Invensys – H1 2008/09 Results

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FINANCIAL REVIEW

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Steve Hare

CFO

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Summary of H1 performance

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Continuing operations (£ million)	H1 08/09	H1 07/08	FY 07/08
Orders	**1,156**	**995**	**2,036**
Revenue	**1,090**	**1,003**	**2,108**
OPBIT[(1)]	**120**	**107**	**254**
Operating margin %[(1)]	*11.0%*	*10.7%*	*12.0%*
Operating cash flow[(2)]	**135**	**83**	**258**
Cash conversion %[(3)]	*113%*	*78%*	*102%*

- Orders grew 8% at CER[(4)] with strong performances at Process Systems and Rail Group
- Revenue increased by 1% at CER with growth in Process Systems and Rail Group offset by expected decline in Controls
- Operating margin overall improved slightly driven by Rail Group
- Cash conversion achieved targeted 90%+

Notes:
1. All references to OPBIT and operating margin in this presentation are before exceptional items.
2. All references to operating cash flow in this presentation are pre restructuring.
3. Calculated as operating cash flow pre restructuring as a percentage of OPBIT.
4. Constant exchange rates.

Summary of H1 performance

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£ million	H1 08/09	H1 07/08	FY 07/08
OPBIT	**120**	**107**	**254**
Exceptional items	(14)	(12)	62
Operating profit after exceptional items	**106**	**95**	**316**
Foreign exchange losses	-	(5)	(21)
Exceptional finance costs	-	-	(36)
Net finance costs	(1)	(24)	(45)
Other finance charges – IAS 19	(17)	(8)	(15)
Profit before taxation	**88**	**58**	**199**
Taxation	(13)	(9)	(30)
Profit – continuing operations	**75**	**49**	**169**
Profit – discontinued operations	-	7	167
Net profit for the period	**75**	**56**	**336**
Underlying EPS[1] (basic) – continuing operations	*9.2p*	*6.7p*	*17.0p*
EPS (basic) – continuing operations	*9.2p*	*6.0p*	*21.1p*
Net finance costs cover[2]	*N/A*	*4.5*	*5.6*

- Exceptional items include £12m restructuring charges and £2m PPE Impairment

Notes:
1. Underlying EPS is calculated by reference to earnings before exceptional finance costs, foreign exchange gains and PPP settlement credit.
2. Measured as the number of times OPBIT covers net finance costs.

Operating cash flow

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£ million	H1 08/09	H1 07/08	FY 07/08
Operating profit - continuing	**120**	**107**	**254**
Depreciation/amortisation	31	32	64
Net capital expenditure	(24)	(22)	(52)
Working capital movement	2	(41)	(13)
Other	6	7	5
Operating cash flow – continuing operations	**135**	**83**	**258**
Operating cash flow – discontinued operations	**-**	**(13)**	**(11)**
Operating cash flow – total Group	**135**	**70**	**247**

Balance sheet metrics

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Continuing operations[1]	Sep 08	Mar 08	Sep 07
Inventory turns[2]	8.1	8.8	7.8
DSO[3]	60	61	61
DPO[3]	54	53	53
Trade working capital as a % of revenue	11.5%	11.1%	11.9%
Trade working capital as a % of revenue[4]	13.3%	15.2%	15.4%
Return on operating capital[5]	50.5%	53.3%	47.2%

Notes: 1. Calculated using constant exchange rates
2. Cost of sales basis
3. Calculated using worked back method
4. Excluding contract balances
5. Return on operating capital is calculated as OPBIT divided by capital employed excluding goodwill, net pensions deficit, non-operating provisions and net taxation liabilities

Free cash flow

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£ million	H1 08/09	H1 07/08	FY 07/08
Operating cash flow	**135**	**70**	**247**
Restructuring spend	(13)	(12)	(31)
PPP settlement credit	95	-	-
Exceptional finance costs	-	-	(18)
Net finance costs	-	(19)	(39)
Taxation	(15)	(14)	(33)
Legacy items	(25)	(14)	(62)
Free cash flow	**177**	**11**	**64**

- PPP settlement credit recognised in the prior year, received in April 2008
- Legacy items include planned £10m contribution into the UK pension scheme

Process Systems

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	£ million			CER % movement(2)
	H1 08/09	H1 07/08	FY 07/08	**H1**
Orders	480	407	870	10%
Revenue	425	379	830	4%
OPBIT(1)	41	46	117	(17%)
Operating margin %(1)	9.6%	12.1%	14.1%	-
Operating cash flow	26	11	103	138%
Cash conversion %	63%	24%	88%	-

- Order growth driven by North America, South America and Middle East
- Modest revenue growth reflects nature and timing of order intake
- OPBIT reduction reflects increased investment in sales and marketing and R&D
- Acquisition of SAT Corporation for £30 million completed in August 2008

Notes:
1. Before exceptional items.
2. CER % movements calculated using £000's.

Eurotherm

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	£ million			CER % movement[2]
	H1 08/09	H1 07/08	FY 07/08	**H1**
Orders	62	57	119	0%
Revenue	61	54	115	3%
OPBIT[1]	4	4	9	(1%)
Operating margin %[1]	6.6%	7.4%	7.8%	-
Operating cash flow	5	4	7	28%
Cash conversion %	125%	100%	78%	-

- Revenue continues to show an increase in Solutions and Services with a reduction in products
- Operating margin impacted by revenue mix and some delivery and lead time issues

Notes:
1. Before exceptional items.
2. CER % movements calculated using £000's.

Rail Group

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	£ million			CER % movement[2]
	H1 08/09	H1 07/08	FY 07/08	**H1**
Orders	335	222	429	44%
Revenue	306	256	539	13%
OPBIT[1]	65	42	93	44%
Operating margin %[1]	21.2%	16.4%	17.3%	-
Operating cash flow	77	52	93	37%
Cash conversion %	118%	124%	100%	-

- Orders growth driven by Iberia and export; strong revenue growth in home markets
- Improved operating margin reflects increase in volume and a favourable sales mix
- Strong cash conversion
- Acquisition of Quantum Engineering, Inc. in September 2008 for £20 million

Notes:
1. Before exceptional items.
2. CER % movements calculated using £000's.

