Compensation report

Pay for sustainable performance

Winterthur, February 14, 2019

Dear Shareholder,

I was honored this year to be given the chair of the Nomination and Remuneration Committee of Sulzer, succeeding Thomas Glanzmann who stepped down from the position. We are all grateful to Thomas for his many contributions and dedication to the committee. I was also pleased to welcome Hanne Birgitte Breinbjerg Sørensen as a new committee member.

The committee will continue to ensure that the Sulzer compensation structure reflects best practice standards. The Sulzer compensation policy enables the company to attract, retain and motivate the talents that are key to the company’s performance and long-term success. To that end, our compensation programs have been designed to reward sustainable performance.

During the reporting year, the Board of Directors and the Nomination and Remuneration Committee reviewed 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. 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 2019 Annual General Meeting (AGM).

We appointed Frédéric Lalanne, Chief Commercial and Marketing Officer (CCMO), as President, Pumps Equipment division to build on the many advances achieved in 2018 in our Pumps Equipment division. Frédéric replaced Michael Streicher who stepped down from the Executive Committee to assume his new responsibilities as Global Head, Water Pumps Business.

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 2019. Shareholders will also vote on the maximum aggregate compensation amount to the Board for the term from the 2019 AGM to the 2020 AGM and on the maximum aggregate Executive Committee compensation for 2020.

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,

Gerhard Roiss
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, 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 2018 Annual General Meeting, Marco Musetti was reelected as member of the NRC, while Hanne Birgitte Breinbjerg Sørensen and Gerhard Roiss (Chairman) were newly elected as members of the NRC because previous members Thomas Glanzmann and Jill Lee did not stand for reelection.

The NRC meets as often as the business requires, but at least twice a year. In 2018, the NRC held four regular meetings and two extraordinary conference calls that were attended by all members. Besides the standard agenda items, the NRC concentrated its efforts on the implementation of the new global job evaluation methodology, the impacts on the variable compensation models of the US sanctions and resulting short-term share price drop in April as well as executive and board compensation benchmarking processes (in cooperation with 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, Mercer and Agnes Blust Consulting AG provided 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, 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:

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

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

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

The comparison group reflects Sulzer’s ambitious business strategy:

- ABB
- Clariant
- Georg Fischer
- Lonza
- OC Oerlikon
- Rieter
- Schindler
- Sika
- Sonova
- Tetra Laval Group

Actelion and Syngenta previously also formed part of the peer group but have now been removed after being taken over by investors and delisted from the stock exchange. Apart from these two removals, the peer group remained unchanged and no replacements were made, as the NRC considered the remaining peer group to continuously represent the most relevant and suitable group of companies for Sulzer’s compensation 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

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

Details on the targets and on the performance assessment can be found in the chapter “Compensation architecture”.

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. Each RSU represents a right to receive a Sulzer share free of charge after a certain period, as further detailed below. Further, Board members are entitled to a lump sum to cover business expenses. The RSU component 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. In 2018, an independent external third-party conducted a board compensation benchmark for Sulzer. Based on the resulting data, the NRC concluded that Sulzer’s Board compensation structure and amounts were broadly in line with Sulzer’s desired position in the market for the time being, however, it remains subject to review and potential adjustments in 2019. The ongoing Board compensation structure and amounts are described in the table below.

Annual compensation of the Board of Directors[1)]

in CHF	Cash component (net of social security contributions)	Grant value of restricted share units (net of social security contributions)	Lump-sum expenses
Base fee for Board Chairmanship[2)]	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
Additional committee fees:			
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 (from AGM to AGM). 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 can 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

Variable compensation

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 2018)
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	July 1, 2018
Performance period	–	–	1 year (January 1, 2018–December 31, 2018)	3 years (January 1, 2018–December 31, 2020)
Vesting date	–	–	–	December 31, 2020

The PSP grant date was set to be July 1, 2018 in consideration of the share price collapse in April 2018. Further information can be found in the section “Performance share plan” below.

