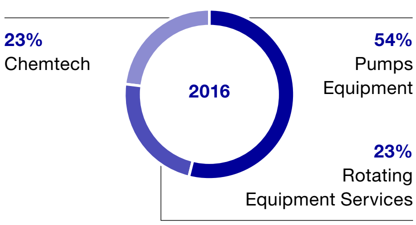
SULZER

Midyear Report 2016

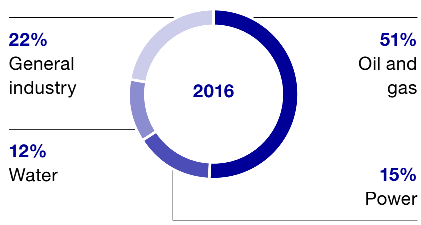
Currency-Adjusted Sales and Operational EBITA Remained Stable

Sales, operational EBITA, and operational ROSA remained stable in the first half of 2016. Currency-adjusted order intake decreased compared with the same period of the previous year. Sulzer reported growing order intake in all markets except for the oil and gas market.

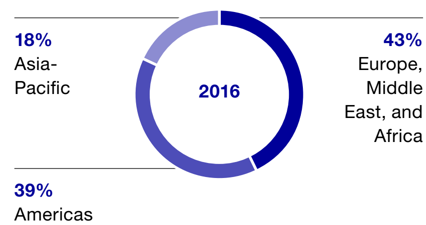
Sales by divisions



Sales by market segments



Sales by regions



Key figures

January 1–June 30

millions of CHF	2016	2015	Change in +/– %	+/– %[1]
Order intake	1 423.4	1 584.1	–10.1	–9.1
Order intake gross margin	34.6%	32.9%		
Order backlog as of June 30/December 31	1 547.8	1 510.7	2.5	
Sales	1 380.9	1 393.2	–0.9	–0.1
EBIT	81.7	47.6	71.6	
opEBITA	98.7	98.3	0.4	0.8
opROSA	7.1%	7.1%		
Net income attributable to shareholders of Sulzer Ltd	50.4	26.8	88.1	
EPS	1.48	0.79		
FCF	3.7	33.3		
Net liquidity as of June 30/December 31	60.3	695.7		
Employees (number of full-time equivalents) as of June 30/December 31	13 876	14 253	–2.6	

[1] Adjusted for currency effects.

Abbreviations

EBIT: Operating income
ROS: Return on sales (EBIT/sales)
opEBITA: Operating income before restructuring, amortization, impairments, and non-operational items
opROSA: Return on sales before restructuring, amortization, impairments, and non-operational items (opEBITA/sales)
EPS: Basic earnings per share
FCF: Free cash flow

Contents

Greg Poux-Guillaume, CEO, and Peter Löscher, Chairman of the Board of Directors

"Sales, operational EBITA, and operational ROSA remained stable, while order intake decreased year on year, but recovered sequentially."

Winterthur, July 25, 2016

Dear shareholder

In the first half of 2016, sales, operational EBITA, and operational ROSA remained stable compared with the same period of the previous year. Order intake decreased versus a strong first half of 2015, mainly impacted by the reduced demand in the oil and gas market. To counterbalance the challenging market headwinds we are facing, we accelerated our Sulzer Full Potential (SFP) program. Also, we signed a binding agreement to acquire the German company Geka GmbH on July 1, 2016. We are excited about the opportunities this opens for Sulzer.

Creating a leader for proprietary B2B mixing and applicator solutions

Geka is a great addition to our most profitable business unit — Sulzer Mixpac Systems (SMS). Through this transaction, SMS gains critical industrial mass and segment and geographical diversification. Both businesses share the same industrial core in high-precision plastic injection molding, which allows for significant cost synergies. Geka and SMS have complementary geographic manufacturing footprints, which will enable the combined business to compete globally as a leading solution provider.

SMS adds Geka's leading position in the cosmetics segment to its current leadership in the dental and industrial adhesive segments. This extends its attractive, low-cyclicality portfolio of B2B end-market segments for high-precision plastic injection molding applications.

Sulzer also acquired PC Cox Group Ltd. headquartered in Newbury, UK, in April. Together, PC Cox and SMS are a leading manufacturer of dispensers for industrial applications.

Through these two transactions, Sulzer doubled the size of SMS and has created a leader for the differentiated and resilient market for proprietary B2B mixing and applicator solutions. We are happy to bring the teams of Geka and PC Cox on board and are excited about the prospects of the combined business.

SFP progress

The SFP program is running at full speed. In the first six months of 2016, we have realized savings from SFP of CHF 36 million. We expect savings to be in the range of CHF 60 to 80 million by the end of 2016 and annual savings of about CHF 200 million in a steady state from 2018 onwards.

Our global procurement organization is operational and is leveraging scale effects. Our IT department is working on a new organizational footprint with improved cost structures. Our Pumps Equipment division is further refining its global operations network. It introduced a new production planning system to improve profitability and on-time delivery. Our Rotating Equipment Services division restructured its activities and simplified its footprint. Our Chemtech division, facing sustained pressure on manufacturing costs in Switzerland, announced the closing of its manufacturing facility in Oberwinterthur, Switzerland, in March 2016.

These restructuring measures are painful but they are the key to our competitiveness tomorrow and beyond.

See abbreviations on page 2.

Performance in the first half of 2016

Currency-adjusted order intake decreased by 9.1% in the first half of 2016 year on year. The main trigger for this decline was the weak oil and gas market. However, it improved by 9.8% sequentially, compared with the second half year 2015. Although oil prices have recently recovered somewhat, our customers remain cautious and we do not anticipate a market upswing in 2016. Order intake in all other market segments increased.

Currency-adjusted sales remained stable compared with the same period of the previous year. Operational EBITA and operational ROSA were on the same level as in the first half of 2015. Market headwinds have been fully offset by savings from the SFP program.

Cash flow generation is backloaded this year and includes, to date, a CHF 24 million of SFP cash-out. As such, we delivered a slightly positive free cash flow in the first half of 2016.

Changes in the Board of Directors and the management

Axel C. Heitmann and Mikhail Lifshitz were elected as new members of the Board of Directors at the Annual General Meeting in April. Klaus Sturany did not stand for reelection. The Board of Directors appointed Armand Sohet as Chief Human Resources Officer and Frédéric Lalanne as Chief Commercial and Marketing Officer. Both became members of the Executive Committee. Daniel Bischofberger was appointed as Division President Rotating Equipment Services and will be a member of the Executive Committee. He will take over from Peter Alexander, who has decided to retire and will step down at the end of August 2016. Fabrice Billard, Chief Strategy Officer and member of the Executive Committee, has decided to leave Sulzer on July 31, 2016. Oliver Bailer, Division President Chemtech, is on an indefinite leave of absence for family reasons. Torsten Wintergerste, Chemtech Senior Vice President, took over from Oliver Bailer ad interim.

Outlook

For the full year 2016, Sulzer is updating its guidance on order intake. The company previously communicated that order intake would be in the range of –5% to –10%. The updated guidance indicates that order intake will be at the higher end of that range, closer to –5%. The company confirms its guidance on sales and operational EBITA margin. Sales are forecast to decline in the range of 5% to 10%. The operational EBITA margin (opROSA) is expected to be approximately 8%.

Yours sincerely,

Peter Löscher
Chairman of the Board of Directors

Greg Poux-Guillaume
CEO

See abbreviations on page 2.

