

motralec

4 rue Lavoisier . ZA Lavoisier . 95223 HERBLAY CEDEX
Tel. : 01.39.97.65.10 / Fax. : 01.39.97.68.48
Demande de prix / e-mail : service-commercial@motralec.com
www.motralec.com

SULZER

Sulzer Pumps

Sulzer Pumps Annual Review 2006



The Heart of Your Process

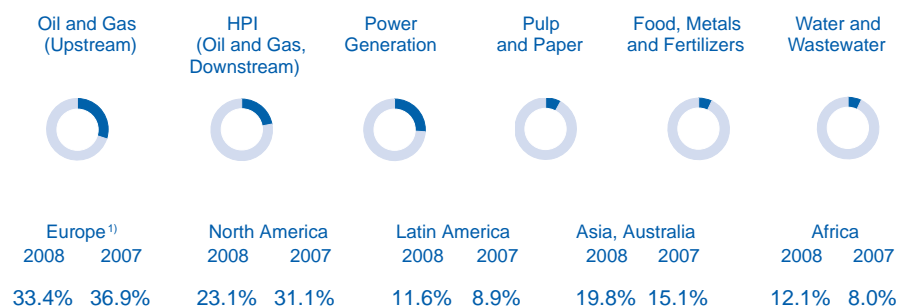
Financial statements

Sulzer Pumps 2008 in Figures

millions of CHF	2008	2007	Change in +/- % +/- % ¹⁾	
Order intake	2 308.7	2 076.9	11.2	23.3
Sales	1 817.0	1 733.8	4.8	15.9
Operating income before depreciation/amortization	EBITDA 257.0	224.9	14.3	
Operating income	EBIT 231.9	199.2	16.4	
Return on sales (EBIT/sales)	ROS 12.8%	11.5%		
Capital employed (average)	433.8	448.0	-3.2	
Return on capital employed (EBIT/capital employed)	ROCE 53.5%	44.5%		
Research and development expenses	19.1	17.1	11.7	
Capital expenditure	31.7	39.3	-19.3	
Employees (number of full-time equivalents) as of December 31	6 239	5 686	9.7	

¹⁾ Adjusted for currency effects as well as acquisitions and divestitures.

Orders received by segments and geographical areas



¹⁾ Including Middle East.

”Despite a strong negative currency impact, Sulzer Pumps repeated continued significant growth in 2008. We have managed this growth by continued efficiency improvements and flexible expansion. Our reliability and readiness to adapt to changing markets will ensure future success.”

Kim Jackson, President

Introduction

In 2009 Sulzer celebrates its 175th anniversary. It is with pride that we look back at 2008 when we once again increased our order intake, sales and operating income to record levels. Order intake reached CHF 2 309 million (+ 11%), sales 1 817 million (+ 5%) and operating income 232 million (+ 1.17%). During the year we further expanded our global service center network to better serve key local markets. Our ongoing commitment to health and safety saw reductions in our accident statistics despite heavy production loads across the majority of our locations.

Markets

Most of our core segments saw high levels of activity. The power generation and oil and gas segments were particularly strong with the hydrocarbon processing industry remaining active, although we saw a weakening in pulp and paper over the course of the year. Growth in emerging markets outpaced the developed regions. As in recent years, our new equipment orders have outperformed the service business mainly due to the ongoing high levels of project activity. Our growth in 2008 was supported by major infrastructure projects including large orders for power plant boiler feed pumps in South Africa and China. Multiple orders for injection and pipeline pumps across all major producing regions of the world helped us maintain our market leading position in oil and gas. Toward the end of the year a number of customers started to postpone some investment decisions in the light of a deteriorating economic outlook and difficult credit markets.

Operations

We achieved our record performance levels despite a significant currency effect due to the weakness of major trading currencies against the Swiss Franc. Coping with our strong growth and managing the associated supply chain challenges were high priorities throughout the year. Reacting to production pressures, the scope of the Division's Lean initiative was expanded to include all business areas in order to maximize the efficiency of

internal processes. Additionally, our global capacity was increased and the service center network further expanded to better serve our customers' needs.

