SULZER

Annual Report 2014

BECOMING A LEADING EQUIPMENT AND SERVICE PROVIDER

Sulzer is a global partner with reliable and sustainable solutions for performance-critical applications.

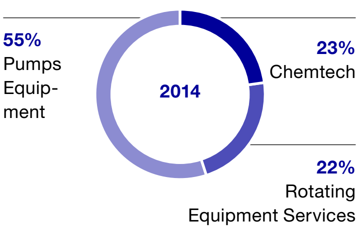
We specialize in pumping solutions, rotating equipment maintenance and services as well as separation, reaction, and mixing technology. Combining engineering and application expertise, our innovative solutions add value and strengthen the competitive position of our customers.

Sulzer is a leading provider in its key markets: oil and gas, power, and water. We serve clients around the world through a network of over 150 locations.

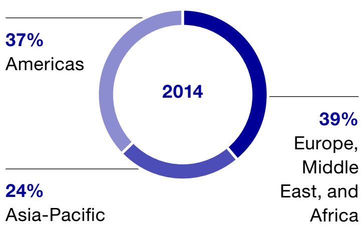
Profitability Increased Before Goodwill Impairment

Adjusted for currency effects and acquisitions, order intake decreased slightly and sales increased slightly from the previous year. Return on sales before goodwill impairment increased to 8.4% from 8.1% in the year before.

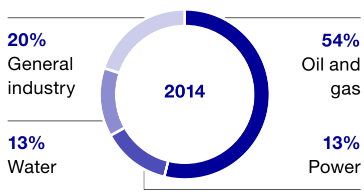
Sales by division



Sales by region



Sales by market segments



Key figures

millions of CHF		2014	2013	Change in +/– %	+/– %[1]
Order intake		3 160.8	3 249.9	–2.7	–0.6
Order backlog		1 699.6	1 672.1	1.6	
Sales		3 212.1	3 263.9	–1.6	0.7
Operating income before restructuring, impairment on goodwill, and depreciation/amortization	EBITDA	405.1	395.4	2.5	
Operating income before restructuring, impairment on goodwill, and amortization	EBITA	325.9	322.4	1.1	
Operating income before restructuring and impairment on goodwill	EBITR	282.2	280.8	0.5	1.9
Operating income before impairment on goodwill	EBIT	271.0	264.0	2.6	
Return on sales before restructuring, impairment on goodwill, and depreciation/amortization (EBITDA/sales)	ROSDA	12.6%	12.1%		
Return on sales before restructuring, impairment on goodwill, and amortization (EBITA/sales)	ROSA	10.1%	9.9%		
Return on sales before restructuring and impairment on goodwill (EBITR/sales)	ROSR	8.8%	8.6%		
Return on sales before impairment on goodwill (EBIT/sales)	ROS	8.4%	8.1%		
Return on capital employed (EBIT before impairment on goodwill/capital employed)	ROCE	13.0%	12.6%		
Net income attributable to shareholders of Sulzer Ltd[2]		275.0	234.4	17.3	
Free cash flow[2]		98.0	218.7	–55.2	
Net liquidity[2]		773.5	–36.2		
Employees (number of full-time equivalents) as of December 31		15 494	15 382	0.7	

[1] Adjusted for currency effects and acquisitions.
[2] Includes continuing and discontinued operations.

Strengthening the Competitive Position of Our Customers

Sulzer holds leading positions in its key markets: oil and gas, power, and water. We are dedicated to creating long-term value, providing sustainable solutions, and strengthening the competitive position of our customers.

The company at a glance

Pumps Equipment

Pump technology and solutions

We offer a wide range of pumping solutions and related equipment. Customers benefit from extensive research and development in fluid dynamics, process-oriented products, and reliable services. Our global manufacturing and support network ensures high customer proximity. Our market focus is on:

— Production, transport, and processing of crude oil and derivates
— Supply, treatment, and transport of water as well as wastewater collection
— Fossil-fired, nuclear, and renewable power generation

EBITA and ROSA

CHF 161m (2013: CHF 175m)
9.2% (2013: 9.6%)

Sales

CHF 1 755m (2013: CHF 1 822m)

Order intake

CHF 1 726m (2013: CHF 1 802m)

Rotating Equipment Services

Service solutions for rotating equipment

We offer a full range of services for turbines, pumps, compressors, motors, and generators. Customers benefit from reliable and efficient repair and maintenance services for pumps, gas and steam turbines, compressors, motors, and generators of any brand. Our global network ensures high-quality local service. Our market focus is on:

— Industrial gas and steam turbines in the oil and gas and power market
— Turbocompressors
— Generators and motors for the transportation (marine and rail), the power market, and many more industries
— Pumps in the oil and gas, the power market, and many more industries

EBITA and ROSA

CHF 78m (2013: CHF 71m)
10.8% (2013: 10.1%)

Sales

CHF 725m (2013: CHF 706m)

Order intake

CHF 725m (2013: CHF 699m)

Chemtech

Separation, mixing, and service solutions

We offer products and services for separation, reaction, and mixing technology. Customers benefit from advanced solutions in the fields of process technology and separation equipment, as well as two-component mixing and dispensing systems. Our global footprint ensures local knowledge and competence. Our market focus is on:

— Separation solutions
— Tower field services
— Two-component mixing and dispensing systems

EBITA and ROSA

CHF 94m (2013: CHF 95m)
12.6% (2013: 12.8%)

Sales

CHF 742m (2013: CHF 744m)

Order intake

CHF 718m (2013: CHF 750m)

Contents

“We want to go to market as *one* focused, market-oriented company and become a leading equipment and service provider in our key markets.”

Winterthur, February 10, 2015

Dear shareholder

Sulzer looks back on over 180 years of industrial history. Since its establishment in 1834, the company has changed dramatically. Change and transformation is a constant companion and an indispensable factor in becoming a leading equipment and service provider.

Achievements in 2014

We divested the Sulzer Metco division and systematically strengthened our focus on the three key markets. We created the integrated service division Rotating Equipment Services. The new service division offers services for gas and steam turbines, compressors, pumps, motors, and generators of any brand. The acquisition of Grayson Armature in Houston, TX, USA, and the joint venture with China Huadian Corporation also further strengthen the service offering and regional footprint of the division. We streamlined our group functions at the headquarters in Winterthur, Switzerland, and adapted our operational structure to become an integrated company.

Go to market as *one* company

"You are doing the right thing," was a customer's feedback in 2014 when we presented the new and integrated service division to the business. This sort of customer feedback and the positive operational development of the new Rotating Equipment Services division are making us confident that we "are doing the right thing".

EBITR

Operating income before restructuring and goodwill impairment (EBITR) was CHF 282 million. This is a slight increase of 1.9% from 2013 on an adjusted[1)] basis. The goodwill impairment in the Water business unit of CHF 340 million reduced the operating income to a negative CHF 69 million. Return on sales before goodwill impairment and restructuring increased to 8.8% (2013: 8.6%).

Sales

Sales were CHF 3.2 billion (2013: CHF 3.3 billion) which is 0.7% more from 2013 and stable on an adjusted[1)] level.

We need to go to market as *one* company and install single channels to market where appropriate as our customers expect a one-stop shop for products and services. We are taking advantage of divisional synergies and are now able to offer services for all kinds of rotating equipment to our customers.

Maintaining financial discipline

We would like to point out that we will maintain financial discipline in merger and acquisition projects, and we will not compete in bidding wars. Sulzer is a strong brand with an excellent product and service offering. We are very capable of becoming even better in what we do and growing profitably. Besides that, Sulzer is always working on several merger and acquisition projects to pursue growth opportunities. In 2014, we were in discussions with the US company Dresser-Rand about a potential non-cash merger of equals. We have ended these discussions with Dresser-Rand and Siemens has announced an all-cash takeover bid for Dresser-Rand. Focusing on the three key markets oil and gas, power, and water is the right strategy for Sulzer. Our strategic focus opens opportunities for us to expand our portfolio with complementary offerings—either for equipment or services—and, thus, make better use of our global sales channels and our manufacturing and service footprint. In 2014, orders in the oil and gas market increased whereas demand in the power, water, and the general industry were slightly lower.

Financial performance in 2014

Order intake was CHF 3.2 billion (2013: CHF 3.2 billion). Adjusted for currency effects and acquisitions, this is 0.6% less from 2013. Sales were CHF 3.2 billion (2013: CHF 3.3 billion) which is stable on an adjusted level compared with the previous year. The goodwill impairment in the Water business unit of CHF 340 million reduced the operating income to a negative CHF 69 million. Return on sales before goodwill impairment increased to 8.4% (2013: 8.1%).

The net income in 2014 increased by 17.7% to CHF 278.1 million (2013: CHF 236.2 million). This results in basic earnings per share of CHF 8.09 (2013: CHF 6.89) which is 17.4% higher from the previous year. The Board of Directors will propose an ordinary dividend increase to CHF 3.50 (2013: CHF 3.20) per share at the Annual General Meeting on April 1, 2015.

Market orientation of the divisions

We prepared the new market-oriented setup for our biggest division last year. Since the beginning of 2015, Pumps Equipment is set up according to the market segments oil and gas, power, and water. We expect a direct benefit from this new operational setup on all our business units and for their customers around the world. It will not only further enhance competitiveness, but also quality and delivery times. This year, we will also manage our factories globally and we will invest in organic growth as well as in external growth.

Our Chemtech division continues to provide its customers with outstanding solutions for static equipment, such as separating and mixing solutions, including tower field services. The Chemtech division is already market-oriented.

Volatility in the oil and gas market

With a share of sales of 54% (2013: 51%), our exposure in the oil and gas market has increased. We are very well aware of our oil and gas customers showing more capital discipline. The recent oil price development does not help favorable investment decisions in the short term. Nevertheless, the absolute level of investments is still expected to remain high. We believe that in such an environment, we should be able to benefit from our enhanced service offering. In 2014, we achieved again a healthy level of 45% of our sales in the service business (2013: 44%). In addition, we offer technologies—for instance through Chemtech's acquisition of ASCOM and

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Sales

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ProLabNL—that support our customers in reducing their investment and operational costs significantly. These technologies further strengthen Sulzer's position in the oil and gas market. Our share of sales of 42% (2013: 42%) in emerging markets demonstrates our comprehensive global footprint in both the equipment and the service businesses.

Impact of the stronger Swiss franc

The Swiss National Bank's decision to end its three-year policy of capping the Swiss franc at 1.20 per euro, makes the Swiss franc stronger. With a strong global footprint and over 150 service and production facilities around the world, Sulzer manufactures in large parts in the region for the region. Besides the currency translation effect, the impact of currency shifts is limited.

Accelerating transformation

We have introduced a strategic program that frames and accelerates our transformation journey to become *one* focused, market-oriented, globally operating company. With this program called Sulzer Full Potential, we have an integrated approach on strategy, operating model, and operational excellence. We have identified measures how to reduce the complexity, maximize the synergies, and improve our efficiency. An integrated road map to execute the Sulzer Full Potential Program as well as tracking of the results is in place. We want to create an organization capable of adapting quickly to changing market conditions and support our aim to profitably grow. From 2017 onwards, Sulzer targets to improve profitability by four to six percentage points.

Changes in the Board and the management

Peter Löscher was newly elected as member and Chairman of the Board of Directors at the Annual General Meeting 2014. Matthias Bichsel was also newly elected as member to the Board of Directors at the Annual General Meeting 2014. César Montenegro, Division President of Sulzer Metco and member of the Executive Committee, was appointed Division President of Pumps Equipment as of June 2014, replacing Scot Smith. Thomas Dittrich was appointed Chief Financial Officer and member of the Executive Committee as of August 2014, replacing Jürgen Brandt.

Outlook for 2015 (adjusted for currency effects)

The markets are becoming increasingly volatile because of the current development of the oil price, regional conflicts, and geopolitical developments. The low oil price could influence our business negatively over time. However, our business mix is balanced through our 45% service share, our exposure to other markets, regions, and across customer segments. Activity in the power market is forecast to remain stable and the general industry is expected to slightly increase. The water market is anticipated to slightly increase.

For the full year 2015, adjusted for currency effects, order intake is expected to slightly decrease and sales is anticipated to be flat. To further increase transparency, Sulzer introduces with operational EBITA (op. operating income before amortization) a new performance indicator. Operational EBITA is forecast to be flat. From 2017 onwards, Sulzer targets to improve profitability by four to six percentage points.

EBITR

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Sales

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Dear shareholder, we thank you for your confidence and continued support. We thank our employees for their outstanding agility and commitment, and we would also like to thank our customers and partners for their great and sustained cooperation.

Yours sincerely,

Peter Löscher
Chairman of the Board

Klaus Stahlmann
CEO

Order Intake

Order intake was CHF 3.2 billion (2013: CHF 3.2 billion). On an adjusted[1] basis, this is 0.6% less from 2013.

FCF

Free cash flow (FCF) of CHF 98.0 million in 2014 is lower compared to the CHF 218.7 million generated in the previous year. Main reason for the decline was the increase in net working capital.

Operational EBITA

To further increase transparency, Sulzer introduces with operational EBITA (op. operating income before amortization) a new performance indicator. Operational EBITA was CHF 303 million. Operational return on sales before amortization (ROSA) was 9.4% compared to 9.3% in 2013.

Dividend

The Board of Directors will propose an ordinary dividend increase to CHF 3.50 (2013: CHF 3.20) per share at the Annual General Meeting on April 1, 2015.

ROCE

Return on capital employed before impairment on goodwill (ROCE) was 13.0% (2013: 12.6%). Despite restructuring expenses, we exceeded our internal value-creating threshold.

EPS

Net income increased by 17.7% to CHF 278.1 million (2013: CHF 236.2 million) due to the net income from the Sulzer Metco divestiture. This results in basic earnings per share (EPS) of CHF 8.09 (2013: CHF 6.89) which is 17.4% higher from the previous year.

EBITR

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Sales

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[1] Adjusted for currency effects and acquisitions.

BECOMING A LEADING EQUIPMENT AND SERVICE PROVIDER

HOW WE SERVE OUR KEY MARKETS

Sulzer helps fulfill the global demand for oil and gas and the related industries. Our solutions benefit customers in the upstream, midstream, and downstream segments. Our customers are oil and gas majors, national oil companies, refineries, contractors, and local customers.

Sulzer helps satisfy the global demand for energy. Our solutions add value in fossil-fired, nuclear, and renewable power generation. Our customers are utility providers, contractors, end users, and local customers.

Sulzer helps meet the global demand for clean water. Our solutions are essential for water transport and use, as well as desalination and wastewater treatment. Our customers are municipalities, contractors, private water companies, and customers in agriculture.

FACTS AND FIGURES

15 494

Number of employees (full-time equivalents) working for Sulzer as of December 31, 2014.

100

Number of service sites worldwide since merging the two existing service businesses into one service division called Rotating Equipment Services.

41

Number of countries with at least one legal entity worldwide. Sulzer has a strong global footprint with service and production facilities.

45%

Share of sales in service in 2014. This underlines the positive impact of creating an integrated service division.

REDUCING WEIGHT AND INVESTMENTS

Oil and water in the gas stream can lead to damage of equipment and the environment. To separate liquids from gas, Santos relies on Sulzer's advanced inline technology. The Australian oil and gas producer benefits from big savings in investment, space, and weight.

FACTS AND FIGURES

99%

Efficiency achieved with two separation stages and minimum space (as compared with conventional separation technology).

115%

Stable operation still achieved at 15 % over the design capacity.

90%

Reduction in weight from that of conventional separator technology. Compact technology is very suitable for mature facilities modification, especially on oil and gas rigs, where space and weight are critical parameters.

50%

Reduced investments from those for conventional separation technology. With compact processing technologies, oil and gas processing equipment can be vastly reduced in size and weight, resulting in reduced capital expenditures.

Plasma-cutting machine

The plasma-cutting process is used to cut steel and other metals of different thicknesses. Sulzer's new plasma-cutting equipment shows the company's commitment to technology leadership.

ProLabNL, acquired by Sulzer in 2014, offers one of the world's most advanced multiphase flow loops. It simulates real oil field conditions under high- or low-pressure conditions.

Our solutions in the oil and gas market

- Pump systems both onshore and offshore (including subsea) for the production and transportation of crude oil, derivates, and liquefied natural gas
- Process components such as fractionation trays, structured and random packings, liquid and gas distributors, gas-liquid separators, and internals for separation columns
- Service for mechanical and electro-mechanical rotating equipment
- Tray and packing installation, welding, tower maintenance, and plant turnaround projects
- Polymerization technology for the production of PLA (polylactic acid) and EPS (expandable polystyrene)

The Wortel gas field is located offshore East Java, Indonesia, in the Indian Ocean. It was discovered in 2006 and is operated by Santos, an Australian oil and gas producer. Since 2012, Santos has been producing gas predominantly from two wells that are drilled to a depth of over 2 000 meters.

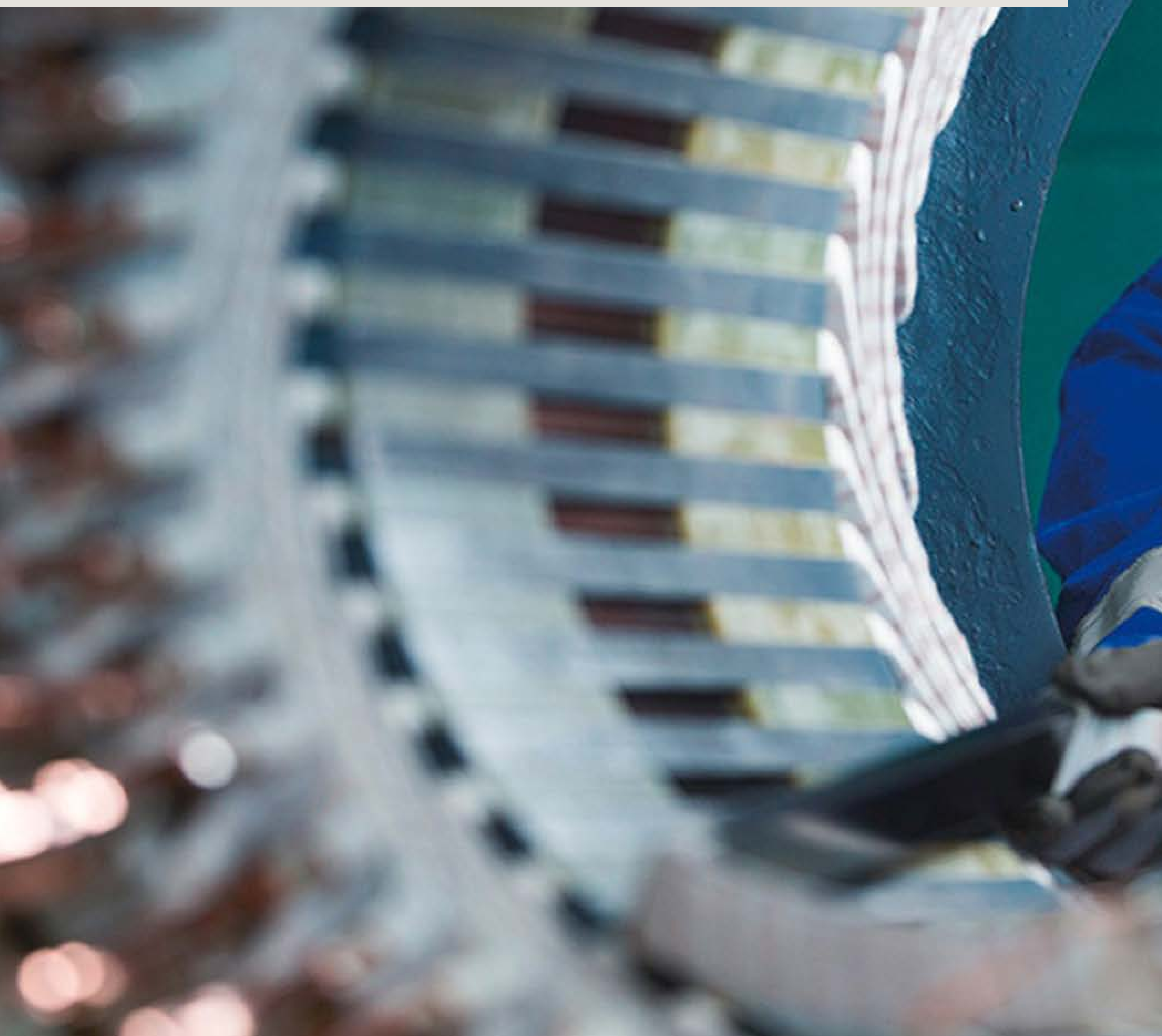
Water and oil in the gas streams can lead to blockages and corrosion in the pipes, as well as damage to compressors and other downstream equipment. Moreover, oil in the water raises environmental concerns because this water is typically released into the environment. To separate the liquid from the gas stream, Santos requires special separation equipment. The oil and gas producer decided to use an inline separation system—the Twinline™ separator from ASCOM (acquired by Sulzer in 2014). With this advanced technology, Santos benefits from big savings in both investment and overall weight and space, which are very important to all offshore suppliers.

The inline separator was installed early 2012 on the platform from Santos. It has been operational since March 2012 and is performing well, with over 99% predicted efficiency. In operation, the flow rate of gas has been increased to 15% above the nominal design rate, and the operational results are excellent. Santos considers it a proven technology with high performance. The Twinline—one of several inline separators from ASCOM—makes compact offshore processing solutions feasible and achieves high separation efficiency. ASCOM expands the offering of the Chemtech division for gas-liquid, liquid-liquid, and gas-liquid-sand separation technologies.

Sulzer is a leading provider of separation technologies. The company's portfolio includes state-of-the-art products for distillation, absorption, stripping, evaporation, phase separation, liquid-liquid extraction, crystallization, and membrane separation.

BOOSTING SERVICE IN CHINA'S POWER MARKET

Sulzer and the China Huadian Corporation have joined forces to boost service in the Chinese power market. The two companies formed a joint venture that will become a major player for rotating equipment service in China.



FACTS AND FIGURES

350

Average number of gas turbine orders received and executed per year. Gas turbines have to be fired to highest possible temperatures to get the best efficiency and the highest output.

5%

Average boost in customers' annual performance through Sulzer's retrofit programs for rotating equipment.

275 000

Meters of copper used in the production of coils. Sulzer is one of the leading manufacturers of high-voltage coils in the world.

9 000

Safety walks to improve safety for customers and employees and to identify dangers before an accident happens. Safety walks are performed in manufacturing sites, service centers, and offices.

High-voltage coil manufacturing

Copper is the main ingredient in the manufacturing of high-voltage coils, which are used in motors and generators.

Many gas turbines installed in the 1980s are still in operation. Sulzer's combined global service division comprises 100 service and sales sites in over 25 countries.

Our solutions in the power market

- Pumps for fossil-fired and nuclear power plants as well as renewable power generation
- Advanced solutions for carbon capture and storage
- Repair and maintenance services for turbines, compressors, pumps, generators, and motors

The global population is growing steadily and the mobility of those people is also on the rise. The demand for electricity is increasing twice as fast as overall energy consumption. The world will need a greatly increased energy supply within the next twenty years. Sulzer meets this need with its unique service solutions for the power market. Innovative processes and products help to reduce the operational cost of power stations, increase the reliability of rotating equipment, and extend the lifetime of important machinery such as gas turbines.

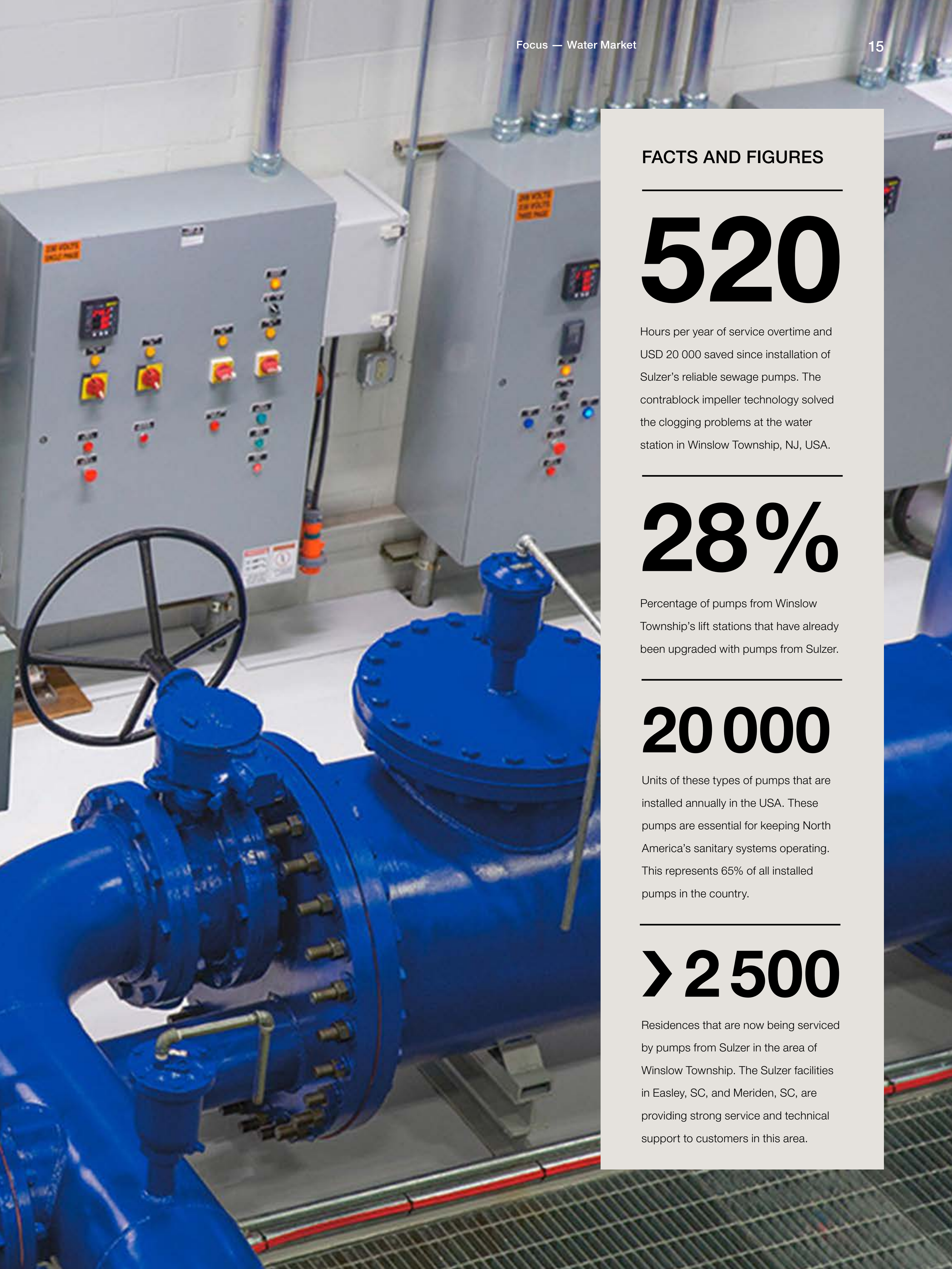
Because China is rapidly industrializing, its need for energy is constantly growing. One of China's biggest utility companies was looking for a partner for the service of its gas turbines. China Huadian Corporation (CHD) is the leader in gas turbine fleet development in China. CHD needed a partner to help them to provide fast and flexible service for their multiple brands of gas turbines and lower total cost of ownership. CHD decided to work with Sulzer to combine the expertise of both companies and provide a single-point solution.

Sulzer provides products and services for gas turbines including parts, field service, maintenance, and overhaul services. As a specialist in component repair and component manufacturing, Sulzer also provides services and know-how for lifetime extension of the equipment from its competence center in Venlo, the Netherlands. CHD's main businesses are the generation and supply of electricity and heat, the development of power-related primary energy (such as coal), and the supply of pertinent technological service. The joint venture offers Sulzer the unique opportunity to become a major player for rotating equipment service in China's power market.

From inspection and coil manufacturing to complete rotor and stator rewinds and remanufacturing, Sulzer offers a full range of services for generators, motors, and other rotating electromechanical equipment. These services focus on fossil-fired plants as well as renewable power generation.

REDUCING DOWNTIME AT A WATER UTILITY

Winslow Township in New Jersey, USA, operates its own in-house water and sewer utility. The town sought relief from its clog-prone, unreliable pumps. Sulzer’s reliable submersible pumps and local service support solved the problems and enabled maintenance personnel to focus on other municipal maintenance issues.



FACTS AND FIGURES

520

Hours per year of service overtime and USD 20 000 saved since installation of Sulzer's reliable sewage pumps. The contrablock impeller technology solved the clogging problems at the water station in Winslow Township, NJ, USA.

28%

Percentage of pumps from Winslow Township's lift stations that have already been upgraded with pumps from Sulzer.

20 000

Units of these types of pumps that are installed annually in the USA. These pumps are essential for keeping North America's sanitary systems operating. This represents 65% of all installed pumps in the country.

> 2 500

Residences that are now being serviced by pumps from Sulzer in the area of Winslow Township. The Sulzer facilities in Easley, SC, and Meriden, SC, are providing strong service and technical support to customers in this area.

Submersible sewage pump type ABS XFP

ABS XFP pumps provide reliable, economical pumping of heavily polluted sewage in commercial, industrial, and municipal applications.

The state-of-the-art manufacturing site in Easley, SC, USA, offers a top-notch test facility for submersible wastewater pumps.

Our solutions in the water market

Pumps and related equipment (such as lifters, mixers, aerators, compressors, control and monitoring equipment, as well as services)

Pumps for water transport and use

Pumping solutions in desalination and wastewater treatment

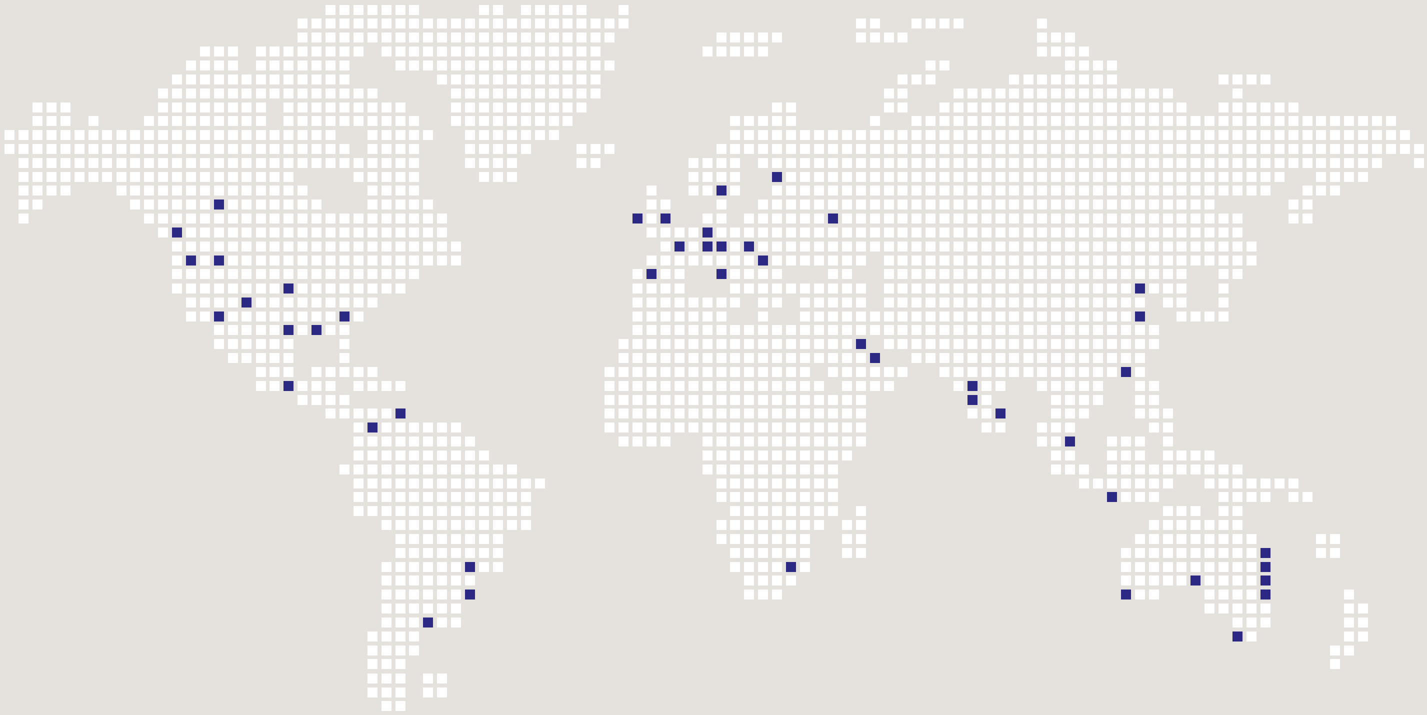
Service for electromechanical equipment, e.g., motors as well as mechanical equipment such as pumps

Winslow Township is the largest town in Camden County, NJ, USA. The town runs its own in-house water and sewer utility. The pumps installed in the two pumps stations—Ivy Hall and Victoria Manor—often clogged and experienced reliability issues. Even partially clogged pumps greatly reduce energy efficiency. Customer callout time and overtime to service these stations was very high.

Sulzer supported Winslow Township in the upgrade and expansion of its municipal water and sewer system by supplying Ivy Hall and Victoria Manor with more reliable submersible ABS XFP pumps. These pumps handle the tough solids better than the competitor's clog-prone pumps did. Moreover, the customer needed strong local service support and product technology from Sulzer to help solve its problem. To better service the market, Sulzer has invested by leveraging the state-of-the-art manufacturing facility in Easley, SC, for configuration and testing of submersible wastewater pumps.

The submersible sewage pumps with contrablock impeller were put into service at both of these stations in Winslow Township. The Sulzer pumps immediately solved the clogging issue and Winslow Township has not experienced a clogging issue with these pumps in over a year of service. Maintenance personnel have had more time to attend to other municipal maintenance issues aside from unclogging or servicing pumps.

"The Sulzer ABS XFP pumps have been performing exceptionally well without any problems at all. Their rag-handling ability has been exceptional, and our operators love them. We will definitely be adding more of these pumps to our system and would recommend them to others," states the customer at Winslow Township, NJ, USA.



NUMBER OF LOCATIONS

150

SHARE OF SALES IN EMERGING MARKETS

42%

A Global Service and Production Footprint to Meet Customers' Needs

Our customers require the best products and services at the highest quality standards in the industry. We are present with over 150 production and service sites around the world and generate more than 42% of sales in emerging markets. We are close to our customers and help them meet their needs.

■ *Major production and service locations*

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Business Review

Business Review

Our Company

Our Divisions

Our Responsibility

Profitability Increased Before Goodwill Impairment

Adjusted for currency and acquisition effects, order intake decreased slightly and sales increased slightly from the previous year. Return on sales before goodwill impairment increased to 8.4% from 8.1% in the year before. The goodwill impairment in the Water business unit of CHF 340 million reduced operating income to a negative CHF 69 million. Net liquidity increased by CHF 810 million, mainly due to proceeds from the Sulzer Metco divestiture.

Slight decrease of order intake despite a strong fourth quarter

Order intake, adjusted for currency translation effects as well as acquisition effects, decreased by 0.6%, while nominal total orders decreased by 2.7% to CHF 3.2 billion.

The service business was strong, resulting in an adjusted growth of 4.8% for the Rotating Equipment Services division. The higher capital discipline of the oil companies affected the Pumps Equipment division, which generates more than 50% of its orders in the oil and gas segment. The division reported an adjusted decrease in order intake of 1.2%. Chemtech could not sustain the level of the previous year, mainly due to fewer large projects in the Process Technology business unit.

In 2014, orders in the oil and gas market increased whereas the power, water, and the general industry were slightly lower. The Americas region reported strong order intake with an increase of 4% over the previous year. The Asia-Pacific region weakened in 2014 compared with 2013, while the activity in Europe, Middle East, and Africa (EMEA) remained fairly stable.

The three divisions reported the following growth rates:
— Pumps Equipment: −4.2% (−1.2% adjusted)
— Rotating Equipment Services: 3.7% (4.8% adjusted)
— Chemtech: −4.2% (−3.2% adjusted)

Free cash flow

CHF **98.0m**

The currency translation effect amounted to a negative CHF 89.9 million. Weakening of the Brazilian real, the Russian ruble, and the US dollar had an adverse effect, while the strengthening of the British pound positively influenced the nominal order intake. The effect from acquisitions and divestitures contributed CHF 19.3 million in 2014, mainly from the Grayson acquisition in the Rotating Equipment Services division (CHF 11.2 million), ASCOM B.V. and ProLabNL B.V. (CHF 18.6 million) in the Chemtech division, and the divestiture of Innotec in Chemtech (CHF −12.4 million).

Orders

millions of CHF	2014	2013
Order intake	3 160.8	3 249.9
Order backlog as of December 31	1 699.6	1 672.1

The order backlog as of December 31, 2014 increased slightly to CHF 1 699.6 million (December 31, 2013: CHF 1 672.1 million).

Slight sales increase on an adjusted basis

Sales of CHF 3.2 billion were recorded in 2014, a nominal decrease of 1.6% due to adverse currency translation effects (adjusted +0.7%). The growth rates of the divisions are as follows:
— Pumps Equipment: −3.7% (−0.6% adjusted)
— Rotating Equipment Services: 2.7% (3.4% adjusted)
— Chemtech: −0.3% (1.6% adjusted)

The negative currency translation effect amounted to CHF 89.5 million, while acquisition effects added CHF 14.2 million.

