



# Compensation report

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# Incentives for sustainable performance

Winterthur, February 27, 2018

*Dear shareholder*

On behalf of the Board of Directors and the Nomination and Remuneration Committee of Sulzer, please find enclosed our 2017 Compensation Report.

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

During the reporting year, the Board of Directors and the Nomination and Remuneration Committee continued to review Sulzer's compensation policy and programs to ensure that they are aligned with the company's strategy and shareholders' interests. We also reviewed our compliance with the regulatory requirements and concluded that no fundamental changes were necessary. Furthermore, the Nomination and Remuneration Committee performed its regular activities throughout the year such as the performance goal setting at the beginning of the year and the performance assessment at year end, as well as a review of the global job evaluation methodology and the benchmarking process. We also reviewed the compensation of the members of the Board and of the Executive Committee and oversaw the preparation of the Compensation Report presented to the 2018 Annual General Meeting (AGM).

A continued focus of the Nomination and Remuneration Committee was on the development and the succession planning of the Executive Committee. Consequently, we appointed the new Division President Pumps Equipment, Michael Streicher, on January 1, 2018 from within the company. Michael succeeds César Montenegro who is retiring after 40 years with Sulzer. This internal promotion speaks for our structured succession planning and talent development process. We also appointed a strong successor to the CFO, Jill Lee, who has been a Board member of Sulzer since 2011 and assumes her position in April 2018. She has significant understanding and knowledge of the company which will ensure a smooth transition and continuity of the role.

On the following pages, you will find further information on our activities and on the Sulzer compensation system and governance. This Compensation Report will be submitted for a non-binding, consultative shareholders' vote at the AGM in April 2018. Shareholders will also vote on the maximum aggregate compensation amount to the Board for the term from the 2018 AGM to the 2019 AGM and on the maximum aggregate Executive Committee compensation for 2019.

Looking ahead, we are committed to regularly assess and review our compensation programs to ensure that they are effective. We will also continue the open dialogue with you, our shareholders, and your representatives.

Sincerely,



Thomas Glanzmann  
Chairman of the Nomination and Remuneration Committee

# Compensation governance and principles

Compensation policies and plans at Sulzer reward performance, sustainable growth, and long-term shareholder value creation. The compensation programs are competitive, internally equitable, straightforward, and transparent. The Compensation Report is prepared in accordance with the Ordinance against Excessive Compensation in Listed Stock Corporations (Compensation Ordinance), the SIX Swiss Exchange Directive on Information relating to Corporate Governance (RLCG), and the principles of the Swiss Code of Best Practice for Corporate Governance.

## Nomination and Remuneration Committee

The Articles of Association, the Board of Directors and Organization Regulations, and the Nomination and Remuneration Committee Regulations (please find them at [www.sulzer.com/governance](http://www.sulzer.com/governance), under “Regulations”) define the functions of the Nomination and Remuneration Committee (NRC). The NRC supports the Board of Directors in nominating and assessing candidates for positions to the Board of Directors and Executive Committee positions, in establishing and reviewing the compensation strategy and principles, and in preparing the respective proposals to the Shareholders’ Meeting regarding the compensation of the members of the Board of Directors and of the Executive Committee.

The NRC is responsible for the following activities and submits all proposals concerning these activities to the Board of Directors, which has the final decision authority:

- Periodic assessment of the membership structure of the Board of Directors, determination of selection principles, and identification of potential candidates to the Board of Directors
- Succession planning for the CEO and Executive Committee positions (two upper management levels)
- Periodic assessment of the compensation policy and programs
- Determination of performance targets for the CEO and the Executive Committee positions for the purpose of the incentive plans
- Preparation of the respective proposals to the Shareholders’ Meeting on the maximum aggregate amounts of compensation for the Board of Directors and for the Executive Committee
- Determination of the target compensation for the CEO and for the Executive Committee positions
- Preparation of the Compensation Report

The table below describes the levels of authority:

	CEO	NRC	Board	Shareholders' Meeting
Selection criteria and succession planning for Board of Directors		proposes	approves	
Selection criteria and succession planning for Executive Committee	proposes	reviews	approves	
Compensation policy and programs		proposes	approves	
Aggregate maximum compensation amounts to be submitted to vote at the Annual General Meeting		proposes	reviews	approves (binding vote)
Individual compensation of the members of the Board of Directors		proposes	approves	
Compensation of the CEO		proposes	approves	
Individual compensation of the members of the Executive Committee	proposes	reviews	approves	
Performance objectives and assessment of the CEO		proposes	approves	
Performance objectives and assessment of the Executive Committee	proposes	reviews	approves	
Compensation Report		proposes	approves	consultative vote

The NRC consists of a maximum of three members who are non-executive and independent and who are elected individually and annually by the Shareholders' Meeting for the period of office until the following ordinary Annual General Meeting. At the 2017 Annual General Meeting, Thomas Glanzmann (Chairman), Jill Lee, and Marco Musetti were reelected as members of the NRC.

The NRC meets as often as the business requires, but at least twice a year. In 2017, the NRC held four regular meetings, one extraordinary meeting, and one conference call that were attended by all members. Besides the standard agenda items, the NRC concentrated its efforts on the selection and nomination of the new Executive Committee members for the position of Division President Pumps Equipment and Chief Financial Officer, as well as on the review of the global job evaluation methodology and the benchmarking process, including the related third-party providers.

The CEO and the Chief Human Resources Officer, who serves as the Secretary of the NRC, generally attend the meetings. The Chairman of the Committee may invite other executives to join the meeting in an advisory capacity, when appropriate. However, the CEO and any other executives do not participate in the meetings, or parts of it, when their own remuneration and/or performance is discussed.

