

# News release

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London, 28 November 2012

**Proposed disposal of Invensys's Rail Division for £1,742 million, agreement with Trustee of Invensys's UK Pension Scheme, proposed £625 million return of capital and strategy for the more focused continuing Group**

## Summary

- Invensys agrees to dispose of Invensys Rail to Siemens for £1,742 million
- Agreements with Trustee of Invensys's UK Pension Scheme to provide the Company with a long term pension solution and increased financial flexibility:
  - Up-front payment of £400 million, and
  - Payment of £225 million to a trust
- Proposed return of cash to Shareholders of £625 million (approximately 76 pence per share)
- Creates a more focused industrial software, systems and control equipment business with significant exposure to higher margin and higher growth markets, and funds to invest in them
- Significant run-rate cost savings of £25 million per annum by the end of FY2014 based on a simplified organisational structure
- Completion expected in second quarter of calendar 2013 conditional on Invensys shareholder approval, UK Pensions Regulator approval, certain anti-trust consents and lending bank approval

In view of its size, the proposed disposal constitutes a Class 1 transaction for the purposes of the Financial Services Authority's Listing Rules and therefore requires the approval of Invensys shareholders in order for it to be implemented. A circular containing further details of the proposed disposal and containing the notice convening the General Meeting will be sent to Invensys's Shareholders as soon as practicable.

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Wayne Edmunds, Chief Executive of Invensys, commented:

*"Following a strategic review which highlighted the likely consolidation in the global rail signalling market and the limited scope to increase the size of the Invensys Rail business, we have decided to refocus the Group around our industrial software, systems and control equipment business and, accordingly, to dispose of Invensys Rail.*

*"Invensys Rail has made significant strategic progress over the last five years and this is reflected in the disposal price of £1.7 billion, which we believe delivers attractive value for our Shareholders and also reflects Siemens's ability to maximise the division's potential.*

*"As well as providing Shareholders with an immediate cash return, this transaction enables the Group to create a long term pension solution and therefore increased financial flexibility going forward. The agreements we have reached with the Trustee of the Invensys UK Pension Scheme for the £400 million contribution and the £225 million Reservoir Trust will result in the cessation of the current deficit reduction payments of £40-47 million per annum and we anticipate that no further contributions will be payable into the Scheme.*

*"This transaction creates a more focused industrial software, systems and control equipment Group with a significant exposure to higher growth and higher margin segments and the resources to invest in them. It also allows us to make substantial cost savings through a simplified organisational structure."*

J.P. Morgan Cazenove and Ondra Partners are acting as Invensys's joint financial advisers in relation to the disposal.

This summary should be read in conjunction with the full text of this announcement.

## Conference Call

A call for analysts and investors to discuss the disposal will be held at 5.15pm GMT today, 28 November 2012.

**Dial-in details** (please note that the confirmation code is required).

<b>UK:</b>	+44 (0) 20 7136 2054
<b>US:</b>	+1 646 254 3360
<b>France:</b>	+33 (0) 1 70 48 01 66
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<b>Spain:</b>	+34 91 453 3445

**Confirmation Code:** **7843732**

The presentation will also be available via audio webcast both live and for replay purposes. To access the audio webcast please go to <http://www.invensys.com> and follow the Invensys Rail Disposal link.

A recording will be available at this address shortly after the completion of the call. This announcement and the presentation materials are also available at <http://www.invensys.com>

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## **Notes to editors**

### **1. About Invensys**

Invensys is a global technology company that works in partnership with a broad range of industrial and commercial customers, rail operators and appliance manufacturers to design and supply advanced technologies that optimise their operational performance and profitability. Invensys's market-leading software, systems and equipment enable its customers to monitor, control and automate their products and processes, thereby maximising safety, efficiency, reliability and ease of use. Active in over 180 countries, Invensys employs over 20,000 people across three divisions: Invensys Operations Management, Invensys Rail and Invensys Controls. Further information is available on the Internet at: <http://www.invensys.com>.

