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Sulzer specializes in pumping solutions, rotating equipment maintenance and services, and separation, reaction, and mixing technology. We create reliable and sustainable solutions for our key markets: oil and gas, power, and water. Combining engineering and application expertise, our innovative products and services add value and strengthen the competitive position of our customers. Sulzer serves clients around the world through a network of over 170 locations in more than 40 countries.

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Winterthur, July 29, 2016

## Ladies and Gentlemen

Sulzer has been a signatory of the United Nations Global Compact (UNGC) initiative since 2010. We actively support its Ten Universal Principles of Responsible Business Conduct covering human rights, labor, the environment, and anticorruption.



Global megatrends have many implications for our way of living. Urbanization and its side effects, such as the increasing energy demand, the greater need for clean water, and growing air pollution, pose major challenges to humankind. Sulzer offers technology and services that help meet these challenges. We develop innovative, efficient, and eco-friendly solutions for our customers. Through measures in the areas of energy consumption, greenhouse gas emissions, waste production, and water consumption, we aim to reduce our environmental footprint.

We promote and sustain a work environment that fosters mutual respect, openness, and individual integrity. We support and insist upon the protection of internationally proclaimed human rights. Forced and compulsory labor and child labor are strictly prohibited. At Sulzer, we all commit ourselves to these principles 100%. Every employee signs Sulzer's Code of Business Conduct, confirming adherence to these principles.

When it comes to corruption, we have zero tolerance for in compliant behavior. We expect our employees to be transparent and to ask questions if they are unsure whether a deal bears compliance risks. We have a comprehensive compliance organization that serves as contact point and trains our employees. We believe that being upfront about potential compliance issues always helps the organization in the end.

We are convinced that compliant and ethical behavior in all aspects and on all levels is a precondition for a successful and sustainable future. Sulzer and its employees actively strive to respect and support the UNGC Ten Principles in its worldwide activities — today, and in the future.

A handwritten signature in black ink, appearing to be 'G. Poux-Guillaume'.

Yours sincerely,  
Greg Poux-Guillaume  
CEO

**About this document**

Sulzer takes part in the *United Nations Global Compact (UNGC) initiative*. The UNGC is a strategic policy initiative. With their membership, corporations express their commitment to align their operations and strategies with ten universally accepted principles of responsible business conduct. The multistakeholder platform aims to team up actors from the business environment, civil and labor society, and United Nations agencies. The UNGC seeks to build cooperation and promote partnership between business and actors. In this way, it supports corporations in respecting and supporting a set of core values in the areas of human rights, labor standards, the environment, and anticorruption.

One way an organization can communicate its commitment to the UNGC organization and society is to submit a Communication on Progress (COP) report once a year. In 2016, Sulzer is submitting its updated COP report to demonstrate the company's ongoing accountability to the UNGC's Ten Principles of Responsible Business Conduct.

# Human Rights

Sulzer has implemented a comprehensive compliance program that focuses on prevention. As part of it, the company supports and respects the protection of internationally proclaimed human rights throughout its value chain.

## Principle 1

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Businesses should support and respect the protection of internationally proclaimed human rights.

## Principle 2

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Businesses should make sure they are not complicit in human rights abuses.

At Sulzer, social compliance relies on a strong *vision, values, the company's Code of Business Conduct*, and an efficient social compliance system. The Sulzer values act as an inner compass and guide all activities. One of Sulzer's values is committed people. Employees are committed to high standards and show respect for people.

Sulzer has high expectations about its employees' standards of behavior. The comprehensive Code of Business Conduct must be signed by each employee. It features topics such as:

- Basic principles (including human rights)
- Accuracy and completeness of records
- Antitrust and unfair competition
- Conflicts of interest
- Employment issues
- Anticorruption, antibribery, business accommodations
- Cooperation with third parties
- International trade restrictions and boycotts
- Fraud and theft
- Insider trading
- Environment, safety, and health

The Code of Business Conduct is compliant with the Ten Principles of the UNGC. It calls on employees to protect internationally proclaimed human rights. Sulzer refrains from cooperating with business partners who violate fundamental human rights, such as using forced and compulsory labor or child labor. Internal directives and guidelines as well as regular audits support the implementation of the code. Compliance officers around the world deal with potential code violations, give advice on compliance matters, and provide compliance training.

