



## **Sustainability Report 2013**

**According to:**  
Global Reporting Initiative  
G3.0 standard (2006), level A

**Externally verified by:**  
Société Générale de Surveillance (SGS)

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## Letter from the CEO

**Sulzer is committed to creating profitable growth, while assuming its social and ecological responsibility**



Dear Reader,

Sulzer aspires to be a leader in energy efficiency. Our reliable and sustainable product and service solutions enable our customers to both improve their costs and reduce their environmental footprint.

This stand-alone Sustainability Report, which follows the Global Reporting Initiative's voluntary GRI 3.0 reporting standard, transparently reports on our extrafinancial performance and activities in 2013. Besides providing an overview of our products, we will focus on the areas with the highest social and environmental impact from organizational activities, such as our employees, health and safety, energy consumption, and greenhouse gas emissions. We have also improved data coverage, and we report in our Annual Report 2013 on a selection of environmental key performance indicators for Sulzer, with and without Sulzer Metco. This is necessary because of the International Financial Reporting Standards (IFRS) with which Sulzer complies.

In 2013, Sulzer defined its market strategy as focusing on the three key markets oil and gas, power, and water. As a consequence of the more focused key market strategy, a divestiture process was started to sell the Metco division, which is primarily active in the transportation market. We also initiated significant changes last year with the goal of becoming an integrated and more customer-focused company. The adapted operational structure, which has been effective since January 1, 2014, consists of the Pumps Equipment division comprising pumps business and spares including an integrated Water business unit. The Rotating Equipment Services division integrates maintenance and repair services for turbines, compressors, generators, motors, and pumps. The Chemtech division remains unchanged. As one integrated company, we can now offer one access point for customers and focus on value creation and profitable growth.

With a global network of over 170 production and service locations, Sulzer's operations have an impact on the global environment and society. We continuously evaluate and improve our impact on economic, social, and ecological stakeholders with a dedicated system and a network of local quality, environment, health and safety, and human rights experts. In 2014, we will intensify the collaboration between our risk and compliance functions and introduce a new corporate reporting platform. This platform will consolidate extrafinancial and financial data in one single environment. We will also continue to invest in promoting the life cycle thinking and LEAN mindset in all relevant activities. With this proactive approach, we will not only stay ahead of, for instance, international regulation on product and organizational efficiency, but Sulzer and our customers will also directly benefit from these operational excellence improvements.

Sustainability will remain at the core of Sulzer's strategy in the future. We will continue to be a credible and competent partner who creates value for its key stakeholders. I thank all of our stakeholders for their continued cooperation. I am also sincerely grateful to all Sulzer employees for their extraordinary dedication. Your support and hard work make me confident that Sulzer will become *one* strong company.

Sincerely yours,

A handwritten signature in blue ink that reads "K. Stahlmann". The signature is written in a cursive, flowing style.

Klaus Stahlmann, CEO

## Letter from the Head of QESH & SD

**Sulzer wants to grow as *one* company into the future, but it will do this with respect for its employees, external stakeholders and the environment**



Dear Reader,

For Sulzer, 2013 was a challenging year of strategic reorientation, organizational change, and cost savings. Sulzer employees around the world worked very hard to shape our future as *one* company. To overcome the challenges Sulzer currently faces, ongoing strategic realignment and optimization measures are necessary. After all, Sulzer wants to remain a profitable and strong company that continues to support its partners in shaping sustainable markets.

In 2013, improving extrafinancial data quality and occupational health and safety (OHS) performance was at the center of Sulzer's QESH efforts. With our OHS initiatives, we want to reach our corporate visionary goal of zero occupational accidents and illnesses. Consequently, the global Hazardous Materials Emissions and Exposure and Safe Behavior Program to improve the company's OHS performance and safety culture were sustained. With an accident frequency rate (AFR) of 3.3 in 2013, Sulzer did not achieve its annual target of 2.7 cases per 1 million working hours. In 2014, Sulzer's accident frequency rate (AFR) target is 2.7 cases per 1 million working hours.

Sulzer will allocate the necessary resources to continuously lower its Organizational and Product Environmental Footprints. Environmental standards such as ISO 14001 will drive continuous organizational and environmental improvements. Our product and service portfolio will consist of technologically state-of-the-art solutions that are safe, reliable, and energy efficient. We will continuously invest in improving product performance along the entire product life cycle. To support our customers in making well-informed and sustainable decisions we will further work on the quality of information provided and maintain the currently high level of transparency with regards to product solution life cycle impacts.

In October 2013, Sulzer had to announce a headcount reduction of 300 full-time employees (FTEs) due to the integration of the group functions and weaknesses in some business areas. Around 100 FTEs were affected at the headquarters in Switzerland. The other 200 positions were reduced in businesses facing weak demand, particularly in the wastewater pumps business and in electromechanical services. Sulzer has assumed responsibility for the employees who were made redundant and has developed comprehensive social plans together with the employee representatives to accompany those employees with the best possible support.

As a result of the restructuring in 2013, the new organizational setup, which will be effective from January 1<sup>st</sup>, 2014, will merge Sulzer Pumps and Sulzer Turbo Services into two new divisions: an equipment and a service division. This change will allow us to fully concentrate on exceeding your expectations. In 2014, corporate QESH and human resources will offer its services to its newly formed divisions and Sulzer Chemtech in a new setup. In this new organizational structure, our focus will be on increased cross-divisional collaboration and on quality, environmental, as well as health and safety and human resources compliance. Operations will be managed increasingly from the top down in a centralized manner according to leading KPIs.

An interdisciplinary team worked hard to prepare a new single reporting platform for its integrated information management system. In 2014, Sulzer will switch to this single platform that consolidates financial and extrafinancial data, thereby paving the way for integrated reporting.

Ruth Blumer Lahner,  
Head Corporate QESH and SD

## Sustainability at Sulzer

**Our customers recognize us for our leading technologies and services and for delivering innovative and sustainable solutions to shape sustainable markets**

Sulzer's pump, separation and mixing technology, service solutions, and rotating equipment service provisions enable our customers in the oil and gas, power, and water markets to provide in basic needs such as safe access to energy and water in the technologically most advanced and sustainable way. It's Sulzer's goal to be the technology leader in energy-efficient solutions.

Our dedication to sustainability can be found in our vision, values, corporate culture, strategies, and business models, as well as our operational context, where we are confronted with varying stakeholder expectations.

### Corporate Values

- **Customer partnership:**  
We exceed the expectations of our customers with innovative and competitive solutions
- **Operational excellence:**  
We perform on the basis of structured work processes and lean principles
- **Committed people:**  
We are committed to high standards and show respect for people



Sulzer is passionate about and determined to exceed its customer expectations. So, it is great to be recognized for outstanding performance. One way our partners have shown their recognition for our outstanding economic, technical, HR, quality, and safety performance is by granting us awards in 2013.

3rd party ratings and awards	2009	2010	2011	2012	2013
	34	52	84	67	61

Data include SEED full, light, and mini sites

### From megatrends to sustainable success

Megatrends can provide a level of guidance to companies, but eventually will lead to disruptive or incremental change in current business models. Sulzer strives to create value for all current and future stakeholders without eroding the environment's carrying capacity - the livelihood base for future generations. The company's business models are regularly revisited and assessed for their market fitness. To build thriving future markets and societies, sustainable economic growth is indispensable. Simultaneously, growth must also be decoupled from the use of natural resources. Nevertheless, secure access to and a constant supply of natural resources will increasingly put economies under severe pressure and stress. Sulzer technologies and product solutions can relieve this stress; they support our customers in providing sustainable solutions to current and future markets.

In Sulzer's Sustainability Report 2012, a wide range of megatrends that potentially influence Sulzer were presented. One year later, Sulzer's management redefined, rescope, and limited the number of megatrends to the three with the most-promising growth potential:

- Population growth (demand and sources)
- Urbanization (new and renewal of existing infrastructure)
- Efficient Resource Management (energy and water as well as green, sustainable technologies)

#### *Climate Change*

The threat of climate change to society has grown more convincing, but a lot of uncertainty regarding the (re)action of actors remains. The consensus is that the international policy debate resulted in agreements, such as the Cancún agreements (2009) and the Durban Convention (2011), that the world most probably will not be able to live up to under current policies. In 2012, the Massachusetts Institute of Technology (MIT) projected scenarios that indicate that under current policies, global temperature increase will range between 3.5°C and ca. 7°C by 2100. In

popular debate various actors state that we need to stay below a threshold of 2°C temperature rise or a CO<sub>2</sub> share of 450 ppm to be on the safe side. The latest International Programme on the State of the Ocean (IPSO) report declares that although the rise in the terrestrial temperature may pause, the ocean continues to warm regardless. The 5<sup>th</sup> IPCC report<sup>1</sup> considers it 95% certain that anthropogenic (man-made) greenhouse gas (GHG) emissions from CO<sub>2</sub>, CH<sub>4</sub>, N<sub>2</sub>O and other industrial gases contribute to the overall warming trend in most regions of the world. Responses to the climate change threat vary widely amongst actors:

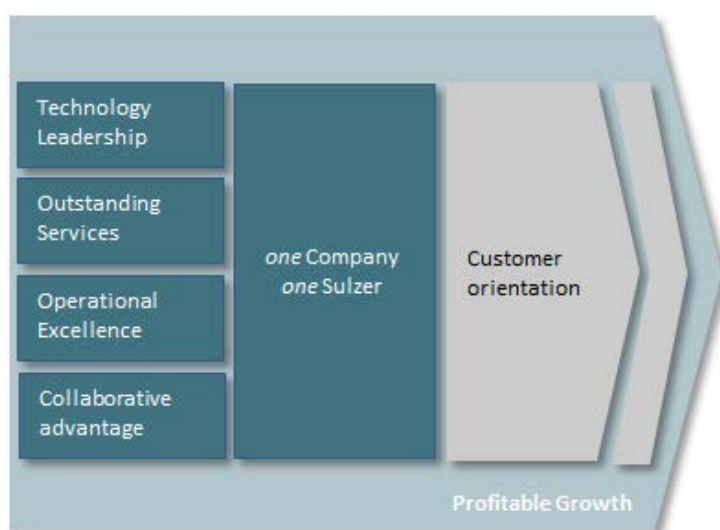
- formal, complex, and slow international policy/framework negotiations
- independent, quickly and aggressively adopted policies of nations/regions
- business initiatives and investments that are not necessarily aligned with government policy

Political risks and opportunities potentially affect Sulzer’s product portfolio and markets (especially oil and gas and power). They are, amongst others, related to the US first-ever climate change strategy. This strategy intends to cut power plant emissions and set increasing fuel economy standards for the twenty-first century transportation sector. Shale gas expansion in the USA, the UK’s decarbonization strategy, and China’s push for its 12th five-year plan is further on the agenda. Moreover, China’s five-year plan includes regional carbon as well as national CO<sub>2</sub>, SO<sub>2</sub>, NOx/N<sub>2</sub>O intensity reduction targets. These initiatives are important for Sulzer’s markets, since most have moved from supporting voluntary initiatives to financially penalizing emitters. The European Emission Trading Scheme (EU ETS) and other carbon taxation, for example, in Australia and Europe, are probably the most distinguishable, prominent examples.

**Strategic priorities as a guide for sustainable success**

Sulzer's efforts to exceed the expectations of its customers are based on a clear analysis and projection of changing market conditions and customer demand. Sulzer’s four strategic priorities launched in 2012 provide the company with high-value- and high-margin-generating product and service solutions for profitable growth. In 2012/13, the corporate center rolled out several strategic initiatives to substantiate the four strategic priorities:

- Technology leadership
- Outstanding services
- Continuous operational improvement
- Collaborative advantage



<sup>1</sup> IPCC (2013): Working Group I Contribution to the IPCC Fifth Assessment Report Climate Change 2013: The Physical Science Basis Summary for Policymakers



*Technology leadership.* Sulzer strengthens its innovation processes by systematically integrating customer needs and sharing expertise. In addition, the company aims for more fundamental, innovative steps that complement the numerous smaller incremental steps to bring new sustainable technologies to market. Shorter time-to-money cycles, for instance, accelerate the innovation process, and open innovation will play a critical role.

Sulzer strives to provide *outstanding services* to its customers. The company adapted its operational structure - Sulzer Turbo Services' and Sulzer Pumps' service offerings will be consolidated from January 2014 onward. It also intensified its efforts to continuously improve customer responsiveness, speed, and on-time execution as well as to leverage employee skills and knowledge on all levels. Sulzer, in meeting the needs of its customers, is constantly pushing the technological frontiers in order to safely deliver outstanding sustainable services, even to the remotest, most-challenging, and most-fragile environments.

*Continuous operational improvement* is pivotal to meeting the objective of creating value for Sulzer and, in turn, our customers. With Sulzer's corporate LEAN and QESH programs, the company successively builds up divisional and site expertise in operational excellence and discipline. Introduced in 2003, LEAN gained more prominence when it was integrated into Sulzer's corporate values and managed from 2010 to mid-2013 on a corporate level. From mid-2013 onward, LEAN activities have been coordinated on a divisional level, closer to operations. In 2013, LEAN contributed through many projects to the improvement of system-level performance indicators, such as on-time delivery (OTD), lost time (LT), and return on sales (ROS).

Sulzer has great potential to create value and *advantages* by *collaborating* across organizational boundaries. It can thereby develop innovative solutions for shared customers and standardized processes. Sulzer wants to take advantage of standardized processes and strengthen the *one company* approach. Examples like the bundling and harmonization of purchasing power, as well as the offering of corporate functions services (for example, IT, HR, QESH) across divisions, underscore the need for this change.

**Sulzer's three key markets**

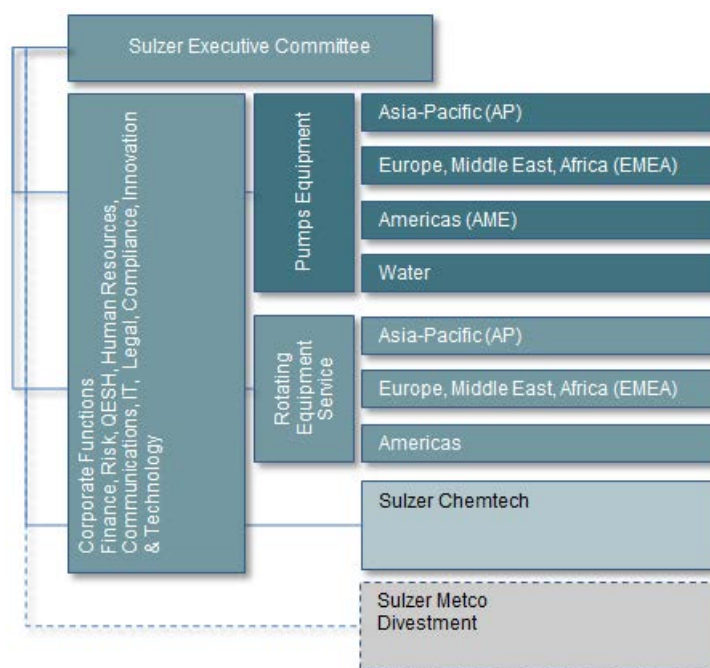


Being present in 150 countries, Sulzer focuses on three markets oil and gas, power, and water. Sulzer wants to serve these markets as *one company* and be both an equipment and a services company for performance-critical applications. There will be a dedicated focus on the equipment business. This way, Sulzer wants to leverage existing assets and capabilities, and it wants to look for synergies across the divisions. For additional information on Sulzer's three new strategic markets, please [click here](#).

**Adapted organizational structure**

In October 2013, Sulzer presented its new organizational structure that has now been effective since January 1, 2014. The reorganization was necessary for sustainable growth as *one company* in the future. The organizational setup includes:

- Reorganization of Sulzer Pumps and Sulzer Turbo Services into two new divisions, known as Pumps Equipment and Rotating Equipment Services to:
  - cross-sell mechanical, electromechanical, and pump services
  - leverage the complementary technical expertise
- offer services as *one* company with a combined global footprint and customer base
- Combining all water-related business activities (wastewater pumps, engineered water pumps, etc.) in a Water business unit as part of the Pumps Equipment division
- Unchanged continuation of Chemtech operations
- Announcement to divest Sulzer Metco
- Laying-off of 300 full-time equivalents (FTEs) worldwide, of which 100 FTEs were at Sulzer head-quarters, to save estimated cost of CHF 25 million per year



### Measuring short-term economic, social, and environmental performance

To measure and manage corporate performance, Sulzer defined clear responsibilities and uses selected financial, social, and environmental key performance indicators (KPIs) and metrics. Corporate objectives and targets are regularly assessed against these KPIs on various organizational levels to transparently report on progress and ensure continuous improvement. In 2013, Sulzer introduced the SAP consolidation platform (SAP-BPC). It merges all extrafinancials (social, environmental, quality, compliance and operational) data that were separately collected (in SEED and other databases) until October 2013 with the financial data into a single reporting platform. In 2013, Sulzer used the net value added (NVA) for the last time for its financial ratios. NVA is defined as EBIT plus personnel cost. In 2014 extra financial the ratios will be harmonized with the financial ratios. After the below expectations 2013 midyear results and the ongoing reorganization of the company, Sulzer’s midrange targets are being revised.

Economic sustainability <sup>2</sup>	Social sustainability <sup>3</sup>	Ecological sustainability
<ul style="list-style-type: none"> <li>▪ ROS: 8.1% (2012: 9.8%)</li> <li>▪ ROSR<sup>4</sup>, return on sales after restructuring: 8.6% (2012: 10.1%)</li> <li>▪ ROCE: 12.6% (2012: 14.7%)</li> <li>▪ Order intake: 3 250 million (2012: 3 343 million)</li> </ul>	<ul style="list-style-type: none"> <li>▪ New jobs created: -89 (2012: 858)</li> <li>▪ Leadership succession rate: 71% (2011: 62%)<sup>5</sup></li> <li>▪ Accident frequency rate: 3.3 (2012: 2.9)<sup>6</sup></li> </ul>	<ul style="list-style-type: none"> <li>▪ Energy consumption: 1.2 GJ / CHF 1000 NVA (2012: 1.0 GJ)<sup>7</sup></li> <li>▪ Direct CO<sub>2</sub> emissions: 0.020 t / CHF 1000 NVA (2012: 0.016 t)<sup>8</sup></li> <li>▪ Hazardous waste: 0.005 t / CHF 1000 NVA (2012: 0.006 t)<sup>9</sup></li> </ul>

<sup>2</sup> All financials are Sulzer Group and restated (without Sulzer Metco) for fiscal years 2012 - 2013

<sup>3</sup> Sulzer Group

<sup>4</sup> Return On Sales Restated after restructuring

<sup>5</sup> Sulzer Group

<sup>6</sup> Sulzer SEED full, light and mini universe

<sup>7</sup> Sulzer SEED full and light universe

<sup>8</sup> Sulzer SEED full and light universe

<sup>9</sup> Sulzer SEED full, light and mini universe

## Delivering for stakeholders

**Sulzer employs a proactive stakeholder engagement approach toward achieving its objectives. The company aims to create sustainable value for all relevant stakeholders**

Sulzer takes responsibility toward its stakeholders. The company acknowledges the relevance of and the interdependency with its stakeholders and their stakes in order to achieve the company's objectives. The company maintains an open, ongoing relationship with its various stakeholders that should be beneficial to all involved parties. Of particular interest to the company is the establishment of long-term, reliable partnerships with critical stakeholders such as its employees, shareholders, customers, suppliers, and the authorities. Dialogue to agree to and implement sustainable solutions for relevant concerns continues.



### *United Nations Global Compact Swiss Network*

Sulzer Ltd is a signatory member of the United Nations Global Compact (UNGC) initiative and actively supports its ten Universal Principles covering human rights, labor, the environment, and anticorruption. Please click the [Communication on Progress \(COP\)](#) 'Active Level' report for our contribution to the ten principles. Additionally, Sulzer is represented in the board of the UN Global Compact Swiss Network.

## Stakeholder matrix

Besides long-term economic success, Sulzer's primary concerns are occupational health and safety and environmental protection. The company engages with stakeholders that are crucial for achieving company objectives in an ongoing process.

Stakeholder Matrix							
	Economic			Social			Ecological
<b>Stakeholder group</b>	Investors	Customers	Suppliers	Employees and social partners	Neighborhood and society	Authorities	Environment
<b>Objectives</b>	Value creation	Partnership Customer satisfaction	Partnership; secure supply	Empowerment Engagement	Good citizen	License to operate	Minimize negative impact
<b>Success factors</b>	Profitability	Effectiveness	Efficiency	Competence	Legitimacy	Compliance	Eco-effectiveness
	Competitiveness	Efficiency		Diversity	Trust		Eco-efficiency
<b>Main measures</b>	Corporate Governance	Quality mgmt.	(Sustainable) supply chain mgmt.	Building capabilities	Create jobs	Compliance mgmt.	Environmental mgmt. system
	Mid range planning (MRP)	LEAN mgmt.	Long-term partnerships	Promote differentiation	Community involvement		Substitution of hazardous materials
		Customer relationship mgmt. (CRM)		Appraisal system	Sponsorship		LCA approach
		Environmental Product Declarations (EPD)		Health & safety mgmt.			

Sulzer Code of Corporate Conduct, Corporate Directives, Regulations, and Guidelines

Sulzer's key stakeholders are:

- Employees
- Investors
- Customers
- Suppliers
- Authorities

Next to preserving good relations with its key stakeholders, Sulzer maintains good contacts with a wider range of local, regional, and global interest groups. These include workers councils, industry associations, universities, intergovernmental bodies, and communities associated with Sulzer's operations.

### *öbu membership expanded to board membership*



In 2013, a Sulzer representative was elected to the «öbu» (ökologisch besser unternehmen) board. The «öbu» claims that every fifth Swiss job belongs to an «öbu» network member; it is one of Switzerland's biggest sustainability promoters for the corporate sector. A wide range of sustainability issues is covered, ranging from climate change and green lobby to sustainable mobility.

## Stakeholder engagement process

Sulzer engages with its internal and external stakeholders on an ongoing basis. The company is open for engagement that ranges from non-committal dialogues to long-standing strategic partnerships. Material, valid stakes are included in the yearly goal-setting process to maintain its freedom to operate. Managing for stakeholders has significant implications. Therefore, Sulzer promotes dialogical approaches with maximum room for transparency and negotiation for all parties.

### *Collective labor agreements*

In total, an estimated 50% to 60% of all Sulzer employees are covered by national collective bargaining agreements. Coverage estimates are a result of national legislation that does not always allow the company to collect the required information. Sulzer continually collects data from country-specific legally unobjectionable sources such as international and national works councils or unions.

Engagement is context specific, manifold, and ongoing, but always fair and conducted in a culturally sensitive manner. Sulzer builds on a long tradition of establishing stable, trustworthy, and open business relationships. Respect for every individual's fundamental rights, as set out in the [UNDHR](#) and [ILO Declaration](#), is the foundation of these interactions. At Sulzer, all employees are obligated to sign the Sulzer Code of Business Conduct that explicitly requires respect for fundamental human rights. We are not perfect, but every day we work hard to get better.

### *Restructuring and downsizing in cooperation with the Works Councils*

Sulzer's European Workers Council (EWC) formally represents the employees of the Sulzer group of companies in Europe. At the end of 2013, 6 158 of 7 762 Sulzer employees from the European countries were directly represented by the EWC representatives of Sulzer. The EWC country representative is the link between the EWC and its local works council(s) the EWC started to collaborate more intensely with in 2013. Sulzer and the EWC established an agreement about notification and hearings, insofar as workplaces are affected. To be compliant with labor law and national terms regarding interaction with works councils, Sulzer has not set any minimum notification period.

Mid-2013, Sulzer announced that it was going to lay off 300 FTEs globally because of cost savings and organizational restructuring. The adapted operational structure is going to be effective from January 1, 2014.

- 200 FTEs will be reduced due to weak demand, particularly in the wastewater pumps business and in electromechanical services. Approximately 150 FTEs had already been laid off before the announcement and 48 FTEs will be laid off in Nordmaling, Sweden because of overcapacity in the Wastewater business unit. Parts of the production will be transferred to the Sulzer Pumps Wexford site in Ireland
- 100 FTEs at Sulzer's global as well as Sulzer Pumps' and Sulzer Turbo Services' divisional headquarters in Winterthur, Switzerland. As a social partner, the Swiss Workers Council (SWC) has an information and hearing right on the employment situation and its foreseeable development, as well as fundamental changes of the organization. In 2013, the SWC represented 1413 Sulzer employees and was invited to develop a social compensation plan. As an outcome of the negotiations with the SWC, 50 jobs will effectively be cut, whereas the other 50 FTEs will be cut through relocation, early retirement or outsourcing. Most Swiss Sulzer employees are subject to a collective labor agreement that is valid for the Swiss electrical and mechanical engineering industries and associated technology-oriented sectors

The stakeholder matrix depicts objectives, success factors, and main measures that operationalize the engagement with each stakeholder group. In comparison to 2012, the stakeholder group "authorities" was added to Sulzer's stakeholder matrix. The changing regulatory and legislative environment and increased interventions in extrafinancial topics and issues of legislative authorities on various levels prompted Sulzer to revalue this stakeholder group's relevance.