The Chairman of the NRC reports to the next meeting of the full Board of Directors on the activities of the NRC and the matters debated. The Chairman, as far as necessary, submits the respective proposals for approval by the Board of Directors. The minutes of the NRC meetings are available to all members of the Board of Directors.

The NRC may appoint third-party companies to provide independent advice or perform services as it deems necessary for the fulfillment of its duties. In the reporting year, the committee appointed Mercer and klingler consultants to provide consulting and benchmarking services on compensation matters. They have no other mandate with Sulzer.

## Shareholders' role and engagement

The company is keen to receive shareholders' feedback on the compensation policy and programs, and it began the practice of holding a consultative vote on the Compensation Report in 2011. Further, the company regularly meets with shareholders and shareholder representatives to understand their perspectives. At the Annual General Meeting, shareholders approve the maximum aggregate compensation amounts for the Board of Directors and for the Executive Committee in an annual binding vote.

Further, the Articles of Association regulate the principles of compensation. They include the following provisions related to compensation (read the full version of the Articles of Association at [www.sulzer.com/governance](http://www.sulzer.com/governance), under “Articles of Association”):

- Principles of compensation: non-executive members of the Board of Directors receive fixed compensation only. Members of the Executive Committee receive fixed and variable compensation elements. The variable compensation may include short-term and long-term variable compensation components. These are governed by performance metrics that take into account the performance of the company, the group or parts of it, targets in relation to the market, other companies or comparable benchmarks and/or individual targets, as well as strategic and/or financial objectives. Compensation may be paid in the form of cash, shares, options, financial instruments or similar units, in kind, in services, or in other types of benefits;
- Shareholders’ binding vote on remuneration: the Shareholders’ Meeting shall approve the maximum aggregate amount of compensation for the Board of Directors for the next term of office and the maximum aggregate amount of compensation for the Executive Committee for the following financial year. The Board of Directors shall submit the annual Compensation Report to an advisory vote at the Annual General Meeting;
- Additional amount for members of the Executive Committee hired after the vote on remuneration by the Shareholders’ Meeting: to the extent that the maximum aggregate amount of compensation as approved by the Shareholders’ Meeting does not suffice, up to 40% of the maximum aggregate amount of compensation approved for the Executive Committee is available, without further approval, for the compensation of the members of the Executive Committee who were appointed after the Annual General Meeting;
- Loans, credit facilities, and post-employment benefits for members of the Board of Directors and of the Executive Committee: the company may not grant loans or credits to members of the Board of Directors and of the Executive Committee.

## Compensation principles

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

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

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

## Method of determination of compensation: benchmarking and annual target-setting process

To ensure compensation levels that are competitive and in line with market practice, the compensation of the Board of Directors and of the Executive Committee is regularly benchmarked against that of similar roles in comparable companies. For this purpose, the Nomination and Remuneration Committee selected a peer group of international industrial companies

headquartered in Switzerland based on their revenue and number of employees (see box “compensation benchmark”). Sulzer is positioned between the first quartile and median of the peer group.

### Compensation benchmark

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The comparison group reflects Sulzer’s ambitious business strategy:

- ABB
- Actelion<sup>1)</sup>
- Clariant
- Georg Fischer
- Lonza
- OC Oerlikon
- Rieter
- Schindler
- Sika
- Sonova
- Syngenta<sup>1)</sup>
- Tetra Laval Group

1) Still a Swiss listed company at the time of benchmarking.

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

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

### Performance appraisal

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<p>→ <b>Target setting</b> Definition of two to four individual performance objectives at the beginning of the year</p>	<p>→ <b>Performance assessment</b> Performance assessment at year-end</p>	<p>→ <b>Compensation determination</b> Determination of incentive payouts on the basis of the company’s/division’s performance and achievement of individual objectives</p>
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# Compensation architecture

## Compensation of the Board of Directors

The compensation of the Board of Directors is governed by a compensation regulation, is reviewed by the Nomination and Remuneration Committee (NRC) annually, and, if necessary, adjusted by a decision of the full Board of Directors based on a proposal by the NRC.

The compensation of the Board of Directors consists of a fixed cash component and a restricted share unit (RSU) component with a fixed grant value. Further, Board members are entitled to a lump sum to cover business expenses. The RSU strengthens the long-term alignment of the interests of the Board members with those of the shareholders. To reinforce the focus of the Board of Directors on the long-term strategy and to strengthen its independence from the Executive Committee, the compensation of the Board of Directors contains no performance-related elements and Board members are not entitled to pension benefits.

The amount of compensation for the Chairman and for the other members of the Board of Directors is determined based on the relevant compensation benchmarks (see box "Compensation benchmark" in section "[Compensation governance and principles](#)" of this Compensation Report). The compensation reflects the responsibility and complexity of their respective function, the professional and personal requirements placed on them, and the expected time required to fulfill their duties. The compensation structure and amounts were reviewed in 2017 and remained unchanged. They are described in the table below.

### Annual compensation of the Board of Directors<sup>1)</sup>

in CHF	Cash component (net of social security contributions)	Grant value of restricted share units (net of social security contributions)	Lump-sum expenses
Base fee for Board Chairmanship <sup>2)</sup>	420'000	250'000	10'000
Base fee for Board Vice Chairmanship	100'000	155'000	5'000
Base fee for Board membership	70'000	125'000	5'000
<b>Additional committee fees:</b>			
Committee Chairmanship	40'000		
Committee membership	25'000		

1) Compensation for the period of service (from AGM to AGM).

2) The Chairman of the Board of Directors does not receive additional remuneration for committee activities.

