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John Crane Investor Day Transcript
Lutín, Czech Republic – 9 June 2009

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• Paul Cox	John Crane	President
• Bob Wasson	John Crane	VP, Finance & IT
• David Hill	John Crane	VP, Product Line Management

PRESENTATION

Philip Bowman: Ladies and gentlemen, good morning and welcome to the Czech Republic for today's presentation by the John Crane team. I'm very pleased to see so many of you here and thank you for taking the time to join us.

Certainly, I think, we all know in these days of volatile markets and pressure on travel budgets that this trip represents a significant investment of your time. However, I do believe you'll find it a useful session and I hope that you come away with a better understand of the John Crane insights, John Crane business and some new insights into it.

SLIDE – Observations on John Crane

On joining Smiths Group a little over a year ago, I quickly concluded that John Crane stood out as a very strong business within the group, although I didn't believe that its strengths had been fully appreciated by the investment community and other commentators. Equally, I believe that there were significant opportunities to improve the underlying performance of the business.

So this is an ideal opportunity for John Crane to set out its strategy and strengths in rather more detail. It is one of our two world-leading businesses with a strong brand that is globally recognised within its end-user markets.

It enjoys this leadership position because of the strength of its technologies and the close relationships with its customers, based over the years on good products, excellent service and its knowledge of its customers at both the OEM and the end-users.

It also has a business model that is proving more resilient than many commentators had expected. This is because two-thirds of the business is serving the after market with its large installed base and because of its diversified mix of end-markets and of geographies.

The key asset to this business is its global network of sales service centres around the world. There's a great opportunity, I believe, to leverage this network, through the addition of complementary product ranges and services.

While some, who have been developed organically, we have made five acquisitions over the past 18 months, which added valuable new products, such as specialised filters and engineered bearings. These typically serve the same customers as our existing portfolio and have a similar aftermarket model.

More importantly, you will hear today, how these acquisitions have doubled the addressable profit opportunity for John Crane, while leveraging the existing sales and service footprint.

Another thing that became clear to me, on getting to know this business better, was the scope of the opportunity to improve margins. We have set out a major restructuring program across the group, half of the group's annualised savings are targeted to be developed from initiatives within John Crane.

This £25 million benefit represents some 400 basis points on last year's reported margins for John Crane. The current economic situation poses challenges for all our businesses, but these restructuring initiatives provide scope to improve margins, even in the current market. Overall, this is a great business, with growth opportunities, even in these uncertain times and with strong cash generation characteristics.

SLIDE – Key themes for today

So why are we holding this event today? It's an opportunity to provide you with a much closer look at John Crane. We issued our interim management statement only around four weeks ago, so we will not be providing any further update on current trading today.

The objectives for today's session are therefore to outline the business strategy, to examine some of the dynamics and to highlight the drivers of future growth. We will explore John Crane's end-markets in greater detail and the competitive position within them.

We'll examine the strengths of John Crane's technology and its business model. And as I remarked earlier, a key value driver in our restructuring -- is our restructuring program, so we will spend some time describing our plans and the benefits we expect to accrue from them over the next two years.

The aftermarket is a substantial part of the business, so we will also give you further insight on the key dynamics.

We are here in the Czech Republic because this gives you the chance to see one of our manufacturing and service sites firsthand… other than Slough, which I suspect many of you will have visited already, probably more than once. This site, in the Czech Republic, also plays a role in our plans to restructure our operational across Europe, about which we will give some greater detail later today.

We also wanted to give you the opportunity to meet more of the management team. Most of you will know Paul Cox from the results presentation. Paul heads up the business and I'll ask him to introduce some of his team, who have travelled here today, in a moment.

So in conclusion, I hope you will find today's visit to be useful and at the end of the presentation, I will moderate a question and answer session before the site tour. Thank you all for being here, again, and with that can I hand over, please, to Paul, to you.

SLIDE – Paul Cox

Paul Cox: Thank you, Philip. Good morning, everybody. I just wanted to first introduce the John Crane team present that travelled here. We are going to review the agenda briefly and the goals for today's visit and then we'll get straight into materials.

First of all, we have Bob Wasson, he's in the back of the room, stand up if you will, Bob. Bob is Vice President of Finance and IT for John Crane globally. Prior to being appointed into this role, Bob ran the Americas business unit of John Crane, as the Managing Director. He has 12 years experience with the John Crane business and he'll be presenting, today, the sections concerning our key operational priorities, strategy, ERP and the restructuring activities.

Next, I would introduce Dave Hill, the next speaker for the day. Dave is the Vice President for the Global Product Line Management. Prior to his appointment, he was part of the senior team of John Crane EAA. He has 14 years service for the business, having served both in the UK as well as continental Europe and Dave will be presenting, today, our business model, product services and R&D sections.

We're being hosted today by Standa Stafa. He's the Managing Director of John Crane Czech Republic. And in addition to the Lutín facility and his responsibilities here, he's also responsible for the Eastern Europe sales and service region. Standa has 17 years of experience with John Crane, although he was on the site when John Crane acquired it in 1993. And I would say that Standa and his team have done a really good job, you'll see on the tour later, preparing for the tour and giving you a good insight about what we do here. You'll get to meet Standa and his -- several members of his team on the tour later.

SLIDE – Welcome to John Crane Sigma

We're here at Lutín because at this facility we can demonstrate several key aspects of our business. I'm guessing this is the first visit for most all of you to this site. This has been a John Crane facility since 1993 and we've grown our capabilities progressively since then, now to include machining and assembly of standard seals and couplings, as well as the sales, application, engineering and most services for this region.

Recently, we've started the transfer of our precision machining for gas seals, from Slough to here. And we wanted to show you the quality of our facilities here, the team, how it has expanded in Czech to meet our overall growth and margin targets in the region.

SLIDE – Investor day agenda

We're going to cover the formal presentation today in four parts. In order to keep everybody fresh, the agenda includes a break for lunch, which is immediately following my presentation. So I have the unlucky duty of being in the way of your lunch. After lunch, we'll complete the presentations and wrap up with our Q&A session before the tour. And please note that Philip is actually going to have to depart from us after the Q&A session.

We'll give you a tour of the Lutín facility. We're going to give you a chance to interact with more of our team. We'll pause for some refreshments after the tour and then we'll be loading the coach for the journey back to London.

Speaking of the tour, I'd like to say that we've brought a sampling of people that you'll see on the tour also of -- give you an idea of the depth of our team. We've brought some of the better -- some of our better people here and we've flown them in, so you'll be experiencing some more talent from across the John Crane network on the tour.

SLIDE – Today's goals

Goals today, we had -- we wanted to outline for you the business strategy for John Crane. I'll talk about the growth drivers in the business and how we manage these growth challenges. We have a session on our products and services to show you how they're evolving. The tour is going to be divided in sections, that allow you to follow our product life cycle and includes an opportunity for you to participate in a mock purchasing decision of one of our service offerings.

I hope that the experience of the interactive session on the tour gives you a bit more insights on our aftermarket business, our service business. And also give you some depth of play, because you'll actually be challenged to ask some questions of Nigel about why you might want to buy this product and this service. Ultimately, we want to convey the reasons why we're different and why customers stay with and buy John Crane.

SLIDE – John Crane – An attractive investment case

So why do we think John Crane's an attractive investment case? And what would we like to leave you with, in terms of an understanding? One, we want you to understand our market leadership position and we'll show you some slides on our distribution of where we are, where our products are, where in particular our revenues are coming from, in terms of the traditional seals business and the business we have added on to the seals business.

I'd like you to have a deeper understanding of our aftermarket support business and that's why we targeted so much of the tour on the aftermarket side. And we want you to understand a little bit more about the market leading infrastructure. And this gives you an idea of the quality of our facility, you'll get an opportunity to look at some of the quality machines we have here, give you an idea of the kind of network and the service and infrastructure network that we have.

Technology… I'd like you to understand what we have today and also where we're going with it. The artificial lift business that we're expanding into the John Crane Production Solutions brand, we'd like you to understand that and the expansion into end-markets in general.

The bottom line, with these different growth opportunities and the operational priorities we have in hand, we feel on a long-term basis, this business is capable of producing organic growth between 6% and 8% and we think it's achievable to talk progressively about raising the margins on this business 500 basis points against last year's margin.

Recall that in our 7th May IMS, we noted that since January of this year, the order book has softened, but our restructuring programs are on schedule and delivering savings. I would say while the near term economics make it challenging to achieve growth within the target band of 6% to 8%, we can still deliver margin performance enhancements.

SLIDE – John Crane historical overview

John Crane recent historical performance, as shown on this slide, with last year's sales of £645 million and margins of 16.8%. Organic growth over the last three years is around 6.5%, which is inside the long-term 6% to 8% band we gave you. And that's what we expect for this business.

We describe the business in terms of providing an increasing array of products and services for the global rotating equipment market. The majority, about two-thirds of our business, produced in the aftermarket support trend users.

SLIDE – A portfolio of products and services

This gives you an idea of the breakdown today, and follow-on to this slide that shows you the addressable market that Philip was referring to. But today, 88% of our revenues of last year's sales (2008), 88% of the revenues were derived from mechanical seals, couplings and seal support systems. This would be the legacy John Crane businesses that have been with John Crane for many, many years. About 12% of our revenue today is coming from the new bolt-on acquisitions, the bearings, filtrations, the condition-based monitoring and our production solutions artificial lift business.

SLIDE – Key strategies

In terms of our key strategies, starting August of last year, we organised into one global John Crane. It gives us the opportunity to have very clear communication across the global network, one point of contact for our global customers and the ability to scale and leverage some of our supply chain that we haven't had in the past.

We also are looking at best practices across John Crane, since the businesses were very, very similar in the two hemispheres. And we're now effectively looking at taking a world class performance, the best practices from the Americas or EAA and cross-pollinating those two to get world-class performance across the whole globe.

We are leveraging our footprint and that's how we're actually getting the organic growth from the existing businesses. But more importantly, the acquisitions are actually able to immediately tap into this global footprint, which gives them the opportunities, based on the scale that they were, to access a wide range of global customers that weren't available to them when they were small.

And we're building this global artificial lift business that we've branded John Crane Production Solutions. An upstream focus today. About all -- about -- in the oil and gas sector, about 25% of our business is in the upstream. And it builds on our global footprint. So we have activities today in Romania, in the US, Canada and Mexico for the artificial lift business.

SLIDE – John Crane fact file

This is a quick fact chart. It's an insight into the global nature of John Crane today. Our sales distribution last year shows the global nature of the business, with the majority of sales occurring in the EMEA and North American markets. We have a large installed base in these two regions and the majority concentration of our OEM customers is also in these two regions.

The Middle East and Asia-Pac are growing well and the shape of this distribution will continue to likely grow in favour of the Middle East and Asia-Pacific over time. It's not shown here, because we are actually, from a sales region standpoint, are organised by EMEA, North America, and Asia-Pacific. The Middle East is about 4.5% of last year's sales.

