

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

PROCESS INDUSTRIES SEGMENT:

	2010	2009	\$ Change	Change
Net sales, including intersegment sales	\$ 903.4	\$ 808.7	\$ 94.7	11.7%
EBIT	\$ 133.6	\$ 72.6	\$ 61.0	84.0%
EBIT margin	14.8%	9.0%	–	580 bps

	2010	2009	\$ Change	% Change
Net sales, including intersegment sales	\$ 903.4	\$ 808.7	\$ 94.7	11.7%
Acquisitions	4.9	–	4.9	NM
Currency	1.7	–	1.7	NM
Net sales, excluding the impact of acquisitions and currency	\$ 896.8	\$ 808.7	\$ 88.1	10.9%

The Process Industries segment's net sales, excluding the effect of acquisitions and currency-rate changes, increased 10.9% for 2010 compared to 2009, primarily due to higher volume of approximately \$80 million. The increased sales resulted from a 20% increase in the industrial distribution channel, a 116% increase in global wind energy and a 10% increase in gear drives. These increases were partially offset by a 26% decline in the metals sector. EBIT was higher in 2010 compared to 2009 due to the impact of increased volume of approximately \$45 million, lower impairment and restructuring charges of approximately \$40 million and better manufacturing utilization of approximately \$35 million. These increases were partially offset by higher selling, general and administrative expenses of approximately \$30 million and higher raw material costs and related LIFO expense of \$25 million.

AEROSPACE AND DEFENSE SEGMENT:

	2010	2009	\$ Change	Change
Net sales, including intersegment sales	\$ 338.3	\$ 417.7	\$ (79.4)	(19.0)%
EBIT	\$ 16.7	\$ 65.4	\$ (48.7)	(74.5)%
EBIT margin	4.9%	15.7%	–	(1,080) bps

	2010	2009	\$ Change	% Change
Net sales, including intersegment sales	\$ 338.3	\$ 417.7	\$ (79.4)	(19.0)%
Currency	(1.4)	–	(1.4)	NM
Net sales, excluding the impact of currency	\$ 339.7	\$ 417.7	\$ (78.0)	(18.7)%

The Aerospace and Defense segment's net sales, excluding the effect of currency-rate changes, decreased 18.7% for 2010 compared to 2009. The decline was due to a decrease in volume of approximately \$90 million, partially offset by favorable pricing. Volume was down across most market sectors within the Aerospace and Defense segment, especially the defense and civil aviation market sectors. EBIT decreased 74.5% in 2010 compared to 2009, primarily due to lower volume of approximately \$35 million, higher manufacturing costs of approximately \$20 million and higher LIFO expense of approximately \$10 million, partially offset by cost reductions, pricing and sales mix.