



Dear Shareholders,

During 2006, Sulzer maintained its focus on operations and margins in markets characterized by significant strength. Consequently, we achieved high performance and remarkable growth. The high value generation and profitability of the core divisions are best seen in the return on capital employed (ROCE) of 25.8% (previous year 16.4%). With a net income of CHF 221.4 million (+72.6%), the board of directors proposes an increased dividend of CHF 23 per share. Since November 2006, a CHF 300 million share buyback program is ongoing.

Markets

Most of the markets performed above our expectations in 2006. We were able to keep pace with—and in some cases even exceed—market growth rates while maintaining margins. This achievement reflects the effort put into our market organizations and our willingness to move towards new market opportunities.

The growing oil consumption combined with increased investments, which had been limited in the past years, resulted in strong development of the upstream oil and gas markets. The search for new oil sources in more remote areas and in gradually deeper waters is becoming more capital intensive. The need for capital goods in production and distribution has risen substantially, and Sulzer booked notable orders in this area.

The oil and gas downstream market continued to evolve in the same pattern as 2005; large orders for both new plants in emerging countries—notably in the Middle and Far East—and upgrades in the developed countries. Natural gas represents an increasing portion of the feedstock and oil quality is getting poorer. At the same time, environmental standards are being tightened. All these factors have triggered capital expenditures by our customers.

The power generation industry took off to what we assess to be a long investment cycle. Business for coal-fired and nuclear plants became more active in 2006. Due to the long plant construction times, we expect that this trend will positively impact Sulzer Pumps in the long run. Until coal-fired plants come online, gas turbines are being ordered to fill the gap. Supported by faster-than-expected growth in electricity consumption, requests for new gas turbine plants have increased lately—a positive effect for Sulzer Metco. The pulp and paper markets performed well in 2006, particularly in South America.

In the automotive sector, Sulzer Metco continues to benefit from a number of its innovations that enable car manufacturers to switch to carbon-coating technologies for higher-performance engines and gear boxes. Also positive for Sulzer Metco, the upswing in the aerospace market continued in 2006.

The new biofuels market developed rapidly. For example, the USA surpassed Brazil for the first time as the largest bioethanol producer. Sulzer Pumps and Sulzer Chemtech benefited from this trend.

Divisions

Sulzer Pumps grew at a double-digit rate for the third consecutive year in sales. More importantly, helped by its restructuring measures, the division achieved a remarkable return on sales (ROS) of 11.4%.

The target of 8% set three years ago was clearly surpassed, even when considering some nonrecurring income effects. ROCE reached 41.0%, attributable to the systematic approach of the division to achieve operational excellence. During the year, the Johnston and Crown acquisition was successfully integrated, and a nonstrategic part of the activities was spun off.

Sulzer Metco set out back in 2005 to significantly improve its operations and consequently its profitability. The commitment to operational excellence was rewarded by a ROS of 8.3% and a ROCE of 12.2% in the year under review. With this result, Sulzer Metco has returned to financial value creation.

Sulzer Chemtech had a record year in all respects. Excellent profitability (ROS of 13.1% and ROCE of 39.8%) was combined with a superb growth rate of 28.4% in sales. New highs were reached throughout. The increases are even more impressive considering the already strong growth of the last two years and the mounting capacity restraints. The tower field service unit, acquired in 2005, was integrated and delivered results above plans. The acquisition of Mixpac, Werfo, and Mold was concluded by December 2006, the separation technology business of KnitMesh by January 2007.

Sulzer Turbo Services has embarked on a rigorous improvement program since 2005. The measures taken are meanwhile bearing fruit. Both ROS (8.0%) and ROCE (11.7%) recovered in the reporting year. The US units once again delivered very gratifying results, and the units in the Netherlands improved markedly. In line with our focus on profit before growth, volume essentially remained constant.

Sulzer Innotec, the central research and development unit, has supported the divisions in a number of projects by accelerating their innovations. Due to its successful third-party contract research and development (R&D) business, Sulzer Innotec closed the year with higher sales, while spending significantly more on development projects. Sulzer Real Estate again contributed a good operating income of over CHF 25 million from sale of nonessential properties and rentals.

Management Principles and Strategy

In the last three years, Sulzer has consistently followed its principles of first improving operations before striving for organic and external growth. This systematic approach, which has served the company well, is the cornerstone of many specially tailored divisional programs.