Order Intake

Order intake was CHF 1.4 billion (2015: CHF 1.6 billion). On a currency-adjusted basis, this is a decrease of 9.1% compared with the same period in 2015.

Operational EBITA

Operational EBITA was CHF 98.7 million. On a currency-adjusted basis, it remained flat compared with the first half of last year, supported by significant savings from the Sulzer Full Potential program.

FCF

Free cash flow generation is backloaded this year. In the first half of 2016, it decreased to CHF 3.7 million (2015: CHF 33.3 million).

Sales

Currency-adjusted sales were CHF 1.4 billion and remained on last year's level (2015: CHF 1.4 billion).

Operational ROSA

Operational ROSA was 7.1% and was stable compared with the same period of the previous year (2015: 7.1%).

EPS

Basic earnings per share increased to CHF 1.48 compared with the first half of last year (2015: CHF 0.79).

See abbreviations on page 2.

Stable Sales and Profitability — Positive Contribution From the Sulzer Full Potential Program

In the first half of 2016, order intake decreased, but recovered sequentially. It was impacted by oil and gas market headwinds. Sales, operational EBITA, and operational ROSA remained stable. Significant savings from the Sulzer Full Potential (SFP) program offset the impact from market headwinds.

Order intake of CHF 1423 million was 9.1% below the same period last year (nominal: –10.1%). However, it improved by 9.8% sequentially, compared with the second half year of 2015. Order intake gross margin increased nominally by 1.7 percentage points to 34.6%, mainly due to a higher share of aftermarket business.

Growth in the water, power, and general industry markets positively affected order intake. Growth in the water and power markets largely related to Pumps Equipment. Chemtech's Sulzer Mixpac Systems (SMS) business unit drove growth in the general industry market.

Market headwinds affected oil and gas order intake substantially (approximately –20%) in the first half of 2016. Looking at the oil and gas market, the company recorded significantly fewer new equipment orders in Pumps Equipment and Chemtech. Order levels just slightly decreased in Rotating Equipment Services and the Pumps Equipment aftermarket business. Compared with the second half year of 2015, oil and gas order intake grew by approximately 6% in the first half of 2016.

The divisions reported the following order intake growth rates (year on year):
— Pumps Equipment: –11.5% (nominal: –12.5%)
— Rotating Equipment Services: –3.7% (nominal: –5.4%)
— Chemtech: –9.1% (nominal: –9.7%)

As of June 30, 2016, the order backlog had increased to CHF 1548 million from CHF 1511 million on December 31, 2015.

Sales on the previous year's level

Sales amounted to CHF 1381 million and were stable compared with the first half of 2015 (–0.1%). The currency translation effect totaled CHF –10.9 million. In Pumps Equipment, sales increased in the oil and gas and the power markets. Rotating Equipment Services recorded slightly lower sales, mainly in the Europe, Middle East, and Africa (EMEA) region. The sales volume in Chemtech was negatively affected by a lower order backlog in the oil and gas market and was only partially compensated by higher volumes in SMS.

Sales

CHF 1381m

(2015: CHF 1393m)

The divisions reported the following sales growth rates (year on year):
— Pumps Equipment: 3.3% (nominal: 2.6%)
— Rotating Equipment Services: –1.4% (nominal: –2.8%)
— Chemtech: –6.7% (nominal: –7.1%)

Gross margin decreased by 0.4 percentage points to 30.9% compared with 31.3% in 2015. Benefits from the SFP program partly compensated the lower gross margin, which was affected by the strong headwinds in the oil and gas market. Total gross profit decreased by CHF 9.3 million to CHF 426.8 million.

See abbreviations on page 2.

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

Stable operational EBITA despite strong market headwinds

Operational EBITA (opEBITA) remained on last year's level; it amounted to CHF 98.7 million compared with CHF 98.3 million in the first half of 2015. Significant savings from the SFP program compensated for the effect of a lower gross profit. Operational ROSA remained stable at 7.1%.

The company reduced adjusted operating expenses excluding amortization, impairments, restructuring expenses, and other non-operational items by 4.5%. Savings measures in selling, general and administrative expenses, and lower foreign exchange expenses offset acquisition-related cost increases.

Operational ROSA

7.1%

(2015: 7.1%)

Bridge from EBIT to operational EBITA

January 1–June 30

millions of CHF	2016	2015
EBIT	81.7	47.6
Amortization	21.4	20.5
Impairment on tangible and intangible assets	5.6	–
Restructuring expenses	16.5	7.9
Non-operational items[1]	–26.5	22.3
opEBITA	98.7	98.3

[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 such as expenses related to the Sulzer Full Potential (SFP) program.

Non-operational expenses

In the course of implementing the SFP program, the company adapted global workshop capacities and streamlined its organizational setup. This resulted in restructuring expenses of CHF –16.5 million in the first half of 2016 compared with expenses of CHF –7.9 million during the same period in 2015. The SFP-related non-operational items, including internal and external program management and planning expenses, were slightly lower than last year. Non-operational items further included a gain of CHF 35.4 million resulting from a reduction of the conversion rate of the Swiss pension plans. In 2015, non-operational items had included cost of CHF –8.7 million related to a settled dispute with the purchaser of the locomotive business Sulzer sold in 1998.

Consequently, EBIT for the first half of 2016 amounted to CHF 81.7 million compared with CHF 47.6 million in the first half of 2015. Return on sales (ROS) increased to 5.9% compared with 3.4% in 2015.

Net financial income amounted to CHF –13.9 million compared with CHF –11.5 million in the first half of 2015. In 2015, financial income included interest expenses from the settled dispute mentioned above. In 2016, financial income included higher hedging costs and negative revaluation differences. The oil and gas market downturn caused negative income from associates of CHF –0.4 million (2015: CHF 2.8 million) from joint ventures in Asia and in the Middle East.

The effective tax rate in the first half of 2016 amounted to 25.0% compared with 28.5% in the same period of 2015. Adjusted for the one-time impact of the abovementioned dispute settlement, the effective tax rate in 2015 would have been 25.9%.

See abbreviations on page 2.

Stable core net income

Net income from continuing operations totaled CHF 50.5 million, a nominal increase of 81.4% compared with the first half of 2015. Core net income, excluding the tax-adjusted effects of amortization, impairments, restructuring, and other non-operational items, came to CHF 63.3 million compared with CHF 65.9 million in 2015. Basic earnings per share (EPS) increased by 87.4% from CHF 0.79 in the first half of 2015 to CHF 1.48 in 2016. This is mainly due to a reduction of the conversion rate of the Swiss pension plans.

Key balance sheet positions

Total assets on June 30, 2016, amounted to CHF 3 630 million. This was CHF 625 million lower than on December 31, 2015, largely resulting from the ordinary and special dividends amounting to CHF 618 million, paid in April 2016.

Total liabilities increased by CHF 56 million from December 31, 2015. This increase was mainly due to higher defined benefit obligations of CHF 97 million, lower trade accounts payable of CHF 24 million, and lower advance payments from customers of CHF 24 million. The CHF 493 million bond was refinanced on very favorable terms via a new dual tranche bond issuance of CHF 450 million on June 6, 2016, with settlement date July 11, 2016.

Total equity was CHF 1 553 million (December 31, 2015: CHF 2 234 million). The decrease of CHF 681 million was mainly caused by the dividend payments of CHF 618 million. That payment included a special dividend of CHF 498 million; it was paid out in April 2016. In 2015, the ordinary dividend payment to Sulzer shareholders amounted to CHF 119 million.

