

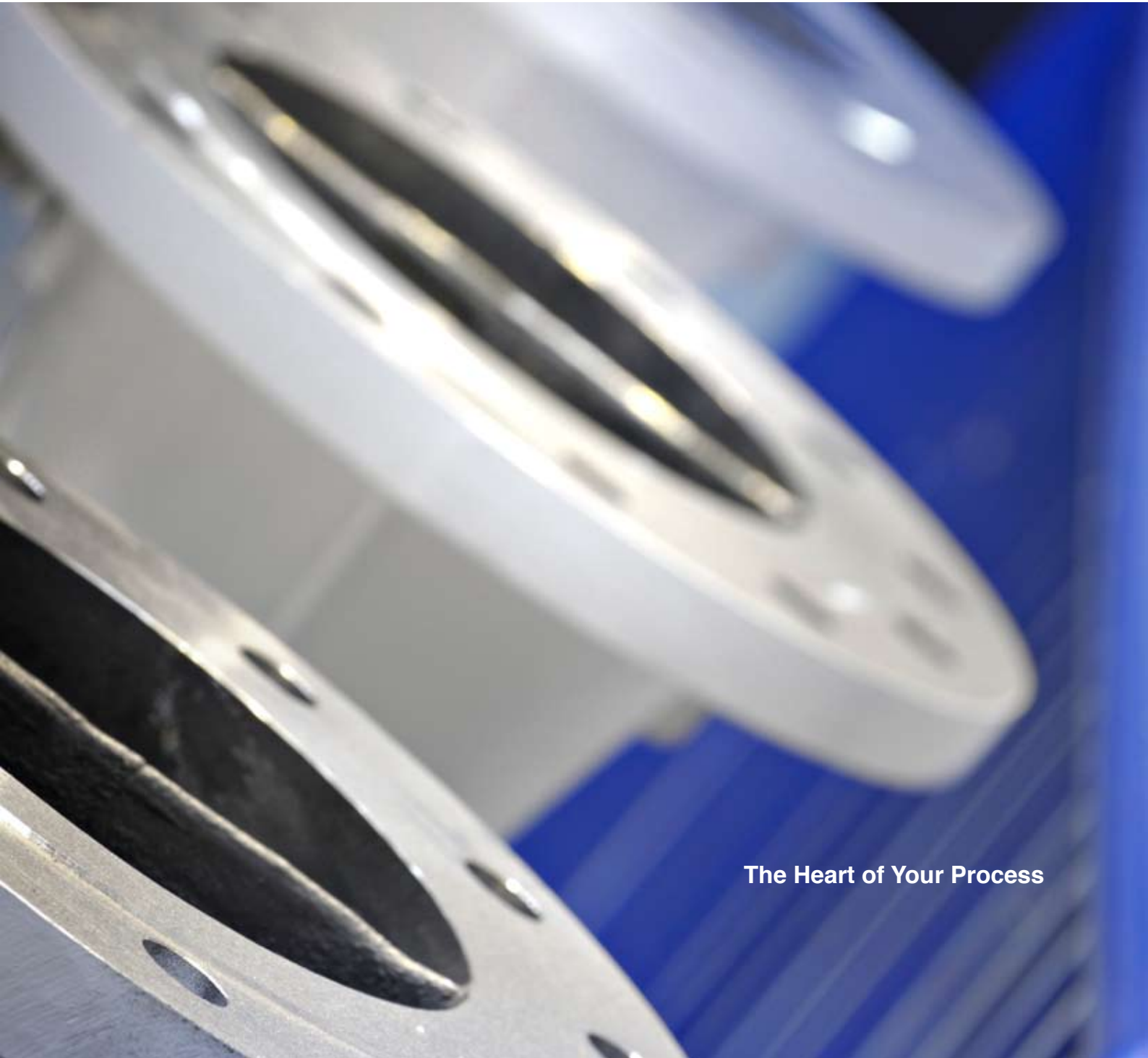
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**SULZER**