**Materiality matrix**

The identification, analysis, and projection of stakeholder requirements and issues are a continual process at Sulzer. A timely and comprehensive overview of relevant requirements and issues enables the company to systematically identify, plan for, and address key concerns. Relevant topics of concern feed into Sulzer’s decision-making processes and build the basis for the external sustainability reporting on an ongoing basis.

Materiality matrix		
Impact on Sulzer	Employee capabilities Diversity	Reliable, eco-efficient solutions Climate change Employee safety Hazardous waste
	Water consumption	Human Rights Labor conditions Product stewardship
	Community engagement	

**Prioritization of intervention according stakeholders**

Intense dialogue with various stakeholders, such as investors, customers, suppliers, employees, and authorities, has resulted in a list of material issues to the company. Sulzer regularly updates this materiality index. The company uses it to effectively allocate and distribute its resources to topics of perceived urgency and importance. In 2013, Sulzer engaged with many stakeholders. Topics regularly addressed can be found in the table in this passage and throughout this report.

## Integrating Sustainability

**Sulzer wants to do business in a responsible way. Responsibility comes at a price we are more than willing to pay. In the end, Sulzer wants to be successful on the market for generations to come**

At Sulzer, the sustainability agenda is driven mainly via the:

- Sustainability Council
- functional councils (QESH, human resources, legal, a.s.o.)
- global QESH network.

The Sustainability Council is the highest organ on the operational level in which top management and all heads of corporate supporting functions share and decide on sustainability issues. In 2013, the Sustainability Council held one meeting (2012: 2). Agenda topics were Environmental Safety Governance (ESG) investments/investors and corporate extrafinancial reporting. In the Functional Council, corporate QESH officers, divisional QESH officers, and corporate quality, environment, safety, health, and sustainable development (QESH & SD) typically lead and manage global initiatives, such as Sulzer’s Safe Behavior Program (SBP), with high visibility and impact. To ensure successful implementation, CQESH & SD liaises with representatives of supporting and operational functions on every organizational level (multi-tier network). The objective is to improve the company’s sustainability performance by providing:

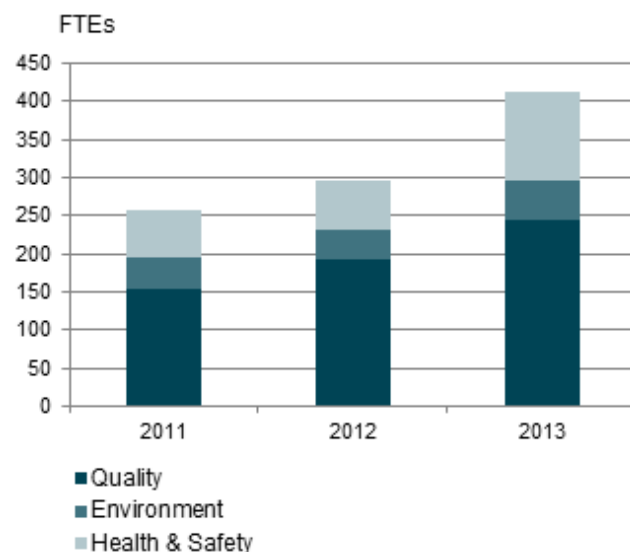
- strong management frameworks
- the required skill set
- expertise or consultancy

to operational line management for successful execution and implementation of the initiatives.

### QESH and SD Network

To ensure vertical and horizontal information transfer as well as collaboration between the corporate functions and the divisional functions, Sulzer installed global functional coordination teams. The staff functions facilitate the transfer between the functional and vertical organization.

Sulzer QESH horizontal organization consists of corporate, divisional, and local officers, which allows the bottom-up as well as top-down coordination and exchange of information. The heads of the divisions ensure that corporate objectives are translated into divisional objectives, targets, and measures, which are then implemented on the site level. The councils are self-organizing and hold meetings regularly. Corporate and divisional functions are full-time jobs. In any other case, operational management and national law defines how many QESH officers an organization needs to employ. The regularly trained QESH officers consult line management on QESH topics, establish local QESH organizations, and conduct regular trainings. Sulzer’s QESH network main goal is to be compliant with national and international applicable quality, environment, health, and safety law. In 2013, Sulzer’s QESH and compliance network comprised 412 FTEs, most of them (47%) working in quality management. In 2013, 185 FTEs were working for human resources and 107 FTEs for compliance.



Data include SEED full, light, and mini sites

**Adherence to QESH standards**

As a multinational company, Sulzer complies with international and national hard law, as well as soft law such as (voluntary) industry standards and norms, guidelines, and declarations. From a sustainability perspective, the following international regulatory frameworks are significant to Sulzer’s compliance efforts:

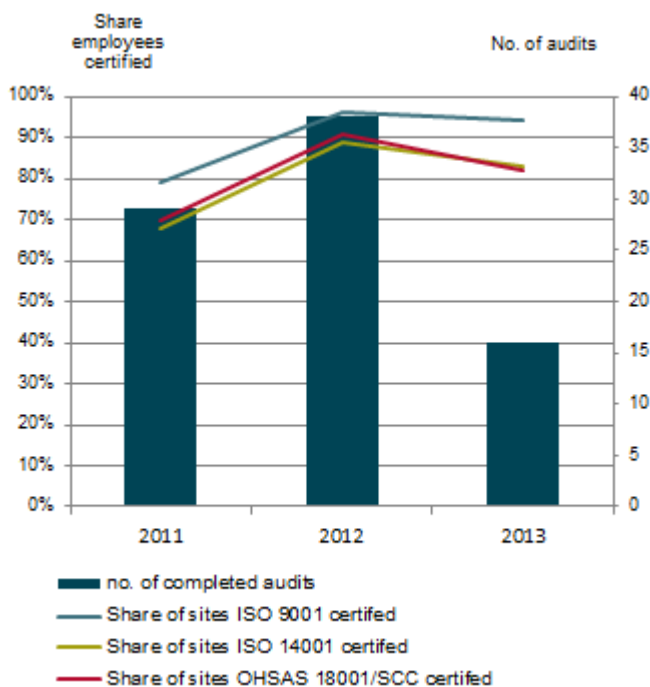
- OECD Guidelines for multinational enterprises
- United Nations’ Universal Declaration of Human Rights and its Protocols
- ILO’s Declaration on Fundamental Principles and Rights at Work of 1998
- UN Global Compact
- Greenhouse Gas (GHG) Protocol

Sulzer works every day to be compliant and get the requirements integrated into its management frameworks, systems, and processes.

**Worldwide ISO 9001, ISO 14001, and OHSAS 18001 certification**



Sulzer’s integrated management system is based on global standards and norms. Internal targets must be aligned with current QESH certification trends, such as umbrella certifications on a divisional or business unit level substituting single-site certifications. To achieve this, Sulzer QESH regularly revisits its QESH policy and targets as all manufacturing and service activities must be performed under issued certificates ISO 9001, ISO 14001 and OHSAS 18001 and/or SCC. Regularly conducted internal and external audits ascertain correct functioning and drive the continuous-improvement cycle. In 2013, the rate of certified sites in all three compulsory management standards remained at a high level. In 2013, 94% (2012: 96%) of all employees worked at sites that have received the ISO 9001; 83% (2012: 89%) the ISO 14001; and 82% (2012: 91%) the OHSAS 18001/SCC. These are Sulzer’s globally adopted standards for quality, environment, and OHS management systems. The sites and divisions measure performance against several key performance indicators (KPIs). In 2013, Sulzer harmonized the quality definitions and reporting procedures for higher comparability and transparency in corporate reporting. The corporate results will be visible in 2014, when the new reporting platform will go live. Continuous improvement, strong customer orientation, and compliance with all relevant product and process norms and standards enable Sulzer to be the partner of choice.



Data include SEED full, light, and mini sites

Sulzer’s internal corporate QESH audits are compliance audits that go beyond minimum national legal compliance requirements. Sulzer’s risk-based approach when selecting sites for the internal QESH audit program uses prioritization criteria such as size, exposure, risk, and historical performance. Depending on the audit score, a follow-up audit takes place every one to four years. Whenever required,

corrective or remedial action plans are developed with the responsible management and systematically monitored by CQESH. They include prompt follow-up calls, reaudits and the final closing of findings. In addition to internal audits, Sulzer engages specialized third-party expert firms to conduct health and safety compliance audits.

*Health protection improvements at Sulzer Turbo Services Melbourne, Australia*

Sulzer set compulsory, globally valid minimum requirements for procedures for risk control and mitigation of hazards arising from exposure to emissions of hazardous materials. In addition to providing ongoing training, the sites are obligated to conduct regular workplace risk assessments. As a result, the local team at Sulzer Turbo Services in Melbourne wanted to further improve the air quality in its workshop. Welding creates potentially harmful fumes. Sulzer employees may unwillingly be exposed to when the proper protective measures are not in place. To optimize the fume extraction from welding, a special booth was installed that meets the Australian as well as Sulzer's internal Hazardous Materials Emissions and Exposure (HMEE) standards. Subsequently, the interior air quality improved, and this makes the workshop a safer and healthier workplace.

**Sulzer LEAN**

Operational excellence is a corporate value and strategic priority at Sulzer. Since 2010, Sulzer has been very successful in reducing any kind of waste on all levels with its corporate LEAN program. The program was designed to successively build up divisional expertise. The divisional experts were trained to continuously challenge their respective process landscapes and they receive support to improve them.

From 2010 to mid-2013, LEAN was driven via an internal, cross-divisional expert network that was managed on a corporate level. From mid-2013 onward, LEAN activities have been led from a divisional level, closer to operations. Last year, Sulzer launched the LEAN online platform. It lists comprehensive (assessment) tools and trainings that are continuously improved by the divisional/business unit LEAN managers/officers.

The following LEAN statistics and insight story clearly show that operational excellence and discipline can benefit both Sulzer's financial and QESH performance. For example, the interplay between Sulzer LEAN and QESH activities can eventually reduce waste of all kinds and improve Sulzer's profitability. Until September 30, 2013, over 500 improvement activities were initiated and more than 400 closed. On this cutoff date, over 280 LEAN projects were active whereof approximately 50% of the projects are related to delivery and 30% to quality and safety. The interactive online self-assessment center proved valuable for the LEAN project teams when reviewing progress over time or searching for similar improvement activities for best practices or collaboration cross-divisionally.

*Paint consumption reduction at Sulzer Pumps Brazil*

Late in 2012, Sulzer Pumps Brazil revisited its painting process due to relatively high lead times (rework), paint consumption, and a potentially unsafe workplace because of the high air pressure needed during the painting process. With LEAN instruments, such as root cause analysis, the team analyzed the situation and developed a new process that resulted in a safer workplace because the air pressure could be reduced considerably (-60%). Additionally, paint consumption could be reduced by more than 60% and lead times by more than 40% to two days on average.



## Code of Business Conduct and Compliance

**Sulzer is strongly dedicated to conducting its business in a compliant manner, fosters a “speak-up” culture, and rigorously enforces applicable norms. The internal regulative framework goes beyond legal minimum requirements**

### Code of Business Conduct

Sulzer is strongly dedicated to conducting its business in a compliant manner and to observing ethical business principles. As laws become more sophisticated, continuous improvement is necessary.

Social compliance relies on a strong communicable vision, values, and the Code of Business Conduct. Since 2003, all Sulzer employees worldwide sign an acknowledgment stating that they will adhere to the Sulzer Code of Business Conduct. The current version of the code is effective as of April 1, 2010. It is available in nineteen languages and in an electronic educational presentation to ensure a proper understanding at all sites and provide guidance to a truly global and highly diverse workforce. The code is also available [online](#). It features precise and rigorous statements about expected behavior. The implemented processes allow for internal monitoring. The comprehensive code covers compliance-related topics, such as antitrust and unfair competition, corruption, bribery, conflict of interest, international trade restrictions, environment, health and safety, fraud and accuracy of records, insider trading, employment, and human rights matters. The latest revision of the Code of Business Conduct is compliant with the ten principles of the United Nations Global Compact. It is continually complemented with supporting directives and guidelines. Sulzer internally audits its implementation on a regular basis. Around 107 compliance officers support the implementation of the code and other compliance-related norms, deal with potential code violations, give advice on compliance matters, and provide compliance training.

Besides emphasizing its clear commitment to the Code of Business Conduct, Sulzer sends out a self-validation check to all members of the Sulzer Management Group (SMG; top 111 Sulzer managers), the heads of all Sulzer companies employing personnel, and the compliance officers. The self-check is the so-called Annual Acknowledgment Letter that needs to be signed every year. The signatories declare that they have not violated the code, nor do they have reason to believe that the code was violated within their area of responsibility, or if a violation occurred, the case was reported to the appropriate function within Sulzer. For the year 2013, the company plans to send this letter to all SMG members in the first quarter of 2014.

#### *Contributions to political parties*

Sulzer's Code of Business Conduct states that Sulzer does not allow political contributions to be made on behalf of the company, because paying donations to political parties can be interpreted as an act of bribery. In 2012, Klaus Stahlmann, CEO Sulzer Ltd, discarded an exception of this rule for Switzerland, and thereby ruled out any possibility of donating on Sulzer's behalf to political parties. In 2012 and 2013, no political party received a financial contribution anywhere in the world.

## Compliance

Sulzer strongly fosters a "speak-up" culture and rigorously enforces applicable norms. Its internal regulative framework goes beyond legal minimum requirements. Sulzer has compliance systems in place that are based on adequate compliance standards and procedures. The systems provide an overview of how to delegate responsibilities throughout the organization. The 110 compliance officers secure an effective line of communication, provide legal and compliance support, and monitor and audit compliance performance. They investigate instances of non-compliance or misconduct, enforce appropriate disciplinary action, and initiate corrective action and preventive measures. Organized compliance officer meetings, training sessions, and phone conferences foster the exchange of knowledge and best practices within the compliance network. The compliance program is continuously reviewed and updated. In the last two years, the following new guidelines and directives were introduced or updated:

- Anticorruption and Antibribery Guideline
- Antitrust Law Guidelines
- Directive Concerning Attendance at Trade Association Meetings
- Intermediaries Integrity Review and Due Diligence Directive
- Compliance Reporting and Investigation Directive
- Receiving and Offering Gifts and Hospitalities, Facilitation Payments Directive
- Revised Sensitive Countries - Evaluation Process, Bans, and Restrictions Directive.

## Export control

Because of the possibility of dual use (that means use for civil and military applications as mainly defined in international treaties) of certain Sulzer products, export control is an important issue. In addition, embargoes against countries as well as against single people and organizations have to be respected. Adherence to export regulations when selling solutions concerns both compliance and risk control. In this particularly sensitive area, Sulzer's legal/compliance and risk functions coordinate and share their expertise to make the needed information and guidance easily accessible. Most exporting companies have appointed International Trade Compliance Officers. Current regulations and best practices, such as information on permanently changing legislation, are internally disseminated. In addition, Sulzer strives to improve the export control responsibilities and skills within the divisions, particularly in the countries with comparatively low-level export control awareness. Sulzer Pumps has an export control council to increase the coordination and sharing of expertise; an Export Control Regulation was implemented successfully.

## Compliance trainings

Employee behavior cannot be fully controlled. However, the Code of Business Conduct sets the boundaries, and extensive trainings enable Sulzer employees to apply ethically correct business conduct. Sulzer has been training its employees for many years, primarily with e-learning tools and face-to-face trainings.

- Until September 31, 2013, about 7 730 employees enrolled in Sulzer's interactive e-learning program and on average completed at least two compliance courses p.a. As a general rule, 17 active courses (2013: 17) are available to all employees.
- Until September 31, 2013, about 460 employees from 14 countries (2012: 1 100 and 49) with operations attended the face-to-face courses. Due to cost-cutting measures from mid-2013 onward, the number of trainings conducted was lower than in 2012.

The primary focus was on risks related to fraud and business integrity, trade compliance and risk management.

## Compliance instruments

Trust, as well as transparent and open communication - including the possibility of reporting non-compliant behavior without the fear of retaliation - is of high importance to Sulzer. Sulzer employees are encouraged to communicate grievances as well as illegal or unfair behavior either via internal or third-party instruments. The corporate whistle-blower guideline and the Code of Business Conduct clearly set out the processes and available instruments. Grievances reported in good faith do not face punishment/retaliation and will be handled in the strictest confidence.

## Ombudspersons

To handle employee grievances, Sulzer established the function of independent ombudspersons in 2000. The Head of Corporate Auditing and the Corporate Compliance Officer have been assigned this role. They report directly to members of the Executive Committee. Sulzer employees can contact them verbally or in writing at their discretion to report non-compliant behavior. Complaints are dealt with in the strictest confidence. Sulzer's ombudspersons are regularly seen as a last resort, when other instruments failed. Typically, the ombudspersons investigate and remediate reported non-compliances through recommendations or mediation.

## Compliance hot line

In 2009, Sulzer established an externally run global compliance hot line. Such a hot line has been available to employees in the US since the beginning of the century. Sulzer offers a non-European, a European, and a special Spain/Portugal hot line setup in order to meet mainly European national data protection requirements. Users who dial in via the toll-free telephone number or use the Internet are informed about the permitted allegations either in English or in the language of their country. An independent external provider operates the compliance hot lines. This partner distributes anonymized monthly summary reports to Sulzer's corporate compliance officer. This summary helps Sulzer to define appropriate remediate actions. Until September 30, 2013, in total 44 reports had been filed via the hot line whereof 35 reports were reported via the global compliance hot line and nine via the European compliance hot line. The majority of the allegations related to:

- Workplace
- Financial concerns
- Misuse of company assets

### Outcomes of reported misconduct

Sulzer introduced the new corporate Compliance Reporting and Investigation Directive for cases of violation of the Code of Business Conduct (CoBC). This directive obligates the global compliance officers to document (centralized in SEED - in-house software) the consequences of reported compliance violations (via, for example, the compliance hot line and ombudspersons). Until September 31, 2013, the actions that resulted from the cases reported to Sulzer resulted in:

- 10 reprimands
- 11 dismissals
- 1 disciplinary transfer

### Environmental incidents affecting society in 2013

Until September 31, 2013, the following spill resp. other reportable incompliance with environmental law was filed:

- Sulzer Turbo Services Venlo B.V., in the Netherlands, suffered a 300 liter cleaning fluid spill (soap concentration 5%) into the city sewage system from ultrasonic cleaning fluid during the refreshing of the bath; The concentration was reduced by circa 1000 liter water. The incidence was reported to the local government "Gemeente Venlo" despite the fact that this spill did not cause consequential environmental damage. The process for refreshing the ultrasonic cleaning has been re-trained.

## Economic Sustainability

Value-based performance is the foundation for sustainable development. Sulzer focuses on its three attractive key markets, in which it strives to create value for its stakeholders with energy-efficient technologies and solutions

Targets 2013	Achievements 2013	Future actions and targets
<b>Sustainable value creation</b>		
<p>By the year 2015, Sulzer aspired to achieve:</p> <ul style="list-style-type: none"> <li>▪ ROS 11–13%</li> <li>▪ ROCE &gt; 20%</li> <li>▪ Organic growth of sales 6–8%</li> </ul>	<ul style="list-style-type: none"> <li>▪ ROSR<sup>10</sup>: 8.6%</li> <li>▪ ROCE: 12.6%</li> <li>▪ Order intake: - 2.8%<sup>11</sup></li> </ul>	<ul style="list-style-type: none"> <li>▪ Based on the latest mid-year results (2013) and new strategy, midterm goals are currently being revisited and, if necessary, revised</li> </ul>
<b>Increased and faster innovation</b>		
<ul style="list-style-type: none"> <li>▪ Initiate 6 strategic projects in the area of technology leadership</li> <li>▪ Strengthen co-innovation with customers, suppliers, external institutes, universities, and research centers</li> <li>▪ Ongoing R&amp;D road map alignment between the different research units/levels and industry segment focus of Sulzer</li> </ul>	<ul style="list-style-type: none"> <li>▪ Sulzer Pumps standardized pump groups for global distribution</li> <li>▪ Sulzer Turbo Services developed redesign methods for turbo compressor retrofits</li> <li>▪ Sulzer Turbo Services deployed customized welding procedure for improved performance</li> <li>▪ Sulzer Chemtech developed new application to cover recent products such as T-Mixer and battery-powered dispensers</li> <li>▪ Sulzer Chemtech developed products for new applications, such as silanes and CO2 capture</li> <li>▪ Sulzer Chemtech responded to growing demand for nutraceuticals (e.g., Vitamin E)</li> <li>▪ Sulzer Pumps engaged in joint industrial development programs for the next generation of highly efficient pumping solutions</li> <li>▪ Collaboration and sponsorships with academic institutions such as ETH Zurich and Texas A&amp;M</li> <li>▪ Intensified networking with peers such as ABB, Alstom and BASF</li> </ul>	<ul style="list-style-type: none"> <li>▪ Ongoing strengthening of co-innovation with customers, suppliers, external institutes, universities, and research centers</li> <li>▪ Ongoing R&amp;D road map alignment between the different research units/levels and industry segment focus</li> </ul>
<b>Growth in markets</b>		
<ul style="list-style-type: none"> <li>▪ Continuously strengthen presence in the emerging markets, also through acquisitions</li> <li>▪ Ongoing assessment of potential acquisitions</li> </ul>	<ul style="list-style-type: none"> <li>▪ Sulzer Pumps further expanded service footprint in China and India</li> <li>▪ Sulzer Turbo Services with new service offerings in China</li> <li>▪ Sulzer Chemtech started up operations in Brazil to serve local market with mass transfer products and TFS</li> <li>▪ Sulzer Chemtech is starting up production facilities for skids &amp; ramp-up for Sulzer Mixpac products in China</li> </ul>	<ul style="list-style-type: none"> <li>▪ One company with one single access point for customers</li> <li>▪ Monetize cross-selling opportunities due to new organizational structure</li> <li>▪ Energy market: growth in e.g. Floating Production Storage and Offloading Unit (FPSO) and new pipeline business</li> </ul>
<b>Increased focus on services</b>		
<ul style="list-style-type: none"> <li>▪ Continuously strengthen presence in the service business, also through acquisitions</li> <li>▪ Leverage the acquired service business as a platform for further growth</li> </ul>	<ul style="list-style-type: none"> <li>▪ Integration of services for rotating equipment from turbines and compressors, generators and motors as well as pumps in one division</li> </ul>	<ul style="list-style-type: none"> <li>▪ Grow service business by leveraging expanded geographical footprint and combined sales force using cross-selling opportunities</li> <li>▪ Actively bundle service offers, such as combinations of pumps and connected motors</li> </ul>

<sup>10</sup> Return on sales restated after restructuring

<sup>11</sup> Organic growth has been replaced by order intake (2013: CHF 3250 million) and is shown restated in comparison to last year results

With its new market strategy, Sulzer focuses on three key markets oil and gas, power, and water. This strategic step is based on our leading positions in these markets and global megatrends such as population growth, urbanization, increasing energy demand, and scarcity of water. Oil and gas remain essential for global economic growth. With Sulzer's broad portfolio, we are well positioned to provide solutions for the upstream, midstream and downstream market segments. Sulzer's high-performance pumps are leading solutions for the production and transportation of oil. Our technologies enable efficient separation processes for liquids and gas. We provide reliable services for compressors, turbines, motors, and generators. For continuing operations, order intake and sales were at healthy levels compared with the previous year. The operating income was CHF 264 million. Return on sales before restructuring decreased to 8.6% from 10.1% in prior year. The free cash flow was on a healthy level of CHF 198 million.

Market activities in the oil and gas industry showed growth in some areas while the power market remained at low level. The water market decreased slightly with some signs of picking-up trends in the wastewater segment by the end of the year 2013. Demand in Asia-Pacific was strong, while Europe continued to be comparably weak. To mitigate the impact of lower sales, capacities were reduced in the wastewater pumps business and electromechanical services. Together with the integration of group functions this correlates with a reduction of over 300 FTEs equivalents and restructuring expenses of almost CHF 17 million in 2013.

For 2014, Sulzer expects continued good activity levels for parts in the oil and gas industry, in particular in the Americas. Based on positive developments in selected regions, like/especially the Americas and China, some recovery is expected for the water market. Activities in the power and in the general industries are forecast to continue at similar levels. Further restructuring measures are expected to incur in 2014.

#### *Harmonization of Sulzer's reporting process*

In 2012, Sulzer initiated its corporate SURE (Sulzer Reporting) project to make Sulzer fit for its future corporate performance management and reporting requirements. To utilize the company's global presence and *one* company strategy optimally, Sulzer employees need easy, flexible, and fast access to financial and extrafinancial data and information. The new SAP-BPC solution introduces globally unified structures and processes valid for its corporate-wide financial and extrafinancial reporting processes.

The ramp up process to the new platform started on October 2013 to enable the collection of financial and extrafinancial data in one single platform. Based on the harmonization of master data used in various data marts of the new system, flexible reporting leveraging various content from finance, human resources, QESH, compliance and operations will be available. The content has also been extended to cover more KPIs along the employee life cycle and including greater organizational depth in selected areas.

The new SAP-BPC platform contributes to more comprehensive compliance requirements in reporting as well as analyst or investor requests for more transparency in reports. Specific measures that simplify and integrate extrafinancial with financial data into a functional reporting with clear data ownership have been developed. Employees are receiving the necessary training.