Net liquidity of CHF 60 million

Free cash flow generation is expected to be backloaded this year. It amounted to CHF 3.7 million compared with CHF 33.3 million reported in the same period last year. Lower advance payments from customers and higher accounts receivables resulted in higher net working capital. This increase of net working capital was partly offset by lower tax payments compared with the previous year.

Cash flow from investing activities totaled CHF 156.0 million because of the sale of CHF 208.0 million in marketable securities to fund the dividend paid in April 2016. In 2015, an increase of marketable securities by CHF 99.0 million resulted in a negative cash flow from investing activities of CHF –186.0 million. Acquisition-related payments of CHF 14.5 million were lower than in the previous year (2015: CHF 63.2 million). Capital expenditure of CHF 33.8 million (2015: CHF 33.2 million) was broadly on last year’s level.

Cash flow from financing activities contained the dividend payment of CHF 617.5 million (including the special dividend of CHF 498.1 million) compared with CHF 119.2 million in the first half of 2015. The net change in cash amounted to CHF –437.8 million, including exchange losses on the cash positions of CHF –0.9 million.

Outlook 2016

For the full year 2016, Sulzer is updating its guidance on order intake. The company previously communicated that order intake would be in the range of –5% to –10%. The updated guidance indicates that order intake will be at the higher end of that range, closer to –5%. The company confirms its guidance on sales and operational EBITA margin. Sales are forecast to decline in the range of 5% to 10%. The operational EBITA margin (opROSA) is expected to be approximately 8%.

See abbreviations on page 2.

Sales Increased and New Products Launched

Sales increased, but order intake decreased in the first half of 2016. The division reported stable operational EBITA and operational ROSA. Sulzer introduced new products that help customers reduce their costs and save energy.

Innovative products that reduce costs and save energy

Sulzer's new, highly efficient recirculation pump for wastewater treatment brings customers total life cycle cost savings and reduces their environmental footprint. Further, the company launched new lifting station types for the automatic pumping of wastewater and sewage. Sulzer also introduced standardized agitators for the wastewater industry. It can provide these with short lead times and at competitive prices. Moreover, the company added new types of pumps to its submersible dewatering pump range for the mining and construction markets. Sulzer launched a fast-track process to ship its HST turbocompressors to wastewater treatment plants within 36 hours.

Decrease in order intake

Order intake decreased in the first half of 2016, while order intake gross margin increased. The oil and gas market decreased by over 30% and was the main trigger for the decline in orders. Order intake in the power and water markets increased, while it remained stable in the general industry market. Regionally, demand in Europe and Africa decreased significantly, whereas the Middle East grew. Order intake in the Americas dropped, whereas Asia-Pacific was above last year's level.

Sales increased — operational EBITA and operational ROSA were stable

Sales improved from the first half of the previous year. The high order backlog in the power market and strong performance in the parts, retrofit, and nuclear business mainly contributed to the increase. The division reported stable operational EBITA and operational ROSA.

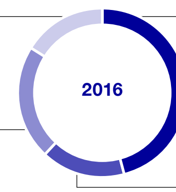
Key figures Pumps Equipment

January 1–June 30

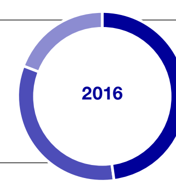
millions of CHF	2016	2015	Change in +/–%	+/–%[1]
Order intake	730.5	834.8	−12.5	−11.5
Order intake gross margin	34.7%	33.0%		
Order backlog as of June 30/December 31	981.7	998.0	−1.6	
Sales	745.6	726.7	2.6	3.3
EBIT	15.2	20.5	−25.9	
opEBITA	31.7	31.7	0.0	2.5
opROSA	4.3%	4.4%		
Employees (number of full-time equivalents) as of June 30/December 31	6610	6996	−5.5	

[1] Adjusted for currency effects.

Sales by market segments



Sales by regions



See abbreviations on page 2.

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Improved Operational EBITA Despite Lower Sales

Order intake and sales decreased in the first half of 2016. Compared with the same period of the previous year, operational EBITA and operational ROSA improved. The division secured a large multiyear service contract in South Africa and achieved positive results from its restructuring.

Large service contract in South Africa

Sulzer secured a large multiyear maintenance and fuel conversion contract for a gas turbine power plant in South Africa. The turbines of the plant currently run on diesel. Sulzer's engineers will convert the turbines to run on gas, which will decrease the fuel costs. Rotating Equipment Services will perform the field service, supply parts, train the personnel, and provide intellectual property related to the field service.

Further, the division continued to integrate its service business. In Singapore, Sulzer combined its shops for pumps and turbomachinery services. The restructuring in Europe, Middle East, and Africa (EMEA) — especially in the Netherlands — showed positive results. The division continued to focus on improving performance in the UK.

Decrease in order intake

Order intake decreased from the first half of the previous year. A weak demand in EMEA — particularly in the UK — mainly caused the decline. Order intake gross margin decreased. Order intake in the oil and gas market dropped. Order intake in the power market was flat and grew in the general industry market. Demand in the Americas was on last year's level, despite very challenging market conditions in South America. It partially compensated for the decrease in EMEA and Asia-Pacific.

Improved operational EBITA and operational ROSA despite lower sales

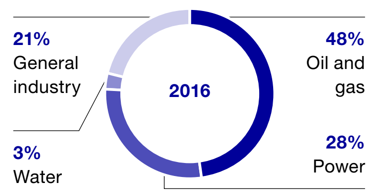
In the first half of 2016, sales decreased. The decline mainly stems from a decrease in sales in EMEA and Asia-Pacific. Operational EBITA improved compared with the first half of 2015. The restructuring in EMEA showed significant positive results and contributed to the division's operational EBITA improvement. Operational ROSA improved, in part, because of cost measures in EMEA.

Key figures Rotating Equipment Services
January 1 – June 30

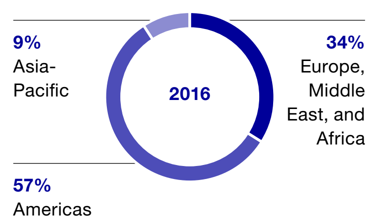
millions of CHF	2016	2015	Change in +/–%	+/–%[1]
Order intake	344.2	364.0	–5.4	–3.7
Order intake gross margin	30.4%	30.6%		
Order backlog as of June 30 / December 31	224.0	205.0	9.3	
Sales	324.6	334.0	–2.8	–1.4
EBIT	25.0	22.7	10.1	
opEBITA	30.3	27.8	9.0	6.5
opROSA	9.3%	8.3%		
Employees (number of full-time equivalents) as of June 30 / December 31	3483	3538	–1.6	

[1] Adjusted for currency effects.

Sales by market segments



Sales by regions



See abbreviations on page 2.

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Improved Profitability and Extended Product Offering

Order intake and sales decreased compared with the same period of the previous year. Operational EBITA and operational ROSA improved. Sulzer acquired PC Cox Group Ltd. and signed a binding agreement to acquire Geka GmbH. Further, it announced the closing of its manufacturing facility in Oberwinterthur, Switzerland.

Sulzer doubles the size of its most profitable business unit

Sulzer acquired PC Cox Group Ltd. headquartered in Newbury, UK. Through the complementary acquisition, Sulzer Mixpac Systems (SMS) — a business unit of the Chemtech division — has become a leading manufacturer of dispensers for industrial applications. On July 1, Sulzer signed a binding agreement to acquire Geka GmbH and doubled the size of its most profitable business unit SMS. The transaction creates a leader in proprietary B2B mixing and applicator solutions.