In 2014, sales in the oil and gas and the water market increased, but were lower in the power and the general industry. Sales in the Americas and the Asia-Pacific region were up from previous year, and were down in EMEA. The share of sales in the emerging markets was stable at 42%.

Better gross margin despite lower volumes

Gross margin increased to 31.4% compared with 30.7% in 2013. Chemtech and Pumps Equipment both reported better margins than in the previous year, while Rotating Equipment Services remained on a similar level to 2013. Total gross profit increased by CHF 6.9 million to CHF 1 009.9 million (2013: CHF 1 003.0 million) with higher margins being offset by slightly lower sales volumes.

Operating income: higher gross profit and stable operating expenses

Operating income before goodwill impairment increased by 4.2% on an adjusted basis (nominal 2.6%). Total operating expenses—excluding goodwill impairment—remained on the same level as in 2013. Selling as well as general and administration expenses decreased from the previous year, largely resulting from the restructuring programs initiated in 2013. Restructuring measures continued in 2014, while restructuring costs of CHF 11.2 million were lower than the CHF 16.8 million in 2013. Rotating Equipment Services launched a restructuring program in 2014 in the UK, while Pumps Equipment further intensified the restructuring efforts in the Water business unit.

Lower administration expenses were partially reinvested into R&D programs. A total of CHF 76.2 million was spent for research and development activities, which is an increase of 8% and, in relation to sales, an increase from 2.2% to 2.4% of sales. This supports the objective of achieving leading positions in Sulzer's key markets through continuing investments in technology and innovation. In addition to higher R&D costs, the other operating income was lower in 2014 resulting in total operating expenses of CHF 738.9 million (excluding goodwill impairment), flat on 2013 with CHF 739.0 million.

With stable operating expenses, the higher gross profit of CHF 6.9 million directly improved operating income. This resulted in a slightly higher operating income before impairment of CHF 271.0 million (compared to CHF 264.0 million in 2013).

Goodwill impairment in Water business unit

The goodwill impairment resulted from the change of estimated future growth and profitability assumptions in order to bring them in line with expected market developments. This affected the results of the Pumps Equipment division and the results of Sulzer overall. On a group level, the goodwill impairment of CHF 340 million resulted in a negative operating income of CHF 69.0 million as reported.

Adjusted for the goodwill impairment impact from the Water business unit, return on sales (ROS) increased to 8.4% from 8.1% in the previous year, largely supported by cost reduction on group level. On an as-reported basis return on sales is –2.1%.

ROCE

13.0%

The divisions achieved the following return on sales (ROS) figures:
— Pumps Equipment: 7.8% (2013: 7.9%). Lower sales volumes and higher under-absorption costs were compensated by better margins and lower selling expenses. Including the goodwill impairment of CHF 340 million, the profitability dropped to –11.6%.
— Rotating Equipment Services: 9.0% (2013: 9.1%). Sales volumes and margins improved but were offset by under-absorption and higher selling costs. The restructuring expenses of CHF 7.2 million for a program in the UK were offset by the gain from a property sale in London that was included in other operating income.
— Chemtech: 10.6% (2013: 11.0%). Continuing high level of profitability. However, return on sales was slightly below the previous year due to a less favorable business mix.

Key performance ratios before goodwill impairment

		2014	2013
Return on sales (EBIT/sales)	ROS	8.4%	8.1%
Return on sales before restructuring (EBITR/sales)	ROSR	8.8%	8.6%
Operational return on sales before amortization (opEBITA/sales)	opROSA	9.4%	9.3%
Return on capital employed (EBIT/capital employed)	ROCE	13.0%	12.6%

EBIT before depreciation and amortization (EBITDA) was CHF 393.9 million (12.3% of sales) compared with CHF 378.6 million in 2013 (11.6% of sales). Depreciation and amortization totaled CHF 122.9 million in 2014 plus the goodwill impairment of CHF 340 million. Compared with the previous year and before the goodwill impairment impact, this represents an increase of CHF 8.3 million, which includes higher acquisition-related depreciation and amortization.

Introducing operational EBITA

To further increase transparency, Sulzer introduces with operational EBITA (op. operating income before amortization) a new performance indicator. Operational EBITA better reflects the ongoing business performance and allows for better comparability between periods and peers.

Operational EBITA

millions of CHF	2014	2013
Reported EBIT	−69.0	264.0
Amortization	43.7	41.6
Impairment on goodwill	340.0	–
Restructuring expenses	11.2	16.8
Adjustments for other non-operational items[1]	−23.0	−18.3
Operational EBITA	302.9	304.1
Operational ROSA (opEBITA/sales)	9.4%	9.3%

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

Divestiture of Sulzer Metco

The divestiture of Sulzer Metco was successfully closed in June 2014. Sulzer Metco was already shown as discontinued operations in 2013, since the intention to divest Sulzer Metco was set and had been communicated during the financial year 2013. Proceeds from the divestiture increased the cash positions by CHF 870.4 million.

Financial income: increased cash position leads to higher interest income

Higher cash positions from the divestiture of Sulzer Metco increased the interest income slightly from CHF 5.0 million in 2013 to CHF 6.8 million in 2014. The decrease in interest expenses due to lower borrowings contributed further. Included in the financial results 2014 are currency exchange gains of CHF 1.4 million, while in 2013 currency exchange losses of CHF 4.8 million were reported. In total, the financial income is CHF −16.7 million, CHF 5.1 million higher than in the previous year (2013: CHF −21.8 million).

Effective income tax rate increased, adjusted for goodwill impairment

Pre-tax income increased by CHF 12.1 million or 5.0% to CHF 254.3 million. Income tax expenses increased by CHF 6.0 million or 9.1% from last year, resulting in a higher effective tax rate of 28.3% (2013: 27.2%). The reported tax rate is inflated by the non-tax-deductible goodwill impairment.

Net income: Sulzer Metco divestiture offset by goodwill impairment

Net income from discontinued operations of CHF 435.7 million is up from CHF 59.9 million in 2013, which reflected Sulzer Metco's operating result in 2013. The increase in 2014 is due to the book gain realized from the divestiture of Sulzer Metco.

The positive one-time effect from the Sulzer Metco divestiture on the net income of CHF 435.7 million was offset in part by the goodwill impairment of CHF 340 million. The net income from continuing operations, excluding goodwill impairment, was slightly better compared with 2013. The net income increased by 17.7% to CHF 278.1 million in 2014 (2013: CHF 236.2 million).

The increase in net income is also reflected in basic earnings per share, which increased by 17.4% from CHF 6.89 in 2013 to CHF 8.09 in 2014.

Balance sheet: higher cash positions and increase of equity ratio to 52.6%

Total assets as of December 31, 2014, amounted to CHF 4648 million, which is an increase of CHF 104 million over the figure from 2013.

Non-current assets were reduced by CHF 216 million due to the goodwill impairment of CHF 340 million partly offset by additions resulting from acquisitions and investments. Additions to assets (capex) of CHF 96.0 million (2013: CHF 80.5 million) fall mainly into the following categories: expansion (42%), replacement (30%), IT investment (12%), and rationalization (6%).

Current assets increased by CHF 320 million. Assets held for sale of CHF 569 million at the end of 2013 were deconsolidated with the Sulzer Metco closing during the financial year 2014, and cash positions (CHF 666 million) and marketable securities (CHF 107 million) increased accordingly. Within net working capital, inventory increased by CHF 51 million, and trade receivables rose by CHF 78 million.

Total liabilities remained practically unchanged at CHF 2206 million as of December 31, 2014. The deconsolidation of CHF 158 million liabilities held for sale (from the Sulzer Metco divestiture), was largely offset by an increase in non-current provisions of CHF 150 million (mainly resulting from higher provisions for employee benefit plans).

Equity increased by CHF 101 million to CHF 2442 million driven by the net income of CHF 278 million which was partly affected by the dividend payment of CHF –108.9 million.

Cash flow: improving net liquidity by CHF 810 million

Change in net cash was positive at CHF 644.8 million in 2014. Proceeds from the Sulzer Metco divestiture increased cash positions by CHF 870 million. The main impacts on cash flow were as follows:

— Cash flow from operating activities was reduced to CHF 181.2 million due to increased net working capital. The increase in inventory of CHF 45.2 million related to manufacturing relocations and new product launches. The increase in accounts receivables of CHF 46.3 million was largely due to shipments and invoicing late in the year. The decrease in advance payments of CHF 65.1 million resulted from fewer large orders compared to the previous year. Taxes paid of CHF 98.7 million in 2014 are lower than in 2013, when CHF 118.7 million were paid.

— Cash flow from investing activities includes the impact from the divestiture of Sulzer Metco and payments made for acquisitions (in 2014: Advanced Separation Company (ASCOM) B.V., ProLabNL B.V., Grayson Armature, and aixfotec) which were CHF 73.0 million and thereby higher than in the previous year (2013: CHF 23.8 million). Purchases of assets for property, plant, and equipment as well as intangible assets were on a similar level to previous years at CHF 104.6 million. An investment in marketable securities (short-term bank deposits) reduced cash by CHF 106.6 million but increased interest income slightly.

- The cash flow from financing was a negative CHF 161.4 million. It included the dividend payment of CHF 108.9 million, unchanged from last year. The repayment of short-term borrowings reduced cash by CHF 52.8 million.
- Exchange gains on cash were CHF 19.7 million, mainly related to the cash balances held in US dollars (2013: CHF −20.6 million).

The free cash flow of CHF 98.0 million in 2014 is lower compared to the CHF 218.7 million generated in the previous year. Main reason for the decline was the increase in net working capital.

Outlook 2015 (adjusted for currency effects)

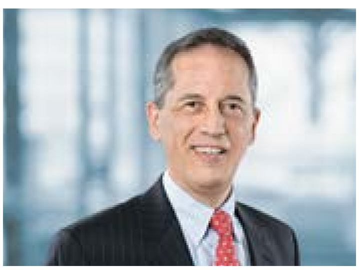
The markets are becoming increasingly volatile because of the current development of the oil price, regional conflicts, and geopolitical developments. The low oil price could influence our business negatively over time. However, our business mix is balanced through our 45% service share, our exposure to other markets, regions, and across customer segments. Activity in the power market is forecast to remain stable and the general industry is expected to slightly increase. The water market is anticipated to slightly increase.

For the full year 2015, adjusted for currency effects, order intake is expected to slightly decrease and sales is anticipated to be flat. To further increase transparency, Sulzer introduces with operational EBITA (op. operating income before amortization) a new performance indicator. Operational EBITA is forecast to be flat. From 2017 onwards, Sulzer targets to improve profitability by four to six percentage points.

Stable Sales and New Operational Setup

Sales were stable and order intake slightly decreased on an adjusted[1] basis from the previous year. Excluding the goodwill impairment, the operating income before restructuring moderately decreased. Pumps Equipment is now organized in three business units oil and gas, power, and water.

"We achieved stable sales in 2014. Supported by the new market-oriented setup of Pumps Equipment, we expect competitiveness, quality, and delivery times to further improve."



César Montenegro, Division President Pumps Equipment

Market-oriented operational setup and new pump manufacturing in Saudi Arabia

Since the beginning of 2015, Pumps Equipment has been structured with three business units focused on the market segments oil and gas, power, and water. Sulzer expects direct benefits from this new operational setup in all its business units and with its customers around the world. In April 2014, Sulzer and Wetend Technologies Ltd launched a new hygienic injection pumps series as a result of a joint development project. The new pump series has been designed for demanding injection applications in the pulp and paper industry and is suitable as well for the oil and gas, power, and water markets. In February 2014, Sulzer agreed to acquire the majority of Saudi Pump Factory and set up a local production joint venture under the name Sulzer Saudi Pump Company (SSPC). The SSPC joint venture is in line with Sulzer's focus on its three key markets. These markets are major sectors of Saudi Arabia's fast-growing economy.

Slightly decreased order intake on an adjusted[1] basis

Order intake was CHF 1.7 billion, a slight decrease of 1.2% from the previous year on an adjusted[1] basis. The order intake was impacted by lower demand in the water and the oil and gas market. Demand in the engineered water business decreased significantly because of challenging market conditions in South Africa, Spain, and Brazil. Activity in the midstream oil and gas market was flat at a very high level. The division experienced slight growth in the power market. The general industry was flat in 2014. Europe—impacted by economic stagnation—and the Asia-Pacific region—negatively affected by liquidity issues—were generally flat. The Americas and the Middle East grew slightly in 2014.

Operating income impacted by goodwill impairment

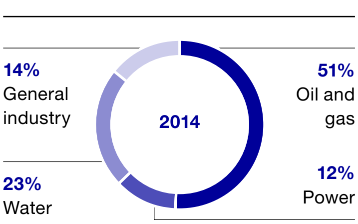
Sales were CHF 1.8 billion, 0.6% less than the previous year on an adjusted[1] basis. Sales were mainly affected by lower volume in the engineered water business. Lower sales in Europe, the Middle East, and Africa also further impacted the performance of the division. Excluding the CHF 340 million goodwill impairment in the water business, the operating income before restructuring was CHF 141 million. The return on sales before restructuring was 8.0%.

Market outlook (adjusted for currency effects)

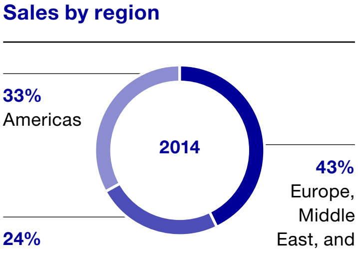
For the full year 2015, Pumps Equipment expects a slight decrease in orders from the oil and gas market because of the impact of falling oil prices. Demand in the power market and the general industry is forecast to be stable while the water market is expected to slightly grow. Activity in Europe, the Middle East, and Africa as well as in the Asia-Pacific region is projected to be flat. The division anticipates a decrease in orders from the Americas against the previous year.

[1] Adjusted for currency effects and acquisitions.

Sales by market segments



Sales by region



Our strategic priorities and achievements 2014

Technology leadership	— Further development of 3D design tools to improve the engineering process and standardization of pumps and packages — Extension of product lines according to market requirements — Development of new compressor type for wastewater applications — Launch of innovative, highly efficient, and cost-effective cooling water pumps and of ready-fitted mechanical seals for process pumps — Launch of the new hygienic injection pump series as a result of a joint development project with Wetend Technologies
Outstanding services	— Joint venture in Iraq to become a major player in Southern Iraq's market for the service of all rotating equipment — Implementation of global organization for parts, retrofit, and nuclear business to provide a more efficient and effective setup — Establishment of close cross-divisional collaboration with the Rotating Equipment Services division for the benefit of common customers — Further business development solutions for retrofit especially in the Asia-Pacific region
Continuous operational improvement	— Optimizing factory layouts for better on-time delivery and reduced lead time — Implementation of flow assembly and strengthening of 5S* and reduction of setup times at all sites — Investing to increase test-bed capacity in the USA, Mexico, Spain, and China and in state-of-the-art machining equipment to improve quality and reduce manufacturing time
Collaborative advantage	— Transition process towards industry-specific focused business units and global organization of operations and procurement — Efficiency improvement of the product life cycle data in our enterprise resource planning (ERP) system

*A workplace organization tool/process that maximizes the cleanliness, organization, and safety of all elements in a working environment. The 5S system is so named for its five primary undertakings: sort, set in order, shine, standardize, sustain.

Key figures

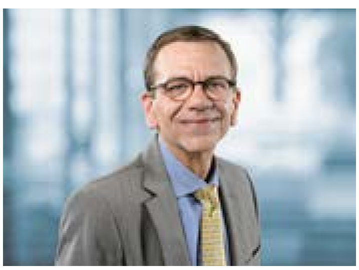
millions of CHF	2014	2013	+/–%	Change in +/–%[1]
Order intake	1 725.5	1 801.5	–4.2	–1.2
Order backlog	1 209.4	1 190.8	1.6	
Sales	1 754.9	1 821.6	–3.7	–0.6
Operating income before restructuring, impairment on goodwill, and depreciation/amortization	191.8	207.2	–7.4	
Operating income before restructuring, impairment on goodwill, and amortization	160.6	175.2	–8.3	
Operating income before restructuring and impairment on goodwill	140.9	153.6	–8.3	–6.5
Return on sales before restructuring, impairment on goodwill, and depreciation/amortization	10.9%	11.4%		
Return on sales before restructuring, impairment on goodwill, and amortization	9.2%	9.6%		
Return on capital employed	10.4%	n/a		
Employees	7 365	7 389	–0.3	

[1] Adjusted for currency effects and acquisitions.

Solid Increase in Order Intake and Successful Service Integration

On an adjusted[1] basis, order intake, sales, and the operating income before restructuring increased in 2014. The company successfully merged the former turbo service business with the pumps service business into one service division.

"We achieved a solid top-line growth in 2014 and successfully merged the former turbo service business with the pumps service business into one customer-focused service division called Rotating Equipment Services."



Peter Alexander, Division President Rotating Equipment Services

Successful service integration, acquisition, and joint venture formation

The Rotating Equipment Services division was established in 2014. It offers services for turbines, generators, motors, compressors, and pumps. The solid top-line growth of the division is, in part, due to the merger of the two existing service businesses. With about 100 service centers around the world, Sulzer strengthened its position as the leading independent provider of rotating equipment services in its key markets.

In the first quarter of 2014, Sulzer signed a joint venture agreement with China Huadian Corporation for the service of gas turbines, including field service, component repair, and the delivery of new capital parts. This joint venture offers Sulzer the opportunity to become a major player in China's power market for the service of rotating equipment.

In June 2014, Sulzer acquired Grayson Armature. The company is based in Houston, TX, USA, and adds electromechanical capabilities to Rotating Equipment Services in the important US Gulf Coast region.

Adjusted[1] order intake increased

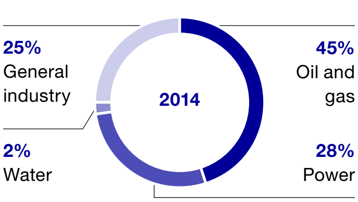
The order intake of Rotating Equipment Services was CHF 725 million. This is a solid increase of 4.8% from the previous year on an adjusted[1] level. This result is partially due to the positive effect of the service integration. Activity in the Americas was high. The Grayson Armature acquisition also contributed substantially to this region. Demand in Europe, the Middle East, and Africa slightly decreased from last year. The division reported fewer projects in this region because of tightening OPEX budgets and significantly reduced use of gas turbines in Europe. Negative economic developments in Russia were also reflected in the regional performance. Demand in the Asia-Pacific region slightly decreased.

Solid adjusted[1] sales growth

Sales were CHF 725 million, a 3.4% increase from last year on an adjusted[1] level. The sales growth was mainly driven by strong services business in the Americas. Activity from the oil and gas industry significantly contributed to this result. Europe, the Middle East, and Africa showed slight growth for sales on an adjusted[1] basis; sales were impacted by currency translation effects.

The Asia-Pacific region showed slight growth in sales on an adjusted[1] basis. The operating income before restructuring was CHF 72 million and significantly increased by 10.6% from the previous year. Performance improvement measures initiated in Australia in 2013 showed positive results. Significant additional restructuring measures were launched in the UK, where several sites will be consolidated in 2015. Return on sales before restructuring was 10.0%, which is a slight increase from 2013.

Sales by market segments



[1] Adjusted for currency effects and acquisitions.

Our strategic priorities and achievements 2014

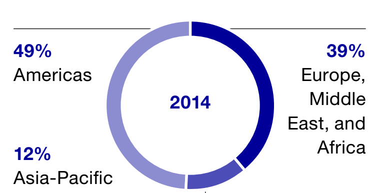
Technology leadership	— Development of replacement parts for F-Technology gas turbines (advanced industrial gas turbines) in the service centers in Venlo, NL, and Houston, USA — Improvement of rail network infrastructure through the development of parts (impedance bonds) in Australia
Outstanding services	— Synergies through easier access to other services within Sulzer benefits customers
Continuous operational improvement	— Inspecting and repairing process pumps on a fast track at the Los Angeles Service Center, USA — Improving tendering process (shorter lead times) through lean processes
Collaborative advantage	— Improved services level and synergies for the customer through one access point for all services — Faster and more flexible service through mixed teams servicing one customer site

Key figures

millions of CHF	2014	2013	+/–%	Change in +/–%[1]
Order intake	725.2	699.3	3.7	4.8
Order backlog	212.2	190.7	11.3	
Sales	724.6	705.6	2.7	3.4
Operating income before restructuring and depreciation/amortization	93.4	84.1	11.1	
Operating income before restructuring and amortization	78.1	71.0	10.0	
Operating income before restructuring	72.3	65.4	10.6	11.8
Return on sales before restructuring and depreciation/amortization	12.9%	11.9%		
Return on sales before restructuring and amortization	10.8%	10.1%		
Return on capital employed	14.7%	n/a		
Employees	3709	3642	1.8	

[1] Adjusted for currency effects and acquisitions.

Sales by region



Market outlook (adjusted for currency effects)

For the full year 2015, Rotating Equipment Services expects stable order intake from the oil and gas industry and a slight increase from the power market and the general industry. Activity in the Americas and the Asia-Pacific region is anticipated to grow. In Europe, the Middle East, and Africa, demand is forecast to be flat.

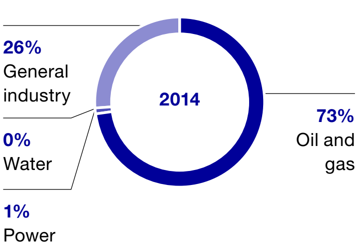
Double-Digit Profitability and New Separation Technologies

Adjusted[1] sales slightly increased while the order intake on an adjusted[1] basis moderately decreased from 2013. Return on sales before restructuring remained on a double-digit level. Chemtech enhanced its portfolio with separation technologies for the oil and gas market.

“Sales slightly increased in 2014 and profitability remained on a double-digit level despite lower demand and project delays in some of our markets. We have made targeted acquisitions to enhance our portfolio.”

Oliver Bailer,
Division President Chemtech

Sales by market segments



New technologies reduce customers’ investments and operating costs

Sulzer made targeted acquisitions to strengthen its position in both the oil and gas market as well as in the polymer foams industry. In the third quarter of 2014, Chemtech acquired Advanced Separation Company (ASCOM) B.V. and ProLabNL B.V. ASCOM is one of the leading providers of oil, water, and gas separation equipment such as the inline separation system Twinline™. The Twinline, for instance, reduces investments and operating costs of Sulzer’s oil and gas customers (read more on page 6–9). ProLabNL offers one of the most advanced multiphase flow loops worldwide to test equipment in real oil field conditions under high or low pressure. Globally leading oil and gas companies are using these unique capabilities extensively for their conventional and subsea technology qualification programs.

In the first quarter of 2014, Sulzer acquired aixfotec, a company in the polymer foams industry. This acquisition strengthens Chemtech’s position as a technology leader and system supplier for polymer foams manufacturing. The division further expanded its production facilities in China to benefit from the Asian market for two-component mixing and dispensing systems as well as for process technology.

Moderately decreased order intake on an adjusted[1] basis

In 2014, order intake was CHF 718 million. This is a moderate decrease of 3.2% from the previous year on an adjusted[1] basis. Compared with the high base of 2013, the order intake was negatively impacted by fewer large projects in the mass transfer and the process technology business. The low demand in the process technology business—in particular for projects in the field of polymers—was partially compensated by a good order intake level in the tower field service business. This demand was mainly driven by orders from North and South America. Activity in the oil and gas market was good. Demand in the general industry was stable. Chemtech noticed strong growth in the Americas compared with 2013. Demand in Europe was stable. The Asia-Pacific region, particularly China, decreased from the previous year.

Adjusted[1] sales slightly increased and double-digit profitability

Sales were CHF 742 million. This is a slight increase of 1.6% compared with the previous year on an adjusted[1] basis. The operating income before restructuring was CHF 78 million which is a moderate decline of 3.6% compared with 2013. The lowered performance was mainly driven by reduced volume in the process technology business. Measures—such as organizational changes and short time work—as well as initiatives to drive orders and sales of this business, have been initiated already in the first half of 2014 and will be ongoing into 2015. Return on sales before restructuring was with 10.6% on a double-digit level but slightly decreased from 2013.

Market outlook (adjusted for currency effects)

For the full year 2015, Chemtech expects a slight decrease in orders from the oil and gas market because of the impact of falling oil prices. Demand in the general industry is forecast to slightly increase. Activity in Europe is expected to be flat, the Asia-Pacific region is anticipated to slightly decrease. The Americas is expected to continue on a high level. The changed currency environment will have an impact on certain parts of Chemtech’s businesses.

[1] Adjusted for currency effects and acquisitions.

Our strategic priorities and achievements 2014

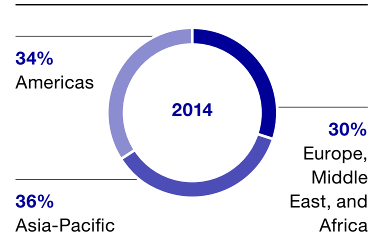
Technology leadership	— Expansion of separator portfolio through acquisition of ASCOM — Incorporation of ProLabNL, which has unique capabilities to test equipment in actual oil field conditions — Expansion of process technology laboratory with crystallization test equipment — Acquisition of aixfotec extrusion systems to expand offerings in polymer value chain with technologies for the production of polymer foams
Outstanding services	— Large turnaround project for refinery in Ecuador received — Large service project for corrosion protection with thermal-sprayed aluminum in Saudi Arabia carried out
Continuous operational improvement	— Completed skid-manufacturing expansion project in China and Switzerland — Started project for components manufacturing facility in Western China — Completed installation of Manufacturing Execution System (MES) in Sulzer Mixpac Systems operations globally
Collaborative advantage	— Order received for column internals for the world's largest carbon capture project

Key figures

millions of CHF	2014	2013	+/–%	Change in +/–%[1]
Order intake	718.4	749.9	–4.2	–3.2
Order backlog	282.0	290.5	–2.9	
Sales	741.5	743.7	–0.3	1.6
Operating income before restructuring and depreciation/amortization	119.3	120.4	–0.9	
Operating income before restructuring and amortization	93.6	95.0	–1.5	
Operating income before restructuring	78.4	81.3	–3.6	–3.2
Return on sales before restructuring and depreciation/amortization	16.1%	16.2%		
Return on sales before restructuring and amortization	12.6%	12.8%		
Return on capital employed	18.6%	19.7%		
Employees	4 287	4 167	2.9	

[1] Adjusted for currency effects and acquisitions.

Sales by region



ACTING RESPONSIBLY FOR A SUSTAINABLE FUTURE

Sulzer aims to be recognized for its leading technologies and services as well as for delivering innovative and sustainable solutions. The company continued its emphasis on acting responsibly and on supporting its customers in shaping a sustainable future.

FACTS AND FIGURES

7.2

In 2014, the voluntary attrition rate (VAR) amounted to 7.2 % (2013: 7.0%).

2.6

The accident frequency rate (AFR) was 2.6 cases per million working hours in 2014 (2013: 3.2). Thus, Sulzer exceeded its target of 2.7.

37

Energy consumption increased by 10% to 37 GJ per 1 000 working hours compared with last year (2013: 34 GJ/1 000 working hours).

0.17

Hazardous waste per 1 000 working hours increased by 125% to 0.17 tons in 2014 (2013: 0.08 t/1 000 working hours).

Innovative Technology for Clean Water and Renewable Energy

"Everything we do is based on what the customer wants, not on what Sulzer thinks the customer should have."

Andy Smith, Operations Manager, Pumps Equipment Wastewater UK

To become a leading equipment and service provider, Sulzer maintains a well-stocked innovation pipeline. The company partners with customers, suppliers, industry members, and universities to develop new solutions that maximize efficiency, save energy, and address global needs.

During Sulzer's 180 years of industrial history, technology has always formed the company's DNA. Maintaining technology leadership in its fields remains an integral strategic priority for Sulzer. In 2014, the company invested CHF 76 million in research and development (2013: CHF 71 million), which is 2.4% relative to sales (2013: 2.2% of sales). There were 36 patents filed in 2014.

Addressing the needs of the water market

The company launched a series of new products in 2014. In Sulzer's key markets, but especially in the water business, there is great potential and demand for more energy-efficient solutions. In many regions of the world, the increasing lack of clean water is a pressing problem. Seawater desalination is an important means of providing a sustainable supply of clean water. These days, the market trend is turning away from traditional technologies based on evaporation/distillation towards reverse osmosis. It needs much less energy and is, in addition, more eco-friendly. Sulzer provides pumps for reverse osmosis processes, covering the full range for medium-to-large plants in this segment. Recently, the company has developed new high-pressure feed pumps. They have been designed especially for reverse osmosis plants and will be introduced in 2015 (see www.sulzer.com/MBN-RO or www.sulzer.com/MSD-RO).

Number of patents

36

(2013: 46)

Maximizing efficiency without compromising flexibility

The oil and gas industry requires high-performance distillation columns. In many industrial applications, however, distillation towers consume a large amount of energy. The development of energy-saving mass transfer technologies is therefore becoming more and more important. Sulzer introduced a new generation of trays in 2014—the UFMPlus™ and VGPlus™ (see www.sulzer.com/ufmplus-vgplus). These new trays substantially improve distillation efficiency and capacity (up to 30% higher than conventional trays) without compromising the operating range and flexibility of the column. The UFMPlus™ and VGPlus™ chordal downcomer trays save energy, which results in a reduction of both operating costs and capital costs for customers.

Extending lifetime of products with new service solutions

Sulzer is not only concerned with innovation on the product side, but also continuously works on new service solutions. For example, the company designs and manufactures gas turbine replacement parts that are compatible and interchangeable with the original equipment. In this way, Sulzer reduces in-service issues as well as unnecessary expenditures while offering the required flexibility demanded by today's market. Ultimately, this extends the lifetime of and improves the performance of gas turbines and thus reduces maintenance time and costs for Sulzer's customers.

Collaborating with industry partners to develop new solutions

Sulzer works with competent partners to meet global environmental and societal challenges. The company participates in the Separation Technology Research (STAR) Program, a joint industry project for research, systematic testing, and the qualification of separation equipment. Initiated by ExxonMobil, Shell, Chevron, and the non-profit organization Southwest Research Institute® in 2014, it combines the knowledge, effort, and resources of members in the energy sector.

R&D investments

CHF 76m

(2.4% of sales)
(2013: CHF 71m/2.2% of sales)

Supporting companies to save energy

Also in 2014, Sulzer concluded a long-term frame agreement for the upgrade and supply of modern water injection pumps with a major oil and gas company. In the context of its energy-saving program, the company installed Sulzer centrifugal pumps at its fields. Thanks to Sulzer's new, highly efficient, and energy-saving pumps, it was possible to reduce power consumption significantly. In addition, there was not a single failure requiring a major overhaul over the entire operation period.

Joining forces with industry partners and universities

By joining forces with other players in the industry, Sulzer continuously extends its portfolio and presence. To become a major player for rotating equipment services in China's power market, the company signed a joint venture agreement with China Huadian Corporation. Also in 2014, Sulzer formed a joint venture with the Unaoil Group for the service of all rotating equipment for oil and gas and power customers in Southern Iraq.

In addition to collaborating with industry partners, Sulzer has maintained relationships with academic institutions such as the ETH Zurich (Swiss Federal Institute of Technology Zurich) and Texas A&M for a long time. Furthermore, the company runs a project on standardized impeller design together with the Lucerne University of Applied Sciences and Arts. Thus, Sulzer benefits from research on topics relevant to the company and gains access to a large talent pool.

Managing extreme conditions for renewable power generation

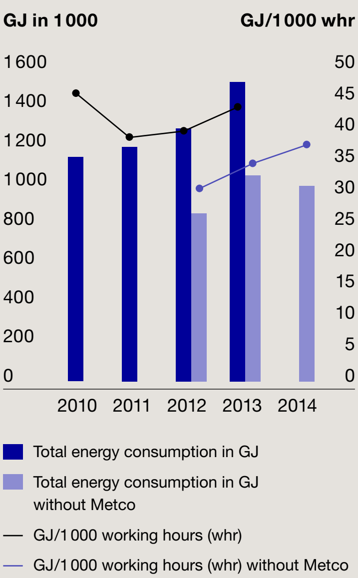
The global power industry recognizes the demand for clean and dependable energy from renewable resources. Concentrated solar power (CSP) generation is a sustainable solution for global energy needs, but it poses extreme challenges to pump technology. The energy of the sun is used to heat up a fluid—either thermal oil or molten salt—which is then used to transfer or store heat.

The working temperature of the system is in the range of 500–600°C. The molten salt freezes at 220°C; when it is exposed to the environment, it becomes rock hard and blocks the pumps immediately. Hence, the requirements for the pumps are extremely complex. A further challenge is the material growth because weight and space are always critical elements on customers' sites. Sulzer developed a new pump for the hottest fluids; it will be launched in 2015. The molten-salt circulation pump SJT (VCN) is designed specifically to meet the extreme requirements and needs of the solar power industry.

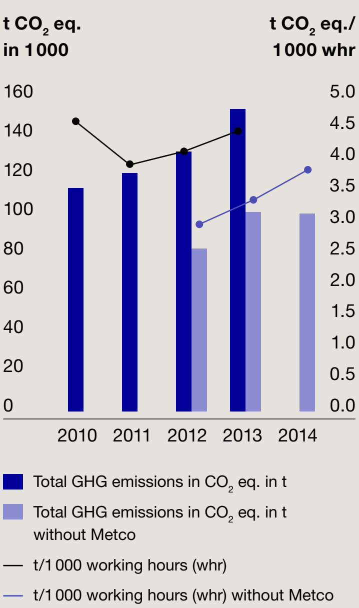
Supporting Customers in Reducing Their Ecological Footprint

Sulzer has substantial expertise in providing energy-efficient solutions. The company educates its customers on the safe and efficient installation and operation of equipment. Sulzer also systematically aims to reduce its own environmental footprint.

Energy consumption*



Total greenhouse gas emissions*



Customers increasingly pay attention to the environmental impact of products. This is true in all market segments—but particularly in the water market. Municipalities often ask for environmental data to make investment decisions. Sulzer uses standardized environmental product declarations (EPD, prepared in accordance with the International EPD® System (IES) framework), which supply its customers with transparent and comparable environmental data and costs over the entire product lifetime. EPDs provide information on the consumption of resources such as materials, water, and energy. Moreover, they offer a deeper understanding of the environmental impact such as CO_2 emissions and acidification of water and soil (find further information online at www.sulzer.com/epd).

Considering the entire life cycle of products and solutions

For Sulzer, the delivery of a product is not the end of the job. The company considers the entire life cycle of its products and solutions. It is important to avoid the unintended or incorrect use of the solutions, dispersion of chemical substances into the environment during maintenance work, or improper disposal of a product. Hence, Sulzer collaborates and consults with its customers to select appropriate technologies and materials. Moreover, experts show the customers how to install, operate, and maintain their equipment safely and efficiently.

Harmonized reporting system for better coverage

Sulzer collects data systematically and continuously to report on both the environmental impact of its solutions and its own organizational footprint. In 2014, Sulzer consolidated its financial and extrafinancial data onto a single, harmonized, and centralized reporting platform. Thus, the number of assessed sites has grown, and there is better and more-consistent coverage across the company than in the past. Overall, 81% of total working hours report on environmental data. The coverage of occupational health and safety data is 98% (of total working hours), while 100% (of total working hours) report on HR data. However, the change of platform and the extended reporting scope make it difficult in the short term to compare this year's figures with those from earlier years.

Decrease of total energy consumption

Total energy consumption decreased by 5% to 965 814 GJ in 2014 (2013: 1 017 354 GJ), which reflects the changes in the product mix and the slight reduction in business activities. The disproportional reduction of working hours (whr) led to an increase of energy consumption by 10% to 37 GJ per 1 000 working hours (2013: 34 GJ/1 000 whr). Sulzer's energy mix is still dominated by electricity (60%), followed by gas (24%, including natural gas, propane, and butane), and district heating (7%).

In 2014, the total greenhouse gas (GHG) emissions remained stable at 97 500 tons (t) CO_2 eq. (2013: 98 200 t CO_2 eq.). Sulzer did not meet its year-on-year rolling target to maintain or reduce GHG emissions in CO_2 eq. per 1 000 working hours compared with last year's values. Due to the disproportional reduction of working hours and increased direct emissions, the greenhouse gas emissions increased by 15% to 3.8 tons CO_2 eq. per 1 000 working hours (2013: 3.3 t CO_2 eq./1 000 whr).

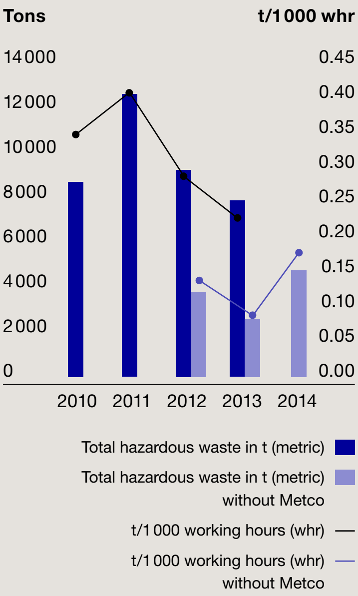
Increase of hazardous waste and water consumption

In 2014, the total production of hazardous waste doubled from the previous year to 4 442 tons (2013: 2 282 t). Hazardous waste per 1 000 working hours also increased by 125% to 0.17 tons (2013: 0.08 t/1 000 whr). The upswing was caused by a defective dewatering unit for hazardous waste and changes in activities such as sandblasting. Furthermore, construction activities resulting in the disposal of contaminated soils as well as natural fluctuations in hazardous waste production added to the increase. The main contributors to hazardous waste are emulsions and mixtures of oil-water material (47%) and sandblasting residues (20%).

