



# Corporate governance

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# Corporate structure and shareholders

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

Sulzer Ltd is subject to the laws of Switzerland, in particular Swiss corporation and stock exchange 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. Sulzer has had a single share class and has separated the functions of Chairman of the Board of Directors and CEO for many years. Since the Annual General Meeting of April 8, 2009, only individuals who have never held executive positions at Sulzer have been members of the Board of Directors. Unless otherwise indicated, the following information refers to the situation on December 31, 2018. Further information on corporate governance is published at [www.sulzer.com/governance](http://www.sulzer.com/governance). The information in the following section is set out in the order defined by the SIX Swiss Exchange directive on information relating to corporate governance (RLCG), with subsections summarized as far as possible. Sulzer's consolidated financial statements comply with International Financial Reporting Standards (IFRS), and in certain sections readers are referred to the Financial Reporting section in the Sulzer Annual Report 2018. Sulzer reports about the compensation of the Board of Directors and the Executive Committee in the [Compensation Report](#).

## Corporate structure

The operational corporate structure is shown in the graphic in the chapter "[Board of Directors](#)" of this Corporate Governance report and under [note 3](#) to the "Consolidated financial statements" in the Financial Reporting section. Sulzer Ltd is the only Sulzer company listed on a stock exchange. It is based in Winterthur, Switzerland. Its shares are listed and traded on the SIX Swiss Exchange in Zurich (Securities No. 3838891/ISIN CH0038388911). On December 31, 2018, the market capitalization of all registered shares was CHF 2'674'177'979. Information on the major subsidiaries included in the consolidation can be found under [note 36](#) to the "Consolidated financial statements." The list comprises all consolidated direct subsidiaries of Sulzer Ltd as well as all further consolidated subsidiaries that are strategically relevant.

## Significant shareholders

According to notifications of Sulzer shareholders, one shareholder held more than 3% of Sulzer Ltd's share capital on December 31, 2018. As published on the SIX disclosure platform on May 29, 2018, Viktor Vekselberg held 48.82% of Sulzer shares. The shares are directly held by Tiwel Holding AG. For information on shareholders of Sulzer Ltd that have reported shareholdings of over 3% or a reduction of shareholdings below 3% in the financial year 2018, please refer to the website of the Disclosure Office of the SIX Swiss Exchange [www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html](http://www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html). For the positions held by Sulzer and information on shareholders, see [note 23](#) to the "Consolidated financial statements." There are no cross-shareholdings where the capital or voting stakes on either side exceed the threshold of 3%.

# Capital structure

## Share capital

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

## Restrictions on transferability and nominee registrations

Sulzer shares are freely transferable provided that, when requested by the company to do so, buyers declare that they have purchased and will hold the shares in their own name and for their own account. Nominees shall only be entered in the share register with the right to vote if they meet the following conditions: the nominee is subject to the supervision of a recognized banking and financial market regulator; the nominee has entered into a written agreement with the Board of Directors concerning its status; the share capital held by the nominee does not exceed 3% of the registered share capital entered in the commercial register; and the names, addresses, and number of shares of those individuals for whose accounts the nominee holds at least 0.5% of the share capital have been disclosed. The Board of Directors is also entitled, beyond these limits, to enter shares of nominees with voting rights in the share register if the above-mentioned conditions are not met (see also paragraph 6a of the Articles of Association at [www.sulzer.com/governance](http://www.sulzer.com/governance)). On December 31, 2018, eight nominees holding a total of 1'612'821 shares (4.71% of total shares) had entered into agreements concerning their status. No exceptions have been granted. All of those shares have been entered in the share register with voting rights. There are no transfer restrictions and no privileges under the Articles of Association. A removal or amendment of the transfer restriction requires a shareholders' resolution with a majority of at least two-thirds of the votes represented.

## Convertible bonds and options

No convertible bonds or warrants are currently outstanding. Details of the restricted share units issued to the members of the Board of Directors (from 2009) as well as performance share and restricted share units issued to the members of the Executive Committee (in 2010 and yearly as from 2013) are set out under [note 31](#) to the "Consolidated financial statements" and under [note 11](#) to the "Financial statements of Sulzer Ltd."

## Board of Directors

Members of the Board of Directors are elected individually for one-year terms. At the Annual General Meeting of April 4, 2018, Jill Lee and Thomas Glanzmann did not stand for reelection to the Board of Directors. Hanne Birgitte Breinbjerg Sørensen and Lukas Braunschweiler were newly elected. All other members were reelected, and Peter Löscher was reelected as Chairman of the Board of Directors. On May 25, 2018, Axel Heitmann resigned from the Board of Directors. As of this date, the Board consists of seven members. None of them has ever held an executive position at Sulzer.