### **2. About Siemens**

Siemens AG (Berlin and Munich) is a global powerhouse in electronics and electrical engineering, operating in the fields of industry, energy and healthcare as well as providing infrastructure solutions, primarily for cities and metropolitan areas. For over 165 years, Siemens has stood for technological excellence, innovation, quality, reliability and internationality. The company is the world's largest provider of environmental technologies. Around 40 percent of its total revenue stems from green products and solutions. In fiscal 2012, which ended on September 30, 2012, revenue from continuing operations was €78.3 billion and income from continuing operations was €5.2 billion. At the end of September 2012, Siemens had around 370,000 employees worldwide on the basis of continuing operations. Further information is available on the Internet at: <http://www.siemens.com>.

### **3. Cautionary Statement**

J.P. Morgan Limited (which conducts its UK investment banking business as J.P. Morgan Cazenove), which is authorised and regulated by the Financial Services Authority in the United Kingdom, is acting exclusively for Invensys and for no one else in connection with the matters described in this document and is not, and will not be, responsible to anyone other than Invensys for providing the protections afforded to clients of J.P. Morgan Cazenove, or for providing advice in connection with the matters described in this document.

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## **INFORMATION REGARDING FORWARD-LOOKING STATEMENTS**

This document includes statements that are, or may be deemed to be, "forward-looking statements". These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "plans", "projects", "anticipates", "expects", "intends", "may", "will", or "should" or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this document and include, but are not limited to, statements regarding the Invensys Group's intentions, beliefs or current expectations concerning, among other things, the Invensys Group's results of operations, financial position, prospects, growth, strategies and the industry in which it operates. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. Forward-looking statements are not guarantees of future performance and the actual results of the Invensys Group's operations and financial position, and the development of the markets and the industry in which the Invensys Group operates, may differ materially from those described in, or suggested by, the forward-looking statements contained in this document. In addition, even if the results of operations, financial position and the development of the markets and the industry in which the Invensys Group operates are consistent with the forward-looking statements contained in this document, those results or developments may not be indicative of results or developments in subsequent periods. A number of factors could cause results and developments to differ materially from those expressed or implied by the forward-looking statements including, without limitation, general economic and business conditions, industry trends, competition, changes in regulation, currency fluctuations, changes in its business strategy, political and economic uncertainty and other factors discussed in this announcement.

Forward-looking statements may, and often do, differ materially from actual results. Any forward-looking statements in this document speak only as of their respective dates, reflect Invensys's current view with respect to future events and are subject to risks relating to future events and other risks, uncertainties and assumptions relating to Invensys's operations, results of operations and growth strategy. You should specifically consider the factors identified in this document which could cause actual results to differ before making any decision in relation to the Rail Disposal. Subject to the requirements of the FSA, the London Stock Exchange, the Listing Rules and the Disclosure and Transparency Rules (and / or any regulatory requirements) or applicable law, Invensys explicitly disclaims any obligation or undertaking publicly to release the result of any revisions to any forward-looking statements in this document that may occur due to any change in the Company's expectations or to reflect events or circumstances after the date of this document.

No statement in this document is intended as a profit forecast or profit estimate and no statement in this document should be interpreted to mean that the earnings per share of the Invensys Group, as reduced by the disposal of Invensys Rail, or Invensys Rail for the current or future financial periods will necessarily match or exceed the historical or published earnings per share of the Invensys Group or Invensys Rail.

**Proposed disposal of Invensys's Rail Division for £1,742 million, agreement with Trustee of Invensys's UK Pension Scheme, proposed £625 million return of capital and strategy for the more focused continuing Group**

**1. INTRODUCTION**

The Invensys Board has undertaken a strategic review of the Group's businesses and made the decision to implement a strategy aimed at refocusing the Group around its industrial software, systems and control equipment business and, accordingly, to dispose of its Invensys Rail business. This disposal would also provide funds to address the Group's UK pension position, enable a capital return to Shareholders and provide funds for investment in the Retained Group.

