



SULZER

Sulzer Pumps Annual Review 2006

The **Heart**
of Your
Process





Review by the President

Successful Completion of Our Improvement Plans and Continued Strong Organic Growth

Introduction

Although we approached 2006 with a positive outlook, the level of business activity has surpassed the expectations of most market participants. All segments and geographical areas showed a high level of project activity. The sale of the non-core PACO line of pumps and some real estate gains also contributed favourably to our results. Our profitability improved and our new optimized factories were completed and reached full operational effectiveness.

Markets

2006 started positively and stayed that way throughout the year. Large project activity exceeded the high level seen in 2005. Within Asia, China and India continued strongly, while South East Asia revived its activity compared to previous years. Europe stayed constant at a high level, whereas both the USA and Canada showed increased activity levels compared to the past.

All customer segments were strong. The pulp and paper industry continued at a high level of activity, whereas the power industry became strengthened during the year. The oil & gas segment showed extraordinarily high activity levels, as did the hydrocarbon processing industry. In addition to these core segments, the food segment had a particularly good year primarily driven by the corn based bio-ethanol investment levels in the USA (and increasingly also in Europe). Also the metal segment remained highly active.

Sulzer had a high success rate in large projects. In 2006, we saw some extraordinary orders, such as the pumps for the Eastern Siberian Pipeline, a reference order for Sulzer Pumps. Combined with the Enbridge pipeline order this year and the Baku-Tbilisi-Ceylon (BTC) pipeline pumps supplied in 2004, Sulzer confirmed its technical strength in pipeline applications for severe environments.

HPI orders in the Middle East reached record levels. Power orders in China continued strongly and our water presence strengthened during 2006. The project activity for pulp and paper continued to be buoyant, with notable large projects in South America and Asia.

Operations

With the reconfigurations in North America and Finland finished, we could truly benefit from the attractive market conditions. We finalized the new factories in China and Brazil and our people settled in well. Since 2005, a new additional focus of our operational excellence activities was aimed at the service business. A well planned roll-out of our Sulzer Pumps lean principles into the parts processing and service centers worldwide has already showed significant initial benefits. A number of service centers was added to the network in our continued expansion strategy. Overall, Sulzer Pumps was able to execute a significant level of growth in sales while keeping headcount relatively constant, proof of our ability to constantly improve productivity. With the recent market developments, we notice clear strains in our global supply chain, specifically for motors, seals and foundry products. Also the quest for qualified people has become increasingly challenging. We focused on a few product introductions during 2006 and initiated various long term innovation projects.

Strategy

We continued to focus on operational excellence in 2006. We announced the program for our structural improvement project in 2003 with profitability targets in 2006. Now, having completed 2006, we over-achieved our goals, in significantly more favourable market conditions compared to expectations at the time. In 2006, we specifically expanded

our focus to the service business, a significant contributor to our business success. The acquisition of Johnston Pumps of Canada fits in that strategy. Our acquisition of the outstanding shares of the Chinese Joint Venture will allow us to expand our presence in this market. A detailed technology and product transfer program has been developed and is in execution for both China and India.

Outlook

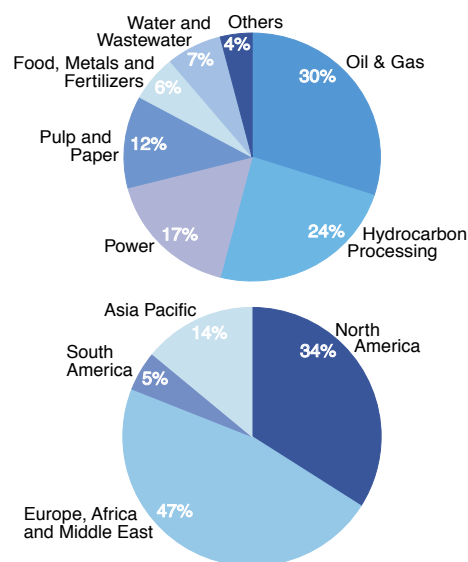
The last three years have shown extraordinary growth rates, from 13% in 2004, to almost 30% in both 2005 and 2006. We expect 2007 to continue to be strong, but believe that the growth rates may decline. The oil & gas and HPI industry are expected to remain strong. Also the power industry shows high project activity levels, not only in Asia, but also in North America and Europe. Pulp and paper may slow in the second half of the year, whereas the water segment is expected to moderately increase in activity.

We expect the current market strength to continue globally, with no geographical area significantly weakening. We feel the possibilities for geopolitical changes will increase in 2007. We expect the strain on the supply chain and the limited availability of qualified people to become a more significant bottleneck in the execution of projects, both on the end-user, the engineering contractor and the supply side. In absolute terms, we expect higher sales and extending lead times for projects.



