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# Trustee's Annual Report & Financial Statements 2006

# Trustee Charter

## The Trustee will:

- Act in accordance with the Scheme's governing documents and the law.
- Act in the best interests of the members at all times, taking into account the position of each class of member.
- Act prudently, honestly, with integrity and in good faith having taken appropriate professional advice.
- Seek to secure members' benefits by managing Scheme funds effectively.
- Communicate to all members regularly and in a clear and concise way.
- Deliver a high level of service to all members.

## Contents

1	Chairman's review	19	Trustee responsibilities	32	Members' information
4	Trustee Board	20	Auditor's report	ibc	Glossary
6	Scheme advisers	21	Statement about contributions		
7	Trustee's report	22	Summary of contributions		
12	Investment report	23	Actuarial certificates		
15	Funding position	24	Fund account		
16	Recovery plan	25	Net assets statement		
17	Scheme governance	26	Notes to the financial statements		
18	Compliance statements				

# Improved Scheme funding and reduction in Scheme deficit

1

**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.**

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.

Following detailed negotiations with the Company, which have been reported to you through our newsletters and accounts over the

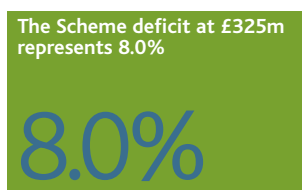
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## Highlights of the year

- 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

last two years, 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 using the new powers of the 2004 Pensions Act. These powers mean that the Company now needs



2

to agree with the Trustee how the Scheme should be funded and hence what contributions should be paid. 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%). This improvement reflects the impact of good investment returns, plus the additional special contributions negotiated with the Company in 2003 and paid in over the last two years, offset by lower interest rates and therefore lower discount rates, and increased life expectancy.

In the light of these results, the Company agreed to make an immediate contribution of £105m to the Scheme. Following this first payment

the funding position has been estimated at 31 March 2006 at £203m as described on page 15 of this Report.

Further special contributions will be made at six monthly intervals with the intention of recovering the current deficit within nine years. The Trustee is especially pleased that the new funding plan promises to pay into the Scheme special contributions totalling £163m within three years, equivalent to half the current deficit.

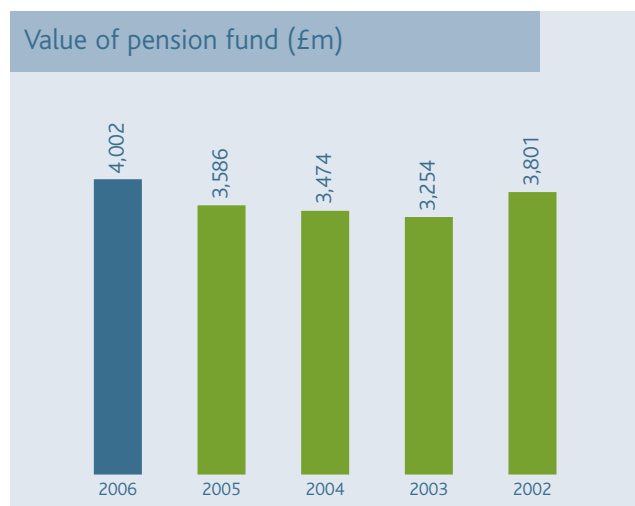
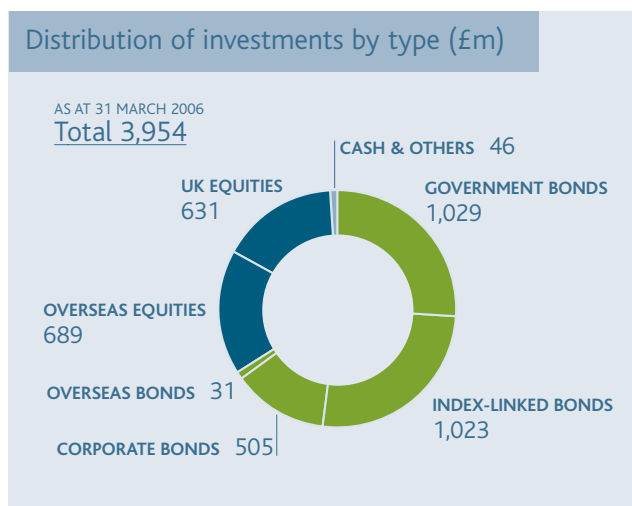
These special contributions will be in addition to the Company's regular contributions of 24.3% of payroll in respect of the active members.

The Company has also agreed to contribute to the Scheme at least 8% of the net proceeds from any business sold, provided the net proceeds exceed £1m, and subject to any Pensions Act requirements.

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.

## The year in summary



***“The Company agreed to make an immediate contribution of £105m to the Scheme”***

We will continue to monitor our actual progress against these assumptions and the Scheme will complete another triennial Actuarial Valuation in 2008, when performance and assumptions will be fully reappraised.

As part of this agreement the restrictions of the Trustee’s investment powers have been removed enabling the Trustee to invest the Scheme’s assets in line with the new funding plan. As a result the Trustee has agreed that it will no longer need to seek guidance of the Court with regard to its investment powers, and we have therefore rescinded our decision to apply for a Court hearing.

This agreement on funding and investment has been reached after the Trustee has taken significant advice from the Scheme’s actuarial advisers, Punter Southall, Norton Rose our legal advisers and PSolve, our investment consultants. We also received independent financial advice from PricewaterhouseCoopers, who reported on the financial status of the Company following discussions with management.

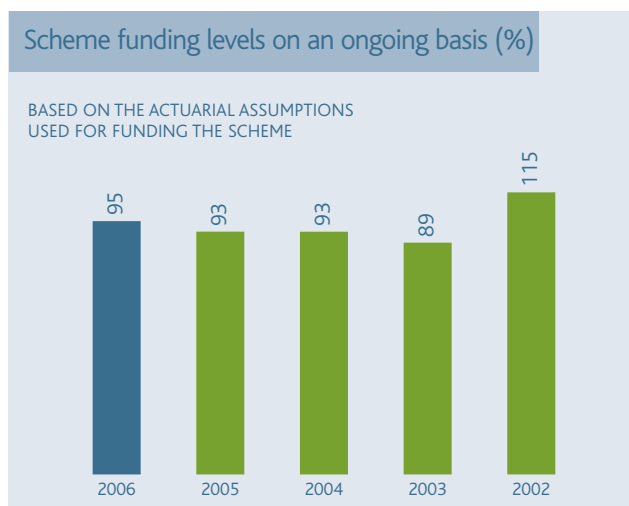
We have kept the Pensions Regulator’s office informed of the process and we understand that this agreement meets the criteria set out in the Pension Regulator’s guidance notes regarding the funding of defined benefit schemes.

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



**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)

# Trustee Board



4

**Kathleen O'Donovan (1)** A member of the Trustee Board since 1991 and appointed Chairman February 2003. As Chief Financial Officer of BTR and Invensys between 1991 and 2003 she has been deeply involved in the Scheme for many years. Previously a partner with Ernst and Young, Kathleen now holds a number of plc non-executive directorships.

**Anthony Gajadharsingh (2)** Qualified in Business and Finance and a member of the Institute of Chartered Secretaries and Administrators. With experience in the execution of large corporate transactions and the required management of lawyers and financial advisers, he led the sale of UKDCS to Invensys plc on behalf of its shareholders. After serving as Managing Director of IMServ, he is now SVP Business Development, Invensys Controls.

**Geoff Campion (3)** Geoff has worked for Invensys since 1988 and is currently employed as VP Finance for the Invensys Rail Business Group, having previously been Finance Director at Westinghouse Rail Systems Ltd since 1992. He is a CIMA Chartered Management Accountant.

**Peter Tompkins (4)** Peter is President of the Eurotherm Business Group. He has been with Eurotherm since 1973. He was appointed President of the Business Group in the year 2000. Prior to these global roles, Peter spent 11 years managing business units in mainland Europe. He has also held UK positions in research and development, project, manufacturing, sales and general management.

**Steve McDonnell (5)** Steve is Head of Group Tax for Invensys plc. He was

appointed to this role in October 2005 after joining the Company in January 2005. Prior to that he was in similar roles with Tibbett & Britten Group plc, Thorn Lighting and Laporte plc. Steve is a Chartered Accountant and a member of the Chartered Institute of Taxation.

**Douglas O'Keeffe (6)** Douglas has been an Assistant Financial Accountant with Invensys Controls UK since 1990. He has attended the trustee induction training run by Invensys Pensions and has been a member of the UKPCC for over five years.

**Keith Ireland (7)** Keith is working for the second time for APV UK having originally started in 1976 and returned in 1991. Following a number of engineering and sales support roles he is currently Sales Support Manager. He was a member

**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, (appointed 19 February 2003 as Chairman, as a Director 30 June 1991)

**A G Gajadharsingh** age 40, SVP Business Development, Invensys Controls (appointed 21 May 2003)

**G C J Campion** age 47, VP Finance, Invensys Rail Business Group (appointed 30 June 2003)

**P J Tompkins** age 59, Business Group President, Eurotherm Ltd (appointed 21 May 2003)

**S C McDonnell** age 43, Head of Group Tax, Invensys plc (appointed 9 March 2006)

**Nominated by UKPCC**

**K F Ireland** age 52, Sales Support Manager, APV UK (appointed 27 October 2005)

**D A O'Keeffe** age 64, Assistant Financial Accountant (appointed 15 December 2005)

**R G Walker** age 59, Engineer, Westinghouse Rail Systems Ltd (appointed 28 November 2002)

**J Rae** age 58, Cost Accountant, Eurotherm Ltd (appointed 16 March 2005)

**Pensioner Directors**

**I R Fyfe**, Deputy Chairman, age 70, formerly General Manager, BTR Pensions (appointed 22 May 1996)

**M J Barker** age 63, Pensioner Representative on the UKPCC (appointed 4 February 2004)



of the APV Pensions Consultative Committee prior to the Siebe merger and has been a member of the UKPCC since April 2000. He is a graduate Member of the Institute of Food Science and Technology.

**Russell Walker (8)** Russell has been an engineer with Westinghouse Rail Systems since 1973 and has worked in various engineering roles throughout the business. He has been a member of the Westben Pension Scheme, later part of the BTR and subsequently the Invensys schemes, throughout that time. In 1995 he was nominated to be a member of the South West regional PCC, and the national UKPCC in 1999. He has attended various pensions investment and financial training courses over this period, and holds the PMI Trustee Certificate.

