customers, shareholders and partners who share our vision and values, and who continue to support us through choppy waters. We look forward to a continued open dialogue – hopefully in person again soon.

Kind regards,



Peter Löscher
Chairman of the Board



Greg Poux-Guillaume
CEO

Our company

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

Pumps Equipment

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

Rotating Equipment Services

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

Chemtech

The Chemtech division is the global market leader in innovative mass transfer, static mixing and polymer solutions for chemicals, petrochemicals, refining and LNG. Chemtech is also leading the way in ecological solutions such as biopolymers as well as textile and plastic recycling, contributing to a circular economy. Our product offering ranges from technology licensing to process components all the way to complete separation process plants. Customer support ranges from engineering and field services to tray and packing installation, tower maintenance, welding and plant turnaround projects – ensuring minimal downtime.

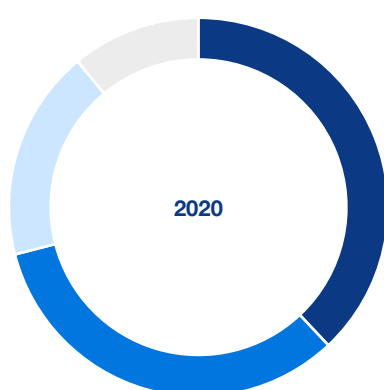
Applicator Systems

Through its well-known brands (Mixpac, Transcodent, Cox, Medmix, Haselmeier and Geka), Sulzer APS develops and delivers innovative products and services for liquid application and mixing solutions within the healthcare, adhesives and beauty markets. Our IP-protected applicator solutions make our customers' products precise, safe, unique and more sustainable, leveraging our industry-leading expertise in plastic-injection molding, two-component mixing, drug delivery and micro-brushes.

Our key figures

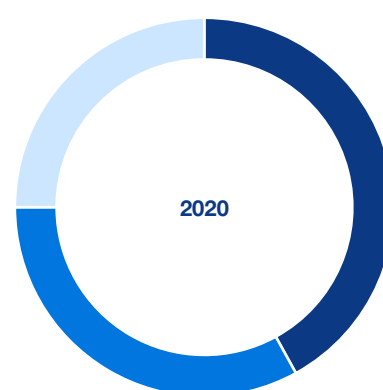
Amid difficult market dynamics caused by the pandemic, Sulzer was able to deliver yet another resilient performance with orders only softening by 2.2% and sales by 4.6%. This was supported by continued growth in the aftermarket business, strong demand in China, and positive development in Water and Chemicals. Solid operational execution and strict cost-saving measures helped reach an operational profitability of 9.0%. For the second consecutive year, Sulzer delivered a record free cash flow, amounting to CHF 272.1 million in 2020.

Order intake by division



- 38% Pumps Equipment
- 33% Rotating Equipment Services
- 18% Chemtech
- 11% Applicator Systems

Order intake by region



- 42% Europe, the Middle East and Africa
- 33% Americas
- 25% Asia-Pacific

Key figures

millions of CHF	2020	2019	Change in +/-%	+/-% adjusted ¹⁾	+/-% organic ²⁾
Order intake	3'414.1	3'747.2	-8.9	-2.2	-3.8
Order intake gross margin	34.0%	33.6%			
Order backlog as of December 31	1'758.9	1'792.6	-1.9		
Sales	3'319.0	3'728.5	-11.0	-4.6	-5.6
EBIT	150.6	241.0	-37.5		
Operational profit	297.6	371.3	-19.8	-13.7	-14.4
Operational profitability	9.0%	10.0%			
Operational ROCEA	18.7%	20.1%			
Core net income	200.2	257.8	-22.4		
Net income attributable to shareholders of Sulzer Ltd	83.6	154.0	-45.7		
Basic earnings per share	2.46	4.52	-45.6		
Free cash flow	272.1	213.4	27.5		
Net debt as of December 31	414.5	346.9	19.5		
Employees (number of full-time equivalents) as of December 31	15'054	16'506	-8.8		

1) Adjusted for currency effects.

2) Adjusted for acquisition and currency effects.

Stock market information

	2020	2019	2018	2017	2016
Registered share (in CHF)					
– high	110.50	113.40	137.50	129.90	107.80
– low	40.12	75.15	76.30	102.30	75.55
– year-end	93.10	108.00	78.05	118.20	105.00
Market capitalization as of December 31					
– number of shares outstanding	33'835'903	34'021'446	33'950'499	34'043'093	34'084'909
– in millions of CHF	3'150	3'674	2'650	4'024	3'579
– in percentage of equity	224%	232%	163%	240%	226%
P/E ratio as of December 31	37.8x	23.9x	21.9x	48.4x	60.6x
Dividend yield as of December 31	4.3%	3.7%	4.5%	3.0%	3.3%

Data per share

CHF	2020	2019	2018	2017	2016
Net income attributable to a shareholder of Sulzer Ltd	2.46	4.52	3.56	2.44	1.73
Change from prior year	–46%	27%	46%	41%	–20%
Equity attributable to a shareholder of Sulzer Ltd	41.50	46.50	48.00	49.40	46.40
Ordinary dividend	4.00 ¹⁾	4.00	3.50	3.50	3.50
Payout ratio	163%	88%	98%	143%	202%
Average number of shares outstanding	33'970'141	34'026'442	31'934'459	34'084'133	34'102'610

1) Proposal to the Annual General Meeting.

Shareholder structure as of December 31, 2020

Number of shares	Number of shareholders	Shareholding
1–100	4'184	0.7%
101–1'000	5'467	5.2%
1'001–10'000	640	5.1%
10'001–100'000	97	8.8%
More than 100'000	15	58.3%
Total registered shareholders and shares (excluding treasury shares Sulzer Ltd)	10'403	78.0%



Groundbreaking textile recycling technology

Fast retail has led to shorter life cycle for garments, with millions of tons of fabrics piling up in landfills. This makes textile waste one of society's pressing environmental issues. Today, only a minor share of end-of-use clothing is recycled. Sulzer partners with H&M to control and develop Worn Again, an innovator in textile recycling technology, which aspires to enable full circularity in the garment industry.

Who doesn't love the sight of a decluttered wardrobe? Since Netflix made the renowned tidying expert Marie Kondo and her organizing method popular across the globe, decluttering has become an expression of contemporary lifestyle. Even more so in times of the pandemic, with more people staying at home and tidying up.

But what to do with all the pieces that – in the words of Kondo – no longer “spark joy”? Although secondhand fashion is increasing in popularity again, most clothing still ends up being thrown away.

Three-quarters of clothing end up in landfills

Of the more than 60 million tons of natural and synthetic textile fibers that are produced for clothing every year, 73% is incinerated or landfilled, according to the Ellen MacArthur Foundation.

While it is common in many countries to recycle materials such as plastic, glass and paper, it is estimated that only 1% of clothing is recycled into new garments. Why is that? Textiles are rather complex systems containing various types of fibers, dyes, fillers and additives, making them difficult to recycle into virgin-like raw materials.

Initiating the textile revolution

As an expert in separation and chemical recycling technologies, we have taken up the challenge of solving this pressing environmental issue. Sulzer and H&M together control the UK-based company Worn Again. The teams are working on a unique textile recycling process to convert textiles at their end of use back into virgin-like raw materials.

Scaling-up a novel recycling process

Sulzer provides the equipment, technology and expertise which is combined with Worn Again's unique solvent technology to form the heart of the process. Converting end-of-use polyester and cotton garments into polyester pellets and cellulosic pulp that can further be re-spun into new fibers, our technology closes the loop in the textile industry.

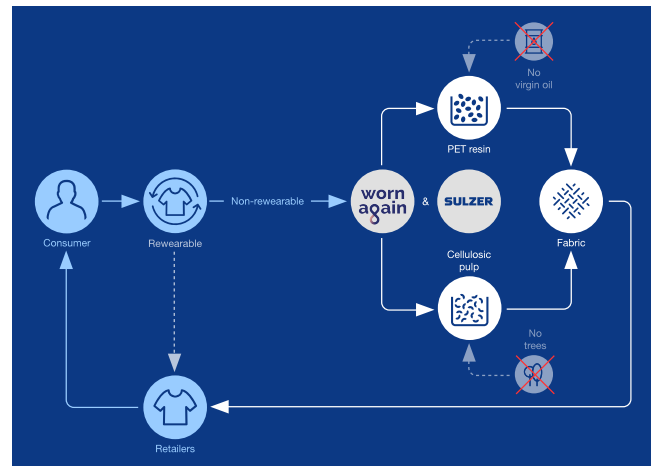
After extensive R&D, the results from the pilot plant have been promising. Our experts are now engineering a larger demonstration plant to further scale-up the technology to an output of a thousand tons a year, the final proof of concept before commercialization.

Sulzer and H&M are just about to allow your old clothes to be Worn Again!

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

From old to new

Sulzer, together with H&M and Worn Again, has developed a new recycling process for the textile industry. The key is separating and recovering PET – a common component of clothes – and cotton or other cellulosics from end-of-use textiles. But the chemical processes behind this novel technology are complex.



The new recycling technology will enable textile circularity.

Polyester textiles are complex materials containing different types of fibers, dyes, fillers and additives. PET is a type of polyester and serves as the basis for many clothes. However, most garments consist of a mix of different materials; the majority are so-called PET/cotton blends.

How chemical recycling of textiles works

The chemical recycling process is complex: In the first step called “dissolution”, solvents are used to dissolve the PET material and remove dyes, catalysts and other organic additives. Other chemicals remove the dyes from the cellulosic fibers.

The insoluble additives are released as fine powders and removed in a filtration process. The result is two products: 100% PET resin chips on the one hand and a cellulosic pulp on the other hand, which can be re-spun into a cellulosic fiber. In other words, the output is virgin PET and cellulose that can be reused to produce new garments.

The teams are also researching how to treat the by-products that arise in the process (such as dyes or surface finishes) and to refine them into useful end products instead of incinerating or landfilling.

Unique recycling technology

Our technology is unique because it does not actually change the chemical composition of the material and separates the PET and cotton/cellulose in one process in contrast to other recycling practices, saving energy.

With the new demonstration facility, the teams will further develop the technology and scale up operations to make it commercially available.



Cutting-edge Swiss biopolymer and plastic recycling technologies

Human creature comforts – your clothes, your computer, your car – depend heavily on plastics and their many advantages. But our planet is being overwhelmed with the resulting waste problem. Advancing biopolymers and plastic recycling technologies can help to resolve this dilemma. Sulzer, the leading provider of polylactic acid (PLA) solutions, is expanding its R&D capabilities in Switzerland. The company is investing in testing facilities to support the scale-up and commercialization of pioneering biopolymer processes and plastic recycling technologies.

Today, the world produces more than 380 million tons of plastics every year. It is a valuable and versatile material with ever-growing application areas, but the rapidly increasing production of disposable plastic products is stretching our ability to deal with the waste.

A lot of plastics end up back in our natural environment, accumulating on our shorelines, in our oceans or in landfills and persisting for decades. Today, plastic pollution has become one of the most pressing environmental issues.

Establishing a new dedicated R&D facility for biopolymers

The detrimental impacts throughout the life cycle of fossil fuel-based plastics – land and water pollution, carbon emissions and toxins released upon incineration – underline the need for alternative biopolymers made from renewable resources.

Sulzer is a leader in this field. We are putting our money where our mouth is by expanding our R&D center located in Oberwinterthur, Switzerland. The company's biopolymer technology portfolio brings highly sustainable and alternative solutions to the market – with significant social, economic and environmental benefits.

Scaling-up the production of bioplastics

Biopolymers like polylactic acid (PLA) and polyethylene 2,5-furandicarboxylate (PEF) provide a sustainable alternative to conventional plastic materials. In contrast to PET, these materials are based on renewable feedstocks such as sugars, starches or agricultural waste.

As a [leading one-stop provider for PLA processes](#), Sulzer has already supplied large commercial-scale PLA plants to customers. Our teams have also produced lab-scale batches of novel polymers with unique barrier and tensile properties, such as PEF and PLA copolymers, with new and exciting physical properties that greatly expand the field of potential application of biopolymers (beer bottles! complex packaging!). Industrial partnerships emphasize the potential of this technology, and production will be scaled up with the new pilot plant in the first half of 2021.

Increasing the recycling rate of plastics to 50%

Despite rising efforts in the field of biopolymers, most plastics are currently non-biodegradable and non-recyclable, ending up in landfills and incineration plants.

To tackle this issue, a growing number of companies around the globe are developing chemical recycling technologies. It is expected that these processes can increase the recycling rate of all plastics from today's levels of around 15% to 50% by 2030.

Building a pilot plant for plastic recycling technologies

In 2019, Sulzer [demonstrated the uniqueness of its fractionation technology](#), used as an essential purification step in plastic-to-liquid (PtL) recycling processes of industry innovators like Danish company Quantafuel. Quantafuel developed a solution to recycle plastic packaging waste into usable fuels. We will now take the next step to further develop and expand the fields of application of this technology, with a dedicated new pilot plant in Allschwil, Switzerland.

The plant is designed to upgrade the outputs from various plastic recycling processes by separating and/or purifying them. These purified outputs will be used as fuels or monomers, enabling circularity for plastic waste. We are already testing the process on our existing units as we prepare to begin operations at the new plant in the second half of 2021.

Advancing the sustainable production of plastics

Our partnerships with various universities, such as our Swiss neighbors ETH Zurich, along with start-up companies, customers and other stakeholders in the value chain allow us to decrease time to market for these new solutions.

Reducing carbon footprints and negative environmental impacts is what drives Sulzer's innovation program. We help turn ideas into commercially viable reality, to foster a circular economy.

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

“Making our way towards a circular economy”

Torsten Wintergerste, Division President Chemtech, outlines the stumbling blocks on the journey towards a world with more sustainable plastic solutions – and how Sulzer innovation helps find a way out of the plastic crisis.



Our R&D facility in Winterthur for the production of biopolymers.

Why don't we see more bioplastics and plastic recycling technologies in use today? What are the obstacles?

The engineering of plastic materials has been constantly evolving since the Second World War, to replace wood, glass or metal products with inexpensive plastic equivalents. These engineered plastics are not easy to recycle, nor can they be easily replaced with bio-based alternatives with similar physical properties – produced at reasonable costs. While promising technologies exist at laboratory or pilot scale, it takes time and effort to scale up and improve these processes for the mass market. Furthermore, it requires all players within the value chain to optimize and streamline their processes. Public policies favoring the use of bio- or recycled materials can accelerate this trend. Nowadays, there is fortunately a global consciousness of this issue that is enabling a fast-paced transition to the desired circularity for plastics.

What is so special about Sulzer's technology to produce biopolymers?

Biopolymers are produced from natural feedstocks and are thus degradable. These feedstocks are transformed by biochemical or chemical processes into biomonomers – the building blocks of biopolymers. As biomonomers consist of natural resources, they contain various impurities that must be removed prior to the polymerization process. Our technology consists of highly efficient process steps to produce and purify the biomonomers for conversion into biopolymers. This exclusive production platform is suitable for a wide range of very promising biopolymers (such as PEF, PLA and potential copolymers) that can be used for packaging, agricultural, transport and medical purposes.

The keyword of our newly designed plants is flexibility. Our facilities can create pure biopolymers of controlled length, structure and properties. Furthermore, our technology can process various raw materials – while maintaining Swiss quality and accuracy!

Please tell us more about Sulzer's R&D program for plastics.

Our R&D program is based on three pillars: functionality at reduced weight thanks to our foaming technology, closed-loop recycling of plastics, and sustainable production of biopolymers. Behind our program is a team of fully committed process specialists, driven by the ambition to provide a solution to today's environmental challenges. We all strongly believe that our efforts to develop advanced process solutions for polymeric foams, biopolymers and for the recycling of conventional polymers is the right path forward.

Cosmetic packaging made from recycled plastics and biomaterials

Historically, the beauty industry relied heavily on virgin oil-based plastics for packaging. Now, however, the industry is increasingly moving towards sustainable solutions. Geka offers cosmetic packaging that is made of recycled plastics and develops solutions using bioplastics from non-edible sources.



Sulzer's Applicator Systems (APS) division focuses on offering beauty packaging made from recycled plastics, so-called PCR (post-consumer resin) materials, and bioplastics from non-edible sources.

In 2020, Geka launched its "Reborn" green packaging collection for eye and lip makeup, made exclusively from sustainable components. The mascara bottles are based on 100% PCR PET (polyethylene terephthalate), the caps on 100% PCR PP (polypropylene), and the fibers for brushes are derived from non-edible castor oil. Despite limited global production capacity for PCR and high demand, Geka's goal is to fully integrate PCR into its components in the near future.

Like recycled plastics, biomaterials offer great potential for the future, with an average 30–50% lower carbon footprint than their fossil equivalents. However, they are considered more of a medium-term solution since they require changes to product designs and tools. Being part of the Sulzer group is a great advantage for APS, since its sister division Chemtech is a leading technology provider for bio-based plastics. Using this know-how and network, Geka will continue its efforts to make beauty packaging more sustainable in 2021 and beyond.



Bringing water to drought-affected areas

Brazil's hot climate poses major challenges for the country's water infrastructure. Large areas such as the Greater São Paulo metropolitan region are suffering from the consequences of water scarcity. The Brazilian water company Sabesp looked for a partner to increase the water supply and bring relief to millions of people. Not many suppliers were up for the job – but Sulzer was.

The land of carnival, football and eternal sunshine – the largest country in South America evokes in many a traveler enticing reveries of summer, sun and fun. But while this notion paints a perfect picture for tourists, it poses a problem for millions of people who call Brazil their home.

Three million Brazilians without access to safe water

Drought has the country in a firm grip, as climate change aggravates existing water scarcity. According to the global nonprofit organization Water.org, three million people in Brazil live without access to safe water, and a staggering 24 million lack access to sanitation. Frequent downtime in water supply, disruptions in service and deficiencies in drinking water systems are challenges that Brazilians face in their everyday lives.

Brazil's government is building new infrastructure to bring relief to its semi-arid areas where water scarcity is taking its toll.

A project of superlatives

With its 22 million inhabitants, Greater São Paulo is one of the largest metropolitan regions on Earth. The Brazilian water company Sabesp took ambitious action to build a new source of water supply for the region. The São Lourenço system brings 6'400 liters of drinking water per second – enough to fill roughly ten Olympic-size swimming pools every hour – to the residents of seven municipalities.

The project involved the construction of a brand-new water treatment and storage facility on a mountaintop close to the city. Water for the plant comes from the Cachoeira do França reservoir, 83 kilometers away and several hundred meters lower in altitude.

The one company up to the job

Several large pumps located at the reservoir intake station would transport the water from the reservoir to the new treatment facility. Back in 2018, the construction consortium had to find a partner with the ability to manufacture pumps capable of delivering up to 6'400 liters per second and a head of 365 meters. Not an easy task.

After conversations with several original equipment manufacturers, only Sulzer was able to demonstrate the necessary experience, engineering and manufacturing capabilities to design, test and supply pumps of this size.

Five giant Sulzer pumps

Sulzer manufactured the giant pumps and tested them at full load on our in-house test bed. With a 500 mm discharge diameter, 970 mm nominal impeller diameter and an output of 1'500 liters per second at a 365-meter head, the result was five of the largest pumps ever installed in the country.

“I remember we had to carry out the customer witness tests at night to avoid overloading the local electricity supply because the pumps were so incredibly big”, remembers Claudio Wada, Sales Manager Engineered Water at Sulzer.

Meeting water demand for the next ten years

Sulzer specialists also oversaw the installation and commissioning of the pumps at the site.

Sulzer is using technology to bring water to millions of people in the Greater São Paulo metropolitan area, meeting projected growth in water demand for the next ten years at least.

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

Essential services for critical infrastructure

Large infrastructure requires frequent maintenance and care – particularly in times when it is overtaxed, such as the COVID-19 pandemic. During lockdowns, authorities put their trust in Sulzer to continue providing essential services for the infrastructure we rely on every day. Sulzer’s skills, proximity and speed helped a UK hospital keep two operating theaters open over a winter weekend.



Our employees worked selflessly throughout the lockdowns – with stringent health and safety precautions in place – to keep power, water, medical and transport infrastructure up and running around the world.

Free health checks for energy equipment in hospitals

When medical facilities were increasingly confronted with COVID-19 patients and fast approaching capacity limits, Sulzer’s service teams stepped in to offer free health checks for energy equipment in hospitals. This enabled healthcare professionals to focus on their important work without having to worry that their infrastructure might fail.

Sulzer’s service specialists in the UK offered free support to the National Health Service. UK hospital estate managers and facility management providers seized this opportunity and called on Sulzer to carry out checks and maintenance on critical plants and equipment, thereby guaranteeing uninterrupted performance amidst the increasing strain on medical infrastructure.

Emergency weekend repairs at a hospital

Towards the year-end, Sulzer’s UK service team received a breakdown call from a hospital in Southern England. Two fire alarms had gone off because both their motors had failed, leaving the hospital unable to use two operating theatres.

This would be dangerous in any situation but even more damaging during the coronavirus crisis – it was clear that the hospital needed urgent assistance. When the customer contacted Sulzer, the team went the extra mile to source and supply a new motor within 50 minutes following the request for assistance.

Operating in these difficult times has meant modifying working practices, but Sulzer remained committed at all times to providing a flexible and high-quality service – while protecting the safety of staff and customers alike.



Artificial intelligence solution for solar power plants

Climate change calls for innovative, energy-efficient solutions to reduce CO₂ emissions. Renewable energy sources like solar thermal power improve today's carbon footprint. To manage equipment at such plants efficiently and be one step ahead of outages, Sulzer supports Atlantica's solar power plants with the artificial intelligence of its advanced data analytics platform, BLUE BOX™.

With its thousands of reflecting parabolic troughs facing the sun, the site looks like a giant mirror in the middle of the desert. Located in one of the hottest areas of North America, the solar power plant in the Mojave Desert generates 280 megawatts of clean electricity to power roughly 90'000 homes in the region. A similar picture on the other side of the Atlantic Ocean: KaXu Solar One in South Africa uses the power of the sun to generate 100 megawatts of electricity for the population.

Preventing 665'000 tons of CO₂ emissions per year

The two solar plants belong to the diversified portfolio of Atlantica, a global player with sustainable infrastructure assets all over the world.

Together, the two facilities prevent the release of 665'000 tons of CO₂ into the atmosphere every year. That's the same amount of emissions that forests the size of Yosemite National Park can absorb in one year.

Using the power of the sun

Several energy scenario studies consider concentrated solar power (CSP) to be a key sustainable source of energy to meet ambitious climate protection goals.

CSP systems use mirrors or lenses to concentrate the sunlight onto receiver tubes. These tubes contain a heat transfer fluid that is pumped around the whole site. Together with boiler feed pumps, the heat energy is used to create steam, which drives a generator to produce electricity. Pumps therefore play a vital role in ensuring the functionality of the entire plant.

One step ahead of outages

Because thousands of people depend on this plant for power, the operators are keen to run their plants as efficiently as possible and avoid downtimes. For this reason, Atlantica invested in Sulzer's BLUE BOX advanced data analytics platform to monitor and optimize the performance of its plant.

BLUE BOX uses machine learning to interpret live pump operating data. Based on this data and with the know-how of Sulzer experts that comes with the solution, the system supports plant operators to optimize operation and maintenance of their pumps.

It detects and flags anomalies, estimates the remaining lifetime of the equipment and helps make data-driven decisions for preventive maintenance.

More uptime and less operational risks

Collaborating with Atlantica's own data science team, Sulzer and its digital solution increases uptime, improves reliability and mitigates the operational risks of solar energy plants, leading to cost savings and higher revenues.

Connecting the Mojave and KaXu plants to Sulzer's cloud solution was just the first step: Atlantica plans to implement BLUE BOX in all its assets worldwide as part of its digitalization efforts.

The future of energy is clean and renewable. BLUE BOX enables companies like Atlantica to get the most out of their installations around the globe. By optimizing the performance of these sustainable energy sources, Sulzer helps to create a brighter future.

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

“Adding value by combining human and artificial intelligence”

Sulzer’s solutions play a critical role in infrastructure all over the world where downtime means profits lost. Marc Heggemann, Head of Group Commercial Digital Solutions at Sulzer, explains how artificial and human intelligence together optimize the efficiency of assets and predict equipment failures.



Can artificial intelligence and algorithms predict an outage of a plant?

It needs machine learning, but that’s not enough. Why? The amount of data is often limited, and quality is sometimes not good enough, since operators lack a complete history of pump operation and maintenance. Hence, machine learning needs to be combined with physical pump modeling to increase confidence in the results. That’s where Sulzer comes into play: as an OEM, we already have the required pump knowledge in-house. It takes thorough expert understanding, or human intelligence, of how the physical equipment design and operation are represented in a so-called “digital twin”. Building on that, our equipment optimization specialists support customers with the data analysis required to draw the right conclusions.

How does BLUE BOX work in practice?

BLUE BOX is an early detection system flagging anomalies on key performance indicators of pumps. These anomalies are often not uncovered by threshold alert systems on individual sensors until it’s too late. Contrary to an instant alert, anomaly detection occurs early enough to allow preventive maintenance action. Let me give you a real-life example. After implementing BLUE BOX at Atlantica’s plants, the system flagged four anomalies on a single pump over a couple of days, indicating that the performance of the asset deviated from its healthy state.

This finding was confirmed by Atlantica’s on-site data science team which also found an abnormal event by analyzing the data. The analysis of the motor power and shaft speed afterwards identified a bearing that was close to failure, yet far below the alarm limits for vibration and temperature in conventional methods. The customer was able to proactively order spare parts, mitigating the risk of failure and saving money.

Why should a cost-conscious plant operator invest in such an artificial intelligence solution?

If you look at the total life cycle cost of the equipment, the investment in such AI solutions in relation to potential savings is rather small and makes a valid business case. We add value by supporting our customers in their decision-making processes through customized cost-benefit analyses. The unexpected failure of critical pumping systems can easily have implications exceeding USD 100’000 per occurrence. BLUE BOX monitors equipment and flags anomalies before failure happens, thus avoiding costly downtime and reducing operational risks. Combining these results with our expert knowledge, we can recommend the best and most cost-efficient solution. This allows the customer to extend equipment lifetimes and reduce life cycle costs, typically achieving payback within months.

A close-up, high-speed photograph of water splashing, creating numerous bubbles and droplets. The water is a clear, light blue color, and the background is a soft, out-of-focus blue. The overall effect is dynamic and fresh.

Business review

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Resilient orders, robust profitability and record free cash flow

Order intake decreased by 2.2% including acquisitions and 3.8% organically. Lockdowns led to a drop in sales of 4.6% compared to the previous year. The lower sales volume and an unfavorable mix effect, partly offset by CHF 59 million of year-on-year cost savings, resulted in an operational profitability of 9.0%. Free cash flow generation reached a record high of CHF 272.1 million, an improvement of CHF 58.7 million compared with last year.

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

Resilient order intake

Sulzer delivered a solid order intake in 2020, totaling CHF 3'414.1 million, limiting the decrease to 2.2% and 3.8% organically. Acquisitions contributed CHF 54.6 million to order intake. Currency translation effects had a negative impact on order intake of CHF 248.9 million, as the Swiss franc appreciated against all currencies Sulzer is operating in. Order intake gross margin increased to 34.0%, slightly up from 33.6% in 2019 on the back of order selectivity and pricing discipline.



Amid difficult market conditions, Sulzer delivered yet another resilient top line performance and operational profitability, while generating record free cash flow.

Jill Lee, Chief Financial Officer

Order intake in the Pumps Equipment division decreased by 4.1%. Water orders increased by 2.3%, excluding two large projects of CHF 42 million for water transport and desalination booked in 2019. Industry remained stable (-0.5%). After a strong first half-year, commercial activity in the Energy-related markets slowed in the second half as expected, leading to a year-on-year decrease of 1.9%. Order intake in Rotating Equipment Services grew by 2.5%, supported by CHF 21.9 million from the Alba acquisition and organic growth (0.6%). As an essential service provider, we saw growth across product lines and regions. However, restricted access to customer sites impacted order intake in the second half-year. Chemtech's order intake remained on the previous year's level (-1.1%), despite customers postponing projects and site access restrictions. The GTC acquisition contributed CHF 19.7 million. In Applicator Systems, orders rebounded in the second half-year, reducing the drop in order intake from 27.3% in the first half to 11.0% for the full year (-14.2% organically). The division was significantly impacted by the closing of stores and dental clinics. The Haselmeier acquisition contributed CHF 13.0 million.

As of December 31, 2020, the order backlog amounted to CHF 1'758.9 million (December 31, 2019: CHF 1'792.6 million). Negative currency translation effects totaled CHF 129.8 million.

Orders

millions of CHF	2020	2019
Order intake	3'414.1	3'747.2
Order intake gross margin	34.0%	33.6%
Order backlog as of December 31	1'758.9	1'792.6

Lockdowns impacting sales

Despite limited site access, temporary closures of factories and front-end outlets, sales amounted to CHF 3'319.0 million in 2020, moderately decreasing by 4.6% (–5.6% organically). Acquisitions added CHF 34.1 million, while negative currency translation effects amounted to CHF 239.0 million.

Sales in Pumps Equipment declined by 5.7%. Strong sales in Water (+3.4% organic, –0.8% currency-adjusted) and stable sales in Industry (–1.0%) did not offset a sales decline in Energy (–11.8%). Sales in Rotating Equipment Services remained stable, with the Alba acquisition contributing CHF 12.9 million. In Chemtech, sales declined by 4.8%. Strong execution in China could not offset the lockdown impacts elsewhere. The GTC acquisition supported with CHF 13.8 million. In Applicator Systems, sales declined by 13.4%, caused by the abrupt closure of retail stores and dental clinics in the first half of 2020, followed by a strong rebound later in the year. The newly acquired Haselmeier business contributed CHF 7.4 million.

Stable gross margin

Gross margin remained stable at 29.9% in 2020 (2019: 30.1%), despite a lower share of high-margin Applicator Systems business within the sales mix. Total gross profit decreased to CHF 993.6 million (2019: CHF 1'121.2 million), due to a lower sales volume and significant currency translation effects of CHF 68.9 million.

Operational profitability of 9.0%

Operational profit amounted to CHF 297.6 million compared with CHF 371.3 million in 2019, a decrease of 13.7%. Cost reduction measures partly mitigated the impact from lower sales volume and negative mix effect from lower sales in Applicator Systems. A hiring pause, reduction in personnel-related costs, discretionary spend and travel contributed CHF 59 million to cost savings.

Bridge from EBIT to operational profit

millions of CHF	2020	2019
EBIT	150.6	241.0
Amortization	65.9	64.5
Impairments on tangible and intangible assets	9.8	4.4
Restructuring expenses	55.8	23.1
Non-operational items ¹⁾	15.4	38.3
Operational profit	297.6	371.3

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

Operational profitability decreased to 9.0% compared with 10.0% in 2019. The divisions achieved the following profitability figures:

- Pumps Equipment: 4.3% (2019: 4.0%). Higher operational profitability of 30 basis points was supported by a strong performance in Water and Industry, a mix effect due to less Energy sales and significant cost reduction measures in Energy.
- Rotating Equipment Services: 13.9% (2019: 14.1%). Operational profitability remained stable thanks to disciplined cost management.
- Chemtech: 9.6% (2019: 9.6%): Stable operational profitability was supported by pick-up in the second half-year and cost-out actions.
- Applicator Systems: 12.7% (2019: 21.0%). Operational profitability was severely impacted by lockdowns, particularly in the second quarter as dental practices and retailers closed, before experiencing a strong rebound in the last months of the year.

Calculation of ROS and operational profitability

millions of CHF	2020	2019
EBIT	150.6	241.0
Sales	3'319.0	3'728.5
ROS	4.5%	6.5%
Operational profit	297.6	371.3
Sales	3'319.0	3'728.5
Operational profitability	9.0%	10.0%

Structural actions

Sulzer launched decisive measures to mitigate the impact of market disruptions on Energy-related business activities early in 2020. By December 2020, one-off expenses of CHF 81.0 million were recorded, comprised of CHF 55.8 million restructuring expenses, CHF 15.4 million non-operational costs and CHF 9.8 million impairments. CHF 70.7 million of the one-off expenses were attributed to the Energy-related footprint and resource adaptation, including the closure or resizing of sites in Europe and the Americas, as well as the resizing of supporting resources.

EBIT amounted to CHF 150.6 million, decreasing nominally by 37.5% compared with CHF 241.0 million in 2019. Return on sales (ROS) was 4.5% compared with 6.5% in 2019.

Financial result

Interest expenses on borrowings and lease liabilities slightly increased to CHF 21.8 million (2019: CHF 21.1 million). This is mainly due to the interest expenses on bonds issued in the second half of 2020.

Total financial expenses slightly decreased to CHF 28.1 million (2019: CHF 28.3 million), mainly as a result of fair value changes on financial assets, partially offset by lower interest and security income.

Higher effective tax rate

Income tax expenses decreased to CHF 34.6 million (2019: CHF 55.1 million) due to lower pre-tax income. The effective tax rate increased to 28.4% in 2020 compared to 25.9% in 2019. The effective income tax rate was impacted by restructuring expenses related to closed facilities with no corresponding tax effects.

Lower core net income

In 2020, net income amounted to CHF 87.2 million compared with CHF 157.7 million in the previous year. Core net income excluding the tax-adjusted effects of non-operational items totaled CHF 200.2 million compared with CHF 257.8 million in 2019. Basic earnings per share decreased from CHF 4.52 in 2019 to CHF 2.46 in 2020.

Bridge from net income to core net income

millions of CHF	2020	2019
Net income	87.2	157.7
Amortization	65.9	64.5
Impairments on tangible and intangible assets	9.8	4.4
Restructuring expenses	55.8	23.1
Non-operational items ¹⁾	15.4	38.3
Tax impact on above items	-34.0	-30.1
Core net income	200.2	257.8

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

Improved balance sheet efficiency

Total assets as of December 31, 2020 amounted to CHF 5'378.7 million, which is a nominal increase of CHF 269.2 million from 2019. Higher borrowings and acquisitions contributed to the increase.

Non-current assets increased by CHF 43.9 million to CHF 2'215.9 million mainly due to higher goodwill (CHF 36.9 million), higher deferred income tax assets (CHF 20.1 million) and higher associates (CHF 10.5 million), partly offset by lower other intangible assets (CHF 29.1 million). Current assets increased nominally by CHF 225.3 million. Cash and cash equivalents increased by CHF 87.7 million and current financial assets increased by CHF 247.6 million. Better net working capital management contributed to an inventory reduction of CHF 59.8 million. Contract assets decreased by CHF 30.3 million and trade account receivables decreased by CHF 46.8 million.

Total liabilities nominally increased by CHF 446.0 million to CHF 3'961.6 million as of December 31, 2020. The main reasons were an increase in non-current borrowings (CHF 292.1 million), as well as in current borrowings by CHF 100.8 million.

Equity decreased nominally by CHF 176.7 million to CHF 1'417.2 million. This was mainly driven by dividend distribution (CHF 138.7 million, of which CHF 2.6 million for non-controlling interests) and currency translation effects (CHF 133.5 million), partly offset by net income (CHF 87.2 million) and remeasurement of the defined benefit obligation (CHF 8.0 million).

Net debt increased from CHF 346.9 million in 2019 to CHF 414.5 million in 2020, mainly due to higher borrowings. Net debt to EBITDA increased from 0.84 in 2019 to 1.26 due to the decrease in EBITDA and increase in net debt.

Record free cash flow

Cash flow from operating activities amounted to CHF 368.7 million, compared with CHF 319.6 million in 2019. Lower net income could be more than compensated with an increase of provisions (CHF 93.2 million), also driven by restructuring-related provisions, favorable changes in inventories (CHF 29.7 million) and advance payments to suppliers (CHF 19.2 million). Free cash flow amounted to CHF

272.1 million compared with CHF 213.4 million in the prior year. This was driven by the higher cash flow from operating activities and lower capital expenditure.

Bridge from cash flow from operating activities to free cash flow

millions of CHF	2020	2019
Cash flow from operating activities	368.7	319.6
Purchase of intangible assets	-7.5	-6.0
Sale of intangible assets	0.1	0.5
Purchase of property, plant and equipment	-98.0	-108.9
Sale of property, plant and equipment	8.9	8.1
Free cash flow	272.1	213.4

Cash-out from investing activities totaled CHF 461.8 million compared with CHF 242.6 million in the prior year. Cash-out for acquisitions amounted to CHF 108.2 million compared with CHF 78.5 million in 2019. Net capital expenditure for property, plant and equipment (including disposal of assets) amounted to CHF 89.1 million, below the CHF 100.8 million in 2019. The group also increased deposits by CHF 248.1 million.

Cash flow from financing activities totaled CHF 236.5 million compared with CHF -123.2 million in 2019. This was largely due to additional borrowings in the net amount of CHF 394.0 million (2019: CHF 4.9 million). The additional bonds issued in 2020 flattened Sulzer's bond maturity profile. Following the Sulzer dividend increase to CHF 4.00 per share, dividend payments amounted to CHF 92.6 million in 2020, compared with CHF 81.2 million in 2019. CHF 43.5 million of net dividend payments to Sulzer's main shareholder Tiwel could still not be transferred as a result of US sanctions. Payments of lease liabilities amounted to CHF 39.2 million. Exchange losses on cash amounted to CHF 55.7 million, compared with a loss of CHF 13.5 million in 2019.