Ton Büchner
President
Winterthur, March 1, 2007

Orders Received by Segments and Geographical Areas



Sulzer Pumps 2006 in Figures

in CHF million	2006	2005
Order intake	1 753	1 367
Sales	1 405	1 266
EBIT	160	98
Research and development expenses	12	12
Capital expenditure	40	35
Headcount as of December 31 (number)	5 192	5 116



Oil & Gas

Success in a Booming Market

The fluctuating oil price has resulted in a certain degree of uncertainty; however the levels remain high enough to ensure continued investments from the major independent and national oil companies. With our strong product offerings, reputation, and customer relationships we have been well placed to benefit from these increased investment levels. Our strategic relationship agreements with many of the oil majors continue to add value to all concerned and we expect this portion of our business to grow with additional agreements foreseen in the future.

Our focused approach on large projects has resulted in several significant orders, most noticeably pipelines in the US, Canada, and the massive Russian ESPO project which will take crude oil on a journey over 4,000 km long from East Siberia to the Pacific Ocean. Whilst initial cost is important other factors such as energy consumption, reliability and after sales service will always be a consideration enabling us to differentiate ourselves from the competition.

The Middle East continues as a region with tremendous growth opportunities and we have quickly built up our local presence. The response has been positive and is reflected in our increased business levels and continued investment commitment for the region in the near future.

Pressure in the supply chain, and shortage of engineering contractor availability has resulted in overall increased project costs and lead times, which will inevitably take some of the heat out of the market. However we expect our strong market position will ensure that we can foresee another successful year in 2007.

Our combination of proven experience and state of the art computer assisted hydraulic design ensures that we can offer pumps of the highest efficiency. We are currently upgrading the existing main pumps for a key pipeline system with new Sulzer internals to greatly reduce overall power requirements and increase reliability.

Peter Buschieper
General Manager, Technical Service





Hydrocarbon Processing

Strong Global Markets

2006 was a year of unprecedented growth in the hydrocarbon processing industry. The growth in capital expansions to address the strong global demand was driven by sustained high prices for refined, petrochemical and gas processed products. The HPI segment's focus on providing an extensive product portfolio and a global network of manufacturing, packaging and service facilities ensured that Sulzer Pumps was prepared for these opportunities. Our customers confirmed that our strategy was the preferred option and selected Sulzer Pumps to provide pumping equipment for their new or expanded facilities in the HPI sub-segments of gas processing, refining, petrochemicals, nitrogenous fertilizers and synthetic fuels. As a result of our customers' trust, the HPI segment enjoyed a record year for order intake.

The global economy has now completed its sixth year of economic expansion which has increased oil prices to record levels and made alternative and synthetic fuels more economically attractive. The global demand is expected to continue to out pace global supply for the foreseeable future which suggests that 2007 will be another robust year for the HPI segment. In addition to the global demand, mandates to improve safety and environmental protection while improving product quality and satisfy governmental regulations will drive the demand for safe, reliable and energy efficient pumping equipment. The strategies of Sulzer Pumps are aligned with the needs of the HPI market and we positioned to have another successful year in 2007.



In an environment where high-temperature, high-pressure toxic and/or flammable liquids must be transported, safety and environmental protection are important considerations. Sulzer Pumps HPI product portfolio features sealless pumps in both magnetic drive and canned motor designs that comply with API 685 to safely and reliably address these extreme pumping conditions.

Debbie Martinez
Sales Representative, New Equipment



Pulp and Paper

Pulp and Paper Industry Continues to Grow

The demand for, and production of paper increased at a level higher than forecast. Growth in Asia and South America was mainly achieved with new capacity investments in both pulp and paper. In North America and Europe growth was based on rebuilds and improvements in productivity and paper quality.

In Europe we succeeded in keeping our strong market position thanks to new product introductions and focused sales effort. We won several orders for pumps and agitators on both new and modernization projects in European mills as well as in Africa.

In the large North American market no major investments were undertaken. Our leadership in technology and environment protecting products supported our success in winning pump and agitator orders in important mill rebuild projects.

The market activity in Asia-Pacific was high with large numbers of new pulp and paper mill as well as rebuild projects. We were awarded important orders for our products in all countries of this fast growing region and ended the year in a strong position.

In the expanding South American market we reached a stable position based on the reliability of our pump and agitator lines. The orders included products for both projects and rebuilds.

The growth in the pulp and paper industry is expected to continue for the first half of 2007. There are some indications the activity period may decrease in the latter half of the year. We expect to maintain our strong position as the global market leader by means of our technological leadership in key pumping and mixing solutions, with environment saving features, backed up by our reputation for reliability.