**James Rae (9)** James is employed at Eurotherm as UK Cost Accountant. He has been with Eurotherm since 1979. He was a Trustee of the Eurotherm Pension Scheme for 12 years during which he attended various pensions courses, until it was merged with the Invensys Pension Scheme in 2001. He has been a member of the UKPCC since 2003 and was nominated by the UKPCC as a Member Trustee to the Scheme in April 2005.

**Ian Fyfe (10)** Ian is a Chartered Accountant and a Chartered Management Accountant. He spent 21 years in various financial and management roles in the Angus and Dunlop Groups. He then switched to pensions and managed the Dunlop Group Pension Scheme from 1982 until its merger with other BTR schemes in 1988. He then became General Manager of the BTR Group

Pension Scheme until his retirement in 1996. Since then he has served as a Director of the Trustee Company.

**Martin Barker (11)** Martin retired from Westinghouse Brake and Signal Holdings in 2001 after 35 years' service. His involvement in pensions commenced in 1972 when he became Pensions Manager with responsibility for the Westinghouse pension schemes. He became a trustee in 1973 and remained in control of the schemes until they were merged with the BTR Group Pension Scheme in 1993. He has also been involved over a number of years in various Group Consultative Committees, and chairing a number of them. He is an Associate of The Pensions Management Institute.

**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.

# Scheme advisers

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## The Trustee receives advice from a number of sources. The appointed Scheme advisers are listed below.

### Scheme Actuary

#### *D O Cule, Punter Southall & Co Limited*

Tempus Court, Onslow Street, Guildford GU1 4SS  
(resigned 14 June 2006)

#### *S M Leake, Punter Southall & Co Limited*

Tempus Court, Onslow Street, Guildford GU1 4SS  
(appointed 15 June 2006)

### Scheme Auditor

#### *Ernst & Young LLP*

Citygate, St James' Boulevard, Newcastle upon Tyne NE1 4JD

### Legal advisers

#### *Norton Rose*

Kempson House, Camomile Street, London EC3A 7AN

#### *Dickinson Dees Law Firm*

St Ann's Wharf, 112 Quayside, Newcastle upon Tyne NE99 1SB

### Investment adviser

#### *PSolve*

126 Jermyn Street, London SW1Y 4UJ

### Investment managers

#### *UBS Global Asset Management*

21 Lombard Street, London EC3V 9AH

#### *Schroder Investment Management Limited*

31 Gresham Street, London EC2V 7QA

#### *Barclays Global Investors Limited*

Murray House, 1 Royal Mint Court, London EC3N 4HH

#### *Merrill Lynch Investment Managers*

33 King William Street, London EC4R 9AS

#### *AXA Investment Managers UK Limited*

7 Newgate Street, London EC1A 7NX

#### *Prudential M&G*

Laurence Pountney Hill, London EC4R 0HH

### Custodians

#### *HSBC Bank plc*

HSBC Securities Services, Mariner House, Pepys Street, London EC3N 4DA

#### *PFPC Inc*

Alternative Investments Group, 103 Bellevue Parkway, 1st Floor, Wilmington, Delaware 19809, USA

### Bankers

#### *LloydsTSB Bank plc*

25 Gresham Street, London EC2V 7HN

**The Invensys Pension Scheme ("the Scheme") is a defined benefit occupational pension scheme that was established by a Trust Deed on 31 March 1988, consolidating the main BTR, Dunlop and Tilling Schemes then in operation. At that time the Scheme was named the BTR Group Pension Scheme. On 6 April 2000, the Scheme merged with the Siebe Pension Scheme and was renamed the Invensys Pension Scheme. The Third Definitive Trust Deed and Rules was adopted on 28 March 2006.**

**The sponsoring employer of the Scheme is Invensys plc ("the Company") whose address is Portland House, Bressenden Place, London SW1E 5BF.**

#### Trustee arrangements

Every pension scheme of this nature has trustees or a company whose directors act as trustees. The Trustee of the Scheme is Invensys Pension Trustee Limited and the Secretary is Invensys Secretaries Limited.

The Trustee, as a major part of its role, is responsible for the payment of benefits, safeguarding the assets of the Scheme and monitoring whether they are sufficient to meet its liabilities as they fall due. In the process of carrying out these responsibilities, it ensures that proper accounting records and controls are maintained by Invensys Pensions, in accordance with Trust Law, and takes such steps as are reasonably open to it to prevent and detect fraud and other irregularities.

The Trustee is also responsible for the preparation of audited financial statements showing a true and fair view of

the financial transactions of the Scheme during the Scheme year, and of the amount and disposition at the end of the year of the assets and liabilities, other than liabilities to pay future pensions and benefits after the end of the Scheme year.

The financial statements contain information specified in the Schedule to The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996. The Trustee has met its responsibilities in ensuring that contributions are made to the Scheme in accordance with Scheme Rules and, where appropriate, recommendations of the Actuary. During the year under review, the Trustee Board met four times.

#### Board structure

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 UKPCC and two are Scheme pensioners appointed by the other Directors. The appointing or nominating authority may also remove Directors from office, the Trustee may be removed by Invensys plc.

All decisions of the Trustee taken during the year under review arose from a consensus of opinion. However under the Articles of Association of the Trustee, decisions may be taken by a majority vote.

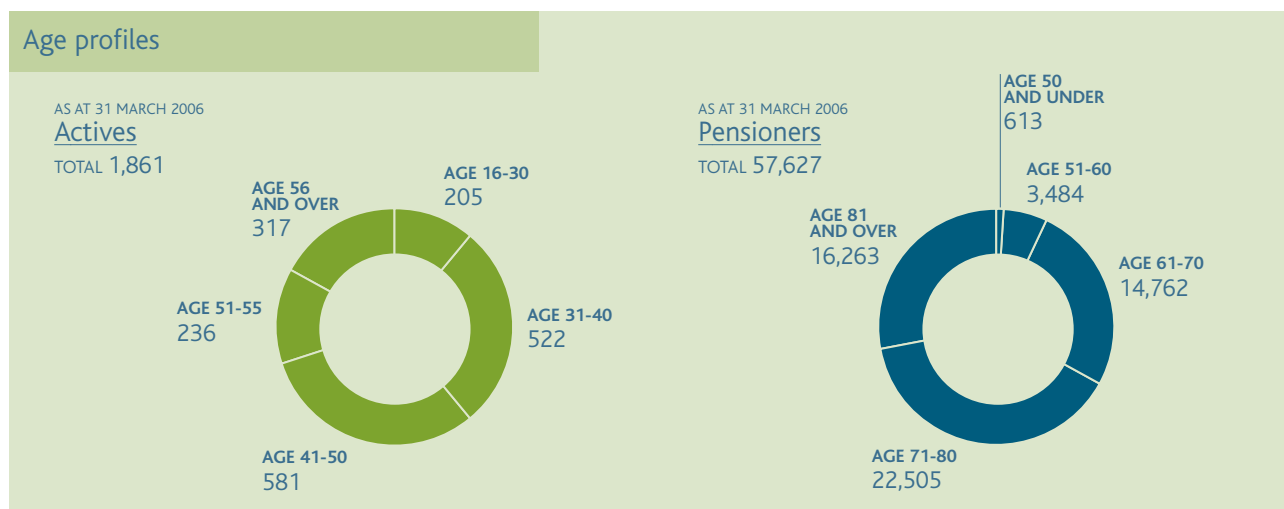
#### Committee structure

The Trustee Board has established two Committees in order to ensure efficient management of the Scheme.

The Investment Committee comprises Directors whose role is to review the development and implementation of appropriate strategies for the investment of the Scheme's assets and to obtain advice and make recommendations to the Trustee in respect of its investment responsibilities.

The Governance & Audit Committee consists of Directors whose objective is to review the Scheme's management of risk through the use of effective decision making processes and the adoption of pensions industry "best practice" in order to recommend to the Trustee Board any action it should take

## Member analysis



## Trustee's report (continued)

in respect of the governance of the Scheme. The Committee also reviews the annual financial audit and report of the Scheme's auditors.

Recently the Trustee has formed a Company Liaison Standing Committee in order to work directly with the Company on issues relating to Company policy and status.

These Committees make regular reports and proposals to the Trustee Board which authorises all actions taken. During the year the Investment Committee met on four occasions, and the Governance & Audit Committee eight times.

### The year in brief

On 31 March 2006 the value of the Fund was £4,002m (2005: £3,586m). The investment return on the assets was 14.0% (2005: 7.8%) against a benchmark of Scheme-specific performance indices that measured 14.2% (2005: 7.4%). Further details are provided in the Investment Report on pages 12 to 14.

The Scheme was closed to new members on 1 November 2004, and the Company now offers new employees membership of a contract based stakeholder pension scheme.

8

### Actuarial and funding position

The Actuary, who is independent, assesses the funding position of the Scheme, ie the balance between assets and liabilities. This Valuation is normally done formally and in detail every three years, with annual updates presented to the Trustee in other years.

During September 2005, the Trustee agreed to bring forward the Valuation due on 31 March 2006 to 30 September 2005, in order to consider with the Company the Scheme's funding position at the earliest opportunity following the introduction of new regulations under the Pensions Act 2004. Under this legislation the Trustee is responsible for setting the assumptions and the method for the Actuary to calculate the Technical Provisions, meaning the amount required by the Scheme to provide for the Scheme's liabilities on an ongoing basis. These Technical Provisions are then agreed by the Company.

Following discussions with the Actuary it was agreed to use the Projected Unit method with a nine year control period, which

the Actuary believed was the most appropriate and prudent.

The Trustee reviewed various assumptions used by the Actuary in determining the possible basis for calculation of the Technical Provisions. The Trustee determined and agreed with the Company that the following key assumptions should be used:

- A discount rate linked to the yield on A-rated corporate bonds, which is equivalent to the yield on long dated fixed interest government securities plus 0.9% pa.
- An inflation assumption of 2.8% pa, together with an assumption of 3.3% pa for pension increases of LPI with a minimum of 3% pa.
- A mortality assumption in line with the standard mortality table of PA92 (year of birth) Medium Cohort, with a 126% loading to the mortality rates.
- Commutation terms will be 15% below the funding basis.

The agreed assumptions gave rise to the value for Technical Provisions at 30 September 2005 of £325m greater than the corresponding value of market assets at that date.

The Trustee has set out a Statement of Funding Principles stating its policy on meeting the Statutory Funding Objective of having sufficient assets to meet the Scheme's Technical Provisions. As a result, the Trustee agreed with the Company a Recovery Plan, setting out the agreed funding to meet the Technical Provisions.

This Recovery Plan committed the Company to maintaining a series of special contribution payments as laid out on page 16.

Furthermore, there would be amendments made to the Trust Deed confirming that the Statement of Investment Principles would be required to follow the objectives of the Statement of Funding Principles and the removal of the investment restrictions introduced by the Deed of Amendment dated 27 June 2003.

