Invensys Pension Scheme

Annual Review 2009

This is a Summary for all members of the Trustee's Annual Report & Financial Statements 2009. A full copy of this report is available from Invensys Pensions. For contact details please see the back cover.

The Trustee's first responsibility is to members.

The Trustee aims to provide a reliable investment performance, reassurance and careful management of its resources

Chairman's review

KATHLEEN O'DONOVAN
CHAIRMAN OF THE TRUSTEE OF
THE INVENSYS PENSION SCHEME

This year's Report and Financial Statements to 31 March 2009 reflect the extremely difficult investment conditions that have prevailed for the majority of the year.

The world has experienced much turbulence over the last 12 months: volatile financial markets hitting lows not seen since 1996, government intervention in national economies the like of which has not been made since the Second World War, the Bank of England reducing interest rates to the lowest ever seen in its 318 year history, regulators recommending that financial companies stress test for conditions of the Great Depression and serious frauds emerging.

Given the seriousness of the events, the Scheme has inevitably been affected. The defensive position of our investment portfolio, which reflects the increasing maturity of the Scheme with only 1% of our members actively working for an Invensys company, means that we managed to weather the worst of the storm in absolute terms (we were able to maintain an 86% funding level, compared to 93% as at March 2008) and also relative to the UK pensions industry. The investment strategy has proved to be sound for our Scheme, and over the long term we hope to see our current investment performance improve to targeted levels.

"we managed to weather the worst of the storm in absolute terms ..."

We completed the Scheme's triennial valuation, dated as at 31 March 2008, during our accounting year. Working with the Scheme Actuary, we are required to value the assets and our liabilities. We are also required to agree the assumptions we use with Invensys plc ("the Company"). The Company's view is important because as Scheme sponsor they are required to make up any deficit that may arise on the valuation through the agreed Recovery Plan.

The valuation resulted in a deficit of £285m, representing 7% of liabilities.

In light of these results, the Company has agreed to a Recovery Plan, contributing deficit payments of £37m to £47m per annum over the next nine years. This is consistent with the Recovery Plan agreed in 2006.

In respect of the remaining active defined benefit members (1,127), the Company will make regular contributions of 19.8% of payroll, in addition to the 13% contributed by the members.

The Company has also agreed to continue to make special contributions of 8% of the net proceeds of any business sold (above £1million), subject to any Pensions Act requirements.

The next full actuarial valuation will be performed as at 31 March 2011.

The Scheme Sponsor

The Company and its financial position are critical to the Scheme as they are the ultimate guarantors of the liabilities.

We have a higher corporate sponsor risk than most other UK defined benefit pension schemes because of the relative size of our liabilities (£4.2billion) to Invensys market capitalisation (circa £2billion).

Chairman's review

continued

As Trustee of the Scheme, we communicate with and review the Company as part of our responsibilities. Over the past few years, the Company returned to the FTSE100 in 2007 and has been able to maintain itself in the index since. Its credit rating improved to BB+ in 2008 and is expected to improve further. They successfully negotiated committed financing facilities in 2008 for the next 5 years, entered the economic downturn with a net cash position and generated a positive Free Cash Flow of £296m at their 2009 year end.

Investments

The investment strategy for the Defined Benefit Section is now well established. It targets 80% of the fund to be invested in a Matching Fund of bond-type assets giving a secure investment that is intended to broadly match the profile of the Scheme's liabilities. The remaining 20% is to be invested in higher return assets in order to meet the requirements of the members and to eliminate the deficit.

The Higher Performance Fund was re-allocated during the Summer of 2007, by diversifying into differing forms of investment instruments, and this allocation has been maintained. The previous allocation of the Higher Performance Fund was primarily equities (both UK and global) spread over four asset managers. We now have eight asset managers invested in five major types of investment, namely: broad based bonds, dynamic asset allocation, global equities, fund of hedge funds and an equity derivative overlay strategy. This diversification aims to reduce the risks to the Scheme by spreading exposure over more asset classes.

"diversification aims to reduce the risks to the Scheme by spreading exposure over more asset classes".

Our strategy is to reduce risk, increase security and, where possible, target additional return to help reduce the Scheme deficit.

Over the course of the year the assets held by the Scheme have decreased in value by 3.9% against a benchmark of plus 4.7%. In absolute terms, this result is a disappointment but when set against a backdrop of some quite extraordinary market dislocations, it was probably the best we could expect. To put into context, over the same period UK equities have fallen by 34%, international equities have fallen by 47.8%, UK commercial property has fallen by 26% and UK AA Corporate Bonds by 5.5%.

A recent study identified that UK pension schemes had on average 49% of their assets invested in equities during 2008 – indicating that the average investment return amongst these schemes is likely to have been more negative than ours.