All members of the Board of Directors are non-executive. None of the members of the Board of Directors have ever belonged to the management of a Sulzer company or to the Executive Committee, nor do any significant business relationships exist between members of the Board of Directors and Sulzer Ltd or a subsidiary of Sulzer Ltd. Until June 5, 2018, Marco Musetti had an employment/advisory relationship with an affiliate of Sulzer's largest shareholder. During 2018, Mikhail Lifshitz indirectly held a 49% and Sulzer held a 51% stake of Sulzer Turbo Services RUS LLC, Russia. Sulzer acquired 100% of the share capital in December 2018. In addition, Mikhail Lifshitz is the Chairman of the Board and holds a 31% stake of Joint Stock Company ROTEC, Russia, which as of December 31, 2018, had sales with Sulzer companies in the total amount of approx. CHF 0.6 million. As of December 31, 2018, sales with related parties controlled by the major shareholder Renova Group amounted to CHF 3.1 million (2017: CHF 22.6 million). For further information, see [note 32](#) to the "Consolidated financial statements." There are no interlocking directorships.

### Elections and terms of office

The Articles of Association stipulate that the Board of Directors of Sulzer Ltd shall comprise five to nine members. Each member is elected individually. The term for members of the Board of Directors is one year. At the Annual General Meeting of April 4, 2018, Jill Lee and Thomas Glanzmann did not stand for reelection to the Board of Directors. Hanne Birgitte Breinbjerg Sørensen and Lukas Braunschweiler were newly elected and all other Board members were reelected to the Board of Directors, all for terms of one year. On May 25, 2018, Axel Heitmann resigned from the Board of Directors, which from then on consisted of seven members: two from Austria, one from Denmark, one from Italy, one from Russia, and two from Switzerland. Professional expertise and international experience played a key role in the selection of the members. The members of the Board of Directors and their CVs can be viewed at [www.sulzer.com/board](http://www.sulzer.com/board).

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

### Internal organization

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

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

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

## The Board of Directors and its committees



### BOARD OF DIRECTORS

**Peter Löscher** (Chairman)  
**Matthias Bichsel** (Vice Chairman)  
**Lukas Braunschweiler** (from April 4, 2018)  
**Thomas Glanzmann** (until April 4, 2018)  
**Axel C. Heitmann** (until May 25, 2018)  
**Jill Lee** (until April 4, 2018)  
**Mikhail Lifshitz**  
**Marco Musetti**  
**Gerhard Roiss**  
**Hanne Birgitte Breinbjerg Sørensen**  
 (from April 4, 2018)

AUDIT COMMITTEE	NOMINATION AND REMUNERATION COMMITTEE	STRATEGY COMMITTEE
<b>Hanne Birgitte Breinbjerg Sørensen</b> (Chairwoman from April 4, 2018)	<b>Gerhard Roiss</b> (Chairman from April 4, 2018)	<b>Peter Löscher</b> (Chairman)
<b>Thomas Glanzmann</b> (Chairman until April 4, 2018)	<b>Thomas Glanzmann</b> (Chairman until April 4, 2018)	<b>Matthias Bichsel</b>
<b>Axel C. Heitmann</b> (until May 25, 2018)	<b>Marco Musetti</b>	<b>Mikhail Lifshitz</b>
<b>Gerhard Roiss</b> (from April 4, 2018)	<b>Hanne Birgitte Breinbjerg Sørensen</b> (from April 4, 2018)	<b>Lukas Braunschweiler</b> (from April 4, 2018)
<b>Marco Musetti</b> (from May 25, 2018)	<b>Jill Lee</b> (until April 4, 2018)	<b>Gerhard Roiss</b> (until April 4, 2018)

## Operating principles of the Board of Directors and its committees

All decisions are made by the full Board of Directors. For each application, written documentation is distributed to the members of the Board of Directors prior to the meeting. The Board of Directors and the committees meet as often as required by circumstances. The Board of Directors meets at least five times per year, the Audit Committee and the Nomination and Remuneration Committee meet at least three times per year, and the Strategy Committee meets at least twice per year. In 2018, the Board held five half-day meetings in February, May, July, October and December, and 11 shorter Board meetings. The latter lasted up to one and a half hours on average. For further details, see the table below. The CEO, the CFO and the Group General Counsel (who is the Secretary of the Board of Directors) also generally attend the Board meetings in an advisory role. Other members of the Executive Committee are invited to attend Board meetings as required to discuss the midterm planning, the strategy and the budget, as well as division-specific items (such as large investments and acquisitions).