The members of the Board of Directors are remunerated for their service during their term of office. The cash remuneration is paid in quarterly installments for Board members and monthly installments for the Chairman; the expense lump sum is paid out in December and the RSU are granted once a year. The number of RSU is determined by dividing the fixed grant value by the volume-weighted average share price of the last ten trading days before the grant date, which lies between the date of the publication of the year-end results and the Annual General Meeting. One-third of the RSU each vest after the first, second, and third anniversaries of the grant date respectively. Upon vesting, one vested RSU is converted into one share of the company. The vesting period for RSU granted to the members of the Board of Directors ends no later than on the date on which the member steps down from the Board. Although the value of the RSU grant is fixed (at grant), it then fluctuates with the share price during the vesting period, which means that the value at vesting will differ from the value at grant.

## Compensation of the Executive Committee

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

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

Fixed compensation:

- Base salary (cash)
- Retirement and fringe benefits

Variable compensation:

- Short-term annual bonus (cash)
- Long-term incentives (performance share plan)

## Overview of compensation elements

### Fixed compensation



**Base salary**  
Base salary



**Benefits**  
Pension and social security contributions, fringe benefits



**Short-term incentive plan**  
Bonus plan



**Long-term incentive plan**  
Performance share plan (PSP)



## Compensation elements for the members of the Executive Committee

	Base salary	Benefits	Short-term incentive plan (bonus plan)	Long-term incentive plan (PSP 2017)
Main parameters	Function, level of role, profile of incumbent (skill set, experience)	Pension and social security contributions, fringe benefits	Achievement of financial and individual objectives	Achievement of long-term, company-wide objectives
Key drivers	Labor market	Protection against risks, labor market	Operational EBITA, sales, operational operating net cash flow (opONCF)	Operational EBITA growth, operational return on average capital employed adjusted (opROCEA), relative total shareholder return (TSR)
Link to compensation principles	Competitive compensation	Competitive compensation	Pay for performance	Sustainable growth and value creation
Vehicle	Cash	Pension and insurance plans, perquisites	Cash	Performance share units (PSU) settled in shares
Amount	Fixed	Fixed	Variable, capped at 200% of target bonus. Target bonus amounts to 90% of annual base salary for the CEO and 60% of annual base salary for the other members of the Executive Committee.	Variable. Grant value is defined based on the Global Grade and corresponds to CHF 1'440'000 for the CEO and between CHF 330'000 and CHF 400'000 for the other members of the Executive Committee (EC). Vesting payout percentage is capped at 250% and vesting value is capped at CHF 3'600'000 for the CEO and at CHF 825'000 to CHF 1'000'000 for the other members of the EC.
Grant/payment date	Monthly	Monthly and/or annually	March of the following year	April 1, 2017
Performance period	-	-	1 year (January 1, 2017–December 31, 2017)	3 years (January 1, 2017–December 31, 2019)
Vesting date	-	-	-	December 31, 2019

### Base salary (fixed, in cash)

The base salary is determined at the discretion of the Board of Directors based on the market value of the respective position and the incumbent's qualifications, skills set, and experience. Positions are evaluated according to the Mercer International Position Evaluation (IPE). The IPE is a proprietary global job evaluation methodology based on a series of business-related factors to determine internal job levels. Application of the IPE methodology provides an organizing framework based on a job's value within the context of an organization and the wider commercial environment. The IPE implementation follows a simple process focusing on organization structure, the complexities of the business, and the alignment of jobs to the business. The IPE serves as a basis to build the internal salary structure.

### Bonus (variable, performance-based, cash remuneration)

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

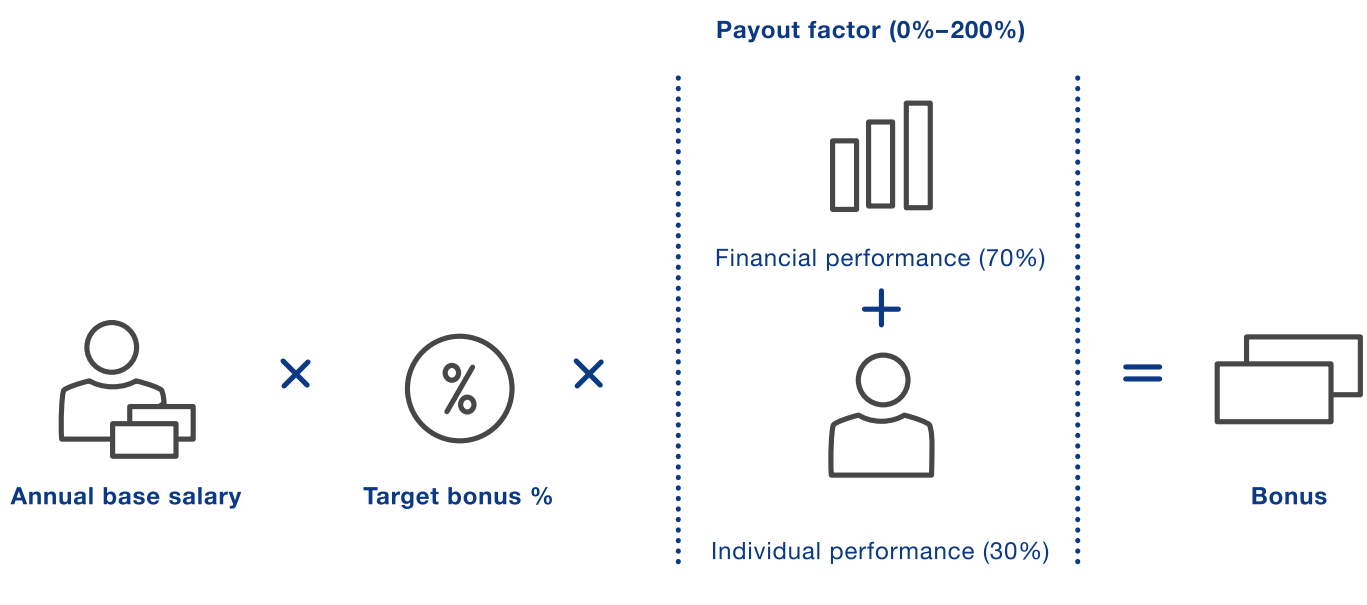
For the CEO and the other members of the Executive Committee, 70% of the bonus is based on the achievement of financial objectives at company and/or division level, and 30% is based on the achievement of individual objectives as described below:

Category	Weight	Objectives	Rationale		CEO/CFO/ CHRO/ CCMO	Division President
Financial performance	70%	Operational EBITA in % of sales	Measure of profitability (bottom line)	Sulzer	25%	7.5%
				Division		17.5%
		Sales	Measure of growth (top line)	Sulzer	25%	7.5%
				Division		17.5%
		Operational operating net cash flow (opONCF)	Measure of cash generated by the revenues	Sulzer	20%	6%
				Division		14%
Individual performance	30%	Sulzer Full Potential initiatives (SFP)	Sulzer's transformation into a truly market-oriented, globally operating, and integrated company	Individual	10%	10%
		Growth initiatives	Include initiatives that support the growth of Sulzer, such as M&A projects, breaking into new markets or new accounts	Individual	10%	10%
		Faster and better	Initiatives focused on the profitability of Sulzer, with objectives linked to speed ("faster") and quality ("better")	Individual	10%	10%
				<b>Total</b>	<b>100%</b>	<b>100%</b>

The objectives are set within the annual target-setting process. For each financial objective, an expected level of performance is determined ("target"). In addition, a threshold of performance below which the respective payout factor is zero and a maximum level of performance above which the respective payout factor is capped are determined for each objective as well. The payout level between the threshold, the target, and the maximum is calculated by linear interpolation.

The actual bonus payout depends on the weighted average of the payout factors achieved for each objective and can range from 0% to 200% of the target bonus. The bonus is paid out in cash in March of the following year.

### Bonus calculation



Sulzer strives for transparency in relation to pay for performance. However, disclosure of financial and individual objectives may create a competitive disadvantage to the company, because it renders sensitive insights into Sulzer's strategy. To ensure transparency while avoiding competitive risk, Sulzer provides a general performance assessment at the end of the

performance cycle (see section “Compensation of the Executive Committee” in chapter “[Compensation of the Board of Directors and the Executive Committee](#)”).

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

The performance share plan (PSP) rewards the performance of the company over three years and aligns the interests of the participants with those of the shareholders by delivering a substantial portion of the compensation as company equity. The PSP is a plan with annual grants and is available exclusively to the members of the Executive Committee and of the Sulzer Management Group (defined by the job level in the IPE framework). The grant value is determined based on the level of the executive’s role. It amounts to CHF 1’440’000 for the CEO and to between CHF 330’000 and CHF 400’000 for the other members of the Executive Committee. The number of performance share units (PSU) granted is calculated by dividing the grant value by the three-month volume-weighted average share price before the grant date.

Each PSU is a conditional right to a certain number of shares of the company. The PSU are subject to a three-year performance period with three performance conditions:

- Operational EBITA growth, weighted with 25%;
- Average opROCEA, weighted with 25%;
- Relative total shareholder return (TSR) weighted with 50% and measured against two different peer groups: 75% is based on the performance against international peers measured as percentile ranking and 25% is based on the performance against the companies of the Swiss Market Index Mid (SMIM) measured as a delta (see box below).

### Peer group for relative TSR performance of PSP 2017

#### International peers

- Ebara
- Flowserve
- ITT
- Kirloskar Brothers
- KSB
- Pentair
- SPX Flow
- Weir
- Wood Group
- Xylem



#### Swiss Market Index Mid (SMIM)

All companies of the SMIM

The Board of Directors has the right to change the composition of the peer group in case of a merger or acquisition or any other change leading to a delisting or a fundamental change in the scope of the business of a peer group company. In such a situation, the Board will select a new peer company. There is a predefined successor list of companies to support the Board of Directors in the selection process.

For each performance condition of the PSP, an achievement factor is calculated based on the following formula:

#### Level of performance

- Below threshold
- Threshold
- Target
- Cap
- Points in between

#### Achievement factor

0%  
50%  
100%  
250%  
Linear interpolation

On the vesting date, the number of vested shares is calculated by multiplying the initial number of PSU granted by the weighted average of the achievement factor of each performance condition as follows:

Number of PSU granted x [(achievement factor opEBITA growth x 25%) + (achievement factor opROCEA x 25%) + (achievement factor relative TSR x 50%)] = number of performance shares vested

The number of vested shares is subject to an absolute cap based on the level of the executive's role in the GGS framework. The absolute vesting cap amounts to CHF 3'600'000 for the CEO and between CHF 825'000 and CHF 1'000'000 for other Executive Committee members. The fair value of the PSU at grant date has been calculated using the Monte Carlo simulation.

