

## Report of the Board of Directors of Sulzer AG, Winterthur

### regarding the Mandatory Offer of

### Tiwel Holding AG, Zurich

#### I. Background

According to the offer prospectus dated August 3, 2015 (**Offer Prospectus**), Liwet Holding AG, Zurich, JSC Metkombank, Kamensk-Uralsky (Russia), and Lamesa Holding S.A., Panama, as of June 30, 2015, held a total of 11,370,790 Sulzer shares. This corresponds to 33.19% of the share capital registered in the commercial register and of the voting rights in Sulzer AG, domiciled in Winterthur (**Sulzer**).

Between July 29, 2015 and July 31, 2015, Tiwel Holding AG, domiciled in Zurich (**Tiwel** or **Offeror**) purchased a total of 59,216 Sulzer shares according to the Offer Prospectus. Tiwel acts in concert with the above mentioned companies (together the **Renova Shareholder Group**). Tiwel is also part of the Renova Group, which is controlled by Mr. Viktor F. Vekselberg. Together with these purchases, the Renova Shareholder Group holds a total of 11,430,006 Sulzer shares. This corresponds to 33.36% of the voting rights in Sulzer.

The Renova Shareholder Group therewith exceeded the threshold of 33 1/3% of the voting rights in Sulzer. According to Art. 32 para. 1 of the Federal Act on Stock Exchanges and Securities Trading (**SESTA**), the Renova Shareholder Group is required to submit a mandatory offer for the purchase of all listed Sulzer shares. In compliance therewith, Tiwel published a public offer (**Mandatory Offer**) to all shareholders of Sulzer on August 3, 2015.

According to the Offer Prospectus, the offer price of CHF 99.20 per Sulzer share corresponds to the minimum price pursuant to the SESTA. It offers no premium over the volume-weighted average price of the on-orderbook trades (VWAP) executed during the last 60 trading days prior to August 3, 2015.

According to Art. 29 para. 1 SESTA, Sulzer's Board of Directors (**Board of Directors**), acting through the Independent Committee (as described below), takes the following position with respect to the Mandatory Offer:

#### II. Position of the Board of Directors

##### A. Appointment of an Independent Committee

On July 31, 2015, immediately after representatives of the Renova Shareholder Group informed the Board of Directors of the exceedance of the threshold of 33 1/3 %, the Board of Directors appointed an independent committee (**Independent Committee**). It comprises the independent directors Matthias Bichsel (chair), Thomas Glanzmann, Jill Lee, Gerhard Roiss and Klaus Sturany.

The directors Peter Löscher and Marco Musetti represent the Renova Shareholder Group on the Board of Directors and have a conflict of interest with respect to the Mandatory Offer. They are not members of the Independent Committee and abstained from the deliberations and the resolution on the present report (see Section VI.B. below). The Independent Committee thus corresponds to the full Board of Directors, excluding its recused members Peter Löscher and Marco Musetti. If hereafter the

Independent Committee is mentioned, it implies the Board of Directors without the members who have recused themselves.

## **B. No Recommendation**

On August 21, 2015, the Independent Committee unanimously resolved not to make a recommendation whether to accept or reject the Mandatory Offer. In the following, the Independent Committee explains the key elements that it deems important for the evaluation of the Mandatory Offer, in order to facilitate the shareholders' decision whether to accept or reject the Mandatory Offer.

The Independent Committee notes that according to the Offer Prospectus, the Renova Shareholder Group neither intends to change the strategic direction of Sulzer or the current composition of the Board of Directors or the Executive Committee nor to delist Sulzer. The Independent Committee further notes that the Renova Shareholder Group believes that due to its stake exceeding the threshold of 33 1/3% of the voting rights in Sulzer, Sulzer's flexibility to implement measures to optimize its capital structure increases.

## **C. Advantages and Disadvantages of the Mandatory Offer**

In the opinion of the Independent Committee, in particular the following advantages may result from accepting the Mandatory Offer:

- The offer price of CHF 99.20 in cash per Sulzer share allows Sulzer's public shareholders to instantly dispose of their participation at a guaranteed cash amount. This protects them from losses which could result from a potential decrease of the share price of the Sulzer shares.
- Accepting the Mandatory Offer eliminates the risk for public shareholders to hold a potentially illiquid share. In case a large number of Sulzer shares are tendered, the liquidity of the Sulzer shares will decrease. It could be more difficult for shareholders to sell larger stakes at any time. Further, depending on the tender ratio, the free float could no longer satisfy the requirements of the listing rules of the SIX Swiss Exchange or of stock market index providers. This could lead to an exclusion from a stock market index of the Sulzer shares and/or a request for delisting.
- By accepting the Mandatory Offer, public shareholders can avoid holding shares in a potentially majority-controlled company. The effects of the Mandatory Offer on the control of Sulzer are unknown, but the Renova Shareholder Group could, depending on the tender ratio, acquire a majority stake in Sulzer and thus control Sulzer.