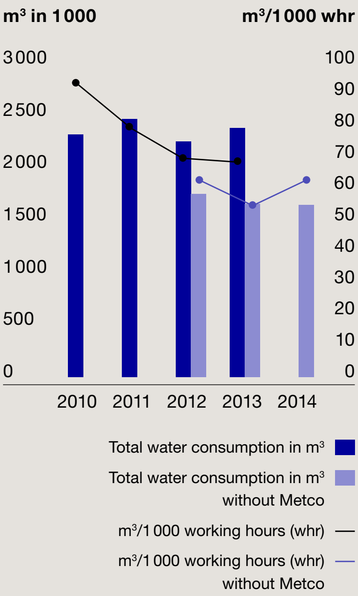
Total water consumption remained stable at 1 581 631 m^3 (2013: 1 591 611 m^3), while the consumption per 1 000 working hours increased by 15% to 61 m^3 (2013: 53 m^3/1 000 whr). This rise is due to the disproportional reduction of working hours. The main sources of water are groundwater (40%), municipal water (33%), and surface water (27%). About 65% of the water consumed is used for cooling purposes.

Sulzer experts educate their customers on the safe and efficient operation of the equipment they install. Sulzer monitors its own environmental footprint closely and compares its achievements with results from the past.

Hazardous waste*



Water consumption*



*The charts display two different reporting scopes (2010–2013 vs. 2014). For more detailed information about scope and period of data, see Sustainability Report 2014 at www.sulzer.com/sustainability-report.

Providing a Healthy and Safe Workplace while Fostering Employees

Sulzer's workforce is diverse in gender, culture, and demography. The company believes that diverse teams create better solutions.

Sulzer attaches great importance to a safe workplace and to the health of its employees. The company intends to be a socially responsible employer and strives to offer its diverse workforce attractive opportunities for development.

Sulzer places considerable emphasis on providing a safe and healthy working environment and on empowering all employees to act safely. The company's Safe Behavior Program (SBP) is a cornerstone to achieving the long-term goal of zero accidents and towards establishing a preventive safety culture. In 2014, the focus of the program was on anchoring safe behavior at all operational levels. The SBP aspires to foster an attitude and understanding of safety ownership on all management levels. This will inspire employees to engage proactively in safety initiatives.

In 2014, the rate of certified sites remained high—78% of Sulzer's manufacturing and service centers were certified with OHSAS[1)] 18001 and/or SCC[2)] certification.

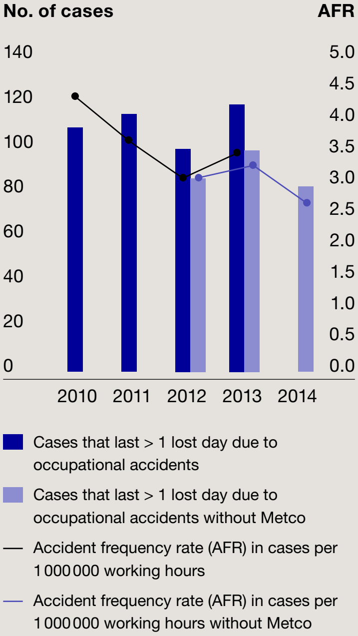
The accident frequency rate (AFR) and the accident severity rate (ASR) are the main safety indicators and relevant for bonus purposes. The AFR was 2.6 cases per million working hours in 2014 (2013: 3.2). Hence, Sulzer was able to exceed its AFR target of 2.7. The ASR decreased by 12% to 53.9 lost days per million working hours (2013: 61.4); however, the target of 38 lost days was not met. Sulzer is committed to further reducing the AFR and ASR and to improving occupational health and safety systematically across the company.

Company-wide survey to collect ideas and thoughts

One of Sulzer's values is having committed people. The company's sustainable success is dependent on the commitment of all employees. Sulzer considers every employee as an individual with unique capabilities and competencies. Thus, the company aims to foster the well-being and employability of its people.

Sulzer encourages its employees to speak up. In autumn 2014, Sulzer launched a company-wide employee engagement survey (EES). The entire global workforce had the opportunity to give anonymous feedback on topics such as job content, working environment, leadership, values, and commitment. At 83.3%, the return rate was even higher than for the last EES, which was conducted in 2011 (81.4% return rate). The input will help Sulzer to improve its performance, leadership, and behavioral aspects systematically.

Accidents*



Continued learning and development activities in times of change

Sulzer steadily develops its training programs for employees. In 2014, the company invested about 390 000 hours (2013: 440 000) in training. As a result, training hours per full-time equivalent (FTE) decreased from 30 hours in 2013 to 25 hours in 2014.

The company's leadership development initiative includes the Sulzer Management Training (SMT) for new leaders and the Leadership Program for Development and Impact (PDI). Centerpieces of the SMT are management basics as well as current leadership topics in order to support Sulzer's strategic goals and the ongoing reorganization. The PDI focuses on fostering the capabilities of the individual, the team, and the business. More than 40 participants in mixed groups from all business units in Europe, Middle East, and Africa (EMEA) passed the SMT in 2014. A total of 79 managers and experts participated in one of the PDIs. Furthermore, Sulzer began implementing a learning management system (LMS) in 2013. The global rollout of this cloud-based platform for training and development administration will continue in 2015. With the LMS, online training is becoming an integral part of the learning activities of Sulzer employees.

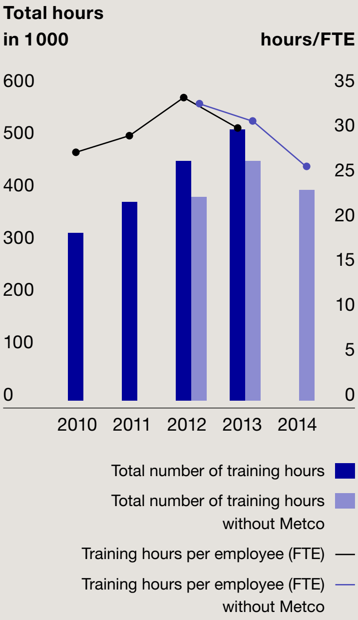
1) Occupational Health and Safety Assessment Series.
2) Safety Certificate Contractors.

Sulzer provides its workforce with attractive career opportunities. Leadership development initiatives as well as online training courses support employees in their professional development. The company is able to fill leadership positions with internal talent to a great extent.

"We treat all people with respect, and we cooperate across the whole company. We believe that this respect fosters teamwork and commitment."

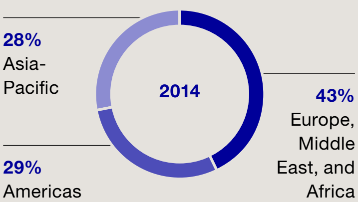
Marius Baumgartner,
Head of Group Human Resources

Training hours*

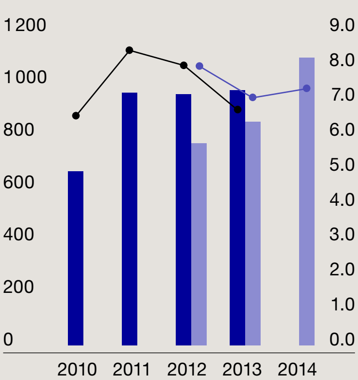


*The charts display two different reporting scopes (2010–2013 vs. 2014). For more detailed information about scope and period of data, see Sustainability Report 2014 at www.sulzer.com/sustainability-report.

Geographical spread of employees



Voluntary attrition rate*



- Number of voluntary leavings
- Number of voluntary leavings without Metco
- Voluntary attrition rate (VAR) in %
- Voluntary attrition rate (VAR) in % without Metco

In times of change, it is even more important to educate and train the workforce. For this reason, much cross-divisional and interdepartmental training took place. Consequently, a common understanding of each other's business activities was developed and cross-selling enabled. A clear indicator of Sulzer's successful efforts in fostering the skills of its employees is its internal leadership pipeline. In 2014, Sulzer filled 89% of leadership positions with internal talent.

Diverse teams to create better solutions

Sulzer believes that diverse teams with different backgrounds drive innovation and create better solutions. Therefore, the company fosters diversity of gender, culture, and demography. In 2014, 14% of the workforce, 13% of all managers, and 12% of the Sulzer Management Group (top 100 managers) were female.

Sulzer engages 15 494 employees in over 150 locations and 41 countries. About 43% of employees work in the EMEA region, 29% work in the Americas, and 28% work in the Asia-Pacific region. This allows the company to be close to its customer base and to understand its specific needs. Sulzer's teams are also diverse in terms of age; long-term and experienced employees work together with apprentices and recent university graduates. Bringing together younger and older employees increases the likelihood of new approaches to a solution.

Supporting one brand with strong values

Sulzer's values—customer partnership, operational excellence, and committed people—are the foundation of all interaction and business activities. They define who the company is and how it behaves.

Employees are passionate about the Sulzer brand. They are committed to representing the company with customers and partners. In 2014, Sulzer continued its efforts towards the one company strategy by integrating the divisional brands under the Sulzer umbrella brand, which is world renowned for experience, innovation, reliability, and quality.

Sulzer encourages and empowers its employees to act safely in all circumstances. The company's Safe Behavior Program (SBP) is a cornerstone towards establishing a preventive safety culture. This means that employees understand how to behave safely and to look after each other's safety. In the long term, Sulzer strives to achieve a zero accident rate.

41

Corporate Governance

Corporate Governance

Committed to the Principles of Good Corporate Governance

Sulzer is committed to the principles of good corporate governance. They ensure a sound balance of power and support the company in creating sustainable value for its various stakeholders.

In brief

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 law and applies the Swiss Code of Best Practice for Corporate Governance.

Core principles
— See page 44

The Board of Directors comprises seven members. Each member is elected individually. The term for members of the Board of Directors is one year. Except for the elections reserved to the Shareholders' Meeting, the Board of Directors constitutes itself and 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).

Board composition
— See pages 45–47

There are currently three standing committees within the Board of Directors:
- The Audit Committee assesses the midyear and annual accounts and the activities of the internal and external auditors, the Internal Control System (ICS), and risk management.
- The Nomination and Remuneration Committee assesses the criteria for the election and reelection of Board members and nominations for the top two management levels. It also deals with succession planning, compensation systems, and compensation for the members of the Board of Directors and the Executive Committee.
- The Strategy Committee advises the Board of Directors on strategic matters (such as material acquisitions, divestitures, alliances, and joint ventures) as well as strategic planning and definition of development priorities.

Committees of the Board
— See pages 47–50

The following changes occurred in the Board of Directors and the Executive Committee:
- Vladimir Kuznetsov, Chairman of the Board ad interim since January 1, 2014, did not stand for reelection at the Annual General Meeting of March 20, 2014.
- Peter Löscher was newly elected as member of the Board of Directors and Chairman at the Annual General Meeting on March 20, 2014.
- Matthias Bichsel was newly elected to the Board of Directors at the Annual General Meeting on March 20, 2014.
- All other board members were reelected for one-year terms.
- Scot Smith, Division President of Pumps Equipment and member of the Executive Committee, left the company on April 30, 2014.
- César Montenegro, Division President of Sulzer Metco and member of the Executive Committee, was appointed Division President of Pumps Equipment as of June 3, 2014.
- Jürgen Brandt, Chief Financial Officer and member of the Executive Committee, left the company on August 29, 2014.
- Thomas Dittrich was appointed Chief Financial Officer and member of the Executive Committee as of August 2, 2014.

Changes
— See pages 45, 54

Sulzer Ltd is subject to the laws of Switzerland, in particular, Swiss corporation and stock exchange law. The company also applies the Swiss Code of Best Practice for Corporate Governance. The rigorous application of sound corporate governance helps to consolidate and strengthen trust in the company. A single share class and the separation of the functions of Chairman of the Board of Directors and CEO have been standard practice at Sulzer for many years. Since the Annual General Meeting of April 8, 2009, the Board of Directors has been made up exclusively of individuals who have never held executive positions at Sulzer. Unless otherwise indicated, the following information refers to the situation on December 31, 2014. Further, information on corporate governance is published at www.sulzer.com/corpgov. The information in the following section is set out in the order defined by the SIX Swiss Exchange guidelines on corporate governance information (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 section in the Sulzer Annual Report 2014. The compensation report can be found on pages 61 to 80.

1 Corporate Structure and Shareholders

Corporate structure

The operational corporate structure is shown in the graphic on page 50 and in the segment reports in the financial section on pages 114 to 116 (note 7). 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, 2014, the market capitalization of all registered shares was CHF 3 631 811 220. Information on the major subsidiaries included in the consolidation can be found under note 39 on pages 144 to 145 of the financial section.

Significant shareholders

According to notifications of Sulzer shareholders, four shareholders held more than 3% of Sulzer Ltd's share capital on December 31, 2014. On December 31, 2014 (published on the SIX disclosure platform on January 30, 2015), Victor Vekselberg indirectly held 33.19 % in Sulzer shares; the shares are directly held by Lamesa Holding S.A., Liwet Holding AG, and Joint-Stock Company "Metkombank". The latter two are part of the Renova Group. On December 8, 2014 (published on the SIX disclosure platform on December 17, 2014), Black Rock Inc. held 3.36% in Sulzer shares. On October 13, 2014 (published on the SIX disclosure platform on October 17, 2014), First Pacific Advisors, LLC held 5.01% in Sulzer shares. On September 29, 2014 (published on the SIX disclosure platform on October 6, 2014), FPA Funds Trust held 3.39% in Sulzer shares.

For detailed information, see the respective disclosure notifications on www.six-exchange-regulation.com/obligations/disclosure/major_shareholders_en.html. For the positions held by Sulzer and information on shareholders, see note 25 in the financial section (page 133). There are no cross-shareholdings where the capital or voting stakes on either side exceed the threshold of 3%.

2 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 Annual General Meeting of shareholders. There is neither any authorized nor conditional capital, nor are there any participation or dividend certificates. The latest version of the Articles of Association can be viewed online at www.sulzer.com/regulations. Information on capital changes can be found in the financial statements of Sulzer Ltd (page 152).

Restrictions on transferability and nominee registrations

Sulzer shares are freely transferable provided that, when requested by the company to do so, buyers declare that they have purchased and will hold the shares in their own name and for their own account. Nominees shall only be entered in the share register with the right to vote if they meet the following conditions: The nominee is subject to the supervision of a recognized banking and financial market regulator; the nominee has entered into a written agreement with the Board of Directors concerning its status; the share capital held by the nominee does not exceed 3% of the registered share capital entered in the commercial register; and the names, addresses, and number of shares of those individuals for whose accounts the nominee holds at least 0.5% of the share capital have been disclosed. The Board of Directors is also entitled, beyond these limits, to enter shares of nominees with voting rights in the share register if the above-mentioned conditions are met (see also paragraph 6a of the Articles of Association at www.sulzer.com/regulations). On December 31, 2014, nine nominees holding a total of 3521488 shares (10.28% 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 options issued to members of the Board of Directors and the Executive Committee (from 2002 up to and including 2008) and restricted stock units (from 2009) as well as performance share units (in 2010 and 2013) are set out in the financial section under note 35 (page 142) and in the financial statements of Sulzer Ltd under note 110 (page 155).

3 Board of Directors

None of the members of the Board of Directors has ever belonged to the management of a Sulzer company or to the Executive Committee, nor do any significant business relationships exist between members of the Board of Directors and Sulzer Ltd or a subsidiary of Sulzer Ltd. Peter Löscher and Marco Musetti have a close relationship with Sulzer's largest shareholder; both are employees of Renova Management AG. Peter Löscher is Chief Executive Officer and Delegate of the Board of Directors of Renova Management AG and Marco Musetti is a member of the Supervisory Board of Renova U.S. Holdings Ltd. Business relationships in the low double-digit million range exist with companies that are directly or indirectly controlled by the Renova Group. For further information see financial section, note 35 on page 142. 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. Vladimir Kuznetsov, Chairman ad interim since January 1, 2014, did not stand for reelection at the Annual General Meeting of March 20, 2014. Peter Löscher and Matthias Bichsel were newly elected to the Board of Directors and Peter Löscher was elected as the new Chairman. Accordingly, as of March 20, 2014, the Board of Directors comprises seven members: two Austrians, two Italians, one Singaporean, and two Swiss. Professional expertise and international experience played a key role in the selection of the members. The CVs of the members of the Board of Directors can be viewed on pages 48 to 49 and online at www.sulzer.com/board. According to the Board of Directors and Organization Regulations governing the Board of Directors, 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.

Exceptions up to but not exceeding the year in which the member reaches the age of 73 can be made by the Board of Directors.

Internal organization

Pursuant to the Ordinance against Excessive Compensation with respect to Listed Stock Corporations of November 20, 2013 (OaEC; German: VegüV), 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. Since at the Annual General Meeting of March 20, 2014, the Board of Directors' proposal to amend the Articles of Association accordingly was not approved (i.e., the 66 2/3% majority required for changes of Sulzer's Articles of Association was not achieved), the Articles of Association do not fully reflect the internal organization as described above. The Board of Directors will propose to the Annual General Meeting of April 1, 2015 to amend the Articles of Association accordingly.

In the Board meeting following the Annual General Meeting of March 20, 2014, Luciano Respini was appointed as Vice Chairman. There are currently three standing board committees: the Audit Committee (AC), the Nomination and Remuneration Committee (NRC), and the Strategy Committee (SC); for its constitutions, see page 47. The division of responsibilities between the Board of Directors and the CEO and the authorities and responsibilities of the Chairman of the Board of Directors and of the three standing board committees are defined in the Board of Directors and Organization Regulations and the relevant Committee Regulations, which are published online at www.sulzer.com/regulations.

Operating principles of the Board of Directors and its committees

All decisions are taken by the full Board of Directors. For each application, written documentation is distributed to the members of the Board of Directors prior to the meeting. The Board of Directors and the committees meet as often as required by circumstances (the Board of Directors meets at least six times annually, the Audit Committee and the Nomination and Remuneration Committee meet at least three times annually, and the Strategy Committee meets at least twice annually). In 2014, two full-day meetings, two half-day meetings, and eleven shorter board meetings were held. The latter lasted about one to two hours on average. For further details, see the table below. Board meetings are generally also attended in an advisory role by the CEO, the CFO, and the Group General Counsel (who is the Secretary of the Board of Directors). Other members of the Executive Committee are invited to attend

Board of Directors

						Attending meetings of the			
Name	Nationality	Position	Age	Entry	Elected until	Board	AC	NRC	SC
Peter Löscher	Austria	Chairman[1], Chairman SC[1]	58	March 2014	2015	12			5
Vladimir V. Kuznetsov	Russia	Chairman ad interim[2], Chairman NRC[2]	54	December 2007	2014	2		2	1
Jill Lee	Singapore	Member, AC	52	April 2011	2015	15	4		5
Thomas Glanzmann	Switzerland	Member, Chairman NRC[1], SC, AC[2]	57	April 2012	2015	15	1	5	6
Marco Musetti	Italy	Member, AC[1], NRC[1], SC[2]	46	April 2011	2015	14	3	5	6
Luciano Respini	Italy	Vice Chairman[1], NRC, SC[2]	69	April 2004	2015	15		7	5
Klaus Sturany	Austria	Member, Chairman AC, SC[1], NRC[2]	69	August 2009	2015	15	4	2	6
Matthias Bichsel	Switzerland	Member[1], SC[1]	61	March 2014	2015	12			5

AC = Audit Committee, NRC = Nomination and Remuneration Committee, SC = Strategy Committee
[1] as of March 20, 2014.
[2] until March 20, 2014.

The Board of Directors and its committees

Board of Directors

Peter Löscher (Chairman)
Luciano Respini (Vice Chairman)
Klaus Sturany
Matthias Bichsel
Thomas Glanzmann
Jill Lee
Marco Musetti

Audit Committee
Klaus Sturany (Chairman)
Jill Lee
Marco Musetti

Nomination and Remuneration Committee
Thomas Glanzmann (Chairman)
Luciano Respini
Marco Musetti

Strategy Committee
Peter Löscher (Chairman)
Matthias Bichsel
Thomas Glanzmann
Klaus Sturany

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 take any decisions, but rather they 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 chairmen of the committees report to the full Board of Directors on all matters discussed, including key findings, opinions, and recommendations.

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

The OaEC requires that as of the Annual General Meeting of April 1, 2015, Sulzer's Articles of Association govern the maximum number of additional mandates held by members of the Board of Directors outside the Sulzer group. The Articles of Association do not yet contain such a provision. The respective proposal to amend the Articles of Association accordingly was not approved by the Annual General Meeting of March 20, 2014. A new proposal will be submitted to the Annual General Meeting of April 1, 2015.

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 external auditors as well as the cooperation between the two bodies. It also assesses the Internal Control System (ICS), risk management, and compliance with the applicable standards; 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/regulations. Meetings of the Audit Committee are attended by 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. In 2014, the Audit Committee held four meetings. The external auditor-in-charge attended all of these meetings. Internal experts, such as Group General Counsel and the Heads of Group Internal Audit, Group Accounting, Group Controlling, Group Treasury, Group IT, Group ESH, Group Compliance and Risk Management, and Group Taxes gave presentations to the Audit Committee in 2014.

In February, the Audit Committee receives and discusses a report addressing the exposures (results of periodic risk assessments) and compliance cases of the prior year. 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 initiate countermeasures. In the same meeting, an update on Sulzer's compliance approach including the respective ongoing and planned activities is provided. At each meeting, the major current compliance cases (if any) are reported to and discussed by the Audit Committee.

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Board of Directors

The Sulzer Board of Directors consists of seven members who are elected individually for one-year terms. None of them has ever held an executive position at Sulzer. Peter Löscher was appointed Chairman and Matthias Bichsel was elected as new member of the Board of Directors in March. Vice Chairman Vladimir Kuznetsov did not stand for reelection at the Annual General Meeting 2014.

Peter Löscher (1957) Austria

Chairman of the Board/Chairman of the Strategy Committee

Peter Löscher joined the Sulzer Board of Directors and was appointed Chairman of the Board of Directors in 2014. Currently, he is CEO and Delegate of the Board of Directors of Renova Management AG Switzerland (since 2014). Previously, he was President and CEO of the German company Siemens AG (2007 to 2013), Chairman of the Board of Trustees of Siemens Stiftung Germany (2008 to 2014), and served as President of Global Human Health and member of the Executive Board of Merck & Co., Inc., USA (2006 to 2007). From 2004 to 2006, he was CEO of Healthcare Bio-Sciences and member of the Corporate Executive Council of General Electric in the USA. He was COO and member of the Board of Amersham plc., UK (2002 to 2004). From 1999 to 2002, he acted as Chairman and CEO of Aventis Pharma Ltd in Japan. He held various senior leadership positions with Hoechst Group in Germany, Spain, the USA, and the UK (1987 to 1999).

Binding interests — Delegate of the Board of Directors, Renova Management AG, Switzerland; Member of the Supervisory Board, Deutsche Bank AG, Germany; Member of the Board, TBG AG, Germany
Educational background — Diploma in Economics, Vienna University of Economics and Business, Austria, and Chinese University of Hong Kong, China; Advanced Management Program, Harvard University, USA; Honorary Professor at Tongji University Shanghai; Honorary Doctorate of Engineering from Michigan State University; Doctor Honoris Causa of Slovak University of Engineering in Bratislava

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Luciano Respini (1945) Italy

Vice Chairman of the Board/Member of the Nomination and Remuneration Committee

Luciano Respini joined the Sulzer Board of Directors in 2004. Respini has held a number of key positions with the Dow Chemical Company, including President of Dow Europe (1998 to 2006) and of Dow Latin America (1995 to 1997). He also served as member of the Office of the Chief Executive of the Dow Chemical Company in the USA (2002 to 2006). In addition, he was member of the Board of Union Carbide Corporation, USA from 2003 to 2005.

Educational background — Doctorate in Economics, Università Cattolica of Milan, Italy

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Klaus Sturany (1946) Austria

Chairman of the Audit Committee/Member of the Strategy Committee

Klaus Sturany joined the Sulzer Board of Directors and was appointed Chairman of the Audit Committee in 2009. He served as CFO of RWE (1999 to 2007) and as CFO (and subsequently CEO) for GEA (1996 to 1999). He also held the position of CFO of Uhde (now ThyssenKrupp), and from 1971 to 1990, he acted in a number of positions with Hoechst, including Head of Controlling.

Binding interests — Member of the Supervisory Board of Bayer AG; Member of the Supervisory Board of Hannover Rückversicherung AG
Educational background — PhD, Mathematics (major) and Physics, University of Innsbruck, Austria

Matthias Bichsel (1954) Switzerland

Member of the Strategy Committee

Matthias Bichsel joined the Sulzer Board of Directors in 2014. Currently, he is member of the Advisory Board of Chrysalix EVC in Canada (since 2015) and member of the Board of Directors of Canadian Utilities in Canada (since 2014). From 2009 to 2014, he was Member of the Executive Committee of Royal Dutch Shell plc and Director of its Projects and Technology Business, the Netherlands. Previously, he served as Executive Vice President Technical of Shell Exploration and Production (2006 to 2009) and was Executive Vice President for Shell's Global Exploration (2002 to 2006). From 1999 to 2002, he was Managing Director of Shell Deepwater Services, USA. From 1995 to 1999, he was Exploration and Deep Oil Development Director of Petroleum Development Oman. He also held various positions with Shell Exploration and Production in Tanzania, Bangladesh, Oman, Canada, and Indonesia (1980 to 1995).

Binding interests — Member of the Advisory Board, Chrysalix EVC, Canada; Member of the Board of Directors, Canadian Utilities Ltd, Canada

Educational background — PhD in Earth Sciences, University of Basel, Switzerland; Honorary Professor, Chinese University of Petroleum, China

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Thomas Glanzmann (1958) Switzerland

Chairman of the Nomination and Remuneration Committee/Member of the Strategy Committee

Thomas Glanzmann joined the Sulzer Board of Directors in 2012. Previously, he was CEO and President of the Swedish company Gambro (2006 to 2011) and CEO and Managing Director of HemoCue, also in Sweden (2005 to 2006). From 2004 to 2005, he served as Senior Advisor to the Executive Chairman and as a Managing Director of the World Economic Forum, Switzerland. From 1988 to 2004, he held various positions with Baxter including Senior Vice President of Baxter Healthcare Corporation, USA (1999 to 2004), and President of Baxter Bioscience, USA (1998 to 2004) as well as CEO of Immuno International, Austria (1996 to 1998).

Binding interests — Member of the Board, Grifols SA, Spain; Member of the Board, Sage Products Inc, USA

Educational background — MBA, IMD, Lausanne, Switzerland; BA in Political Science, Dartmouth College, USA; Board of Directors Certification, UCLA Anderson School of Management, USA

Jill Lee (1963) Singapore

Member of the Audit Committee

Jill Lee joined the Sulzer Board of Directors in 2011. Currently, she is the Group Senior Vice President and Head of Next Level Program Management of ABB Ltd. From 2012 to 2014, she was the Senior Vice President and CFO for ABB China and North Asia Region. Prior to this, she served as Senior Vice President, Finance Strategy and Investments for Neptune Orient Lines in Singapore (2010 to 2011). She has also held a number of positions with Siemens, including global Chief Diversity Officer (2008 to 2010), CFO and Senior Executive Vice President of Siemens in China (2004 to 2008), CFO and Senior Vice President of Siemens in Singapore (2000 to 2004), CFO Asia-Pacific and General Manager of the Asia Regional Headquarters of Siemens Electromechanical Components in Singapore (1997 to 2000).

Educational background — MBA, Nanyang Business School, Singapore; BA in Business Administration, National University of Singapore

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Marco Musetti (1969) Italy

Member of the Audit Committee/Member of the Nomination and Remuneration Committee

Marco Musetti joined the Sulzer Board of Directors in 2011. Since 2014, he has been serving as member of the Board of Directors of CIFC Corp. and since 2013 he has been member of the Board of Directors of Schmolz + Bickenbach AG. He was COO and deputy CEO of Aluminium Silicon Marketing (Sual Group) (2000 to 2007), Head of Metals and Structured Finance Desk for Banque Cantonale Vaudoise (1998 to 2000), and Deputy Head of Metals Desk for Banque Bruxelles Lambert (1992 to 1998). Since 2009, he has been serving as member of the Supervisory Board of Renova U.S. Holdings Limited.

Binding interests — Member of the Supervisory Board, Renova U.S. Holdings Limited; Member of the Board of Directors, Schmolz + Bickenbach AG; Member of the Board of Directors, CIFC Corp.

Educational background — Master of Science in Accounting and Finance, London School of Economics and Political Science, UK; Major degree in Economics, University of Lausanne, Switzerland

Nomination and Remuneration Committee

The Nomination and Remuneration Committee (members listed on page 47) assesses the criteria for the election and reelection of Board members and the nomination of candidates for the top two management levels. It also deals with succession planning, 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 also carries out broadly based salary comparisons with international third-party companies, supported by studies of the consulting firms such as Mercer and 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 (which were updated as per June 1, 2014 to reflect the changes required by the OaEC) can be viewed at www.sulzer.com/regulations. Meetings of the Nomination and Remuneration Committee are attended by the CEO and the Head of Corporate Human Resources (who is also the Secretary of this committee). In 2014, seven regular meetings were held. External experts from Towers Watson provided benchmarking services (see compensation report, pages 61 to 80) and supported the Nomination and Remuneration Committee in reviewing the compensation packages of the members of the Board of Directors and the Executive Committee.

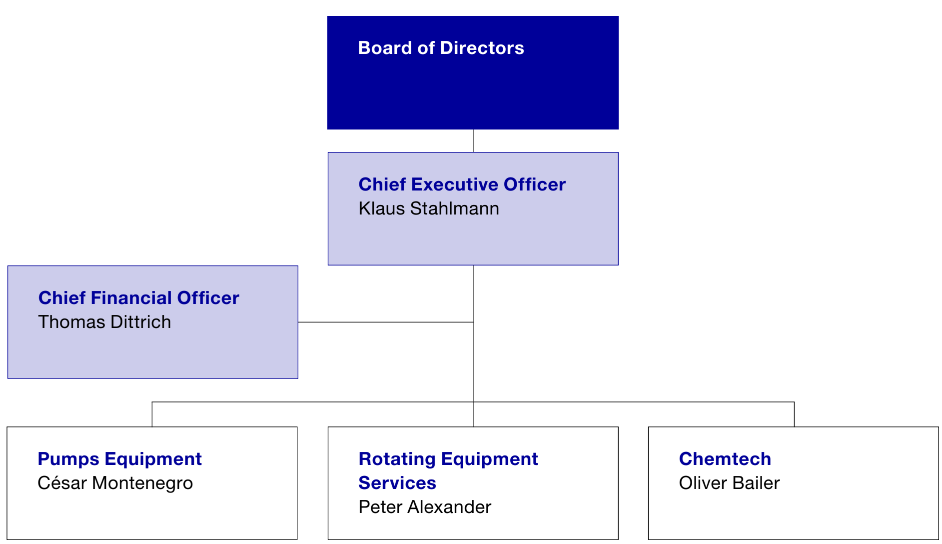
Strategy Committee

The Strategy Committee (members listed on page 47) advises the Board of Directors on strategic matters (such as material acquisitions, divestitures, alliances, and joint ventures) as well as strategic planning and defining of development priorities. The regulations of the Strategy Committee can be viewed at www.sulzer.com/regulations. In 2014, six meetings took place. The CEO attended six, the CFO five, and the three Division Presidents attended four meetings. The Group General Counsel attended two of these meetings.

Division of powers between the Board of Directors and the CEO

The Board of Directors has largely delegated executive management powers to the CEO, but it is still responsible for matters that cannot be delegated in accordance with Art. 716a of the Swiss Code of

Organizational structure



Obligations, such as corporate strategy, approval of midterm planning, and the annual budget, as well as key personnel decisions and creation of the compensation report. The same applies to acquisition and divestiture decisions involving an enterprise value exceeding CHF 15 million or CHF 20 million respectively, 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 (including those defined in the Swiss Mergers Act). 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/regulations.

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, income, and cash flow statements, as well as the key figures for the company and its divisions (incorporating comments on the respective business results and a six-month rolling forecast of the key figures). The CEO and CFO report at every Board meeting on business developments and all matters relevant to the company; once each year, the Board receives the forecasted annual results. The chairmen of the committees also report at these meetings on all matters discussed by their committees and on the key findings and assessments, and they submit proposals accordingly. Each year, the Board of Directors discusses and approves the budget for the following year, and every three years, it establishes a midterm plan, which is also subject to periodic review. The Chairman of the Board of Directors regularly consults with the CEO and other representatives of the Executive Committee. In addition, the Board of Directors receives an investor relations status report twice a year.

Group Internal Audit

Group Internal Audit reports functionally directly to the Chairman of the Audit Committee, but administratively to the CFO. Meetings between internal audit and external auditors take place on a regular basis to prepare for the meetings of the Audit Committee, to review the interim and final reports of the external auditors, to plan and coordinate internal and external audits, and to prepare audit instructions for the attention of external auditors of the individual companies. Group companies are audited by Group Internal Audit based on an audit plan that is approved by the Audit Committee; depending on the risk category such audits are carried out on a rotational basis either annually or every second, third, or fourth year. Group Internal Audit carried out 39 audits in the year under review. One of the focal points was again 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 unit receive a copy of the audit report. The key measures agreed upon are also presented to and discussed with the CEO, the CFO, the Group General Counsel, and the Division Presidents during the monthly Executive Committee meetings; twice annually, the divisions present the status of key measures agreed upon. A follow-up process is in place for all group internal audits which enables efficient and effective monitoring of the implementation of the improvement measures. 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 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 and value-based compliance program that focuses on prevention. It consists of the following main elements:

Strong values and “tone at the top and the middle”

Sulzer puts a high priority on carrying out its business with integrity, in compliance with all applicable laws and internal rules (“a clean deal or no deal”), and on accepting only reasonable contractual risks. The Board of Directors and the Executive Committee are convinced that compliant and ethical behavior in all aspects is a precondition for a successful and sustainable future. It also fosters a speak-up culture and encourages employees to address potentially non-compliant behaviors.

Risk assessment

As part of Sulzer’s integrated risk management process, compliance risks are assessed regularly, and the results are discussed both with the management within the Sulzer Risk Council as well as the Audit Committee, which 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 on pages 58 to 59.

Internal rules and tools

In 2010, Sulzer introduced a new Code of Business Conduct, which can be viewed online at www.sulzer.com/regulations in 19 languages. Every employee of the company (including employees of newly acquired businesses) is required to confirm in writing that he or she has read and understood this code and will comply with it. Every member of the Sulzer Management Group (approximately 100 managers) as well as the heads of all operating companies and all headquarters, regional, and local compliance officers must reconfirm this compliance commitment in writing on an annual basis. Also in 2010, Sulzer joined the UN Global Compact initiative. The latest Communication on Progress Report in respect thereto was delivered in 2014.

Rules

Although Sulzer follows a behavior and principle based approach, it still requires internal rules discussing “boundaries”, defining processes, and providing guidance and decision support. In this respect Sulzer focuses on the major compliance risks, e.g.:

— Bribery and corruption risks: Antibribery and anticorruption guidelines were introduced in 2010. In 2011, a process addressing the due diligence of intermediaries was introduced. In 2012, this process was improved, the scope was extended, and the tool was made web-based. In the same year, a corporate-wide initiative that set maximum levels for offering and receiving gifts and hospitalities was carried out. The respective directive entered into force on January 1, 2013. In 2014, an e-training (in 13 languages) was rolled out to make Sulzer employees enrolled in the e-training program familiar with the content of the directive.

— Antitrust and anticompetition risks: An antitrust guideline was introduced in 2010 and a directive addressing behaviors in trade association followed in 2012. In 2013, the rollout of this directive took place, including collection of a compliance declaration from the employees representing Sulzer in trade association meetings.

— Export control risks: Export control policies were established and rolled out in 2012 in most entities. In 2012/2013, an e-training in trade compliance was rolled out to the employees involved in export activities.

— Further risks (e.g. stock exchange laws, human resource-related, intellectual property and know-how, privacy and data protection laws, product liability, environmental, quality and health, etc.): These and many other potential risks are addressed by focused rules and processes. In 2012, new processes securing compliance with insider law risks and stock exchange reporting and notification risks were introduced. They were updated in 2013 because of changes in stock exchange laws.

Tools

Because of its strongly fostered speak-up culture, Sulzer provides a hotline that offers employees one of many options for reporting (potential) violations of the laws or internal rules (reports can be made anonymously or openly via a free hotline or a dedicated website). The company also introduced a directive that further improves internal reporting of compliance cases and sets minimum standards for internal investigation in 2012. Further tools are available to all employees on the Sulzer Legal and

Compliance intranet site (e.g., presentations addressing the major exposures; draft agreements; sales and procurement handbooks with compliance-specific explanations and standard clauses). In 2013, a new type of antifraud training was introduced, mainly addressed to Sulzer's finance employees. In addition to that, an e-learning course related to fraud and business integrity was rolled out. In 2014, a compliance risk assessment process was established to identify and assess potential compliance risks on a local entity level and to define appropriate measures.