Strategy

Sulzer Pumps is positioned as a leading provider of state-of-the-art pump solutions and customer support services. We continually invest in research and development in order to maintain our acknowledged technological leadership and to create innovative solutions for new market needs. Our product development teams benefit from the largest test facilities of their kind in the world. End users, contractors and business partners worldwide rely on our customer-specific solutions and services. To maintain this position we are continually improving our geographic footprint. Operational excellence remains a priority, not only at production sites and service centers, but throughout the entire business. We continued the implementation of our global platform concept for products, systems, and processes in Asia and Europe after a successful rollout in North America. An additional production site in China will be constructed in 2009 and opened in the early part of 2010. We recognize that at the core of our success is a team of skilled and motivated employees. We therefore continue to pay particular attention to career development and staff training programs to ensure we are prepared for the challenges we will face in the coming years.

Outlook

All markets will be affected by the economic crisis in 2009. The amount will of course vary by segment, geography and customer. The oil and gas industry investment whilst remaining high will be timed to match end user demand. The hydrocarbon processing industry will continue to react in a similar if not earlier way to oil and gas. Government induced infrastructure spending is likely to stimulate power generation as is the continued investment in renewables. Pulp and paper will continue to be highly influenced by GDP development. Our flexibility and readiness to adapt will be key in 2009 and beyond. As always our people will remain a critical ingredient to our success.

Global market leader in engineered
pumps for the oil and gas industry

Oil & Gas

Market activity continued

- Strategic relationship agreements continued to deliver value for our customers
- Service facility expansion to better support our customers
- Development program progresses for subsea pumping

New facilities were opened in Europe, the Middle East and Australia during the year and several more are at the planning stage.

As a large share of our business comes from the oil majors we focussed on meeting their needs in the changing business environment. We strive to provide a high level of service to these companies, for example Mr Figueiredo, Executive Manager Exploration and Production for Petrobras comments:

“Petrobras and Sulzer have a long history of partnership in Brazil and I have no doubt that we will have many opportunities to work together in the future.

We continually invest in order to improve the performance of equipment and after market services whilst ensuring suppliers deliver on time and on budget.

Sulzer Pumps is a very important partner for Petrobras”.

Many of our key customers have formal strategic relationships with us, and we were very pleased with the signing of two new agreements in 2008 with Saudi Aramco and Woodside of Australia which will enable us to further strengthen our relationship with these important customers.

Designing in efP ciency

Hydrocarbon Processing

Strong performance in volatile market

- Sulzer Pumps is the preferred supplier to international and national oil companies
- Expanded product portfolio featuring efficiency, reliability and energy savings
- Strong order intake in a highly competitive market

The hydrocarbon processing market benefited from the momentum of three previous years of record capital spending and construction activity. The market continued to be driven by the expanding global population's demand for clean transportation fuels, clean burning natural gas, fertilizers and plastics. The unrelenting demand required international and national oil companies to convert and expand refineries and gas plants to process heavy, dirty crude oil and sour natural gas to provide the required quality of refined and purified products.

Our global customers approached us with requests for a broader portfolio of pumping equipment that could address the demanding needs of the revised processes and increased capacities of their plants. We responded

with improved tendering processes, lean manufacturing and product development projects that yielded new products featuring increased efficiency and reliability while addressing their desire for lower life cycle costs. Our designs also addressed our customers' environmental desires to reduce their carbon footprint and reduce fugitive hydrocarbon emissions.

A significant contributor to our success was our respect for close customer relationships, our knowledge and skill in providing a well designed product portfolio and our ever expanding global presence. The hydrocarbon processing market in the longer term will continue to grow and we will rely on our proven strengths to meet the demands of the future generations.

Innovation in solutions

We worked with a major international oil company to optimize boiler feed pumps for a large ethylene cracker. The initial specification required the use of large barrel pumps but we established that the prime movers needed did not exist. Close cooperation with the customer allowed selection of pumps from our portfolio to match existing prime movers and optimize the pumping system to the customer's satisfaction.

ur solutions range from industrial
nuclear power generation
and renewables

Power Generation

Power showed regional strength

- China continued to invest strongly in new power plants
- High level of activity in South African power market closing the energy deficit gap
- Spain invested in large solar power plants

Bookings for 2008 again broke records far exceeding the high level set in 2007. As in recent years the fossil market dominated order intake augmented by activity in the nuclear sector.

The North American market maintained the trend set in previous years with an upswing in the combined cycle market and coal-fired market remaining low due to environmental issues. In the nuclear sector there were many projects in planning but release depended on permits being granted which may take another one to two years. However, we achieved notable success in power up-rate and life extension projects for several nuclear generating stations securing a number of important orders.