In contrast, there is the disadvantage that tendering shares at the offer price of CHF 99.20 could prevent the public shareholders to benefit from a potential future increase of the share price of the Sulzer shares. The Independent Committee is convinced of the potential for appreciation of the Sulzer shares, which is not appropriately reflected in the offer price. On August 21, 2015, the closing price of the Sulzer share on the SIX Swiss Exchange was CHF 99.45. The offer price is thus below that closing price.

#### **D. Disclosure of the Voting Ratio**

The Independent Committee adopted this report unanimously.

### **III. Explanations Regarding the Mandatory Offer**

#### **A. Offer Price**

According to the Offer Prospectus, the offer price of CHF 99.20 per Sulzer share corresponds to the minimum price pursuant to Art. 31 para. 4 SESTA, rounded up to the next 5 centimes. It offers no premium over the volume-weighted average price of the on-orderbook trades (VWAP) executed during the last 60 trading days prior to August 3, 2015.

#### **B. Listing**

According to the Offer Prospectus, neither Tiwel nor the Renova Shareholder Group intends to delist the Sulzer shares. Rather, the Mandatory Offer at the minimum price aims to ensure that Sulzer remains a publicly traded company.

#### **C. Strategic Direction**

According to the Offer Prospectus, neither Tiwel nor the Renova Shareholder Group intends to change the strategic direction of Sulzer or the composition of the Board of Directors or the Executive Committee. The Offer Prospectus states that due to the Renova Shareholder Group exceeding the threshold of 33 1/3% of the voting rights in Sulzer, Sulzer's flexibility to implement measures to optimize its capital structure increases.

### **IV. Intentions of Investors Holding More Than 3% of the Voting Rights in Sulzer**

According to disclosure notifications, the following shareholders hold more than 3% of the voting rights in Sulzer as of August 21, 2015:

- Mr. Viktor F. Vekselberg (indirectly through the Renova Shareholder Group): 33.36%;
- First Pacific Advisors: 5.01% (thereof FPA Funds Trust, FPA Crescent Fund with 3.39% as economic beneficiaries);
- BlackRock, Inc.: 3.36%;
- T. Rowe Price Associates, Inc.: 3.06%; and
- Longview Asset Management, LLC: 3.0236%.

The Independent Committee has no knowledge of the intentions of the Renova Shareholder Group going beyond the information provided in the Offer Prospectus. Furthermore, the Independent Committee has no knowledge of the intentions of the above mentioned shareholders with respect to the Mandatory Offer.

## V. Defensive Measures

Sulzer does not intend to take defensive measures. The shareholder's meeting of Sulzer has not adopted any resolutions in application of Art. 29 para. 2 SESTA.

## VI. Potential Conflicts of Interest

### A. Members of the Board of Directors and Executive Committee as well as Their Investments in Sulzer

The Board of Directors and the Executive Committee comprise the following members, who as of August 21, 2015, held the following investments:<sup>1</sup>

	Sulzer Shares	Restricted Stock Units (RSUs)	Performance Share Units (PSUs 2013–2015)
<b>Board of Directors</b>	<b>45,633</b>	<b>13,149</b>	-
Peter Löscher	26,684	3,657	-
Matthias Bichsel	342	2,103	-
Thomas Glanzmann	4,616	2,081	-
Jill Lee	3,095	2,081	-
Marco Musetti	2,692	2,081	-
Gerhard Roiss	4,000	1,146	-
Klaus Sturany	4,204	0	-
<b>Executive Committee</b>	<b>33,301</b>	<b>10,734</b>	<b>24,930</b>
Thomas Dittrich	7'000	9'842	3'790
Peter Alexander	10'928	0	9'229
Oliver Bailer	1'303	231	4'369
Fabrice Billard	1'187	0	2'402
César Montenegro	12'883	661	5'140

The Independent Committee as a body has no knowledge of the intentions of the individual members of the Board of Directors or Executive Committee with respect to the Mandatory Offer. Each member of the Board of Directors and Executive Committee will decide individually.