Sales by sector, you can see that oil and gas is a very important sector to us and the end-user market, 36% of our revenues is derived from that market. We separate out the OEM market and whilst it's separated out as an OEM market at 35%, a significant part to that, and you can almost reflect the aftermarket, go into oil and gas, general industry and the chemical processing and power segments.

The next biggest is our general industry and we'll talk about that basket of market, the way we've done that. And then chemical processing, which includes the pharmaceutical, is in the 11% and power is only at one.

SLIDE – Where John Crane sits

So what are all the markets we operate in? Where do we sit in the markets? This is a dynamic which is driven by our strategy of expanding our addressable market into areas of interest through our targeted acquisitions and disposals of technologies and lines of business. And when considering the total equipment market for rotating process equipment in the oil and gas, chemical pharmaceutical, power, water and general industry, market studies indicates this is about a £50 billion marketplace per annum.

John Crane's strategic portfolio does not cover all the products in this total marketplace. Following our strategic actions, we've increased the addressable portion from £2.1 billion to £4.1 billion, all based on 2008 market -- frozen market time.

You can see for the £2.1 billion, what is meant -- what is shown here on the 28% is we consider we have combined across these product groups, about 28% share across that market. We have about 3% share of the newly formed or acquired businesses.

As you can see, adding smaller shares of bearings, filters, condition-based monitoring in artificial lift equipment provides us with growth opportunities and the ability to leverage our global presence and our relationships with our end-users. We'll return to the £4.1 billion and go through the actual pieces of that in just a moment.

SLIDE – Business model

You'll hear about the business model in more detail when we get to Dave's portion of the presentation, but in overview… We're an engineering, manufacturing and service business. Customers get us involved in the conceptualisation of the project, through the engineering designs, proposals, and then we work with our OEM customers to design the proper equipment and then build the equipment for the first fit.

And the initial concepts, initial start-up phase life of our products, represents about a third of our business cycle and about a third of our revenue stream. It's very engineering, very manufacturing centric and all of the relationships, principally, are through the OEMs, through this channel.

The majority of our business, I refer to as the aftermarket, takes place after the products are installed in the field. And it's speed and service centric. We provide a wide range of services to the end-users that are operating the equipment and they rely on safe and reliable operations to make their production and bottom line results.

Our support to the products range from everything from spare parts and spare assemblies to refurbishment of the seals or equipment to the actual, as you'll hear about more on the tour, complete maintenance partnerships, where our specialists work on site with a customer to enhance their up-time and basically their life costs for the product.

We have presently something over 150 engineers on site, John Crane engineers, on site, resident in our customers' end-users facilities just doing these sorts of reliability studies and product enhancement work.

Much of the service is urgent, as you might expect. When a refinery has a failure or has a problem, they want their product fixed immediately. It's generally low quantities, needing high-quality work, needing specific knowledge about what is in the customers' equipment. So the speed, the coverage, the specific knowledge, the ability to manage the supply chain and the complexity required with the quality are the keys to success.

And indeed, a lot of the barrier to entry in this marketplace. You have to have those ingredients and you have to have the trust of the refineries or the chemical plants in order to really get the business and keep the business.

SLIDE – John Crane serves a wide range of customers

As you can see, this sample of our customers shown here, you'll see many familiar names that will jump off the page. Many of these customers are global and so they appreciated the recent change to globalise Crane, as they now have one point of contact to go to. It's a really great customer base, very conservative in engineering terms, their reputations are key, they're very safety conscious and they value the reliability and safety of our products.

I should note that while this is a representative list of well-known names, no one customer typically represents more than 2% of our sales annually. So we really do have a very broad customer following and a very large installed base.

SLIDE – John Crane – Unique global reach

In terms of our global reach, I noted on the previous slide, many of our customers think globally and John Crane has the best match of service infrastructure for both our global and our local-minded customers.

We have an industry leading global footprint, our manufacturing covers over 120,000 square metres of floor space in over 15 countries. And we're supporting 230 sales and service sites distributed, as you can see, on the screen.

We employ about 6,400 people, 700 of which are engineers and roughly 40% of our people are in customer-facing roles. We're not standing still with this infrastructure, as installations continue to grow in the Middle East and Asia-Pacific in particular, we continue to evolve the service and manufacturing network to line up with its needs for today and tomorrow.

We've added 17 new facilities in the last three years and they break down as six in the EMEA region, four of which are in the Middle East, 11 that we've put into the Asia-Pac region, five of which are in China.

And we've actually evolved two of our centres in the Americas into super-service centres, which as you might imagine, is something bigger than normal service centres. But we're not standing still with this network. We continue to evolve the network and move it where the installations are going.

With this global infrastructure, it's like our advert on the right-hand side of the page says, John Crane is truly “around the world and around the corner”.

SLIDE – Global Infrastructure Investments

Demand for John Crane service and production is driven by the global infrastructure investments and the continued operation of those investments. We believe there are several key drivers present that give rise to our demands, such as an increased desire for energy independence; security of your energy supply is becoming more and more an interest for all sorts of sovereign states.

Regulatory requirements. For instance, carbon emissions. Carbon emissions either from a reduction standpoint of carbon or potentially storage. Emission reductions in general as well drive some of the demand for our products and upgrades to products that are already fielded.

There is certainly a need to renew or improve the existing aging infrastructure, both to get more efficiency as well as to get the upgrades. We know that the demographics drive, because it's really down to the amount of demand, how much should you pump and press or move to drive the united usage of our products, which in turn, drives the amount of maintenance required. And global population growth, clearly, drives a bit of demand.

And then we look at the long-term economic growth, it goes through a couple, one to the other, but those are effectively drivers for why our products get used and why more products are fielded.

SLIDE – Market update: Addressable market

Recall that we addressed a market of £4.1 billion and we broke that market out while we walk through the various markets, we have a little bubble chart that mimics this £4.1 billion down here at the bottom in miniature. It orients you to the relative size of the addressable market that we're talking about in the next several slides. As you can see, the addressable market, after the £4.1 billion, is in oil and gas.

A quarter of it, OEM and the rest split between chemical, power and general industry. I'm going to step through those markets briefly right now.

SLIDE – Market update: Oil & gas industry

So we'll start with our biggest market sector, oil and gas. The oil market for John Crane is about the amount of demand in the world. That is the amount pumped or refined by our global customers. The latest EIA forecast for the demand is shown on this chart and represents why we believe that this major market remains attractive now and for the long term.

What's not shown in the demand numbers is the increased complexity of the mix of oils being processed and the demands for decreased environmental impact from oil and gas operations from upstream through to refining.

In the oil market, John Crane has historically mainly been in refining because that's where you'll find the majority of the pumps. Major oil firms, like Chevron and Total have both seen some drops in profits recently, but haven't made any substantial cuts in their investments -- in medium-term investment plans.

Our national oil companies have kept investment largely steady compared to last year and in total, in 2009, the largest national oil companies planned to invest more than $275 billion. This is citing a Financial Times article in June '09.

Additionally, as Iraq opens up, both BP and Royal Dutch Shell are expected to bid for oil service contracts for Iraq in the next month, which would drive a little bit more investment in the Middle East.

With our expansion of products, namely bearings and filtration, we can leverage our installations out in the network and our service network to capture opportunities that these acquired companies could not afford to address in the past.

And in the upstream, our winning combination of services and the unique fibreglass sucker rod products, which you see an example of on the back, is gaining traction, with the John Crane name being behind these products is also creating credibility in addition to the leverage we have in our supply chain.

SLIDE – Market update: Oil price has limited impact

We get a lot of questions about oil price. And oil price has had a wild ride over the last 12 months or so. And it drives some changes in our demand, but it's not a straightforward relationship.

Suffice it to say, we thrive best in a mid-range oil price scenario, that is where price per WTI, or West Texas Intermediate crude, is somewhere between $40 and $80 a barrel. In this range are our full spectrum of customers, from our upstream, midstream, and downstream customers, all enjoy the kind of margins that they want and are encouraged to operate their maintenance programs on time, invest in new capacity or expand.

High oil prices drive the upstream to pump and expand as much as possible. The midstream is more or less indifferent, depending on demand – they are more demand driven. And downstream refiners suffer on a margin basis, which causes them to contract from their maintenance programs and delay putting in new refineries.

Low oil prices basically drive the upstream to stop or reduce pumping, cut back on maintenance costs and delay projects. And the midstream, again, is more or less not driven by the price, they're driven by the demand. So we're more or less unaffected in our view.

You can see, depending on where the price of oil goes, it either pinches the refinery or it pinches the upstream and that's a well known dynamic, but it reflects in our business in terms of stretching out maintenance contracts, maintenance periods, or delaying new infrastructure buys.

Long-term forecasts vary, but those in the main who are bold enough to forecast oil believe they'll stay inside this normalised range of $40 to $80, where our customer operates the best. Indeed this morning, I think it was something on the order of $68 and change.

We see a protracted stay on one side or the other of this range is when we see a change in customer demand. Either extreme projects being put in place or paring back maintenance programs.

SLIDE – Market update: Oil & gas industry

On the oil and gas side -- on the gas side, sorry, of the oil and gas market, we've got an expanded range of products now and the technology leadership position to address this market, which Dave will actually discuss after lunch in a little bit more detail.

But similar to the oil story, gas demand is forecast to continue to grow, with liquid natural gas, or LNG capacity, forecasted to double in the next three years alone. This is an opportunity for us in our upstream business as well as our Artificial Lift business, as artificial lift is frequently used to remove water from gas fields.

And there are currently just about 100 LNG or gas-to-liquid plants in various stages of construction around the world, including opportunities in Australia and Qatar. Our opportunities here are similar to oil, with an expanded product range.

We have a technology leadership position for LNG projects with our gas fields and we're expanding the sales force and service networks to capture aftermarket support to reach key markets -- reach key installations.

SLIDE – Market update: Chemical processing industry

Our chemical and pharmaceutical processing market has been hardest hit by the economy. These producers are more directly linked to GDP and consumer activity and their earnings have been hard hit.

Going forward, we expect this will self-adjust, but 2010 looks to be a year of further decline for the chemical processing industry. Activity is moving ahead briskly in the Middle East and Asia-Pac and we look to capture some wins on those two markets to support our customers throughout this period.

SLIDE – Market update: Power industry

The power market's another area, which has good growth. It's a smaller addressable market segment, for us, but it does have good growth.

There are major expansions planned and underway in Asia and the Middle East, with renewed interest in nuclear power and carbon capture, driven by environmental impact initiatives or conventional power stations. An example of the renewed interest in nuclear power includes EDF’s desire to develop and operate more than ten new stations by 2010, including four in the UK, four in the US, two in China, one in France and one in South Africa.