Controls

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	£ million			CER % movement[2]
	H1 08/09	H1 07/08	FY 07/08	**H1**
Orders	279	309	618	(18%)
Revenue	298	314	624	(13%)
OPBIT[1]	26	32	69	(25%)
Operating margin %[1]	8.7%	10.2%	11.1%	-
Operating cash flow	42	32	85	27%
Cash conversion %	162%	100%	123%	-

- Lower orders and revenue reflects market conditions
- Continued focus on productivity improvements and cost control
- Cash conversion reflects working capital focus

Notes:
1. Before exceptional items.
2. CER % movements calculated using £000's.

Pensions – Update on Triennial Valuation of UK Main Scheme

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- Triennial actuarial review as at 31 March 2008 currently being finalised
- Valuation is substantially agreed with Trustees
- Valuation results in an actuarial funding deficit of £285m
- Valuation reflects slightly more prudent approach on mortality and increase in inflation
- No significant change to annual funding plan
- Scheme continues to invest mainly in debt instruments; no material change in actuarial deficit since 31 March 2008

Pensions – IAS 19

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£ million	UK Main	US Main	Other[1]	Total
At 31 March 2008	(10)	(32)	(176)	(218)
Contributions	16	5	11	32
Current service charge	(5)	(4)	(4)	(13)
Return on assets/interest cost on liabilities	(13)	(1)	(3)	(17)
Total actuarial and market movements	9	17	4	30
Settlement	-	-	2	2
Exchange	-	(2)	(6)	(8)
Deficit in the plan	**(3)**	**(17)**	**(172)**	**(192)**
Restrictions of asset recognised	-	-	(1)	(1)
Irrecoverable element of potential future pension surplus (IFRIC 14)	(95)	-	-	(95)
Closing balance at 30 September 2008	**(98)**	**(17)**	**(173)**	**(288)**

- The adoption of IFRIC 14 increases the UK pension liability by £95 million
- Contributions include £10 million deficit reduction payment into the UK pension scheme
- Actuarial gain under IAS 19 reflects short term market movements in long term discount rates

Notes:
1. Other includes; Other funded – Westinghouse Rail £20m, US healthcare – former Siebe portion £25m, Other unfunded – PLC £25m, Invensys Deutschland £23m, Foxboro Eckardt Stuttgart £14m

Summary of H1 08/09

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Achievements:

- Operating profit and cash targets achieved
- 37% increase in underlying EPS
- Free cash flow of £177m
- Balance sheet strength - Net cash £178m
  - £400m banking facility in place to 2013

Areas of focus:

- Free cash flow
- Productivity
- Overhead efficiency

Ulf Henriksson - CEO

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The world and Invensys have changed …

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- The future is uncertain but this creates new possibilities and greater opportunities
- We are agile and well prepared to manage risk and capture value
  - We have demonstrated good execution capabilities
  - We have a strong balance sheet and cash generative businesses
- We have managed our pension liability
  - High degree of certainty following triennial review
  - Investment policy reduces volatility

Our diversified portfolio can capture value…

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- Customers are seeking new ways to succeed, for example:
  - More productivity and flexibility to create greater certainty
  - Solutions that meet local needs with global standards, wherever they operate in the world

- Our good geographic & industry diversification, together with our strong foundation, positions us to capture value:
  - Industrial Automation provides solutions to optimise operations
  - Rail Group growing in core markets with large export pipeline
  - Controls is managing effects of downturn by aligning value to its core customers

We are a truly global company…

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We have

22,000

employees, of many nationalities

Working from over 60 countries

Helping customers across 180 countries

We are a locally based international partner, culturally at home in every location

Geographically diversified

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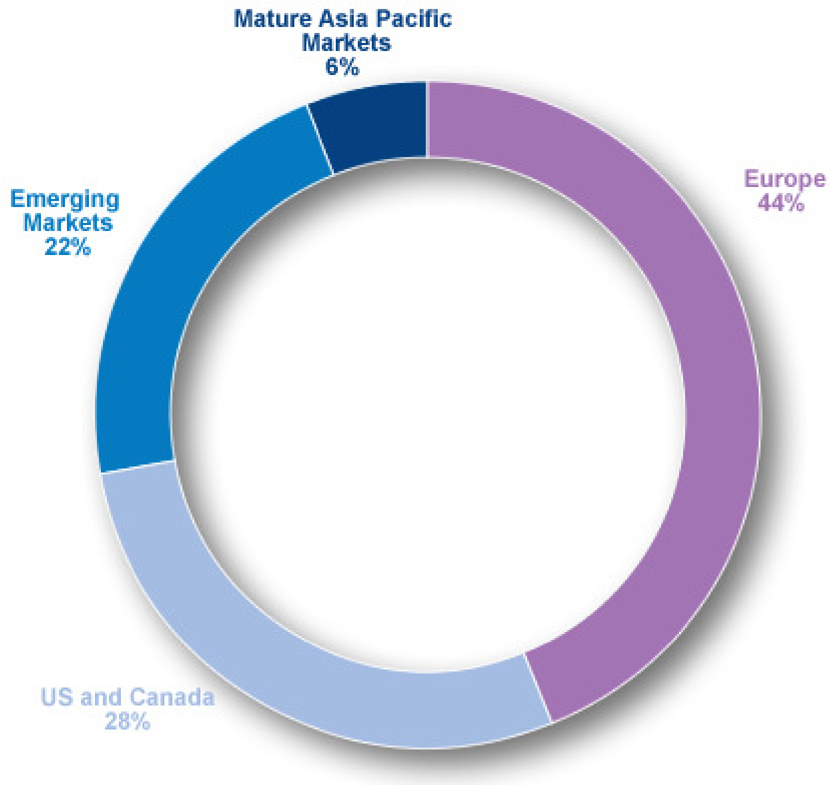
Our businesses are well spread across