### Comprehensive compliance management above and beyond legal requirements

Sulzer strongly fosters a speak-up culture and conducts its business in compliance with applicable laws ("a clean deal or no deal"). Its internal regulative framework goes above and beyond legal minimum requirements.

The company has implemented a comprehensive compliance program that focuses on prevention. Its main elements include the regular assessment of risks and the adherence to the Code of Business Conduct. Further, Sulzer has defined internal rules that discuss boundaries, define processes, and provide guidance and decision support. The company also uses tools such as the compliance hotline to detect potential violations.

The company's compliance network includes the group function Legal, Compliance, and Risk Management and consists of approximately 100 compliance officers. They ensure effective communication, provide support, and assist in compliance investigations. In meetings, training sessions, and through phone conferences, they exchange knowledge and best practices. The compliance program is continually reviewed and updated.

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### **Training employees in compliance matters**

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The Code of Business Conduct and trainings guide Sulzer employees in ethically correct business conduct. Sulzer has been training its employees for many years, mostly with e-learning tools and face-to-face training sessions. In 2015, Sulzer employees completed over 22 000 e-learning courses, and the company conducted webinars on specific compliance matters. Generally, 14 active courses are available to all employees. For compliance officers, there is a specific “train-the-trainers” course, which aims to transfer the training content to the local entities.

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### **Transparent processes and supply chain organization**

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The Code of Business Conduct serves as point of reference for upholding fundamental human rights, working conditions, occupational health and safety, business ethics, and environmental law throughout Sulzer’s supply chains. In addition, Pumps Equipment rolled out its new software-backed Global Supplier Qualification Process (GSQP). It allows the systematic identification, selection, auditing, verification, and development of global suppliers based on quality and sustainable supply chain practices and performance. Procurement carefully selects and evaluates suppliers’ processes and products, in part through on-site visits. In case of non-compliance, either the supplier will not be qualified or a corrective action plan will be implemented before the partnership is continued. In 2015, a total of 224 audits were conducted and 75 suppliers were registered in the software.

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# Labor

Sulzer intends to be a socially responsible employer. Its Code of Business Conduct clearly guides employees in terms of humane and ethic working conditions. The company's aim is to ensure a nondiscriminatory, healthy, and safe work environment.

## Principle 3

Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.

## Principle 4

Businesses should uphold the elimination of all forms of forced and compulsory labor.

## Principle 5

Businesses should uphold the effective abolition of child labor.

## Principle 6

Businesses should uphold the elimination of discrimination in respect of employment and occupation.

Sulzer wants to create stable and open relations with social partners based on trust. The company respects the right to freedom of association and collective bargaining for all its employees. Representatives of employees are neither favored nor discriminated. As far as national legislation allows, Sulzer promotes this fundamental right through its own *Code of Business Conduct*.

## Eliminating all forms of forced and compulsory labor

International regulatory frameworks are significant to Sulzer's compliance efforts. The company applies the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises, the United Nations' Universal Declaration of Human Rights and its protocols, the UN Global Compact (UNGC), and the International Labour Organisation's (ILO) Declaration on Fundamental Principles and Rights at Work of 1998.

By signing Sulzer's Code of Business Conduct, Sulzer and all its employees commit that they will comply "with all employment and labor laws including those related to the elimination of all forms of forced and compulsory labor (including child labor) and the prohibition against all forms of discrimination in employment under applicable laws."

Besides emphasizing its clear commitment to the Code of Business Conduct, Sulzer sends out a self-validation check to all members of the Sulzer Management Group (top 100 managers), the heads of all Sulzer companies, and the compliance officers. An "annual acknowledgment letter" needs to be signed every year. The signatories declare that they have neither violated the code nor do they have reason to believe the code was violated within their area of responsibility. If the code was violated, they confirm they were aware that the case was reported to the appropriate function within Sulzer. In addition, the company sends out the letter to all controllers. The company's integrated and comprehensive risk and compliance mechanisms can confirm that there were no identified risks for forced and/or compulsory labor incidents or child labor incidents.