Organization

Within the course of the organizational changes implemented during 2013, the "Legal, Compliance, and Risk Management" group function was established (headed by the Group General Counsel). Within this new organization, a line reporting structure was established for the three regions: Americas (AME), Europe, Middle East, and Africa (EMEA), and Asia-Pacific (APAC). In this structure, the local compliance officers ultimately report—via regional compliance officers—to the Group General Counsel (who is also the Chief Compliance Officer). In addition, the "Risk Management and Compliance headquarters" was established to steer and administer the group-wide compliance program. The Head of Risk Management and Compliance also reports to the Group General Counsel. In order to ensure consistent rollout of Group Compliance initiatives, a dotted reporting line exists between the regional compliance officers and the Head of Compliance and Risk Management. The Sulzer Risk Council, comprising the CFO, the Group General Counsel, the Head of Internal Audit, the Head of Compliance and Risk Management, and representatives of other group staff functions, held one meeting in 2014. The Sulzer Risk Council's tasks mainly include formulating and maintaining adequate risk management policies, systems, and guidelines; initiating and coordinating risk management activities; and advising the CEO and the Executive Committee on matters relating to risk management. Each member of the Executive Committee receives a copy of the minutes of the Sulzer Risk Council.

The Group General Counsel informs the Board of Directors and the Executive Committee regularly on legal matters and key changes in legislation that may affect Sulzer, as well as on important litigation. Twice a year, a report is also made to the Audit Committee 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 under "Audit Committee" on page 47.

Awareness building and trainings

Sulzer puts substantial effort into the training of its employees. Training is carried out through e-learning programs (between two and three new programs are rolled out every year), on a face-to-face basis or through web conferences. In 2014, a compliance training compendium was rolled out to provide training contents to the local compliance officers. Together with "train the trainers" courses provided to the compliance officers, this will support coverage of the organization and transfer of training contents to the local entities. Over 20 000 e-learning courses were conducted in 2014 and web conferences on specific compliance matters were carried out.

Controls and sanctions

Headquarters Legal carried out thirteen legal audits in 2014. These audits were conducted within the framework of the audits done by Group Internal Audit and focused on contractual risks. The results of the audits were discussed with the responsible managers. Measures were agreed upon. Implementation of these measures is monitored (follow-up process; see under "Group Internal Audit", page 51). The group function Environment, Safety and Health (ESH) carried out 11 audits and organized seven external safety and health compliance audits as well as eight external insurance audits. The focal points were primarily environmental protection and workplace safety. The results of each of these audits were discussed directly with the responsible managers and 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. Sulzer published its externally verified Sustainability Report 2014 parallel to the Sulzer Annual Report 2014 (see www.sulzer.com/sustainability). The external institute SGS

(Société Générale de Surveillance) confirmed in its assurance statement that the report is in accordance with the highest GRI disclosure level A+. This was also confirmed by the Global Reporting Initiative (GRI). Sulzer's sustainability performance is regularly rated by various organizations. Sulzer is a recognized sustainability leader in its industry and meets industry-specific minimum requirements.

Apart from these formal audits, many internal investigations (triggered by reports via the compliance hotlines, e-mails, telephone calls, or otherwise) were carried out during 2014 and at least 14 employees had to leave Sulzer because of non-compliant behavior with Sulzer's Code of Business Conduct. Others received warnings or were internally transferred. However, the vast majority 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 and internal processes and rules are adjusted, and/or training modules improved .

4 Executive Committee

The Executive Committee consists of the CEO, the CFO, and the Division Presidents. Executive management powers are delegated by the Board of Directors to the CEO. The Division Presidents are charged by the CEO with defining and attaining business targets for their respective divisions in accordance with corporate goals. The appropriate powers have largely been delegated to the Division Presidents by the CEO. The Board of Directors and Organization Regulations govern, among other things, the transfer of responsibilities from the Board of Directors to the CEO, and this regulation can be viewed at www.sulzer.com/regulations. The CFO supports the CEO in his corporate management tasks. 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 CVs of the members of the Executive Committee can be viewed on pages 56 to 57 and online at www.sulzer.com/management.

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

The OaEC requires that as of the Annual General Meeting of April 1, 2015, Sulzer's Articles of Association govern the maximum number of additional mandates held by members of the Executive Committee outside the Sulzer group. The Articles of Association do not yet contain such a provision. The respective proposal to amend the Articles of Association accordingly was not approved by the Annual General Meeting of March 20, 2014. A new proposal will be submitted to the Annual General Meeting of April 1, 2015.

5 Compensation Report

Information on the compensation of the Board of Directors and the Executive Committee can be found in the compensation report (pages 61 to 80).

6 Shareholder Participation Rights

Restrictions and representation of voting rights

Only nominees are subject to restrictions (see "Capital structure", page 44). No exceptions were granted during the reporting year, and no measures to remove these restrictions are planned.
In line with the OaEC, a shareholder may be represented at a Shareholders' Meeting by his/her legal representative, another shareholder with the right to vote, or the independent proxy. Since at the Annual General Meeting of March 20, 2014, the Board of Directors' proposal to amend the Articles of Association accordingly was not approved, the Articles of Association do not fully reflect the representation of a shareholder as outlined above. The Board of Directors will propose to the Annual General Meeting of April 1, 2015 to amend the Articles of Association accordingly. 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; 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 18 of the Articles of Association).

Convocation of the Annual General Meeting and submission of agenda items
None of the applicable regulations deviate from the law regarding the convocation of a Shareholders' Meeting. Shareholders representing at least 2% of the share capital may submit items for inclusion on the agenda of a Shareholders' Meeting. Such submissions must be requested in writing at least two months prior to the meeting and must specify the agenda items and proposals of the shareholder concerned.

Entry in the share register
Voting rights may be exercised by shareholders who are registered in the share register no later than on the record date stated in the invitation to the respective Shareholders' Meeting.

Independent proxy
The Articles of Association do not contain a provision regarding election of the independent proxy by the Shareholders' Meeting. At the Annual General Meeting on March 20, 2014, the Board of Directors' proposal to change the Articles of Association (as per OaEC) was rejected. The Board of Directors will propose to the Annual General Meeting of April 1, 2015 to amend the Articles of Association accordingly. Nevertheless, the Shareholders' Meeting of March 20, 2014, elected Proxy Voting Services GmbH as the independent proxy in line with the new requirements of OaEC.

7 Takeover and Defense Measures

The Articles of Association contain no opting-out or opting-up clause. None of the contracts with members of the Board of Directors contains a change of control clause. The contracts of the members of the Executive Committee who joined the Executive Committee prior to April 2009 contain a remuneration clause provided the contract is terminated or the member's function is changed considerably within 18 months after a change of control (see compensation report, pages 61 to 80). If there is a change of control (which, for members of the Executive Committee, also includes a replacement of the majority of the members of the Board of Directors) or a public takeover bid that is not supported by the Board of Directors, all allocated restricted stock units (RSUs) are automatically vested and the performance share units (PSUs) are automatically converted into shares on a pro rata basis without being subject to blocking restrictions.

8 Auditors

The statutory auditor is elected at the Annual General Meeting for a one-year term of office. KPMG AG has been acting as the statutory auditor since 2013. The acting external auditor-in-charge is François Rouiller (since March 27, 2013). The external auditor-in-charge is replaced every seven years. The Audit Committee is in charge of supervising and monitoring the statutory auditor, and it reports to the Board of Directors (see "Board of Directors", page 45). The members of the Audit Committee receive summaries of audit findings and improvement proposals at least once a year. The external auditor-in-charge is invited to attend meetings of the Audit Committee. In 2014, he attended four Audit Committee meetings. The Audit Committee or its chairman meets separately with the Head of Group Internal Audit and the external auditor-in-charge at least once per year to assess (among other things) the independence of the internal and external auditors. The Audit Committee evaluates the work done by the auditors based on the documents, reports, and presentations provided by the auditors as well as on the materiality and objectivity of their statements. In order to do so, the committee gathers the opinions of the CFO and the Head of Group Internal Audit. The fee paid to the auditor is reviewed regularly and compared with the auditing fees paid by other internationally active Swiss industrial companies. The fee is negotiated by the CFO, checked by the Audit Committee, and approved by the Board of Directors. Further information on the auditor, in particular, the amount of the auditor's fees and any additional fees received

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Executive Committee

The Sulzer Executive Committee consists of the CEO, the CFO, and the three Division Presidents. Thomas Dittrich has been appointed as new Chief Financial Officer in August. César Montenegro was appointed Division President Pumps Equipment in June.

Klaus Stahlmann (1960) Germany
Chief Executive Officer
Klaus Stahlmann joined the Sulzer Executive Committee as CEO in 2012. Previously, he was CEO for MAN Diesel and Turbo and member of the Executive Board of MAN SE (2010 to 2011). From 2007 to 2009, he served as CEO for MAN Turbo, Germany. Before his engagement with MAN, he was Managing Director of the European Bearing Business Unit of NSK. For Allweiler, a German pumps manufacturer, he served as CEO (2001 to 2006) after having held various positions with the German industrial group Krupp (1987 to 2001).

Educational background — Master of Science in Industrial Engineering, Technical University Darmstadt, Germany

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Thomas Dittrich (1964) Switzerland/Germany
Chief Financial Officer
Thomas Dittrich joined the Sulzer Executive Committee as CFO in 2014. Previously, he served as Vice President Finance Corporate Planning and Controlling and Chief Accounting Officer of Amgen Inc. in the USA (2010 to 2014). Prior to that, he was Vice President Finance and CFO of Amgen International headquartered in Switzerland (2006 to 2010). From 1998 to 2006, he held various Finance Director and General Manager roles of increasing scope and responsibility at Dell Inc. in Europe, Middle East, and Africa. He was also Head of Business Development and Finance Director of the Swatch Group AG in Switzerland (1997 to 1998), Senior Associate of Booz & Co. in Germany (1992 to 1996), as well as Associate of Helbling Management Consulting AG in Switzerland (1991 to 1992).

Educational background — Master of Science in Finance, Accounting, and Business Administration, University of St. Gallen, Switzerland; Master of Science in Mechanical Engineering (Dipl. Ing. Univ.), Technical University Munich, Germany

César Montenegro (1953) Venezuela/USA

Division President Pumps Equipment

César Montenegro was appointed as Division President of Pumps Equipment in 2014. He joined the Sulzer Executive Committee as Division President of Sulzer Metco in 2008, and was involved in the divestiture of this division in 2014. He has held a number of positions with Sulzer since 1977. From 2002 to 2008, he served as Head of Business Area North America for Sulzer Pumps. He was also Managing Director of Sulzer Mexico (1996 to 2001) and of Sulzer de Venezuela (1989 to 1996).

Educational background — Postgraduate studies in Business Engineering, University Simon Bolivar, Caracas, Venezuela; MSc in Mechanical Engineering, University Simon Bolivar, Caracas, Venezuela

Peter Alexander (1958) USA

Division President Rotating Equipment Services

Peter Alexander joined the Sulzer Executive Committee as Division President of Sulzer Turbo Services in 2005. He has held a number of positions with Sulzer Turbo Services, including Head Business Development and Division President on an ad interim basis (2004 to 2005), Cofounder and Director of Operations and Engineering in Indonesia (1994 to 2004), and Engineering Manager and Project Engineer in the USA (1987 to 1994).

Educational background — BSc in Marine Engineering, Texas A&M University, College Station, TX, USA

Oliver Bailer (1967) Switzerland

Division President Chemtech

Oliver Bailer joined the Sulzer Executive Committee in 2013. From 1993 to 2013, he held a number of positions with the Chemtech division, including Head of Sulzer Mixpac Systems (2010 to 2013), Head of Mixing and Reaction Technology (2008 to 2009), and Head of Business Development (2006 to 2008).

Educational background — General Management Program (GMP), Harvard University, Boston, MA, USA; Master of Business Administration (Executive MBA), University St. Gallen (HSG), Switzerland; Swiss-certified Chemical Engineer (Dipl. Chem. Ing.), ETH Zurich, Switzerland

Enterprise Risk Management Process to Take Risk-Conscious Decisions

With its enterprise risk management (ERM) system, Sulzer has implemented an integrated risk management system allowing the company to take targeted and risk-conscious decisions.

Risk	Risk exposure	Main loss controls
External and markets		
Market assessment	Market developments that are assessed inappropriately could lead to missed business opportunities or losses.	— Continuous monitoring and assessment of market developments — Systematic midrange planning based on market developments and expectations
Geopolitical shocks	A geopolitical shock event could have an impact on operations and travel. Also, it could imply currency risks and default risks of countries and banks.	— Monitoring of exposure in critical countries — Monitoring of debt situation of countries and banks — Continuous monitoring of raw material prices and inflation indicators — Sulzer's global presence mitigates the effect of geopolitical shocks
Strategic		
Innovation — More information on page 34	Failure in R&D and innovation activities could negatively impact the ability to operate and to grow the business. Insufficient investments in innovation to maintain technology leadership and develop innovative products.	— Stage gate process and key performance indicators — Product Development Council with strong focus on midrange planning process — Core Technology Council for development of basic technology — Innovation projects planned for 2015
Operational		
Attraction and retention — More information on page 38	Failure to attract and retain talent could lead to a lack of expertise and negatively impact the ability to operate.	— Active fostering of corporate values and high ethical standards — Strong Sulzer employer brand strategy — Regular talent review workshops — Development plans and education of employees — Salary benchmarks and reviews — Regular employee engagement surveys
Health and safety — More information on page 38	An unsafe working environment could lead to harm to people, reputational damage, fines, as well as liability claims and could have a serious economic impact.	— Health and safety regulations, guidelines, programs (e.g. Safe Behavior Program), and training — OHSAS 18001 certifications — Monthly health and safety controlling — Global network of health and safety officers — Regular health and safety audits

Risk exposure	Main loss controls	**Risk**
		Operational
Non-compliant or unethical behavior could lead to reputational damage, fines, and liability claims.	— Active fostering of high ethical standards — Continuous monitoring and assessment of potential exposures — Sulzer Code of Business Conduct and a number of supporting regulations (e.g. anticorruption, antitrust, trade control) — Global network of compliance officers — Compliance training (incl. e-learning) and audits — Speak-up culture, compliance hotline, and sanctions	Compliance — More information on page 51
Failure of high-quality products and services could lead to repeated work, reputational damage, or liability claims.	— Quality management and assurance systems tailored to specific businesses — Third-party accreditation — Competence development programs and training of employees — Test centers	Quality of products and services
Business interruption, such as a fire, could cause damage to people, property, and equipment. It could have a negative effect on the ability to operate at the affected site.	— Crisis and emergency management systems (at global and local level) — Risk management policy and guidelines — Corporate and local crisis and emergency management systems — Disaster recovery plans in IT	Business interruptions
		Financial
The unpredictability of financial markets may have a negative effect on Sulzer's financial performance and its ability to raise or access capital.	— Corporate financial policy — Foreign exchange risk policy — Trading loss limits for financial instruments	Financial markets — More information on page 99
Credit risks arising from financial institutions and from customers could have a negative effect on Sulzer's financial performance and ability to operate.	— For financial institutions, only parties with a strong credit quality are accepted (third-party rated) — Individual risk assessment of customers with large order volumes — Continuous monitoring of country risks	Credit — More information on page 101
Failure in liquidity risk management may have a negative effect on Sulzer's financial performance and its ability to operate.	— Continuous monitoring of the liquidity — Management of liquidity reserves at corporate level — Cash flow program to optimize liquidity and cash flow management — Efficient use of available cash through cash pooling	Liquidity — More information on page 102

by the auditor for advisory services outside its statutory audit mandate, is listed in the financial section under note 36 (page 142). All advisory services provided outside the statutory audit mandate (essentially consisting of consulting services related to audit and accounting as well as legal and tax advisory services) are compliant with the applicable independence rules.

9 Information Policy

Sulzer Ltd reports on its order intake every quarter (media releases) and on its financial results every half year, in each case also commenting 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 Section 5 of the Corporate Governance Report (including the respective references to the financial section) corresponds to the compensation report as laid out in Section 8 of Annex 1 of the Swiss Code of Best Practice for Corporate Governance.

Key dates in 2015

February 12	Annual results 2014
February 12	Capital Market Day 2015
April 1	Annual General Meeting 2015
April 16	Order intake Q1 2015
July 28	Midyear report 2015
October 15	Order intake Q1–Q3 2015

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

Material changes

Reference is made in the text to any material changes occurring between the balance sheet date (December 31, 2014) and the copy deadline for the Annual Report (February 10, 2015).

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Compensation Report

Compensation Report

Winterthur, February 10, 2015

Dear shareholder

On behalf of the Board of Directors and the Nomination and Remuneration Committee of Sulzer, I am pleased to introduce the 2014 Compensation Report.

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

To ensure that the remuneration is competitive, Sulzer regularly participates in benchmarking surveys. Our compensation strategy intends to remunerate at the median to the third quartile to be competitive in the market. We also correlate between compensation overall, the size and complexity of the business, geographic reach, and available talent. The particular composition of the peer group intends to reflect comparators on the employer market.

The Board of Directors and the Nomination and Remuneration Committee review the compensation policy and programs of Sulzer continually in order to ensure that they are aligned with the company's strategy and the shareholders' interests, while being compliant with the regulatory requirements.

In 2014, the Ordinance against Excessive Compensation in Listed Stock Corporations (the Compensation Ordinance, OaEC) was implemented. The Compensation Ordinance has strong implications on the governance of compensation matters. Consequently, the Board of Directors and the Nomination and Remuneration Committee have focused their efforts on preparing for the changes to be put into action between 2014 and 2015 as outlined below:

- Yearly individual election of the members of the Board of Directors, the Chairman of the Board of Directors, and the members of the Nomination and Remuneration Committee by the Shareholders' Meeting
- Amendments to the Articles of Association and inclusion of provisions on compensation governance and compensation principles
- Introduction of a binding shareholders' vote on the aggregate maximum amounts of compensation for the Board of Directors and for the Executive Committee at the 2015 Annual General Meeting
- Amendments to the compensation report in line with the new requirements under the Compensation Ordinance
- Adjustments of the individual employment contracts of the Executive Committee members in line with the provisions of the Compensation Ordinance

Further, the Board of Directors and the Nomination and Remuneration Committee continued to review and assess the compensation principles and programs, especially in light of the new requirements under the Compensation Ordinance. Considering the changes made in 2013, notably with the introduction of a new long-term incentive plan for the members of the Executive Committee, the Board of Directors, and the Nomination and Remuneration Committee concluded that the compensation framework is fit-for-purpose and that no further substantial changes were necessary at this stage.

At the 2015 Annual General Meeting, we will ask for your opinion on our compensation framework and the compensation actually awarded for the business year 2014 through a consultative vote on this compensation report. Further, in line with the Compensation Ordinance, we will request your approval of the aggregate maximum compensation amounts that may be awarded to the Board of Directors until the next Annual General Meeting and to the Executive Committee for the 2016 business year.

We believe that this voting mode gives you, dear shareholder, a far-reaching say on pay. We would like to thank you for taking the time to share your views with us and trust that you will find this report informative.

Sincerely,

Thomas Glanzmann

Thomas Glanzmann
Chairman of the Nomination and Remuneration Committee

Incentives for Sustainable Performance

Compensation policies and plans at Sulzer reward performance, sustainable growth, and long-term shareholder value creation.

In brief

Core principles and compensation governance — See page 65	Compensation policies and plans at Sulzer reward performance, sustainable growth, and long-term shareholder value creation. Compensation programs are competitive, internally equitable, straightforward, and transparent. The compensation policy, programs, and amounts are reviewed by the Nomination and Remuneration Committee annually and, if necessary, adjusted by the Board of Directors.
Shareholders' engagement — See page 66	The shareholders are asked to approve the aggregate maximum amounts of compensation that may be awarded to the Board of Directors and to the Executive Committee in a binding vote. Further, shareholders have the opportunity to express their opinion on the compensation framework in a consultative vote on the compensation report.
Compensation of the Board of Directors — See page 68	In order to reinforce the independence of the Board of Directors in fulfilling its supervisory duties, the compensation of the Board of Directors consists of a fixed remuneration only, delivered as follows: — Fixed cash component — Restricted stock unit (RSU) component The fixed amount of compensation for the Chairman and the other members of the Board of Directors depends on the amount of responsibility and complexity of their respective function, the professional and personal requirements placed on them, and the expected time requirement to fulfill their duties.

Compensation of the Executive Committee — See pages 69–74	In line with the pay-for-performance key principle, a significant portion of compensation of the CEO and the other members of the Executive Committee consists of variable incentives based on performance. The compensation includes the following components:
	
	— Fixed compensation:
	   — Base salary (cash)
	   — Retirement and fringe benefits
	— Variable compensation:
	   — Short-term annual bonus (cash)
	   — Long-term incentives (performance share units)
	
	In order to ensure that the remuneration is competitive, Sulzer regularly participates in relevant benchmarking surveys.

The compensation report is prepared in accordance with the Ordinance against Excessive Compensation in Listed Stock Corporations (Compensation Ordinance, OaEC), the SIX Swiss Exchange Guidelines on Corporate Governance Information (RLCG), and the principles of the Swiss Code of Best Practice for Corporate Governance of economiesuisse.

The compensation report provides information about the principles of compensation, the compensation policy and programs, the method of determination of compensation, as well as the compensation awarded in the reporting year to the members of the Board of Directors and of the Executive Committee.

1 Compensation Governance and Principles

Nomination and Remuneration Committee

The Board of Directors and Organization Regulations and the Nomination and Remuneration Committee Regulations (www.sulzer.com/regulations) define the functions of the Nomination and Remuneration Committee (the 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 management positions for the purpose of the incentive plans
— Preparation of the respective motions to the Shareholders' Meeting on the maximum aggregate amounts of compensation of the Board of Directors and of the Executive Committee
— Determination of the target compensation for the CEO and for the executive management positions
— Review of the compensation report

The table below describes the levels of authority:

Decision authority

	CEO	NRC	Board
Selection criteria and succession planning Board of Directors		proposes	approves
Selection criteria and succession planning Executive Committee	proposes	reviews	approves
Compensation policy and programs		proposes	approves
Compensation of the members of the Board of Directors		proposes	approves
Compensation of the CEO		proposes	approves
Compensation of the Executive Committee	proposes	reviews	approves
Total maximum compensation amounts to be submitted to vote at the Annual General Meeting		proposes	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

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. Since the 2014 Annual General Meeting, Thomas Glanzmann, Marco Musetti, and Luciano Respini have been members of the NRC.

The NRC meets as often as the business requires, but at least twice a year. In 2014, the NRC held seven meetings that were attended by all members.

The CEO and the Head of Group Human Resources, who serves as the Secretary of the NRC, generally attend the meetings. The Chairman of the Committee may invite other executives to participate to the meeting in an advisory capacity, as appropriate. However, the CEO and any other executives do not participate in the meetings, or parts of thereof, 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 on. The Chairman also, 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 judges necessary for the fulfillment of its duties. In the reporting year, the NRC appointed Towers Watson to provide consulting and benchmarking services on compensation matters. Towers Watson has no other mandate with Sulzer.

Shareholders' role and engagement

The company is keen to receive shareholders' feedback on the compensation policy and programs and already implemented the consultative vote on the compensation report in 2011. Further, the company meets with shareholders and shareholder representatives on an ongoing basis to understand their perspectives. With the implementation of the Compensation Ordinance, the shareholders' role and say in compensation matters has become even more pronounced. At the Annual General Meeting, shareholders will be asked to approve the maximum aggregate compensation amounts for the Board of Directors and for the Executive Committee. This vote is binding and will be conducted annually.

At the 2015 Annual General Meeting, the shareholders will also be asked to approve amendments to the Articles of Association that are required to comply with the Compensation Ordinance. The revised Articles of Association include provisions related to the:
— Principles of compensation
— Shareholders' binding vote on remuneration
— Additional amount for members of the Executive Committee hired after the vote on remuneration by the Shareholders' Meeting
— Loans, credit facilities, and post-employment benefits for members of the Board of Directors and of the Executive Committee

The Articles of Association do not yet contain such provisions. The respective proposal to amend the Articles of Association accordingly was not approved by the Shareholders' Meeting of March 20, 2014. A new proposal will be submitted to the Shareholders' Meeting of April 1, 2015.

Compensation benchmark

The comparison group reflects Sulzer's ambitious business strategy:
— ABB
— Actelion
— Clariant
— EMS Chemie
— Geberit
— Georg Fischer
— Holcim
— Lonza
— Nobel Biocare
— Oerlikon
— Rieter
— Schindler
— Sika
— Sonova
— Syngenta

Compensation principles

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

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

Compensation principles

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

Method of determination of compensation: Benchmarking and annual target setting process

In order to ensure compensation levels that are competitive and in line with market practice, the compensation of the Board of Directors and of the Executive Committee is regularly benchmarked against that of similar functions in comparable companies. For this purpose, a peer group of international industrial companies headquartered in Switzerland has been selected on the basis of their revenue and number of employees (see box "compensation benchmark" on page 66), so that Sulzer is positioned between the median and the third quartile of the peer group.

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

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

Performance appraisal

Target setting	Performance assessment	Compensation determination
Definition of two to four individual performance objectives at beginning of the year	Performance assessment at year-end	Determination of incentive payouts on the basis of company's/division's performance and achievement of individual objectives

2 Compensation Architecture

Compensation of the Board of Directors

The compensation policy applicable to the Board of Directors is governed by a compensation regulation, is reviewed by the NRC annually, and, if necessary, is adjusted by 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 stock unit (RSU) component with a fixed grant value. The RSUs replaced the option plan in 2009 and strengthened the long-term alignment of the interests of the members of the Board of Directors with those of the shareholders. In order to reinforce the focus of the Board of Directors on the long-term strategy and to strengthen their independence from the Executive Committee, the compensation of the Board of Directors does not include any performance-related element, and Board members are not entitled to pension benefits. Further, Board members are entitled to a lump-sum to cover business expenses.

The amount of compensation for the Chairman and for the other members of the Board of Directors is determined on the basis of relevant compensation benchmarks (see box "compensation benchmark" on page 66). It reflects the amount of responsibility and complexity of their respective function, the professional and personal requirements placed on them, and the expected time required to fulfill their duties. The compensation amounts were reviewed and adjusted in 2014 to be in line with the market practice. The amounts applicable in 2014 are described in the table below.

Annual compensation of the Board of Directors[1)]

in CHF	Cash component (net of social security contributions)	Grant value of restricted stock units	Lump-sum expenses
Basic fee for Board membership	70000	125000	5000
Basic fee for Board chairmanship[2)]	420000	250000	10000
Additional fees:			
Board vice chairmanship	30000	30000	
Committee chairmanship	40000		
Committee membership	25000		

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 over their term of office. The cash remuneration is paid in quarterly installments for Board members, monthly installments for the Chairman; the RSUs are granted once a year; and the lump-sum fee is paid out in December. The grant value of the RSUs is fixed at CHF 125000 per Board member and CHF 250000 for the Chairman of the Board of Directors. The number of RSUs is determined by dividing the fixed grant value by the volume-weighted average share price of the last ten trading days prior to 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 RSUs 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 RSUs granted to the members of the Board of Directors ends no later than on the date on which the member steps down from the Board. Although the value of the RSU grant is fixed (at grant), it then fluctuates with the share price during the vesting period, which means that the value at vesting will differ from the value at grant.

Compensation of the Executive Committee

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

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

- Fixed compensation:
  - Base salary (cash)
  - Retirement and fringe benefits
- Variable compensation:
  - Short-term annual bonus (cash)
  - Long-term incentives (performance share plan)

The elements of the compensation of the members of the Executive Committee are summarized in the table below.

Overview of compensation elements

Fixed compensation		Variable compensation	
Base salary	Benefits	Short-term incentive plan	Long-term incentive plan
Base salary	Pension and social security contributions, fringe benefits	Bonus plan	Performance share plan (PSP)

Compensation elements for the members of the Executive Committee

	Base salary	Benefits	Short-term incentive plan (bonus plan)	Long-term incentive plan (PSP 2014)
Main parameters	Function, level of role, profile of incumbent (skills set, experience)	Pension and social security contributions, fringe benefits	Achievement of financial and individual objectives	Achievement of long-term, company-wide objectives
Key drivers	Labor market	Protection against risks, labor market	Net income (EBIT), order intake, operating net cash flow (ONCF)	Cumulative EBIT, relative total shareholder return (TSR)
Link to compensation principles	Competitive compensation	Competitive compensation	Pay-for-performance	Sustainable growth and value creation
Vehicle	Cash	Pension and insurance plans, perquisites	Cash	Performance share units (PSUs)
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 835 000 for the CEO and between CHF 175 000 and CHF 300 000 for the other members ot the Executive Committee. Vesting value is capped to 3.2 times grant value for the CEO and 3.8 to 4.4 times grant value for the other members of the Executive Committee.
Grant date	Monthly	Monthly and/or annually	March of the following year	April 1 of the current year
Performance period	–	–	1 year (January 1, 2014 – December 31, 2014)	3 years (April 1, 2014 – March 31, 2017)
Vesting date	–	–	–	March 31, 2017

Base salary (fixed, in cash)

The base salary is determined at the discretion of the Board of Directors on the basis of the market value of the respective position and the individual profile of the incumbent in terms of qualifications, skills set, and experience. Positions are evaluated according to the Towers Watson Global Grading System (GGS). The GGS is a job-leveling tool to determine internal job levels. It takes into consideration company criteria such as size, complexity, and geographic scope. Furthermore, it assesses each role against standard factors based on its content and how it contributes to the organization overall. The GGS is used as a basis to build the internal salary structure. For further details, please refer to http://www.towerswatson.com/en/Services/Tools/job-leveling-global-grading-and-career-map.

Bonus (variable, performance-based, cash remuneration)

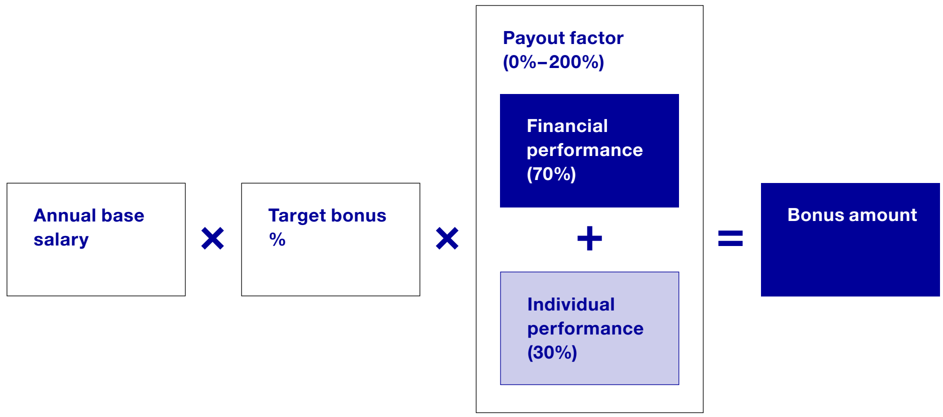
The bonus rewards the financial performance of the company and/or its businesses, as well as the achievement of individual performance objectives over a period of one year. The target bonus is expressed as a percentage of the annual base salary according to the level of the role in the GGS framework. It amounts to 90% for the CEO and to 60% for the other members of the Executive Committee.

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

Category	Weight	Objectives	Rationale		CEO/ CFO	Division President
Financial performance	70%	Operating income (EBIT)	Measure of profitability (bottom-line)	Sulzer	30%	25%
				Division		25%
		Order intake	Measure of growth (top-line)	Sulzer	10%	
				Division		15%
		Operating net cash flow (ONCF)	Measure of cash generated by the revenues	Sulzer	30%	
				Divison		5%
Individual performance	30%	Strategy Innovation Finance Management/Operations	Individual objectives address key business issues and depend on the nature of the respective function and its impact on the organization. They may include other financial objectives and/or more strategic goals that are crucial for the long-term business success, such as mergers and acquisitions, development of new products, and leadership goals.	Individual	30%	30%
				Total	**100%**	**100%**

The objectives are set within the annual target-setting process. For each objective, an expected level of performance is determined (“target”). In addition, a threshold level of performance below which the respective payout factor is zero, and a maximum level of performance, above which the respective payout factor is capped, are determined for each objective as well. The payout level between the threshold, the target, and the maximum is calculated by linear interpolation. The actual bonus payout depends on the weighted average of the payout factors achieved for each objective and can range from 0% to 200% of the target bonus.

Bonus calculation



The bonus is paid out in cash in March of the following year.

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

The performance share plan (PSP) rewards the performance of the company over a period of three years and aligns the interests of the executives with those of the shareholders by delivering a substantial portion of the compensation as company equity. The PSP is an annual plan with annual grants and is available exclusively to the members of the Executive Committee. The grant value is determined on the basis of the level of the role in the GGS framework and amounts to CHF 835 000 for the CEO and to between CHF 175 000 and CHF 300 000 for the other members of the Executive Committee. The number of performance share units (PSUs) granted is calculated by dividing the grant value by the three-month volume-weighted average share price prior to the grant date.

Each PSU is a conditional right to a certain number of shares of the company. The PSUs are subject to a three-year vesting period with two performance conditions:
— Cumulated operating income (EBIT) over the three-year vesting period
— Relative total shareholder return (TSR) of Sulzer against the performance of 30 peer companies respectively (see box "peer group for relative TSR performance").

Peer group for relative TSR performance of PSP 2014

International peers		Swiss industrial peers	
Aker solutions	National Oilwell Varco	ABB	Komax
Cameron	Praxair	Bobst	Meyer Burger
Crane Co.	Pentair	Burckhardt Compression	Oerlikon
Ebara	Schlumberger	Conzetta	Rieter
Flowserve	SPX	Georg Fischer	Schindler
FMC	Technip	Inficon	Schweiter
Idex	Weir	Interroll	
IMI	Wood Group		
KSB			

On the vesting date, the number of PSUs that will vest and be converted into shares is calculated by multiplying the initial number of PSUs granted by the sum of the achievement factor of each performance conditions as follows: Number of PSUs granted x (Achievement Factor KPI 1 + Achievement Factor KPI 2) = Number of performance shares vested. The number of vested shares is subject to an absolute cap based on the level of the role in the GGS framework.

Number of PSUs vested

Number of PSUs granted	×	Target achievement cumulative EBIT (between 0 and 2)	+	Target achievement relative TSR (between 0 and 2)	=	Number of PSUs vested
Number of PSUs granted Grant values are defined based on the level of the role in the GGS framework: CEO: CHF 835000 Executive Committee: CHF 175000 to 300000		**Factor based on cumulative EBIT compared to midrange plan (MRP)** Cumulative EBIT in % of the MRP EBIT defined as cumulative three-year EBIT over the vesting period divided by cumulative MRP EBIT values of the respective years. Threshold (factor 0): below 60% of MRP Target (factor 1): 100% of MRP Cap (factor 2): 140% of MRP Possible adjustments: The Board of Directors can, at its sole discretion, adjust the cumulative EBIT in case of acquisitions exceeding CHF 100 million, exchange rate fluctuations with major currencies of more than +/–2%, and unforeseen IFRS changes.		**Factor based on relative TSR** Relative TSR is defined as share price growth (ending share price minus starting share price) plus dividends during the vesting period; then divided by the starting share price. The TSR is measured against the performance of the peer group based on the ranking method. Threshold (factor 0): 10^{th} percentile of peer group Target (factor 1): median of peer group Cap (factor 2): 90^{th} percentile of peer group Possible adjustments: The Board of Directors has the right to change the composition of the peer group in case of merger and 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 of Directors will select a new peer company.		**Number of PSUs vested** The maximum vesting value is capped at a multiple of the value at grant: CEO: 3.2 times Executive Committee: 3.8 to 4.4 times

In case of termination of employment, the following provisions apply:
- Resignation of the participant: unvested PSUs forfeit without any compensation
- Termination by the employer for cause: unvested PSUs forfeit
- Termination of employment as a result of retirement: unvested PSUs continue to vest on a prorated basis, multiplied with the achievement factor at the end of the vesting period
- Termination of employment as a result of disability: unvested PSUs continue to vest in full as if the employment had not been terminated
- Termination by the employer without cause or termination as a result of death: the participant or his or her beneficiaries shall be entitled to a monetary compensation reflecting the pro rata vesting of the unvested PSUs multiplied with the pro rata achievement factor. Calculation of the underlying share price to determine the pro rata relative TSR performance is based on the volume-weighted average share price of three months preceding the exit date or death of the participant. The pro rata cumulative EBIT calculation is based on the most accurate figures available at time of termination. The Board of Directors determines the final payment considering the above parameters
- Termination following change of control (double trigger): unvested PSUs converted into shares based on the pro rata achievement as defined above (termination without cause/death)

Further information on share-based compensation can be found in the financial statements of Sulzer Ltd under note 110 (page 155).

Discontinued restricted stock unit plan (variable, fixed grant value, share-based remuneration)
The restricted stock unit plan (RSU plan) that was in place as long-term incentive for members of the Executive Committee since 2009 was discontinued with the introduction of the new Performance Share Plan in 2013 (PSP 2013). However, restricted stock units may still be granted to newly hired Executive Committee members to compensate for deferred awards forfeited at their previous employer as a result of joining Sulzer.

