

**SULZER**



# Sulzer Pumps Annual Review 2005

The **Heart**  
of Your  
Process





# Review by the President

## Strong growth and further improved profitability

### Introduction

Our operational improvement program was in its third year during 2005 and clearly showed continued positive effects. In strong markets, we were able to combine high growth with improved profitability. The order backlog also increased. Some real estate sales of reconfigured factories contributed additional earnings. The Johnston and Crown vertical pump lines acquired in 2004 were successfully integrated by mid 2005. Announcement of the sale of the non core heating, ventilation and air conditioning products under the PACO brand to Grundfos was made in January 2006.

### Markets

In 2005, the robust market conditions of 2004 continued. The markets in Asia remained particularly strong, with China, India, and South East Asia showing good project activities. The North American markets showed increased strength, while South America continued at late 2004 investment levels. Project volume in Europe remained stable, and activities in Africa and the Middle East were robust.

All customer segments were strong. The oil and gas market was particularly lively in 2005, with downstream hydrocarbon processing picking up during the year. The 2004 acquisitions augmented our market position in the power and water segments, and volume synergies were generated by combining sales forces. Both these segments further improved in 2005, underlining the good timing of the acquisition to capitalize on these developments. Although the paper segment cooled somewhat in the second half of the year, investment by the pulp industry remained at a relatively high level, especially in South America. The metal and food segments continued to be strong, whereas the fertilizer segment persisted at a relatively low level of activity.

### Operations

Top-line growth was driven by good market conditions and a more focused sales force. We saw full-year benefits from the reconfiguration programs in North America and Finland, and completed the ongoing projects in Asia and South America. Additional growth came from the vertical product lines acquired in 2004. Raw material costs rose initially, but stabilized in the second half of the year. Due to sales of surplus real estate and good net working capital management, a further optimization of capital employed was achieved. The integration of the acquired product lines was accomplished swiftly. During the first few months after the acquisition, Sulzer systems and operational controls were introduced and factory layouts were streamlined. The sales force and three service centers were merged with existing Sulzer teams and facilities.

The continued focus on innovation allowed us to bring several new and modified products to the market. With the speedy introduction and high acceptance levels of these products, we were able to generate additional organic growth in the power, oil and gas, and pulp and paper industries. The new pulp and paper product line, designed to create significant energy savings for our customers, was introduced mid-year.

### Strategy

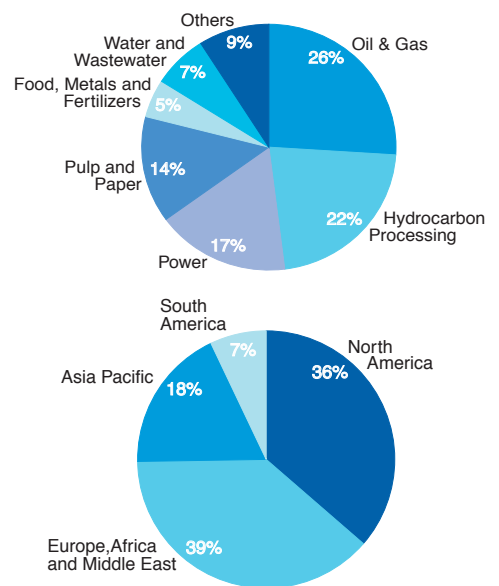
We have focused on operational excellence since 2003, pursuing organic and acquisition-driven growth in 2004 and 2005. The division will continue to concentrate on organic growth in its four core industry segments: oil & gas, hydrocarbon processing, power, and pulp and paper. The new, more streamlined factories in China and Brazil will contribute additionally to the full-year benefits already generated by the North American and European restructuring activities. Special emphasis on the global improvement initiatives such as networking capital management, lean manufacturing and design-to-cost is ongoing. Organic growth in both new equipment and services remains the focus.

### Outlook

The last two years have brought extraordinary growth rates. We expect 2006 to be a busy year, but possibly one with fewer large projects. Oil and gas upstream and downstream markets should remain active and the capital expenditure levels in the power generation industry slowly rise.

European markets are expected to remain flat, while activity in North America retains the strength it developed in 2005. The market trend in South America is expected to proceed at a lower level than 2005, whereas in Asia and the Middle East high levels of investment are expected to continue into 2006. In absolute terms higher sales are expected.