Outlook for 2021

For 2021, Sulzer expects a progressive return to pre-pandemic levels. The first half of the year at least will continue to be impacted by the pandemic, with regional lockdowns hampering business interactions. Our business most impacted by the lockdowns in 2020, Applicator Systems, should build on its strong H2 2020 rebound to return to pre-pandemic volumes by the middle of 2021. Progress with vaccination should bring an acceleration to all Sulzer businesses in the second half of the year.

Sulzer order intake in 2020 was only down 2% for the year, on the back of a strong first half where we were up almost 2%. As such, we have a robust baseline and expect orders to be up 3% to 6% in 2021 on a currency-adjusted basis. Sales were down 4.6% in 2020 and should grow by 5% to 7% on a currency-adjusted basis. Operational profitability will benefit from the rebound in Applicator Systems and a significant uplift from our structural cost-cutting measures to return to pre-pandemic levels, close to 10%.

Abbreviations

EBIT: Earnings before interest and taxes

ROS: Return on sales

EBITDA: Earnings before interest, taxes, depreciation and amortization

FCF: Free cash flow

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

Improved operational profitability despite lower volumes

Despite a challenging market environment and thanks to excellence in execution and cost measures, Pumps Equipment (PE) increased operational profitability by 30 basis points to 4.3%. Orders and sales declined by 4.1% and 5.7% respectively. Sulzer strengthened its water business by acquiring Nordic Water, a leading supplier of water treatment technology.

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

Taking structural action and strengthening water business

In anticipation of adverse conditions in the oil and gas market, PE took structural actions early on to make its Energy-related business leaner and adapt to the slowdown of market demand. The fast and successful execution of the Energy Resilience program paid off and resulted in an improved operational profitability despite lower volumes.

In January 2021, Sulzer announced to acquire [Nordic Water](#), a leading supplier of water treatment technology. The acquisition complements PE's wastewater portfolio and provides further access to the fast-growing clean water market. It is expected that Nordic Water, with 200 employees at 13 sites in six countries, will achieve sales of around CHF 80 million in 2021, in addition to generating significant sales and aftermarket synergies.

In the past year, we've demonstrated our agility and ability to quickly adapt, anticipating the impact of a challenging market environment. This led to an improved operational profitability despite lower sales. The acquisition of Nordic Water opens up exceptional opportunities to further grow in the water market going forward.



Frédéric Lalanne, Division President Pumps Equipment

Key figures Pumps Equipment

millions of CHF	2020	2019	Change in +/-%	+/-% adjusted ¹⁾	+/-% organic ²⁾
Order intake	1'297.6	1'458.9	-11.1	-4.1	-2.9
Order intake gross margin	28.4%	27.4%			
Order backlog as of December 31	845.0	924.3	-8.6		
Sales	1'296.3	1'477.0	-12.2	-5.7	-4.5
EBIT	-16.1	11.9	n/a		
Operational profit	55.2	59.7	-7.5	-2.7	4.2
Operational profitability	4.3%	4.0%			
Employees (number of full-time equivalents) as of December 31	5'362	5'759	-6.9		

1) Adjusted for currency effects.

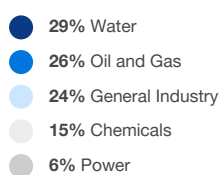
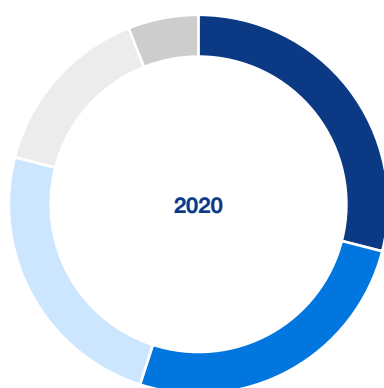
2) Adjusted for acquisition and currency effects.

Resilient order intake in challenging markets

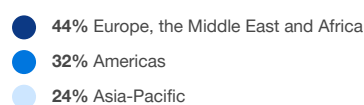
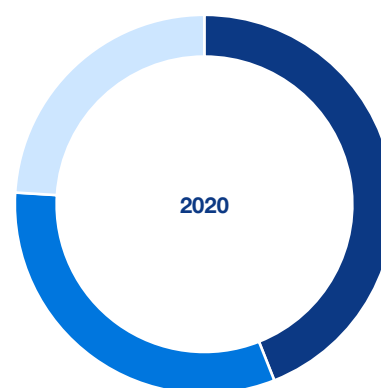
Orders in the water market continued to grow and were up 2.3%, excluding two large Engineered Water orders in 2019. Orders in Energy decreased by 1.9%, due to fewer investments in a volatile environment. Order intake in Industry remained stable (–0.5%), because the decline in Pulp and Paper was offset by higher activity in other industrial processing industries.

Order intake grew by 4.6% in Asia-Pacific on robust demand in China. The Americas reported a decrease in orders of 5.1%, impacted by less investment activity in oil and gas in the USA, whereas orders in EMEA (Europe, the Middle East, Africa) declined by 7.6%.

Order intake by segment



Order intake by region



Improved profitability on strict cost management and solid operational performance

Strong sales in Water (+3.4% organic, –0.8% currency-adjusted) and stable sales in Industry (–1.0%) did not offset the decrease in Energy (–11.8%), leading to a sales decrease of 5.7% compared with 2019. The rapid execution of the Energy Resilience program and associated structural cost-out measures led to an increase in operational profitability by 30 basis points to 4.3%.

Safety performance in 2020

In 2020, PE reported an accident frequency rate (AFR) of 2.0 cases per million working hours (2019: 1.8), despite fewer major accidents. The accident severity rate (ASR) increased to 53.5 lost days per million working hours from a low level of 37.3 in the previous year, largely impacted by an incident that occurred in late 2019 and carried over lost days into 2020. Thorough contingency planning and the application of COVID-19 adapted safe working processes during the pandemic were key to continue to serve customer needs. Through these efforts, all PE facilities were able to maintain workshop operations throughout 2020.

Abbreviations

EBIT: Earnings before interest and taxes

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

Resilient performance in a challenging year

Order intake in Rotating Equipment Services (RES) grew by 2.5% in 2020 despite customer site access restrictions. Sales remained on the previous year's level. The division reported stable operational profit and robust operational profitability at 13.9%, helped by cost-out measures.

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

Executing critical service tasks

As the world struggled with the first, second and even third waves of the coronavirus pandemic, the supply of global goods was disrupted time and again. [Our dedicated RES teams around the globe joined the circle of workers who helped maintain operation of critical infrastructure during lockdowns.](#)

Towards the year-end, the service teams in the UK supported NHS hospitals in keeping their operating theatres open and fixing heating issues. After receiving emergency calls on Christmas Day, the teams went the extra mile to solve critical pump and motor issues within hours to enable seamless operations – proving the responsiveness, effectiveness and diligence of Sulzer's service network with its proximity to customers. We could not be prouder of our teams.

Amid the economic recession induced by the pandemic, we proved the resilience of our service business with growing orders, stable sales and robust operational profitability. The credit for this outstanding performance goes to our dedicated people who went above and beyond the call of duty to support customers around the clock.



Daniel Bischofberger, Division President Rotating Equipment Services

Key figures Rotating Equipment Services

millions of CHF	2020	2019	Change in +/-%	+/-% adjusted ¹⁾	+/-% organic ²⁾
Order intake	1'130.8	1'193.2	-5.2	2.5	0.6
Order intake gross margin	38.4%	38.6%			
Order backlog as of December 31	435.0	422.2	3.0		
Sales	1'078.3	1'167.0	-7.6	0.1	-1.1
EBIT	126.3	152.2	-17.0		
Operational profit	150.3	164.5	-8.6	0.6	-0.5
Operational profitability	13.9%	14.1%			
Employees (number of full-time equivalents) as of December 31	4'449	4'900	-9.2		

1) Adjusted for currency effects.

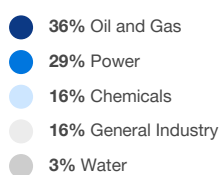
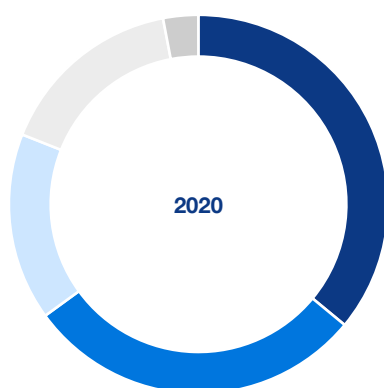
2) Adjusted for acquisition and currency effects.

Order growth

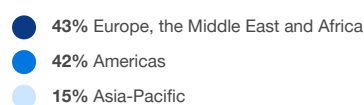
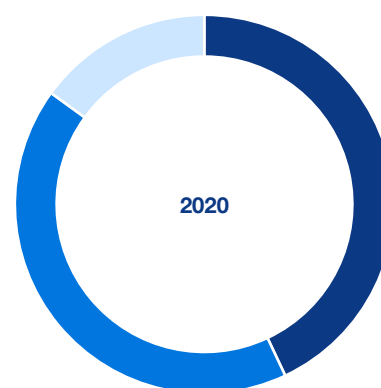
RES reported an order increase of 2.5% compared with 2019 – a remarkable performance given the pandemic-driven customer site restrictions. All product lines supported order growth, helped by the acquisition of Alba Power. Strong order growth in the first quarter of 2020 was somewhat offset by a decrease in the second and third quarters, impacted by restricted access to customer sites and less investment activity. Orders started to stabilize again in the fourth quarter year on year.

Order intake increased by 4.7% in the Americas and by 4.5% in Asia-Pacific, while they remained stable in EMEA (Europe, the Middle East and Africa).

Order intake by segment



Order intake by region



Stable sales and robust operational profitability

Sales remained on the previous year's level. Operational profit remained robust, supported by structural cost-out measures from the Energy Resilience program, resulting in stable operational profitability of 13.9%.

Safety performance in 2020

In 2020, RES reported an accident frequency rate (AFR) of 1.6 cases per million working hours, after a strong decline to 0.7 cases the year before. The accident severity rate (ASR) decreased to 24.2 lost days per million working hours in 2020 from 60.7 in 2019. RES and Pumps Equipment jointly developed COVID-19 contingency and prevention plans to implement effective safety control measures while introducing substantial changes to working methods and shift patterns. To curb an increase in AFR during the first half-year, RES developed and introduced the "12 Life-Saving Rules" initiative and a dedicated program of Safety Compliance Training courses which will continue throughout 2021. Together with the RES Highly Hazardous Activity self-assessment program, the additional initiatives helped reduce accident and severity rates over the course of the year.

Abbreviations

EBIT: Earnings before interest and taxes

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

Stable order intake sustained by China, operational profitability flat despite lower sales

In 2020, Chemtech reported stable orders in a challenging market environment. Despite a sales decline of 4.8%, operational profitability remained stable at 9.6% due to swift cost-out measures. Chemtech's growing portfolio of sustainable technologies, from biopolymers to recycling, contributed to a resilient year.

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

Chemtech technology is enabling the circular economy

Chemtech technology is at the heart of a [groundbreaking textile recycling process](#) by Worn Again, a start-up company jointly controlled by Sulzer and H&M. The teams are currently working on scaling up the process to an output of 1'000 tons a year, the final proof of concept before commercialization.

Chemtech is also pioneering bio-based and recycling technologies, [expanding its R&D capabilities in Switzerland](#). We are driving the scaling-up of cutting-edge biopolymer processes and plastic recycling technologies. Today, renewable applications (bio-based, recycling, low-carbon solutions) make up a substantial part of Chemtech's business, with a 2020 order intake of CHF 47 million. We expect this to grow significantly over the next few years.



Despite the pandemic-related impact, our order intake remained stable on the back of strong demand in China. We took swift structural action to resize our capacities, leading to a stable operational profitability despite the sales decline.

Torsten Wintergerste, Division President Chemtech

Key figures Chemtech

millions of CHF	2020	2019	Change in +/--%	+/--% adjusted ¹⁾	+/--% organic ²⁾
Order intake	620.8	670.0	-7.3	-1.1	-6.9
Order intake gross margin	30.6%	30.4%			
Order backlog as of December 31	396.9	385.3	3.0		
Sales	593.1	664.0	-10.7	-4.8	-9.7
EBIT	35.9	54.0	-33.4		
Operational profit	56.9	63.8	-10.8	-4.1	-12.7
Operational profitability	9.6%	9.6%			
Employees (number of full-time equivalents) as of December 31	3'221	3'803	-15.3		

1) Adjusted for currency effects.

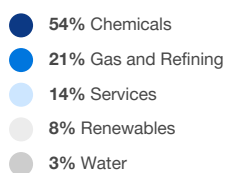
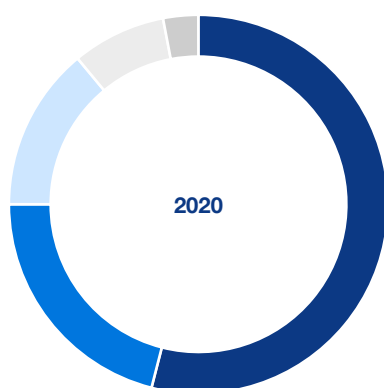
2) Adjusted for acquisition and currency effects.

Stable order intake

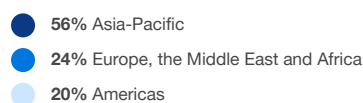
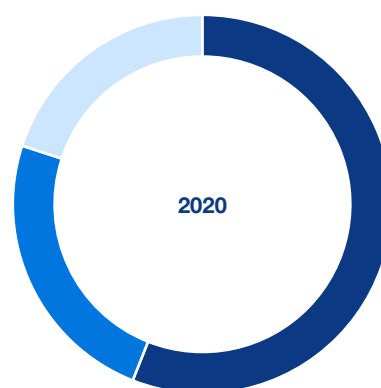
Despite the pandemic, Chemtech's order intake remained on the previous year's level in 2020 (–1.1%). Strong demand in China (+29.2%) and CHF 17.7 million of orders from an internal transfer of the dissolved air flotation business from Pumps Equipment to the Chemtech division were counterbalanced by customers shifting investment decisions for larger projects and by site access restrictions.

Order intake in Asia-Pacific grew by 14.7%, due to strong Chinese demand. Orders decreased by 14.1% in the Americas and by 17.2% in EMEA (Europe, the Middle East and Africa).

Order intake by segment



Order intake by region



Stable operational profitability due to swift structural action

Sales declined by 4.8% compared with 2019. Strong growth and rapid factory ramp-up in Chemtech's Chinese facility helped to partly offset the impact from lockdowns and lower orders in other parts of the world. Operational profit decreased by 4.1%, mainly due to the volume decline. The swift implementation of structural actions to resize capacities primarily in Europe and the Americas resulted in a stable operational profitability of 9.6%.

Safety performance in 2020

The company's health and safety priorities shifted in early 2020 towards setting up and implementing the COVID-19 preventive measures in its facilities worldwide. Chemtech's accident frequency rate (AFR) remained stable at very low 0.6 cases per million working hours. The accident severity rate (ASR) decreased to 27.3 lost days per million working hours, from 41.5 the year before. Thanks to the continued focus on the EYE 5 safety leadership initiative and the sharing of safety alerts identifying opportunities for improvement, Chemtech's AFR and ASR metrics have steadily decreased in the past two years. The division's business units successfully migrated from the OHSAS 18001 to the ISO 45001 standard and obtained certification by the independent certification company SGS.

Abbreviations

EBIT: Earnings before interest and taxes

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

Forced market pause in the second quarter followed by a strong rebound in the second half-year

Order intake and sales in Applicator Systems (APS) decreased by 11.0% and 13.4% in 2020, as markets stalled in the second quarter with lockdowns around the world. All segments rebounded strongly in the second half of 2020. Decisive cost-out measures delivered operational profitability of 12.7% compared with 21.0% in the previous year. APS continues to expand its presence in the healthcare segment with the acquisition of Haselmeier, a leading provider of drug delivery devices.

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

Boosting presence in drug delivery devices market

In 2020, Sulzer boosted its presence in medical devices with the acquisition of [Haselmeier](#), a Swiss-German developer and manufacturer of drug delivery devices. With the CHF 119 million transaction, APS complemented its healthcare portfolio, leveraging its expertise in precision injection molding to seize opportunities in the fast-growing drug delivery device market. Haselmeier delivered revenues of CHF 40 million in the prior year. The transaction, closed on October 1, added orders of CHF 13.6 million in 2020.

APS took further steps to integrate sustainability into its processes and make its products eco-friendlier. Geka received the [Platinum award](#) from the prestigious EcoVadis sustainability rating provider, placing the beauty player amongst the top 1% of companies assessed worldwide. Furthermore, Geka obtained the International Sustainability and Carbon Certification and a “B” rating in the Carbon Disclosure Program, ahead of its competition.

After the forced pause in demand following lockdowns in the first half of 2020, all our segments rebounded in the second half-year. Thanks to our proactive measures and strict cost control, we were able to significantly mitigate the impact of COVID-19. Looking ahead, we are excited to have Haselmeier on board to boost our presence in the fast-growing drug delivery devices market.



Girts Cimermans, Division President Applicator Systems

Key figures Applicator Systems

millions of CHF	2020	2019	Change in +/-%	+/-% adjusted ¹⁾	+/-% organic ²⁾
Order intake	364.8	425.1	-14.2	-11.0	-14.2
Order intake gross margin	46.0%	46.3%			
Order backlog as of December 31	82.0	60.8	34.9		
Sales	351.2	420.6	-16.5	-13.4	-15.2
EBIT	20.2	40.2	-49.8		
Operational profit	44.7	88.2	-49.3	-48.6	-47.9
Operational profitability	12.7%	21.0%			
Employees (number of full-time equivalents) as of December 31	1'857	1'821	2.0		

1) Adjusted for currency effects.

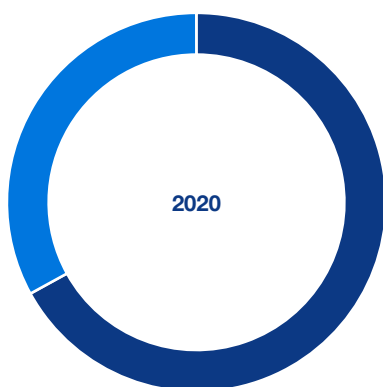
2) Adjusted for acquisition and currency effects.

Order and sales decline – rebound in the second half-year

Order intake decreased by 11.0% and sales by 13.4% in 2020. In the first half-year, Adhesives, Dental and Beauty segments suffered from pandemic-related closing of stores, factories and dental clinics following lockdowns, while growing Healthcare and China were the only bright spots.

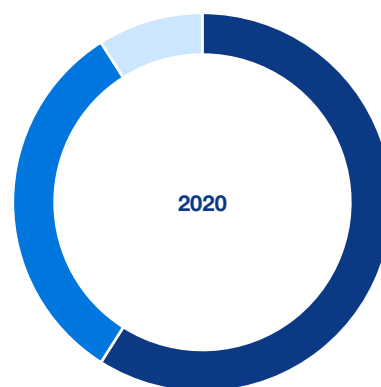
All APS segments rebounded strongly in the second half of 2020 on continuing market reopening and customer restocking, with year-on-year order and sales growth in the fourth quarter. Thanks to Sulzer's high safety standards and the quick implementation of additional preventive measures, global APS factories remained operational throughout the pandemic.

Order intake by segment



- 67% Adhesives, Dental, Healthcare
- 33% Beauty

Order intake by region



- 59% Europe, the Middle East and Africa
- 32% Americas
- 9% Asia-Pacific

Operational profit and profitability decreased

Operational profit decreased by 48.6%, due to the large volume hit and negative mix effects following lockdowns. APS reacted early in the year and took decisive cost-out measures, which helped mitigate the impact of the pandemic and resulted in an operational profitability of 12.7%.

Safety performance in 2020

In 2020, APS reported an accident frequency rate (AFR) of 4.8 cases per million working hours (2019 7.4), and the number of major accidents reduced from 23 to 16. The accident severity rate (ASR) dropped from 171.1 in 2019 to 64.9 lost days per million working hours. The decrease is visible across all business units, and is the result of continued drive for line ownership and structured risk assessment.

Abbreviations

EBIT: Earnings before interest and taxes

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



Sustainable development

38 People and community

40 Environment

44 Safety

Supporting our communities and employees in a challenging year

The year 2020 was dominated by the coronavirus pandemic, the effects of which significantly disrupted our lives and global industries. Sulzer was quick to react, putting measures in place to ensure the safety of our employees, while working hard to ensure that essential infrastructure like medical, power and water facilities remained operational during this critical time. Demonstrating the spirit of “together we win”, our employees came together to support local communities around the world.

Maintaining critical infrastructure during lockdowns

As the first wave of the pandemic struck in early 2020, our first priority was to take quick and decisive action to ensure the safety of our employees. In addition, we also had a responsibility to help ensure that essential services could keep running. With stringent health and safety measures in place, our committed employees [worked through the lockdowns](#) to maintain vital services in power, water, hospitals, shipping, refineries and essential manufacturing around the world. These activities included emergency repairs for two US navy hospital ships that were hosting thousands of coronavirus patients in the US, as well as offering pro bono services for critical equipment in hospitals – ensuring that operations could continue without risk of breakdowns.

Sulzer united against COVID-19

Demonstrating our rich heritage of social responsibility and engagement, our employees rapidly mobilized to support local communities as they struggled to deal with the effects of the pandemic. With a mix of company-organized initiatives and individual efforts from employees, we donated hundreds of thousands of PPE items to those most in need, including hospitals and medical staff, care homes for the elderly and children’s homes. Coordinated efforts throughout the company enabled us to donate money, food and even computers to schools that have helped support our local communities.

We are proud of the role that Sulzer played, and continues to play, in supporting people and infrastructure in this critical time. In small ways, these efforts contribute to the ongoing recovery of our communities.

From good to great with our employee-centric workplace

While much of the year has been focused on the pandemic, we have not lost sight of our annual employee survey, the Voice of Sulzer. In 2020 we continued to implement concrete actions based on the feedback that we received from employees in our last survey – when we had a resounding 85% participation rate. We have made significant advances in the areas identified by employees, and we look forward to learning more when we conduct the next edition of our survey – anticipated in the first half of 2021.

Learning and development

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

After its successful launch in 2019, we continued to structure offers under the Sulzer Learning Pathways – a global learning and development framework to increase visibility of and access to different learning opportunities. In 2020, nearly 500 people participated in virtual and in-person programs offered as part of this framework. 2020 also saw the launch of the Sulzer Finance Academy, an internal program aimed at helping finance employees to continue to develop their skills and knowledge through targeted training with in-house experts.

Supporting gender diversity in our industry

Sulzer has a long and continuing tradition of providing internship, apprenticeship and university support programs for students in many countries. In 2019, we launched the Sulzer Scholarship for Women in Science and Engineering, aimed at increasing the participation of women in the science and engineering professions. Reflecting Sulzer's presence and the unique requirements of the countries, we have awarded 15 scholarships to deserving candidates in South Africa, Indonesia, China and India. We maintain close contact with all the beneficiaries and continue to support them along their journey.

A new age of transparency and communication

As part of our efforts to respond to feedback from the Voice of Sulzer survey and to encourage open and transparent communication within our company, we launched our new global intranet platform in the first quarter of 2020. This new platform provides an easy-to-use, modern interface for our employees to collaborate with greater efficiency, easily access tools and information, and stay up to date with the latest news from around the company. With its seamless integration of Microsoft applications Yammer and Teams, the new intranet is a turning point in enabling dynamic communication and collaboration across the diverse divisions and functions within Sulzer.

Key figures

		2020	2019	Change in +/-%
Voluntary attrition rate	%	6.2	6.7	
Share of women (of total workforce)	%	17.9	17.3	
Number of employees	FTE	15'054	16'506	-8.8

Please find further sustainability data at www.sulzer.com/sustainability.

Decrease across energy, water and waste metrics – 100% renewable energy at UK sites

As an environmentally responsible company, we support our customers in managing their operations more sustainably. We focus our R&D activities on solutions for a circular economy and energy-efficient equipment, and we incentivize sustainable product development. In 2020, Sulzer's energy and water consumption declined, and our sites generated less waste. To date, 16 of our 17 UK sites have switched to 100% renewable energy sources. Sulzer plans to convert further facilities across Europe to the use of exclusively renewable energy sources in the course of 2021.

Large infrastructure depends on the reliable, safe and efficient handling of fluids of all kinds. Sulzer's solutions help to minimize the environmental impact. Our innovative and efficient technologies bring fresh water and sanitation to the population, reduce waste, avoid environmental pollution and provide alternatives to products with a high carbon footprint.

Setting incentives for sustainable product development

Sulzer actively drives research and development for sustainable solutions. A growing proportion of our development budget goes into areas that make our customers' plants safer and produce fewer emissions.

To encourage employees and highlight its importance, Sulzer has introduced ESG (Environment, Social, Governance) metrics in its compensation framework. ESG is included in the personal objectives of all our long-term-incentive eligible leaders, shining a spotlight on the contribution every employee can make to build a more sustainable and positive future. Some of the company's achievements in this area in 2020 were:

- Sulzer's beauty business Geka received the [Platinum award](#) from the prestigious EcoVadis business sustainability rating provider, placing Geka amongst the top 1% of companies assessed worldwide. Geka was also awarded the International Sustainability and Carbon Certification (ISCC) – an independent, globally applicable certification system for the sustainability of raw materials and products, traceability through the supply chain and the determination of greenhouse gas emissions and savings. On top of that, Geka scored a "B" in the Carbon Disclosure Program (CDP), while the average grade for peers was lower (C and D grades), recognizing the company's coordinated action on climate issues. As of July 2020, Geka has committed to reduce its CO₂ footprint in its global value chain via the Science Based Targets initiative (SBTi), taking the next step on its sustainability journey.
- Sulzer's equipment plays a vital role in a [Danish flood protection project](#), designed to mitigate the impact of rising water levels in the Ringkøbing Fjord over the next 40 years and beyond. During the tendering process, Sulzer's virtual reality simulation of the installation also helped other contractors visualize the site.

- With the creation of a [Global Bio-based and Renewables application development team](#), Sulzer's Chemtech division puts its innovation focus on the conversion of renewable feedstocks into oleochemicals (substances derived from natural sources, including plant fats), biofuels, biochemicals and biopolymers. It also supports the development of cutting-edge solutions for [plastic](#) and [textile recycling](#).

Businesses with diverse footprints

Sulzer strives to continuously improve performance measured against working hours (whr) compared with the previous year in areas of water and waste management, energy usage and greenhouse gas emissions. Our products and services differ widely from one another, resulting in different requirements and ecological footprints. Thus, the business units and local sites evaluate their footprints and set their agendas individually to reduce their environmental impact.

Comprehensive reporting system

Sulzer has a comprehensive reporting system in place to collect financial and non-financial data at site level. The total number of working hours, which serves as a reference, remained at the previous year's level in 2020 because the additional hours of newly acquired businesses was counterbalanced by the COVID-19-related reduction in working hours. Global coverage of sites integrated in the reporting system remained high: all sites report on occupational health and safety data, and the coverage for environmental data was 80% of total working hours in 2020 (previous year: 79%). Sulzer collects non-financial data according to two different reporting cycles and confirms the accuracy of the figures through regular internal audits:

- The reporting period for environmental data was October 1, 2019, to September 30, 2020.
- The reporting cycle for HR data and the health and safety performance was January 1, 2020, to December 31, 2020.

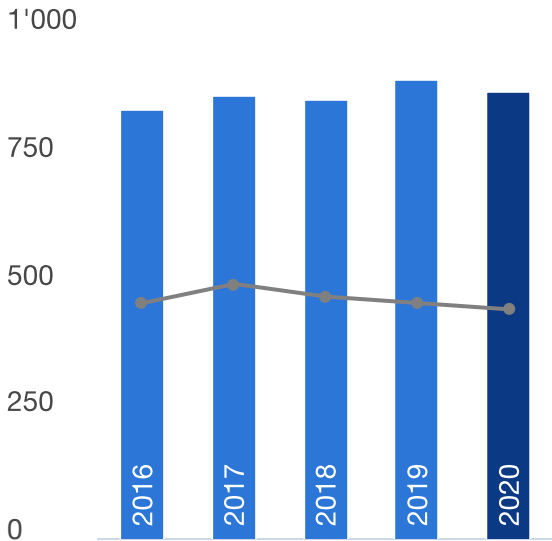
Reduced energy consumption

Due to the economic slowdown and the resulting sales contraction, the company's overall environmental impact decreased in 2020. Total energy consumption decreased by 2.7%, and by 2.4% relative to 1'000 working hours. The more efficient use of energy was partially mitigated by an extended scope of five new sites reporting on energy usage for the first time. As the Chinese market reemerged from lockdowns and went from strength to strength, Sulzer's sites in China saw higher demand. This resulted in increased energy consumption – a 23% rise at Sulzer Pumps Suzhou and 12% at Chemtech Shanghai.

In 2020, total greenhouse gas (GHG) emissions in absolute terms decreased by 6.4%, and by 6.3% relative to 1'000 working hours. While scope 1 emissions remained stable, scope 2 emissions increased by 6.4%. This increase can be attributed to switching to a more comprehensive set of emissions factors. Scope 3 emissions decreased by 27.8%, mostly due to the decrease in business travel activities as a result of the COVID-19 pandemic. The overall decline in GHG emissions was supported by the switch to renewable energy at Sulzer's UK sites: To date, 16 of Sulzer's 17 sites in the UK have switched to 100% renewable electricity from renewable sources consisting of a fuel mix from bioenergy, wind, photovoltaic and hydropower. The company intends to increase the use of renewable electricity for Sulzer sites across Europe and other locations in 2021 and beyond.

Energy consumption

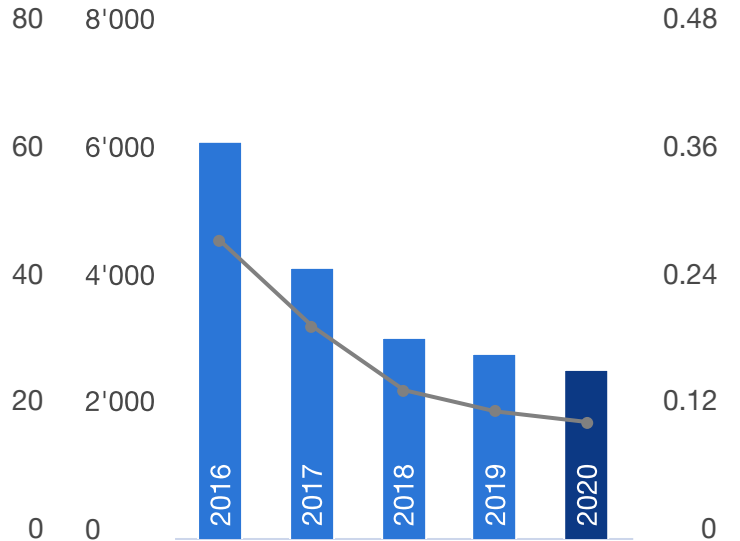
GJ in 1'000 GJ/1'000 whr



- Total energy consumption in GJ
- GJ/1'000 working hours (whr)

Hazardous waste

Tons t/1'000 whr



- Total hazardous waste in t (metric)
- t/1'000 working hours (whr)

Decrease in waste and water usage

Total waste produced was reduced by 6.9%. The sites saw a decline across many waste categories, partly due to the continued implementation of LEAN initiatives and helped by the reduced manufacturing capacity following lockdowns. Overall waste reduction was partially counterbalanced by five additional sites that were newly included in the reporting scope.

Sulzer's consumption of water declined by 4.1%, despite an increase in Pumps Equipment Finland of roughly 24'500 m³ as part of a special pump testing project. The overall decrease resulted mainly from more efficient water management processes.

Key figures

		2020	2019	Change in +/-%
Energy	GJ	878'109	902'751	-2.7
Energy consumption per working hours (whr)	GJ per 1'000 whr	36.0	36.9	-2.4
Share of electricity	%	52.8	56.6	
Share of gases	%	24.5	25.3	
Share of fuels	%	11.6	13.8	
Share of fuel oils	%	5.0	1.3	
Share of district heating	%	3.2	3.0	
Share of other sources	%	3	<1	
Greenhouse gas emissions	tons CO₂ eq.	111'176	118'805	-6.4
GHG emissions per working hours	tons CO ₂ eq. per 1'000 whr	4.5	4.8	-6.3
GHG scope 1 ¹⁾	tons CO ₂ eq.	21'545	21'245	1.4
GHG scope 2 ²⁾	tons CO ₂ eq.	59'794	56'214	6.4
GHG scope 3 ³⁾	tons CO ₂ eq.	29'837	41'346	-27.8
Waste	tons	19'546	20'998	-6.9
Waste per working hours	tons per 1'000 whr	0.8	0.9	-5.9
By treatment:				
Recycling	%	32.7	44.9	
Waste to landfill / incineration / other treatment	%	67.3	55.1	
By hazardousness:				
Non-hazardous waste	%	86.4	86.1	
Hazardous waste	%	13.6	13.9	
Water	m³	987'576	1'029'302	-4.1
Water consumption per working hours	m ³ per 1'000 whr	40.2	42.0	-4.3

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

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

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

Please find further sustainability data at www.sulzer.com/sustainability.

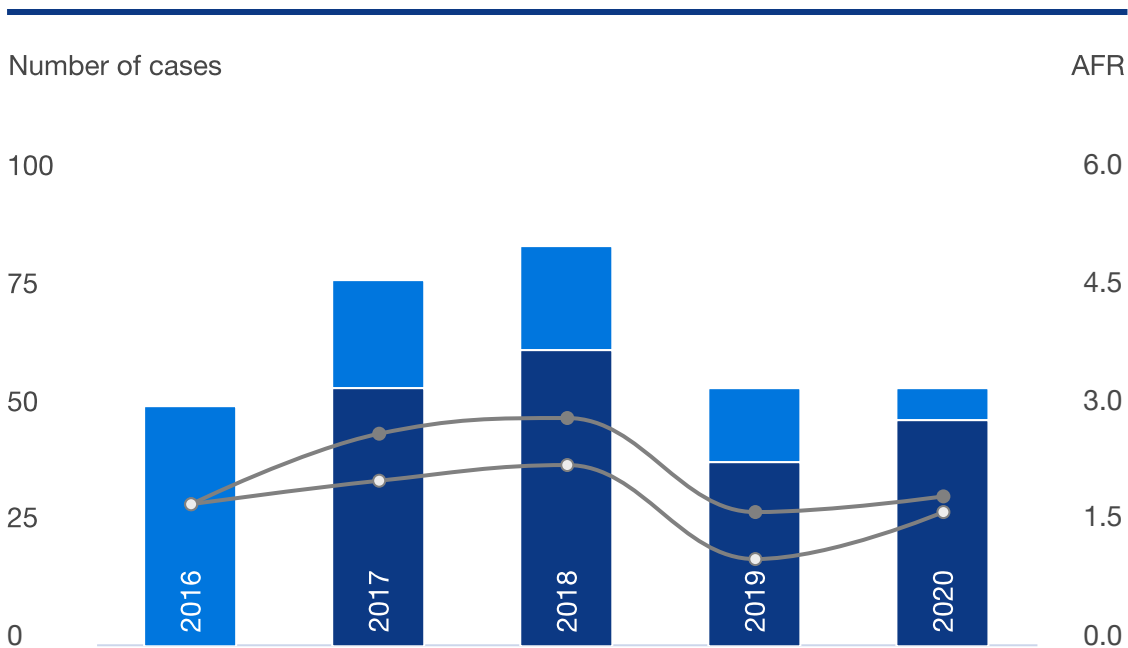
Maintaining strong safety performance

Safety awareness is deeply rooted in Sulzer’s culture and shared by all. Our existing systems and programs to ensure employees can work in a safe and healthy environment helped us react quickly and effectively to the challenges caused by COVID-19. In 2020, we achieved an accident frequency rate (AFR) of 1.9 cases per million working hours, slightly above last year’s record low number of accidents – despite the additional challenges posed by the pandemic.

In 2020, we undertook huge efforts to ensure the health and safety of our people and to protect them from the risk of COVID-19 infection. These efforts included the provision of personal protective equipment (PPE), including face masks and additional supplies such as hand sanitizers and disinfectants. A COVID-19 protection plan and procedures were implemented across Sulzer globally, and ways of working were adapted to enable safe interaction between colleagues, customers and suppliers.

Following our swift action to keep our people safe and healthy and to ensure operational continuity for our customers, authorities around the world granted our businesses license to continue operations during lockdowns. For example, Chemtech’s Shanghai factory was among the first companies in the region to resume production at the beginning of February 2020.

Accidents



- Cases that last > 1 lost day due to occupational accidents, including acquisitions
- Cases that last > 1 lost day due to occupational accidents, excluding acquisitions
- AFR in cases per million working hours, including acquisitions
- AFR in cases per million working hours, excluding acquisitions

In 2020, AFR increased by 11.8% to 1.9 cases per million working hours. With COVID-19 putting unexpected additional pressure on our safety organization in 2020, we still managed a good overall safety performance for the year.

The overall accident severity rate (ASR) has declined significantly for two consecutive years. In 2020, the ASR declined by 35.7% to 37.5 lost days per million working hours.

Due to local and national lockdowns, with many managers forced to work from home, safety walks could not be conducted as planned, leading to a significant reduction of behavior-based safety observations (-54.3%).

Upscaling ESG reporting

To reflect our increased focus on ESG (Environment, Social, Governance), we upscaled our reporting capabilities with an integrated tool in 2020. The new automated ESH Incident Management system will further increase our capabilities in electronic reporting and automated analysis and trending. In 2020, 79 Sulzer sites moved to the new software. As we continue to roll out the platform across the organization, we will have more sophisticated data to enable a greater understanding of complex and multicausal factors related to unsafe behaviors and accidents.