Sulzer's platform SEED (Social, Environmental, and Economic Database), which was developed in house and through which extrafinancial data were collected from 2004 onward, will be shut down after the data transfer to the SAP-BPC platform has been completed.

## Marketplace

**Sulzer exceeds customer expectations. Our customers want sustainable, reliable, and high-quality product solutions and services that minimize cost**

### Partnerships for sustained success

Sulzer strives to be the customers' first choice with best-in-class, sustainable product solutions. Therefore, Sulzer set four strategic priorities and is currently going through an organizational reorganization that will position the company as *one* integrated, customer- and market-oriented company. Strategic focus on technology leadership, excellent services, and collaborative engagement reinforce the company's efforts to grow together and become *one* focused company for services and new equipment.

The delivery of excellent services and leading technologies that support our customers shapes sustainable markets. Sulzer continuously improves its own processes and organization to create sustainable value from financial, manufactured, human, and natural capitals. The company typically offers its products in an expert consultancy-intensive B2B environment; very few products are marketed B2C. Most Sulzer products are critical components of complex systems that are developed in close collaboration with various value chain partners. Bringing innovative, sustainable technologies and services to market is frequently a capital-intensive venture for Sulzer that starts by translating the customer's voice in clear requirements and expectations. Expectations and (prior) experiences feed into Sulzer's product innovation strategy and processes with the aim of capitalizing on Sulzer's and its partners' technological and market expertise. It is the company's designated goal to become a leading supplier of sustainable technologies and products. To achieve this, a strong innovation culture combined with a solution portfolio for its three strategic markets - oil and gas, power, and water - is indispensable. Be it in the process technology, chemical, or oil industry, efficiency improvements in the percentile range can save customers lots of energy and resource cost. However, it is not uncommon that the process needs to be reengineered (from scratch) to get to the wanted savings effect. Therefore, Sulzer continuously seeks to join forces with competent partners to meet some of our future's greatest environmental and societal global challenges.

#### *Sulzer and Sinopec Company in strategic cooperation*

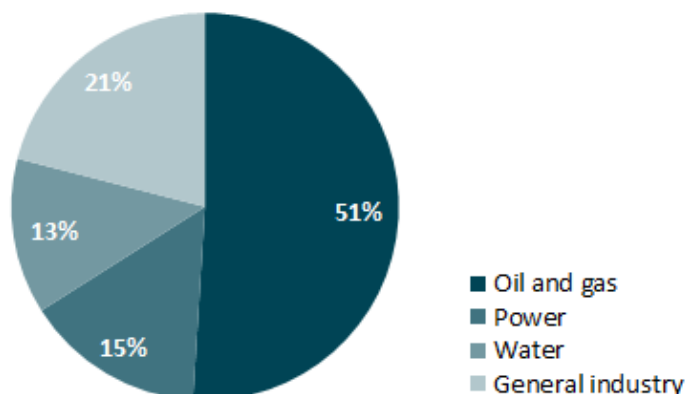


Sulzer Pumps and Sinopec Company have established a long-term strategic partnership to develop their commercial activities within the hydrocarbon processing industry. Sinopec Corp. is one of the largest integrated energy and chemical companies in China; Sulzer and Sinopec Corp. are both internationally recognized sustainability practitioners. Through this collaboration, both companies will benefit from joint technology development, research and development (R&D), as well as commercial and logistics cooperation.

Sulzer brings solutions to market that enable our customers to use natural resources economically and considerately. The company also offers solutions and services for transitional technologies. It is convinced that exceptional challenges, such as the decarbonization of energy and preparation of infrastructures to minimize water scarcity or stress, require unconventional approaches and solutions. Thus, Sulzer collaborates not only with traditional partners, such as customers, suppliers, and universities, but also with its peers (in joint ventures) and industry-oriented companies in clearly defined fields of research or projects. Already today, most of Sulzer's innovations build on these collaborations; strengthening its dedication to and intensifying its engagement in open innovation are inevitable.

## Oil and gas market

In Sulzer's new strategic direction and organizational setup, there is strong focus on the energy (oil and gas and power) market.



Data contain Sulzer Group

In 2013, nearly every second (51%) Swiss franc was earned in the oil and gas market, every seventh (15%) Swiss franc in the power market. In 2012, Sulzer was present in almost every oil and gas market segment. The upstream market segment includes activities from exploration and drilling to field development; the midstream segment includes gas processing, liquefaction of natural gas (LNG), and transport (trunk lines) to refineries.



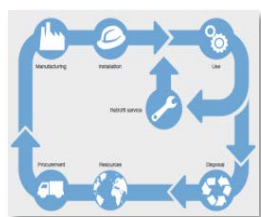
Oil and gas market segments

### *Oil and gas upstream workshop*

During 2013, Sulzer planned two strategy workshops: one for its oil and gas market and one for its water market. The latter was postponed to a later date. The cross-divisional workshops on the oil and gas market provided valuable new insights. Market opportunities were identified based on attractiveness, business impact, and feasibility. In oil production, one main growth opportunity is in floating production, storage, and offloading units (FPSOs), which are important for oil sources in deep-water far off the coastline. Sulzer is already very successful in this growing market segment. Midstream, there is a strong demand for new pipelines due to the continuing expansion of oil sands and tight oil markets as well as the escalating oil and gas demand in Asia. Also, in the refineries and petrochemical market, growth drivers like the shale gas boom in the US or the need for modernization of the infrastructure in Russia support business growth. Sulzer CQESH was represented in these workshops to consult and inform senior operational management from a sustainability perspective about controversially discussed technologies (for example, hydraulic fracturing) or regions (for example, arctic drilling).

The downstream market segments include the refinement of gas and crude oil into consumer products (incl. transportation fuels and plastics). Sulzer Pumps has a strong market focus on the upstream and midstream segments, whereas Sulzer Chemtech is a strong player in the downstream segments such as refinery.

### *Lowering life cycle cost of pipeline systems (oil and gas)*



Sulzer offers reliable and energy-efficient pump solutions for pipelines that are used for transport of, for instance, oil over land. Pipelines are complex systems that require careful monitoring during their entire operation. For aging pump systems, Sulzer offers retrofit and upgrade solutions for its own and other manufacturers' pumps to improve reliability and mean time between failures, eventually reducing cost of operations and (safety) risk.

Retrofit solutions cannot only restore the performance and optimize the capacity of an aging pipeline system; it can also maximize the pipeline's profitability by reducing overall life cycle costs. Our life cycle assessments (cradle to gate) indicate that over 90% of the life cycle cost of a pump originates from energy consumption. Sulzer's reliable and energy-efficient pumps reduce the cost of electricity consumption and maintenance during the expected design lifetime. A Sulzer Pump is typically operational for over 20 years.

## **Water market**

In 2013, Sulzer earned every eight (13%) Swiss franc in the water market. The water market is today by far the biggest accessible market for Sulzer. With its pumps and related products, our company has a comprehensive offering covering the whole water cycle from freshwater (production and transport) to wastewater (municipal and industrial). In 2014, Sulzer will finalize the integration of Cardo Flow Solutions - acquired in 2011 - into its newly established Water business unit (BU). In this new Water BU, most of Sulzer Pumps water market related activities will be bundled in one organization. Estimated twenty-five percent of the global population currently lives in transitional countries that face water shortages for drinking, growing crops, and sanitation. These shortages are due to lacking infrastructure. Sulzer's water solutions, such as reliable and sustainable solutions such as the ABS range (see example) will contribute to achieving water access and security. With half of the world's hospitalizations being water-related illnesses, secure access to freshwater and safe wastewater treatment (municipal and industrial) is an immediate issue to people around the globe, in transitional countries in particular. The major challenge is to secure access to water locally, at the right quality, and at (ethically) justifiable costs. Sulzer wants to be part of building a sustainable solution for the water market.

### *Sulzer Pumps' latest ABS submersible dewatering pumps series for toughest environments*

Sulzer Pumps latest series of energy-efficient submersible dewatering pumps is available in two series:

- for drainage (the XJ pump)
- for sludge (the XJS pump)

Sulzer Pumps' ABS submersible dewatering pump series presents one of the world's toughest and smartest dewatering pumps. The reliable pumps have a long life and high portability, and they are packed with electronic intelligence called AquaTronic (integrates electronic intelligence in the pump) and AquaPlug (control and monitoring unit). The latter provides a range of control and monitoring functions, including automatic stop/start, optional level control, alarms, and service indication, which limits unnecessary servicing. Although the pump can be run continuously, AquaPlug can also be used to stop it when it needs to go into stand-by mode. By stopping at dry running and starting automatically at a specified level, energy use can be optimized and wear reduced. The benefits include:

- Correct motor rotation (compensation for incorrect phase order)
- Motor protection
- Rapid assessment of operation/fault history
- No control panels required
- Reduced energy consumption and wear

## **Bioplastics**

To date, Sulzer has accumulated more than twenty years of experience with lactic acid and derivatives for the production of polylactic acid (PLA). PLA is a biodegradable or biopolymer that is technically seen "carbon neutral"; eventually, it will break down into its constituent parts (carbon dioxide and water). PLA is made from renewable, carbon-absorbing plants or materials; it helps to reduce greenhouse gas emissions. However, to date, no sufficient solution for its disposal (end of life) is available. The challenge is that PLA and other plastics (for example, ABS) should not be mixed when being recycled. The biodegradability of PLA has other limitations because of its slow degrading process and the contamination as a result of its usage (for example residues in a PLA container). Sulzer offers a well-researched polymerization process with Sulzer's static mixing technology and a SMR™ plus mixing reactor that produces high-performance bioplastics (PLA). This combination shortens reaction times and guarantees excellent process control. With Sulzer's technology, faster production cycles of more environmentally friendly products are possible and less fuel-based raw materials need to be used for production.



### *Contract for a high-performance biopolymer production plant in Asia*

Sulzer Chemtech Process Technology was awarded a contract for the delivery of a production plant based on Sulzer's PLA technology. The facility, which has a capacity of more than 10 000 tons, allows the continuous production of high-performance PLA grades with very low residual monomer levels and a wide possible viscosity range, that is, for a broad range of applications. The bioplastics withstand temperatures as high as 180 °C. Applications in the automotive, electronics, and textile industries based on this new type of material are currently under development and will appear on the market soon.

### **Customer satisfaction**

Sulzer's committed people engage in customer partnerships because they want to exceed the expectations of their customers with innovative and competitive solutions. With the new organizational structure, which is valid from 2014, Sulzer has set the stage for growing into *one* focused and market-oriented company. The company will be composed of the two adapted divisions Pumps Equipment and Rotating Equipment Services, plus the Chemtech division.

With the new Rotating Equipment Services division and management by the Sulzer CEO Klaus Stahlmann, Sulzer is integrating all service activities for rotating equipment into one division, to become the leading service provider for turbines and compressors, generators and motors, as well as pumps. Based on the combined service network, Sulzer wants to be closer to its customers and provide them with one access point. Sulzer is convinced that the combined sales force will simplify the realization of cross-selling opportunities and joint contracts.

To measure success, all divisions regularly collect, monitor, and evaluate customer satisfaction from, for example, their key accounts and various customer segments on various key performance indicators (KPIs) and levels. KPIs are market/customer specific; globally adopted is the reported number of non-conformances (NCRs). The majority of Sulzer's business is project related. Typically, Sulzer employees collect feedback during the various stages of a project; improvements are either implemented on the spot or evaluated for future projects. Based on the outcomes, areas and measures for improvement are defined and prioritized. Regularly conducted customer surveys offer additional valuable insights; the number of repetitions varies per customer/market segment. Surveys are conducted with and without third-party support; project and methodology are critically reviewed on a regular basis and, if required, modified to meet new requirements. Additional instruments Sulzer uses to integrate customer feedback are customer and compliance hot lines, compliance officers, and corporate ombudsman.

## Financial markets and ESG community

**It is our strong belief that the long-term success of an international company can only be achieved through sustainable actions and behavior. This basic principle is also applied to our external communication efforts with the financial markets**

Sulzer Investor Relations engages in open and transparent dialogue with the financial community, namely, investors, analysts, and other financial intermediaries. In this way, Sulzer provides accurate and comprehensive information on its performance and prospects. We share our own thoughts on the sustainable development of the company and gather valuable feedback from investors.

The key objectives of discussions with the investor community are:

- To create an adequate understanding of the company
- To ensure a fair valuation of the Sulzer share
- To minimize the cost of capital
- To reinforce Sulzer’s position and credibility in the financial markets.

The discussions are a very important way not only of sharing thoughts on the sustainable development of the company, but also of gathering valuable feedback from stakeholders. In addition to holding in-house meetings with domestic and foreign fund managers, the company also gives presentations at bank and investor conferences globally. The Sulzer management team visits shareholders and prospective investors regularly in the most important financial marketplaces around the world. Sulzer also routinely hosts a Capital Market Day for investors, financial analysts, and financial media representatives. During this highly appreciated event, Sulzer management presents the Sulzer investment case with a focus on topics like the current business course, innovations, end-market developments, sustainability topics, and strategy. Individual informational requirements are met, while avoiding selective disclosure of information. All information presented at these events is also available on the [corporate website](#) and can be ordered in printed form by request. Sulzer Investor Relations and Sulzer Quality, Environment, Safety, Health, and Sustainable Development (QESH & SD) are active members in business organizations like the Swiss Investor Relations Club (founding member) and the Conference Board (European Council of Investor Relations, European Council on Corporate Responsibility & Sustainability). These memberships allow Sulzer to share experiences and best practices with peers of other Swiss and European companies in a constructive environment. The matters addressed in the councils range from topics of shared interest such as ESG (environment, social, governance) investments and raters to topics touching the water, energy, and food nexus.

### Environment, Social, Governance (ESG)

In 2013, the effect of catalyst initiatives such as the [Stewardship Code](#) (UK) and the United Nations for Principles for Responsible Investments ([UN PRI](#)) that promote increased investor participation were notable. Additional pressure for transparency is triggered by reporting initiatives that aim to mainstream the inclusion of extrafinancial information in asset management and financial reporting. Sulzer continued relationships with about 20 investment firms that focus on companies with high-quality sustainability and responsible behavior ratings.

As a result of its open and transparent dialogue with these institutions, Sulzer is part of renowned leading sustainability indices, such as Bank Sarasin’s Sustainability funds, the Kempen/SNS European SRI Universe, and the [FTSE4GOOD](#) Index Series. In addition, Sulzer is rated “prime” for corporate responsibility by oekom research, received an AAA IVA-rating by MSCI, and is a proud member of the investment register of [Ethibel Excellence](#).



The company will continue to provide investors and other stakeholders with accurate and comprehensive information on its sustainability performance and prospects.

### *Thematic fund on water*

Thematic funds may help investors to identify companies, business models, and technologies that derive benefit from a megatrend such as (access to fresh) water. Research indicates that during the last five years, thematic funds on the water business performed better than other thematic funds. The success of the water funds relies on average capitalization and a global approach; however, water purification and treatment is also simply a fundamental subject for everyone. For instance, the «Tareno Waterfund W» outperforms the Swiss market and benchmark index «MSCI World». Although this water fund has a huge exposure to US and Asian stocks, about 12% of the portfolio consists of Swiss company stocks, amongst which you will find Sulzer.

### **Shareholder base**

The Sulzer shareholder base consists of more than 10 000 registered shareholders, including over 100 institutional investors. Geographically, the shareholdings are spread across the globe. At the end of 2013, the 100 largest shareholders held about 61% of the total shares. The current status of shareholders holding more than 3% in shares as well as further information regarding notification rules in Switzerland, can be found [online](#). As far as the company is aware, one shareholder held more than 3% of Sulzer Ltd.'s share capital at the end of 2013: Renova Group 31.2% of the shares.

### **Corporate governance**

Sulzer is committed to the principles of good corporate governance. These principles ensure a sound balance of power and support the company in creating sustainable value for its various stakeholders. Sulzer Ltd is subject to the laws of Switzerland, in particular, Swiss company and stock exchange law. The company also applies the Swiss Code of Best Practice for Corporate Governance. The rigorous application of sound corporate governance helps to consolidate and strengthen trust in the company. A single share class and the separation of the functions of Chairman of the Board of Directors and CEO have been standard practice at Sulzer for many years. Extensive information on corporate governance can be found online at <http://www.sulzer.com/en/About-us/Governance>.

## Risk Management

**Sulzer puts high priority on carrying out its businesses with integrity and in compliance with all applicable laws and internal rules. Identified risks are mitigated with tailored and effective measures**

Sulzer's integrated risk management system applies to all Sulzer sites and helps to ensure the sustainable success of existing activities and the overall development of the company. It encompasses Sulzer's exposure to risk of operational, external, market-related, strategic, and financial nature. New products and services, business areas, and acquisitions are thoroughly assessed for potential risk exposure.

The objectives of the risk management system are threefold:

- To protect and enhance Sulzer's ability to achieve its business objectives
- To protect Sulzer employees and other persons against personal injury, illness, or loss of life
- To prevent environmental damage

### Identifying and managing risks

In the Sulzer Annual Report 2013, key risks, Sulzer's exposure to them, as well as the main loss controls were provided:

- External and markets
- Market assessment
- Geopolitical shocks
- Strategic
- Innovation
- Operational
- Attraction and retention
- Health and safety
- Compliance
- Quality of products and services
- Business interruptions
- Financial
- Financial markets
- Credit
- Liquidity

### Assuming responsibility for risk management

The risk management system is continuously being improved and updated. The Board of Directors, the Audit Committee of the Board, the Executive Committee, and the Corporate Risk Council have clearly defined roles with regard to risk management. In essence, they are responsible for and contribute to the integrated corporate-wide risk management.

The Corporate Risk Council comprises the CFO (Chairman), the General Counsel, the Head of Corporate Auditing, the Corporate Compliance Officer, the Head of Risk Management, Head of QESH & SD, Head of HR, and representatives of other group staff functions. The Head of Corporate Risk Management informs the Audit Committee of the Board on the current state of risk management and on progress toward achieving major risk objectives. However, risk management is considered the task of each employee within his or her area of responsibility, as it is an integral part of all decision making.

#### *Health and safety risks*

To Sulzer, offering safe and healthy working environments is a matter of course. Unsafe working environments may lead to:

- harm to people
- destruction of assets
- reputational damage
- fines
- liability claims

As a result, Sulzer constantly invests resources to be compliant with health and safety regulations. It also maintains a global ESH-expert network that secures OHSAS 18001 and/or SCC certification for production and service activities, con-

ducts regular internal ESH audits, provides trainings, and monitors H&S performance on a monthly basis.

Sulzer held seminars to foster risk awareness and compliance and to provide guidance on risk-related topics. In 2013, about 460 participants (2012: 1 100) joined trainings in sales, procurement (including risk for bribery and corruption), project management, and/or compliance. Due to cost-cutting measures, from mid-2013 onward, the number of trainings conducted was lower than in 2012. Major focal points of the training were the areas of contractual risks (including insurance) and compliance. The defined risk management process and four common tools (risk assessment schedule, risk-profiling matrix, risk description form, and loss control schedule) allow the monitoring and assessment of all key risks.

### **Tailored and effective risk management tools**

Sulzer's risk assessment schedule has five risk categories. Operational risk is divided into several subcategories; among others, it contains IT, health, safety and environment, and human-resources-related risks. The external and market-related risk categories include legal/regulatory, sociopolitical, and technological changes. The categories strategy and finance focus primarily on company specific risks. Criteria to assess risk include the potential impact and the probability of occurrence. These tools support the implementation and maintenance of risk-financing and risk transfer measures and tools, permit monitoring of the results, and facilitate improvement measures.

#### *Environmental risks*

Sulzer is active in the highly exposed oil and gas market. Confidence in single key accounts to Sulzer in, for example, the drilling and field development business segment or even the entire market may rapidly dwindle. This could follow a man-made catastrophe such as a severe oil spill due to poor maintenance, malfunctioning, or misuse of technological equipment - or natural catastrophe - such as a massive, destructive tornado. Such events do not necessarily require a direct link to Sulzer to be of risk to the company, but they may cause very severe losses of life (incl. aquatic), natural habitat, reputation, and assets. If the latter event is successfully linked to climate change, single pressure groups or political and market forces may trigger an investment stop in the oil and gas market, increase the likelihood of tighter regulations, and accelerate the introduction of less CO<sub>2</sub>-intensive technologies to complement or substitute for fossil-based energy sources as the primary source of energy.

The divisions and the Corporate Center generate their respective key risk-profiling matrices; they complete and update the related risk description forms and risk control schedules annually. Each schedule identifies the key risks and the related risk objectives. It also determines existing loss controls and their effectiveness. Sulzer develops additional or alternative loss controls where necessary. The divisions' key risk-profiling matrices are reviewed at the corporate level and then consolidated into the divisions' key risk-profiling matrix.

The overall corporate risk-profiling matrix contains key risks Sulzer is exposed to as a company, the accumulated divisional key risks, single catastrophic risks, and key risks that are connected with Corporate Center functions. Corporate Auditing audits the implementation of loss controls by the subsidiaries.

## Supply chain management

**Reliable, resilient, and competitive supply chains are essential to be able to meet customer demand for engineered product and service solutions. Sulzer wants to standardize and simultaneously preserve its flexibility to fulfill customer specifications**

Sulzer has a truly global network with over 170 production and service locations. Sulzer's philosophy of being close to its customers, even in the most remote and challenging areas, requires high flexibility of the organization and its suppliers. Strategic investments secure the efficient and effective management of the company's increasingly complex, but highly profitable supply chains.

### Corporate values guide employees in supplier relationships

Sulzer's corporate [values](#), as well as its stringent [Code of Business Conduct \(CoBC\)](#) and compliance mechanisms are compulsory to supplier relationships. Sulzer has neither a global supply chain strategy nor function; a stand-alone corporate supplier policy has not been issued. The CoBC and Supplier Qualification Process (SQP) are Sulzer's point of reference with regard to upholding fundamental human rights, working conditions, occupational health and safety, business ethics, and environmental law in its supply chains. Every direct supplier to Sulzer is expected to sign and work in compliance with the CoBC as well as the company's Terms & Conditions (T&C). The T&Cs of Sulzer Pumps stated that any supplier is required to respect the [United Nations Global Compact 10 Principles](#). The newly created Service division is expected to implement this requirement in its revised T&Cs.

### Sustainable sourcing

Sustainable sourcing is the management of all aspects of the upstream stage of the supply chains to maximize social, economic, and environmental performance. Sulzer's sourcing practices incorporate the regular assessment of its supplier and market risks. The enforcement and monitoring of quality and ethical behavioral standards, as well as the remediation of non-conform performance are at the heart of Sulzer's procurement activities. In 2013, Sulzer conducted its first corporate-wide spend cube analysis.

#### *Strategic Sourcing Initiatives to leverage synergies in procurement*

In 2012/13, Sulzer launched two strategic sourcing projects, one on indirect spend (for example, travel cost, insurance, energy, logistics) and the other on direct spend (for example, motors, steel sheets, seals).

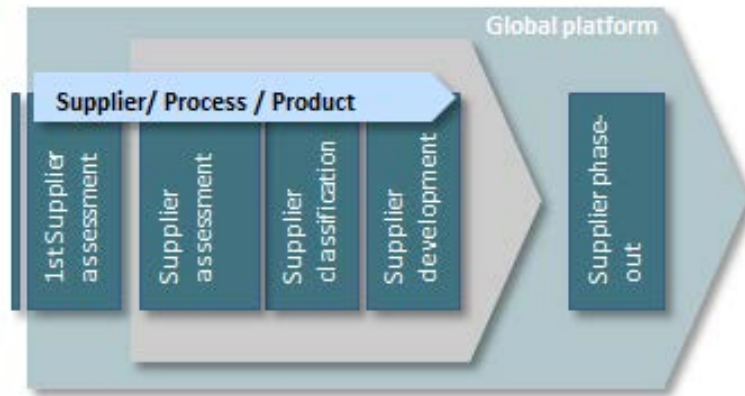
Both initiatives are examples of how Sulzer wants to take advantage of the benefits *one* Sulzer through a combined-sourcing approach. The primary objective of the indirect spend project is to bundle volumes and leverage synergies for "non-operational" purchases. Since summer 2012, savings of approximately CHF 10 million have been realized. The objectives of the direct spend project are to achieve transparency on direct spend and identify areas for synergies to eventually source more efficiently and effectively. Primary instruments used were a corporate-wide spend cube analysis, surveys and qualitative interviews. The areas have been identified and concrete saving actions are being realized. Saving potentials of over CHF 10 million have been identified and are expected to be realized in 2014.

As a 'small major' multinational enterprise (MNE) with no global sourcing function, to date, Sulzer's strategically relevant product categories have comparatively limited leverage or buying power. Nevertheless, the company actively promotes the effective implementation of its CoBC into partners' internal policies, strategies, and operational processes. In order to mitigate risks and to be aligned with ISO recommendations, Sulzer prefers to do business with suppliers that have certified management systems according ISO 9001, ISO 14001, and/or OHSAS 18001. Sulzer Pumps rolled out its new Supplier Qualification Process (SQP) that is explained in the following case study. It allows the systematic identification, selection, auditing and verification, and development of global suppliers on quality and sustainable supply chain practices and performances. Procurement carefully selects and regularly evaluates suppliers' processes and products (incl. on-site visits). Sulzer issues no publicly accessible progress reports on the remedial or corrective actions from supplier audits.