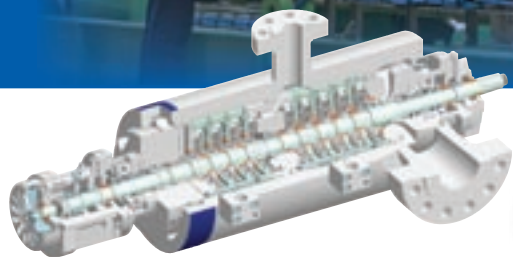
Orders received by segments and geographical areas



Sulzer Pumps 2005 in figures

in CHF million	2005	2004
Orders received	1 367	1 073
Sales	1 266	1 002
EBITA	98	64
Expenditure on R&D	12	12
Capital expenditure	35	15
Personnel (at year end)	5 116	4 983

**Ton Büchner**  
 President  
 Winterthur, March 1, 2006



# Oil & Gas

GSG back to back seawater injection pump

## Buoyant market supports continued growth

The increased demand for energy, combined with high oil and gas prices has resulted in a continuation of last years' high investment levels in major projects. Our commitment to providing our customers with solutions that provide the best value over the life of the equipment's operational life has ensured that we have again exceeded all previous records with regards to sales, orders and profitability.

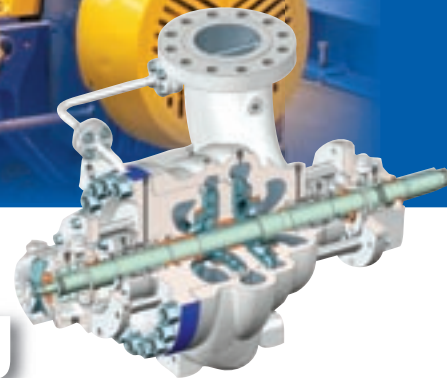
As production levels from many of the traditional producing regions decline it has been necessary for the international oil companies to operate in new areas of the world, utilizing new technologies, whilst at the same time maintaining the requirements for safety, quality, reliability and local support. Our technical reputation and global presence ensures we are well placed to meet these challenges.

The drive to maximize opportunities in the Middle East to increase output will ensure it continues to be a major area of activity for many years to come, and we are rapidly growing our presence from both a new and after sales perspective. This has already resulted in a significant growth in our market share from this important region and will continue to be a focus for the foreseeable future.

From offshore pumps for the ultra deep waters off the coasts of Brazil, Gulf of Mexico and West Africa, to pipelines for China, Africa, Canada and the Caspian we will continue to support our customers with the products and the services they require ensuring a positive outlook for 2006.

**Booming economies in Asia, shortage of refining capacity in North America, hurricane damage and political concerns in certain areas of the world have all contributed to the high oil price. At these levels previous projects that were not economically viable are now attractive for development.**





BBT ISO 13709 two stage process pump

# Hydrocarbon Processing

## Aligned with market demands

Our focus on the HPI market sub-segments of refining, gas processing, petrochemicals, nitrogenous fertilizers and synthetic fuels yielded excellent results in 2005. We were a formidable and successful contender in each of these sub-segments through the determined application of our strategy to use low cost global manufacturing and local packaging as well as our continued commitment to support our global engineering contractor and major energy alliance partners. Our success was further enhanced by conducting global sales and application training to enhance the sales team's skills in the proper selection and application of our extensive product portfolio.

The continuing demand for clean transportation fuels, natural gas, fertilizer and plastics suggests that HPI market in 2006 will once again be very active. The increased cost of crude oil has made synthetic fuels and heavy crude more attractive and we expect to see additional activity in these markets. The abundance of natural gas in the Middle East will continue to drive the markets for natural gas purification and monetization through LNG or GTL (gas-to-liquid) as well as olefins production to satisfy the global needs for plastics. The economies of Asia are improving and demands for the products of the HPI industry are ever increasing. The world appetite for energy is insatiable and we are positioned to provide the equipment necessary to fulfil the needs of the HPI market in 2006.