## Embracing different backgrounds

At Sulzer, employees collaborate across borders — geographic, cultural, and demographic ones. The company's workforce is spread geographically all over the world. Both Sulzer and its customers benefit from this proximity. Sulzer also appreciates age differences and welcomes fresh impetus. Experienced employees work closely with apprentices and younger professionals to embrace different viewpoints. In 2015, 14.5% of the company's workforce was female. Close collaboration with academic institutions enables Sulzer to attract talented young women and men.

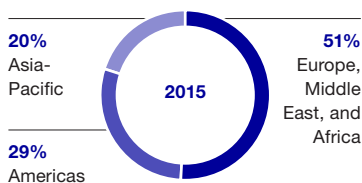
## Ensuring a healthy and safe work environment

As an industrial company with over 170 locations around the world, Sulzer considers the health and safety of its employees as an essential asset. Because people work in different surroundings such as offices, factories, and at customers' sites, the safety risks are manifold and — in part — difficult to control. Employees need to feel responsible for their own safety as well as the safety of their colleagues.

The company lives out the "safety first" principle. It promotes several initiatives to further improve its occupational health and safety culture and performance:

- Safe Behavior Program (SBP)
- Hazardous Materials Emissions and Exposure (HMEE) risk mitigation program
- Blacklist program on the substitution of (potentially) hazardous substances and chemicals
- Continued commitment to globally aligning and harmonizing sustainability KPIs and metrics (SURE database)

## Geographical spread of employees





## Empowering employees to act safely

All Sulzer sites are required to report on four health and safety key indicators every month:

- The accident frequency rate (AFR)
- The accident severity rate (ASR)
- The number of major / minor accidents (including all cases of medical treatment and first aid)
- The number of occupational illnesses

Sulzer's global Safe Behavior Program (SBP) is designed to foster a team-oriented approach to safety. It focuses on developing safety leadership as well as employee empowerment. Thanks to the efforts within the SBP, Sulzer has reached an accident frequency rate (AFR) below two cases per million working hours — the lowest AFR ever in its history. In general, Sulzer continued to decrease the severity of its accidents (measured by accident severity rate; ASR). To improve the effectiveness of the SBP, Sulzer instigated the Safety Culture Assessment program. In 2015, almost all Sulzer sites were visited by independent safety experts. They analyzed the maturity of the local safety culture and provided direct guidance on how to further improve safety management systems and leadership competence.

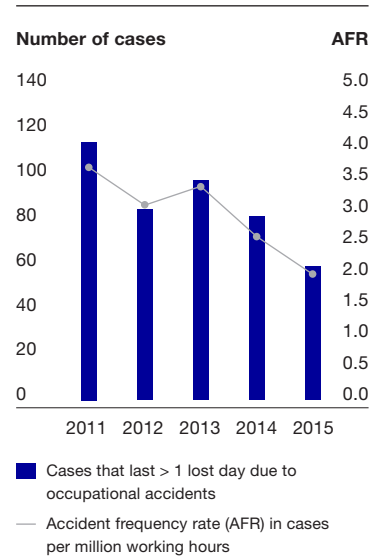
Despite the company's efforts, 57 major accidents happened at Sulzer in 2015, resulting in 1 444 lost working days. One employee died in an occupational accident while working at a client's site. Sulzer is profoundly dismayed by this fatality. Investigations to understand the root causes are ongoing. Sulzer remains committed to pursuing its ultimate goal of zero accidents.

To address safety excellence — a subject that is central to safety excellence — Sulzer launched a pilot program aimed at raising safety leadership and risk competence skills at the managerial level in 2015. Beginning in Asia and progressing to Europe, over 100 senior and midlevel managers participated in a series of workshops. These are designed to improve the managers' ability to engage the workforce in safety more proactively and with greater consistency. Because safety excellence depends on the abilities of all members of a team, Sulzer plans to develop further trainings and workshops to enhance safety competence at all levels.