***Disposal of Invensys Rail***

Invensys (the "**Company**") has entered into an agreement (the "**Sale Agreement**") with respect to the sale of Invensys Rail to Siemens for a cash and debt free price of £1,742 million (the "**Rail Disposal**"). The principal terms of the Sale Agreement are described in more detail in Section 4 of this announcement.

***UK Pension Plan Arrangements***

Conditional on the completion of the Rail Disposal ("**Completion**"), Invensys has also entered into a number of agreements (the "**Pension Agreements**") with the trustee of the Company's UK Pension Plan (the "**Pension Trustee**"), which are intended to provide significantly improved security for the UK Pension Plan and a high degree of clarity over future funding for both the Pension Trustee and the Company, as well as significantly increasing the financial flexibility of the Retained Group. These agreements, together with the consent of the Pensions Regulator, are required to enable the Company to proceed with both the Rail Disposal as well as the return of capital to Shareholders (as described below). Under the Pension Agreements:

- (a) Westinghouse Brake and Signal Holdings Limited ("**Westinghouse**"), one of the companies being sold to Siemens (the "**Target Companies**"), will cease to be an employer for all purposes in relation to the UK Pension Plan from Completion;
- (b) Westinghouse will contribute £400 million to the UK Pension Plan no later than five business days following Completion (this amount is included in the cash and debt free price of £1,742 million);
- (c) Invensys will immediately following Completion pay an amount equal to £225 million (less any amounts paid to the Pension Scheme between signing of the Sale Agreement and Completion) (the "**Reservoir Trust Amount**") into a trust (the "**Reservoir Trust**"), which will provide security in favour of the Pension Trustee to cover any remaining deficit and act as a buffer for future contingencies. The Reservoir Trust Deed contains a mechanism for future payments to be made from the Reservoir Trust to either the Pension Trustee or the Company dependent on the funding position of the Scheme, commencing in 2018; and
- (d) the current deficit reduction payments of £40-47 million per annum to the Scheme agreed to be paid until 2017 will cease on Completion of the Rail Disposal, and it is anticipated that no further contributions will be payable to the Scheme for the foreseeable future (until 2018 at the earliest).

The Reservoir Trust mechanism balances covenant protection for the UK Pension Plan with flexibility for the Company. Hence, should market conditions improve sufficiently such funds could be paid to the UK Pension Plan as part of an overall pension solution thereby enabling the Company to better manage its pensions liabilities by removing any future need for the Remaining Employers to pay deficit reduction payments to the UK Pension Plan (again depending on market conditions) or the Group could recover the Reservoir Trust funds over time.

The Pension Agreements are conditional on Completion of the Rail Disposal and are explained in more detail in Section 5 of this announcement.

The Company has applied to the UK Pensions Regulator for clearance in respect of the Rail Disposal, the Pension Agreements and the Return of Capital.

### ***Return of Capital to Shareholders***

In addition, subject to Completion of the Rail Disposal, we intend to return £625 million (around 76.7 pence per share) to Invensys Shareholders (the "**Return of Capital**"). Information on the Return of Capital will be set out in a separate circular which is expected to be sent to Invensys Shareholders shortly following Completion of the Rail Disposal. The Return of Capital is likely to be subject to the further approval of Invensys Shareholders.

### ***The Retained Group***

Following Completion of the Rail Disposal, Invensys will be a focused industrial and commercial software, systems and control equipment provider, delivering value-added solutions to a broad range of industrial and commercial customers.

In particular, the Board believes that Invensys's software, equipment, commercial and wholesale businesses offer attractive margins, good long-term growth prospects and excellent cash conversion. These businesses have good market shares in their respective niches, industry leading brands and long-term customer relationships. They delivered margins that were above the average for the Invensys Group for both the year ended 31 March 2012 and the six months to 30 September 2012.

The Retained Group is described in more detail in Section 6 of this announcement.

In addition, the more focused and simplified structure of the Group following Completion of the Rail Disposal will enable a reorganisation of the Group's management structure leading to cost savings at an estimated annual run-rate of £25 million. These savings are described in more detail in Section 7 of this announcement.