#### *Transparent processes and supply chain organization for Engineered Solutions*

The Sulzer Pumps division rolled out the software-backed global Supplier Qualification Process (SQP) to standardize and harmonize its supplier qualification processes (including regular performance reviews) for global first-tier strategic suppliers. This qualification process includes, among other things, quality, safety, health, human rights (child labor, forced labor), and environmental criteria.

In case, for instance, child labor is found to not being managed sufficiently (for example, no sufficient mechanism in place) this automatically results in a remedial action.



**Sulzer Pumps SQP process**

Globally standardized processes, verified suppliers, and, for instance, frame agreements for a specific product category, reduce operational risk and costs, promote standardization, and allow further professionalization of the procurement function. Parallel to the installation of SQP, a procurement function with clear responsibilities in strategic, tactical, and operational processes is being installed.

Sulzer invests in the professionalization of its procurement functions and organizations. The objective is to professionalize strategic and tactical sourcing through trainings and by attracting sourcing experts. Additional procurement trainings on Code of Business Conduct (CoBC) compliance, export control, export legislation, and anticorruption are standard.

Wherever appropriate, Sulzer consults and offers its strategic supplier network with trainings on, for example, occupational health, safety, and quality standards. This way, it helps to ensure that suppliers will meet Sulzer’s high standards on quality, as well as health, safety and environment, and labor/human rights relations. This method allows Sulzer to set high standards and continuously improve performance on both sides. It is not uncommon that MNEs in various market segments require specific certificates or verification audits from their suppliers before they can supply them.

## Social Responsibility

**Sulzer wants to be recognized as a responsible company by all of its employees and other relevant stakeholders. Our core values of customer partnership, operational excellence, and committed people function as an inner compass, which guides us in our behavior**

Sulzer assumes its responsibility towards its social stakeholders, in particular, its employees. The social performance of the company is continuously measured and improvement measures are implemented.

Targets 2013	Achievements 2013	Future actions and targets
<b>Employee engagement</b>		
<ul style="list-style-type: none"> <li>Strengthening employee engagement through targeted measures on team level</li> </ul>	<ul style="list-style-type: none"> <li>The employee engagement survey 2013 had to be postponed due to substantial restructuring</li> <li>Nevertheless further key actions to improve employee engagement were taken on team level</li> </ul>	<ul style="list-style-type: none"> <li>The employee engagement survey 2014 will show how successful the improvements have been and in the same time deliver a solid basis for further improvements</li> </ul>
<b>High level of employee retention</b>		
<ul style="list-style-type: none"> <li>The voluntary attrition rate should not exceed 7%</li> <li>Program for development and impact with an overall evaluation of greater than 8.5 out of 10</li> </ul>	<ul style="list-style-type: none"> <li>Voluntary attrition rate decreased to 6.6% in 2013 (2012: 7.9%) due to specific measures to increase employee commitment and engagement and to further drive talent management activities</li> <li>PDI graded by internal participants with an overall evaluation of 8.9 out of 10</li> </ul>	<ul style="list-style-type: none"> <li>Further improve company commitment and measure results in 2014</li> <li>Employee engagement survey covering more than 90% of employees and a return rate greater than 85% by 2014</li> <li>Program for development and impact with an overall evaluation of greater than 8.5 out of 10</li> </ul>
<b>Talent management</b>		
<ul style="list-style-type: none"> <li>Fill 70% of vacant leadership positions with internal candidates</li> <li>Improve awareness for diversity and inclusion topics. Improve diversity of the Sulzer Management Group (more emerging markets and more female talents)</li> </ul>	<ul style="list-style-type: none"> <li>In 2013, 71% of vacant leadership positions were filled with internal candidates (2012: 62%)</li> <li>All divisions defined aspirations and key actions to improve on diversity and inclusion</li> <li>In 2013 11% of the Sulzer management group was female and 13% from the emerging markets</li> </ul>	<ul style="list-style-type: none"> <li>Fill 70% of vacant leadership positions with internal candidates</li> <li>Further improve awareness for diversity and inclusion topics. Improve diversity of the Sulzer Management Group (more emerging markets and more female talents)</li> </ul>
<b>Health and safety</b>		
<ul style="list-style-type: none"> <li>Accident frequency rate (AFR) of 2.7 for 2013</li> <li>Accident severity rate (ASR) of 40 for 2013</li> <li>Certification of all production and service sites according to OHSAS 18001 or SCC</li> </ul>	<ul style="list-style-type: none"> <li>AFR: 3.3 cases per 1 million working hours (2012: 2.9).</li> <li>ASR: 56 (2012:55)</li> <li>Coverage of OHSAS 18001 in production and service sites was 82% (2011: 91%)</li> </ul>	<ul style="list-style-type: none"> <li>In 2014, the goal for the AFR is 2.7 (without Sulzer Metco)</li> <li>In 2014, the goal for the ASR is 38 (without Sulzer Metco)</li> </ul>



## Employees

**Employees are at the core of Sulzer's success. The company strives to create competitive advantage through people and fosters the well-being and employability of its people**

At Sulzer, our people and their intellects are two of our most valued capitals. Therefore, Sulzer considers every employee as an individual with unique capabilities and competencies, for instance, the knowledge, skills, and experiences relevant to the task at hand we want to develop and challenge. It is Sulzer's stated goal to:

- Create a competitive advantage through our people
- Foster the well-being and employability of our people

In Sulzer's technologically advanced markets, a competitive advantage can only be realized and successfully maintained through committed, capable, and competent employees who have our customers' expectations as their motivation to excel. Therefore, it is essential to fulfill the highest standards in leadership and establish a *culture of excellence*. The HR strategy is based on Sulzer's vision, values, and four strategic priorities. The strategic HR road map 2011–2013 was set out to create a competitive advantage through people and to take responsibility for a sustainable future. It addressed five fundamental areas:

- Differentiating the company as a recognized leader
- Building employee capabilities
- Protecting Sulzer's human capital investment
- Enabling company growth
- Providing excellent HR services to the company

In 2013, the highest priority was put on customer partnership and operational excellence. Since January 1, 2014, Sulzer has had an adapted operational structure. The newly created HR group function will revisit its HR strategy, road map, and services offered and make it fit to the new structure and challenges of *one* company in due time, accordingly.

### Differentiating the company as a recognized leader

Sulzer follows two approaches to differentiating itself from competitors and ensuring that customers recognize Sulzer for its leading technologies and services, as well as for delivering innovation and sustainable solutions:

- Outbehaving the competition
- Outperforming the competition

Sulzer outbehaves its competition by enabling its employees to cultivate strong and reliable partnerships with customers. As *one* focused company, we foster a strong team spirit and value change as an enabler for more innovative solutions. Operational excellence or Sulzer LEAN enables the company to outperform the competition with a competitive organization and processes for delivering superior results to our customers.

### Drive corporate core values and behaviors

Sulzer has built a strong corporate culture founded in its three core values; the systematic integration of these values into day-to-day activities is ongoing. For 2013, Sulzer planned to conduct its biennial employee engagement survey to measure how the level of employee engagement changes. The structural and organizational change and the strategic reorientation will undoubtedly have left its traces. The employee survey is a valuable tool to pick up on these changes in employee engagement. Due to the restructuring, Sulzer had to postpone the global employee survey to 2014. The high return rate of 81% in the 2011 survey indicated that Sulzer had a culture of empowerment - a culture in which people 'speak up' and are interested in contributing to Sulzer's future development.

### Building employee capabilities

Sulzer leverages two main focus areas to build the capabilities needed to maintain its competitive advantage:

- Capitalization on diversity
- Life-cycle-oriented learning and development

**Capitalize on diversity**

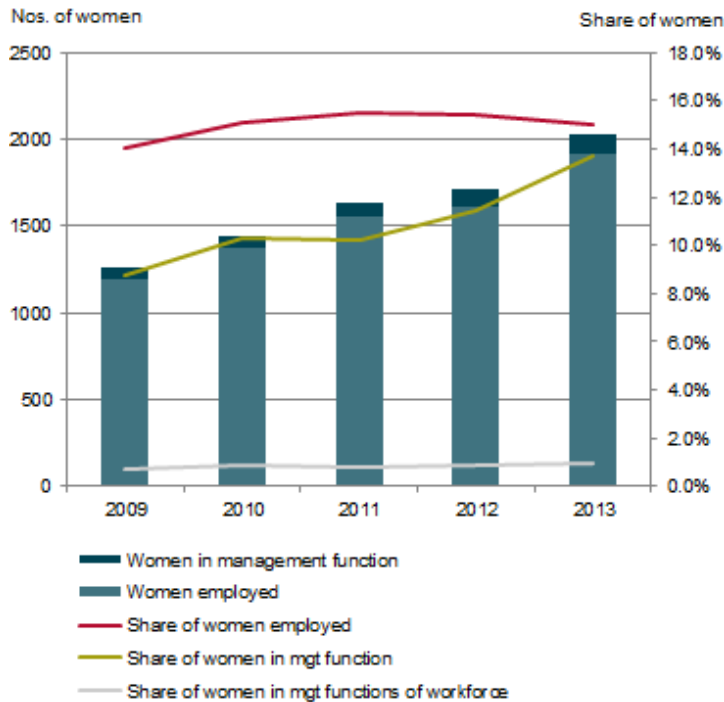
With Sulzer's global presence, it is essential that the company's workforce reflect the diversity of its customer base. Sulzer further believes that diverse teams create better solutions because they can build on different viewpoints and, thus, have better ways of solving problems. Sulzer therefore fosters and leverages diversity with respect to gender, culture, and demography. Diversity is also strongly linked to the core value of committed people. Knowing that living and managing diversity is a long-term cultural process, Sulzer defined a vision for diversity and inclusion for a common understanding:

*Diversity and inclusion for better solutions at Sulzer*

Diverse teams create better solutions for a diverse world because they:

- are closer to our global customer base
- drive innovation through different perspectives
- foster opportunities for individual development

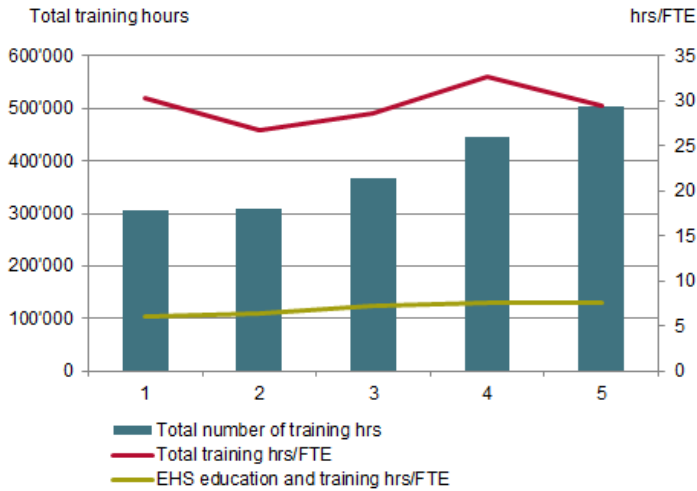
Consequently, Sulzer aspires to increase diversity to mirror the global customer base and ensure inclusion to cultivate innovation and individual development. In 2013, 15% (2012: 15%) of Sulzer employees covered by [SEED full](#) were female; hereof 14% (2012: 11%) were female managers. That same year, 11% (2012: 6%) of Sulzer's global top 111 Sulzer Management Group (SMG) was female. About 40% (2012: 37%) of the company's employees work in emerging markets and about 13% (2012: 12%) of the Sulzer Management Group members held an emerging market passport.



Data include SEED full sites

**Life-cycle-oriented learning and development**

In 2013, Sulzer invested about 505 000 hours (2012: 445 000) in training. As a result, training hours per FTE decreased from 33 hours in 2012 to 29 hours in 2013.



Data include SEED full, light, and mini sites

About 48% of these hours were company-internal trainings; 76% of the employees received a Sulzer internal training in 2013 (2012: 83%). The decrease in hours and employees trained can be explained because of the cost savings.

*Program for Development and Impact (PDI)*

Sulzer offers several programs to train its employees and foster their operational and management skills as well as their leadership competencies. The corporate Program for Development and Impact (PDI) is a training program for ambitious managers and leaders on different levels of the organization. The program follows a philosophy of action learning and is highly oriented towards implementation and impact. The content of the training is designed to foster capabilities on impact areas of the individual (self-awareness), the team (working with others), and the business (generating impact). The PDI offers participants a framework to develop as leaders, expose themselves to challenging objectives, and excel in generating business value. PDI is a cornerstone of Sulzer’s investment in leadership development and a contributor to Sulzer’s talent pool. In 2013, 85 managers and experts participated in one of the PDIs.

*“As a combination of management training and PDI business case project, the program drives for personal development and leadership skills. On top of different sessions in main disciplines you are working on your individual style in presentation techniques. It was a great experience together with peers across all Sulzer divisions to get a direct and fair feedback, which contributes to your own development.”*

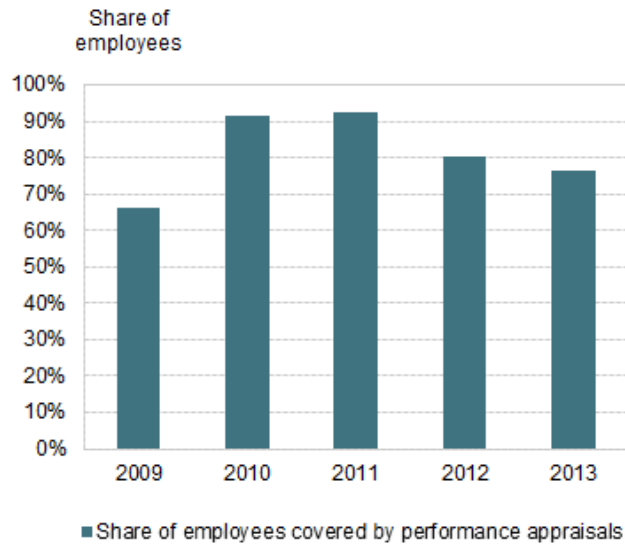
*Detlef Matzek, Director Sales Europe MTT, Sulzer Chemtech*

Sulzer wants effective leaders. Being an effective leader requires not only excellent technical, but also interpersonal and management skills. The Sulzer Management Training (SMT) trains new leaders and offers a refresher for established leaders. The SMT provides the essential skills and knowledge required to handle various communication and leadership challenges faced in management situations. In 2013, it was offered as a pilot training in Switzerland. More than 40 participants took this pilot training and the participants’ feedback was consistently positive.

To manage training programs for employees, Sulzer will implement a learning management system (LMS). This cloud-based platform will contain all training courses available, both classroom and e-learning. Moreover, team leaders can check the training status and history and define training plans for their team members in this online tool. The LMS was launched in a pilot site in August 2013. It will be implemented throughout the entire company in 2015.

**Protecting Sulzer's human capital investment**

Sulzer highly values qualities like commitment, expertise, and experience. Continuous development of employee skills and capabilities is critical to the business. However, changing employee expectations has combined with Sulzer's strong expansion in Asian countries, which has traditionally higher attrition rates than Europe. Sulzer hopes to protect its investments by, for example, offering market- and performance-driven rewards. Consequently, Sulzer manages by objectives (MbO) - making managers accountable for staff performance and their ongoing development.



Data include SEED full sites

In 2013, 76% of employees covered by SEED full sites benefited from a performance appraisal, compared with 81% in 2012. The employees received feedback on their performance and discussed training and development needs with their line managers.

The total turnover rate was only slightly higher in comparison to last year; the effect of the reduction of 300 FTEs, especially in the European region, is expected to become visible in the 2014 ratios. The corporate-wide voluntary attrition rate was 6.6% in 2013 (2012: 7.9%).



Data include SEED full, and light sites

Sulzer's internally and externally benchmarked (supported by Towers Watson and Mercer) compensation and benefits system for managers is based on a non-discriminatory (gender, culture, and demography) global grading system. Managerial positions have a variable target compensation component

between 20 and 60%, which can be leveraged based on the extraordinary performance of the business and the individual to a maximum payout factor of two times the target bonus.

The compensation packages of non-managerial employees are based on local practices and are at or above market median level. In order to enhance cross-regional and cross-divisional mobility and to ensure equal incentive structures worldwide, compensation programs are systematically aligned. The restricted stock unit program introduced in 2009 and the Sulzer performance share plan (for the executive committee members) ensures that managers take a long-term view (for additional information see compensation report). Web-based HR solutions ensure an efficient performance and rewards process and facilitate the monitoring.

### **Enabling company growth**

Enabling growth includes the following elements:

- Preventing skill scarcity: Attracting and recruiting the right people
- Identifying, developing, and retaining the right people: Ensuring the leadership pipeline
- Ensuring continued organizational development: Talent review and succession planning.

### **Attracting and recruiting the right people**

As part of its diversity strategy, Sulzer aims to increase the number of talents from emerging markets who have the potential to be promoted into Sulzer management teams. Sulzer's global footprint (more than 40% of employees based in emerging markets) helps to balance the demographic change (for example, the aging trend in Europe. Additionally, gender and demographic diversity remained a central topic for Sulzer.

All employees enjoy flexible working hours and part-time work whenever feasible. Parental leaves are made available according to local requirements with a certain creative leeway for pragmatic, individual solutions. In 2013, about 520 (2012: 210) employees took parental leave that lasted on average 30 days (2012: 40 days).

### **Talent management**

Talent reviews take place annually at Sulzer. Employee potential and performance are reviewed and discussed by management teams worldwide. The goal of the talent review process is to drive individual development and identify regional and global development needs. Target-group-specific talent reviews further increase the visibility of specific talent segments, enable the company to identify development needs, and build a broad pool of employees who can take over key positions in the short or long term. The meetings support Sulzer's goal of developing talent across regional, divisional, and functional boundaries irrespective of gender, cultural background and so on. In this sense, international assignments are vital to providing critical capabilities worldwide and position Sulzer as an attractive employer. Sulzer's strong talent pipeline allowed 71% of vacant positions to be filled by internal candidates in 2013.

### **Providing excellent HR Services**

HR (human resources) plays a key role in enabling leaders to create a competitive advantage through people. HR therefore invests in:

- Operational excellence in HR processes
- Building capabilities within HR

By streamlining the HR processes with web-based solutions such as a new career page and recruiting platform, the effectiveness and efficiency of the HR services have been increased considerably. The new platform will also enable Sulzer to better manage external talent pools and share information across divisional boundaries. Currently 19 300 candidates have registered on the platform. In 2013, Sulzer conducted several HR training sessions to develop the required capabilities, among them trainings to prepare HR managers to use the full potential of the new e-recruiting tool.

## Society and neighborhood

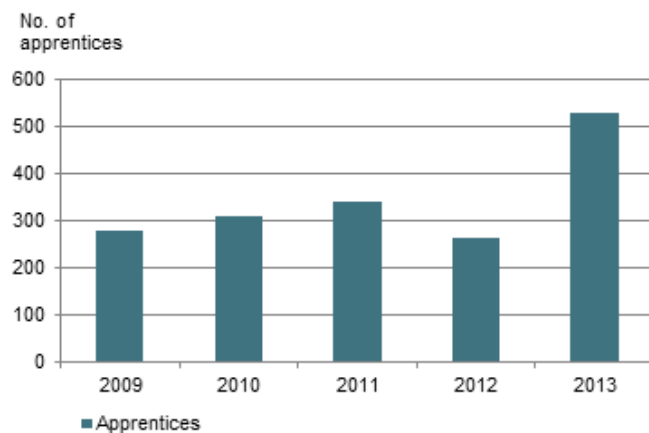
**Sulzer engages with its societal stakeholders to maintain its social license-to-operate, innovate, and grow. Sulzer’s sustainable technologies play an essential role in the advancement of societal needs and well-being**

### Accountability to society

Sulzer is aware of its role in and responsibility to society and its neighborhoods. Sulzer is aware of its social impact as well as its energy-efficient technologies and products that mitigate environmental impact and save resources. In 2013, Sulzer’s revenue totaled CHF 3 263 million, a slight decrease of 2%. The company had personnel expenses of CHF 1 047 million (42.5 million to employees’ defined contribution and benefit plans) and cut 89 jobs in total. In Switzerland, Sulzer employees are covered by a collective employment agreement that regulates labor relation topics like a pretax minimum income guarantee. Last but not least, Sulzer paid CHF 65.9 million in taxes back to society, an effective tax ratio of 27.2%.

<p><b>Sales</b></p> <p>CHF 3 264 million</p> <p>(2012: 3 341 million)</p>	<p><b>Cost of Goods Sold</b></p> <p>CHF 2 261 million</p> <p>(2012: CHF 2 292 million)</p>	<p><b>Personnel expenses</b></p> <p>CHF 1 047 million</p> <p>(2012: CHF 1 020 million)</p>	<p><b>Jobs created</b></p> <p>- 89 FTEs</p> <p>(2012: 860)</p>
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Sulzer invests in communities where it has operations. The company supports regional markets by buying services and materials via local procurement organizations. To date, Sulzer does not have a global procurement function; only selected product categories are sourced globally. In the future, Sulzer expects to optimize its procurement cost by increasingly coordinating the procurement of certain product categories on a global basis. In total, Sulzer’s Cost of Goods Sold (COGS), which includes the direct and indirect procurement cost, for fiscal year 2013 was CHF 2 261 million (2012: 2 292 million).



Data include SEED full, light, mini

Sulzer also invests in the employability of future employees by offering e.g. traineeships and apprenticeships. In an exciting and challenging work environment these young and future professionals have the opportunity to combine practical on-the-job with an off-the job training/education. In 2013, Sulzer educated 529 apprentices, equaling approximately 3% of the Sulzer employees (see graph).

#### *Sulzer Mixpac AG motivates future professionals to start a technical career*

To motivate young future professionals for a technical career the business unit Sulzer Mixpac AG of Sulzer Chemtech in Switzerland:

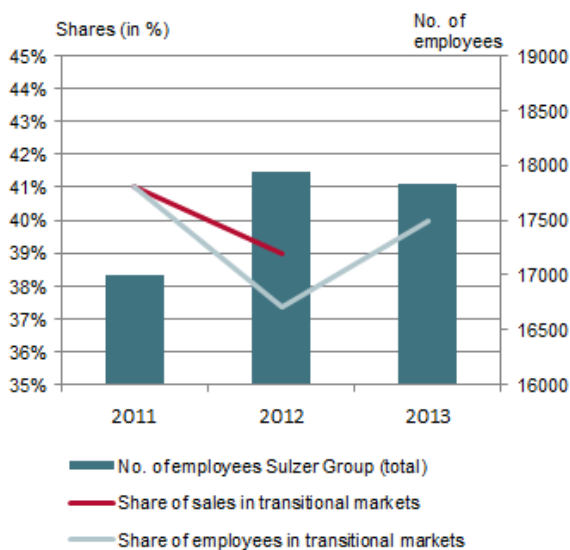
- runs attractive, future-proof apprenticeships of high quality in several professions
- collaborates in the ‘HRSLabor’ with peers and the HSR Hochschule für Technik in Rapperswil in Switzerland.

The HRSLabor is a student laboratory program, in which every apprentice is given a personal supervisor who supports the apprentice not only in acquiring technical knowledge, but also in developing and strengthening personal and social skills.

Swiss students can experience and explore innovation and intradisciplinary teamwork in technical production processes. Producing for example, their own plastic mug in a professional setting should motivate the students to take on an engineering or technical study. In the future, engineering and technology firms will have increasing difficulty hiring expert engineers. One way to improve the future labor market is through collaboration projects like the HRSLabor between universities and private companies. The business unit's sponsoring contributed approximately 50 students directly (850 students indirectly) who were able to experience several exiting technologies throughout the years.

**Transitional markets**

Sulzer is continually strengthening its presence in transitional markets through organic growth and acquisitions. Sulzer traditionally follows its customers (market demand and strategic decisions). As a result, Sulzer Chemtech moved its global headquarters for its Mass Transfer Technology (MTT) business to Singapore, built new service locations in three BRIC countries and South Africa, and increased production capacities in China. Sulzer Pumps extended its service footprint in China and India.



Data include Sulzer Group

In 2013, 44% of order intake were generated in emerging and developing markets (2012: 43%) and 40% of Sulzer's workforce was stationed in Asia. The company benefits from its global footprint, one company brand, and employee diversity efforts. Sulzer has a diverse workforce that brings Sulzer technology to market in accordance with specific market and cultural requirements.

*Apprentices from disadvantaged backgrounds at Sulzer Pumps Brazil*

Sulzer Pumps Brazil collaborates with the Fundação lochpe to coordinate the professional education project called Formare School. It is a national, voluntary program to offer high-quality education to future young professionals (age of 16-18 years) from disadvantaged backgrounds. The lochpe Foundation cooperates with approximately 55 enterprises (incl. Sulzer Pumps Brazil), 80 schools, and 3 000 volunteers to educate over 1 600 students per year. In the last 25 years, over 13 000 students graduated from the Formare School.