By initially focusing on the operations, Sulzer has been able to respond to favorable market developments. We have succeeded in improving margins, while at the same time lifting sales from CHF



Ulf Berg, CEO



Leonardo E. Vannotti, Chairman of the Board

1.8 billion in 2003 to today's almost CHF 3 billion per annum. The upswing was accomplished with only a small increase in staff. This remarkable productivity gain was followed by an improvement in cash flow generation. The results were achieved by highly committed teams that have pursued and implemented initiatives ranging from lean production to a worldwide optimization of the factory capacities. Lean management programs will be further extended to also encompass our administrative offices. Augmented investments in enterprise resource planning systems (ERP) will support this effort.

The organic growth was achieved by the divisions through increased global activities, such as an enlarged global sales network, sales-force efficiency programs, and improved solution offerings to our customers—all this while prioritizing good margins and contract terms. Growth rates achieved by Sulzer Pumps and Sulzer Chemtech in Asia are especially noteworthy, although we believe that there are business opportunities for Sulzer Metco, and later for Sulzer Turbo Services, in this region too. Sulzer also wants to enlarge its presence in the Middle East and Eastern Europe. With increased R&D spending, we aim to offer an expanding portfolio of products and services to our clients.

Furthermore, over the past few years, Sulzer has grown through various acquisitions. The main goals of smooth integration of the companies and fulfillment of the business plans have largely been achieved. Sulzer will continue to enhance its market positions in attractive market segments and strive to create financial value through further acquisitions. The recent acquisitions completed by Sulzer Chemtech will add approximately CHF 130 million in sales per annum.

Financial Results

Order intake for the corporation was CHF 3 276.9 million, 24.4% above 2005, and thus grew in the double-digits for the third consecutive year. In succession, sales also escalated by 12.1%, reaching CHF 2 801.7 million. The order backlog rose further from CHF 1 004.1 million to CHF 1 484.5 million.

The increase in operating income (EBIT) from CHF 166.8 million in 2005 to CHF 295.6 million for the year 2006 (+77.2%) was carried mostly by the core divisions and to a lesser extent by the discontinuation of the fuel-cell venture Sulzer Hexis, the closure of which caused a loss of CHF 32.2 million in 2005. The operating income includes some positive exceptional items of about CHF 14 million at Sulzer Pumps related to the sale of the Paco business line and surplus facilities. ROS of the core divisions rose from 7.5% to

10.7%. All divisions supported this rise. The result of Others, which is mainly driven by real-estate transactions and corporate center costs, was CHF –2.1 million.

Despite the additional working-capital usage in support of the strong volume growth, the average capital employed decreased to CHF 1 247.3 million (previous year: CHF 1 253.0 million) due to the sale of a part of the pumps operations and the efforts of the core divisions to reduce capital employed. ROCE for the core divisions improved from 16.4% to 25.8%, reflecting high economic value added.

Financial income was positively impacted by a nonrecurring capital gain from the sale of the CHF 10.7 million stake held in the German Voith Group. The increased EBIT, drove the net income attributable to the shareholders of Sulzer Ltd up markedly by 72.6% from CHF 128.3 million to CHF 221.4 million. The resulting earnings per share of 62.27 compare favorably to 36.03 in 2005. Cash flow from operations was high in 2006 despite funding of growth and was additionally boosted by proceeds from disposals. Shortly before year end 2006, CHF 135 million were spent on the acquisition of the companies Mixpac, Werfo, and Mold. After paying off long-term debt, the balance of cash and marketable securities at year end stood at CHF 361.6 million; net liquidity, at CHF 299.7 million.

On the basis of these results, the board of directors has proposed a dividend of CHF 23 per share (previous year CHF 14) at the annual general meeting of shareholders.

In light of the healthy balance sheet and the continued good cash flow, a share buyback program of up to CHF 300 million has been launched in November 2006. With this measure, the board of directors addressed the unfavorable cost of capital situation arising from the underleveraged balance sheet. The strategic flexibility of the corporation is not impaired.

Outlook

The projections for the segments of oil and gas, power generation, aerospace, and general industries are promising. A high level of incoming orders is expected with the impact of large orders being hard to assess. More modest growth rates are likely due to the base effect. Sales, however, are anticipated to grow at a higher rate, given the very large order backlog and the acquisitions made by Sulzer Chemtech at the end of 2006. These companies had a turnover of about CHF 130 million in the year under review. We also plan to increase capital expenditures by CHF 20–40 million. We are convinced that profitability will further improve in 2007.

