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Sulzer specializes in pumping solutions, services for rotating equipment, and separation, mixing, and application technology. We create reliable and sustainable solutions for the oil and gas, power, water, and general industry markets. Combining engineering and application expertise, our innovative products and services add value for our customers and strengthen their competitive positions. Sulzer serves customers around the world through a network of over 180 locations in more than 40 countries.

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Winterthur, July 28, 2017

## Ladies and Gentlemen

Sulzer made good progress in 2016 on its transformation journey. Our primary goal is to make our company a sustainable leader in its segments. On our journey, we take measures to ensure that our business activities do not conflict in any way with compliance, human rights, or environmental obligations.



Sulzer advocates the protection of internationally proclaimed human rights throughout its value chain. The company's 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. Over the past two years, we have globalized the management of our supply chain and implemented a Global Supplier Qualification Process (GSQP) for potential and existing suppliers. Thanks to GSQP, we can ensure that the quality standards and sustainable supply chain practices of our global supplier base are in line with our own.

At Sulzer, we encourage our employees to try new things and to be entrepreneurial, and we have a high tolerance for failure. What we absolutely do not tolerate is anything linked to non-compliant behavior. As set out in our Code of Business Conduct, we expect our employees to report all incidents that raise concerns of misconduct or violations of laws, regulations, or company policy. Sulzer's compliance hotline provides employees with one of many options for reporting (potential) violations of laws or internal rules.

Through a centralized reporting system and local initiatives, Sulzer monitors and drives its sustainability efforts globally and locally. Our innovative, reliable, and resource-conserving solutions help our customers save energy and reduce operating costs. Through measures in the areas of energy consumption, greenhouse gas emissions, and hazardous as well as non-hazardous waste production, we aim to reduce our environmental footprint.

Since we joined the United Nations Global Compact (UNGC) initiative in 2010, we have been actively supporting its Ten Universal Principles of Responsible Business Conduct. We will uphold these principles also in the future.

Yours sincerely,

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

Greg Poux-Guillaume  
Chief Executive Officer

**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 2017, 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 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 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 75 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 2016, Sulzer employees completed 7 766 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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## 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. Over the past two years, Sulzer has globalized the management of its supply chain, which has facilitated the implementation of procedures across the whole business. These procedures include a Global Supplier Qualification Process (GSQP) for potential and existing suppliers. GSQP 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. This may include on-site visits and audit by internal sourcing personnel, particularly where a higher risk is identified. 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. Sulzer’s Terms and Conditions for its suppliers state that any supplier is required to respect the Ten Principles of the United Nations Global Compact. During the financial year of 2016, there have been no reports or findings of the presence of modern slavery or human trafficking in our supply chain.

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## Banning conflict minerals from the supply chain

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Sulzer has incorporated into its supplier due diligence program measures to ensure that its supply chain is free of “conflict minerals”. Conflict minerals are known to have originated from conflict-affected and high-risk areas where extraction, transport, trade, and handling of tin, tantalum, tungsten, and gold may provide direct or indirect support to non-state armed groups or enable exploitive or fraudulent activities.

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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 takes action 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

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## 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 cultural diversity and exchange

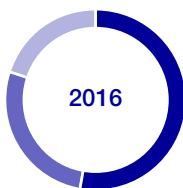
Sulzer welcomes a diverse workforce. People of different cultural backgrounds, nationalities, genders, and ages collaborate and share ideas across the company. Through job rotation programs, internships, and temporary relocations, Sulzer fosters cultural exchange. The company also believes in a speak-up culture and encourages its employees to communicate openly. With tools such as an "ask your CEO" e-mail address, CEO Skype meetings that everyone can participate in, and the intranet, the company provides easy access to the top management. In 2016, 17.1% of the company's workforce was female (2015: 14.5%). Close collaboration with academic institutions enables Sulzer to attract talented young women and men.