Thanks to the increased use of online collaboration tools, best practices on COVID-19 measures as well as prevention and control techniques were quickly and effectively shared across the organization.

Divisional initiatives to manage safety risks

Due to the diversity of Sulzer's businesses and different working areas, there are potentially unique hazards within each division. In 2020, the divisions undertook the following activities to manage these specific risks:

- Rotating Equipment Services launched the RES Life-Saving Rules to communicate non-negotiable safety rules related to high hazard equipment and activities;
- Chemtech concentrated its efforts on its supervisor leadership initiative (EYE 5);
- Pumps Equipment took targeted measures at all operational sites to further improve safety and introduced a mandatory field service standard for confined space working;
- Applicator Systems continued to focus on implementing ESH processes and procedures as well as driving safety leadership.

Key figures

		2020	2019	Change in +/-%
Accident frequency rate (AFR)	Cases per million working hours	1.9	1.7	11.8
Accident severity rate (ASR)	Lost days per million working hours	37.5	58.3	-35.7
Behavior-based safety observations (including safety walks)	Cases	32'344	70'739	-54.3

Please find further sustainability data at www.sulzer.com/sustainability.



Corporate governance

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Corporate structure and shareholders

The rigorous application of sound corporate governance helps to consolidate and strengthen trust in the company. Sulzer is subject to Swiss corporate and stock exchange laws and applies the Swiss Code of Best Practice for Corporate Governance.

Sulzer Ltd is subject to the laws of Switzerland, in particular Swiss corporation and stock exchange laws. The company also applies the Swiss Code of Best Practice for Corporate Governance. The rigorous application of sound corporate governance helps to consolidate and strengthen trust in the company. Sulzer has had a single share class and has separated the functions of Chairman of the Board of Directors and CEO for many years. Since the Annual General Meeting of April 8, 2009, only individuals who have never held executive positions at Sulzer have been members of the Board of Directors. Unless otherwise indicated, the following information refers to the situation on December 31, 2020. Further information on corporate governance is published at www.sulzer.com/governance. The information in the following section is set out in the order defined by the SIX Swiss Exchange directive on information relating to corporate governance (RLCG), with subsections summarized as far as possible. Sulzer's consolidated financial statements comply with International Financial Reporting Standards (IFRS), and in certain sections readers are referred to the Financial Reporting section in the Sulzer Annual Report 2020. Sulzer reports about the compensation of the Board of Directors and the Executive Committee in the [compensation report](#).

Corporate structure

The operational corporate structure is shown in the graphic in the chapter “[Board of Directors](#)” of this Corporate Governance report and under [note 3](#) to the “Consolidated financial statements” in the Financial Reporting section. Sulzer Ltd is the only Sulzer company listed on a stock exchange. It is based in Winterthur, Switzerland. Its shares are listed and traded on the SIX Swiss Exchange in Zurich (Securities No. 3838891/ISIN CH0038388911). On December 31, 2020, the market capitalization of all outstanding registered shares was CHF 3'150'122'569. Information on the subsidiaries included in the consolidation can be found under [note 36](#) to the “Consolidated financial statements”. The list comprises all consolidated direct subsidiaries of Sulzer Ltd as well as all further consolidated subsidiaries.

Significant shareholders

According to notifications of Sulzer shareholders, one shareholder held more than 3% of Sulzer Ltd's share capital on December 31, 2020. As published on the SIX disclosure platform on May 29, 2018, Viktor Vekselberg held 48.82% of Sulzer shares. The shares are directly held by Tiwel Holding AG. For information on shareholders of Sulzer Ltd that have reported shareholdings of over 3% or a reduction of shareholdings below 3%, please refer to the website of the Disclosure Office of the SIX Swiss Exchange: www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html. For the positions held by Sulzer and information on shareholders, see [note 24](#) to the “Consolidated financial statements”. There are no cross-shareholdings where the capital or voting stakes on either side exceed the threshold of 3%.

Capital structure

Share capital

The fully paid-up share capital of Sulzer Ltd amounts to CHF 342'623.70 and is divided into 34'262'370 registered shares with a par value of CHF 0.01 per share. Each registered share entitles the holder to one vote at the Shareholders' Meeting. There is neither any authorized nor conditional capital, nor are there any participation or dividend certificates. The latest version of the Articles of Association is available at www.sulzer.com/governance (under "Articles of Association"). There were no changes of the share capital in the last three financial reporting years.

Restrictions on transferability and nominee registrations

Sulzer shares are freely transferable provided that, when requested by the company to do so, buyers declare that they have purchased and will hold the shares in their own name and for their own account. Nominees shall only be entered in the share register with the right to vote if they meet the following conditions: the nominee is subject to the supervision of a recognized banking and financial market regulator; the nominee has entered into a written agreement with the Board of Directors concerning its status; the share capital held by the nominee does not exceed 3% of the registered share capital entered in the commercial register; and the names, addresses, and number of shares of those individuals for whose accounts the nominee holds at least 0.5% of the share capital have been disclosed. The Board of Directors is also entitled, beyond these limits, to enter shares of nominees with voting rights in the share register if the above-mentioned conditions are not met (see also paragraph 6a of the Articles of Association at www.sulzer.com/governance). On December 31, 2020, eight nominees holding a total of 1'434'699 shares (4.19% of total shares) had entered into agreements concerning their status. No exceptions have been granted. All of those shares have been entered in the share register with voting rights. There are no transfer restrictions and no privileges under the Articles of Association. A removal or amendment of the transfer restriction requires a shareholders' resolution with a majority of at least two-thirds of the votes represented.

Convertible bonds and options

No convertible bonds or warrants are currently outstanding. Details of the restricted share units issued to the members of the Board of Directors (from 2009) as well as performance share and restricted share units issued to the members of the Executive Committee (in 2010 and yearly as from 2013) are set out under [note 31](#) to the "Consolidated financial statements" and under [note 12](#) to the "Financial statements of Sulzer Ltd".

Board of Directors

Members of the Board of Directors are elected individually for one-year terms. At the Annual General Meeting of April 15, 2020, all members were reelected, and Peter Löscher was reelected as Chairman of the Board of Directors. In addition, Alexey Moskov was elected as a new member of the Board of Directors. The Board consists of eight members. None of them has ever held an executive position at Sulzer.

All members of the Board of Directors are non-executive. None of the members of the Board of Directors have ever belonged to the management of a Sulzer company or to the Executive Committee, nor do any significant business relationships exist between members of the Board of Directors and Sulzer Ltd or a subsidiary of Sulzer Ltd. Mikhail Lifshitz is the Chairman of the Board and holds a 31% stake of Joint Stock Company ROTEC, Russia. Sales with ROTEC amounted to CHF 0.0 million (2019: CHF 0.4 million). Expenses with ROTEC amounted to CHF 0.0 million (2019: CHF 0.3 million). As of December 31, 2020, sales with related parties controlled by the major shareholder amounted to CHF 0.0 million (2019: CHF 0.0 million) with open receivables of CHF 0.0 million (2019: CHF 0.0 million). For further information, see [note 32](#) to the “Consolidated financial statements”. There are no interlocking directorships.

Elections and terms of office

The Articles of Association stipulate that the Board of Directors of Sulzer Ltd shall comprise five to nine members. Each member is elected individually. The term for members of the Board of Directors is one year. At the Annual General Meeting of April 15, 2020, all Board members were reelected to the Board of Directors, all for terms of one year. Alexey Moskov was elected as additional member of the Board of Directors. The Board consists of eight members: two from Austria, one from Cyprus/Israel, one from Denmark, one from Italy, one from Russia and two from Switzerland. Professional expertise and international experience played a key role in the selection of the members. The members of the Board of Directors and their CVs can be viewed at www.sulzer.com/board.

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

Internal organization

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

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

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

responsibilities of the Chairman of the Board of Directors and of the three standing Board committees.

The Board of Directors and its committees



BOARD OF DIRECTORS

Peter Löscher (Chairman)
Matthias Bichsel (Vice Chairman)
Lukas Braunschweiler
Hanne Birgitte Breinbjerg Sørensen
Mikhail Lifshitz
Alexey Moskov
 (since April 15, 2020)
Marco Musetti
Gerhard Roiss

<p>.....</p> <p>AUDIT COMMITTEE</p> <p>Hanne Birgitte Breinbjerg Sørensen (Chairwoman) Alexey Moskov (since April 15, 2020) Marco Musetti Gerhard Roiss</p>	<p>.....</p> <p>NOMINATION AND REMUNERATION COMMITTEE</p> <p>Gerhard Roiss (Chairman) Hanne Birgitte Breinbjerg Sørensen Marco Musetti</p>	<p>.....</p> <p>STRATEGY AND SUSTAINABILITY COMMITTEE*</p> <p>Peter Löscher (Chairman) Matthias Bichsel Lukas Braunschweiler Mikhail Lifshitz</p>
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*To effectively govern Sulzer's sustainability agenda, the Board of Directors has decided to extend the scope of the Strategy Committee and to rename it to Strategy and Sustainability Committee as of April 15, 2020.

Operating principles of the Board of Directors and its committees

All decisions are made by the full Board of Directors. For each application, written documentation is distributed to the members of the Board of Directors prior to the meeting. The Board of Directors and the committees meet as often as required by circumstances. The Board of Directors meets at least five times per year, the Audit Committee and the Nomination and Remuneration Committee meet at least three times per year, and the Strategy and Sustainability Committee meets at least twice per year. In 2020, the Board held two half-day meetings, one conference call for the constitution of the Board after the Annual General Meeting and five meetings in the format of conference calls lasting 60 to 220 minutes. Furthermore, two circular Board resolutions were taken. For further details, see the table below. The CEO, the CFO and the Group General Counsel (who is the Secretary of the Board of Directors) also generally attend the Board meetings in an advisory role. Other members of the Executive Committee are invited to attend Board meetings as required to discuss the midterm planning, the strategy and the budget, as well as division-specific items (such as large investments and acquisitions).

The committees do not make any decisions, but rather review and discuss the matters assigned to them and submit the required proposals to the full Board of Directors for a decision. At the next full Board meeting following the committee meeting, the Chairpersons of the committees report to the full Board of Directors on all matters discussed, including key findings, opinions and recommendations.

Board of Directors

Name	Nationality	Position	Entry	Elected until	Attending meetings of the			
					Board	AC	NRC	SSC
Peter Löscher	Austria	Chairman, Chairman SC	March 2014	2021	8			3
Matthias Bichsel	Switzerland	Vice Chairman of the Board, member SC	March 2014	2021	8			3
Lukas Braunschweiler	Switzerland	Member SC	April 2018	2021	8			3
Mikhail Lifshitz	Russia	Member SC	April 2016	2021	7			3
Alexey Moskov ¹⁾	Cyprus/ Israel	Member AC	April 2020	2021	6	3		
Marco Musetti	Italy/ Switzerland	Member NRC, member AC	April 2011	2021	8	4	7	2 (guest)
Gerhard Roiss	Austria	Chairman NRC, member AC	April 2015	2021	8	4	7	
Hanne Birgitte Breinbjerg Sørensen	Denmark	Chairwoman AC, member NRC	April 2018	2021	8	4	7	

AC = Audit Committee, NRC = Nomination and Remuneration Committee, SSC = Strategy and Sustainability Committee

1) Since April 15, 2020.

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

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

Audit Committee

The Audit Committee (members listed above) assesses the midyear and annual consolidated financial statements and, in particular, the activities – including effectiveness and independence – of the internal and statutory auditor, as well as the cooperation between the two bodies. It also assesses the Internal Control System (ICS), risk management and compliance; at least one meeting per year is dedicated to risk management and compliance. The regulations of the Audit Committee can be viewed at www.sulzer.com/governance (under "Regulations"). The CEO, the CFO, the Group General Counsel (at least partially), the Head of Group Internal Audit (who is also the Secretary of this committee) and the external auditor-in-charge, attend the meetings of the Audit Committee. In 2020, the Audit Committee held four meetings, in February, July, September and December. The meetings lasted on average between two and three hours. The statutory auditor attended all of these meetings. Internal experts, such as the Group General Counsel and the Heads of Group Internal Audit, Group Treasury, Group Accounting, Group IT, Group Compliance and Risk Management, and Group Taxes gave presentations to the Audit Committee in 2020. In February, the Audit Committee is informed of compliance exposures as a result of periodic risk assessments, and it receives an overview of compliance cases under investigation. In September, the Audit Committee is briefed on the present state of risk management within the company and on the results of the risk management process – a process to systematically identify and evaluate significant risks and introduce countermeasures. In the same meeting, an update on Sulzer's compliance approach, including the respective ongoing

and planned activities, is provided. The major current compliance cases (if any) are reported to and discussed by the Audit Committee regularly.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee (members listed above) assesses the criteria for the election and reelection of Board members and the nomination of candidates for the top two management levels. It deals with succession planning. It also regularly assesses the compensation systems and recommends compensation for the members of the Board of Directors and the Executive Committee (including bonus targets for the latter) on behalf of the Board of Directors and in accordance with its specifications. It carries out broadly based compensation benchmarks with an international comparison group, supported by studies of consulting firms such as Mercer and Willis Towers Watson, and it scrutinizes the work of internal and external consultants. The members of the Nomination and Remuneration Committee are elected by the Shareholders' Meeting. The regulations of the Nomination and Remuneration Committee are available at www.sulzer.com/governance (under "Regulations"). The CEO and the Chief Human Resources Officer (who is also the Secretary of this committee) attend the meetings of the Nomination and Remuneration Committee. In 2020, three meetings were held in January, February and July, taking on average between one and two hours. Furthermore, the NRC held four meetings by conference call (60 minutes each). Independent third-party market compensation data was provided to the NRC, especially by Mercer with respect to executive management's remuneration.

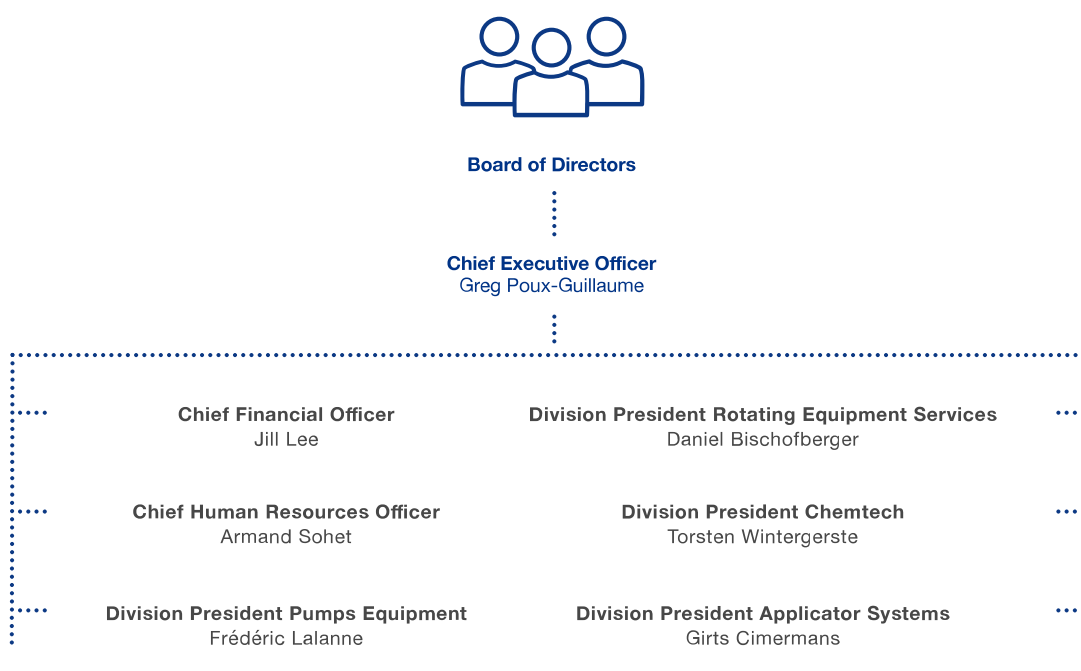
Strategy and Sustainability Committee

To effectively govern Sulzer's sustainability agenda, the Board of Directors has decided to extend the scope of the Strategy Committee and to rename it to Strategy and Sustainability Committee as of April 15, 2020. The Strategy and Sustainability Committee (members listed above) advises the Board of Directors on strategic matters (such as material acquisitions, divestitures, alliances and joint ventures), strategic planning, definition of development priorities, and the company's sustainability initiatives and objectives as well as on other relevant public policy matters. The regulations of the Strategy and Sustainability Committee can be viewed at www.sulzer.com/governance (under "Regulations"). In 2020, three meetings (one regular, two via conference call) took place in February, May and September, lasting one to two hours.

Division of powers between the Board of Directors and the CEO

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

Management structure



Information and control instruments

Each member of the Board of Directors receives a copy of the monthly financial statements (January to May and July to November), plus the midyear and annual financial statements. These include information about the balance sheet, the income and cash flow statements, and key figures for the company and its divisions. They incorporate comments on the respective business results and a rolling forecast for the current business year. The CEO and CFO report at every Board meeting on business developments and all matters relevant to the company; once each year, the Board receives the forecasted annual results. During these Board meetings, the Chairs of the committees also report on all matters discussed by their committees and on the key findings and assessments, and they submit proposals accordingly. Each year, the Board of Directors discusses and approves the budget for the following year and the midterm plan, which is also subject to periodic review. The Chairman of the Board of Directors regularly consults with the CEO and other representatives of the Executive Committee. In addition, the Board of Directors receives a status update on investor relations on a regular basis.

Group Internal Audit

Group Internal Audit reports functionally directly to the Chair of the Audit Committee, but administratively to the CFO. Meetings between internal audit and the statutory auditor take place regularly. They are used to prepare for the meetings of the Audit Committee, to review the interim and final reports of the statutory auditor, and to plan and coordinate internal and external audits. Group companies are audited by Group Internal Audit based on an audit plan that is approved by the Audit Committee. Depending on the risk category, such audits are carried out on a rotational basis either annually or every second, third or fourth year. Group Internal Audit carried out 48 audits in the year under review. One of the focal points is the Internal Control System (ICS). The results of each audit are discussed in detail with the companies and (where necessary) the divisions concerned, and key measures are agreed upon. The Chairman of the Board of Directors, the members of the Audit Committee, the CEO, the CFO, the Group General Counsel as well as the respective Division President and other line managers of the audited entity receive a copy of the audit report. Significant findings and recommendations are also presented to and discussed with the Executive Committee and the Group General Counsel during the monthly Executive Committee meetings. Twice a year, the

divisions present the status of key measures agreed on. A follow-up process is in place for all group internal audits, which allows efficient and effective monitoring of how the improvement measures are being implemented. Each year, the Head of Group Internal Audit compiles a report summarizing activities and results. This report is distributed to members of the Board of Directors and the members of the Executive Committee, and it is presented to the Executive Committee and the Audit Committee. It is discussed in both committees and, thereafter, reported to the Board of Directors.

Risk management and compliance

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

Strong values and building up a strong ethical and compliance culture

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

Risk assessment

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

Internal rules and tools

Sulzer has a Code of Business Conduct, which can be viewed in 18 languages at www.sulzer.com/governance (under “Code of Business Conduct”). Every employee of the company (including employees of newly acquired businesses) has to confirm in writing that he or she has read and understood this code, and will comply with it. Every member of the Sulzer Management Group (approximately 150 managers), the heads of the operating companies, the headquarters, regional and local compliance officers as well as the legal entity finance heads must reconfirm this compliance commitment in writing annually. Furthermore, Sulzer joined the UN Global Compact initiative in 2010. The latest [Communication on Progress Report](#) was published on September 10, 2020, and can be downloaded from www.sulzer.com/sustainability.

Rules

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

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

- Antitrust and anticompetition risks: Sulzer has an antitrust guideline and a directive addressing behaviors in trade associations in place.
- Export control risks: Employees involved in export activities have to comply with all applicable export and re-export laws and regulations. Sulzer rolled out and implemented its global Trade Control Directive in all legal entities concerned. Every exporting legal entity has an ICP (internal control program) in place which includes processes, defines responsibilities on export control matters and other requirements important to comply with export compliance laws and regulations.
- Further risks (e.g. stock exchange laws and regulations; human-resource-related issues; intellectual property and know-how; privacy and data protection laws; product liability; environment, quality, safety and health, etc.): Focused rules and processes address these and many other potential risks. Sulzer has processes that ensure compliance with insider laws as well as stock exchange reporting and notification duties. Local compliance officers performed 23 face-to-face compliance training sessions at the beginning of 2020. Due to the COVID-19 preventive measures, the remaining planned face-to-face sessions have been replaced by 20 remote sessions, conducted by Group Compliance.

Tools

Sulzer has a compliance hotline and an incident reporting system that provides employees with one of many options for reporting (potential) violations of laws or internal rules. Reports can be made anonymously or openly via a free hotline or a dedicated website. The company has a directive that sets clear rules for internal investigations. Further tools are available to all employees on Sulzer's intranet (e.g. presentations addressing the major exposures; draft agreements; sales and procurement handbooks with compliance-specific explanations and standard clauses). Sulzer has a compliance risk assessment process in place to identify and assess potential compliance risks on a local entity level and to define appropriate measures. For newly acquired companies, Sulzer set up a post-merger integration process consisting of a systematic post-merger compliance risk analysis, which provides the foundation for risk-based mitigation actions.

Organization

Since 2013, Sulzer has had a “Legal, Compliance and Risk Management” group function (headed by the Group General Counsel). Within this organization, a line reporting structure is in place for the three regions: Americas (AME); Europe, the Middle East and Africa (EMEA); and Asia-Pacific (APAC). The local Compliance Officers ultimately report – via Regional Compliance Officers and the Chief Compliance Officer – to the Group General Counsel. In addition, the headquartered Compliance and Risk Management team steers and runs the group-wide compliance program and all compliance investigations. To ensure the consistent rollout of Group Compliance initiatives, the compliance organization uses direct reporting lines. The Group General Counsel informs the Board of Directors and the Executive Committee regularly about legal matters and key changes in legislation that may affect Sulzer, as well as on important litigation. Twice a year, the Audit Committee receives a report about any pending or threatened litigation with worst-case exposure exceeding CHF 0.5 million. Further information on reports to the Audit Committee is provided in the “Audit Committee” section above.

Awareness building and trainings

Sulzer puts substantial effort into training its employees. Training is carried out through e-learning programs (new programs are rolled out and existing programs are updated every year), in person or through Web conferences. In 2020, Sulzer employees completed 29'325 compliance e-learning courses.

Controls and sanctions

The Group Function Legal supports the audits done by Group Internal Audit following the same audit process. The Group Function Environment, Safety and Health (ESH) organized nine external health and safety compliance audits. The focal points were primarily occupational health and safety including legislative compliance. The results of each of these audits were discussed directly with the responsible managers, and an agreement was reached on any improvements required. The latest status of the company's risks relating to environment, safety and health is reported to the Audit Committee once a year. Apart from these formal audits, internal investigations (triggered by reports from the compliance hotlines, e-mails, telephone calls or other avenues of communication) were carried out during 2020 and at least two employees had to leave Sulzer because of violations of Sulzer's Code of Business Conduct. Others received warnings or faced other disciplinary measures. However, most of the reports received concerned non-material issues.

Continuous improvement

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

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

Executive Committee

The Executive Committee consists of the Chief Executive Officer (CEO), the Chief Financial Officer (CFO), the Chief Human Resources Officer (CHRO) and four Division Presidents.

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

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

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

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

Shareholder participation rights

Restrictions and representation of voting rights

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

Statutory quorum

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

Convocation of the Shareholders’ Meeting and submission of agenda items

The applicable regulations regarding requesting the convocation of an extraordinary Shareholders’ Meeting are in line with the applicable law regarding the convocation of a Shareholders’ Meeting. Shareholders representing at least 2% of the share capital may submit items for inclusion on the agenda of a Shareholders’ Meeting. Such submissions must be requested in writing at least two months prior to the meeting and must specify the agenda items and proposals of the shareholder concerned (see also paragraph 12 of the Articles of Association).

Entry in the share register

Voting rights may be exercised by shareholders who are registered in the share register on the record date stated in the invitation to the respective Shareholders’ Meeting.

Independent proxy

At the Annual General Meeting of April 15, 2020, Proxy Voting Services GmbH was elected as the independent proxy for a term of office extending until completion of the next Annual General Meeting. The Articles of Association do not contain rules on the granting of instructions to the independent proxy and the electronic participation in the Shareholders’ Meeting which deviate from the default Swiss law.

Takeover and defense measures

The Articles of Association contain no opting-out or opting-up clauses. If there is a change of control, all allocated restricted share units (RSU) are automatically vested. Also, the performance share units (PSU) are converted into shares on a pro rata basis and based on actual achievement of the performance targets, without being subject to blocking restrictions. A change of control includes an acquisition of, or a public takeover offer in relation to, more than 33.33% (RSU) or 50% or more (PSU) of the voting rights.

Auditors

The statutory auditor is elected at the Annual General Meeting for a one-year term of office. KPMG AG has been acting as the statutory auditor since 2013. As of the financial year 2020, the acting external auditor-in-charge is Rolf Hauenstein. The external auditor-in-charge is replaced every seven years. The Audit Committee is in charge of supervising and monitoring the statutory auditor, and it reports to the Board of Directors (see section “Audit Committee” in the chapter “[Board of Directors](#)” of this corporate governance report). The members of the Audit Committee receive summaries of audit findings and improvement proposals at least once a year. The external auditor-in-charge and his deputy were invited to attend meetings of the Audit Committee. In 2020, the statutory auditor was present at all four Audit Committee meetings. The Audit Committee or its Chairperson meets separately with the Head of Group Internal Audit and the statutory auditor at least once a year to assess (among other things) the independence of the internal and statutory auditors. The Audit Committee evaluates the work done by the statutory auditor based on the documents, reports and presentations provided by the statutory auditor, as well as on the materiality and objectivity of their statements. To do so, the committee gathers the opinion of the CFO. The Audit Committee reviews the fee paid to the auditor regularly and compares it with the auditing fees paid by other internationally active Swiss industrial companies. Said fee is negotiated by the CFO and approved by the Board of Directors. Further information on the auditor, in particular the auditor’s fees and any additional fees received by the auditor for advisory services outside its statutory audit mandate, is listed under [note 33](#) to the “Consolidated financial statements”. All advisory services provided outside the statutory audit mandate (essentially, consulting services related to audit and accounting as well as legal and tax advisory services) are compliant with the applicable independence rules.

Risk management

At Sulzer, risks are assessed regularly as part of the company's integrated risk management process. The results are discussed with the management and the Audit Committee.

Risk	Risk exposure	Main loss controls
External and markets		
Market assessment	Market developments that are assessed inappropriately could lead to missed business opportunities or losses.	<ul style="list-style-type: none"> – Continuous monitoring and assessment of market developments – Systematic midrange planning based on market developments and expectations
Geopolitical shocks	A geopolitical shock event could have an impact on operations and travel. Also, it could imply currency risks and default risks of countries and banks.	<ul style="list-style-type: none"> – Monitoring of exposure in critical countries – Monitoring of debt situation of countries and banks – Continuous monitoring of raw material prices and inflation indicators – Sulzer's global presence mitigates the effect of geopolitical shocks
Strategic		
Innovation	Failure in R&D and innovation activities could negatively impact the ability to operate and to grow the business. Insufficient investments in innovation to maintain technology leadership and develop innovative products.	<ul style="list-style-type: none"> – A phased process, technical risk manageability assessments and key performance indicators to ensure quality of the development – Product Development Council with strong focus on strategic plans and digitalization – Prototypes and own test beds to test and validate products before market release – Core Technology Council for research of basic technology – Focus on innovation with strategic customers – Innovation and ideation projects – Implementation of an expert development program for key critical resources
Operational		
Attraction and retention	Failure to attract, retain and develop people could lead to a lack of critical skills and knowledge, which hinders both daily operations and growth potential.	<ul style="list-style-type: none"> – Ensuring that Sulzer's people and performance efforts are anchored to the company's values and behaviors – Ongoing feedback through employee opinion survey "Voice of Sulzer" – Robust internal communications strategy – Ongoing engagement in workshops and collaborative activities – Visibility and access to creating development experiences and opportunities – Consistent approach to salary grading and benchmarking
Health and safety	An unsafe working environment could lead to harm to people, reputational damage, fines as well as liability claims and could have a serious economic impact.	<ul style="list-style-type: none"> – Health and safety directives, guidelines, programs (e.g. Safe Behavior Program) and training – OHSAS 18001 certifications – Monthly health and safety controlling and regular audits – Global network of health and safety officers – Immediate implementation of COVID-19 preventive measures in all legal entities and workplaces, including: informing and training employees on COVID-19 preventive measures; implementation of risk assessment procedures, travel ban for high-risk countries and approval concepts for business travel; implementation of remote working; implementation of remote video to support final acceptance procedures in manufacturing
Environmental	Environmental damage could lead to harm to people and nature, reputational damage, fines as well as liability claims and could have a serious economic impact.	<ul style="list-style-type: none"> – Mitigation in comprehensive environmental due diligence (EDD) projects for acquisitions and divestitures – Elimination of environmentally damaging substances through Prohibited Substances List

Compliance	Non-compliant or unethical behavior could lead to reputational damage, fines and liability claims.	<ul style="list-style-type: none"> – Active fostering of high ethical standards by tone from the top and middle management – Continuous monitoring and assessment of potential exposures – Sulzer Code of Business Conduct and a number of supporting regulations (e.g. anticorruption, antitrust, trade control) – Third-party due diligence process – Global network of compliance and trade compliance officers – Compliance training (incl. e-learning) and audits – Speak-up culture, compliance hotline and sanction checks
Quality of products and services	Failure of high-quality products and services could lead to repeated work, reputational damage or liability claims.	<ul style="list-style-type: none"> – Quality management and assurance systems tailored to specific businesses – Third-party accreditation – Competence development programs and training of employees – Test centers
Business interruptions	<p>Business interruption, such as a fire, could cause damage to people, property and equipment. It could have a negative effect on the ability to operate at the affected site. Security incidents could impact the IT infrastructure or systems, which could result in a business interruption.</p> <p>Business interruption caused by pandemic-related lockdowns could have an impact on operations and supply chain and thus could lead to serious economic impact.</p>	<ul style="list-style-type: none"> – Crisis and emergency management systems (at global and local level) – Risk management policy and guidelines – Global manufacturing footprint and global procurement – IT security standards, measures and incident response team – Disaster recovery plans in IT – Implementation of COVID-19 business interruption response team to support businesses in becoming qualified as essential service providers – Global monitoring of COVID-19-related governmental decisions – Enhancement of IT infrastructure to cope with higher data volumes during extended remote work
Financial		
Financial markets	The unpredictability of financial markets may have a negative effect on Sulzer's financial performance and its ability to raise or access capital.	<ul style="list-style-type: none"> – Group financial policy – Foreign exchange risk policy – Trading loss limits for financial instruments
Credit	Credit risks arising from financial institutions and from customers could have a negative effect on Sulzer's financial performance and ability to operate.	<ul style="list-style-type: none"> – For financial institutions, only parties with a strong credit quality are accepted (third-party rated) – Individual risk assessment of customers with large order volumes – Continuous monitoring of country risks
Liquidity	Failure in liquidity risk management may have a negative effect on Sulzer's financial performance and its ability to operate.	<ul style="list-style-type: none"> – Continuous liquidity monitoring – Management of liquidity reserves at group level – Cash flow program to optimize liquidity and cash flow management – Efficient use of available cash through cash pooling

Information policy

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

Key dates in 2021

- February 24: Annual results 2020
- April 14: Annual General Meeting 2021
- April 29: Order intake Q1 2021
- July 22: Midyear results 2021
- October 27: Order intake nine months 2021

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

Material changes

The text makes reference to any material changes occurring between the balance sheet date (December 31, 2020) and the copy deadline for the Annual Report (February 23, 2021).



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Paying for sustainable performance

Winterthur, February 23, 2021

Dear Shareholder,

On behalf of the Board of Directors and the Nomination and Remuneration Committee (NRC), I am pleased to present the compensation report for 2020. I appreciated the ongoing opportunity in 2020 to work together with my colleagues and our stakeholders towards ensuring that the Sulzer compensation structure continues to reflect best practice standards, proves to be attractive and competitive for employees, rewards sustainable performance and drives value creation for our shareholders.

After a good start to 2020, COVID-19 turned the world upside down. It comes as no surprise that Sulzer has also been heavily challenged by COVID-19 and its economic impact. However, I am proud to say that Sulzer has proven to be extremely resilient this year. We achieved this thanks to our broad regional presence and a balance between early and late-cyclical business. And most importantly – thanks to the support of our employees and the enormous team effort. This also includes the great performance of our Executive Committee which, through its swift action and thoughtful measures, has been instrumental in successfully managing the COVID-19 consequences.

Executive Committee's compensation

Our Executive Committee's compensation framework is a modern and tailor-made system designed to lead Sulzer successfully through the coming years:

- A significant portion of variable compensation ensures a strong pay-for-performance orientation.
- Performance criteria are selected to provide appropriate incentives to achieve operational and strategic goals, thereby ensuring strong alignment with Sulzer's corporate strategy.
- Variable compensation is granted in the form of performance share units, which are subject to malus and clawback provisions, to align interests of the Executive Committee with those of shareholders.
- Share ownership guidelines oblige the Executive Committee members to hold Sulzer shares for the term of their office.
- Compensation levels are competitive and in line with market practice to attract and retain highly qualified employees, who will keep Sulzer on the road to success – even in the face of difficult circumstances.

Paying for performance: our year 2020

In 2020, Sulzer continued its strategic investments in sustainable technology leaders to complement its portfolio and provide innovative cutting-edge solutions for a more environmentally friendly future.

We implemented the following changes in 2020 with regard to the Executive Committee's compensation model:

- A fourth performance category was introduced for measuring individual performance in the short-term incentive plan: "Environmental, Social, Governance (ESG)". ESG considers aspects such as improvements in health and safety, emissions, water and energy efficiency or initiatives and actions taken to increase employee and community engagement or efforts in R&D for more efficient or sustainable products such as eco-packaging, biopolymers or energy-efficient pumps.

- Share ownership guidelines were implemented to align interests of the Executive Committee with those of shareholders and further strengthen the equity culture. Members of the Executive Committee are obliged to hold part of their shares until the end of their service period. The value of the shares to be held is set at 200% of the annual gross base salary for the CEO and 100% of the annual gross base salary for the other members of the Executive Committee.
- The threshold for total shareholder return performance in the industrial peer group will be set “back to normal” at the 25th percentile (for details see [special report 2019](#)).
- The Board has decided to adjust the international peer group. Due to M&A activities, Weir Group was replaced by Andritz, which was the predefined successor in case of necessary adjustments to the international peer group.

The short-term measures applied to the compensation plans in 2020 with regards to COVID-19 are explained in detail in the [special report](#).

Otherwise, the general compensation model and structure for Executive Committee members remained unchanged. There was no increase in base salaries, target short-term incentives levels or regular performance share plan grant amounts and there will also be none in 2021. The CEO received the last tranche of the special grant under the performance share plan which was granted in 2019 due to the exceptional performance during and after the US sanctions in 2018, and was spread over 2019 and 2020 (for details see [special report 2019](#)).

The aggregate Executive Committee compensation is below the maximum amount previously approved by the Annual General Meeting for the respective period. Including potential payments made over time, aggregate compensation decreased by 4.7% year on year and by 11.2% like for like, considering we increased the number of Executive Committee members by one at year-end 2019.

Board of Directors compensation

The aggregate Board of Directors compensation paid in 2020 was below the maximum amounts previously approved by the AGM for the respective periods. No changes to Board compensation were deemed necessary.

The aggregate Board of Directors compensation paid in 2020 was 10.4% higher than in 2019, due to the appointment of Mr. Alexey Moskov as a new member of the Board in 2020, thus returning to the former size of the Board of Directors.

Governance

The Nomination and Remuneration Committee (NRC) performed its regular activities in 2020, including making recommendations to the Board for EC performance targets, as well as for compensation of Board, CEO and EC. You will find further information on the NRC's activities, as well as compensation models and governance, in the following pages.

At the AGM in 2021, you will be asked to vote on the maximum aggregate compensation for the Board for its 2021–2022 term and on the maximum aggregate compensation for the EC for 2022. For the third consecutive year, the maximum aggregate compensation for the Board will remain flat. Notwithstanding the addition of the new EC member, the maximum aggregate for the EC will be the same as for 2021.

As per practice, this compensation report will be submitted for a non-binding, consultative vote to our shareholders. We encourage and pursue open, regular dialogue with our stakeholders. Your constructive input is highly valued and appreciated as we continue to improve and align our compensation system. On behalf of Sulzer, the NRC and the Board, I thank you for your supportive feedback and for your continued trust in our company.

Sincerely,

A handwritten signature in blue ink, appearing to be 'Gerhard Roiss', with a long horizontal flourish extending to the right.

Gerhard Roiss
Chairman of the Nomination and Remuneration
Committee

COVID-19 report

A year ago, as we prepared to publish our 2019 business results, like many others we hoped that the COVID-19 crisis that China was already experiencing would not impact the rest of the world. As the months since then have so dramatically illustrated, the COVID-19 crisis continues and the aftershocks are being felt across all industries. Through this period, the critical issue for Sulzer has been to keep our people safe, while keeping our operations running.

How was Sulzer affected by the COVID-19 crisis?

The global spread of COVID-19 and the numerous countermeasures restricted the global economy and led to a highly volatile and uncertain business environment. Companies faced a decline in demand for products and services, order cancellations, a standstill of business activities, logistical bottlenecks, a lack of supplier goods and challenges in supply chain and sales channels.