The Trustee believes that this package will provide a funding plan for the Scheme that will be prudent and appropriate. It will provide an immediate increase in funding for the Scheme, and a realisable plan for meeting the Statutory Funding Objective in the future. This plan includes revisions to the investment strategy of the Scheme to reflect the underlying funding arrangements.

## Member analysis (continued)

### Changes in membership during the year

	ACTIVES	DEFERREDS	PENSIONERS
<b>AS AT 31 MARCH 2005</b>	<b>3,466</b>	<b>44,559</b>	<b>58,523</b>
NEW ENTRANTS	—	1,364	1,853
DEATHS	(2)	(105)	(2,749)
RETIREMENTS	(110)	(941)	—
LEAVERS	(1,493)	(5,481)	—
<b>AS AT 31 MARCH 2006</b>	<b>1,861</b>	<b>39,396</b>	<b>57,627</b>

***“The Trustee believes that the agreement with the Company will provide a funding plan for the Scheme that is prudent and appropriate”***

- (a) the Scheme’s Statement of Investment Principles will contain a statement of the Scheme’s targeted rate of investment return, to be consistent with the last agreed Statement of Funding Principles;
- (b) the Statement of Investment Principles will contain a statement of the Scheme’s investment strategy, which, on the basis of investment advice, will need to be consistent in all material aspects with the targeted rate of investment return;
- (c) the Trustee will then be obliged to exercise its investment powers in a way which is materially consistent with this investment strategy, although in exceptional circumstances it will be possible to derogate from this restriction for temporary tactical investment reasons or for purposes of transition.

In addition, the agreement requires the Company to provide the Trustee with various information including notification of any covenant default and material changes in the contribution rates to the US pension schemes.

On the basis of the above agreement the Trustee agreed not to pursue any court guidance resulting from 2003 and 2005 Deeds of Amendment.

The Scheme Actuary’s statement is on page 23.

**The National Fraud Initiative**

The Trustee along with other organisations is taking part in the Audit Commission’s National Fraud Initiative 2006. This initiative checks the data the Scheme holds against registered deaths. This is to identify cases where pensions are still being paid despite the pensioner’s death. This data matching exercise meets the requirements of the Data Protection law and the Audit Commission will process the data for this purpose only.

The Trustee has a duty to provide benefits only in accordance with the provisions of the Scheme Rules. This review under the National Fraud Initiative is being dealt with sensitively to ensure any genuine misunderstandings by relatives of the deceased pensioners are satisfactorily resolved. However, any cases which appear to be incidences of potential fraud will be referred to the authorities for further investigation.

The Trustee’s policy on fraudulent cases is that after

reviewing the information and data supplied about individual cases it appears to Invensys Pensions staff that a pension may have been fraudulently claimed or information provided to Invensys Pensions has been given in a fraudulent manner, then it is the policy of the Trustee that all relevant papers should be passed to the Police to consider whether there is a case for prosecution. Invensys Pensions will give every possible support to the Police in establishing and, if necessary, prosecuting any fraud that has occurred.

**Administration, advisers and investment management**

The Trustee can be contacted through the Invensys Pension Scheme’s administration office (Invensys Pensions) at the address on page 32. Details of the advisers and investment managers who worked with the Trustee during the year are also listed on page 6.

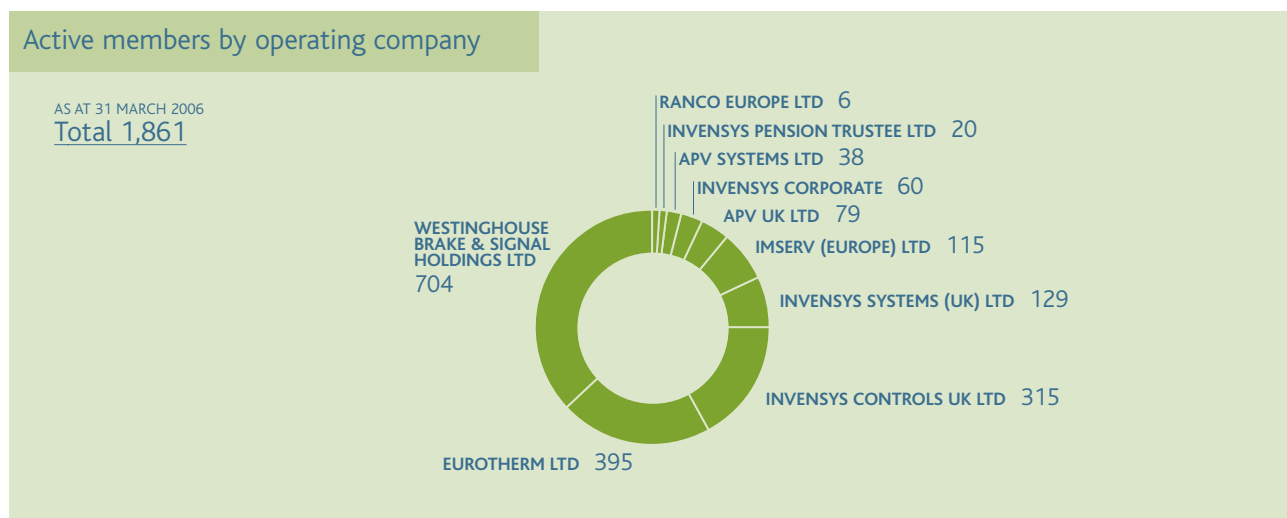
The General Manager of the Invensys Pension Scheme is Mr N B Casson and the Pensions Manager is Mr M D Leggett, who are employed by the Trustee and can be contacted at Invensys Pensions.

**Pension increases and transfer values**

Under the Scheme Rules pensions in payment (except for the Guaranteed Minimum Pension (GMP) portion) are increased annually by reference to the percentage change in the Retail Prices Index (RPI) over a 12 month period measured to the end of December in each year. For members who joined the Scheme before 6 April 2000, the increase will generally be a minimum of 3% and a maximum of 5%. This guaranteed increase has in the past been augmented by a series of discretionary bonuses paid between 1988 and 2001 (subject to Scheme and HM Revenue & Customs limits). These bonuses have been:

**DISCRETIONARY BONUS AWARDS**

1988	10%
1990	5-25% DEPENDENT ON RETIREMENT DATE (AVERAGE 16%)
1992	5%
1995	4-50% DEPENDENT ON RETIREMENT DATE (AVERAGE 5.5%)
1998	4%
2001	3%



Over the period since 1988, guaranteed and discretionary increases awarded together have comfortably exceeded inflation and the position of longer-retired pensioners has been additionally enhanced.

GMPs are increased in accordance with Pension Increase Orders by HM Government that are based on RPI movements between September and September. These increases apply solely to pensioners who have reached State pension age.

The percentage change in RPI to the year 31 December 2005 was 2.2%, resulting in payment in pensions being generally increased by 3% on 1 April 2006. GMPs in payment and related to the period 6 April 1988 to 5 April 1997 were increased by 2.7% on the same date.

Transfer values are calculated in accordance with the provisions of the Pension Schemes Act 1993 on a basis agreed between the Trustee Board and the Actuary. The amount available for transfer is the cash equivalent of a member's benefits excluding those that may be payable at the discretion of the Trustee or the Company.

10

## Consultation and nomination of Directors

The Company has, for many years, maintained a highly successful communication process whereby it consults with active Scheme members on a number of pension issues. Each participating employer in the Scheme has allocated to it one or more Members' Representatives who join with the Company and Pensioner Representatives to form the UKPCC (see table at bottom of page 11) which meets at regular intervals. At each meeting Scheme managers update members on current Scheme issues including funding and investment performance.

A very important role of the UKPCC is to nominate four of its Members' Representatives to become Directors of the Trustee. This arrangement for meeting the "member-nominated trustee" legislation continues until 31 October 2007. The Trustee retains power under the Pensions Act 1995 to seek re-endorsement of this arrangement by the membership at any time if it feels that subsequent events have rendered it no longer appropriate.

## Trustee training, knowledge and understanding

The Pensions Act 2004 has placed a duty on the Trustee and its Board of Directors to undertake training to ensure they have knowledge and understanding of their duties and responsibilities. A Code of Guidance has been issued by the Pensions Regulator. The Trustee has every intention of complying with the guidance procedures and has already placed great emphasis on the training of Board Directors, this includes the e-learning programme provided by the Pensions Regulator. The Trustee has a formal policy on training and during the year each Director undertook an average of two days training using external courses and in-house collective Board training.

## Disputes and complaints procedure

Invensys Pensions operates an Internal Dispute Resolution procedure in accordance with the provisions of the Pensions Act 1995. Before a formal complaint is considered members are advised to contact the Scheme management to see if the matter can be resolved informally.

During the course of the Scheme year under review no formal complaints were received by Invensys Pensions on behalf of the Trustee. Details of the procedure are available from Invensys Pensions whose address is given on page 32.

## Bulk transfers out

As a result of sales of businesses of Invensys plc, there are potential future bulk transfers amounting in aggregate to approximately £3.3m (based on conditions as at 30 June 2006). The value of these transfers of assets is calculated in accordance with the Scheme Rules.

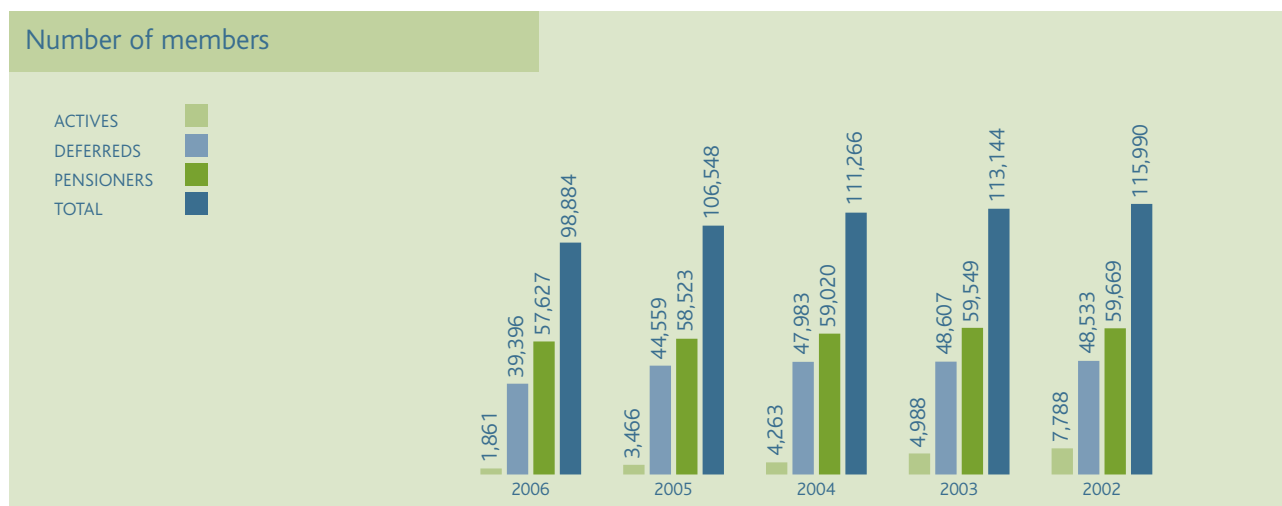
## Trustee attendance

During the year ended 31 March 2006 the Board held four regular meetings on a quarterly basis. At all meetings there was a minimum of nine of the 11 Directors present and over the whole year the Board achieved a 95% attendance record.