**Sulzer Pumps**

## **Annual Review 2007**



**The Heart of Your Process**



## Review by the President

### Global foundations enable strong organic growth and geographic expansion.

#### Introduction

Sulzer Pumps continued to generate strong results in 2007, not just financial ones. The Health and Safety performance measured by Accident Frequency Rate (AFR) improved further on an already improved performance in 2006. Order intake reached CHF 2 076.9 million (+18.5%), and sales increased significantly by 23.4% to CHF 1 733.8 million. The operating income, at CHF 199.2 million, was 24.8% higher than last year. Although none of the extraordinary positive effects of 2006 recurred (such as the sale of the Paco pump business and real estate sales), total return on sales (ROS) increased to 11.5%. On comparable basis, operational ROS improved by more than one percentage point. Customer Support Services continued to grow and increased its global footprint with four additional service centers.

#### Markets

Each market and region served contributed to the good results of Sulzer Pumps. Activities in the oil and gas as well as the power generation markets were of particular note, driven by an increased oil price and high energy demand in all regions. The hydrocarbon processing industry (HPI) segment benefited from ongoing expansions and upgrades of refineries and petrochemical plants worldwide. Activities in the pulp and paper market remained on a high level. The biofuel market continued to be active in Europe, but experienced a slowdown in North America because of higher raw material prices and logistical challenges. Growth was strong in all regions, with the highest growth rate in the Americas.

#### Operations

Managing growth was one of the greatest challenges along with implementing further operational improve-

ments. The division continued to invest in the streamlining of business processes and the continued rollout of better management support tools. The scope of the improvements covered all aspects of the business. The enterprise resource planning system has been implemented successfully in North America. It will also be applied in other regions. Actual resource levels increased through improved recruitment processes. Technical resource centers, for instance, in India, were used to handle high engineering loads. Externally, the supply chain challenges remained. Actions to maximize the use of the division's foundries and alternative supply sources helped to mitigate the supply-chain effect.

#### Strategy

Sulzer Pumps is in the process of building a global foundation of products, systems and processes. The division will continue to adjust its operating structure to respond to the changing needs of the customers by extending the current global factory and service network. The focus will remain on delivering improved solutions to the clients through the development of reliable and efficient products, manufactured in cost-effective locations. In order to expand development of subsea activities, additional efforts in research and development will be carried out, including the construction of a larger testing facility in Europe and cooperation with external partners. Operational excellence programs will continue and the division will ensure that the measures are carried out in a safe and environmentally conscious manner.

#### Outlook

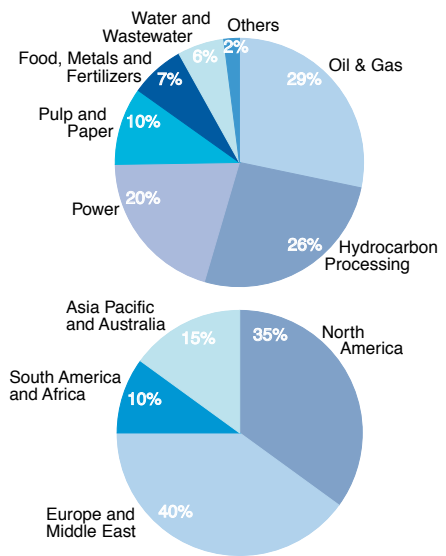
All segments and regions are expected to continue to remain active, with continuing momentum expected from the oil and gas as well as the power generation industries.

The high oil price is likely to further stimulate projects, whereas HPI activities may experience a slowdown due to decreasing margins of refinery operators. It is anticipated that the high demand for energy will generate orders for Sulzer Pumps, e.g., for high-pressure pumps. This demand is partly supported by the increasing acceptance of nuclear power in many countries. The pulp and paper market is likely to soften in 2008. The division will strive for further organic growth and will continually assess potential acquisitions. Sales and operating income are expected to exceed the levels of 2007.