Naturally, COVID-19 also had a massive impact on Sulzer's business. For example, through the closing of beauty stores and dental practices and the slump in the oil and gas industry. Furthermore, we had to face a highly volatile order situation as decisions on larger projects were postponed.

Nonetheless, Sulzer proved very resilient and delivered robust results in this adverse market environment. Thanks to a strong performance in 2019 and a good first quarter 2020, we were able to pay and even increase dividend payments related to 2019, despite the economic circumstances. We also honored agreed salary rises for all employees. Sulzer made significant progress in its working capital management despite the logistics disruptions generated by the pandemic, leading to a record free cash flow of CHF 272 million, our highest level in years. Furthermore, we improved or maintained the profitability of three out of our four divisions through a combination of flawless execution and strong cost actions. Only Applicator Systems, with the effective suspension of dental procedures worldwide in the second quarter, temporarily dipped. Through the extraordinary efforts of team members around the world, Sulzer ended the most complicated year on record with orders and sales down by less than 5%¹⁾, and an operational profitability of 9.0% – at the top of its guidance. This bodes well for 2021.

How did Sulzer manage the crisis?

To maintain Sulzer's stability and reliability for employees and customers throughout the COVID-19 crisis and beyond, we swiftly introduced a COVID-19 committee dedicated to the pandemic response, implemented a resilience program and took action to further prepare Sulzer for the future.

Recognizing the need to anticipate and respond rapidly to a dynamic situation, we put the dedicated COVID-19 committee in place in March 2020. The committee has led our efforts, steering open and regular communications with our employees, establishing a common focus on safety measures across our 180 locations – amidst fluctuating and at times unclear public health guidance.

Preparing for the challenges that lay ahead, we initiated a resilience program aimed at controlling our cost base to better reflect this unique situation. The program was built around three pillars: measures to protect jobs, measures to adapt to market conditions and measures to support the new normal. Significantly, this program has met its objective while limiting the impact on existing jobs in our company. We achieved this by implementing a global hiring freeze, addressing accrued paid time off, reducing travel and related expenses, delayering our leadership structure and reducing headcount in

support functions based out of our Swiss headquarters – primarily by managing attrition. These measures have helped us secure CHF 59 million in 2020, thus meeting the cost reduction target.

Besides the resilience program, our teams took swift action to ensure business continuity for our customers while implementing cost measures. This also helped mitigate the impact of lower sales volumes, temporary factory closures and supply chain disruptions, resulting in an operational profit of CHF 297.6 million and an operational profitability of 9.0%.

Despite the challenging circumstances back in March 2020, we chose to honor the agreed salary rises for all employees and performance bonus payments, as well as dividend payments related to 2019. While we moved to freeze the base salaries for the Executive Committee, there were no additional adjustments to compensation in 2020.

To prepare for the future, we launched structural actions to make our energy-related businesses leaner, in anticipation of adverse conditions in the oil and gas market which we expect to continue well into 2021. Further, we doubled down on investments that prepare us for the future – in additive manufacturing, data platforms, remote systems and digital production methods that will make us faster and more flexible.

What remuneration related measures has the Nomination and Remuneration Committee (NRC) taken, and why?

1. Compensation levels: We froze Executive Committee compensation levels for 2020 and 2021

Even though Sulzer has proven very resilient so far, the economic environment remains challenging. Therefore, as in 2020, there will be no increase in base salaries, target STI (short-term incentives) levels or regular LTI grant amounts in 2021 for the Executive Committee.

2. Short-term incentive plan 2020: We adjusted the actual operational profit to adequately reflect the performance and effort of all our employees

Aiming to stay the course for the year ahead, the NRC did not adjust financial targets for 2020 in February – keeping the budget unchanged and leaving the option to review the consolidated impact of COVID-19 at year-end to make appropriate adjustments. This review was completed in December 2020 and the Board decided to keep the operational operating net cash flow (operational ONCF) and sales targets unchanged. Reflecting the severe challenges stemming from COVID-19, the profitability target was revised to consider COVID-19 effects. To be precise, the COVID-19 impact on our operational profit is estimated at roughly CHF 105 million. The NRC decided on a 30% relief of the calculated COVID-19 impact on actual operational profit. This benefits the nearly 5'000 employees who participate in our performance bonus plan this year and recognizes the extraordinary efforts we have made as a company. In the case of the Executive Committee, the adjustment results in an increase in the financial performance of 13% – from 100% (pre-adjustment) to 113% (post-adjustment).

3. Long-term incentive plan 2020: We postponed the performance share units grant date in 2020 to allow for a more stable economic environment

The COVID-19 crisis hit the markets at the end of February with a steep downwards progression until almost the end of March, with a slight initial recovery at the very end of March. At that time, it was impossible to assess the further course of the crisis. In line with the flexibility provided for by the performance share plan regulation, the NRC therefore decided to postpone the grant, initially planned in April, by two months and to use this delay to assess the performance share plan validity and other possible vehicles for long-term incentives, namely restricted share units. The assessment was made by an independent advisor and led to the conclusion that even if some companies were switching back to restricted share units, the overall market practice and proxy's recommendations

were confirming performance shares as a preferred vehicle for long-term incentive. Therefore, the performance share plan remained unchanged in its structure and the grant was issued on June 1, 2020, following the Board decision on May 25.

This shift of the performance share units grant date in 2020 was a one-time adjustment to reflect the extraordinary circumstances of an unprecedented crisis. Apart from the postponed grant date for the performance share units in 2020, there were no further measures taken. The performance period remains unchanged. This is also the case for running performance share tranches from previous years. With the 2018 performance share plan vesting on December 31, 2020, the COVID-19 impacts on Sulzer's performance are fully reflected in the Executive Committee's long-term compensation which accounts for the largest share of Executive Committee's variable compensation.

1) Adjusted for currency effects.

Compensation governance and principles

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

Nomination and Remuneration Committee

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

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

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

The table below describes the levels of authority:

	CEO	NRC	Board	Shareholders' Meeting
Selection criteria and succession planning for Board of Directors		proposes	approves	
Selection criteria and succession planning for Executive Committee	proposes	reviews	approves	
Compensation policy and programs		proposes	approves	
Aggregate maximum compensation amounts for the Executive Committee and for the Board of Directors to be submitted to vote at the Annual General Meeting		proposes	reviews	approves (binding vote)
Individual compensation of the members of the Board of Directors		proposes	approves	
Compensation of the CEO		proposes	approves	
Individual compensation of the members of the Executive Committee	proposes	reviews	approves	
Performance objectives and assessment of the CEO		proposes	approves	
Performance objectives and assessment of the Executive Committee	proposes	reviews	approves	
Compensation report		proposes	approves	consultative vote

The NRC consists of a maximum of three members who are non-executive and independent and who are elected individually and annually by the Shareholders' Meeting for the period of office until the following ordinary Annual General Meeting (AGM). At the 2020 AGM, Gerhard Roiss (Chairman), Hanne Birgitte Breinbjerg Sørensen and Marco Musetti were reelected as members of the NRC.

The NRC meets as often as the business requires, but at least twice a year. In 2020, the NRC held four regular and three extraordinary meetings that were attended by all members. Besides the standard agenda items, the NRC further focused its efforts on ensuring continuity and succession planning for the positions on the Board of Directors and the Executive Committee, so that the Board of Directors could now return to its usual number of Directors with the election of Alexey Moskov at the Annual General Meeting. In addition, the NRC engaged in conceptual considerations for dealing with the effects of the COVID-19 pandemic in terms of ensuring the incentive effect of the compensation policy.

The CEO and the Chief Human Resources Officer, who serves as the Secretary of the NRC, generally attend the meetings. The Chairman of the Committee may invite other executives to join the meeting in an advisory capacity, when appropriate. However, the CEO and any other executives do not participate in the meetings, or parts of it, when their own remuneration and/or performance is discussed.

The Chairman of the NRC reports to the next meeting of the full Board of Directors on the activities of the NRC and the matters debated. The Chairman, as far as necessary, submits the respective proposals for approval by the Board of Directors. The minutes of the NRC meetings are available to all members of the Board of Directors.

The NRC may appoint third-party companies to provide independent advice or perform services as it deems necessary for the fulfillment of its duties.

Shareholders' role and engagement

The company is keen to receive shareholders' feedback on the compensation policy and programs, and it began the practice of holding a consultative vote on the compensation report in 2011. Further, the company regularly meets with shareholders and shareholder representatives to understand their perspectives. At the Annual General Meeting, shareholders approve the maximum aggregate

compensation amounts for the Board of Directors and for the Executive Committee in an annual binding vote.

Further, the Articles of Association, which are also subject to shareholders' approval, regulate the principles of compensation. They include the following provisions related to compensation (full version of the Articles of Association: www.sulzer.com/governance, under "Articles of Association"):

- Principles of compensation (Article 31): non-executive members of the Board of Directors receive fixed compensation only. Members of the Executive Committee receive fixed and variable compensation elements. The variable compensation may include short-term and long-term variable compensation components. These are governed by performance metrics that take into account the performance of the company, the group or parts of it, targets in relation to the market, other companies or comparable benchmarks and/or individual targets, as well as strategic and/or financial objectives. Compensation may be paid in the form of cash, shares, options, financial instruments or similar units, in kind, in services, or in other types of benefits;
- Shareholders' binding vote on remuneration (Article 29): the Shareholders' Meeting shall approve the maximum aggregate amount of compensation for the Board of Directors for the next term of office and the maximum aggregate amount of compensation for the Executive Committee for the following financial year. The Board of Directors shall submit the annual compensation report to an advisory vote at the Annual General Meeting;
- Additional amount for members of the Executive Committee hired after the vote on remuneration by the Shareholders' Meeting (Article 30): to the extent that the maximum aggregate amount of compensation as approved by the Shareholders' Meeting does not suffice, up to 40% of the maximum aggregate amount of compensation approved for the Executive Committee is available, without further approval, for the compensation of the members of the Executive Committee who were appointed after the Annual General Meeting;
- Loans, credit facilities, and post-employment benefits for members of the Board of Directors and of the Executive Committee (Article 34): the company may not grant loans or credits to members of the Board of Directors and of the Executive Committee.

Compensation architecture for the CEO and EC members

Compensation principles

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

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

Method of determination of compensation: benchmarking

To ensure compensation levels that are competitive and in line with market practice, the compensation of the Board of Directors and of the Executive Committee is benchmarked against that of similar roles in comparable companies every one to two years. For this purpose, the NRC selected a peer group of international industrial companies headquartered in Switzerland based on their revenue and number of employees. Sulzer is positioned between the first quartile and median of the peer group.

Compensation benchmark

The comparison group reflects Sulzer's ambitious business strategy:

- ABB
- Clariant
- Georg Fischer
- Lonza
- OC Oerlikon
- Rieter
- Schindler
- Sika
- Sonova
- Tetra Laval Group

The intention is to pay target compensation around the median of the relevant market. Nevertheless, compensation increases are not granted based on benchmark results alone. The role and responsibility as well as current performance of the individual Executive Committee member is assessed at the same time. A globally applied job-grading fosters internal equity.

The compensation of the Executive Committee is governed by internal regulations such as the total reward policy, the bonus plan, the performance share plan and benefits plans. The compensation of the Executive Committee is reviewed by the NRC annually and, if necessary, adjusted and approved by decision of the Board of Directors based on a proposal by the NRC. The compensation of the Executive Committee is summarized as follows:

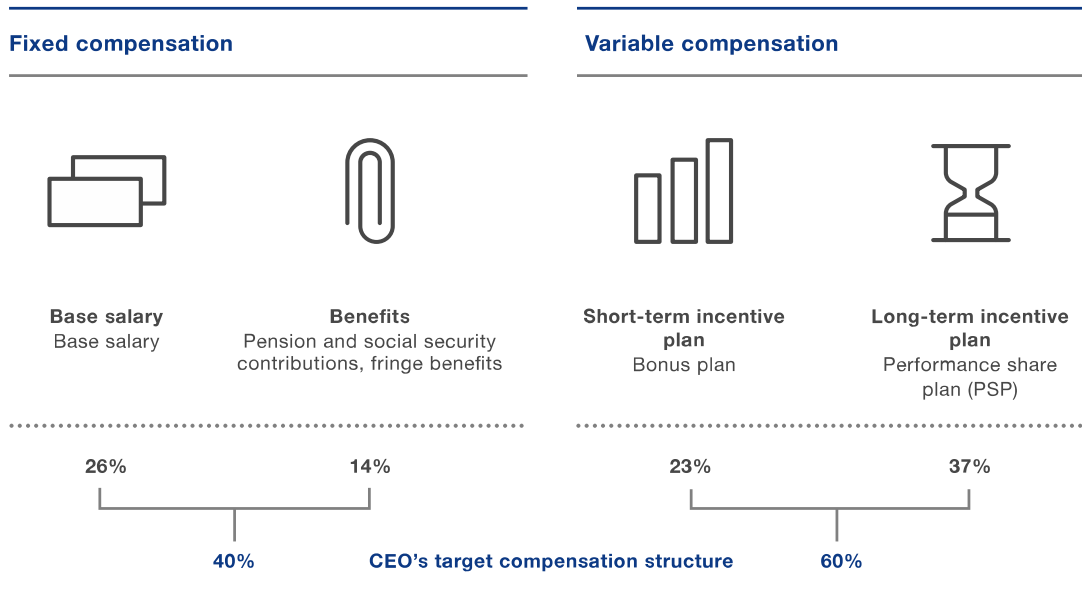
Compensation elements for the members of the Executive Committee

	Base salary	Benefits	Short-term incentive plan (bonus plan)	Long-term incentive plan (PSP 2020)	Share ownership guidelines (SOG)
Main parameters	Function, level of role, profile of incumbent (skill set, experience)	Pension and social security contributions, fringe benefits	Achievement of annual financial and individual objectives	Achievement of long-term, company-wide objectives, share price development	Level of role
Key drivers	Labor market, internal job-grading	Protection against risks, labor market, internal job-grading	Operational profit, sales, operational operating net cash flow (operational ONCF)	Operational profit growth, operational return on average capital employed adjusted (operational ROCEA), relative total shareholder return (TSR)	Share price development
Link to compensation principles	Competitive compensation	Competitive compensation	Pay for performance, strategy alignment	Pay for performance, strategy alignment, ownership	Ownership
Vehicle	Cash	Pension and insurance plans, perquisites	Cash	Performance share units (PSU) settled in shares	Obligation to privately invest in Sulzer shares and to hold these shares until the end of the service period
Amount	Fixed	Fixed	Variable, capped at 200% of target bonus. Target bonus amounts to 90% of annual base salary for the CEO and 60% of annual base salary for the other members of the Executive Committee.	Variable. Grant value is defined based on the Global Grade and corresponds to CHF 1'440'000 for the CEO and between CHF 330'000 and CHF 400'000 for the other members of the Executive Committee (EC). Vesting payout percentage is capped at 250% and vesting value is capped at CHF 3'600'000 for the CEO and at CHF 825'000 for the other members of the EC. Malus and clawback provisions implemented.	CEO: 200% of base salary. Other members of the Executive Committee: 100% of base salary.
Grant/vesting/payment date	Monthly	Monthly and/or annually	March of the following year	Grant ¹⁾ : June 1, 2020 Vesting: December 31, 2022 Share delivery: March 2023	–
Performance period	–	–	1 year (January 1, 2020–December 31, 2020)	3 years (January 1, 2020–December 31, 2022)	–

1) Due to the unstable economic environment caused by COVID-19 at the time of the original grant date, the grant date was postponed from April 1, 2020, to June 1, 2020. The reasoning is described in detail in the COVID-19 report.

The compensation of the Executive Committee contains fixed, performance-independent elements to provide a secure income and to ensure that no unreasonable risks are taken. In order to create reasonable incentives for the Executive Committee, align interests of Executive Committee and shareholders, ensure pay for performance and implement the company's strategy into the Executive Committee's compensation, it contains also short-term and long-term performance-dependent elements:

Overview of compensation elements



In line with the pay-for-performance principle, a significant portion (over 50%) of the compensation of the CEO and the other members of the Executive Committee consists of variable incentives based on performance. Furthermore, the compensation structure ensures sustainable long-term growth as the long-term variable compensation makes up the largest portion of the target total compensation (see “Overview of compensation elements”).

Base salary (fixed, in cash)

The base salary is determined at the discretion of the Board of Directors based on the market value of the respective position and the incumbent’s qualifications, skills set and experience. An internal job grading provides orientation and fosters internal equity.

Benefits

Members of the Executive Committee participate in the regular employee pension fund applicable to all employees in Switzerland. The retirement plan consists of a basic plan that covers annual earnings up to CHF 147'876 per year and a supplementary plan in which income over this limit, up to the ceiling set by law, is insured (including variable cash remuneration). The contributions are age-related and are shared between the employer and the employee.

Furthermore, each member of the Executive Committee is entitled to a representation allowance in line with the expense regulations for all members of management in Switzerland and approved by the tax authorities.

Bonus (variable, performance-based, cash remuneration)

The bonus rewards the financial performance of the company and/or its businesses, as well as the achievement of individual performance objectives over one calendar year. Performance objectives are defined at the beginning of the year during annual target setting. Achievement is assessed against each of those objectives after year-end and directly influences the variable incentive payouts.

Performance appraisal

<p>→ Target setting Definition of two to four individual performance objectives at the beginning of the year</p>	<p>→ Performance assessment Performance assessment at year-end</p>	<p>→ Compensation determination Determination of incentive payouts on the basis of the company's/division's performance and achievement of individual objectives</p>
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The target bonus is expressed as a percentage of annual base salary. It amounts to 90% for the CEO and to 60% for the other members of the Executive Committee. For the CEO and the other members of the Executive Committee, 70% of the bonus is based on the achievement of financial objectives at company and/or division level, and 30% is based on the achievement of individual objectives as described below:

Category	Weight	Objectives	Rationale		CEO/CFO/ CHRO	Division President
Financial performance	70%	Operational profitability	Measure of profitability (bottom line)	Sulzer	25%	7.5%
				Division		17.5%
		Sales	Measure of growth (top line)	Sulzer	25%	7.5%
				Division		17.5%
		Operational operating net cash flow (operational ONCF)	Measure of cash generated by the revenues	Sulzer	20%	6%
				Division		14%
		Cost-effectiveness	Objectives linked to cost reduction or optimization	Individual	15%	15%
Growth initiatives	Include initiatives that support the growth of Sulzer, such as M&A projects, breaking into new markets or new accounts	Individual	5%	5%		
Faster and better	Initiatives focused on the profitability of Sulzer, with objectives linked to speed ("faster") and quality ("better")	Individual	5%	5%		
Individual performance	30%	Environment, Social, Governance (ESG)	Objectives linked to improvements in the areas of environment, employee engagement and local communities, corporate governance	Individual	5%	5%
				Total	100%	100%

The objectives are set within the annual target-setting process. For each financial objective, the following parameters are set upfront:

- An expected level of performance ("target"), the achievement of which leads to a payout factor (on the respective performance metric) of 100%.
- A minimum level of performance ("threshold") below which the respective payout factor is zero.
- A maximum level of performance ("cap") above which the respective payout factor is capped at 200%. With respect to the financial objectives, a performance of 200% of the target figure is required to achieve a payout factor of 200%.

Between threshold and target, as well as between target and cap, the payout factor is interpolated linearly.

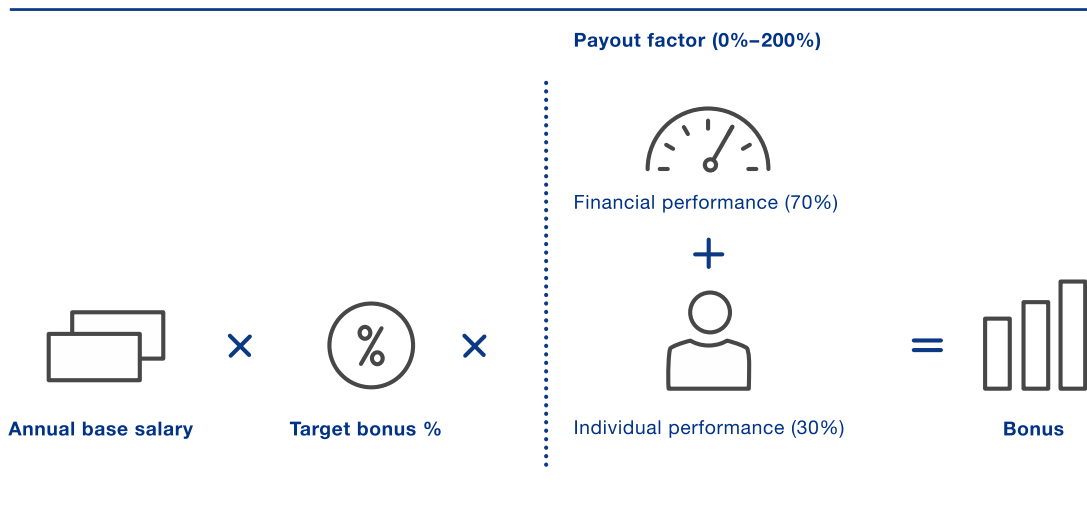
In order to measure individual performance, each Executive Committee member is given different personal objectives for each of the four individual performance categories ("Cost-effectiveness", "Growth initiatives", "Faster and better" and "Environment, Social, Governance (ESG)") at the beginning of the financial year. "Cost-effectiveness", for example, includes objectives like cost saving

(travel spend reduction, real estate costs reduction, etc.) whereas objectives for the category “Faster and better” are, among others, on-time delivery percentage improvement, employee engagement progression (measured through external opinion survey) or health and safety accident frequency rates (AFR) reduction. “Growth initiatives” include, for example, successful completion of M&A actions or sales growth in specific countries. “ESG” includes improvements in health and safety, emissions, water and energy efficiency or initiatives and actions taken to increase employee and community engagement or efforts in R&D for more efficient or sustainable products such as eco-packaging, biopolymers or energy-efficient pumps. The CEO reviews the individual performance based on the personal objectives of each EC member which in turn is reviewed by the NRC, the CEO’s individual performance is assessed by the NRC.

Sulzer strives for transparency in relation to pay for performance. However, further disclosure of financial and individual objectives may create a competitive disadvantage to the company, because it renders sensitive insights into Sulzer’s strategy. To ensure transparency while avoiding competitive risk, Sulzer provides a general performance assessment for each financial objective as well as the aggregated individual performance at the end of the performance cycle (see chapter “[Compensation of the Executive Committee for 2020](#)”).

On the basis of this performance assessment, a payout factor is determined for each financial objective as a result of the actual performance. The weighted average of the resulting payout factors on each performance metric will be multiplied by the target bonus amount to derive the actual bonus which will be paid out in March of the following year.

Bonus calculation



The objectives for the bonus plan are linked to Sulzer’s strategic goal of promoting sustainable and profitable growth of the company. They are chosen to provide different incentives for growth and shareholder value creation.

Strategic link of bonus plan

	Growth	Profitability	Long-term shareholder value creation
Bonus plan	✓	✓	✓
Operational profit		✓	
Sales	✓		
Operational ONCF			✓
Cost-effectiveness		✓	
Growth initiatives	✓		✓
Faster and better		✓	
ESG	✓	✓	✓

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

The long-term shareholder orientation and value creation is incentivized by a performance share plan (PSP) granting performance share units to the members of the Executive Committee. Performance share units (PSU) are a conditional right to a certain number of shares of the company, subject to ongoing employment and to the achievement of strategic/financial performance targets on group level over the three-year performance period. The performance share plan selected participants based on the performance of the company over three years and aligns the interests of the participants with those of the shareholders by delivering a substantial portion of the compensation as company equity. This emphasizes and supports Sulzer's focus on pay for performance and sustainable growth, with a long-term perspective and additional retention effect on employees.

The performance share plan (PSP) is a plan with annual grants and is available exclusively to the members of the Executive Committee and of the Sulzer Management Group. The grant value is determined based on the level of the executive's role and amounts to CHF 1'440'000 for the CEO and to between CHF 330'000 and CHF 400'000 (determined by the Board of Directors) for the other members of the Executive Committee. The number of performance share units (PSU) granted is calculated by dividing the grant value by the three-month volume-weighted average share price before the grant date.

The key performance criteria being measured over the three-year performance period of PSU are:

- Operating income before restructuring, amortization, impairments and non-operational items (operational profit) growth, weighted with 25%;
- Average operational return on capital employed (operational ROCEA), weighted with 25%;
- Relative total shareholder return (TSR) weighted with 50% and measured against two different peer groups: 75% of this part of the performance measurement is based on the performance against international peers measured as percentile ranking, and 25% is based on the performance against the companies of the Swiss Market Index Mid (SMIM) measured as a delta (see "Peer group for relative TSR performance of PSP 2020").

Peer group for relative TSR performance of PSP 2020

International peers

- Andritz
- Ebara
- Flowserve
- ITT
- Kirloskar Brothers
- KSB
- Pentair
- SPX Flow
- Wood Group
- Xylem

Swiss Market Index Mid (SMIM)

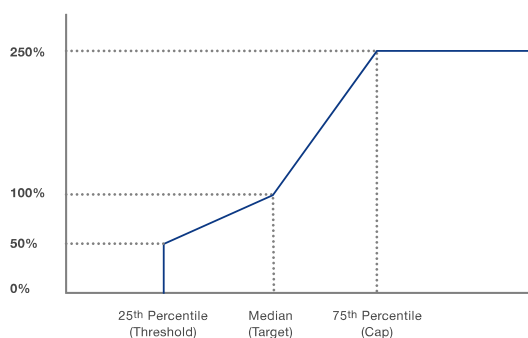
All companies of the SMIM

The Board of Directors can alter the composition of the peer group if deemed necessary, such as in the case of a merger or acquisition or any other change leading to a delisting or a fundamental change in the scope of the business of a peer group company. In such a situation, the Board will select new peer companies. There is a predefined successor list of companies to support the Board of Directors in the selection process. On October 30, the Board decided to adjust the international peer group. Due to Weir Group’s divestment of its oil and gas division, Weir Group was replaced by Andritz, which was the predefined successor.

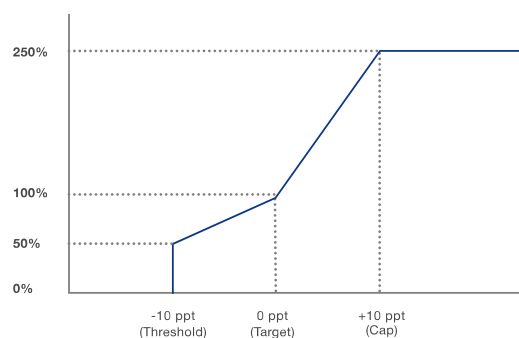
The Board of Directors deems these metrics to be the most relevant key performance indicators for the sustainable development of the Sulzer group, combining growth, profitability and shareholder return in comparison to the relevant peers and markets.

For each performance condition of the PSP, a threshold, target and cap performance level is determined, which in turn determines the achievement factor. Sulzer strives for transparency in relation to pay for performance and discloses all information whose exposure cannot lead to strategic disadvantages.

Relative TSR – Industrial peers



Relative TSR – SMIM



Disclosure of internal financial objectives may create a competitive disadvantage to the company because it renders sensitive insights into Sulzer’s strategy. To ensure transparency while avoiding competitive risk, Sulzer provides a general performance assessment for each performance criteria at the end of the performance cycle based on the following metric (see chapter “[Compensation of the Executive Committee for 2020](#)”).

Level of performance	Achievement factor
• Below threshold	0%
• Threshold	50%
• Target	100%
• Cap	250%
• Points in between	Linear interpolation

On the vesting date, the number of vested PSU is calculated by multiplying the initial number of PSU granted by the weighted average of the achievement factor of each performance condition. For each vested PSU, a Sulzer share will be delivered to the participant.

Number of PSU vested

Number of PSU granted	×	Achievement operational profit growth (0–250%)x25%	+	Achievement average operational ROCEA (0–250%)x25%	+	Achievement relative TSR (0–250%)x50%	=	Number of PSU vested
<p>Number of PSU granted Grant values are defined based on the level of the role:</p> <ul style="list-style-type: none"> • CEO: CHF 1'440'000 • EC: CHF 330'000 to CHF 400'000 		<p>Factor based on operational profit growth operational profit growth is the percentage change between operational profit in the last fiscal year before the start of the performance period and operational profit in the last fiscal year of the performance period.</p>		<p>Factor based on average operational ROCEA Average operational ROCEA is the sum of adjusted operational ROCE based on audited figures in each fiscal year of the performance period, divided by the number of such years.</p>		<p>Factor based on relative TSR Relative TSR is defined as share price growth plus dividends during the vesting period divided by the ending share price, measured against peers.</p>		<p>Number of PSU vested The maximum vesting value is capped at a multiple of the value at grant:</p> <ul style="list-style-type: none"> • CEO: CHF 3'600'000 • EC: CHF 825'000 to CHF 1'000'000

However, while the above-mentioned performance assessment impacts the number of PSU vested and, consequently, the number of shares delivered, there might also be an increase in value per share over the three-year performance period, which may have a relevant impact on the actually delivered total value after three years. Therefore, the number of vested PSU is subject to an absolute value cap representing, in each case, 2.5 times the original grant value.

The objectives for the PSP are linked to Sulzer's strategic goal of promoting sustainable and profitable growth of the company. They are chosen to provide different incentives for growth and shareholder value creation.

Strategic link of PSP

	Growth	Profitability	Long-term shareholder value creation
PSP	✓	✓	✓
Operational profit growth	✓	✓	✓
Operational ROCEA		✓	
Relative TSR	✓	✓	✓

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

Type of termination	Provision
By the employer for cause	Unvested PSU forfeit.
As a result of retirement	Vesting and performance measurement of PSU continues according to plan, no early allocation of the shares.
Any other reason	The number of unvested PSU vest on a pro rata basis (number of months between grant date and termination date) according to the achievement factor at the end of the vesting period. There is no early allocation of the shares.

Upon the occurrence of a change of control, PSU will vest immediately on a pro rata basis, subject to a performance assessment by the Board of Directors. In such a case, the Board of Directors may also determine a cash settlement of the awards.

Malus and clawback

The Board of Directors may determine that a PSU is forfeited in full or in part (malus) or that a vested award will be recovered in full or in part (clawback) in situations of material misstatement of the financial results, an error in assessing a performance condition or in the information or assumptions on which the award was granted or vested, serious reputational damage to the company, gross negligence, or willful misconduct on the part of the participant.

Further information on share-based compensation can be found in [note 31](#) to the “Consolidated Financial Statements of Sulzer Ltd”.

Contracts of employment

The employment contracts of the Executive Committee are of undetermined duration and have a notice period of maximum 12 months. Members of the Executive Committee are not entitled to any impermissible severance or change of control payments. The employment contracts of the Executive Committee may include non-competition agreements with a time limit of one year and with a maximum total compensation of one annual target compensation.

Shareholding requirements

Beginning 2020, shareholding requirements for members of the Executive Committee have been introduced. According to these share ownership guidelines (SOG) the members of the Executive Committee are obliged to hold part of their shares until the end of their service period. The value of the shares to be held is set at 200% of the annual gross base salary for the CEO and 100% of the annual gross base salary for the other members of the Executive Committee.

Function	Shareholding requirement in % of base salary
CEO	200%
Other EC members	100%

Compensation of the Executive Committee for 2020

In 2020, the Executive Committee received a total compensation of CHF 14'647'266 (previous year: CHF 15'370'180). Of this total, CHF 7'297'984 was in cash (previous year: CHF 6'845'153); CHF 5'237'982 was in PSU (previous year: CHF 6'290'403); CHF 1'964'563 was in pension and social security contributions (previous year: CHF 1'908'991), and CHF 146'738 was in other payments (previous year: CHF 325'632).

Compensation of the Executive Committee (audited)

2020							
thousands of CHF	Cash compensation					Deferred compensation based on future performance	
	Base salary	Bonus ²⁾	Other ³⁾	Pension and social security contributions ⁴⁾	Total cash-based compensation	Estimated value of share-based grant under the performance share plan (PSP) ⁵⁾	Total (incl. conditional share-based grant)
Highest single compensation, Greg Poux-Guillaume, CEO	1'021	1'141	82	491	2'735	2'601	5'335
Total Executive Committee¹⁾	4'071	3'227	147	1'965	9'409	5'238	14'647

2019							
thousands of CHF	Cash compensation					Deferred compensation based on future performance	
	Base salary	Bonus ²⁾	Other ³⁾	Pension and social security contributions ⁴⁾	Total cash-based compensation	Estimated value of share-based grant under the performance share plan (PSP) ⁵⁾	Total (incl. conditional share-based grant)
Highest single compensation, Greg Poux-Guillaume, CEO	1'021	1'183	67	493	2'765	2'709	5'474
Total Executive Committee¹⁾	3'663	3'182	326	1'909	9'080	6'290	15'370

1) The total Executive Committee compensation for 2020 and 2019 includes the compensation of Greg Poux-Guillaume, CEO since December 1, 2015; Jill Lee, CFO since April 2018; Daniel Bischofberger, Division President Rotating Equipment Services since September 2016; Torsten Wintergerste, Division President Chemtech since June 2016; Armand Sohet, Chief Human Resources Officer since March 2016; Frédéric Lalanne, Division President Pumps Equipment since January 2019; Girts Cimermans, Division President Applicator Systems since October 21, 2019.

2) Expected bonus for the performance years 2020 and 2019 respectively, to be paid out in the following year (accrual principle).

3) Other consists of housing allowances, relocation allowance, schooling allowances, tax services and child allowances.

4) Includes the employer contribution to social security (including the expected employer contributions on equity awards), based on the fair value of all grants made in 2020 and 2019, respectively (PSP).

5) Represents the full fair value of the PSU granted under the PSP in 2020 and 2019, respectively (including regular annual grants as well as a one-off special grant as outlined in the 2019 compensation report, which was granted on the same date and based on the same reference price as the regular annual grants). PSU granted in 2020 had a fair value of CHF 78.18 at grant date, based on a third-party fair value calculation. While the share price to convert the grant value into a number of granted PSU is based on the three-month weighted average share price before the grant date (CHF 64.93 per PSU for June 2020 grants), the disclosed fair values are calculated on the grant dates by using market value approaches, which typically leads to differences between the original grant value according to the compensation architecture and the disclosed fair market values.

The total compensation of CHF 14'647'266 awarded to the members of the Executive Committee for the 2020 financial year is within the maximum aggregate compensation amount of CHF 21'505'000 that was approved by the shareholders at the 2019 AGM.

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

As of December 31, 2019, and December 31, 2020, there were no outstanding loans or credits granted to the members of the Executive Committee or former members of the Executive Committee (audited).

In 2019 and 2020, no compensation was granted to former members of the Executive Committee or related parties (audited).

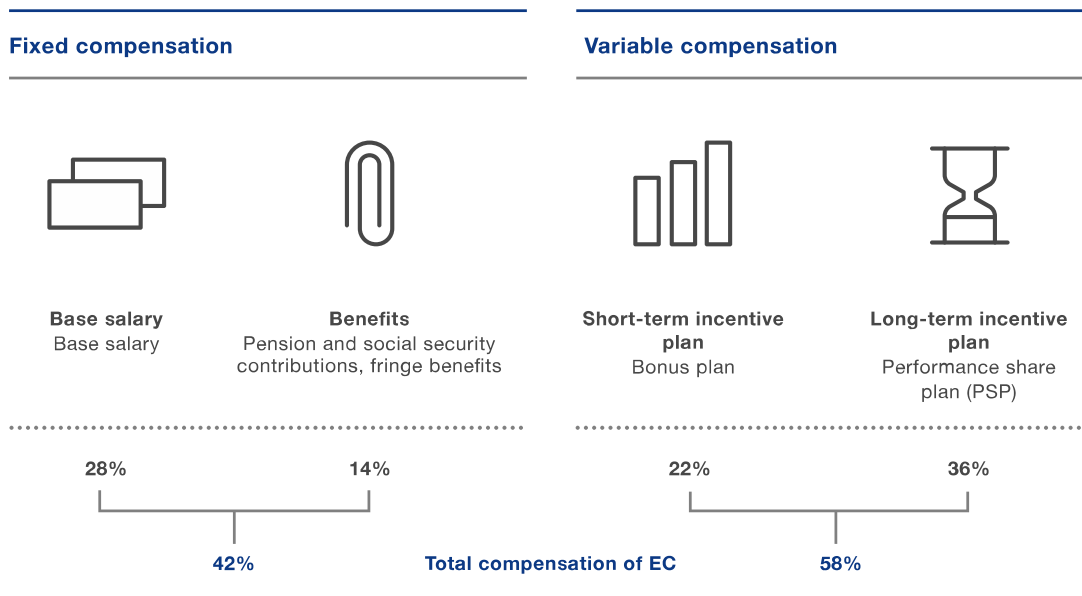
Compensation for the Executive Committee: pay-for-performance assessment

With the acquisition of drug delivery device developer and manufacturer Haselmeier in October 2020, Sulzer successfully progressed on its expansion path.

In the following, we elaborate further on how the relevant business performance impacted the variable compensation models of our Executive Committee. More detailed information about Sulzer’s operational and strategic performance in 2020 can be found in the financial report.

a) Total compensation and pay for performance relation

Total compensation of Executive Committee



In 2020, the Executive Committee received a total compensation of CHF 14'647'266 (previous year: CHF 15'370'180). This is an overall decrease of 4.7% from the previous year and 11.2% like for like, considering we have increased the number of Executive Committee members by one at year-end 2019. In comparison to 2019, there was no special grant under the PSP for EC members except for the CEO, for whom the special grant was spread over 2019 and 2020 (for details see [special report 2019](#)).