Benefits
Members of the Executive Committee participate in the regular employee pension fund applicable to all employees in Switzerland. The retirement plan consists of a basic plan covering annual earnings up to CHF 146 000 per annum and a supplementary plan in which income in excess of this limit, up to the ceiling set by law, is insured (including variable cash remuneration). The contributions are based on age 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 applicable to all members of management in Switzerland and approved by the tax authorities.

Contracts of employment
The employment contracts of the Executive Committee have been adjusted in order to comply with the provisions of the Compensation Ordinance. They are of undetermined duration and have a notice period of maximum 12 months. Members of the Executive Committee are not entitled to any impermissibles severance or change of control payments.

3 Compensation of the Board of Directors and the Executive Committee

Compensation of the Board of Directors

In 2014, the Board of Directors received a total compensation of TCHF 1 993 (2013: TCHF 1 879). Of this total, TCHF 979 was in cash (2013: TCHF 957); TCHF 905 was in restricted share units (2013: TCHF 778); and TCHF 109 was social security contributions (2013: TCHF 140).

This is an increase of 6% compared to the previous year, due to the adjustment of the compensation levels decided in 2014 and, at the same time, the changes in the disclosure requirements. The portion of compensation delivered in RSU amounts to 76% of the cash compensation for the Chairman, and to between 78% and 165% for the other members of the Board of Directors. The RSU are subject to a staged three-year vesting period.

Compensation of the Board of Directors (audited)

	2014					2013				
thousands of CHF	Cash fees	Restricted stock unit (RSU) plan[8]	Social contributions[9]	Other	Total	Cash fees	Restricted stock unit (RSU) plan[10]	Social contributions	Other	Total
Board of Directors	979	905	109	–	1 993	957	778	140	4	1879
Peter Löscher, Chairman[1]	329	250	–	–	579	–	–	–	–	–
Matthias Bichsel[2]	76	125	3	–	204	–	–	–	–	–
Thomas Glanzmann[3]	135	125	27	–	287	109	111	10	–	230
Jill Lee	99	125	22	–	246	96	111	13	–	220
Marco Musetti	118	125	25	–	268	90	111	12	–	213
Luciano Respini, Vice Chairman	200	155	29	–	384	105	111	14	–	230
Klaus Sturany[4]	–	–	–	–	–	30	–	10	–	40
Manfred Wennemer[5]	–	–	–	–	–	321	223	–	–	544
Vladimir V. Kuznetsov[6]	22	–	3	–	25	100	111	33	–	244
Jürgen Dormann[7]	–	–	–	–	–	106	–	48	4	158

1) Chairman and Chairman of the Strategy Committee since March 20, 2014.
2) Member of the Board of Directors since March 20, 2014.
3) Chairman of the Nomination and Remuneration Committee since March 20, 2014.
4) Chairman of the Audit Committee.
5) Chairman from March 27 until December 31, 2013.
6) Vice Chairman in 2013 and Chairman ad interim from January 1 until March 20, 2014.
7) Chairman until March 27, 2013.
8) RSU awards assigned during the reporting period had a fair value of CHF 122.00 at grant date. The shares represent the full fair value of grants made in 2014. In the 2013 Compensation Report, the market value calculated included an 11% discount according to the tax procedure regarding reduction due to the limited availability at the grant date.
9) The amount included covers mandatory social security contributions made (or expected to be made) with respect to cash fees and RSU (based on the respective fair value).
10) In the 2013 Compensation Report, the fair value includes an 11% discount according to the tax procedure regarding reduction due to the limited availability at the grant date. The full fair value of grants made in 2013 amounts to CHF 875 thousand.

As of December 31, 2013 and 2014, there were no outstanding loans or credits granted to the members of the Board of Directors.

In 2013 and 2014, no compensation was granted to former members of the Board of Directors or related parties.

Compensation of the Executive Committee

Performance in 2014

Overall, the financial results were below the target value with an achievement between 59% and 98%, whereas the individual objectives scored clearly above the targets.

Performance 2014

Objectives	Assessment relative to plan		
	Threshold	Target	Cap
Operating income (EBIT)		■	
Order intake		■	
Operating net cash flow (ONCF)		■	
Individual objectives			■

This performance translates into a payout factor in the bonus plan of 96% for the CEO and of 97% for the other members of the Executive Committee.

In 2014, there was no vesting in the PSP; the grant under the PSP 2010 had vested in 2013, and the first grant under the PSP 2013 will vest in 2016.

Compensation awarded to the Executive Committee in 2014

In 2014, the Executive Committee received a total compensation of TCHF 12 437 (2013: TCHF 13 148). Of this total, TCHF 5 891 was in cash (2013: TCHF 6 176); TCHF 2 834 was in performance share units (2013: TCHF 3 639); TCHF 1 809 was in pension and social security contributions (2013: TCHF 2 626); and TCHF 103 was in other payments (2013: TCHF 212). This is a decrease of 5% compared to the previous year.

Compensation of the Executive Committee (audited)

thousands of CHF	2014 Base salary	Bonus[2]	Other	Restricted stock unit (RSU) plan[3]	Performance share plan (PSP) 2014[4]	Pension and social security contributions[5]	Total	2013 Base salary	Bonus[2]	Other	Restricted stock unit (RSU) plan[6]	Performance share plan (PSP) 2013[7]	Pension and social security contributions	Total
Highest single compensation, Klaus Stahlmann, CEO	824	810	2	–	1291	367	3294	820	637	2	–	1495	276	3230
Total Executive Committee[1]	3139	2752	103	1800	2834	1809	12437	3878	2298	212	495	3639	2626	13148

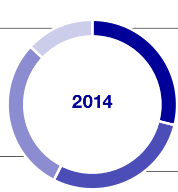
[1] Members of the Executive Committee:
- Klaus Stahlmann, CEO
- Peter Alexander, Division President Rotating Equipment Services
- Oliver Bailer, Division President Chemtech
- Jürgen Brandt, CFO until August 1, 2014
- Thomas Dittrich, CFO since August 2, 2014
- César Montenegro, Division President Pumps Equipment since June 3, 2014 and Division President Sulzer Metco until June 2, 2014
- Scot Smith, Division President Pumps Equipment until April 25, 2014.

[2] Expected bonus for performance year 2014, resp. 2013.
[3] Replacement awards to compensate for forfeited remuneration at previous employer as a result of joining Sulzer. The shares represent the full fair value of grants made in 2014. In the 2013 Compensation Report, the market value calculated included an 11% discount according to the tax procedure regarding reduction due to the limited availability at the grant date.
[4] Represents the full fair value of the granted performance share units of the PSP 2014.
[5] Includes the employer contribution to the social security institutions of the fair value of all grants made in 2014 (RSU and PSP).
[6] In the 2013 Compensation Report, the fair value includes an 11% discount according to the tax procedure regarding reduction due to the limited availability at the grant date. The full fair value of grants made in 2013 amounts to TCHF 556.
[7] In the 2013 Compensation Report, only one-third of the fair value of the granted performance share units of the PSP 2013 was disclosed. The full fair value of the PSP 2013 awards amount to CHF 10.9 million.

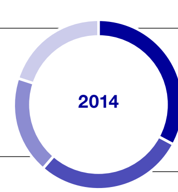
In 2014, the variable compensation of the CEO represented 176% of the fixed component (base salary, pension, and social security contributions). For the entire Executive Committee, the variable component represented 146% of the fixed component. The relationship between the fixed and the variable components of compensation reflects Sulzer's high performance orientation and the company's strong emphasis on aligning the interests of the Executive Committee with the shareholders to create long-term shareholder value and profitable growth.

Compensation overview

CEO



Executive Committee



No severance payments to members of the Executive Committee were made during the reporting year. As of December 31, 2013 and 2014, there were no outstanding loans or credits between the company and the members of the Executive Committee.

In 2013 and 2014, no compensation was granted to former members of the Executive Committee or related parties.

4 Shareholdings of the Board of Directors and the Executive Committee

Shareholdings of the Board of Directors

As of the end of 2013 and 2014, the members of the Board of Directors held the following shares in the company:

Shareholders 2014

	Sulzer shares	Restricted stock units (RSU) (NF)	Other call options	Total call options, share awards, and shares	Put options	Blocked Sulzer shares out of PSP 2010	Performance share units (PSUs) 2013	Performance share units (PSUs) 2014
Board of Directors	45563	11051	–	56614	–	–	–	–
Peter Löscher	26000	2052	–	28052	–	–	–	–
Matthias Bichsel	–	1026	–	1026	–	–	–	–
Thomas Glanzmann	3700	1851	–	5551	–	–	–	–
Jill Lee	2179	1851	–	4030	–	–	–	–
Marco Musetti	1776	1851	–	3627	–	–	–	–
Luciano Respini	8027	2097	–	10124	–	–	–	–
Klaus Sturany	3881	323	–	4204	–	–	–	–

Shareholders 2013

	Sulzer shares	Restricted stock units (RSU) (NF)	Other call options	Total call options, share awards, and shares	Put options	Blocked Sulzer shares out of PSP 2010	Performance share units (PSUs) 2013
Board of Directors	54878	10609	–	65487	–	–	–
Manfred Wennemer	–	1503	–	1503	–	–	–
Thomas Glanzmann	2723	1399	–	4122	–	–	–
Vladimir V. Kuznetsov	40315	1692	–	42007	–	–	–
Jill Lee	909	1692	–	2601	–	–	–
Marco Musetti	909	1692	–	2601	–	–	–
Luciano Respini	6757	1692	–	8449	–	–	–
Klaus Sturany	3265	939	–	4204	–	–	–

Shareholdings of the Executive Committee

As of the end of 2013 and 2014, the members of the Executive Committee held the following shares in the company:

Shareholders 2014

	Sulzer shares	Restricted stock units (RSU) (NF)	Other call options	Total call options, share awards, and shares	Put options	Blocked Sulzer shares out of PSP 2010	Performance share units (PSUs) 2013	Performance share units (PSUs) 2014
Executive Committee	22344	17903	–	40247	–	7422	20741	13651
Klaus Stahlmann	5400	–	–	5400	–	–	15881	6439
Peter Alexander	6649	568	–	7217	–	3711	4860	1967
Oliver Bailer	852	682	–	1534	–	–	–	1967
Thomas Dittrich	1500	14763	–	16263	–	–	–	964
César Montenegro	7943	1890	–	9833	–	3711	–	2314

Shareholders 2013

	Sulzer shares	Restricted stock units (RSU) (NF)	Other call options	Total call options, share awards, and shares	Put options	Blocked Sulzer shares out of PSP 2010	Performance share units (PSUs) 2013
Executive Committee	2183	8268	–	10451	–	24739	32175
Klaus Stahlmann	–	–	–	–	–	–	15881
Peter Alexander	–	1651	–	1651	–	9277	4860
Oliver Bailer	202	1332	–	1534	–	–	–
Jürgen Brandt	98	1651	–	1749	–	6185	5717
César Montenegro	1883	3634	–	5517	–	9277	–
Scot Smith	–	–	–	–	–	–	5717

KPMG

Report of the Statutory Auditor to the General Meeting of Sulzer Ltd, Winterthur

We have audited the accompanying compensation report dated February 10, 2015 of Sulzer Ltd for the year ended December 31, 2014. 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 referred to as audited on pages 75 to 77 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 accompanying 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 dated February 10, 2015 of Sulzer Ltd complies with Swiss law and articles 14–16 of the Ordinance.

KPMG AG

Zurich, February 10, 2015

François Rouiller
Licensed Audit Expert
Auditor in Charge

Roman Wenk
Licensed Audit Expert

Consolidated Financial Statements

Notes to the Consolidated Financial Statements

Consolidated balance sheet

December 31

millions of CHF	Notes	2014	2013
Non-current assets			
Goodwill	14	675.1	978.4
Other intangible assets	14	317.4	303.8
Property, plant, and equipment	15	530.7	492.0
Investment in associates	16	2.5	–
Other financial assets	17	11.9	11.1
Non-current receivables		11.3	13.8
Deferred income tax assets	13	126.8	92.4
Total non-current assets		**1675.7**	**1891.5**
Current assets			
Inventories	18	487.5	436.5
Advance payments to suppliers		79.0	87.4
Trade accounts receivable	20	955.9	877.5
Other accounts receivable and prepaid expenses	21	148.6	153.4
Assets held for sale	05	–	568.9
Marketable securities	23	106.8	–
Cash and cash equivalents	22	1194.7	528.7
Total current assets		**2972.5**	**2652.4**
Total assets		**4648.2**	**4543.9**
Equity			
Share capital	25	0.3	0.3
Reserves		2435.1	2334.1
Equity attributable to shareholders of Sulzer Ltd		**2435.4**	**2334.4**
Non-controlling interest		6.6	6.3
Total equity		**2442.0**	**2340.7**
Non-current liabilities			
Long-term borrowings	27	510.3	515.9
Deferred income tax liabilities	13	93.7	101.5
Non-current income tax liabilities	13	2.6	3.8
Non-current provisions	28	352.2	202.2
Other non-current liabilities		30.9	1.9
Total non-current liabilities		**989.7**	**825.3**
Current liabilities			
Short-term borrowings	27	17.7	56.6
Current income tax liabilities	13	32.4	26.8
Current provisions	28	147.7	127.0
Trade accounts payable		383.6	345.6
Advance payments from customers		210.9	271.9
Liabilities held for sale	05	–	157.7
Other current and accrued liabilities	29	424.2	392.3
Total current liabilities		**1216.5**	**1377.9**
Total liabilities		**2206.2**	**2203.2**
Total equity and liabilities		**4648.2**	**4543.9**

Consolidated income statement
January–December

Consolidated income statement

millions of CHF	Notes		2014		2013
Continuing operations					
Sales	07		3 212.1		3 263.9
Cost of goods sold			–2 202.2		–2 260.9
Gross profit			**1 009.9**		**1 003.0**
— Selling and distribution expenses		–334.3		–334.8	
— Impairment on goodwill		–340.0		–	
Total selling and distribution expenses		–674.3	–674.3	–334.8	–334.8
General and administrative expenses			–331.0		–342.4
Research and development expenses	10		–76.2		–70.6
Other operating income/expenses	11		13.8		25.6
Restructuring expenses	28		–11.2		–16.8
Operating income			**–69.0**		**264.0**
Interest and securities income	12		6.8		5.0
Interest expenses	12		–21.2		–23.2
Other financial income/(expenses)	12		–2.3		–3.6
Share of profit/(loss) of associates	16		–		–
Income before income tax expenses			**–85.7**		**242.2**
Income tax expenses	13		–71.9		–65.9
Net income from continuing operations			**–157.6**		**176.3**
Discontinued operations					
Net income from discontinued operations, net of income taxes	05		435.7		59.9
Net income			**278.1**		**236.2**
Attributable to shareholders of Sulzer Ltd			275.0		234.4
Attributable to non-controlling interests			3.1		1.8
Earnings per share, attributable to a shareholder of Sulzer Ltd (in CHF)					
Basic earnings per share	26		8.09		6.89
Diluted earnings per share	26		8.05		6.86
Continuing operations					
Basic earnings per share continuing operations	26		–4.72		5.13
Diluted earnings per share continuing operations	26		–4.70		5.11
Discontinued operations					
Basic earnings per share discontinued operations	26		12.81		1.76
Diluted earnings per share discontinued operations	26		12.75		1.75

Reconciliation of operating income to operating income before restructuring expenses and impairment on goodwill

	2014	2013
Operating income	–69.0	264.0
Restructuring expenses	11.2	16.8
Impairment on goodwill	340.0	–
Operating income before restructuring expenses and impairment on goodwill	**282.2**	**280.8**

Consolidated statement of comprehensive income
January–December

Consolidated statement of comprehensive income

millions of CHF	Notes	2014	2013
Net income		**278.1**	**236.2**
Items that may be reclassified subsequently to the income statement			
Cash flow hedges, net of tax	30	–8.0	–2.2
Reclassification to the income statement of foreign currency translation difference relating to the disposal of Metco		59.1	–
Currency translation differences		17.6	–67.6
Total of items that may be reclassified subsequently to the income statement		**68.7**	**–69.8**
Items that will not be reclassified to the income statement			
Defined benefit cost recognized in other comprehensive income, net of tax	09	–137.9	36.7
Total of items that will not be reclassified to the income statement		**–137.9**	**36.7**
Total other comprehensive income		**–69.2**	**–33.1**
Total comprehensive income for the year		**208.9**	**203.1**
Attributable to shareholders of Sulzer Ltd		205.4	202.0
Attributable to non-controlling interests		3.5	1.1

Consolidated statement of changes in equity
January–December

		Attributable to shareholders of Sulzer Ltd							
millions of CHF	Notes	Share capital	Retained earnings	Treasury stock	Cash flow hedge reserve	Currency translation adjustment	Total	Non-controlling interests	Total equity
Equity as of January 1, 2013		**0.3**	**2521.8**	**–44.5**	**4.5**	**–265.5**	**2216.6**	**6.8**	**2223.4**
Comprehensive income for the year:									
Net income			234.4				234.4	1.8	236.2
— Cash flow hedges, net of tax	30				–2.2		–2.2		–2.2
— Defined benefit cost recognized in other comprehensive income, net of tax	09		36.7				36.7		36.7
— Currency translation differences						–66.9	–66.9	–0.7	–67.6
Other comprehensive income			**36.7**		**–2.2**	**–66.9**	**–32.4**	**–0.7**	**–33.1**
Total comprehensive income for the year		**–**	**271.1**	**–**	**–2.2**	**–66.9**	**202.0**	**1.1**	**203.1**
Transactions with owners of the Company:									
Transactions in treasury shares			–1.6	17.6			16.0		16.0
Share-based payments	34		9.4				9.4		9.4
Dividend			–109.6				–109.6	–2.2	–111.8
Change in scope of consolidation							–	0.6	0.6
Equity as of December 31, 2013	25	**0.3**	**2691.1**	**–26.9**	**2.3**	**–332.4**	**2334.4**	**6.3**	**2340.7**
Comprehensive income for the year:									
Net income			275.0				275.0	3.1	278.1
— Cash flow hedges, net of tax	30				–8.0		–8.0		–8.0
— Defined benefit cost recognized in other comprehensive income, net of tax	09		–137.9				–137.9		–137.9
— Currency translation differences						76.3	76.3	0.4	76.7
Other comprehensive income			**–137.9**		**–8.0**	**76.3**	**–69.6**	**0.4**	**–69.2**
Total comprehensive income for the year		**–**	**137.1**	**–**	**–8.0**	**76.3**	**205.4**	**3.5**	**208.9**
Transactions with owners of the Company:							–	–	–
Transactions in treasury shares			–6.3	3.5			–2.8		–2.8
Share-based payments	34		8.0				8.0		8.0
Dividend			–109.6				–109.6	–2.6	–112.2
Change in scope of consolidation							–	–0.6	–0.6
Equity as of December 31, 2014	25	**0.3**	**2720.3**	**–23.4**	**–5.7**	**–256.1**	**2435.4**	**6.6**	**2442.0**

Consolidated statement of cash flows
January–December

Consolidated statement of cash flows

millions of CHF	Notes	2014	2013
Cash and cash equivalents as of January 1		**549.9**	**507.3**
Cash flow from operating activities			
Net income		278.1	236.2
Interest and securities income		–6.9	–5.2
Interest expenses		21.6	24.6
Income tax expenses		81.0	86.3
Depreciation/amortization/impairment		463.2	134.5
Income from disposals of subsidiaries; property, plant, and equipment; and financial instruments		–423.5	–2.6
Changes in inventories		–45.2	52.0
Changes in advance payments to suppliers		10.5	–14.4
Changes in trade accounts receivable		–46.3	–4.9
Changes in advance payments from customers		–65.1	2.3
Changes in trade accounts payable		20.0	–23.0
Changes in provisions		–7.7	–18.4
Changes in other net current assets		6.4	–24.1
Other non-cash items		3.6	8.2
Interest received		6.7	4.8
Interest paid		–16.5	–17.5
Income tax paid		–98.7	–118.7
Total cash flow from operating activities		**181.2**	**320.1**
Purchase of intangible assets	14	–5.6	–4.8
Sale of intangible assets		–	0.2
Purchase of property, plant, and equipment	15	–99.0	–102.8
Sale of property, plant, and equipment		21.4	6.0
Acquisitions of subsidiaries, net of cash acquired	05	–73.0	–23.8
Acquisitions of associates		–2.3	–2.9
Divestitures of subsidiaries	05	870.4	6.1
Purchase of financial assets		–0.1	0.1
Sale of financial assets		0.1	–
Purchase of marketable securities		–106.6	–1.0
Sale of marketable securities		–	2.7
Total cash flow from investing activities		**605.3**	**–120.2**
Dividend		–108.9	–108.7
Purchase/sale of treasury stock		–3.6	–4.1
Dividend to non-controlling interests		–2.6	–2.2
Additions in long-term borrowings		2.1	8.8
Repayment of long-term borrowings		–1.9	–3.6
Additions in short-term borrowings		6.3	2.9
Repayment of short-term borrowings		–52.8	–29.8
Total cash flow from financing activities		**–161.4**	**–136.7**
Exchange gains/losses on cash and cash equivalents		19.7	–20.6
Net change in cash and cash equivalents		**644.8**	**42.6**
Cash and cash equivalents as of December 31	22	**1 194.7**	**549.9**
— thereof classified as assets held for sale	05	–	21.2

Notes to the Consolidated Financial Statements

1 General information

Sulzer Ltd (the "company") is a company domiciled in Switzerland. The address of the company's registered office is Neuwiesenstrasse 15 in Winterthur, Switzerland. The consolidated financial statements as at and for the year ended December 31, 2014, comprise the company and its subsidiaries (together referred to as the "group" and individually as the "subsidiaries") and the group's interest in associates and joint ventures. The group specializes in pumping solutions, rotating equipment maintenance and services as well as separation, reaction, and mixing technology. Sulzer was founded in 1834 in Winterthur, Switzerland, and employs over 15 000 people. The company serves clients in over 150 production and service sites worldwide. Sulzer Ltd is listed on the SIX Swiss Exchange in Zurich, Switzerland (symbol: SUN).

These consolidated financial statements were authorized for issue by the Board of Directors on February 10, 2015.

2 Key accounting policies and valuation methods

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) using the historical cost convention except for the following:
- financial instruments at fair value through profit or loss which are measured at fair value (incl. derivative financial instruments),
- available-for-sale financial instruments,
- liabilities for cash-settled share-based payments, 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 2.18 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 4 "Critical accounting estimates and judgments."

2.2 Change in accounting policies

a) Standards, amendments, and interpretations to published standards effective in 2014

Sulzer has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of January 01, 2014:
- IFRIC 21 'Levies,' addresses the accounting for a liability to pay a levy if that liability is within the scope of IAS 37. The change did not have any effect on the scope of consolidation.
- Amendment to IAS 32: 'Offsetting Financial Assets and Financial Liabilities'. The amendment clarifies the offsetting criteria, especially for transactions through clearing houses. The change did not have any effect on the consolidated financial statement of the group.
- Amendments to IAS 39 'Novation of Derivatives and Continuation of Hedge Accounting". The amendment clarifies that hedge accounting could continue under certain defined circumstances in relation to novations. The change did not have an impact on the financial position of the group.

b) Standards, amendments, and interpretations issued but not yet effective which the group has decided not to early adopt in 2014

- IFRS 9 'Financial instruments', published in July 2014, replaces the existing guidance in IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after January 01, 2018. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9.
- IFRS 15 'Revenue from Contracts with Customers' establishes a comprehensive framework for determining whether, how much, and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 'Revenue', IAS 11 'Construction Contracts', and IFRIC 13 'Customer Loyalty Programs'. IFRS 15 is effective for annual reporting periods beginning on or after January 01, 2017. Sulzer has started a project and is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15.

The following new or amended standards are not expected to have a significant impact on the Group's consolidated financial statements:

- Amendment to IAS 19 'Employee Contributions'. The amendment clarifies how an entity should account for contributions made by employees or third parties to defined benefit plans, based on whether those contributions are dependent on the number of years of service provided by the employee. The changes are applicable for the financial year 2015 of the group.
- Amendments deriving from the annual improvement program 2010–2012 and 2011–2013 addressing specific aspects in various standards. The changes are applicable for the financial year 2015 of the group.
- Amendments to IAS 16 and IAS 41 'Agriculture: Bearer Plants'. These amendments require a bearer plant, defined as a living plant, to be accounted for as property, plant, and equipment and included in the scope of IAS 16 Property, Plant, and Equipment, instead of IAS 41 Agriculture. The Group does not have any bearer plants. Effective date: January 01, 2016.
- Amendments to IFRS 11 'Accounting for Acquisitions in Interests in Joint Operations' The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business. Effective date: January 01, 2016.
- Amendments to IAS 16 and IAS 38 'Clarification of Acceptable Methods of Depreciation and Amortization' These amendments relate to revenue-based amortization methods for assets and impose restrictions on the use of such methods for depreciation of assets. The Group does not use revenue-based amortizations. Effective date: January 01, 2016.
- Amendments to IFRS 10 and IAS 28 'Sale or Contribution of Assets between an Investor and Its Associate or Joint Venture'. The amendments require the full gain to be recognized when the assets transferred meet the definition of a 'business' under IFRS 3 'Business Combination'. Effective date: January 01, 2016.
- Amendments deriving from the annual improvement program 2012–2014. The amendments refer to specific aspects of IFRS 5 'Non-Current Assets Held for Sale and Discontinued Operations', IFRS 7 'Financial Instruments: Disclosures', and IAS 19 'Employee Benefit'. Effective date: January 01, 2016.

2.3 Consolidation

a) Business combinations

The group accounts for business combinations using the acquisition method when control is transferred to the group (see 2.3 c). 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 2.6 a). Any gain on a bargain purchase is recognized in profit or loss 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 profit or loss.

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) 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 profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

c) 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.

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.

f) Discontinued operation

A discontinued operation is a component of the group's business, the operations and cash flows of which can be clearly distinguished from the rest of the group and which:
— represents a major line of business;
— is part of a single coordinated plan to dispose of a separate major line of business; or
— is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale. When an operation is classified as discontinued operation, the comparative statement of profit or loss is represented as if the operation had been discontinued from the start of the comparative year. All disclosures in the notes to the consolidated financial statements refer to continuing operations, except where otherwise indicated.

2.4 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. The reported segments are:

- 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.

Operating assets and liabilities are assets or liabilities related to the operating activities of an entity and contributing to the operating income once transferred or recorded in the income statement. Capital employed is defined to be the average net operating assets of the group over the period.

2.5 Foreign currency translation

a) Functional and presentation currency

Items included in the financial statements of affiliated companies 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), which is the functional and presentation currency of Sulzer Ltd.

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, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

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

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

c) Subsidiaries

The results and financial position 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 affiliated companies, 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.

2.6 Intangible assets

An intangible asset is classified either as an asset with indefinite useful life when timely limitation of generating net cash inflows is not foreseeable, or as an asset with a finite useful life.

Intangible assets with an indefinite useful life are not to be amortized. The group performs an annual review determining whether events and circumstances still support this measurement. Reassessing the useful life indicates that an asset might be impaired. 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 originating from the acquisition of an associated company is included in the book value of the participation in associated companies. 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.

Goodwill is allocated to the lowest cash-generating unit. The allocation is made 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.

b) Trademarks and licenses

Trademarks, licenses, and similar rights acquired from third parties. 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 profit or loss 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 profit or loss 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.

2.7 Property, plant, and equipment

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

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

The useful lives are as follows:

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

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

2.8 Impairment of property, plant and equipment and intangible assets

Assets with an indefinite useful life are not amortized, but tested annually for impairment. 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).

2.9 Financial assets

Financial assets, including marketable securities, are classified into the following four categories: "financial assets at fair value through profit or loss," "available-for-sale financial assets," "loans and receivables," and "held-to-maturity financial assets." Classification depends on the purpose for which the financial assets were acquired. Management determines the classification of assets at the date of purchase and reviews it on every accounting date. The fair value of financial instruments is either taken from an actively traded market or, in the case of non-traded financial instruments, from a valuation using standard formula-based methods. The marketable securities held by the group belong either to the first or the second level.

a) Financial assets at fair value through profit or loss

Assets in this category are capitalized at fair value and subsequently adjusted to fair values, with any adjustments charged or credited to financial income. Derivative financial instruments are recorded at fair value (cost at the time of acquisition) and subsequently adjusted to fair values. Financial assets designated at fair value from inception are those that are managed and their performance is evaluated on a fair value basis, in accordance with a documented investment strategy. With the exception of derivative financial instruments that meet the requirements of a "cash flow hedge" or a "net investment hedge," all adjustments are charged or credited to financial income. Derivative financial assets are classified as current assets or in case maturity is later than twelve months from the balance sheet date as non-current assets.

b) Available-for-sale financial assets

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

c) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in the current assets, unless the maturity is greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the balance sheet.

d) Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable payment terms and fixed maturities are classified as held-to-maturity when there is the positive intention and ability to hold to maturity. After initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method.

Purchases and disposals of financial assets are recognized on the trade date. The group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the income statement. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity financial assets are carried at amortized cost using the effective interest method. Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss are presented in the income statement line “Other financial income” in the period they arise. Dividend income from financial assets at fair value through profit or loss is recognized in the income statement as part of financial income. Financial assets are derecognized when the right to receive cash flows from the investments has expired or has been transferred and the group has transferred all substantial risks and rewards of ownership.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analyzed between translation differences resulting from changes in amortized cost and other changes in the carrying amount. The translation differences on monetary items are recorded in the income statement, the translation differences on non-monetary items are recorded in equity. Changes in the fair value of financial assets classified as available-for-sale are recorded in equity. When these assets are sold or impaired, the accumulated fair value adjustments recorded in equity are recycled and booked to the financial income.

2.10 Derivative financial instruments and hedging activities

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

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

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

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

2.11 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.

2.12 Trade receivables

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

2.13 Cash and cash equivalents

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

2.14 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.

2.15 Trade payables

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

2.16 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.

2.17 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.

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.

2.18 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 for all material plans by a qualified actuary using the projected unit credit method. Smaller plans are rolled forward and recalculated on a three-year basis. 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 profit or loss.

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 profit or loss. 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. Such early retirements are part of the scope of IAS 19 and therefore need to be valued as part of the employee benefit obligation. 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 28).

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.”

d) Share-based compensation

Sulzer operates equity-settled and cash-settled share-based compensation plans. For the equity-settled share-based compensation plan, the fair value of the employee service received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (e.g. profitability and sales growth targets). At each balance sheet date, the entity reassesses its estimates of the number of options that are expected to be exercised. It recognizes the impact of the reassessment of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the options is exercised. For cash-settled share-based payments, a liability equal to the proportion of the goods or service received is recognized at the current fair value determined at each balance sheet date.

2.19 Provisions

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

2.20 Revenue recognition

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

a) Sale of goods/products

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

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

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

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

b) Rendering of services

The rendering of services involves an entity performing an agreed task for a customer. This service may involve asset maintenance; professional services; and the construction, development, or customization of assets. Service contracts may be single-element contracts, in which the entity renders one type of service, or multiple-element contracts that provide for the delivery of more than one service, or may include the delivery of goods as well as services. Services are often performed within the reporting period. The percentage of completion basis is applicable to such services, but the stage of completion increases from 0% to 100% within one accounting period.

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

Revenue from rendering of services is recognized by reference to the stage of completion of the transaction when the following conditions are cumulatively met:
— the amount of revenue can be measured reliably,
— the flow of economic benefits to the entity is probable,
— the state of completion at the period end can be measured reliably, and
— the cost incurred to date and the cost to completion can be measured reliably.

c) Percentage of completion method

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

d) Other revenue

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

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

2.21 Assets and disposal groups held for sale

A non-current asset or a group of assets is classified as “held for sale” (IFRS 5) 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.

2.22 Dividend distribution

Dividend distribution to the shareholders of Sulzer Ltd is resolved upon decision of the general assembly and will be paid in the same reporting period.

3 Financial risk management

3.1 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 affiliated companies. Principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity exist in writing.

a) Market risk

(I) Foreign exchange risk

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

For segment reporting purposes, each affiliated company designates their contracts with Group Treasury as fair value hedges or cash flow hedges, as appropriate. 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 ad-hoc basis to manage foreign currency translation risk.

The following tables show the hypothetical influence on the income statement for 2014 and 2013 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 2014, the only currency pairs with significant exposure and inherent risk were the EUR versus the RUB as well as the USD versus the SEK. If, on December 31, 2014, the EUR had increased by 28.1% against the RUB with all other variables held constant, profit after tax for the year would have been CHF 1.2 million higher mainly due to foreign exchange gains on EUR-denominated financial assets. A decrease of the rate would have caused a loss of the same amount.

With regard to the EUR versus the CHF (and also the USD versus the CHF), exposures were comparatively small and the volatility low as per December 31, 2014 (and throughout 2014) due to the CHF-cap enforced by the Swiss National Bank.

Hypothetical impact of foreign exchange risk on income statement

millions of CHF				2014
Currency pair	EUR/ RUB	USD/ SEK	USD/ CHF	EUR/ CHF
Exposure	6.1	8.9	3.3	3.8
Volatility	28.1%	8.3%	6.7%	1.9%
Effect on profit after tax (rate increase)	1.2	0.5	0.2	0.1
Effect on profit after tax (rate decrease)	−1.2	−0.5	−0.2	−0.1

millions of CHF		2013
Currency pair	USD/ MXN	USD/ BRL
Exposure	4.1	−2.5
Volatility	10.9%	13.1%
Effect on profit after tax (rate increase)	0.3	−0.2
Effect on profit after tax (rate decrease)	−0.3	0.2

The following tables show the hypothetical influence on equity for 2014 and 2013 related to foreign exchange risk of financial instruments for the most important currency pairs as at December 31 of the respective year. The volatility used for the calculation is the one-year historic volatility on December 31 for the relevant currency pair and year. Most of the hypothetical effect on equity is a result of fair value changes of derivative financial instruments designated as hedges of future cash flows in foreign currencies.

Hypothetical impact of foreign exchange risk on equity

millions of CHF							2014
Currency pair	USD/ BRL	GBP/ USD	USD/ MXN	EUR/ USD	USD/ CHF	USD/ INR	EUR/ CHF
Exposure	−27.1	61.3	−44.0	26.6	−22.8	−17.9	−35.8
Volatility	13.6%	5.6%	7.3%	6.2%	6.7%	6.0%	1.9%
Effect on equity, net of taxes (rate increase)	−2.7	2.5	−2.3	1.2	−1.1	−0.8	−0.5
Effect on equity, net of taxes (rate decrease)	2.7	−2.5	2.3	−1.2	1.1	0.8	0.5

millions of CHF							2013
Currency pair	GBP/ USD	USD/ BRL	USD/ MXN	EUR/ CHF	EUR/ INR	USD/ CHF	EUR/ USD
Exposure	69.3	−32.6	−31.4	−37.1	−11.6	−15.6	6.9
Volatility	7.6%	13.1%	10.9%	4.5%	13.2%	8.6%	7.4%
Effect on equity, net of taxes (rate increase)	3.9	−3.1	−2.5	−1.2	−1.1	−1.0	0.4
Effect on equity, net of taxes (rate decrease)	−3.9	3.1	2.5	1.2	1.1	1.0	−0.4

(II) Price risk

As per December 31, 2014, the group was not exposed to price risk related to investments in equity securities either classified as “available-for-sale” or at “fair value through profit or loss.”

(III) Interest rate sensitivity

The group's interest rate risk arises from interest-bearing assets and liabilities. Assets and liabilities at variable rates expose the group to cash flow interest rate risk. Assets and liabilities at fixed rates expose the group to fair value interest rate risk. The group analyzes its interest rate exposure on a net basis, and if required enters into derivative instruments in order to keep the volatility of net interest income or expense limited. Currently the group has not entered into such derivative financial instruments related to interest rate risk management.

The 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, CNY, GBP, and SGD, increasing interest rates would have a positive impact on the income statement, since the value of variable-interest-bearing assets (comprising mainly cash and cash equivalents) would exceed the value of variable interest-bearing liabilities.

Hypothetical impact of interest rate risk on income statement

millions of CHF				**2014**
			Impact on post-tax profit	
Variable interest-bearing assets (net)	Amount	Sensitivity in basis points	rate increase	rate decrease
CHF	926.3	100	6.7	−6.7
USD	145.4	100	1.1	−1.1
CNY	75.5	100	0.5	−0.5
GBP	34.6	100	0.3	−0.3
SGD	32.3	100	0.2	−0.2

millions of CHF				2013
			Impact on post-tax profit	
Variable interest-bearing assets (net)	Amount	Sensitivity in basis points	rate increase	rate decrease
CHF	215.0	100	1.6	–
USD	98.2	100	0.7	−0.1
CNY	43.2	100	0.3	−0.1
BRL	43.0	100	0.3	−0.3
INR	14.3	100	0.1	−0.1

On December 31, 2014, if the interest rates on CHF-denominated assets net of liabilities had been 100 basis points higher throughout 2014 with all other variables held constant, post-tax profit for the year would have been CHF 6.7 million higher (2013: CHF 1.6 million higher), mainly as a result of higher interest income on cash and cash equivalents. A decrease of interest rates on CHF-denominated assets net of liabilities would have caused a loss of the same amount (and for 2013 the impact would have been zero).

