Growth in a Changing World
Annual Report and Accounts 2011

invensys

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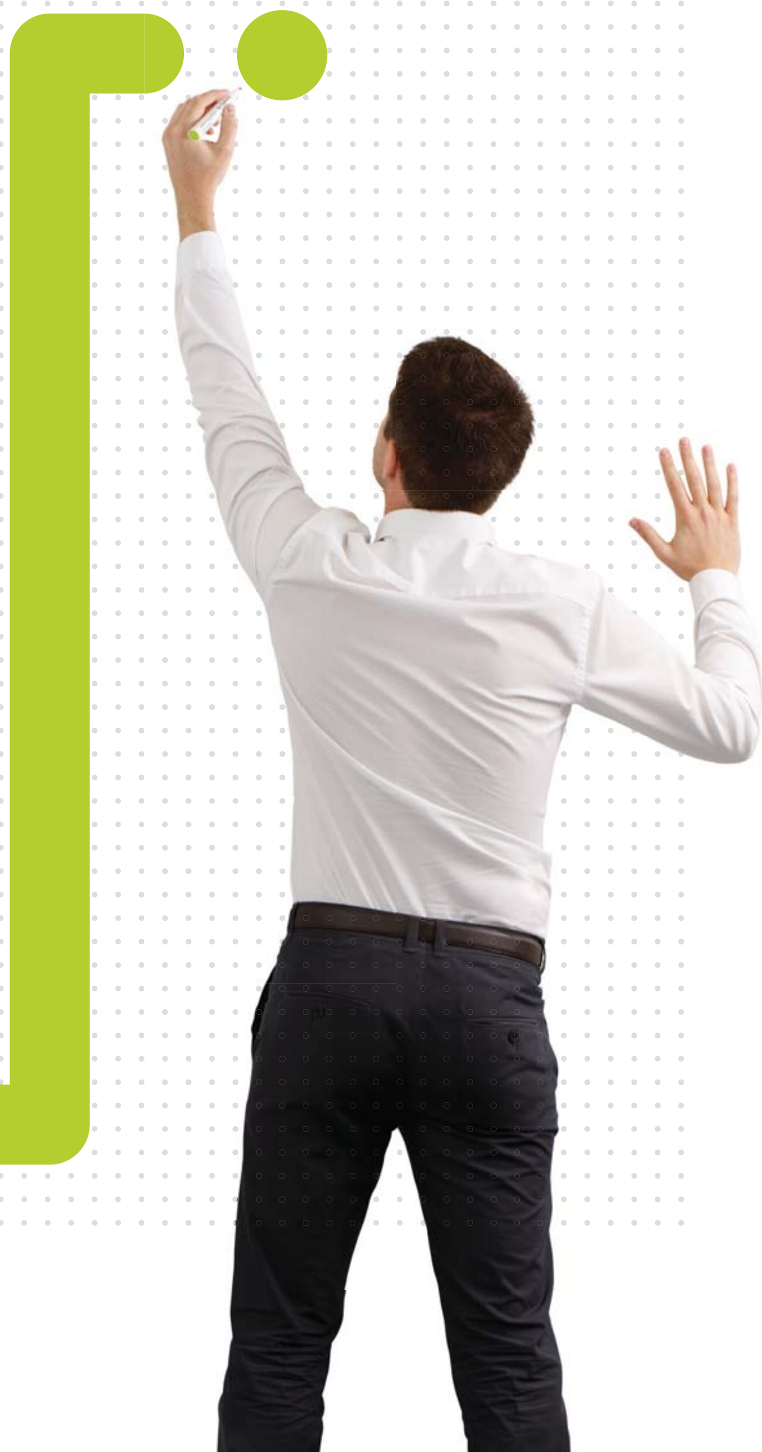


Growth in a Changing World

"In today's changing world, agility is required to meet the needs and develop the trust of our customers. Our technology and continued investment in research and development together with our delivery capabilities allow us to achieve this, whilst at the same time maintaining our absolute commitment to safety."

Wayne Edmunds, Chief Executive

Today's world and our markets are changing.

Many challenges, however, remain consistent across almost all industries and markets. Demand for energy, particularly from emerging economies, continues to increase and regulatory requirements are increasing as safety considerations remain paramount. The need to act responsibly and sustainably continues to be a priority and a focus remains on improving efficiency and reducing environmental impact.

Invensys develops and applies advanced technologies that enable the world's manufacturing and energy-generating facilities, mainline and mass transit rail networks, and appliances to operate safely and in an energy-efficient manner.

In all three of our divisions, our products and systems enable our customers to make the best decisions at the right time and to optimise their operations and business value.

We work with

- 24 of the top 25 petroleum companies
- 49 of the top 50 chemical companies
- All of the top 20 pharmaceutical companies
- 35 of the top 50 nuclear power plants
- 17 of the top 20 mining companies
- 10 of the 20 busiest metropolitan railway systems
- All of the top 7 appliance manufacturers

We enable

- 20% of the world's electricity generation
- 36% of the world's nuclear energy generation
- 64% of the world's liquefied natural gas production
- 24% of the world's chemical production
- 17% of the world's crude oil refining

Highlights of our Year

Invensys has made progress on a number of financial priorities set out at the start of the year. Each of our divisions has continued to progress and expand their presence in key growth markets.

This year has seen continued investment in new product development that should benefit each of our divisions in future years.

We maintained good cash and cost management discipline. The Group remains debt free.

Total dividends for the year were raised from 3.0 pence per share last year to 4.0 pence per share.

We also continued to support the principles of environmental stewardship and social responsibility.

Non-financial KPIs

CO_2 emissions (tonnes) within our manufacturing locations

Year	Tonnes
2008	82,332
2009	71,512
2010	64,587
2011	66,003

+2%

CO_2 emissions within our manufacturing locations increased by 2%; this compares with a revenue increase of 9% at constant exchange rates (CER)[1]

Energy consumption (MWh) within our manufacturing locations

Year	MWh
2008	198,982
2009	175,353
2010	152,135
2011	162,426

+7%

Energy consumption within our manufacturing locations increased by 7%; this compares with a revenue increase of 9% at CER

Total Recordable Case Incident Rate

Year	Rate
2008	0.56
2009	0.31
2010	0.21
2011	0.18

-14%

Our Total Recordable Case Incident Rate (TRCIR)[2] fell by 14%; this continues a five-year trend in which our TRCIR has fallen 76%

1 Unless otherwise stated, % change is measured as the change at CER as a percentage of the 2010 adjusted base and is calculated based on underlying amounts in £'000s.
2 The TRCIR is the injury/illness incident frequency rate in the workplace per 100 employees per annum.

Financial KPIs

Orders (£m)

Year	Value
2008	2,036
2009	2,806
2010	2,473
2011	2,452

£2,452m

Orders[3] were £2,452 million (2010: £2,473 million), down 1% (down 3% at CER)

Order book (£m)

Year	Value
2008	1,294
2009	2,083
2010	2,307
2011	2,204

£2,204m

Order book at 31 March 2011 was £2,204 million (2010: £2,307 million), down 4% (down 2% at CER)

Revenue (£m)

Year	Value
2008	2,108
2009	2,284
2010	2,243
2011	2,486

£2,486m

Revenue was £2,486 million (2010: £2,243 million), up 11% (up 9% at CER)

Operating profit (£m)

Year	Value
2008	254
2009	244
2010	248
2011	262

£262m

Operating profit[4] was £262 million (2010: £248 million), up 6% (up 5% at CER). Operating margin[4] was 10.5% (2010: 11.1%)

Underlying EPS (p)

Year	Value
2008	17.0
2009	14.1
2010	13.4
2011	19.8

19.8p

Underlying earnings per share (EPS)[5] were 19.8p (2010: 13.4p), up 48%

Basic EPS (p)

Year	Value
2008	21.1
2009	17.4
2010	18.5
2011	22.4

22.4p

Basic EPS were 22.4p (2010: 18.5p), up 21%

Dividend (p)

Year	Value
2009	1.5
2010	3.0
2011	4.0

4.0p

Recommended final dividend of 2.5p per share (2010: 2.0p); total dividends of 4.0p per share (2010: 3.0p)

Operating cash flow (£m)

Year	Value
2008	258
2009	298
2010	265
2011	213

£213m

Operating cash flow was £213 million (2010: £265 million), down 20% (down 21% at CER). Operating cash conversion was 81% (2010: 107%)

Return on operating capital (%)

Year	Value
2008	53.5
2009	49.0
2010	48.6
2011	49.9

49.9%

Return on operating capital[6] was 49.9% (2010: 48.6%)

3 All numbers are for continuing operations unless otherwise stated. Continuing operations are Invensys Operations Management, Invensys Rail and Invensys Controls, on which basis the Group is managed.
4 Unless otherwise stated, references to operating profit and operating margin are arrived at before exceptional items.
5 Calculated by reference to continuing operations before the exceptional post-retirement benefits past service credit, pension curtailment gains and PPP settlement credit.
6 Return on operating capital at CER is calculated as operating profit divided by capital employed excluding goodwill, net pension liabilities, non-operating provisions and net taxation liabilities.

Our Divisions

Invensys is a global technology group focussed upon industrial automation, rail transportation and controls.

01. Invensys Operations Management

46% of revenue

Invensys Operations Management is a leading global technology, software and consulting business that creates and applies advanced technologies to enable the safe and efficient operation of industrial and commercial operations such as oil refineries, fossil fuel and nuclear power plants, petrochemical works and other manufacturing sites.

iom.invensys.com

02. Invensys Rail

31% of revenue

Invensys Rail is a multinational technology leader, providing state-of-the-art software-based signalling, communication and control systems that enable the safe and efficient operation of trains in mainline and mass transit networks across the world.

invensysrail.com

03. Invensys Controls

23% of revenue

Invensys Controls designs, engineers and manufactures products, components, systems and services used in appliances, heating, air conditioning/cooling and refrigeration products across a wide range of industries in residential and commercial markets.

invensyscontrols.com

01.
Invensys Operations Management

Invensys Operations Management is a leading global technology, software and consulting business that creates and applies advanced technologies to enable the safe and efficient operation of industrial and commercial operations such as oil refineries, fossil fuel and nuclear power plants, petrochemical works and other manufacturing sites.

We offer a holistic and cost-effective way to optimise our customers' operational performance and overall profitability by improving the performance of key resources (including people, equipment, energy and materials) in real time and with measurable results. We do so at the same time as maintaining our absolute commitment to safety.

We have a large global installed base. Our customers are principally large, global industrial companies with complex processes and activities. Our solutions are used by more than 40,000 customers in over 200,000 plants and facilities around the world. We enable the generation of 20% of the world's electricity, the refining of 17% of the world's crude oil, 36% of the world's nuclear energy generation, and the production of 64% of the world's liquefied natural gas.

Our products and solutions are divided into the following categories:

Control and safety

Our **Foxboro® I/A Series®** distributed control system (DCS), is a world leader in meeting the automation needs of complex integrated systems that control critical or hazardous operations and require non-stop operation. We have a top three position in the world's DCS market based on the strength of this core brand. Our **Triconex®** system is the world's leading safety system and is used extensively in nuclear power stations, petrochemical plants and oil refineries. The **Triconex** system will automatically take over the plant in the event of a problem and bring it back quickly to a safe state.

Our team of experienced systems integrators is fundamental to our success in project delivery and in meeting the needs of our customers, in particular those with the largest and most complex projects.