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. In 2018, the IPE continued to be rolled out and implemented on a group-wide basis.

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:

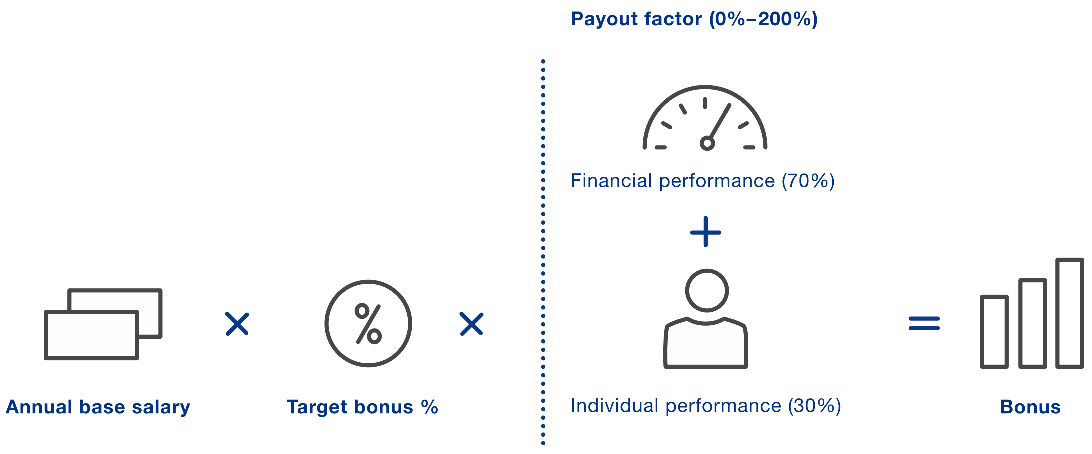
Category	Weight	Objectives	Rationale		CEO/CFO/CHRO/CCMO	Division President
Financial performance	70%	Operational EBITA in % of sales	Measure of profitability (bottom line)	Sulzer	25%	7.5%
				Division		17.5%
		Sales	Measure of growth (top line)	Sulzer	25%	7.5%
				Division		17.5%
		Operational operating 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%
				Total	**100%**	**100%**

The objectives are set within the annual target-setting process. For each financial objective, the following parameters are set upfront:

- An expected level of performance ("target"), the achievement of which leads to a payout factor (on the respective performance metric) of 100%.
- A minimum level of performance ("threshold") below which the respective payout factor is zero.
- A maximum level of performance ("cap") above which the respective payout factor is capped at 200%. With respect to the financial objectives, a performance of 200% of the target figure is required to achieve a payout factor of 200%.

Between threshold and target, as well as between target and cap, the payout factor is interpolated linearly. The weighted average of the resulting payout factors on each performance metric will be multiplied by the target bonus amount to derive the actual bonus which will be paid out 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)

A PSU is a conditional right to a certain number of shares of the company, subject to ongoing employment and to the achievement of strategic/financial performance targets on a group level over the three-year performance period. The performance share plan (PSP) rewards selected participants based on 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. This emphasizes and supports Sulzer's focus on pay for performance and sustainable growth, with a long-term perspective and additional retention effect on employees. Furthermore, the actual delivery of shares is dependent on the achievement of strategic and financial targets on a group level, thus strengthening the group perspective and a shared perspective with investors and shareholders.

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 (determined by the Board of Directors) 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. The PSU grant date in 2018 was shifted to July 1, in line with the flexibility provided for by the PSP regulation, to allow the share price to stabilize after the important fluctuations triggered by the US sanctions applied in April on Sulzer's reference shareholder Renova. This shift mitigated short-term volatility concerns by having the PSU grants based on a less volatile three-month average price, which also included the off-exchange share buyback of 5.00 million shares in the same period.