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 wholesale and retail customers, including outstanding receivables and committed transactions. The maximum exposure to credit risk per class of financial assets is outlined in the fair value table in note 3.3. 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 wholesale customer with a large order volume, an individual risk assessment to credit the quality of the customer is performed that considers independent ratings, financial position, past experience, and other factors. Additionally, bank guarantees and letters of credit are requested. For more details on the credit risk out of trade accounts receivable, please refer to note 20.

c) Liquidity risk

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

Management anticipates the future development of the Group's liquidity reserve on the basis of expected cash flows by performing regular Group-wide cash forecasts. In 2012, a syndicated credit line of CHF 500 million with a maturity date of 2017 was established to furthermore provide financial flexibility in the short run. If special needs arise, financing will be reviewed case by case.

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

Maturity profile of financial liabilities

millions of CHF					2014
	< 1 year	1–2 years	3–5 years	> 5 years	Total
Borrowings	31.3	510.9	6.2	0.3	548.7
Trade accounts payable	383.6	–	–	–	383.6
Other liabilities	86.8	14.0	15.4	1.5	117.7

millions of CHF					2013
	< 1 year	1–2 years	3–5 years	> 5 years	Total
Borrowings	70.7	29.5	507.3	1.0	608.5
Trade accounts payable	345.6	–	–	–	345.6
Other liabilities	66.6	0.3	0.3	1.3	68.5

The following table analyzes the group's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows calculated with the year-end closing rates. With every forward exchange contract the group is obliged to pay an amount; however, it also receives the equivalent amount in a different currency. In case of options, only sold options are considered, as only these positions may generate a payment liability.

Maturity profile of derivative financial instruments

millions of CHF					2014
	< 1 year	1–2 years	3–5 years	> 5 years	Total
Forward exchange contracts					
— outflow	–985.4	–4.3	–	–	–989.7
— inflow	985.4	4.3	–	–	989.7
Other derivative instruments					
— outflow	–0.8	–	–	–	–0.8
— inflow	–	–	–	–	–

millions of CHF					2013
	< 1 year	1–2 years	3–5 years	> 5 years	Total
Forward exchange contracts					
— outflow	–1 194.8	–20.0	–	–	–1 214.8
— inflow	1 194.8	20.0	–	–	1 214.8
Other derivative instruments					
— outflow	–0.7	–	–	–	–0.7
— inflow	–	–	–	–	–

3.2 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 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.

As do others in the same industry, the group monitors capital on the basis of the gearing ratio. This ratio is calculated as total financial debt divided by equity attributable to shareholders of Sulzer Ltd (debt-to-equity ratio). The equity capital as shown in the balance sheet corresponds to the managed equity capital.

The decrease in the gearing ratio during 2014 resulted from a decrease in financial debt as well as an increase in equity.

As at December 31, 2014 and 2013, the gearing ratio was as follows:

Gearing ratio

millions of CHF	2014	2013
Borrowings	528.0	572.5
Equity attributable to shareholders of Sulzer Ltd	2435.4	2334.4
Borrowings-to-equity ratio (gearing)	0.22	0.25

3.3 Fair value estimation

The following table presents the carrying amounts and fair values of financial assets and liabilities as at December 31, 2014, 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.

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities, or the outstanding bond) is based on quoted market prices at the balance sheet date. Such instruments (if any) are included in level 1.

The fair value of financial instruments that are not traded in an active market (e.g. over-the-counter derivatives) is determined by using valuation techniques. Forward exchange and other forward contracts are valued using a market comparison technique: The fair values are based on quoted or otherwise observable prices for similar instruments at the balance sheet date. Forward exchange and other forward contracts are included in level 2.

Contingent considerations (level 3) are linked on the fulfillment of certain parameters, mainly related to technology transfer and retention of key personnel. The group considered the maximum amount and assumes the fulfillment of the defined clauses. The following tables present the carrying amounts and fair values of financial assets and liabilities.

Fair value table

millions of CHF						2014
	Notes	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets measured at fair value						
Financial assets at fair value through profit or loss	23	106.8	106.8	99.4	7.4	–
Available-for-sale financial assets	17	4.5	4.5	–	4.5	–
Derivative assets	30	7.4	7.4	–	7.4	–
Total financial assets measured at fair value		**118.7**	**118.7**	**99.4**	**19.3**	**–**
Financial assets not measured at fair value						
Loans and receivables	17	7.4				
Non-current receivables (excluding derivative assets)		11.3				
Trade accounts receivables	20	955.9				
Other accounts receivables (excluding derivative assets)	21	103.8				
Cash and cash equivalents	22	1 194.7				
Total financial assets not measured at fair value		**2 273.1**	**–**	**–**	**–**	**–**
Financial liabilities measured at fair value						
Derivative liabilities	29, 30	11.7	11.7	–	11.7	–
Contingent considerations		49.2	49.2	–	–	49.2
Total financial liabilities measured at fair value		**60.9**	**60.9**	**–**	**11.7**	**49.2**
Financial liabilities not measured at fair value						
Outstanding bond	27	498.9	514.4	514.4	–	–
Bank loans and other borrowings	27	29.1				
Other non-current liabilities		30.9				
Trade accounts payable		383.6				
Other current liabilities (excluding derivative liabilities)	29	86.8				
Total financial liabilities not measured at fair value		**1 029.3**	**514.4**	**514.4**	**–**	**–**

Fair value table

millions of CHF						2013
	Notes	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets measured at fair value						
Derivative assets	30	11.9	11.9	–	11.9	–
Available-for-sale financial assets	17	4.5	4.5	–	4.5	–
Total financial assets measured at fair value		**16.4**	**16.4**	**–**	**16.4**	**–**
Financial assets not measured at fair value						
Loans and receivables	17	6.6				
Non-current receivables (excluding derivative assets)		13.4				
Trade accounts receivables	20	877.5				
Other accounts receivables (excluding derivative assets)	21	129.6				
Cash and cash equivalents	22	528.7				
Total financial assets not measured at fair value		**1 555.8**	**–**	**–**	**–**	**–**
Financial liabilities measured at fair value						
Derivative liabilities	29, 30	5.4	5.4	–	5.4	–
Contingent considerations		2.3	2.3	–	–	2.3
Total financial liabilities measured at fair value		**7.7**	**7.7**	**–**	**5.4**	**2.3**
Financial liabilities not measured at fair value						
Outstanding bond	27	498.1	519.2	519.2	–	–
Bank loans and other borrowings	27	74.4				
Other non-current liabilities		1.9				
Trade accounts payable		345.6				
Other current liabilities (excluding derivative liabilities)	29	66.6				
Total financial liabilities not measured at fair value		**986.6**	**519.2**	**519.2**	**–**	**–**

Contingent considerations relate to retention bonuses for key management personnel and the achievement of certain market performance goals. A description of the contingent considerations for the individual acquired entities is made in note 05.

Contingent consideration

millions of CHF	2014	2013
Balance as of January 1	2.3	3.4
Assumed in a business combination	49.2	1.8
Transfer to liabilities held for sale	–	–1.0
Release to other operating income	–0.7	–0.9
Payment of contingent consideration	–1.6	–1.0
Total contingent consideration as of December 31	**49.2**	**2.3**

4 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.

Goodwill

Goodwill amounted as per December 31, 2014 to CHF 675.1 million. In accordance with the accounting policies set forth in section 2.6 "Intangible assets," the group carries out an annual impairment test on goodwill in the fourth quarter of the year, or when indications of a potential impairment exist. The recoverable amount from cash-generating units is measured on the basis of value-in-use calculations influenced materially by the terminal growth rate, the discount rate, and the projected cash flows. Information about assumptions and estimation uncertainties that have significant risk of resulting in a material adjustment in the year ending December 31, 2014 are disclosed in note 14.

Income taxes

The group is obliged to pay income taxes in numerous jurisdictions. Significant assumptions are required in order to determine global tax provisions. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of the business.

Provisions

The provisions for warranties/liabilities include significant amounts to cover pending items in connection with liabilities and disagreements with the buyer of the locomotive business. The assessment of the related risks is, in view of the complex character of the contracts involved and their partially long-term nature, difficult.

Contingent considerations

At December 31, 2014, the group had CHF 49.2 million of contingent considerations resulting from business combinations. The total payments under contingent considerations arrangements could be up to CHF 73.0 million (see Note 5). The estimated amounts are the expected payments, determined by considering the possible scenarios of forecast sales and other performance criteria, probabilities of occurrence, and the use of simulation models. The estimates could change substantially over time as new facts emerge and scenarios develop.

Revenue recognition

The group uses the percentage of completion method (PoC) in accounting for major long-term contracts. The use of the PoC method requires the group to estimate the proportional revenue and costs. If circumstances arise that may change the original estimates of revenues, costs, or extent of progress toward completion, estimates are revised. These revisions may result in increases or decreases in estimated revenues or costs and are reflected in income in the period in which the circumstances that give rise to the revision become known by management. As per December 31, 2014, revenue from the application of the PoC method amounted to CHF 313.1 million (see note 19).

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, and the share of Sulzer in the pension plans. 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. The participation of Sulzer in the pension plans covers the active employees and the retirees related to Sulzer.

5 Acquisitions and divestitures of affiliated companies / Discontinued operations / Significant changes in the scope of consolidation

All figures related to business combinations in the reporting period are provisional and will be finalized within twelve months from the acquisition date. The allocation of the consideration transferred may therefore change in the subsequent period.

Significant changes in 2014

aixfotec GmbH

On March 31, 2014, Sulzer acquired 100% of aixfotec GmbH, a leading technology company in extrusion systems for the production of polymer foams, based in Aachen, Germany. This acquisition widens Sulzer Chemtech's portfolio in the field of polymer technology and strengthens its position as a technology leader and system supplier in plastics manufacturing. The goodwill is attributable to synergies from combined solutions and shared services. Since the acquisition date, order intake of CHF 0.3 million, sales amounting to CHF 0.1 million, and operating income totaling CHF 0.0 million are included in the reporting period.

Acquired net assets of aixfotec GmbH

millions of CHF	Fair value
Intangible assets	3.3
Property, plant, and equipment	0.1
Cash and cash equivalents	1.1
Trade accounts receivable	0.4
Other current assets	0.5
Liabilities with third parties	–2.4
Deferred tax liabilities	–0.8
Net identifiable assets	**2.2**
Purchase price paid in cash	2.6
Contingent consideration	1.6
Goodwill	**2.0**

The contingent consideration consists of retention bonuses for key management personnel and a bonus linked to the gross margin from the company's product portfolio. The bonus for the gross margin is limited in amount, depends on the degree of gross margin realized within three years, and is payable on a yearly basis. The liability includes the full amount based on management's current estimate of the future market development.

Grayson Armature

On August 01, 2014, Sulzer acquired 100% of the shares of Grayson Armature Large Motor Division, Inc. and Grayson Armature Orange Texas, Inc. The Grayson companies were merged into Sulzer Grayson Inc. on the same day and operate as one legal entity. This acquisition adds electromechanical capabilities to Sulzer's Rotating Equipment Services division, complementing its range of services for rotating equipment. The goodwill is attributable to synergies from additional and combined solutions. Transaction cost recognized in general and administrative expenses amounted to CHF 0.3 million. Since the acquisition date, order intake of CHF 11.2 million, sales amounting to CHF 13.0 million, and operating income totaling CHF 0.8 million are included in the reporting period.

Acquired net assets of Grayson Armature

millions of CHF	Fair value
Intangible assets	4.5
Property, plant, and equipment	8.7
Cash and cash equivalents	2.8
Trade accounts receivable	4.1
Other current assets	1.3
Liabilities with third parties	–2.8
Deferred tax liabilities	–2.8
Net identifiable assets	**15.8**
Purchase price paid in cash	38.1
Contingent consideration	4.9
Goodwill	**27.2**

The contingent consideration consists of retention bonuses for key management personnel and a bonus linked to the continuation of a defined agreement with a customer. The liability is limited at USD 6.0 million (CHF 5.9 million). The calculation of the contingent consideration is based on management's assessment that the criteria will be achieved at a probability of 90% to 95%.

ASCOM/ProLabNL

On September 15, 2014, Sulzer acquired 100% of Advance Separation Company (ASCOM) B.V. and Process Laboratories Netherlands (ProLabNL) B.V. both located in Arnhem, the Netherlands. The Ascom/ProLabNL Group includes three subsidiaries. The acquisition expands the offering of the Sulzer Chemtech division for gas-liquid and liquid-liquid separation technologies. The goodwill is attributable to synergies from additional and combined solutions. Transaction cost recognized in general and administrative expenses amounted to CHF 0.3 million. Since the acquisition date, order intake of CHF 18.6 million, sales amounting to CHF 13.1 million, and operating income totaling CHF 2.9 million are included in the reporting period.

Acquired net assets of ASCOM/ProLabNL

millions of CHF	Fair value
Intangible assets	58.7
Property, plant, and equipment	11.7
Cash and cash equivalents	0.8
Trade accounts receivable	1.3
Other current assets	7.2
Liabilities with third parties	–9.6
Deferred tax liabilities	–16.2
Net identifiable assets	**53.9**
Purchase price paid in cash	36.5
Contingent consideration	42.7
Goodwill	**25.3**

The contingent consideration is linked to the fulfillment of criteria such as order intake, gross profit, and EBITDA (earnings before interest, taxes, depreciation, and amortization) as well as the development of specified technologies and products. There are minimum threshold values for some of the mentioned criteria. The contingent consideration is limited at CHF 65.5 million and is payable within a period of three years. The calculation of the contingent consideration is based on a Monte-Carlo simulation using a confidence level of 95%.

Had all above acquisitions occurred on January 01, 2014, management estimates that net sales of the group would have been higher by 53.0 million, and the consolidated net income would increase by approximately CHF 5.0 million.

Saudi Pump Factory

On February 2, 2014, Sulzer signed an agreement for the acquisition of a 75% stake in Saudi Pump Factory with Nabil Al Hashim, the owner and founder of the company. The agreed purchase price for the 75% stake is CHF 33 million. Saudi Pump Factory, located in Riyadh, Saudi Arabia, with a workforce of 170 employees, achieved sales of approximately CHF 25 million in 2012. Closing of this transaction did not occur until December 31, 2014, since some regulatory approvals remained outstanding. Closing of this acquisition is now expected to occur in the first half of the year 2015.

Significant changes in 2013

No changes of the provisional purchase price allocation disclosed in the Sulzer Annual Report 2013 had to be considered.

Krøger A/S

On February 5, 2013, Sulzer acquired Krøger A/S, a leading manufacturer of dispensers in Greve, Denmark. Krøger A/S achieved sales of approximately CHF 9.0 million in 2012 with 34 employees. The acquisition expands the product portfolio of the business unit Sulzer Mixpac Systems. Transaction costs recognized in general and administrative expenses amounted to CHF 0.4 million. The goodwill is attributable to synergies from combined solutions and shared services. For the year 2013, order intake came to CHF 7.9 million, sales amounted to CHF 7.7 million, and operating income totaled CHF 0.1 million.

Acquired net assets of Krøger A/S

millions of CHF	Fair value
Intangible assets	12.3
Property, plant, and equipment	0.7
Inventories	2.2
Trade accounts receivable	1.3
Other current assets	0.1
Liabilities with third parties	–7.8
Net identifiable assets	**8.8**
Purchase price paid in cash	17.8
Contingent consideration	0.3
Goodwill	**9.3**

Tartek Oy

On October 31, 2013, Sulzer Pumps acquired Tartek Oy, a family-owned company established in 1978, located in Rauma, Finland. Tartek Oy is a specialist in development, manufacture, repair, and maintenance of high-quality mechanical seals. With this acquisition, Sulzer Pumps further expands its technology portfolio to provide extended seal offerings to customers in the pulp and paper, power, and water industries. The goodwill is attributable to synergies from additional and combined solutions. For the year 2013, the order intake and sales totaled CHF 0.1 million, operating income CHF 0.0 million.

Acquired net assets of Tartek Oy

millions of CHF	Fair value
Property, plant, and equipment	0.2
Current assets	0.1
Liabilities with third parties	−0.1
Net identifiable assets	**0.2**
Purchase price paid in cash	4.7
Contingent consideration	1.5
Goodwill	**6.0**

Other

Sulzer Metco acquired 60% of Zigong Golden China Specialty Carbides, China, for a purchase price of CHF 0.3 million. The contribution of this acquisition to the consolidated financial statements of Sulzer is not material.

Cash flow from acquisitions

millions of CHF	2014	2013
Non-current assets	−87.0	−13.5
Inventories	−2.3	−2.2
Other current assets	−15.3	−2.1
Liabilities	34.6	7.8
Identified acquired net assets	**−70.0**	**−10.0**
Cash acquired	4.7	0.7
Subtotal	**−65.3**	**−9.3**
Goodwill	−54.5	−15.3
Purchase of other investments	−0.8	–
Contingent consideration	49.2	1.8
Payments for acquisitions in prior years	−1.6	−1.0
Total cash flow from acquisitions	**−73.0**	**−23.8**

Sulzer Metco, with half of its sales in the automotive and aviation industries and about one-third in general industries, has a clear focus outside Sulzer's three key markets. On January 30, 2014, Sulzer signed an agreement with Oerlikon for the divestment of its Sulzer Metco division. As a consequence, Sulzer Metco is presented as discontinued operations and the assets and liabilities are classified as held for sale in 2013. Effective June 02, 2014, Sulzer transferred control over Metco and consequently derecognized all related assets and liabilities.

Income statement from discontinued operations

millions of CHF	2014	2013
Sales	**301.7**	**698.0**
Expenses	−265.6	−616.4
Operating income	**36.1**	**81.6**
Financial result	−0.5	−1.3
Income before income tax expenses from operating activities	**35.6**	**80.3**
Income tax expenses	−9.0	−20.4
Income from operating activities of discontinued operations	**26.6**	**59.9**
Gain on sale of discontinued operations before reclassification of currency translation differences	518.9	–
Reclassification of currency translation differences	−59.1	–
Income tax on sale of discontinued operations	−50.7	–
Net income from discontinued operations	**435.7**	**59.9**
Attributable to shareholders of Sulzer Ltd	435.7	59.9
Attributable to non-controlling interests	–	–

Cash flows from discontinued operations

millions of CHF	2014	2013
Total cash flow from operating activities	33.4	67.6
Total cash flow from investing activities	−8.0	−27.2
Total cash flow from financing activities	−21.0	−22.7

Balance sheet of discontinued operations

millions of CHF	2014	2013
Intangible assets	–	133.5
Property, plant, and equipment	–	146.0
Investments in associates	–	2.9
Other financial assets	–	0.1
Non-current receivables	–	15.4
Deferred income tax assets	–	11.8
Inventories	–	117.7
Advance payments to suppliers	–	3.0
Trade accounts receivable	–	101.4
Other accounts receivable and prepaid expenses	–	15.9
Cash and cash equivalents	–	21.2
Assets classified as held for sale	**–**	**568.9**
Long-term borrowings	–	13.5
Deferred income tax liabilities	–	3.9
Non-current provisions	–	29.0
Short-term borrowings	–	0.1
Current income tax liabilities	–	12.7
Current provisions	–	6.5
Trade accounts payable	–	36.3
Advance payments from customers	–	9.0
Other current and accrued liabilities	–	46.7
Liabilities classified as held for sale	**–**	**157.7**

Effect of disposal on the financial position of the Group

millions of CHF	2014
Cash and cash equivalents	–34.0
Inventories	–128.3
Advance payments to suppliers	–4.9
Trade accounts receivable	–108.0
Other accounts receivable and prepaid expenses	–15.9
Intangible assets	–132.7
Property, plant, and equipment	–152.7
Other financial assets	–0.1
Non-current receivables	–17.1
Deferred income tax assets	–13.8
Trade accounts payable	37.2
Advance payments from customers	11.6
Short-term borrowings	0.1
Current income tax liabilities	18.9
Current provisions	5.3
Other current and accrued liabilities	53.0
Long-term borrowings	11.8
Deferred income tax liabilities	4.1
Non-current provisions	29.2
Net assets	**–436.3**
Consideration received (cash and cash equivalents)	955.1
Income tax on sale of discontinued operations	–50.7
Cash and cash equivalents disposed of	–34.0
Net cash inflow	**870.4**

6 Major currency exchange rates

Major currency exchange rates

CHF	2014		2013	
	Average rate	Year-end rate	Average rate	Year-end rate
1 EUR	1.21	1.20	1.23	1.23
1 GBP	1.51	1.54	1.45	1.47
1 USD	0.92	0.99	0.93	0.89
1 BRL	0.39	0.37	0.43	0.38
1 CAD	0.83	0.85	0.90	0.84
100 CNY	14.86	15.94	15.08	14.70
100 INR	1.50	1.56	1.59	1.44
100 MXN	6.88	6.72	7.27	6.81
100 SEK	13.35	12.82	14.23	13.86
1 SGD	0.72	0.75	0.74	0.70
100 ZAR	8.44	8.55	9.64	8.49

7 Segment information

Segment information by divisions

millions of CHF	Pumps Equipment		Rotating Equipment Services		Chemtech	
	2014	2013[3]	**2014**	2013[3]	**2014**	2013
Order intake (unaudited)	**1 725.5**	**1 801.5**	**725.2**	**699.3**	**718.4**	**749.9**
Nominal growth (unaudited)	–4.2%	n/a	3.7%	n/a	–4.2%	6.4%
Adjusted growth (unaudited)[1]	–1.1%	n/a	6.4%	n/a	–2.1%	7.4%
Order backlog (unaudited)	1 209.4	1 190.9	212.2	190.7	282.0	290.5
Sales[2]	**1 754.9**	**1 821.6**	**724.6**	**705.6**	**741.5**	**743.7**
Nominal growth	–3.7%	n/a	2.7%	n/a	–0.3%	2.6%
Adjusted growth (unaudited)[1]	–0.5%	n/a	5.3%	n/a	1.6%	3.6%
Research and development expenses	37.7	36.7	2.3	2.4	38.1	35.8
EBITDA before restructuring expenses and impairment on goodwill[4]	**191.8**	**207.2**	**93.4**	**84.1**	**119.3**	**120.4**
in % of sales	10.9%	11.4%	12.9%	11.9%	16.1%	16.2%
Depreciation	–31.2	–32.0	–15.3	–13.1	–25.7	–25.4
EBITA before restructuring expenses and impairment on goodwill[5]	**160.6**	**175.2**	**78.1**	**71.0**	**93.6**	**95.0**
in % of sales	9.2%	9.6%	10.8%	10.1%	12.6%	12.8%
Restructuring expenses	–4.0	–9.4	–7.2	–1.4	–	0.1
Amortization	–19.7	–21.6	–5.8	–5.6	–15.2	–13.7
Impairment on goodwill	–340.0	–	–	–	–	–
Operating income EBIT	**–203.1**	**144.2**	**65.1**	**64.0**	**78.4**	**81.4**
Return on capital employed (EBITA before restructuring expenses and impairment on goodwill in % of average capital employed)	12.2%	n/a	17.7%	n/a	22.2%	23.0%
Operating assets	1 659.0	2 100.4	682.8	589.9	743.0	606.8
Unallocated assets	–	–	–	–	–	–
Total assets as of December 31	1 659.0	2 100.4	682.8	589.9	743.0	606.8
Operating liabilities	756.3	774.7	231.7	179.8	242.8	230.3
Unallocated liabilities	–	–	–	–	–	–
Total liabilities as of December 31	756.3	774.7	231.7	179.8	242.8	230.3
Operating net assets	902.7	1 325.7	451.1	410.1	500.2	376.5
Unallocated net assets	–	–	–	–	–	–
Total net assets as of December 31	902.7	1 325.7	451.1	410.1	500.2	376.5
Capital expenditure	41.5	35.7	26.4	15.4	22.6	23.3
Employees (number of full-time equivalents) as of December 31	7 365	7 389	3 709	3 642	4 287	4 167

[1] Adjusted for currency effects.
[2] Sales between segments are not material.
[3] Restated numbers according to new operational structure, effective since January 1, 2014.
[4] EBITDA = Earnings before interests, taxes, depreciation, and amortization.
[5] EBITA = Earnings before interests, taxes, and amortization.

Segment information by divisions

millions of CHF		Total Divisions		Others[2]		Total Sulzer	
		2014	2013	2014	2013	2014	2013
Order intake (unaudited)		**3169.1**	**3250.7**	**–8.3**	**–0.8**	**3160.8**	**3249.9**
Nominal growth (unaudited)		–2.5%	n/a	–	–	–2.7%	–2.8%
Adjusted growth (unaudited)[1]		0.3%	n/a	–	–	0.0%	–1.0%
Order backlog (unaudited)		1703.6	1672.1	–4.0	–	1699.6	1672.1
Sales		**3221.0**	**3270.9**	**–8.9**	**–7.0**	**3212.1**	**3263.9**
Nominal growth		–1.5%	n/a	–	–	–1.6%	–2.3%
Adjusted growth (unaudited)[1]		1.2%	n/a	–	–	1.2%	–0.5%
Research and development expenses		78.1	74.9	–1.9	–4.3	76.2	70.6
EBITDA before restructuring expenses and impairment on goodwill[3]		**404.5**	**411.7**	**0.6**	**–16.3**	**405.1**	**395.4**
in % sales		12.6%	12.6%	n/a	n/a	12.6%	12.1%
Depreciation		–72.2	–70.4	–7.0	–2.6	–79.2	–73.0
EBITA before restructuring expenses and impairment on goodwill[4]		**332.3**	**341.3**	**–6.4**	**–18.9**	**325.9**	**322.4**
in % of sales		10.3%	10.4%	n/a	n/a	10.1%	9.9%
Restructuring expenses		–11.2	–10.7	–	–6.1	–11.2	–16.8
Amortization		–40.7	–40.9	–3.0	–0.7	–43.7	–41.6
Impairment on goodwill		–340.0	–	–	–	–340.0	–
Operating income	**EBIT**	**–59.6**	**289.7**	**–9.4**	**–25.7**	**–69.0**	**264.0**
Return on capital employed (EBITA before restructuring expenses and impairment on goodwill in % of average capital employed)		15.3%	n/a	–0.3%	n/a	15.7%	15.4%
Operating assets		3084.8	3297.1	96.9	26.5	3181.7	3323.6
Unallocated assets (includes assets held for sale)		–	–	–	–	1466.5	1220.3
Total assets as of December 31		3084.8	3297.1	96.9	26.5	4648.2	4543.9
Operating liabilities		1230.8	1184.8	177.4	74.3	1408.2	1259.1
Unallocated liabilities (includes liabilities held for sale)		–	–	–	–	798.0	944.1
Total liabilities as of December 31		1230.8	1184.8	177.4	74.3	2206.2	2203.2
Operating net assets		1854.0	2112.3	–80.5	–47.8	1773.5	2064.5
Unallocated net assets		–	–	–	–	668.5	276.2
Total net assets as of December 31		1854.0	2112.3	–80.5	–47.8	2442.0	2340.7
Capital expenditure		90.5	74.4	5.5	6.1	96.0	80.5
Employees (number of full-time equivalents) as of December 31		15361	15198	133	184	15494	15382

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) EBITDA = Earnings before interests, taxes, depreciation, and amortization.
4) EBITA = Earnings before interests, taxes, and amortization.

Segment information by region

millions of CHF	Operating assets by region		Capital expenditure in intangible and tangible assets by region		Sales by region	
	2014	2013	**2014**	2013	**2014**	2013
Europe, Middle East, Africa	1 868.9	2 237.8	60.3	49.7	1 264.7	1 402.4
— thereof Switzerland	311.0	325.2	20.6	21.7	26.1	41.7
— thereof Germany	112.6	123.7	3.3	3.9	159.2	168.7
— thereof United Kingdom	349.9	368.7	7.9	5.5	215.8	227.1
Americas	789.0	648.1	23.9	17.6	1 177.4	1 130.0
— thereof USA	533.5	432.3	17.1	10.7	746.4	699.8
— thereof Brazil	134.1	123.6	2.8	4.6	148.5	144.4
Asia-Pacific	523.8	437.7	11.8	13.2	770.0	731.5
— thereof China	318.7	273.0	6.3	7.0	319.7	355.5
— thereof India	82.5	61.0	2.3	2.2	70.0	42.5
Total	**3 181.7**	**3 323.6**	**96.0**	**80.5**	**3 212.1**	**3 263.9**

On November 8, 2013, Sulzer announced to adapt its organizational structure to support its key market strategy. Sulzer Turbo Services was combined with the service activities for pumps into a new service division and the name of the division changed from Sulzer Turbo Services into Rotating Equipment Services. The name of the Sulzer Pumps division was changed into Pumps Equipment. The Sulzer Chemtech division was not affected by this change. The new organizational structure was implemented on January 01, 2014. The previous year's figures are restated accordingly.

8 Personnel expenses

Personnel expenses

millions of CHF	**2014**	2013
Salaries and wages	836.4	838.6
Costs for defined contribution plans	26.8	24.1
Defined benefit costs	15.8	18.4
Cost of share-based payments	7.4	8.4
Other personnel costs	159.8	157.9
Total personnel expenses	**1 046.2**	**1 047.4**

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.

Employee benefit plans 2014

						2014
millions of CHF	Funded plans Switzerland	Funded plans United Kingdom	Funded plans USA	Funded plans Others	Unfunded plans	Total
Reconciliation of the amount recognized in the balance sheet as of December 31						
Present value of funded defined benefit obligation	–1 372.0	–670.1	–61.0	–62.6	–	–2 165.7
Fair value of plan assets	1 307.5	554.1	42.5	47.2	–	1 951.3
Overfunding (+) / underfunding (–)	**–64.5**	**–116.0**	**–18.5**	**–15.4**	**–**	**–214.4**
Present value of unfunded defined benefit obligation	–	–	–	–	–53.4	–53.4
Adjustment to asset ceiling	–2.4	–	–	–	–	–2.4
Asset (+) / liability (–) recognized in the balance sheet	**–66.9**	**–116.0**	**–18.5**	**–15.4**	**–53.4**	**–270.2**
— thereof as liabilities under non-current provisions	–77.4	–116.0	–18.5	–15.6	–53.4	–280.9
— thereof as prepaid expenses	10.5	–	–	0.2	–	10.7
— thereof as liabilities held for sale	–	–	–	–	–	–

Employee benefit plans 2013

						2013
millions of CHF	Funded plans Switzerland	Funded plans United Kingdom	Funded plans USA	Funded plans Others	Unfunded plans	Total
Reconciliation of the amount recognized in the balance sheet as of December 31						
Present value of funded defined benefit obligation	–1 357.0	–516.0	–45.9	–49.4	–	–1 968.3
Fair value of plan assets	1 420.0	471.8	35.8	42.0	–	1 969.6
Overfunding (+) / underfunding (–)	**63.0**	**–44.2**	**–10.1**	**–7.4**	**–**	**1.3**
Present value of unfunded defined benefit obligation	–	–	–	–	–66.4	–66.4
Adjustment to asset ceiling	–51.5	–	–	–	–	–51.5
Asset (+) / liability (–) recognized in the balance sheet	**11.5**	**–44.2**	**–10.1**	**–7.4**	**–66.4**	**–116.6**
— thereof as liabilities under non-current provisions	–0.5	–44.2	–10.1	–7.7	–48.8	–111.3
— thereof as prepaid expenses	12.0	–	–	0.3	–	12.3
— thereof as liabilities held for sale	–	–	–	–	–17.6	–17.6

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

In Switzerland, Sulzer contributes to two pension plans funded via two different pension funds, i.e. a base plan for all employees and a supplementary plan for employees with salaries exceeding a certain limit. Both plans provide benefits depending on the pension savings at retirement. They include certain legal minimum interest credits to the pension savings (i.e. investment return) and guaranteed rates of conversion of pension savings into an annuity at retirement. In addition, the plans offer death in service and disability benefits. The two pension funds are collective funds administrating pension plans of

Sulzer group companies and also unrelated companies. In case of a material underfunding of the pension plans, the regulations include predefined steps, such as higher contribution by employer and employees or lower interest on pension savings, to eliminate the underfunding. The pension funds are legally separated from the group. The vast majority of the active participants in the two pension funds are employed by companies not belonging to the Sulzer group. The board of trustees for the base plan comprises ten employee and ten employer representatives and are excluded from the Sulzer plan assets and liabilities of the contributing businesses. Based on the actual market environment the discount rate had to be further reduced to 0.8% (2013: 2.2%). The lower rates result in a lower return on plan assets and an increase of the DBO. In November 2014, the Board of Trustees decided the following changes: The applicable conversion rate for the pension plan will be decreased step by step over the next two years, the Foundation's savings will be increased, and the risk contributions will be slightly reduced. The effect of these changes result in CHF 8.0 million negative past service cost. The total expense for 2014 was CHF 6.8 million (2013: expense of CHF 20.1 million).

In the UK, Sulzer operates two funded defined benefit plans managed as sections of the Sulzer Pension Scheme. The scheme is managed by six trustees forming the Board. Four members are company nominated, one Trustee Director is a Sulzer member, and one Trustee Director is a Sulzer Dowding & Mills member. Both plans are multi-employer schemes with Sulzer (UK) Holding being the sponsor. Both plans are closed to new entrants and the John Holt Defined Benefit Pension Scheme is closed for future accruals since February 2010. Based on the low market interest rate, the discount rate decreased to 3.5% (2013: 4.7%) which lead to an increase in the net pension liability from CHF 44.2 million to CHF 116.0 million. The total expense recognized in the income statement was at a similar level like in the previous year (2014: CHF 8.4 million and 2013: CHF 9.8 million).

In the USA, Sulzer operates non-contributory defined benefit retirement plans covering substantially all of their employees. The salaried plans provide benefits that are based on years of service and the employee's compensation, averaged over the five highest consecutive years preceding retirement. The hourly plans' benefits are based on years of service and a flat dollar benefit multiplier. All plans were closed to new entrants. In 2013, this resulted in negative past service cost of CHF 3.1 million. Therefore an income of CHF 1.2 million was recognized in the income statement 2013 compared to an expense of CHF 0.8 million for 2014. The reduction of the discount rate from 5% in 2013 to 4% in 2014 resulted in an increase of the amount recognized in OCI of CHF 7.7 million.

In addition, Sulzer sponsors two Irish-funded defined benefit plans. During 2013, the following changes were made to past and future service benefits of the staff plan. Retirement ages were extended to 66, 67, and 68 depending on year of birth; compulsory commutation of 25% of each member's benefit was introduced on retirement; and the plan was closed for new entrants and a new defined contribution plan was introduced. The effect of these changes amounted to CHF 5.2 million negative past service cost in 2013 (2014: CHF 0.0) million.

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

Employee benefit plans

millions of CHF	2014	2013
Reconciliation of effect of asset ceiling		
Adjustment to asset ceiling at January 1	51.5	11.9
Interest expense/(income) on effect of asset ceiling	1.1	0.2
Change in effect of asset ceiling excl. interest expense/(income)	−50.2	39.4
Currency translation adjustment	–	–
Adjustment to asset ceiling at December 31	**2.4**	**51.5**
Reconciliation of asset (+) / liability (–) recognized in the balance sheet		
Asset (+) / liability (–) recognized at January 1	−116.6	−170.0
Defined benefit cost recognized in profit or loss	−20.2	−28.9
Defined benefit cost recognized in OCI	−174.9	48.6
Employer contribution/benefit paid by the entity	26.2	34.9
Change in scope of consolidation	20.3	–
Currency translation differences	−5.0	−1.2
Asset (+) / liability (–) recognized at December 31	**−270.2**	**−116.6**
Components of defined benefit cost in profit or loss		
Current service cost (employer)	−23.5	−30.5
Interest cost	−57.8	−55.6
Interest income on plan assets	54.5	49.4
Past service cost	8.0	8.3
Effects of curtailments and settlement	–	0.1
Interest expense/(income) on effect of asset ceiling	−1.1	−0.2
Other administrative cost	−0.3	−0.4
Expense recognized in profit or loss	**−20.2**	**−28.9**
— thereof charged to personnel expenses	−15.8	−18.4
— thereof charged to financial expense	−4.4	−6.4
— thereof charged to net income from discontinued operations	–	−4.1
Components of defined benefit cost in OCI		
Actuarial gain/(loss) on defined benefit obligation	−299.2	23.8
Return on plan assets excl. interest income	73.9	64.0
Change in effect of asset ceiling excl. interest expense/income	50.2	−39.4
Return on reimbursement right excl. interest income	0.2	0.2
Others	–	–
Defined benefit cost recognized in OCI[1)]	**−174.9**	**48.6**

[1)] The tax effect on defined benefit cost recognized in OCI amounted to CHF 37.0 million (2013: CHF −11.9 million).