Advanced applications

Our advanced applications use industry-leading software, technology and engineering solutions to help our customers to improve and optimise their performance. Our **SimSci-Esscor®** simulation software allows existing and new operators to practice dealing with different scenarios without affecting the plant, and our **Avantis®** asset management software monitors equipment in a plant to enable predictive maintenance and replacement to prevent unexpected downtime. Our **Wonderware®** offerings provide the platform for open connectivity to plant floor systems. A key factor of many of our advanced applications is that they can operate within plants that use our competitors' systems.

Equipment

Invensys Operations Management sells a broad range of equipment used in industrial plants, including measurement and instrumentation products from our leading **Foxboro** brand and our **Eurotherm®** recorders and controllers.

Enterprise Control System

In a changing world, profit management is becoming increasingly challenging. It is often made all the more so by the different needs and priorities of the various user groups within a plant or site: maintenance personnel focussed on improving asset effectiveness, operators looking to maximise production, and executives looking to achieve visibility across the enterprise. As a consequence, our customers are experiencing a growing need to manage their operations holistically and in real time.

To address these dynamics we are combining all our technologies into a single Enterprise Control System (ECS). This industry-first system integrates all aspects of plant operations, spanning DCS, safety systems, decision-support, execution and visibility, in much the same way that Enterprise Resource Planning (ERP) platforms have done for back office systems. It enables the linking of strategy with execution in ways that lead to an improvement in business performance.

Our **InFusion™** ECS, based on our world-leading **Wonderware** operations management software and over 20 years of experience in applying it, leverages an open architecture to seamlessly integrate the Invensys Operations Management portfolio, as well as new and legacy third-party offerings.

How do we generate revenue?

Our revenue can be broken down as follows: 60% control and safety, including our systems integration capabilities; 20% advanced applications; and 20% equipment. Our ECS offering is spread across all three product categories.

In recent years, we have been particularly successful in winning large greenfield contracts in the oil and gas, petrochemicals and power industries. The proportion of our revenue from large contracts, defined by us as in excess of £10 million, has been increasing. During the year 16% of the division's revenue was from large contracts compared with 3% in 2010.

Our route to market varies by product: our control and safety solution sales are direct; equipment sales are direct or indirect; and our advanced applications sales are direct, indirect, or, for our **Wonderware** software, often via systems integrators.

Our customers include

Amcor PET
AngloGold Ashanti Limited
Anton Paar
Aracruz Celulose Pulp Mill
Ash Grove Cement
Auto-Bake
Bayer CropScience
Beam Global Spirits & Wine
BEKUM
Bodycote Hot Isostatic Pressing Plant
Boots UK Limited
BP
Cairns Water
Castle Peak Power
CF Industries
Chevron
Chevron Oronite Company LLC
China Huaneng Group
China Ministry of Railways
China National Petroleum Corporation
City of Toronto
Codelco
ConocoPhillips
Daifuku Co., Ltd.
Datang Power
Delta BioFuels
DiGeronimo Aggregates
Duke Power
Eastman Chemical
Echelon Corporation
ECM Technologies
Elbe Tunnel
ENI
Eskom Lethabo Power Station
ExxonMobil
Gazprom
Global Water Management, LLC
Great Lakes
Hanover Compressor Company
Hawaiian Commercial & Sugar Company
Hendrick Motorsports
Hydro Aluminum
Infineum
Los Alamos Neutron
Luminant

01.
Invensys Operations Management continued

What is our strategy?
Invensys Operations Management's strategy is to support its existing customers, expand its customer base and to broaden the geographic profile of the division by focussing on high-growth economies. We will focus on our world-class control and safety systems and on high-margin and faster-growing segments of the market such as advanced applications and in leading the industry in the rapidly developing market for ECS. The ECS provides the platform to integrate the real-time plant floor into the enterprise systems and is a unique differentiator for our business.

Support existing customers
Continuing to ensure that our installed base of existing customers receives outstanding service and solutions will be an important source of future revenue. There will be significant opportunities to replace or upgrade controls and safety systems, as well as up-sale opportunities to provide advanced applications and ECS-based solutions.

Expand customer base
A key tenet of our strategy is to secure new greenfield contracts that expand our installed base and provide opportunities to sell additional solutions. Currently 77% of Invensys Operations Management's revenue derives from the oil and gas, petrochemicals, utilities and power, and general industries sectors. Our aim is to expand the reach of the division into a broader range of adjacent industries.

Expand geographically
Invensys Operations Management is targeting a greater proportion of revenue from the faster-growing economies of Asia Pacific, the Middle East and South America. As at 31 March 2011, 60% of the Invensys Operations Management order book was to emerging markets.

Leading technology
The development of world-class technology remains core to our strategy. During the year, Invensys Operations Management spent 6% of revenue on research and development in areas including enhancements to our DCS and safety platforms, advanced applications and our ECS.

Our network of technology and distribution partners increases our ability to develop and deliver value-adding technology to our customers.

Realise synergies within Invensys
It is a strategic aim of the Group to capitalise on the technologies within Invensys Operations Management to broaden our rail capability further.

Acquisitions
We will continue to make bolt-on acquisitions to deliver unique technologies that increase the breadth of our offerings, particularly in the areas of control and safety, advanced applications and applications supporting our ECS platform.

Our customers include continued

Meteng Pty Ltd.
Mount Packaging Systems
Nanjing Rail
New Belgium Brewing Company
NRG Huntley Power Station
Nucor Steel
Ontario Clean Water Agency
Ontario PG Nanticoke
Orley Foods
PDVSA
Pemex
Pepsi Bottling Ventures of Idaho
Petrobras
Philadelphia School District
Portland General Electric
Puerto Rico Water & Sewage Authority
PVC Compounders LLC
Qatar Petroleum
R&D Carbon
Rabigh Refining and Petrochemical Company (Petro Rabigh)
RasGas
Reliance
Salt River Project
Sanofi Pasteur
Sasol
Saudi Aramco
Shell
Southern Nevada Water System
Spokane Water Department
Texas Instruments
Thames Valley Police
The Body Shop
The Go Ahead Group
The South African Breweries Limited
The Venetian and Palazzo Resort Hotels & Casino
Tucson Electric Power Company
Vacuum Furnace Engineering Ltd
Valero Energy Corporation
Westshore Terminals
Wuxi Transportation Tunnel System
Yamatake
Yellow River Conservancy Commission
YPF S.A.

02.
Invensys Rail

Invensys Rail is a multinational technology leader, providing state-of-the-art software-based signalling, communication and control systems that enable the safe and efficient operation of trains in mainline and mass transit networks across the world.

Our systems and solutions enable our customers to control rail networks safely, increasing capacity at the same time as lowering their cost of ownership.

We operate in a highly regional rail industry, where different geographies frequently have their own operational and signalling requirements. Within our traditional core markets of the UK, Iberia, North America and Australia we are a major supplier of rail signalling systems.

In recent years, we have successfully expanded our business into new markets, including Brazil, Venezuela, Singapore, Malaysia, China, India, New Zealand and Turkey. Our technology is now in use by over 100 rail and mass transit operators in over 30 countries, including 10 of the world's 20 busiest metropolitan rail systems.

Our broad systems offering ranges from highly complex integrated control centres that supervise and control complete railways, to leading-edge systems for mass transit (for example **Communication Based Train Control (CBTC)**), and systems for mainline and high-speed lines (for example **European Rail Traffic Management System (ERTMS)**) that automate train operation and protection, to the latest generation interlockings that ensure safe running across a network. We also provide a complete range of trackside products, including crossings, point machines, relays and track circuits.

Our core strengths lie in the breadth and sophistication of our technology, our domain knowledge and our record for commissioning and delivery of projects.

How do we generate revenue?

Rail control is a specialist market within the rail product business as a whole and is a higher-margin segment compared with rolling stock and infrastructure. In the majority of cases, the business is project-based and involves long-term contracts spread over a number of years. Contracts are bid directly with customers, either independently or through consortia.

Invensys Rail's revenue can be broken down as follows: 47% mainline engineering and contracting; 31% mass transit engineering and contracting; and 22% products. During the year, 56% of the division's revenue was generated from contracts in excess of £10 million.

What is our strategy?

Invensys Rail has established a leadership position through sustained investment in the research and development of state-of-the-art technology solutions and a commitment to the highest standards of project execution. This dual approach remains at the heart of our strategy. We will also continue to expand geographically and realise synergies within Invensys.

Expand geographically

Our four traditional core markets of the UK, Iberia, North America and Australia account for 78% of the division's revenue; this compares with 90% in 2010.

Developing countries continue to accelerate rail investment and over the coming years we expect to increase significantly the contribution from other, faster-growing markets. 44% of the division's order book at 31 March 2011 related to projects outside our core markets (2010: 44%).

Technology development

With signalling and rail control having an increasing role in meeting the growing demands for rail resulting from urbanisation and a need for a reduced carbon footprint, new technology implementation remains critical for the industry.

The success of Invensys Rail will increasingly be judged on the operational value we provide to our customers by managing the whole railway system: driving up capacity and reducing journey times, energy usage and operational costs, while maintaining an absolute commitment to safety.

We continue to invest in state-of-the-art technology and spent 7% of the division's revenue on research and development during the year.

Realise synergies within Invensys

We will continue to leverage Invensys Operations Management's technology. Examples to date include safety systems for interlockings, asset management for trains and track, and the use of **Wonderware** technology for control room displays and passenger information systems.

Acquisitions

Invensys Rail will seek to make bolt-on acquisitions that deliver unique technologies and/or improved market access.

Our customers include

ADIF
CN
CPTM
KiwiRail
Land Transport Authority
London Underground
Madrid Metro
MTR Corporation
Network Rail
QR National
RENFE
WestNet Rail

03.
Invensys Controls

Invensys Controls is a leading global provider of control devices for products in residential homes and commercial applications, with strong positions in the markets it serves. It has been providing customers with leading technology and engineering since the early 1900s.

Our products measure variables, including temperature and pressure, and control the operation and optimisation of the performance of our customers' appliances.

Invensys Controls' customers are principally comprised of global residential and commercial appliance manufacturers, but also include wholesalers and distributors of heating, ventilating, air conditioning and refrigeration (HVACR) controls and services.

Appliance
We design, engineer and manufacture components and systems that control the operation of kitchen and other appliances, including cooking, refrigeration, laundry and dishwashing, in both the residential and commercial sectors.

We help our customers delight consumers by enhancing the features of their appliances while also exceeding the energy-saving standards set by the regulating agencies and reducing the raw material content of their products.

Commercial
We develop products used in commercial refrigeration, cooking, heating, ventilation, air conditioning, water heating and transportation. We are a leading designer and manufacturer of environmentally-optimised products that use the latest in electronic and mechanical controls to regulate temperature, pressure and humidity in residential and light commercial applications.

Wholesale
In the wholesale segment, we distribute a vast array of commercial and residential products and replacement products for original equipment manufacturers (OEMs), encompassing thermostats, valves, sensors, zone controls and timers.

How do we generate revenue?
Invensys Controls' revenue is generated from the sales of OEM components and aftermarket replacements. We supply the mid- to high-end of the home appliance market.

What is our strategy?
The heart of our strategy is to drive growth through value-engineered solutions and best-in-class global products, manufactured to deliver value to our customers. By utilising proven technologies, our innovative designs differentiate our solutions in our industries.

Support existing customers
Invensys Controls' principal customers operate in the competitive global appliance market. We help these customers to maintain a competitive advantage in the delivery of market-leading appliances. We supply all of the world's top seven appliance manufacturers.

Expand geographically
Our focus will continue to be on fast-growing regions such as Asia Pacific and South America where we can maximise engineering capabilities, optimise products and grow market share. We will also expand our wholesale channels further into Europe.