The key performance criteria being measured over the three-year performance period of PSU are:

- 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% of this part of the performance measurement 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 details in the box below).

The Board of Directors deems these metrics to be the most relevant key performance indicators for the sustainable development of the Sulzer group, combining growth, profitability and shareholder return in comparison to the relevant peers and markets.

Peer group for relative TSR performance of PSP 2018

International peers		Swiss Market Index Mid (SMIM)
• Ebara	• Pentair	All companies of the SMIM
• Flowserve	• SPX Flow	
• ITT	• Weir	
• Kirloskar Brothers	• Wood Group	
• KSB	• Xylem	

Both peer groups did not change in the reporting year.

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, a threshold, target and cap performance level is determined, which in turn determines the achievement factor as follows:

Level of performance	Achievement factor
• Below threshold	0%
• Threshold	50%
• Target	100%
• Cap	250%
• Points in between	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 PSU vested

For each vested PSU, a Sulzer share will be delivered free of charge to the employee.

However, while the above mentioned performance assessment impacts the number of PSU vested and, consequently, the number of shares delivered, there might also be an increase in value per share over the three-year performance period, which may have a relevant impact on the actually delivered total value after three years. Therefore, the number of vested PSU is subject to an absolute value cap based on the level of the executive’s role in the IPE framework. The absolute vesting value cap amounts to CHF 3’600’000 for the CEO and between CHF 825’000 and CHF 1’000’000 (representing, in each case, 2.5 times the original grant value) for other Executive Committee members.

Number of PSU vested

Number of PSU granted	×	Achievement opEBITA growth (0–250%) x 25%	+	Achievement average opROCEA (0–250%) x 25%	+	Achievement relative TSR (0–250%) x 50%	=	Number of PSU vested
Number of PSU granted Grant values are defined based on the level of the role in the GGS framework: • CEO: CHF 1'440'000 • EC: CHF 330'000 to CHF 400'000		**Factor based on operational EBITA growth** 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. • Threshold: not disclosed • Target: any performance between target entry point and target end point (not disclosed) • Cap: not disclosed		**Factor based on average opROCEA** 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. • Threshold: not disclosed • Target: any performance between target entry point and target end point (not disclosed) • Cap: not disclosed		**Factor based on relative TSR** Relative TSR is defined as share price growth plus dividends during the vesting period divided by the ending share price, measured against peers. **Industrial peers (75%)** • Threshold: 10th percentile • Target: median • Cap: 75th percentile **SMIM (25%)** • Threshold: SMIM −10 percentage points • Target: SMIM • Cap: SMIM +10 percentage points		**Number of PSU vested** The maximum vesting value is capped at a multiple of the value at grant: • CEO: CHF 3'600'000 • EC: CHF 825'000 to CHF 1'000'000

Sulzer strives for transparency in relation to pay for performance. The target achievement levels 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 as a result of retirement: vesting and performance measurement of PSU continues according to plan, no early allocation of the shares.
- Termination of employment for any other reason: for Executive Committee members, the number of 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.

Upon the occurrence of a change of control, PSU will vest immediately on a pro rata basis, subject to a performance assessment by the Board of Directors. In such a case, the Board of Directors may also determine a cash settlement of the awards.

Furthermore, 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.

The PSP regulation in its article 15 allows for corrections in case of extreme market situations or in the event of activities or decisions of large Sulzer shareholders which have a significant impact on Sulzer's TSR. The US sanctions targeting Renova in April 2018 was deemed to be such an extraordinary event, given its dramatic mid-term impact on the share price of Sulzer and this despite sustained strong operational performance and positive strategic developments. Consequently, the Board decided in May 2018 to add a TSR performance floor to the ongoing measurement of the PSP 2016 and PSP 2017, protecting the performance measurement mechanism against undue distortion.

The introduction of the floor led to a step-up in the market valuation of the respective PSU, which is duly disclosed in the compensation tables of this report.