#### Number of PSU vested

Number of PSU granted	×	Achievement opEBITA growth (0-250%)x25%	+	Achievement average opROCEA (0-250%)x25%	+	Achievement relative TSR (0-250%)x50%	=	Number of PSU granted
<p><b>Number of PSU granted</b> Grant values are defined based on the level of the role in the GGS framework:</p> <ul style="list-style-type: none"> <li>• CEO: CHF 1'440'000</li> <li>• EC: CHF 330'000 to CHF 400'000</li> </ul>		<p><b>Factor based on operational EBITA growth</b> Operational EBITA growth is the percentage change between opEBITA in the last fiscal year before the start of the performance period and opEBITA in the last fiscal year of the performance period.</p> <ul style="list-style-type: none"> <li>• Threshold: not disclosed</li> <li>• Target: any performance between target entry point and target end point (not disclosed)</li> <li>• Cap: not disclosed</li> </ul>		<p><b>Factor based on average opROCEA</b> Average opROCEA is the sum of adjusted opROCE based on audited figures in each fiscal year of the performance period, divided by the number of such years.</p> <ul style="list-style-type: none"> <li>• Threshold: not disclosed</li> <li>• Target: any performance between target entry point and target end point (not disclosed)</li> <li>• Cap: not disclosed</li> </ul>		<p><b>Factor based on relative TSR</b> Relative TSR is defined as share price growth plus dividends during the vesting period divided by the ending share price, measured against peers.</p> <p><b>Industrial peers (75%)</b></p> <ul style="list-style-type: none"> <li>• Threshold: 25<sup>th</sup> percentile</li> <li>• Target: median</li> <li>• Cap: 75<sup>th</sup> percentile</li> </ul> <p><b>SMIM (25%)</b></p> <ul style="list-style-type: none"> <li>• Threshold: SMIM -10 percentage points</li> <li>• Target: SMIM</li> <li>• Cap: SMIM +10 percentage points</li> </ul>		<p><b>Number of PSU vested</b> The maximum vesting value is capped at a multiple of the value at grant:</p> <ul style="list-style-type: none"> <li>• CEO: CHF 3'600'000</li> <li>• EC: CHF 825'000 to CHF 1'000'000</li> </ul>

Sulzer strives for transparency in relation to pay for performance. The target achievement level of relative performance objectives are not considered confidential and are thus disclosed (see above). However, disclosure of internal financial and individual objectives may create a competitive disadvantage to the company because it renders sensitive insights into Sulzer's strategy. To ensure transparency while avoiding competitive risk, Sulzer provides a general performance assessment at the end of the performance cycle.

In case of termination of employment, the following provisions apply:

- Termination by the employer for cause: unvested PSU forfeit.
- Termination of employment for any other reason (not for cause and not following a change of control): for Executive Committee members, unvested PSU vest on a pro rata basis (number of months between grant date and termination date) according to the achievement factor at the end of the vesting period. There is no early allocation of the shares.
- Termination following a change of control: unvested PSU immediately vest based on a performance assessment by the Board of Directors on the date of the change of control.

Clawback and malus provisions: the Board of Directors may determine that an award is forfeited in full or in part (malus) or that a vested award will be recovered in full or in part (clawback) in situations of material misstatement of the financial results,

an error in assessing a performance condition, or in the information or assumptions on which the award was granted or vested, serious reputational damage to the company, gross negligence, or willful misconduct on the part of the participant.

Further information on share-based compensation can be found in [note 10](#) to the “Financial Statements of Sulzer Ltd.”

## Discontinued restricted share unit plan (variable, fixed grant value, share-based remuneration)

The RSU plan that was in place as a long-term incentive for members of the Executive Committee since 2009 was discontinued in 2013 when the PSP 2013 was introduced. The RSU plan was discontinued in 2016 for all other participants who are not members of the Executive Committee. As of 2016, those participants also receive awards under the PSP as described above.

However, RSU may still be granted to newly hired Executive Committee members to compensate for deferred awards forfeited at their previous employer because of joining Sulzer.

## Benefits

Members of the Executive Committee participate in the regular employee pension fund applicable to all employees in Switzerland. The retirement plan consists of a basic plan that covers annual earnings up to CHF 146'629 per year and a supplementary plan in which income over this limit, up to the ceiling set by law, is insured (including variable cash remuneration). The contributions are age-related and are shared between the employer and the employee.

Furthermore, each member of the Executive Committee is entitled to a representation allowance in line with the expense regulations for all members of management in Switzerland and approved by the tax authorities.

## Contracts of employment

The employment contracts of the Executive Committee are of undetermined duration and have a notice period of maximum 12 months. Members of the Executive Committee are not entitled to any impermissible severance or change of control payments. The employment contracts of the Executive Committee may include non-competition agreements with a time limit of one year and with a maximum total compensation of one annual target compensation.

# Compensation of the Board of Directors and the Executive Committee

## Compensation of the Board of Directors

In 2017, the Board of Directors received a total compensation of CHF 2'694'962 (previous year: CHF 2'722'620). Of this total, CHF 1'271'869 was in the form of cash fees (previous year: CHF 1'254'035); CHF 1'155'000 was in RSU (previous year: CHF 1'092'500); CHF 268'093 was in the form of social security contributions (previous year: CHF 265'417), and CHF 0 was in the form of other payments (previous year: CHF 110'668).

This is a decrease of 1% from the previous year. On one side, two members of the Board were paid for the full year in 2017 (pro rata in 2016), on the other side, there was no special cash payment in 2017 (special cash payment related to extraordinary dividend in 2016). Those two effects nearly neutralize each other and led to a slight decrease of the overall Board compensation by 1%. The structure and level of the Board compensation remained unchanged compared with the previous year.

The portion of compensation delivered in RSU amounts to 56% of the cash compensation for the Chairman, and to between 87% and 125% for the other members of the Board of Directors. The RSU are subject to a staged three-year vesting period.