## Key figures

		2015	2014	Change in +/- %
Accident frequency rate (AFR)	Cases per million working hours	1.9	2.6	-24.0
Accident severity rate (ASR)	Lost days per million working hours	48.1	53.9	-10.8
Health and safety training	hours	106 610	81 768	30.4
Voluntary attrition rate	%	7.5	7.2	0.3
Share of women (of total workforce)	%	14.5	14.0	0.5
Leaders from internal talent pipeline	%	60	89	-29.0
Number of employees	FTE	14 253	15 494	-8.0

## Accidents



Find further sustainability data at [www.sulzer.com/sustainability](http://www.sulzer.com/sustainability)

Find further information on social sustainability in the *Sulzer Annual Report 2015* (p. 48 – 49) and in the *Sulzer Code of Business Conduct*

# Environment

Developing innovative products and solutions is one of Sulzer's core competencies. The company has substantial expertise in providing energy-efficient technology. Sulzer also systematically aims to reduce its own environmental footprint.

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## Principle 7

Businesses should support a precautionary approach to environmental challenges.

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## Principle 8

Businesses should undertake initiatives to promote greater environmental responsibility.

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## Principle 9

Businesses should encourage the development and diffusion of environmentally friendly technologies.

The global QESH (Quality, Environment, Safety, and Health) network and functional councils such as HR, Legal and Compliance, and the global procurement organization drive the sustainability agenda at Sulzer. The ESH group function is in charge of company-wide environment, safety, and health management, which includes defining and implementing ESH standards and initiatives. To ensure quality (Q) management is close to the business, it is carried out on a divisional and a local level. Global functional coordination teams are responsible for the information transfer and collaboration between the group and divisional functions. The QESH officers consult with line management on QESH topics, establish local organizations, and conduct regular training workshops.

## Protecting the environment in three ways

Sulzer's strategy to help protect the environment is threefold:

1. Developing innovative, efficient, and eco-friendly solutions for its customers: Global megatrends and their effects force society to think about new technological solutions. Sulzer helps manage the ever-increasing demands of a globalized world with its innovative products and services. In 2015, Sulzer invested CHF 73.4 million in research and development (2014: CHF 76.2 million). This equals 2.5% relative to sales (2014: 2.4% of sales). In total, the company filed 30 patents in 2015. Find more information about innovation and technology at Sulzer *online* or in the *Sulzer Annual Report 2015*.

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## Clean air in a globalized world

Reducing air pollution is an increasingly important topic in a globalized world. Many governments — in developed and emerging countries — have set new limits for emissions such as carbon dioxide (CO<sub>2</sub>). The WA Parish power plant, located in Thompsons, TX, USA, is the largest fossil fuel plant in the USA and one of the largest CO<sub>2</sub> emitters. Sulzer is helping to reduce its emissions.

Carbon capture and storage (CCS) is one of the technologies that can help mitigate GHG emissions and aid in the responsible use of fossil fuels. Before the CO<sub>2</sub> is released into the atmosphere, it is captured in an absorption column. Sulzer produces the internals for such columns, such as the structured packings Mellapak™ and MellapakPlus™. With this technology, the operators are aiming to reduce the carbon dioxide emissions of the fossil fuel power plant by 90%. Sulzer produces pumps and mass transfer equipment that can be used in all stages of the CCS chain. The company's technology thus helps limit the adverse impact of CO<sub>2</sub> on the environment.

Read more in the *Sulzer Annual Report 2015* (p. 16 – 21).

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## Water scarcity in urban areas

Water is one of the earth's most precious resources. Fighting water shortage and supplying freshwater is crucial in a world where roughly 1.1 billion people have no access to clean freshwater.