Broaden addressable market
Invensys Controls plans to expand its addressable market by continuing to provide a cutting-edge product range. During the year, approximately 10% of the division's revenue was derived from new product introductions, up from 9% in 2010.

Working closely with our customers, we will increase our investment and focus on the higher-margin commercial and wholesale segments, while also continuing to invest in the appliance segment.

Our successful restructuring and productivity programme has enabled us to price competitively by increasing our efficiency and lowering cost.

Our customers include

Alladio
Arcelik
B&Q
Berker
British Gas Services Limited
Candy
Criotec
Crosslees
Eliwell Iberica
Esmaltec
Fisher & Paykel
Frigoglass
Gira
GIS Calorex
H&V Controls
Haier
Hydralectric
Jaga
Johnstone Supply
Merten
Metalfrio
Samsung
Sub-Zero Wolf
Watkins Spa
Whirlpool Corporation

Our Global Reach

Invensys is a global technology group supplying solutions, software, services and equipment to monitor, control and automate processes in a wide range of environments and across almost every sector.

From oil refineries to power stations and from railways to domestic appliances, we help our customers to optimise their processes and improve their performance.

Our World

North America

Revenue (£m)

Year	Revenue
2008	644
2009	704
2010	665
2011	746

£746m

- £746m revenue[1]
- 7,753 employees[2]

United Kingdom

Revenue (£m)

Year	Revenue
2008	365
2009	358
2010	320
2011	299

£299m

- £299m revenue
- 2,860 employees

South America

Revenue (£m)

Year	Revenue
2008	111
2009	117
2010	134
2011	213

£213m

- £213m revenue
- 2,267 employees

1 Revenue by destination
2 Employee numbers are as at year end

Invensys has a truly global customer base: our solutions are used in more than 180 countries worldwide and we have facilities in more than 50 countries.

Rest of Europe

Revenue (£m)

Revenue	Year
590	2008
659	2009
630	2010
604	2011

£604m

- £604m revenue
- 3,465 employees

Africa/Middle East

Revenue (£m)

Revenue	Year
93	2008
118	2009
138	2010
171	2011

£171m

- £171m revenue
- 791 employees

Asia Pacific

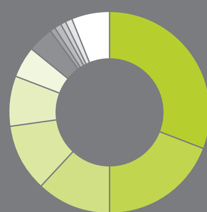
Revenue (£m)

Revenue	Year
305	2008
328	2009
356	2010
453	2011

£453m

- £453m revenue
- 3,528 employees

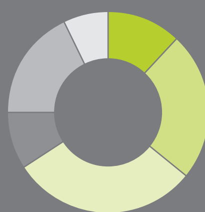
Revenue



By sector

Rail transportation	31%
Consumer cyclical	19%
Oil and gas	12%
General industries	11%
Utilities and power	8%
Discrete manufacturing	5%
Petrochemicals	4%
Food and beverage	1%
Pulp and paper	1%
Mining	1%
Pharmaceuticals	1%
Other	6%

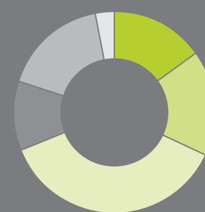
Revenue



By geography

UK	12%
Rest of Europe	24%
North America	30%
South America	9%
Asia Pacific	18%
Africa/Middle East	7%

Employees



By geography

UK	14%
Rest of Europe	17%
North America	37%
South America	11%
Asia Pacific	17%
Africa/Middle East	4%

"At Invensys, we have three world class divisions and a management team to match. Our task for the future is to take our strong market positions, our excellent technology, our committed people and our financial strength, and create an even better future for Invensys and its shareholders."

Sir Nigel Rudd, Chairman

Underlying EPS (p)

19.8p

Underlying EPS were 19.8p (2010: 13.4p), up 48%

Dividend (p)

4.0p

Recommended final dividend of 2.5p per share (2010: 2.0p); total dividends of 4.0p per share (2010: 3.0p)

Dear shareholder

I am pleased to report that Invensys produced another improvement in performance during the year ended 31 March 2011. We increased revenue by 9% at CER to £2,486 million and operating profit before exceptional items by 5% at CER to £262 million.

Invensys Operations Management produced record results, clearly benefiting from its success in winning large greenfield projects in emerging markets, executing on its advanced applications strategy, and a strong recovery in industrial capital expenditure in developed countries. The global rail infrastructure markets remained strong; however, Invensys Rail experienced a small decline in profitability due to cost overruns on three mass transit contracts and its order intake was affected by the timing of the award of large contracts. Invensys Controls produced a performance broadly in line with last year despite revenue being held back by weaker than expected consumer markets, particularly in North America.

At Invensys, we have three world class divisions and a management team to match. Our task for the future is to take our strong market positions, our excellent technology, our committed people and our financial strength, and create an even better future for Invensys and its shareholders. As our new Chief Executive, Wayne Edmunds, elaborates upon in his statement on page 14, we have the businesses and plans to achieve this; it is now all about execution.

Dividend and dividend policy

The Board has recommended a final dividend of 2.5 pence per share, which brings the total dividends payable in respect of the year ended 31 March 2011 to 4.0 pence per share, an increase of one third over the payments of 3.0 pence per share in respect of last year. Subject to approval by shareholders at the Annual General Meeting on 28 July 2011, the final dividend will be paid on 5 August 2011 to shareholders on the register at 24 June 2011. We have decided to introduce a dividend reinvestment plan (DRIP), beginning with this final dividend, which will enable shareholders to reinvest their dividends directly into Invensys shares. Details of the DRIP are contained in separate documentation mailed to shareholders.

The Board's dividend policy seeks to balance the income needs of shareholders with the needs of the Group to retain the resources and flexibility to enhance further our growth prospects.

Accordingly, we remain committed to our progressive dividend policy with future dividend growth reflecting more closely the long-term sustainable trend in underlying earnings per share and free cash flow.

The Board
On 24 March 2011, the Board announced that Ulf Henriksson had stepped down as Chief Executive and as a director and that Wayne Edmunds, who had been Chief Financial Officer since 2009, had been appointed Chief Executive. David Thomas, who has held senior financial roles within the Group since 2002, was appointed Acting Chief Financial Officer and a permanent appointment will be made in due course after consideration of internal and external candidates.

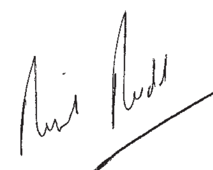
With effect from 19 May 2011, Deena Mattar has been appointed to the Board as an additional non-executive director. She was formerly Group Finance Director of Kier Group plc. Deena joined Kier Group in 1998 as Finance Director of Kier National, having previously held senior positions at KPMG, and was appointed to the board as Group Finance Director in 2001. She is a chartered accountant and will join the Audit Committee.

Outlook
Invensys Operations Management continues to see improved demand across all regions, with increased industrial capital expenditure in North America and Europe and further building of new capacity elsewhere, especially in the oil and gas and power sectors in the Middle East and Asia.

The global rail infrastructure market remains strong with several large projects, both greenfield and brownfield, currently being bid for by Invensys Rail across the world. Revenue growth will be supported by the large order book and margins are expected to remain in line with FY 2010/11's reported outcome, reflecting ongoing bidding and development costs and further investment in developing a presence in emerging markets; in the medium term, we expect margins to be in the range of 15–17%.

Invensys Controls' major appliance customers are expecting modest growth in our major markets in North America and Europe and we expect to outperform the market due to new product introductions and market share increases. We will also be putting a greater focus upon higher-margin sectors such as wholesale and commercial.

On a constant currency basis, we expect a year of further progress.



Sir Nigel Rudd
Chairman

Chief Executive's Statement

"I like to describe our strategy in simple terms as being based upon using our distinctive technologies and delivery capabilities to build global market share and increase shareholder value."

Wayne Edmunds, Chief Executive

Revenue (£m)

£2,486m

Revenue was £2,486 million (2010: £2,243 million), up 11% (up 9% at CER)

Operating profit (£m)

£262m

Operating profit was £262 million (2010: £248 million), up 6% (up 5% at CER)

I am delighted to be leading Invensys in the next stage of its development.

Having worked closely with our businesses over the past two years as Chief Financial Officer, it is clear to me that we have three strong divisions, each with management strength in depth and the ability to create significant growth and value. We are a global company operating in end markets which each have strong growth prospects.

We need to create a common theme for execution across the Group. Execution means having a discipline for linking people, strategy and operations to create sustainable value. To that end, we have decided to move away from an integrated operating model, with centralised functions and matrix management, towards a holding company model where divisional management has greater control and responsibility for their operations.

We will be concentrating upon a number of important areas:

- Continuing to win further greenfield projects in emerging markets to enlarge our installed base and provide opportunities for additional sales. We have demonstrated that our technology is well-suited for large, complex solutions and our unique ability to team with global partners offers our customers distinctive value.
- Building a larger footprint in regions and industries with higher growth expectations such as Asia and the nuclear power generating industry.
- Continuing to invest in the development of our key technology platforms to our competitive advantage in key areas.
- Using our strong balance sheet to add new capabilities to our portfolio or additional market presence in strategically important regions or sectors.
- Having reached provisional agreement on the triennial review with the trustees of our UK Main Pension Scheme that there is no change to the deficit funding contribution schedule, either in terms of duration or amount of payments, we will continue to keep our legacy pension issues under review.

Performance highlights
Overall, the Group produced another good performance with revenue and operating profit up 9% and 5% respectively at CER and underlying earnings per share up 48% to 19.8 pence per share (2010: 13.4 pence per share).

Invensys Operations Management had a strong order intake driven by a recovery in industrial capital expenditure in developed markets and the winning of further contracts to supply our control and safety systems for four additional Chinese nuclear reactors. Revenue growth was also strong mainly due to the ramp-up of activity on many of the large greenfield projects that we have won over the past two years. Operating margins returned to double digits for the year and our cash conversion was in line with our targets.

Invensys Rail reported a lower than expected order intake, which reflects the uneven nature of order intake in the industry and in particular the unexpected delay in the award of some larger contracts. However, the strength of its order book helped it to increase revenue by 9% at CER. Operating margins for the year reflected some provisions for additional costs on three mass transit contracts in the first half, partially offset by the benefit of risk register releases on contract completions in the second half. Cash conversion was adversely affected by the phasing of receipts from some customers.

Invensys Controls improved both revenue and operating profit despite some weaker than expected markets in the second half of the year, particularly for US appliances. It is clearly benefiting from the significant restructuring that has been implemented in recent years and it continues to reduce its cost base to ensure that this will drive profit growth as revenue recovers.

Our strategy
Our overall strategy remains unchanged but we will have an increased focus upon execution. I like to describe our strategy in simple terms as being based upon using our distinctive technologies and delivery capabilities to build global market share and increase shareholder value.

Across our businesses we have a number of core attributes that should enable us to grow faster than the competition:

- Distinctive technologies, including software and advanced applications.
- Strong delivery skills, in particular for large systems integration projects, which can be applied globally.
- A large installed base and exceptional customer relationships.
- A proven ability to be effective at business development, teaming and partnering, the combination of which enables us to take advantage of our market position.
- A strong balance sheet.

Our core markets remain robust
Each of our divisions is operating in industry verticals which have strong growth prospects:

- At Invensys Operations Management, our core markets of oil, gas and power have long-term structural growth due to the need for greenfield capacity in the developing world, especially India and China, and the potential for optimisation and efficiency of plant operations, particularly at brownfield sites in the developed world.
- At Invensys Rail, the global rail infrastructure market has long-term structural growth due to industrialisation and urbanisation in the developing world together with capacity needs and pressure to reduce carbon footprints in the developed world.
- At Invensys Controls, our core markets of appliance, commercial and wholesale should grow due to the expected recovery in Europe and North America and consumer aspirations in the developing world.