## Compensation of the Board of Directors (audited)

thousands of CHF	2017					2016				
	Cash Fees <sup>6)</sup>	Restricted share unit (RSU) plan <sup>7)</sup>	Social security contributions <sup>8)</sup>	Other	Total	Cash Fees <sup>6)</sup>	Restricted share unit (RSU) plan <sup>7)</sup>	Social security contributions <sup>8)</sup>	Other <sup>9)</sup>	Total
<b>Board of Directors</b>	<b>1'272</b>	<b>1'155</b>	<b>268</b>	<b>0</b>	<b>2'695</b>	<b>1'254</b>	<b>1'093</b>	<b>265</b>	<b>111</b>	<b>2'723</b>
Peter Löscher, Chairman <sup>1)</sup>	446	250	69	0	765	452	250	72	32	807
Matthias Bichsel, Vice Chairman	133	155	33	0	322	138	155	35	19	347
Thomas Glanzmann <sup>2)</sup>	144	125	30	0	299	149	125	31	16	322
Jill Lee <sup>3)</sup>	144	125	30	0	299	145	125	31	16	317
Marco Musetti	102	125	27	0	253	114	125	29	16	284
Gerhard Roiss	100	125	25	0	250	104	125	28	11	268
Axel C. Heitmann <sup>4)</sup>	102	125	27	0	253	76	94	20	0	189
Mikhail Lifshitz <sup>5)</sup>	102	125	27	0	253	76	94	20	0	189

1) Chairman of the Board of Directors and Chairman of the Strategy Committee.

2) Chairman of the Nomination and Remuneration Committee. Chairman of the Audit Committee since December 11, 2017.

3) Chairwoman of the Audit Committee until December 11, 2017.

4) Member of the Board of Directors since April 7, 2016.

5) Member of the Board of Directors since April 7, 2016.

6) Disclosed gross.

7) RSU awards granted in 2017 had a fair value of CHF 105.09 at grant date. The amount represents the full fair value of grants made in 2017.

8) The amount includes mandatory social security contributions on the cash fees and estimated contributions on the RSU (based on their fair value at grant) and includes both the employer and employee contributions paid by the company on behalf of the Board members. As of 2016, RSU are provided net of social security as well.

9) Special cash payment of CHF 14.60 per RSU in order to compensate for the fact that RSU granted in 2014 and 2015 did not entitle Board members to the extraordinary dividend payment distributed to shareholders in 2016.

At the 2017 and 2016 AGM respectively, shareholders approved a maximum aggregate compensation amount of CHF 2'897'000 for the Board of Directors for the period of office from the 2017 AGM until the 2018 AGM and of CHF 2'802'000 for the period of office from the 2016 AGM until the 2017 AGM. The table below shows the reconciliation between the compensation that is/will be paid out for the two periods of office and the maximum aggregate compensation amounts approved by the shareholders.

### Reconciliation between the reported Board compensation and the amount approved by the shareholders at the Annual General Meeting

	Compensation earned during financial year as reported (A)	Minus compensation earned from Jan to AGM of financial year (B)	Plus compensation accrued from Jan to AGM of year following financial year (C)	Total compensation earned for the period from AGM to AGM (A-B+C)	Amount approved by shareholders at respective AGM	Ratio between compensation earned for the period from AGM to AGM versus amount approved by shareholders
AGM 2017-AGM 2018	2017	Jan 1, 2017 to 2017 AGM	Jan 1, 2018 to 2018 AGM	2017 AGM to 2018 AGM	2017 AGM	2017 AGM
<b>Board (total)</b>	<b>2'694'962</b>	<b>390'292</b>	<b>388'062</b>	<b>2'692'732</b>	<b>2'897'000</b>	<b>92.9%</b>
AGM 2016-AGM 2017	2016	Jan 1, 2016 to 2016 AGM	Jan 1, 2017 to 2017 AGM	2016 AGM to 2017 AGM	2016 AGM	2016 AGM
<b>Board (total)</b>	<b>2'722'620</b>	<b>320'292</b>	<b>362'854</b>	<b>2'765'182</b>	<b>2'802'000</b>	<b>98.7%</b>

As of December 31, 2016, and 2017, there were no outstanding loans or credits granted to the members of the Board of Directors, former members of the Board of Directors or related parties (audited).

In 2016 and 2017, no compensation was granted to former members of the Board of Directors or related parties (audited).

## Compensation of the Executive Committee

### Performance in 2017

In 2017, Sulzer again made good progress towards its transformation goals. Financial targets were exceeded despite an unsupportive energy market environment. We grew through acquisitions but also organically in all divisions. The financial component of the bonus ranged from 100% to 134% of targeted payout (on average 124%) and significant progress on our transformation path led to a high level of achievement of individual objectives. This translated into an overall bonus payout factor ranging from 100% to 139% (on average 125%) for the members of the Executive Committee.

Objectives	Assessment relative to plan		
	Threshold	Target	Cap
Sales		●	
Operational EBITA		●	
opROCEA		●	
Operational operating net cash flow (opONCF)			●
Individual objectives			●

In 2017, the performance-based grant awarded under the PSP 2014 has vested. The PSP 2014 was based on the relative TSR performance and on cumulative EBIT, both calculated over the performance period from January 1, 2014, until December 31, 2016. The overall vesting amounted to 129%.

The PSP 2015 vested on December 31, 2017. However, the final payout calculation will be made based on the volume-weighted average share price of the three months following vesting date (January to March 2018) and is therefore not known at the time of publication of this report. The vesting level of the PSP 2015 will be disclosed in the 2018 Compensation Report. For the 2015 PSP awards, the peer group had to be updated, with the newly merged TechnipFMC (former peer group company Technip) being replaced by Xylem, chosen out of a proposal of three companies from the predefined successor list of companies.