Saudi and France are close to finalising a civil nuclear corporation pact, which could lead to the sale of French atomic energy technology into Saudi Arabia. And our global product line managers are focused more on this market, because it does have more growth opportunity now than it has in the past several years.

Today in the case of nuclear power stations, we have some technology-leading products. And for other projects we look to expand our reach into new technologies we just have added onto our technology portfolio into our existing relationships. It's early days, but I expect our team to deliver more growth and power moving forward.

SLIDE – Market update: General industry

And wrapping up the markets is a basket we call general industry. And here we put together pulp, paper, water, refrigeration and other pump markets, which all have ties in some way or form to GDP and population growth.

The highlights of this sector going forward are water, with a significant investment being required over the next seven years to meet demand, the migration of manufacturing from pulp and paper to shift more capacity to the Asia-Pac region. With water availability in the Middle East region less than 20% of the global average, the governments have shifted their focus to desalination, which has grown into an $8 billion market in the past five years.

Today governments in the Middle East are looking beyond water production to improve their efficiencies and services across the whole water cycle and according to a public report published by Global Water Intelligence, this is going to lead to a dramatic increase in investment in waste water reuse.

Total capital expenditure in waste water's going to grow from $5.3 billion in 2009 to $13.3 billion in 2016. So that's one of the highlights within the overall general industry.

The general industry, when it comes to a broader base of general industry, we're selective about what we go after because the margins, depending on how far away you get away from our core markets, the margins are less and less interesting.

SLIDE – John Crane has a broad range of technologies

This slide captures, in one place, the products and aftermarket services we are offering by market. It's a somewhat aspirational chart, I'll give you, because we're in the process of really introducing the newly acquired product lines of bearings and filtration systems in the global sales and service footprint. But these are the targets.

You can see from the slide that the full range of products is offered in the oil and gas sector with the least amount of focus provided to the general industry and market sectors and the margin comment I made on the previous slide would tell you why we wouldn't go after that full bore.

SLIDE – John Crane has a strong competitive position

This may be the first time we've put up a competitive landscape for John Crane. You can see that no one competitor offers the same breadth of products now for rotating processing equipment.

For some time, as we built our strategy around adding bearings and filtration, we remained somewhat quiet about what we were doing because we wanted to build up this chain that you hopefully, during the lunch break, I'll give you an opportunity to play with our model back there of a compressor line.

We've got a model back there where you actually push the button and you can see where all our products fit in the overall chain. And you can see, pretty quickly, through pushing those buttons, why the seals company might have gone after a bearings acquisition. Because they're right adjacent to one another in the equipment.

Our addition of bearings and filtration, in addition to not just the fact that they are growth opportunities all themselves, also provides us with a package to offer customers that's more complete.

To be fair, Flowserve is shown here as the flow solutions division and not our esteemed customer the pump division. They compete on a pump OEM level, and so they offer higher-level products, for what concerns any other major independent rotating process equipment manufacturer, John Crane has the broadest offering and services that we sell across the globe and around the corner.

SLIDE – John Crane key differentiators: Customer intimacy

So what differentiates John Crane from its competition, aside from the fact we've got this breadth of product, we have a unique spread that we've delivered -- developed over the last 25 years and we've talked about 230 service centres, sales and service centres, we've got around the globe.

And the global coverage is supported by highly knowledgeable customer-facing personnel, 40% of our work force, which allowed us to develop a truly intimate customer relationship. Because two-thirds of our business is with the end-users, we have a real good handle on what the end-users are doing.

We've significantly increased the addressable size of our market and now we're going to leverage that across this footprint and through these relationships we have with customers. It gives us opportunity to grow share in an expanded market.

SLIDE – Key strategies

Our key strategies, again, just to recap… going global. Being a global company is extremely important for us, not only for the top line, but also the bottom line. Leveraging our footprint, accessing these opportunities, because we've got a tremendous footprint, and building our John Crane Production Solutions Group.

SLIDE – Bob Wasson

Bob Wasson: Good afternoon. What I'd like to go through is just giving a brief overview of what's happening with our restructuring programs over the last year. Then we'll -- I'll talk about our ERP implementation, give you a status on how that's going.

Then we'll discuss the acquisitions, we'll look at some of the strategy behind them and the time line. Hopefully give a bit of background of some of the things we've been seeing out there. And then we'll look at some of our business priorities, mainly in the medium term.

SLIDE – John Crane restructuring is delivering margin benefits

One of the good things, obviously, that, as we put together John Crane last year, and it was about this time last year when we sat down and developed, obviously, the proposal.

Obviously it was -- we rolled it out in the June, July, August time period. We're very fortunate, obviously, because given the economic issues that are happening today, I'd have to say we got out of the gate about six months ahead of everybody else.

In putting it together, I mean, the first thing we did was look at the two HQs and we developed the organisation from that and we put together our senior team and obviously did some restructuring from that standpoint.

As Paul already mentioned, we developed one direction, again, I used to be the President of John Crane America, so I know that although there was -- both businesses were doing very well, we both had our own priorities and putting one John Crane together allowed us to really get a little bit more focused and drive the business a little bit more coherently. As Paul already mentioned, that allowed the customer one face also.

So obviously it was well overdue and it was welcomed by the organisation. A lot of people think that you put one John Crane together and it was both sides of the water and there was a lot of back and forth in terms of competition, or friendly competition, but I'd have to say that the organisation actually came together very well. The senior team, over half the individuals on that senior team, a dozen people, were international - i.e., had worked on both sides of the water.

So we were able to put that together very well and actually two or three of the people had actually -- we had some cross-pollination in terms of people working in John Crane Americas as well as people working in John Crane EAA. So out of the gate, it was a very good process and clearly in the first couple of months, we put together this team very fast and started working on some of the objectives that we had.

Obviously involved in that too was delayering. And we delayered a lot of the organisation. That also went up into specialty engineering, which was obviously eliminated, and we had divisions reporting directly to Philip. So, again, another delayering process. And then we looked at consolidating sites. So again, it was a very good process that we went through.

Secondly, we wanted to leverage the global talent. The nice thing about it is it was actually strong areas on both sides of the waters in terms of the talent that we did have. For example, the Americas supply chain model was very well established, a very solid model, and we are bringing that across, over into EAA. Another good example is Type 28 engineering.

The engineering team in Slough was world class and we've been able to leverage their talent across the Americas. So there was a lot of nice leveraging opportunities as we went forward in this one John Crane environment.

Probably the other -- the last one was really our sales force. As, again, Paul has already indicated, we have a direct sales force. It's the largest in the world. It's our biggest strength. It's also global. And again, being able to leverage that and contacts, which we'll get into some of the global coordination issues that we'll talk about, was premier in terms of some of the things that we could do.

Looking at establishing the -- after we put together the organisation and got out of the gate, we did sit down and we wanted to make sure we established our global coordination, which again is things that we got out of -- put together in the first, I'm going to say, three to six months.

One of the nice things is -- was the customer account management. We had strengths with customers in different size, in Asia-Pacific, in Europe. A good example of that is Shell, where we're very strong in Europe. And we're able to leverage stronger those contracts -- contacts into North America.

In North America, we had very good relationships with Solar, and we were able to leverage those relationships into some of the acquisitions that I'll talk about later. But again, it was -- again, we talked about that one direction and coordinating John Crane globally and that's one of the things that we were able to do very well.

We have a global projects group, which again, we have a projects database and every project across the world actually, I talked to some of our pump customers, who actually would like to discuss with us some of these opportunities. Because our database is very strong.

We were able to consolidate that more and get more focused and also look at operational opportunities in these global projects. So although it is a small part of our business in the OEM sector, it's very price competitive. So it's very important that we understood where we were making some of these projects and how we'd go about it.

Probably one of the hardest is Dave Hill, who is going to be up next, with the product line management. Obviously, again, with the different priorities on -- with the two John Cranes, each one was pursuing, to a certain degree, their preferences and products.

Dave's put his team together and been working on how he can leverage the, again, the products across John Crane globally, focusing on priorities. And again, there's always lots of priorities, but getting down to five or ten priorities and really where's the value added has been a big job for Dave and his team over the last 12 -- now it's been over the last nine to 12 months.

Another big aspect in the pipeline management was pricing. Again, we had some nice tools in the Americas. We're now bringing them over to Europe and over into Asia-Pacific and that will help us manage global pricing. And again, that's a big issue as we have contact into the industry.

Engineering, another big issue. I don't think people realise, but every one of our orders, a drawing goes out with it. And being able to make sure that we coordinate drawings. Again, this is part of our competitive advantage, is our drawings, our global drawing capability and putting that on a system, worldwide, so that people in Singapore and in China could access drawings that are developed in, obviously, in the USA or in Slough and the UK. And Joe Hoss… John Evans is on his team here today. They've been able to coordinate the whole drawing capability across John Crane.

If you can believe it or not, such things as part numbering is always a tough issue when you put together companies, not only is it a tough issue when we put together the Americas, but it's also a tough issue when we did EAA with the SAP.

There were probably ten to 12 different types of part numbering schemes, but we've now sat down and coordinated that and consolidated that and putting together processes, where we actually have one part number that represents across the globe. And that helps you then analysing customer issues and also obviously working with suppliers. So again, another nice little feature that came out of the globalisation of John Crane.

And then last, but not least, in the product line management is the acquisitions. Obviously a lot of these, the bearings, the filtration, these products have to be leveraged through John Crane and again Dave Hill and his team are responsible for getting that across the regions globally. And again, I'll talk about that a little bit later as we talk about some of the strategy related to the acquisitions.

Probably one of the areas that was never really discussed, and again I'm talking from experience, globally was manufacturing capacity. And really as we got involved in the firs three to six months, we sat down and got a good view of what was available from our manufacturing capacity, legacy assets, machining capability and so we've done a lot of work there.

A lot of that will come into some of the low-cost moves that I'll talk about. But again, it's really understanding that. And obviously the key is making sure that we utilise that 100%, all our internal assets.

And you'll get into some of our supply chain model where we basically flexed our external machine shops to make sure that our internal machine shops, and you'll see that here today, is 100% capacity and obviously utilising that as quickly as possible.

Also on the supply chain, one of the things that was critical too was that we went to a similar model. Obviously at the end of the day, and I'll get in and I'll talk about the ERP systems, but we will have two ERP systems. But if we have a similar supply chain model, globally, it allows us then to interface them at appropriate places.

Obviously, a lot of components, we're mainly a component supply environment, with various service centres around the world, and being able to get those components, again, having common part numbering and then using XML technology on the latest ERP environments allows you then to do that in an efficient manner.

And that's some of the things that, as we develop the global supply chain, we wanted to make sure we addressed those issues because we didn't, obviously, want to spend another 20 million putting in an ERP system in the Americas when we have already had a robust one as it was.