Asset / Liability Profile

Overall the Scheme's assets were estimated to cover 86% of the liabilities at 31 March 2009 compared to 93% at the start of the last Scheme year. Again, these are extraordinary times and the month of March itself was the worst of 2009 so far. Our liability coverage improved in both April and May 2009. The important thing to realise is that our liability profile, i.e. the need to pay pension benefits, extends out to 2050 and beyond, therefore it is the return over the long term that is critical.

Communication and Governance

We aim to continuously improve our communication with our members. The feedback from our recent newsletter has been excellent and we will continue to search out ways to provide members with helpful and relevant information about the Scheme in a simple and understandable manner.

We place great importance on the governance of your Scheme and continually review our procedures and policies to ensure proper and efficient management of Scheme affairs.

The Board have had another eventful year, I must praise the Board members' involvement, effort and enthusiasm in tackling an increasing number of technical issues in order to meet the responsibility of providing a safe and secure Scheme for all members now and in the future.

KATHLEEN O'DONOVAN
CHAIRMAN OF THE TRUSTEE OF
THE INVENSYS PENSION SCHEME

Investment report

The Scheme's investment strategy reflects the mature nature of the Scheme. At 31 March 2009, 99% of the Scheme's membership was in receipt of a pension in payment (60%) or held a deferred pension (39%). This high level of maturity indicates the Scheme should operate an investment policy to ensure that the returns on assets meet the future known liabilities of the Scheme. The reduced risk implicit in such a strategy means that generally a lower return is targeted than in less mature schemes.

Given the mature nature of the Scheme, the Trustee has invested in assets which have a profile that is closest to that of the liabilities, namely bonds or "bond-like" assets. This has been an ongoing policy of the Trustee over the last seven years, with a significant increase in these matching assets from 2006 and 2007. The Scheme currently holds 80% of its assets in bonds, of which 45% are UK government bonds.

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

Statement of Investment Principles

The Scheme's strategy and objectives, together with full details of the investment process are set out in the Statement of Investment Principles. This document is updated regularly and the latest version was agreed in April 2009. A copy is available to members from Invensys Pensions.

Economic background and market review

The year to 31 March 2009 has been historic in many ways, unfortunately for all the wrong reasons, and has brought unprecedented price volatility and decrease in value, across many asset classes. We have witnessed, powerless, the bankruptcy and government bail out of numerous financial institutions such as Bear Stearns, Lehman Brothers, Northern Rock, Royal Bank of Scotland and Kaupthing Bank, fraud cases too great to even start to imagine (Madoff, Stanford, Jerome Kerviel and Société Générale to name a few). Added to the lack of liquidity in the markets, a deteriorating economic environment, and an ever increasing risk aversion, these events have contributed to a fall in asset prices not seen since the Great Depression.

The last 12 months have proved a difficult time for a majority of UK pension schemes and their sponsors. Funding ratios have plummeted, increasing the cash requirements from the sponsor, which is an additional strain in its cash flow management, especially in these difficult times.

The Trustee is however very satisfied by the conservative investment strategy adopted from 2006/2007, which has allowed the Scheme to weather the storm better than most.

Investment strategy

The investment strategy is to achieve a return consistent with the Scheme's Statement of Funding Principles, in order to ensure the assets of the Defined Benefit Sections are sufficient to meet the benefits due to each member as they arise.

The Scheme moved in 2006/07 to a general investment strategy of 80% Bonds, 20% Higher Performance Assets. The Bonds are included in a Matching Fund run by three Bond Investment Managers. During 2007/08, the higher performing assets were diversified to reduce risk in the investment portfolio, diversification that has not been modified since.

In the past the need for higher return assets was met through the allocation of a percentage of the portfolio to equities. This allocation has been reduced steadily over the years and stood at around 20% in 2006. In 2007, this exposure to equities was reduced further by broadening the portfolio to higher returning assets of different types; this diversification allowed the Scheme to reduce the risks related to higher performing assets. These are now invested in four different classes: i) broad bonds, ii) dynamic asset allocation, iii) a fund of hedge funds as well as iv) equities. These are managed by eight investment managers, who are targeted against an absolute return above cash.

Since the major transitions that took place in 2007, there have been no significant changes to the allocation within the higher performing assets.

Investment manager mandates

The mandates agreed with the investment managers set outperformance targets over rolling three year periods.

The Scheme specific liability benchmark is calculated by the Investment Adviser, using prevailing bond yields, to reflect the change in value of the projected future cash flows of the Scheme provided by the Actuary (this is consistent with the Scheme's Statement of Funding Principles).

In 2008 the Dynamic Asset Allocation, Equity and Broad Bond portfolios were measured against an absolute return benchmark of London Interbank Offered Rate (LIBOR) plus 3-4%.

Investment managers are able to use financial derivative instruments to meet their targets within controls set out in documentation agreed by the Trustee.