## Remuneration policy

The Board's policy on remuneration for Directors is that payment should be received for undertaking the role and responsibility

# Member analysis (continued)



## **"A very important role of the UKPCC is to nominate four of its Members' Representatives to become Directors of the Trustee"**

as a Director of the Trustee company either directly from the Company or as a payment from the Trustee company.

During the year ended 31 March 2006 the following payments were made:

- 1 Chairman – receives an annual salary.
- 2 Pensioner Directors – receive a per diem rate.
- 3 Company Nominated Directors are remunerated by the Company.
- 4 Member Nominated Directors – are remunerated by the Company. In certain circumstances, ex-gratia payments have been made by the Company to recognise the extra time involved in undertaking their roles and responsibilities as Trustee Directors, although no payments have been made in the Scheme year.

### **Pensions Act 2004**

Changes to the Scheme and its administration have been made to ensure it fully complies with the 2004 Pensions Act.

### **Finance Act 2004**

Changes were made to the Scheme's benefit structure for active members by the Company to ensure compliance with the 2004 Finance Act.

### **Myners Principles**

The Scheme has recognised and acted upon the principles contained in the Myer report and the subsequent report by HM Treasury in December 2004.

### **Socially responsible investment**

Since July 2000, all pension funds have to express a view in their Statement of Investment Principles on how – if at all – they consider social, environmental and ethical matters in their investment strategies.

This area is sometimes referred to as "ethical investing". It requires the Scheme to reveal how it assesses investments in, for example, tobacco or arms companies; cosmetic and drug manufacturers that use animal testing; companies that pollute the environment; and those that have operations in countries with a poor human rights record.

In considering these issues the Trustee has to remind itself that its primary objective and, indeed, legal obligation is to ensure that the Scheme's assets are invested so that benefits due to each member can be paid as they arise. By specifically excluding any of the potential investments mentioned above, the Scheme may miss out on some of the better performing assets in the economy, with obvious consequences for the value and growth of the Fund.

Having given due consideration to these matters, the Trustee has concluded that responsibility for day-to-day stock selection must rest with the Scheme's investment managers. In turn, the investment managers must take social, ethical and environmental issues into account where they feel they will make a difference to fund performance. They must report their actions to the Trustee who will monitor the decisions taken on a regular basis.

### **Voting policy**

In addition, pension schemes are also required to state their policy on the use of the voting rights that are available to them as significant holders of company shares. This is referred to as "corporate governance".

Having considered this issue, the Trustee has again concluded that the day-to-day responsibility for this should be delegated to the Scheme's investment managers since they have contact with the companies concerned and can vote in order to get best performance from the shares held. They must report their actions to the Trustee who will monitor the decisions taken on a regular basis.

11

For and on behalf of Invensys Pension Trustee Limited

Signed:

Chairman

Date: 20 July 2006

## **United Kingdom Pensions Consultative Committee (UKPCC)**

The UKPCC at 31 March 2006

**STEVE JONES CHAIRMAN** HEAD OF EXECUTIVE PROGRAMMES (INVENSYS PLC)

### **MEMBERS' REPRESENTATIVES**

MIKE BELT	APV SYSTEMS LTD
STEVE CHAPMAN	WESTINGHOUSE RAIL SYSTEMS LTD
RICHARD EVERITT	WESTINGHOUSE RAIL SYSTEMS LTD
KEITH IRELAND	APV SYSTEMS LTD
LYNDA MANNING	IMSERV (EUROPE) LTD
DOUGLAS O'KEEFFE	INVENSYS CONTROLS UK LTD
JAMES RAE	EUROTHERM LTD
MIKE SWEET	INVENSYS CONTROL UK LTD
COLIN TOWNSEND	INVENSYS SYSTEMS (UK) LTD
RUSSELL WALKER	WESTINGHOUSE RAIL SYSTEMS LTD
DAVID WRIGHT	EUROTHERM LTD

### **COMPANY REPRESENTATIVES**

NICOLA CRISP	WESTINGHOUSE RAIL SYSTEMS LTD
LORRAINE HOSKING	INVENSYS CONTROLS UK LTD
MERYL BENGTTSSON	APV SYSTEMS LTD
PETER WYLD	EUROTHERM LTD

### **PENSIONER REPRESENTATIVE**

MARTIN BARKER

# Investment policy reflects mature nature of the Scheme

12

**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, ensures 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.

## Economic background and market review

Equity markets continued to rise in the year to 31 March 2006, although falls in global equity market values in the second quarter of 2006 have again emphasised the volatility of this sector. Bond yields have steadily declined for a number of quarters, with longer dated real yields reaching an all time low in January 2006. Since then perceptions of over valuation coupled with new issuance in the UK have resulted in a rise in real yields.

### Investment manager mandates

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	686
BGI EQUITIES	314
SCHRODERS	203
MLIM	130
CASH & OTHERS	7
	<b>3,954</b>

## "The Scheme kept to its maximum limit of investing 70% of its assets in bonds"

### Investment strategy

During the Scheme year, the Scheme's investment strategy was limited due to restrictions in the Trust Deed and the Scheme kept to its maximum limit of investing 70% of its assets in bonds. Following the funding agreement with the Company, the strategy was amended to increase the Scheme's bond holdings to 80%; this transition will occur between May and July 2006. The Trustee also intends to consider a re-allocation of the remaining portfolio currently invested in equities and an absolute return fund.

### Investment structure and managers

#### 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.

#### Significant portfolio changes

In April 2005, £200m of equities were sold and the proceeds invested with the three specialist bond managers. This brought the proportion of bonds up to 70% and further reduced the investment risk within the Scheme.

During the year the relative rise in equity markets compared to bonds reduced this figure to around 65% bonds.

During May 2006, £292m in equities were sold and the

proceeds transitioned to bond investments; in June and July a further £200m (approximately) in equities will be sold and again transferred and given to our bond managers for investment. This is expected to bring the bond holdings of the Scheme up to 80% of its total assets.

### Investment manager mandates

The mandates agreed with the investment managers (save for BGI UK equity and global equity which are managed on a passive basis) set out-performance targets over rolling three year periods and are shown in the table at the bottom of page 12.

The Scheme specific liability benchmark is calculated by the Investment Adviser, using prevailing bond yields, as the change in value of the projected future cashflows of the Scheme provided by the Actuary.

In May 2006, the Cashflow Matching Bonds benchmark was increased to Scheme specific liability benchmark plus 0.35%. A number of restrictions in the mandates for the Cashflow Matching and Immunisation Bond portfolios were relaxed to allow investment managers to use a variety of financial instruments to meet their targets.

### Investment manager performance

The investments are managed, under the guidance of the Trustee, by independent investment managers. The market values held by each as at 31 March 2006 are shown in the table below.

### Investment manager commentary

Investment return of 13.97% did not meet the Scheme benchmark of 14.17%, and the managers did not meet the additional outperformance targets set by the Trustee of 15.92%.

The Scheme's Investment Managers are continuously reviewed over a 36 month rolling period. Longer periods of review are essential due to our funds differing investment mandates; for instance, whilst the UBS UK fund has substantially underperformed this year, it significantly outperformed in previous years where its focus on longer term value stocks countered the general uncertainty in the market.

13

## Investment manager performance

INVESTMENT MANAGER	HOLDINGS AT 31 MARCH 2006		INVESTMENT RETURN % 12 MONTHS TO 31 MARCH 2006			INVESTMENT MANAGER	HOLDINGS AT 31 MARCH 2006		INVESTMENT RETURN % 12 MONTHS TO 31 MARCH 2006		
	% OF TOTAL	£M	ACTUAL (%)	BENCHMARK (%)	TARGET (%)		% OF TOTAL	£M	ACTUAL (%)	BENCHMARK (%)	TARGET (%)
<b>CASHFLOW MATCHING FUND</b>						<b>HIGHER PERFORMANCE FUND</b>					
AXA	15.2	600	9.25	9.24	9.49	BGI (UK EQUITY)	2.3	91	27.79	28.00	28.00
BGI	15.1	599	9.42	9.24	9.49	SCHRODER (UK EQUITY)	5.1	201	26.44	28.00	30.00
M&G PRUDENTIAL	15.0	593	9.46	9.24	9.49	UBS (UK EQUITY)	7.6	299	23.23	28.00	30.00
CASHFLOW MATCHING FUND	45.3	1,792	9.38	9.24	9.49	BGI (GLOBAL EQUITY)	5.6	223	29.59	29.60	29.60
<b>IMMUNISATION FUND</b>						<b>UBS (GLOBAL EQUITY)</b>					
AXA	6.9	273	9.28	9.24	9.99	MERRILL LYNCH (ABSOLUTE RETURN)	3.3	130	9.81	4.73	9.23
BGI	6.9	272	9.54	9.24	9.99	ILLIQUID FUND/OTHERS	0.2	8	n/a	n/a	n/a
M&G PRUDENTIAL	7.0	277	9.12	9.24	9.99	HIGHER PERFORMANCE FUND	33.9	1,340	24.54	26.30	28.29
IMMUNISATION FUND	20.8	822	9.29	9.24	9.99	<b>GRAND TOTAL</b>	<b>100</b>	<b>3,954</b>	<b>13.97</b>	<b>14.17</b>	<b>15.92</b>

Changes made to the bond manager mandates and to the structure of the Higher Performance funds, are intended to help manager performance to contribute to benchmark outperformances when market conditions are not as favourable as they have been in the Scheme year.

## Custody arrangements

The law of trust and the Pensions Act 1995 imposes a fiduciary duty on the Trustee to safeguard the assets of the Scheme. Since 2001 the Trustee has appointed a global custodian (HSBC) to hold the Scheme's assets that make up the various portfolios managed by the investment managers. In the case of the absolute return fund this work is undertaken by a separate custodian based in the United States.

