

Invensys Pension Scheme

# Annual Review & Summary Funding Statement

# 2007

## Highlights of the year

- Special Company contributions continued to help Scheme deficit
- Scheme deficit estimated at £209m at March 2007
- Investments continue to be diversified
- Defined Contribution Section open from April 2007

## Chairman's statement

Your Scheme continues to strengthen and provide a better outlook for the future.

**This year's Report & Accounts to 31 March 2007 reflects an improved financial and actuarial position. The work the Trustee has done over the past four years, together with the improved financial situation of the Company, has led to a more secure pension scheme and has provided a better outlook for the future.**

The Actuary undertakes an annual review for the Board, which provides a reasonable estimate of the funding position at 31 March 2007. The report showed that the deficit has reduced to £209m, which means that we estimate that 95% of the future liabilities of the Scheme are now funded. Whilst this is not yet a fully funded Scheme we have agreed a funding plan with the Company and instigated changes to investment strategy that aim to afford us the best chance of reaching that position over the next eight years.

In addition I am pleased to report that the Company has had its credit rating improved following a further set of good financial results for the year to 31 March 2007. For the last two years we have had the financial covenant of the Company independently verified and this improving credit position gives further comfort to your Board of the ongoing viability of the Company and its ability to support the Scheme in line with the funding plan agreed last year.

You will have seen in the Spring newsletter the proposals we agreed with the Company regarding the constitution of the Board and the selection of the Member Nominated Directors. The Governance & Audit Committee has worked throughout the first half of this year to arrange the election of new Member Nominated Directors and the new Board will be in place for the September Board meeting. We believe this new Board structure will be more reflective of the current membership constitution and will provide all members with the opportunity to be involved with and communicate with the Board whenever necessary. There have also been a number of changes to the Company Representatives and I want to take this opportunity to thank all past and present Directors for the effort and support they have put into managing your Scheme.

2007/08 will see the commencement of work towards the next full Triennial Valuation and we will then discuss with the Company the status of the funding rate and a revised funding plan for the coming years. As ever the Trustee will aim to ensure the ongoing security of the Scheme for all members into the future.



**Kathleen O'Donovan**  
Chairman of the Trustee of  
the Invensys Pension Scheme

## Financial results

for the year end 31 March 2007

<b>Income</b>	£m
Employer's contributions	47.2
Members' contributions	0.7
Investment income	140.8
	<b>188.7</b>
<b>Expenditure</b>	
Pensions and benefits paid to members	202.2
Payments to leavers	23.1
Administration and investment expenses	4.0
	<b>229.3</b>
<b>Fund value at beginning of year</b>	<b>4,002.2</b>
Change in value of investments	(123.1)
Difference between income and expenditure	(40.6)
<b>Fund value at end of year</b>	<b>3,838.5</b>

## Investments

	31 March 2007 £m
Fixed interest securities	1,951.0
Equities	825.1
Index-linked securities	1,198.7
Managed and unitised funds	18.2
Cash items	(226.0)
Additional voluntary contributions & transfer-in investments	10.6
Other	6.9
	<b>3,784.5</b>
<b>Fixed assets</b>	<b>0.1</b>
<b>Current assets and liabilities</b>	<b>53.9</b>
<b>Fund value at end of year</b>	<b>3,838.5</b>

## Investment report

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

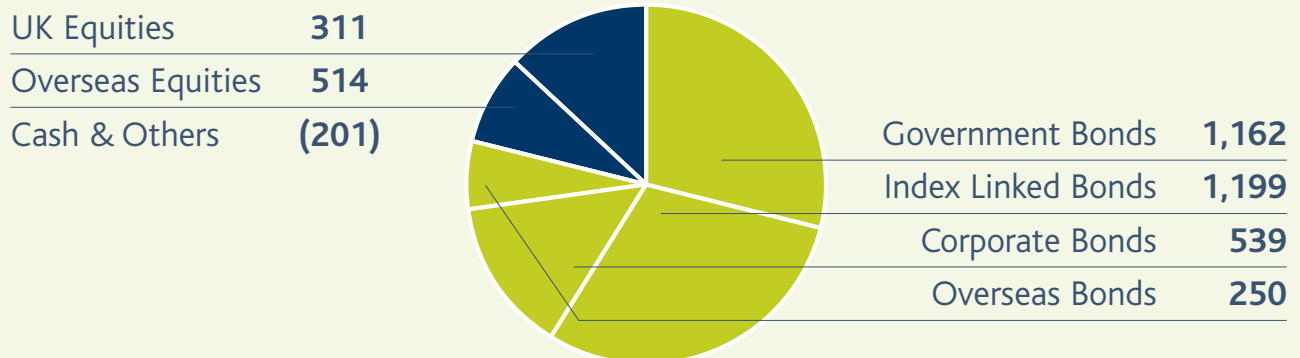
Following the Funding Agreement with the Company in March 2006 the Trustee, following consultation with the Company, amended its investment strategy to increase the Scheme's bond holdings to 80%, which are approximately matched to the Scheme's liabilities.