### ***Approvals and Clearances***

The Rail Disposal constitutes a Class 1 transaction for Invensys under the Listing Rules and is therefore conditional on the approval of Invensys Shareholders. The Rail Disposal is also subject to approvals from relevant regulatory authorities, the UK Pensions Regulator and the Majority Lenders (being those members of the syndicate of lenders holding two thirds of the total commitments under the Group's existing Facilities Agreement). These approvals and hence Completion are expected to be obtained in the second quarter of calendar year 2013. None of these approvals have been obtained as of the date of this document.

## **2. BACKGROUND TO AND REASONS FOR THE RAIL DISPOSAL**

The Group is a global technology company primarily focused on the development and application of software, systems and equipment that enable customers to optimise their operational performance and profitability. The Group supplies advanced technologies to a broad range of end markets through three largely independent businesses: Invensys Operations Management, Invensys Controls and Invensys Rail.

Over recent years Invensys Rail has made significant progress executing a strategy of expanding its business into new higher growth markets, while at the same time consolidating its long standing position in the UK, Iberia, Australia and North America. Invensys Rail has delivered significant contract wins in these new markets such that they currently represent 64 per cent. of Invensys Rail's existing order book, including the recent successes with the £420 million Makkah-Madinah contract in Saudi Arabia and the £170 million Marmaray Project in Istanbul, Turkey.

However, the Board recognises that there is likely to be consolidation in the global rail signalling sector. The Board also recognises that, in the longer term, the Group will have limited scope to increase the size of the Invensys Rail business. The Board believes that Siemens is better placed over the medium to long term to maximise the potential value of the Invensys Rail business as part of Siemens's broader rail customer offering. As a result of this, the Board believes that there are clear benefits to being at the forefront of the consolidation that is likely to occur in the markets in which Invensys Rail operates.

In light of these factors, the Group's strategic review concluded that the Group should refocus the Invensys Group around its industrial software, systems and control equipment businesses. The Rail Disposal will also enable the Board to meet its objectives of addressing the Group's pension liabilities and delivering value for Invensys Shareholders both in terms of immediate capital returns and enhancing the long-term growth prospects of the Group with additional resources for investment.

The Board believes that the proposed price of £1,742 million on a cash and debt free basis is an attractive value for the business, which fully recognises Invensys Rail's leading positions in long term growth markets, returns ahead of its peers and well invested technology. The cash and debt free price of £1,742 million represents a multiple of 15 x OPBIT for the year ended 31 March 2012.

## **3. INFORMATION ON INVENSYS RAIL**

Invensys Rail is a multi-national provider of state-of-the-art software-based signalling, communication and control systems that enable the safe and efficient operation of trains in mainline and mass transit networks across the world. Active in over 30 countries, the Invensys Rail business operates four lines of business: mainline, mass transit, products and services, delivering local execution across a broad range of systems and solutions developed globally.

### ***Mainline***

Systems that automate train operation and protection for all types of mainline operations including high speed lines, passenger, suburban and freight. Solutions include European Rail Traffic Management System (ERTMS), Westlock signalling technology, Positive Train Control (PTC), Westrace Mk2, control centres and traffic management.



## **Mass Transit**

Automation solutions for train operation and protection in some of the world's leading cities. Invensys Rail's unique layered approach to introducing new systems on top of legacy systems minimises disruption to both operators and passengers alike. The Invensys Rail portfolio includes SIRIUS Communications Based Train Control (CBTC), Distance-to-Go Radio (DTG-R), Interlocking (Westrace Mk2), Automatic Train Protection (ATP), Automatic Train Operation (ATO), Automatic Train Supervision (ATS) and Integrated Supervisory Control Systems (ISCS).

## **Products**

Extensive range of trackside products including crossings, track circuits, point machines, relays and signals, and a range of on-board locomotive equipment.

## **Customer Services**

Maintenance services and project and system engineering and design focused on customer specific needs.