The custodians are responsible for the safekeeping of assets and administration and ensuring that assets are only released with appropriate authorisation and that the investments are segregated from those of other investors.

The administrative functions include the settlement of transactions, the collection of income arising from the investments, recovery of any tax paid that is not due and the reporting of and accounting for the Scheme's investments.

The Trustee together with its Investment Adviser reviews the effectiveness of the custody arrangements on a continual basis. The custodian is required to publish a report on its internal controls that has been audited by a third party auditor in accordance with agreed standards. A review of custodian services took place in 2006, as a result the Trustee intends to change its provider of global custodian services to ABN AMRO Mellon on 1 September 2006.

## Largest investments

The ten largest holdings of individual equities in the Fund at 31 March 2006 are shown in the table below.

The table below excludes investments in pooled funds where an investment manager manages the Scheme's investments by offering units of their fund that are intended to track the indices specified.

The Scheme had investments in the BGI Aquila Life UK Equity

Index Fund in both the UK and Global portfolios together these investments represent 7.9% of the Scheme's net assets at 31 March 2006. These were sold on 18 May 2006 in order to transition from equities to bonds.

An analysis of investments is shown in the Notes to the Scheme's financial statements on pages 26 to 31. The aggregate amounts of sales and purchases of investments during the year are also shown in those notes.

## Additional voluntary contributions (AVCs)

The AVC scheme was closed for new accounts from April 2006. Existing contributors may continue to invest in their AVC accounts.

AVCs are invested separately from other Scheme assets to ensure there are individual funds for each member that are clearly identifiable. Members currently have the choice of investing in:

FRIENDS PROVIDENT	(TO 30 JUNE 2006)
PRUDENTIAL AVC	CASH FUND

*ON 30 JUNE 2006 ALL FRIENDS PROVIDENT ACCOUNTS WERE CLOSED AND THE BALANCES TRANSFERRED TO SIMILAR ACCOUNTS WITH THE TRUSTEE'S NEW MAIN AVC PROVIDER, PRUDENTIAL*

Members who have joined the Scheme following amalgamation with other schemes have been permitted to invest with the AVC provider of the original scheme.

At the end of the year there were 209 active members with an AVC account (2005: 580). There were also 1,922 deferred members with AVC accounts. Details of the value of a member's AVC fund are provided annually on individual statements.

A number of members have funds invested with Equitable Life Assurance Society. We wrote to these members recently to remind them of their options with regard to this investment in the light of the current financial position of Equitable Life.

The Trustee reviews the providers of AVC benefits on a regular basis following a report from its Investment Adviser. As noted above the Friends Provident AVC fund will be replaced by funds offered by Prudential. This change follows a review by the Trustee based on advice from its Investment Adviser.

## The ten largest investments (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

# Funding position

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The Scheme's funding position was agreed as at 30 September 2005 by the Trustee and the Company, with the Technical Provisions amounting to £4,107m, giving a Scheme deficit of £325m. The Actuary will review this position annually, but to bring it into line with the Scheme year a Report was completed as at 31 March 2006, and issued to the Trustee at its meeting on 14 June 2006.

It describes the development of the Scheme's Technical Provisions and funding level over the period since the last Valuation of the Scheme and should be considered in conjunction with the Report on the Actuarial Valuation as at 30 September 2005.

The 31 March Report is not a formal Actuarial Valuation of the Scheme. However the Actuary confirms that this Report is consistent with the advice provided for the Actuarial Valuation.

## Development in Technical Provisions over the period to 31 March 2006

The following changes to key matters affecting the calculation of the Scheme's Technical Provisions have occurred during the period under review:

- (a) **Discount rate** – The yield on long term government securities fell by around 0.1% pa over the period implying a discount rate of 5.1% pa. This would serve to increase the Scheme's Technical Provisions by approximately £70m.
- (b) **Post-retirement mortality** – No new information regarding mortality has become available.
- (c) **Inflation** – The implied rate of inflation by reference to market yields on long-dated index linked and fixed interest government securities has risen by 0.1% pa implying an inflation assumption of 2.9% pa. This would increase the Scheme's Technical Provisions by approximately £40m.

Overall it is estimated an increase in the Scheme's Technical Provisions over the period under review of approximately £110m occurred because of changes in economic conditions. The Technical Provisions at 31 March 2006 are estimated to be £4,198m after approximate allowance for interest rate unwinding, benefit payments and known benefit curtailment.

## Review of the funding level

In accordance with the agreed Recovery Plan a contribution of £105m was received by the Scheme from the Company on 31 March 2006. In addition, market movements and contributions during the period have increased the assets by a further £108m resulting in Scheme assets of £4 billion. Overall the effect of these increases, along with the approximate increase in the Technical Provisions, give rise to an improved funding level at 31 March 2006 of 95% (compared to 92% as disclosed in the Actuarial Valuation) and a deficit in the Scheme of £203m.

On the assumption that the contributions set out in the Schedule of Contributions and the Recovery Plan continue to be made and the underlying assumptions are borne out in practice, the Scheme will be fully funded under the Statement of Funding Principles by October 2014.

# Recovery plan

## Status

This Recovery Plan has been prepared by the Trustee, after discussions with the Company on 28 March 2006 after obtaining the advice of David Cule, the Scheme Actuary.

The Actuarial Valuation of the Scheme as at 30 September 2005 revealed a funding shortfall (Technical Provisions minus value of assets) of £325m.

Steps needed to be taken to ensure that the Statutory Funding Objective is met, this required the Scheme to have sufficient and appropriate assets to cover its Technical Provisions.

### 1. Deficit reduction contributions (DRCs)

To eliminate this funding shortfall, the Trustee and the participating employers have agreed that DRCs will be paid to the Scheme by Invensys plc as shown in the table below.

### 2. Contributions on the disposal of an Invensys business

2.1 On the disposal of an Invensys business (where Invensys business is a trade, or company or companies carrying on a trade, that forms or form part or all of an Invensys Business Group) Invensys will contribute "Additional Disposal Contributions" (ADCs) to the Scheme. Each ADC shall be calculated as 8% of the disposal proceeds net of tax and disposal costs. However, where an Invensys business is sold that includes the sale of a participating employer, the ADC shall be the higher of (a) 8% of proceeds net of tax and disposal costs or (b) the debt on the participating employer arising or such amount as agreed in a withdrawal arrangement agreed by the Pensions Regulator.

2.2 Where an Invensys business is sold that does not include a participating employer, and the proceeds of sale are less than £1,000,000, no ADC shall be made to the Scheme.

2.3 In addition, an ADC shall only become payable to the extent that the sum of all DRCs paid under clause 1.1 above, ADCs previously paid under clause 2.1 and the ADC in question does not exceed £325m. This clause 2.3 will not apply if the ADC is a debt on a participating employer or such amount as agreed in a withdrawal arrangement agreed by the Pensions Regulator.

2.4 In this clause 2 a disposal shall include a series of transactions involving the disposition of trades or companies forming an Invensys business, where those dispositions are linked, whether or not they complete simultaneously. Invensys Business Group means one of the groups of businesses managed by Invensys Process Systems, Wonderware, Invensys Rail Systems, Invensys Controls, Eurotherm and APV.

### Period in which the Statutory Funding Objective should be met

The funding shortfall is expected to be eliminated in 8.5 years from 31 March 2006, which is by 30 September 2014. This expectation is based on the following assumptions:

- Technical Provisions calculated according to the method and assumptions set out in the Statement of Funding Principles dated 28 March 2006.
- The return on existing assets and the return on new contributions during the period as set out in the Statement of Funding Principles dated 28 March 2006 for the calculation of Technical Provisions and applicable to that period.
- There are no business sales in the period.

### Progress towards meeting the Statutory Funding Objective

It is expected that over 50% of the funding shortfall will be met in three years from 31 March 2006, which is by 31 March 2009.

16

## Deficit reduction contributions (DRCs)

DUE BY	AMOUNT	DUE BY	AMOUNT
31 MARCH 2006	£105.0m	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
31 MARCH 2013	£20.0m	30 SEPTEMBER 2013	£20.5m
31 MARCH 2014	£20.5m	30 SEPTEMBER 2014	£21.5m

# Scheme governance

**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.

- 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.

## Trustee policies

The Trustee has set out the Scheme's policies in relation to such items as Trustee training, the appointment and review of professional advisers, the delegation of authorities and action regarding fraud. The Trustee will continue its process of formalising its procedures during the coming year, and will control and audit the management of the Scheme in line with these policies.

## The management of Scheme risk

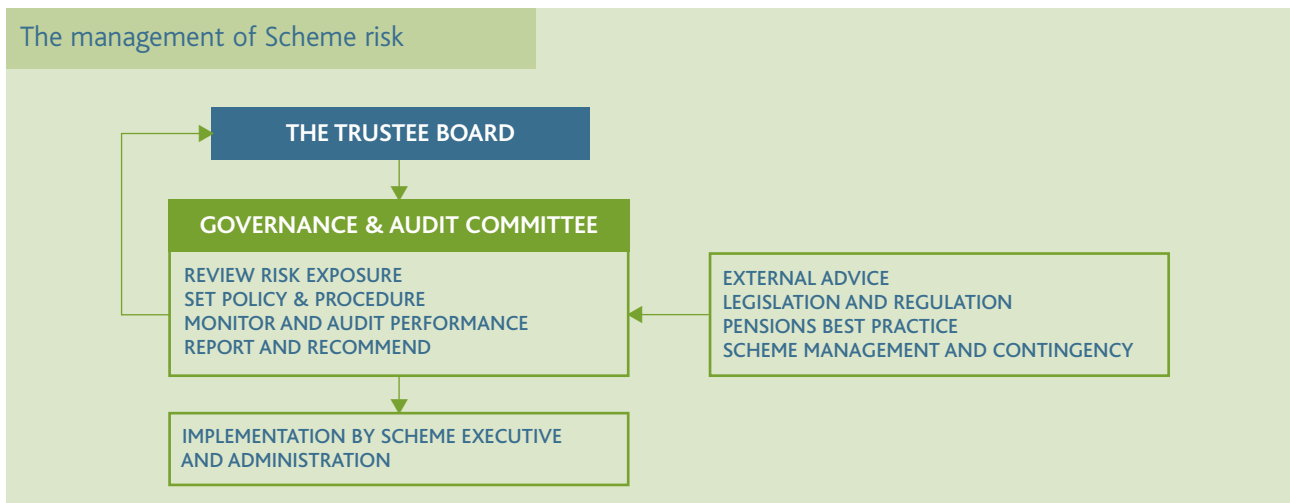
The Trustee has overall responsibility for internal control and risk management. It is committed to identifying, evaluating and managing risk and to implementing and maintaining control procedures to reduce significant risks to an acceptable level.