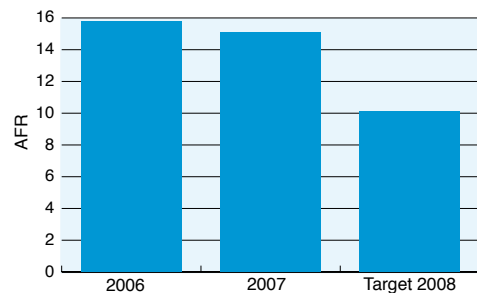


Kim Jackson  
 President  
 Winterthur, March 1, 2008

### Orders Received by Segments and Geographical Areas



### Health and Safety (AFR)



Sulzer Pumps 2007 in Figures		
in CHF million	2007	2006
Order intake	2 077	1 753
Sales	1 734	1 405
EBIT	199	160
Research and development expenses	17	12
Capital expenditure	39	40
Headcount as of December 31 (number)	5 686	5 192

# Oil & Gas



## Strong Markets Fuel Growth

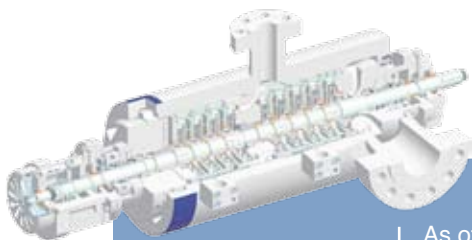
- **Booming market**
- **Applications continue to be technically challenging**
- **Strategic relationships and alliances deliver dividends for both parties**

The global demand for energy has ensured a continuance of the high level of activity and buoyant markets that we have enjoyed over recent years. Despite increased project costs and constraints within the supply chain, oil companies invested at unprecedented levels securing future reserves, developing new projects and optimizing existing production facilities.

With our strong product offerings and global presence we were well positioned to capitalize on the opportunities provided, enabling record business levels in both our new and CSS divisions. Our strategic relationship and alliance agreements with many of the major oil companies have proven beneficial to our partners by enabling them to book capacity in our plants and thereby ensuring supply. BP and Woodside announced in 2007 that we had been selected for new agreements and we are in discussions with other oil companies on further agreements that will be decided within 2008.

As conventional oil reserves become increasingly harder to find there has been a move towards exploiting other locations and resources, whilst the cost of such developments is inevitably higher the increased oil price has ensured that they are now economically viable. The oil sand reserves in Alberta, Canada is a good example and we have been successful in achieving new orders for several major projects involved in oil extraction, upgrade and transportation by pipelines to North American markets.

All the current market indicators show that we can expect the market to remain strong in 2008, though any slowdown in the global economy will inevitably have some impact on energy demands.



### Enabling Deep Water Production

As offshore exploration and development moves into deeper waters there has been a need for higher pressure water injection pumps (600 bar), a 50% increase over previous requirements. By providing reliable solutions to this challenging application we have become the industries supplier of choice for such equipment.

# Hydrocarbon Processing

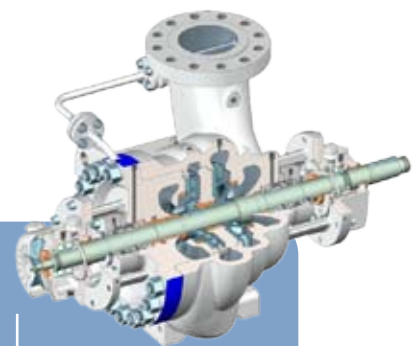
## Buoyant Global Markets

- Expanded global alliances with major energy companies
- Significant increases in the supply of pumps and services to the oil sands
- Continued leadership in the supply of pumping equipment to the global HPI market

The HPI market has just completed its third year of record capital spending and construction activity. The market is being driven by strong demand in the refining sector, environmental concerns for cleaner fuels and lower plant emissions, global concerns related to natural gas supply and the world's unabated appetite for liquid fuels. The impact of these issues has created a robust global market of a proportion never previously experienced.

We were chosen by the world's largest energy companies to supply engineered pumping equipment for LNG re-gasification facilities and refineries in North and South America, oil sands upgrading facilities in Canada, petrochemical plants, refineries and fertilizer plants in the Middle East and Asia, and gas-to-liquids plants in the Middle East. Our alliances and close relationships with national and global customers were a key part of our success. Understanding their needs allows us to optimize selection, manufacture, packaging and service process to fulfill their requirements.