## Driving safety excellence

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
- Prohibited substances program on the elimination of recognized hazardous substances and chemicals in Sulzer's products and facilities
- Prohibition on purchase and use of conflict minerals
- Continued commitment to globally aligning and harmonizing sustainability KPIs and metrics (SURE database to collect and report on financial and extrafinancial data)

## Geographical spread of employees



- 53% Europe, Middle East, and Africa
- 27% Americas
- 20% Asia-Pacific



Improving safety is increasingly difficult with conventional safety control measures. An organization needs to enable its employees to recognize hazards and anticipate risks while empowering them to act in the interests of each other's safety. To achieve a mature safety culture, Sulzer has had its Safe Behavior Program (SBP) in place for four years. Since then, the company has achieved a 38% drop in its accident rate. Raising awareness for safe behavior and developing skills is key for Sulzer.

### Maintaining low accident frequency rate

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

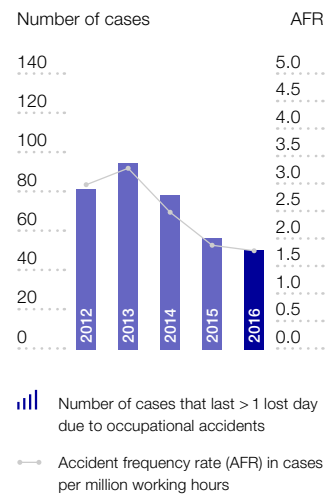
In 2016, Sulzer was able to sustain the previous year's performance and reached an accident frequency rate of below two cases per million working hours. Nevertheless, the health and safety organization faced severe challenges last year. In total, Sulzer suffered 51 cases of major accidents, which resulted in 1 414 lost working days. Tragically, one employee died while working at a customer's site early in the year. Thus, Sulzer is critically examining the entire system of operational health and safety management in its service activities.

Sulzer continues to implement the SBP as its main vehicle for driving improvement in the safety culture. In 2016, the company paid particular attention to developing and raising the safety program competence of both novice health and safety experts and critical management teams. In total, Sulzer held three environment, safety, and health (ESH) training sessions and an additional five management workshops in Asia, Europe, and the Americas. In total, over 150 ESH professionals and middle- to senior-level managers received training.

### Key figures

		2016	2015	Change in +/- %
Accident frequency rate (AFR)	Cases per million working hours	1.8	1.9	-5.3
Accident severity rate (ASR)	Lost days per million working hours	51.2	48.1	6.4
Health and safety training	hours	119 153	106 610	11.7
Voluntary attrition rate	%	8.0	7.5	0.5
Share of women (of total workforce)	%	17.1	14.5	2.5
Leaders from internal talent pipeline	%	56.0	60.0	-6.7
Number of employees	FTE	14 005	14 253	-1.7

### 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 2016* (p. 48 – 49) and in the *Sulzer Code of Business Conduct*

# Environment

Sulzer's commitment to environmental sustainability is as follows: The company reduces its own environmental footprint and develops innovative and highly efficient solutions for its customers. They help save energy and reduce operating costs.

## Principle 7

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Businesses should support a precautionary approach to environmental challenges.

## Principle 8

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Businesses should undertake initiatives to promote greater environmental responsibility.

## Principle 9

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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. Designing, developing, and manufacturing innovative, reliable, and resource-conserving solutions: Because markets are changing fast, it is critical for companies to shorten their innovation cycles and reduce time to market. Hence, technology experts around the world support Sulzer in the development of products and services. In 2016, Sulzer invested CHF 71.4 million, or 2.5% relative to sales, in research and development (R&D) (2015: CHF 73.4 million, 2.5% of sales). In total, the company filed 31 patents in 2016. Find more information about innovation and technology at Sulzer *online* or in the *Sulzer Annual Report 2016*.
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, revamp, 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

Sulzer makes the most effort in areas where it has the scale and resources to make an impact. Because of the diversity of Sulzer's businesses, the business units evaluate their environmental footprint and set their own agendas for reducing their impact. Although having a car fleet policy makes sense in the service business, it is less suitable for manufacturing plants that do not have many cars. Overall, the company's minimum target is to maintain but ideally to improve performance measured against working hours.

In 2016, Sulzer continued to focus on sharing expertise across the company. A newly formed environment committee fosters the exchange of best practices. Furthermore, Sulzer is in the pilot phase of an environmental awareness training for its locations.