Seawater desalination is a promising and fast-growing solution to counter water scarcity. Reverse osmosis — a desalination technology — requires less energy and is less expensive than other methods. Sulzer supplies a full range of pumps for sea or brackish water desalination using either reverse osmosis or multiple-effect processes. To follow the market trend, the company has specialized increasingly in equipment for reverse osmosis plants. With the proper plant design and equipment selection, reverse osmosis technology is unbeatable in energy efficiency. Sulzer supports its customers from a very early project stage in improving the overall efficiency and ensuring the highest possible profitability of the plants. In this way, Sulzer helps provide an affordable and energy-efficient supply of freshwater.

Read more in the *Sulzer Annual Report 2015* (p. 10 – 15).

2. Helping its customers to manage and improve the entire product life cycle: The company's life cycle approach typically starts with the material extraction (mostly steel and polymer products) and ends with a product's end-of-life stage (for example, recycling). To improve its products at different stages of the life cycle, Sulzer focuses on product design (eco-design). In this area, saving material resources, using green materials, and reducing energy consumption are particularly relevant. With regard to materials, steel (ranging from low-carbon to high-quality alloys) and polymer materials are used in many of the production processes. These are considered green engineering materials. Approximately two-thirds of all Sulzer products are energy intensive in their usage phase and have a long lifetime. The design teams include cost of electric energy and CO<sub>2</sub> emissions of Sulzer products in their decisions. The main reduction in the carbon footprint of Sulzer technology occurs through lower energy consumption rates. Because lifetime extension solutions, such as a revamp or maintenance services, require fewer resources than the construction of completely new solutions, Sulzer offers retrofit, re-vamp, and similar services. In this way, capital-intensive systems are upgraded with energy-efficient technologies and parts, and their disposal can be postponed.

3. Reducing the company's own environmental footprint: Most of the material environmental impact from Sulzer's operations stems from:
- Energy consumption
  - Greenhouse gas (GHG) / CO<sub>2</sub> emissions
  - Hazardous and non-hazardous waste production
  - Water consumption

Sulzer makes the most effort in areas where it has the scale and resources to have an impact. The company has set a limited number of corporate year-on-year rolling targets for energy consumption, CO<sub>2</sub> emissions, and hazardous waste production. The minimum target is to maintain but ideally to improve relative performance measured against working hours.

To reduce its environmental footprint, Sulzer's production and service sites carry out local initiatives based on mandatory ISO 14001 certifications. In 2015, the company further extended its environmental reporting scope. While energy consumption remained stable, greenhouse gas emissions, waste production, and water consumption decreased.

**Changes in the energy mix**

The company adjusted the reporting requirements for fuel consumption in 2015 and expanded it from on-site transportation to all vehicles operated by Sulzer. This measure will further increase the quality of the company's environmental data. The changed reporting requirements resulted in a modified energy mix. Total energy consumption remained stable in 2015. The use of electricity, fuel oils, and district heating decreased by 8%. Both gas and fuel consumption increased by 1% and 93%, respectively. Sulzer has a rolling year-on-year target to maintain or lower energy consumption per 1 000 working hours. The company has met this target. The energy consumption per 1 000 working hours remained stable in 2015.

In 2016, the company plans to conduct a pilot project in one of the divisions to reduce the energy consumption of its car fleet. In addition, Sulzer's QESH (Quality, Environment, Safety, and Health) network will continue to focus on sharing best practices regarding energy-saving measures. In this way, the company strives to keep its energy use stable or to lower it from last year's level.

**Decrease of greenhouse gas emissions**

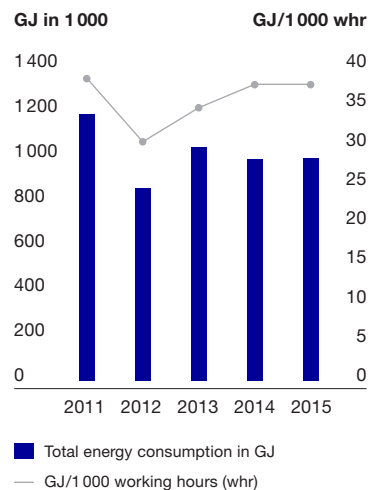
Sulzer reports greenhouse gas (GHG) emissions (scopes 1, 2, and 3<sup>1</sup>) according to the Greenhouse Gas Protocol and the Carbon Disclosure Project (CDP) initiative. To meet current reporting practices, the company updated scope 1 reporting fundamentally by introducing new CO<sub>2</sub> emission factors in 2015. These factors will be reviewed and updated each year.