This understanding coupled with our technically advanced product portfolio and global presence will continue to be a significant contributor to our success. As the HPI market continues to expand in the Middle East and Asia, we are already aligning our products, facilities, services and personnel to provide the optimum level of support to our customers. We see 2008 as another year of exciting opportunity and we are well prepared to meet the demands!



The global demand for energy continues to grow. Estimates predict demand for liquid fuel will grow by 38% to 118 million barrels per day by 2030 with 68% of the increase coming from transportation fuel. All transportation fuel must be refined which provides a fertile future for our highly regarded engineered pumps.

**Demand Led by  
Transportation  
Fuels**

# Pulp and Paper

## Opportunities in Pulp and Paper

- **Restructuring of pulp and paper companies ongoing**
- **Growing markets in Asia and South America**
- **We have maintained our position as leader in stock pumping technology**

2007 was a significant year in Asia and South America. In Europe and North America most projects were rebuilds. The high price of oil, energy and raw materials as well as the weak US dollar and over-capacity in paper created a challenging environment for many pulp and paper companies.

In Europe and in Africa several modernization projects ran during the year with European pulp and paper mill process suppliers keeping active. We were awarded several important orders for our pumps and agitators and maintained our strong position in the market.

In North America some pulp and paper capacity was cut and mills closed. Mostly rebuild and modernization projects were carried out. We held our solid market position thanks to our leadership in key pumping technology supported by a focused sales effort.

The Asian market was active, especially in China, India and Indonesia. In spite of tough competition we won several key pump and agitator package orders for both pulp and paper mills. We were also successful in rebuild projects.

In South America we continued to keep our stable position as leading pump and agitator supplier in this expanding market. We succeeded in new projects by means of our well proven products developed especially for the applications found in modern mills.

We expect growth and market activity will continue in the first half of 2008. Ongoing restructuring process in the pulp and paper industry will also continue. Several current and announced projects in the growing areas as well as Europe will create good prospects in the pumping and mixing business.



**Strong Position  
in Pulp & Paper  
by Sustainable  
Development Efforts**

Our innovative and new pumping and mixing solutions utilizing the latest technology are designed to exceed the needs of today's and future mills. The energy and water saving features as well as the proven reliability and safety of our products will continue to support us in the global market.

# Power Generation

## Major Global Growth Continues

- **China remains the fastest growing country in power generation worldwide**
- **France continues to build nuclear power plants**
- **USA will build fewer coal-fired power stations in the future**

Bookings for 2007 reached record levels with the fossil market making the biggest contribution followed by nuclear and combined cycle plants.

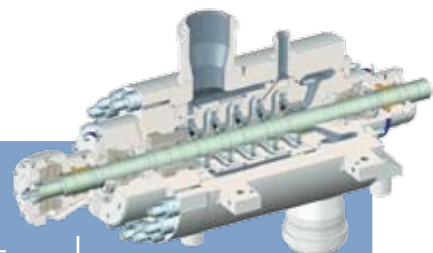
In the North American market, despite a trend cancelling or delaying coal-fired projects, we were able to win significant orders for large boiler feed pumps and some additional circulating pumps. Due to their higher emissions, coal fired plant projects are being redirected towards gas or renewable energy technologies.

In Europe, and Germany in particular, the construction of new coal fired plants is at an extremely high level. We won a significant share of orders for many of the 800 MW to 1 100 MW power plants being built by the major European energy companies. We also saw a European revival of the combined cycle market and are supplying boiler feed and condensate pumps for numerous plants being constructed in various European and Middle Eastern countries.

In Asia, China continues to be the fastest growing power market worldwide, in particular for fossil and nuclear power generation. We saw a strong move from 300 MW to 600 MW and 1 000 MW supercritical size units for coal fired stations. Many of these new plants are already equipped with our boiler feed pumps with more on order. In India, the second largest market in the region, we were very successful in getting local orders for small to medium sized fossil projects.

The outlook for 2008 is very positive and we expect the current high level growth to continue.