Investment report
continued

Investment manager commentary and performance
The investments are managed, under the guidance of the Trustee and its Investment Adviser, by independent investment managers. The Scheme's investment managers are continuously reviewed over a 36-month rolling period. Long periods of review are essential, as it enables managers to be judged throughout the business cycle.

In difficult economic times however, the assets under management can underperform and lead temporarily to an increased deficit. Since August 2007 the substantial market downturn has caused a majority of assets to suffer significant falls in value. UK government bonds however, have actually performed well in these difficult times, compensating for the fall in value of the other assets.

An investment return for the year of (3.9%) did not meet the Scheme's objective of 4.9%. Over the last three years the assets have generated a return of 0.35% per annum against a Scheme target of 5.36%. Over the past five years, the annual performance has been 4.4% against a target of 6.7%.

Many asset managers in the market place have underperformed their absolute benchmarks. We continuously monitor that our managers' performance is no worse than others. The Investment Committee has reviewed the managers using appropriate relative composite indices and currently consider no material change needs to be made. This relative performance will be kept under review.

The market values held by each manager as at 31 March 2009 are shown in the table on page 7.

New bond managers were introduced from 30 September 2004, with substantially changed mandates and this date is regarded as the start date for reviewing bond manager performance.

Subsequent changes have been made to the bond manager mandates and to the structure of the Higher Performance funds. These changes give managers more flexibility in their use of financial instruments and are intended to help managers contribute to benchmark outperformance.

Custody arrangements
Trust Law and the Pensions Act 1995 impose a specific duty on the Trustee to safeguard the assets of the Scheme. Since 2001 the Trustee has appointed a global custodian to hold the Scheme's assets that make up the various portfolios managed by the investment managers. Its provider from 1 September 2006 has been BNY Mellon Asset Servicing B.V. In the case of the Fund of Hedge Funds, this work is undertaken by a separate custodian based in the United States (PFPC Inc).

The custodians are responsible for the safekeeping of assets and administration and ensuring that assets are only released with appropriate authorisation.

The administrative functions of the custodians 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 Scheme uses some pooled and collective investment arrangements where the custody services are arranged through the fund provider.

	Holdings at 31 March 2009		Investment return %			
			12 months to 31 March 2009		3 years to 31 March 2009	
Investment Manager	£m	% of Total	Actual %	Target %	Actual %	Target %
Matching Fund						
AXA	867	24.3	(5.4)	4.4	0.3	4.8
BGI	1,013	28.4	6.89	4.4	5.2	4.8
M&G	960	26.9	0.46	4.4	2.8	4.8
Matching Fund	2,840	79.6	0.4	4.4	2.7	4.8
Higher Performance Fund						
Invesco	119	3.3	(27.8)	8.9	–	
PSigma/Société Générale	63	1.8	(28.1)	8.9	–	
BlackRock	151	4.2	(15.8)	9.4	(3.3)	10.0
Alliance Bernstein	60	1.7	(13.5)	7.8	–	
Pioneer	51	1.4	(25.6)	7.8	–	
Stone Harbor	24	0.7	(32.0)	7.8	–	
Fortis	167	4.7	(7.6)	8.9	–	
Higher Performance Fund	**635**	**17.8**	**(19.6)**	**6.98**	**(7.47)**	**7.65**
Protected Rights / AVCs	19	0.5	NA	NA	NA	NA
Net Financial Assets	**3,494**	**97.9**	**(3.9)**	**4.9**	**0.4**	**5.4**
Net Current Assets	73	2.1	NA	NA	NA	NA
Net Assets of the Scheme	**3,567**	**100**	**(3.9)**	**4.9**	**0.4**	**5.4**

The above table excludes returns for the AVC and Protected Rights pooled funds.

The Trustee together with its Investment Adviser reviews the effectiveness of the custodial arrangements on a continual basis. The custodians are required to publish a report on its internal controls that has been audited by a third party auditor in accordance with agreed standards.

Largest investments

No individual equity investment constituted more than 5% of the Scheme's assets.

Additional Voluntary Contributions (AVCs)

The AVC scheme was closed to 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 a number of funds provided by Prudential.

Members either invest with Prudential or, where they have joined the Scheme following amalgamation with other schemes, have been permitted to continue to invest with the AVC provider of their original scheme.

At the end of the year there were 129 active members with an AVC account. There were also 1,652 deferred members with AVC accounts. Details of the value of a member's AVC fund are provided annually on individual statements.

Reassurance for members

The Trustee aims to operate in a safe and responsible manner, making the provision of members' future benefits a priority at all times. The Trustee is committed to continuous improvements in the Scheme's governance procedures; reviewing the employers' financial covenant; and vigilance regarding the funding arrangements.