<sup>1</sup> Scope 1: direct emissions from Sulzer stemming from primary energy sources such as natural gas and fuels used on-site; scope 2: indirect emissions from secondary (converted) energy sources such as electricity and district heating; scope 3: indirect emissions from the production and transport of fuels and gases not included in scopes 1 or 2.

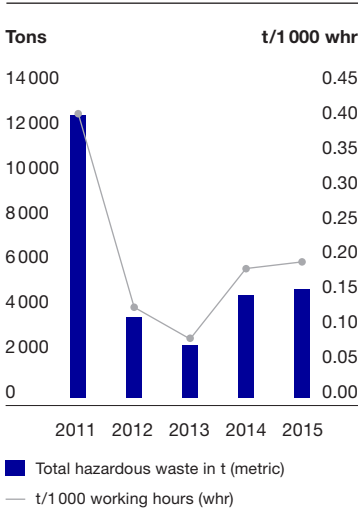
**Addressing the precautionary approach**

Sulzer is headquartered in Winterthur, Switzerland. Switzerland adopted the precautionary approach in its national environmental regulations. These are compliant with the Rio Declaration of 1992. Sulzer is committed to the precautionary principle and the polluter pays principle in all its worldwide activities. Tools such as Sulzer's integrated enterprise risk management system (see *Sulzer Annual Report 2015*, p. 68 – 69) support the company in monitoring potential risks and issues that may arise. Thus, it is possible to identify potentially serious or irreversible harm to the environment early and to initiate countermeasures.

**Energy consumption**



**Hazardous waste**



**Avoiding, reusing, and recycling waste**

At Sulzer, waste is usually managed locally as part of ISO-14001-certified environmental management systems. To decrease industrial waste, Sulzer follows the principle “avoid, reuse, and recycle”. Waste quantities vary typically from year to year and depend strongly on the type of projects conducted as well as on construction work done at Sulzer. The company evaluates waste production in two ways: by looking into the waste’s hazardousness and by considering its treatment. Generally, recycling rates are comparatively high at Sulzer because of the materials used: metals, sandblasting residues, and foundry residues are fairly easy to recycle.

In 2015, total waste decreased by 5%. With a decrease of waste produced by 6% per 1 000 working hours, Sulzer met its year-on-year rolling target to maintain or reduce waste quantities (per 1 000 working hours) compared with last year’s values. In 2016, the company plans to conduct pilot projects with a zero-waste policy at selected sites. It aims to improve the amount of recycling by sharing best practices about waste management.

**Decrease of water consumption**

Sulzer collects data on the water consumption and discharge of its operations. To shrink its organizational water footprint, the company focuses primarily on reducing water consumption. For Sulzer as a manufacturer of pumps for the water market, water risks are market related and — to a much lesser extent — related to operations.

Overall, water consumption decreased by 17% in 2015. While 37% of the water used was for cooling purposes, 35% was process water. The consumption by m<sup>3</sup>/1 000 working hours decreased by 17%. So, the year-on-year rolling target to maintain or reduce the water consumption per 1 000 working hours was met.

**Complying with international laws and standards**

As an international company, Sulzer complies with international and national hard law as well as with soft law. Amongst other initiatives, the company participates in the Greenhouse Gas (GHG) Protocol and the Carbon Disclosure Project (CDP). Sulzer’s integrated management system is based on global standards and norms. All manufacturing and service activities are performed in accordance with its ISO 9001, ISO 14001, and OHSAS 18001 and / or SCC certificates. Because Sulzer discontinued certain locations, the rate of certified sites decreased in 2015. However, it remained high. In total, 85% of all sites have earned the ISO 9001 certification; 65% the ISO 14001 certification; and 74% the OHSAS 18001/SCC certification. The company conducts internal and external QESH audits regularly to ensure legal compliance and compliance with Sulzer’s internal standards and programs. In 2015, Sulzer underwent 28 QESH and external health and safety audits (2014: 18).