- Europe* 44%
- US and Canada 28%
- Emerging markets** 22%
- Mature Asia Pacific markets 6%



** Europe excludes Czech Republic, Hungary, Poland and Slovakia*

*** Emerging markets includes: Czech Republic, Hungary, Poland, Slovakia, Russia, Mexico, South America, China, India, ASEAN, Africa & the Middle East*

Source: Invensys H1 2008/09 revenue by destination

Industrially diversified

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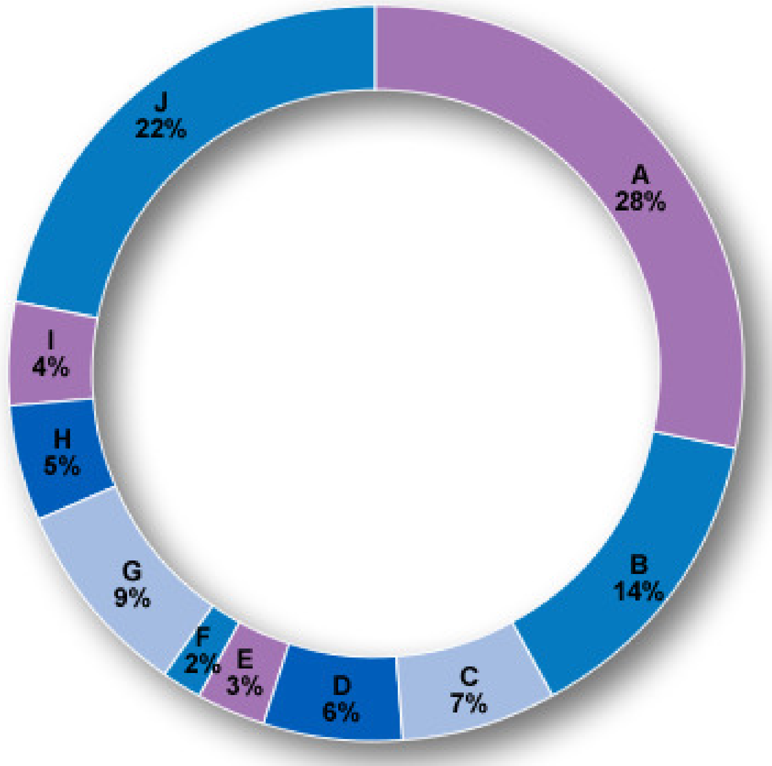
Revenue by Sector

A Rail transportation 28%
B Oil and gas 14%
C Utilities and power 7%
D Petrochemicals 6%
E Basic materials 3%
F Pharmaceuticals 2%
G General industries 9%
H Discrete manufacturing 5%
I Other 4%
J Consumer cyclical 22%



Source: Invensys H1 2008/09 revenue

From a position of strength we can create new demand

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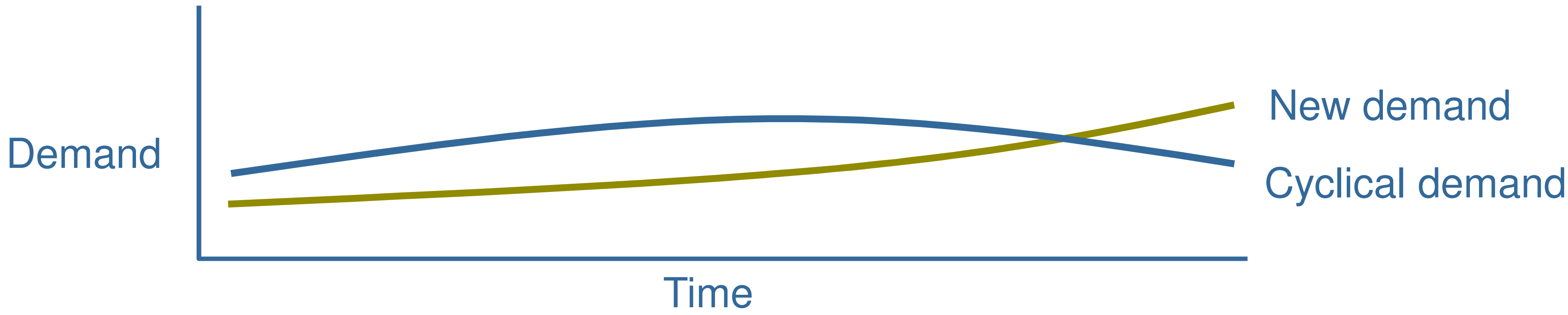
- An Invensys solution enables improved productivity and efficiency, so that our clients can become more competitive and value creating in an ever-changing environment
- Our solutions solves the problem in a different way and therefore it will create new demand