Further information on share-based compensation can be found in note 11 to the “Financial Statements of Sulzer Ltd.”

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.

There are no contractual shareholding requirements for Executive Committee members or other employees.

Compensation of the Board of Directors and the Executive Committee

In view of the specific compensation-related challenges in 2018, and aiming for enhanced transparency also by means of a clearly structured Compensation Report, this section will contain the following chapters:

1. Compensation of the Board of Directors for 2018 (incl. audited table)
2. Compensation of the Executive Committee for 2018 (incl. audited table)
3. Pay-for-performance assessment

1. Compensation of the Board of Directors for 2018

In 2018, the Board of Directors received a total compensation of CHF 2’637’654 (previous year: CHF 2’694’962). Of this total, CHF 1’225’730 was in the form of cash fees (previous year: CHF 1’271’869); CHF 1’155’000 was in RSU (previous year: CHF 1’155’000) and CHF 256’923 was in the form of social security contributions (previous year: CHF 268’093).

This is a decrease of 2.1% from the previous year, which was due to changes to the members of the Board in 2018. 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 106% and 165% for the other active members of the Board of Directors. The RSU are subject to a staged three-year vesting period.

Compensation of the Board of Directors (audited)

	2018				2017			
thousands of CHF	Cash Fees 8)	Restricted share unit (RSU) plan 9)	Social security contri-butions 10)	Total	Cash Fees 8)	Restricted share unit (RSU) plan	Social security contri-butions 10)	Total
Board of Directors	**1’226**	**1’155**	**257**	**2’638**	**1’272**	**1’155**	**268**	**2’695**
Peter Löscher, Chairman 1)	446	250	69	765	446	250	69	765
Matthias Bichsel, Vice Chairman	133	155	33	322	133	155	33	322
Hanne Birgitte Breinbjerg Sørensen 2)	108	125	27	260	–	–	–	–
Lukas Braunschweiler 3)	76	125	25	226	–	–	–	–
Mikhail Lifshitz	102	125	27	253	102	125	27	253
Marco Musetti	117	125	28	270	102	125	27	253
Gerhard Roiss 4)	132	125	16	273	100	125	25	250
Axel C. Heitmann 5)	40	125	23	187	102	125	27	253
Thomas Glanzmann 6)	40	0	4	44	144	125	30	299
Jill Lee 7)	32	0	4	36	144	125	30	299

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

2) Member of the Board of Directors and Chairwoman of the Audit Committee since April 4, 2018.

3) Member of the Board of Directors since April 4, 2018.

4) Member of the Board of Directors since April 1, 2015. Chairman of the Nomination and Remuneration Committee since April 4, 2018.

5) Member of the Board of Directors until May 25, 2018.

6) Chairman of the Nomination and Remuneration Committee until April 4, 2018.

7) Chairwoman of the Audit Committee until December 11, 2017. Member of the Board of Directors until April 4, 2018.

8) Disclosed gross.

9) RSU awards granted in 2018 had a fair value of CHF 124.43 at grant date. The amount represents the full fair value of grants made in 2018.

10) 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.

At the 2018 and 2017 AGM respectively, shareholders approved a maximum aggregate compensation amount of CHF 2’984’000 for the Board of Directors for the period of office from the 2018 AGM until the 2019 AGM and of CHF 2’897’000 for the period of office from the 2017 AGM until the 2018 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 2018–AGM 2019	2018	Jan 1, 2018 to 2018 AGM	Jan 1, 2019 to 2019 AGM	2018 AGM to 2019 AGM	2018 AGM	2018 AGM
Board (total)	**2’637’654**	**387’961**	**366’336**	**2’616’029**	**2’984’000**	**87.7%**
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
Board (total)	**2’694’962**	**390’292**	**388’062**	**2’692’732**	**2’897’000**	**92.9%**

As of December 31, 2017 and December 31, 2018, 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 2017 and 2018, no compensation was granted to former members of the Board of Directors or related parties (audited).