## Fair and transparent reporting

Sulzer collects data systematically and continues to report on its financial as well as extrafinancial performance. The centralized reporting platform provides an integrated approach for group-wide reporting across functions. The data is generated and collected on the site level. As a reference, the number of total working hours is used. Overall, 85% of total working hours report on environmental data. The coverage of occupational health and safety data is 86% (of total working hours); 100% (of total working hours) report on HR data. Extrafinancial data is collected according to two different reporting cycles: Environmental data cover the reporting period October 1, 2014 to September 30, 2015. The reporting cycle for the health and safety indicators AFR and ASR as well as HR data is the financial calendar year, i.e., January 1, 2015 to December 31, 2015. During the internal Sulzer audits, the ESH team reviews environmental data critically in coordination with the audited site to ensure accurate reporting of the figures.

## Key figures

		2015	2014	Change in +/- %
<b>Energy</b>	<b>GJ</b>	<b>970 832</b>	<b>965 814</b>	<b>0.5</b>
— Energy consumption per working hours (whr)	GJ per 1 000 whr	37	37	
— Share of electricity	%	55	60	-9
— Share of gases	%	24	24	1
— Share of fuels	%	12	6	93
— Share of fuel oils	%	2	2	-11
— Share of district heating	%	7	7	-10
— Share of other sources	%	< 1	1	4
<b>Greenhouse gas emissions</b>	<b>tons CO<sub>2</sub> eq.</b>	<b>105 960</b>	<b>110 820</b>	<b>-4</b>
— GHG emissions per working hours	tons CO <sub>2</sub> eq. per 1 000 whr	4.06	4.28	-5
— GHG scope 1 <sup>1)</sup>	tons CO <sub>2</sub> eq.	20 560	19 550	5
— GHG scope 2 <sup>1)</sup>	tons CO <sub>2</sub> eq.	66 290	71 210	-7
— GHG scope 3 <sup>1)</sup>	tons CO <sub>2</sub> eq.	19 110	20 060	-5
<b>Waste</b>	<b>tons</b>	<b>29 071</b>	<b>30 666</b>	<b>-5</b>
— Waste per working hours	tons per 1 000 whr	1.1	1.2	-6
By treatment				
— Recycling	%	66	66	
— Waste to landfill/incineration/other treatment	%	34	34	
By hazardousness				
— Non-hazardous waste	%	84	85	
— Hazardous waste	%	16	15	
<b>Water</b>	<b>m<sup>3</sup></b>	<b>1 311 922</b>	<b>1 581 631</b>	<b>-17</b>
— Water consumption per working hours	m <sup>3</sup> per 1 000 whr	50	61	-17

Find further data and information on ecological sustainability at [www.sulzer.com/sustainability](http://www.sulzer.com/sustainability) and in the *Sulzer Annual Report 2015* (p. 44; 46 – 47).

<sup>1)</sup> Scope 1: direct emissions from Sulzer stemming from primary energy sources such as natural gas and fuels used on-site; scope 2: indirect emissions from secondary (converted) energy sources such as electricity and district heating; scope 3: indirect emissions from the production and transport of fuels and gases not included in scopes 1 or 2.

# Anticorruption

Sulzer is committed to conducting its business in accordance with high ethical standards and in compliance with all applicable laws. The company's integrated risk management system allows Sulzer to make risk-conscious decisions.

## Principle 10

Businesses should work against corruption in all its forms, including extortion and bribery.

The Sulzer 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 a successful and sustainable future. The ethical tone must be set at the top, carry through to the middle, and be transmitted to the entire organization.