For the entire Executive Committee, the variable component amounted to between 95% and 235% of the fixed component (base salary, other, pension and social security contributions). This pay for performance relation reflects Sulzer’s high-performance orientation. Further, it represents the

company's strong emphasis on aligning the interests of the Executive Committee and the shareholders to create long-term shareholder value and profitable growth.

On a like-for-like basis (EC members employed in both 2020 and 2019), the base salaries of the EC members remained unchanged. Regarding cash bonus payments and LTI amounts, see the following paragraphs.

b) Short-term incentive (cash bonus payouts)

In 2020, Sulzer again made good progress towards its transformation goals. We grew organically but also through acquisitions in all divisions. Due to the impacts of COVID-19, the NRC decided to make minor adjustments to the short-term incentive, which are described in detail in the [COVID-19 report](#). The financial component of the bonus ranged from 100% to 113% of targeted payout (on average 110%), and significant progress on our transformation path led to a high level of achievement of individual objectives. The financial performance on group level was as follows:

KPI	Weighting	Payout factor
Operational profitability	25%	85%
Sales	25%	72%
Operational ONCF	20%	200% ¹⁾
Total	70%	113%

1) Actual operational ONCF overachieved in 2020, therefore the maximum payout factor was capped at 200%.

The individual performance ranged from 100% to 150% to consider the exceptional team performance.

Overall, this translated into an overall bonus payout factor ranging from 103% to 124% (on average 115%) for the members of the Executive Committee.

c) Long-term incentive (PSP)

We are convinced that the conditional awards to receive Sulzer shares, subject to operational return on capital employed (operational ROCEA), operating income before restructuring, amortization, impairments and non-operational items (operational profit) and total shareholder return (TSR) performance as well as ongoing employment through the three-year vesting period:

- constitutes a very attractive element of variable long-term remuneration for our key management;
- supports and underlines the company's focus on excellent, sustainable performance;
- and provides for a strong alignment of interests with shareholders – also in the longer term.

The PSP framework (apart from the specific performance targets for each grant cycle), eligibility and grant entitlement remained unchanged in 2020 compared to previous years.

The CEO was granted the second tranche of the special grant under the PSP which was granted to the EC in 2019 due to the exceptional performance during and after the US sanctions in 2018, and which was spread over 2019 and 2020 for the CEO (for details see [special report 2019](#)).

The special grants in 2019 for the EC members and in 2020 for the CEO are included in the PSP grant amounts disclosed in the above compensation tables.

With the 2018 performance share plan vesting on December 31, 2020, the COVID-19 impacts on Sulzer's performance are fully reflected in the Executive Committee's long-term compensation which accounts for the largest share of the Executive Committee's variable compensation.

The relevant key performance indicators (KPIs) were operating income before restructuring, amortization, impairments and non-operational items (operational profit) growth, operational return on capital employed (operational ROCEA) and relative total shareholder return (TSR) over the three-year period from 2018 to 2020. Operational performance in this period was very good, even beyond expectations. The result was a total payout factor of 126% for the PSP 2018, which reflects growth and performance, both against budget targets and against market peers, in the three-year period from 2018 to 2020. The total payout factor results as follows:

KPI	Weighting	Payout factor
Operational profit	25%	100%
Operational ROCEA	25%	162%
Relative TSR	50%	120%
Total	100%	126%

Overall, the PSP vesting levels fairly reflected the operational performance, also against direct peers, over the respective three-year performance cycles, so Sulzer fully achieved the desired strong link between sustainable company performance and competitive long-term incentive payouts.

Shareholdings of the Executive Committee

As of the end of 2019 and 2020, the members of the Executive Committee held the following shares in the company:

Shareholdings at December 31, 2020

	2020				
	Sulzer shares	Share units under vesting in equity plans (RSU and PSP)			
	Sulzer shares	Restricted share units (RSU)	Performance share units (PSU) 2018	Performance share units (PSU) 2019	Performance share units (PSU) 2020
Executive Committee	92'944	–	28'133	54'251	66'999
Greg Poux-Guillaume	58'062	–	12'820	23'363	33'267
Daniel Bischofberger	6'233	–	2'938	6'491	6'161
Girts Cimermans	–	–	–	705	5'083
Frédéric Lalanne	6'955	–	2'938	6'491	6'161
Jill Lee	7'945	–	3'561	6'491	6'161
Armand Sohet	6'624	–	2'938	5'355	5'083
Torsten Wintergerste	7'125	–	2'938	5'355	5'083

Shareholdings at December 31, 2019

	2019				
	Sulzer shares	Share units under vesting in equity plans (RSU and PSP)			
	Sulzer shares	Restricted share units (RSU)	Performance share units (PSU) 2017	Performance share units (PSU) 2018	Performance share units (PSU) 2019
Executive Committee	68'838	–	25'292	28'133	54'251
Greg Poux-Guillaume	46'181	–	13'196	12'820	23'363
Daniel Bischofberger	2'562	–	3'024	2'938	6'491
Girts Cimermans	–	–	–	–	705
Frédéric Lalanne	4'492	–	3'024	2'938	6'491
Jill Lee	7'945	–	–	3'561	6'491
Armand Sohet	4'204	–	3'024	2'938	5'355
Torsten Wintergerste	3'454	–	3'024	2'938	5'355

Compensation architecture for the Board of Directors

The compensation of the Board of Directors is fixed and does not contain any performance-based variable component. This ensures that the Board of Directors is truly independent in fulfilling its supervisory duties towards the Executive Committee.

The compensation of the Board of Directors is governed by a compensation regulation, is reviewed by the Nomination and Remuneration Committee (NRC) annually and, if necessary, adjusted by a decision of the full Board of Directors based on a proposal by the NRC.

The compensation of the Board of Directors consists of a fixed cash component and a restricted share unit (RSU) component with a fixed grant value. Each RSU represents a right to receive a Sulzer share free of charge after a certain period, as further detailed below. Further, Board members are entitled to a lump sum to cover business expenses. The RSU component strengthens the long-term alignment of the interests of the Board members with those of the shareholders. To reinforce the focus of the Board of Directors on the long-term strategy and to strengthen its independence from the Executive Committee, the compensation of the Board of Directors contains no performance-related elements and Board members are not entitled to pension benefits.

The amount of compensation for the Chairman and for the other members of the Board of Directors is determined based on the relevant compensation benchmarks. The compensation reflects the responsibility and complexity of their respective function, the professional and personal requirements placed on them, and the expected time required to fulfill their duties. The ongoing Board compensation structure and amounts are described in the table below:

Annual compensation of the Board of Directors¹⁾

in CHF	Cash component (net of social security contributions)	Grant value of restricted share units (net of social security contributions)	Lump-sum expenses
Base fee for Board Chairmanship ²⁾	420'000	250'000	10'000
Base fee for Board Vice Chairmanship	100'000	155'000	5'000
Base fee for Board membership	70'000	125'000	5'000
Additional committee fees:			
Committee Chairmanship	60'000		
Committee membership	35'000		

1) Compensation for the period of service (from AGM to AGM).

2) The Chairman of the Board of Directors does not receive additional remuneration for committee activities.

The members of the Board of Directors are remunerated for their service during their term of office (from AGM to AGM). The cash remuneration is paid in quarterly installments for Board members and monthly installments for the Chairman; the expense lump sum is paid out in December and the RSU are granted once a year. The number of RSU is determined by dividing the fixed grant value by the volume-weighted average share price of the last ten trading days before the grant date, which lies between the date of the publication of the year-end results and the Annual General Meeting. One-third of the RSU each vest after the first, second and third anniversaries of the grant date respectively.

Upon vesting, one vested RSU is converted into one share of the company. The vesting period for RSU granted to the members of the Board of Directors ends no later than on the date on which the member steps down from the Board. Although the value of the RSU grant is fixed (at grant), it then fluctuates with the share price during the vesting period, which means that the value at vesting can differ from the value at grant.

Compensation of the Board of Directors for 2020

In 2020, the Board of Directors received a total compensation of CHF 2'807'649 (previous year: CHF 2'542'208). Of this total, CHF 1'395'856 was in the form of cash fees (previous year: CHF 1'281'957); CHF 1'155'000 was in RSU (previous year: CHF 1'030'000) and CHF 256'793 was in the form of social security contributions (previous year: CHF 230'251).

The aggregate Board compensation paid in 2020 was 10.4% higher than in 2019, which is due to the appointment of Mr. Alexey Moskov as a new member of the Board in 2020, thus returning to the former size of the Board of Directors. Nevertheless, the aggregated Board compensation was still below the maximum aggregate compensation for the Board, which was approved at the AGM 2020 and remained flat for the second consecutive year. The structure and level of the Board compensation remained unchanged compared with the previous year.

The portion of compensation delivered in restricted share units (RSU) amounts to 56% of the cash compensation for the Chairman, and to between 72% and 149% for the other active members of the Board of Directors. The RSU are subject to a staged three-year vesting period.

Compensation of the Board of Directors (audited)

thousands of CHF	2020				2019			
	Cash fees ²⁾	Restricted share unit (RSU) plan ³⁾	Social security contributions ⁴⁾	Total	Cash fees ²⁾	Restricted share unit (RSU) plan	Social security contributions ⁴⁾	Total
Board of Directors	1'396	1'155	257	2'808	1'282	1'030	230	2'542
Peter Löscher, Chairman	447	250	66	763	446	250	64	760
Matthias Bichsel, Vice Chairman	142	155	27	324	140	155	32	327
Lukas Braunschweiler	112	125	26	264	109	125	26	260
Mikhail Lifshitz	112	125	26	264	109	125	26	260
Alexey Moskov ¹⁾	84	125	25	234	-	-	-	-
Marco Musetti	150	125	29	304	144	125	28	297
Gerhard Roiss	173	125	26	324	165	125	25	315
Hanne Birgitte Breinbjerg Sørensen	176	125	31	332	168	125	30	323

1) Member of the Board of Directors since April 15, 2020.

2) Disclosed gross.

3) RSU awards granted in 2020 had a fair value of CHF 65.22 at grant date. The amount represents the full fair value of grants made in 2020.

4) The amount includes mandatory social security contributions on the cash fees and estimated contributions on the RSU (based on their fair value at grant) and includes both the employer and employee contributions paid by the company on behalf of the Board members.

At the 2020 and 2019 AGM respectively, shareholders approved a maximum aggregate compensation amount of CHF 2'984'000 for the Board of Directors for the period of office from the 2020 AGM until the 2021 AGM and of CHF 2'984'000 for the period of office from the 2019 AGM until the 2020 AGM. The table below shows the reconciliation between the compensation that is/will be paid out for the two periods of office and the maximum aggregate compensation amounts approved by the shareholders.

Reconciliation between the reported Board compensation and the amount approved by the shareholders at the Annual General Meeting

	Compensation earned during financial year as reported (A)	Minus compensation earned from Jan to AGM of financial year (B)	Plus compensation accrued from Jan to AGM of year following financial year (C)	Total compensation earned for the period from AGM to AGM (A-B+C)	Amount approved by shareholders at respective AGM	Ratio between compensation earned for the period from AGM to AGM versus amount approved by shareholders
AGM 2020–AGM 2021	2020	Jan 1, 2020 to 2020 AGM	Jan 1, 2021 to 2021 AGM	2020 AGM to 2021 AGM	2020 AGM	2020 AGM
Board (total)	2'807'649	354'839	391'405	2'844'215	2'984'000	95.3%
AGM 2019–AGM 2020	2019	Jan 1, 2019 to 2019 AGM	Jan 1, 2020 to 2020 AGM	2019 AGM to 2020 AGM	2019 AGM	2019 AGM
Board (total)	2'542'208	324'428	354'767	2'572'548	2'984'000	86.2%

As of December 31, 2019, and December 31, 2020, there were no outstanding loans or credits granted to the members of the Board of Directors, former members of the Board of Directors or related parties (audited).

In 2019 and 2020, no compensation was granted to former members of the Board of Directors or related parties (audited).

Shareholdings of the Board of Directors

As of the end of 2019 and 2020, the members of the Board of Directors held the following shares in the company:

Shareholdings at December 31, 2020

	2020		
	Sulzer shares	Restricted share units (RSU)	Total share awards and shares
Board of Directors	56'020	27'510	83'530
Peter Löscher	19'437	6'210	25'647
Matthias Bichsel	8'238	3'853	12'091
Lukas Braunschweiler	1'097	3'106	4'203
Mikhail Lifshitz	4'781	3'106	7'887
Alexey Moskov	–	1'917	1'917
Marco Musetti	8'639	3'106	11'745
Gerhard Roiss	13'012	3'106	16'118
Hanne Birgitte Breinbjerg Sorensen	816	3'106	3'922

Shareholdings at December 31, 2019

	2019		
	Sulzer shares	Restricted share units (RSU)	Total share awards and shares
Board of Directors	47'461	18'549	66'010
Peter Löscher	17'121	4'692	21'813
Matthias Bichsel	6'801	2'911	9'712
Lukas Braunschweiler	335	1'951	2'286
Mikhail Lifshitz	3'622	2'348	5'970
Marco Musetti	7'480	2'348	9'828
Gerhard Roiss	11'853	2'348	14'201
Hanne Birgitte Breinbjerg Sorensen	249	1'951	2'200



Report of the Statutory Auditor

To the General Meeting of Sulzer Ltd, Winterthur

We have audited the compensation report of Sulzer Ltd for the year ended December 31, 2020. The audit was limited to the information according to articles 14–16 of the Ordinance against Excessive compensation in Stock Exchange Listed Companies (Ordinance) contained in the tables and sections labeled “audited” in the chapters “[Compensation of the Executive Committee for 2020](#)” and “[Compensation of the Board of Directors for 2020](#)” of the compensation report.

Responsibility of the Board of Directors

The Board of Directors is responsible for the preparation and overall fair presentation of the compensation report in accordance with Swiss law and the Ordinance against Excessive compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

Auditor’s Responsibility

Our responsibility is to express an opinion on the compensation report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the compensation report complies with Swiss law and articles 14–16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the compensation report with regard to compensation, loans and credits in accordance with articles 14–16 of the Ordinance. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatements in the compensation report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the compensation report.

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

Opinion

In our opinion, the compensation report for the year ended December 31, 2020 of Sulzer Ltd complies with Swiss law and articles 14–16 of the Ordinance.

KPMG AG

Rolf Hauenstein
Licensed Audit Expert
Auditor in Charge

Simon Niklaus
Licensed Audit Expert

Zurich, February 23, 2021

KPMG AG, Räflestrasse 28, CH-8036 Zurich

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Consolidated income statement

January 1 – December 31

millions of CHF	Notes	2020	2019
Sales	3, 20	3'319.0	3'728.5
Cost of goods sold		-2'325.4	-2'607.3
Gross profit		993.6	1'121.2
Selling and distribution expenses		-339.2	-374.6
General and administrative expenses		-378.0	-408.5
Research and development expenses	10	-84.1	-85.6
Other operating income and expenses, net	11	-41.6	-11.5
Operating income (EBIT)		150.6	241.0
Interest and securities income	12	4.1	6.6
Interest expenses	12	-25.2	-24.9
Other financial income and expenses, net	12	-7.0	-10.0
Share of profit and loss of associates	17	-0.7	0.1
Income before income tax expenses		121.8	212.8
Income tax expenses	13	-34.6	-55.1
Net income		87.2	157.7
attributable to shareholders of Sulzer Ltd		83.6	154.0
attributable to non-controlling interests		3.6	3.7
Earnings per share (in CHF)			
Basic earnings per share	25	2.46	4.52
Diluted earnings per share	25	2.44	4.48

Consolidated statement of comprehensive income

January 1 – December 31

millions of CHF	Notes	2020	2019
Net income		87.2	157.7
Items that may be reclassified subsequently to the income statement			
Cash flow hedges, net of tax	29	10.1	4.3
Currency translation differences		-133.5	-63.9
Total of items that may be reclassified subsequently to the income statement		-123.4	-59.6
Items that will not be reclassified to the income statement			
Remeasurements of defined benefit obligations, net of tax	9	8.0	-24.8
Total of items that will not be reclassified to the income statement		8.0	-24.8
Total other comprehensive income		-115.4	-84.4
Total comprehensive income for the period		-28.2	73.3
attributable to shareholders of Sulzer Ltd		-30.5	69.5
attributable to non-controlling interests		2.3	3.7

Consolidated balance sheet

December 31

millions of CHF	Notes	2020	2019
Non-current assets			
Goodwill	14	957.7	920.8
Other intangible assets	14	401.0	430.1
Property, plant and equipment	15	545.3	544.4
Lease assets	16	121.2	112.6
Associates	17	21.2	10.7
Other non-current financial assets	18	10.6	12.6
Non-current receivables		4.3	6.3
Deferred income tax assets	13	154.5	134.4
Total non-current assets		2'215.9	2'172.0
Current assets			
Inventories	19	515.1	574.9
Current income tax receivables		33.4	22.8
Advance payments to suppliers		59.9	73.6
Contract assets	20	324.9	355.2
Trade accounts receivable	21	599.1	645.9
Other current receivables and prepaid expenses	22	202.2	172.0
Current financial assets	18	305.1	57.5
Cash and cash equivalents	23	1'123.2	1'035.5
Total current assets		3'162.8	2'937.5
Total assets		5'378.7	5'109.5
Equity			
Share capital	24	0.3	0.3
Reserves		1'404.0	1'580.4
Equity attributable to shareholders of Sulzer Ltd		1'404.3	1'580.7
Non-controlling interests		12.9	13.1
Total equity		1'417.2	1'593.9
Non-current liabilities			
Non-current borrowings	26	1'491.3	1'199.2
Non-current lease liabilities	16	90.2	82.3
Deferred income tax liabilities	13	88.5	79.4
Non-current income tax liabilities	13	4.8	2.6
Defined benefit obligations	9	227.4	201.0
Non-current provisions	27	65.8	73.4
Other non-current liabilities		21.9	6.2
Total non-current liabilities		1'989.9	1'644.1
Current liabilities			
Current borrowings	26	231.8	131.0
Current lease liabilities	16	29.5	27.4
Current income tax liabilities	13	38.7	33.3
Current provisions	27	183.5	135.3
Contract liabilities	20	300.5	344.8
Trade accounts payable		465.8	522.4
Other current and accrued liabilities	28	721.9	677.3
Total current liabilities		1'971.7	1'871.5
Total liabilities		3'961.6	3'515.6
Total equity and liabilities		5'378.7	5'109.5

Consolidated statement of changes in equity

January 1 – December 31

millions of CHF	Notes	Attributable to shareholders of Sulzer Ltd					Total	Non-controlling interests	Total equity
		Share capital	Retained earnings	Treasury shares	Cash flow hedge reserve	Currency translation adjustment			
Equity as of January 1, 2019		0.3	2'123.6	-34.0	-8.6	-451.4	1'629.9	11.2	1'641.0
Comprehensive income for the period:									
Net income			154.0				154.0	3.7	157.7
– Cash flow hedges, net of tax	29	–	–	–	4.3	–	4.3	–	4.3
– Remeasurements of defined benefit obligations, net of tax	9	–	-24.8	–	–	–	-24.8	–	-24.8
– Currency translation differences		–	–	–	–	-63.9	-63.9	0.0	-63.9
Other comprehensive income		–	-24.8	–	4.3	-63.9	-84.4	0.0	-84.4
Total comprehensive income for the period		–	129.1	–	4.3	-63.9	69.5	3.7	73.3
Transactions with owners of the company:									
Allocation of treasury shares to share plan participants		–	-19.6	19.6	–	–	–	–	–
Purchase of treasury shares	24	–	–	-11.1	–	–	-11.1	–	-11.1
Share-based payments	31	–	11.7	–	–	–	11.7	–	11.7
Dividends	24	–	-119.2	–	–	–	-119.2	-1.7	-121.0
Equity as of December 31, 2019	24	0.3	2'125.4	-25.6	-4.3	-515.1	1'580.7	13.1	1'593.9
Equity as of January 1, 2020		0.3	2'125.4	-25.6	-4.3	-515.1	1'580.7	13.1	1'593.9
Comprehensive income for the period:									
Net income			83.6				83.6	3.6	87.2
– Cash flow hedges, net of tax	29	–	–	–	10.1	–	10.1	–	10.1
– Remeasurements of defined benefit obligations, net of tax	9	–	8.0	–	–	–	8.0	–	8.0
– Currency translation differences		–	–	–	–	-132.3	-132.3	-1.2	-133.5
Other comprehensive income		–	8.0	–	10.1	-132.3	-114.1	-1.2	-115.4
Total comprehensive income for the period		–	91.6	–	10.1	-132.3	-30.5	2.3	-28.2
Transactions with owners of the company:									
Allocation of treasury shares to share plan participants		–	-10.4	10.4	–	–	–	–	–
Purchase of treasury shares	24	–	–	-23.1	–	–	-23.1	–	-23.1
Share-based payments	31	–	13.2	–	–	–	13.2	–	13.2
Dividends	24	–	-136.1	–	–	–	-136.1	-2.6	-138.7
Equity as of December 31, 2020	24	0.3	2'083.8	-38.3	5.9	-647.4	1'404.3	12.9	1'417.2

Consolidated statement of cash flows

January 1 – December 31

millions of CHF	Notes	2020	2019
Cash and cash equivalents as of January 1		1'035.5	1'095.2
Net income		87.2	157.7
Interest and securities income	12	-4.1	-6.6
Interest expenses	12	25.2	24.9
Income tax expenses	13	34.6	55.1
Depreciation, amortization and impairments	14, 15, 16	177.5	171.5
Income from disposals of tangible and intangible assets	11, 15, 16	-3.0	-0.4
Changes in inventories		29.7	82.8
Changes in advance payments to suppliers		19.2	7.0
Changes in contract assets		4.2	-148.4
Changes in trade accounts receivable		21.3	-22.7
Changes in contract liabilities		-33.8	89.5
Changes in trade accounts payable		-29.6	-8.0
Change in provision for employee benefit plans		44.3	-7.0
Changes in provisions		48.9	-1.6
Changes in other net current assets		-9.7	-6.1
Other non-cash items		42.5	5.2
Interest received		4.2	6.6
Interest paid		-21.0	-21.5
Income tax paid		-68.8	-58.6
Total cash flow from operating activities		368.7	319.6
Purchase of intangible assets	14	-7.5	-6.0
Sale of intangible assets	14	0.1	0.5
Purchase of property, plant and equipment	15	-98.0	-108.9
Sale of property, plant and equipment	15	8.9	8.1
Acquisitions of subsidiaries, net of cash acquired	4	-108.2	-78.5
Acquisitions of associates	17	-6.7	-0.0
Dividends from associates	17	0.0	0.1
Purchase of other non-current financial assets	18	-3.3	-1.1
Sale of other non-current financial assets	18	1.0	0.4
Purchase of current financial assets	18	-370.4	-57.4
Sale of current financial assets	18	122.3	-
Total cash flow from investing activities		-461.8	-242.6
Dividends paid to shareholders of Sulzer Ltd	24	-92.6	-81.2
Dividends paid to non-controlling interests in subsidiaries		-2.6	-1.7
Purchase of treasury shares		-23.1	-11.1
Payments of lease liabilities	16	-39.2	-34.0
Proceeds from non-current borrowings	26	498.9	0.3
Repayments of non-current borrowings	26	-0.0	-0.0
Proceeds from current borrowings	26	72.2	153.8
Repayments of current borrowings	26	-177.1	-149.2
Total cash flow from financing activities		236.5	-123.2
Exchange losses on cash and cash equivalents		-55.7	-13.5
Net change in cash and cash equivalents		87.7	-59.7
Cash and cash equivalents as of December 31	23	1'123.2	1'035.5

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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, 2020, comprise the company and its subsidiaries (together referred to as the “group” and individually as the “subsidiaries”) and the group’s interest in associates and joint ventures. The group specializes in pumping, agitation, mixing, separation and application technologies for fluids of all types. Sulzer was founded in 1834 in Winterthur, Switzerland, and employs around 15’000 people. The company serves clients in over 180 production and service sites around the world. Sulzer Ltd is listed on the SIX Swiss Exchange in Zurich, Switzerland (symbol: SUN).

The 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 23, 2021.

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

2 Significant events and transactions during the reporting period

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

- COVID-19 dominated the world stage in 2020. The lockdowns led to a standstill of public life in many countries, limited access to customer sites, travel restrictions and challenges in supply chain and sales channels. As a consequence, the group has updated the budget and the three-year strategic plan, relevant for the goodwill impairment test (see [note 5](#) and [note 14](#)). As another consequence, the group has reassessed the expected credit losses, relevant for the calculation of the allowance for doubtful trade accounts receivable, by applying updated forward-looking information such as development of gross domestic product (GDP) and oil price development (see [note 21](#)).
- On October 1, 2020, Sulzer acquired a 100% controlling interest of Haselmeier AG (“Haselmeier”) for CHF 119.2 million. The headquarters of Haselmeier is located in Stuttgart, Germany. Haselmeier employs approximately 230 people and is an own-IP provider of drug delivery devices such as subcutaneous self-injection pens for use in fast-growing indications such as reproductive health, growth disorders, osteoporosis and diabetes. With the acquisition of Haselmeier, the group will complement its healthcare portfolio and leverage its expertise in precision injection molding. The acquisition resulted in an increase in goodwill of CHF 60.4 million and other intangible assets of CHF 39.8 million at the date of acquisition (see [note 4](#)).
- The group launched decisive measures to mitigate the impact of market disruptions on Energy-related business activities early in 2020. The group recognized restructuring costs of CHF 58.0 million (2019: CHF 23.4 million), partly offset by released restructuring provisions of CHF 2.2 million (2019: CHF 0.2 million) (see [note 27](#)). Associated with restructuring initiatives, the group further recognized impairments on tangible and intangible assets of CHF 9.8 million (2019: CHF 4.4 million) (see [note 14](#), [note 15](#) and [note 16](#)). These mainly relate to the closure or resizing of sites in Europe and the Americas, as well as the resizing of supporting resources.

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

3 Segment information

Segment information by divisions

millions of CHF	Pumps Equipment		Rotating Equipment Services		Chemtech		Applicator Systems	
	2020	2019	2020	2019	2020	2019	2020	2019
Order intake (unaudited)¹⁾	1'297.6	1'458.9	1'130.8	1'193.2	620.8	670.0	364.8	425.1
Nominal growth (unaudited)	-11.1%	6.3%	-5.2%	7.5%	-7.3%	11.6%	-14.2%	-5.4%
Currency-adjusted growth (unaudited)	-4.1%	8.3%	2.5%	10.7%	-1.1%	12.8%	-11.0%	-4.3%
Organic growth ²⁾ (unaudited)	-2.9%	8.0%	0.6%	8.6%	-6.9%	6.5%	-14.2%	-5.2%
Order backlog as of December 31 (unaudited)	845.0	924.3	435.0	422.2	396.9	385.3	82.0	60.8
Sales recognized at a point in time	839.5	1'002.6	887.3	985.5	372.6	415.1	349.8	419.1
Sales recognized over time	456.9	474.3	191.1	181.6	220.5	248.8	1.4	1.5
Sales³⁾	1'296.3	1'477.0	1'078.3	1'167.0	593.1	664.0	351.2	420.6
Nominal growth	-12.2%	15.0%	-7.6%	9.7%	-10.7%	17.9%	-16.5%	-7.3%
Currency-adjusted growth (unaudited)	-5.7%	17.2%	0.1%	12.8%	-4.8%	19.0%	-13.4%	-6.4%
Organic growth ²⁾ (unaudited)	-4.5%	17.0%	-1.1%	10.0%	-9.7%	12.7%	-15.2%	-7.4%
Operational profit (unaudited)	55.2	59.7	150.3	164.5	56.9	63.8	44.7	88.2
Operational profitability (unaudited)	4.3%	4.0%	13.9%	14.1%	9.6%	9.6%	12.7%	21.0%
Restructuring expenses	-34.1	-5.2	-11.3	-2.6	-5.7	-0.8	-3.2	-13.7
Amortization	-29.6	-30.0	-9.2	-8.1	-6.8	-6.2	-19.2	-19.0
Impairments on tangible and intangible assets	-2.1	-	-1.5	-	-5.3	-1.0	-0.5	-1.3
Non-operational items (unaudited)	-5.6	-12.6	-1.9	-1.6	-3.2	-1.9	-1.6	-14.1
EBIT	-16.1	11.9	126.3	152.2	35.9	54.0	20.2	40.2
Depreciation	-34.6	-34.8	-28.5	-28.2	-12.2	-13.8	-23.4	-22.9
Operating assets	1'456.4	1'605.5	893.6	960.8	507.0	590.9	745.0	608.3
Unallocated assets	-	-	-	-	-	-	-	-
Total assets as of December 31	1'456.4	1'605.5	893.6	960.8	507.0	590.9	745.0	608.3
Operating liabilities	725.1	730.6	354.9	363.2	323.6	364.5	126.6	108.6
Unallocated liabilities	-	-	-	-	-	-	-	-
Total liabilities as of December 31	725.1	730.6	354.9	363.2	323.6	364.5	126.6	108.6
Operating net assets	731.3	874.9	538.7	597.6	183.5	226.4	618.4	499.7
Unallocated net assets	-	-	-	-	-	-	-	-
Total net assets as of December 31	731.3	874.9	538.7	597.6	183.5	226.4	618.4	499.7
Capital expenditure (incl. lease assets)	-34.7	-41.0	-40.9	-36.6	-11.1	-22.1	-70.0	-41.3
Employees (number of full-time equivalents) as of December 31	5'362	5'759	4'449	4'900	3'221	3'803	1'857	1'821

1) Order intake from external customers.

2) Adjusted for currency and acquisition effects.

3) Sales from external customers.

Segment information by divisions

millions of CHF	Total divisions		Others ⁴⁾		Total Sulzer	
	2020	2019	2020	2019	2020	2019
Order intake (unaudited)¹⁾	3'414.1	3'747.2	–	–	3'414.1	3'747.2
Nominal growth (unaudited)	–8.9%	6.1%	–	–	–8.9%	6.1%
Currency-adjusted growth (unaudited)	–2.2%	8.2%	–	–	–2.2%	8.2%
Organic growth ²⁾ (unaudited)	–3.8%	6.3%	–	–	–3.8%	6.3%
Order backlog as of December 31 (unaudited)	1'758.9	1'792.6	–	–	1'758.9	1'792.6
Sales recognized at a point in time	2'449.2	2'822.3	–	–	2'449.2	2'822.3
Sales recognized over time	869.8	906.2	–	–	869.8	906.2
Sales³⁾	3'319.0	3'728.5	–	–	3'319.0	3'728.5
Nominal growth	–11.0%	10.8%	–	–	–11.0%	10.8%
Currency-adjusted growth (unaudited)	–4.6%	13.0%	–	–	–4.6%	13.0%
Organic growth ²⁾ (unaudited)	–5.6%	10.8%	–	–	–5.6%	10.8%
Operational profit (unaudited)	307.1	376.2	–9.5	–4.9	297.6	371.3
Operational profitability (unaudited)	9.3%	10.1%	n/a	n/a	9.0%	10.0%
Restructuring expenses	–54.4	–22.2	–1.4	–1.0	–55.8	–23.1
Amortization	–64.9	–63.4	–1.1	–1.1	–65.9	–64.5
Impairments on tangible and intangible assets	–9.4	–2.3	–0.5	–2.1	–9.8	–4.4
Non-operational items (unaudited)	–12.3	–30.1	–3.2	–8.2	–15.4	–38.3
EBIT	166.3	258.3	–15.6	–17.3	150.6	241.0
Depreciation	–98.8	–99.6	–3.0	–3.0	–101.8	–102.6
Operating assets	3'602.0	3'765.5	71.1	35.6	3'673.1	3'801.1
Unallocated assets	–	–	1'705.6	1'308.4	1'705.6	1'308.4
Total assets as of December 31	3'602.0	3'765.5	1'776.7	1'344.0	5'378.7	5'109.5
Operating liabilities	1'530.2	1'566.9	152.7	135.8	1'682.8	1'702.7
Unallocated liabilities	–	–	2'278.7	1'812.9	2'278.7	1'812.9
Total liabilities as of December 31	1'530.2	1'566.9	2'431.4	1'948.7	3'961.6	3'515.6
Operating net assets	2'071.9	2'198.6	–81.6	–100.2	1'990.2	2'098.4
Unallocated net assets	–	–	–573.1	–504.5	–573.1	–504.5
Total net assets as of December 31	2'071.9	2'198.6	–654.7	–604.7	1'417.2	1'593.9
Capital expenditure (incl. lease assets)	–156.7	–140.9	–1.3	–1.2	–158.0	–142.1
Employees (number of full-time equivalents) as of December 31	14'888	16'284	165	222	15'054	16'506

1) Order intake from external customers.

2) Adjusted for currency and acquisition effects.

3) Sales from external customers.

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

For the definition of operational profit, operational profitability and adjustments for currency and acquisition effects, reference is made to the “[Supplementary information](#)” and for the reconciliation statements to the “[Financial review](#)”.

Information about reportable segments

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

Pumps Equipment

The Pumps Equipment division specializes in pumping solutions specifically engineered for the processes of its customers. The division provides pumps, agitators, compressors, grinders, screens and filters developed through intensive research and development in fluid dynamics and advanced materials. The focus is on pumping solutions for water, oil and gas, power, chemicals and most industrial segments.

Rotating Equipment Services

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

Chemtech

The Chemtech division focuses on innovative mass transfer, static mixing and polymer solutions for chemicals, petrochemicals, refining and LNG. Chemtech also provides ecological solutions such as biopolymers as well as textile and plastic recycling, contributing to a circular economy. The division's product offering ranges from technology licensing to process components all the way to complete separation process plants. Customer support ranges from engineering and field services to tray and packing installation, tower maintenance, welding and plant turnaround projects – ensuring minimal downtime.

Applicator Systems

Through its well-known brands (Mixpac, Transcodent, Cox, Medmix, Haselmeier and Geka), the Applicator Systems division develops and delivers innovative products and services for liquid application and mixing solutions within the healthcare, adhesives and beauty markets. The division's IP-protected applicator solutions make the customers' products precise, safe, unique and more sustainable, leveraging the division's expertise in plastic-injection molding, two-component mixing, drug delivery and micro-brushes.

Others

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

The Chief Executive Officer primarily uses operational profit to assess the performance of the operating segments. However, the Chief Executive Officer also receives information about the segments' order intake and backlog, sales, and operating assets and liabilities on a monthly basis.

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

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

Segment information by region

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

Non-current assets by region

millions of CHF	2020	2019
Europe, Middle East, Africa	1'451.9	1'346.7
– thereof Germany	365.1	275.4
– thereof Switzerland	274.8	234.1
– thereof United Kingdom	209.9	222.4
– thereof Sweden	187.4	192.9
– thereof the Netherlands	116.8	124.1
Americas	452.8	524.0
– thereof USA	417.1	479.3
Asia-Pacific	141.8	148.0
– thereof China	54.6	60.1
Total	2'046.5	2'018.7

Sales by region

millions of CHF					2020
	Pumps Equipment	Rotating Equipment Services	Chemtech	Applicator Systems	Total Sulzer
Europe, Middle East, Africa	555.7	469.6	172.7	204.0	1'402.0
– thereof Germany	58.2	49.2	26.3	82.1	215.9
– thereof United Kingdom	25.7	107.4	7.9	15.4	156.3
– thereof Saudi Arabia	89.0	26.9	31.2	0.0	147.0
– thereof Russia	31.5	50.9	11.7	1.6	95.7
– thereof France	26.8	30.9	7.3	23.1	88.0
Americas	452.7	446.2	128.2	117.0	1'144.1
– thereof USA	297.8	358.8	81.9	106.5	845.0
Asia-Pacific	288.0	162.5	292.2	30.3	772.9
– thereof China	206.5	24.0	188.2	15.6	434.3
Total	1'296.3	1'078.3	593.1	351.2	3'319.0

millions of CHF					2019
	Pumps Equipment	Rotating Equipment Services	Chemtech	Applicator Systems	Total Sulzer
Europe, Middle East, Africa	576.7	534.7	195.4	232.7	1'539.6
– thereof Germany	60.2	50.5	36.9	91.5	239.1
– thereof United Kingdom	26.5	142.1	6.7	19.6	194.8
– thereof Saudi Arabia	60.2	39.9	22.5	0.1	122.7
– thereof Russia	42.1	75.5	13.8	1.3	132.7
– thereof France	35.0	28.0	5.0	27.0	94.9
Americas	511.3	480.6	173.4	156.0	1'321.3
– thereof USA	345.3	377.1	103.4	139.9	965.8
Asia-Pacific	389.0	151.6	295.2	31.8	867.7
– thereof China	211.2	25.0	169.7	14.9	420.8
Total	1'477.0	1'167.0	664.0	420.6	3'728.5

Segment information by market segment

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

Sales by market segment

					2020
millions of CHF	Pumps Equipment	Rotating Equipment Services	Chemtech	Applicator Systems	Total Sulzer
Oil and gas	319.2	372.3	183.5	–	875.1
Chemicals	185.3	191.5	369.3	–	746.1
General industry	298.3	170.8	35.0	–	504.1
Water	386.0	32.6	3.5	–	422.1
Power	107.5	311.1	1.8	–	420.4
Adhesives, dental, healthcare	–	–	–	229.5	229.5
Beauty	–	–	–	121.7	121.7
Total	1'296.3	1'078.3	593.1	351.2	3'319.0

					2019
millions of CHF	Pumps Equipment	Rotating Equipment Services	Chemtech	Applicator Systems	Total Sulzer
Oil and gas	355.8	422.3	217.7	–	995.8
Chemicals	232.9	198.2	414.8	–	845.9
General industry	340.4	195.7	23.4	–	559.5
Water	432.7	38.2	0.9	–	471.8
Power	115.2	312.6	7.2	–	435.1
Adhesives, dental, healthcare	–	–	–	274.1	274.1
Beauty	–	–	–	146.5	146.5
Total	1'477.0	1'167.0	664.0	420.6	3'728.5

4 Acquisitions of subsidiaries

Acquisitions in 2020

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

Net assets acquired

millions of CHF	Haselmeier	Others	Total
Intangible assets	39.8	1.7	41.5
Property, plant and equipment	13.1	0.0	13.1
Lease assets	2.4	–	2.4
Deferred income tax assets	0.3	–	0.3
Cash and cash equivalents	3.7	0.0	3.7
Trade accounts receivable	5.2	0.0	5.2
Other current assets	9.6	0.1	9.7
Lease liabilities	–2.4	–	–2.4
Provisions	–3.5	–0.0	–3.5
Non-current income tax liabilities	–2.3	–	–2.3
Deferred income tax liabilities	–5.3	–0.3	–5.6
Other liabilities	–1.8	–	–1.8
Net identifiable assets	58.8	1.5	60.3
Goodwill recognized in balance sheet	60.4	–	60.4
Total consideration	119.2	1.5	120.7
			–
Purchase price paid in cash	105.0	1.5	106.5
Contingent consideration	14.2	–	14.2
Total consideration	119.2	1.5	120.7

Haselmeier

On October 1, 2020, Sulzer acquired a 100% controlling interest of Haselmeier AG for CHF 119.2 million. The headquarters of Haselmeier is located in Stuttgart, Germany. Haselmeier employs approximately 230 people and is a leading own-IP provider of drug delivery devices such as subcutaneous self-injection pens for use in fast-growing indications such as reproductive health, growth disorders, osteoporosis and diabetes. With the acquisition of Haselmeier, Sulzer will complement its healthcare portfolio and leverage its APS expertise in precision injection molding to seize growth opportunities in the fast-growing drug delivery devices market. Haselmeier will operate as part of Sulzer's Applicator Systems division. The goodwill is attributable to significant synergies by leveraging scale and cross-selling opportunities. None of the goodwill is expected to be deductible for tax purposes. Transaction costs recognized in the income statement amount to CHF –0.4 million. Since the acquisition date, Haselmeier contributed order intake of CHF 13.0 million, sales of CHF 7.4 million, and net income of CHF 0.9 million to the group.