In particular, China and India will be important markets for each of our divisions and we will be using our combined knowledge and experience from operating in these countries to improve our capabilities and to capture growth opportunities.

Mid-term growth catalysts
As part of linking our strategy to our execution capabilities, each of our divisions has identified mid-term growth catalysts on which they intend to focus:

- At Invensys Operations Management, the focus will continue to be on responding to the significant number of large contracts in emerging markets, including nuclear power. Advanced applications market demand also remains strong.
- At Invensys Rail, the global order pipeline for large complex rail schemes remains robust.
- At Invensys Controls, the opportunity to expand the commercial and wholesale businesses will allow growth and margin expansion.
- Each of the divisions has identified suitable bolt-on acquisitions to supplement their organic growth.
- We continue to invest in research and development to ensure we are at the technological forefront of each of our industries.

Corporate Social Responsibility (CSR)
I intend to reinforce our commitment to supporting the principles of economic success, environmental stewardship, diversity and social responsibility. We have programmes in place across the Group to ensure that we act as a responsible global citizen and these are supported by our Code of Conduct which defines how each of us acts in our business life.

Our CSR report, which starts on page 28, contains a summary of our achievements and these are explained in more detail in our third Sustainability Report, which will be available for download from our website. I am especially pleased by the very low incidence of injuries to our employees; their health and safety remains the highest priority. During the year, there were a number of incidents of natural disasters and civil unrest around the world and our teams ensured that all Invensys people and their families who were affected were helped where needed.

Invensys people
I have inherited a very talented and committed group of professionals who drive our business on a day-to-day basis. We also have the strength in depth that will provide us with the flexibility and capability to deal effectively with inevitable challenges that will arise going forward. All of our people have contributed to our resilience through the worst recession in generations and together they have created the strong divisions and corporate centre that will drive future growth.

I would like to pay tribute to each of them for their efforts and thank them for helping to make Invensys what it is today. I look forward to working with them to create an even better Invensys.

Wayne Edmunds
Chief Executive

Business Review

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Financial Review

"I am pleased to report that during the year Invensys has made progress on a number of financial priorities set out at the start of the year that have underpinned key operational development."

David Thomas, Acting Chief Financial Officer

Operating cash flow (£m)

£213m

Operating cash flow was £213 million (2010: £265 million), down 20% (down 21% at CER). Operating cash conversion was 81% (2010: 107%)

Return on operating capital (%)

49.9%

Return on operating capital was 49.9% (2010: 48.6%)

Introduction and summary

The investments made in the businesses in recent years, including new product development, expanding sales and marketing and restructuring programmes, have begun to benefit the profit performance of the Group.

We maintained good cash and cost management discipline and continued to strengthen our financial position. Our achievements in this financial year include:

- Cash conversion of 81%, free cash flow of £83 million and net cash at 31 March 2011 of £348 million. The Group remains debt free.
- We invested in technology by continued spending in research and development and, including amortisation, this represented 6% of Group revenue.
- Investment continues in new sales and project delivery capabilities, particularly in emerging markets, to drive future growth.
- We continue to manage our UK Main Pension Scheme in a way that minimises the level of volatility within it. The IAS 19 accounting measurement has seen a reduction in the net liability to £467 million (2010: £581 million); our cash flows are based on the funding valuation and we have reached a provisional agreement on the triennial review with the trustees that there is no change to the deficit funding contribution schedule.
- Our earnings and free cash flow have allowed us to raise the total dividends for the year from 3.0 pence per share last year to 4.0 pence per share.
- Underlying earnings per share of 19.8 pence represents a 48% improvement compared with the prior year.
- We continue to focus on large infrastructure projects in emerging markets: 48% of the Group order book is now made up of orders to emerging markets.

A detailed look at our financial performance for the year and financial position at the year end is set out in the sections that follow.

Review of performance during the year

Year ended 31 March All data relates to continuing operations (other than free cash flow)	2011	2010	% change at CER[1]	% total change
Orders (£m)	**2,452**	2,473	(3)	(1)
Order book (£m)	**2,204**	2,307	(2)	(4)
Revenue (£m)	**2,486**	2,243	9	11
Operating profit[2] (£m)	**262**	248	5	6
Operating margin[2] (%)	**10.5%**	11.1%		
Operating cash flow (£m)	**213**	265	(21)	(20)
Cash conversion (%)	**81%**	107%		
Earnings per share – underlying[3] (p)	**19.8**	13.4		48
Earnings per share – basic (p)	**22.4**	18.5		21
Free cash flow (£m)	**83**	100		(17)
Return on operating capital[4] (%)	**49.9%**	48.6%		

1 % change is measured as the change at CER as a percentage of the 2010 adjusted base and is calculated based on underlying amounts in £'000s.
2 All references to operating profit and operating margin are arrived at before exceptional items, unless otherwise stated.
3 Before the exceptional post-retirement benefits past service credit, pension curtailment gains and PPP settlement credit.
4 Return on operating capital at CER is calculated as operating profit divided by capital employed excluding goodwill, net pension liabilities, non-operating provisions and net taxation liabilities.

The table above sets out financial KPIs that the directors and Group management use to track and drive performance. A more detailed explanation of these KPIs and other financial measures in the context of the Group's trading performance during the year is set out throughout this Financial Review.

Being an international Group, the results are impacted by exchange differences arising on translation and, in the summaries below, these effects have been excluded by using constant exchange rates to provide an understanding of underlying trends.

Orders and order book

A summary of orders and movements at CER by division is set out below:

Year ended 31 March	2010 orders £m	Exchange movement £m	2010 at CER £m	Change at CER £m	2011 orders £m	% change
Invensys Operations Management	1,096	33	1,129	211	**1,340**	19
Invensys Rail	817	6	823	(265)	**558**	(32)
Invensys Controls	560	12	572	(18)	**554**	(3)
Continuing operations	**2,473**	**51**	**2,524**	**(72)**	**2,452**	**(3)**

The order book for continuing operations was £2,204 million at 31 March 2011 (2010: £2,307 million). This decrease is due to the uneven intake of large orders at Invensys Rail, partially offset by the significant orders won by Invensys Operations Management.

Revenue

A summary of revenue and movements at CER by division is set out below:

Year ended 31 March	2010 revenue £m	Exchange movement £m	2010 at CER £m	Change at CER £m	2011 revenue £m	% change
Invensys Operations Management	1,000	26	1,026	121	**1,147**	12
Invensys Rail	700	5	705	67	**772**	9
Invensys Controls	543	12	555	12	**567**	2
Continuing operations	**2,243**	**43**	**2,286**	**200**	**2,486**	**9**

The revenue increases were mainly driven by large greenfield contracts in Invensys Operations Management and the conversion to revenue of a strong opening order book at Invensys Rail.

Operating profit

A summary of operating profit and movements at CER by division is set out below:

Year ended 31 March	2010 OPBIT £m	Exchange movement £m	2010 at CER £m	Change at CER £m	2011 OPBIT £m	% change
Invensys Operations Management	92	2	94	29	**123**	31
Invensys Rail	141	(1)	140	(11)	**129**	(8)
Invensys Controls	53	1	54	2	**56**	3
Corporate	(38)	–	(38)	(8)	**(46)**	21
Continuing operations	**248**	**2**	**250**	**12**	**262**	**5**

The operating profit increase at Invensys Operations Management and Invensys Controls is mainly due to increased volume, close control of overheads and the benefits of restructuring projects.

The results in Invensys Rail were adversely impacted by provisions on three mass transit projects in the first half, but margins recovered in the latter part of the year reflecting favourable mix and the closure of contracts.

Operating cash flow and cash conversion

A summary of operating cash flow and cash conversion by division is set out below:

Year ended 31 March	Operating cash flow		Cash conversion	
	2011 £m	2010 £m	2011 %	2010 %
Invensys Operations Management	**110**	147	**89**	160
Invensys Rail	**71**	98	**55**	70
Invensys Controls	**74**	63	**132**	119
Corporate	**(42)**	(43)	**–**	–
Continuing operations	**213**	**265**	**81**	**107**

Invensys Controls continued to sustain an excellent cash conversion whereas in the other divisions cash receipts were impacted by the profile of milestones on major projects. In Invensys Rail, there were some delays in progress payments in Spain and South America.

Exceptional items

The exceptional charge for the year totalled £21 million (2010: £25 million). This included restructuring costs of £21 million, £10 million of asset impairments (intangible assets £6 million and property, plant and equipment £4 million), offset by a £10 million credit of other operating exceptionals. These credits comprise a £20 million past service credit arising as a result of amendments made to the benefits payable under the terms of the US Healthcare Plan and a net £10 million of costs to settle a legal case.

Restructuring costs comprise the integration of the North American and European Invensys Controls businesses, the global Human Resources Service Delivery project, and other rationalisation projects across the Group.

The comparative period included restructuring costs of £43 million, £10 million of asset impairments (predominantly property, plant and equipment) and a £5 million loss on the sale of property, plant and equipment, offset by £33 million of other operating exceptionals, which comprised £3 million of surplus property costs and a gain arising from the curtailment of the US defined benefit pension plans of £36 million.

Net finance costs

Net finance costs decreased to £5 million in the year (2010: £7 million), reflecting improved liquidity management.

Taxation

The tax charge for continuing operations was £37 million (2010: £26 million), which comprises a current year income tax charge of £44 million (2010: £39 million), offset by prior year credits of £6 million (2010: £14 million) and a deferred tax credit of £1 million (2010: £1 million charge). The Group is subject to several factors which affect the tax charge, including the levels and mix of profitability in different jurisdictions and the availability of tax losses.

Discontinued operations

The loss from discontinued operations of £7 million (2010: £2 million) relates to a net £7 million (2010: £3 million) of further provisions in respect of prior year disposals, offset by £nil tax (2010: £1 million credit).

Net profit

Net profit increased to £178 million (2010: £151 million), due to an increase in operating profit of £14 million and a decrease in the IAS 19 finance charge of £23 million, partially offset by an increase in the tax charge for the year of £11 million.

Earnings per share

Basic EPS from continuing operations were 22.4 pence per share (2010: 18.5 pence per share). Underlying EPS, which excludes the £20 million exceptional past service credit on the US Healthcare Plan, were 19.8 pence per share (2010: 13.4 pence per share).

Free cash flow

Free cash flow for the year was £83 million (2010: £100 million). The reduced free cash flow was mainly driven by lower operating cash flow, partially offset by lower restructuring and taxation payments.

Financial position at year end

Capital structure

The Group's capital structure is as follows:

As at 31 March	Note reference in Group Financial Statements	2011 £m	2010 £m
Capital employed		**201**	57
Cash and cash equivalents	20	**349**	364
Borrowings	21	**(1)**	(1)
Net cash		**348**	363
Total capital (equals total equity)		**549**	**420**
Comprising:			
– Equity holders of parent		**514**	340
– Non-controlling interests		**35**	80
		549	**420**

Capital is managed under the Group's treasury policy. The policy sets out a strategy for the long-term funding of the Group, with the objective of ensuring the Group has access to appropriate sources of funding to support its businesses, as and when required. The current capital structure supports this approach. The Group is currently debt free, but has credit facilities in place that provide liquidity for the Group until July 2013. The facilities are available for utilisation as loans or bank guarantees. As at 31 March 2011, £254 million was drawn for the provision of bank guarantees (2010: £240 million). In addition, the Group has £219 million (2010: £245 million) of guarantees issued under local uncommitted facilities.