Sulzer's Code of Business Conduct strictly forbids any form of bribery or corruption (irrespective of whether the recipient is a public official or an employee of a private customer). Sulzer released a Compliance Reporting and Investigation Directive to cover any violations of its code. This directive requires the global compliance officers to document the consequences of reported compliance violations. The following list summarizes a selection of relevant cases or allegations that must be reported immediately through the matter management system:

- Bribes, kickbacks, or other incidents of corruption, irrespective of the magnitude of the case
- Conflict of interest issues (personal or financial) causing damage to an affiliate
- Insider trading issues

Group-wide directives and guidelines, such as the anticorruption and antibribery guideline, set the frameworks for compliant behavior. In e-learning courses and/or classroom trainings, employees are sensitized to compliance matters, and they learn how to act correctly in different business situations. There are mandatory e-training sessions dedicated to the corruption topic.

### Managing bribery and corruption risks

As part of Sulzer's integrated risk management process, compliance risks are assessed regularly. The results are discussed both with the management within the Sulzer Risk Council and with the Audit Committee (composed of three Board members). The Audit Committee dedicates at least one full meeting per year to risk management and compliance.

Sulzer's risk management focuses on bribery and corruption risks. The company has had antibribery and anticorruption guidelines in place since 2010. Further measures include a web-based process that addresses the due diligence of intermediaries (see box on p. 13), a corporate-wide directive that sets maximum levels for gifts and hospitalities given or received, and an e-training course to familiarize Sulzer employees with the content of the directive. In 2015, local compliance officers conducted face-to-face training sessions at 36 locations.

### Detecting noncompliant behavior

To detect noncompliant behavior, the company has various instruments in place:

- Independent global compliance hotline: Sulzer offers a non-European, a European, and a special Spanish and Portuguese hotline setup in order to meet mainly European national data protection requirements. The independent partner distributes anonymized summary reports to Sulzer's Group Compliance Officer every month. This summary helps Sulzer to define appropriate remedial actions. As of December 31, 2015, the hotline had registered 92 reports in total.
- Independent ombudspersons: The Head of Corporate Auditing and the Deputy General Counsel have been assigned this role. They report directly to a member of the Executive Committee and the Chief Compliance Officer or General Counsel, respectively. Employees who report grievances in good faith do not face punishment or retaliation and their concerns will be handled in confidence. Typically, the ombudspersons investigate and remediate reported non-compliance through recommendations or mediation.
- Monitoring tools, investigations, background checks, and audits.

Reports from the compliance hotlines, e-mails, telephone calls, or other communication tools trigger internal investigations. In 2015, 64 investigations were conducted based on these reports. Twenty-three investigations required follow-up because of evidence of compliance violations. However, as in previous years, most of the reports concerned non-material issues.

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### **Preventing, detecting, and responding to compliance risks**

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In 2014, Sulzer started a compliance risk assessment process on a risk-based approach. Within this process, different legal entities were assessed for specific compliance risks. Sulzer developed a compliance risk catalog to prevent, detect, and respond to the different compliance risks the business is facing. The methodology applied includes external risk indicators like the Foreign Corrupt Practices Act (FCPA), but also internal business- and compliance-specific risk indicators.

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### **Assessing intermediary risks thoroughly**

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Working with third parties is always a high-compliance-risk area. To ensure that Sulzer's cooperation with intermediaries (e.g., agents, distributors, consultants) in the public and private sectors is compliant with both legal and corporate regulations, Sulzer uses an intermediary risk assessment tool. Potential intermediaries have to pass through a due diligence workflow to avoid corruption and bribery schemes through third parties. A potential intermediary needs to pass four steps of Sulzer's so-called Intermediary Due Diligence Application (IDDA) before the final contract can be signed. A Sulzer directive supports this process.

For example, if Sulzer works with a distributor in an emerging market, the intermediary risk-screening software is used. Sulzer only signs an agreement if detailed information about the distributor is known, the specific risks have been assessed, and the contract has been approved by various management levels — dependent on the underlying risk exposures. Thus, the process helps to avoid corruption risks.

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