Contingent consideration

The contingent consideration is mainly dependent on technology-related proof-of-concept, project development and customer orders. The total liability is limited at CHF 16.5 million and is discounted to a present value of CHF 14.2 million. The calculation of the contingent consideration is based on management assessments that the criteria will be achieved at a probability of 100%.

Acquired receivables

The fair value of acquired trade accounts receivable is CHF 5.2 million. The gross contractual amount for trade account receivables due is CHF 5.2 million, of which none are expected to be uncollectible at the date of acquisition.

Pro forma sales and profit contribution

Had all above acquisitions occurred on January 1, 2020, management estimates that total net sales of the group would amount to CHF 3'344.2 million, and the consolidated net income would be CHF 89.9 million.

Cash flow from acquisitions of subsidiaries

millions of CHF	2020	2019
Cash consideration paid	-106.5	-94.3
Cash acquired	3.7	15.9
Payments for acquisitions in prior years	-5.4	-
Total cash flow from acquisitions, net of cash acquired	-108.2	-78.5

Contingent consideration

millions of CHF	2020	2019
Balance as of January 1	3.5	0.9
Assumed in a business combination	14.2	3.6
Release to other operating income	-	-0.9
Currency translation differences	0.6	-0.1
Total contingent consideration as of December 31	18.3	3.5
- thereof non-current	13.9	3.5
- thereof current	4.4	-

Acquisitions in 2019

The following table summarizes the recognized amounts of assets acquired and liabilities assumed at the date of acquisition, including the resulting goodwill and the total consideration paid.

millions of CHF	GTC Technology US, LLC	Alba Power	Other	Total
Intangible assets	19.5	38.2	5.3	63.1
Property, plant and equipment	4.0	3.9	–	8.0
Lease assets	5.7	0.1	–	5.8
Cash and cash equivalents	12.6	3.2	–	15.9
Trade accounts receivable	9.3	4.4	–	13.7
Other current assets	0.8	1.4	–	2.2
Borrowings	–0.4	–	–	–0.4
Lease liabilities	–5.7	–0.1	–	–5.8
Provisions	–	–0.7	–	–0.7
Other liabilities	–6.9	–4.1	–0.7	–11.7
Deferred tax liabilities	–2.3	–5.4	–	–7.7
Net identifiable assets	36.8	41.1	4.6	82.4
Goodwill recognized in balance sheet	6.8	13.3	0.7	20.8
Total consideration	43.5	54.4	5.3	103.2
Purchase price paid in cash	39.9	54.4	–	94.3
Purchase price not yet paid	–	–	5.3	5.3
Contingent consideration	3.6	–	–	3.6
Total consideration	43.5	54.4	5.3	103.2

5 Critical accounting estimates and judgments

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

Employee benefit plans

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

Income taxes

The group is obliged to pay income taxes in numerous jurisdictions. Assumptions are required in order to determine income tax provisions. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of the business. The group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the

period in which such determination is made. Management believes that the estimates are reasonable, and that the recognized liabilities for income-tax-related uncertainties are adequate. Further details are disclosed in [note 13](#).

Goodwill and other intangible assets

The group carries out an annual impairment test on goodwill in the first quarter of the year (after the budget and the three-year strategic plan have been approved by the Board of Directors in February), or when indications of a potential impairment exist. Due to COVID-19, the budget and the three-year strategic plan have been updated after the approval. This update has been presented to the Board of Directors in May 2020. The goodwill impairment test is based on the updated version of the budget and the three-year strategic plan. The recoverable amount from cash-generating units is measured on the basis of value-in-use calculations with the terminal growth rate, the discount rate, and the projected cash flows as the main variables. Information about assumptions and estimation uncertainties that have significant risk of resulting in a material adjustment in the year ending December 31, 2020, are disclosed in [note 14](#). The accounting policies are disclosed in [note 34](#).

Lease assets and lease liabilities

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

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

Sales

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

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

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

The group is recognizing sales either over time or at a point in time. Sales are recognized over time if any of the conditions described in [note 34](#) is met. To determine the method, the right to payment condition is the one with the most critical estimates. The group estimates if an enforceable right to

payment (including reasonable profit margin) for performance up to date exists in case the customer terminates the contract for convenience. For this estimate the group reviews the contracts and considers relevant laws, legal precedents and customary business practice.

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

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

Provisions

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

6 Financial risk management

6.1 Financial risk factors

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

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

a) Market risk

(I) Foreign exchange risk

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

Contractual FX exposure

- 90% – 100% of the exposure

Non-contractual FX exposure

- 100% of the forecasted exposure for the next 1–3 months
- 60% of the forecasted exposure for the next 4–6 months
- 40% of the forecasted exposure for the next 7–12 months

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

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

The following tables show the hypothetical influence on the income statement for 2020 and 2019 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 2020, the currency pair with the most significant exposure and inherent risk was the EUR versus the RUB. If, on December 31, 2020, the EUR had increased by 1.0% against the RUB with all other variables held constant, profit after tax for the year would have been CHF 0.6 million higher due to foreign exchange gains on EUR-denominated financial assets. A decrease of the rate would have caused a loss of the same amount.

Hypothetical impact of foreign exchange risk on income statement

millions of CHF	2020			
	EUR/RUB	GBP/SAR	GBP/USD	EUR/ZAR
Currency pair				
Exposure	4.1	6.8	-4.6	-2.9
Volatility	20.3%	7.8%	11.0%	16.7%
Effect on profit after tax (rate increase)	0.6	0.4	-0.4	-0.4
Effect on profit after tax (rate decrease)	-0.6	-0.4	0.4	0.4

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

The following tables show the hypothetical influence on equity for 2020 and 2019 related to foreign exchange risk of financial instruments for the most important currency pairs as per December 31 of the respective year. The volatility used for the calculation is the one-year historic volatility on December 31 for the relevant currency pair and year. Most of the hypothetical effect on equity is a result of fair value changes of derivative financial instruments designated as hedges of future cash flows in foreign currencies.

Hypothetical impact of foreign exchange risk on equity

millions of CHF		2020					
Currency pair	USD/MXN	GBP/USD	USD/CHF	EUR/USD	EUR/RUB	USD/BRL	USD/INR
Exposure	-41.5	52.0	-63.5	49.0	-15.2	-12.5	-22.1
Volatility	18.9%	11.1%	7.4%	7.6%	21.0%	21.3%	5.4%
Effect on equity, net of taxes (rate increase)	-5.6	4.1	-3.4	2.7	-2.3	-1.9	-0.9
Effect on equity, net of taxes (rate decrease)	5.6	-4.1	3.4	-2.7	2.3	1.9	0.9

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

(II) Price risk

As of December 31, 2020, the group was not exposed to significant price risk related to investments in equity securities.

(III) Interest rate sensitivity

The group's interest rate risk arises from interest-bearing assets and liabilities. Assets and liabilities at variable rates expose the group to cash flow interest rate risk. Assets and liabilities at fixed rates only expose the group to fair value interest rate risk in the case of debt instruments that are classified as at fair value through profit or loss. The group analyzes its interest rate exposure on a net basis, and if required, enters into derivative instruments in order to keep the volatility of net interest income or expense limited. The group's non-current interest-bearing liabilities mainly comprise six bonds with a fixed interest rate.

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

Hypothetical impact of interest rate risk on income statement

millions of CHF		2020		
Variable-interest-bearing assets (net)	Amount	Sensitivity in basis points	Impact on post-tax profit	
			rate increase	rate decrease
CHF	501.4	100	3.6	-3.6
USD	287.4	100	2.1	-2.1
EUR	229.5	100	1.6	-1.6
CNY	181.7	100	1.3	-1.3
GBP	40.2	100	0.3	-0.3

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

On December 31, 2020, if the interest rates on CHF-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 3.6 million higher, as a result of higher interest income on CHF-denominated assets. A decrease of interest rates on CHF-denominated assets net of liabilities would have caused a loss of the same amount. As of December 31, 2019, if the interest rates had been 100 basis points higher with all other variables held constant, post-tax profit for the year would have been CHF 1.6 million higher, as a result of higher interest income on CHF-denominated assets.

b) Credit risk

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

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

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

c) Liquidity risk

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

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

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

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

Maturity profile of financial liabilities

	2020				
millions of CHF	Carrying amount	<1 year	1–5 years	>5 years	Total
Borrowings	1'723.1	246.7	1'207.4	329.6	1'783.7
Lease liabilities	119.7	30.0	67.1	31.7	128.8
Trade accounts payable	465.8	465.8	–	–	465.8
Other current and non-current liabilities (excluding derivative liabilities)	368.2	347.5	23.0	0.0	370.6
Derivative liabilities	8.1	6.9	–	1.2	8.1
– thereof outflow		730.1	–	6.1	736.2
– thereof inflow		723.2	–	4.9	728.0

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

6.2 Capital risk management

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

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

The following table shows the net debt/EBITDA ratio as at December 31, 2020 and 2019.

Net debt/EBITDA ratio

millions of CHF	2020	2019
Cash and cash equivalents	-1'123.2	-1'035.5
Current financial assets	-305.1	-57.5
Non-current borrowings	1'491.3	1'199.2
Non-current lease liabilities	90.2	82.3
Current borrowings	231.8	131.0
Current lease liabilities	29.5	27.4
Net debt as of December 31	414.5	346.9
EBIT	150.6	241.0
Depreciation	101.8	102.6
Impairments on tangible and intangible assets	9.8	4.4
Amortization	65.9	64.5
EBITDA	328.1	412.5
Net debt	414.5	346.9
EBITDA	328.1	412.5
Net debt/EBITDA ratio	1.26	0.84

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

As of December 31, 2020 and 2019, the gearing ratio was as follows:

Gearing ratio (borrowings-to-equity ratio)

millions of CHF	2020	2019
Non-current borrowings	1'491.3	1'199.2
Non-current lease liabilities	90.2	82.3
Current borrowings	231.8	131.0
Current lease liabilities	29.5	27.4
Total borrowings and lease liabilities	1'842.8	1'439.9
Equity attributable to shareholders of Sulzer Ltd	1'404.3	1'580.7
Gearing ratio (borrowings-to-equity ratio)	1.31	0.91

For the definition of net debt, EBITDA and gearing ratio, please refer to "[Supplementary information](#)".

6.3 Fair value estimation

The following tables present the carrying amounts and fair values of financial assets and liabilities as of December 31, 2020 and 2019, including their levels in the fair value hierarchy. For financial assets and financial liabilities not measured at fair value in the balance sheet, fair value information is not provided if the carrying amount is a reasonable approximation of fair value.

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

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

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

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

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

Fair value table

		December 31, 2020								
		Carrying amount				Fair value				
millions of CHF	Notes	Fair value hedging instruments	Fair value through profit or loss	Financial assets at amortized cost	Other financial liabilities	Total carrying amount	Level 1	Level 2	Level 3	Total fair value
Financial assets measured at fair value										
Other non-current financial assets (at fair value)	18		8.7			8.7	0.2	–	8.4	8.7
Derivative assets – non-current	29	1.0				1.0	–	1.0	–	1.0
Derivative assets – current	22, 29	12.1				12.1	–	12.1	–	12.1
Current financial assets (at fair value)	18		1.7			1.7	1.7	–	–	1.7
Total financial assets measured at fair value		13.2	10.4	–	–	23.6	2.0	13.2	8.4	23.6
Financial assets not measured at fair value										
Other non-current financial assets (at amortized cost)	18			2.0		2.0				
Non-current receivables (excluding non-current derivative assets)				3.3		3.3				
Trade accounts receivable	21			599.1		599.1				
Other current receivables (excluding current derivative assets and other taxes)	22			19.2		19.2				
Current financial assets (at amortized cost)	18			303.3		303.3				
Cash and cash equivalents	23			1'123.2		1'123.2				
Total financial assets not measured at fair value		–	–	2'050.0	–	2'050.0				
Financial liabilities measured at fair value										
Derivative liabilities – non-current	29	1.2				1.2	–	1.2	–	1.2
Derivative liabilities – current	28, 29	6.9				6.9	–	6.9	–	6.9
Contingent considerations	4		18.3			18.3	–	–	18.3	18.3
Total financial liabilities measured at fair value		8.1	18.3	–	–	26.4	–	8.1	18.3	26.4
Financial liabilities not measured at fair value										
Outstanding non-current bonds	26				1'488.5	1'488.5	1'527.5	–	–	1'527.5
Other non-current borrowings	26				2.7	2.7				
Other non-current liabilities (excluding non-current derivative liabilities)					20.7	20.7				
Outstanding current bonds	26				209.9	209.9	211.3	–	–	211.3
Other current borrowings and bank loans	26				21.9	21.9				
Trade accounts payable					465.8	465.8				
Other current liabilities (excluding current derivative liabilities, other taxes and contingent considerations)	28				307.6	307.6				
Total financial liabilities not measured at fair value		–	–	–	2'517.1	2'517.1				

Fair value table

December 31, 2019										
	Notes	Carrying amount				Fair value			Total fair value	
		Fair value hedging instruments	Fair value through profit or loss	Financial assets at amortized cost	Other financial liabilities	Total carrying amount	Level 1	Level 2		Level 3
millions of CHF										
Financial assets measured at fair value										
Other non-current financial assets (at fair value)	18		10.3			10.3	0.3	–	10.0	10.3
Derivative assets – non-current	29	0.1				0.1	–	0.1	–	0.1
Derivative assets – current	22, 29	6.7				6.7	–	6.7	–	6.7
Total financial assets measured at fair value		6.8	10.3	–	–	17.1	0.3	6.8	10.0	17.1
Financial assets not measured at fair value										
Other non-current financial assets (at amortized cost)	18			2.4		2.4				
Non-current receivables (excluding non-current derivative assets)				6.2		6.2				
Trade accounts receivable	21			645.9		645.9				
Other current receivables (excluding current derivative assets and other taxes)	22			87.9		87.9				
Current financial assets (at amortized cost)	18			57.5		57.5				
Cash and cash equivalents	23			1'035.5		1'035.5				
Total financial assets not measured at fair value		–	–	1'835.3	–	1'835.3				
Financial liabilities measured at fair value										
Derivative liabilities – non-current	29	0.0				0.0		0.0		0.0
Derivative liabilities – current	28, 29	8.2				8.2	–	8.2	–	8.2
Contingent considerations	4		3.5			3.5	–	–	3.5	3.5
Total financial liabilities measured at fair value		8.2	3.5	–	–	11.7	–	8.2	3.5	11.7
Financial liabilities not measured at fair value										
Outstanding non-current bonds	26				1'199.2	1'199.2	1'234.0	–	–	1'234.0
Other non-current liabilities (excluding non-current derivative liabilities)					6.2	6.2				
Outstanding current bonds	26				109.9	109.9	110.3	–	–	110.3
Other current borrowings and bank loans	26				21.1	21.1				
Trade accounts payable					522.4	522.4				
Other current liabilities (excluding current derivative liabilities, other taxes and contingent considerations)	28				257.8	257.8				
Total financial liabilities not measured at fair value		–	–	–	2'116.7	2'116.7				

7 Corporate risk management

Sulzer maintains an integrated risk management system that is under constant scrutiny for further improvement. A defined risk management process and four common tools (risk assessment schedule, risk-profiling matrix, risk description schedule, loss control schedule) are applied in order to assess and control all key risks, to implement and maintain risk financing and risk transfer measures, to monitor the results, and to define and implement corrective actions if required.

Key risks are assessed on business unit level and consolidated on group level. The business units together with the divisions and the group functions generate their respective key risk-profiling matrices and complete and update the related risk control schedules on an annual basis. These schedules identify specific risk exposures and the related risk objectives, list existing loss controls, address their effectiveness, list (where required) additional or alternative loss controls, and determine responsibilities and time frames for their implementation. The business units' key risk-profiling matrices are reviewed at the group level and are then consolidated into a Sulzer key risk-profiling matrix. The head of Risk Management informs the Audit Committee at least once a year of the current risks and risk mitigation as well as of the progress toward achieving major risk objectives. The assessment of risk management processes is included within the charter and scope of Group Internal Audit.

8 Personnel expenses

millions of CHF	2020	2019
Salaries and wages	870.1	949.4
Defined contribution plan expenses	27.3	29.0
Defined benefit plan expenses	21.7	16.0
Cost of share-based payment transactions	14.2	12.5
Social benefit costs	131.8	144.9
Other personnel costs	58.2	39.2
Total personnel expenses	1'123.4	1'191.1

9 Employee benefit plans

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

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

millions of CHF	2020					Total
	Funded plans Switzerland	Funded plans United Kingdom	Funded plans USA	Funded plans Others	Unfunded plans	
Present value of funded defined benefit obligation	-1'034.7	-609.9	-68.8	-110.7	-	-1'824.1
Fair value of plan assets (funded plans)	1'108.4	469.9	45.1	66.1	-	1'689.5
Overfunding / (underfunding)	73.7	-139.9	-23.7	-44.6	-	-134.6
Present value of unfunded defined benefit obligation	-	-	-	-	-17.1	-17.1
Asset / (liability) recognized in the balance sheet	73.7	-139.9	-23.7	-44.6	-17.1	-151.7
- thereof as liabilities under defined benefit obligation	-1.8	-139.9	-23.7	-44.7	-17.1	-227.4
- thereof as other current receivables and prepaid expenses	75.5	-	-	0.1	-	75.7

						2019
millions of CHF	Funded plans Switzerland	Funded plans United Kingdom	Funded plans USA	Funded plans Others	Unfunded plans	Total
Present value of funded defined benefit obligation	-1'109.5	-575.2	-69.3	-83.2	-	-1'837.2
Fair value of plan assets	1'140.7	463.3	46.4	65.0	-	1'715.4
Overfunding / (underfunding)	31.2	-111.9	-22.9	-18.2	-	-121.8
Present value of unfunded defined benefit obligation	-	-	-	-	-46.8	-46.8
Asset / (liability) recognized in the balance sheet	31.2	-111.9	-22.9	-18.2	-46.8	-168.6
- thereof as liabilities under defined benefit obligation	-0.9	-111.9	-22.9	-18.5	-46.8	-201.0
- thereof as other current receivables and prepaid expenses	32.1	-	-	0.3	-	32.4

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

In Switzerland, Sulzer contributes to two pension plans funded via two different pension funds, i.e. a base plan for all employees and a supplementary plan for employees with salaries exceeding a certain limit. Both plans provide benefits depending on the pension savings at retirement. They include certain legal minimum interest credits to the pension savings (i.e. investment return) and guaranteed rates of conversion of pension savings into an annuity at retirement. In addition, the plans offer death in service and disability benefits. The two pension funds are collective funds administrating pension plans of Sulzer group companies and also unrelated companies. In case of a material underfunding of the pension plans, the regulations include predefined steps, such as higher contribution by employer and employees or lower interest on pension savings, to eliminate the underfunding. The pension funds are legally separated from the group. The vast majority of the active participants in the two pension funds are employed by companies not belonging to the Sulzer group. The Board of Trustees for the base plan comprises ten employee and ten employer representatives. The average discount rate decreased in 2020 compared to 2019 (from 0.3% to 0.2% for active employees and from 0.1% to 0.05% for pensioners). The plan assets increased compared to 2019 due to a higher return on plan assets. The total expenses recognized in the income statement in 2020 were CHF 19.0 million (2019: CHF 15.3 million).

In the UK, the plan is a final salary plan and provides benefits linked to salary at closure to future accrual adjusted for inflation to retirement or earlier date of leaving service. The scheme is fully closed to new entrants and future accruals. The scheme is managed by six trustees forming the Board. The plan is a multi-employer scheme with Sulzer (UK) Holding being the principal sponsor. The discount rate decreased by 0.6 percentage points to 1.5% (2019: 2.1%). The net pension liabilities increased from CHF 111.9 million in 2019 to CHF 139.9 million, due to the lower discount rate and changes in the demographic assumptions. The total expenses recognized in the income statement in 2020 were CHF 3.3 million compared to CHF 3.1 million in 2019.

In the USA, Sulzer operates non-contributory defined benefit retirement plans. The salaried plans provide benefits that are based on years of service and the employee's compensation, averaged over the five highest consecutive years preceding retirement. The hourly plans' benefits are based on years of service and a flat dollar benefit multiplier. All plans were closed for new entrants. In 2020, an expense of CHF 1.3 million was recognized in the income statement (2019: CHF 1.3 million). The discount rate decreased to 2.6% in 2020 (2019: 3.0%). The amount recognized in other comprehensive income (OCI) in 2020 was CHF -4.2 million (2019: CHF -6.6 million).

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

Employee benefit plans

millions of CHF	2020	2019
Reconciliation of effect of asset ceiling		
Adjustment to asset ceiling at January 1	–	–0.9
Change in effect of asset ceiling excl. interest income / (expenses)	–	0.9
Adjustment to asset ceiling at December 31	–	–
Reconciliation of asset / (liability) recognized in the balance sheet		
Asset / (liability) recognized at January 1	–168.6	–148.5
Defined benefit income / (expense) recognized in the income statement	–25.2	–19.9
Defined benefit income / (expense) recognized in OCI	8.8	–29.2
Employer contribution	25.3	23.4
Currency translation differences	8.1	5.6
Asset / (liability) recognized at December 31	–151.7	–168.6
Components of defined benefit income / (expense) in the income statement		
Current service cost (employer)	–22.2	–18.0
Interest expense	–16.3	–27.1
Interest income on plan assets	12.9	23.3
Effects of curtailments and settlement	2.3	3.4
Other administrative cost	–1.8	–1.5
Income / (expense) recognized in the income statement	–25.2	–19.9
– thereof charged to personnel expenses	–21.7	–16.0
– thereof charged to financial expense	–3.5	–3.8
Components of defined benefit gain / (loss) in OCI		
Actuarial gain / (loss) on defined benefit obligation	–73.6	–145.2
Return on plan assets excl. interest income	82.2	114.9
Change in effect of asset ceiling excl. interest expense / (income)	–	0.9
Return on reimbursement right excl. interest income / (expenses)	0.2	0.2
Defined benefit gain / (loss) recognized in OCI¹⁾	8.8	–29.2

1) The tax effect on defined benefit cost recognized in OCI amounted to CHF -0.8 million (2019: CHF 4.3 million).

Employee benefit plans

millions of CHF	2020	2019
Reconciliation of defined benefit obligation		
Defined benefit obligation as of January 1	-1'884.0	-1'805.1
Interest expense	-16.3	-27.1
Current service cost (employer)	-22.2	-18.0
Contributions by plan participants	-8.7	-10.0
Benefits paid/deposited	126.5	120.9
Effects of curtailments and settlement	2.3	3.4
Other administrative cost	-1.8	-1.5
Actuarial gain / (loss)	-73.6	-145.2
Currency translation differences	36.7	-1.4
Defined benefit obligation as of December 31¹⁾	-1'841.2	-1'884.0
Reconciliation of the fair value of plan assets		
Fair value of plan assets as of January 1	1'715.4	1'657.5
Interest income on plan assets	12.9	23.3
Employer contribution	25.3	23.4
Contributions by plan participants	8.7	10.0
Benefits paid/deposited	-126.5	-120.9
Effects of curtailments and settlement	0.0	-
Return on plan assets excl. interest income	82.2	114.9
Currency translation differences	-28.4	7.2
Fair value of plan assets as of December 31	1'689.5	1'715.4
Total plan assets at fair value – quoted market price		
Cash and cash equivalents	70.6	90.8
Equity instruments	555.7	587.2
Debt instruments	439.8	443.8
Real estate funds	35.3	36.7
Investment funds	3.9	4.1
Others	118.7	81.0
Total assets at fair value – quoted market price as of December 31	1'224.1	1'243.6
Total plan assets at fair value – non-quoted market price		
Properties occupied by or used by third parties (real estate)	287.7	290.6
Others	177.7	181.2
Total assets at fair value – non-quoted market price as of December 31	465.5	471.8
Best estimate of contributions for upcoming financial year		
Contributions by the employer	28.7	30.9

1) The defined benefit obligation includes the funded part and the unfunded part.

Employee benefit plans

millions of CHF	2020	2019
Components of defined benefit obligation, split		
Defined benefit obligation for active members	-345.4	-348.8
Defined benefit obligation for pensioners	-1'109.9	-1'180.4
Defined benefit obligation for deferred members	-385.9	-354.8
Total defined benefit obligation at December 31	-1'841.2	-1'884.0
Components of actuarial gain / (losses) on obligations		
Actuarial gain / (loss) arising from changes in financial assumptions	-75.6	-165.1
Actuarial gain / (loss) arising from changes in demographic assumptions	11.4	7.2
Actuarial gain / (loss) arising from experience adjustments	-9.5	12.7
Total actuarial gain / (loss) on defined benefit obligation	-73.6	-145.2
Maturity profile of defined benefit obligation		
Weighted average duration of defined benefit obligation in years	13.5	13.5

Since the defined benefit obligation for the Swiss and UK pension plans represents 89% (2019: 89%) of the group, the following significant actuarial assumptions apply exclusively to these two countries:

Principal actuarial assumptions as of December 31

	2020		2019	
	Funded plans Switzerland	Funded plans United Kingdom	Funded plans Switzerland	Funded plans United Kingdom
Discount rate for active employees	0.2%	1.5%	0.3%	2.1%
Discount rate for pensioners	0.05%	1.5%	0.1%	2.1%
Future salary increases	1.0%	0.0%	1.0%	0.0%
Future pension increases	0.0%	2.8%	0.0%	2.6%
Life expectancy at retirement age (male/female) in years	22/24	22/24	23/25	21/23

Sensitivity analysis of defined benefit obligation

millions of CHF	2020	2019
Discount rate (decrease 0.25 percentage points)	-59.2	-64.4
Discount rate (increase 0.25 percentage points)	64.0	62.1
Future salary growth (decrease 0.25 percentage points)	7.6	5.0
Future salary growth (increase 0.25 percentage points)	-0.5	-3.6
Life expectancy (decrease 1 year)	110.1	97.7
Life expectancy (increase 1 year)	-103.5	-95.1

10 Research and development expenses

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

millions of CHF	2020	2019
Pumps Equipment	39.1	43.3
Rotating Equipment Services	1.9	1.1
Chemtech	22.9	18.0
Applicator Systems	20.3	22.9
Others	–	0.4
Total	84.1	85.6

11 Other operating income and expenses

millions of CHF	2020	2019
Income from release of contingent consideration	–	0.9
Gain from sale of property, plant and equipment	3.2	0.7
Operating currency exchange gains, net	1.5	–
Other operating income	20.7	18.0
Total other operating income	25.4	19.6
Restructuring expenses	–55.8	–23.1
Impairments on tangible and intangible assets	–9.8	–4.4
Cost for mergers and acquisitions	–1.2	–2.1
Loss from sale of property, plant and equipment	–0.2	–0.3
Operating currency exchange losses, net	–	–1.1
Total other operating expenses	–67.0	–31.1
Total other operating income and expenses, net	–41.6	–11.5

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

The group has initiated measures to mitigate the impact of market disruptions on Energy-related business activities caused by the pandemic. For 2020, the group recognized restructuring costs of CHF 58.0 million (2019: CHF 23.4 million), partly offset by released restructuring provisions of CHF 2.2 million (2019: CHF 0.2 million). Restructuring costs mainly relate to the closure or resizing of sites in Europe and the USA, as well as the resizing of supporting resources. The group further performed impairment tests on the related production machines and facilities leading to impairments of CHF 9.0 million (2019: CHF 2.1 million). For more details refer to [note 15](#) and [note 16](#).

Impairments on other intangible assets amounted to CHF 0.9 million (2019: CHF 2.3 million) and were mainly related to computer software (see also [note 14](#)).

The functional allocation of the total restructuring expenses and impairments is as follows: Cost of goods sold CHF –39.8 million (2019: CHF –11.4 million), selling and distribution expenses CHF –6.3 million (2019: CHF –1.5 million), general and administrative expenses CHF –19.2 million (2019: CHF –14.0 million) and research and development expenses CHF –0.3 million (2019: CHF –0.6 million).

12 Financial income and expenses

millions of CHF	2020	2019
Interest and securities income	4.1	6.6
Total interest and securities income	4.1	6.6
Interest expenses on borrowings and lease liabilities	-21.8	-21.1
Interest expenses on employee benefit plans	-3.5	-3.8
Total interest expenses	-25.2	-24.9
Total interest income and expenses, net	-21.1	-18.3
Fair value changes	6.1	-2.6
Other financial expenses	-3.7	-2.3
Currency exchange gains/losses, net	-9.5	-5.1
Total other financial income and expenses, net	-7.0	-10.0
Total financial income and expenses, net	-28.1	-28.3
- thereof fair value changes on financial assets at fair value through profit and loss	6.1	-2.6
- thereof interest income on financial assets at amortized costs	4.1	6.6
- thereof other financial expenses	-3.7	-2.3
- thereof currency exchange gains/losses, net	-9.5	-5.1
- thereof interest expenses on borrowings	-19.0	-17.8
- thereof interest expenses on lease liabilities	-2.8	-3.3
- thereof interest expenses on employee benefit plans	-3.5	-3.8

Total financial expenses, net amounted to CHF 28.1 million, compared with CHF 28.3 million in 2019.

The “Fair value changes” are largely related to derivative financial instruments that are classified as financial assets or financial liabilities at fair value through profit and loss and that are used as hedging instruments to hedge foreign exchange risks.

13 Income taxes

millions of CHF	2020	2019
Current income tax expenses	-61.5	-65.2
Deferred income tax income	26.9	10.1
Total income tax expenses	-34.6	-55.1

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

Reconciliation of income tax expenses

millions of CHF	2020	2019
Income before income tax expenses	121.8	212.8
Weighted average tax rate	23.1%	22.5%
Income taxes at weighted average tax rate	-28.2	-48.0
Income taxed at different tax rates	8.6	11.8
Effect of tax loss carryforwards and allowances for deferred income tax assets	-2.8	-1.2
Expenses not deductible for tax purposes	-5.7	-7.8
Effect of changes in tax rates and legislation	-0.1	-1.5
Prior year items and others	-6.4	-8.4
Total income tax expenses	-34.6	-55.1
Effective income tax rate	28.4%	25.9%

The effective income tax rate for 2020 is 28.4% (2019: 25.9%). Effect of tax loss carryforwards and allowances of deferred income tax assets in the amount of CHF -2.8 million mainly consist of restructuring expenses related to closed facilities with no corresponding tax effects. Prior year items and others in the amount of CHF -6.4 million includes additional provisions for uncertain tax positions in the amount of CHF 4.2 million.

The effective income tax rate for 2019 of 25.9% was impacted by expenses not deductible for tax purposes in the amount of CHF 7.8 million mainly related to higher disallowances of group charges and interests in China, expenses related to a business reorganization in Germany in the amount of CHF 2.2 million and tax base adjustments in Russia and Mexico for prior years.

Income tax liabilities

millions of CHF	2020	2019
Balance as of January 1	35.9	34.3
Acquired through business combination	2.3	1.2
Additions	68.3	55.7
Released as no longer required	-5.8	-7.3
Utilized	-55.8	-47.3
Currency translation differences	-1.3	-0.6
Total income tax liabilities as of December 31	43.5	35.9
- thereof non-current	4.8	2.6
- thereof current	38.7	33.3

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

millions of CHF	2020			2019		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Intangible assets	17.0	-83.1	-66.1	13.6	-86.1	-72.5
Property, plant and equipment	4.5	-16.0	-11.5	5.2	-13.7	-8.5
Other financial assets	4.3	-1.1	3.2	5.9	-1.3	4.6
Inventories	27.4	-2.7	24.7	20.7	-3.2	17.6
Other assets	16.0	-31.2	-15.2	16.9	-19.2	-2.3
Defined benefit obligations	37.8	-1.4	36.4	29.1	-1.3	27.9
Non-current provisions	12.7	-2.0	10.8	16.0	-1.2	14.8
Current provisions	16.0	-0.6	15.4	17.9	-0.4	17.5
Other liabilities	36.8	-11.7	25.1	28.6	-6.0	22.6
Tax loss carryforwards	42.7	-	42.7	32.6	-	32.6
Elimination of intercompany profits	0.6	-	0.6	0.8	-	0.8
Tax assets/liabilities	215.8	-149.8	66.0	187.3	-132.3	55.0
Offset of assets and liabilities	-61.3	61.3	-	-52.9	52.9	-
Net recorded deferred income tax assets and liabilities	154.5	-88.5	66.0	134.4	-79.4	55.0

Cumulative deferred income taxes recorded in equity as of December 31, 2020, amounted to CHF 13.3 million (2019: CHF 16.4 million). The group does not recognize any deferred taxes on investments in subsidiaries because it controls the dividend policy of its subsidiaries – i.e. the group controls the timing of reversal of the related taxable temporary differences and management is satisfied that no material amounts will reverse in the foreseeable future.

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

millions of CHF	2020					
	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	-72.5	10.9	-	-5.6	1.2	-66.1
Property, plant and equipment	-8.5	-3.7	-	-	0.7	-11.5
Other financial assets	4.6	-1.0	-	-	-0.5	3.2
Inventories	17.6	7.9	-	-	-0.8	24.7
Other assets	-2.3	-9.6	-2.4	-	-0.9	-15.2
Defined benefit obligations	27.9	11.1	-0.8	-	-1.8	36.4
Non-current provisions	14.8	-3.0	-	-	-1.0	10.8
Current provisions	17.5	-0.9	-	0.3	-1.5	15.4
Other liabilities	22.6	3.7	-	-	-1.2	25.1
Tax loss carryforwards	32.6	11.7	-	-	-1.5	42.7
Elimination of intercompany profits	0.8	-0.2	-	-	-	0.6
Total	55.0	26.8	-3.2	-5.3	-7.3	66.0

						2019
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	-83.7	14.6	-	-4.0	0.6	-72.5
Property, plant and equipment	-5.8	-3.0	-	-	0.3	-8.5
Other financial assets	4.5	0.1	-	-	-	4.6
Inventories	4.9	16.8	-	-3.7	-0.4	17.6
Other assets	24.0	-24.5	-1.8	-	-	-2.3
Defined benefit obligations	20.3	3.1	4.3	-	0.1	27.9
Non-current provisions	12.3	2.9	-	-	-0.4	14.8
Current provisions	21.8	-3.9	-	-	-0.4	17.5
Other liabilities	18.2	4.7	-	-	-0.3	22.6
Tax loss carryforwards	32.3	-0.8	-	-	1.1	32.6
Elimination of intercompany profits	0.6	0.2	-	-	-	0.8
Total	49.4	10.1	2.5	-7.7	0.6	55.0

Tax loss carryforwards (TLCF)

	2020				
millions of CHF	Amount	Potential tax assets	Valuation allowance	Carrying amount	TLCF
Expiring in the next 3 years	0.5	0.1	-0.1	0.1	0.3
Expiring in 4–7 years	32.9	6.4	-3.3	3.1	14.6
Available without limitation	285.6	55.4	-15.9	39.5	111.7
Total tax loss carryforwards as of December 31	318.9	62.0	-19.3	42.7	126.6

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

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 126.6 million (2019: CHF 120.2 million).