**Fluctuations in energy, greenhouse gas emissions, waste, and water data**

The year 2016 was characterized by the company's ongoing transformation. To adapt to the market environment, Sulzer has reduced capacities. This results in larger fluctuations in energy consumption, greenhouse gas emissions, waste, and water consumption at individual sites.

On the whole, both energy consumption and waste were reduced by 13% and almost 8% respectively, largely due to reduced utilization rates. The rate of energy consumption per 1 000 working hours remained stable. Waste production per 1 000 working hours increased slightly because the company cleared out obsolete inventory and stock.

In contrast, the total consumption of water increased significantly by 22%. This increase was almost entirely due to two factors: First, the successfully growing Sulzer Mixpac Systems business was able to increase production significantly in 2016. It invested heavily in new and more efficient plants and equipment, which also consume considerably higher amounts of water for cooling parts and molds. Second, one of the larger manufacturing plants implemented changes to its cooling systems and used ground water instead of an aging refrigerant system. If these two factors are excluded, water consumption was reduced throughout the company. Again, this is largely due to reduced utilization and adjustments in capacities.

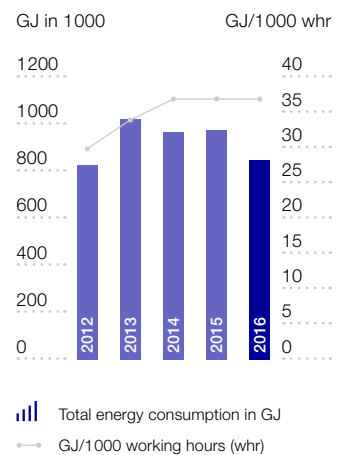
**Complying with international laws and standards**

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. The company conducts internal and external QESH audits regularly to ensure legal compliance and compliance with Sulzer's internal standards and programs.

**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 2016*, 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.

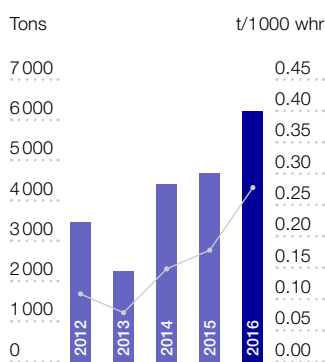
**Energy consumption**






## Reporting transparently and systematically

Sulzer collects extrafinancial data systematically at the site level. The company uses the number of total working hours as a reference. Overall, 78% of total working hours report on environmental data. This is slightly less than in 2015, because several smaller service centers were excluded from the data collection process. The coverage of HR and occupational health and safety data is 100% (of total working hours). The organization collects extrafinancial data according to two different reporting cycles: The reporting period for environmental data is October 1, 2015, to September 30, 2016. The reporting cycle for HR data and the health and safety performance is January 1, 2016, to December 31, 2016. Regular internal audits make sure that the reporting of the figures is accurate.

### Hazardous waste



 Total hazardous waste in t (metric)  
 t/1000 working hours (whr)

 Find further data and information on ecological sustainability at [www.sulzer.com/sustainability](http://www.sulzer.com/sustainability) and in the *Sulzer Annual Report 2016* (p. 44; 46 – 47).