Growing competition, the significant drop in the oil prices, and the strong Swiss franc have put sustained pressure on manufacturing costs in Switzerland. Therefore, Sulzer announced plans to close the manufacturing facility of its Chemtech division in Oberwinterthur, Switzerland. The company expects this restructuring to be completed in the first half of 2017.

Order intake decreased

The Chemtech division reported a decrease in order intake from the same period of the previous year. The decline mainly stems from the weak oil and gas market and a baseline effect (large order from the Middle East in 2015). The overall order intake gross margin increased. The oil and gas market continued to be challenging. Demand in the general industry market grew, mainly because order intake in the SMS business unit increased significantly. Order intake in Europe, Middle East, and Africa increased (excluding the above-mentioned large order). Order intake in the Americas declined, whereas it was up from last year's low level in Asia-Pacific.

Decrease in sales — operational EBITA and operational ROSA improved

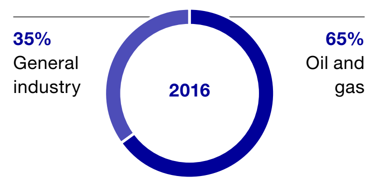
In the first half of 2016, sales decreased compared with the same period of the previous year. The lack of upstream projects and the delay of projects to the second half of the year contributed to this development. SMS's significant increase in sales could not offset the shrinking volumes in Separation Technology and Tower Field Services. Operational EBITA and operational ROSA improved compared with the first half of 2015.

Key figures Chemtech
January 1–June 30

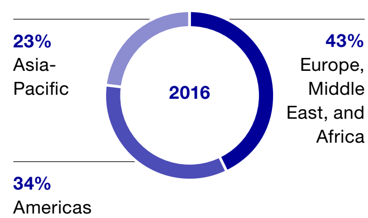
millions of CHF	2016	2015	Change in +/–%	+/–%[1]
Order intake	353.3	391.1	–9.7	–9.1
Order intake gross margin	38.0%	34.2%		
Order backlog as of June 30/December 31	342.1	307.7	11.2	
Sales	314.9	338.8	–7.1	–6.7
EBIT	13.7	22.8	–39.9	
opEBITA	34.0	33.8	0.6	1.8
opROSA	10.8%	10.0%		
Employees (number of full-time equivalents) as of June 30/December 31	3594	3539	1.6	

[1] Adjusted for currency effects.

Sales by market segments



Sales by regions



See abbreviations on page 2.

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Consolidated income statement

January 1–June 30

millions of CHF	Notes	2016	2015
Sales	5	1 380.9	1 393.2
Cost of goods sold		–954.1	–957.1
Gross profit		**426.8**	**436.1**
Selling and distribution expenses		–149.2	–150.4
General and administrative expenses		–144.2	–169.3
Research and development expenses		–33.7	–35.2
Other operating income and expenses, net	6	–18.0	–33.6
Operating income		**81.7**	**47.6**
Interest and securities income	7	2.7	3.2
Interest expenses	7	–10.7	–15.5
Other financial income and expenses, net	7	–5.9	0.8
Share of profit/(loss) of associates		–0.4	2.8
Income before income tax expenses		**67.4**	**38.9**
Income tax expenses	8	–16.9	–11.1
Net income		**50.5**	**27.8**
Attributable to shareholders of Sulzer Ltd		50.4	26.8
Attributable to non-controlling interests		0.1	1.0
Earnings per share (in CHF)			
Basic earnings per share		1.48	0.79
Diluted earnings per share		1.47	0.78

Consolidated statement of comprehensive income

January 1 – June 30

millions of CHF	Notes	2016	2015
Net income		**50.5**	**27.8**
Items that may be reclassified subsequently to the income statement			
Cash flow hedges, net of tax		0.2	4.3
Currency translation differences		–7.5	–192.8
Total of items that may be reclassified subsequently to the income statement		**–7.3**	**–188.5**
Items that will not be reclassified to the income statement			
Remeasurements of defined benefit obligations, net of tax		–110.0	4.9
Total of items that will not be reclassified to the income statement		**–110.0**	**4.9**
Total other comprehensive income		**–117.3**	**–183.6**
Total comprehensive income for the year		**–66.8**	**–155.8**
Attributable to shareholders of Sulzer Ltd		–66.5	–156.1
Attributable to non-controlling interests		–0.3	0.3

Consolidated balance sheet

millions of CHF	Notes	June 30, 2016	December 31, 2015	June 30, 2015
Non-current assets				
Goodwill		670.9	679.8	657.4
Other intangible assets		241.9	246.4	258.8
Property, plant, and equipment		480.4	491.4	498.9
Associates		8.0	4.0	5.2
Other financial assets		12.0	11.6	11.6
Non-current receivables		8.7	7.1	7.3
Deferred income tax assets		157.7	133.7	119.7
Total non-current assets		**1 579.6**	**1 574.0**	**1 558.9**
Current assets				
Inventories		417.2	409.3	486.3
Advance payments to suppliers		85.7	79.8	78.5
Trade accounts receivable		841.2	851.1	822.4
Other accounts receivable and prepaid expenses		135.4	123.3	141.1
Marketable securities	9	–	208.3	198.3
Cash and cash equivalents		571.2	1 009.0	909.6
Total current assets		**2 050.7**	**2 680.8**	**2 636.2**
Total assets		**3 630.3**	**4 254.8**	**4 195.1**
Equity				
Share capital		0.3	0.3	0.3
Reserves		1 544.0	2 224.4	2 163.7
Equity attributable to shareholders of Sulzer Ltd		**1 544.3**	**2 224.7**	**2 164.0**
Non-controlling interest		9.1	9.5	17.1
Total equity		**1 553.4**	**2 234.2**	**2 181.1**
Non-current liabilities				
Non-current borrowings	11	7.3	7.2	506.1
Deferred income tax liabilities		66.1	69.4	75.5
Non-current income tax liabilities		2.6	2.6	2.6
Defined benefit obligations	12	391.6	294.8	263.2
Non-current provisions	13	72.2	73.5	72.3
Other non-current liabilities		18.8	24.6	37.3
Total non-current liabilities		**558.6**	**472.1**	**957.0**
Current liabilities				
Current borrowings	11	503.6	514.4	23.5
Current income tax liabilities		7.6	9.9	15.1
Current provisions	13	135.6	137.3	114.8
Trade accounts payable		299.7	323.8	318.8
Advance payments from customers		173.2	197.5	204.6
Other current and accrued liabilities		398.6	365.6	380.2
Total current liabilities		**1 518.3**	**1 548.5**	**1 057.0**
Total liabilities		**2 076.9**	**2 020.6**	**2 014.0**
Total equity and liabilities		**3 630.3**	**4 254.8**	**4 195.1**