A summary of the trading results for Invensys Rail for the three years ended 31 March 2012 and the six months ended 30 September 2011 and 2012 (on an IFRS basis) is set out below:

	<b>Year ended 31 March 2010</b>	<b>Year ended 31 March 2011</b>	<b>Year ended 31 March 2012</b>	<b>Half year ended 30 September 2011 (unaudited)</b>	<b>Half year ended 30 September 2012 (unaudited)</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Revenue	700	772	775	382	323
OPBIT <sup>1</sup>	141	129	116	53	45

*1 Operating profit before interest and taxation (before exceptional items)*

As at 30 September 2012, Invensys Rail had gross assets of £499 million.

## **4. SUMMARY OF TERMS OF THE RAIL DISPOSAL**

A Sale Agreement between the Company, certain subsidiaries of the Company and Siemens has been entered into, pursuant to which certain subsidiaries of the Company have agreed to sell (and the Company has agreed to procure the sale of) shares in the Target Companies engaged in the business of the Invensys Rail division.

The Rail Disposal is conditional upon: (i) approval of Invensys Shareholders of the ordinary resolution at the General Meeting; (ii) clearance from the UK Pensions Regulator; (iii) the Pension Agreements taking effect such that no liability shall attach to any of the Target Companies under Section 75 of the Pensions Act 1995; (iv) clearance from the applicable regulatory authorities; and (v) consent from the Majority Lenders.

## 5. PENSION AGREEMENTS

Conditional upon the completion of the Rail Disposal, the Group has entered into the Pension Agreements with the Pension Trustee setting out the revised funding arrangements in respect of the UK Pension Plan. Under the Pension Agreements, Westinghouse (one of the Target Companies being sold to Siemens as part of the Rail Disposal) has agreed to make a contribution of £400 million no later than five business days following Completion into the UK Pension Plan. The Company has also agreed that it will immediately following Completion pay £225 million (less any amounts paid to the Scheme between signing of the Sale Agreement and Completion) into the Reservoir Trust.

The UK Pension Plan has a number of participating employers within the Rail Group. On Completion of the Rail Disposal one of the participating employers (Westinghouse) will cease to be a participating employer in the plan. On such cessation a statutory debt would (absent the Pension Agreements) be payable by Westinghouse to the Pension Trustee under section 75 of the Pensions Act 1995. Under the Pension Agreements, Westinghouse will be discharged from all liability under the UK Pension Plan, including in relation to Section 75 of the Pensions Act 1995. The Company (as founder of the UK Pension Plan) will retain all of the liabilities and responsibilities of Westinghouse in relation to the UK Pension Plan.

The actuarial valuation of the UK Pension Plan, as at 31 March 2011, revealed a Technical Provisions deficit of £235 million. As at 30 September 2012 the estimated Technical Provisions deficit for the UK Pension Plan had increased to £570 million mainly as a result of the fall in UK gilt yields arising from the Bank of England's policy on quantitative easing. The IAS 19 deficit of the UK Pension Plan, as at 30 September 2012, was £181 million.

The proposed payment of the Reservoir Trust Amount into the Reservoir Trust will provide the UK Pension Plan with security against the remaining deficit in the UK Pension Plan after payment of the cash contribution and will provide a buffer for future contingencies. Accordingly, the proposed cash contribution and payment into the Reservoir Trust will address the current estimated Technical Provisions deficit of £570 million for the UK Pension Plan. As part of the terms of the Pension Agreements, the Pension Trustee has agreed to carry out a new actuarial valuation of the UK Pension Plan as at 31 October 2012 (the "**New Valuation**"). The New Valuation has not been completed as at the date of this document. It is anticipated that the Pension Trustee would treat the Reservoir Trust as a contingent asset of the UK Pension Plan for the purposes of preparing a Schedule of Contributions and Recovery Plan under the New Valuation and in preparing such documents for the purposes of the next valuation occurring after the New Valuation. Under the terms of the Reservoir Trust Deed any deficit reduction contributions in respect of such valuations would be met from the Reservoir Trust. The Company anticipates that there should be no deficit reduction payments due from the Company or the other Remaining Employers in the UK Pension Plan until 2018 and any payments that may be required from 2018 will be met by the Reservoir Trust.