Vertical integration delivers new solutions

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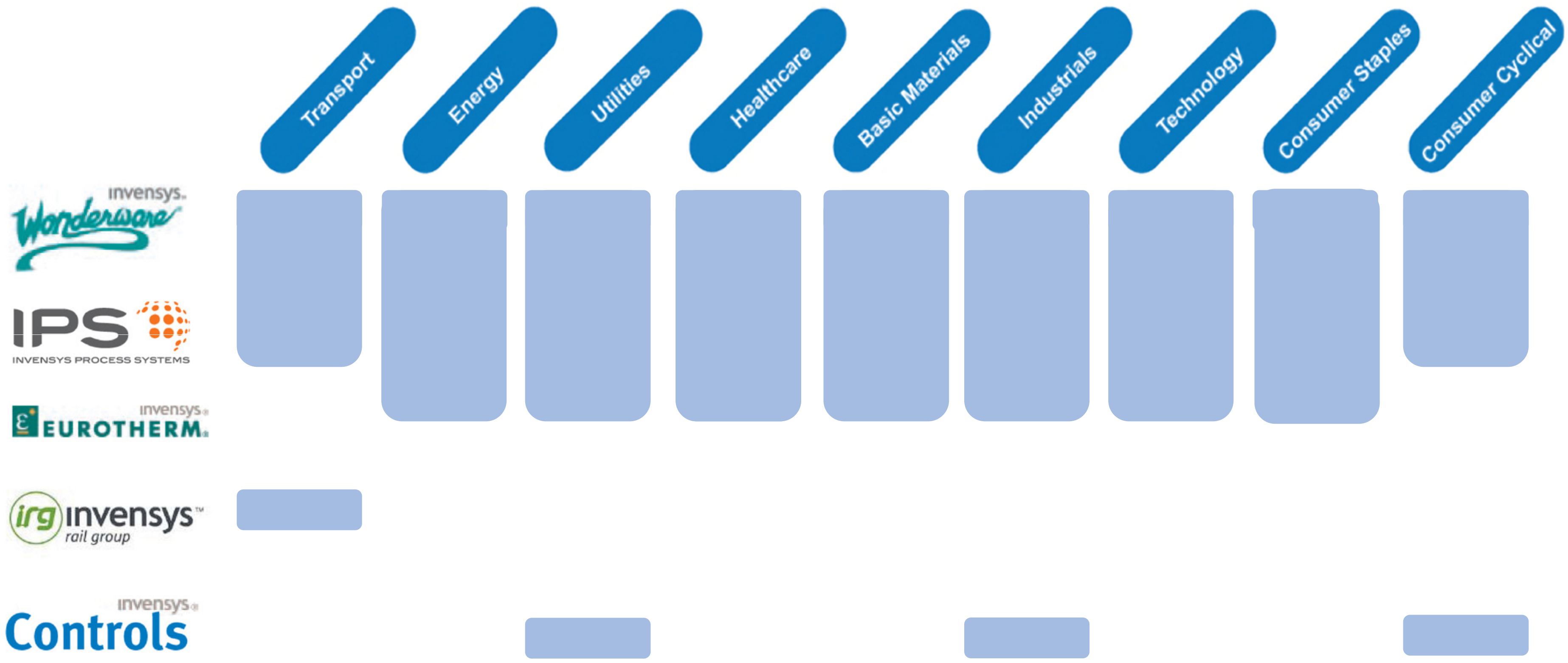

We leverage our deep domain experience in one vertical across into another

Our priorities

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- Short term
  - Capture growth opportunities and generate cash
- Medium and long term
  - Invest to capture best value from our industry and geographical diversification
  - Create demand by offering new ways and technologies which provide productivity and asset optimisation
  - Align how we do business with our core customers needs

Maintaining our strategy …

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- **Industrial Automation**: Process Systems and Eurotherm
  - Technology leadership position for new sweet spot
  - Business model change to more solutions
  - Broaden industry focus to capture new ground
- **Transportation**: Rail
  - Reducing dependency on large core markets by investing further to capture regional growth in export markets
  - Expand value for customers by leveraging Group’s technology
- **Controls**
  - Aligning business model to core customers
  - Products and solutions for mid to high end homes
  - Focus on the core … delivery, quality and productivity

Industrial Automation

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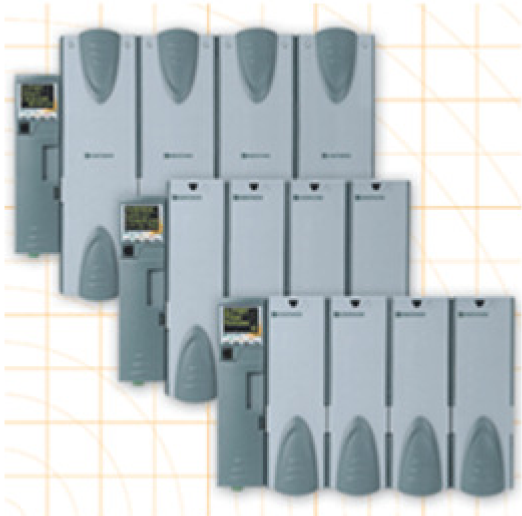
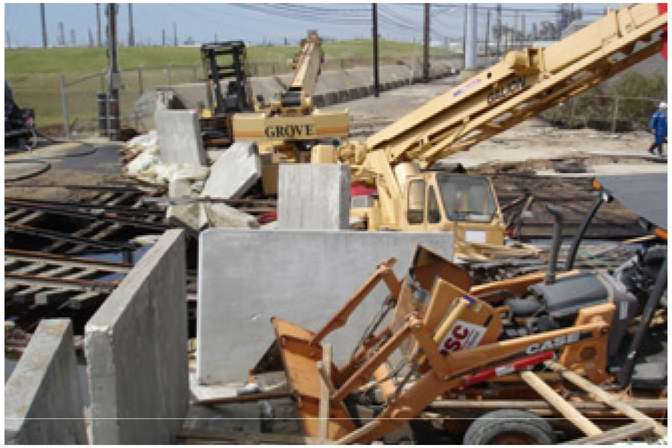
- Changes in demand:
  - Oil & gas – upstream regional capacity build and downstream productivity
  - Power – increased demand in growing economies and in alternative energy supply to oil
- Increased customer focus on solutions for optimisation and productivity
- Customers more open to new ways to meet their objectives
- Investment in sales and marketing already resulting in double digit growth in orders
- Increase development of products that reduces energy usage e.g. Epower
- Restructuring to improve delivery and realign capacity in Europe



Industrial Automation cont

- Assisting customers to restart Texas refineries affected by hurricanes
- InFusion solution helping Sasol achieve significant energy savings at synthetic fuels plant in South Africa
- Five year service contract to provide automation solutions, including InFusion, to Kraton Polymers



Agile alignment and solutions to meet customer needs

Industrial Automation cont

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Acquisition - SAT Corp

- Acquisition broadens technical offering in our preferred space
- Brings wireless and software applications to plant maintenance
- Broadens our interface with key customers in oil and gas sector
- Technology exploitable globally across other sectors as well