The Group's cash balances supported by the availability of credit facilities allow access to adequate capital resources.

Further explanation of the way in which the Group manages its capital resources is set out in the Financial Policies on page 22 and in Note 22 to the Group Financial Statements.

Total equity

Total equity increased by £129 million, with net profit of £178 million and an IAS 19 actuarial gain of £30 million, partially offset by the £41 million interim distribution made to the non-controlling shareholders of Baan Company NV (in liquidation) (Baan), dividends paid of £28 million and foreign exchange translation losses of £20 million.

Non-controlling interests

The balance of non-controlling interests was £35 million (2010: £80 million); the majority of the opening balance related to the interests of the minority in Baan to whom there was an interim distribution in the year of £41 million.

Net cash

Net cash was £348 million (2010: £363 million), with a slightly lower free cash flow, an increase in dividends paid and the amounts paid for the interim distribution to the non-controlling shareholders of Baan.

Capital employed

Capital employed increased by £144 million to £201 million in the year, mainly attributable to the decrease in the IAS 19 pension liability in the year of £114 million. Capital employed includes operating capital of £390 million (2010: £366 million), generating a return of 49.9% (2010: 48.6%).

Pension liabilities and funding

The IAS 19 net pension liability at 31 March 2011 was £467 million (2010: £581 million), a reduction of £114 million driven by employer contributions of £80 million and an actuarial gain of £30 million. The latter includes an actuarial gain of £88 million arising from the change in pension indexation from RPI to CPI following the change in rules announced by the UK Government.

The provisional agreement reached with the trustees of the UK Main Pension Scheme has produced a funding deficit of around £230 million, compared with £285 million at 31 March 2008, despite slightly more conservative assumptions. More importantly, there will be no change to the previous deficit funding contribution schedule that was agreed with the trustees three years ago, which requires us to pay £39 million per annum (increasing by inflation) to 2017.

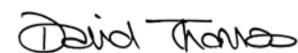
There will be an increase in the funding of the US plans to meet the Employee Retirement Income Security Act (ERISA) requirements.

Dividend

The Board is recommending a final dividend of 2.5 pence per share (2010: 2.0 pence per share), resulting in total dividends for the year of 4.0 pence per share (2010: 3.0 pence per share).

Summary and conclusions

Performance in the businesses has reflected our recent success in expanding outside our core markets and we begin the new financial year from a position of financial strength. We will continue to invest in our global growth strategy. With increasing activity arising from major projects we will remain focussed on execution.



David Thomas
Acting Chief Financial Officer

Financial Policies

Statement of accounting policies

The Group's Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) in issue that are endorsed by the European Commission and effective at 31 March 2011. The Group's accounting policies under IFRSs are set out in the accounting policies section in the Group Financial Statements on pages 73 to 80. The Parent Company Financial Statements have been prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP) and include details of the Company's accounting policies.

Treasury policy

The Group's treasury policy is approved by the Board and seeks to ensure that:

- appropriate financial resources are available for the maintenance and development of the Group's divisions;
- the financial risk of currency, interest rate and counterparty credit exposure is understood, measured and managed appropriately; and
- the Treasury department operates as a cost centre and that no speculative transactions are undertaken.

Funding, liquidity and treasury management

Operating within the strict controls of the Group's treasury policy, the Treasury department manages this financial risk, ensuring that sufficient funding and liquidity are available to meet the expected needs of the Group together with a prudent level of headroom to allow for cash flow and bank guarantee variability. In addition to the free cash flow of the Group, Invensys adopts a flexible approach to liquidity management using a mixture of long-term debt facilities and short-term cash deposits. Funding is provided by bank facilities which mature in July 2013. The undrawn level of these facilities together with the Group's cash balances are the key measures of the Group's liquidity.

Interest rate risk

The Group is exposed to risk arising from the effect of changes in floating interest rates on the level of interest it receives on its cash deposits.

As at 31 March 2011 and 31 March 2010, in line with the Group having a net cash position, Invensys had no significant borrowings.

Currency risk

Transaction exposure

Currency transaction exposure arises when the units face revenue or costs in a currency other than their own. The incidence of this risk varies across the Group and is subject to change. However, the majority of revenue and costs will usually be in the functional currency of the business undertaking the transaction. Where this is not the case and the exposure is significant, it is the Group's policy for the units to hedge their exposure. The Group predominantly uses forward currency contracts to manage transaction exposure. The Group is also subject to exchange risk when making bids, particularly on major contracts, where movements against the specific exchange rate assumed within a bid would lead to a change in the anticipated margin on the contract should the bid be successful. This exposure to contract risk is hedged if significant.

Translation exposure

The majority of the Group's operating capital is employed in overseas locations and is denominated in foreign currencies, particularly US dollars. As a consequence, changes in exchange rates affect both net asset values and reported results. This risk is not hedged directly but, to the extent that the Group has debt, any that is held in foreign currencies would reduce the level of net assets exposed to currency fluctuations. The interest expense related to such debt would also reduce the level of earnings exposed to exchange rate movements.

Credit risk

The Group monitors the identity of the counterparties with whom it deposits cash and transacts other financial instruments so as to control exposure to any territory or institution. As far as it is both feasible and practical to do so, cash is held centrally by the Treasury department. Risk is assessed using ratings from major credit rating agencies.

Further information on the risks arising from financial instruments is included in Note 22 to the Group Financial Statements.

Invensys Operations Management

Markets
After two difficult years during which industrial capital expenditure showed significant declines due to the recession, some markets have shown a good recovery during the year helping to drive a strong improvement in divisional performance.

In North America, the market rebounded with increased demand in particular from the oil and gas sector for services and maintenance, measurement and instrumentation equipment and brownfield upgrades of control and safety systems. Our markets in South America and the Middle East were strong driven by large greenfield projects in the oil and gas sector; we have not been significantly affected by the current unrest in parts of the Middle East.

The Asia Pacific region remained strong as countries, in particular India and China, continue to expand their power generation capacity to meet the demands arising from economic growth and urbanisation. The large programme of new nuclear power station construction in China, where we have captured a significant market share during the past two years in supplying control and safety systems, has not been affected by the events at the Fukushima nuclear plants in Japan; we continue to monitor closely the effect of these events upon the expansion and station upgrade work in the nuclear sector in China and elsewhere.

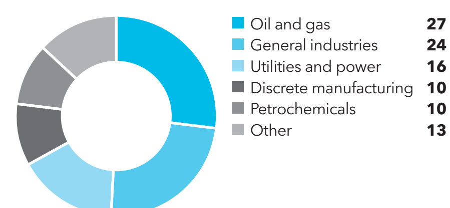
Our European markets have not yet shown the level of recovery seen elsewhere, though we do expect some improvement in the current year.

Developments
We continue to be recognised by our customers for our advanced applications technologies and our ability to execute the largest and most complex projects in our industry.

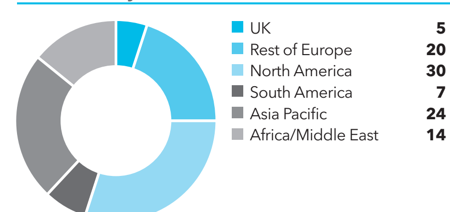
Advanced applications including our Enterprise Control System (ECS)

- We successfully implemented an InFusion™ ECS for ExxonMobil Lubricants & Specialties Company. Installed at ExxonMobil's lubricants plant in Beaumont, Texas, the InFusion ECS will help manage the operating facility, controlling major processes and integrating the existing SAP enterprise resource planning, batch process and final packaging and shipping systems.
- We signed a five-year contract to deliver a comprehensive refinery-wide optimisation solution for Thai Oil Public Company Limited, one of Asia Pacific's leading refining and petrochemical companies. Under the terms of the agreement, we will implement our SimSci-Esscor ROMeo® optimisation software to improve the real-time performance of Thai Oil's refinery operations.

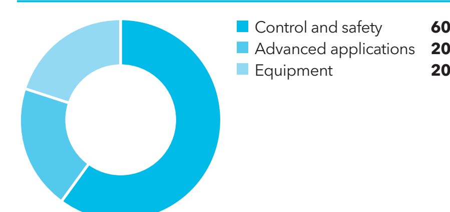
Revenue by sector (%)



Revenue by destination (%)



Revenue by product category[1] (%)



1 Our ECS offering is spread across all three product categories.

Year ended 31 March	2011	2010	% change at CER	% total change
Orders (£m)	**1,340**	1,096	19	22
Order book (£m)	**1,124**	972	21	16
Revenue (£m)	**1,147**	1,000	12	15
Operating profit (£m)	**123**	92	31	34
Operating margin (%)	**10.7%**	9.2%		
Operating cash flow (£m)	**110**	147	(27)	(25)
Operating cash conversion (%)	**89%**	160%		
Employees at year end (numbers)	**8,897**	8,176		9

Projects featuring control and safety systems

- During the year, we signed two project-based agreements with China Nuclear Power Engineering Co. LTD (CNPE) to provide safety and distributed control systems (DCS) and solutions for four nuclear reactors: units 3 and 4 at Fujian Fuqing Nuclear Power Plant, two 1,000MW nuclear power units under construction in Fujian province in South East China; and two reactors at the Changjiang Nuclear Power Plant under construction on Hainan Island.
- Invensys Operations Management signed a US$12.4 million contract to upgrade and modernise a DCS for Malaysia Liquefied Natural Gas Sdn. Bhd. (MLNG). The major upgrade will provide a continuously current DCS and sustain the productivity and safety of MLNG's liquefied natural gas operations in Bintulu, Sarawak, Malaysia.
- We entered into a contract with Bluewater (Glas Dowr) NV, a company specialising in the design, development, lease and operation of tanker-based production and storage systems. Invensys Operations Management will update the legacy DCS and safety systems aboard the Glas Dowr floating production, storage and offloading unit, which will be operating approximately 170 kilometres south of the Timor-Leste coast in the Timor Sea. We will supply our Foxboro® I/A Series® distributed control and Triconex® critical control solutions, as well as fire and gas detection systems, instrumentation, smoke detection systems, cabinets and consoles.

In April 2010, we announced the acquisition of Skelta Software, a privately held software company headquartered in Bangalore, India. Skelta Software provides business process management and advanced workflow software solutions.

Performance

Invensys Operations Management produced a strong performance driven by a recovery in capital expenditure, including the North American oil and gas sector, and the ramp-up of work on recently won large greenfield projects in emerging markets.

Order intake was £1,340 million (2010: £1,096 million), up 19% at CER with the improvement in industrial capital expenditure driving Eurotherm and measurement and instrumentation equipment and also services and maintenance upgrades. In addition, we continued to win nuclear projects in China and received orders for the control and safety systems for four more nuclear reactors. The order book at 31 March 2011 was at record levels at £1,124 million (2010: £972 million) with around 60% represented by emerging markets (2010: 47%). The order pipeline to 31 March 2014 was £3.9 billion.

Revenue for the year grew strongly and was up 12% at CER at £1,147 million (2010: £1,000 million), reflecting the benefit of the shorter-cycle equipment orders and the initial revenue flowing from the recent large greenfield orders; revenue from these large orders of over £10 million amounted to 16% of the division's revenue in the year (2010: 3%). The focus upon advanced applications and the maintenance annuity revenue during the year also drove performance with both revenue streams showing strong double-digit growth and contributing to margin expansion.

As a result of the increased revenue and control of overheads, operating profit was up 31% at CER to £123 million (2010: £92 million) and operating margin was 10.7% (2010: 9.2%). Post restructuring charges, operating profits were up 84% at CER at £123 million (2010: £66 million), reflecting the completion of the integration of the businesses to form the division.