2. Compensation of the Executive Committee for 2018

In 2018, the Executive Committee received a total compensation of CHF 16’703’113 (previous year: CHF 13’956’248). Of this total, CHF 7’773’076 was in cash (previous year: CHF 8’109’048); CHF 4’462’417 was in PSU (previous year: CHF 3’785’036); CHF 2’066’420 was in pension and social security contributions (previous year: CHF 1’783’861), and CHF 2’401’200 was in other payments (previous year: CHF 278’302).

Compensation of the Executive Committee (audited)

						2018
thousands of CHF	Base salary	Bonus[2]	Other[3]	Performance share plan (PSP)[4]	Pension and social security contributions[5]	Total
Executive Committee[1]	4’090	3’683	2’401	4’462	2’066	16’703
thereof highest single compensation, G. Poux-Guillaume, CEO	1’021	1’375	1’081	1’841	528	5’846

						2017
thousands of CHF	Base salary	Bonus[2]	Other[3]	Performance share plan (PSP)[4]	Pension and social security contributions[5]	Total
Executive Committee[1]	4’367	3’742	278	3’785	1’784	13’956
thereof highest single compensation, G. Poux-Guillaume, CEO	1’009	1’259	147	1’531	420	4’367

1) The total Executive Committee compensation 2017 and 2018 includes the compensation of Greg Poux-Guillaume, CEO since December 1, 2015; Thomas Dittrich, CFO until March 2018; Jill Lee, CFO since April 2018; César Montenegro, Division President Pumps Equipment until December 2017; Michael Streicher, Division President Pumps Equipment since January 2018; 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 2018 and 2017 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. For 2018, this category also includes the step-up in fair value of outstanding PSU (PSP 2016 and PSP 2017) resulting from the Board’s decision to set TSR floors reflecting the exceptional market conditions and share price collapse following the US sanctions against Russia and the collateral damages to Sulzer. Further information in this respect can be found in the section “Performance share plan” of the Compensation Report. The step-up in fair value per PSU was CHF 40.62 under the PSP 2016 and CHF 18.91 under the PSP 2017 (based on a third-party fair value calculation), and it incurred at the time of the respective Board decision in May 2018.
4) Represents the full fair value of the PSU granted under the PSP 2018 and PSP 2017 respectively. PSU granted in 2018 had a fair value of CHF 146.62 at grant date, based on a third-party fair value calculation. While the share price to convert the grant value into a number of granted PSU is based on the three-month weighted average share price before the grant date (CHF 112.33 per PSU for July 2018 grants, which also includes the off-stock-exchange share buyback in the same period), the disclosed fair values are calculated on the grant dates by using sophisticated market value approaches, which typically leads to minor differences between the original grant value according to the compensation architecture and the disclosed fair market values.
5) 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 2018 and 2017, respectively (PSP).

The total compensation of CHF 16’703’113 awarded to the members of the Executive Committee for the 2018 financial year is within the maximum aggregate compensation amount of CHF 21’163’000 that was approved by the shareholders at the 2017 AGM.

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

As of December 31, 2017 and December 31, 2018, there were no outstanding loans or credits granted to the members of the Executive Committee or former members of the Executive Committee (audited).

In 2017 and 2018, no compensation was granted to former members of the Executive Committee or related parties except for the step-up in fair value on outstanding PSU of leavers, according to footnote 3 of the compensation table above. The additional compensation resulting from this step-up is included in the table above (audited).