Transportation

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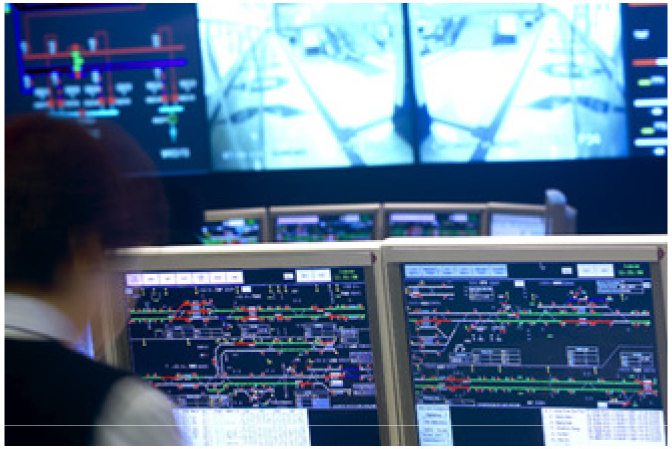
- Core markets in UK, Iberia, US and Australia remain strong supported by government funding
- Capacity build will continue in core and export markets
- Significant contract wins
  - Valencia, Turkey, Reading
  - Further £100 million so far in H2
- Opportunities in export markets remain buoyant with increasing pipeline of order prospects
- Additional opportunities arising e.g. positive train control in the US using Quantum's technology



Transportation cont

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- Cross divisional cooperation on technology and markets
  - Wonderware software used for Beijing Metro passenger information during Olympics
  - Process Systems software provides asset management to rail and metro operators
- Solutions that meet customer needs
  - Technologies to increase line capacity including “Distance to go – Radio” & ERTMS L2 can be overlaid on existing signalling so minimising passenger disruption
  - Westlock interlocking’s triple modular design enables maintenance without need to take system down and therefore avoid disruption

Transportation cont

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Acquisition - Quantum Engineering

- Strong position in US on-board train equipment market
- Positive train control has been made compulsory by 2015 following LA accident
- Fuel optimisation for diesel locomotives
- GPS based train telemetry and tracking systems
- Adhesion enhancement control systems for traditional locomotives
- Technology transferable to many other markets

Controls

- Continued market decline expected
- We have been preparing for a slowdown
- Benefits of prior restructuring enabling some resilience in challenging market
- Good relationship with core customers who are giving us more business
- Tight focus upon costs, operational efficiency, supply chain and completion of existing restructuring projects
- Cost structure enables agility to respond to further market changes
- Good cash generation

Outlook

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- Continue to build on performance achieved in H1
- Short term outlook supported by
  - Order growth in Industrial Automation and Rail
  - Benefits of prior restructuring in Controls and ability to react quickly to changing circumstances
  - Long term we are exposed to robust markets in Industrial Automation and Rail, with diverse geographical coverage
- Our business model is changing:
  - Selling solutions – our new sweet spot
  - Create demand by offering new technologies which provide productivity and asset optimisation
  - Align our business to our core customers

The world has changed …

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We are well positioned to deal with uncertain times and capitalise on opportunities

We make real time information available to enable decisions on productivity, efficiency and asset optimisation

We see opportunities in a changing world

Our customers are seeking new ways to succeed

Q&A

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SUPPLEMENTARY INFORMATION

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Growth

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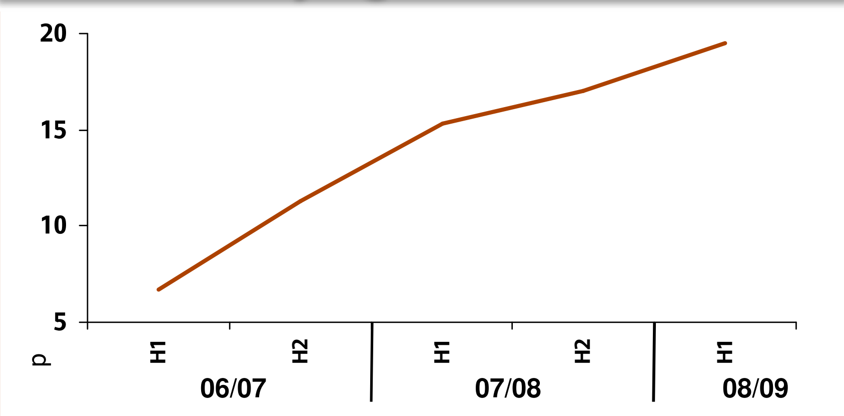
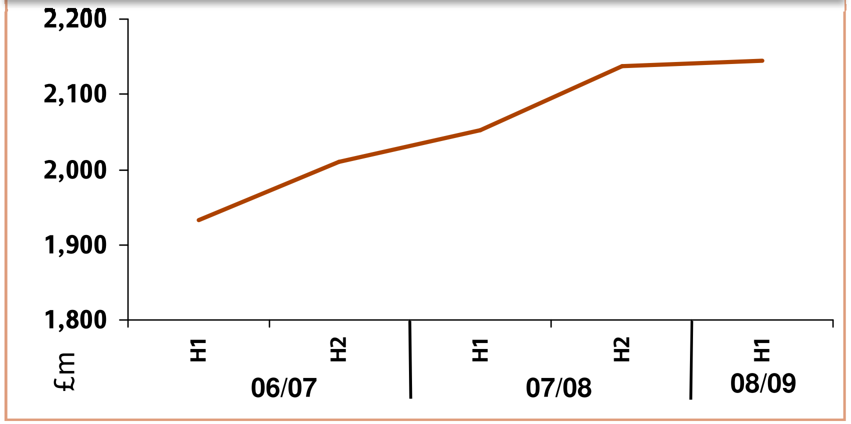
Underlying(1) EPS trend *