Consolidated statement of changes in equity

millions of CHF	Notes	Attributable to shareholders of Sulzer Ltd Share capital	Retained earnings	Treasury shares	Cash flow hedge reserve	Currency translation adjustment	Total	Non-controlling interests	Total equity
Equity as of January 1, 2015		**0.3**	**2720.3**	**−23.4**	**−5.7**	**−256.1**	**2435.4**	**6.6**	**2442.0**
Comprehensive income for the period:									
Net income			26.8				26.8	1.0	27.8
— Cash flow hedges, net of tax					4.3		4.3		4.3
— Remeasurements of defined benefit obligations, net of tax			4.9				4.9		4.9
— Currency translation differences						−192.1	−192.1	−0.7	−192.8
Other comprehensive income			4.9		4.3	−192.1	−182.9	−0.7	−183.6
Total comprehensive income for the period		**–**	**31.7**	**–**	**4.3**	**−192.1**	**−156.1**	**0.3**	**−155.8**
Transactions with owners of the company:									
Transactions in treasury shares			−3.9	2.8			−1.1		−1.1
Share-based payment expenses, net of tax			5.0				5.0		5.0
Dividends	10		−119.2				−119.2	−0.3	−119.5
Change in scope of consolidation							–	10.5	10.5
Equity as of June 30, 2015		**0.3**	**2633.9**	**−20.6**	**−1.4**	**−448.2**	**2164.0**	**17.1**	**2181.1**
Equity as of January 1, 2016		**0.3**	**2661.4**	**−17.8**	**−9.2**	**−410.0**	**2224.7**	**9.5**	**2234.2**
Comprehensive income for the period:									
Net income			50.4				50.4	0.1	50.5
— Cash flow hedges, net of tax					0.2		0.2		0.2
— Remeasurements of defined benefit obligations, net of tax			−110.0				−110.0		−110.0
— Currency translation differences						−7.1	−7.1	−0.4	−7.5
Other comprehensive income			−110.0		0.2	−7.1	−116.9	−0.4	−117.3
Total comprehensive income for the period		**–**	**−59.6**	**–**	**0.2**	**−7.1**	**−66.5**	**−0.3**	**−66.8**
Transactions with owners of the company:									
Allocation of treasury shares to share plan participants			−4.2	4.1			−0.1		−0.1
Share-based payment expenses, net of tax			3.7				3.7		3.7
Dividends	10		−617.5				−617.5	−0.1	−617.6
Equity as of June 30, 2016		**0.3**	**1983.8**	**−13.7**	**−9.0**	**−417.1**	**1544.3**	**9.1**	**1553.4**

Consolidated statement of cash flows

January 1—June 30

millions of CHF	Notes	2016	2015
Cash and cash equivalents as of January 1		**1 009.0**	**1 194.7**
Net income		50.5	27.8
Interest and securities income		−2.7	−3.2
Interest expenses	7	10.7	15.5
Income tax expenses		16.9	11.1
Depreciation, amortization, and impairments		62.1	56.9
Income from disposals of property, plant, and equipment		−0.1	−0.1
Changes in inventories		−6.1	−30.7
Changes in advance payments to suppliers		−3.7	−3.1
Changes in trade accounts receivable		−5.9	63.1
Changes in advance payments from customers		−23.6	12.0
Changes in trade accounts payable		−18.5	−37.0
Changes in provisions for employee benefit plans		−31.5	4.0
Changes in provisions		−2.1	−19.9
Changes in other net current assets		15.7	−4.2
Other non-cash items		−3.1	15.0
Interest received		2.7	3.3
Interest paid		−1.9	−1.8
Income tax paid		−23.0	−44.6
Total cash flow from operating activities		**36.4**	**64.1**
Purchase of intangible assets		−0.5	−0.3
Purchase of property, plant, and equipment		−33.3	−32.9
Sale of property, plant, and equipment		1.1	2.4
Acquisitions of subsidiaries, net of cash acquired	3	−14.5	−63.2
Acquisitions of associates		−4.8	–
Purchase of marketable securities		–	−99.0
Sale of marketable securities		208.0	7.0
Total cash flow from investing activities		**156.0**	**−186.0**
Dividends paid to shareholders of Sulzer Ltd	10	−617.5	−119.2
Dividends paid to non-controlling interests		−0.1	−0.3
Purchase of treasury shares		–	−1.1
Additions in non-current borrowings		1.0	0.5
Repayment of non-current borrowings		−1.8	–
Additions in current borrowings		7.7	0.7
Repayment of current borrowings		−18.6	−3.7
Total cash flow from financing activities		**−629.3**	**−123.1**
Exchange losses on cash and cash equivalents		−0.9	−40.1
Net change in cash and cash equivalents		**−437.8**	**−285.1**
Cash and cash equivalents as of June 30		**571.2**	**909.6**

Notes to the Financial Statements

1 Basis of preparation

These unaudited consolidated interim financial statements for the six months ended June 30, 2016, comprise Sulzer Ltd and its subsidiaries, together referred to as the group. The interim financial statements have been prepared in accordance with the requirements of IAS 34 Interim Financial Reporting and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2015.

In preparing these interim financial statements, management makes judgments, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense, as well as the disclosure of contingent liabilities. Actual results may differ from these estimates. The significant judgments and estimates were the same as those applied in the consolidated financial statements for the year 2015.

2 Accounting policies

The accounting policies applied in these interim financial statements are the same as those applied in the consolidated financial statements for the year 2015.

There are no IFRS standards or IFRIC interpretations that are effective for the first time for the financial year beginning on or after January 1, 2016, that have a material impact on Sulzer's financial statements.

3 Acquisitions of subsidiaries

Acquisition in 2016

Net assets acquired of PC Cox Group Ltd.

millions of CHF	PC Cox
Intangible assets	11.7
Property, plant, and equipment	2.1
Cash and cash equivalents	8.5
Trade accounts receivable	4.1
Other current assets	4.0
Liabilities with third parties	−9.8
Deferred tax liabilities	−2.3
Net identifiable assets	**18.3**
Goodwill	4.0
Total consideration	**22.3**
Purchase price paid in cash	22.3
Total consideration	**22.3**

PC Cox Group Ltd.

On April 4, 2016, Sulzer acquired a 100% controlling interest of PC Cox Group Ltd. for CHF 22.3 million. The headquarters of PC Cox Group Ltd. is in Newbury, UK, and the company has approximately 170 employees. PC Cox is a leading manufacturer of handheld sealant and adhesive dispensers for industrial applications. Through the acquisition, Sulzer Mixpac — a business unit of the Chemtech division — becomes a leading manufacturer of dispensers for industrial applications. The goodwill is attributable to synergies from combined solutions and shared services. None of the goodwill is expected to be deductible for tax purposes. Transaction cost recognized in the income statement amount to CHF −0.6 million. Since the acquisition date, the acquired business contributed order intake of CHF 5.4 million, sales of CHF 5.8 million, and net income of CHF 0.7 million to the group.

If the acquisition had occurred on January 1, 2016, consolidated sales and the consolidated net income of the group for the half-year ended June 30, 2016, would have been CHF 1 392 million and CHF 51.5 million respectively.

Acquisitions in 2015
Net assets acquired

millions of CHF	Saudi Pump Factory	Precision Gas Turbine	Others	Total
Intangible assets	1.5	4.1	3.3	8.9
Property, plant, and equipment	13.2	0.2	2.8	16.2
Cash and cash equivalents	0.3	–	0.5	0.8
Trade accounts receivable	1.7	–	0.5	2.2
Other current assets	8.8	0.9	–	9.7
Liabilities with third parties	–12.2	–	–1.1	–13.3
Deferred tax liabilities	–0.3	–	–	–0.3
Net identifiable assets	**13.0**	**5.2**	**6.0**	**24.2**
Non-controlling interests	–3.3	–	–	–3.3
Goodwill	21.2	7.2	3.0	31.4
Total consideration	**30.9**	**12.4**	**9.0**	**52.3**
Purchase price paid in cash	30.9	8.4	6.3	45.6
Contingent consideration	–	4.0	2.7	6.7
Total consideration	**30.9**	**12.4**	**9.0**	**52.3**

Saudi Pump Factory
On June 29, 2015, Sulzer acquired a 75% controlling interest in Saudi Pump Factory for CHF 30.9 million. Saudi Pump Factory, located in Riyadh, Saudi Arabia, has a workforce of 170 employees. The acquisition enables Sulzer to serve its Saudi Arabian and Gulf Cooperation Council customers with products to the highest Sulzer standards from a local base. The goodwill is attributable to synergies from combined solutions and shared services. None of the goodwill is expected to be deductible for tax purposes. Transaction cost recognized in the income statement amounted to CHF –0.9 million.