This is undertaken by the use of a "Risk Register" that identifies and prioritises risk 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 for safeguarding 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.



# Compliance statements

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**The Scheme is fully approved by the Board of HM Revenue & Customs as an exempt approved scheme and the Trustee knows of no reason why such approval should be prejudiced or withdrawn.**

## **Trust Deed and Rules**

On 28 March 2006, the Trustee and the Company signed the Third Definitive Trust Deed and Rules of the Scheme. The new Trust Deed and Rules brought the Scheme up to date with current legislation and amalgamated a number of Deeds of Amendment that had occurred since the Second Definitive Deed and Rules were completed in 1995.

Copies of the new Trust Deed and Rules are available to members on request to Invensys Pensions. Please note that an appropriate copy charge will be made.

## **Adviser changes**

During the current Scheme year there were no changes to the Scheme's advisers although certain investment managers' mandates were changed. As noted on page 6, the Scheme Actuary changed in June 2006.

## **Contributions**

The Trustee collects contributions from employers who participate in the Scheme. A number of employers operate from several distinct locations with their own independent payroll and differing payment patterns.

During the year no reports had to be made to the Pensions Regulator in respect of late payments of contributions, during the Scheme year.

A revised Schedule of Contributions was signed on 28 March 2006. A Summary of Contributions is shown on page 22.

# Trustee responsibilities

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## **The audited accounts are the responsibility of the Trustee Board. They have been prepared and audited in accordance with regulations made under Section 41(1) and (6) of the Pensions Act 1995.**

The Scheme's Trustee is responsible for obtaining audited financial statements which comply with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) and for making available certain other information about the Scheme in the form of an Annual Report.

The financial statements are the responsibility of the Trustee. Pension scheme regulations require the Trustee to make available to Scheme members, beneficiaries and certain other parties audited financial statements for each Scheme year which:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of that year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and
- contain the information specified in the Schedule to The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement as to whether the financial statements have been prepared in accordance with the Statement of Recommended Practice "Financial Reports of Pension Schemes".

The Trustee has supervised the preparation of the financial statements that have been delegated to Invensys Pensions. The financial statements comply with applicable United Kingdom law and accounting policies. The Trustee has agreed suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis.

The Trustee is responsible under pensions legislation for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions showing the rates of contributions payable to the Scheme by or on behalf of the participating employers and the active members of the Scheme and the dates on or before which contributions are to be paid. The Trustee is also responsible for keeping records in respect of contributions received in respect of any active member of the Scheme and for procuring that contributions are made to the Scheme in accordance with the Schedule of Contributions.

The Trustee also has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities.

## Independent auditors' report to the Trustee of the Invensys Pension Scheme.

**We have audited the Scheme's financial statements for the year ended 31 March 2006 which comprise the fund account, the net assets statement and the related notes 1 to 14. These financial statements have been prepared on the basis of the accounting policies set out therein.**

This report is made solely to the Trustee, as a body, in accordance with regulation 3 (c) of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Trustee those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Trustee as a body, for our audit work, for this report, or the opinions we have formed.

### Respective responsibilities of Trustee and auditor

As described in the statement of Trustee responsibilities, the Scheme's Trustee is responsible for obtaining audited financial statements which comply with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) and for making available certain other information about the Scheme in the form of an Annual Report.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements show a true and fair view and contain the information specified by the relevant legislation. We also report to you if, in our opinion, the Trustee's report is not consistent with the

financial statements or if we have not received all the information and explanations that we require for our audit.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies within the financial statements. The other information comprises Trustee's Report, Investment Report, Actuarial Statements, Compliance Statement, Members' Information.

### Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by or on behalf of the Trustee in the preparation of the financial statements and of whether the accounting policies are appropriate to the Scheme's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

### Opinion

In our opinion the financial statements show a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the financial transactions of the Scheme during the Scheme year ended 31 March 2006, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year, and contain the information specified in Regulation 3 of and the Schedule to The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995.

*Ernst & Young LLP*

**Ernst & Young LLP**  
Registered Auditor  
Newcastle upon Tyne  
Date: 21 July 2006

# Statement about contributions

## **Independent Auditors' Statement about Contributions, under Regulation 4 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, to the Trustee of the Invensys Pension Scheme.**

We have examined the Summary of Contributions to the Invensys Pension Scheme in respect of the Scheme year ended 31 March 2006 to which this statement is attached.

This statement is made solely to the Trustee, as a body, in accordance with regulation 4 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995. Our work has been undertaken so that we might state to the Trustee those matters we are required to state to them in an auditors' statement and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Trustee as a body, for our work, for this statement, or the opinion we have formed.

### **Respective responsibilities of Trustee and auditor**

As described in the statement of Trustee responsibilities, the Scheme's Trustee is responsible for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions showing the rates and due dates of certain contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme. The Trustee has a general responsibility for procuring that contributions are made to the Scheme in accordance with the Schedule of Contributions.

Our responsibility is to provide a statement about contributions paid under the Schedule of Contributions and to report our opinion to you.

### **Basis of statement about contributions**

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to give reasonable assurance that contributions payable, as reported in the attached Summary of Contributions, have been paid in accordance with the relevant requirements. For this purpose the work that we carried out included examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme and the timing of those payments under the Schedule of Contributions. Our statement about contributions is required to refer to those breaches of the Schedule of Contributions which come to our attention in the course of our work.

### **Qualified statement about contributions**

As explained in the Summary of Contributions, there were a small number of errors in contribution calculations in the year.

Except for the errors in contributions, in our opinion the contributions payable to the Scheme during the year ended 31 March 2006, as reported in the attached Summary of Contributions, have been paid in accordance for the period from 1 April 2005 to 27 March 2006 with the Schedule of Contributions certified by the Actuary on 4 February 2004 and for the period from 28 March 2006 to 31 March 2006 in accordance with the Schedule of Contributions certified by the Actuary on 28 March 2006.

21

*Ernst & Young LLP*

**Ernst & Young LLP**  
Registered Auditor  
Newcastle upon Tyne  
Date: 21 July 2006

# Summary of contributions

## Invensys Pension Scheme. Summary of contributions payable during the year ended 31 March 2006.

During the year ended 31 March 2006 the contributions payable to the Scheme under the Schedule of Contributions were as follows:

	£000
EMPLOYER NORMAL CONTRIBUTIONS	14,930
EMPLOYER SPECIAL CONTRIBUTIONS	107,500
EMPLOYEE NORMAL CONTRIBUTIONS	3,708
TOTAL CONTRIBUTIONS UNDER SCHEDULE OF CONTRIBUTIONS	126,138
OTHER CONTRIBUTIONS	
EMPLOYER SPECIAL CONTRIBUTIONS	22,007
EMPLOYEE ADDITIONAL VOLUNTARY CONTRIBUTIONS	289
TOTAL CONTRIBUTIONS PER NOTE 3 OF THE FINANCIAL STATEMENTS	148,434

The employer's contribution holiday ended in October 2003 when the Company resumed regular monthly contributions at the rate of 20% members' Pensionable Pay.

Following an agreement with the Company on 28 March 2006, a new Schedule of Contributions was agreed. Future Company contributions will be at 24.3% of members' Pensionable Pay from 1 April 2006.

The employer's special contributions relate to specific lump sum amounts to be paid in accordance with the Schedule of Contributions and additional funding arrangements proposed by the Company.

During the year there were small instances of incorrect calculations of contributions at one of the payroll sites, which resulted in an underpayment of contributions to the Scheme. The amounts quantified total £59,000 which have been paid over to the Scheme.

The Schedule of Contributions requires contributions to be paid to the Trustee by the participating employer by the 19th of the month following deduction. In order to assist the Invensys companies to meet their due dates the Trustee has implemented a change in the collection process to limit the risk of future payments by the Invensys companies being received late.

22

Signed on behalf of the Trustee



Date: 20 July 2006

# Actuary's certificate of the calculation of Technical Provisions

# Actuary's certificate of Schedule of Contributions

## **Name of scheme:** **Invensys Pension Scheme**

### **Calculation of Technical Provisions**

I certify that, in my opinion, the calculation of the Scheme's Technical Provisions as at 30 September 2005 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the Trustee of the Scheme and set out in the Statement of Funding Principles dated 28 March 2006.

Signature



28 March 2006

**David Cule**  
Fellow of the Institute of Actuaries

Punter Southall & Co Ltd  
Tempus Court, Onslow Street  
Guildford Surrey GU1 4SS

## **Name of scheme:** **Invensys Pension Scheme**

### **Adequacy of rates of contributions**

1. I certify that, in my opinion, the rates of contributions shown in this Schedule of Contributions are such that - The Statutory Funding Objective can be expected to be met by the end of the period specified in the Recovery Plan dated 28 March 2006.

### **Adherence of Statement of Funding Principles**

1. I hereby certify that, in my opinion, this Schedule of Contributions is consistent with the Statement of Funding Principles dated 28 March 2006.

The certification of the adequacy of the rates of contributions for the purpose of securing that the Statutory Funding Objective can be expected to be met is not a certificate of their adequacy for the purpose of securing the Scheme's liabilities by the purchase of annuities, if the Scheme were to be wound up.

Signature



28 March 2006

**David Cule**  
Fellow of the Institute of Actuaries

Punter Southall & Co Ltd  
Tempus Court, Onslow Street  
Guildford Surrey GU1 4SS

# Fund account (for the year ended 31 March 2006)

	NOTES	2006 £000	2005 £000 Restated (Note 1)
<b>Contributions and benefits</b>			
Contributions receivable	3	148,434	56,427
Members' transfers-in	4	699	1,616
		149,133	58,043
<b>Benefits payable</b>			
Benefits payable	5	(200,341)	(196,997)
Payments to and on account of leavers	6	(19,837)	(13,681)
Administrative expenses	7	(5,321)	(3,160)
		(225,499)	(213,838)
<b>Net withdrawals from dealings with members</b>		<b>(76,366)</b>	<b>(155,795)</b>
<b>Returns on investments</b>			
Investment income	8	121,014	96,205
Change in market value of investments		377,564	163,287
Investment management expenses	12	(6,506)	(5,970)
Net returns on investments		492,072	253,522
<b>Net increase in the fund during the year</b>		<b>415,706</b>	<b>97,727</b>
<b>Fund at beginning of year</b>		<b>3,586,476</b>	<b>3,473,749</b>
<b>Prior year adjustment</b>		<b>—</b>	<b>15,000</b>
<b>Fund at beginning of year - as restated</b>		<b>—</b>	<b>3,488,749</b>
<b>Fund at end of year</b>		<b>4,002,182</b>	<b>3,586,476</b>

# Net assets statement (as at 31 March 2006)

	NOTES	31 March 2006 £000	31 March 2005 £000 Restated (Note 1)
<b>Investments</b>	10		
Fixed interest securities		1,564,636	1,328,172
Equities		1,000,727	840,162
Index-linked securities		1,022,988	886,462
Managed and unitised funds		320,109	460,734
Cash deposits		63,690	19,076
Additional voluntary contributions & transfer-in investments	11	11,031	11,287
Other		(17,831)	(4,257)
		<b>3,965,350</b>	<b>3,541,636</b>
<b>Fixed assets</b>	14	<b>67</b>	<b>79</b>
<b>Current assets and liabilities</b>	9	<b>36,765</b>	<b>44,761</b>
<b>Fund at end of year</b>		<b>4,002,182</b>	<b>3,586,476</b>

25

These financial statements were approved by the Trustee on 20 July 2006.