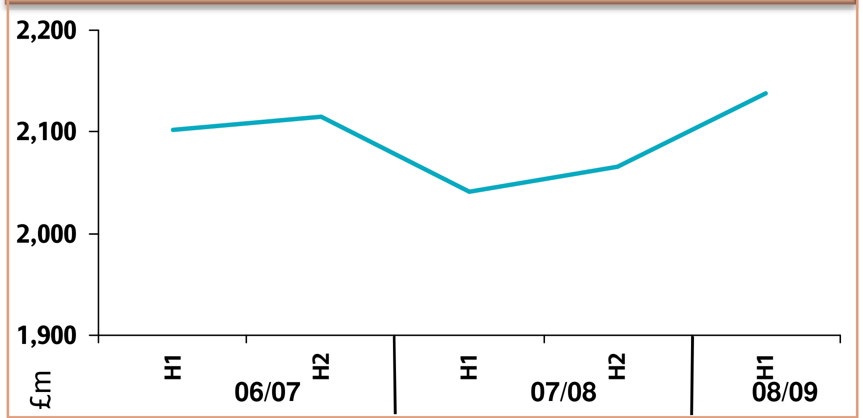


(1) Underlying EPS is calculated by reference to earnings before exceptional finance costs, foreign exchange (losses)/gains, and PPP settlement credit

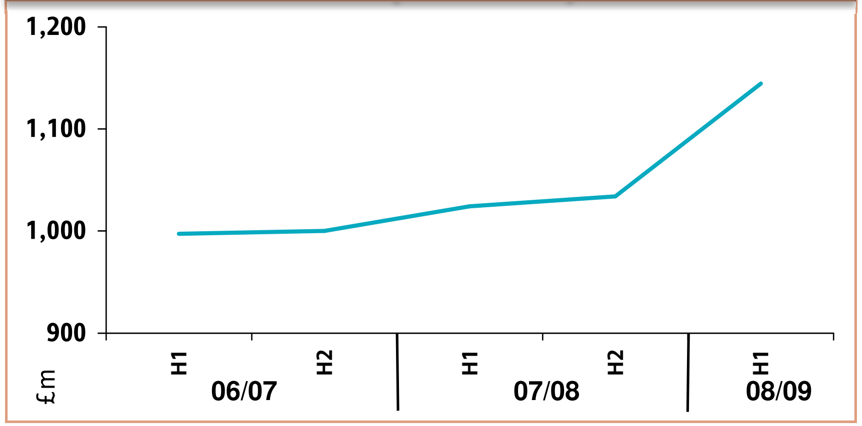
Revenue trend *



Orders trends *



Order book (ex PPP) trend *



Process Systems

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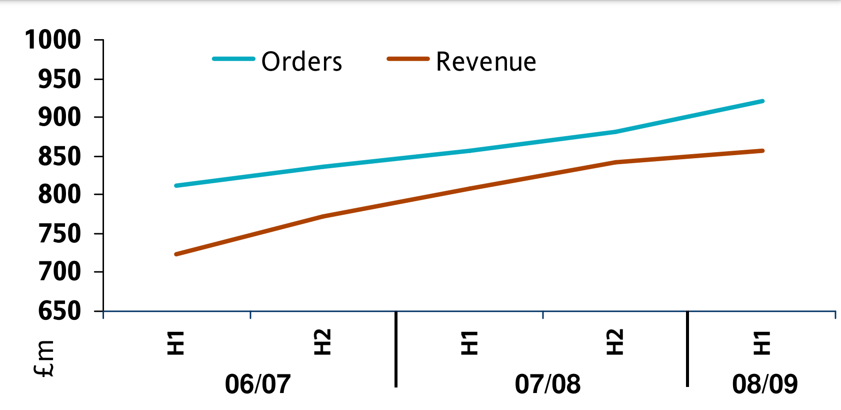
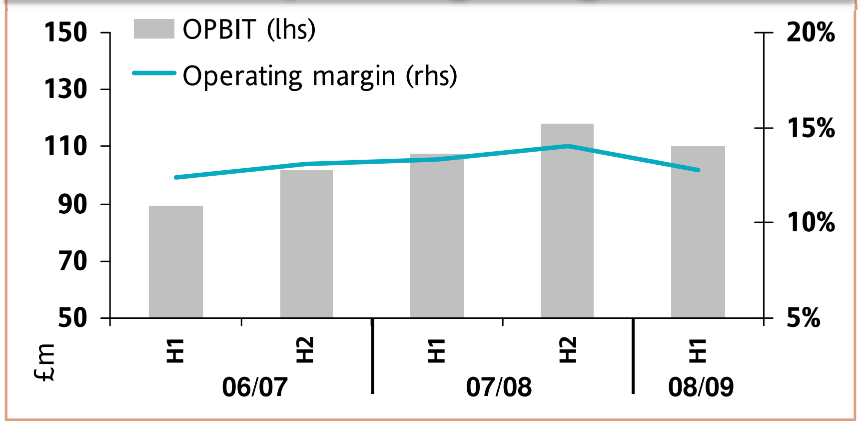
Orders & revenue trend *