Since February 2012, Sulzer Pumps Brazil has been welcoming ten female and ten male apprentices per year. Here, the apprentices receive a one year practical and theoretical educational training (1 500 hours). It is a full-time program in which Sulzer volunteers educate the apprentices in various topics. Subjects include communication, teamwork, problem solving, vision of the future, citizenship, LEAN, IT, mathematics, Portuguese and English. The apprentices also learn technical disciplines related to Sulzer Pumps' production processes (science and engineering of materials, machining & welding processes, mechanical adjustment process and assembly, etc.). The target is a graduation as an 'Assistente de Montagem e Ajustagem Mecânica.' The program has the full support of Sulzer Brazil's management; dedicated supervisors look after the apprentices' performance and jointly work on their professional development. Nine students from Class 2012 are now working

for Sulzer Pumps Brazil, as employees or in an internship (after starting a university course). The program is also expected to help Sulzer Pumps Brazil to further develop its internal training program.

With its engineering expertise and sustainable solutions, Sulzer adds value to entire economies and local communities in which it operates. Sulzer's sustainable solutions contribute to energy, water, and other infrastructural projects and systems. This helps meet the communities' growing demand for the safe production and distribution of scarce goods at the lowest environmental cost. The protection of the environment and the promotion of health and safety is an integral part of how Sulzer operates everywhere and all the time.

**Philanthropy**

Sulzer is committed to supporting societal development with philanthropic donations and sponsoring activities. Sulzer employees are passionate about their living environments, and according to the latest employee survey conducted in 2011, a majority about their work. Sulzer enables its employees to engage with their communities by granting time, resources, and energy.

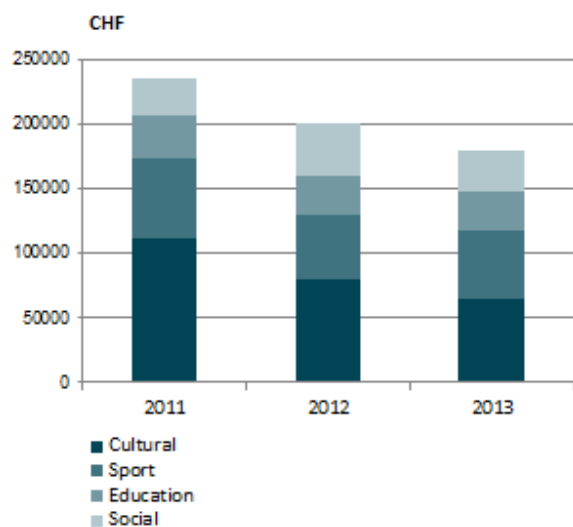
*Sulzer Turbo Services EMS in USA, Gillette*

In January 2013, Sulzer colleagues from Sulzer Turbo Services EMS in Gillette, USA, demonstrated impressive team spirit. A cancer benefit dinner was held to support two of the Gillette team members in their medical treatments. The dinner was a great success. Employees and families from the Gillette and Phoenix division as well as many customers and vendors demonstrated strong solidarity, and raised \$30 000 that was split between the two employees. Following that event, a third team member was diagnosed with breast cancer. In an act of solidarity, Sulzer EMS provided Breast Cancer Awareness Hockey Jerseys that were worn on the days of the chemotherapy by our colleagues from the Gillette site.

Volunteerism and cultural, arts, and sports sponsoring not only increases Sulzer's reputation in its neighborhoods, the involvement also pays back indirectly in the motivation of its workforce. For substantial sponsoring engagements, Sulzer sets a strategic rationale, establishes adequate transparency safeguards - such as clear responsibilities and targets - and monitors financial and social performance. The following instruments are supported throughout the company:

- Volunteerism (employee volunteering)
- Charitable cash and in-kind contributions
- Disaster and emergency relief

The general management has the freedom to decide the level of its community involvement. Separate national/regional spent amounts are not communicated; the published amount is only for Sulzer Ltd in Switzerland.



Data include Sulzer Management Ltd

In 2013, Sulzer Ltd donated CHF 179 000 in total (2012: CHF 200 000) to cultural, sports and social events as well as education. Culture and sports make up the two largest sponsoring categories.



## Health and Safety

**Sulzer aspires to excellence in occupational health and safety. The company reiterates its zero accidents goal and empowers its employees to act safely**

Occupational Health and Safety (OHS) is of prime importance to Sulzer; **safety comes first**. Providing a healthy and safe workplace for all employees is a daily challenge Sulzer intends to master. Amongst others, this year's below expectation mid-year operational results resulted in tighter budgets, and uncertainty amongst Sulzer employees regarding their future jobs and the reorganization. As a result, Sulzer saw its safety KPIs deteriorate and initiated countermeasures. The management intensified its OHS efforts and increased its outreach to all employees. Sulzer worked hard to increase momentum of its global Safe Behavior Program (SBP). Considerable investments were made in safety programs and trainings to strengthen the company's safety culture. As a general rule, every individual working for and with Sulzer worldwide shall work according to Sulzer's «Safety Rules». Additionally, all Sulzer manufacturing and service activities are obligated to implement and continuously improve OHS management systems like OHSAS 18001 and/or SCC certification.

In 2013, Sulzer initiated new programs and followed up on several initiatives' outcomes to further improve its OHS culture and performance. Special credit goes to Sulzer's:

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

### Safe Behavior Program

In 2012, Sulzer developed a safety vision that is downloadable as a [video clip](#) and rolled out its global SBP during the World QESH Days in Zurich, Switzerland. The SBP change program helps to establish a strong preventive safety culture by empowering its employees to look after each other's safety and to act safely. The program's goal is to drive the corporate Accident Frequency Rate (AFR) below two lost day accidents per one million working hours by 2015.

*'Safety is a management matter. To further improve our safety performance, Sulzer needs to embed the concept of safety as a value in the cultural DNA of the company. To achieve this, Sulzer's management at all levels will need to display increased commitment, consistency, and credibility in addressing safety-critical behaviors. It will need to accept full ownership of safety as integral to all aspects of the business.'*

*Dr. Rajiv J. Damani, corporate lead Safe Behavior Program*

Sulzer's SBP will establish a strong preventive safety culture that enhances and sustains safe behaviors. Thus, the five-step change program shall:

- Anchor safety as a core value in Sulzer employees' habits, reinforcing personal motivation to act safely
- Consolidate and refine a preventive safety culture even in a challenging market environment
- Offer the necessary framework and an extensive safety toolbox to empower employees on all levels

The SBP promotes Sulzer's speak-up culture to enable employees to report on deficits of any kind. A transparent and open culture of communication is a precondition for cultural change. The SBP five-step framework provides the necessary platform to intervene in any unsafe situation. It provides guidance for implementing the program, monitoring it, and defining remedial action. Within the five change levels, nine behavioral elements were defined.

In 2013, besides on getting the basics right, particular focus was placed on the leadership and management aspects of safety respectively. Only when management cares, leads by example, and thereby genuinely promotes safe behavior can change be sustainable. As a result, management safety trainings and instruments were implemented as part of level two of the Safe Behavior Policy framework. As a result, more than 90% (in total 129 Sulzer sites participate in the SBP) of the sites have integrated management instruments such as safety walks or safety observations. To stay on track with the program, the sites shall at least have completed the first two levels of the safety framework by the end of 2013. In September 2013, Sulzer recorded a 28% completion (36 out of 129 sites) for level two. This number is expected to have grown by the end of the year 2013. For 2014, Sulzer is preparing for a big step forward toward a preventive safety culture to take place. Once the foundation has been laid

in levels one and two, the program will solely focus on the mind-set change in all employees during step three of the framework.

*SBP is paying off at Sulzer Pumps Brazil, Curitiba*

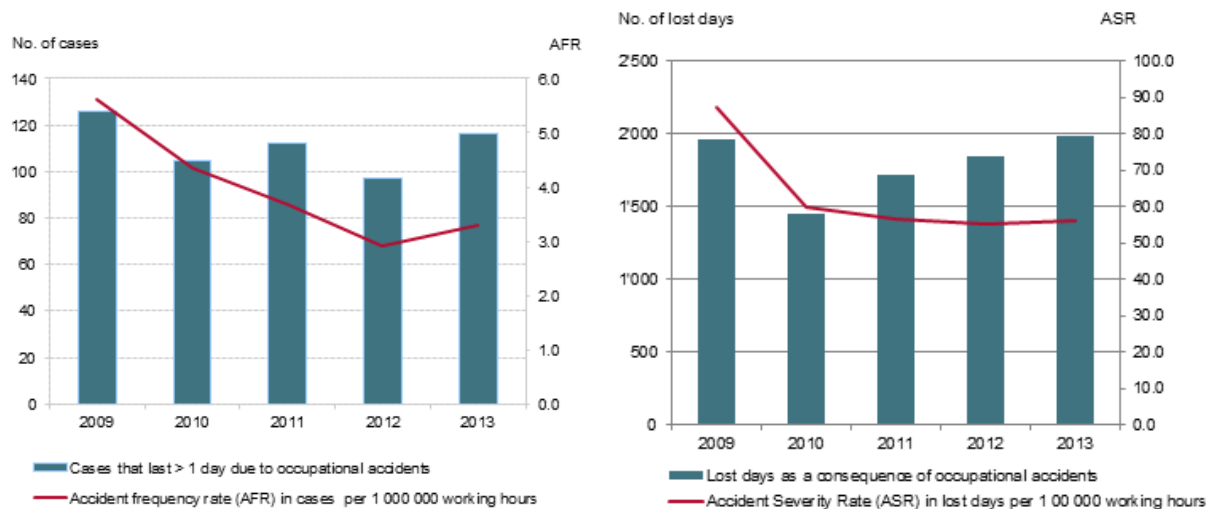
Sulzer Pumps Brazil in Curitiba belongs to the Water BU site that shares the premises with Services BU Americas. The first half of 2013 was quite troubled, because several major accidents occurred in short succession. To counteract this negative trend, the local management made significant efforts to build a safety culture. The SBP framework provided the blueprint for the groundwork that is required to build a culture. A series of training sessions was conducted to promote safe behavior as is encouraged by SBP and older machinery was tested to meet current Brazilian standards. The SBP typifies a proactive, precautionary approach that should eventually lower risks and reduce the frequency and severity of accidents. The local management wants its employees to be observant, safely intervene in risk situations and unsafe behaviors, and feel responsible. On September 5, 2013, the site celebrated 100 days without an accident.

**Health and Safety Performance**

All Sulzer sites are required to report four key indicators on health and safety on a monthly basis:

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

The AFR and ASR are main indicators in Sulzer's Corporate Strategy Deployment Board and will again become relevant for bonus purposes for Sulzer management in 2014. In 2013, Sulzer's global AFR target was 2.7, and the ASR target 40. Sulzer's accident frequency rate (AFR) was 3.3 cases per one million working hours (2012: 2.9).



Data include SEED full, light, and mini sites

Hence, the company missed its corporate target of 2.7 cases per 1 million working hours by over 20%. The bulk of the major accidents happened to the hand/fingers (about 50%) and feet/ankle (about 20%). In around 50% of all major accidents, the cause was related to inattention while on the job. In 2013, the ASR increased by about 1.5 days to 56.1 lost days per one million working hours (2012: 54.5). The company missed its ASR target of 40 lost days per 1 million working hours by over 40%. Sulzer increased its ongoing efforts to lower the AFR and ASR, for example, as integral part of the Safe Behavior Program. The higher number of cases and rates reported can partly be explained by the uncertainty caused by the organizational changes such as the announcement of Sulzer Metco's divestiture, the new market-oriented organizational structure, and downsizing of the workforce.

In 2013, the total lost-day rate slightly increased to 2.1% (2012: 2.0%). In 2013, Sulzer's TLDR was below its 5 year average of 1.9%. In absolute numbers, the total lost days increased with 14% to 92800 days. The increased number of working hours, due to the extended reporting scope, leveled out this effect. The major reason is the double as high increase in reported lost days from non-occupational accidents and illnesses in comparison to the occupational ones.

## Product Stewardship

**Managing sustainability goes beyond the direct Sulzer operations. Our solutions are used in various performance-critical applications that shape sustainable economies**

Sulzer provides durable, reliable, and safe product and service solutions. The protection of the environment and the health and safety of all people involved in the production, usage, and disposal of our solutions is of special concern. Because of the inherent value and long life of many of our products, the majority of Sulzer's output remains captured in installations, equipment, a.s.o. Sulzer's products and services contribute to a more sustainable world, but there are also certain risks associated with the products. The main risks are associated with:

- Unintended or incorrect use of the solutions
- Dispersion of chemical substances into the environment during maintenance work, unintended or incorrect use, and incorrect disposal of a product solution.

Most of Sulzer's technologies and solutions are capital-intensive and sold in a B2B environment. A typical sales package includes:

- Intense consultation on and planning for (intended) use
- Assistance in safe assembly and installation of the solutions,
- Optimized and safe handling and usage
- Extensive trainings on safe and efficient operations and maintenance of the equipment
- If required, consultancy on end-of-life solution

Close collaboration and intensive consultation on the appropriate technology and material for the customer's operations and products is pivotal. Transparent communication and professional training for customers, employees, and third parties help guarantee that Sulzer's process and technology expertise, system and material expertise, and safe handling guidelines will be transferred to the customer.

### Compliance with product regulations and standards

Quality, environment, safety and health assessments and legal testing and labeling requirements are integrated into relevant product development/innovation steps. Sulzer includes all legal and, if required by the company's internal standards, voluntary industry-specific and more general quality and ESH standards and norms. Sulzer conform as a matter of course with the European Union Machinery Directive, and RoHS/WEEE directives, and the CE/GS (European safety mark) mark - to mention a few. In 2013, zero penalties (2012: 0) and zero warnings because of non-compliance with QESH regulations (2012: 0), and zero incidents of non-compliance with voluntary codes were filed (2012: 0).

#### *Update on REACH/ECHA compliance management*

In 2014, Sulzer's measures and activities toward and commitment to the implementation of the European Chemical Agency's (ECHA) Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) regulation are expected to increase. Although Sulzer may no longer manufacture or supply chemical substances and mixtures of various kinds to customers because of the possible divestment of Sulzer Metco, the gradual substitution of hazardous chemicals in Sulzer's own production steps, products, and services offering will increase in priority. Because of efforts to increase the stringency of REACH regulation is gaining pace, ongoing internal programs such as HMEE trainings and the internal Sulzer Blacklist of Chemicals will drive worldwide substitution of hazardous chemicals. It remains Sulzer's objective to provide a high level of protection of human health and the environment from the use of chemicals by systematically managing the risks associated with chemical use. Provided services to the sites include:

- Substance Information Exchange Forums (SIEFs) membership to ensure constant information exchange and to prepare for the registration, classification, labeling, and packaging of single chemical substances
- Classification of mixtures according the regulation on Classification, Labeling, and Packaging (CLP)
- REACH registration in line with the European Chemicals Agency's (ECHA)
- Maintenance and updating of material safety data sheets (MSDS) in accordance with REACH Art. 31. The MSDSs can be downloaded [here](#)

In 2013, zero penalties (2012: 0) and zero warnings because of non-compliance with product and service regulation and labeling were reported (2012: 0). In the same year, zero incidents of non-compliance with voluntary codes were reported (2012: 0).

## Product and Organizational Environmental Footprint

We aspire for leadership in energy-efficient solutions that assist our customers in shaping new ways and markets, to build a more sustainable economy

Targets 2013	Achievements 2013	Future actions and targets
<b>Environmental management</b>		
<ul style="list-style-type: none"> <li>Prepare environmental product declarations to complement portfolio</li> <li>Certification of all production sites according to ISO14001</li> <li>Keep stable or reduce the hazardous waste production per net value added</li> </ul>	<ul style="list-style-type: none"> <li>LCA / EPD of spray gun Sinplex-Pro prepared</li> <li>Coverage of ISO 14001 was 83% (2012: 89%)</li> <li>Hazardous waste: 0.005 t / CHF 1000 NVA (2012: 0.006 t)</li> </ul>	<ul style="list-style-type: none"> <li>Professionalize the LCA/EPD engagement (for example via implementation of third party software and establishment of Competence Center)</li> <li>Certification of all production sites according to ISO14001</li> <li>Ongoing countermeasures at affected sites to systematically reduce or - at a minimum - keep the hazardous waste production per net value added stable</li> </ul>
<b>Energy efficiency</b>		
<ul style="list-style-type: none"> <li>Local countermeasures at affected sites to reduce or keep the specific energy consumption and the CO<sub>2</sub> emissions per net value added stable</li> </ul>	<ul style="list-style-type: none"> <li>Energy consumption: 1.2 GJ / CHF 1000 NVA (2012: 1.0 GJ)</li> <li>Direct CO<sub>2</sub> emissions: 0.020 t / CHF 1000 NVA (2012: 0.016 t)</li> </ul>	<ul style="list-style-type: none"> <li>Ongoing countermeasures at affected sites to systematically reduce or - at a minimum - keep the CO<sub>2</sub> emissions per net value added stable on last year's level</li> </ul>

### Product Environmental Footprint

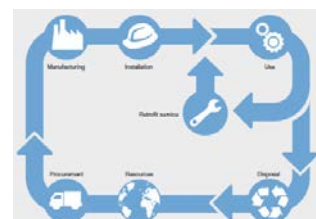
Sulzer wants to be a leader in providing energy-efficient solutions. These solutions allow Sulzer to improve its sustainable competitive edge and support its customers in shaping the oil and gas, power, and water markets to become more sustainable.

Sulzer customers increasingly ask for reliable, sustainable products. A transparent, comprehensive, and comparable set of data enables our customers to make informed decisions. Since costs and environmental impacts occur at different stages throughout the lifetime of a product, Sulzer considers the entire life cycle of its products and solutions. Besides initial cost, many of Sulzer's products have maintenance, repair, and service costs. Because Sulzer is a premium brand, our customers expect reliable, durable, and state-of-the-art critical components that run processes at optimized cost. To prove that environmental protection does not necessarily come at higher cost, Sulzer improved the environmental information on many of its products' life cycle stages by preparing standardized environmental product declarations (EPD).

#### Life cycle management

Sulzer's product and service solutions are tailor-made to customer specifications. Sulzer's life cycle approach typically starts with the material extraction (mostly steel and polymer products) and ends with a product's end-of-life stage (for example, recycling). Design for the environment (eco-design) and supply chain management bear both high cost-saving and innovation potential for Sulzer. Technological expertise stays within the company, but many of the production steps and parts Sulzer assembles in its production sites are outsourced. To reduce products' energy and material intensity Sulzer innovates continuously. Saving material resources and using green materials have high priority in product design. Sulzer uses steel in many qualities ranging from low-carbon to high-quality alloys and polymer materials in many of its production processes. These two heavily used materials are considered green engineering materials with favorable values when comparing cost and eco-indicators in their respective contexts. New designs focus on:

- Effective design and operations
- Energy efficiency and low emission rates during usage phase
- Safe usage
- Lifetime extensions (revamps, retrofits, or upgrades)
- Simple recycling
- Lightweight



Approximately two-thirds of all Sulzer products are energy intensive in the usage phase and have a long design lifetime. Incurred cost such as cost of electric energy or CO<sub>2</sub> emissions from operating Sulzer products are included in our product design decisions, and possibly our customer's investment decisions. Therefore, best-in-class product and system efficiency are pivotal. For example, Sulzer's pumps designs are comparatively efficient (max. 4–5% efficiency gains expected), but when looking at a pump's operational environment (system view), efficiency gains of more than 20% in electrical energy consumption are viable.

#### *Energy-efficient ABS Flow Booster XSB*

Sulzer Pumps offers a slow-running submersible mixer ABS flow booster XSB that cuts energy consumption by up to 25%. This is achieved through a premium-efficiency motor, a highly efficient gearbox and a unique, innovative design that boosts mixer efficiency. This mixer has the latest IE3 (highest energy efficiency standard) electric motor installed, allowing lower electricity cost and CO<sub>2</sub> eq. emitted in usage stage. An ABS flow booster with three blades and an IE3 squirrel cage, three-phase, four-pole electric motor, with a rated nominated power (P<sub>2</sub>; i.e., at shaft) of 7.5 kW and a motor efficiency of 90% that runs 4 000 hours p.a. at 80% load (7.5/90% x 80% x 4 000) should consume approx. 21 600 kWh/year. When using the UK electricity mix (0.4869, IEA) this equals 10.5 tons of CO<sub>2</sub> eq. / p.a.

Sulzer's ABS flow booster XSB is up to 25% more efficient than market average flow boosters; the XSB can save up to 2.6 tons of additional CO<sub>2</sub> eq. / p.a. in the UK.

Sulzer's innovative, energy-efficient technologies and services mainly reduce the carbon footprint through lower electricity consumption rates. Lifetime extension solutions such as a revamp or maintenance service require fewer resources than the construction of completely new solutions. Thus, Sulzer offers retrofit, revamp, and similar services to upgrade capital-intensive systems with energy-efficient technologies and parts and postpone their disposal. The company does not operate its own take-back programs. However, the company supports and consults its customers in finding the optimum ecological and economic solution for proper dismantling and disposal (recycling). The company informs customers primarily about local or regional recycling possibilities, because transporting products (like pumps or entire separation column installations back to a Sulzer plant) is a comparably environmentally unfriendly solution.

#### Environmental Product Declarations (EPDs)

To increase transparency and comparability and highlight the ecological and economic benefits of its solutions Sulzer provides its customers with environmental product declarations (EPD). They are prepared in accordance with the International EPD System (IES) framework. To prepare these EPDs, Sulzer conducts life cycle assessments (LCA) that follow the ISO 14025 and 14040 standards. The typical limitation a company such as Sulzer faces is limited access to customer-specific information, which reduces the approach very much to cradle-to-gate. Sulzer's EPDs are externally verified by an independent British verification firm and, whenever available, follow preset product category rules (PCRs) that must improve comparability. Last year, Sulzer stated that PCRs would be developed in 2013, if divisions:

- required Sulzer Corporate ESH to develop more than one EPD within one single product category
- wanted to upgrade their externally verified but not registered LCA/EPDs

In 2013, no PCRs were developed. PCRs are prepared in stakeholder consultancies and obligatory to register products or services that belong to a new product category that has not been formally registered, here, at the IES. Along with Sulzer's internal professionalization efforts, the European Union launched its Product Environmental Footprint (PEF) initiative with a pilot phase. This important initiative is designed to harmonize the LCA method on the European level by setting up and validating:

- the process to develop Product Environmental Footprint Category Rules (PEFCRs)
- proportionate, effective, and efficient compliance and verification systems

Since Sulzer is not part of the project, Sulzer will follow the developments closely. It is expected that future EU regulation will be based on the outcomes of the project's pilots.

### *Comparative Environmental Product Declarations*

Sulzer Corporate QESH & SD in cooperation with one of its business units prepared two life cycle assessments (LCAs) to find out whether a green mixing solution—that uses renewable materials to partly replace fossil-based resources—is more environmentally friendly than its traditional variant. The good news is that the green variant has a lower carbon footprint than the traditional one, because fewer fossil-based raw materials are used. The fossil-based materials are partly replaced by natural fibers, that is, renewable materials. The assessments also showed that the green variant uses one of the lowest density biopolymers on the market. However, the biopolymer's higher density (more weight) - in comparison to traditional plastics like polypropylene, for instance - results in increased transport emissions. Consequently, long transport distances will reverse the positive effect of the fossil fuel-based material saved. Additionally, the green variant's end-of-life stage may prove to be challenging. First, to date, very few separation or take-back programs exist that can distinguish between the traditional and green product. Second, the green variant currently cannot be composted or recycled because of the likelihood of trace residues related to the product's operational stage. A separate manufacturing and end-of-life solid-waste-assessment study concludes that today's most environmentally friendly kind of disposal for both variants is energy recovery in a waste-to-energy plant. Additional information regarding the EPDs and the externally conducted end-of-life solid-waste assessment study can be obtained upon request.

## Organizational Environmental Footprint

Sulzer systematically and continuously reduces the environmental impact of its worldwide operations and service activities.

### *Precautionary approach*

Sulzer is headquartered in Winterthur, Switzerland. Switzerland adopted the *precautionary approach* in its national environmental regulations that are compliant with the Rio Declaration of 1992. Sulzer is committed to the precautionary and polluter principle in all its worldwide activities.

Sulzer's large number of relatively small production (incl. workshops) and service sites makes the aggregated effect of local initiatives that take better into account contextual specifications more substantial to the company's overall environmental performance than globally coordinated high-visibility programs. In 2013, an additional 25 sites started reporting their sustainability data to Sulzer Corporate. Due to the extended scope, care should be taken when comparing 2013 values with historic values.

The most material environmental impact from Sulzer's operations stem from:

- Energy consumption
- CO<sub>2</sub>/GHG emissions
- Hazardous and non-hazardous waste production
- Water consumption

Therefore, Sulzer has set a limited number of corporate year-on-year rolling targets for energy consumption, CO<sub>2</sub> emissions, and hazardous waste produced. The target is to, as a minimum, maintain or improve relative performance measured against CHF 1 000 net value added (NVA). These targets provide general guidance, but allow local management to drive environmental improvement measures via their ISO-14001-certified environmental management systems (EMS) in the corresponding local contexts.