In Europe, Germany continued an ambitious construction program for new coal-fired plants. After Neurath Power Plant in Germany, ordered by RWE, we were again successful with E.ON for the supply of feed water pumps for another 1 100 MW coal-fired supercritical power sta-

tion. In Spain, we won a significant share of orders for the delivery of pumps for large solar power plants.

In Asia Pacific, China massively increased its installed capacity, particularly with fossil and nuclear plants. Apart from the traditional reactor types, China is now building nuclear power plants using the latest French and American technologies. Many of these plants will be equipped with our pumps designed for nuclear services. In India expansion is focused on 600 MW and larger supercritical coal-fired power stations.

In South Africa we saw high project activity for large coal-fired power plants. We were awarded with orders for the supply of all the booster/boiler feed and condensate pumps for the Medupi and Kusile power stations, each with a capacity 6 x 800 MW.

For the forthcoming year we expect a good level of activity to continue since there are shortfalls in power generation capacity compared with the demand for power.

Upgrading nuclear power plants

Power up-rate projects for existing generating facilities have provided us the opportunity to work with three different nuclear power plants to provide replacement pumps in their boiler feed / steam generator feed circuits. The challenge was to minimize the impact to the piping and foundation changes. Our solutions met these criteria and delivered the latest state-of-the-art technology for the plants involved.

Pulp and Paper

Leadership maintained in a difficult market

- Geographical restructuring of pulp and paper manufacturing
- Temporary slowdown in new pulp and paper investments
- Our global market position remained strong

Pulp and paper went through challenging times in 2008. Due to spreading economic turbulence, global demand for market pulp and most of paper and board grades dropped significantly and that led to production curtailments and partial closure of excess capacity. As a result there was a softening of the market towards the year end.

For the first time in many years there were several new paper and board machine projects in Europe. We were awarded major orders supported by our extensive customer references and trusted product quality.

Restructuring was most noticeable in North America. In the absence of major projects our efforts were focused on modernization and upgrade projects where our advanced pumping technology supports our customers' needs.

The overall market activity in Asia remained at a high level through the first half of 2008 and we managed to

increase our market share. Unfortunately even the emerging markets suffered from slowdowns in investments by the end of the year.

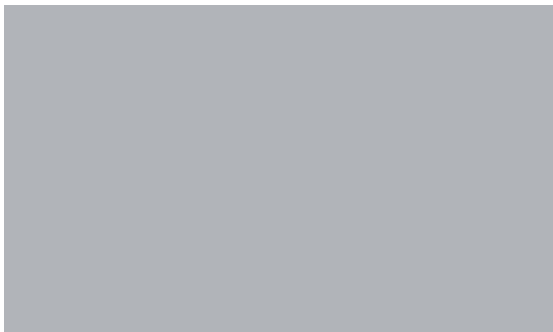
We established a strong position in the South American pulp industry supported by a series of large scale pulp mill investments. Repeating the pattern elsewhere, the scale of these investments reduced in the second half of the year.

Geographical and ownership restructuring provides us opportunities as a long term global player with broad installed base. The focus on our value added services will keep customers competitive during the downturn.

Despite present activity levels, the long term demand forecasts remain unchanged creating solid prospects for the future.

Innovations reduce costs

The new generation AHLSTAR® pump range provides continuous savings in most pulp and paper applications. Our environmental footprint in a modern paper machine is proven to deliver 7.5% less energy consumption and 90% savings in water consumption compared to traditional equipment. In addition to this, about half of the pumps can be smaller in size.



ur products have successfully served
od, metal and fertilizer applications
ound the world

Food, Metals and Fertilizers

Solid performance in challenging markets

- Food and fertilizers were active throughout the year
- Metals and biofuels customers faced new challenges
- Customers relied on our proven technologies and process know-how

Metals showed strong initial performance, our customers were active and investment plans proceeded to the purchasing phase. The market was solid until the last quarter, when order intake started to slow down due to the global financial crisis.

In the food segment increasing demand was a sustainable driver and our customers continued to invest throughout the year. We received orders, mainly from the sugar and starch industries, across all geographical regions. Consolidations affected our customer base but our focus on key accounts was successful in the ever changing and heavily regulated business environment. Our innovative product features, such as trouble free

dynamic seals, achieved acceptance amongst our major customers.

Despite growing demand for renewable energy sources, the bioethanol and biodiesel markets remained low due to dramatically increased raw material costs. Our project activity decreased compared to the previous year but our product portfolio remains highly competitive in the sector.

Fertilizers continued active throughout the year. High fertilizer prices and low stock levels encouraged new capacity investments. Our market position improved through our advanced products tailored especially for these applications.