14 Goodwill and other intangible assets

millions of CHF						2020
	Goodwill	Trademarks and licenses	Research and development	Computer software	Customer relationship	Total
Acquisition cost						
Balance as of January 1	1'260.8	220.9	14.6	52.9	609.8	2'159.0
Acquired through business combination	60.4	9.2	–	0.3	32.0	101.9
Additions	–	0.0	0.6	6.9	–	7.5
Disposals	–	–5.9	–	–1.5	–0.1	–7.5
Currency translation differences	–23.5	–2.5	0.0	–0.3	–13.3	–39.6
Balance as of December 31	1'297.7	221.6	15.3	58.3	628.4	2'221.4
Accumulated amortization and impairment losses						
Balance as of January 1	340.0	138.4	9.8	45.4	274.5	808.1
Additions	–	15.4	1.6	3.2	45.7	65.9
Disposals	–	–5.9	–	–1.4	–0.0	–7.4
Impairments	–	–	0.0	0.9	–	0.9
Currency translation differences	–	0.8	–0.0	–1.6	–4.1	–4.9
Balance as of December 31	340.0	148.7	11.4	46.5	316.1	862.6
Net book value						
As of January 1	920.8	82.5	4.9	7.6	335.2	1'350.9
As of December 31	957.7	73.0	4.0	11.8	312.3	1'358.8

In 2020 the group sold other intangible assets with a book value of CHF 0.1 million for CHF 0.1 million resulting in a net gain of CHF 0.0 million (2019: intangible assets sold for CHF 0.5 million with a book value of CHF 0.5 million, resulting in a net gain of CHF 0.0 million).

millions of CHF						2019
	Goodwill	Trademarks and licenses	Research and development	Computer software	Customer relationship	Total
Acquisition cost						
Balance as of January 1	1'263.4	214.0	13.8	52.1	574.4	2'117.7
Acquired through business combination	20.8	12.3	–	0.0	50.8	83.9
Additions	–	1.0	0.7	2.9	1.4	6.0
Disposals	–	–2.1	–0.0	–1.3	–0.8	–4.2
Currency translation differences	–23.3	–4.2	0.2	–0.8	–16.1	–44.3
Balance as of December 31	1'260.8	220.9	14.6	52.9	609.8	2'159.0
Accumulated amortization						
Balance as of January 1	340.0	128.1	8.3	43.0	235.6	754.9
Additions	–	14.5	1.6	2.9	45.4	64.5
Disposals	–	–1.3	–0.0	–2.3	–0.1	–3.7
Impairments	–	0.1	0.0	2.2	–	2.3
Currency translation differences	–	–2.9	–0.1	–0.5	–6.4	–9.9
Balance as of December 31	340.0	138.4	9.8	45.4	274.5	808.1
Net book value						
As of January 1	923.4	85.9	5.6	9.1	338.8	1'362.8
As of December 31	920.8	82.5	4.9	7.6	335.2	1'350.9

Goodwill impairment test

During 2020, the regional organization of the Rotating Equipment Services business has been reorganized to align it to the overarching global strategy. Global product lines and a global management organization have been established during the year 2020. Due to the reorganization, a reassessment of the cash-generating units and how goodwill impairment tests are performed within the Rotating Equipment Services division has been carried out. As an outcome of the reassessment,

the three regional Rotating Equipment Services cash-generating units have been combined into one cash-generating unit.

millions of CHF	2020			2019		
	Goodwill	Growth rate residual value	Pre-tax discount rate	Goodwill	Growth rate residual value	Pre-tax discount rate
Pumps Equipment	373.6	2.0%	8.8%	378.8	2.0%	9.0%
Rotating Equipment Services – region EMEA	–	n/a	n/a	153.2	2.0%	10.7%
Rotating Equipment Services – region APAC	–	n/a	n/a	7.7	2.0%	12.0%
Rotating Equipment Services – region AME	–	n/a	n/a	70.4	2.0%	10.8%
Rotating Equipment Services	217.2	2.0%	10.2%	–	n/a	n/a
Chemtech	89.8	1.5%	10.3%	93.3	1.5%	10.0%
Applicator Systems	277.1	2.0%	5.8%	217.4	1.0%	6.1%
Total goodwill as of December 31	957.7			920.8		

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

The calculation is based on the budget for the first period (2020), the three-year strategic plan for subsequent two periods (2021–2022), and a management calculation for the next two periods (2023–2024). The budget and the three-year strategic plan have been approved by the Board of Directors in February 2020. Due to COVID-19, the budget and the three-year strategic plan have been updated after the approval. This update has been presented to the Board of Directors in May 2020. The calculation is based on the updated version. Cash flows beyond the planning period are extrapolated using a terminal value including the growth rates as stated above.

As of December 31, 2020, there is no indication for goodwill impairment. Updating the impairment test would not have resulted in a goodwill impairment.

Sensitivity analyses

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

	2020			2019		
	Headroom	Terminal growth rate: Change required for carrying amount to equal recoverable amount	Pre-tax discount rate: Change required for carrying amount to equal recoverable amount	Headroom	Terminal growth rate: Change required for carrying amount to equal recoverable amount	Pre-tax discount rate: Change required for carrying amount to equal recoverable amount
millions of CHF						
Pumps Equipment	235.3	-2.3%	1.7%	275.6	-2.5%	2.0%
Rotating Equipment Services – region EMEA	–			626.5		
Rotating Equipment Services – region APAC	–			109.7		
Rotating Equipment Services – region AME	–			405.6		
Rotating Equipment Services	1'021.0			–		
Chemtech	594.8			677.2		
Applicator Systems	1'762.3			1'798.8		
Total headroom as of December 31	3'613.5			3'893.4		

15 Property, plant and equipment

	2020				
	Land and buildings	Machinery and technical equipment	Other non-current assets	Assets under construction	Total
millions of CHF					
Acquisition cost					
Balance as of January 1	380.8	756.6	193.9	71.5	1'402.9
Acquired through business combination	2.8	4.2	0.6	5.5	13.1
Additions	10.2	20.1	9.5	58.1	98.0
Disposals	-11.1	-60.3	-11.9	–	-83.3
Reclassifications	6.7	27.7	4.0	-38.5	–
Currency translation differences	-22.6	-38.2	-9.9	-7.4	-78.1
Balance as of December 31	366.8	710.2	186.3	89.3	1'352.6
Accumulated depreciation					
Balance as of January 1	178.4	525.7	154.4	–	858.5
Additions	11.6	42.1	12.2	–	65.9
Disposals	-10.0	-56.5	-10.8	–	-77.4
Impairments	0.9	4.6	0.2	–	5.7
Currency translation differences	-11.3	-26.0	-8.0	–	-45.4
Balance as of December 31	169.5	489.8	148.0	–	807.3
Net book value					
As of January 1	202.4	230.9	39.5	71.5	544.4
As of December 31	197.3	220.4	38.3	89.3	545.3

The group performed impairment tests on production machines and facilities, resulting in impairments of CHF 5.7 million as of December 31, 2020 (December 31, 2019: CHF 2.1 million), all of which were charged to other operating expenses.

In 2020 the group sold property, plant and equipment with a book value of CHF 5.9 million for CHF 8.9 million resulting in a net gain of CHF 3.0 million (2019: property, plant and equipment sold for CHF 8.1 million with a book value of CHF 7.8 million, resulting in a net gain of CHF 0.4 million).

	2019				
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	379.8	725.5	185.0	47.3	1'337.7
Acquired through business combination	3.6	3.9	0.5	–	8.0
Additions	3.6	33.2	14.1	58.0	108.9
Disposals	–1.3	–21.7	–9.3	–	–32.3
Reclassifications	0.7	20.8	7.9	–32.8	–3.3
Currency translation differences	–5.7	–5.1	–4.2	–1.1	–16.0
Balance as of December 31	380.8	756.6	193.9	71.5	1'402.9
Accumulated depreciation					
Balance as of January 1	170.2	498.5	149.5	–	818.3
Additions	13.0	43.3	11.9	–	68.2
Disposals	–1.1	–16.2	–7.1	–	–24.5
Reclassifications	–1.0	0.2	3.3	–	2.4
Impairments	0.2	1.7	0.2	–	2.1
Currency translation differences	–2.8	–1.8	–3.3	–	–8.0
Balance as of December 31	178.4	525.7	154.4	–	858.5
Net book value					
As of January 1	209.6	227.0	35.5	47.3	519.4
As of December 31	202.4	230.9	39.5	71.5	544.4

The contractual commitments to acquire property, plant and equipment as of December 31, 2020, amounted to CHF 7.0 million (December 31, 2019: CHF 6.9 million).

16 Leases

Lease assets

	2020			
millions of CHF	Land and buildings, leased	Machinery and technical equipment, leased	Other non-current assets, leased	Total
Balance as of January 1	92.6	5.8	14.1	112.6
Acquired through business combination	2.1	0.0	0.3	2.4
Additions	39.5	5.0	8.0	52.5
Disposals	–1.3	–0.4	–1.3	–3.0
Depreciation	–25.8	–2.1	–8.0	–35.8
Impairments	–3.3	–	–	–3.3
Remeasurements and contract modifications	–0.2	–	1.1	0.9
Currency translation differences	–4.0	–0.3	–0.8	–5.1
Total lease assets as of December 31	99.7	8.2	13.4	121.2

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

Lease liabilities

	2020		
millions of CHF	Non-current lease liabilities	Current lease liabilities	Total
Balance as of January 1	82.3	27.4	109.7
Acquired through business combination	1.6	0.9	2.4
Additions	45.9	6.6	52.5
Interest expenses	2.1	0.7	2.8
Cash flow for repayments – principal portion	–9.8	–29.4	–39.2
Cash flow for repayments – interest portion	–2.1	–0.7	–2.8
Remeasurements and contract modifications	–5.3	4.5	–0.8
Reclassifications	–20.6	20.6	–
Currency translation differences	–3.7	–1.2	–4.9
Total lease liabilities as of December 31	90.2	29.5	119.7

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

Other leasing disclosures

millions of CHF	2020	2019
Recognized in the income statement		
Expenses relating to short-term leases	-17.5	-17.4
Expenses relating to low-value asset leases, excluding short-term leases of low-value assets	-1.9	-4.2
Expenses relating to variable lease payments not included in the lease liability	-2.4	-2.7
Income from subleasing right-of-use assets	0.5	0.5
Interest expenses on lease liabilities	-2.8	-3.3
Total recognized in the income statement	-24.1	-27.0
Recognized in the statement of cash flows		
Cash flow for short-term, low value and variable leases (included within cash flow from operating activities)	-21.9	-24.3
Cash flow from subleasing right-of-use assets (included within cash flow from operating activities)	0.5	0.5
Cash flow for repayments of interests on lease liabilities (included within cash flow from operating activities)	-2.8	-3.3
Cash flow for repayments of the principal portion on lease liabilities (included within cash flow from financing activities)	-39.2	-34.0
Total cash outflow	-63.3	-61.1

17 Associates

millions of CHF	2020	2019
Balance as of January 1	10.7	13.4
Additions	6.7	0.0
Reclassifications	4.4	-2.6
Share of profit/loss of associates	-0.7	0.1
Dividend payments received	-0.0	-0.1
Currency translation differences	0.1	-0.2
Total investments in associates as of December 31	21.2	10.7

On June 1, 2020, the group acquired 25% non-controlling interests of technology company Tamturbo Plc, for CHF 5.2 million. Tamturbo is a manufacturer of oil-free industrial air compressor systems, offering disruptive solutions. It enables cleaner and more energy-efficient compressed air production, complementing the group's low-pressure compressors for wastewater aeration.

On October 26, 2020, the group increased its investment in Worn Again by CHF 1.5 million (paid in cash). Worn Again is developing a unique polymer recycling process leveraging Sulzer technology to enable the recycling of textiles and polyester packaging. See [Note 18](#) for further details on the reclassification of CHF 4.4 million.

18 Other financial assets

	2020		
millions of CHF	Financial assets at fair value through profit and loss	Financial assets at amortized costs	Total
Balance as of January 1	10.3	59.8	70.1
Changes in scope of consolidation	–	0.1	0.1
Additions	4.0	369.7	373.8
Disposals	–	–123.3	–123.3
Reclassifications	–4.1	–0.4	–4.4
Changes in fair value	0.1	–	0.1
Currency translation differences	–0.0	–0.7	–0.7
Balance as of December 31	10.4	305.3	315.7
– thereof non-current	8.7	2.0	10.6
– thereof current	1.7	303.3	305.1

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

Financial assets that belong to the categories “financial assets at fair value through profit and loss” include investments in equity securities.

On June 10, 2020, the group increased its investment in Worn Again (previously classified as financial asset at fair value through profit and loss) by CHF 1.9 million (thereof CHF 1.5 million paid in cash and CHF 0.4 million converted from a loan, classified as financial assets at amortized costs). After this increase, the group reassessed the classification and reclassified the investment of CHF 4.4 million into investments in associates (see [Note 17](#)).

Financial assets at amortized costs include CHF 302.4 million investments in fixed-term deposits with maturities between 4 to 12 months at the date of acquisition.

19 Inventories

millions of CHF	2020	2019
Raw materials, supplies and consumables	197.6	203.9
Work in progress	216.4	252.0
Finished products and trade merchandise	101.1	119.0
Total inventories as of December 31	515.1	574.9

In 2020, Sulzer recognized write-downs of CHF 26.5 million (2019: CHF 23.2 million) in the income statement. Total accumulated write-downs on inventories amounted to CHF 94.2 million as of December 31, 2020 (2019: CHF 80.8 million). Material expenses in 2020 amounted to CHF 1'225.0 million (2019: CHF 1'434.9 million).

20 Assets and liabilities related to contracts with customers

millions of CHF	2020	2019
Sales recognized over time related to ongoing performance obligations	475.9	482.7
Sales recognized over time related to satisfied performance obligations	393.9	423.4
Sales recognized over time	869.8	906.2
Sales recognized at a point in time	2'449.2	2'822.3
Sales	3'319.0	3'728.5
– thereof sales recognized included in the contract liability balance at the beginning of the period	344.8	256.4
– thereof sales recognized from performance obligations satisfied (or partially satisfied) in previous periods	0.1	1.4
Cost of goods sold recognized over time related to ongoing performance obligations	-364.9	-386.2
Cost of goods sold recognized over time related to satisfied performance obligations	-289.8	-330.1
Cost of goods sold recognized over time	-654.7	-716.3
Cost of goods sold recognized at a point in time	-1'670.8	-1'891.0
Cost of goods sold	-2'325.4	-2'607.3
Gross profit recognized over time related to ongoing performance obligations	111.0	96.5
Gross profit recognized over time related to satisfied performance obligations	104.2	93.3
Gross profit recognized over time	215.2	189.9
Gross profit recognized at a point in time	778.4	931.3
Gross profit	993.6	1'121.2
Contract assets from sales recognized over time relating to ongoing performance obligations	749.3	779.2
Expected loss rate	0.1%	0.2%
Allowance for expected losses	-0.6	-1.2
Netting with contract liabilities	-423.9	-422.8
Contract assets	324.9	355.2
Contract liabilities from costs recognized over time relating to ongoing performance obligations	46.9	34.2
Advance payments from customers relating to point in time contracts	200.8	239.2
Advance payments from customers relating to over time contracts	476.8	494.1
Netting with contract assets	-423.9	-422.8
Contract liabilities	300.5	344.8
Order backlog (aggregate amount of transaction price allocated to unsatisfied performance obligations)	1'758.9	1'792.6
– thereof expected to be recognized as revenue within 12 months	1'561.5	1'637.3
– thereof expected to be recognized in more than 12 months	197.3	155.3

Total sales recognized over time decreased from CHF 906.2 million in 2019 to CHF 869.8 million in 2020. As a result contract assets decreased by CHF 30.3 million and contract liabilities by CHF 44.3 million.

21 Trade accounts receivable

Aging structure of trade accounts receivable

millions of CHF	2020				2019			
	Expected loss rate	Gross amount	Allowance	Net book value	Expected loss rate	Gross amount	Allowance	Net book value
Not past due	0.1%	419.7	-0.6	419.1	0.1%	446.7	-0.5	446.1
Past due								
1–30 days	0.8%	83.4	-0.7	82.7	0.8%	84.6	-0.7	83.9
31–60 days	6.2%	27.3	-1.7	25.6	2.4%	36.2	-0.9	35.4
61–120 days	4.2%	31.8	-1.3	30.5	3.3%	30.6	-1.0	29.6
>120 days	54.6%	90.5	-49.4	41.1	46.4%	94.9	-44.1	50.9
Total trade accounts receivable as of December 31		652.7	-53.7	599.1		693.0	-47.1	645.9

Allowance for doubtful trade accounts receivable

millions of CHF	2020	2019
Balance as of January 1	47.1	47.9
Additions	22.9	13.4
Released as no longer required	-10.1	-10.5
Utilized	-4.5	-5.3
Currency translation differences	-1.8	1.6
Balance as of December 31	53.7	47.1

Approximately 36% (2019: 36%) of the gross amount of trade accounts receivable were past due, and an allowance of CHF 53.7 million (2019: CHF 47.1 million) was recorded. The recoverability of trade accounts receivable is regularly reviewed, and the credit quality of new customers is thoroughly assessed. Due to the large and heterogeneous customer base, the credit risk from individual customers of the group is limited. The allowance for doubtful trade accounts receivable is based on expected credit losses. Due to COVID-19, the group has reassessed the expected credit losses by applying updated forward-looking information such as development of gross domestic product (GDP) and oil price development. The allowance for doubtful trade accounts receivable has increased by CHF 4.2 million as a consequence of the reassessment.

Accounts receivable by geographical region

millions of CHF	2020	2019
Europe, Middle East, Africa	284.7	298.7
– thereof United Kingdom	62.7	61.0
– thereof Saudi Arabia	27.2	34.7
– thereof Germany	37.4	31.7
– thereof France	21.4	22.5
– thereof Russia	18.4	17.5
Americas	137.2	164.8
– thereof USA	88.4	103.0
Asia-Pacific	177.1	182.3
– thereof China	112.2	116.8
Total as of December 31	599.1	645.9

22 Other current receivables and prepaid expenses

millions of CHF	2020	2019
Taxes (VAT, withholding tax)	63.9	77.5
Derivative financial instruments	12.1	6.7
Other current receivables	19.2	23.4
Total other current receivables as of December 31	95.2	107.6
Prepaid contributions to employee benefit plans	75.7	32.4
Other prepaid expenses	31.3	32.1
Total prepaid expenses as of December 31	107.0	64.5
Total other current receivables and prepaid expenses as of December 31	202.2	172.0

For further details on “Derivative financial instruments”, refer to [note 29](#) and for “Prepaid contributions to employee benefit plans”, refer to [note 9](#). Other current receivables and prepaid expenses do not include any material positions that are past due or impaired.

23 Cash and cash equivalents

millions of CHF	2020	2019
Cash	915.8	802.2
Cash equivalents	207.4	233.3
Total cash and cash equivalents as of December 31	1'123.2	1'035.5

As of December 31, 2020, the group held restricted cash and cash equivalents of CHF 17.3 million (2019: CHF 11.5 million).

24 Share capital

thousands of CHF	2020		2019	
	Number of shares	Share capital	Number of shares	Share capital
Balance as of December 31 (par value CHF 0.01)	34'262'370	342.6	34'262'370	342.6

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

Share ownership

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

Shareholders holding more than 3%

	Dec 31, 2020		Dec 31, 2019	
	Number of shares	in %	Number of shares	in %
Viktor Vekselberg (direct shareholder: Tiwel Holding AG)	16'728'414	48.82	16'728'414	48.82

Retained earnings

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

Treasury shares

The total number of shares held by Sulzer Ltd as of December 31, 2020, amounted to 426'467 treasury shares (December 31, 2019: 240'924 shares).

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

Cash flow hedge reserve

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

Currency translation reserve

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

Dividends

On April 15, 2020, the Annual General Meeting approved an ordinary dividend of CHF 4.00 (2019: ordinary dividend of CHF 3.50) per share to be paid out of reserves. The dividend was paid to shareholders on April 21, 2020. The total amount of the dividend to shareholders of Sulzer Ltd is CHF 136.1 million (2019: CHF 119.2 million), thereof paid dividends of CHF 92.6 million (2019: CHF 81.2 million) and unpaid dividends of CHF 43.5 million (2019: CHF 38.1 million). The dividend payments to the group's main shareholder Tiwel Holding AG could still not be transferred as a result of US sanctions. The unpaid dividends are reflected in the balance sheet position "other current and accrued liabilities" (see [note 28](#)).

The Board of Directors decided to propose to the Annual General Meeting 2021 a dividend for the year 2020 of CHF 4.00 per share (2019: CHF 4.00).

25 Earnings per share

	2020	2019
Net income attributable to shareholders of Sulzer Ltd (millions of CHF)	83.6	154.0
Issued number of shares	34'262'370	34'262'370
Adjustment for the average treasury shares held	-292'229	-235'928
Average number of shares outstanding as of December 31	33'970'141	34'026'442
Adjustment for share participation plans	343'482	313'212
Average number of shares for calculating diluted earnings per share as of December 31	34'313'623	34'339'654
Earnings per share, attributable to a shareholder of Sulzer Ltd (in CHF) as of December 31		
Basic earnings per share	2.46	4.52
Diluted earnings per share	2.44	4.48

26 Borrowings

millions of CHF	2020		
	Non-current borrowings	Current borrowings	Total
Balance as of January 1	1'199.2	131.0	1'330.2
Cash flow from proceeds	498.9	72.2	571.1
Cash flow for repayments	-0.0	-177.1	-177.1
Changes in amortized costs	0.3	0.1	0.4
Reclassifications	-207.1	207.1	-
Currency translation differences	0.0	-1.6	-1.5
Total borrowings as of December 31	1'491.3	231.8	1'723.1

millions of CHF	2020		2019
	Non-current borrowings	Current borrowings	Total
Balance as of January 1	1'308.7	16.9	1'325.6
Acquired through business combination	0.4	–	0.4
Cash flow from proceeds	0.3	153.8	154.1
Cash flow for repayments	–0.0	–149.2	–149.2
Reclassifications	–110.1	110.1	–
Currency translation differences	–0.0	–0.7	–0.7
Total borrowings as of December 31	1'199.2	131.0	1'330.2

Borrowings by currency

	2020			2019		
	millions of CHF	in %	Interest rate	millions of CHF	in %	Interest rate
CHF	1'700.2	98.7	0.9%	1'310.7	98.5	0.9%
INR	6.0	0.3	5.0%	9.5	0.7	6.4%
USD	5.1	0.3	1.8%	3.6	0.3	2.8%
EUR	10.1	0.6	1.1%	3.4	0.3	0.6%
Other	1.7	0.1	–	3.1	0.2	–
Total as of December 31	1'723.1	100.0	–	1'330.2	100.0	–

The group arranged a CHF 500 million syndicated credit facility with maturity date May 2022. The facility is available for general corporate purposes including financing of acquisitions. The facility is subject to financial covenants based on net financial indebtedness and EBITDA, which were adhered to throughout the reporting period. As of December 31, 2020 and 2019, the syndicated facility was not used.

Outstanding bonds

millions of CHF	2020		2019	
	Amortized costs	Nominal	Amortized costs	Nominal
0.375% 07/2016–07/2022	325.1	325.0	325.3	325.0
0.875% 07/2016–07/2026	125.0	125.0	125.0	125.0
0.250% 07/2018–07/2020	–	–	109.9	110.0
1.300% 07/2018–07/2023	289.6	290.0	289.4	290.0
0.625% 10/2018–10/2021	209.9	210.0	209.7	210.0
1.600% 10/2018–10/2024	249.8	250.0	249.8	250.0
0.800% 09/2020–09/2025	299.3	300.0	–	–
0.875% 11/2020–11/2027	199.6	200.0	–	–
Total as of December 31	1'698.4	1'700.0	1'309.1	1'310.0
– thereof non-current	1'488.5	1'490.0	1'199.2	1'200.0
– thereof current	209.9	210.0	109.9	110.0

On August 26, 2020, Sulzer issued a CHF 300 million single tranche bond. The bond has a term of five years and carries a coupon of 0.80% at a price of 100.037%.

On October 21, 2020, Sulzer issued a CHF 200 million single tranche bond. The bond has a term of seven years and carries a coupon of 0.875% at a price of 100.101%.

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

27 Provisions

	2020					
millions of CHF	Other employee benefits	Warranties/liabilities	Restructuring	Environmental	Other	Total
Balance as of January 1	54.4	67.6	20.0	14.7	51.9	208.7
Acquired through business combination	–	0.0	–	–	3.5	3.5
Additions	12.2	44.2	58.0	–	65.6	179.9
Released as no longer required	–	–7.5	–2.2	–0.2	–5.6	–15.5
Utilized	–10.1	–15.5	–33.0	–1.4	–54.9	–114.8
Currency translation differences	–3.0	–3.6	–1.4	–0.3	–4.2	–12.5
Total provisions as of December 31	53.5	85.3	41.5	12.8	56.3	249.3
– thereof non-current	37.3	3.3	2.7	12.7	9.7	65.8
– thereof current	16.2	82.0	38.7	0.0	46.6	183.5

	2019					
millions of CHF	Other employee benefits	Warranties/liabilities	Restructuring	Environmental	Other	Total
Balance as of January 1	49.4	78.9	10.1	15.1	60.5	213.9
Acquired through business combination	–	–	–	–	0.7	0.7
Additions	14.2	20.7	23.4	–	28.8	87.1
Released as no longer required	–	–11.2	–0.2	–	–11.7	–23.1
Utilized	–7.8	–19.4	–14.3	–0.5	–21.8	–63.7
Reclassifications	–	0.9	0.7	0.0	–1.6	–
Currency translation differences	–1.4	–2.3	0.4	0.1	–2.9	–6.2
Total provisions as of December 31	54.4	67.6	20.0	14.7	51.9	208.7
– thereof non-current	40.6	3.1	3.7	14.7	11.4	73.4
– thereof current	13.8	64.5	16.3	–	40.6	135.3

The category “Other employee benefits” includes provisions for jubilee gifts, early retirement of senior managers and other obligations to employees.

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

The group has initiated measures to mitigate the impact of market disruptions on Energy-related business activities caused by the pandemic. For 2020, the group recognized restructuring costs of CHF 58.0 million (2019: CHF 23.4 million), partly offset by released restructuring provisions of CHF 2.2 million (2019: CHF 0.2 million). Restructuring costs mainly relate to the closure or resizing of sites in Europe and the Americas, as well as the resizing of supporting resources. The remaining restructuring provision as of December 31, 2020, is CHF 41.5 million, of which CHF 38.7 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 2021, by their nature the amounts and timing of any cash outflows are difficult to predict.

28 Other current and accrued liabilities

millions of CHF	2020	2019
Liability related to the purchase of treasury shares	103.4	104.2
Outstanding dividend payments	157.6	114.1
Taxes (VAT, withholding tax)	35.6	29.4
Derivative financial instruments	6.9	8.2
Notes payable	17.0	9.3
Contingent consideration	4.4	–
Other current liabilities	29.6	30.2
Total other current liabilities as of December 31	354.5	295.5
Contract-related costs	116.3	104.7
Salaries, wages and bonuses	114.0	113.7
Vacation and overtime claims	20.8	31.8
Other accrued liabilities	116.3	131.7
Total accrued liabilities as of December 31	367.5	381.8
Total other current and accrued liabilities as of December 31	721.9	677.3

The outstanding dividend payments of CHF 157.6 million (2019: CHF 114.1 million) are explained in [note 24](#).

29 Derivative financial instruments

millions of CHF	2020				2019			
	Derivative assets		Derivative liabilities		Derivative assets		Derivative liabilities	
	Notional value	Fair value	Notional value	Fair value	Notional value	Fair value	Notional value	Fair value
Forward exchange rate contracts	672.7	12.1	723.2	6.9	713.6	6.8	426.8	8.2
Interest rate swaps	4.9	1.0	4.9	1.2	–	–	–	–
Total as of December 31	677.6	13.2	728.0	8.1	713.6	6.8	426.8	8.2
– thereof due in <1 year	672.7	12.1	723.2	6.9	705.6	6.7	426.4	8.2
– thereof due in 1–5 years	–	–	–	–	8.0	0.1	0.4	0.0
– thereof due in >5 years	4.9	1.0	4.9	1.2	–	–	–	–

The notional value and the fair value of derivative assets and liabilities include current and also non-current derivative financial instruments. The cash flow hedges of the expected future sales were assessed as highly effective. As at December 31, 2020, a net cumulative unrealized gain of CHF 7.4 million (2019: loss of CHF 5.2 million) with a deferred tax liability of CHF 1.5 million (2019: tax asset of CHF 0.9 million) relating to these cash flow hedges were included in the Cash Flow Hedge Reserve. In 2020, a loss of CHF 6.3 million (2019: CHF 5.7 million) was reclassified from cash flow hedge reserves to profit and loss. There was no ineffectiveness that arose from cash flow hedges in

2020 (2019: 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, 2020, 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, 2020, the amount subject to such netting arrangements was CHF 5.0 million (2019: CHF 5.3 million). Considering the effect of these agreements the amount of derivative assets would reduce from CHF 13.2 million to CHF 8.2 million (2019: from CHF 6.8 million to CHF 1.5 million), and the amount of derivative liabilities would reduce from CHF 8.1 million to CHF 3.1 million (2019: from CHF 8.2 million to CHF 2.9 million).

30 Contingent liabilities

millions of CHF	2020	2019
Guarantees in favor of third parties	11.0	10.0
Total contingent liabilities as of December 31	11.0	10.0

As of December 31, 2020, guarantees provided to third parties amounted to CHF 11.0 million (2019: CHF 10.0 million), whereof CHF 10.0 million were related to certain environmental matters of disposed business (2019: CHF 10.0 million) and CHF 1.0 million to general business activities. Both guarantees will expire in 2022.

31 Share participation plans

Share-based payments charged to personnel expenses

millions of CHF	2020	2019
Restricted share unit plan	1.2	0.9
Performance share plan	13.0	11.6
Total charged to personnel expenses	14.2	12.5

Restricted share unit plan settled in Sulzer shares

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

Restricted share units

Grant year	2020	2019	2018	2017	2016	Total
Outstanding as of December 1, 2019	–	–	8'283	4'952	6'794	20'029
Granted	–	10'551	–	–	–	10'551
Exercised	–	–	–2'761	–2'476	–6'794	–12'031
Forfeited	–	–	–	–	–	–
Outstanding as of December 31, 2019	–	10'551	5'522	2'476	–	18'549
Outstanding as of January 1, 2020	–	10'551	5'522	2'476	–	18'549
Granted	17'715	–	–	–	–	17'715
Exercised	–	–3'517	–2'761	–2'476	–	–8'754
Forfeited	–	–	–	–	–	–
Outstanding as of December 31, 2020	17'715	7'034	2'761	–	–	27'510
Average fair value at grant date in CHF	65.22	97.76	118.20	98.00	72.61	

Performance share plan settled in Sulzer shares

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

Vesting of the PSU is subject to continuous employment and to the achievement of performance conditions over the performance period. Participants are not entitled to dividends declared during the vesting period. Vesting of the performance share plans (PSP) is based on three performance conditions: operational income before restructuring, amortization, impairments and non-operational items (operational profit) growth over the performance period (weighted 25%), average operational return on capital employed (operational 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%).

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	2020	2019	2018	2017	2016
Fair value at grant date	78.18	115.95	143.62	116.02	118.05
Share price at grant date	76.05	92.46	120.60	104.80	98.50
Expected volatility	37.45%	29.64%	29.12%	25.10%	25.46%
Risk-free interest rate	–0.64%	–0.57%	–0.42%	–0.56%	–0.73%

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 all dividends paid during the vesting period are added to the closing share price.

Performance share units – terms of awards

Grant year	2020	2019	2018	2017	2016
Number of awards granted	151'422	112'857	74'467	76'818	116'472
Grant date	June 1, 2020	April 1, 2019	July 1, 2018	April 1, 2017	August 1, 2016
Performance period for cumulative operational profit	01/20–12/22	01/19–12/21	01/18–12/20	01/17–12/19	01/16–12/18
Performance period for TSR	01/20–12/22	01/19–12/21	01/18–12/20	01/17–12/19	01/16–12/18
Fair value at grant date in CHF	78.18	115.95	143.62	116.02	118.05

Performance share units

Grant year	2020	2019	2018	2017	2016	Total
Outstanding as of January 1, 2019	–	–	74'467	68'759	90'990	234'216
Granted	–	112'857	–	–	–	112'857
Exercised	–	–630	–1'673	–1'540	–90'990	–94'833
Forfeited	–	–1'588	–2'631	–382	–	–4'601
Outstanding as of December 31, 2019	–	110'639	70'163	66'837	–	247'639
Outstanding as of January 1, 2020	–	110'639	70'163	66'837	–	247'639
Granted	151'422	–	–	–	–	151'422
Exercised	–999	–3'831	–4'748	–66'837	–	–76'415
Forfeited	–3'564	–5'044	–2'158	–	–	–10'766
Outstanding as of December 31, 2020	146'859	101'764	63'257	–	–	311'880

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

Key management compensation

thousands of CHF	2020				2019			
	Short-term benefits	Equity-based compensation	Pension and social security contributions	Total	Short-term benefits	Equity-based compensation	Pension and social security contributions	Total
Board of Directors	1'396	1'155	257	2'808	1'282	1'030	230	2'542
Executive Committee	7'445	5'238	1'965	14'648	7'171	6'290	1'909	15'370

There are no outstanding loans with members of the Board of Directors or the Executive Committee as per the 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, 2020, open payables with related parties controlled by the major shareholder of CHF 261.0 million (2019: CHF 218.3 million) were recognized (thereof CHF 103.4 million related to the purchase of treasury shares and CHF 157.6 million outstanding dividend payments, see [note 24](#) and [note 28](#)). The operating expenses amounted to CHF 0.8 million (2019: CHF 0.8 million). The interest expenses amounted to CHF 0.0 million (2019: expense CHF 0.1 million).

Sales with ROTEC (Joint Stock Company ROTEC, Russia), where the Sulzer Board member Mikhail Lifshitz is the Chairman of the Board and holds a 31% stake, amounted to CHF 0.0 million (2019: CHF 0.4 million). Expenses with ROTEC amounted to CHF 0.0 million (2019: CHF 0.3 million).

Sales with associates in 2020 amounted to CHF 1.1 million (2019: CHF 2.3 million) with open receivables of CHF 0.5 million (2019: CHF 0.0 million). The income for services with associates amounted to CHF 0.0 million (2019: CHF 0.3 million). The operating expenses amounted to CHF 0.2 million (2019: CHF 2.8 million).

33 Auditor remuneration

Fees for the audit services by KPMG as the appointed group auditor amounted to CHF 3.6 million (2019: CHF 4.0 million). Additional services provided by the group auditor amounted to a total of CHF 1.8 million (2019: CHF 0.7 million). This amount includes CHF 0.5 million (2019: CHF 0.5 million) for tax services and CHF 1.3 million for other services (2019: CHF 0.2 million).

34 Key accounting policies and valuation methods

34.1 Basis of preparation

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

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

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

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

Rounding

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

Tables

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

34.2 Change in accounting policies

a) Standards, amendments and interpretations which are effective for 2020

A number of new standards and amendments to standards have become effective as of January 1, 2020, but they do not have a material effect on the group's financial statements.

b) Standards, amendments and interpretations issued but not yet effective which the group has decided not to early adopt in 2020

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

34.3 Consolidation**a) Business combinations**

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

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

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

b) Subsidiaries

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

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

c) Non-controlling interests

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

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

d) Associates and joint ventures

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

e) Transactions eliminated on consolidation

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

34.4 Segment reporting

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

34.5 Foreign currency translation

a) Functional and presentation currency

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

The following table shows the major currency exchange rates for the reporting periods 2020 and 2019:

CHF	2020		2019	
	Average rate	Year-end rate	Average rate	Year-end rate
1 EUR	1.07	1.08	1.11	1.09
1 GBP	1.20	1.20	1.27	1.27
1 USD	0.94	0.88	0.99	0.97
100 CNY	13.60	13.49	14.38	13.91
100 INR	1.27	1.21	1.41	1.36

b) Transactions and balances

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

c) Subsidiaries

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

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

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

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

34.6 Intangible assets

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

a) Goodwill

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

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

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

b) Trademarks and licenses

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

c) Research and development

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

d) Computer software

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

e) Customer relationships

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

34.7 Property, plant and equipment

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

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

The useful lives are as follows:

Buildings 20 – 50 years

Machinery 5 – 15 years

Technical equipment 5 – 10 years

Other non-current assets max. 5 years

34.8 Impairment of property, plant and equipment and intangible assets

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

34.9 Lease assets and lease liabilities

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

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

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

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index rate, a change in the estimate of the amount expected to be payable

under a residual value guarantee, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised, or a termination option is reasonably certain not to be exercised.

34.10 Financial assets

Financial assets are classified into the following three categories:

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

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

Debt instruments

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

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

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

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

Financial assets measured at amortized cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

Equity instruments

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

presented within other operating income and expenses or other financial income and expenses, depending on the nature of the investment, in the period in which it arises.

34.11 Derivative financial instruments and hedging activities

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

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

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

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

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

34.12 Offsetting financial assets and liabilities

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

34.13 Inventories

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

34.14 Trade receivables

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

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

34.15 Cash and cash equivalents

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

34.16 Share capital

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

34.17 Trade payables

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

34.18 Borrowings

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

34.19 Current and deferred income taxes

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

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

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

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

34.20 Employee benefits

a) Defined benefit plans

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

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

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

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

b) Defined contribution plans

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

c) Other employee benefits

Some subsidiaries provide other employee benefits like "Early retirement benefits" or "Jubilee gifts" to their employees. Early retirement benefits are defined as termination benefits for employees accepting voluntary redundancy in exchange for those benefits. Jubilee gifts are other long-term

benefits. For example, in Switzerland Sulzer makes provisions for jubilee benefits based on a Swiss local directive. The provisions are reported in the category “Other employee benefits” (note 27).