And last, but not least, in terms of the coordination right out of the gate, IT, finance, HR and legal, probably the biggest issue there was really, as you know, the Smiths headquarters was also moved out to the businesses.

There was a lot of work there in those areas, functions, as we had to pick up and leverage our headcount in our -- obviously in our divisions to pick up such things as tax, treasury, the HR, obviously, trying to make sure that we leverage our global processes and understand what our global talent is across the globe. And then legal's obviously also an important area where we brought a legal person onto our team and looking at governance issues across the globe.

So again, there were a lot of activities in that first three to six months that just getting the whole coordination, getting ourselves set up, which then played into the restructuring priorities. And at the beginning, we brought in Bob Hudzik, which is a new member to our team, from the outside, and he was in charge of looking and project managing our restructuring.

And we put together various initiatives. We have over 30 projects that we established right out of the gate and certainly over the last year, addressing these major areas, the first one being fixed costs. Again, looking at the one John Crane was we got the natural savings on day one, which are already embedded in some of the savings that you'll see on the next page. But then also, the ongoing opportunities as we go forward. How do we understand what we have to do there in terms of optimising our fixed costs around the globe.

The low cost moves, I mean one of the great things about being here, you get to see the Czech facility. I'd have to say, first of all, that both the Czech, India, China and Mexico, we have brand new facilities in all those regions, which allow us really to leverage additional volume into there as well as look at opportunities where we see components with lead times to make them here locally.

And the Czech one is probably the nicest one, where we have the type 28 machining, the gas seal product that you saw, where, again, the lead times there are 16 weeks. We can make the machining components for that here and that will be one of the things you'll see on the tour, where we took that out of the UK and moved that to the Czech. And again, it's a really nice saving and there are other opportunities in that area.

And then last, but not least, is obviously looking at leveraging the supply chain. Again, we have -- I talked about already, optimising our internal assets. That's really looking at the machining environment.

The other thing is we developed -- we had a supplier conference, looking at our global supplier base and understanding what we can do to leverage that. And then the third thing is looking at enhancing capabilities in our developing regions, making sure we put -- the main thing that we put in assets is machining capability, which is the adaptive hardware in a seal. So that gives us the better delivery times and obviously higher degree of customer satisfaction.

So really out of the first year, again, these are the areas that we really focused on and we're developing the savings related to that and the costs related to that. I can't overemphasise the fact that we got out of the gate on this one and this time period last year, which really helped us as we went in, obviously, to the tougher times this year on the volume issues and where the business is going and also setting us up for the future.

SLIDE – Restructuring for better customer service and lower costs

As you can see here, again, I just sort of briefly outlined the organisation. It sort of gives you an overview of how it looks. Again, we restructured and went to the one global organisation, August of 2008.

Again, secondly, the second area was the regional sales and services organisation. But we have that broken up into three regions and we have three individuals running those regions, which again, allows us then to optimise. Again, they're mainly the sales and the service organisations, either the customer looking individuals in that we have.

Again, accentuating the strength that we had already and also developing the core competence that we've always had naturally in John Crane over the last 20, 30 years. And again -- so we have that as the Americas, Europe, Middle East, Africa and Asia-Pacific.

The next area we did is we looked at the acquisitions. We have the specialised businesses, and again, really what we wanted to do there is make sure we had focus in order to deliver, obviously, the business cases that the acquisitions were involved in and make sure that we can bring along those organisations and bring them into Crane and allow it also to be leveraged up into regional sales and service environment.

So again, we have -- Dave Hill is responsible for that with Michael Hall, directly responsible. And then production solutions, again, because we had the CDI and the Fiberod acquisitions, we have Tim Whipple, who is a head of that business.

Again, really we provide a focus in the early days, the first two or three years, to make sure we deliver the business case as well as how do we leverage across John Crane in that environment. And I already talked about the global functions.

So you can see the restructuring costs to date are at £5 million. We expect to have about £19 million more of costs. To date, again this is the half year numbers, we're showing £3 million in savings, which the majority of that is really the fixed cost savings that we got out of the gate and looking at £25 million in benefits over the next three years.

And a big part of that will be coming next year as we start leveraging some of the supplier chain initiatives as well as the low cost moves. That gives you a brief overview of the restructuring environment.

SLIDE – John Crane – ERP implementation

In terms of ERP, we probably talked about this over the last two or three years. The investment is £24 million. In that £24 million, actually includes some of the acquisitions we made. So we put some extra money in that environment, Sartorius, Indufil and John Crane Japan is actually included in that funding.

Again, this has been an implementation over the last four years, we're in year three and will be completed next year, which is a good thing because it allows us to get on with the business and start really leveraging this implementation.

As you can see, it was pretty broad. It was 31 countries across Europe, Middle East, Africa and Asia-Pacific. So we have completed Europe, Middle East and Africa. And we really just have to focus on Asia-Pacific now and so that's where we are in terms of the status of the implementation.

Obviously, again, we saw significant benefits in this situation. Looking at headcount, purchasing initiatives and working capital, obviously one of the tough things is making sure we don't double count with Atlantic, but we were pretty focused in terms of making sure that the purchasing savings related to the Unify are in this project and obviously not in the Atlantic projects or the restructuring project as we call it.

So the profit and benefits from this per annum are £10 million, once we complete. So again, we're progressing very well in that environment.

I guess the last thing was the high level of stakeholder commitment. Obviously that's -- we've had excellent support from top to bottom. I think when Philip came in, he refocused a little bit more and made sure that we had an end-date, which again, is a very good thing.

And four years of implementing ERP is a long time, but from our standpoint, we basically have one year left, so we're looking forward to that situation. We also have a dedicated team here of 40 individuals that are involved in this implementation. So again, it's a pretty focused group.

One of the nice things about it too, and its a little side story from a global John Crane standpoint, is that we had put an ERP environment in the Americas, back in '99 and 2000. And our core team, our top users there, we have five of them, that work on continuous improvement, they're actually now over in Europe and the Middle East working with this team, after they do implementation, to really help bed down and improve process and make sure that we have consistent processes for John Crane. So that's another environment where we've been able to leverage the one John Crane environment.

Again, it replaced legacy systems. I think it was over 30 old legacy systems. The big thing, obviously, when you have that many legacy systems, is the management information. So again, as we're rolling this out, they're learning a lot of things about the business.

In terms of lead times, performance, the due dates, whether it will be a promise date or request date and just understanding how that all works. It also, on the next one, it does enhance our whole business process situation.

So again, that supply chain model that I talked about is critical in this situation. And part of that is developing some central parts warehouse in Europe. We have one actually in Chicago, in the Americas. And we will be developing one in Asia-Pacific also. So, again, this allows us to utilise the ERP environment very well. And obviously the ultimate goal is to improve the lead times and delivery reliability. Again, the whole customer focus environment. So that's very important in terms of where we're going.

As I mentioned already, part of that £24 million doesn't involve the bolt-on acquisitions and I think Paul also mentioned that Orion, we'll be putting this into this situation too, in order to consolidate the two bearings businesses. So again, the strategy is pretty solid in terms of where we're going.

I did mention too, this provides an integrated global John Crane environment. Basically we'll be able to create the mirror images in Europe, Middle East and Africa and Asia-Pacific as well the Americas in order to optimise our supply chain globally. So that just gives you some background on the whole ERP environment.

SLIDE – Building through acquisitions – strategy

Now I'll take a little view of some of the acquisitions. Again, you've been out looking at some of the product out there. What I'd like to do is discuss obviously, some of the strategy related to these acquisitions.

First of all, if you look Sartorius and Orion, which is the engineered bearings, again, the key thing that you have to take out of that is obviously this is part of the total process flow or the skid that we have out there. If you press those buttons, you see how integrated the -- we have the motor, you have a coupling, you have a bearing, a mechanical seal, a seal support system, the filter and the pump and that's all what we call on the one skid and also involved in that pump, if you take the pump out, you have the compressor.

So again, these are complementary technologies and what -- by buying the bearing company, it allowed us to basically play in the same market, in the same industries, with the same customers that our Mechanical Seal business already had.

Sartorius was our first acquisition and then we followed up with Orion. What that did was it allowed us to get two good players, one in Europe and one in the Americas. Sartorius had some good customers like Siemens, MAN Turbo and Salter, whereas Orion has GE in North America. So again, there was some nice customer synergy there in terms of what we want to do.

Before, obviously, our role, the market was very fragmented. With Sartorius, we were certainly below 10% market share. Then adding Orion, we've been able to get to about 15% market share. So again, there's some nice penetration opportunities and then again, if you do then combine it with the John Crane supply base, with the John Crane global network, our global footprint, and being able to leverage that, that should certainly allow us to grow these businesses 10% to 15% as we go forward.

The other nice aspect is that there's really not a service capability in this business right now. I'm talking about the Bearing business, and we have that opportunity to leverage that, taking from, again the mechanical seal service capabilities and looking at, how do we grow that for the Bearing business. So again, if you look at the strategies for bearings, it was a very nice compliment to the mechanical seal, with its own growth capabilities as I've already mentioned.

Indufil which is the filter was actually a key component in the sealing support system. So again, we had a Sealing Support business, we have one called Comet in Italy, we have another one called Lemco in Tulsa in the US just added to that complement, that also had had its own customer base.

So again, we're able to leverage both the John Crane Sealing Support business with the Indufil System business, and then again, leveraging all the John Crane sales force and network and again, this has a nice growth opportunity, nice facility, and again, we're looking to grow this business 10% to 15% in the sales of the top line over the next three to five years.

So again, these were very good complementary technologies and again, you can see how it's tied to the whole skid, as you go in the back room there, and allows us to really leverage that across John Crane.

The second area, obviously with production solutions, was heavily involved in that over the last two or three years. The nice thing about the production solutions is, actually it had the John Crane service model in it, and that's what it's all about. You see out there where you have a fibreglass rod and a steel rod, that's just part of the business.

The real issue is service and repair of the artificial lift environment, the sucker rods, really are just part of that. We also make the pumps and we also repair and replace the pumps. And the pump in this case is obviously not as elaborate as some of the other pumps, but again, it's very similar to a mechanical seal, where it's made up of

10 to 15 bits, and you're repairing and replacing those as they wear out through their life.

The other aspect to it is that most of these, obviously this deals in the upstream, and we have customer contacts with the major oil companies or the national oil companies, the national oil companies, and our relationships in John Crane, for example, we have very strong relationships with Pemex in Mexico or Petrobras in Brazil, and even Pedavesa in Venezuela. We do very well with them, and we can leverage some of this upstream business into those businesses as well, so very good opportunity to grow.

And another aspect that's been very nice is that we've been able to work with some of the national oil companies, so a lot of the national oil companies basically are pretty inefficient in their mean time between failure, or when they have to change that pump on the artificial lift process. So what we've been able to do is go in and do business proposals for national oil companies. The first one we did was in Romania, with Petrom where we've been able to grow the business over £10 million in the last two years, providing them a service solution, and also leveraging our parts and components in with them, the sucker rods and the pump repairs. So again, there are a number of targets that we have in that area where we'll be able to extend this business.