### Key figures

		2016	2015	Change in +/- %
<b>Energy</b>	<b>GJ</b>	<b>845 056</b>	<b>970 832</b>	<b>-13.0</b>
— Energy consumption per working hours (whr)	GJ per 1000 whr	37.3	37.2	0.1
— Share of electricity	%	56.8	54.9	3.4
— Share of gases	%	23.0	23.7	-3.1
— Share of fuels	%	11.7	12.4	-6.1
— Share of fuel oils	%	1.5	1.6	-5.9
— Share of district heating	%	6.1	6.7	-8.5
— Share of other sources	%	< 1	< 1	-
<b>Greenhouse gas emissions</b>	<b>tons CO<sub>2</sub> eq.</b>	<b>91 440</b>	<b>105 960</b>	<b>-13.7</b>
— GHG emissions per working hours	tons CO <sub>2</sub> eq. per 1000 whr	4.03	4.06	-0.7
— GHG scope 1 <sup>1)</sup>	tons CO <sub>2</sub> eq.	17 690	20 560	-14.0
— GHG scope 2 <sup>2)</sup>	tons CO <sub>2</sub> eq.	56 970	66 290	-14.1
— GHG scope 3 <sup>3)</sup>	tons CO <sub>2</sub> eq.	16 780	19 110	-12.2
<b>Waste</b>	<b>tons</b>	<b>26 811</b>	<b>29 071</b>	<b>-7.8</b>
— Waste per working hours	tons per 1000 whr	1.2	1.1	6.1
<b>By treatment</b>				
— Recycling	%	77.4	66.5	16.4
— Waste to landfill/incineration/other treatment	%	22.6	33.5	-32.6
<b>By hazardousness</b>				
— Non-hazardous waste	%	76.7	83.8	-8.5
— Hazardous waste	%	23.3	16.2	43.9
<b>Water</b>	<b>m<sup>3</sup></b>	<b>1 600 383</b>	<b>1 311 922</b>	<b>22.0</b>
— Water consumption per working hours	m <sup>3</sup> per 1000 whr	70.6	50.3	40.3

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

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

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

## Chemtech Innovation Award



Employees are one of the most valuable sources of innovation ideas. For this reason, Sulzer's Chemtech division introduced a new ideation platform in 2015. This platform allows all employees to post their ideas for innovations in Sulzer's technologies, products, and applications. After they pass the initial evaluation, the ideas enter the company's product innovation process. By the end of 2016, employees from different locations and business units had submitted 72 ideas. Three of them were realized and launched.

**72**  
ideas

**3**  
products  
launched

## Donation



For 20 years, Sulzer's Houston Service Center in Texas, USA, has been collecting money for the Boys and Girls Harbor charity. Boys and Girls Harbor is a local non-profit organization that provides a safe, caring home for children that have been abused, abandoned, or neglected. In total, the employees have collected and donated USD 1 million to the charity in the past 20 years.

**1 million**  
US dollars donated  
in the past 20 years

## Sulzer Academy for Pumps and Systems



Sulzer provides training workshops for interested engineers, operators, and maintenance personnel. The Sulzer Academy for Pumps and Systems offers comprehensive courses to help participants better understand the centrifugal pumps and associated auxiliary equipment that is used in their facilities. The goal is to further develop the competencies of the attendees so they can react in time to changing demands and situations within their plants. With more effective and timely decisions, participants are well prepared to ensure the reliability of the operation of the systems and cope with the unexpected.

**180**  
participants  
trained in 2016

## Two Novel Skill Development Initiatives in India

India is in transition from an agriculture-based economy to a knowledge-based economy. In the future, the abilities of its people to create, share, and use knowledge more effectively will decide its competitive edge. To reduce the global skill shortages, Sulzer's site in India has established training courses to support the success of young people: the Earn and Learn program and the GET program.



### Earn and Learn program

The unique Earn and Learn program is open for young people both with and without a college degree. It provides employment to rural or semiurban youth who have completed at least 12 years of formal schooling. In this way, the company helps underprivileged students to complete their bachelor's degree while working and introduces them to attractive opportunities in the growing market.

### GET program

The Graduate Engineer Trainee program (GET program) is designed for new engineering graduates who have demonstrated impressive academic ability but who have little or no job experience. With its training and development opportunities, the program eases candidates into the working world. It has been running consistently for five years. The placement rate is 100%, which means that every single graduate has found a job after Sulzer's training.

**100%**  
placement  
rate

# 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 2016, local compliance officers conducted face-to-face training sessions at 49 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, 2016, the hotline had registered 73 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, due diligence processes, and audits.

Reports from the compliance hotlines, e-mails, telephone calls, or other communication tools trigger internal investigations. In 2016, 59 investigations were conducted based on these reports. A total of 17 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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### **Compliance risk assessments**

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Sulzer performs the yearly compliance risk assessment process on a risk-based approach. Within this process, different legal entities were assessed for specific compliance risks. Within Sulzer's compliance risk catalog, different compliance risks for the business have been assessed. 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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