Signed on behalf of Invensys Pension Trustee Limited:

KA O'Donovan

IR Fyfe

Directors  
20 July 2006

# Notes to the financial statements

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## 1 Basis of preparation

The financial statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, and with the guidelines set out in the Statement of Recommended Practice, Financial Reports of Pension Schemes (SORP) issued in November 2002.

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which does take account of such obligations, is dealt with in the statements by the Scheme Actuary on page 23 of the Annual Report and these statements should be read in conjunction therewith.

### Prior year adjustment

The comparative information for 2005 has been restated to reflect a change in accounting policy in respect of special employer contributions. In prior years special employer contributions were accounted for on their final due date as set out in a side letter to the Schedule of Contributions.

In the opinion of the Trustee the accounts present a fairer representation of the contributions position by recognising special contributions when the contributions are actually made by the Company. Consequently this change has resulted in a prior year adjustment. Net assets at 1 April 2004 and 31 March 2005 have been increased by £15,000,000. Current assets and liabilities at 31 March 2005 have been increased by £15,000,000.

## 2 Accounting policies

The principal accounting policies adopted by the Scheme are as follows:

### a Investment income

Investment income is accounted for on an accruals basis. Foreign currency income is translated to sterling at the exchange rates ruling at the dates of transactions. Realised capital gains and losses are calculated by deducting the average cost of purchase from sale proceeds.

### b Investment manager fees

Investment manager fees are accounted for on an accruals basis and are mostly charged as a percentage of the portfolio valuation.

### c Valuation of investments

Investments are included in these financial statements at mid-market value and foreign securities are translated to sterling at the exchange rate ruling at the year end. The market value of unithised investments is taken as the average of the bid and offer price of units. Unquoted securities are included at market value on the advice of the investment managers.

### d Transfers

Provision is made in the financial statements in respect of transfers payable or receivable if consent was given by 31 March 2006.

### e Taxation

The Scheme is approved by the HM Revenue & Customs as an exempt approved scheme. The Scheme's income and chargeable gains are free of UK Income and Capital Gains tax (save for Advance Corporation Tax post-2 July 1997) and tax recoverable on the Scheme's income is treated as part of that income.

### f Contributions receivable

Employer's and members' contributions are accounted for on an accruals basis at rates agreed between the Trustee and the employer based on the recommendations of the Actuary. Members' additional voluntary contributions are accounted for on an accruals basis.

### g Fixed assets

With effect from the 1 April 2004 the Scheme became responsible for the purchase and control of all fixed assets. Prior to this date, assets used by the Scheme were purchased by Invensys plc and a charge was made for their use. The Scheme has revised its fixed assets and depreciation procedure in line with this change.

### 3 Contributions receivable

	2006 £000	2005 £000
Employers - special	129,507	32,500
- normal	14,930	18,894
Members - normal	3,708	4,730
- AVCs	289	303
	<b>148,434</b>	<b>56,427</b>

The employers' contribution holiday ended in October 2003 when the Company resumed regular monthly contributions at the rate of 20% members' Pensionable Pay.

The Schedule of Contributions requires contributions to be paid to the Trustee by the participating employer by the 19th of the month following deduction.

In order to assist the Invensys companies to meet their due dates the Trustee has implemented a change in the collection process to limit the risk of future payments by the Invensys companies being received late.

Special employers' contributions relate to specific lump sum amounts to be paid in accordance with the Schedule of Contributions and additional funding arrangements proposed by the Company.

### 4 Members' transfers-in

	2006 £000	2005 £000
Group transfers-in from other schemes	699	1,612
Individual transfers-in from other schemes	—	4
	<b>699</b>	<b>1,616</b>

The Trustee suspended the acceptance of individual transfers-in in 2001; the figures shown above for individual transfers-in represent additional payments for transfers already accepted.

### 5 Benefits payable

	2006 £000	2005 £000
Pensions	183,401	182,896
Lump sums payable on retirement	14,960	11,779
Capital sums payable on death	1,980	2,322
	<b>200,341</b>	<b>196,997</b>

### 6 Payments to and on account of leavers

	2006 £000	2005 £000
Group transfers to other schemes	9,364	4,554
Individual transfers to other schemes	8,339	7,624
AVC scheme withdrawals	1,186	1,090
State scheme premiums for leavers	805	238
Contribution refunds	143	175
	<b>19,837</b>	<b>13,681</b>

# Notes to the financial statements (continued)

## 7 Administrative expenses

	2006 £000	2005 £000
Administration and data processing	1,878	2,040
Pension Protection Fund levy	1,357	—
Actuarial fees	1,193	670
Auditors fees - audit fees	82	57
- non-audit fees	15	22
Legal and other professional fees	770	348
Directors' fees	26	23
	<b>5,321</b>	<b>3,160</b>

## 8 Investment income

	2006 £000	2005 £000
Income from fixed interest securities	71,162	49,818
Dividends from equities	23,205	27,703
Income from index-linked securities	25,252	15,236
Income from managed or unitised funds	84	236
Interest on cash deposits	1,207	3,170
Other	104	42
	<b>121,014</b>	<b>96,205</b>

28

## 9 Current assets and liabilities

	2006 £000	2005 £000 Restated
Pensions paid in advance	14,343	—
Accrued interest and dividends	31,460	27,725
Employer contributions due	1,201	1,948
Other debtors	451	354
Cash and deposits	1,108	23,230
State scheme premiums payable	(348)	(467)
Bulk transfers payable	(3,289)	(1,779)
Lump sum benefits payable	(1,001)	(949)
Other creditors	(7,160)	(5,301)
	<b>36,765</b>	<b>44,761</b>

## 10 Investments

	As at 31/03/05 £000	Purchases £000	Sales £000	Market value movement £000	As at 31/03/06 £000
Equities	840,162	652,245	(664,407)	172,727	<b>1,000,727</b>
Fixed interest	1,328,172	1,336,650	(1,153,788)	53,602	<b>1,564,636</b>
Index-linked	886,462	780,150	(715,475)	71,851	<b>1,022,988</b>
Managed funds	460,734	343,412	(559,467)	75,430	<b>320,109</b>
Other	(4,257)	—	—	(13,574)	<b>(17,831)</b>
AVCs	11,287	347	(1,420)	817	<b>11,031</b>
	3,522,560	3,112,804	(3,094,557)	360,853	<b>3,901,660</b>
Cash deposits	19,076				<b>63,690</b>
	3,541,636				<b>3,965,350</b>

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

	2006 £000	2005 £000
<b>Fixed interest securities</b>		
UK public sector quoted	1,029,274	953,190
Overseas public sector	30,724	22,718
Corporate bonds	504,638	352,264
	<b>1,564,636</b>	1,328,172
<b>Equities</b>		
UK quoted	534,084	453,502
Overseas quoted	336,241	268,073
	<b>870,325</b>	721,575
<b>Merrill Lynch Absolute Return Fund</b>	<b>130,402</b>	118,587
<b>Index-linked securities</b>		
UK	979,258	863,751
Overseas	43,730	22,711
	<b>1,022,988</b>	886,462
<b>Managed and unitised funds</b>		
Managed funds	290	845
Unitised trusts	319,819	459,889
	<b>320,109</b>	460,734
<b>Cash deposits</b>		
Sterling	67,017	29,560
Foreign currency	(3,327)	(10,484)
	<b>63,690</b>	19,076
<b>Other</b>		
Amounts receivable in respect of investments sold	16,331	32,558
Amounts payable in respect of investments purchased	(34,162)	(36,815)
	<b>(17,831)</b>	(4,257)
<b>Total</b>	<b>3,954,319</b>	3,530,349

# Notes to the financial statements (continued)

## 11 Additional voluntary contributions (AVCs)

The Trustee offers contributing members the opportunity of paying AVCs to either Prudential or to one of a number of arrangements with Friends Provident, although the ability to open new accounts ceased in April 2006.

The Trustee regularly receives advice with regard to its AVC providers. As a result of this advice accounts held with Friends Provident will change to Prudential on 30 June 2006. Members affected have been advised of the change.

Some members continue to save AVCs under other arrangements that existed in other schemes prior to scheme mergers. These other arrangements are closed to new entrants.

Members, where applicable, receive an annual statement confirming the amounts held to their account and the movements in the year.

The number of contributing and deferred members participating and the aggregate amounts of members' AVC and transfer-in funds were as follows:

<b>Members participating</b>	Prudential deposit	Equitable Life	Other	Total
31 March 2005	1,216	826	424	2,466
<b>31 March 2006</b>	<b>1,126</b>	<b>765</b>	<b>399</b>	<b>2,290</b>

<b>Funds</b>	Prudential £000	Equitable Life £000	Other £000	Total £000
Members' funds at 31 March 2005	4,613	4,219	2,455	11,287
Contributions/transfers-in	162	—	185	347
Interest and bonuses	206	166	444	816
Withdrawals/transfers-out	(468)	(621)	(330)	(1,419)
<b>Members' funds at 31 March 2006</b>	<b>4,513</b>	<b>3,764</b>	<b>2,754</b>	<b>11,031</b>

Funds transferred by members from one AVC provider to another are included in "transfers-in" and "transfers-out".

## 12 Investment management fees

	2006 £000	2005 £000
Administration, management and custody	6,477	5,938
Performance measurement services	29	32
	<b>6,506</b>	<b>5,970</b>

## 13 Related party transactions

Two Trustee Directors are in receipt of a pension from the Scheme and another is a deferred pensioner. These three Directors are in receipt of remuneration from the Trustee. All Directors claim reimbursement of related expenses.

At the date of this report, a further six Trustee Directors were members of the Scheme. All benefits are calculated in accordance with the Scheme Rules.