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

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

34.21 Share-based compensation

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

a) Performance share plan (PSP)

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

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

b) Restricted share plan (RSP)

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

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

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

34.22 Provisions

Provisions are recognized when: the group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognized for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required is

determined by considering the class of obligation as a whole. A provision is recognized even if the likelihood of an outflow with respect to a single item included in the class of obligations may be small.

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

34.23 Sales

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

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

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

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

There are two methods to recognize sales:

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

The group determines at contract inception whether control of each performance obligation transfers to a customer over time or at a point in time. Arrangements where the performance obligations are satisfied over time are not limited to services arrangements. The assessment of whether control transfers over time or at a point in time is critical to the timing of revenue recognition.

Over time method (OT)

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

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

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

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

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

Point in time method (PIT)

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

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

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

Contract classification per division

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

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

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

Disaggregation of sales

In the segment information (note 3) sales are disaggregated by:

- Divisions (group's reportable segments)
- Timing of sales recognition (sales recognition method: over time, point in time) and divisions
- Market segments and divisions
- Geographical regions and divisions

Payment terms

The group's general terms and conditions of supply require payments within 30 days after the invoice date.

If the group's general terms and conditions apply for a contract, the group is entitled to issue the invoices as follows: for one-third of the contract value within five days after effective date (date when the purchase order has been accepted by the supplier, or the date of the latest signing), for one-third after expiration of half of the delivery time, and for one-third within 45 days prior to delivery.

Payments for prices calculated on a time basis are invoiced on a bi-weekly basis or after completion of the scope of supply, whichever occurs first.

Other payment terms may apply if otherwise defined in the customer contract, the purchase order, the respective change order or the quotation.

Variable considerations

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

The group's general terms and conditions of supply foresee the following warranty periods. Except in cases where the scope of supply is limited to services only, the warranty period ends on the earliest of the dates below:

- After 12 months from the initial operation of the scope of supply
- After 18 months from delivery of the scope of supply
- In the event that delivery is delayed or impeded for reasons beyond the supplier's control, after 18 months from the date of the supplier's notification that the scope of supply is ready for dispatch

Where the scope of supply is limited to services only, the warranty period ends six months after completion of such services.

If the group fails to meet the delivery date for more than two calendar weeks due to reasons for which the group is directly responsible, and provided that the purchase order expressly provides liquidated damages for such failure, the purchaser is entitled to demand that the group pays liquidated damages at the rate stated in the purchase order.

The group's obligation for warranties, liquidated damages and other obligations is accounted for as a variable consideration in the sales and recognized as a provision.

Allocation of the transaction price

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

34.24 Assets and disposal groups held for sale

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

34.25 Dividend distribution

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

35 Subsequent events after the balance sheet date

The Board of Directors authorized these consolidated financial statements for issue on February 23, 2021. They are subject to approval at the Annual General Meeting, which will be held on April 14, 2021. At the time when these consolidated financial statements were authorized for issue, the Board of Directors and the Executive Committee were not aware of any events that would materially affect these financial statements.

36 Major subsidiaries

December 31, 2020

	Subsidiary	Sulzer ownership and voting rights	Registered capital (including paid-in capital in the USA and Canada)	Direct participation by Sulzer Ltd	Research and development	Production and engineering	Sales	Service
Europe								
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	•				
	Haselmeier AG ¹⁾ , St. Gallen	100%	CHF 2'000'000	•	•			
Belgium	Sulzer Pumps Wastewater Belgium N.V./S.A., St. Stevens-Woluwe	100%	EUR 123'947	•			•	•
	Ensival Moret Belgium SA, Thimister-Clermont	100%	EUR 7'400'000	•				
Czech Republic	Sulzer GTC Technology Europe s.r.o., Brno	100%	CZK 28'053'000	•		•	•	•
	Haselmeier s.r.o. ¹⁾ , Dnesice	100%	CZK 50'200'000			•		
Germany	Sulzer Pumpen (Deutschland) GmbH, Bruchsal	100%	EUR 3'000'000	•	•	•	•	•
	Sulzer Pumps Wastewater Germany GmbH, Bonn	100%	EUR 300'000	•			•	•
	Sulzer Chemtech GmbH, Linden	100%	EUR 300'000	•			•	•
	Sulzer APS Deutschland Holding GmbH, Bechhofen	100%	EUR 870'000	•				
	Geka GmbH, Bechhofen	100%	EUR 878'600		•	•	•	•
	Sulzer Mixpac Deutschland GmbH, Kiel	100%	EUR 26'000		•	•	•	•
	Haselmeier GmbH ¹⁾ , Stuttgart	100%	EUR 2'027'700		•		•	•
Denmark	Sulzer Pumps Denmark A/S, Farum	100%	DKK 500'000	•			•	•
Finland	Sulzer Pumps Finland Oy, Kotka	100%	EUR 16'000'000	•	•	•	•	•
France	Sulzer Pompes France SASU, Buchelay	100%	EUR 6'600'000	•	•	•	•	•
	Sulzer Ensival Moret France SASU, Saint-Quentin	100%	EUR 10'000'000	•		•	•	•
Great Britain	Sulzer Pumps (UK) Ltd., Leeds	100%	GBP 9'610'000		•	•	•	•
	Sulzer Chemtech (UK) Ltd., Stockton on Tees	100%	GBP 100'000				•	•
	Sulzer Electro Mechanical Services (UK) Ltd., Birmingham	100%	GBP 48'756			•	•	•
	Sulzer (UK) Holdings Ltd., Leeds	100%	GBP 6'100'000	•				
	Sulzer Mixpac (UK) Ltd., Hungerford	100%	GBP 1'000'000			•	•	
	Alba Power Ltd., Aberdeen	100%	GBP 1		•	•	•	•
Ireland	Sulzer Pump Solutions Ireland Ltd., Wexford	100%	EUR 2'222'500	•	•	•	•	•
	Sulzer Finance (Ireland) Limited, Wexford	100%	EUR 100	•				

Italy	Sulzer Italy S.r.l., Casalecchio di Reno	100%	EUR 600'000	•			•	
Norway	Sulzer Pumps Wastewater Norway A/S, Sandvika	100%	NOK 502'000	•			•	•
	Sulzer Pumps Norway A/S, Klepp Stasjon	100%	NOK 500'000	•			•	•
The Netherlands	Sulzer Pumps Wastewater Netherlands B.V., Maastricht-Airport	100%	EUR 15'882				•	•
	Sulzer Chemtech Nederland B.V., Breda	100%	EUR 1'134'451				•	•
	Process Laboratories Netherlands (PROLAB NL) B.V., Arnhem	100%	EUR 18'000		•			•
	Sulzer Turbo Services Venlo B.V., Lomm	100%	EUR 443'940		•	•	•	•
	Sulzer Netherlands Holding B.V., Lomm	100%	EUR 10'010'260	•				
	Sulzer Capital B.V., Lomm	100%	EUR 50'000					
Austria	Sulzer Austria GmbH, Wiener Neudorf	100%	EUR 350'000	•			•	•
Poland	Sulzer Turbo Services Poland Sp. z o.o., Lublin	100%	PLN 2'427'000			•		•
	Sulzer Pumps Wastewater Poland Sp. z o.o., Warsaw	100%	PLN 800'000	•			•	•
	Sulzer Mixpac Poland Sp. z o.o., Nowa Wies Wroclawska	100%	PLN 5'000	•		•		
Romania	GTC Technology Romania Srl, Bucharest	100%	RON 1'345'070	•		•		
Russia	AO Sulzer Pumps, St. Petersburg	100%	RUB 8'000'000	•			•	
	Sulzer Pumps Rus LLC, Moscow	100%	RUB 6'000'600	•			•	•
	Sulzer Turbo Services Rus LLC, Moscow	100%	RUB 14'705'882	•				•
	Sulzer Chemtech LLC, Serpukhov	100%	RUB 55'500'000	•		•	•	•
Sweden	Sulzer Pumps Sweden AB, Vadstena	100%	SEK 3'000'000	•	•	•	•	•
Spain	Sulzer Pumps Spain S.A., Madrid	100%	EUR 1'750'497	•		•	•	•
	Sulzer Pumps Wastewater Spain S.A., Rivas Vaciamadrid	100%	EUR 2'000'000				•	•
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	•		•	•	•
	JWC Environmental Canada ULC, Burnaby	100%	CAD 1'832'816			•	•	
USA	Sulzer Pumps (US) Inc., Houston, Texas	100%	USD 40'381'108		•	•	•	•
	Sulzer Pumps Solutions Inc., Easley, South Carolina	100%	USD 25'589'260			•	•	•
	Sulzer Pump Services (US) Inc., Houston, Texas	100%	USD 1'000			•	•	•
	Sulzer Chemtech USA, Inc., Tulsa, Oklahoma	100%	USD 47'895'000		•	•	•	•
	Sulzer Mixpac USA Inc., Salem, New Hampshire	100%	USD 100				•	
	Sulzer Turbo Services Houston Inc., La Porte, Texas	100%	USD 18'840'000			•	•	•
	Sulzer Turbo Services New Orleans Inc., Belle Chasse, Louisiana	100%	USD 4'006'122			•	•	•

	Sulzer Electro-Mechanical Services (US) Inc., Pasadena, Texas	100%	USD 12'461'286			•	•	•
	Sulzer US Holding Inc., Houston, Texas	100%	USD 310'335'340	•				
	Geka Manufacturing Corporation, Elgin, Illinois	100%	USD 603'719			•	•	•
	JWC Environmental Inc., Santa Ana, California	100%	USD 220'818'520		•	•	•	•
	Sulzer GTC Technology US Inc., Houston, Texas	100%	USD 1		•	•	•	•
Mexico	Sulzer Pumps México, S.A. de C.V., Cuautitlán Izcalli	100%	MXN 4'887'413	•		•	•	•
	Sulzer Chemtech, S. de R.L. de C.V., Cuautitlán Izcalli	100%	MXN 231'345'500	•		•	•	•
Central and South America								
Argentina	Sulzer Turbo Services Argentina S.A., Buenos Aires	100%	ARS 9'730'091	•		•	•	•
Brazil	Sulzer Brasil S.A., Jundiaí	100%	BRL 81'789'432	•		•	•	•
	Sulzer Pumps Wastewater Brasil Ltda., Jundiaí	100%	BRL 37'966'785	•		•	•	•
	Sulzer Services Brasil, Triunfo	100%	BRL 40'675'856	•				•
	Geka do Brasil Indústria e Comércio de Embalagens Ltda., Cotia	100%	BRL 15'009'794	•		•	•	•
Chile	Sulzer Bombas Chile Ltda., Vitacura	100%	CLP 46'400'000	•			•	
Colombia	Sulzer Pumps Colombia S.A.S., Cota	100%	COP 7'142'000'000	•			•	•
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	•		•	•	•
Morocco	Sulzer Maroc S.A.R.L. A.U., Nouaceur	100%	MAD 3'380'000	•				•
Nigeria	Sulzer Pumps (Nigeria) Ltd., Lagos	100%	NGN 5'000'000	•			•	•
Zambia	Sulzer Zambia Ltd., Chingola	100%	ZMK 15'000'000	•			•	•
Middle East								
United Arab Emirates	Sulzer Pumps Middle East FZCO, Dubai	100%	AED 500'000	•			•	•
	Sulzer Rotating Equipment FZE, Dubai	100%	USD 272'000				•	•
Saudi Arabia	Sulzer Saudi Pump Company Limited, Riyadh	75%	SAR 44'617'000	•		•	•	•
Bahrain	Sulzer Chemtech Middle East W.L.L., Al Seef	100%	BHD 50'000	•			•	
Asia								
India	Sulzer Pumps India Pvt. Ltd., Navi Mumbai	100%	INR 24'893'500	•		•	•	•
	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	95%	IDR 28'234'800'000	•		•	•	•
Japan	Sulzer Daiichi K.K., Tokyo	60%	JPY 30'000'000	•			•	
	Sulzer Japan Ltd., Tokyo	100%	JPY 30'000'000	•		•	•	•

Malaysia	Sulzer Pumps Wastewater Malaysia Sdn. Bhd., Selangor Darul Ehsan	100%	MYR 500'000	•			•	
Singapore	Sulzer Singapore Pte. Ltd., Singapore	100%	SGD 1'000'000	•		•	•	•
South Korea	Sulzer Korea Ltd., Seoul	100%	KRW 222'440'000	•			•	
	Sulzer GTC Technology Korea Co. Ltd., Seoul	100%	KRW 4'870'000'000	•		•	•	•
Thailand	Sulzer (Thailand) Co., Ltd., Rayong	100%	THB 25'000'000	•				•
People's Republic of China	Sulzer Dalian Pumps & Compressors Ltd., Dalian	100%	CHF 21'290'000	•		•	•	•
	Sulzer Pumps Suzhou Ltd., Suzhou	100%	CNY 282'069'324	•		•	•	•
	Sulzer Pump Solutions (Kunshan) Co., Ltd., Kunshan	100%	USD 5'760'000	•		•		
	Sulzer Shanghai Eng. & Mach. Works Ltd., Shanghai	100%	CNY 61'432'607	•	•	•	•	•
	Sulzer Pumps Wastewater Shanghai Co. Ltd., Shanghai	100%	USD 1'550'000	•			•	•
	Sulzer GTC (Beijing) Technology Inc., Beijing	100%	USD 150'000	•	•	•	•	•
Australia								
	Sulzer Australia Pty Ltd., Brisbane	100%	AUD 5'308'890				•	•
	Sulzer Australia Holding Pty Ltd., Brendale	100%	AUD 34'820'100	•				

1) Acquired in 2020.



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, 2020 and the “[Consolidated income statement](#)”, “[Consolidated statement of comprehensive income](#)”, “[Consolidated statement of changes in equity](#)” and “[Consolidated statement of cash flows](#)” for the year then ended, and “[Notes to the consolidated financial statements](#)”, including a summary of significant accounting policies.

In our opinion the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2020, 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 International Ethics Standards Board for Accountants’ International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Key Audit Matters



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



Accounting for warranties and other costs to fulfill contract obligations



Valuation of goodwill

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



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

Key Audit Matter

As per December 31, 2020, revenue from customer contracts amounts to CHF 3'319.0 million, contract assets amount to CHF 324.9 million, contract liabilities to CHF 300.5 million, the balance of work in progress (WIP) amounts to CHF 216.4 million and trade accounts receivable amount to CHF 599.1 million.

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

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

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

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

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

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

Our response

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

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

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

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

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



Accounting for warranties and other costs to fulfill contract obligations

Key Audit Matter

As per December 31, 2020, provisions in the amount of CHF 85.3 million are held on the balance sheet to cover expected costs arising from product warranties. Additional expected costs to fulfill contract obligations and for onerous contracts are recorded as other provisions.

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

Our response

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

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

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

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

For further information on accounting for warranties and other costs to fulfill contract obligations to the following:

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



Valuation of goodwill

Key Audit Matter

As at December 31, 2020, Sulzer’s balance sheet included goodwill amounting to CHF 957.7 million.

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

The goodwill balance is significant compared to total assets and there are a number of judgments involved in performing the impairment test. Furthermore, the economic conditions continue to be challenging in some of Sulzer’s key markets, specifically the oil and gas sector. With a significant share in this market segment, Sulzer’s financial performance is affected by the volatile oil prices, triggered by political tensions, and the resulting subdued demand and price pressure from its oil and gas customers. These effects were accompanied by the COVID-19 pandemic heavily affecting the global economy in 2020.

Our response

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

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

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

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

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

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

Other Information in the Annual Report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the

consolidated financial statements, the stand-alone financial statements of the Company, the compensation report and our auditor's reports thereon.

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

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

Responsibility of the Board of Directors for the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

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



Rolf Hauenstein
Licensed Audit Expert
Auditor in Charge



Simon Niklaus
Licensed Audit Expert

Zurich, February 23, 2021

KPMG AG, Raffelstrasse 28, CH-8036 Zurich

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Supplementary information

Alternative performance measures (APM)

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

Definition of alternative performance measures (APM)

Order intake

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

Order intake gross margin

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

Order backlog

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

ROS (return on sales)

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

Operational profit

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

Operational profitability

Operational profitability measures how the group turns sales into operating profits. Operational profitability is calculated by dividing operational profit by sales.

Operational ROCEA (operational return on capital employed adjusted)

Operational ROCEA measures how the group generates operational profits from its capital employed. Operational ROCEA is calculated by dividing operational profit by average capital employed.

Capital employed

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

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

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

Core net income

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

Free cash flow (FCF)

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

Net debt

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

Net debt/EBITDA ratio

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

Gearing ratio (borrowings-to-equity ratio)

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

Currency-adjusted growth

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

Organic growth

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

The impact of the organic growth is determined as follows:

- Currency-adjusted growth as described above
- For the current-year acquisitions, by deducting the currency-adjusted amount generated during the current-year by the acquired entities
- For previous year acquisitions, by deducting the currency-adjusted amount generated over the months during which the acquired entities were not consolidated in the previous year

- For current-year disposals, by adding the currency-adjusted amount generated by the divested entities in the previous year over the months during which those entities were no longer consolidated in the current year
- For the previous year disposals, by adding for the current year the currency-adjusted amount generated in the previous year by the divested entities

Reconciliation statements for alternative performance measures (APM)

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

Operational ROCEA reconciliation statement

millions of CHF	2020	2019
Total assets	5'378.7	5'109.5
/./. Other intangible assets	-401.0	-430.1
/./. Cash and cash equivalents	-1'123.2	-1'035.5
/./. Current financial assets	-305.1	-57.5
/./. Total current and non-current income and deferred tax assets and liabilities	-56.0	-42.0
/./. Total non-current liabilities	-1'989.9	-1'644.1
/./. Total current liabilities	-1'971.7	-1'871.5
Non-current borrowings	1'491.3	1'199.2
Current borrowings	231.8	131.0
Liability related to the purchase of treasury shares	103.4	104.2
Outstanding dividend payments	157.6	114.1
Adjustment for average calculation and currency translation differences	79.5	270.7
Average capital employed	1'595.4	1'848.1
Operational profit	297.6	371.3
Average capital employed	1'595.4	1'848.1
Operational ROCEA	18.7%	20.1%

Five-year summaries of key financial data

Key figures from consolidated income statement and statement of cash flows

millions of CHF	2020	2019	2018	2017	2016
Order intake	3'414.1	3'747.2	3'531.5	3'155.7	2'797.5
Currency-adjusted growth order intake	-2.2%	8.2%	12.5%	11.8%	-2.0%
Order intake gross margin	34.0%	33.6%	33.3%	34.4%	34.0%
Order backlog	1'758.9	1'792.6	1'786.9	1'593.5	1'439.1
Sales	3'319.0	3'728.5	3'364.9	3'049.0	2'876.7
Operating income (EBIT)	150.6	241.0	183.8	136.5	115.3
Operational profit	297.6	371.3	322.5	255.4	238.9
Operational profitability	9.0%	10.0%	9.6%	8.4%	8.3%
Net income attributable to shareholders of Sulzer Ltd	83.6	154.0	113.7	83.2	59.0
– in percentage of equity attributable to shareholders of Sulzer Ltd (ROE)	6.0%	9.7%	7.0%	5.0%	3.7%
Reported EPS	2.46	4.52	3.56	2.44	1.73
Depreciation	-101.8	-102.6	-71.7	-71.7	-69.5
Amortization	-65.9	-64.5	-69.0	-53.8	-47.3
Impairments of tangible and intangible assets	-9.8	-4.4	-4.4	-15.4	-18.4
Research and development expenses	-84.1	-85.6	-86.4	-81.0	-71.4
Personnel expenses	-1'123.4	-1'191.1	-1'129.7	-1'078.2	-971.1
Capital expenditure (incl. lease assets)	-158.0	-142.1	-96.2	-81.2	-74.9
Free cash flow (FCF)	272.1	213.4	181.3	127.0	200.5
FCF conversion (free cash flow/net income)	3.12	1.35	1.56	1.46	3.34
Employees (number of full-time equivalents) as of December 31	15'054	16'506	15'572	14'732	14'005

Key figures from consolidated balance sheet

millions of CHF	2020	2019	2018	2017	2016
Non-current assets	2'215.9	2'172.0	2'057.7	1'990.5	1'809.9
– thereof property, plant and equipment	545.3	544.4	527.0	531.6	511.0
Current assets	3'162.8	2'937.5	2'840.6	2'126.8	1'926.0
– thereof cash and cash equivalents	1'123.2	1'035.5	1'095.2	488.8	429.5
Total assets	5'378.7	5'109.5	4'898.3	4'117.3	3'735.9
Equity attributable to shareholders of Sulzer Ltd	1'404.3	1'580.7	1'629.9	1'680.1	1'581.2
Non-current liabilities	1'989.9	1'644.1	1'646.8	900.1	980.3
– thereof non-current borrowings	1'491.3	1'199.2	1'316.3	458.7	458.3
– thereof non-current lease liabilities	90.2	82.3	–	–	–
Current liabilities	1'971.7	1'871.5	1'610.4	1'514.8	1'164.6
– thereof current borrowings	231.8	131.0	18.0	255.1	7.1
– thereof current lease liabilities	29.5	27.4	–	–	–
Net debt	414.5	346.9	239.0	225.0	35.9
Net debt/EBITDA ratio	1.26	0.84	0.73	0.81	0.14
Equity ratio ¹⁾	26.1%	30.9%	33.3%	40.8%	42.3%

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

Five-year summaries by division

millions of CHF	Order intake					Sales				
	2020	2019	2018	2017	2016	2020	2019	2018	2017	2016
Pumps Equipment	1'297.6	1'458.9	1'372.1	1'180.2	1'066.8	1'296.3	1'477.0	1'284.2	1'120.0	1'155.3
Rotating Equipment Services	1'130.8	1'193.2	1'109.7	1'047.7	986.4	1'078.3	1'167.0	1'063.7	1'029.5	1'003.4
Chemtech	620.8	670.0	600.1	501.5	471.8	593.1	664.0	563.2	478.0	446.0
Applicator Systems	364.8	425.1	449.6	426.3	272.6	351.2	420.6	453.8	421.6	272.0
Total	3'414.1	3'747.2	3'531.5	3'155.7	2'797.5	3'319.0	3'728.5	3'364.9	3'049.0	2'876.7

millions of CHF	Order backlog					Employees ¹⁾				
	2020	2019	2018	2017	2016	2020	2019	2018	2017	2016
Pumps Equipment	845.0	924.3	982.9	847.0	697.4	5'362	5'759	5'713	5'453	5'156
Rotating Equipment Services	435.0	422.2	393.1	364.4	378.7	4'449	4'900	4'721	4'485	4'541
Chemtech	396.9	385.3	345.9	315.3	304.9	3'221	3'803	3'063	2'878	2'570
Applicator Systems	82.0	60.8	65.0	66.8	58.0	1'857	1'821	1'864	1'716	1'562
Divisions	1'758.9	1'792.6	1'786.9	1'593.5	1'439.0	14'888	16'284	15'361	14'532	13'829
Others	0.0	0.0	-0.0	-	0.1	165	222	211	200	176
Total	1'758.9	1'792.6	1'786.9	1'593.5	1'439.1	15'054	16'506	15'572	14'732	14'005

millions of CHF	Operational profit					Operational profitability				
	2020	2019	2018	2017	2016	2020	2019	2018	2017	2016
Pumps Equipment	55.2	59.7	41.4	-3.7	13.0	4.3%	4.0%	3.2%	-0.3%	1.1%
Rotating Equipment Services	150.3	164.5	146.1	144.0	139.5	13.9%	14.1%	13.7%	13.9%	13.8%
Chemtech	56.9	63.8	50.0	25.0	18.0	9.6%	9.6%	8.9%	5.2%	4.0%
Applicator Systems	44.7	88.2	95.7	86.8	64.1	12.7%	21.0%	21.1%	20.5%	23.6%
Divisions	307.1	376.2	333.2	252.1	234.6	9.3%	10.1%	9.9%	8.2%	8.1%
Others	-9.5	-4.9	-10.7	3.3	4.3	n/a	n/a	n/a	n/a	n/a
Total	297.6	371.3	322.5	255.4	238.9	9.0%	10.0%	9.6%	8.4%	8.3%

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

Five-year summaries by region

Order intake by region

millions of CHF	2020	2019	2018	2017	2016
Europe, Middle East, Africa	1'427.6	1'612.2	1'535.9	1'422.1	1'254.8
Americas	1'125.1	1'290.2	1'297.1	1'038.2	949.8
Asia-Pacific	861.4	844.8	698.5	695.4	592.9
Total	3'414.1	3'747.2	3'531.5	3'155.7	2'797.5

Sales by region

millions of CHF	2020	2019	2018	2017	2016
Europe, Middle East, Africa	1'402.0	1'539.6	1'468.9	1'411.6	1'271.8
Americas	1'144.1	1'321.3	1'107.6	1'003.5	1'041.9
Asia-Pacific	772.9	867.7	788.4	633.9	563.0
Total	3'319.0	3'728.5	3'364.9	3'049.0	2'876.7

Employees by company location¹⁾

millions of CHF	2020	2019	2018	2017	2016
Europe, Middle East, Africa	7'261	7'751	7'462	7'279	6'804
Americas	4'104	4'579	4'374	3'911	3'822
Asia-Pacific	3'689	4'176	3'737	3'542	3'379
Total	15'054	16'506	15'572	14'732	14'005

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

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Balance sheet of Sulzer Ltd

December 31

millions of CHF	Notes	2020	2019
Current assets			
Cash and cash equivalents	3	454.7	253.0
Fixed-term deposits		80.0	50.0
Accounts receivable from subsidiaries		289.6	213.6
Prepaid expenses and other current accounts receivable		2.0	3.3
Total current assets		826.3	519.9
Non-current assets			
Loans to subsidiaries		667.8	644.5
Financial assets		8.4	7.4
Investments in subsidiaries	4	2'254.6	2'182.2
Investments in associates		4.6	–
Total non-current assets		2'935.4	2'834.1
Total assets		3'761.7	3'354.0
Current liabilities			
Current interest-bearing liabilities	6	209.9	109.9
Current interest-bearing liabilities with subsidiaries		–	7.0
Current liabilities with subsidiaries		10.2	12.1
Current liabilities with shareholders		261.0	218.3
Accrued liabilities and other current liabilities		17.7	13.7
Current provisions		5.6	4.7
Total current liabilities		504.4	365.7
Non-current liabilities			
Non-current interest-bearing liabilities	6	1'488.5	1'199.2
Non-current provisions		33.2	35.7
Total non-current liabilities		1'521.7	1'234.9
Total liabilities		2'026.1	1'600.6
Equity			
Registered share capital	5	0.3	0.3
Legal capital reserves		205.5	205.5
Reserves from capital contribution		201.0	201.0
Voluntary retained earnings			
– Free reserves		1'185.5	1'185.5
– Retained earnings		50.6	52.8
– Net profit for the year		131.0	133.9
Treasury shares	5	–38.3	–25.6
Total equity		1'735.6	1'753.4
Total equity and liabilities		3'761.7	3'354.0

Income statement of Sulzer Ltd

January 1 – December 31

millions of CHF	Notes	2020	2019
Income			
Investment income	9	189.0	161.5
Financial income		35.6	34.9
Other income	10	43.2	47.6
Total income		267.8	244.0
Expenses			
Administrative expenses	8	61.7	76.2
Financial expenses	11	65.6	30.5
Investment and loan expenses	9	2.7	–
Other expenses		5.4	2.7
Direct taxes		1.4	0.7
Total expenses		136.8	110.1
Net profit for the year		131.0	133.9

Statement of changes in equity of Sulzer Ltd

January 1 – December 31

millions of CHF	Share capital	Legal reserves	Reserves from capital contribution	Free reserves	Retained earnings	Net income	Treasury shares	Total
Equity as of January 1, 2019	0.3	205.5	201.0	1'185.5	37.8	134.2	-34.0	1'730.3
Dividend						-119.2		-119.2
Allocation of net income					15.0	-15.0		-
Net profit for the year						133.9		133.9
Change in treasury shares							8.4	8.4
Equity as of December 31, 2019	0.3	205.5	201.0	1'185.5	52.8	133.9	-25.6	1'753.4
Dividend						-136.1		-136.1
Allocation of net income					-2.2	2.2		-
Net profit for the year						131.0		131.0
Change in treasury shares							-12.7	-12.7
Equity as of December 31, 2020	0.3	205.5	201.0	1'185.5	50.6	131.0	-38.3	1'735.6

1 General information

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

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

2 Key accounting policies and principles

Treasury shares

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

Investments in subsidiaries and third parties

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

Non-current interest-bearing liabilities

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

Share-based payments

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

Foregoing a cash flow statement and additional disclosures in the notes

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

3 Cash and cash equivalents

Sulzer Ltd arranged a CHF 500 million syndicated credit facility with maturity date May 2022. The facility is available for general corporate purposes including financing of acquisitions. The facility is subject to financial covenants based on net financial indebtedness and EBITDA, which were adhered to throughout the reporting period. As of December 31, 2020 and 2019, the syndicated facility was not used.

4 Investments in subsidiaries

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

5 Registered share capital

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

Shareholders holding more than 3%

	Dec 31, 2020		Dec 31, 2019	
	Number of shares	in %	Number of shares	in %
Viktor Vekselberg (direct shareholder: Tiwel Holding AG)	16'728'414	48.82	16'728'414	48.82

Treasury shares held by Sulzer Ltd

millions of CHF	2020		2019	
	Number of shares	Total transaction amount	Number of shares	Total transaction amount
Balance as of January 1	240'924	25.6	311'871	34.0
Purchase	285'460	23.1	110'400	11.1
Share-based remuneration	-99'917	-10.4	-181'347	-19.6
Balance as of December 31	426'467	38.3	240'924	25.6

The total number of treasury shares held by Sulzer Ltd as of December 31, 2020, amounted to 426'467 (December 31, 2019: 240'924 shares), which are mainly held for the purpose of issuing shares under the management share-based payment programs.

6 Interest-bearing liabilities

millions of CHF	2020		2019	
	Book value	Nominal	Book value	Nominal
0.375% 07/2016–07/2022	325.1	325.0	325.2	325.0
0.875% 07/2016–07/2026	125.0	125.0	125.0	125.0
0.250% 07/2018–07/2020	-	-	109.9	110.0
1.300% 07/2018–07/2023	289.6	290.0	289.5	290.0
0.625% 10/2018–10/2021	209.9	210.0	209.7	210.0
1.600% 10/2018–10/2024	249.8	250.0	249.8	250.0
0.800% 09/2020–09/2025	299.3	300.0	-	-
0.875% 11/2020–11/2027	199.7	200.0	-	-
Total as of December 31	1'698.4	1'700.0	1'309.1	1'310.0
- thereof non-current	1'488.5	1'490.0	1'199.2	1'200.0
- thereof current	209.9	210.0	109.9	110.0

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

7 Contingent liabilities

millions of CHF	2020	2019
Guarantees, sureties and comfort letters for subsidiaries		
– to banks and insurance companies	1'205.5	1'317.3
– to customers	214.6	206.1
– to others	436.8	574.0
Guarantees for third parties	11.0	10.0
Total contingent liabilities as of December 31	1'867.9	2'107.4

As of December 31, 2020, CHF 295.5 million (2019: CHF 309.9 million) of guarantees, sureties and comfort letters for subsidiaries to banks and insurance companies were utilized.

8 Administrative expenses

millions of CHF	2020	2019
Compensation of Board of Directors	2.7	3.0
Other administrative expenses	59.0	73.2
Total administrative expenses	61.7	76.2

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 recharges from subsidiaries.

9 Investment income and investment and loan expenses

In 2020, the investment income contains ordinary and extraordinary dividend payments from subsidiaries amounting to CHF 159.0 million (2019: CHF 161.5 million).

In 2020, Sulzer Ltd released hidden reserves in the amount of CHF 30.0 million (2019: CHF 0.0 million).

The investment and loan expenses contain allowances on investments, loans and share of loss of associates of CHF 2.7 million in 2020 (2019: CHF 0.0 million).

10 Other income

The income from trademark license amounts to CHF 41.4 million (2019: CHF 38.7 million).

11 Financial expenses

The financial expenses contain mainly allowances on foreign currency loans amounting to CHF 48.5 million (2019: CHF 15.3 million) and interest expenses on interest-bearing liabilities of CHF 12.9 million (2019: CHF 12.2 million).

12 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.

	2020				
	Sulzer shares	Restricted share units (RSU) ¹⁾	Performance share units (PSU) 2018 ²⁾	Performance share units (PSU) 2019 ³⁾	Performance share units (PSU) 2020 ⁴⁾
Board of Directors	56'020	27'510	–	–	–
Peter Löscher	19'437	6'210	–	–	–
Matthias Bichsel	8'238	3'853	–	–	–
Hanne Birgitte Breinbjerg Sorensen	816	3'106	–	–	–
Lukas Braunschweiler	1'097	3'106	–	–	–
Mikhail Lifshitz	4'781	3'106	–	–	–
Marco Musetti	8'639	3'106	–	–	–
Gerhard Roiss	13'012	3'106	–	–	–
Alexey Moskov	–	1'917	–	–	–
Executive Committee	92'944	–	28'133	54'251	66'999
Greg Poux-Guillaume	58'062	–	12'820	23'363	33'267
Daniel Bischofberger	6'233	–	2'938	6'491	6'161
Frédéric Lalanne	6'955	–	2'938	6'491	6'161
Jill Lee	7'945	–	3'561	6'491	6'161
Armand Sohet	6'624	–	2'938	5'355	5'083
Torsten Wintergerste	7'125	–	2'938	5'355	5'083
Girts Cimermans	–	–	–	705	5'083

1) Restricted share units assigned by Sulzer.

2) The average fair value of one performance share unit 2018 at grant date amounted to CHF 143.62.

3) The average fair value of one performance share unit 2019 at grant date amounted to CHF 115.95.

4) The average fair value of one performance share unit 2020 at grant date amounted to CHF 78.18.

	2019				
	Sulzer shares	Restricted share units (RSU) ¹⁾	Performance share units (PSU) 2017 ²⁾	Performance share units (PSU) 2018 ³⁾	Performance share units (PSU) 2019 ⁴⁾
Board of Directors	47'461	18'549	-	-	-
Peter Löscher	17'121	4'692	-	-	-
Matthias Bichsel	6'801	2'911	-	-	-
Hanne Birgitte Breinbjerg Sorensen	249	1'951	-	-	-
Lukas Braunschweiler	335	1'951	-	-	-
Mikhail Lifshitz	3'622	2'348	-	-	-
Marco Musetti	7'480	2'348	-	-	-
Gerhard Roiss	11'853	2'348	-	-	-
	-	-	-	-	-
Executive Committee	68'838	-	25'292	28'133	54'251
Greg Poux-Guillaume	46'181	-	13'196	12'820	23'363
Daniel Bischofberger	2'562	-	3'024	2'938	6'491
Frédéric Lalanne	4'492	-	3'024	2'938	6'491
Jill Lee	7'945	-	-	3'561	6'491
Armand Sohet	4'204	-	3'024	2'938	5'355
Torsten Wintergerste	3'454	-	3'024	2'938	5'355
Girts Cimermans	-	-	-	-	705

1) Restricted share units assigned by Sulzer.

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

3) The average fair value of one performance share unit 2018 at grant date amounted to CHF 143.62.

4) The average fair value of one performance share unit 2019 at grant date amounted to CHF 115.95.

Granted Sulzer shares to members of the Board of Directors

	2020		2019	
	Quantity	Value in CHF	Quantity	Value in CHF
Allocated to members of the Board of Directors	17'715	1'155'000	10'551	1'031'419

13 Subsequent events after the balance sheet date

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

Proposal of the Board of Directors for the appropriation of the available profit

in CHF	2020	2019
Net profit for the year	131'000'000	133'900'000
Unallocated profit carried forward from previous year	50'591'802	52'791'210
Total available profit	181'591'802	186'691'210
Ordinary dividend	–135'343'612	–136'085'784
Balance carried forward	46'248'190	50'605'426
Dividend distribution per share CHF 0.01		
Gross dividend	4.00	4.00
Withholding tax (35%)	–1.40	–1.40
Net dividend	2.60	2.60

The Board of Directors proposes the payment of a dividend of CHF 4.00 per share to the Annual General Meeting on April 14, 2021. The company will not pay a dividend on treasury shares held by Sulzer Ltd or one of its subsidiaries.



Statutory Auditor’s Report

To the General Meeting of Sulzer Ltd, Winterthur

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Sulzer Ltd, which comprise the “Balance sheet of Sulzer Ltd” as at December 31, 2020, the “Income statement of Sulzer Ltd”, the “Statement of changes in equity of Sulzer Ltd” for the year then ended, and the “Notes to the financial statements of Sulzer Ltd”, including a summary of significant accounting policies.

In our opinion the financial statements for the year ended December 31, 2020 comply with Swiss law and the company’s articles of incorporation.

Basis for Opinion

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

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

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

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

Responsibility of the Board of Directors for the Financial Statements

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

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

Auditor’s Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

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

KPMG AG



Rolf Hauenstein
Licensed Audit Expert
Auditor in Charge



Simon Niklaus
Licensed Audit Expert

Zurich, February 23, 2021

KPMG AG, Raffelstrasse 28, CH-8036 Zurich

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Rounding

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

Tables

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

Languages

Parts of the Sulzer Annual Report 2020 have been translated into German. Please note that the English-language version of the Sulzer Annual Report is the binding version.