This was executed between May and August 2006. The change was considered necessary as bond returns provide the best match for Scheme liabilities and their performance has a high correlation with the known future liabilities of the Scheme.

The changes during the year were intended to reduce investment risk to the Scheme. This was undertaken by reducing the allocation to non-matching assets, such as equities, together with increasing diversification of the types of investment and the number of managers utilised. The key element of the strategy is to ensure that the Scheme reduces all known and avoidable risks.

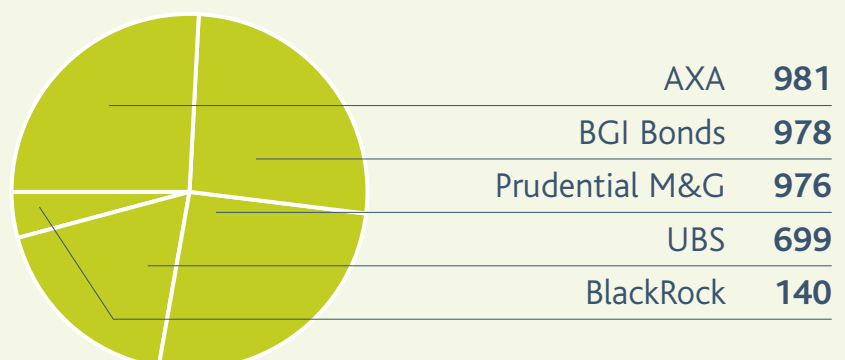
### Distribution of assets by type (£m)

as at 31 March 2007



### Distribution of assets by investment manager (£m)

as at 31 March 2007



## Funding report

The Scheme's funding position was agreed as at 30 September 2005 by the Trustee and the Company, with the Technical Provisions (i.e. the Scheme's liabilities) amounting to £4,107m, giving a Scheme deficit of £325m. The Actuary will review this position annually. An Actuarial Report was completed as at 31 March 2007, this being one year after the previous Actuarial Report as at 31 March 2006, and issued to the Trustee at its meeting on 14 June 2007.

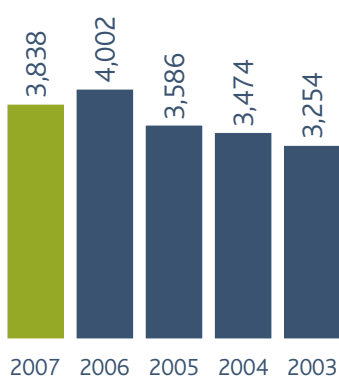
In accordance with the agreed Recovery Plan during the year the Scheme received the following deficit reduction contributions from the Company:

28 July 2006	£12.3m
30 September 2006	£10.0m
31 March 2007	£10.0m

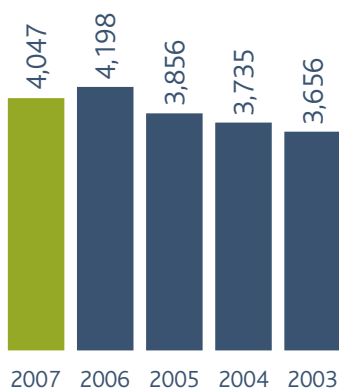
In total, contributions of £162m were received by the Scheme from the Company over the period 1 October 2005 to 31 March 2007, of which £137m were in respect of the deficit. In addition, there were benefit and expense payments of approximately £362m and market movements during the period (net of other cashflows) have increased the assets by £256m, resulting in Scheme assets of £3,838m.