The administration of benefits is the responsibility of Invensys Pensions. The operating costs of Invensys Pensions are shown in note 7.

## 14 Fixed assets

<b>Cost</b>	Office equipment £000	Computer hardware £000	Computer software £000	Motor vehicles £000	Total £000
As at 1 April 2005	3	89	25	19	136
Additions	—	31	10	—	41
Disposals	—	—	—	—	—
<b>As at 31 March 2006</b>	<b>3</b>	<b>120</b>	<b>35</b>	<b>19</b>	<b>177</b>
<b>Depreciation</b>					
As at 1 April 2005	1	30	8	18	57
Provided during the year	—	40	12	1	53
Disposals	—	—	—	—	—
<b>As at 31 March 2006</b>	<b>1</b>	<b>70</b>	<b>20</b>	<b>19</b>	<b>110</b>
<b>Net Book Value</b>					
<b>As at 31 March 2006</b>	<b>2</b>	<b>50</b>	<b>15</b>	<b>—</b>	<b>67</b>
As at 1 April 2005	2	59	17	1	79

# Members' information

**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  
Higham House  
New Bridge Street West  
Newcastle upon Tyne  
NE99 1TG

Phone: 0191 206 1035

Fax: 0191 206 1011

e-mail: [enquiries@invensyspensions.co.uk](mailto: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

## Website links

The links below have been chosen to provide you with a wealth of information on pensions. Invensys Pensions is not responsible for the content or reliability of linked websites. Linking should not be taken as an endorsement of any kind. Please note that we cannot guarantee that these links will work all of the time and we have no control over the availability of the linked pages.

Association of British Insurers [www.abi.org.uk](http://www.abi.org.uk)

Association of Consulting Actuaries [www.aca.org.uk](http://www.aca.org.uk)

Department for Work and Pensions [www.dwp.gov.uk](http://www.dwp.gov.uk)

Financial Services Authority [www.fsa.gov.uk](http://www.fsa.gov.uk)

Faculty and Institute of Actuaries [www.actuaries.org.uk](http://www.actuaries.org.uk)

HM Revenue & Customs [www.hmrc.gov.uk](http://www.hmrc.gov.uk)

Invensys plc [www.invensys.com](http://www.invensys.com)

The Occupational Pensions Advisory Service [www.opas.org.uk](http://www.opas.org.uk)

Pensions Policy Institute [www.pensionspolicyinstitute.org.uk](http://www.pensionspolicyinstitute.org.uk)

The Pensions Management Institute [www.pensions-pmi.org.uk](http://www.pensions-pmi.org.uk)

The Pensions Ombudsman [www.pensions-ombudsman.org.uk](http://www.pensions-ombudsman.org.uk)

Pension Protection Fund [www.pensionprotectionfund.org.uk](http://www.pensionprotectionfund.org.uk)

Good Practice in Workplace

Pension Provision [www.pensionsatwork.org.uk](http://www.pensionsatwork.org.uk)

The Pensions Regulator [www.thepensionsregulator.gov.uk](http://www.thepensionsregulator.gov.uk)

## Summary of Scheme benefits

The legal position is governed by the Third Definitive Trust Deed and Rules which had been revised and was adopted by the Trustee and Company on 28 March 2006, copies of which are available to members. Legal reliance should be placed on the Trust Deed and Rules. This summary is applicable to members who joined the Scheme after 5 April 2000; members who joined before that date should refer to their Booklet and Announcements.

Certain changes were made to the Scheme Rules on 1 April 2006, as a result of the Finance Act 2004 and the Pensions Act 2004; these changes only affected the benefits of current active members.

This is a brief outline of the Scheme. Full details are available from the Members Booklet, available online at [www.invensyspensions.co.uk](http://www.invensyspensions.co.uk).

## Retirement

Normal Retirement Age is 65 for men and women. Early retirement is currently available from age 50 subject to a reduction in the pension entitlement. A tax-free cash lump sum is available on retirement.

## Ill-health

Subject to medical evidence a pension may be payable from an earlier age in the case of serious health breakdown. The permission of the employer and the Trustee is necessary, and approval is given after receiving advice from the Scheme's Medical Adviser.

## Death

While in employment a lump sum of four times Pensionable Pay is payable. A dependant's pension and children's allowances may be payable on death either before or after retirement.

## Leaving service

A deferred pension is payable on retirement. The value of deferred Scheme benefits is fully transferable to an approved pension scheme.

## Cost

Members' contributions are 5% of Pensionable Pay. Members are contracted out of the State Second Pension (S2P). The Company currently pays 24.3% of members' Pensionable Pay.

## State benefit

Eligible members retain their entitlement to the Basic (Old Age) State scheme pension.

## Benefit statements

A statement of current benefits is sent to active members annually. A statement for deferred members is available on request.

## Pension advice notes

Pension advice notes are sent to pensioners at least once a year, and following any material change in their net pension.

## Explanatory booklet

A copy of the Members Booklet is available from your local HR department or online at [www.invensyspensions.co.uk](http://www.invensyspensions.co.uk).

# Glossary

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**Accrual rate** The rate at which benefits build up for each year of pensionable service in a final salary scheme.

**Accrued benefits** These are benefits that have built up for service up to a certain date and are calculated in relation to pensionable earnings.

**Active member** A member of a scheme who is presently accruing benefit under that scheme in respect of current service.

**Actuarial assumptions** The actuary's view of the future trends that will affect the Scheme's assets and liabilities.

**Actuarial certificate** This is required to be given by the actuary in certain circumstances, eg if there is a surplus or if there is a bulk transfer.

**Actuary** An actuary advises on financial questions involving probabilities relating to mortality and other contingencies. In relation to pension schemes, an actuary is a professional adviser who must be appointed by trustees under the Pensions Act 1995. The actuary assists the trustees (or managers) of a scheme on funding issues and conducts a regular actuarial valuation. Actuaries must be members of the Institute of Actuaries and Faculty of Actuaries.

**Additional voluntary contributions (AVCs)** Members can make AVCs to their occupational scheme. This enables them to have top-up benefits.

**Basic State pension** This is the State pension which is paid to all those who have met the minimum National Insurance contribution requirements and is not related to earnings, unlike the state second pension.

**Beneficiary** A person entitled to benefit under a pension scheme or who will become entitled on the happening of a specific event.

**Closed fund** This is a scheme which does not admit new members or receive contributions although benefits are still paid to existing members.

**Contracted out/contracted in** A pension scheme is contracted out where it provides benefits in place of the State Second Pension in exchange for paying lower National Insurance contributions and has been given a contracting out certificate or appropriate scheme certificate by the HM Revenue & Customs.

**Contributions** The regular amounts paid into a scheme by a member and the regular and lump sum payments made by an employer to the scheme.

**Corporate governance** Corporate governance is the increasingly important principle that shareholders should take more than just a simple financial interest in their shareholdings. The rise of the institutional shareholder, especially the pension fund shareholder, has meant that the balance of power between shareholder and management has swung in favour of shareholders. Corporate governance principles are now often expressed in customer agreements, so that investment managers are required to consider shareholders' votes (called "proxy votes") when they can.

**Deed of amendment** A legal document that amends the scheme's trust deed and rules.

**Deficit** The amount by which the value of future liabilities is greater than the value of the assets of the scheme.

**Early leaver (deferred member)** This is a person who ceases to be an active member of a pension scheme, but does not receive their pension immediately.

**Equity markets** Stockmarkets throughout the world where you are able to buy and sell companies' stocks and shares.

**Fully funded** The point when the value of the scheme's assets meet its future liabilities.

**Fully funded scheme** A scheme that has a 100% funding level.

**Governance** The management and control of a scheme.

**Liability matched benchmark** A rate of return expected from the assets that will match the change in the scheme's liabilities.

**Mortality** The expected average time over which a pension will have to be paid.

**Myners review** The Myners review investigated the investment practice of pension schemes. The report, which was published on

6 March 2001, raised several concerns for pension schemes including the redefinition of the prudent man rule to raise it to a higher level, to change standard benchmarks, to review the measurement of investment performance and whether soft commissions should be permitted in the future.

**Pension Protection Fund** A fund set up under the Pensions Act 2004 that will provide pension payments at a reduced rate, for pension schemes of insolvent companies.

**Pensioner** This is a person who is currently receiving a pension from a scheme.

**Remuneration** In final salary schemes the amount of pension earned is invariably related to the amount of salary; the HM Revenue & Customs calls this "remuneration". So far as scheme rules or an employer's policy is concerned, it can include or exclude bonuses, commission and other "fluctuating emoluments". However, HM Revenue & Customs rules also apply, and insist that final remuneration can only be determined on the basis of the amount earned in a particular year, regardless of the fact that it may actually be received and assessed to tax in a subsequent year, ie calculated on an "earned" rather than a "paid" basis.

**Schedule of Contributions** A formal agreement between the company and the trustee(s) which states the level of contributions to be paid to the scheme by the company and the members in the future.

**Scheme actuary** This is the named actuary appointed by the trustees or managers of an occupational pension scheme under Section 47 of the Pensions Act 1995.

**Scheme deficit/surplus** The difference between the assets and liabilities of the scheme as assessed by the actuary at a valuation using a series of assumptions, that may give different results depending on the basis of the assumptions.

**Scheme maturity** The relative number of active members with future benefits to accrue, compared to the number of deferred members and pensioners with known benefits.

**SERPS/Additional State pensions** This is the State Earnings Related Pension, an extra State pension that employed people could earn, up to 5 April 2002, by paying extra National Insurance contributions once their earnings reached the lower earnings limit. Earners could choose to contract out of SERPS by joining an appropriate occupational or personal pension scheme, which provides alternative and equivalent benefits. SERPS was replaced by the State Second Pension from 6 April 2002.

**State Second Pension (S2P)** Also known as S2P, the State Second Pension is an additional state pension, which replaced SERPS. There are two main differences with SERPS. First of all earners below the low earnings limit will have pension credits as though they were earning up to the low earnings limit. Secondly, it is a flat rate, rather than an earnings related scheme.

**Surplus** The amount by which the value of the scheme's assets is greater than its future liabilities.

**Valuation** An exercise undertaken to assess the scheme's assets and to determine its ability to meet its future liabilities.

***Find out more about your  
pension scheme by visiting:  
[www.invensyspensions.co.uk](http://www.invensyspensions.co.uk)***

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Invensys Pensions  
Higham House  
New Bridge Street West  
Newcastle upon Tyne  
NE99 1TG

Phone: 0191 206 1035

Fax: 0191 206 1011

e-mail: [enquiries@invensyspensions.co.uk](mailto:enquiries@invensyspensions.co.uk)