Employees

We would like to pay tribute to our employees, who through powerful work, have delivered outstanding productivity gains. Throughout the corporation, we can count on well-trained individuals, who deliver results by translating many improvement projects into more value for our customers and shareholders. Our people-training programs in the divisions as well as the corporate *Programs for Development and Impact* (PDI) will take Sulzer further.

Shareholders

The Sulzer share has continued its positive development. The share price stood at CHF 1 387 at the end of 2006, up 99.3% from CHF 696 at the beginning of the year. This represents a threefold increase in the value of the company over a period of two years. We consider this a testimonial to the performance achieved and of the trust put into Sulzer's capability to deliver long-term industrial value.

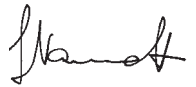
Changes in Top Management

Ton Büchner will become CEO of Sulzer Ltd on April 1, 2007. During his twelve years in various positions within the corporation, Ton Büchner has acquired in-depth knowledge of Sulzer's industries, products, strategies, and processes. Ton Büchner is succeeded by Kim Jackson as president of the Sulzer Pumps division. Kim Jackson has a long career within the pumps industry and has served the last three years as the head of the Asian Sulzer Pumps unit.

Bruno Allmendinger will resign as CFO as of March 1, 2007, after thirty-six years of service to Sulzer, and go into retirement during this year. Since 1998, Bruno Allmendinger has guided the corporation through many difficult periods. With his competent approach, he has, in all instances, helped keep Sulzer in good financial health. The corporation thanks him for all his years of service and wishes him all the best for the future. Peter Meier, who has been appointed as his successor, brings to the position a broad range of experience. He has served as head of finance and controlling for Sulzer Chemtech and Sulzer Metco, where he contributed greatly to their successful performance improvements.

Thanks

Our employees have delivered outstanding results. They deserve our thanks for their commitment to the corporation. Our customers have remained loyal to Sulzer. This relationship has helped Sulzer to develop into an even better company. Last, but not least, we are proud of the trust you, our shareholders, place in us. Sulzer will strive to keep on earning it.



Leonardo E. Vannotti

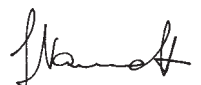


Ulf Berg

Closing words by the Chairman

I have decided to retire from Sulzer at the forthcoming annual general meeting of shareholders on April 4, 2007. On the heels of this decision it will be proposed at the same meeting to elect Ulf Berg to the board of directors, with the intention of naming him as my successor as chairman—if he is elected. Ulf Berg has led Sulzer very successfully as CEO during the last three years. He has shown a brilliant strategic mind and unquestionable operating competence, which makes him eminently qualified for the role as chairman of the board.

Leaving Sulzer after fourteen eventful years—the last six as its chairman—I can see the substantial transformation this proud company has gone through. Sulzer has now had increasingly positive results several years in a row. This success would not have been possible without the commitment and the drive of all the people within the organization and the trust of the shareholders. My sincere thanks to all. I am convinced that the new and younger management will lead Sulzer to further success. Therefore, it is the right point in time for me to step down.