**Globally, the HPI market is working to increase production, improve plant safety, improve product quality and adhere to strict environmental regulations. Consumers are demanding lower prices and improved availability of HPI products. The coincidence of these market factors creates a healthy demand for Sulzer Pumps' products and services.**



# Pulp and Paper

The new AHLSTAR<sup>UP</sup> stock/process pump

## World paper and board demand continues at high level

The demand and production of paper and board continued to increase at a higher level than the average of 2.1% per year. In North America and Europe market growth was driven by rebuilds and improvements in mill productivity. In Asia and South America it was mostly achieved through new capacity investments. About two thirds of the year's new production capacity was built in Asia.

In Europe we succeeded in keeping our leading market position and won many important mill projects (both new and modernization). These included pumps and agitators for several projects in Spain, Germany, Italy, Sweden and Finland.

No major investments were carried out in North America, but thanks to our technical leadership and energy saving products we succeeded in winning many key orders.

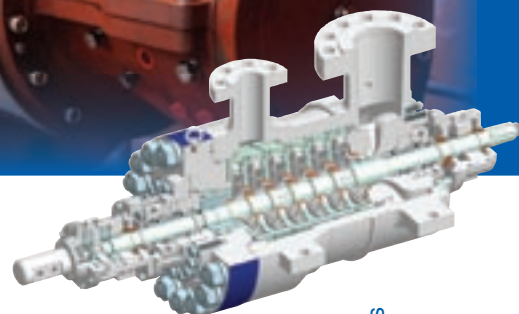
High levels of market activity in Asia were driven by a large number of investment projects. We were awarded important orders for pumps and agitators in pulp and paper mills across the region.

Our success in South America was also remarkable. The pumps and mixers delivered in support of major projects have convinced our customers of our expertise and reliability in this field.

The growth of demand for paper and board products is expected to continue to be active for the first half of 2006, although the overcapacity of paper production in certain areas may have an effect on some planned projects. Thanks to our leading technology and new product lines we expect to maintain our stable position as the global market leader.

**Sulzer Pumps launched the new AHLSTAR<sup>UP</sup> stock/process pumps series at the SPCI 2005 pulp and paper exhibition in Stockholm, Sweden. The new pumps save energy, sealing water and protect the environment. The pumps are developed for the consistency range of 0% to 8% as part of our Stock Pumping Concept.**





HPT power station boiler feed pumps

# Power Generation

## China market grows at a very high pace

Bookings in 2005 far exceeded those of 2004. The worldwide power market showed a strong recovery in the fossil and, in selected areas, combined cycle market. Further improvements of our product competitiveness also contributed to the excellent booking achievement.

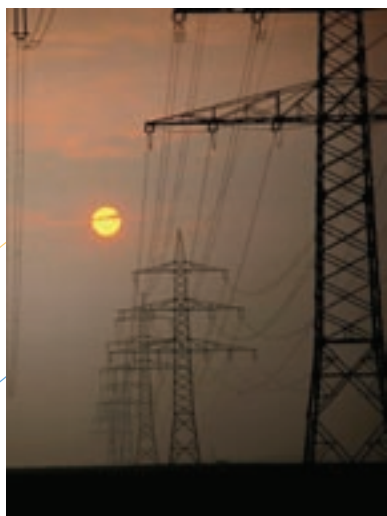
In North America we see activity in the coal fired market. High gas prices and surplus capacity slowed the construction of new combined cycle plants. Order intake in this region was moderate but the future potential, supported by our new vertical pump line from Sulzer Pumps Houston, is excellent.

In Europe, and Germany in particular, there was a revival in the construction of coal fired capacity. Neurath, with its 2x1,100MW, will be the first and largest of its kind. We received the order for the boiler feed pumps for this key project. Italian power generation partly depends on foreign electricity supply, building new combined cycle plants will reduce this. We are supplying the major pumps for one of the first of these stations. In the Middle East we won the order for nine boiler feed pumps for the Shoaiba project in Saudi Arabia.

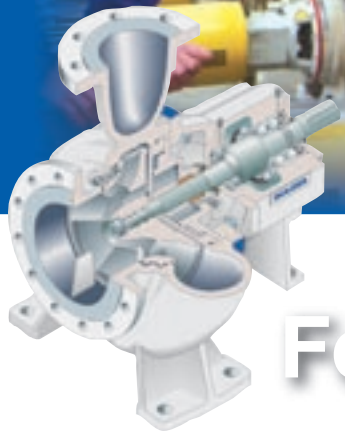
In Asia Pacific area, in the Chinese fossil market we continued our success with the supply of boiler feed and condensate pumps plus pumps for flue gas desulphurization. A notable order was for the largest boiler feed pumps for installation in China. The Indian market remained strong and we were particularly successful in industrial and combined cycle applications.