Last, but not least is that basically the market penetration we have. Again, probably below 10% market share in this area. Again, it's a big market, and some of the areas we're not in, but we'll be able to grow this business between 15% and 20%, again, over the next three to five years. So again, a very good growth strategy and it allows us to really leverage the John Crane footprint as we go forward.

The next area is really just looking at extending our global footprint. We bought 21% of the Japan joint venture and again that's a very important market. Obviously there's engineering contractors in Japan that deal globally, so we had a pretty poor presence there. So that allows us to establish that, as well as also to expand on the service in Japan. We basically had no service, we really did only OEM business there. So again, some pretty nice acquisitions over the last two years.

SLIDE – Building through acquisitions

If you go to the next slide, you just look at the timeline. Actually, in August, 2006, we bought Comet, which again, was a sealing solution system environment. And that was an acquisition we made that complements, as I said, our Lemco business in the US.

Then in March of 2007, we bought CDI, which was really more the repair side of the production solutions environment. Then in November of 2007, that's when we bought Sartorius, as I've already talked to you, and how it links with Orion. But again, that was our first venture into the complementary technologies. I've already mentioned John Crane Japan, as we extended our footprint globally, then Indufil was in April of '08. Again, it was the filters and again, complementary technologies.

Then Fiberod, which is again, part of the production solutions. Again, one of the aspects, too, of Fiberod, is it does provide us a niche product. Obviously it's a fibreglass sucker rod with attributes that help replace the steel sucker rods, and I think they're out on the bench there if you want to take a look at it. But again, it also helps us to leverage the sales in that environment.

And then last but not least, in May of '09, we just bought Orion, which really solidified our strategy in the bearings, and that will allow us to penetrate and grow in that business. And the nice thing about this, too, and you'll probably ask the question later, these businesses are all between £10 million and £30 million sales, so these are more of a bolt-on type technology.

I think we've probably paid in total about £200 million for these businesses that you see on the chart, and I guess, last but not least, because John is in the room, we did dispose of the automotive business in July of 2007, and I guess we can just say we were really lucky, because obviously it was going nowhere, and it's gone even further than that now, so very fortunate.

SLIDE – John Crane: Business priorities

Then if you just look at it again, looking at the business priorities, I think these have been indicated by Philip in some of his prior meetings, too, but just looking at what our goals and objectives are, over the medium term, and we certainly feel, given the acquisition, given the optimisation of John Crane Mechanical Seals, that we'll be able to grow our sales growth between 6% and 8%.

Also, the slide earlier, that showed you what we've done over the last three or four years. We certainly, once we get through this difficult period, feel that we'll be certainly on track in order to do that. The first half of this year, obviously we grew 6% organically. It looks like we'll be close to 0% organically by the end of this year, so year-over-year, we'll be basically flat.

But again, you know, from a profit standpoint and looking at the margins for the business, as Paul indicated, we're 17%, and we feel very comfortable about moving this upwards over the next three to five years, moving it from 17%, and given the restructuring programs that we have, and also project ERP implementations, we feel very strongly that this will also move in a very positive direction, and move toward that 22%.

Well now I'd like to call upon Dave, the VP of Product Line Management, and he'll go through his area. Thank you.

SLIDE – Dave Hill

David Hill: Well good afternoon, everybody, my name is Dave Hill. I'm the Product Line Management VP for John Crane, and what I'd like to do over the next 30 minutes or so is just take you through our business model, recap on the business model and review some of our principle routes to market, and then additionally, talk around our products and services and some of the developments that we've made in the R&D area.

SLIDE – Business model

Just talking about business model first of all, we mentioned earlier in the day that two thirds of our operating income comes from the aftermarket, directly from end users, and in order to really maintain, perhaps more importantly, develop that mix for the future and maintain it, we look to track the customer's process from start to finish, whether that's from concept, initial concept and business case, through front end engineering studies, all the way through to operations.

And we do that by really breaking that into four key sectors. We look at R&D, while we're looking at future market drivers, and where we want to put our investments from an R&D perspective, into engineering, applications engineering and how we look to apply the technology that we have to customer-specific applications, through our operations environment, and you're going to get the opportunity to see some of that today as we go and take a walk around the plant, while we're really looking to supply products at the right quality, on time, and at the right cost level.

And then further on into our aftermarket relationships, where we look to leverage our unique sales and service platform right across the globe to provide service at the customer locally in terms of what they require.

SLIDE – Routes to market

So in terms of routes to market, well principally, we have three routes to market. The first route to market is through our original equipment manufacturers. It represents about one third of our business. What we look to do there is to supply them with advanced technology products which, in turn, are fitted onto process equipment, which they, then in turn supply into the aftermarket.

Once that equipment is installed in the aftermarket, we then follow our second route to market, which is really to look to supply products, refurbishment opportunities and aftermarket services directly into the end users. And what we look to do by providing them with local knowledge and world class experience, we look to get the end users to specify John Crane products going forward on future projects, and therefore, look to lock in the future aftermarket, and grow the aftermarket going forward.

So in summary, we look to provide products through the first extreme, through the original equipment manufacturers which is in turn installed onto process equipment in the field, and we then look to service that aftermarket through our sales and service network. We do that through the footprint, and it is an unrivalled footprint. It's our greatest strength within this business. We have representation in over 50 countries, over 200 facilities where we can provide local service to our end user customers.

SLIDE – Original equipment opportunities

Now I'd like to move on to some of the original equipment opportunities. Paul, earlier today, took you through some of our main markets, but he highlighted the OEM market as representing about a quarter of our £4.1 billion market opportunity, and I'd just like to take some time now to take you through some of the activity that's been going on in that particular area. Some of you may have read about some of these projects in the local business press, but as an illustration, we'd like to just give you an overview of our direct involvement in them.

Over in Canada, we've seen substantial investments in the Tar Sands opportunities and the Athabasca Oil Sands projects in Canada, where we have supplied in excess of £6.5 million worth of first-fit equipment, that would be the mechanical seals, couplings and sealant systems through to Shell, which would give us a future aftermarket opportunity in excess of £20 million.

What we've managed to do there, through working with Shell, through working with our end user account management relationship, we're able to gain specification on that project, so that is a 100% John Crane facility with the aftermarket now locked into the future.

Just moving down into South America, into Brazil, we are pursuing opportunities in Brazil, where there have been several specific project opportunities for Petrobras. In the end, Petrobras elected to work with Elliott, and to supply those compressors, and again, through the global account management network that we have, we were again able to gain specification on those projects. We supplied in excess of £1.5 million worth of dry gas seals onto that project, again, securing aftermarket for the future in excess of £5 million.

And the nice thing about that project was, that was one of the first opportunities where we got to leverage in the Indufil brand, and we also managed to lock in, as well as our traditional dry gas seal project, we had the opportunity to lock in the new acquisition of Indufil on the filtration unit.

Another important market for us is the Middle East, and in the Middle East, we've won a number of projects where we've supplied seal systems and couplings and generating first sales in excess of £10 million, giving us an aftermarket opportunity, future opportunity, in excess of £35 million, and we will obviously look to service that through the sales and service network which sits within the region.

We've also looked at opportunities in Asia, and we've seen opportunities for us in Australia, on a number of LNG projects where we'll talk later about LNG where we've got market leading technology. Some of that's available for you to look at round in the product area but we'll cover that as we move on to the specific projects.

In terms of outlook, there's a lot of discussion in terms of where future project outlook may go. I think from our perspective, what we see over the medium term is that demand is still there. Certainly, the LNG investments, we expect those to continue. The activity that we've seen really is we haven't seen any major project cancellations in the area where we're operating. Certainly, there's been some deferments, but the inquiries and the feasibility studies are continuing, so that gives us good confidence over the medium term that the projects will return. Certainly, within the UAE, Saudi Arabia and China, the projects that we're tracking -- certainly, there is an improving confidence there and the level of enquiries is being maintained. We have been seeing recently, over a recent period, an increase in price pressure. Certainly, the end users are pushing the contractors from a price perspective. As they saw commodity prices falling, they were looking to renegotiate on contracts that were placed at the back end of the cycle before commodity pricing looked to fall. Obviously, that's an opportunity that flows all the way through the supply chain, so whilst there's pricing opportunities there, we're also looking to pull up pricing opportunity through our supply base. Many of you will have seen, in the press and in some of the reports coming from the OEMs, a lot of the OEMs are continuing to report full order books through to the end of 2009. So whilst they are reporting a reduction and a softening in intake, they are all messaging on strong order books.

SLIDE – What we do – Invisible contribution

So focusing a little bit more now on the products, what do we do and how do we contribute? We talked a little bit about the traditional products that we supply. In 2008, 88% of our turnover was in mechanical seals, couplings and sealant systems and since then we have looked to broaden that portfolio. That equipment is typically supplied on compressors, onto pumps, agitators -- so that type of equipment -- which in turn is delivering end products to the market, including projects in power generation, whether that be on a domestic or industrial basis, oil and gas projects, water projects. So, in essence, our services provide an invisible contribution to the market and demand. So essentially, where anything is pumped, where any gas is moved, then John Crane products are there and are installed on that equipment.

SLIDE – What we do – Mechanical seals

So just moving on now in a little bit more detail into specific product groups that we supply, mechanical seals are the principal business that we've supplied. Around 66% of our sales in 2008 were attributed to mechanical seals, and by far, the biggest brand renowned product in the portfolio. And going forward, we see this as continuing to be the main product in the portfolio and we will look to develop in R&D terms to maintain our market leading position from a share perspective, market share in the order of 30% in a GBP1.4 billion market.

So what do they do? Well at a basic level, what a mechanical seal does is it prevents leakage into the environment. And two highly polished surfaces, one static, and one rotating look to create a dynamic seal face which then seals the rotating shaft from the static housing.

Types of applications, well applications can range from domestic type applications in dishwashers, washing machines, through to very high-end technically driven applications including main oil line pumps, main boiler feed pumps in power applications, and high temperature applications on refineries.

One particular case study I'd like to draw your attention to in terms of how we've looked and taken our R&D development to help our customers. Certainly the increase in environment applications going forward, we see that continuing and some of the R&D developments that we've made have allowed us to really prevent leakage of toxic chemicals. A Dow Chemicals plant in Freeport Texas, the technology was applied on over 1,000 pumps there, and that technology has now been adopted as a global preferred standard by Dow, and is now being rolled out on a global basis.

So what are the opportunities for us, how do we maintain our position in this particular area? Well, we see a growing demand for power. We already enjoy technology leadership in a number of nuclear applications, we're the preferred supplier on a number of nuclear applications for Westinghouse and Areva, but we continue to see opportunities and will see opportunities in power.