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

## Board of Directors

Name	Nationality	Position	Entry	Elected until	Attending meetings of the			
					Board	AC	NRC	SC
Peter Löscher	Austria	Chairman, Chairman SC	March 2014	2019	13			1
Matthias Bichsel	Switzerland	Vice Chairman of the Board, member SC	March 2014	2019	15			1
Hanne Birgitte Breinbjerg Sørensen <sup>1)</sup>	Denmark	Chairwoman AC, member NRC	April 2018	2019	12	3	4	
Lukas Braunschweiler <sup>1)</sup>	Switzerland	Member SC	April 2018	2019	10			1
Thomas Glanzmann <sup>2)</sup>	Switzerland	Chairman NRC, Chairman AC	April 2012	2018	1	1	2	
Axel C. Heitmann <sup>3)</sup>	Germany	Member AC	April 2016	2019	10	1		
Jill Lee <sup>2)</sup>	Singapore	Chairwoman AC, member NRC	April 2016	2018	1	1		
Mikhail Lifshitz	Russia	Member SC	April 2016	2019	12			1
Marco Musetti	Italy/ Switzerland	Member NRC and AC <sup>4)</sup>	April 2011	2019	11	3	6	
Gerhard Roiss	Austria	Chairman NRC <sup>1)</sup> , member SC <sup>2)</sup> and AC <sup>1)</sup>	April 2015	2019	16	3	6	

AC = Audit Committee, NRC = Nomination and Remuneration Committee, SC = Strategy Committee

1) From April 4, 2018.

2) Until April 4, 2018.

3) Until May 25, 2018.

4) From May 25, 2018.

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

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

## Audit Committee

The Audit Committee (members listed above) assesses the midyear and annual consolidated financial statements and, in particular, the activities – including effectiveness and independence – of the internal and statutory auditor, as well as the cooperation between the two bodies. It also assesses the Internal Control System (ICS), risk management and compliance; at least one meeting per year is dedicated to risk management and compliance. The regulations of the Audit Committee can be viewed at [www.sulzer.com/governance](http://www.sulzer.com/governance) (under "Regulations"). The CEO, the CFO, the Group General Counsel (at least partially), the Head of Group Internal Audit (who is also the Secretary of this

committee) and the external auditor-in-charge, attend the meetings of the Audit Committee. In 2018, the Audit Committee held four meetings in February, July, September and December. The meetings lasted on average between two and three hours. The statutory auditor attended all of these meetings. Internal experts, such as the Group General Counsel and the Heads of Group Internal Audit, Group Treasury, Group Accounting, Group IT, Group Compliance and Risk Management, and Group Taxes gave presentations to the Audit Committee in 2018. In February, the Audit Committee is informed of compliance exposures as a result of periodic risk assessments, and it receives an overview of compliance cases under investigation. In September, the Audit Committee is briefed on the present state of risk management within the company and on the results of the risk management process – a process to systematically identify and evaluate significant risks and introduce countermeasures. In the same meeting, an update on Sulzer's compliance approach, including the respective ongoing and planned activities, is provided. The major current compliance cases (if any) are reported to and discussed by the Audit Committee regularly.

## Nomination and Remuneration Committee

The Nomination and Remuneration Committee (members listed above) assesses the criteria for the election and reelection of Board members and the nomination of candidates for the top two management levels. It deals with succession planning. It also regularly assesses the compensation systems and recommends compensation for the members of the Board of Directors and the Executive Committee (including bonus targets for the latter) on behalf of the Board of Directors and in accordance with its specifications. It carries out broadly based compensation benchmarks with an international comparison group, supported by studies of consulting firms such as Mercer and Willis Towers Watson, and it scrutinizes the work of internal and external consultants. The members of the Nomination and Remuneration Committee are elected by the Shareholders' Meeting. The regulations of the Nomination and Remuneration Committee can be viewed at [www.sulzer.com/governance](http://www.sulzer.com/governance) (under "Regulations"). The CEO and the Chief Human Resources Officer (who is also the Secretary of this committee) attend the meetings of the Nomination and Remuneration Committee. In 2018, four regular meetings were held in January, July, September and December, taking on average between one and two hours. Furthermore, the NRC held two meetings by conference call (30 to 45 minutes). External experts from Mercer and Agnes Blust Consulting AG provided benchmarking services (see section "Method of determination of compensation: benchmarking and annual target-setting process" in chapter "Compensation governance and principles" of the Compensation Report) 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 above) 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. The regulations of the Strategy Committee can be viewed at [www.sulzer.com/governance](http://www.sulzer.com/governance) (under "Regulations"). In 2018, one meeting in September took place, taking three hours. The CEO and the CFO attended the meeting.

