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**JANUARY 2008**

## ▶ Executive Insights: SERO PumpSystems, Inc.

Kevin M. Hohn, President/General Manager

### Critical Issues

SERO PumpSystems GmbH is a well recognized manufacturer of side channel pumps that has been in operation for over 100 years, but SERO PumpSystems, Inc. (a Texas based subsidiary of SERO GmbH) just opened for business in January 2007. Different histories, different markets, but similar views on the current issues facing the pump industry.



Kevin M. Hohn

Key factors that could impact activity in 2008 are:

- Continued weakening of the U.S. dollar
- Tightening of the credit markets
- High oil & natural gas prices
- Limited manufacturing capacity
- Upcoming U.S. Presidential election

These factors are by no means completely negative. As we all know, high oil prices have both negative and positive aspects. The positive is that vertically integrated oil and gas companies will increase their capital spending. For the first time in many years, a number of U.S. refineries have announced major expansions. Exploration and production activities are robust. Refineries and chemical facilities throughout the world are being built to meet rising demand, but at what point do high oil prices start to constrict the U.S. & world economies?

The EURO/USD exchange rate will continue to be a hurdle for European-based companies, so it is incumbent upon us and others to bring a strong value proposition and real solutions to our business partners and end users

These are just a few of the many challenges and opportunities that lie ahead in 2008, but we remain bullish on the North American market, represented best by SERO's commitment to open operations here in 2007. I am cautiously optimistic that in 2008, the ever-resilient U.S. market will experience GDP growth in the 2 to 3 percent range and demand for industrial pump products will remain strong.

### Current Trends

GREEN. GREEN. GREEN. Need I say more? We can discuss the current and projected market segment trends (power generation expansion plans, new refinery capacity, the rising rig count, etc.), but in each case, there is going to be a green component. There's

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even a green market unto itself: renewable biofuels like ethanol, biodiesel and others. Face it, green is everywhere, so how do we react and participate?

Industry sources have estimated that pumping systems consume somewhere between 15 to 20 percent of the world's energy. Pump equipment is also second only to valves in allowing fugitive emissions to enter into the environment. At first blush, not very green, but over the past 15 years, our industry has made numerous technological advancements to meet the environmental challenges. Innovative companies providing innovative products and solutions will be in great demand as the rising tide for green continues.

**Technologies Offering the Most Competitive Impact**

To dovetail on the previous comments, sealless pump designs, "intelligent" pumps, predictive maintenance programs and higher efficiency motors have all been green advancements. However, simple actions such as selecting the proper pump design for the service can also provide significant benefits.

Until I was introduced to side channel pumps, I never realized that there was a pump capable of handling low flow, high head applications with large amounts of entrained gas and also had low NPSH requirements. A design that has existed for over 80 years and is well accepted in Europe and other regions around the world. Who knew? At least in the North American market, as I've discovered, not many people! Typically, other pump designs were "stretched" to meet these service parameters resulting in oversized pumps with oversized motors running very inefficiently. Not very green!

This is just one example of a niche product that provides an efficient solution for unique applications and I am sure there are many others. Our market, however, needs to be open to ideas or products that do not readily fit the "standards" that are typically applied. As any craftsman knows, it's always best to have the right tool, even if it's a special tool, to do the job properly.

**Additional Insights**

It's true that the rotating equipment industry is a "basic" industry. Not glamorous, but essential for the quality of life that is enjoyed. Whether it's simply providing a supply of fresh water, pushing hydrocarbons through a pipeline or circulating refrigerant in a cooling system, pumps make it happen. Consequently, we are in a unique position to have a positive impact on many green factors.

Industry stewardship will ultimately come from the companies that provide innovative solutions, efficient equipment, technical support and long term value to meet our client's needs.

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