In South America there were few projects and even these were delayed for release. However we were successful in some smaller industrial power generation projects.

Considering the gap between the worldwide need and installed capacity, we can expect another excellent year in 2006.



**China has increased its power generation capacity in recent years at an incredible speed. Today China is number two in installed capacity after the USA. The majority of capacity is fossil fired type (75%) followed by hydro power stations (23%) and nuclear power stations (2%). We expect this development to continue.**



ASP self-priming pump

# Food, Metals and Fertilizers

## FMF segment on a growth path

The FMF segment had a good 2005 for both new and after market business. We especially increased our sales in the ethanol and starch industries. Sales growth in the fertilizer industry was also excellent.

The Sugar Regime within the European Union is now reformed, cutting sugar beet and sugar prices. The European sugar industry shows no organic growth, activity being mainly focused on consolidation amongst companies. Factory expansions offer us possibilities in modernization projects. New investments will be mainly focused in the cane sugar industry outside Europe.

The starch industry shows new signs of recovery and investment levels have started to accelerate. During the year we received some remarkable orders, notably from Brazil. The EU Sugar Regime additionally offers new possibilities in the future in grain based sweeteners.

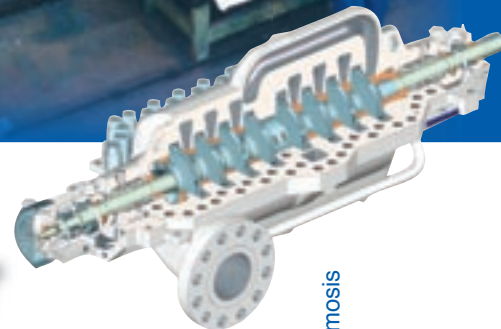
The bioethanol market is active in North America where we strengthened our market position. Ethanol consumption continued to rise in the USA, especially because of the hurricanes Katrina and Rita. In Europe, new legislation stipulates that biofuels should be added to gasoline in increasing amounts. Several new plants are under construction and there will be an increasing demand for bioethanol.

Metal investments were active during the whole year due to high demand and overall price levels. Many projects were active during 2005 with our customers finalizing their feasibility studies. These projects will move ahead during 2006.

Our sales recovery in the fertilizer industry was remarkable, the year saw us win a number of key projects. Activity indicated that the fertilizer industry is strengthening especially in Eastern Europe while North Africa stays active.

**South America continues to be an important market in the animal nutrition sector. Strong demand for both pumps and mixers continued to grow. Close co-operation between local sales teams and the central production units is essential for these sophisticated duties.**





MSD high pressure pump for reverse osmosis

# Water and Wastewater

## High demand in an important market

2005 was an excellent year and bookings again exceeded the previous year.

Our recently acquired company in the USA, Sulzer Pumps Houston, has an excellent vertical pump line and contributed to a substantial part of our growth. A significant order was booked for the water supply of Las Vegas comprising of 20 large vertical pumps. Furthermore, through Sulzer Pumps Houston we facilitated access of our existing product range into the vast North American market.

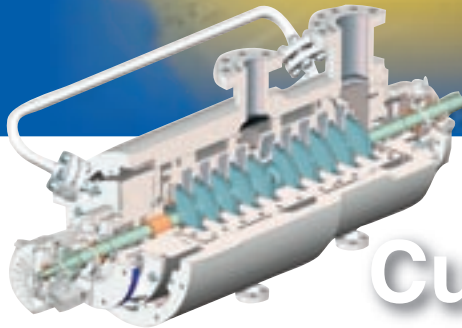
In Europe the market was very slow with the exception of Spain where we secured two major orders for irrigation. In the Middle East the market remained strong and we expect excellent opportunities to be developed soon. In South America, project activity in Brazil and Venezuela was healthy and we are positive about the outlook for 2006. In Brazil we were awarded a large order for vertical wet pit sewage pumps, which are amongst the largest of this class in the world. The South African market continued to be strong and we further increased the high level of order achieved in 2004.