## Division of powers between the Board of Directors and the CEO

The Board of Directors has largely delegated executive management powers to the CEO. However, it is still responsible for matters that cannot be delegated in accordance with Art. 716a of the Swiss Code of Obligations. These matters include corporate strategy, the approval of midterm planning and the annual budget, as well as key personnel decisions and the preparation of the Compensation Report. The same applies to acquisition and divestiture decisions involving an enterprise value exceeding CHF 30 million, investments in fixed assets exceeding CHF 15 million, major corporate restructurings, approval of dispute settlements with an impact on operating income of more than CHF 20 million, approval of research and development projects exceeding CHF 10 million, as well as

other matters relevant to the company, and decisions that must be made by law by the Board of Directors. The competency regulations and the nature of the collaboration between the Board of Directors and the Executive Committee can be viewed in the organizational regulations at [www.sulzer.com/governance](http://www.sulzer.com/governance) (under “Regulations”).

## Management structure



\*CFO ad interim from March 19 to April 4, 2018

\*\*As of January 1, 2019, this function was renamed to Group Business Development. It is no longer part of the Executive Committee.

## Information and control instruments

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

## Group Internal Audit

Group Internal Audit reports functionally directly to the Chair of the Audit Committee, but administratively to the CFO. Meetings between internal audit and the statutory auditor take place regularly. They are used to prepare for the meetings of the Audit Committee, to review the interim and final reports of the statutory auditor, to plan and coordinate internal and external audits, and to



prepare audit instructions for the attention of the statutory 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 49 audits in the year under review. One of the focal points is the Internal Control System (ICS). The results of each audit are discussed in detail with the companies and (where necessary) the divisions concerned, and key measures are agreed upon. The Chairman of the Board of Directors, the members of the Audit Committee, the CEO, the CFO, the Group General Counsel as well as the respective Division President and other line managers of the audited entity receive a copy of the audit report. Significant findings and recommendations are also presented to and discussed with the Executive Committee and the Group General Counsel during the monthly Executive Committee meetings. Twice a year, the divisions present the status of key measures agreed on. A follow-up process is in place for all Group internal audits, which allows efficient and effective monitoring of how the improvement measures are being implemented. Each year, the Head of Group Internal Audit compiles a report summarizing activities and results. This report is distributed to members of the Board of Directors and the members of the Executive Committee, and it is presented to the Executive Committee and the Audit Committee. It is discussed in both committees and, thereafter, reported to the Board of Directors.

## Risk management and compliance

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

### Strong values and building up a strong ethical and compliance culture

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

### Risk assessment

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

### Internal rules and tools

Sulzer has a Code of Business Conduct, which can be viewed in 18 languages at [www.sulzer.com/governance](http://www.sulzer.com/governance) (under “Code of Business Conduct”). Every employee of the company (including employees of newly acquired businesses) has to confirm in writing that he or she has read and understood this code, and will comply with it. Every member of the Sulzer Management Group (approximately 150 managers), the heads of the operating companies, the headquarters, regional and local compliance officers as well as the legal entity controllers must reconfirm this compliance commitment in writing annually. Furthermore, Sulzer joined the UN Global Compact initiative in 2010. The latest Communication on Progress Report was published on July 25, 2018, and can be downloaded from [www.sulzer.com/sustainability](http://www.sulzer.com/sustainability) or directly [here](#).

## Rules

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

- Bribery and corruption risks: Sulzer has had a group-wide antibribery and anticorruption program in place since 2010. This program includes a Web-based process that addresses the due diligence of intermediaries, a corporate-wide directive for offering and receiving gifts and hospitalities, and an e-training (in 13 languages) to familiarize Sulzer employees with the requirements of the directive.
- Antitrust and anticompetition risks: Sulzer has an antitrust guideline and a directive addressing behaviors in trade associations in place.
- Export control risks: Employees involved in export activities have to comply with all applicable export and re-export laws and regulations. Sulzer rolled out and implemented its global Trade Control Directive in all legal entities concerned. Every exporting legal entity has an ICP (internal control program) in place which includes processes, defines responsibilities on export control matters and other requirements important to comply with export compliance laws and regulations.
- Further risks (e.g. stock exchange laws and regulations; human-resource-related issues; intellectual property and know-how; privacy and data protection laws; product liability; environment, quality, safety and health, etc.): Focused rules and processes address these and many other potential risks. Sulzer has processes that ensure compliance with insider laws as well as stock exchange reporting and notification duties. Local compliance officers performed 88 face-to-face compliance training sessions in 2018.