Overall the effect of these movements, along with the approximate decrease in Technical Provisions, give rise to an improved funding level at 31 March 2007 of 95% (compared to 92% as disclosed in the Actuarial Valuation) and a deficit in the Scheme of £209m (£325m in the Actuarial Valuation).

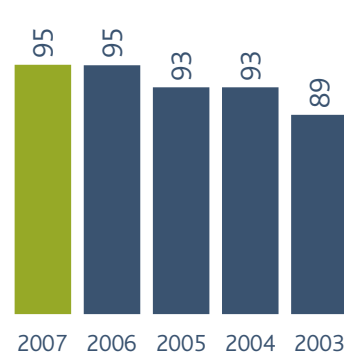
Value of pension fund (£m)



Value of Scheme liabilities (£m)



Scheme funding levels on an ongoing basis (%)



## Trustee Board



TOP ROW, LEFT TO RIGHT KATHLEEN O'DONOVAN, ANTHONY GAJADHARSINGH, STEVE McDONNELL  
 MIDDLE ROW, LEFT TO RIGHT ELEANOR WHITFIELD, KEITH IRELAND, RUSSELL WALKER  
 BOTTOM ROW, LEFT TO RIGHT IAN FYFE, MARTIN BARKER, TONY FERRIS

The Trustee and the Company have reviewed changes to the Board structure to reflect the new requirements of the 2004 Pensions Act and the changing membership profile of the Scheme. Changes have been made to the Board structure and the selection process of Member Nominated Directors (MNDs). In future the Board will be made up of nine Directors, four Company Nominated Directors and five MNDs. Of the five MNDs three will be Pensioner members and the remaining two will be Active members. The Company will nominate its representatives as before and will be responsible for appointing the Chairman from the total Board.

The Board members at 13 September 2007 were:

**Appointed by Invensys plc**  
**K A O'Donovan**, Chairman, age 50

**A G Gajadharsingh** age 41,  
 VP – Strategy & Planning,  
 Invensys plc

**S C McDonnell** age 44,  
 Head of Group Tax, Invensys plc

**E K Whitfield** age 42,  
 VP Legal – Invensys Rail

**Nominated by UKPC**  
**K F Ireland** age 53,  
 Sales Support Manager, APV UK  
**R G Walker** age 60, Engineer,  
 Westinghouse Rail Systems Ltd

**Pensioner Directors**  
**I R Fyfe**, Deputy Chairman, age 71,  
**M J Barker** age 64,  
**A G Ferris**, age 64.

**Committee membership**  
**Investment Committee**

K A O'Donovan  
 I R Fyfe  
 G C J Campion (to 8 March 2007)

**Governance & Audit Committee**

A G Gajadharsingh  
 M J Barker  
 R G Walker  
 E K Whitfield (appointed  
 21 March 2007)

**Company Liaison Standing Committee**

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:  
**G J C Campion** (appointed 30 June 2003; resigned 8 March 2007)

**D A O'Keefe** (appointed 15 December 2005; resigned 10 March 2007)

Since the end of the Scheme year further changes have occurred:

**P J Tompkins** (appointed 21 May 2003; resigned 31 March 2007)

**J Rae** (appointed 16 March 2006; resigned 14 June 2007)

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

## Summary Funding Statement

### Summary Funding Statement following the Actuarial Review as at 31 March 2007

This Statement is for information purposes only. It does not require you to take any action.

#### Purpose of statement

This statement is issued on behalf of the Trustee of the Invensys Pension Scheme ("the Scheme"), with the aim of providing information about the Scheme's funding position. This information is now required under the Pensions Act 2004 to be provided to all members by the Trustee and is produced on an annual basis.