### Compensation awarded to the Executive Committee in 2017

In 2017, the Executive Committee received a total compensation of CHF 13'956'248 (previous year: CHF 19'476'608). Of this total, CHF 8'109'048 was in cash (previous year: CHF 8'306'400); CHF 3'785'036 was in PSUs (previous year: CHF 6'529'346); CHF 1'783'861 was in pension and social security contributions (previous year: CHF 2'517'275), and CHF 278'302 was in other payments (previous year: CHF 1'523'497).

This is an overall decrease of 40% from the previous year. The main reason for this decrease is the new composition of the EC in 2017: in the previous year, there were several overlaps between leaving EC members who still received their compensation during the contractual notice period, and newly appointed EC members. These overlaps resulted in a higher compensation figure in 2016.

Otherwise, the following explanatory comments can be provided:

- On a like-for-like basis (EC members employed in both years 2017 and 2016), the base salaries of the EC members increased by 3% on average;
- Other payments have substantially decreased compared with the previous year. This is due to the fact that unlike in the previous year, there was no replacement payment to new EC members and no special cash payment (in 2016, a special cash payment related to the extraordinary dividend was paid out);
- On a like-for-like basis, the cash bonus payment increased by 10% due to a higher payout percentage (refer to the comments above on performance achieved in 2017);
- On a like-for-like basis, the grant value of long-term incentives (LTI) remained unchanged compared with the previous year.



## Compensation of the Executive Committee (audited)

	2017						
thousands of CHF	Base salary	Bonus <sup>2)</sup>	Other <sup>3)</sup>	Restricted share unit (RSU) plan	Performance share plan (PSP) <sup>5)</sup>	Pension and social security contributions <sup>6)</sup>	Total
Highest single compensation, Greg Poux-Guillaume, CEO	1'009	1'259	147	–	1'531	420	4'367
Total Executive Committee <sup>1)</sup>	4'367	3'742	278	–	3'785	1'784	13'956

	2016						
thousands of CHF	Base salary	Bonus <sup>2)</sup>	Other <sup>7)</sup>	Restricted share unit (RSU) plan <sup>4)</sup>	Performance share plan (PSP) <sup>5)</sup>	Pension and social security contributions <sup>6)</sup>	Total
Highest single compensation, Greg Poux-Guillaume, CEO	950	1'005	747	0	2'201	510	5'413
Total Executive Committee <sup>1)</sup>	4'727	3'579	1'523	600	6'529	2'517	19'477

1) Members of the Executive Committee: Greg Poux-Guillaume, CEO since December 1, 2015; Klaus Stahlmann, CEO until August 10, 2015. The total Executive Committee compensation 2016 includes the compensation of Klaus Stahlmann during the 12-month notice period that ended in August 2016; Thomas Dittrich, CFO; Fabrice Billard, Chief Strategy Officer until July 2016; César Montenegro, Division President Pumps Equipment until December 2017; Peter Alexander, Division President Rotating Equipment Services until August 2016; Daniel Bischofberger, Division President Rotating Equipment Services since September 2016; Oliver Bailer, Division President Chemtech until June 2016; Torsten Wintergerste, Division President Chemtech since June 2016; Armand Sohet, Chief Human Resources Officer since March 2016; Frédéric Lalanne, Chief Commercial and Marketing Officer since June 2016.

2) Expected bonus for the performance years 2017 and 2016 respectively, that is paid out in the following year (accrual principle). Includes pro rata short-term incentive (STI) payments for EC members whose employment contracts started or were terminated during the year.

3) Other consists of housing allowances, schooling allowances, private use of company car, tax services, holiday compensation, and child allowances.

4) Replacement awards to compensate for forfeited remuneration at the previous employer as a result of joining Sulzer. The amount represents the full fair value at grant.

5) Represents the full fair value of the PSU granted under the PSP 2017 and PSP 2016, respectively. Based on the three-year business plan that has been approved by the Board of Directors in 2017, the underlying targets for the PSP 2016 have been recalibrated. This change had no impact on the fair value at the date of modification.

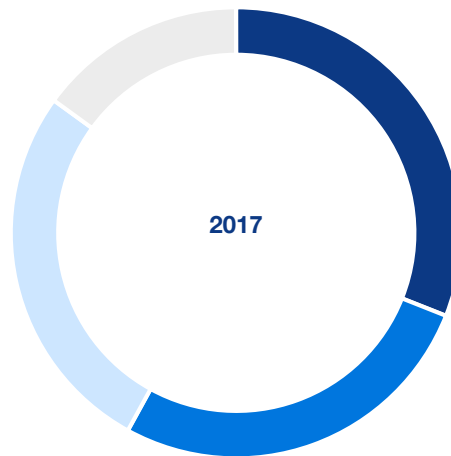
6) Includes the employer contribution to social security (including the expected employer contributions on equity awards), based on the fair value of all grants made in 2017 and 2016, respectively (RSU and PSP).

7) Other consists of housing allowances, schooling allowances, private use of company car, tax services, holiday compensation, and child allowances. Also includes a special cash payment of CHF 98'730 in 2016 for a new EC member as compensation for forfeited incentives at the previous employer as a result of joining Sulzer and a special cash payment of CHF 14.60 per RSU in order to compensate for the fact that RSU granted in 2014 and 2015 did not entitle Executive Committee members to the extraordinary dividend payment distributed to shareholders in 2016.