### *Sulzer Turbo Services Rotterdam BV., Netherlands*

Sulzer Turbo Services in Rotterdam is active in the overhaul, repair, and service of steam turbines, compressors, and turbomachinery parts. The site is ISO 14001 certified; as part of its continuous improvement cycle obligation, the site has set its 70 employees an annual energy consumption reduction target of 5%. In 2013, the site invested in a new lighting installation to meet the target. The old lighting installation used 32 kWh p.a.; the new installation uses 23 kWh p.a. The cost savings for electricity are approx. 2 000 Euros p.a., resulting in about 4 t CO<sub>2</sub> eq. p.a.<sup>12</sup>. Due to

<sup>12</sup> Operational for 3600 hours p.a. with electricity cost 0.22 euro cents/ kWh; 425 grams CO<sub>2</sub>/kWh (3 year average NL) <http://www.iea.org/publications/freepublications/publication/CO2emissionfromfuelcombustionHIGHLIGHTS.pdf>

this and other saving efforts, the site specific 5% annual savings target was achieved.

Even though its biggest leverage is clearly in developing and selling energy-efficient product and service solutions, Sulzer continuously works on systematically reducing the environmental impact of its own worldwide operations. The success of divisional and site-specific improvement programs under, for example, QESH, Sulzer LEAN, and Pool4Future (corporate cash flow improvement program) demonstrate the commitment and keenness of Sulzer and its employees to contribute to one common goal: a safe and healthy environment at acceptable cost.

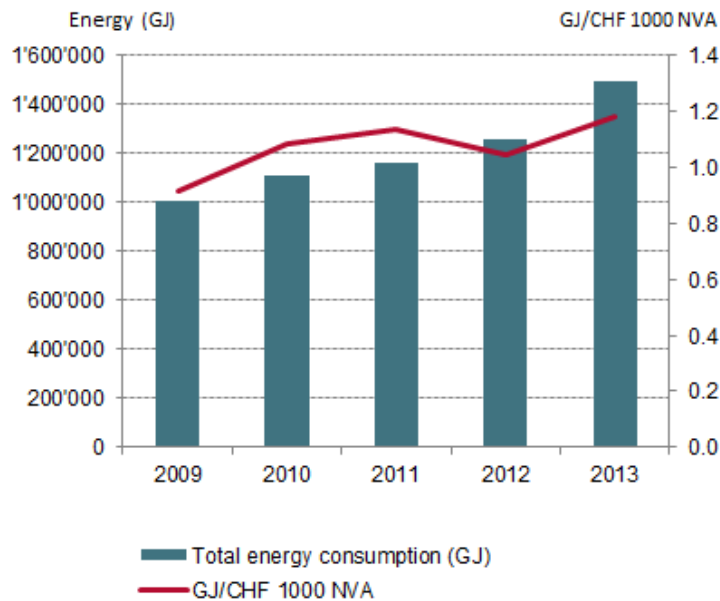
*Pool4Future deal to improve recycling for all Sulzer UK sites*



The Sulzer UK Holdings Ltd negotiated a deal with European Metal Recycling Ltd in 2013 to provide a service for scrap metal collection from all Sulzer UK sites. Expected benefits include increased visibility of scrap metal movements; increased scrap metal rates; increased awareness of scrap metal segregation; and improved skips and containers, which help reduce thefts and improve pollution prevention.

**Energy**

Sulzer has a rolling year-on-year target to maintain or reduce energy consumption per CHF 1000 NVA. Until 2012, Sulzer was not able to lower its energy consumption per CHF 1000 NVA. In 2013, total energy consumption increased by about 20% (2012: 8%) to 1493570 GJ in absolute numbers. As a result, Sulzer consumed 1.2 GJ energy per CHF 1000 NVA (2012: 1.0 GJ). The 2013 results cannot confirm the by Sulzer QESH & SD anticipated downward trend, which can partly be explained because of the extended reporting scope that includes operations with an economic performance that was below plan. Future environmental improvement measures and strong economic performance (growth) must stabilize Sulzer's energy consumption per CHF 1000 NVA and sustain previous success. To date, Sulzer has no specific target that promotes the use of energy from renewable sources.



Data include SEED full, and light sites

In 2013, Sulzer's top ten (out of 115 sites reporting to SEED) energy consuming sites used 49% of Sulzer's total energy. These sites include Sulzer's two in-house foundries as well as major production and service sites from Sulzer Pumps (2), Sulzer Metco (3), Sulzer Turbo Services (2) and Sulzer Chemtech (1). In 2013, the consumption of electricity increased, among other reasons, because Sulzer Turbo Services' UK sites started reporting natural gas in 2013. Measures that improve energy competitiveness are implemented when they are economically viable.

### *Electricity savings at Sulzer Chemtech India, Pune*

In 2013, the site management of Sulzer Chemtech India invested resources to reduce operational/electricity cost and improve employee safety. The lighting system of the factory *office building* was upgraded, and all lamps and the asbestos roof of one *workshop* were replaced by specialists.

In the *office building*, the conventional lighting system that had consumed 26 kWh was upgraded with latest electronics to reduce copper and iron losses and simultaneously keep the same luminosity. The upgraded system consumes 8 kWh (-70%), which saves CHF 11 700 on electricity and 82 tCO<sub>2</sub>-Eq. p.a.<sup>13</sup>

In the *workshop*, 220 conventional HPMV lamps that consumed 64 kWh in total were replaced with energy-efficient T5 type lamps. The new T5 lamps consume 50 kWh (-20%), resulting in annual savings of 7 000 CHF on electricity and 48 tCO<sub>2</sub> Eq. p.a.<sup>14</sup> The asbestos roof was replaced under highest safety standards by specialists; the new roof has windows that make the lighting system during daytime virtually redundant.

The cost of energy purchased is the single biggest balance sheet entry when looking at Sulzer's environmental costs. In 2013, Sulzer paid almost CHF 44 million for energy (2012: approx. CHF 37 million). As a result, saving cost on energy is a priority not only to QESH but also to general management, and, for example, supply chain managers (see: Pool4Future initiatives).

### *Sulzer UK Holdings Ltd and the UK energy market*

Last year, Sulzer reported on the Sulzer UK Holdings Ltd Pool4Future project in which all energy supply contracts in the UK were to be harmonized and consolidated. The goal is to manage future energy cost in the UK energy market that is characterized as intransparent, complex, deregulated, volatile, and with a highly carbonized electricity mix the authorities must decarbonize to meet its CO<sub>2</sub> reduction targets.

Sulzer UK Holdings Ltd is the legal entity in the United Kingdom (UK) that represents the Sulzer divisions' national interests. In 2012, as part of Sulzer's strategic [Pool4Future initiative](#), the UK Holding defined a strategy that encompassed a single purchasing policy and the identification and implementation of energy efficiency and renewable energy practices to save costs. In 2013, a team of experts from various Sulzer sites and Sulzer UK Holdings Ltd successfully:

- Consolidated the energy supply contracts across all UK sites. As a result, flexible pricing contracts with one supplier for electricity and one supplier for gas were signed. The energy solutions supplier is now required to buy so-called clips of energy on behalf of all Sulzer UK sites when the energy prices are at their lowest. To better estimate and manage its energy consumption, automatic meter readers (AMR) have been installed on all energy supplies on all Sulzer UK sites. Energy cost can now be managed with accurately prepared energy use patterns. Last but not least, reporting and financial accounting has been simplified.
- Carried out high-level energy opportunity surveys at 13 of the largest Sulzer sites in the UK to formulate a potential investment strategy for energy efficiency measures. The strategy includes an outline of costs, payback periods, and kWh and CO<sub>2</sub> savings of each area of potential investment. Identified areas for potential improvements include submetering, space heating, lighting, compressed air, and insulation. First positive effects are expected to be seen from 2014 onward.

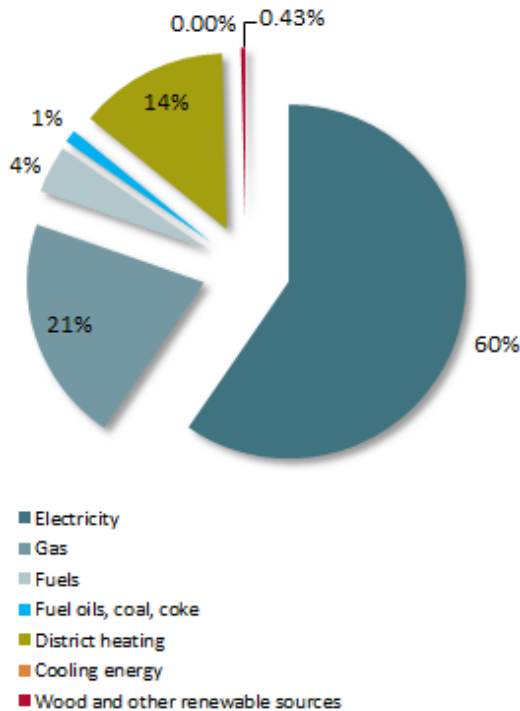
<sup>13</sup> 16 hours operational during 312 days p.a. at 8 Indian Rupees per kWh, and 936 grams of CO<sub>2</sub> emissions per kWh from electricity generation (3 year average)

<sup>14</sup> 12 hours operational during 312 days p.a. at 8 Indian Rupees per kWh, and 936 grams of CO<sub>2</sub> emissions per kWh from electricity generation (3 year average)



**Energy sources mix**

In 2013, the company's energy sources composition only changed slightly in comparison to 2012. 95% of energy stems from electricity, natural gas, and district heating. Around 26% is from primary, non-renewable energy sources (whereof 21% natural gas), and 74% from secondary energy sources. The secondary energy sources consisted of 14% (2012: 13%) district heating and 60% (2012: 63%) electricity bought. Fuel oils, coal and coke, cooling energy as well as wood and other renewable sources played no significant role in the 2013 total energy sources mix. In 2013, roughly 0.4% from the energy consumed at Sulzer comes from wood and other renewable sources (the composition of electricity bought is mostly country specific).



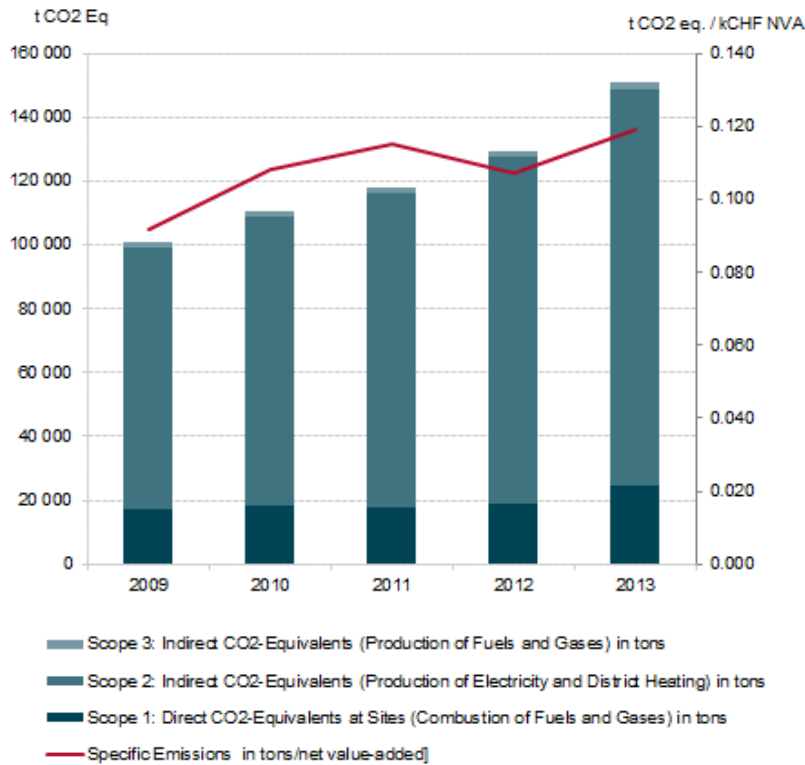
Data include SEED full, and light sites

**Greenhouse Gas Emissions**

Sulzer reports greenhouse gas (GHG) emissions (scopes 1, 2, and 3) according the Greenhouse Gas Protocol in this Sustainability Report for the latest information as well as in the CDP initiative. Because of a reduction in budget and an internal reorganization, any scope 3 reporting activities will be postponed until further notice. In 2013, scope 3 reporting was, as in previous years, limited to fuel- and energy-related activities that are included in neither scope 1 nor 2. Please visit the [CDP website](#) to access Sulzer's publicly available CDP 2013 score or the [CDP DACH 350 Klimawandel Bericht 2013](#).

In 2013, the total greenhouse gas emissions in absolute terms increased by 17% to 150750 tCO<sub>2</sub> eq. (2012: 129 030 tCO<sub>2</sub> eq.). The corporate year-on-year rolling target to maintain or reduce GHG emissions in CO<sub>2</sub> eq. per CHF 1000 NVA in comparison with last year's values was not met, too. The specific CO<sub>2</sub> eq. increased by 11% to 0.119 tons CO<sub>2</sub> eq. / CHF 1000 NVA (2012: 0.107 t).

Scope 1 emissions are direct emissions from Sulzer and stem from primary energy sources such as natural gas and fuels used on site. In 2013, the top ten (scope 1) CO<sub>2</sub> eq. emitters released 55% of all scope 1 emissions. In Scope 2, Sulzer reports indirect emissions from secondary (converted) energy sources such as electricity and district heating. In 2013, the top 10 (scope 2) CO<sub>2</sub> eq. emitters released 49% of all scope 2 emissions. Scope 3 is limited to indirect emissions from the production and transport of fuels and gases not included in Scope 1 or 2. Additional supply chain emissions from, for instance, business travel, employee commuting, or suppliers are neither recorded nor published.



Data include SEED full, and light sites

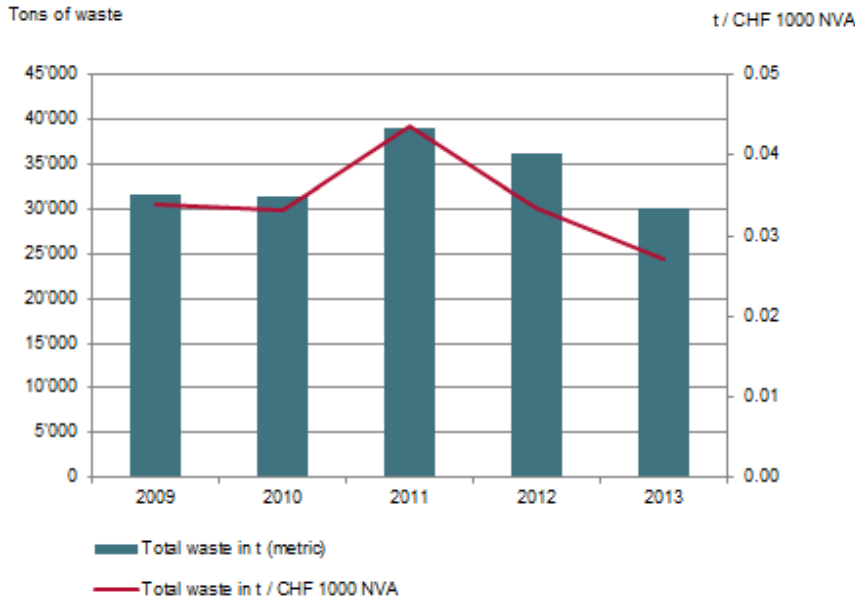
The various scopes contribute to the total GHG emissions in CO<sub>2</sub> eq. as follows:

- Scope 1: 24 700 tons (+29%)
- Scope 2: 123 830 tons (+15%)
- Scope 3: 2 230 tons (+30%)

In 2013, all three scopes increased in comparison to last year; scope 1 and 3 increased most dramatically. The extended reporting scope that includes operations with an economic performance that was below plan is the major cause of this increase. The CO<sub>2</sub> eq. per CHF 1000 NVA show a much more stable trend, though above planned target trend development. Possible improvement measures such as for example buying electricity from renewable sources and additional efficiency measures could be implemented to stabilize or even reverse the trend.

Waste

Waste is mostly managed on the local level as part of ISO-14001-certified environmental management systems (EMS). To reduce industrial waste, Sulzer follows the ‘reduce, reuse, and recycle’ principle. Programs such as Sulzer LEAN and regular internal ISO 14001/QESH audits support the company in systematically reducing waste of any kind and drive continuous improvement. The goal to hold or decrease total waste (metric tons) produced per CHF 1000 NVA in comparison to last year’s value was met. In 2013, total waste produced per CHF 1000 NVA decreased by 19% to 0.027 tons (2012: 0.036 t).



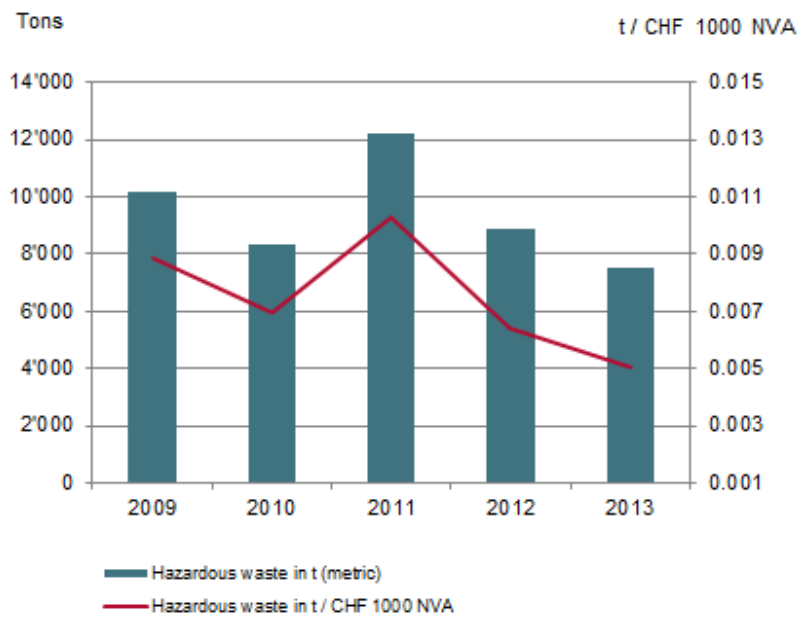
Data include SEED full sites

In 2013, Sulzer produced in total 30143 tons of waste (2012: 36110 t), a decrease of 17% in comparison to 2012. Sulzer’s top ten waste producers in the SEED full universe had a share of 70% of total waste produced in 2013. Approximately 60% or 18050 tons (2012: 20450 t) of total waste was sent to external recycling. The remaining waste is categorized hazardous (6590 t) and municipal (5520 t) waste. Recycling rates are comparatively high at Sulzer because steel and polymers are green materials that are relatively easy to recycle. In 2013, Sulzer continued to report in more detail on municipal waste. This year, approximately 3860tons (2012: 5750 t) of solid waste was sent to landfill, and 1270 tons (1070 t) compared with 2011) to incineration. Besides general efforts to optimize (better separation) and reduce waste streams, several sites set targets such as ‘zero waste to landfill’; an additional incentive that seems to drive success. The 0.005 tons of municipal waste per CHF 1000 NVA reported for 2013 continues a downward trend that Sulzer started in 2011; this year’s value is below Sulzer’s five-year mean average of 0.007 tons/CHF 1000 NVA.

*Waste reduction at Sulzer Pumps Brazil*

In 2012, Sulzer Pumps Brazil sent 3 265 tons of solid waste to landfill. When assessing the site’s waste streams, the local team identified the foundry’s sand-resin waste stream as a high-potential candidate for optimization measures. This sand-resin mixture is used in the production process to make the moldings for the castings. The interpretation of the assessment data showed that the capacity of the sand reclaimer in the foundry was to be increased. The upgrade of the reclaimer that was implemented (new 2 calciners) resulted in a higher internal recycling rate of the sand mixture. The volumes of new sand supplied and solid waste sent to landfill decreased accordingly. As a result, waste sent to landfill was reduced by more than 40% to 1 380 tons.

Hazardous Waste (SEED full, light and mini)



Data include SEED full, light and mini sites

Sulzer measures and reports for example in the Sulzer Annual Report 2012 and later its performance in hazardous waste reduction for its biggest SEED scope ([SEED full, light and mini](#)), i.e. covering 96% of Sulzer employees and 92% of sales. This scope varies from the total waste scope (SEED full) discussed previously, covering 67% of Sulzer employees and 72% of sales. In 2013, the amount of hazardous waste produced decreased to 7 520 tons (2012: 8 880 t). One Sulzer Metco site is responsible for 34% of total hazardous waste produced in 2013. For the third year in a row, Sulzer successfully lowered the amount of hazardous waste produced. The corporate year-on-year rolling target to maintain or reduce this year's value for hazardous waste in tons per CHF 1 000 NVA in comparison with last year's value was met. In 2013, Sulzer reported 0.005 tons of hazardous waste (2011: 0.006 t) produced per CHF 1 000 NVA, and thereby is again below the five-year mean average of 0.0075 tons per CHF 1000 NVA.

*Sulzer Turbo Services, Dowding & Mills Plc. Southampton (UK)*

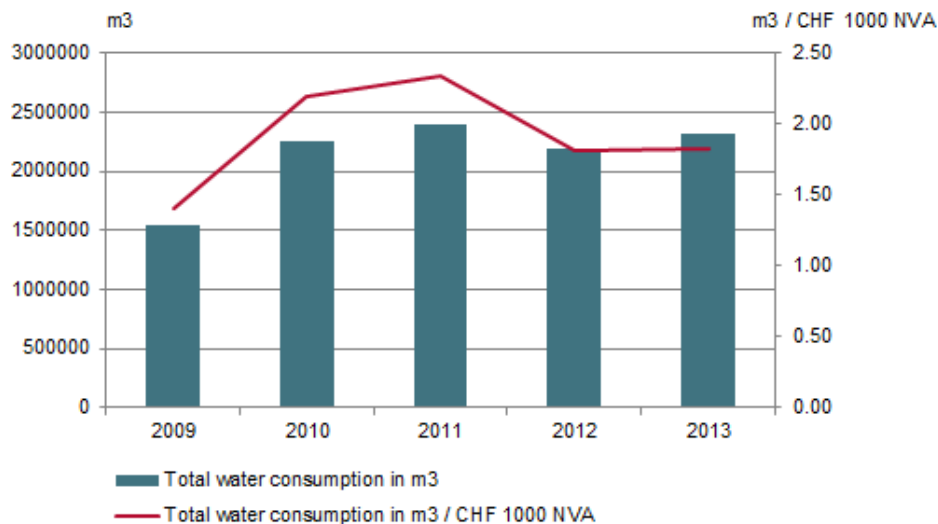
Sulzer Dowding & Mills Plc. in Southampton is an ISO-14001-certified site that offers servicing for high-voltage generators and motors as well as reengineering and manufacturing of coils and other rotating electrical equipment components. To reduce costs on existing services and continuously improve its environmental footprint, the team installed a Torrent 400 system. It's an enclosed water-based detergent pressure clean system that replaces the old parts washer. The Torrent 400 system:

- reduces operating time of the cleaning cycle by up to five times
- eliminates noxious fumes from solvents and secondary cleaning with aerosols
- eliminates any fire hazards
- limits exposure to harmful chemicals

Moreover, the system separates contaminants from the water-based cleaning solution and stores it in a dirty reservoir. This allows safe removal, with 100% of the contaminants diverted from landfill and up to 70% recovered and recycled. Ninety-five percent of the waste is safe for disposal via the sewer; organic solvents are no longer in use. Contrary to previously reported efficiency problems with the Torrent system by a Sulzer subsidiary in Australia, the cleaning results are as expected, whilst saving the environment and reducing operational cost.

**Water consumption and discharge**

Sulzer collects data on the water consumption and discharge of its own operations. To optimize its organizational water footprint, Sulzer focuses primarily on the reduction of water consumption. Sulzer was not able to maintain or reduce water consumption values per CHF 1000 NVA in comparison with last year's values. Water consumption per CHF 1000 NVA was 1.83 m<sup>3</sup> (2012: 1.81 m<sup>3</sup>); i.e. Sulzer kept its water consumption on a stable level. In 2013, Sulzer's total water consumption in absolute numbers increased by 6% to 2 313 910 m<sup>3</sup> (2012: 2 185 266 m<sup>3</sup>). In 2013, the top ten water consumers accounted for 87% of total water consumed. Last years excluded water consumption of an Asian Sulzer site due to the transfer of production lines for the Asian market is again included.



Data include SEED full and light sites

Sulzer manages its production steps and its few technologies that are water intensive. For instance, Sulzer Pumps UK in Leeds' test capacity for pumps was consistently increased; currently four pump test fields are operational. In 2013, the Leeds site installed AMRs on all water supplies and submetering in certain areas to better manage water intake. Besides test fields that use surface water, Sulzer Chemtech Mixpac AG is the biggest water consumer for cooling in a closed system: no contamination of groundwater is possible.

For Sulzer, water risks are market related (pumps for water market) and, to a much lesser extent, related to operations. In operations, risks are not immediate; Sulzer does not systematically track water-related risks in its value chain. Sulzer's contribution to providing secure access to water is addressed [here](#).

