
Annual Review 2006

Highlights of the year

- Special payment of £105m by the Company in March 2006
- Funding agreement with the Company now finalised
- Scheme deficit reduced to £325m at September 2005
- Following special payments, deficit reduced further to £203m
- Investment strategy revised to 80% bonds
- Scheme assets total £4bn

Improved Scheme funding and reduction in Scheme deficit

The year to 31 March 2006 has culminated in a number of significant changes for your pension scheme. I trust the effect of these changes will be to bring greater security and stability to your pension benefits.

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This year's Report shows a stronger Scheme with the financial and actuarial situation better than for a number of years. The Trustee has worked with the Company to achieve a funding position that is much improved on the position 12 months ago. This has been done against a background of changing legislation which both parties have recognised in providing a sound base for the future.

I am pleased to announce we completed an agreement with the Company in March 2006. It provides a future funding plan and revised investment strategy for the Scheme. We believe this will lead to greater security for the future payment of members' benefits.

A full Valuation of the Scheme was undertaken by the Scheme's Actuary as at 30 September 2005. The Valuation resulted in an actuarial funding deficit of £325m (representing a deficit of 8%) compared to the Valuation as at 31 March 2003 where the deficit was £415m (11%).

In the light of these results, the Company agreed to make an immediate contribution of £105m to the Scheme, together with further special contributions over the next nine years.

Following this first payment the funding deficit has been estimated at 31 March 2006 at £203m.

In summary this means that if assumptions regarding longevity and asset returns remain broadly representative of real life, then this funding plan will meet all future liabilities of the Scheme to the members; as long as the Company is able to make all the contributions it has promised.

This is, of course, tremendous news and I hope it will put some of our worst fears to rest. However, as I have always tried to convey to you, we are dealing with liabilities spread over a long, long time, and many things can happen within the Scheme and the Company; but for the time being we should feel pleased that we are on the right path.

This agreement on funding and investment has been reached after the Trustee has taken significant advice from the Scheme's advisers.

We have kept the Pensions Regulator's office informed of the process and we understand that this agreement meets the criteria set out in the Pensions Regulator's guidance notes regarding the funding of defined benefit schemes.

Based on advice received the Trustee believes that this agreement is in the best interests of all members.

I would also like to thank my colleagues on the Trustee Board for all their help and support during this process; in particular Ian Fyfe who has served as a Director for 10 years and was recently appointed as Deputy Chairman in recognition of his experience and the contribution he has made to your Board.



Kathleen O'Donovan

Chairman of the Trustee of the Invensys Pension Scheme

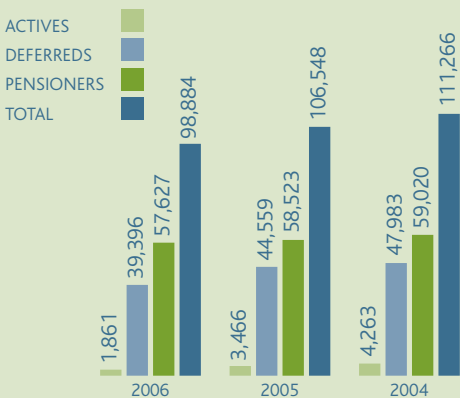
Financial results of the Scheme (for year ended 31 March 2006)

	£M
INCOME:	
EMPLOYERS CONTRIBUTIONS	145
MEMBERS CONTRIBUTIONS	4
INVESTMENT INCOME	121
	270
EXPENDITURE:	
PENSIONS AND BENEFITS PAID TO MEMBERS	200
PAYMENTS TO LEAVERS	20
ADMINISTRATION AND INVESTMENT EXPENSES	12
	232
FUND VALUE AT BEGINNING OF YEAR	3,586
CHANGE IN VALUE OF INVESTMENTS	378
DIFFERENCE BETWEEN INCOME AND EXPENDITURE	38
FUND VALUE AT END OF YEAR	4,002

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Member analysis (as at 31 March 2006)

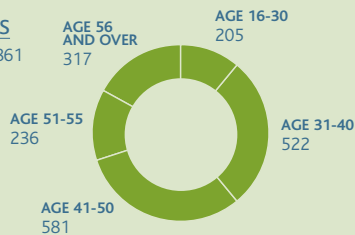
Number of members



Age profiles

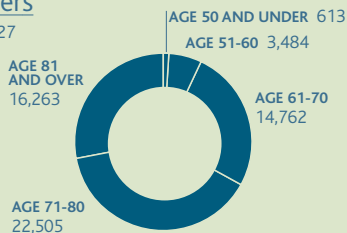
Actives

TOTAL 1,861

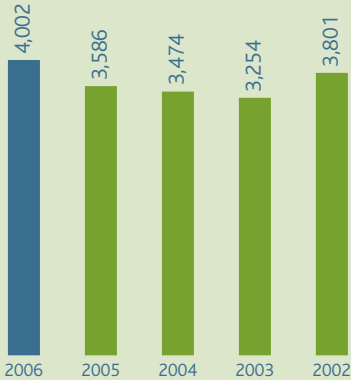


Pensioners

TOTAL 57,627

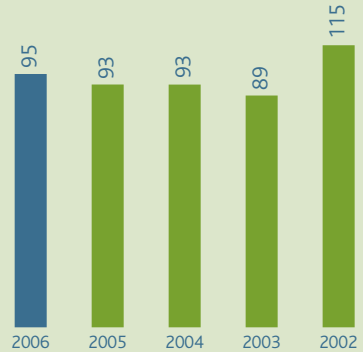


Value of pension fund (£m)