Precision Gas Turbine Inc.
On June 3, 2015, Sulzer acquired a 100% controlling interest in Precision Gas Turbine Inc. (Florida). The total consideration was CHF 12.4 million, of which CHF 8.4 million was paid in cash and CHF 4.0 million arose from a contingent consideration arrangement. Through this acquisition, Sulzer will further develop its current capabilities for field services for European-manufactured gas turbines. The goodwill is attributable to synergies from combined solutions and shared services. The goodwill is tax deductible over 15 years. Transaction cost recognized in the income statement amounted to CHF –0.2 million.

The contingent consideration is dependent on the future performance of the acquired company, and is linked to the gross margin from the company's product portfolio. The bonus for the gross margin depends on the degree of gross margin realized within three years, and is payable on a yearly basis. The total liability is limited at CHF 5.6 million. The calculation of the contingent consideration is based on management assessments that the criteria will be achieved at a probability of 71%.

Other acquisitions
Expert International Pompe Service
On July 28, 2015, Sulzer acquired the business of Expert International Pompe Service (EIPS) located in Casablanca, Morocco. Through this acquisition, Rotating Equipment Services expands its footprint in North Africa for repair of pumps of new equipment.

MATIS INTERVENTIONS SARL
On April 9, 2015, Sulzer acquired 100% of the French company MATIS INTERVENTIONS SARL (Locqueltas). With the acquisition, the Pumps Equipment division strengthens its presence in the French power market, especially in the nuclear business, and will enhance Sulzer's service offering to its customers in the French market.

InterWeld Inc Ltd

On February 12, 2015, Sulzer acquired 100% of InterWeld Inc Ltd located in Northern Ireland. With this acquisition, the Chemtech division will enhance the competitiveness of its tower field service activities by adding the offering of a full range of automated weld overlay services to the oil and gas as well as the power market.

The goodwill of the other acquisitions is attributable to synergies from combined solutions and shared services. None of the goodwill is expected to be deductible for tax purposes. Total transaction costs recognized in the income statement amounted to CHF −0.5 million.

Cash flow from acquisitions of subsidiaries

millions of CHF	2016	2015
Cash consideration paid	−22.3	−44.9
Contingent consideration paid	−0.5	−16.0
Cash acquired	8.5	0.8
Payments for acquisitions in prior years	−0.2	−3.1
Total cash flow from acquisitions, net of cash acquired	**−14.5**	**−63.2**

Contingent consideration

millions of CHF	2016	2015
Balance as of January 1	22.1	56.5
Assumed in a business combination	–	6.7
Payment of contingent consideration	−0.5	−22.0
Release to other operating income	−4.5	−12.9
Currency translation difference	–	−6.2
Total contingent consideration as of June 30/December 31	**17.1**	**22.1**

As of June 30, 2016, the group reassessed the achievement of the earn-out targets (gross profit and EBITDA) related to contingent consideration arrangements. The reassessment resulted in an income of CHF 4.5 million (December 31, 2015: CHF 12.9 million).

4 Currency exchange rates

CHF	2016		2015	
	Average rate	Closing rate	Average rate	Closing rate
	Jan–Jun	June	Jan–Jun	June
1 EUR	1.10	1.09	1.06	1.04
1 GBP	1.41	1.32	1.44	1.46
1 USD	0.98	0.98	0.95	0.93
1 BRL	0.27	0.30	0.32	0.30
1 CAD	0.74	0.76	0.77	0.75
100 CNY	15.02	14.76	15.23	15.02
100 INR	1.46	1.45	1.51	1.46
100 MXN	5.44	5.27	6.26	5.94
100 SEK	11.79	11.57	11.32	11.29
1 SGD	0.71	0.73	0.70	0.69
100 ZAR	6.38	6.56	7.95	7.60

5 Segment information

Segment information by divisions

millions of CHF	Pumps Equipment		Rotating Equipment Services		Chemtech	
	2016	2015	**2016**	2015	**2016**	2015
Order intake	**730.5**	**834.8**	**344.2**	**364.0**	**353.3**	**391.1**
Nominal growth	–12.5%	–1.9%	–5.4%	–4.2%	–9.7%	10.5%
Adjusted growth[1]	–11.5%	3.5%	–3.7%	–2.2%	–9.1%	12.7%
Order backlog as of June 30/December 31	981.7	998.0	224.0	205.0	342.1	307.7
Sales[2]	**745.6**	**726.7**	**324.6**	**334.0**	**314.9**	**338.8**
Nominal growth	2.6%	–10.2%	–2.8%	2.0%	–7.1%	–5.2%
Adjusted growth[1]	3.3%	–5.9%	–1.4%	3.4%	–6.7%	–4.6%
opEBITA[3]	**31.7**	**31.7**	**30.3**	**27.8**	**34.0**	**33.8**
in % of sales[4]	4.3%	4.4%	9.3%	8.3%	10.8%	10.0%
Restructuring expenses	–4.3	–2.8	–1.2	–2.0	–10.1	–3.1
Amortization	–9.0	–8.4	–3.2	–3.1	–8.3	–7.9
Impairments on tangible and intangible assets	–	–	–0.2	–	–5.4	–
Non-operational items	–3.2	–	–0.7	–	3.5	–
EBIT[5]	**15.2**	**20.5**	**25.0**	**22.7**	**13.7**	**22.8**
Depreciation	–14.5	–13.8	–7.6	–7.1	–11.0	–13.8
Operating assets	1 548.6	1 557.9	611.6	624.8	871.5	846.9
Unallocated assets	–	–	–	–	–	–
Total assets as of June 30/December 31	1 548.6	1 557.9	611.6	624.8	871.5	846.9
Operating liabilities	658.2	688.8	227.7	210.4	365.3	324.5
Unallocated liabilities	–	–	–	–	–	–
Total liabilities as of June 30/December 31	658.2	688.8	227.7	210.4	365.3	324.5
Operating net assets	890.4	869.1	383.9	414.4	506.2	522.4
Unallocated net assets	–	–	–	–	–	–
Total net assets as of June 30/December 31	890.4	869.1	383.9	414.4	506.2	522.4
Capital expenditure	12.5	15.9	6.7	6.4	14.1	10.6
Employees (number of full-time equivalents) as of June 30/December 31	6 610	6 996	3 483	3 538	3 594	3 539