The Company remains committed to its obligations under the UK Pension Plan. The Directors believe that the arrangements under the Pension Agreements benefit all relevant stakeholders, with enhanced security for members of the UK Pension Plan, as well as providing the Company with greater certainty and financial flexibility to execute on its strategic development. The Pension Agreements provide a high degree of certainty of funding for both members of the UK Pension Plan and for the Company.

Under the terms of the Rail Disposal, Siemens will assume responsibility for the Invensys Railways Pension Scheme, a defined benefit plan which under IAS 19 as at 31 March 2012 had a deficit of £39.4 million on gross liabilities of £154.3 million.

## **6. PROFILE AND STRATEGY FOR THE RETAINED GROUP**

### **6.1 Overview of the Retained Group**

Following Completion of the Rail Disposal, Invensys will be a focused industrial and commercial software, systems and control equipment provider, delivering state-of-the-art, value added solutions to a broad range of industrial and commercial customers.

In particular, the Board believes that Invensys's software, equipment, commercial and wholesale businesses offer attractive margins, good long-term growth prospects and excellent cash conversion. These businesses have good market shares in their respective niches, industry leading brands and long-term customer relationships. They delivered margins that were above the average for the Invensys Group for both the year ended 31 March 2012 and the six months to 30 September 2012.

#### ***Invensys Operations Management:***

Invensys Operations Management, which will comprise 72 per cent. of the Retained Group (based upon revenue for the year ended 31 March 2012), is one of the world's leading suppliers to the global industrial automation market. Its solutions are used in more than 200,000 plants and by more than 40,000 customers in around 180 countries, and enable 20 per cent. of the world's electricity generation, 17 per cent. of the world's crude oil refining and 24 per cent. of the world's chemical production. Its operations are arranged in three lines of business:

##### *Software (Year ended 31 March 2012 revenue: £231 million)*

The software line of business is by itself one of the world's largest developers and suppliers of industrial software with leading positions in areas such as real time operations management, simulation and asset management. Its portfolio includes: (i) Wonderware, the world's leading HMI/SCADA software which is used to monitor real time operations in factories; (ii) SimSci Esscor, the world's second largest supplier of simulation and training software; (iii) Avantis, a leading provider of asset management software; and (iv) Skelta, a provider of business process management software. Its SimSci Esscor offerings have recently been expanded by the acquisition of Spiral Software, which specialises in integrated solutions for the oil refining industry ranging from crude assay management to refinery supply chain optimisation, enabling clients to maximise the profitability of all aspects of their business.

##### *Systems (Year ended 31 March 2012 revenue: £765 million)*

The systems line of business is a global provider of integrated, distributed control systems (DCS) and safety systems to customers operating some of the world's largest and most complex industrial plants, such as oil refineries, power stations (both fossil fuel and nuclear) and petrochemical plants. Its Foxboro I/A DCS system has a top 3 global installed base in the industry and its Triconex safety system is recognised as the world's leading safety system.

*Equipment (Year ended 31 March 2012 revenue: £276 million)*

The equipment line of business manufactures a range of high-precision measurement and instrumentation products, controllers and recorders under the Foxboro and Eurotherm brands. Its products and services include:

- Process control and temperature control solutions in life sciences, heat treatment, plastics and glass, where reducing customers' cost of energy is critical to their business success.
- Full range of pressure, flow and analytical instrumentation, including level measurement technology.
- Data measurement, visualisation and control services for large industrial, commercial and retail energy users, as well as full market settlement services for managing wholesale electricity trading.

In an industry sector dominated by some large manufacturers, it has carved out regional and product niches that enable it to compete well on a global scale.

***Invensys Controls:***

Invensys Controls, which will comprise 28 per cent. of the Retained Group (based upon revenue for the year ended 31 March 2012), is one of the world's leading suppliers of control equipment to a broad range of customers and operates within three lines of business.

*Commercial (Year ended 31 March 2012 revenue: £85 million)*

The commercial line of business offers complete connected monitoring and control retail solutions in commercial refrigeration, heating, ventilation and air-conditioning, commercial cooking, level monitoring, water monitoring and other Invensys energy monitoring products. Its major end markets are original equipment manufacturers, large project installers and system integrators in food preservation, food preparation and comfort sectors.