Coal-fired power stations are becoming bigger, more efficient and cleaner. At present, new generation plants are under construction or being planned up to 1 100 MW. Critical to the process are the boiler feed pumps. Our latest generation HPT has been selected for the first two German 1 100 MW units. We have the right products to support these larger, cleaner power plants.



**Supporting Cleaner Power Generation**

# Food, Metals and Fertilizers

## Active Markets in Food, Metals and Fertilizers

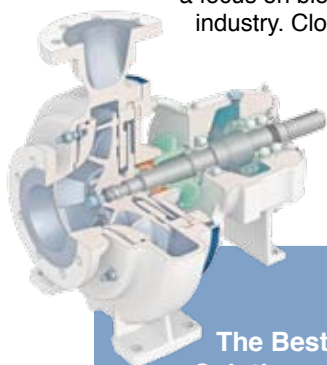
- **Market especially active in biofuels and base metals**
- **Moderate growth in food and fertilizer investments**
- **Unrivalled reliability of our products improved our market position**

Once again, beet sugar production was reduced by the European Union so our major efforts were focused on growth areas in Russia, Egypt and Turkey. The major cane sugar producers, especially in Brazil, continued to plan new expansions in parallel with bioethanol production. The starch industry in Europe suffered from overcapacity and new investments were marginal. In spite of regional differences in business activity, we kept our solid position in sugar and starch.

In biofuels we improved our global market position. Increased costs of cereal based feedstock decreased investment activity during the second half of the year, especially in the USA. Despite this, the number of orders received increased from the previous year. The biofuels market was developing from a regional to a global market with increasing levels of foreign investment. Brazilian and European sugar producers were also active in ethanol projects. Demand for renewable fuels is continuously increasing and new alternative production technologies are being intensively studied.

Base metals faced a significant demand increase and investment boom, the positive trend in the world economy continued to support this growth. Our sales in metals increased remarkably during 2007. We kept our strong position and managed to serve our customers globally. We expect the metals market to continue to be attractive, but uncertainties in the world economy may cause investments to decrease.

Fertilizer business in 2007 was moderate but steadily growing. Growing populations and a focus on bioenergy will require more efficient production thus supporting the fertilizer industry. Close cooperation with our key fertilizer customers will continue.



**The Best  
Solutions  
to Improve  
Productivity for  
Our Customers**

We are committed to develop pumping solutions to increase our customers' productivity. Successful references give us a strong platform to develop our products further, striving for even greater component lifetime and maximized process uptime.

# Water and Wastewater

## A Thirsty Market in 2007

- Record bookings in desalination
- Sulzer pumps for Marafiq, the world's biggest Multi-Effect Distillation (MED) plant
- Increased presence in the Middle East and North Africa

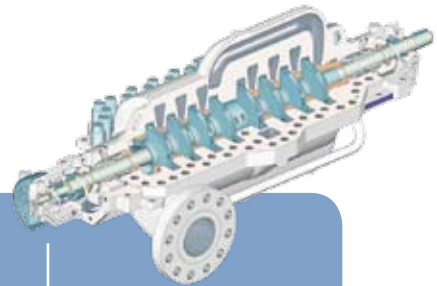
In 2007, we once again exceeded our targets and took another step forward in significantly increasing our presence in the specialized and engineered areas of the global water market.

Our most significant growth took place in desalination where we had a record order intake thanks to a modern, competitive and extensive portfolio of products supported by excellent co-operation across the organization. It is worth mentioning that Sulzer Process Pumps achieved double its budgeted order intake.

In the more traditional water supply and transport market we won important contracts in the Americas including Southern Nevada, City of Phoenix and in Brazil, the São Francisco river water diversion scheme. We expanded our sales activity in large water transport projects, mainly in the Middle East and North Africa region but also in the Americas providing strong order potential for 2008.

Investment was committed to improve our packaging capability in Europe from 2008 onwards in a move to increase our access to important markets in the region.

In 2008, we are confident that the market will remain thirsty, the desalination market will grow further as will the need for larger water pipeline projects. We look forward to another year of significant growth.