OPBIT & operating margin trend *



*MAT at CER

Eurotherm

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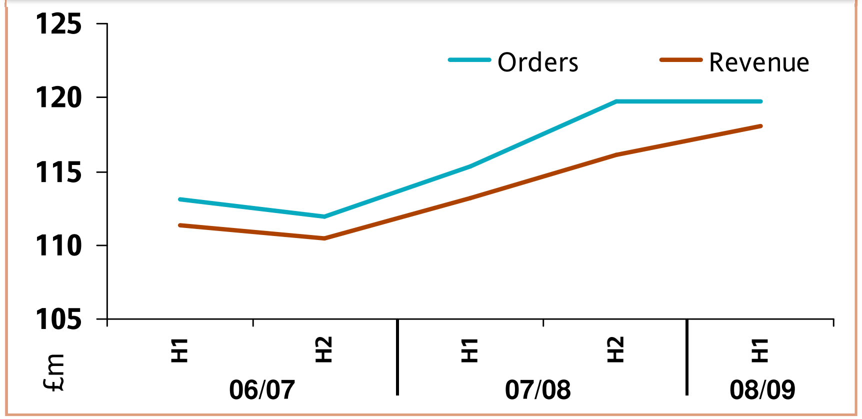
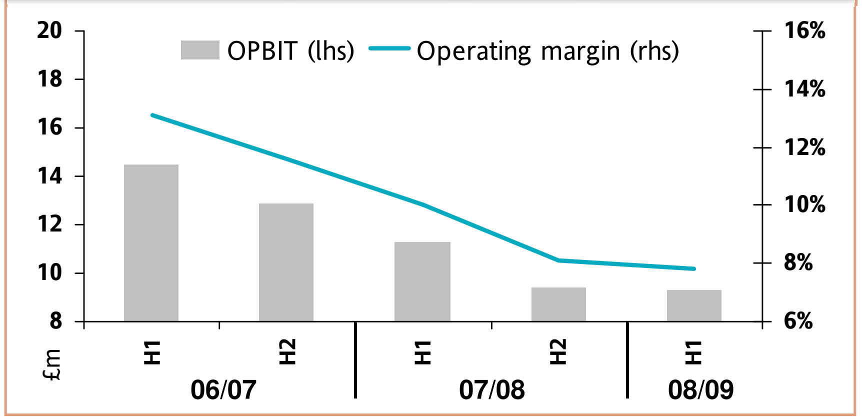
Orders & revenue trend *



OPBIT & operating margin trend *



Rail Group

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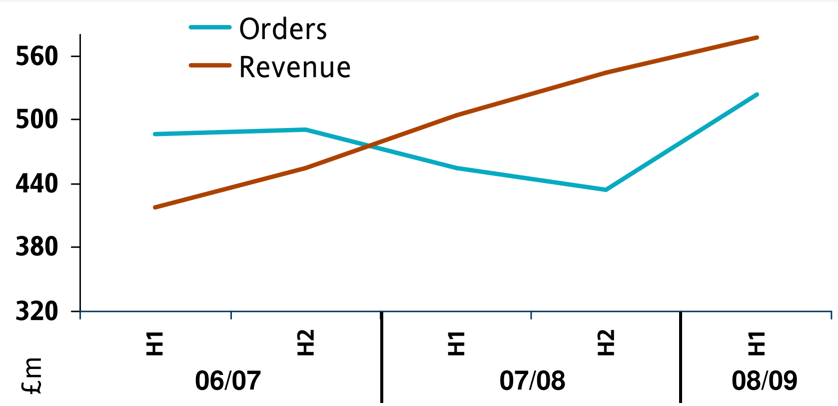
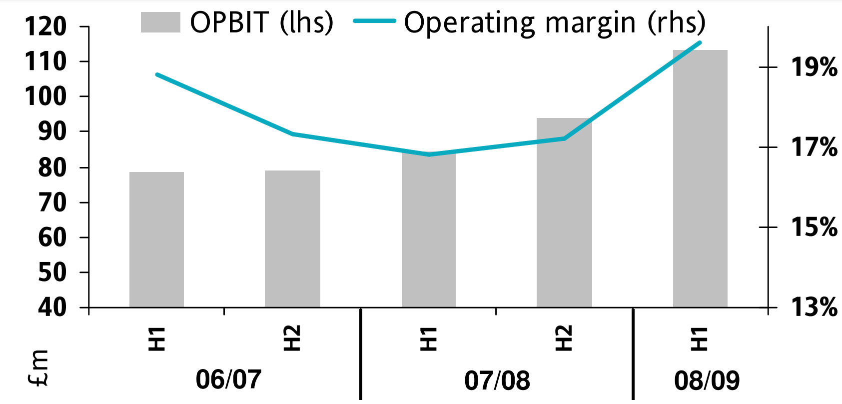
Orders & revenue trend *



OPBIT & operating margin trend *



*MAT at CER

Controls

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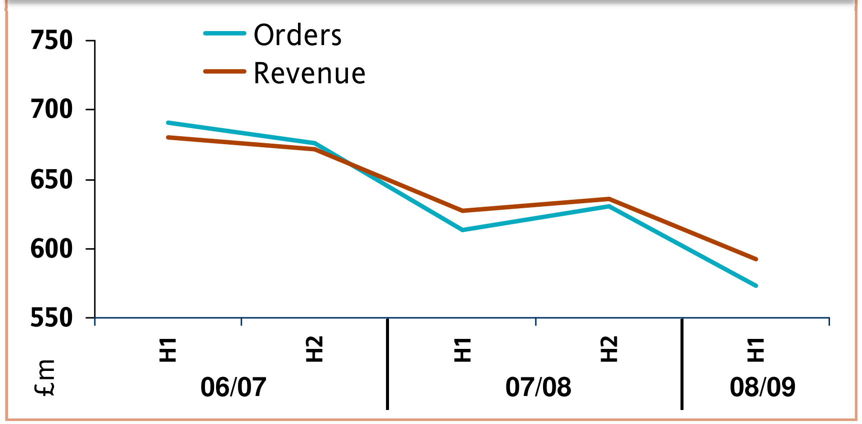
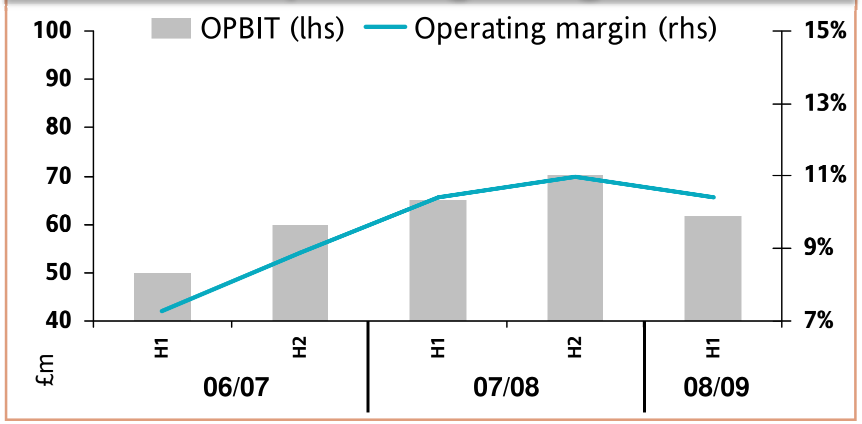
Orders & revenue trend *