*Wholesale (Year ended 31 March 2012 revenue: £116 million)*

The wholesale line of business designs, develops, manufactures and distributes heating controls, including room thermostats, time controls, thermostatic radiator valves and under-floor heating controls, predominantly for use in residential applications. It is also the supplier of choice for climate controls in domestic and small commercial buildings, optimising energy efficiency and environmental impact.

*Appliance (Year ended 31 March 2012 revenue: £291 million)*

The appliance line of business is the world's largest supplier of components and systems that control the operation of appliances in both the residential and commercial sectors. It has strong leadership positions across its key products and supplies all of the world's top seven appliance manufacturers.

## **6.2 Retained Group Strategy and Investment Priorities**

The future strategy for the Retained Group will be focused on directing investment into those lines of business which have technologies, products and market positioning that provide opportunities to achieve sustainable high margins and revenue growth.

As described below, some of Invensys's lines of business will also seek to supplement organic growth with selected acquisitions to broaden and enhance their market positioning and offerings. Invensys continues to review a range of potential opportunities however no acquisitions are currently in progress or conditional upon the disposal. Acquisitions such as these are expected to have characteristics similar to the Group's existing industrial software and control equipment businesses, such as strong defensive niches, attractive long term growth prospects and high returns on sales and on investment. The Board has a set of defined strategic and financial criteria against which it will consider potential acquisitions to ensure they create value for Shareholders.

### ***Invensys Operations Management investment priorities:***

#### *Software*

Many of Invensys's customers have invested large amounts of capital in their industrial plants and, with little greenfield capacity (particularly in the developed world in North America and Europe), their focus is upon maximising the efficiency of their existing plants. The Company will be accelerating levels of research and development expenditure in the software line of business to capitalise on this growing demand for next generation automation software and applications that drive productivity, energy management and environmental performance.

In addition, the industrial software market is fragmented with many small to medium sized companies providing specialist software products that would be valuable additions to Company's portfolio. Invensys intend to be a consolidator in this market, as evidenced by the recent acquisition of Spiral Software which specialises in integrated solutions for the oil refining industry ranging from crude assay management to refinery supply chain optimisation, enabling clients to maximise the profitability of all aspects of their business.

#### *Systems*

Invensys has the second largest installed base of DCS in the industry and many of those systems will need to be replaced over the coming decade; it is the Company's intention to invest further in its DCS and safety systems to ensure that it maintains its market position through this process.

#### *Equipment*

The equipment line of business will be making investments in product development to improve its niche market positions and enhance its margins. The industrial equipment market includes a number of small to medium sized companies providing specialist niche products and Invensys will be looking to acquire those that would be valuable additions to the Company's portfolio.

### ***Invensys Controls investment priorities:***

#### *Commercial*

The commercial line of business will be investing to grow by continued geographic expansion and new product introductions over the medium term. In particular, it will focus on helping customers improve their energy efficiency with wireless based solutions in areas such as refrigerated transportation.

#### *Wholesale*

The wholesale line of business will also be investing in continued geographic expansion and new product introductions over the medium term. In particular, it will be looking to offer a full range of energy monitoring and control systems, in support of smart home and other smart applications.

#### *Appliance*

The appliance line of business has had significant investment in the past four years to create a lean and efficient manufacturing footprint, predominately in lower cost countries. Its markets are cyclical and have decreased significantly during the investment period. It is now well prepared to react as and when its markets begin to recover.

## **7. REORGANISING THE GROUP'S MANAGEMENT STRUCTURE**

The Rail Disposal is a transformational transaction for the Invensys Group and will enable the Retained Group to reorganise its management structure such that it is expected it can achieve annual run-rate cost reductions of approximately £25 million by the end of March 2014. These cost reductions are contingent on the Rail Disposal and could not be achieved independently.