The new AHLSTAR^{UP} stock pump series completed the Stock Pumping Concept of Sulzer Pumps in the 0 to 18% consistency range. The four pump series of the concept are the basis of our vision to save energy, sealing water and the environment.

Mikko Hirvensalo
Vice President Sales, Sulzer Process Pumps





Power Generation

Booming Global Market

2006 was a very busy year in the power market with bookings reaching a far higher level than 2005. Globally, we could see strong recovery in both the fossil and combined cycle markets. In many countries the nuclear business has once again become a valid alternative.

The power market for North America continues to show substantial growth, with a particular focus on coal fired plants. We were successful on several key projects for the main boiler feed pumps and associated services which included vertical pumps produced at our Sulzer Pumps Houston facility.

In Europe and the Middle East we have activities in all major power sub-segments. France is constructing a new EPR 1600 nuclear plant, in Bulgaria a medium sized coal-fired plant started construction and in countries including Italy, Spain, France, UAE, Qatar, Saudi Arabia etc. combined cycle plants are being built. For many of these plants we received orders for boiler feed and condensate extraction pumps.

In Asia Pacific, and in particular China and India, we continue to see the strongest growth in the worldwide power business. China is building large numbers of coal-fired and nuclear plants. We received many orders for boiler feed pump cartridges for the 600MW coal-fired power plants and, in addition, the boiler feed pumps for the Ninghai 2x1000MW Phase II project. In India, we increased our order volume due to our success in this large local market.

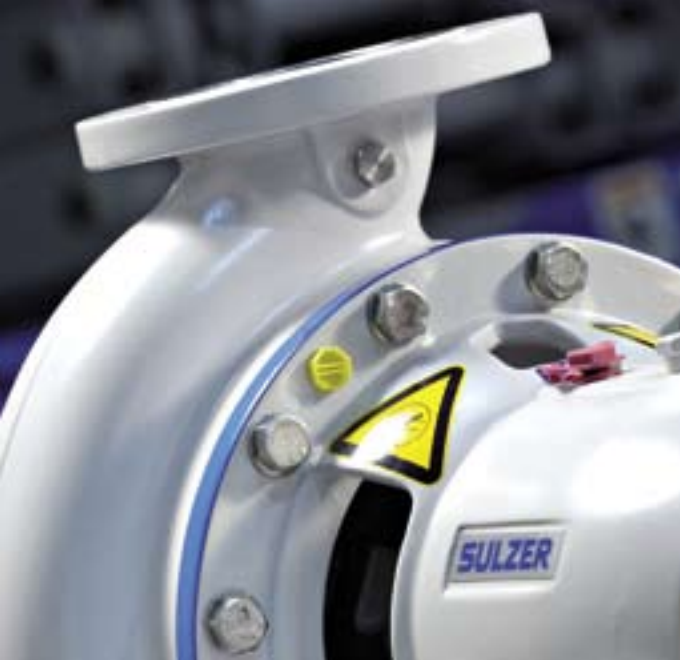
In Brazil we had successes in the industrial power generation as well as the biomass co-generation business.

We expect activity in 2007 will supersede the previous high levels of 2006 with activity hot spots including China, India, USA, Russia, Germany, South Africa.



All over the world statutory legislation limits SO₂ emissions from large fossil plants. Since it is not always possible to reduce emission levels during the primary process, flue gas desulphurization plants are provided to achieve the required levels. Sulzer Pumps supplies key pumps and agitators for the flue gas desulphurization process.

Shi Fachun
Chief Representative, Sulzer Pumps Beijing Office



Food, Metals and Fertilizers

Record Year in Food, Metals and Fertilizers

Regional differences were typical of the sugar business during 2006. The European industry was cutting overcapacity, but the main players China, India and Brazil remained active. Brazil was the biggest exporter of both raw sugar and sugar cane based bioethanol for transport fuel.

The starch industry's recovery in Europe was postponed and signs of new investments are scarce.

Sulzer Pumps has maintained a good position in sugar and starch despite the turbulent market.

The growth of bioethanol market in North America was continuing and several new plants were started during the year. Market activity in biofuels outside North America is also increasing due to governmental support and recent developments in environmental legislation. Sulzer Pumps as a pump supplier to these processes is supporting the target to increase the use of renewable natural resources.

The continuing high demand in base metals was clearly seen especially in developing economies. Due to low inventory levels, new projects were started throughout the year. Sulzer Pumps succeeded both in greenfield and the modernization business. Our customers were especially satisfied with the material know-how and innovative solutions of our new AHLSTAR^{UP} pump series. The investment boom in metals will continue in 2007.

Population growth, decreasing space for plantations and use of energy intensive cereals are the driving forces behind the increasing use of fertilizers. Increasing environmental awareness in the fertilizer industry is a perfect match for Sulzer Pumps. High-end features in our products create competitive advantages in demanding pumping and mixing applications.