Scheme funding levels on an ongoing basis (%)

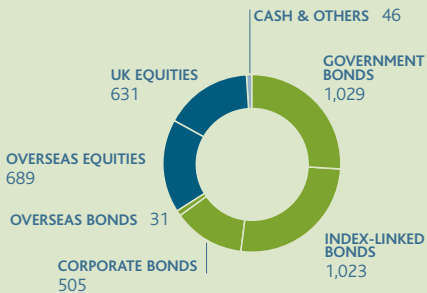
BASED ON THE ACTUARIAL ASSUMPTIONS USED FOR FUNDING THE SCHEME



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Distribution of assets by type (£m)

Total 3,954



The ten largest investments (as at 31 March 2006)

	£M	% OF FUND
BP	47	1.2
VODAFONE GROUP	37	0.9
ROYAL BANK OF SCOTLAND	33	0.8
GLAXOSMITHKLINE	33	0.8
HSBC HOLDINGS	25	0.6
ROYAL DUTCH SHELL 'B'	24	0.6
PRUDENTIAL	22	0.6
BARCLAYS	16	0.4
HBOS	16	0.4
DIAGEO	14	0.4

The Scheme's current investment objectives are to achieve investment returns that, together with the contributions paid by the Company and by members in the future, ensure the assets of the Scheme are sufficient to meet the benefits due to each member as they fall due over time.

Statement of Investment Principles

The Scheme's strategy and objectives, together with full details of the investment process is set out in the Statement of Investment Principles (V.6.0). This document is updated regularly and the latest version was agreed in March 2006. A copy is available to members from Invensys Pensions.

Investment policy

During the year the investment policy of the Scheme was 70% bonds, 30% equities, including an absolute return fund. This reflects the Scheme's mature nature and the Trustee's desire to reduce investment risk within its asset portfolio subject to retaining sufficient out performance potential to meet the funding objectives of the Scheme.

Changes are being made following the funding agreement with the Company which will increase the bond allocation to 80% and diversify the remaining 20% over a number of investment types.

The Trustee's investment policy towards investment in the Company is unchanged in that investment managers who invest in UK equities are allowed discretion subject to certain broad limits. At 31 March 2006 the Fund's holding of the Company's shares amounted to 0.11% of the Fund and less than 0.5% of the issued share capital of the Company, which complies with restrictions set out in Section 40 of the Pensions Act 1995.

Investment manager targets

UK EQUITIES	FTSE ALL-SHARE TOTAL RETURN INDEX PLUS 2% PA
GLOBAL EQUITIES	MSCI WORLD (INC UK) INDEX PLUS 3% PA
ABSOLUTE RETURN FUND	CASH PLUS 4.5% PA
CASHFLOW MATCHING BONDS	SCHEME SPECIFIC LIABILITY BENCHMARK PLUS 0.25% PA
IMMUNISATION BONDS	SCHEME SPECIFIC LIABILITY BENCHMARK PLUS 0.75% PA

Distribution of assets by investment manager

	£M
AXA	873
BGI BONDS	871
PRUDENTIAL M&G	870
UBS	687
BGI EQUITIES	314
SCHRODERS	203
MLIM	130
CASH & OTHERS	6
	3,954

Investment returns (%)

BENCHMARK RETURN IS BASED ON A SERIES OF PERFORMANCE INDICES AGAINST WHICH INVESTMENT RETURN IS MEASURED

	2006	2005	2004	2003	2002
ACTUAL RETURN	14.0	7.8	13.1	(9.2)	0.0
BENCHMARK RETURN	14.2	7.4	12.4	(9.0)	(0.5)

The Trustee is committed to ensuring the Scheme's objectives are met by managing risk effectively, using effective decision making processes and adopting pension industry "best practice" where this is appropriate for the Scheme.

The Trustee has set up a Governance & Audit Committee with the following key duties and responsibilities.

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- 1 To identify risks to the Scheme.
- 2 To review the management of these risks and to propose improvements.
- 3 To document and audit Scheme decision making processes and practice.
- 4 To review the performance of the Trustee, its Committees, the Scheme's administrators and advisers in meeting the Scheme's governance standards.
- 5 To obtain advice and to make recommendations to the Trustee in relation to Scheme governance.
- 6 To review and approve work undertaken by the Scheme's auditors.