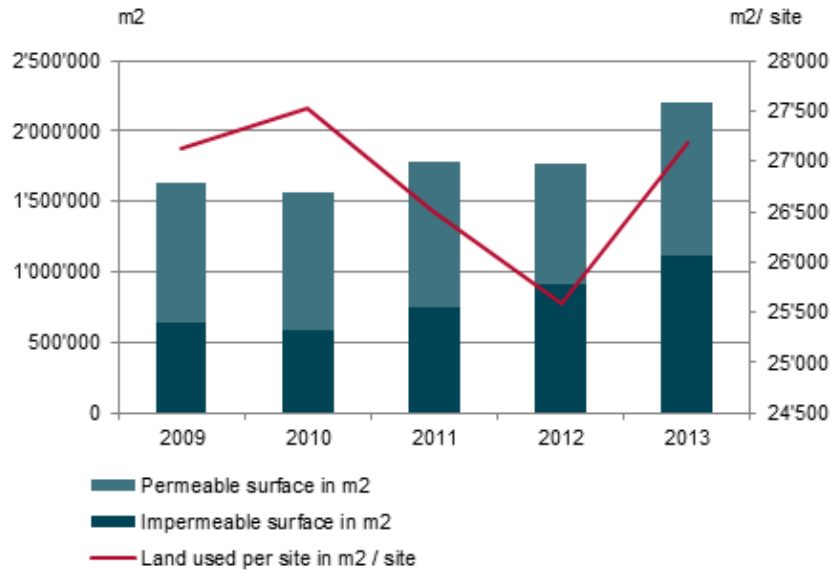
*Greenfield/Water programs at Sulzer Chemtech India*

During the last three years, Sulzer Chemtech India in Pune nearly doubled the green area on its premises to almost 10 000 sq. meters. Every year, additional trees are planted on World Environment Day and environmental awareness trainings are held. Freshwater for industrial and domestic use comes from a tube well on the premises; wastewater is treated on site. Pune lies in Maharashtra, an area marked with a high level of water stress. Although the site does not have water-intensive production processes, the management wants to limit the extraction of freshwater for gardening purposes. Consequently, an effluent and sewage water treatment plant for domestic and industrial wastewater and one rainwater harvesting pit were installed. The treated wastewater is exclusively used for watering the green area with automatic sprinklers. In 2013, 1 500 m<sup>3</sup> of wastewater was treated every month and used for gardening, thereby reducing the need for freshwater withdrawal by 70% throughout the year.

In the same period, total water discharge was 1 615 110 m<sup>3</sup> (2012: 1 732 180 m<sup>3</sup>), with the major discharge to surface water (2013: 836 260 m<sup>3</sup>) and water treatment plants (2013: 420 280 m<sup>3</sup>). The top ten sites with the highest discharge amounts accounted for 88% of total discharges. The quality of wastewater is regularly tested and discharged according regulations.

**Land conservation and biodiversity**

In 2013, Sulzer used roughly 2.2 million m<sup>2</sup> of land, whereof approximately 1 million m<sup>2</sup> were permeable.

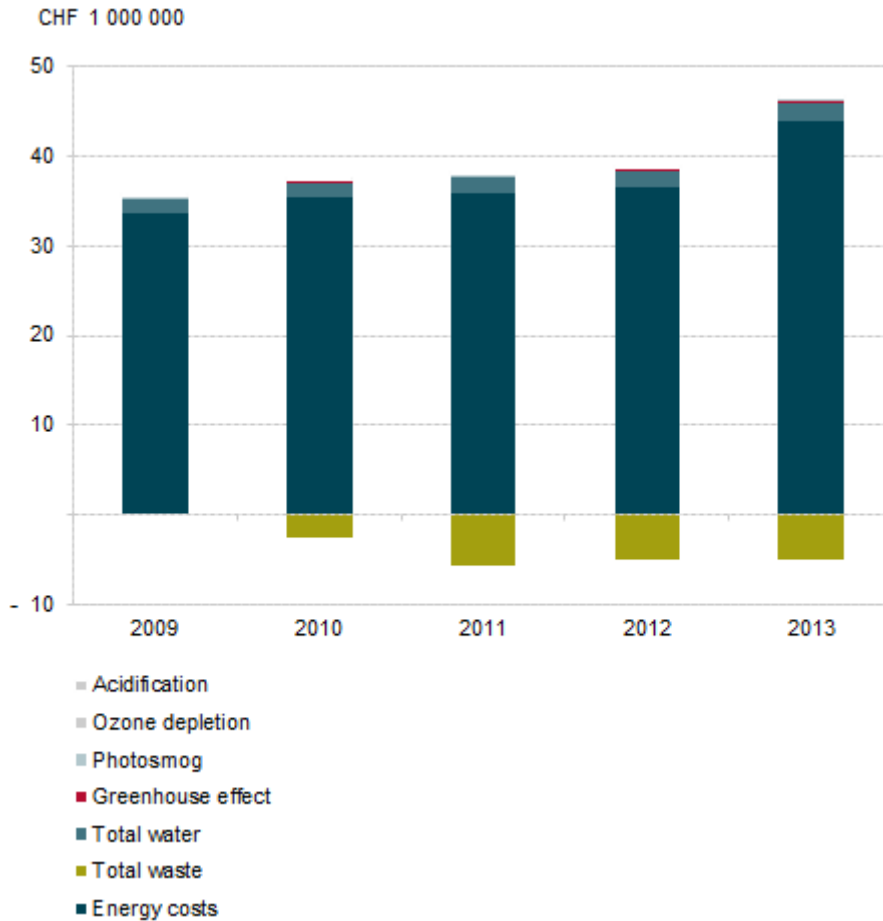


Data include SEED full and light sites

Sulzer sites are, on average, relatively small and have little impact on the social and natural environment. According to risk assessments, no current sites are located in or adjacent to protected areas, areas of high biodiversity, or areas with habitats of protected or red-listed species. The company has some operational and non-operational facilities and industrial sites, which were examined for potential contamination. If necessary, contaminated elements were disposed of in accordance with national law. This approach minimizes future risks and surprises. For Sulzer Metco’s possible divestiture, Sulzer CQESH and Sulzer Metco divisional QESH joined forces to prepare the documentation required for the environmental due diligence. In all cases, the investigations and procedures were planned and implemented in close coordination and cooperation with the responsible authorities. Sulzer has been acknowledged several times for its exceptionally open cooperation. Targeted acquisition sites are also carefully evaluated for contamination and related risks during environmental due diligence (environmental site assessments - ESA - that include, depending on the findings, phase 1, 2, and 3).

**Environmental Impacts (in CHF)**

At Sulzer, the external cost of acidification, ozone depletion, photo smog, and the greenhouse gas effect can be marginalized in comparison with cost<sup>15</sup> of energy, water, and waste. The variances in cost per unit used, emitted, or discharged respectively is, to a large extent, a consequence of the political consensus to internalize certain accounts and externalize others. For example, to date, the costs of CO<sub>2</sub> eq. emitted are not fully internalized. As a result, in 2013 Sulzer paid 41.6 CHF million for environmental cost (2012: 33.8). As in previous years, in 2013, the cost of energy of about 43.9 CHF million (2012: 36.6) was the most substantial account. This is an increase of total cost of circa 23%.



Data include SEED full and light sites

The cost of water increased with almost 30% to roughly 2 CHF million (2012: CHF 1.7 million). The calculated external costs of emissions to air (GHG effect, acidification, ozone depletion and photo smog) were roughly 800 000 CHF in 2013 (2012: ca. 650 000). The company generated revenues from waste management and recycling of about CHF 5.1 million in 2013.

<sup>15</sup> The external costs are based on the following cost rates: Greenhouse effect: CHF 10/tCO<sub>2</sub> eq.; photo smog: CHF 3 000/ethylene eq.; ozone depletion: CHF 20 000 CHF/tCFCW-11 eq.; acidification: CHF 5 000/tSO<sub>2</sub> eq. (based on averages of several external studies).

## Sustainability Reporting

**Sulzer has a robust sustainability information management system in place. The goal is to provide management and external stakeholders with reliable, accurate, timely, and comparable extrafinancial information to create a balanced view of Sulzer's sustainability performance and initiatives**

In 2012, Sulzer decided to switch gradually to an integrated reporting practice. For instance, Sulzer strives to publish an Annual Report (management report) that combines material extrafinancial and financial data supported and documented by narrative evidence. The consolidation of extrafinancial and financial reporting platforms, SEED data migrate to SAP-BPC in January 2014, will be the latest achievement on this journey. In 2013, Sulzer published a combined Annual Report, a Sustainability Review 2013, and a stand-alone Sustainability Report 2013 according to GRI G3.0 standard.

### Defining report content and quality

Sulzer's long tradition in preparing combined and stand-alone reports with extrafinancial information results in a clearly defined process that includes various stakeholder views, but still focuses on the important issues regarding Sulzer's sustainability engagement and performance.

### Materiality, stakeholder inclusion, completeness, and sustainability context for defining content

Sulzer strives to report on its corporate sustainability performance in a transparent, comprehensive, and fair way. The objective is to meet the information and communication needs of Sulzer's various stakeholders to whom Sulzer provides material information regarding its corporate activities in a sustainability context. The content of this report should reflect the company's global presence and the impact and diversity of the company's operations and solutions portfolio. Thus, Sulzer integrates various stakeholder perspectives in its reporting processes to understand which issues are relevant to the company and its stakeholders. This approach allows Sulzer to effectively manage and report on corporate activities that are most material to Sulzer's business and its stakeholders. As a result, this report reflects the organization's significant economic, environmental, and social impacts from its operations and solutions that may have a substantial impact on the decisions of relevant stakeholders when assessing the company's sustainability performance.

Sulzer reviews many sources to determine the structure and content of the sustainability report and to identify key issues for the company as a whole and for relevant individual stakeholders. Important sources include:

- Results from the risk assessment process and the materiality determination process
- Industry- and company-specific topics raised by all stakeholders
- External sustainability (reporting) standards, initiatives, and good practice relevant to the company's strategy, targets, and performance. These include:
  - United Nations Global Compact (UNGC)
  - UN Protect, Respect, and Remedy Framework Guiding Principles
  - Global Reporting Initiative (GRI) G3.0
  - Carbon Disclosure Project (CDP)
  - Water Disclosure Project (WDP)

The most-frequently used instruments/tools in stakeholder interaction are:

- Direct contacts
- Sulzer's own surveys
- Surveys conducted by third parties mainly to provide employee and customer feedback
- Benchmark studies
- Financial-market and customer ratings.

Sulzer used the materiality matrix prepared with the collected information from stakeholder interaction to guide it on the relevance of content for this report. The red fields show where Sulzer placed the focus of its report for the reporting year 2013.





The list below is a tangible output of stakeholder interaction and engagement. It sums up the issues most often subject to discussion during the last two years:

- Product Environmental Footprint
  - Reliable, eco-efficient products and solutions
  - Life cycle assessment (LCA)
  - Environmental Product Declarations (EPD)
  - Innovation management
- Employees
  - Capabilities/employability
  - Workplace safety
- Sulzer’s impact/ solutions related to climate change
- Organizational Environmental Footprint (for example, hazardous waste, energy consumption)
- Sustainable procurement
- Activities and trends in emerging markets

**Defining report quality**

Sulzer aspires to provide a high-quality report to its stakeholders. Therefore, internal reporting structures and procedures are regularly revisited to ensure their functioning. Besides providing financial information via obligatory financial reporting standards (IFRS), Sulzer adopted its extrafinancial reporting practices (according GRI G3.0) and regularly updates its reports. In this way, Sulzer can provide a fair and balanced picture of its sustainability efforts that is timely (annual), accurate, comparable, and reliable. A complete overview of all core and additional GRI G3.0 indicators is provided in the GRI Index at [www.sulzer.com/sustainability](http://www.sulzer.com/sustainability). Because of the overlapping introduction of the new Integrated Reporting (IR) and Global Reporting G4 guidelines with Sulzer’s internal harmonization of reporting platforms in 2014, the GRI 3.1 updated guidelines have not been adopted.

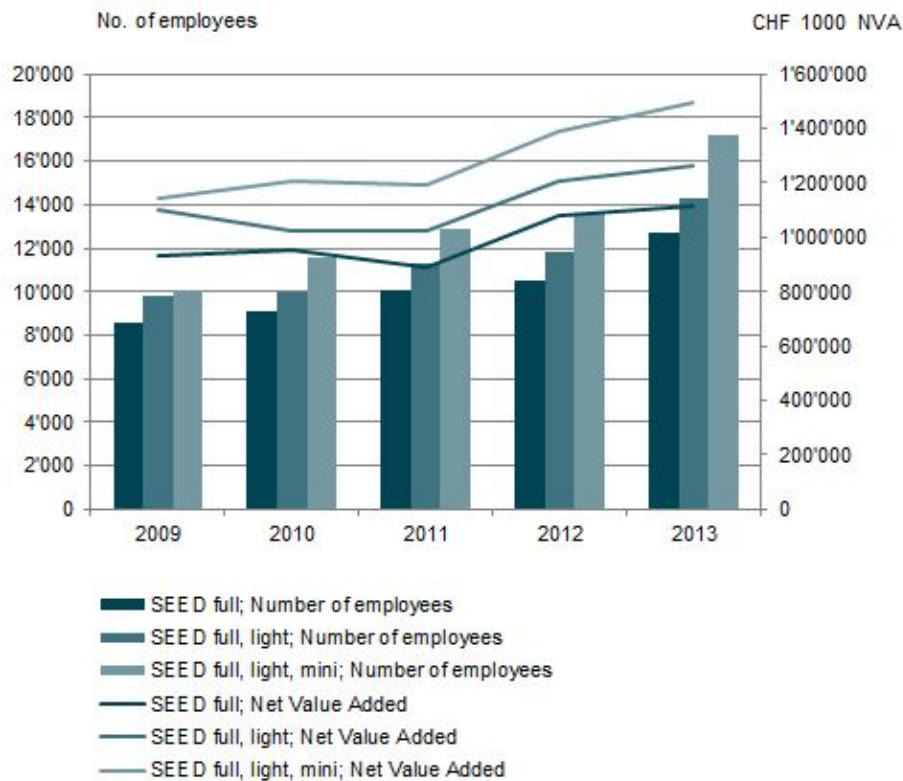
**Quantifying sustainability performance**

In 2013, Sulzer used its SEED (Social, Economic, and Ecological Data) database for the last time to collect, consolidate validate extrafinancial data. Sulzer has used this database to report internally and externally on its sustainability performance. The data set contains key performance indicators for environmental, health and safety, and social issues. Until its closedown, the software was continuously upgraded to improve data quality and transparency. From January 1, 2014, Sulzer uses the SAP-BPC consolidation software/platform to collect and report on all its financial and extrafinancial data.

**Data entry, collection, validation, and reporting of SEED data**

SEED data were generated and collected on the site level. Typically, the majority of the data entered were measured and based on, for example invoices and internal metering systems.

**Development of Indicator Base (SEED)**



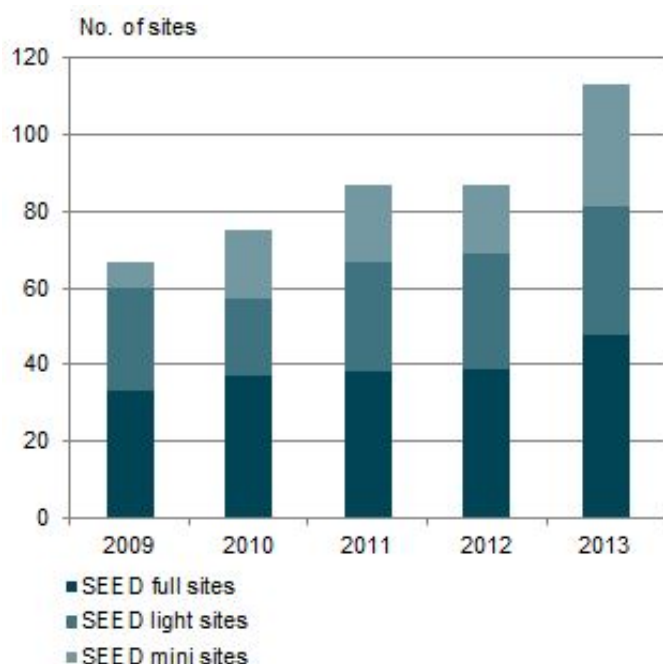
**Data include various SEED database coverage**

Sulzer uses the number of employees (full-time equivalents) per year-end and the net value added (NVA), which is EBIT plus personnel cost, as an indicator basis for many performance indicators. In the figure above, both the number of employees and the NVA in thousands of CHF are shown in the graph for:

- SEED full sites;
- SEED full and light sites;
- SEED full, light, and mini sites.

The data collection covers three types of sites:

- SEED full sites annually report on a complete set of indicators, as far as applicable. These sites exceed specific thresholds concerning number of employees and sales and/or perform a certain type of activity
- SEED light sites do not exceed the defined employee threshold and report on a reduced set of indicators. SEED light data have been assessed since 2005. For some indicators, the data of SEED light sites have been included
- SEED mini sites have been assessed since 2007. The reduced set of indicators has been adopted for service sites.



Number of sites assessed

In 2013, the number of employees within all scopes increased by:

- 22% to 12 743 in SEED full;
- 21% to 14 276 in SEED full and light; and
- 26% to 17 175 in SEED full, light and mini compared with the previous year.

In comparison to 2012, the NVA increased in all SEED scopes with:

- 4% to 1 116 476 thousands of CHF in SEED full;
- 5% to 1 263 313 thousands of CHF in SEED full and light; and
- 7% to 1 492 361 thousands of CHF in SEED full, light, and mini in 2013

**Share of sites assessed**

		2009	2010	2011	2012	2013
<b>full</b>						
Share of sales	%	75	69	65	65	67
Share of employees	%	75	66	59	59	72

Share of sites assessed compared with total of reporting unit (SEED full sites)

**Share of sites assessed**

		2009	2010	2011	2012	2013
<b>full, light</b>						
Share of sales	%	85	77	73	73	77
Share of employees	%	81	72	66	67	80

Share of sites assessed compared with total of reporting units (SEED full and light sites)

**Share of sites assessed**

		2009	2010	2011	2012	2013
<b>full, light, mini</b>						
Share of sales	%	88	92	86	85	92
Share of employees	%	83	84	76	77	96

Share of sites assessed compared with total of reporting units (SEED full, light, and mini sites)

Because Sulzer Dowding & Mills and the company previously known as Cardo Flow Solutions sites are considered in this year's SEED universe, the number of sites assessed in 2013 (2012: 87) has grown to 113 sites. The overall coverage of the report in percentages as shares of employees and share of sales changed accordingly. In 2013, the number of Sulzer employees covered by the SEED full data increased up to 72% (2012: 59%). 80% (2012: 67%) of employees were covered by SEED full

and light, whereas 96% (2012: 77%) of the employees were covered by SEED full, light, and mini in 2013.

In 2013, the majority of changes within the various scopes stems from:

- organic growth / deterioration for example as a response to changing market activities
- extended reporting scope
- methodological effects, because of, for example, upgrades of sites from SEED mini to SEED light.

#### Exemptions from SEED scopes

In 2013, FSUS-Mequon and CTCH-Pfäffikon are not considered as they only started as first reporters with the H&S KPIs during 2013. First-time reporters miss robust comparative values from previous years that underlie the calculations of the amounts to be allocated to the respective KPIs, and therefore were not part of the SEED Universe in 2013. In the mid-2010, Sulzer acquired Dowding & Mills and during 2011 Cardo Flow Solutions sites which are now fully considered and integrated into the SEED universe growing from 87 to 113 sites assessed.

#### Sites assessed and activities

All main production and service sites and Sulzer's headquarter have been assessed. Unless explicitly stated, the data shown in tables and charts represent only the sites assessed. Joint ventures, of which Sulzer owns more than 50% and are therefore fully consolidated. The data collected cover on-site activities of the locations. Resource consumption or emissions due to outsourced activities, off-site transport of goods, staff commutes, or business travel are not included. However, travel accidents are included if a Sulzer employee had an accident during business travel. Activities of pure sales offices and small service sites are not included.

In the following table, a total of 115 (including two exemptions for 2013) sites are listed by country, name, division, SEED type, and inclusion in SEED.

#### List of sites included in SEED for Sustainability Report 2013

	Country	Name	Division	SEED type	Inclusion in SEED
1	United Arab Emirates	Sulzer Pumps Middle East FZCO, Dubai	PU	SEED mini	5)
2	Argentina	Sulzer Turbo Services Argentina S.A., Buenos Aires	TS	SEED light	5)
3	Australia	Sulzer Pumps (ANZ) Pty Ltd., Wheelers Hill	PU	SEED mini	7)
4	Australia	Sulzer Pumps Wastewater Australia Pty Ltd., Brisbane	PU	SEED mini	
5	Australia	Sulzer Chemtech Pty Ltd, Adelaide	CT	SEED mini	5)
6	Australia	Dowding & Mills (Australia) Pty Ltd., Brendale	TS	SEED full	7), 10)
7	Brazil	Sulzer Brasil S.A., Jundiaí	PU	SEED full	
8	Brazil	Sulzer Pumps Wastewater Brasil Ltda., Curitiba	PU	SEED full	
9	Brazil	Sulzer Friction Systems do Brasil Ltda., Diadema	SM	SEED light	3)
10	Brazil	CL Engenharia Ltda., Trifuno	CT	SEED mini	
11	Canada	Sulzer Pumps (Canada) Inc., Burnaby (Service Site)	PU	SEED mini	5)
12	Canada	Sulzer Metco (Canada) Inc., Fort Saskatchewan	SM	SEED full	6)
13	Canada	Sulzer Chemtech Canada Inc., Edmonton	CT	SEED light	

14	Canada	Sulzer Chemtech Canada, Inc., Edmonton (TFS)	CT	SEED mini	
15	Canada	Sulzer Turbo Services Canada Ltd., Edmonton	TS	SEED light	3)
16	China	Sulzer Dalian Pumps & Compressors Ltd., Dalian	PU	SEED full	
17	China	Sulzer Pumps Solutions (Kunshan) Co. Ltd., Kunshan	PU	SEED full	
18	China	Sulzer Pumps Suzhou Ltd., Suzhou	PU	SEED full	7)
19	China	Sulzer Dalian Pumps & Compressors Ltd. (Process Pumps), Dalian	PU	SEED mini	5)
20	China	Sulzer Pumps Shanghai, Shanghai (Service Center)	PU	SEED mini	5)
21	China	Sulzer Pumps Wastewater China Co Ltd., Shanghai	PU	SEED mini	
22	China	Sulzer Metco Surface Technology (Shanghai) Co. Ltd., Shanghai	SM	SEED full	1), 6)
23	China	Sulzer Shanghai Engineering & Machinery Works Ltd., Shanghai	CT	SEED full	
24	China	Sulzer Shanghai Engineering & Machinery Works Ltd., Shanghai (Mixpac)	CT	SEED light	5), 11)
25	China	Sulzer Shanghai Engineering & Machinery Works Ltd., Shanghai (TFS)	CT	SEED mini	5)
26	Finland	Sulzer Pumps Finland Oy, Kotka	PU	SEED full	
27	Finland	Sulzer Pump Solutions Oy, Lappeenranta	PU	SEED light	
28	France	Sulzer Pompes France SASU, Mantes	PU	SEED full	
29	France	Sulzer Pumps Wastewater France SAS, Villemomble	PU	SEED mini	
30	France	Sulzer Sorevi S.A.S., Bon-en-Chablais	SM	SEED light	7)
31	France	Sulzer Sorevi S.A.S., Limoges	SM	SEED light	7)
32	Germany	Sulzer Pumpen (Deutschland) GmbH, Bruchsal	PU	SEED full	
33	Germany	Sulzer Pump Solutions Germany GmbH, Lohmar	PU	SEED full	
34	Germany	Sulzer Pumpen (Deutschland) GmbH, (all service sites in Germany)	PU	SEED mini	5)
35	Germany	Sulzer Pumps Wastewater Germany GmbH, Bonn	PU	SEED mini	
36	Germany	Sulzer Friction Systems (Germany) GmbH, Bremen	SM	SEED full	6)
37	Germany	Sulzer Metaplas GmbH, Bergisch Gladbach	SM	SEED full	6)
38	Germany	Sulzer Metco Europe GmbH, Kelsterbach	SM	SEED full	1), 6)
39	Germany	Sulzer Metco WOKA GmbH, Barchfeld	SM	SEED full	
40	Germany	Sulzer Metaplas GmbH, Altbach	SM	SEED light	4)