#### Latest Scheme Valuation

The latest Valuation of the Scheme was carried out as at 30 September 2005. The funding position at that date was:

	£m
Market value of assets	3,782
Value of past service liabilities	4,107
Past service shortfall	(325)
Funding level	92%

To eliminate this shortfall Invensys plc paid a special contribution of £105m on 31 March 2006, and agreed to pay further deficit reduction contributions as follows:

DUE BY	AMOUNT
30 September 2006	£10.0m
31 March 2007	£10.0m
30 September 2007	£10.0m
31 March 2008	£10.0m
30 September 2008	£18.0m
31 March 2009	£18.0m
30 September 2009	£18.5m
31 March 2010	£18.5m
30 September 2010	£19.0m
31 March 2011	£19.0m
30 September 2011	£19.5m
31 March 2012	£19.5m
30 September 2012	£20.0m

DUE BY	AMOUNT
31 March 2013	£20.0m
30 September 2013	£20.5m
31 March 2014	£20.5m
30 September 2014	£21.5m

A copy of the Recovery Plan has been submitted to the Pensions Regulator.

#### More up-to-date information

All deficit reduction contributions due have been paid on schedule as detailed above.

Following the Valuation, the Scheme Actuary has produced reports showing the estimated funding position as at 31 March 2006 and 31 March 2007. The 2006 report showed the funding level was 95% with a shortfall of £203m and the 2007 report showed the funding level was also 95% with a shortfall of £209m. The Scheme Actuary has also confirmed the deficit reduction contributions remain adequate.

#### Change in funding position

The following principal factors have affected the funding position of the Scheme since the last Report date of 31 March 2006, by the approximate amounts shown:

	£m
Special company contributions in respect of the deficit	32
Returns on the Scheme's investments	18
Other factors (including changes in interest rates, expected future inflation and membership)	(56)

Overall, it is estimated that these factors have led to a decrease in the Scheme's funding position of around £6m.

## Summary Funding Statement *continued*

### Solvency funding position

As at 30 September 2005 it was estimated that the amount required to secure the benefits of the Scheme in full with an insurance company in the event of the Scheme winding up was £5,560m, i.e. a shortfall of £1,778m. This figure is just an indication and does not imply that the Trustee or Invensys plc are considering winding up the Scheme.

### Payments to Invensys plc

There has not been any payment made to Invensys plc or any of its subsidiary companies out of Scheme funds in the past 12 months.

### Notes

#### 1) Operation of the Scheme

This statement is in respect of the Final Salary section of the Invensys Pension Scheme. Within this section money to pay for members' pensions is held in a common fund and it is not held in separate funds for each individual. The Trustee's objective is for the fund to be sufficient to pay pensions now and in the future.

Active members pay a fixed percentage of earnings to the Scheme (deducted from pensionable earnings) whilst Invensys plc pays the balance of the amount needed to meet the Trustee's objective. The Trustee obtains regular Valuations of the benefits earned by members, at least every three years. Using this information, the Trustee comes to an agreement with Invensys plc on the level of future contributions to be paid. Successfully achieving the Trustee's funding

objective relies on Invensys plc continuing to support the Scheme.

#### 2) What would happen if the Scheme started to wind up?

If the Scheme winds up in the future, you might not get the full amount of pension you have built up even if the Scheme is fully funded under our ongoing funding objective. Invensys plc would be required to pay enough into the Scheme to enable members' benefits to be completely secured with an insurance company. If Invensys plc became insolvent and was unable to pay this amount in full, the Pension Protection Fund ("PPF") might be able to take over the Scheme and pay compensation to members. Further information and guidance is available on the PPF's website at [www.pensionprotectionfund.org.uk](http://www.pensionprotectionfund.org.uk). Alternatively, you can write to the Pension Protection Fund at Knollys House, 17 Addiscombe Road, Croydon, Surrey CR0 6SR.

#### 3) What is the Scheme invested in?

The Trustee's policy is to invest in a broad range of assets. The allocation of funds at 31 March 2007 is set out below:

	%
Cashflow Matching Fund	49.6
Immunisation Fund	28.2
Higher Performance Fund	22.2
Total	100.0

#### 4) Leaving the Scheme

If you are thinking of leaving the Scheme for any reason, you should consult a professional advisor, such as an independent financial advisor, before taking any action.

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

**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

Invensys Pensions  
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New Bridge Street West  
Newcastle upon Tyne  
NE1 8AN  
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Fax: 0191 206 1011  
e-mail: [enquiries@invensyspensions.co.uk](mailto:enquiries@invensyspensions.co.uk)

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