Extending component life

Material technology plays an important role in metal and fertilizer processes where corrosion and wear are often present. Customers are increasingly focusing on ways to reduce pumping costs. In phosphoric acid applications we have lifted component lifetime from a matter of weeks to years. Our material know-how is based on long experience of industry and application requirements as well as our qualified manufacturing process.

High efficiency products and
uniquely engineered solutions

Water and Wastewater

Another record of business in 2008

- 132 MW in water pipeline pump orders
- Desalination achieved record bookings
- Successful start for our European resource center

We had another exciting year in the world of water and achieved significant order intake growth well in line with our planned targets. Of equal importance was our active engagement in the early phase of major projects providing us with a sound basis for future successes.

We also experienced another year of strong growth in desalination with order intake far exceeding our projections. We have now achieved a leading position in reverse osmosis and continue to work to consolidate a similar position in multi-effect distillation.

To a large extent our success in desalination was a direct result of the implementation of our new European resource center based in Spain. The center's specialists are able to quote complete packaged units assisted by backup support from our various factories around the world.

Equally rewarding was the fact that as a direct consequence of extensive early phase effort, our Brazilian plant booked major orders for tailor-made water pipeline pumps that will transport approximately 10 m³/s, efficiently using 132 MW of energy to provide potable water to millions of people.

Internally we increased our capability to provide front end support to major desalination and water transport projects by adding resources in Madrid, Spain and Winterthur, Switzerland. We are also actively implementing development projects to enhance our water targeted product portfolio.

As water is an essential commodity that cannot be substituted, we are optimistic that the prospects for 2009 remain favorable with sufficient opportunities available to us.

Tailoring solutions to customer needs

Our ability to tailor pumping solutions that exactly match project needs is a benefit we offer to all our customers, delivering innovative solutions to save capital expenditure, energy consumption and floor space. By thinking beyond the norm, we help our customers achieve outstanding performance.

More than 60 service centers
strategically located worldwide

Customer Support Services

Another year of outstanding growth in a very demanding market

- Strong market demand for spare parts and service
- Lean implementation now embedded into operations
- High focus on creating a safe working environment

2008 was a year of exceptional operating performance in our aftermarket business. Every region reported dramatic increases in the volume of business, both in service and in the provision of spare parts. In particular we saw unprecedented growth in both oil and gas and hydrocarbon processing segments on a global basis.

Internally our lean program is now implemented and starting to deliver extremely strong results. Most of our major locations are now qualified to our high audit standards and have received official lean accreditation. Through the use of this approach we have achieved operational performance improvements, capacity increase and swifter speed of operation.

A high focus on health and safety during 2008 brought about a continually improved performance throughout the year. This high level of attention will continue to be a cornerstone of our site activities and workshop repairs.

Our strategy to provide our customers with more local service continued its implementation. Our service network was strengthened during the year with a new regional service hub in Abu Dhabi in the United Arab Emirates, which now serves the whole Gulf region. Additional service locations were also established in Prague in the Czech Republic, Hamburg in Germany and Muscat in Oman.

Improving pump performance

Sulzer Pumps CSS have developed a structured program to improve the operational performance of existing high energy pumping equipment. The exclusive technology used by Sulzer provides improvements in reliability, efficiency, pressure and flow. Several international oil companies have worked with Sulzer Pumps in 2008 to rehabilitate old water injection pumps to bring them up to a modern standard.

Sulzer at a glance

Our vision

Sulzer's vision is to be a recognized leader in innovative, sustainable, engineered, and customer-focused solutions for performance-critical applications in six key markets and selected industries.

Our mission

Sulzer aims to be

- a multi-industry company with a strong brand.
- a provider of solutions that combine products, services, engineering and customer-application expertise.
- close to the customer by being primarily direct-sales driven.
- an engineering, innovation and technology driven firm.
- an attractive employer where employees can excel.
- a company that creates value for its shareholders.

Our values

- Customer partnership: We exceed the expectations of our customers with innovative and competitive solutions.
- Operational excellence: We perform on the basis of structured work processes and lean principles.
- Committed people: We are committed to high standards and show respect for people.

Sulzer key figures

millions of CHF	2008	2007
Order intake	4 116.6	4 054.0
Sales	3 713.5	3 537.0
Operating income before depreciation/amortization	EBITDA 575.9	501.3
Operating income	EBIT 475.1	393.5
Net income	322.9	284.1
Employees as of December 31	12 726	11 599

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