Expansion of biofuel technology, we will see there, we'll also look for push-through technology into emerging markets in Asia-Pacific and also as we'll talk about later, really producing smart seals where our customers get insight into how a seal is performing over its life. We see great opportunities for us to continue to maintain that market share.

SLIDE – What we do – Dry gas seals for compressors

Just moving on to dry gas seals, dry gas seals is a technology that was developed some 25 years ago by John Crane. It's used to seal gaps inside a compressor, essentially stop it rotating, say a static face working on a rotating face where we look to generate a minute fluid film and where the two seal faces are supported on a film of gas.

And just to give you some insight into the thickness of that film, the two faces are running on a film that's around about 10 microns so if you can imagine something around about one tenth the thickness of a human hair, that's the kind of gap that we look to maintain on this product. We have to maintain that through all the operating conditions of the machine at any one point in time. Over 24,000 seals installed worldwide, with in excess of 750 million operating hours, so by far the market leader in this area.

Some of the applications, many of you may have read recently about the LNG terminal that's recently opened up in Milford Haven that's receiving LNG from liquification plants in Qatar, and John Crane dry gas seals are fitted on all those machines. So all the LNG that's coming in to Milford Haven from Qatar have gone through machines sealed with John Crane technology, where we have got the largest diameter gas seals in the world fitted on those machines.

So opportunities to maintain market leadership position in that area, while LNG, we see as a continuing market for us. We're already involved with customers where they're looking to increase the size range of our existing technology from 350 to in excess of 400 millimetres, so we see opportunities for growth there.

And also sour gas re-injection, where again, with the increase of environmental legislation, what end users are looking to do now is basically re-inject sour gas back into the well. These tend to be very high pressure applications.

We've already supplied technology that would seal in excess of 425 bar, or something like 200 times the pressure in an average car tyre and we can see that pressure increasing, going forward, to in excess of 650 bar. So we're already in

Slough, and our state of the art facility in Slough, we're running tests at 560 bar, and the investments that we made two or three years ago in that facility, to allow us to meet the future market demands, are now being used on real applications.

SLIDE – What we do – Power transmission couplings

Power transmission couplings, another core product line for us. In basic form, we use these technologies to connect two pieces of rotating equipment together, and transmit the power between them. Types of applications, survey generators in excess of 70 megawatts, we propel 38 of the world's navies, and just to give you an idea of the type of application, if you were to look at a 250,000 ton aircraft carrier, all the power through to power that ship at 25 knots, is transmitting through John Crane couplings.

In terms of opportunities for us moving forward, while we are investing higher in R&D now on composite material to try and make the products lighter. If you can provide a product to an end user that's lighter, that gives the end users significant advantages from a roto-dynamics perspective. So we see some of the area there, and we also see power generation as an area of opportunity for us, including nuclear. And also some of the renewable energy areas we see as opportunities for us to continue to maintain our position in this particular area.

SLIDE – What we do – Seal support systems

Seal support systems, a critical part of our equipment. They're there to provide a safe and efficient control operating environment for our seals, mechanical seals, whether that be a wet seal or a dry gas seal, and there is a requirement to supply a sealant support system and what they basically allow us to do is to allow the seal to run in a clean operating environment.

I talked earlier about the Oil Sands Project in Canada, and John Crane sealant systems are fitted on those applications. The only system that's there on site, provided by our facility over in Lemco in the US.

So in terms of market opportunities for us going forward, we can see that there will be strong demand for us going forward from an oil and gas perspective for this product line. We can also see opportunities for us in CO2 re-injection and also capture of gas leakage for re-injection from an environmental perspective.

SLIDE – What we do – Filtration systems

That really brings us to a close in terms of what would be considered to be our traditional portfolio. What I'd now like to do is focus a little bit more of our attention on some of the newer products, where, what we've done over the last three years is look to expand the addressable market within which we play in. Through the products I'm going to take you through now, we've essentially doubled the size of the addressable market within which we play.

Bob talked a little bit earlier about filtration systems. In April 2008, we took the opportunity to enter the filtration product line with the acquisition of Indufil, and that really gave us around about a 15% share in a £220 million market.

What they do, they basically, they filter out and remove contaminants from either processed liquid or processed gas, filtering particles down to something like one thousandth of a millimetre, so half the diameter of a grain of dust, so basically you can't see what these units are filtering out. And opportunities for us in terms of being able to grow the share in this area, we do see opportunities to grow by 10% or 15% over the next two to three years.

We will be the only seal manufacturer in the world who will be able to link the seal and the filter together at the moment, so seal gas and wet seal products and they also link the filter to the seal and get that provided to the end user, and from one consolidated supplier, we see as an opportunity there to provide one solution, technical solution to the end user.

We also see opportunity with the global footprint. The Indufil business is a great business, and leveraging it up with the sales and service footprint that we have, we see great opportunity to grow the business with new OEMs who are key account management organisations, but also look to service the install base that's already in place, and what you need to recognise about this business is, there is an aftermarket which is complementary to the John Crane business, so there is a sustainable aftermarket out there, and we will look to use the sales and service network that we have to leverage that business going forward.

SLIDE – What we do – Hydrodynamic bearings

Just talking into hydrodynamic bearings, November 2007, we took the opportunity to move into the Hydrodynamic Bearings business with the acquisition of Sartorius. Sartorius, essentially based in Germany, providing customers like Siemens, Man Turbo, and Salter. In that set, in that market with Sartorius, it gave us something like a 5% share of what we estimate to be a £325 million to £350 million market.

And what we looked to do there was really give us access and look to develop that product line going forward, such that we were a top three player within that particular product group.

Now some of you may be thinking, "Why bearings? Why get into a Bearings business?" Well, the bearing in a piece of rotating equipment is located directly adjacent to the seal, so this cross-section here shows, this here is the gas seal, and directly next to it is the bearing. In actual fact, the bearing has to come out of the machine before the gas seal does, so in many cases, our service engineers are on site removing the bearing to remove the gas seal, so for us it was a logical extension for us to look to extend that into our product portfolio, use our existing knowledge and service capability on site, and then look to push that through the sales and service network.

Earlier on in May, we also announced the acquisition of Orion. The acquisition of Orion really pushed us to a 14% share of business, but more importantly, what it did do is it gave us access to the North American market and so that gave us access in North America and Europe, and as a business, then allowed us to focus on Asia-Pacific as a joint organisation.

And some of the great benefits for us with the acquisition, was a lot of the technology that we bought was complementary, very much Orion was focussed around driven equipment and the John Crane Bearing Technology business was focussed around core compressor technology so in buying the business, we were able to get a lot of complementary technology as well as complementary customers.

So where will we go with bearings over the next three to four years? Well, what we will be doing is looking to leverage the business across the John Crane sales and service network. The interesting thing about this business is, the bearings, as a product group in the aftermarket, is pretty fragmented, and there isn't really a provider out there, providing a global service capability for this particular product group, and we see that as a great opportunity for us to grow our aftermarket business in this particular area.

We also see opportunities in larger size bearing technology and certainly in the power generation markets, and what we will do is look to use the global sales and service network and some of our key account management to leverage in these product groups into customers where they currently are. And we're already seeing opportunities where we've been able to leverage Orion into some of our existing customers. So we see some good opportunities for us there.

SLIDE – What we do – John Crane Production Solutions

John Crane Production Solutions, I think Bob covered a lot of the Production Solutions business, and in 2007, we entered this market. The business focuses on well design, subsurface well pumps and the service of sucker rods, and this is very much a service-orientated business. It gave us access, greater access to the upstream market.

I think Bob touched a little bit on where we would work for some of our end user customers, Petron in Romania being one of them, where we worked with Petron on the implementation of a well modernisation study, and we looked where it was going to improve well reliability and really looked for what data technology they had available. And the CDI business and the Fiberod business give us the opportunity to take conventional sucker rod technology but also link that with newer advanced technology, which gives and uses the opportunity to maximise well efficiency. We also took the opportunity to train a number of their engineers, and we're providing them with annual savings in excess of $1.3 million.

SLIDE – Equipment management and process improvement

Thinking about the aftermarket business, we've talked a lot about aftermarket today. The aftermarket market sector for us, certainly in the areas we operate in, we estimate to be in excess of £750 million and we have opportunities there with our Performance Plus brand and our Oil Plus business.

Under the Performance Plus contracts, what we look to do is sell asset management solutions based around our core technologies where we look to move the customer from a basic transactional arrangement into a managed service contract. And when we do the tour a little later, you're going to get the opportunity to take part in a roll play which will give you a better, and hopefully a broader understanding of how we sell one of those opportunities into an end user.

Currently we have over 150 engineers, on site, on customer sites working with the customer. And it's not unusual over a three to five year period for us to increase mean time between failure, or the time between the change-out of a seal by a factor of two or three.

The Oil Plus business, specialises in engineering and lab expertise to the oil and gas industry. So in this particular product group, one of the great things we can do is move in up front in terms of how we look to improve well chemistry, and that gives us the opportunity then, to leverage in other products and services that John Crane has to offer. And more recently, we've moved into the condition based monitoring market, where we're investing heavily now in terms of wireless technology where we can remotely manage pumps offshore or in remote locations.

Certainly there is a drive from the end users to take people off operating plants and if we can replace that with reliable wireless technology, what that allows us to do is two things. One, it takes people off sites, it gives real time information in terms of how their equipment is operating. From a cost perspective, to provide technology on a wireless basis gives substantial savings when you think about an end user having to run cabling, so without the need to run cabling.

And there's a lot of interest. We took our first contract in the North Sea earlier this year, working with Talisman, so we're now looking after all of Talisman's offshore assets from a rotating equipment perspective, so we have a condition based monitoring contract running with Talisman now on 16 of their offshore assets in the North Sea. And we expect to expand that to other customers in the North Sea, and also beyond that into other geographical areas of the world.

SLIDE – Product & services

So just bringing this section to a close, hopefully what we've done today is given you the insight in terms of how we've developed the addressable market and from a £3.1 billion market to a £4.1 billion market, and we've taken you through some of the opportunities there are for us there in terms of being able to grow our market share.

Certainly the new products will effectively be able to grow by 10% or 15% over the next two to three years. And going forward, the newer products will probably be representing something like a quarter of the John Crane turnover moving forward.

You'll get the opportunity to see some of this as you walk around the products areas and do the course, but at this point, what I'd like to do is hand back to Paul. Paul's going to take a few minutes now just to focus on our aftermarket a little bit more, and then bring the session to a close and then we'll move into the Q&A. Thank you very much, Paul.

SLIDE – Focus on aftermarket

Paul Cox: Thank you, David.

SLIDE – 1. End user specifies products

I wanted to spend a bit of time, I know that we've been pounding away at the aftermarket, I think, all day. But we're going to spend a bit of time going through the evolution of product and whether --.