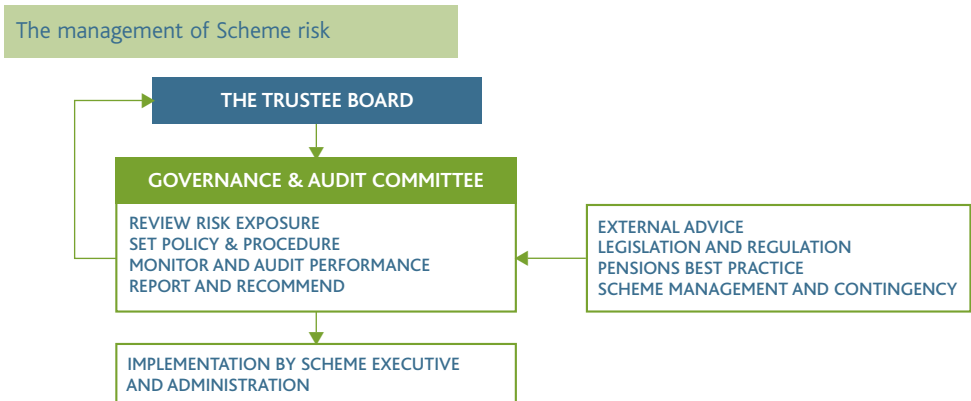
The management of Scheme risk

This is undertaken by the use of a "Risk Register" that identifies and prioritises risks and then formulates mitigating action to reduce the overall Scheme risk. This Register is reviewed annually by the Governance & Audit Committee.

The objective of the Trustee's risk policy is to limit the exposure of the Scheme's assets for which it is responsible and to safeguard the financial, operational, compliance and other risks.

Audit function and processes

A financial audit is performed annually by the Scheme's Auditors (Ernst & Young LLP) who report initially to the Governance & Audit Committee and where appropriate to the Trustee Board on any issues that arise from this audit. An internal audit of the Scheme's administrative control processes and procedures has been conducted during the current Scheme year by an external body.



Trustee Board

Kathleen O'Donovan (1)
Anthony Gajadharsingh (2)
Geoff Campion (3)
Peter Tompkins (4)

Steve McDonnell (5)
Douglas O'Keeffe (6)
Keith Ireland (7)
Russell Walker (8)

James Rae (9)
Ian Fyfe (10)
Martin Barker (11)



In accordance with the Articles of Association of the Trustee Company, the Board consists of a maximum of 11 Directors. Five, including the Chairman, are appointed by the Company, four are nominated by the Invensys United Kingdom Pensions Consultative Committee (UKPCC) and two, Scheme pensioners, are appointed by the other Directors. The appointing or nominating authority may also remove Directors from office. The Trustee may be removed by Invensys plc.

The Board members at 31 March 2006 were:

Appointed by Invensys plc

K A O'Donovan, Chairman, age 49

A G Gajadharsingh age 40,
SVP Business Development,
Invensys Controls

G C J Campion age 47, VP Finance,
Invensys Rail Business Group

P J Tompkins age 59,
Business Group President,
Eurotherm Ltd

S C McDonnell age 43,
Head of Group Tax, Invensys plc

Nominated by UKPCC

K F Ireland age 52, Sales Support
Manager, APV UK

D A O'Keeffe age 64,
Assistant Financial Accountant

R G Walker age 59, Engineer,
Westinghouse Rail Systems Ltd

J Rae age 58, Cost Accountant,
Eurotherm Ltd

Pensioner Directors

I R Fyfe, Deputy Chairman, age 70,
formerly General Manager,
BTR Pensions

M J Barker age 63,
Pensioner Representative
on the UKPCC

Committee membership

Investment Committee

K A O'Donovan
I R Fyfe
G C J Campion

Governance & Audit Committee

A G Gajadharsingh
M J Barker
C P Parker (to 1 August 2005)
R G Walker (appointed 8 September
2005)

Company Liaison Standing

Committee (formed 30 April 2006)
K A O'Donovan
I R Fyfe
N B Casson (General Manager and
Secretary to the Trustee)

Changes to Board in Scheme year

Other Directors who served during
the Scheme year were:

P S Larson (appointed 1 June 2005;
resigned 8 December 2005)

V A G Legg (appointed 16 September
2002; resigned 16 September 2005)

C P Parker (appointed 14 September
2000; resigned 1 August 2005)

The Trustee Board wishes to place
on record its thanks to the above
for their services to the Scheme.

Find out more about your pension scheme by visiting:
www.invensyspensions.co.uk

Please keep the Scheme informed if you change your address. If you are a pensioner or a deferred member a form is available from Invensys Pensions or the website for you to complete. For active members please contact your HR department.

Scheme administration

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New Bridge Street West
Newcastle upon Tyne
NE99 1TG

Phone: 0191 206 1035

Fax: 0191 206 1011

e-mail: enquiries@invensyspensions.co.uk

Members who require further information about the Scheme or their own pension position should write to Invensys Pensions at the above address.

Events Calendar

DATE	EVENT
AUGUST 2006	ISSUE OF SCHEME REPORT AND ACCOUNTS
NOVEMBER 2006	ISSUE OF AUTUMN 2006 PENSION NEWS
31 MARCH 2007	END OF SCHEME FINANCIAL YEAR
APRIL 2007	ISSUE OF SPRING 2007 PENSION NEWS