Sulzer Pumps as a key supplier to various demanding applications in food, metals and fertilizer industries has always been the forerunner in Environmental Concept embedded into our new products and services. The sustainable development taking the entire life cycle of our products into account is minimizing energy demand, emissions and overall impact on our environment.

Kaarlo Horo
President, North America, Sulzer Process Pumps (US) Inc.





Water and Wastewater

The Exciting World of Water

2006 was remarkable for the water and wastewater segment not only because we comfortably exceeded our budgeted bookings, but because we also strengthened the foundations for the further solid growth we want to achieve in this gigantic, exciting market.

Despite the fact that we focus mostly in the upper end and therefore smaller market, we are proud to be one of the most experienced suppliers of high energy centrifugal pumps for water transport and reverse osmosis desalination.

In this market we invest a great deal of time and resources to continuously support our customers and their consultants to design optimal pumping solutions that are proven, highly efficient and reliable.

Our un-matched capability to provide this support is based on our extensive technical knowledge of pumps and pumping systems, supported by an impressive list of installations.

As a result this year we secured large orders worldwide for major water supply and transport projects such as the extension of Pao la Balsa (Venezuela), Vaal River (South Africa), Tarrant (USA), Tijuana (Mexico) and also for major reverse osmosis desalination plants such as Skikda (Argelia) and Palm & Jumairah (UAE).

Our business in reverse osmosis showed the highest growth, boosted by the successful use of Sulzer Process Pumps products, that have proved to be very competitive in this specialized market.

We expect that 2007 will be even better, not only because of a buoyant market, especially in desalination, but also because of the more active engagement of our sales force supported by selective portfolio upgrades and increased tendering capability.



Energy cost may represent 50% or more of the life cycle cost of a desalination plant or water transport pipeline. Sulzer Pumps' traditional commitment to technical excellence and our unrivalled competence to design reliable pumps that sustain highly efficient operation for many years helps our customers to save scarce non-renewable energy.

Miguel Angel Rivas
Portfolio Manager, Power, Water & Wastewater



Customer Support Services

Performance Through People

Once again 2006 was an excellent year for our aftermarket business with all regions and industry segments reporting strong organic growth. We achieved the strongest volume increases in the oil & gas and power segments, with a special note for the nuclear industry. We also enjoyed strong relative growth in the food, metals and fertilizers segment. The outsourcing trend continues in the pulp and paper segment, together with an increased rate of investment from our customers, which goes beyond new equipment into modernizations.

This upturn in market conditions put pressure on speed of service delivery in our service centers, parts processing centers and at all our main suppliers, especially foundries. As a counter measure, we increased spare parts inventory and trained more than 300 co-workers in Sulzer Pumps lean principles, which aim at eliminating inefficiencies in our processes and increasing our speed. This program will continue in 2007 to cover all our service operations.

During the year, we extended our service network to support our customers locally with service centers in Moerdijk (Netherlands), Toronto (Canada) and Shanghai (China).

There is an increasing demand from customers to reduce energy and water consumption. Efficiency gains of 4–5% through improved hydraulics or components are often possible with correspondingly short pay back times. To answer the specific needs of our pulp and paper customers, we have developed an Energy Audit Program, which systematically identifies all potential sources of savings.

Jackie Bonas
CSS Controller, Sulzer Pumps (UK) Ltd.





Sulzer at a Glance

SULZER

Sulzer Pumps Sulzer Metco Sulzer Chemtech Sulzer Turbo Services

Sulzer was founded over 170 years ago in Winterthur, Switzerland, and is active today in machinery and equipment manufacturing and surface engineering in around 120 locations worldwide. The divisions are global leaders in their markets, which include the oil and gas, chemical process, power generation, pulp and paper, automotive, and aerospace industries.

The corporation has a central research and development unit and employs some ten thousand staff dedicated to creating innovative technical solutions. These products and services help Sulzer's customers strengthen their competitive positions in the global marketplace.

Sulzer is an industrial brand that is focused on innovation. With this emphasis, the divisions offer the following portfolio:

- Sulzer Pumps** Pumping solutions and services
- Sulzer Metco** Surface technology solutions and services
- Sulzer Chemtech** Components and services for separation columns and static mixing
- Sulzer Turbo Services** Service and repair of thermal turbomachinery

Sulzer Key Figures 2006		
in millions of CHF	2006	2005
Order intake	3 276.9	2 635.1
Sales	2 801.7	2 498.2
Operating income before depreciation/amortization	EBITDA 376.1	272.6
Operating income	EBIT 295.6	166.8
Net income attributable to shareholders of Sulzer Ltd	221.4	128.3
Headcount as of December 31 (number)	10 393	9 656



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