For the entire Executive Committee, the variable component (without replacement award) represented 117% of the fixed component (base salary, other, pension and social security contributions). The relationship between the fixed and the variable components of compensation reflects Sulzer's high-performance orientation. Further, it represents the company's strong emphasis on aligning the interests of the Executive Committee and the shareholders to create long-term shareholder value and profitable growth.

## Executive Committee

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- **31%** Base salary
- **27%** Bonus
- **27%** Grant of PSU
- **15%** Benefits

The total compensation of CHF 13'956'248 awarded to the members of the Executive Committee for the 2017 financial year is within the maximum aggregate compensation amount of CHF 20'810'000 that was approved by the shareholders at the 2016 AGM.

No severance payments to members of the Executive Committee were made during the reporting year.

As of December 31, 2016 and 2017, there were no outstanding loans or credits granted to the members of the Executive Committee or former members of the Executive Committee (audited).

In 2016 and 2017, no compensation was granted to former members of the Executive Committee or related parties (audited).

# Shareholdings of the Board of Directors and the Executive Committee

## Shareholdings of the Board of Directors

As of the end of 2016 and 2017, the members of the Board of Directors held the following shares in the company:

### Shareholdings at December 31, 2017

	2017		
	Sulzer shares	Restricted share units (RSU)	Total share awards and shares
<b>Board of Directors</b>	<b>31'044</b>	<b>23'483</b>	<b>54'527</b>
Peter Löscher	–	5'244	5'244
Matthias Bichsel	3'624	3'253	6'877
Thomas Glanzmann	6'841	2'625	9'466
Axel C. Heitmann	526	2'243	2'769
Jill Lee	5'320	2'625	7'945
Mikhail Lifshitz	526	2'243	2'769
Marco Musetti	4'917	2'625	7'542
Gerhard Roiss	9'290	2'625	11'915

### Shareholdings at December 31, 2016

	2016		
	Sulzer shares	Restricted share units (RSU)	Total share awards and shares
<b>Board of Directors</b>	<b>50'998</b>	<b>22'157</b>	<b>73'155</b>
Peter Löscher	28'131	5'363	33'494
Matthias Bichsel	1'157	3'244	4'401
Thomas Glanzmann	5'591	2'684	8'275
Axel C. Heitmann	–	1'578	1'578
Jill Lee	4'070	2'684	6'754
Mikhail Lifshitz	–	1'578	1'578
Marco Musetti	3'667	2'684	6'351
Gerhard Roiss	8'382	2'342	10'724

## Shareholdings of the Executive Committee

As of the end of 2016 and 2017, the members of the Executive Committee held the following shares in the company:

### Shareholdings at December 31, 2017

	2017					
	Sulzer shares	Restricted share units (RSU)	Total share awards and shares	Performance share units (PSU) 2015	Performance share units (PSU) 2016	Performance share units (PSU) 2017
<b>Executive Committee</b>	<b>46'835</b>	<b>22'546</b>	<b>69'381</b>	<b>6'594</b>	<b>37'266</b>	<b>32'624</b>
Greg Poux-Guillaume	9'682	15'121	24'803	942	18'641	13'196
Daniel Bischofberger	-	-	-	-	1'424	3'024
Thomas Dittrich	21'000	-	21'000	2'826	5'178	3'666
Frédéric Lalanne	-	7'026	7'026	-	2'314	3'024
César Montenegro	14'844	-	14'844	2'826	5'178	3'666
Armand Sohet	-	-	-	-	3'560	3'024
Torsten Wintergerste	1'309	399	1'708	-	971	3'024

### Shareholdings at December 31, 2016

	2016					
	Sulzer shares	Restricted share units (RSU)	Total share awards and shares	Performance share units (PSU) 2014	Performance share units (PSU) 2015	Performance share units (PSU) 2016
<b>Executive Committee</b>	<b>28'726</b>	<b>43'029</b>	<b>71'755</b>	<b>3'278</b>	<b>6'594</b>	<b>37'266</b>
Greg Poux-Guillaume	-	30'242	30'242	-	942	18'641
Daniel Bischofberger	-	-	-	-	-	1'424
Thomas Dittrich	14'000	4'921	18'921	964	2'826	5'178
Frédéric Lalanne	-	7'026	7'026	-	-	2'314
César Montenegro	13'858	-	13'858	2'314	2'826	5'178
Armand Sohet	-	-	-	-	-	3'560
Torsten Wintergerste	868	840	1'708	-	-	971



# Report of the Statutory Auditor

## To the General Meeting of Sulzer Ltd, Winterthur

We have audited the Compensation Report of Sulzer Ltd for the year ended December 31, 2017. The audit was limited to the information according to articles 14 – 16 of the Ordinance against Excessive compensation in Stock Exchange Listed Companies (Ordinance) contained in the tables and sections labeled “audited” in the chapter “[Compensation of the Board of Directors and the Executive Committee](#)” of the Compensation Report.

### Responsibility of the Board of Directors

The Board of Directors is responsible for the preparation and overall fair presentation of the Compensation Report in accordance with Swiss law and the Ordinance against Excessive compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

### Auditor's Responsibility

Our responsibility is to express an opinion on the Compensation Report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Compensation Report complies with Swiss law and articles 14 – 16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the Compensation Report with regard to compensation, loans and credits in accordance with articles 14 – 16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the Compensation Report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the Compensation Report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Opinion

In our opinion, the Compensation Report for the year ended December 31, 2017 of Sulzer Ltd complies with Swiss law and articles 14 – 16 of the Ordinance.

KPMG AG

François Rouiller  
Licensed Audit Expert  
Auditor in Charge

Nanda Buess  
Licensed Audit Expert

Zurich, February 27, 2018

KPMG AG, Badenerstrasse 172, PO Box, CH-8036 Zurich

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