## Tools

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

## Organization

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

about any pending or threatened litigation with worst-case exposure exceeding CHF 0.5 million. Further information on reports to the Audit Committee is provided in the “Audit Committee” section above.

### Awareness building and trainings

Sulzer puts substantial effort into training its employees. Training is carried out through e-learning programs (new programs are rolled out and existing programs are updated every year), in person or through Web conferences. In 2018, Sulzer employees completed over 22'400 e-learning courses.

### Controls and sanctions

The Group Function Legal supports the audits done by Group Internal Audit following the same audit process. The Group Function Environment, Safety and Health (ESH) carried out eight audits and organized 16 external health and safety compliance 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 an agreement was reached on any improvements required. The latest status of the company's risks relating to environment, safety and health is reported to the Audit Committee once a year. Apart from these formal audits, internal investigations (triggered by reports from the compliance hotlines, e-mails, telephone calls or other avenues of communication) were carried out during 2018 and at least nine employees had to leave Sulzer because of violations of Sulzer's Code of Business Conduct. Others received warnings or were transferred internally. However, most of the reports received concerned non-material issues.

### Continuous improvement

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

CVs of the members of the Sulzer Board of Directors can be found at [www.sulzer.com/board](http://www.sulzer.com/board).

## Executive Committee

The Executive Committee consists of the Chief Executive Officer (CEO), the Chief Financial Officer (CFO), the Chief Human Resources Officer (CHRO), and three Division Presidents. Thomas Dittrich stepped down as CFO on March 18, 2018. Greg Poux-Guillaume took over as CFO ad interim until April 4, 2018. Jill Lee was appointed as CFO and member of the Executive Committee from April 5, 2018. From January 1, 2019, Frédéric Lalanne succeeded Michael Streicher as President of the Pumps Equipment division. The Chief Commercial and Marketing (CCMO) role that Frédéric Lalanne held no longer exists as such and has been replaced by a Head of Business Development role which is not part of the Executive Committee.

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

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

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

CVs of the members of the Executive Committee can be found at [www.sulzer.com/management](http://www.sulzer.com/management).

# Shareholder participation rights

## Restrictions and representation of voting rights

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

## Statutory quorum

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

## Convocation of the Shareholders’ Meeting and submission of agenda items

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

## Entry in the share register

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

## Independent proxy

At the Annual General Meeting of April 4, 2018, Proxy Voting Services GmbH was elected as the independent proxy for a term of office extending until completion of the next Annual General Meeting. The Articles of Association do not contain rules on the granting of instructions to the independent proxy and the electronic participation in the Shareholders’ meeting which deviate from the default Swiss law.

## Takeover and defense measures

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

## Auditors

The statutory auditor is elected at the Annual General Meeting for a one-year term of office. KPMG AG has been acting as the statutory auditor since 2013. 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 section “Audit Committee” in the chapter “[Board of Directors](#)” of this corporate governance report). The members of the Audit Committee receive summaries of audit findings and improvement proposals at least once a year. The external auditor-in-charge and his deputy were invited to attend meetings of the Audit Committee. In 2018, the statutory auditor was present at all four Audit Committee meetings. The Audit Committee or its Chairperson meets separately with the Head of Group Internal Audit and the statutory auditor at least once a year to assess (among other things) the independence of the internal and statutory auditors. The Audit Committee evaluates the work done by the statutory auditor based on the documents, reports and presentations provided by the statutory auditor, as well as on the materiality and objectivity of their statements. To do so, the committee gathers the opinions of the CFO and the Head of Group Internal Audit. The Audit Committee reviews the fee paid to the auditor regularly and compares it with the auditing fees paid by other internationally active Swiss industrial companies. Said fee is negotiated by the CFO and approved by the Board of Directors. Further information on the auditor, in particular the auditor’s fees and any additional fees received by the auditor for advisory services outside its statutory audit mandate, is listed under [note 33](#) to the “Consolidated financial statements.” All advisory services provided outside the statutory audit mandate (essentially, consulting services related to audit and accounting as well as legal and tax advisory services) are compliant with the applicable independence rules.

# Risk management

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

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



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

# Information policy

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

## Key dates in 2019

- February 14: Annual results 2018
- April 3: Annual General Meeting 2019
- April 17: Order intake Q1 2019
- July 24: Midyear results 2019
- October 23: Order intake Q1–Q3 2019

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

## Material changes

The text makes reference to any material changes occurring between the balance sheet date (December 31, 2018) and the copy deadline for the Annual Report (February 12, 2019).