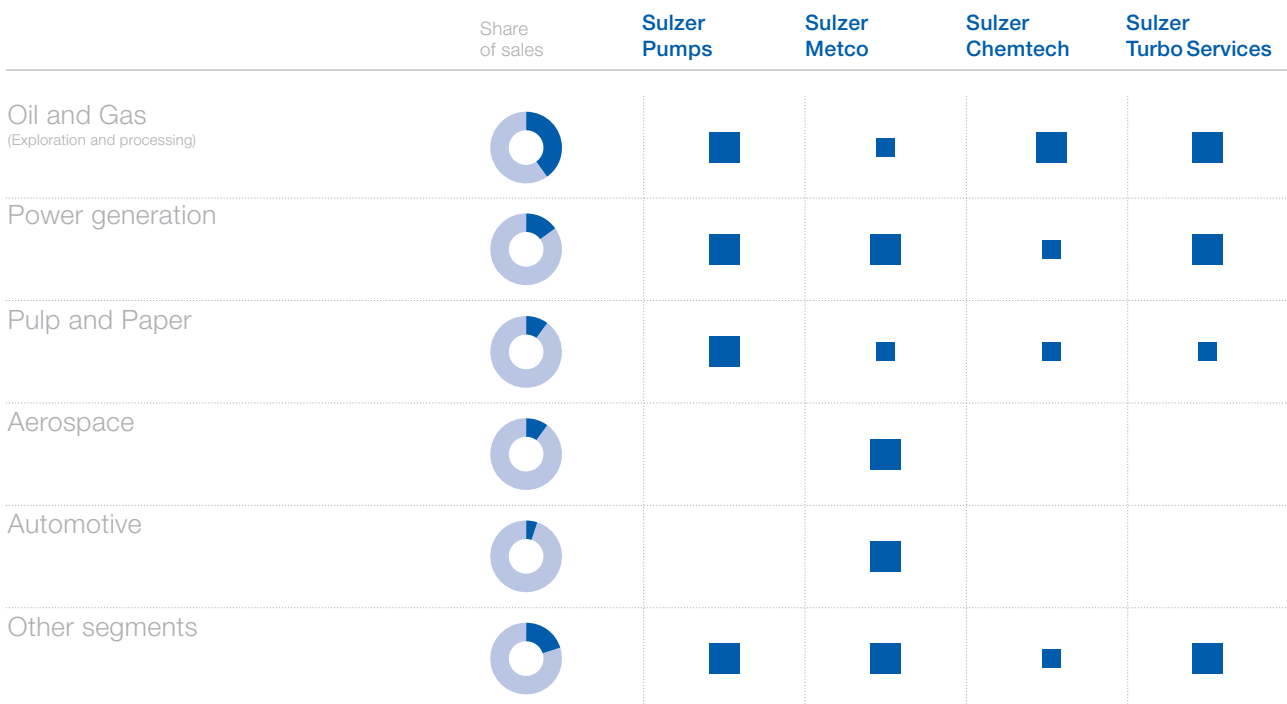
Leonardo E. Vannotti

Sulzer at a Glance

Sulzer was founded over 170 years ago in Winterthur, Switzerland, and is presently active in machinery and equipment manufacturing and surface engineering in around 120 locations worldwide. The core 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 position in the global marketplace.

Sulzer is an industrial brand that is focused on innovation. The core 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



Key Figures

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
Return on sales (EBIT/sales)	ROS	10.6%	6.7%
Return on capital employed (EBIT/capital employed) ¹⁾	ROCE	23.7%	13.3%
Net income attributable to shareholders of Sulzer Ltd		221.4	128.3
Capital expenditure		106.0	77.8
Shareholders' equity excl. minority interests		1 536.9	1 488.5
Headcount as of December 31 (number)		10 393	9 656
Cash flow from operating and investing activities		170.6	103.5
Net liquidity		299.7	304.7

Data per Share

in CHF		2006	2005
Basic earnings per share	EPS	62.27	36.03
Equity attributable to shareholders of Sulzer Ltd		432	418
Dividend		23²⁾	14

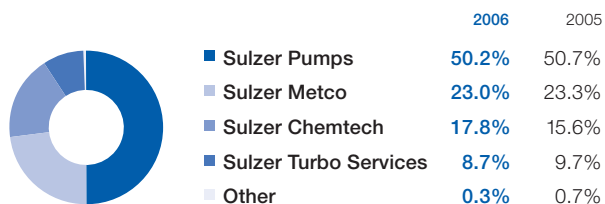
Share Price

in CHF		2006	2005
Closing price of the registered share as of December 31		1 387	696