Kind of recapping both the routes to market that Dave talked about, and then kind of go over all the evolution of the project. And here you see another representation of how the end users and John Crane, represented by the block that's next up there, actually work together.

So to begin with, we said two thirds of our business is associated with the aftermarket, associated with the end users, people using our equipment. That strong customer relationship, we like to think, sometimes results in them preferring us strongly, either because they only want to deal with one person, or they'd just like to have one set of, kind of equipment in their portfolio, toward the point when they decide to expand or make some sort of upgrade, that they, at year zero, we're calling this year zero, generate and end user specification for some plant or some additional equipment, they will go to our OEM customers.

We're just hoping that our relationship and seeking their relationships drive them to specify or at least suggest parts that are in our portfolio.

SLIDE – 2. OEM complies with specification

So within year one and two, we work with the OEMs to engineer that product, give them the original first step product that will get incorporated into the OEM equipment.

And Bob mentioned a skid. Skids are effectively an industry term associated with, when they put a variety of process equipment on a platform and bolt it down for delivery, and generally it actually goes down and actually is delivered and installed this way, in fact it's delivered on something called skid. So somewhere around year two or three…

SLIDE – 3. OEM fits products and supplies equipment

the OEM will actually put the first equipment supplies into the end user, and we'll make a simplified version of this, the brand new green-field plant. All of these different equipment will come together and get assembled by an engineering contractor for the end user.

SLIDE – 4. Commissioning spares supplied to plant start-up

Upon commissioning, generally speaking, they'll want some spares around. Sometimes things don't go quite well as they should do on start-up. They don't want to be waiting around for repair of a seal or repair of some piece of equipment in order to get started, so there will be commissioning spares.

And that's our first opportunity to sell into what we consider the aftermarket, or sell directly to the end user. Because now we've got a little install base here, some install base going into our bigger install base, and now the first opportunity to sell into the equipment supply.

Thereafter the customer starts using the product and there will be some sort of maintenance schedule associated with the product. So we see year four, or basically two years after we have delivered the product into the OEM and into the field, we start seeing operating spares, we start seeing actual opportunities to retrofit, rebuild the equipment and maintain it.

SLIDE – 5. Operating spares and services for life

We've seen, in some cases, where the equipment supply is made, and then there's some other sort of delay, either because of other equipment that they haven't gotten, or some other delays in start-up, where we actually take the equipment out of service and do minor maintenance on it and put it back in service before they've even turned on the refinery, because it's been such a long period of time.

So it's all time driven and it's effectively usage driven. If it goes too long sitting, even those commission spares, if they go too long sitting, they'll want to make sure they're still at full spec, and they'll come back to us for a cleaning or a real quick test.

SLIDE – Aftermarket services

Applications where you might find our products, you'll find them in the pumps and compressors, reactors, mixers. Depending on the complexity of the site, you'll find between 300 and 3,000 of these kinds of mixers or pumps or compressors, and each of those is six times potential for a John Crane product in each one of those pumps, mixers, compressors, et cetera.

I'm giving you here a quick, it's in your book. I'm not going to go over it, but the average life in terms of maintenance, between maintenance periods ranges between, you know, three months and five years. Three months being kind of the filtration side of things. So there is more regular heartbeat of the filter elements being changed out than there would be for say, a seal or a bearing.

And our overall average cost of repairs is something on the order of £3,000 per incident. We offer services in the aftermarket that range from the failure analysis, to tell them why it failed, where, what they might have done in the process differently, or perhaps what they might have done by mistake that caused a failure.

We refurbish the products, we'll actually give them spare parts, we'll refurbish it for them, we'll do retrofits for them in terms of you know, more environmental issues in terms of, like, reduced emissions. We might do a double seal where there was a single seal. Performance issues or if they have safety concerns, they may come back and say, "Well we've got one of these, but we want the following attributes". And we'd put something a little bit better in place.

Inventory reduction, we will actually go through and if their maintenance department is carrying a bunch of seals right now, we'll go in and say, "We'll take those seals, we'll manage the logistics for you."

It gives us a very good view of exactly what's on the site, and as it comes along and they need upgrades, retrofits, or any other kinds of things, we'll obviously suggest that they might enjoy a John Crane product to replace that or upgrade their parts. It gives us a little bit more customer intimacy.

Alignment, we'll do alignments for them, especially as it concerns the shafts and the couplings, and the condition monitoring. And this is a new entry for us, and actually we have one contract right now on conditioned monitoring, that we've announced, and that's the Talisman contract in the North Sea.

SLIDE – Complete responsibility

We do see that there is some disconnect in the drivers between the capex, people buying the capex and the people operating the system sometimes. And sometimes, for reasons to optimise the start-up costs of the plant, they may actually have seals or other equipment in place, but in the fullness of time, when the operating guys get involved, they say, "Well we'd actually rather have these features," or, "We want this sort of a mission," or "We want this sort of monitoring capability," which gives us an opportunity to go in and upgrade or retrofit something in the field.

We offer project management to basically process the specs, the design and kind of go end-to-end for them. We have a Management Liability Program which we're going to talk about. On the tour, we're going to talk about some of these products, these more service-oriented products, and we do provide a seamless management for everything from the FEED or the front-end engineering design, through the production, so that we can manage their over total cost of ownership and reduce it.

We have a variety of customers, some who have their own maintenance departments, and just want parts, and we have some that almost turn the whole function over to us. We're able to offer them that full scope.

SLIDE – Asset management to achieve corporate objectives

Our asset management is a group of products that we support from everything from its mechanical seals to its filtration systems and what we're developing and what we're fielding with Talisman, are a series of asset management programs that can both look at it real time as well as manage their overall assets, because there are a variety of, let's just say there are a variety of things that people think they do well, and some things that they don't think they do well.

We actually think that our management of complexity, our management of the inventory is actually something that is a core competence to us and something we offer to our customers, and so that's why we've entered into this Asset Management

Branch of our overall reliability programs and end user businesses. The goals, reducing the cost of ownership, increasing the asset utilisation and minimising lost profits are common goals for all of our reliability programs.

SLIDE – Aftermarket summary

For the aftermarket, if we're going to summarise the aftermarket, I mean, you know, what we're after is to try to reduce the total cost of ownership for these customers and improve the reliability, they like that. Improve the safety performance, that's a particularly topical subject in the last several years. Improve the environmental performance, again, increasingly topical subject, improve equipment availability, the optimisation of their inventory, and standardising when they have a number of different kinds of seals and different kinds of seal manufacturers, they need a lot of different spare assemblies around.

If you can harmonise that more, you can have fewer, and you can have fewer training required as well. The benefits to us are fairly obvious. We get the repairs and refurbishment opportunities, the upgrade opportunities and certainly there will be, what they call bad actors in their fleet. When they go to the bad actors, if we're working with them on reliability, we will obviously suggest to them that we have a product.

I mean, we obviously can't force a product on them, but at least we're there on site, seeing what the bad actor is, and developing a solution for them. We can do, in that case, we get the first fit, in many cases we do some competitive change out, because we'll be right on site suggesting what they might do, leveraging existing product services that we're putting on board, like the bearings and the filtration.

And it improves our overall cash flow and when we enter into these reliability programs, we generally do it on some sort of fee basis, so it kind of gives us kind of a levelling out of the overall revenue stream associated with the field.

You can see why we're so excited about it, and why we focussed so much time on it, but it also is two-thirds of our business. Not the full managed reliability programs, but that's an ever-increasing part of our aftermarket service.

SLIDE – John Crane – an attractive investment case

So recapping, and what I hope we covered for you today, was to give you an idea of the kind of market leadership we've got, and the kind of barriers to entry and if you walked in the door today I hope you walked away with a couple of new ideas about why this business is hard to enter. You're going to go home and scrape together some money and you're going to go compete with John Crane,

I hope we've dissuaded you or at least we've told you you're going to have to get a lot more money because it is a very complex business. It's something where you have to have the knowledge, you have to have the speed and you have to have the footprint, and that's not an easy thing to do from most starting points.

It's a resilient business, we have this aftermarket business we consider more resilient because it's more opex driven than it is capex driven, we do have what we consider an unrivalled geographic coverage and we've given you some metrics and we've given you some maps to kind of demonstrate that.

Hopefully standing here, or sitting here in this case, in Lutín, Czech Republic, and you get a sense of our facilities, you'll get a sense of the kind of facilities we have around the globe, you'll get an idea of the kind of strength of our infrastructure.

We do have leading technology, I hope Dave's presentation gave you some good hints, you'll see some more of that on the tour and most certainly, any of the breaks that we have, if you get a chance to tour around the product demonstration, you get a sense of the kind of engineering that goes into those products.

The Production Solutions, we tried to give you an idea of what we're doing, moving into more of the artificial lid side of the business. And on the bottom line, how can we add more value?

So with the growth range that we've set up for our business and the median to long-term of 6% to 8% organic growth. Margins, driving upwards from last year's 16.8 with a target of 22. I think it's an attractive investment case. But, I'm not the expert you guys are. So with that I'm going to ask Dave and Bob to come up and our Chairman, for the Q&A.

QUESTION AND ANSWER SESSION

Steve East, Credit Suisse: So firstly, on the growth rate of 6% to 8%, how much of that is going to come from market share growth as opposed to pricing or market growth?

And secondly, in terms of adding further bits to the business, I mean how much should we expect you to do on acquisitions over the next couple of years, are there significant deals that you need to do and the strategy that you've laid out?

Philip Bowman: I think in terms of the revenue growth, I'll pass that to Bob in just a second.

In terms of acquisitions it's one of those questions a little like, how long is a piece of string? I mean, what we've set up very clearly today is to explain the strategy we've been following over the last 18 months or so to increase our product portfolio by way of bolt-on acquisitions. Those acquisitions have certainly initially performed very much in line with where we expected them to, or in fact slightly better. And we're in the process of integrating those.

And I want to be very sure, as I know Paul does, that those are properly integrated before we go off and start making further purchases. Clearly, there are opportunities to build in the area of bearings, there are other opportunities to build in the area of filtration as well and those certainly are areas we would look at.

You're asking for guidance of how much we're going to spend, I can't tell you that at this stage. I will simply say that we're committed to delivering north of 12% post-tax return on any acquisitions we make, by the third year. And the acquisitions we've made recently, particularly Fiberod, Indufil, are looking very attractive in terms of measuring up against that metric. Bob, source of growth in the 6% to 8% range?

Bob Wasson: Yes, just looking back over the last five years I mean normally you get a market growth coming out the 3% to 4% range. Our pricing actually has been 1%, 2% and then penetration again 1%, 2%. As we go forward obviously the market growth can be a tougher cost especially in the near term. You know our expectation is for it to get back to that range.

And then with the acquisitions we expect a penetration number to be 3% to 4%. And pricing is always a combination of things of how good you are with your supply chain, what's happening in the commodity markets i.e. our raw materials.