The desalination market will continue to grow as it becomes an ever higher proportion of the water supply in many countries around the globe. Reverse osmosis will still be dominant compared to the evaporation techniques but amongst these, a promising future is opening for Multi-Effect-Desalination (MED), which consumes much less power than the traditional Multi-Stage-Flush (MSF) process. We were awarded with an order for the Valdelentisco sea water reverse osmosis plant for 12 large high pressure pumps including Pelton turbines used as energy recovery systems. The Valdelentisco plant will produce 150 000 m<sup>3</sup>/day, extendable to 200 000 m<sup>3</sup>/day, and will be, once completed, one of the largest plants in Europe, providing drinking water to approx. 400 000 persons plus irrigation water to the agricultural area of South East of Spain.

We expect the outlook for the year 2006 to be very promising for the general water supply as well as for the desalination market.



**From the 2.7% of freshwater available in the world, 2% lies frozen in polar regions and only 0.7% is available for consumption. Providing water at the right cost, quantity and quality and treating the waste water of an increasing population is a constant and overwhelming endeavour for human civilization.**



# Customer Support Service

Services for many complex pump types are available

## Performance through people

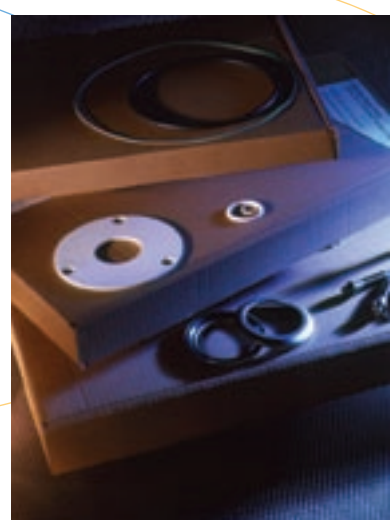
2005 was an excellent year for our aftermarket business with all areas reporting healthy business activity. As in 2004, the continued high oil price maintained good levels of activity in both the upstream and downstream sectors. Investments in upgrading existing machinery, de-bottlenecking processes and improving the 'health' of assets in general all led to another record performance. The trend to outsourcing services continued in the PPI segment supporting our continued year on year growth while similar practices in FMF delivered strong growth performance. The power segment saw particularly strong performance in retrofits and parts supply.

We continued to strengthen our service center network around the globe. A new location in the Middle East was approved and work began in fitting out the facility ready for operation in early 2006. In North America the existing service centers of the Sulzer Pumps and Sulzer Pumps Houston (formally PCC) organizations were combined to optimize geographical coverage. Of particular note is the response of the North American service centers to the damage caused by hurricanes to bring many hundreds of pumps safely back on stream in a record time.

The common thread running through this impressive performance is the people who make Sulzer Pumps Customer Support Services the success it is.

**A recent customer satisfaction survey showed that we are the preferred service partner for the majority of our customers. We will be building on this strong position and address areas for improvement during 2006 by implementing a worldwide program with focus on speed, lean operations, people development and closer relationships with our customers.**

**The introduction in 2005 of lean operating principals by our German parts production cell has already demonstrated impressive improvements in efficiency and speed, and shows the way forward.**



# Sulzer at a glance

## Profile

Sulzer was founded in 1834 in Winterthur, Switzerland, and is active in over 120 locations worldwide in the machinery and equipment, as well as the surfacing technology business. The divisions are globally leading suppliers in their respective customer segments.

**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

Apart from these four core divisions the central research and development unit Sulzer Innotec offers contract research and specialized technical services.

As a future-oriented corporation Sulzer is, thanks to its 10 000 well qualified and motivated employees, in a position to offer innovative technical solutions in the marketplace. Continuously improved products and services enable the companies' customers to strengthen their competitive position in the global marketplace.

<b>Sulzer key figures 2005</b>			
in millions CHF		<b>2005</b>	2004
Order intake		<b>2 635.1</b>	2 197.6
Sales		<b>2 498.2</b>	2 067.0
Operating income before depreciation/amortization	EBITDA	<b>272.6</b>	224.2
Operating income before goodwill amortization	EBITA	<b>166.8</b>	135.6
Operating income	EBIT	<b>166.8</b>	107.6
Net income attributable to shareholders of Sulzer Ltd		<b>128.3</b>	70.2
Headcount as per 12/31		<b>9 656</b>	9 586



## **Sulzer Pumps**

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