¹⁾ Average capital employed incl. goodwill at net book values

²⁾ Proposal to the annual general meeting of shareholders

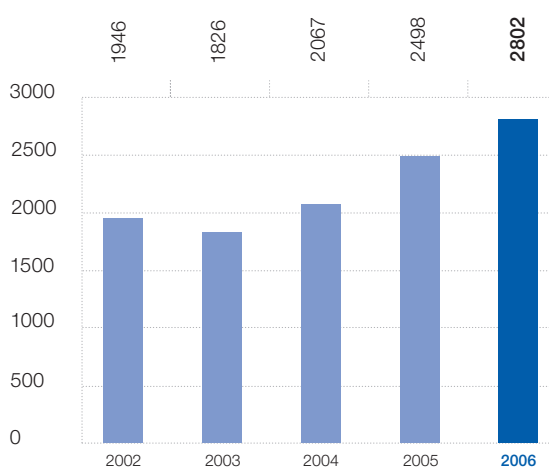
Sales by Division



Sales by Region



Sales 2002–2006 in millions of CHF



By Division

in millions of CHF	Order intake			Sales			Operating income (EBIT)		
	2006	2005	+/- %	2006	2005	+/- %	2006	2005	+/- %
Core divisions	3265.8	2616.2	24.8	2792.1	2480.2	12.6	297.7	184.9	61.0
Sulzer Pumps	1752.6	1367.5	28.2	1405.4	1266.4	11.0	159.6	98.2	62.5
Sulzer Metco	658.7	589.2	11.8	644.1	583.0	10.5	53.4	36.1	47.9
Sulzer Chemtech	602.1	415.5	44.9	500.1	389.5	28.4	65.4	40.6	61.1
Sulzer Turbo Services	252.4	244.0	3.4	242.5	241.3	0.5	19.3	10.0	93.0
Other ¹⁾	11.1	18.9	-	9.6	18.0	-	-2.1	-18.1	-
Total	3276.9	2635.1	24.4	2801.7	2498.2	12.1	295.6	166.8	77.2

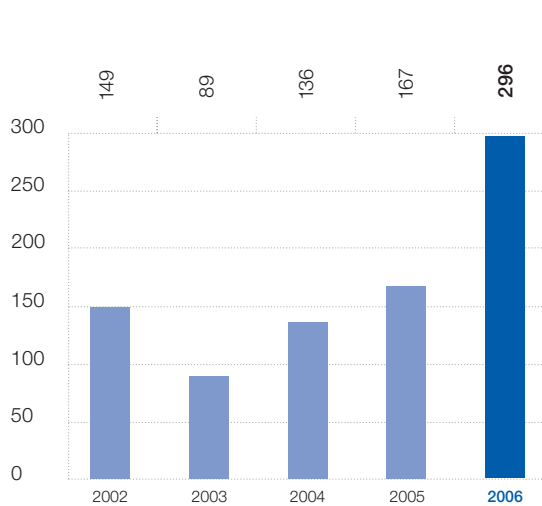
¹⁾ The venture division Sulzer Hexis was divested by the end of 2005, the numbers are included in Other

By Region

in millions of CHF	Order intake			Sales			Headcount as per 12/31		
	2006	2005	+/- %	2006	2005	+/- %	2006	2005	+/- %
Europe total	1104.1	921.2	19.8	943.0	892.5	5.7	5192	4574	13.5
EU	852.1	794.0	7.3	804.6	765.0	5.2	3937	3698	6.5
Switzerland	54.9	40.2	36.6	42.3	36.5	15.9	1201	868	38.4
Other European countries	197.1	87.0	-	96.1	91.0	5.6	54	8	-
North America	929.6	776.7	19.7	821.5	672.0	22.3	2160	2179	-0.9
Latin America	237.8	199.7	19.1	214.2	201.1	6.5	994	934	6.4
Asia, Australia	859.3	598.8	43.5	692.5	583.2	18.7	1664	1598	4.1
Africa	146.1	138.7	5.3	130.5	149.4	-12.7	383	371	3.2
Total	3276.9	2635.1	24.4	2801.7	2498.2	12.1	10393¹⁾	9656	7.6

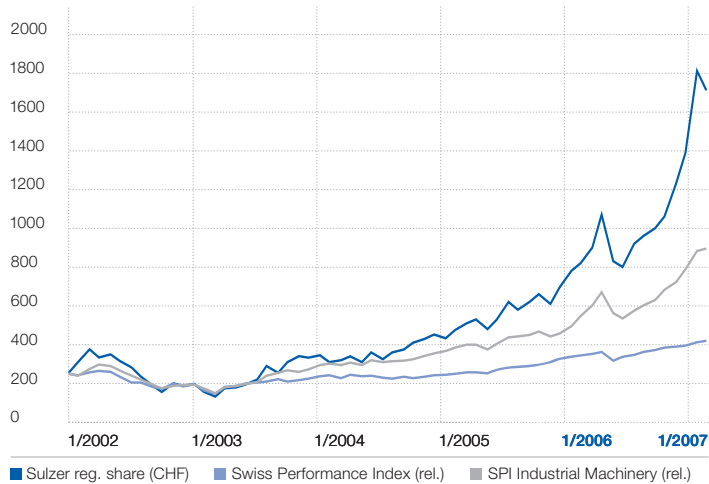
¹⁾ Including the acquisition of Mixpac, Werfo, and Mold (343 people)

EBIT 2002–2006 in millions of CHF



Share Price Development

In comparison with the Swiss Performance Index and the SPI Industrial Machinery



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