So we play that one out in making sure we cover economics. So whatever the economics are going to run we'll make sure we get it in place. So hopefully that gives you a bit of background there.

Philip Bowman: And I would just add one observation which I was saying to a couple of you at lunchtime, most of the Smiths Group businesses are relatively under-represented in Asia and in parts of the world which are going to show higher than average growth over the coming decade or decades.

We have very clearly for each of our businesses progressively tried to increase our exposure to the markets in Asia, particularly in China. We've made acquisitions in medical and certainly interconnected in that market. We are coming off a small base but we are seeing significant growth rates in some of our businesses more for the 100%. It's off a small base but we are absolutely determined to increase our market share in those markets, and I believe over time that will contribute towards the growth as well. Next question. Yes?

Andy Chambers, MF Global: Two things please. What proportion of your aftermarket is under long-term contracts and how has that been developing?

And secondly just in terms of your margin lever what kind of environment surely the price down pressure is substantial for both your MDs and certainly market customers or your OE customers and your aftermarket customers. Can you resist all of that pressure all of the time because historically I think margins have been under pressure particularly the oil company interesting pressure and low profitability?

Philip Bowman: I think taking the second of those questions, the first thing I would emphasise I thought Bob's presentation brought out very effectively some of the inefficiencies of the old John Crane organisation structure as two separate businesses. There is a very clear plan to take out cost. He talked to a figure of 25 million, the ERP benefits and there are other steps we're taking, for example, as I said at the interim is to leverage procurement across the various divisions in the group. So there is a significant amount of benefit to come through which was quantified at north of 500 basis points.

In terms of pricing pressure… yes, there is pricing pressure. On the other hand there are input costs that have gone down very significantly in terms of raw materials as well. And certainly the pressure tends to be more on the OEM side than it is on the aftermarket side. So I think if I was to look at Paul in the eye, and we do this quite frequently, he is still very confident that over the course of the next three years we will be able to drive up our margins. We demonstrated that in the first half of this year very significantly -- very significant improvement.

So I think though the level of confidence will do that. Now clearly it will be easier in a different economic environment. But I think because we are taking historic inefficiencies out of the business that is a real following wind for us. In terms of your other question, in terms of the contracts, the amount of things under contract? Dave?

Bob Wasson: Yes, I mean we have various alliance contracts and they vary by -- we basically have five-year terms with end user customers aligned with large customers, mainly that's by refinery. And in that we would probably be around £40 million to £50 million. It's not a big number. It's not as much as you think it is. I mean, that's where Dave was offering the performance plus and the reliability.

The majority of those refineries are actually still on transactional. And in that you know they come up for renewal and it is a bit of a competitive environment. But if you find a reliance contract your chance of winning again are very strong. I mean you're probably up around the 90% range. So it's something that you do want to pursue pretty aggressively.

Philip Bowman: Thank you, Bob. Next question. Yes, Sandy?

Sandy Morris, RBS: You're going to get fed up with margins but just one little go with this, which is: with a 30% share or whatever it is in mechanical seals we were doing X margin. We expand into areas that are going to grow faster than the norm where we have relatively modest market shares. And the margin is still trending up. It's actually just sort of, to be brutally honest, makes me think that Crane ought to use its muscle a wee bit more as well. So there's that -- I'm not quite sure. I always put a question mark on the frame of that -- on the end of that.

And then the second one is just sort of prosaic thing which is this sort of total care, or whatever we're going to brand this as. I wouldn't brand it as that as everyone hates it in Rolls Royce. But this idea of maintaining stuff constantly is only as good as the sort of weakest link. And if the weakest link is the bearing until you're bigger in bearings what's to gain if you're a plant manager? And I know we're going to do this in role play so you can see what's coming.

Philip Bowman: Paul, do you want to pick up on that?

Paul Cox: I want to try on the first question but it didn't really turn to a very straightforward question as you said. But I would say we are getting after some of the historical opportunities to get more margin and that is what you're seeing coming out of this between the restructuring project and some of the other things we're just doing on our own. That is going to put all those margins forward.

So your question was, wasn't there more that we could be doing on the seal side? And that is part of what we're doing with this restructuring actually in terms of -- you'll see some of the efficiencies and some of the cost savings that you might imagine machining components or gas seals in the Czech Republic versus the UK, might yield most specifically margin support for the seals business. So I've going to find -- I expect that's counter to your theory I suppose. But we are going at those opportunities. I'd say I've got myself lost on your questions.

Sandy Morris, RBS: Well, I do as well! And the second one is probably easier, which is if the weakest link is say the bearing until you're bigger in bearings what's a plant or refinery manager got to gain by going through this sort of total service or total care package?

Paul Cox: Okay, well, I mean when it comes to bearings as Dave pointed out they have to pull the bearing to get to the seal. So right off the bat you've got two bits of kit and at the moment there principally there's two ways a bearing goes out to the market or the aftermarket. It either goes up back to the OEM or it goes up to a pirate. What we call a pirate. It goes to a third party.

And the third party will redo the bearing and send it back. But what our relationship we hope to expand our relationship with the OEMs because we think we can speed up their aftermarket services because we're setting a right at the site with our seals service etcetera. We're hoping that basically the initial move is we back up the OEMs after market because an OEM product put back in an OEM pump or compressor has the kind of seal approval, if you will, of the OEM. Whereas if it's sent out to a third party and comes back it's a bit of a risk.

So we argue is that they will want to take it from us because we can do it quicker and we can also do it with a certification that is this is OEM specs not third-party specs. Our longer term activity in the OEM on the bearing side is to understand precisely what end market work we've got to do to put into our service centres in order to actually then take on the third parties so that again they get an OEM spec bearing because they get an OEM spec bearing put into the thing and that way they get the performance, the spec performance out of their equipment. That's effectively the play.

I agree we're a small part of that right now but we're going to enter that market with that philosophy and our target customers are very reliability and safety-focused so we think that will play to their means.

Sandy Morris, RBS: It should grow fast?

Paul Cox: We've got to make sure that we can handle it. The key thing is not overloading our system. But, yes, I would expect that we should be able to pick up some of that aftermarket business pretty quickly.

Philip Bowman: With my eye very firmly on the clock I'll take two more questions before we set off. Second row please. If you get the microphone on the left-hand side from me.

Martin Wilkie, Deutsche Bank: Thanks. A couple of questions, first of all on the cost savings you outlined 25 million last September. It sounds like there's been some more discovered since then presumably some acquisition synergies, maybe some other cost savings. Just if you could give us an idea of if that incremental saving just a low single-digit number or is it substantially ahead of what you laid out last September?

And then the second question and I tried this over lunch, but I will try it again, to talk about cyclicality and how should we think of revenue development over the economic cycle? And perhaps if you could just talk about in the last -- in the early 1990s did you see bearings in this business pick up when GDP picked up again or is there a lag? Just so we can understand how we see volumes develop over the cycle?

Philip Bowman: I mean I think answering your first question on cost savings I talked a little bit at the interim results presentation on some of the work we were doing on procurement savings, and I think I sort of trailed that we would say more about that at the prelims in September. And I'm afraid as frustrating as it may be I'm not going to be grilled any further than that today. But we will be saying something in September.

In terms of cyclicality before I pass that question to Bob and to Paul I would simply make one observation. I've banged on at every results presentation since I've been at Smiths about the difficulties of data and good management information within this business. And one of the challenges that not surprisingly I gave Paul and Bob many months ago when the economic cycle was turning down was to try and dig out what had happened in previous cycles.

The reality is that the picture is so clouded by acquisitions, disposals and, candidly, in different data for multiple accounting systems it is a pretty tough question to answer with any certainty. I think what I would say is that Paul and Bob have some qualitative views but they are qualitative not quantitative.

Bob Wasson: Yes I guess being one of the guys that was around here during the last cycle, you're right. I mean Philip has challenged us to look at some information. I dug through a lot of the annual reports. I think actually John Langston answered some of these questions too.

In the '98, '99 period which was the toughest part John Crane also had a lot of EIS businesses in it. It had marine businesses. We're going to have automotive business so it made it very difficult on published information to really get what you could get at.

If you were to look actually at TI interim report which was at the half-year they indicated a 5% decline in sales during that first half of '99, which was again a composite of all those businesses. But during that and actually being part of the Americas that was a very relative number.

I think if you look at where we are today I think you're seeing a certain degree of parallel there. And the real question again and that's the issue is obviously how long will this cycle last? That's something that we don't have the answer to at this point in time. Although we've held up pretty well from my standpoint.

Philip Bowman: Okay final question. No takers? Oh okay.

Andy Chambers, MF Global: Sorry… just following on from that point that Bob's just made… Wasn't it the case back in that downturn that the oil and gas margins were heavily squeezed and that activity levels did fall and the profitability on that side of the business was coming under pressure because I seem to remember that while under TI ownership that margins got very heavily squeezed as they tried to develop an aftermarket model with service engineers?

Philip Bowman: The brutal truth is I can't answer your question as I wasn't around and I haven't found the data to answer it. John Langston is in the back who might want to make a comment otherwise I'd have to turn it back to Bob. John, do you want to say anything?

John Langston, Smiths Group: I am sorry I had great difficulty in hearing the question… could you repeat it please?

Philip Bowman: Well, the question was last time round margins came under significant pressure so why aren't they going to do the same this time, I think would be a quick paraphrase.

John Langston, Smiths Group: Well, I think there's lot of issues, Andy, and partly the automotive business was declining quite rapidly last time as well. We have moved that on. We've also got a different pricing structure in the way we price OE products now. If you can recall that the end of the '90s we were actually in some cases having deliberate loss leaders in order to secure the aftermarket.

We no longer do that. We make sure our OE business is profitable. So it is a different structure. We've also got a very different profile as Bob alluded to in terms of the products that we now have as well. So I think it is a very different business from the end of the '90s, Andy.

Philip Bowman: I find it difficult to be standing here and not be able to give you a better answer. But it is something that we have looked at and the data, frankly, is not helpful in terms of getting to that answer. At that point I'm going to close the Q&A session.

I'm sorry, it has been a little shorter than it might have been. I'm going to ask Paul to come up and explain the housekeeping arrangements for the next part where you'll be divided into three separate groups for the plant tour. As Paul said this morning I need to leave now to go to another meeting but I would like to thank all of you again for being here. To my mind there are two highlights from today.

One is very clearly the opportunity that we see and Paul is committed to deliver with his team in terms of margin improvements. The other one I think is the extent to which the acquisitions in the filtration and bearings areas of the business have actually increased the addressable market, that this business competes for and the benefits that can flow from that by leveraging, what is I think the businesses greatest asset, which is its global footprint of customer sales, support, and engineering facilities. So, on that note thank you all very much for coming here. And I hope you have a very good tour around the plant.

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