Operating cash flow was £110 million (2010: £147 million) resulting in cash conversion of 89% (2010: 160%), in line with our medium-term targets for the division.

Invensys Rail

Markets

Across the world, the market for rail signalling and control systems remained strong during the year, with a number of drivers across both the developed and developing worlds including industrialisation, urbanisation, increasing capacity needs, and the recognition of rail as an environmentally sustainable and efficient means of transport and a means to reduce carbon footprints.

In the UK, the government announced its plans for continued investment in mainline and London Underground upgrades, as well as committing to finance the Crossrail project in London and giving a longer-term commitment to high-speed rail. On mainline, we won a number of large contract awards from Network Rail during the year. On the London Underground, we have continued to successfully deliver the signalling upgrades on the Sub-Surface Lines, allowing new rolling stock to enter passenger service, and on the Victoria Line. When the upgrade to the Victoria Line is completed in 2012, it will have delivered significantly improved line capacity and reduced journey times. While we were disappointed not to be selected by London Underground as preferred bidder for the Sub-Surface Railway resignalling project, we continue to focus upon international opportunities.

In Spain, we saw an expected slowdown in orders as the government implemented austerity measures. However, the market remains satisfactory with investment in metro and light railway declining but with Spain remaining committed to finishing its world leading high-speed line network.

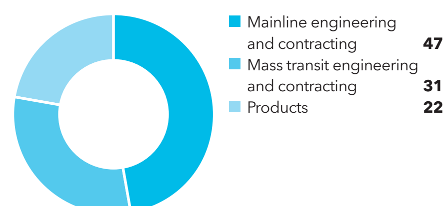
In Australia, the market remains robust in spite of the natural disasters that the country has experienced in recent months.

The North American market remains strong with rail traffic continuing to grow and an increase in US railroad activity expected in 2011. In the short to medium term, we continue to see significant potential opportunities from the introduction of positive train control (PTC) systems. Whilst we also continue to see significant opportunities from proposed North American high-speed lines, we do not expect this to impact revenue in the medium term.

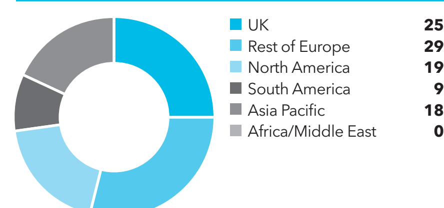
Outside our traditional core markets, we are seeing increasing demand in many countries, particularly South America, the Middle East and Asia, including India and China. During the year we entered into agreements with a division of CSR, the leading Chinese manufacturer of rolling stock, and we expect to see this relationship produce significant revenue over the next few years. In India, we are starting to see the benefits from prior years' investment and have begun winning an encouraging level of new business.

We expect the rail control market to continue to grow with demand driven by a satisfactory investment in our core markets and significant investment in new markets in both mainline, including high-speed lines, and mass transit.

Revenue by sector (%)



Revenue by destination (%)



Year ended 31 March	2011	2010	% change at CER	% total change
Orders (£m)	**558**	817	(32)	(32)
Order book (£m)	**1,021**	1,257	(18)	(19)
Revenue (£m)	**772**	700	9	10
Operating profit (£m)	**129**	141	(8)	(9)
Operating margin (%)	**16.7%**	20.1%		
Operating cash flow (£m)	**71**	98	(26)	(28)
Operating cash conversion (%)	**55%**	70%		
Employees at year end (numbers)	**4,009**	3,857		4

Developments
James Drummond will be stepping down as Chief Executive of Invensys Rail and leaving the Group at the end of June 2011. Kevin Riddett, who has been Chief Operating Officer of the division since November 2010 and was formerly President of its US operations, will take over as its Chief Executive.

Our strategy of increasing the proportion of our revenue outside our traditional core markets continues and revenue from new markets rose to 22% in 2011 from 10% in 2010.

Our leading technologies and excellent commissioning record are reflected in our continued success in gaining new and replacement signalling contracts in both our core and new markets. The table below shows our order intake during the year for orders in excess of £10 million.

Performance
Order intake during the period was £558 million (2010: £817 million), down 32% at CER due primarily to the increasing effects of the uneven intake of large orders in the industry. However, the order book at 31 March 2011 remains robust at £1,021 million, with around 44% represented by contracts outside our traditional core markets. In addition, the pipeline of order prospects for the next three years remains large at £8.6 billion.

Revenue was up 9% at CER at £772 million (2010: £700 million) with growth of around 150% in new markets offset, as expected, by a small decline in revenue in our traditional core markets.

Operating profit fell to £129 million (2010: £141 million), a decrease of 8% at CER, and operating margin, although lower than the prior year which benefited from favourable contract commissioning in Spain, remained healthy at 16.7% (2010: 20.1%). Operating margin for the year reflected some provisions for additional costs on three mass transit contracts in the first half partially offset by the benefit of contract completions in the second half.

Operating cash flow was £71 million (2010: £98 million), and cash conversion was 55% (2010: 70%) as a result of some delays in progress payments in Spain and South America.

Contract wins	
Porto Alegre Metro extension	Brazil
Abbot Point Expansion Project (Queensland's Newlands Coal System)	Australia
Madrid to Valencia high-speed line maintenance	Spain
Maintenance of Madrid Metro onboard equipment	Spain
Orense to Santiago high-speed line	Spain
Utrera to Jerez high-speed line	Spain
Modular Signalling, Shrewsbury to Crewe (Network Rail)	UK
Salisbury to Exeter (Network Rail)	UK
Thameslink upgrade (Network Rail)	UK

Invensys Controls

Markets

For the past four years, Invensys Controls has been successful in managing its business despite significant reductions in production volumes in the global appliance and other markets. During the year, we have not seen the major declines of recent years; indeed, we have seen some stabilisation in demand overall, although demand patterns remain unpredictable across several segments and geographies.

The North American appliance and wholesale markets showed significant improvement in the first half of the year but this was followed by a decline in the second half as a fall in consumer confidence was exacerbated by some customers reducing inventory in their supply chains. However, the North American commercial market remained robust throughout the year. In Europe, the appliance market was broadly flat but we saw some good improvements in the commercial and wholesale segments. South America was down slightly mainly due to the ending of tax incentives in Brazil. Asia Pacific was also broadly flat.

Developments

The division's focus upon applying its value-engineered solutions to help its customers produce the most advanced, efficient and consumer-friendly appliances and products has been reinforced by the creation of a global engineering team. This team is working to create common global platforms for certain product lines, capturing the best technology from each of its regions. For example, the Hydra Water Valve for the global residential washing machine market has been launched and has been well received by several customers. Other product lines, such as refrigerator controls and electric range controls, are now being developed as global platforms. In another segment, we have launched a series of environmentally-optimised electronic controllers and monitoring system for the refrigerated cabinets that are used extensively by supermarkets. New products accounted for 10% of revenue in the year.

As well as capturing the benefits of the restructuring activities that have taken place over the past three years, the division has been working with suppliers to alleviate some component shortages, some arising as a consequence of the recent earthquake in Japan, and actively managing raw material supply costs, particularly for metals and plastics.

The division recently opened a new research and development centre and Asia Pacific regional head office in Shanghai. This new centre will help drive our value-engineering strategy and will support regional customer design centres.

During the year, we disposed of a small European business that produced pumps for coffee-making machines for a consideration of £5 million. The business produced annual revenue and operating profit of around £15 million and £1 million respectively.

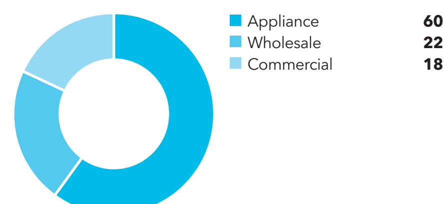
Performance

Invensys Controls produced a resilient performance against a backdrop of weaker than expected consumer markets in the second half of the year. Order intake was down 3% at CER at £554 million (2010: £560 million), resulting from a higher order book at the start of the year in what is mainly a short-cycle business. Revenue was up 2% at CER at £567 million (2010: £543 million), reflecting a strong start to the year, a good performance in commercial and wholesale, and the benefit of a high level of new product introductions. This was primarily offset by a weaker than expected second half of the year, particularly evident in North America, as customers adjusted their demand as a result of a slowdown in consumer demand in the appliance segment in the second half.

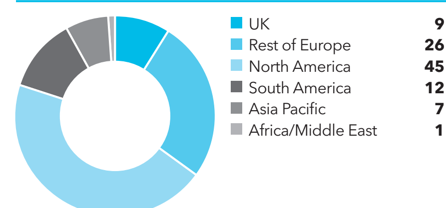
Operating profit was £56 million (2010: £53 million), up 3% at CER with the effect of increased revenue and savings from restructuring being partially offset by raw material price inflation. Operating margin was 9.9% (2010: 9.8%).

Again this year, Invensys Controls produced strong operating cash flow of £74 million (2010: £63 million) as a result of tight management of working capital. This resulted in a further improvement in cash conversion for the year to 132% (2010: 119%).

Revenue by sector (%)



Revenue by destination (%)



Year ended 31 March	2011	2010	% change at CER	% total change
Orders (£m)	**554**	560	(3)	(1)
Order book (£m)	**59**	78	(21)	(24)
Revenue (£m)	**567**	543	2	4
Operating profit (£m)	**56**	53	3	6
Operating margin (%)	**9.9%**	9.8%		
Operating cash flow (£m)	**74**	63	14	17
Operating cash conversion (%)	**132%**	119%		
Employees at year end (numbers)	**7,404**	7,782		(5)

Corporate Social Responsibility

Invensys is committed to supporting the principles of economic success, environmental stewardship, diversity and social responsibility. We believe that by acting as a responsible global citizen, we will not only help minimise business risk but also enhance our reputation as a business partner.

CO_2 emissions (tonnes) within our manufacturing locations

Year	Tonnes
2008	82,332
2009	71,512
2010	64,587
2011	66,003

+2%

CO_2 emissions within our manufacturing locations increased by 2%; this compares with a revenue increase of 9% at CER

The Invensys Code of Conduct and compliance training

The Invensys Code of Conduct both describes and represents our commitment to responsible business and is the foundation of our broader Compliance Programme. Under the terms of the Code of Conduct, our employees undertake to work with integrity as representatives of Invensys and in accordance with both local law and our own standards of ethical behaviour: where the Code of Conduct is more exacting than local laws or standards, the Code of Conduct must be followed.

The Board is given regular updates on compliance issues by the Group General Counsel and Company Secretary. The Chief Executive and Group Human Resources Director receive regular briefings from the Group General Counsel and Company Secretary where any concerns can be raised. Legal and ethical compliance is recognised as a priority for Invensys.

As stated in last year's Annual Report and Accounts, the Code of Conduct is available on the Invensys website and can be read by any customer, shareholder or member of the public. This year Invensys has adopted a Supplier Code of Conduct based on our Code of Conduct and is having suppliers agree to the same (or have in place a similar Code of Conduct of their own) as a condition for doing business with us.

The Code of Conduct is supported by periodic training for all employees and the Board. All new employees must complete Code of Conduct training within the first month of employment. As part of our effort to promote the Code of Conduct and our Helpline, Invensys has produced a range of supporting materials including Helpline posters, abridged versions of the Code of Conduct and other presentation materials which are displayed at Invensys facilities and are available on the Invensys intranet.

The Code of Conduct, supporting policies and associated training are the core elements in the latest iteration of the Compliance Programme. During the year, we released further training on specific areas of compliance, targeted to relevant audiences, and also offered refresher courses in our Learning Management System training in critical areas of the Code of Conduct, such as Anti-Bribery and Competition Law.