3. Compensation for the Executive Committee: pay-for-performance assessment

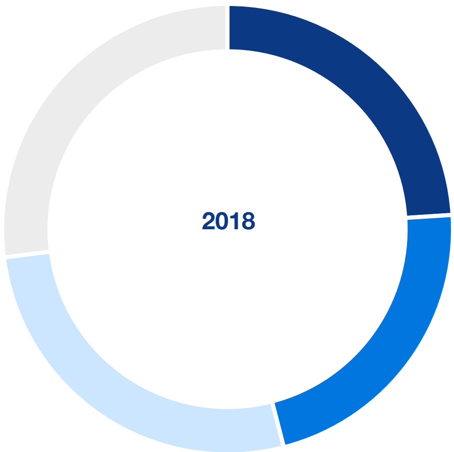
In 2018, we continued our expansion and growth strategy by successfully completing three acquisitions:

- January 2018: JWC Environmental LLC, USA
- September 2018: Medmix Systems AG, Switzerland
- November 2018: Brithinee Electric, USA

The US sanctions against Russia did not impact ongoing operational performance, and we continue to proceed on a strong sustainable growth path. In the following, we elaborate further on how the relevant business performance impacted the variable compensation models of our Executive Committee. More detailed information about Sulzer's operational and strategic performance in 2018 can be found in the financial report.

a) Total compensation and pay ratio

Executive Committee



24% Base salary
22% Bonus
27% Grant of PSU
27% Benefits

In 2018, the Executive Committee received a total compensation of CHF 16'703'113 (previous year: CHF 13'956'248). This is an overall increase of 19.7% from the previous year. The main reason for this increase is the reevaluation of the outstanding PSU fair value, incurred in 2018, resulting from the added TSR floors in the PSP 2016 and 2017.

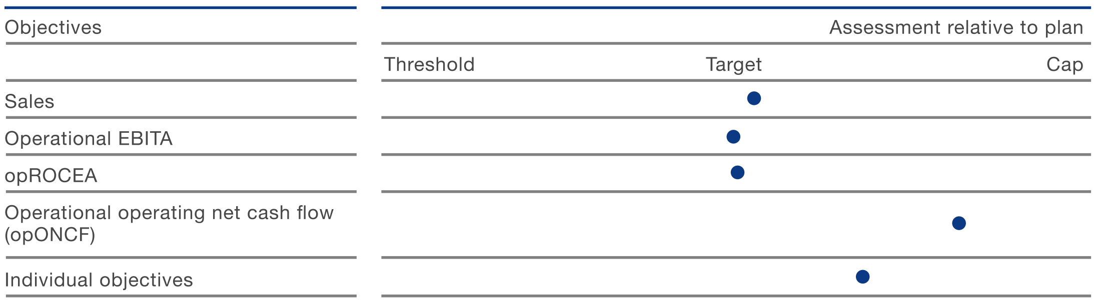
For the entire Executive Committee, the variable component represented 129% of the fixed component (base salary, other – however without one-time step-up in value on outstanding PSU – pension and social security contributions). This pay ratio reflects Sulzer's high-performance orientation. Further, it 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.

On a like-for-like basis (EC members employed in both 2018 and 2017), the base salaries of the EC members increased by 1.8% on average. Regarding cash bonus payments and LTI amounts, see the following paragraphs.

b) Short-term incentive (cash bonus payouts)

In 2018, Sulzer again made good progress towards its transformation goals. Financial targets were exceeded despite an unsupportive energy market environment, and operational performance was not hit by the US sanctions against Russia in April 2018. We grew through acquisitions but also organically in all divisions. The financial component of the bonus ranged from 98% to 129% of targeted payout (on average 118%) 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 96% to 150% (on average 124%) for the members of the Executive Committee.



c) Long-term incentive (PSP)

On a like-for-like basis, the value of long-term incentives (LTI) newly granted in 2018 remained unchanged compared with the previous year, which corresponds to the ongoing operational performance and growth of the company. Thus, no changes to the grant values were required. The protection of a fair performance measurement by means of the introduction of the pre-April minimum TSR target achievement level in May 2018 resulted in a one-time step-up in value of outstanding PSU (PSP 2016 and PSP 2017) as disclosed in the audited compensation tables. No further adjustments are planned.