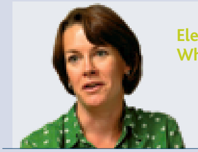
Trustee Board

Kathleen O'Donovan

Kathleen has been a member of the Board since 1991 and appointed Chairman in February 2003. As Chief Financial Officer of BTR and Invensys between 1991 and 2002 she has been deeply involved in the Scheme for many years. Previously a partner with Ernst & Young, Kathleen now holds a number of plc non-executive directorships, including Prudential plc.

Steve McDonnell

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.



Eleanor Whitfield

Eleanor has been with the executive team of the Invensys Rail Group since 1999 where she is VP Legal and Group General Counsel. Eleanor qualified as a solicitor in 1989 and has since been involved in a variety of international corporate and commercial projects with experience both in private practice and with National Power plc. Eleanor was appointed to the Board in March 2007.

Geoff Gayfer

Geoff manages safety related software development with Westinghouse Rail Systems, working mainly on large metro projects. He started his career as an electronic engineer in the telecommunications industry. He joined the Group in October 2002 and has been a member of the UKPCC since 2006. When a vacancy for a post on the Trustee Board arose he was proposed by the UKPCC as a Member Nominated Trustee to the Scheme in March 2008.

Russell Walker

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.

Ian Fyfe

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, and is Deputy Chairman.

Martin Barker

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.

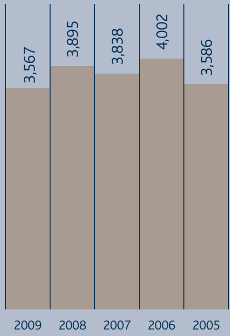
Tony Ferris

Tony is a Chartered Accounted who retired in 1999. He was Finance Director of Westinghouse Brake and Signal Holdings, served as Finance Director of Hawker Siddeley's Rail Division until 1991 and then as Group Controller of the BTR Rail Group. He was a Trustee of the Westinghouse pension schemes until they were merged with the BTR Group Pension Scheme in 1993 and was also Chairman of the South West Region's Pensions Consultative Committee.

The Board is made up of nine Directors, four Company Nominated Directors (a vacancy existed as at 31 March 2009) and five Member Nominated Directors ('MNDs'). Of the five MNDs three are Pensioner members and the remaining two are Active members. The Company nominates its representatives and is responsible for appointing the Chairman from the total Board. The MNDs are selected following a nomination process by their respective groups.

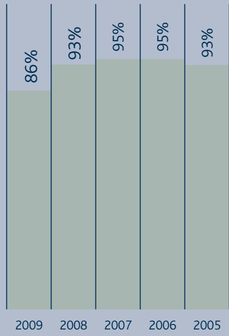
The year in summary

Value of pension fund (£m)



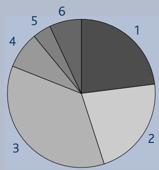
Scheme funding levels on an ongoing basis

Based on the actuarial assumptions used for funding the Scheme



Distribution of investments by type (%)

UK government fixed interest gilts (1)	23
UK government index-linked gilts (2)	22
Corporate bonds (3)	36
Equities (4)	8
Fund of hedge funds (5)	4
Cash and cash equivalent (6)	7



Investment returns (%)

	2009	2008	2007	2006	2005
Actual return	**(3.9)**	**4.7**	**0.4**	**14.0**	**7.8**
Benchmark return	**4.9**	**10.3**	**1.0**	**14.2**	**7.4**

Benchmark return is based on a series of performance indices against which investment return is measured

Distribution of investments by investment manager

£m	
867	AXA
1,013	Barclays Global Investors
960	M&G
151	BlackRock
60	AllianceBernstein
51	Pioneer Investments
24	Stone Harbor Investment Partners
167	Fortis Investments
119	Invesco Asset Management
63	Société Générale Asset Management
0	PSigma Investments Limited
19	Protected Rights & AVCs
3,494	**Net Financial Assets**
73	Net Current Assets
3,567	**Net Assets of the Scheme**

Financial account

for the year ended

31 March 2008

Income	£m
Employer's contributions	49.0
Members' contributions and transfers in	1.0
Investment Income	117.2
	167.2
Expenditure	
Pensions and benefits paid to members	219.6
Payments to and on account of leavers	5.7
Administration and investment expenses	11.8
	237.1

Fund value at beginning of year	**3,894.5**
Decreases in value of investments	(258.0)
Difference between income and expenditure	(69.9)
Fund value at end of year	3,566.6

Investments

Fixed interest securities	1,522.7
Equities	268.0
Index-linked securities	760.5
Managed and unitised funds	690.9
Cash items	86.5
Derivatives	148.6
Additional voluntary contributions & transfer-in investments	9.2
DC Section	0.7
Other	6.5
	3,493.6

Fixed assets	**0.1**
Current assets and liabilities	**72.9**
Fund value at end of year	**3,566.6**

Revisit

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

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