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

Segment information by divisions

millions of CHF	Total Divisions		Others[2]		Total Sulzer	
	2016	2015	**2016**	2015	**2016**	2015
Order intake	**1 428.0**	**1 589.9**	**–4.6**	**–5.8**	**1 423.4**	**1 584.1**
Nominal growth	–10.2%	0.3%	n/a	n/a	–10.1%	0.0%
Adjusted growth[1]	–9.1%	4.2%	n/a	n/a	–9.1%	3.9%
Order backlog as of June 30/December 31	1 547.8	1 510.7	–	–	1 547.8	1 510.7
Sales	**1 385.1**	**1 399.5**	**–4.2**	**–6.3**	**1 380.9**	**1 393.2**
Nominal growth	–1.0%	–6.3%	n/a	n/a	–0.9%	–6.6%
Adjusted growth[1]	–0.3%	–3.6%	n/a	n/a	–0.1%	–3.8%
opEBITA[3]	**96.0**	**93.3**	**2.7**	**5.0**	**98.7**	**98.3**
in % of sales[4]	6.9%	6.7%	n/a	n/a	7.1%	7.1%
Restructuring expenses	–15.6	–7.9	–0.9	–	–16.5	–7.9
Amortization	–20.5	–19.4	–0.9	–1.1	–21.4	–20.5
Impairments on tangible and intangible assets	–5.6	–	–	–	–5.6	–
Non-operational items	–0.4	–	26.9	–22.3	26.5	–22.3
EBIT[5]	**53.9**	**66.0**	**27.8**	**–18.4**	**81.7**	**47.6**
Depreciation	–33.1	–34.7	–2.0	–1.8	–35.1	–36.5
Operating assets	3 031.7	3 029.6	–117.7	–159.3	2 914.0	2 870.3
Unallocated assets	–	–	–	–	716.3	1 384.5
Total assets as of June 30/December 31	3 031.7	3 029.6	–117.7	–159.3	3 630.3	4 254.8
Operating liabilities	1 251.2	1 223.7	146.8	106.6	1 398.0	1 330.3
Unallocated liabilities	–	–	–	–	678.9	690.3
Total liabilities as of June 30/December 31	1 251.2	1 223.7	146.8	106.6	2 076.9	2 020.6
Operating net assets	1 780.5	1 805.9	–264.5	–265.9	1 516.0	1 540.0
Unallocated net assets	–	–	–	–	37.4	694.2
Total net assets as of June 30/December 31	1 780.5	1 805.9	–264.5	–265.9	1 553.4	2 234.2
Capital expenditure	33.3	32.9	0.5	0.3	33.8	33.2
Employees (number of full-time equivalents) as of June 30/December 31	13 687	14 073	189	180	13 876	14 253

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

Information about reportable segments

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

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

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

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

Others:
Certain expenses related to the Corporate Center are not attributable to a particular segment and are reviewed as a whole across the group. Also included are reconciling and other items, e.g., adjustments made in preparing the financial statements, and interdivisional order intake and sales elimination.

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

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

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

Operational EBITA (opEBITA) excludes amortization, restructuring expenses, and impairments when the impairment is the result of an isolated, non-recurring event. It also excludes certain non-operational items that are non-recurring or do not regularly occur in similar magnitude such as pension plan amendments, acquisition-related expenses, gains and losses from sale of businesses or real estate, or expenses related to the Sulzer Full Potential (SFP) program. For the first half-year 2016, non-operational items include expenses related to the SFP program of CHF –12.3 million (half-year 2015: CHF –13.6 million) and income based on the Swiss pension plan amendments (see note 12), recognized as past service cost, of CHF 35.4 million (half-year 2015: CHF 0.0 million), and other non-operational income of CHF 3.4 million.

The reconciliation from EBIT to operational EBITA is as follows:

millions of CHF	2016	2015
EBIT	81.7	47.6
Amortization	21.4	20.5
Impairment on tangible and intangible assets	5.6	–
Restructuring expenses	16.5	7.9
Non-operational items	–26.5	22.3
opEBITA	**98.7**	**98.3**

6 Other operating income and expenses
Total other operating income and expenses for the half-year 2016 was CHF –18.0 million (half-year 2015: CHF –33.6 million).

For the half-year 2016, Sulzer booked restructuring expenses of CHF –16.5 million compared to CHF –7.9 million for the period ended June 30, 2015. As part of the Sulzer Full Potential (SFP) program, Sulzer has initiated several measures to adapt the global manufacturing capacities and streamline the organizational setup. Restructuring expenses are mainly associated with restructurings started in Switzerland, Sweden, and Finland.

The transactional foreign exchange effects resulted in an income of CHF 2.4 million in the first six months 2016, compared to CHF –8.4 million for the six months ended June 30, 2015. As of June 30, 2016 the group reassessed the achievement of the earn-out targets related to contingent consideration arrangements. The reassessment resulted in an income of CHF 4.5 million. For the first half-year 2015, the group recognized in the income statement expenses of CHF –8.7 million related to the decision of the arbitral tribunal regarding a dispute with the purchaser of the locomotive business (sold in 1998).

7 Financial income and expenses

millions of CHF	2016	2015
Interest and securities income	2.7	3.2
Total interest and securities income	**2.7**	**3.2**
Interest expenses	–7.2	–12.8
Interest expenses on employee benefit plans	–3.5	–2.7
Total interest expenses	**–10.7**	**–15.5**
Net interest expenses	**–8.0**	**–12.3**
Income from investments and other financial assets	–	0.1
Fair value changes	0.1	21.0
Currency exchange gains/(losses) net	–5.5	–20.0
Other financial income/(expenses)	–0.5	–0.3
Total other financial income/(expenses)	**–5.9**	**0.8**
Total financial expenses	**–13.9**	**–11.5**

The interest and securities income for the six months ended June 30, 2016, slightly decreased compared with 2015.

Interest expenses of 2015 comprise an extraordinary late interest expense charge of CHF –5.2 million related to the dispute with the purchaser of the locomotive business. Apart from that, interest expenses, comprising the expenses on the CHF 500 million bond of CHF –5.9 million, slightly decreased. Interest expenses on employee benefit plans increased in 2016 compared with 2015 due to higher pension liabilities.

Other financial expenses increased compared with 2015 mainly due to increased hedging costs and foreign currency revaluation effects on financial assets and liabilities. The “Fair value changes” largely comprise the fair valuation of derivative financial instruments that are classified as financial assets or financial liabilities at fair value through profit or loss and that are used as hedging instruments with regard to foreign exchange risks.

8 Income taxes

Income tax expenses comprise current and deferred tax. Income tax expenses are recognized based on the estimated income tax rate for the full financial year. The estimated average annual tax rate used for the year 2016 is 25.0%, compared to 28.5% for the six months ended June 30, 2015. The decrease of 3.5 percentage points mainly reflects a favorable change in the profitability of the group’s entities in the respective jurisdictions.

9 Financial instruments

The following tables present the carrying amounts and fair values of financial assets and liabilities as of June 30, 2016, and December 31, 2015, including their levels in the fair value hierarchy. For financial assets and financial liabilities not measured at fair value in the balance sheet, fair value information is not provided if the carrying amount is a reasonable approximation of fair value. Fair values are categorized into three different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

The fair value of financial instruments traded in active markets (including a fund investment classified as at fair value through profit or loss, or the outstanding bond) is based on quoted market prices at the balance sheet date. Such instruments are included in level 1.

The fair values included in level 2 are based on valuation techniques using observable market input data. This may include discounted cash flow analysis, option pricing models, or reference to other instruments that are substantially the same, while always making maximum use of market inputs and relying as little as possible on entity-specific inputs. The fair values of forward contracts are measured based on broker quotes for foreign exchange rates and interest rates. Other financial assets measured at fair value through profit or loss include time deposits and other interest-bearing investments with maturities between 3 and12 months, their fair value is determined based on discounted cash flows.