The cost reductions will be primarily driven by a reduction in management layers as a result of the simplification of the reporting structure. The Board expects that approximately 75 per cent. of the reductions will be associated with headcount reductions, with the remaining 25 per cent. comprising reductions in third party professional fees and administrative costs, resulting from operating through a leaner organisation structure. Approximately 60 per cent. of the run-rate cost reductions should be secured by the end of the first half of the financial year 2013/14, with 100 per cent. run-rate of such cost reductions expected to be achieved by the end of the financial year 2013/14.

The Board estimates that this restructuring will cost approximately £30 million, the vast majority of which will be incurred in the first financial year post completion of the Rail Disposal, in order to achieve the run-rate cost reductions described above by the end of March 2014.

The financial benefits described above reflect both the beneficial elements and the relevant costs associated with this reorganisation.

## **8. USE OF PROCEEDS AND FINANCIAL EFFECTS OF THE RAIL DISPOSAL**

The cash and debt free price for the Rail Disposal is £1,742 million. The consideration will be subject to customary adjustments for the amount of cash, debt and working capital in the Target Companies at Completion.

This amount includes £400 million to be paid by Westinghouse (one of the Target Companies to be sold to Siemens as part of the Rail Disposal) to the UK Pension Plan following Completion. Under the Sale Agreement, Siemens has agreed to procure that by no later than five business days following Completion, Westinghouse will be put in sufficient funds so that when taken in aggregate with any existing available funds of Westinghouse, it is sufficient and in such a form as to allow Westinghouse to discharge in full such £400 million to be paid to the UK Pension Plan. Siemens has also agreed to indemnify the Company for any breach of this obligation.

The cash and debt free price for the Rail Disposal also includes £40 million in respect of the liabilities relating to the Invensys Railways Pension Scheme (which sit with Westinghouse) that will transfer to Siemens with the Rail Disposal. Following Completion, Invensys will have no obligations in relation to the Invensys Railways Pension Scheme.

The cash proceeds of the Rail Disposal (on the basis of the estimated working capital and debt) which will be received by Invensys on Completion are estimated to be £1,302 million and are intended to be used as follows:

- approximately £625 million (around 76.7 pence per share) to be returned to Shareholders (further details below);
- the Reservoir Trust Amount of £225 million (less any amounts paid to the Scheme between signing of the Sale Agreement and Completion) will be paid into the Reservoir Trust by Invensys;
- approximately £80 million in transaction fees and taxes payable; and
- approximately £372 million to be retained by the Group to accelerate the strategic development of the Retained Group through investment in the business and acquisitions.

Details regarding the Return of Capital will be communicated to Shareholders following Completion of the Rail Disposal in a separate circular expected in the second quarter of calendar year 2013. The Return of Capital is likely to be subject to the further approval of Shareholders.

Following Completion of the Rail Disposal and the Pension Agreements, and the proposed Return of Capital, the Group is expected to have net cash (excluding the amounts under the Reservoir Trust) of approximately £548 million, based upon the pro forma position as at 30 September 2012.

## **9. EXPECTED TIMETABLE TO COMPLETION**

A circular containing further details on the Rail Disposal, the Board's recommendation, and the notice of the General Meeting and the resolution required to approve the Rail Disposal (the "**Circular**") will be sent to Invensys's Shareholders as soon as practicable. Completion of the Rail Disposal is expected to occur during the second quarter of calendar 2013.

## **10. ADVISERS**

J.P. Morgan Cazenove is acting as Joint Financial Adviser, Sponsor and Corporate Broker in relation to the Rail Disposal. Ondra Partners is acting as Joint Financial Adviser, with Freshfields Bruckhaus Deringer LLP acting as Legal Adviser.

Capitalised terms not otherwise defined in this announcement have the meanings given to them in the Circular.

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*This announcement is not intended to, and does not constitute, or form part of, any offer to sell or an invitation to purchase or subscribe for any securities or a solicitation of any vote or approval in any jurisdiction. Invensys shareholders are advised to read carefully the formal documentation in relation to the Rail Disposal once it has been despatched. Any response to the proposals should be made only on the basis of the information in the formal documentation to follow.*