### B. Relationships Between Directors of Sulzer and the Offeror

Peter Löscher and Marco Musetti represent the Renova Shareholder Group on the Board of Directors. Peter Löscher is Chief Executive Officer and delegate of the Board of Directors of Renova Management AG. Marco Musetti is Chief Investment Officer of Renova Management AG as well as a member of the supervisory board of Renova U.S. Holdings Ltd. Therefore, Peter Löscher and Marco Musetti have a conflict of interest with respect to the Mandatory Offer. They are not members of the Independent Committee and abstained from the deliberations and the resolution on the present report.

<sup>1</sup> Klaus Stahlmann resigned as CEO of Sulzer effective August 10, 2015. On the same date, the Board of Directors appointed Thomas Dittrich, in addition to his responsibilities as CFO, as CEO ad interim, effective immediately.

All other members of the Board of Directors do not have any relation with the Renova Shareholder Group or the Offeror. In particular, they have neither entered into any agreements with the Renova Shareholder Group or the Offeror nor are they directors, officers, representatives or employees of the Offeror or any company affiliated with the Offeror. With the exception of Peter Löscher and Marco Musetti, no member of the Board of Directors has therefore a conflict of interest with respect to the Mandatory Offer.

### **C. Relationships Between Members of the Executive Committee of Sulzer and the Offeror**

No member of the Executive Committee of Sulzer has a conflict of interest with respect to the Mandatory Offer. In particular, no member of the Executive Committee has either entered into any agreements with the Renova Shareholder Group or is a director, officer, representative or employee of the Offeror or any company affiliated with the Offeror.

### **D. Financial Effects of the Mandatory Offer on the Corporate Bodies**

The wording of the plan rules for the Restricted Stock Units (RSUs) (or the cash equivalents of RSUs for Fabrice Billard, respectively) provides that in the event of a change of control (among other things, in case of a shareholder exceeding the threshold of 33 1/3% of the voting rights in Sulzer or a public takeover offer not supported by the Board of Directors), all allocated RSUs (cf. Section VI.A. above) are automatically converted in one Sulzer share per RSU (or with respect to Fabrice Billard, CHF 159,999 are paid out in cash). The wording of the plan rules for the Performance Share Units (PSUs) provides that in the event of a change of control (among other things, in case of a shareholder exceeding the threshold of 33 1/3% of the voting rights in Sulzer), all allocated PSUs (cf. Section VI.A. above) automatically convert into zero to two Sulzer shares per RSU on a pro rata basis.

Pursuant to the Offer Prospectus, the Renova Shareholder Group does not intend to change the strategic direction of Sulzer with the Mandatory Offer (see also Section II.B.). Based on this statement, the Independent Committee is of the opinion that the mere exceeding of the threshold of 33 1/3% of the voting rights in Sulzer by the Renova Shareholder Group does not yet qualify as a change of control. The control of 50% or more of the voting rights in Sulzer by the Renova Shareholder Group, and therewith control over Sulzer, must be qualified as a change of control, however.

Both plan rules provide that the Board of Directors may amend, suspend or discontinue these rules at any time and at its sole discretion. Based on this authority, the Board of Directors specified the plan rules to the effect that with respect to the Renova Shareholder Group, a change of control only occurs if the Renova Shareholder Group exceeds the threshold of 50% of the voting rights in Sulzer.

The result of the Mandatory Offer has no other financial implications on the corporate bodies.

### **E. Relationships Between Sulzer and the Offeror**

Business relationships in the low double-digit million range exist with companies that are directly or indirectly controlled by the Renova Group: As of December 31, 2014, sales with related parties controlled by the Renova Group amounted to CHF 16.2 million, with open receivables of CHF 6.0 million. Fees for consulting services from a company controlled by the Renova Group amounted to CHF 0.2 million.

## **VII. Annual Financial Statements; Half-year Report**

The 2014 annual report and the half-year report for the first half of 2015 can be accessed on the homepage of Sulzer ([www.sulzer.com](http://www.sulzer.com)). The financial position, net assets and results of operations as well as the business prospects have not changed materially since the publication of the half-year report and any later press releases published until August 21, 2015. However, Klaus Stahlmann resigned as CEO of Sulzer effective August 10, 2015. The Board of Directors appointed Thomas Dittrich, in addition to his responsibilities as CFO of Sulzer, as CEO ad interim, effective immediately.

Winterthur, August 21, 2015

For the Board of Directors (with Peter Löscher and Marco Musetti abstaining):

Dr. Matthias Bichsel, Vice Chairman of the Board of Directors and Chair of the Independent Committee