Our sustainability strategy

Sustainability is intrinsic to our operations and value propositions: it is important to our customers, communities, employees and shareholders. We have continued to implement our strategy of embedding sustainability into our operations. We have made progress in reducing our environmental footprint, minimising waste and increasing efficiency even as our business has grown over the last year. We updated our supplier assessment procedures, and communicated our expectations of suppliers to conduct business in an ethical and responsible manner.

In the UK, Invensys was again listed on the FTSE4Good Index Series, which lists companies that meet recognised standards of corporate responsibility. For the second consecutive year, Invensys was listed on the Dow Jones Sustainability Indexes (DJSI) in recognition of our economic, environmental and social performance. Invensys renewed its participation in the United Nations Global Compact (UNGC) and we again reported our greenhouse emissions on the Carbon Disclosure Project (CDP). More detail can be found in our Sustainability Report, which will be available on our website.

Environmental KPIs

Year ended 31 March	Unit	2011	2010	% change
Energy use				
manufacturing[1]	MWh	162,426	152,135	7
non-manufacturing[2]	MWh	43,658	48,741	(10)
CO_2 emissions				
manufacturing[1]	tonnes	66,003	64,587	2
non-manufacturing[2]	tonnes	21,569	24,658	(13)
global fleet	tonnes	12,502	12,835	(3)
business airline travel	tonnes	24,530	21,310	15
Water consumed[1]	cubic metres	366,602	390,372	(6)
Waste generated (non-hazardous)[1,3]	tonnes	5,594	5,705	(2)
Waste generated (hazardous)[1,3]	tonnes	521	603	(14)

1 Based on 41 sites in 2010 and 39 sites in 2011.
2 Based on 107 sites in 2010 and 98 sites in 2011.
3 2010 waste data restated.

Further details regarding environmental performance can be found on our website. All data independently verified by Sage Environmental, L.P.

Management responsibility, commitment and continuous improvement are the keys to the success of the Invensys long-term strategy. The Invensys Environmental, Health, Safety & Sustainability (EHS&S) management system consists of defined goals and objectives, programmes, standards and assessments as well as management support and involvement. It is designed to be consistent with internationally recognised management systems standards and is intended to define and establish expectations, and provide a common base for implementation and planning at all of our global locations and operations. The system enables the Group to anticipate and respond to constantly changing regulations and risks. Each manager is responsible for ensuring that these standards are being met or exceeded within his or her area of responsibility.

Additionally, we continue to encourage our site and regional operations to seek external management system certification. Presently, six of our operations are ISO 14001 certified.

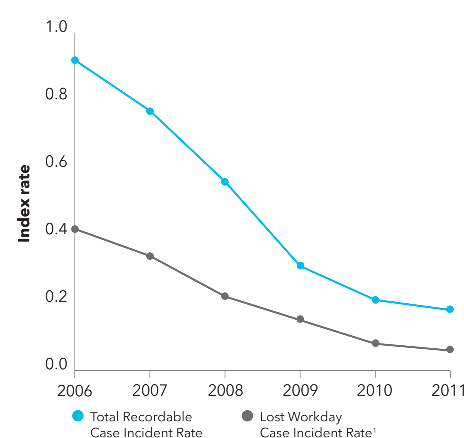
Environmental performance

For the past year, we set a 3% absolute reduction target for the environmental KPIs at our manufacturing locations: energy use, CO_2 emissions, water use, non-hazardous waste and hazardous waste. Energy use and CO_2 emissions within our manufacturing locations increased by 7% and 2% respectively, as a result of increased production levels across all divisions. However, these KPIs increased at a rate lower than the rate of overall revenue growth. Water consumption decreased by 6%, non-hazardous waste generation decreased by 2%, and hazardous waste generation decreased by 14% due to successful efficiency projects and the rationalisation of facilities. For the current year, we have set a 2% absolute reduction target for each of the KPIs.

The Board continues to be briefed on Group environmental performance and receives monthly reports on any violations or environmental releases. In the past year, there were no environmental releases. During inspections by government officials, we received two environmental- or compliance-related violations in the Americas. One issue required the posting of efficiency results near large gas-fired boilers and was corrected immediately. The other issue required the installation of noise abatement measures and corrective actions are in progress. In both cases, no fines or further notices have been received.

Health and safety in the workplace

Health and safety are intrinsic to our operations and our value proposition. We are pleased to report continued improvements in our health and safety performance, as reflected in decreased injury/illness incident frequency rates. From April 2010 to the end of March 2011, our Total Recordable Case Incident Rate (TRCIR) fell 14% from 0.21 to 0.18 and our Lost Workday Case Incident Rate (LWCIR)[1] fell 25% from 0.08 to 0.06. This continues a five-year trend in which our TRCIR has fallen 76% and our LWCIR has fallen 86%. We continue to look for ways to improve our safety performance and record.



1 The injury/illness frequency rate that results in lost time in the workplace per 100 employees per annum.

Further details regarding health and safety performance can be found on our website.

Energy consumption (MWh) within our manufacturing locations

Year	MWh
2008	198,982
2009	175,353
2010	152,135
2011	162,426

+7%

Energy consumption within our manufacturing locations increased by 7%; this compares with a revenue increase of 9% at CER

Total Recordable Case Incident Rate

Year	Rate
2008	0.56
2009	0.31
2010	0.21
2011	0.18

-14%

Our Total Recordable Case Incident Rate (TRCIR) fell by 14%; this continues a five-year trend in which our TRCIR has fallen 76%

Our Safety and Sustainability Awareness Metric (SSAM) is the model we use to drive and measure several leading activities at an operational level. The SSAM, which is measured and reported monthly, includes on-time closure of corrective actions, near misses, completion of safety training, safety tours/inspections and environmental KPI improvements. This past year, the SSAM was expanded to include a measure of the implementation of new EHS&S management system standards across the business and operations.

Our Chief Executive reviews the health and safety performance data, including any major incidents, on a monthly basis and presents it to the Board. In addition, site leaders and management teams review each recordable incident to fully understand the root causes of accidents and ensure adequate corrective actions are implemented. We are pleased to report that there were no major incidents or work-related fatalities during the year. During inspections by government officials, we received two safety- or compliance-related citations at locations in the Americas. Our location in Marion, US received a citation from the US Occupational Safety and Health Administration (OSHA) and a fine of US$4,175 concerning a lack of stop controls/guarding on a piece of equipment. The other issue was related to fire-fighting systems and procedures at a location in Brazil. In both cases, corrective actions were instituted and no further notices or fines have been issued. We are continuing our compliance and assurance efforts across the organisation and look forward to reporting on improved progress in this area next year.

Community and charitable investment

We continue to encourage our divisions and employees to engage with good causes to build relationships in the community and enhance workplace morale and cohesiveness. Our businesses provide a variety of programmes such as matching gifts, sponsorship of activities and paid volunteer time to allow our employees to participate actively in community events.

Invensys Values and leadership competencies

We continue to embed the Invensys Values of: Innovation, Agility, Integrity, Courage and Meritocracy into our organisation. Alignment with the Values is considered integral to the performance of our employees, and the Values are built into our performance management processes. The key messages of the Invensys brand and its values have been clarified and made relevant to current and potential Invensys employees through an employer branding initiative. This is intended to create an "I want to work here" culture, and retain and attract confident, competent and ambitious people to Invensys who are drawn to a high-performance work culture.

We have also launched a new set of Invensys competencies following extensive external benchmarking and internal research drawing on inputs from over 200 of our own high-performing leaders. These new competencies are designed to guide behaviours at every level of the organisation.

Diversity in the workforce

As a global company with employees across the world, Invensys seeks to recruit the best individual for every position regardless of gender, ethnic or national origin, religion, sexual orientation or any personal characteristic not relevant to their work. Invensys fosters an inclusive culture where anyone with the skills and abilities to perform is treated fairly. We embrace the diversity of our employees, and the greater effectiveness a diverse workforce allows us to offer our customers. We continue to respect and support the principles of the European Convention on Human Rights and the UNGC by ensuring we comply with the labour laws of the countries in which we operate and by creating an inclusive and respectful culture for our diverse workforce. The Group seeks to ensure that fair consideration is given to applications for employment received from people with disabilities and we offer continued employment, training and advancement where possible to employees who are or become temporarily or permanently disabled.

Dialogue with employee representatives and employees

The Invensys European Employees Forum (IEEF) promotes dialogue between elected employee representatives and senior management. The annual meeting between IEEF representatives and senior management has been running for 12 years.

Members of the leadership team communicate regularly with employees through global activities and local communications networks, including site-level briefings, smaller, face-to-face meetings and employee newsletters.

Invensys has established the use of blogging and is exploring social networking technologies to facilitate fast and open communication between employees and to realise the performance advantages of sharing knowledge and best practices across our divisions.

Developing talent

We continue to focus on growing internal capability and enabling internal career moves through our Organisational Capability Review (OCR) process. This process takes place across Invensys, and over the past year at a corporate level, has led to the creation of robust succession plans for over 60 leadership roles. OCR has also enabled the identification of nearly 40 "High Potential" and "High Professionals" in our leadership population and over 80 considered to be "Rising Talent" across the Group. Each of these employees has an individual development plan and is actively supported to achieve their potential.

Aligning individuals with the Group to safeguard our future

During the year we used our goal deployment and performance management tools and processes to help our employees to understand the organisational goals and objectives of Invensys and align them with their own. Line managers are required to hold annual performance reviews with all employees who report to them, where they can discuss their performance, set personal objectives for the coming year and create personal development plans. Approximately 11,000 employees are participating in our online performance management processes with goals for 2011/12 on our integrated system. Other employees, such as those in manufacturing, are participating in local performance management processes.

Investing for the future with training

Our Learning and Development Centre of Expertise (CoE) has become well-established and, utilising seven languages, has this year delivered over 55,000 hours of online training across 4,000 learning modules. Whilst nearly 300 leaders have participated in advanced management and leadership training, the CoE has focussed increasingly on core Invensys capabilities with the launch of a new project management curriculum containing over 60 learning programmes and with over 400 participants to date. The development of success profiles for engineers and sales professionals has enabled us to assess the competence and development needs of over 3,000 of our people.

Employee engagement

We conducted an Invensys-wide Employee Engagement Survey in November 2010 which achieved a response rate of 83%, up from 78% in 2008, and pleasingly high compared to other similar surveys. The results enable us to track improvements from prior years and to compare with external norms. We are pleased to see our employee engagement levels compare positively with our global external benchmarks. Our business and functional teams are now implementing action plans created in response to survey feedback.