OPBIT & operating margin trend *



*MAT at CER

Restructuring charge

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£ million	**H1 08/09**	H1 07/08	FY 07/08
Process Systems	-	-	4
Eurotherm	2	-	-
Industrial Automation	2	-	4
Rail Group	-	-	-
Controls	8	9	16
Corporate	2	1	7
Total	**12**	**10**	**27**

PPE – Additions and depreciation

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£ million	Additions			Depreciation		
	H1 08/09	H1 07/08	FY 07/08	**H1 08/09**	H1 07/08	FY 07/08
Process Systems	5	4	11	6	6	12
Eurotherm	1	1	2	1	1	2
Industrial Automation	6	5	13	7	7	14
Rail Group	2	2	6	2	2	5
Controls	7	7	16	12	13	25
Corporate	-	-	-	-	1	1
Total	**15**	**14**	**35**	**21**	**23**	**45**

Intangibles – Additions and amortisation

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£ million	Additions			Amortisation		
	H1 08/09	H1 07/08	FY 07/08	**H1 08/09**	H1 07/08	FY 07/08
Process Systems	2	3	6	4	4	8
Eurotherm	-	-	-	-	-	-
Industrial Automation	2	3	6	4	4	8
Rail Group	7	5	11	6	5	11
Controls	-	-	1	-	-	-
Total	**9**	**8**	**18**	**10**	**9**	**19**

Earnings per share

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£ million	H1 08/09	H1 07/08	FY 07/08
Profit from continuing operations after minority interests	**73**	**48**	**168**
Earnings per share (p) (basic)	**9.2p**	**6.0p**	**21.1p**
Profit from continuing operations after minority interests	73	48	168
Add back: foreign exchange losses	-	5	21
exceptional finance costs	-	-	36
Less: PPP settlement credit	-	-	(95)
Add back: Tax charge generated by PPP settlement credit	-	-	5
Profit before foreign exchange losses, exceptional finance costs and PPP settlement credit	**73**	**53**	**135**
Underlying earnings per share (p) (basic)	**9.2p**	**6.7p**	**17.0p**

Note: Based on weighted average number of shares of 797 million for H1 (H1 07/08: 796 million; FY 07/08: 795 million)

Net finance costs

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£ million

£ million	Income statement			Cash flow		
	H1 08/09	H1 07/08	FY 07/08	**H1 08/09**	H1 07/08	FY 07/08
Bank debt	1	6	12	2	5	13
Capital market debt	-	17	33	-	17	34
Bonding	2	4	7	3	3	6
Amortisation of facility fees	-	3	6	-	-	-
Other	2	1	5	2	1	2
Finance income	(4)	(7)	(18)	(7)	(7)	(16)
Net finance costs	**1**	**24**	**45**	**-**	**19**	**39**

Balance sheet

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£ million	30 Sep 08	31 Mar 08 (Restated)	30 Sep 07 (Restated)
Property, plant and equipment	286	282	271
Intangible assets – goodwill	265	215	208
Intangible assets – other(1)	101	92	88
	652	589	567
Net trading assets	3	61	49
Deferred taxation	13	6	1
Other legacy liabilities	(68)	(67)	(87)
Net pension liability	(288)	(284)	(350)
	312	305	180
Net assets held for sale	28	2	91
	340	**307**	**271**
Shareholders' funds – equity	446	311	22
Minority interests	72	69	62
Total equity	518	380	84
Net (cash)/debt	(178)	(73)	187
	340	**307**	**271**

Note:
1. Includes intangible development costs of £89 million (31 Mar 08: £81 million; 30 Sep 07: £74 million).

Movement in net cash/(debt)

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£ million	H1 08/09	H1 07/08	FY 07/08
Opening net cash/(debt)	**73**	**(166)**	**(166)**
Free cash flow	177	11	64
Dividends paid to minorities	-	(1)	(1)
Acquisition costs	(50)	(12)	(12)
Net divestment (costs)/proceeds	(8)	(4)	295
Net cash acquired/(divested)	3	(4)	(19)
Pension contributions from disposal proceeds	(2)	-	(55)
Amortisation of facility fees within debt(1)	-	(1)	(11)
Transfer of facility fees to prepayments	(6)	-	-
Transfer of treasury bonds defeasing 144A covenants	(7)	-	-
Purchase of Invensys plc shares by Employee Share Trust	-	(9)	(9)
Purchase of shares on vested share awards	(3)	(4)	(4)
Currency movement	1	3	(9)
Closing net cash/(debt)	**178**	**(187)**	**73**
High Yield Bond(2)	-	(321)	-
144A Bonds	(7)	(6)	(6)
Term Loans(3)	-	(143)	(155)
Other debt	(1)	(1)	(1)
Cash	186	284	235
Closing net cash/(debt)	**178**	**(187)**	**73**

Notes: 1. Including exceptional write-off of facility fees of £nil million (H1 07/08: £nil million; FY 07/08: £6 million)
2. Includes issuance costs of £nil million (H1 07/08: £nil million; FY 07/08 £7 million)
3. Includes issuance costs of £nil million (H1 07/08: £nil million; FY 07/08: £3 million)

NB. The Group has £400 million banking facility

Exchange rates

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	Period ends		Averages	
	Sep 2008	Sep 2007	H1 08/09	H1 07/08
US Dollar	1.78	2.04	1.94	2.01
€uro	1.26	1.43	1.26	1.47