The PSP 2016 vested on December 31, 2018. The relevant key performance indicators were opEBITA growth, opROCEA and relative TSR over the three-year period from 2016 to 2018. Operational performance in this period was very good, even beyond expectations. The result was a total payout factor of 191% for the PSP 2016, which fairly reflects the extraordinary growth and performance, both against budget targets and against market peers, in the three-year period from 2016 to 2018.

The PSP 2015 vested on December 31, 2017. As the final payout calculation was made based on the volume-weighted average share price of the three months following vesting date (January to March 2018), the vesting level could not yet be disclosed in the 2017 Compensation Report. For these 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. The overall vesting of the PSP 2015 amounted to 164%.

Overall, the PSP vesting levels fairly reflected the extraordinary operational performance, also against direct peers, over the respective three-year performance cycles, so Sulzer fully achieved the desired strong link between sustainable company performance and competitive long-term incentive payouts. In a nutshell, the resulting overall vesting levels can be summarized as follows:

	Vesting level, based on performance achievement	Corrections due to vesting value cap	Total effect: delivered shares per PSU award
PSP 2015	164%	Not required	1.64
PSP 2016	191%	Not required	1.91

The vesting level of the PSP 2017 will be shown in the Compensation Report for 2019.

Shareholdings of the Board of Directors and the Executive Committee

Shareholdings of the Board of Directors

As of the end of 2017 and 2018, the members of the Board of Directors held the following shares in the company:

Shareholdings at December 31, 2018

			2018
	Sulzer shares	Restricted share units (RSU)	Total share awards and shares
Board of Directors	**38'114**	**16'516**	**54'630**
Peter Löscher	14'607	4'647	19'254
Matthias Bichsel	5'241	2'884	8'125
Hanne Birgitte Breinbjerg Sørensen	–	1'005	1'005
Lukas Braunschweiler	–	1'005	1'005
Mikhail Lifshitz	1'449	2'325	3'774
Marco Musetti	6'222	2'325	8'547
Gerhard Roiss	10'595	2'325	12'920

Shareholdings at December 31, 2017

			2017
	Sulzer shares	Restricted share units (RSU)	Total share awards and shares
Board of Directors	**31'044**	**23'483**	**54'527**
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 of the Executive Committee

As of the end of 2017 and 2018, the members of the Executive Committee held the following shares in the company:

Shareholdings at December 31, 2018

	2018					
	Sulzer shares	Restricted share units (RSU)	Total share awards and shares	Performance share units (PSU) 2016	Performance share units (PSU) 2017	Performance share units (PSU) 2018
Executive Committee	**34’035**	**3’513**	**37’548**	**28’852**	**26’667**	**31’071**
Greg Poux-Guillaume	21’381	–	21’381	18’641	13’196	12’820
Daniel Bischofberger	–	–	–	1’424	3’024	2’938
Frédéric Lalanne	2’237	3’513	5’750	2’314	3’024	2’938
Jill Lee	7’945	–	7’945	–	–	3’561
Armand Sohet	–	–	–	3’560	3’024	2’938
Michael Streicher	764	–	764	1’942	1’375	2’938
Torsten Wintergerste	1’708	–	1’708	971	3’024	2’938

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
Executive Committee	**46’835**	**22’546**	**69’381**	**6’594**	**37’266**	**32’624**
Greg Poux-Guillaume	9’682	15’121	24’803	942	18’641	13’196
Daniel Bischofberger	–	–	–	–	1’424	3’024
Thomas Dittrich	21’000	0	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

KPMG

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, 2018. 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, 2018 of Sulzer Ltd complies with Swiss law and articles 14 – 16 of the Ordinance.

KPMG AG

S.Niklaus

François Rouiller
Licensed Audit Expert
Auditor in Charge

Simon Niklaus
Licensed Audit Expert

Zurich, February 12, 2019

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