Multi-Effect Distillation (MED) produces desalinated water by evaporation under vacuum. MED is fast becoming a cost effective technology for larger capacity plants and requires overhung pumps which operate with very low NPSHa. The AHLSTAR<sup>UP</sup> range, with its excellent suction capability, offers both cost effective and energy efficient solutions to our MED customers.

**Technology  
Provides  
Desalination  
Opportunities**

# Customer Support Services

## Strong Growth in Aftermarket Services

- Record results
- Lean service center philosophy
- New facilities added to the network

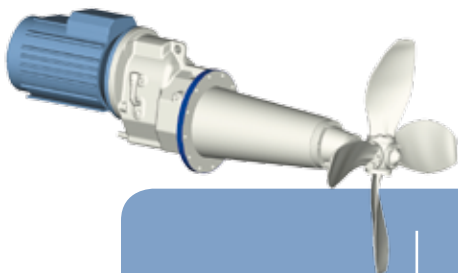
2007 was an excellent year for our aftermarket business with all regions and industry segments reporting strong organic growth. One of the highlights is our success in the North American power market, where our STURM Rapid Response Center has been awarded a major contract by one of the largest utilities in the USA to provide parts to support the repair of 30 main boiler feed barrel pumps originally manufactured by our competitors.

Another highlight is the contract awarded by a major steel manufacturer in Brazil to operate the onsite workshop and maintain more than 800 pumps on daily basis.

In Europe and the Middle East, we witnessed unprecedented levels of demand throughout 2007 in all sectors.

Internally, we have rolled out our Sulzer Pumps Lean program into more than 40 service facilities to free-up capacity in order to accommodate growth and to further increase our responsiveness and speed of service. We will continue the program in the remaining facilities during 2008.

2007 also saw extensions in our service network to support customers locally with new facilities in the Netherlands, Czech Republic and Dubai and heavily extended our capabilities in Leeds (UK), Perth (Australia), Fort McMurray and Toronto (Canada).



### Plant Upgrade Opportunities

We expect a continuous growth in all areas, with a special note regarding our retrofit business due to the increasing need of operators to save energy and adapt their older pumps to changing process requirements. To stay close to our customers, we will also continue to expand our service network.

# Sulzer at a Glance



**Sulzer**, headquartered in Winterthur, Switzerland, is active in machinery and equipment manufacturing and surface engineering in around 120 locations worldwide. The divisions are global leaders in their markets, which include oil and gas (upstream), hydrocarbon processing industry (oil and gas, downstream), power generation, pulp and paper, aviation, automotive industry and other industrial markets.

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.

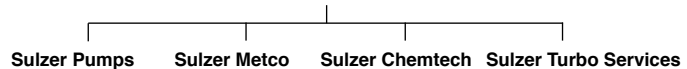
## VISION

Sulzer's vision is to be a recognized leader in innovative, sustainable, engineered and customer-focused solutions for performance-critical applications in the oil and gas, hydrocarbon processing, power generation, pulp and paper, aviation, automotive and other selected industries.

## MISSION

Sulzer aims to be a multi-industry company with a strong brand which provides solutions that combine products, services, engineering and customer-application expertise. The corporation is close to the customer by being primarily direct-sales driven. Engineering, innovation and technology are cornerstones. Sulzer strives to be an attractive employer and to create an environment where employees can excel. The company focuses on creating value for its shareholders.

## SULZER



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

<b>Sulzer Pumps</b>	Pumping solutions and services
<b>Sulzer Metco</b>	Surface technology solutions and services
<b>Sulzer Chemtech</b>	Components and services for separation columns and static mixing
<b>Sulzer Turbo Services</b>	Service and repair of thermal turbomachinery

## Sulzer Key Figures 2007

in millions of CHF	2007	2006
Order intake	4 054.0	3 276.9
Sales	3 537.0	2 801.7
Operating income before depreciation/amortization EBITDA	501.3	376.1
Operating income EBIT	393.5	295.6
Net income attributable to shareholders of Sulzer Ltd	284.1	221.4
Headcount as of December 31 (number)	11 599	10 393

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