41	Germany	Sulzer Metaplas GmbH, Herford	SM	SEED light	7)
42	Germany	Sulzer Metaplas GmbH, Niederwürschnitz	SM	SEED light	2)
43	Germany	Sulzer Metaplas GmbH, Salzgitter	SM	SEED light	2)
44	Germany	Sulzer Metco Coatings GmbH, Salzgitter	SM	SEED light	
45	Germany	Sulzer Metco Coatings GmbH, Weissenborn	SM	SEED light	1)
46	Germany	Sulzer Chemtech GmbH, Duisburg	CT	SEED mini	
47	Hungary	Sulzer Eldim (HU) Kft., Debrecen	SM	SEED light	1), 6)
48	India	Sulzer Pumps India Ltd., Navi Mumbai	PU	SEED full	
49	India	Sulzer Tech India Pvt Ltd., Mumbai	PU	SEED mini	
50	India	Sulzer Friction Systems (India) Ltd., Chennai	SM	SEED light	3)
51	India	Sulzer India Ltd., Pune	CT	SEED full	
52	India	Sulzer Chemtech Tower Field Services (India) Pvt. Ltd., Mumbai	CT	SEED mini	5)
53	Indonesia	PT Sulzer Turbo Services Indonesia, Purwakarta	TS	SEED full	
54	Ireland	Sulzer Pump Solutions Ireland Ltd, Wexford	PU	SEED full	
55	Italia	Sulzer Pumps Wastewater Italy S.r.l., Vimodrone	PU	SEED mini	
56	Italia	Sulzer Friction Systems (Italia) S.r.l., Caivano	SM	SEED light	2)
57	Japan	Sulzer Metco (Japan) Ltd., Tokyo	SM	SEED light	
58	Korea	Sulzer Pumps Korea Ltd., Seoul	PU	SEED mini	
59	Mexico	Sulzer Mexico S.A. de C.V., Cuautitlán Izcalli	PU	SEED full	
60	Mexico	Sulzer Chemtech, S. de R.L. de C.V., Cuautitlán Izcalli	CT	SEED full	
61	The Netherlands	Sulzer Pumps Wastewater Netherlands BV, Maastricht	PU	SEED mini	
62	The Netherlands	Sulzer Eldim (NL) B.V., Lomm	SM	SEED full	
63	The Netherlands	Sulzer Turbo Services Venlo B.V., Lomm	TS	SEED full	
64	The Netherlands	Sulzer Turbo Services Rotterdam B.V., Europoort Rt.	TS	SEED light	
65	Poland	Sulzer Turbo Services Poland Sp. z o.o., Lublin	TS	SEED full	
66	Russia	Sulzer Pumps Rus LLC, Moscow	PU	SEED light	8)
67	Russia	Sulzer Chemtech LLC, Serpukhov	CT	SEED light	5)
68	Singapore	Sulzer Pumps Asia Pacific Pte Ltd., Singapore	PU	SEED mini	3)

69	Singapore	Sulzer Metco (Singapore) Pte Ltd., Singapore	SM	SEED light	
70	Singapore	Sulzer Chemtech Pte Ltd., Singapore	CT	SEED full	1)
71	Singapore	Sulzer Chemtech Pte Ltd., Singapore (TFS)	CT	SEED mini	2)
72	South Africa	Sulzer Pumps (South Africa) (Pty) Ltd., Elandsfontein	PU	SEED full	
73	Spain	Sulzer Pumps Wastewater Spain S.A., Rivas Vaciamadrid	PU	SEED full	
74	Spain	Sulzer Pumps Spain S.A., Madrid	PU	SEED mini	5)
75	Sweden	Sulzer Pump Solutions Nordmaling AB, Nordmaling	PU	SEED full	
76	Sweden	Sulzer Pump Solutions Vadstena AB, Vadstena	PU	SEED full	
77	Sweden	Sulzer Pumps Solutions Sweden AB, Malmö	PU	SEED mini	
78	Switzerland	Sulzer Ltd & Sulzer Management AG, Winterthur		SEED full	
79	Switzerland	Sulzer Markets and Technology AG, Winterthur		SEED full	
80	Switzerland	Sulzer Pumpen AG, Winterthur	PU	SEED mini	5)
81	Switzerland	Sulzer Chemtech AG, Allschwil	CT	SEED full	4)
82	Switzerland	Sulzer Chemtech AG, Pfäffikon	CT	SEED full	
83	Switzerland	Sulzer Chemtech AG, Winterthur	CT	SEED full	
84	Switzerland	Sulzer Mixpac AG, Haag	CT	SEED full	2)
85	Switzerland	Sulzer Metco AG, Wohlen	SM	SEED full	
86	Switzerland	Sulzer Turbo Services (headquarter), Winterthur	TS	SEED full	
87	Thailand	Sulzer Chemtech Co. Ltd, Rayong (TFS)	CT	SEED mini	
88	United Kingdom	Sulzer Pumps (UK) Ltd, Leeds	PU	SEED full	
89	United Kingdom	Sulzer Pumps Wastewater UK Ltd, Crawley	PU	SEED mini	
90	United Kingdom	Sulzer Wood Ltd, Aberdeenshire	PU	SEED mini	3)
91	United Kingdom	Neomet Ltd, Stockport	SM	SEED light	
92	United Kingdom	Sulzer Metco Coatings Ltd, Cheshire	SM	SEED light	1)
93	United Kingdom	Sulzer Chemtech (UK) Ltd, Stockton-on-Tees (TFS)	CT	SEED mini	2)
94	United Kingdom	Sulzer Dowding & Mills Plc., Birmingham	TS	SEED full	7), 10)
95	USA	Sulzer Process Pumps (US) Inc., Easley, SC	PU	SEED full	
96	USA	Sulzer Pumps (US) Inc., Portland, OR	PU	SEED full	

97	USA	Sulzer Pumps Houston Inc., Brookshire, TX	PU	SEED full	
98	USA	Sulzer Pumps (US) Inc., Sturm, Barboursville	PU	SEED light	3)
99	USA	Sulzer Pump Solutions (US) Inc., Meriden, CO	PU	SEED light	
100	USA	Sulzer Pumps (US) Inc., Portland (Service Site), OR	PU	SEED mini	5)
101	USA	Sulzer Friction Systems (US) Inc., Dayton, OH	SM	SEED full	1), 6)
102	USA	Sulzer Metco (US) Inc., Troy, MI	SM	SEED full	
103	USA	Sulzer Metco (US) Inc., Westbury, NY	SM	SEED full	
104	USA	Sulzer Metco (US) Inc., Amherst, MA	SM	SEED light	7)
105	USA	Sulzer Metco (US) Inc., Barboursville, WV	SM	SEED light	1)
106	USA	Sulzer Metco (US) Inc., Research Triangle Park, NC	SM	SEED light	7)
107	USA	Sulzer Friction Systems (US) Inc., Mequon, WI	SM	SEED mini	9)
108	USA	Sulzer Chemtech USA Inc., Tulsa, OK	CT	SEED full	
109	USA	Sulzer Chemtech USA Inc., Houston (TFS), TX	CT	SEED mini	2)
110	USA	Sulzer Mixpac Inc., Salem, NH	CT	SEED mini	
111	USA	Sulzer Turbo Services Houston Inc., La Porte, TX	TS	SEED full	
112	USA	Sulzer EMS Farmington, Farmington, NM	TS	SEED light	7)
113	USA	Sulzer EMS Gillette, Gillette, WY	TS	SEED light	7)
114	USA	Sulzer EMS Phoenix, Phoenix, AR	TS	SEED light	7)
115	USA	Sulzer Turbo Services New Orleans Inc., Belle Chasse, LA	TS	SEED light	1)

The list above shows the sites assessed from 2006 or earlier, with the following exceptions: 1) since 2006, 2) since 2007, 3) since 2008, and 4) since 2009, 5) since 2010, 6) upgraded from SEED light to SEED full in 2010, 7) since 2011, 8) since 2012, 9) not considered in SEED data because of its first-time reporter status, with the exception of calendar year data for H&S reporting, 10) upgraded from SEED mini to SEED full in 2012, 11) upgraded from SEED mini to SEED light in 2013.

#### Sites no longer included

- Sulzer Metaplas GmbH Hohenlockstedt (included 2007 and 2008 only)
- Sulzer Metaplas (US) Inc., Woonsocket (included until 2008)
- Sulzer Chemtech GmbH Membrantechnik, Neunkirchen/Saar (included 2008 only)
- Sulzer Mixpac AG, Rotkreuz (included until 2008)
- Sulzer Chemtech Polska Sp. z o.o., Przemierowo (included until 2008)
- Sulzer Pumpen (Deutschland) GmbH, Service Center Jänschwalde, Peitz and Sulzer Pumpen (Deutschland) GmbH, Service Center Schkopau, Schkopau (as its own site until 2008, then included in Sulzer Pumpen (Deutschland) GmbH, all service sites in Germany)
- Sulzer Pumps Finland, Mänttä (included until 2009)
- Sulzer Pumps (Canada) Inc., Burnaby (included until 2009)
- Sulzer Metco (Australia) Pty Ltd., Padstow (included 2007–2009)



- Sulzer Metco OSU GmbH (included 2006–2009)
- Sulzer Mold AG, Eschen (included from 2007–2009, from 2010 onwards included in Sulzer Mixpac AG, Haag)

#### Specific remarks

- Net value added: Net value added is defined as the operating income before depreciation/amortization (EBITDA) plus personnel costs. This key figure may include the activities of external sales offices and field service units belonging to sites as well as product transfers between sites. It might, therefore, be overestimated.
- Employees: Data cover only employees who have a direct contract with Sulzer, including temporary and part-time employees. People who work at a Sulzer site but are employed by a third party are not included, even if they work there on a permanent basis. The number of employees working according to the management standards may include external workers if their activities are covered accordingly.
- Energy: The energy consumption is the quantity consumed at the sites. This figure has not been converted to primary energy consumption.
- Emissions: Data cover direct emissions from the use of chemicals (for example, VOCs) or fossil energy sources.
- Restatements: Data shown represent Sulzer as it was in the respective year. Data are not restated in cases of acquisition or divestiture of sites. Inclusion or exclusion of sites is reported accordingly.
- Reconsideration of data: Until 2012, some data of previous years were reconsidered and updated to improve data quality. Possible changes of data due to a redefinition are stated. Since 2012, SEED no longer allows any modifications of historical data. In other words, reconsiderations are no longer possible.

## Report profile

### Reporting cycle

In 2012, Sulzer adopted an annual reporting cycle for extrafinancial information.

### Reporting period

If not stated differently, this Sulzer Sustainability Report 2013 covers the reporting period October 1, 2012–September 30, 2013. To publish the extrafinancial data together with the annual management report, Sulzer changed the reporting period for SEED data in 2012 and 2013 from a fiscal calendar year to October 1–September 30, except selected H&S data.

In Sulzer's Annual Report 2013, the International Financial Reporting Standards (IFRS) require the company to report its financial performance without the Sulzer Metco division in the operational review. Mid 2013, Sulzer announced that it wants to divest Sulzer Metco, which as a result must be reported as discontinued business. In this Sustainability Report 2013, Sulzer Metco is included.

The selected and stated H&S data with a calendar reporting year are:

- Accident frequency rate (AFR)
- Accident severity rate (ASR)
- Total lost day rate (TLDR)
- Non-occupational accidents and illnesses rate.

### Date of the most recent previous report

Sulzer published its most recent previous online Sustainability Report 2012 on February 15, 2012.

### Reporting standards

This report uses the voluntary Global Reporting Initiative (GRI) G3.0 extrafinancial reporting standard. The targeted application level is A.

### Economic performance and key financial performance indicators

In-depth information can be found in the Sulzer Annual Report 2013 ([www.sulzer.com/AR13](http://www.sulzer.com/AR13)).

### Third-party assurance

Since 2007, Société Générale de Surveillance (SGS) has been the independent assurance firm for Sulzer's sustainability reports and reporting mechanisms. SGS provides Sulzer with a summary of the process in a letter of assurance and a written report to management with recommendations for improvement. To read the SGS assurance statement for the Sustainability Report 2013, please go to the end of this report.

### Tailored sustainability communication for external addressees

For its 2013 external sustainability reporting practices, Sulzer is using a three-channel approach:

- «Sulzer Annual Report 2013»; combined corporate annual report
- «Sustainable Development 2013»; hard-copy version with highly condensed information
- «Sulzer Sustainability Report 2013»; .pdf report according GRI G3.0,
- Optimized HTML/Internet solution with focus on Sulzer's sustainability performance in 2013

In 2012, Sulzer started its journey toward an integrated report. Sulzer's most relevant extrafinancial KPIs and respective narrative evidence are communicated in Sulzer's Annual Report 2013; additional information can be found in the hard copy and online .pdf report according to the GRI G3.0 standard (for download). The Annual Report 2013's main audiences are the financial community and shareholders, whereas the hard copy and HTML solution target customers, employees, and other stakeholders. The GRI G3.0 Sustainability Report presents the most-comprehensive picture and was mainly prepared for sustainability experts and raters who expect a high level of detail on Sulzer's sustainability performance.

### Extrafinancial management reporting and reports

Sulzer reports on its sustainability performance in various cycles to Sulzer management via:

- Monthly occupational health and safety (OHS) performance report, incl. accident frequency rate (AFR) and accident severity rate (ASR), backed by narrative evidence
- Quarterly OHS performance report, incl. lost day rates (LDR) for non-occupational accidents and illnesses, backed by narrative evidence
- Annually extended sustainability performance report on corporate, divisional, and site level, incl. quantitative physical and monetary H&S, social and environmental measures, backed by narrative evidence.

## Sustainability Road Map

Sulzer has a long tradition of responsible action. Throughout its existence, Sulzer has considered its employees its most valuable asset. The company has consistently improved the quality of life, while protecting its employees and the environment

Year	Measures
1834	First statement on “getting it right the first time” from Johann Jakob Sulzer
1845	Sickness Benefit Association for Factory Workers
1870	Company-owned apprentice workshop for young craftsmen
1872	Society for Low-Cost Housing Construction
1890	First Workers’ Council in Switzerland
1919	Switzerland’s first regularly published in-house magazine Technical customer magazine Sulzer Technical Review (STR)
1945	First working memberships in ISO committees
1988	Founding member of the European Foundation for Quality Management (EFQM)
1990	First employee participation program
1991	First environmental policy
1992	Reissue of traditional quality principles, quality as “the attitude in all we do”
1993	Official launch of ISO 9001 certification campaign Start of environmental data collection
1995	First product life cycle analysis
1996	First external environmental report First ISO 14001 certificate
1997	First external social report Corporate values with important total quality elements
1998	Principles of Cooperation
2000	Integrated QESH management systems based on ISO 9001:2000
2001	First comprehensive sustainability data collection
2002	Corporate values Our Aspirations Code of Business Conduct SEED database for sustainability data collection First internal SA 8000 and OHSAS 18001 audits
2003	Corporate Risk Council First lean production initiative
2004	First external report on sustainability SEED light database for smaller sites
2005	QESH as a key process for operational excellence Programs for Development and Impact (PDI)
2007	Health and safety awareness program SEED mini database for service sites
2008	First GRI A+ rating for the Sulzer Sustainability Report Sulzer safety rules New competency framework
2009	Sulzer core values New employer brand strategy Sustainability Council established
2010	First environmental product declarations (EPDs) Corporate-wide LEAN platform to foster organizational excellence
2011	Global employee engagement survey Corporate-wide initiative to increase diversity
2012	New strategic priorities Rollout of global Safe Behavior Program Integration of annual reporting started
2013	Financial and extrafinancial reporting harmonized and merged into SAP-BPC

## Glossary

**Acidification:** A process whereby air pollution - mainly composed of ammonia, sulfur dioxide and nitrogen oxides - is converted into acidic substances that cause damage, for example, to forests, lakes and buildings. Sulfur dioxide and the nitrogen oxides are mainly emitted by burning fossil fuels.

**AFR:** Accident frequency rate, indicates the number of occupational accidents with more than one lost day per 1 million working hours.

**AME:** Americas

**ASR:** Accident severity rate, indicates the number of lost days of occupational accidents with more than one lost day per 1 million working hours.

**ATEX:** Atmosphère Explosive (European directive to prevent from explosions).

Blacklist of potentially hazardous materials: A tool to identify hazardous chemicals. It covers currently or potentially regulated hazardous substances.

**CDP:** Carbon Disclosure Project.

**CE:** Conformité Européenne (European health and safety product label).

**EBIT:** Earnings before interest and taxes.

**ECHA:** European Chemical Agency

**EMEA:** Europe, Middle East and Africa

**Employees:** If not mentioned otherwise, numbers of employees are full-time equivalents.

**Eq.:** Equivalents.

**ESH:** Environment, safety, and health.

**GHG:** Greenhouse gases.

**GHG-Protocol:** Greenhouse Gas Protocol.

**GJ:** Gigajoule.

**Greenhouse Gases:** The Kyoto Protocol regulates the most important greenhouse gases: carbon dioxide (CO<sub>2</sub>), methane (CH<sub>4</sub>), nitrous oxide (N<sub>2</sub>O), and synthetic gases, such as fluorocarbons (FKW/HFC), perfluorinated hydrocarbon, and sulfur hexafluoride. Fossil fuels are the main cause for the emission of CO<sub>2</sub> and N<sub>2</sub>O.

**GRI:** Global Reporting Initiative, a global standard for sustainability reporting.

**Gt:** Gigatons.

**Hazardous Materials Emissions and Exposure (HMEE) standards:** Sulzer internal risk mitigation program to minimize/mitigate exposure of Sulzer employees to hazardous emissions and materials.

**Hazardous waste:** In 2009, Sulzer introduced a Sulzer internal list that defines 18 types of hazardous wastes. Until 2008, the sites reported hazardous wastes as it has been defined by the diverse local legislations. The treatment of a significant share of these materials could be defined as recycling (for example, waste oil). At Sulzer, hazardous waste includes liquid and solid waste.

**HR:** Human resources.

**ILO:** International Labor Organization.

**ISO:** International Standard Organization.

**ISO 9001:** International standard that defines the general conditions of a quality management system requiring a process-oriented approach and the commitment to demonstrating continuous improvement.

**ISO 13485:** The ISO 9001 derivative for suppliers of medical devices or related services.

**ISO 14001:** International standard that defines the general conditions of an environmental management system.

**ISO 14025:** ISO 14025:2006 establishes the principles and specifies the procedures for developing Type III environmental declaration programs and Type III environmental declarations. It specifically establishes the use of the ISO 14040 series of standards in their development.

**ISO 14040:** ISO 14040:2006 describes the principles and framework for life cycle assessment (LCA) including: definition of the goal and scope of the LCA, the life cycle inventory analysis (LCI) phase, the life cycle impact assessment (LCIA) phase, the life cycle interpretation phase, reporting and critical review of the LCA, limitations of the LCA, the relationship between the LCA phases, and conditions for use of value choices and optional elements.

**ISO 14067:** ISO/TS 14067:2013 specifies principles, requirements, and guidelines for the quantification and communication of the carbon footprint of a product (CFP), based on international standards on life cycle assessment (ISO 14040 and ISO 14044) for quantification and on environmental labels and declarations for communication.

**ISO 16949:** The ISO 9001 derivative for suppliers to the automotive industries.

**ISO 17025:** International standard that specifies the requirements for the competence to carry out tests and/or calibrations, including sampling.

**kW:** Kilowatt.

**kWh:** Kilowatt hours.

**Kyoto Protocol:** International agreement linked to the United Nations Framework Convention on Climate Change. It sets binding targets for 37 industrialized countries and the European community for reducing GHG emissions.

**LEAN:** The term lean management stands for all principles, methods, and procedures to structure the entire value chain of production processes effectively and efficiently.

**Montreal Protocol:** International agreement that entered into force in January 1989 and strives to phase out the use of ozone-depleting compounds.

**MSDS:** A material safety data sheet, which is prepared by the manufacturer of a chemical product for the purpose of providing information on the safe use, handling, and potential hazards of the product. This information can be used for a proper response in the event of an emergency.

**Municipal waste:** Non-hazardous waste that cannot be given to recycling, such as waste from households (for example, Tetra Briks and composite packaging). It can be treated in a waste incineration plant or disposed of in a landfill.

**Nadcap:** A worldwide cooperative program of companies that is designed to manage a consensus approach to products and processes within the aerospace and automotive industries.

**Net value added:** Operating income (EBIT) plus personnel expenses.

**Occupational accidents:** Work-related accidents that occur while working at a Sulzer site or on behalf of Sulzer at a customer site, that is, in working areas that are in control of Sulzer. Accidents that occur while travelling on request of Sulzer are included.

**OEF:** Organizational Environmental Footprint, method based on life cycle assessment (LCA) to calculate the environmental performance of an organization. The method was developed by the European Commission's Joint Research Centre.

**OHS/OHSAS 18001:** Occupational Health and Safety Assessment Series 18001 is an internationally applied standard that defines an occupational health and safety management system designed to create a safer workplace.

**OSHA:** Occupational Safety and Health Administration of the United States Department of Labor.

**PED:** Pressure Equipment Directive of the European Community.

**PEF:** Product Environmental Footprint, method based on life cycle assessment (LCA) to calculate the environmental performance of a product. The method was developed by the European Commission's Joint Research Centre.

**Photosmog (or photochemical smog):** refers to the impact of high ozone concentration levels on ground-level air layers, which originates from the interaction of sunlight, hydrocarbons, and nitrogen oxides.

**QESH & SD:** Quality, environment, safety, and health and Sustainable Development.

**REACH:** Registration, Evaluation and Authorization of Chemicals (European Commission).

**ROCE:** Return on capital employed.

**RoHS:** Directive on the restriction of the use of certain hazardous substances in electrical and electronic equipment 2002/95/EC of the European Community.

**ROS:** Return on sales.

**SA 8000:** The Social Accountability 8000 is an auditable social standard, based on the eleven conventions of the International Labour Organisation, the declaration of human rights, and the United Nations convention of children's rights.

**SAE AS 9100:** The international ISO 9001 derivative for suppliers to the aerospace industry.

**SCC:** The Safety Certificate Contractors is a certifiable, international standard of safety management systems for suppliers of technical services that work as subcontractors on the customer sites.

**Scope:** Defines the operational boundaries in relation to indirect and direct GHG emissions.

**Scope 1 inventory:** A reporting organization's direct GHG emissions.

**Scope 2 inventory:** A reporting organization's emissions associated with the generation of electricity, heating and cooling, or steam purchased for own consumption.

**Scope 3 inventory:** A reporting organization's indirect emissions other than those covered in scope 2.

**SEED:** The database that Sulzer uses to collect, validate, and report on social, economic, and ecological data.

**SEED full:** is full version of SEED for production sites.

**SEED light:** A simplified version of SEED for smaller sites.

**SEED mini:** A simplified version of SEED adopted for service sites.

**SIEF:** Substance Information Exchange Forum. Joining a SIEF is a legal obligation of all registrants in the context of REACH. SIEFs are formed by companies that intend to register the same substance. They are established to facilitate the sharing of information, avoid duplication of new studies and agree on classification and labelling if necessary.

**TLDR:** Total lost day rate, indicates the total number of lost days of occupational and non-occupational absences with more than one lost day per case in relation to the total working hours at Sulzer.

**UN Global Compact:** The United Nations Global Compact is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labor, environment, and anticorruption.

**VOC:** Volatile organic compounds, for example, solvents. There are non-halogenated and halogenated VOCs; halogenated VOCs destroy the ozone layer.

**Voluntary Attrition Rate:** Leavings initiated by the employee, or leavings that are based on a signed leaving agreement. The rate does not include retirements.

**SGS Assurance Statement**





# ASSURANCE STATEMENT

## SGS STATEMENT ON ASSURANCE of Sulzer Ltd GRI Sustainability Disclosure 2013

### SCOPE

SGS was commissioned by Sulzer Ltd to conduct an independent assurance of the GRI-based disclosure on sustainability in 2013. Our assurance scope included the GRI disclosure obligations and figures in accordance with the GRI-G3 Index 2013 published at [www.sulzer.com/sustainability](http://www.sulzer.com/sustainability). The scope of the assurance, based on the SGS Sustainability Report Assurance methodology, included all texts and 2013 data in accompanying tables and referenced information on the webpage of Sulzer Ltd as quoted in the GRI Index Table. The assurance process did not consider any data from previous years.

### CONTENT

The Board of Directors or the Executive Board and the Management of the organisation are responsible for the details provided in the annual report and on the website. SGS was not involved in the preparation of any of the material included in the GRI Index and acted as an independent assessor of the data and text using the Global Reporting Initiative Sustainability Reporting Guidelines 3.0 (2006) as a standard. The content of this Assuror's Statement and the opinion(s) it gives is the responsibility of SGS.

### CERTIFIER INDEPENDENCE AND COMPETENCIES

The SGS Group is active as a globally leading company in the areas of assurance, testing, verifying and certifying in more than 140 countries and provides services, including the certification of management systems and services. SGS confirms that it is independent from Sulzer Ltd. It is unbiased and no conflicts of interest exist with the organisation, its subsidiaries and beneficiaries. The assurance team was assembled based on knowledge, experience and qualifications for this assignment.

### METHODOLOGY

The SGS Group has developed a set of protocols for the assurance of Sustainability Reports based on current best practice guidance provided in the Global Reporting Initiative Sustainability Reporting Guidelines 3.0 (2006). The assurance comprised the evaluation of external sources, meetings with relevant employees, a verification of the documentation and recordings as well as the validation of these with external institutions and/or beneficiaries, where required. Financial data drawn directly from independently audited financial accounts was not checked back to its source as part of this assurance process.

### OPINION

On the basis of the above methodology, we did not detect any instances from which we would have to conclude that the information and data disclosed by Sulzer Ltd in accordance with the GRI-G3 Index 2013 may be incorrect. The information and data disclosed represent, to our mind, a fair and balanced picture of the sustainability efforts made by Sulzer Ltd in 2013. Recommendations regarding areas for improvement of the sustainability disclosure and management system at Sulzer Ltd were communicated to the firm in an internal report. We believe that the existing minor gaps are well under control due to corrective actions taken and the Corporate Responsibility Report 2013 meets the requirements of level A+ of the Global Reporting Initiative Sustainability Reporting Guidelines 3.0 (2006) in accordance with the GRI Index.

### SIGNED FOR AND ON BEHALF OF SGS

Elvira Bieri, Managing Director  
Zurich, January 31<sup>st</sup>, 2014

Dr. Albert von Däniken, Lead Auditor  
WWW.SGS.COM