Employee benefit plans

millions of CHF	2014	2013
Reconciliation of defined benefit obligation		
Defined benefit obligation as of January 1	2034.7	2106.0
Interest cost	57.8	55.6
Current service cost (employer)	23.5	30.5
Contributions by plan participants	9.3	12.1
Past service cost	–8.0	–8.3
Benefits paid/deposited	–120.6	–133.9
Effects of curtailments and settlement	–	–0.4
Change in scope of consolidation	–108.3	–
Other administrative cost	0.3	0.4
Actuarial gain (–) / loss (+) on obligation	299.2	–23.8
Currency translation differences	31.2	–3.5
Defined benefit obligation as of December 31[1)]	**2219.1**	**2034.7**
Reconciliation of the fair value of plan assets		
Fair value of plan assets as of January 1	1969.6	1947.9
Interest income on plan assets	54.5	49.4
Employer contribution/benefit paid by the entity[2)]	26.2	34.9
Contributions by plan participants	9.3	12.1
Benefits paid/deposited	–120.6	–133.9
Effects of curtailments and settlement	–	–0.3
Change in scope of consolidation	–88.1	–
Return on plan assets excl. interest income	73.9	64.0
Currency translation differences	26.5	–4.5
Fair value of plan assets as of December 31	**1951.3**	**1969.6**
Total plan assets at fair value – quoted market price		
Cash and cash equivalents	114.8	69.6
Equity instruments third parties	614.8	622.2
Equity instruments Sulzer Ltd	0.4	0.4
Debt instruments third parties	657.3	722.1
Real estate funds	28.7	44.6
Investment funds	0.3	0.2
Others	46.2	42.0
Total assets at fair value – quoted market price as of December 31	**1462.5**	**1501.1**
Total plan assets at fair value – non-quoted market price		
Properties occupied by or used by third-parties (Real estate)	264.2	283.4
Others	224.6	185.1
Total assets at fair value – non-quoted market price as of December 31	**488.8**	**468.5**
Best estimate of contributions for upcoming financial year		
Contributions by the employer	26.9	31.4
Contributions by plan participants	9.1	11.8

1) The defined benefit obligation 2014 includes the funded part (CHF 2165.7 million) and the unfunded part (CHF 53.4 million).
2) Benefits paid directly by the entity mainly refer to the German plans.

Employee benefit plans

millions of CHF	2014	2013
Components of Defined Benefit Obligation, split (§137)		
Defined Benefit Obligation at December 31 for active members	358.0	406.6
Defined Benefit Obligation at December 31 for pensioners	1 837.3	1 607.4
Defined Benefit Obligation at December 31 for deferred members	23.8	20.7
Total Defined Benefit Obligation at December 31	2 219.1	2 034.7
Components of actuarial (gain)/losses on obligations (§141 lit. c)		
Actuarial (gain)/loss arising from changes in financial assumptions	318.6	–50.5
Actuarial (gain)/loss arising from changes in demogr. assumptions	2.9	–
Actuarial (gain)/loss arising from experience adjustments	–22.3	26.7
Actuarial (gain)/loss on defined benefit obligation	299.2	–23.8
Components of economic benefit available (§141 lit. c)		
Economic benefits available in form of refund	0.2	0.4
Economic benefits available in form of reduction in future contribution	12.6	11.9
Total economic benefit available	12.8	12.3
Maturity profile of Defined Benefit Obligation (§147 lit. c)		
Weighted average duration of defined benefit obligation in years	13.1	13.0
Sensitivity analysis of Defined Benefit Obligation		
Discount rate (decrease 0.25%)	73.1	54.1
Discount rate (increase 0.25%)	–77.2	–59.1
Future salary growth (decrease 0.25%)	–11.7	–10.8
Future salary growth (increase 0.25%)	3.1	3.7
Life expectance (decrease 1 year)	–113.1	–86.4
Life expectance (increase 1 year)	103.3	77.0
Principal actuarial assumptions as of December 31		
Discount rate	1.8%	2.9%
Future salary increases	1.4%	1.3%
Future pension increases	0.8%	0.7%
Expected average remaining working lives in years	9.4	9.4
Life expectancy at retirement age (male/female) in years	21/25	21/25

10 Research and development expenses

In 2014, total research and development expenses amounted to CHF 76.2 million (2013: CHF 70.6 million). A breakdown of the research and development expenses per division is shown in note 07, “Segment information”.

11 Other operating income and expenses

Other operating income and expenses

millions of CHF	2014	2013
Income from sale of property plant and equipment	14.1	2.5
Income from disposal of group companies to third party	3.2	10.0
Income from services to third parties	4.3	8.2
Operating currency exchange gains	4.7	5.2
Income from legal cases	1.3	1.6
Income from negative past service costs	8.0	8.3
Other operating income	11.6	14.8
Total other operating income	**47.2**	**50.6**
Cost for mergers and acquisitions	−4.9	−0.7
Expenses from adjustments to defined benefit cost	−5.0	−3.4
Withholding tax expenses	−3.3	−2.8
Loss from legal cases	−0.8	−3.5
Other operating expenses	−19.4	−14.6
Total other operating expenses	**−33.4**	**−25.0**
Total other operating income and expenses, net	**13.8**	**25.6**

In 2014, Sulzer sold a real estate property in London resulting in a profit of CHF 13.6 million. Sulzer was also able to release further no longer required provisions of CHF 3.0 million relating to the sale of Sulzer Real Estate Ltd (2013: CHF 9.5 million). Additional CHF 8.0 million (2013: CHF 8.3 million) resulted from negative past service cost related to defined benefit plans (refer to note 09).

12 Financial income and expenses

Financial income and expenses

millions of CHF	2014	2013
Interest and securities income	6.4	5.0
Interest income on employee benefit plans	0.4	-
Total interest and securities income	**6.8**	**5.0**
Interest expenses	−16.4	−16.8
Interest expenses on employee benefit plans	−4.8	−6.4
Total Interest expenses	**−21.2**	**−23.2**
Net interest expenses	**−14.4**	**−18.2**
Income from investments and other financial assets	−0.1	−0.1
Fair value changes	−2.9	0.9
Other financial income/expenses	−0.7	0.4
Currency exchange gains/losses	1.4	−4.8
Total other financial income/(expenses)	**−2.3**	**−3.6**
Total financial income/(expenses)	**−16.7**	**−21.8**
— thereof from financial assets held at fair value through profit or loss	−2.9	0.9
— thereof from loans and receivables	0.2	–
— thereof from borrowings	−16.4	−16.8

The income on interest and securities increased while interest expenses slightly decreased compared with 2013, mainly due to the reduction of borrowings. The “fair value changes” largely comprise the fair valuation of derivative financial instruments that are classified as financial assets or financial liabilities at fair value through profit or loss and that are used as hedging instruments with regard to foreign exchange risks.

13 Income taxes

Income tax expenses

millions of CHF	2014	2013
Current income tax expenses	−89.6	−77.8
Deferred income tax expenses	17.7	11.9
Total income tax expenses	**−71.9**	**−65.9**

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

Reconciliation of income tax expenses

millions of CHF	2014	2013
Income/loss from continuing operations before income tax expenses	−85.7	242.2
Weighted average tax rate	**27.3%**	**26.7%**
Income taxes at weighted average tax rate	23.4	−64.7
Income taxed at different tax rates	−17.0	−3.6
Effect of tax loss carryforwards and allowances for deferred income tax assets	1.5	–
Expenses not deductible for tax purposes incl. goodwill impairment	−83.4	−4.4
Effect of changes in tax rates and legislation	0.3	1.7
Prior period items and others	3.3	5.1
Total income tax expenses	**−71.9**	**−65.9**
Effective income tax rate	−83.9%	27.2%

Excluding the impairment in the Water business unit, the effective income tax rate would have been 28.3%. The increase in the effective income tax rate can be explained by higher withholding tax expenses on increased dividend payments to Sulzer Ltd.

Income tax liabilities

millions of CHF	2014	2013
Balance as of January 1	30.6	64.6
Changes in scope of consolidation	0.5	0.8
Additions	122.4	65.6
Released as no longer required	−11.6	−7.9
Released for utilization	−107.5	−78.5
Transfer to liabilities held for sale	–	−12.7
Currency translation differences	0.6	−1.3
Total income tax liabilities as of December 31	**35.0**	**30.6**
— thereof non-current	2.6	3.8
— thereof current	32.4	26.8

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

	2014		2013	
millions of CHF	Assets	Liabilities	Assets	Liabilities
Intangible assets	0.3	85.2	1.8	88.9
Property, plant, and equipment	2.5	22.5	2.0	17.9
Other financial assets	1.8	2.9	1.0	5.7
Inventories	18.2	5.5	23.4	2.1
Other assets	25.9	8.3	19.6	9.7
Non-current provisions	64.2	3.8	27.0	4.6
Current provisions	24.7	0.9	24.2	1.5
Other current liabilities	23.2	22.7	21.3	25.3
Tax loss carryforwards	21.6	–	23.5	–
Elimination of intercompany profits	2.5	–	2.8	–
Deferred income tax – gross	**184.9**	**151.8**	**146.6**	**155.7**
Offset of assets and liabilities	−58.1	−58.1	−54.2	−54.2
Net recorded deferred income tax assets and liabilities	**126.8**	**93.7**	**92.4**	**101.5**

Deferred income tax asset directly recorded in equity amounted to CHF 31.8 million (2013 deferred income tax liabilities: CHF 6.8 million). In compliance with the exception clause of IAS 12, the group does not recognize deferred taxes on investments in subsidiaries in the balance sheet.

Tax loss carryforwards

	2014				2013			
millions of CHF	Amount	Potential tax assets	Valuation allowance	Carrying amount	Amount	Potential tax assets	Valuation allowance	Carrying amount
Expiring in the next 3 years	21.4	5.1	−0.7	4.4	22.5	5.5	−0.4	5.1
Expiring in 4–7 years	20.0	4.9	−1.9	3.0	25.0	5.5	−5.4	0.1
Available without limitation	73.3	17.6	−3.4	14.2	100.4	22.0	−3.6	18.4
Total tax loss carryforwards	**114.7**	**27.6**	**−6.0**	**21.6**	**147.9**	**33.0**	**−9.4**	**23.6**

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 carry forwards in the amount of CHF 24.5 million (2013: CHF 41.6 million).

14 Intangible assets

Intangible assets

millions of CHF	Goodwill	Trademarks and licenses	Research and develop-ment	Computer software	Customer relationship	Total
						2014
Acquisition cost						
Balance as of January 1	978.4	155.1	2.5	44.0	316.2	1 496.2
Changes in scope of consolidation	54.5	0.9	24.4	0.2	41.0	121.0
Additions	–	0.3	–	4.5	0.7	5.5
Disposals	–	–5.2	–	–6.1	–0.7	–12.0
Reclassifications	–	–	–	1.7	–4.1	–2.4
Currency translation differences	–17.8	–6.5	–0.2	0.4	–9.5	–33.6
Balance as of December 31	**1 015.1**	**144.6**	**26.7**	**44.7**	**343.6**	**1 574.7**
Accumulated amortization						
Balance as of January 1	–	73.4	–	38.5	102.1	214.0
Additions	–	13.3	1.4	5.3	23.3	43.3
Disposals	–	–2.5	–	–6.1	–0.4	–9.0
Reclassifications	–	–	–	–	–4.2	–4.2
Impairment	340.0	–	–	–	–	340.0
Currency translation differences	–	–1.7	0.6	0.6	–1.4	–1.9
Balance as of December 31	**340.0**	**82.5**	**2.0**	**38.3**	**119.4**	**582.2**
Net book value						
As of January 1	978.4	81.7	2.5	5.5	214.1	1 282.2
As of December 31	675.1	62.1	24.7	6.4	224.2	992.5

millions of CHF	Goodwill	Trademarks and licenses	Research and develop-ment	Computer software	Customer relationship	Total
						2013
Acquisition cost						
Balance as of January 1	1 092.7	158.9	1.8	48.4	338.0	1 639.8
Changes in scope of consolidation	15.3	2.2	–	–	10.1	27.6
Additions	–	0.4	0.7	3.7	–	4.8
Disposals	–	–	–	–1.7	–	–1.7
Reclassifications	–	–	–	0.3	0.4	0.7
Transfer to assets held for sale	–114.9	–5.0	–	–6.1	–25.3	–151.3
Currency translation differences	–14.7	–1.4	–	–0.6	–7.0	–23.7
Balance as of December 31	**978.4**	**155.1**	**2.5**	**44.0**	**316.2**	**1 496.2**
Accumulated amortization						
Balance as of January 1	–	61.7	–	42.2	88.9	192.8
Additions	–	15.2	–	3.4	26.3	44.9
Disposals	–	–	–	–1.5	–	–1.5
Transfer to assets held for sale	–	–3.0	–	–5.2	–10.4	–18.6
Currency translation differences	–	–0.5	–	–0.4	–2.7	–3.6
Balance as of December 31	**–**	**73.4**	**–**	**38.5**	**102.1**	**214.0**
Net book value						
As of January 1	1 092.7	97.2	1.8	6.2	249.1	1 447.0
As of December 31	978.4	81.7	2.5	5.5	214.1	1 282.2

Goodwill impairment test

millions of CHF	Goodwill	Growth rate residual value	Pre-tax discount rate
Goodwill, net book value as of December 31, 2014 is allocated as follows	**675.1**		
Pumps Equipment - Business Unit Water	281.8	1.0%	11.3%
Pumps Equipment - individually non significant	17.0	2.0%	11.3%
Rotating Equipment Services - Region EMEA	154.8	2.0%	10.7%
Rotating Equipment Services - individually non significant	75.1	2.0%	10.7%
Chemtech	146.4	0.0%	10.2%
Goodwill, net book value as of December 31, 2013 is allocated as follows	**978.4**		
Sulzer Pumps - Configured Solution	647.9	2.0%	10.2%
Sulzer Pumps - individually non significant	29.2	1.4%	10.6%
Sulzer Turbo Service - Region EMEA	148.6	0.0%	10,1%
Sulzer Turbo Service - individually non significant	36.1	0.0%	10.1%
Chemtech	116.6	0.0%	10.7%

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

With the new organizational structure announced in November 2013 and effective as of January 01, 2014, the service business for engineered pumps was transferred from the Sulzer Pumps division into the Rotating Equipment Services division. This portion of goodwill of CHF 8.9 million was transferred to the cash-generating units 'Region EMEA' and 'Region AME' within the Rotating Equipment Service division. The former Sulzer Pumps division was renamed into Pumps Equipment. As compared to last year's organizational setup, the business unit Water now includes the former Configured Solution unit and the engineered water business. Other than the transfer above, no further goodwill needed to be transferred.

The business unit Water integrates the wastewater pumps business, the process pumps business for the general industry, and the engineered pumps for water transport and production. This business is globally active. The business unit has been organized in a supply chain organization, sales organization, and central functions. The sales organization includes sales people in own sales units in approximately 30 countries.

The impairment test performed revealed that for the business unit Water the value in use was lower than its carrying amount by CHF 340 million, leading to a corresponding impairment of the goodwill. The carrying value of the net operating assets including the remaining goodwill equal to the recoverable amount. The impairment loss resulted from changes of the future growth and profitability assumptions in order to bring them in line with expected market developments, past performance of the business and from an adjusted pre-tax discount rate.

As of December 31, 2013, goodwill of CHF 114.9 million was allocated to Sulzer Metco (discontinued operations). With the divestiture of Sulzer Metco in June 2014, the assets and liabilities (including goodwill) were deconsolidated.

Sensitivity analyses

Business unit Water: A further reduction of the growth rate used to determine the residual value from 1% to 0% would lead to an additional impairment of CHF 44.0 million for the remaining goodwill. An increase of the pre-tax discount rate by 1% would lead to an additional impairment of CHF 21.0 million.

Compared to last year, the growth rate to determine the residual value for the cash-generating units in the Rotating Equipment Services division was increased from 0% to 2%, reflecting management's current assessment of the underlying markets. Had a 0% growth rate been used in the calculation of the terminal value combined with an increase of the discount rate by 1%, no impairment would have resulted.

15 Property, plant, and equipment

Property, plant, and equipment

millions of CHF	Land and buildings	Machinery and technical equipment	Other non-current assets	Assets under construction	Total 2014
Acquisition cost					
Balance as of January 1	346.8	652.0	189.0	28.6	1 216.4
Changes in scope of consolidation	7.1	13.2	0.2	–	20.5
Additions	13.6	27.3	13.4	36.3	90.6
Disposals	−6.9	−25.2	−15.7	–	−47.8
Reclassifications	8.0	14.6	8.0	−31.7	−1.1
Currency translation differences	12.5	19.5	3.7	1.5	37.2
Balance as of December 31	**381.1**	**701.4**	**198.6**	**34.7**	**1 315.8**
Accumulated depreciation					
Balance as of January 1	133.0	451.8	139.6	–	724.4
Changes in scope of consolidation	–	–	–	–	–
Additions	13.2	45.8	20.2	–	79.2
Disposals	−3.6	−21.7	−15.5	–	−40.8
Reclassifications	0.3	−1.0	1.4	–	0.7
Impairment on property, plant, and equipment	0.4	−0.1	–	–	0.3
Currency translation differences	4.7	13.6	3.0	–	21.3
Balance as of December 31	**148.0**	**488.4**	**148.7**	**–**	**785.1**
Net book value					
As of January 1	213.8	200.2	49.4	28.6	492.0
As of December 31	233.1	213.0	49.9	34.7	530.7
Thereof leased property, plant, and equipment					
Acquisition cost of leased property, plant, and equipment	0.7	2.4	0.5	–	3.6
Accumulated depreciation	0.7	1.3	0.3	–	2.3
Net book value as of December 31	**–**	**1.1**	**0.2**	**–**	**1.3**
Leasing commitments (present value)	**–**	**0.7**	**–**	**–**	**0.7**
Fire insurance value	**549.4**	**1 112.8**	**536.0**	**34.7**	**2 232.9**

Property, plant, and equipment

millions of CHF	Land and buildings	Machinery and technical equipment	Other non-current assets	Assets under construc-tion	Total 2013
Acquisition cost					
Balance as of January 1	432.7	922.2	233.6	50.0	1 638.5
Changes in scope of consolidation	0.5	4.9	–0.1	–	5.3
Additions	6.4	35.7	18.3	43.8	104.2
Disposals	–7.9	–44.8	–16.9	–	–69.6
Reclassifications	8.9	29.9	13.9	–54.1	–1.4
Transfer to assets held for sale	–81.3	–277.9	–53.5	–10.1	–422.8
Currency translation differences	–12.5	–18.0	–6.3	–1.0	–37.8
Balance as of December 31	**346.8**	**652.0**	**189.0**	**28.6**	**1 216.4**
Accumulated depreciation					
Balance as of January 1	165.8	642.4	180.3	–	988.5
Changes in scope of consolidation	0.2	3.9	–0.1	–	4.0
Additions	17.0	59.9	19.3	–	96.2
Disposals	–5.2	–41.0	–15.2	–	–61.4
Transfer to assets held for sale	–40.4	–201.5	–40.2	–	–282.1
Impairment	–0.3	–0.2	–0.2	–	–0.7
Currency translation differences	–4.1	–11.7	–4.3	–	–20.1
Balance as of December 31	**133.0**	**451.8**	**139.6**	**–**	**724.4**
Net book value					
As of January 1	266.9	279.8	53.3	50.0	650.0
As of December 31	213.8	200.2	49.4	28.6	492.0
Thereof leased property, plant, and equipment					
Acquisition cost of leased property, plant, and equipment	0.7	0.7	0.1	–	1.5
Accumulated depreciation	–	0.3	–	–	0.3
Net book value as of December 31	**0.7**	**0.4**	**0.1**	**–**	**1.2**
Leasing commitments (present value)	**0.4**	**0.3**	**0.1**	**–**	**0.8**
Fire insurance value	**526.4**	**1 135.4**	**466.4**	**28.6**	**2 156.8**

16 Associates and joint ventures

Associates and joint ventures

millions of CHF	2014	2013
Investments in associates and joint ventures	2.5	–
Summarized financial information:		
— Profit from continuing operations	–	–
— Share within OCI	–	–
Total	**–**	**–**

On March 07, 2014, Sulzer signed an agreement to form a joint venture with China Huadian Corporation for the service of gas turbines including field service, component repair, and delivery of new capital parts. The new joint venture operates under the name of Hua Rui (Jiangsu) Gas Turbine Services Co. Ltd. As of December 31, 2014, the joint venture is in the start-up phase. Sulzer has a share of 49% in this company. The paid-in share capital of company at year-end 2014 amounts to 20%. The company will be operative during the year 2015.

Sulzer has another investment in associates with the company PPSCMI in France. This company acts primarily in the fields of production, installation, and maintenance of parts in the industrial business. The carrying amount is less than CHF 0.1 million.

Considering the carrying amount and the profit contribution, both associates are regarded as not significant for the consolidated financial statements 2014.

On November 21, 2014, Sulzer signed an agreement to form a joint venture with the Unaoil Group dedicated to the service of all rotating equipment for oil and gas, and power customers in Southern Iraq. The joint venture will operate under the name of Sulzer Rotating Equipment FZCO and will have offices in Dubai, with local operations and a branch in Southern Iraq. The joint venture builds upon the established cooperation between Sulzer and Unaoil serving customers in Southern Iraq. At year-end 2014 this company was not yet operative.

17 Other financial assets

Other financial assets

	2014		
millions of CHF	Available-for-sale	Loans and receivables	Total
Balance as of January 1	4.5	6.6	11.1
Additions	–	0.8	0.8
Disposals	–	−0.1	−0.1
Changes in fair value	–	–	–
Currency translation differences	–	0.1	0.1
Balance as of December 31	**4.5**	**7.4**	**11.9**

Other financial assets

millions of CHF	Available-for-sale (2013)	Loans and receivables (2013)	Total (2013)
Balance as of January 1	–	8.6	8.6
Additions	–	0.3	0.3
Disposals	–	–	–
Reclassifications	4.5	−1.2	3.3
Transfer to assets held for sale	–	−0.1	−0.1
Currency translation differences	–	−1.0	−1.0
Balance as of December 31	**4.5**	**6.6**	**11.1**

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

18 Inventories

Inventories

millions of CHF	2014	2013
Raw materials, supplies, and consumables	123.3	108.4
Work in progress	270.5	243.9
Finished products and trade merchandise	93.7	84.2
Total inventories	**487.5**	**436.5**

In 2014, Sulzer recognized write-downs of CHF 18.1 million (2013: CHF 18.9 million) in the income statement. Total accumulated write-downs on inventories amounted to CHF 68.7 million as of December 31, 2014 (2013: CHF 64.2 million). Material expenses in 2014 amounted to CHF 1 235.3 million (2013: CHF 1 365.9 million).

19 Percentage of completion contracts

Percentage of completion contracts

millions of CHF	2014	2013
Contract revenue recognized in the period	**313.1**	**446.7**
Net receivables resulting from construction contracts	176.8	191.6
Net liabilities resulting from construction contracts	–15.5	–29.2
Advance payments received from customers	–436.2	–471.4

Sales recognized in accordance with the percentage of completion method for the reporting period amounted to CHF 313.1 million, which corresponds to 9.7% of total sales (2013: CHF 446.7 million, or 13.7% of sales). The costs related to this sales figure amounted to CHF 238.2 million (2013: CHF 352.5 million). The impact on gross profit was CHF 74.9 million, which corresponds to 7.4% of total gross profit (2013: CHF 94.2 million, 9.4%).

20 Trade accounts receivable

Aging structure of trade accounts receivable

	2014			2013		
millions of CHF	Gross amount	Allowance	Net book value	Gross amount	Allowance	Net book value
Not past due	675.1	–7.6	667.5	645.7	–6.8	638.9
Past due						
1–30 days	105.8	–0.1	105.7	91.8	–0.7	91.1
31–60 days	44.3	–0.8	43.5	37.0	–1.4	35.6
61–90 days	35.0	–2.9	32.1	26.7	–0.6	26.1
91–120 days	19.8	–5.5	14.3	19.6	–1.5	18.1
>120 days	115.6	–22.8	92.8	90.2	–22.5	67.7
Total trade accounts receivable	**995.6**	**–39.7**	**955.9**	**911.0**	**–33.5**	**877.5**

Allowance for doubtful trade accounts receivable

millions of CHF	2014	2013
Balance as of January 1	33.5	40.8
Changes in scope of consolidation	0.3	–
Additions	23.5	26.8
Released as no longer required	–14.7	–21.8
Released for utilization	–4.1	–7.2
Reclassifications to assets held for sale	–	–2.6
Currency translation differences	1.2	–2.5
Balance as of December 31	**39.7**	**33.5**

Approximately 32% (2013: 29%) of the gross amount of trade accounts receivable is past due, and an allowance of CHF 39.7 million (2013: CHF 33.5 million) was recorded. The recoverability of trade accounts receivable is regularly reviewed, and the credit quality of new customers is thoroughly assessed. Due to the large and heterogeneous customer base, the credit risk of the group is limited.

21 Other accounts receivable and prepaid expenses

Other accounts receivable and prepaid expenses

millions of CHF	2014	2013
Receivables from tax authorities	64.0	64.6
Derivative financial instruments	7.4	11.5
Other accounts receivable	39.8	32.3
Total other accounts receivable	**111.2**	**108.4**
Insurance premiums	2.6	2.6
Prepaid contributions to employee benefit plans	10.7	12.3
Other prepaid expenses	24.1	30.1
Total prepaid expenses	**37.4**	**45.0**
Total other accounts receivable and prepaid expenses	**148.6**	**153.4**

For further details on the position "Derivative financial instruments," refer to note 30. Other accounts receivable do not include any material positions that are past due or impaired.

22 Cash and cash equivalents

Cash and cash equivalents

	2014		2013	
millions of CHF	Average eff. interest rate	Amount	Average eff. interest rate	Amount
Cash		865.9		479.2
Cash equivalents		328.8		49.5
Total cash and cash equivalents	**0.69**	**1 194.7**	**0.73**	**528.7**

23 Marketable securities

Marketable securities

millions of CHF	2014	2013
Designated at fair value through profit or loss	106.8	–
Total marketable securities	**106.8**	**–**

As of December 31, 2014, marketable securities designated at fair value through profit or loss consist of interest-bearing investments. Fair value adjustments are recognized in financial income.

24 Pledged assets

Pledged assets

millions of CHF	2014	2013
Land and buildings	1.6	14.4
Machinery and equipment	1.7	1.6
Total pledged assets	**3.3**	**16.0**

25 Share capital

Share capital

thousands of CHF	2014 Number of shares	2014 Share capital	2013 Number of shares	2013 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 his 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 account the nominee holds at least 0.5% of the share capital have been disclosed. The Board of Directors is also entitled, beyond these limits, to enter shares of nominees with voting rights in the share register, provided that the above-mentioned conditions are met (see also paragraph 6a of the Articles of Association at www.sulzer.com/regulations).

Shareholders holding more than 3% and Sulzer Ltd

	2014 Number of shares	2014 in %	2013 Number of shares	2013 in %
Renova Group	11 159 790	32.57	10 688 812	31.20
First Pacific Advisors	1 716 616	5.01	–	–
BlackRock	1 149 976	3.36	–	–
Sulzer Ltd	254 940	0.74	282 415	0.82

Sulzer Ltd is not aware of any agreements between the shareholders named above regarding the shares held or regarding the execution of voting rights. The total number of shares held by Sulzer Ltd, as of December 31, 2014, amounted to 254 940, which are mainly held to the use for the management stock option and restricted stock unit plan.

26 Earnings per share

Earnings per share

	2014	2013
Net income attributable to shareholders of Sulzer Ltd - continuing operations	–160.7	174.5
Net income attributable to shareholders of Sulzer Ltd - discontinued operations	435.7	59.9
Net income attributable to shareholders of Sulzer Ltd (millions of CHF)	**275.0**	**234.4**
Issued number of shares	34262370	34262370
Adjustment for treasury shares held	–255061	–262941
Average number of shares outstanding	**34007309**	**33999429**
Adjustment for share participation plans	153808	159177
Average number of shares for calculating diluted earnings per share	**34161117**	**34158606**
Earnings per share, attributable to a shareholder of Sulzer Ltd (in CHF)		
Basic earnings per share	8.09	6.89
— thereof basic earnings per share continuing operations	–4.72	5.13
— thereof basic earnings per share discontinued operations	12.81	1.76
Diluted earnings per share	8.05	6.86
— thereof diluted earnings per share continuing operations	–4.70	5.11
— thereof diluted earnings per share discontinued operations	12.75	1.75
Dividend per share	3.50[1]	3.20

[1] Proposal to the Annual General Meeting.

27 Borrowings

Borrowings

	2014			2013		
millions of CHF	Short-term	Long-term	Total	Short-term	Long-term	Total
Bonds	–	498.9	498.9	–	498.1	498.1
Bank loans	17.5	10.3	27.8	56.2	16.5	72.7
Other loans and debts	–	0.5	0.5	0.1	0.5	0.6
Leasing obligations	0.2	0.6	0.8	0.3	0.8	1.1
Total borrowings	**17.7**	**510.3**	**528.0**	**56.6**	**515.9**	**572.5**
— thereof due in <1 year	17.7	–	17.7	56.6	–	56.6
— thereof due in 1–5 years	–	510.0	510.0	–	514.9	514.9
— thereof due in >5 years	–	0.3	0.3	–	1.0	1.0

Borrowings by currency

	2014			2013		
	millions of CHF	in %	Interest rate	millions of CHF	in %	Interest rate
BRL	22.0	4.2	8.0%	16.5	2.9	8.0%
CHF	498.9	94.5	2.3%	503.3	87.9	2.2%
EUR	0.4	0.1	4.0%	28.1	4.9	1.3%
GBP	–	–	–	11.8	2.1	1.3%
USD	–	–	–	1.2	0.2	3.1%
Other	6.7	1.2	–	11.6	2.0	–
Total	**528.0**	**100.0**	**–**	**572.5**	**100.0**	**–**

In 2012, a CHF 500 million syndicated credit facility with maturity in April 2017 has been arranged. 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, 2014, the use of the syndicated credit line was CHF 0.0 million compared to CHF 36.3 million at the end of the previous year, and the amount of short-term borrowings was reduced accordingly. Also the outstanding long-term borrowings decreased during 2014.

Outstanding bond

	2014		2013	
millions of CHF	Amortized costs	Nominal	Amortized costs	Nominal
2.25% 2011–2016	498.9	500.0	498.1	500.0
Total	**498.9**	**500.0**	**498.1**	**500.0**

In 2011, Sulzer Ltd issued a CHF-denominated 2.25% domestic bond in the aggregate principal amount of CHF 500 million for a term of five years. The effective interest rate is 2.42%. The bond is traded at the SIX Swiss Exchange and the fair value amounts to CHF 514.4 million as per December 31, 2014 (2013: CHF 519.2 million). The fair value of the other financial borrowings is approximately equivalent to their carrying amount.

28 Provisions

Provisions

millions of CHF	Employee benefit plans[1]	Other employee benefits	Warranties/ liabilities	Restructuring	Environmental	Other	Total
Balance as of December 31, 2013	111.3	38.3	85.3	11.0	16.6	66.7	329.2
Changes in scope of consolidation	–	–	–	–	–	1.2	1.2
Additions	171.8	24.4	37.2	−0.2	–	20.9	254.1
Released as no longer required	−0.6	−3.3	−12.4	−0.9	–	−8.2	−25.4
Released for utilization	−6.0	−23.8	−12.4	−9.5	−0.4	−16.0	−68.1
Reclassifications	–	–	–	0.9	–	−1.1	−0.2
Currency translation differences	4.4	1.2	1.8	–	0.3	1.4	9.1
Total provisions as of December 31, 2014	**280.9**	**36.8**	**99.5**	**1.3**	**16.5**	**64.9**	**499.9**
— thereof non-current	280.9	29.5	1.2	–	16.4	24.2	352.2
— thereof current	–	7.3	98.3	1.3	0.1	40.7	147.7

[1] For further details of employee benefit plans, refer to note 09, “Employee benefit plans."

The largest position in provisions refers to “Employee benefit plans.” In 2014, this position increased by CHF 169.6 million to CHF 280.9 million, mainly due to actuarial losses on defined benefit obligations in other comprehensive income.

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

The category “Warranties/liabilities” increased by CHF 14.2 million to CHF 99.5 million. Besides warranties, these provisions include customer claims, penalties, litigation, and legal cases relating to goods delivered or services rendered. The provision for risks referring to an ongoing dispute with the purchaser of the locomotive business (sold in 1998) is accrued within this category. This provision is classified as current (prior year: non-current). The decrease in restructuring provision is related to the termination of the program communicated in October 2013. An amount of CHF 8.9 million out of the total restructuring expenses of CHF 11.2 million recognized in 2014 is related to personnel restructuring expenses. “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. 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 settled in 2015, by their nature, the amounts and timing of any cash outflows are difficult to predict.

29 Other current and accrued liabilities

Other current and accrued liabilities

millions of CHF	2014	2013
Social security institutions	10.5	12.4
Taxes (VAT, withholding tax)	42.8	33.3
Derivative financial instruments	11.6	5.4
Other current liabilities	33.5	20.9
Total other current liabilities	**98.4**	**72.0**
Vacation and overtime claims	32.7	32.2
Salaries, wages, and bonuses	78.1	76.0
Contract-related costs	129.1	120.2
Other accrued liabilities	85.9	91.9
Total accrued liabilities	**325.8**	**320.3**
Total other current and accrued liabilities	**424.2**	**392.3**

30 Derivative financial instruments

Derivative financial instruments

	2014				2013			
	Derivative assets		Derivative liabilities		Derivative assets		Derivative liabilities	
millions of CHF	Notional value	Fair value	Notional value	Fair value	Notional value	Fair value	Notional value	Fair value
Forward exchange contracts	407.1	7.4	582.6	11.6	688.6	11.9	526.2	5.4
Other derivative instruments	–	–	0.8	0.1	0.7	–	–	–
Total	**407.1**	**7.4**	**583.4**	**11.7**	**689.3**	**11.9**	**526.2**	**5.4**
— thereof due in <1 year	406.4		579.8		671.1		524.4	
— thereof due in 1–2 years	0.7		3.6		18.2		1.8	
— thereof due in 3–5 years	–		–		–		–	
— thereof due in >5 years	–		–		–		–	

The notional and the fair value of derivative assets and liabilities include current and also non-current derivative financial instruments. The cash flow hedges of the expected future sales were assessed as highly effective. As at December 31, 2014, a net unrealized loss of CHF 10.1 million (2013: profit of CHF 0.3 million) with a deferred tax asset of CHF 4.4 million (2013: CHF 2.0 million) relating to these cash flow hedges were included in other comprehensive income. In 2014, a gain of CHF 1.4 million (2013: a gain of CHF 1.9 million) cash flow hedge reserve was recognized in profit or loss. There was no ineffectiveness that arose from cash flow hedges in 2014 (2013: CHF 0.0 million). There was no ineffectiveness to be recorded from fair value hedges and net investments in foreign entity hedges. 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, 2014, 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 (5 to 10 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, 2014, the amount subject to such netting arrangements was CHF 2.5 million (2013: CHF 2.3 million). Considering the effect of these agreements, the amount of derivative assets would reduce from CHF 7.4 million to CHF 4.9 million (2013: from CHF 11.9 million to CHF 9.6 million), and the amount of derivative liabilities would reduce from CHF 11.7 million to CHF 9.2 million (2013: from CHF 5.4 million to CHF 3.1 million).

31 Other financial commitments

Other financial commitments

millions of CHF	2014 Rented premises	2014 Other	2014 Total	2013 Rented premises	2013 Other	2013 Total
Maturity <1 year	20.0	10.7	30.7	27.2	11.8	39.0
Maturity 1–5 years	51.4	18.4	69.8	79.9	15.6	95.5
Maturity >5 years	19.1	–	19.1	25.4	–	25.4
Operating lease	**90.5**	**29.1**	**119.6**	**132.5**	**27.4**	**159.9**
— thereof continuing operations	90.5	29.1	119.6	104.7	23.7	128.4
— thereof discontinued operations	–	–	–	27.8	3.7	31.5
Total commitments for future investments and acquisitions	**1.2**	**1.4**	**2.6**	**1.6**	**3.6**	**5.2**
— thereof continuing operations	1.2	1.4	2.6	1.6	2.5	4.1
— thereof discontinued operations	–	–	–	–	1.1	1.1

32 Contingent liabilities

Contingent liabilities

millions of CHF	2014	2013
Pledges in favor of third parties	–	0.8
Guarantees in favor of third parties	10.0	–
Total contingent liabilities	**10.0**	**0.8**

In 2014, the group has provided a guarantee to a third party with a maximum amount of CHF 10.0 million, expiring in the year 2022 regarding certain environmental matters related to disposed business.

33 Capital expenditure by category (unaudited)

Capital expenditure by category

millions of CHF	2014	in %	2013	in %
Expansion	40.7	42.3	21.2	26.3
Rationalization	6.0	6.3	3.5	4.3
Replacing	28.6	29.8	30.6	38.0
IT	11.5	12.0	12.1	15.0
QESH (Quality, environment, safety, and health)	3.6	3.8	3.3	4.1
Other	5.6	5.8	9.8	12.3
Total capital expenditure by category	**96.0**	**100.0**	**80.5**	**100.0**

34 Share participation plans

Stock option plan

From 2002 until 2008, there was a Sulzer stock option plan in place for the Sulzer Management Group and Board members. Awards were made annually and were dependent on the organizational position of the employee. The exercise price was determined on the basis of the average stock market price of the Sulzer share during the last ten days before the options were granted.

For details on option holdings by members of the Board of Directors and the Executive Committee, see note 110 of Sulzer Ltd's financial statements.