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 on the fulfillment of certain parameters, mainly related to earn-out clauses and technology transfer. For more information please refer to note 3.

millions of CHF						**June 30, 2016**
	Notes	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets measured at fair value						
Available-for-sale financial assets		4.5	4.5	–	4.5	–
Derivative assets – current		10.7	10.7	–	10.7	–
Total financial assets measured at fair value		**15.2**	**15.2**	**–**	**15.2**	**–**
Financial assets not measured at fair value						
Loans and receivables		7.5				
Non-current receivables (excluding non-current derivative assets)		8.7				
Trade accounts receivable		841.2				
Other accounts receivable (excluding current derivative assets)		124.7				
Cash and cash equivalents		571.2				
Total financial assets not measured at fair value		**1 553.3**	**–**	**–**	**–**	**–**
Financial liabilities measured at fair value						
Derivative liabilities – non-current		0.2	0.2	–	0.2	–
Derivative liabilities – current		14.7	14.7	–	14.7	–
Contingent considerations	3	17.1	17.1	–	–	17.1
Total financial liabilities measured at fair value		**32.0**	**32.0**	**–**	**14.9**	**17.1**
Financial liabilities not measured at fair value						
Outstanding bond	11	493.4	493.6	493.6		
Bank loans and other borrowings		17.5				
Other non-current liabilities (excluding non-current derivative liabilities)		18.6				
Trade accounts payable		299.7				
Other current liabilities (excluding current derivative liabilities)		41.9				
Total financial liabilities not measured at fair value		**871.1**	**493.6**	**493.6**	**–**	**–**

All financial assets classified as at fair value through profit or loss have either matured during the first half-year 2016, or have been sold upon the payment of the special dividend in April 2016.

millions of CHF					December 31, 2015	
	Notes	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets measured at fair value						
Financial assets at fair value through profit or loss		208.3	208.3	98.4	109.9	–
Available-for-sale financial assets		4.5	4.5	–	4.5	–
Derivative assets – current		6.4	6.4	–	6.4	–
Total financial assets measured at fair value		**219.2**	**219.2**	**98.4**	**120.8**	**–**
Financial assets not measured at fair value						
Loans and receivables		7.1				
Non-current receivables (excluding non-current derivative assets)		7.1				
Trade accounts receivable		851.1				
Other accounts receivable (excluding current derivative assets)		78.4				
Cash and cash equivalents		1 009.0				
Total financial assets not measured at fair value		**1 952.7**	**–**	**–**	**–**	**–**
Financial liabilities measured at fair value						
Derivative liabilities – non-current		0.4	0.4	–	0.4	–
Derivative liabilities – current		11.2	11.2	–	11.2	–
Contingent considerations	3	22.1	22.1	–	–	22.1
Total financial liabilities measured at fair value		**33.7**	**33.7**	**–**	**11.6**	**22.1**
Financial liabilities not measured at fair value						
Outstanding bond	11	499.6	506.4	506.4	–	–
Bank loans and other borrowings		22.0				
Other non-current liabilities (excluding non-current derivative liabilities)		24.2				
Trade accounts payable		323.8				
Other current liabilities (excluding current derivative liabilities)		43.6				
Total financial liabilities not measured at fair value		**913.2**	**506.4**	**506.4**	**–**	**–**

10 Dividends

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

11 Borrowings

The bond with original nominal amount of CHF 500 million and remaining outstanding amount of CHF 493.4 million (an amount of CHF 6.6 million has been early repaid to bond holders during 2016) matured on July 11, 2016. In order to refinance this maturity, Sulzer has on June 6, 2016, successfully issued new bonds via dual tranches of total CHF 450 million. The first tranche of CHF 325 million has a term of six years and carries a coupon of 0.375% at a price of 100.371%. The second tranche of CHF 125 million has a term of ten years and carries a coupon of 0.875% at a price of 100.169%. Cash settlement of both the matured bond and the newly issued bonds was on July 11, 2016.

12 Employee benefit plans

The balance sheet defined benefit obligations and income statement expenses for the period ended June 30, 2016, are based on updated actuarial valuations for the pension schemes. The defined benefit obligations for the Swiss and the UK pension plans represent more than 94% of the group. The significant assumptions were as follows:

millions of CHF	2016		2015	
Principal actuarial assumptions as of June 30/ December 31	Switzerland	United Kingdom	Switzerland	United Kingdom
Discount rate for active employees	0.3%	2.8%	1.1%	3.6%
Discount rate for pensioners	0.0%	2.8%	0.6%	3.6%
Future salary increases	1.0%	0.0%	1.0%	3.4%
Future pension increases	0.0%	2.5%	0.0%	2.5%
Life expectancy at retirement age (male/female) in years	22/24	22/24	22/24	22/24

The appropriate discount rates are determined by reference to market yields at the balance sheet date on long-term government bonds of the respective country.

The Swiss Pension Fund Board decided in June 2016 to reduce the guaranteed pension conversion rate by 1.0 percentage point over four years, beginning January 1, 2018. The plan amendments, recognized as past service cost, have had a positive impact of CHF 35.4 million in the income statement, of which CHF 8.2 million were recorded as cost of goods sold and CHF 27.2 million as general administrative expenses.

The lower discount rates resulted in higher defined benefit obligations of CHF 391.6 million compared to CHF 294.8 million as of December 31, 2015.

13 Provisions

millions of CHF	Other employee benefits	Warranties/ liabilities	Restructuring	Environmental	Other	Total
Balance as of January 1, 2016	42.9	77.9	27.7	16.1	46.2	210.8
Additions	15.8	9.3	17.1	–	6.4	48.6
Released as no longer required	−1.6	−2.3	−1.0	–	−1.7	−6.6
Utilized	−15.2	−10.1	−13.4	−0.2	−5.0	−43.9
Reclassifications	1.2	–	–	–	−1.2	–
Currency translation differences	−0.2	−0.8	0.6	−0.6	−0.1	−1.1
Total provisions as of June 30, 2016	**42.9**	**74.0**	**31.0**	**15.3**	**44.6**	**207.8**
– thereof non-current	32.6	4.2	2.5	15.3	17.6	72.2
– thereof current	10.3	69.8	28.5	–	27.0	135.6

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

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

As part of the Sulzer Full Potential (SFP) program, Sulzer has initiated several actions to adapt the global manufacturing capacities and streamline the organizational setup. Restructuring provisions are mainly associated with measures started in Switzerland, Sweden, and Finland. In 2016, the group recognized restructuring provisions of CHF 17.1 million. The remaining provision as of June 30, 2016, is CHF 31.0 million, of which CHF 28.5 million is expected to be utilized within one year.

The category “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 onerous contracts, in particular related from divestitures. In addition, provisions for ongoing asbestos lawsuits and other legal claims are included.

14 Subsequent events after the balance sheet date

On July 1, 2016, Sulzer signed a binding agreement to acquire Geka, headquartered in Bechhofen, Germany. Geka is expected to achieve revenues of around CHF 165 million and an EBITDA (earnings before interest, taxes, depreciation, and amortization) of around CHF 30 million in 2016. The enterprise value is CHF 286 million and the company has approximately 900 employees. Geka is a leading manufacturer of applicator devices for the cosmetics industry with an emerging business in healthcare. The transaction is expected to close in the third quarter subject to customary closing conditions.

The Board of Directors authorized these consolidated interim financial statements for issue on July 25, 2016. At the time when these consolidated interim financial statements were authorized for issue, the Board of Directors and the Executive Committee were not aware of any other events that would materially affect these financial statements.

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