Option right for ten Sulzer shares

							2014
Grant year	Outstanding 01.01.2014	Granted 2014	Exercised 2014	Forfeited 2014	Expired 2014	Outstanding 31.12.2014	Average exercise price in CHF
2004	200	–	200	–	–	-	31.80
2005	1 410	–	830	–	–	580	52.20
Total	1 610	–	1 030	–	–	580	
Weighted average exercise price in CHF	**49.67**	**–**	**48.24**	**–**	**–**	**52.20**	**–**

							2013
Grant year	Outstanding 01.01.2013	Granted 2013	Exercised 2013	Forfeited 2013	Expired 2013	Outstanding 31.12.2013	Average exercise price in CHF
2004	1 485	–	1 285	–	–	200	31.80
2005	2 635	–	1 225	–	–	1 410	52.20
2008	1 890	–	1 890	–	–	–	127.90
Total	**6 010**	**–**	**4 400**	**–**	**–**	**1 610**	
Weighted average exercise price in CHF	**70.97**	**–**	**78.76**	**–**	**–**	**49.67**	**–**

Expiry of option rights for ten Sulzer shares

Year of expiry	2014 Number of options	2014 Average exercise price in CHF	2013 Number of options	2013 Average exercise price in CHF
2014	–	31.80	200	31.80
2015	580	52.20	1 410	52.20
Outstanding as of December 31	**580**		**1 610**	

In 2014, no options were granted.

Restricted stock unit plan settled in Sulzer shares

Since 2009, there has been a restricted stock unit (RSU) plan in place for the Sulzer Management Group and Board members. Awards are made annually and depend on the organizational position of the employee. The restricted stock unit plan is an equity-settled plan, where one-third of the RSUs vest after one year, with an additional one-third vesting in each of the following two years. One RSU award is settled with one Sulzer share. The number of awards granted is determined on the basis of the average stock market price of the Sulzer share during the last ten days before the awards are granted and the cash equivalent determined per participant. After vesting, the unrestricted shares are transferred to the plan participant. They do not lead to an increase of the company's share capital. In 2014, a total of CHF 6.4 million (2013: CHF 6.7 million) was charged for this restricted stock unit plan to the operating income. Awards to members of the Board of Directors automatically vest with the departure from the Board.

For details of restricted stock unit holdings by members of the Board of Directors and the Executive Committee, see note 110 of the financial statements of Sulzer Ltd.

Restricted stock units

							2014
Grant year	Outstanding 01.01.2014	Granted 2014	Exercised 2014	Forfeited 2014	Expired 2014	Outstanding 31.12.2014	Average stock price at grant date in CHF
2011	15 681	–	15 681	–	–	–	142.62
2012	36 710	–	20 516	1 852	–	14 342	129.13
2013	49 635	303	18 761	5 665	–	25 512	166.61
2014	–	69 984	–	1 725	–	68 259	122.00
Total	**102 026**	**70 287**	**54 958**	**9 242**	**–**	**108 113**	

							2013
Grant year	Outstanding 01.01.2013	Granted 2013	Exercised 2013	Forfeited 2013	Expired 2013	Outstanding 31.12.2013	Average stock price at grant date in CHF
2010	22 167	–	22 167	–	–	–	98.41
2011	34 826	–	17 998	1 147	–	15 681	142.62
2012	60 807	–	21 561	2 536	–	36 710	129.13
2013	–	50 451	–	816	–	49 635	166.61
Total	**117 800**	**50 451**	**61 726**	**4 499**	**–**	**102 026**	

Performance share plan settled in Sulzer shares

Executive Committee members received performance share units (PSUs) of Sulzer Ltd, Winterthur, as a portion of their compensation. Sulzer operated two performance share plans (PSP). Both plans are equity-settled plans.

The first ongoing PSP was introduced in 2013 with a performance period from January 1, 2013 to March 31, 2016. Key performance indicators consist of financial objectives and are based on the Relative Total Shareholder Return (TSR) of Sulzer over the performance period, within a peer group consisting of 30 companies including Sulzer. 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 average fair market value at grant date was CHF 294.81 and has been calculated using a Monte Carlo simulation. Main assumptions include a stock price of CHF 157.61 and an average expected volatility of the peer group of 31.84%. The rank of Sulzer's TSR at the end of the performance period determines the effective number of total shares. At Rank 3 of the peer group or above, a maximum payout of 200% of target performance share awards (PSA) are converted into shares. At Rank 15 of the peer group, the payout is 100%, at Rank 21 it is 75%, and at Rank 27 or higher, it is 0%. The plan will not lead to an increase of the company's share capital. In 2014, an expense of CHF 0.2 million (2013: CHF 2.5 million) was charged to the operating income.

The second ongoing PSP was introduced in 2014 with a performance period from January 1, 2014 to March 31, 2017. Key performance indicators and measurement are identical with the PSP 2013 described above. The average fair market value at grant date was CHF 206.63 and has been calculated using a Monte Carlo simulation. Main assumptions include a stock price of CHF 129.69 and an average expected volatility of the peer group of 32.25%. The plan will not lead to an increase of the company's share capital. In 2014, an expense of CHF 0.8 million was charged to the operating income.

For details of performance share units by members of the Executive Committee, see note 110 of the financial statements of Sulzer Ltd.

Performance share units

Grant year	Outstanding 01.01.2014	Granted 2014	Exercised 2014	Forfeited 2014	Expired 2014	Outstanding 31.12.2014	Average stock price at grant date in CHF
2013	37 035	–	4 860	5 717	–	26 458	166.61
2014	–	15 965	–	2 314	–	13 651	122.00

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

Key management compensation

	2014				2013			
thousands of CHF	Short-term benefits	Equity-based compensation	Pension and social security contributions	Total	Short-term benefits	Equity-based compensation	Pension and social security contributions	Total
Board of Directors	904	862	99	1 865	961	878	140	1 979
Executive Committee	5 994	2 250	1 809	10 053	6 388	2 286	2 626	11 300

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

Related parties

Selected activities for the Sulzer pension fund were provided by employees of Sulzer Ltd in 2013. Beginning of 2014 the employees were transferred to the Sulzer Foundation. Therefore, no costs were charged to the pension fund in 2014 (2013: CHF 4.0 million). As of December 31, 2014, sales with related parties controlled by the major shareholder (Renova Group) amounted to CHF 16.2 million (2013: CHF 13.8 million) with open receivables of CHF 6.0 million (2013: CHF 0.5 million). Fees for consulting services from a company controlled by the major shareholder of Sulzer amounted to CHF 0.2 million (2013: CHF 0.1 million). Sales with other related parties recorded in 2014 amounted to CHF 5.4 million (2013: CHF 0.2 million). At the time when these consolidated financial statements were authorized for issue by the Board of Directors on February 10, 2015, no other major business transactions or outstanding balances with the Renova Group, their representatives, or any other related parties or companies were known.

We refer to the note 110 in the financial statements of Sulzer Ltd. for the share participation of the Board of Directors, Executive Committee, and related parties.

36 Auditor remuneration

Fees for the audit services by KPMG as the appointed group auditor amounted to CHF 2.6 million (2013: CHF 2.5 million). Additional services provided by the group auditor amounted to a total of CHF 0.3 million (2013: CHF 1.3 million). This amount includes CHF 0.3 million (2013: CHF 0.2 million) for tax and legal advisory services, CHF 0.0 million for other consulting services (2013: CHF 0.8 million related to the divestiture of Sulzer Metco and CHF 0.3 million for other consulting services).

37 Corporate risk management process

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

38 Subsequent events after the balance sheet date

The Board of Directors authorized these consolidated financial statements for issue on February 10, 2015. They are subject to approval at the Annual General Meeting, which will be held on April 01, 2015. 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.

On January 15, 2015 the Swiss National Bank has decided to abandon the cap on the CHF exchange rate vs. EUR. As a result, the CHF has strengthened significantly against most relevant currencies. Based on Sulzer's sales mix by currency, we preliminarily estimate the adverse translation effect to be substantial, and negatively influencing the consolidated income statement. Given the persisting volatility in the global currency markets, the exact impact cannot be reasonably quantified and predicted, as it depends on the evolution of the relevant exchange rates throughout the year.

39 Major subsidiaries
31.12.2014

31.12.2014 Europe	Subsidiary	Partici- pation	Registered capital (including paid-in capital in the USA and Canada)	Research & development	Production & Engineering	Sales	Service
Switzerland	Sulzer Pumpen AG, Winterthur	100%	CHF 3 000 000	■	■	■	■
	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				
Germany	Sulzer Pumpen (Deutschland) GmbH, Bruchsal	100%	EUR 3 000 000	■	■	■	■
	Sulzer Pumps Wastewater Germany GmbH, Bonn	100%	EUR 300 000			■	■
	Sulzer Pump Solutions Germany GmbH, Lohmar	100%	EUR 1 000 000		■		
	Sulzer Chemtech GmbH, Linden	100%	EUR 300 000			■	■
Denmark	Sulzer Mixpac Denmark A/S, Greve	100%	DKK 500 000	■	■	■	■
Finland	Sulzer Pumps Finland Oy, Kotka	100%	EUR 16 000 000	■	■	■	■
France	Sulzer Pompes France SASU, Mantes	100%	EUR 6 600 000	■	■	■	■
Great Britain	Sulzer Pumps (UK) Ltd., Leeds	100%	GBP 9 610 000	■	■	■	■
	Sulzer Chemtech (UK) Ltd., Stockton on Tees	100%	GBP 100 000			■	■
	Dowding & Mills Plc., Birmingham	100%	GBP 15 409 555		■	■	■
	Sulzer (UK) Holdings Ltd., Leeds	100%	GBP 6 100 000				
Ireland	Sulzer Pump Solutions Ireland Ltd., Wexford	100%	EUR 2 222 500	■	■	■	■
Italy	Sulzer Pumps Wastewater Italy S.r.l., Casalecchio di Reno	100%	EUR 600 000			■	
	Sulzer Chemtech Italia S.r.l., Milano	100%	EUR 100 000			■	
Norway	Sulzer Pumps Wastewater Norway A/S, Sandvika	100%	NOK 502 000			■	■
The Netherlands	Sulzer Pumps Wastewater Netherlands B.V., Maastricht-Airport	100%	EUR 15 882			■	■
	Sulzer Chemtech Nederland B.V., Breda	100%	EUR 1 134 451			■	■
	Sulzer Turbo Services Rotterdam B.V., Europoort	100%	EUR 18 000		■	■	■
	Advanced Separation Company (Ascom), B.V., Arnhem	100%	EUR 18 000	■	■	■	
	Process Laboratories Netherlands (ProLabNL) B.V., Arnhem	100%	EUR 18 000			■	■
	Sulzer Turbo Services Venlo B.V., Lomm	100%	EUR 444 704		■	■	■
	Sulzer Netherlands Holding B.V., Breda	100%	EUR 10 010 260				
	Sulzer Capital B.V., Breda	100%	EUR 50 000				
Austria	Sulzer Pumps Wastewater Austria GmbH, Wiener Neudorf	100%	EUR 55 000			■	■
Poland	Sulzer Turbo Services Poland Sp. z o.o., Lublin	100%	PLN 2 427 000		■		■
Russia	ZAO Sulzer Pumps, St. Petersburg	100%	RUB 8 000 000			■	
	Sulzer Pumps Rus LLC, Moscow	100%	RUB 6 000 600			■	■
	Sulzer Chemtech LLC, Serpukhov	100%	RUB 55 500 000		■	■	■
Sweden	Sulzer Pumps Sweden AB, Norrköping	100%	SEK 3 000 000	■	■	■	■
	Sulzer Pump Solutions AB, Malmö	100%	SEK 30 000 000				
	Sulzer Pump Solutions Sweden AB, Mölndal	100%	SEK 600 000			■	■
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 Turbo Services Canada Ltd., Edmonton	100%	CAD 7 000 000		■	■	■
USA	Sulzer Pumps (US) Inc., Brookshire, Texas	100%	USD 40 381 108	■	■	■	■
	Sulzer Pumps Solutions Inc., Easley, South Carolina	100%	USD 27 146 250		■	■	■

31.12.2014 **North America**	Subsidiary	Partici-pation	Registered capital (including paid-in capital in the USA and Canada)	Research & development	Production & Engineering	Sales	Service
	Sulzer Pump Services (US) Inc., Brookshire, 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 EMS Inc., Phoenix, Arizona	100%	USD 97		■	■	■
	Sulzer Grayson Inc., Pasadena, Texas	100%	USD 12 461 286		■	■	■
	Sulzer US Holding Inc., Sugar Land, Texas	100%	USD 200 561 040				
Mexico	Sulzer Pumps México, S.A. de C.V., Cuautitlán Izcalli	100%	MXN 4 887 413		■	■	■
	Sulzer Chemtech, S. de R.L. de C.V., Cuautitlán Izcalli	100%	MXN 31 345 500		■	■	■
Central and South America							
Argentina	Sulzer Turbo Services Argentina S.A., Buenos Aires	100%	ARS 9 730 091		■	■	■
Brazil	Sulzer Brasil S.A., Jundiaí	100%	BRL 82 054 659		■	■	■
	Sulzer Pumps Wastewater Brasil Ltda., Curitiba	100%	BRL 8 077 706		■	■	■
	Sulzer Services Brasil, Triunfo	100%	BRL 21 675 856				■
Venezuela	Sulzer Pumps (Venezuela) S.A., Barcelona	100%	VEB 200 000 000			■	■
Africa							
South Africa	Sulzer Pumps (South Africa) (Pty) Ltd., Elandsfontein	75%	ZAR 100 450 000	■	■	■	■
Nigeria	Sulzer Pumps (Nigeria) Ltd., Lagos	100%	NGN 10 000 000			■	■
Middle East							
United Arab Emirates	Sulzer Pumps Middle East FZCO, Dubai	100%	AED 500 000			■	■
Saudi Arabia	Sulzer Pumps (Saudi Arabia) LLC, Al Khobar	100%	SAR 1 000 000			■	■
Bahrain	Sulzer Chemtech Middle East S.P.C., Al Seef	100%	BHD 50 000			■	
Asia							
India	Sulzer Pumps India Ltd., Navi Mumbai	99%	INR 25 000 000		■	■	■
	Sulzer India Ltd.[1], Pune	96%	INR 34 500 000		■	■	■
	Sulzer Chemtech Tower Field Services (India) Pvt. Ltd., Mumbai	100%	INR 500 000			■	■
Indonesia	PT Sulzer Turbo Services Indonesia, Purwakarta	100%	IDR 28 234 800 000		■	■	■
Japan	Sulzer Daiichi K.K., Tokyo	60%	JPY 30 000 000			■	
Singapore	Sulzer Asia Pacific Pte Ltd., Singapore	100%	SGD 1 000 000		■	■	■
	Sulzer Chemtech Pte Ltd., Singapore	100%	SGD 1 000 000	■	■	■	■
South Korea	Sulzer Korea Ltd., Seoul	100%	KRW 222 440 000			■	
People's Republic of China	Sulzer Dalian Pumps & Compressors Ltd., Dalian	100%	CHF 21 290 000		■	■	■
	Sulzer Pumps Suzhou Ltd., Suzhou	100%	CNY 82 069 324		■	■	■
	Sulzer Pump Solutions (Kunshan) Co., Ltd., Kunshan	100%	USD 5 760 000		■		
	Sulzer Shanghai Eng. & Mach. Works Ltd., Shanghai	100%	CNY 61 432 607	■	■	■	■
Australia							
	Sulzer Pumps (ANZ) Pty Ltd., Wheelers Hill	100%	AUD 100 000			■	
	Sulzer Chemtech Pty Ltd., Brisbane	100%	AUD 500 000			■	■
	Dowding & Mills (Australia) Pty Ltd., Brendale	100%	AUD 5 308 890		■	■	■
	Sulzer Australia Holding Pty Ltd., Wheelers Hill	100%	AUD 34 820 100				

[1] Shareholding increase according to the numbers of shares bought back.

KPMG

Report of the Statutory Auditor to the General Meeting of Shareholders of Sulzer Ltd, Winterthur

Report of the Statutory Auditor on the Consolidated Financial Statements

As statutory auditor, we have audited the consolidated financial statements of Sulzer Ltd, which comprise the balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes (pages 83 to 145) for the year ended December 31, 2014.

Board of Directors' Responsibility

The board of directors is responsible for the preparation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The board of directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards as well as International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the consolidated financial statements 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 entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements for the year ended December 31, 2014 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Report on Other Legal Requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and 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

Zurich, February 10, 2015

François Rouiller	Roman Wenk
Licensed Audit Expert	Licensed Audit Expert
Auditor in Charge	

Five-year summaries of key financial data

Key figures from consolidated income statement and statement of cash flows

millions of CHF		2014	2013	2012	2011	2010
Sales		3212.1	3263.9	3340.7	3577.9	3183.7
EBITDA before impairment on goodwill		393.9	378.6	437.2	482.8	511.1
Operational EBITA		302.9	304.1	378.4	431.3	384.0
Restructuring expenses		–11.2	–16.8	–7.9	–15.0	–3.9
Impairment on goodwill		–340.0	–	–	–	–
Adjustments for other non-operational items		23.0	18.3	–0.1	–12.0	51.0
Operating income	EBIT	–69.0	264.0	328.7	364.1	406.4
EBIT adjusted for restructuring and impairment	EBITR	282.2	280.8	336.6	379.1	410.3
Return on sales before non-operational items and amortization	opROSA	9.4%	9.3%	11.3%	12.1%	12.1%
Return on sales adjusted by impairment on goodwill	ROS	8.4%	8.1%	9.8%	10.2%	12.8%
Return on capital employed (EBIT before Impairment/average capital employed)	ROCE	13.0%	12.6%	14.6%	18.8%	28.1%
FCF conversion (Free Cash Flow/Net Income[1])		0.35	0.93	1.12	0.29	0.49
Reported EPS (in CHF)	EPS	8.09	6.89	8.91	8.25	8.92
Depreciation		–79.2	–73.0	–66.8	–78.5	–80.0
Amortization[2]		–43.7	–41.6	–41.7	–40.2	–24.7
Research and development expenses		76.2	70.6	66.9	71.7	58.5
Net income attributable to shareholders of Sulzer Ltd		275.0	234.4	302.9	279.8	300.4
— in percentage of equity attributable to shareholders of Sulzer Ltd	ROE	11.3%	10.0%	13.7%	13.8%	15.9%
Capital expenditure		96.0	80.5	93.0	113.2	118.1
Free cash flow		98.0	218.7	347.9	82.3	149.5
Employees (number of full-time equivalents) as of December 31		15494	15382	15537	17002	13740
Personnel expenses		1046.2	1047.4	1019.8	1056.3	973.6

[1] Net income from continuing and discontinued operations.
[2] Amortization does not include impairment on goodwill.

Key figures from consolidated balance sheet

millions of CHF	2014	2013	2012	2011	2010
Non-current assets	1675.7	1891.5	2237.8	2225.6	1295.6
— thereof property, plant, and equipment	530.7	492.0	650.0	619.5	531.6
Current assets	2972.5	2652.4	2371.7	2336.0	2196.1
— thereof cash and cash equivalents and marketable securities	1301.5	528.7	513.1	430.7	680.8
Total assets	4648.2	4543.9	4609.5	4561.6	3491.7
Equity attributable to shareholders of Sulzer Ltd	2435.4	2334.4	2216.6	2022.4	1895.0
Non-current liabilities	989.7	825.3	956.5	998.7	348.1
— thereof long-term borrowings	510.3	515.9	533.0	531.4	44.2
Current liabilities	1216.5	1377.9	1429.6	1534.5	1242.4
— thereof short-term borrowings	17.7	56.6	76.0	236.2	83.8
Net liquidity[1]	773.5	–36.2	–95.9	–336.9	552.8
Equity ratio[2]	52.4%	51.4%	48.1%	44.3%	54.3%
Borrowings-to-equity ratio (gearing)	0.22	0.25	0.27	0.38	0.07

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

Five-year summaries by division

	Order intake					Sales				
millions of CHF	**2014**	2013	2012	2011	2010	**2014**	2013	2012	2011	2010
Divisions	**3169.1**	**3250.7**	**3334.6**	**3558.5**	**3278.5**	**3221.0**	**3270.9**	**3332.6**	**3570.1**	**3173.3**
Pumps Equipment/Sulzer Pumps[3]	1725.5	1801.5	2094.3	1705.6	1613.7	1754.9	1821.6	2097.5	1747.8	1576.1
Rotating Equipment Services/Sulzer Turbo Services[3]	725.2	699.3	535.2	477.6	400.4	724.6	705.6	510.5	488.0	399.1
Chemtech	718.4	749.9	705.1	701.7	621.3	741.5	743.7	724.6	667.0	574.6
Sulzer Metco	–	–	–	673.6	643.1	–	–	–	667.3	623.5
Others	**–8.3**	**–0.8**	**8.8**	**7.6**	**10.2**	**–8.9**	**–7.0**	**8.1**	**7.8**	**10.4**
Total	**3160.8**	**3249.9**	**3343.4**	**3566.1**	**3288.7**	**3212.1**	**3263.9**	**3340.7**	**3577.9**	**3183.7**

	Order backlog					Employees[1]				
millions of CHF	**2014**	2013	2012	2011	2010	**2014**	2013	2012	2011	2010
Divisions	**1703.6**	**1672.1**	**1754.3**	**1861.7**	**1797.3**	**15361**	**15198**	**15362**	**16758**	**13509**
Pumps Equipment/Sulzer Pumps[3]	1209.4	1190.9	1309.1	1343.5	1336.6	7365	7389	8573	8211	5904
Rotating Equipment Services/Sulzer Turbo Services[3]	212.2	190.7	151.6	130.1	115.1	3709	3642	2703	2654	2587
Chemtech	282.0	290.5	293.6	310.7	274.3	4287	4167	4086	3634	2973
Sulzer Metco	–	–	–	77.4	71.3	–	–	–	2259	2045
Others	**–4.0**	**–**	**–0.7**	**2.3**	**2.5**	**133**	**184**	**175**	**244**	**231**
Total	**1699.6**	**1672.1**	**1753.6**	**1864.0**	**1799.8**	**15494**	**15382**	**15537**	**17002**	**13740**

	Operational EBITA					ROCE in %[2]				
millions of CHF	**2014**	2013	2012	2011	2010	**2014**	2013	2012	2011	2010
Divisions	**318.8**	**332.9**	**373.1**	**437.8**	**380.5**	**12.9%**	**13.4%**	**14.0%**	**18.0%**	**23.9%**
Pumps Equipment/Sulzer Pumps[3]	160.6	166.9	228.1	221.0	192.6	10.4%	n/a	13.1%	20.5%	55.5%
Rotating Equipment Services/Sulzer Turbo Services[3]	64.6	71.0	61.7	60.7	52.0	14.7%	n/a	14.8%	14.9%	13.6%
Chemtech	93.6	95.0	83.3	79.7	74.3	18.6%	19.7%	16.3%	15.3%	14.4%
Sulzer Metco	–	–	–	76.4	61.6	–	–	–	18.2%	14.6%
Others	**–15.9**	**–28.8**	**5.3**	**–6.5**	**3.5**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**
Total	**302.9**	**304.1**	**378.4**	**431.3**	**384.0**	**13.0%**	**12.6%**	**14.6%**	**18.8%**	**28.1%**

[1] Number of full-time equivalents as of December 31.
[2] Adjusted for impairment on goodwill.
[3] Values for the years 2010 to 2012 are based on the former divisional structure with Sulzer Pumps, Sulzer Turbo Services, and Sulzer Chemtech.

Five-year summaries by region

Order intake by region

millions of CHF	2014	2013	2012	2011	2010
Europe, Middle East, Africa	1305.5	1329.7	1431.2	1554.5	1349.8
Americas	1165.4	1123.2	1214.9	1225.5	1131.9
Asia-Pacific	689.9	797.0	697.3	786.1	807.0
Total	**3160.8**	**3249.9**	**3343.4**	**3566.1**	**3288.7**

Sales by region

millions of CHF	2014	2013	2012	2011	2010
Europe, Middle East, Africa	1264.7	1402.4	1421.2	1574.6	1331.4
Americas	1177.4	1130.0	1145.5	1167.6	1164.0
Asia-Pacific	770.0	731.5	774.0	835.7	688.3
Total	**3212.1**	**3263.9**	**3340.7**	**3577.9**	**3183.7**

Capital employed (average) by company location

millions of CHF	2014	2013	2012	2011	2010
Europe, Middle East, Africa	1393.2	1365.1	1500.2	1319.7	922.5
Americas	447.9	481.0	497.0	418.1	389.8
Asia-Pacific	236.8	243.7	246.7	198.7	134.6
Total	**2077.9**	**2089.8**	**2243.9**	**1936.5**	**1446.9**

Employees by company location[1)]

	2014	2013	2012	2011	2010
Europe, Middle East, Africa	6607	6749	6938	8211	6480
Americas	4545	4361	4653	4739	3757
Asia-Pacific	4342	4272	3946	4051	3503
Total	**15494**	**15382**	**15537**	**17001**	**13740**

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

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Financial Statements of Sulzer Ltd

Balance sheet of Sulzer Ltd
December 31

millions of CHF	Notes	2014	2013
Non-current assets			
Investments in subsidiaries and other entities		1 345.1	1 301.7
Loans to subsidiaries		684.4	724.0
— thereof subordinated CHF 2.8 million (2013: CHF 2.8 million)			
Other loans and financial assets		4.5	4.6
Total non-current assets		**2 034.0**	**2 030.3**
Current assets			
Accounts receivable from subsidiaries		81.7	227.8
Other accounts receivable and prepayments		1.6	7.3
Marketable securities	103	126.4	40.6
Cash		640.6	146.2
Total current assets		**850.3**	**421.9**
Total assets		**2 884.3**	**2 452.2**
Equity			
Registered share capital	104	0.3	0.3
Legal reserves		182.0	178.6
Reserves for treasury stock	104	23.5	26.9
Free reserves		1 486.5	1 226.5
Retained earnings		15.5	13.6
Net profit for the year		575.0	371.5
Total equity		**2 282.8**	**1 817.4**
Non-current liabilities			
Non-current financial liabilities		498.9	498.1
Non-current provisions		64.6	67.8
Total non-current liabilities		**563.5**	**565.9**
Current liabilities			
Current provisions		8.6	6.1
Current liabilities with subsidiaries		11.2	33.1
Accounts payable and accrued liabilities	105	18.2	29.7
Total current liabilities		**38.0**	**68.9**
Total liabilities		**601.5**	**634.8**
Total equity and liabilities		**2 884.3**	**2 452.2**

Income statement of Sulzer Ltd
January–December

Income statement of Sulzer Ltd

millions of CHF	Notes	2014	2013
Revenues			
Investment income	109	999.0	448.5
Financial income		32.0	52.1
Other income		44.7	53.8
Total revenues		**1 075.7**	**554.4**
Expenses			
Administrative expenses	107	48.8	87.0
Financial expenses		24.1	78.9
Investment and loan expenses		419.0	15.4
Income taxes		3.1	0.7
Other expenses		5.7	0.9
Total expenses		**500.7**	**182.9**
Net profit for the year		**575.0**	**371.5**

Statement of changes in equity of Sulzer Ltd
January–December

Statement of changes in equity of Sulzer Ltd

millions of CHF	Share capital	Legal reserves	Reserves for treasury stock	Free reserves	Retained earnings	Net income	Total
Equity as of January 01, 2012	**0.3**	**160.4**	**45.1**	**986.5**	**7.6**	**109.1**	**1 309.0**
Dividend						–102.8	–102.8
Allocation of net income					6.3	–6.3	–
Net profit for the year						349.3	349.3
Change in reserves for treasury stock		19.8	–19.8				–
Equity as of December 31, 2012	**0.3**	**180.2**	**25.3**	**986.5**	**13.9**	**349.3**	**1 555.5**
Dividend						–109.6	–109.6
Allocation of net income				240.0	–0.3	–239.7	–
Net profit for the year						371.5	371.5
Change in reserves for treasury stock		–1.6	1.6				–
Equity as of December 31, 2013	**0.3**	**178.6**	**26.9**	**1 226.5**	**13.6**	**371.5**	**1 817.4**
Dividend						–109.6	–109.6
Allocation of net income				260.0	1.9	–261.9	–
Net profit for the year						575.0	575.0
Change in reserves for treasury stock		3.4	–3.4				–
Equity as of December 31, 2014	**0.3**	**182.0**	**23.5**	**1 486.5**	**15.5**	**575.0**	**2 282.8**

Notes to the Financial Statements of Sulzer Ltd

101 Valuation principles

The financial statements as of December 31, 2014, are in compliance with the requirements of Swiss corporation law. However, for the purpose of including Sulzer Ltd in the consolidated financial statements, the group accounting principles remain fully applicable.

102 Investments in subsidiaries

A list of the major subsidiaries held directly or indirectly by Sulzer Ltd is included in the note 39 of the consolidated financial statements.

103 Marketable securities

Marketable securities

millions of CHF	2014	2013
Treasury stock	27.0	40.6
Short-term interest-bearing investments	99.4	–
Total marketable securities	**126.4**	**40.6**

104 Registered share capital

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

Share ownership

Details of the composition and changes relating to the issued share capital, the share capital authorized but not issued, and the shares held as treasury stock, are included in note 25 to the consolidated financial statements. Details of share data ownership are also provided in note 25.

Treasury stock held by Sulzer Ltd

millions of CHF	Number of shares	Total acquisition cost
Balance as of January 01, 2014	282 415	26.9
Purchase	30 545	3.9
Sale	–58 020	–7.3
Balance as of December 31, 2014	**254 940**	**23.5**

The treasury stock held covers the options from the shares participation plan and restricted stock unit plan. The total number of shares as of December 31, 2014, amounted to 254 940 (2013: 282 415).

105 Accounts payable and accrued liabilities

Accounts payable and accrued liabilities

millions of CHF	2014	2013
Other liabilities	0.9	1.1
Accrued liabilities	17.3	28.6
Total accounts payable and accrued liabilities	**18.2**	**29.7**

106 Contingent liabilities

Contingent liabilities

millions of CHF	2014	2013
Guarantees, sureties, comfort letters for subsidiaries		
— to banks and insurance companies	1 295.4	1 341.4
— to customers	370.4	389.4
— to others	36.4	150.7
Guarantees to third parties	10.0	–
Total contingent liabilities	**1 712.2**	**1 881.5**

As of December 31, 2014, CHF 310.7 million (2013: CHF 399.8 million) of guarantees, sureties, and comfort letters for subsidiaries to banks and insurance companies were utilized.

107 Administrative expenses

Administrative expenses

millions of CHF	2014	2013
Personnel expenses	–	22.8
Other administrative expenses	48.8	64.2
Total administrative expenses	**48.8**	**87.0**

Until the end of 2013, employment contracts of personnel with group functions were established with Sulzer Ltd as employer. As of January 01, 2014, all employment contracts are made with a Swiss subsidiary of Sulzer Ltd.

108 Risk management process

Sulzer Ltd is the ultimate parent company of the Sulzer group. The key risks of Sulzer Ltd are covered through the risk management process (see note 37 to the consolidated financial statements) of the group.

109 Investment income

The income from investment contains the profit from the sale of the Metco division and ordinary as well as extraordinary dividend payments from subsidiaries. In accordance with the requirements of the Swiss Code of Obligations, the profit from the disposal of Sulzer Metco amounts to CHF 390.8 million.

Shareholders

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

The compensation tables 2014 and 2013 are part of the audited compensation report (see separate section within this annual report).

2014	Sulzer shares	Restricted stock units (RSU) (NF)[1]	Other call options	Total call options, share awards and shares	Blocked Sulzer shares out of PSP 2010	Performance share units (PSU) 2013[2]	Performance share units (PSU) 2014[3]
Board of Directors	**45563**	**11051**	**–**	**56614**	**–**	**–**	**–**
Peter Löscher	26000	2052	–	28052	–	–	–
Matthias Bichsel	–	1026	–	1026	–	–	–
Thomas Glanzmann	3700	1851	–	5551	–	–	–
Jill Lee	2179	1851	–	4030	–	–	–
Marco Musetti	1776	1851	–	3627	–	–	–
Luciano Respini	8027	2097	–	10124	–	–	–
Klaus Sturany	3881	323	–	4204	–	–	–
Executive Committee	**22344**	**17903**	**–**	**40247**	**7422**	**20741**	**13651**
Klaus Stahlmann	5400	–	–	5400	–	15881	6439
Peter Alexander	6649	568	–	7217	3711	4860	1967
Oliver Bailer	852	682	–	1534	–	–	1967
Thomas Dittrich	1500	14763	–	16263	–	–	964
César Montenegro	7943	1890	–	9833	3711	–	2314

1) Restricted stock units assigned by Sulzer as compensation.
2) The average fair value of one performance share unit 2013 at grant date amounted to CHF 294.14.
3) The average fair value of one performance share unit 2014 at grant date amounted to CHF 206.63.

2013	Sulzer shares	Restricted stock units (RSU) (NF)[1]	Other call options	Total call options, share awards and shares	Put options	Blocked Sulzer shares out of PSP 2010	Performance share units (PSU 2013)[2]
Board of Directors	**54878**	**10609**	**–**	**65487**	**–**	**–**	**–**
Manfred Wennemer	–	1503	–	1503	–	–	–
Thomas Glanzmann	2723	1399	–	4122	–	–	–
Vladimir V. Kuznetsov	40315	1692	–	42007	–	–	–
Jill Lee	909	1692	–	2601	–	–	–
Marco Musetti	909	1692	–	2601	–	–	–
Luciano Respini	6757	1692	–	8449	–	–	–
Klaus Sturany	3265	939	–	4204	–	–	–
Executive Committee	**2183**	**8268**	**–**	**10451**	**–**	**24739**	**32175**
Klaus Stahlmann	–	–	–	–	–	–	15881
Peter Alexander	–	1651	–	1651	–	9277	4860
Oliver Bailer	202	1332	–	1534	–	–	–
Jürgen Brandt	98	1651	–	1749	–	6185	5717
César Montenegro	1883	3634	–	5517	–	9277	–
Scot Smith	–	–	–	–	–	–	5717

1) Restricted Stock Units assigned by Sulzer as compensation.
2) The average fair value of one performance share unit 2013 at grant date amounted to CHF 294.14.

Appropriation of net profit

Appropriation of net profit

in CHF	2014	2013
Net profit for the year	575000000	371500000
Unallocated profit carried forward from previous year	15451016	13590600
Total available profit	**590451016**	**385090600**
Proposal by the Board of Directors: **Appropriation to free reserves**	**300000000**	**260000000**
Dividend	**119918295**	**109639584**
Balance carried forward	**170532721**	**15451016**
Distribution per share CHF 0.01		
Gross dividend	3.50	3.20
less 35% withholding tax	1.23	1.12
Net payment	**2.27**	**2.08**

The Board of Directors proposes the payment of a dividend of CHF 3.50 per share to the Annual General Meeting on April 01, 2015.

Annual General Meeting

The 101st ordinary Annual General Meeting will be held on Wednesday, April 01, 2015, at 10:00 a.m. at Eulachhalle, Wartstrasse 73, Winterthur, Switzerland.

KPMG

Report of the Statutory Auditor to the General Meeting of Shareholders of Sulzer Ltd, Winterthur

Report of the Statutory Auditor on the Financial Statements
As statutory auditor, we have audited the financial statements of Sulzer Ltd, which comprise the balance sheet, income statement, statement of changes in equity and notes (pages 151 to 155) for the year ended December 31, 2014.

Board of Directors' Responsibility
The board of directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The board of directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements 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 entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements for the year ended December 31, 2014 comply with Swiss law and the company's articles of incorporation.

Report on Other Legal Requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and 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 net profit complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

KPMG AG

Zurich, February 10, 2015

François Rouiller
Licensed Audit Expert
Auditor in Charge

Roman Wenk
Licensed Audit Expert

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The Sulzer Annual Report 2014 is also available in German and online at www.sulzer.com/AR2014. Furthermore, the report is available as a summary in German or in English. The original version is in English.

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Data per share

CHF	2014	2013	2012	2011	2010
Net income attributable to a shareholder of Sulzer Ltd	8.09	6.89	8.91	8.25	8.92
Change from prior year	17%	−23%	8%	−8%	11%
Equity attributable to a shareholder of Sulzer Ltd	71.60	68.70	65.20	59.60	56.20
Dividend	3.50[1]	3.20	3.20	3.00	3.00
Payout ratio	43%	46%	36%	36%	34%
Average number of shares outstanding	34 007 309	33 999 429	34 009 267	33 906 689	33 693 120

[1] Proposal to the Annual General Meeting.

Stock market information

	2014	2013	2012	2011	2010
Registered share (in CHF)					
— high	143.90	171.00	147.50	158.50	144.00
— low	94.95	129.60	101.40	84.35	80.10
— year-end	106.00	143.90	144.10	100.40	142.50
Market capitalization as of December 31					
— number of shares outstanding	34 007 430	33 979 955	34 032 810	33 804 507	33 715 892
— in millions of CHF	3 605	4 890	4 904	3 394	4 805
— in percentage of equity	148%	209%	221%	168%	254%
P/E ratio as of December 31	13.1x	20.9x	16.2x	12.2x	16.0x
Dividend yield as of December 31	3.3%	2.2%	2.2%	3.0%	2.1%

Title	Security No.	Investdata	Reuters	Bloomberg
Listed on SIX Swiss Exchange Registered share	3 838 891	SUN	SUN.S	SUN SW

Shareholder structure as of December 31, 2014

number of shares	Number of shareholders	Shareholding
1–100	5 684	0.7%
101–1 000	4 335	4.2%
1 001–10 000	527	4.5%
10 001–100 000	85	8.0%
More than 100 000	13	45.7%
Total registered shareholders and shares (excluding treasury shares Sulzer Ltd)	**10 644**	**63.1%**

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