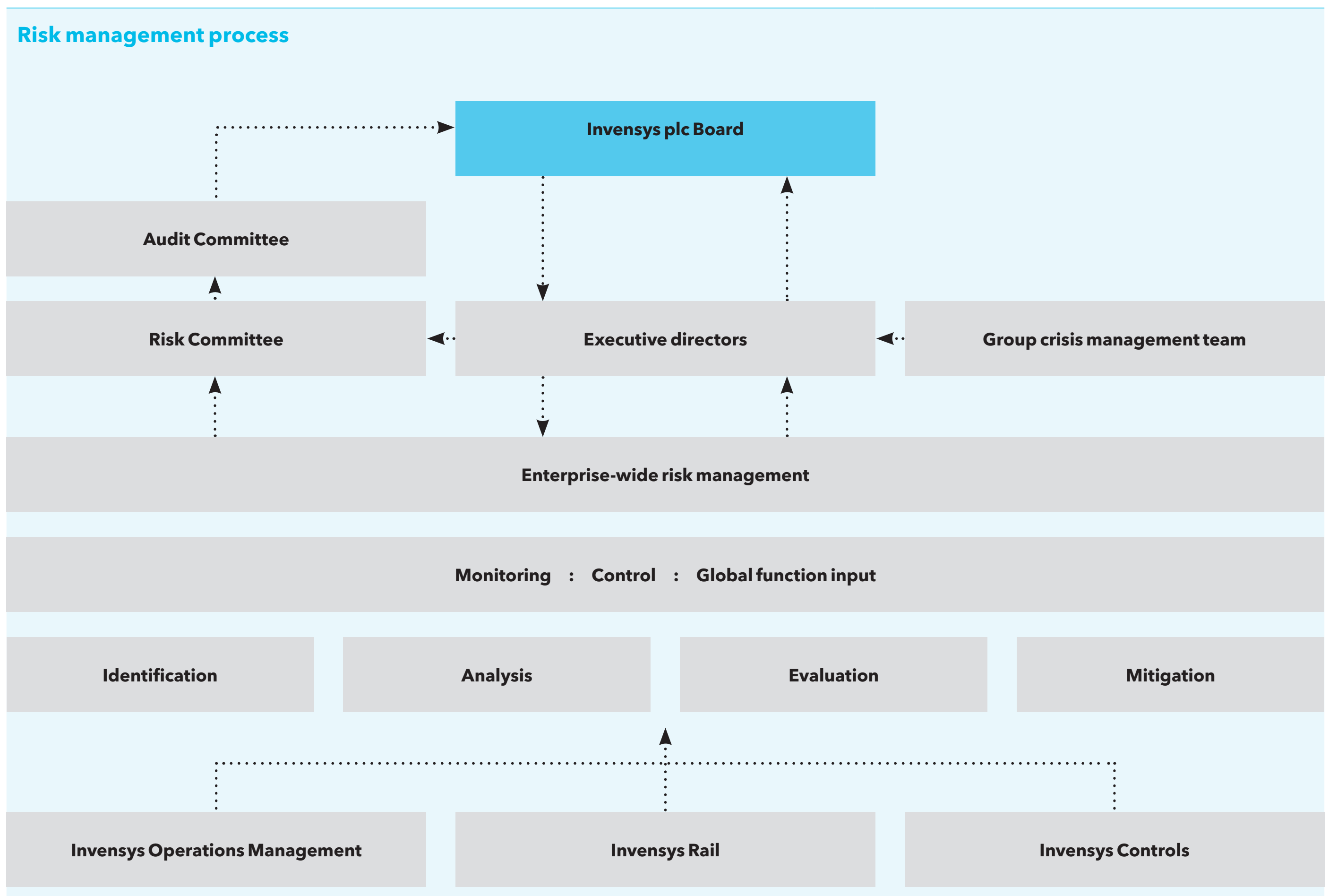
We continue to strive to make Invensys a place where high-performing people choose to be, where they can enhance their lives and careers and are motivated to perform at their best.

Risks and Uncertainties

Each division and global function is required to undertake a formal review of risks which could impact its area of business. Risk registers are maintained and reviewed formally on a quarterly basis by each division and these are consolidated on a Group basis.

The Risk Committee has accountability for overseeing the risk management processes and procedures, and reports to the Board through the Audit Committee on the key risks facing the Group.

It also monitors the mitigating actions put in place by the relevant operational managers to address the identified risks. The risk management process is outlined below.



Responsibilities and actions

Board
- Responsibility for determining the nature and extent of the significant risks it is willing to take in achieving the strategic objectives. This risk appetite is largely promulgated across the Group through the Board Delegated Authorities.
- Ultimate responsibility for the system of internal control and reviewing its effectiveness.
- Approval of the formal review of the risk management framework and underlying processes which take account of changes to the UK Corporate Governance Code.
- Consideration of the key risks and their disclosure in the annual report and accounts.

Audit Committee
- Receives regular reports on the results of internal and external audits.
- Conducts annual assessment of the Group's system of risk management and internal control.
- Reviews risk management activities and processes.

Risk Committee
- Formulates strategy and policy based on risk appetite and risk exposure.
- Receives reports from divisions, reviews risk management structures and compiles the Group risk register.
- Prepares reports and recommendations for the Board through the Audit Committee.
- Monitors actions to address key risks.

The Risk Committee has introduced improvements to the oversight of certain key risks for Invensys including those relating to the management of major projects.

Business operations
- Consider existing short-term and long-term risk.
- Consider potential low-frequency, high-impact events.
- Consider new and emerging risks.
- Establish priorities to address and manage risk.
- Regularly prepare and update the divisions' risk registers.

The crisis response capability has been updated – its importance emphasised by different external world events. These plans have worked successfully in addressing potential risks to our employees and business operations in the Middle East, arising from the recent political events, and in Japan following the tragic earthquake and tsunami.

Risk review process

Identification
- Key risks are recorded in the risk registers, their likelihood and impact assessed, mitigation strategies established and risk owners identified.
- Risks are considered against seven broad categories: strategic; people; financial; operational; reputational; environmental; and compliance.

Analysis
- Risks are analysed for likelihood and impact to determine exposure of the business.

Evaluation
- Risks are reviewed and prioritised against the achievement of short-term and long-term business objectives.

Mitigation
- Actions are identified to minimise, manage or respond to the risks.

Monitoring and control
- Risk action plans are reviewed by the divisions at least quarterly.
- Serious emerging issues are notified immediately to the Group crisis management team.
- Key risks are reviewed at each Risk Committee meeting.
- The Audit Committee and the Board review risk on a regular basis.

The Invensys approach has been updated to be consistent with ISO 31000, the international risk management standard.

Risk appetite

The Board has approved the acceptance of strategy risks which are considered appropriate to achieve the Group's strategic objectives. The degree of risk to be accepted within the business is managed on a day-to-day basis through the Board Delegated Authority levels. These provide the framework for informed risk taking within the businesses and the route for escalating decision making up to the Board.

The Board also identifies risks which are inconsistent with the Invensys Code of Conduct and such risks are avoided.

Principal risks

Invensys operates globally in varied markets and is affected by a number of risks inherent in its activities, not all of which are within its control. Some of these risks and uncertainties are common to other companies, for example: changes in economic conditions including currency and interest rate fluctuations; changes in taxation legislation; the cost of materials; the recruitment and retention of skilled personnel; the impact of competition; and political stability in the countries where we operate or undertake contracts. Some of these common risks and uncertainties are subject to significant change, the impact of which may be difficult to predict. This is particularly relevant to Invensys with the economic and political uncertainty which exists in many countries.

The principal risks which are specific to and may impact the Group are outlined below. In addition, there may be other risks and uncertainties which are unknown to the Group or which could become material in the future. These risks may cause the Group's results to vary materially from historic and expected results.

Description of risk

Failure to maintain a competitive and technologically advanced product range could reduce margins and revenue growth

Invensys operates in highly competitive markets and the Group's products and services are characterised by continually evolving industry standards and rapidly changing technology, driven by the demands of the Group's customers. As illustrations of this, Invensys Rail continues to invest in the development of the European Rail Traffic Management System (ERTMS) and Communication Based Train Control (CBTC) to evolve the capabilities to meet the needs of the "Railway of Tomorrow". Invensys Operations Management continues to invest in enhancements to its control and safety systems, advanced applications and Enterprise Control System to optimise plant performance for our global customers.

Impact

Failure to keep pace with technological changes and system or application requirements in the industrial sectors may result in loss of market share and lower margins. Furthermore, delays to development programmes may adversely impact the delivery of major projects.

Mitigation

The Group invests in research and development to develop new technologies and products to sustain or improve its competitive position. However, all new technologies and products involve business risk in terms of possible abortive expenditure including asset impairments, reputational risk and customer claims. The Group reviews its portfolio of technologies as part of the strategic planning process. In addition, the divisions control individual development programmes through a regular review process.

The timing and frequency of substantial contract awards are uneven

The revenue of Invensys Rail depends on a small number of large railway operators, both in our traditional core markets in the UK, Iberia, North America and Australia and in new markets. New contract awards are often associated with major transport infrastructure upgrades, and as a result are by nature large and infrequent. Invensys Operations Management is associated with the supply of technology, software and consulting to the oil and gas, chemical and nuclear industries. Capital expenditure requirements from customers in these industries are often highly cyclical and linked to the international supply, demand and pricing of hydrocarbons. Also the timing of new contract awards in the nuclear industry may be impacted if certain nuclear programmes are subject to delay or cancellation.

Impact

The timing of contract awards is uncertain and delays in awards may result in volatility in the order book and the results. Major projects may also impact the business mix because a substantial element of the contract may be supplied by third parties. In addition, the opportunity to develop control and safety systems for the nuclear industry may lead to an increased dependence on a small number of major customers for Invensys Operations Management.

Mitigation

The Group monitors sales activity, sales cover in its order book, expected margins and the impact of potential delays on the expected results to allow appropriate mitigating actions to be considered.

Description of risk

Undertaking large, long-term projects exposes the Group to risk of loss

A significant amount of the Group's business involves long-term projects that can take many months or even years to complete. These projects may be subject to delays and cost overruns due to delays in equipment deliveries, engineering problems, work stoppages, unanticipated cost increases, shortages of materials or skilled labour or other unforeseen problems inherent in the nature of such projects. An increasing number of projects have been secured in new markets including Asia, South America and the Middle East where the execution risks may be greater.

Impact
The Group's failure to anticipate technical problems, estimate costs accurately or control delivery may reduce the profitability of such a contract or result in a loss.

Mitigation
The Group has established a process with clear delegated authorities for the approval of major contracts, which includes a review system for the approval of bids submitted to customers. Contracts with a large monetary value or onerous contractual terms require Board approval. During the year certain execution issues were identified in an export contract for Invensys Rail. This has prompted an internal review with the result that systems have been improved and key risk metrics have been established to monitor the execution of all the major projects. These are subject to regular reporting to the Board.

The Group may be subject to liability as a result of product liability claims

Errors and defects in the Group's products, systems or applications, which may be used in safety-critical applications, could cause injury to persons or damage to property and equipment or be the subject of product recalls.

Impact
These occurrences could result in claims, loss of revenue, warranty costs, costs and damages associated with product recalls, litigation, delays in market acceptance or harm to the Group's reputation for safety and quality.

Mitigation
Each division has an established quality control function and, if an event occurs, there are processes to investigate and manage the occurrence.

The Group may be exposed to liability through the actions of consortium partners, cosource partners or its supply chain

The business activities of the Group are often conducted in conjunction with consortium, codevelopment or cosource partners whose day-to-day management actions are outside of the control of the Group. A significant element of the Group's risk profile is the delivery performance of its supply chain. These partnerships exist across our businesses. The Invensys Rail high-speed line contracts are often undertaken with consortium partners and the development of wireless solutions for all divisions often rely on local or global partnerships.

Impact
Given the nature of the Group's business mix, a quality or other failure in the supply chain could present a risk to safety and delivery which could have a material adverse effect on the Group's business, financial performance and/or reputation.

Mitigation
Assessment, mitigation and management of these risks are addressed by the divisions in conjunction with the Legal, Supply Chain and Risk functions.

Description of risk

The Group may be exposed to additional liabilities with respect to its UK and US pension plans

The UK Main Pension Scheme has a high proportion of pensioners relative to its active workforce.

Impact

With respect to both the Group pension plans for its UK and US operations, any decline in the equity market, improvements in life expectancy, changes in expected morbidity rates, long periods of low inflation or deflation or future decreases in interest rates could increase the funding deficit and require additional funding contributions in excess of those currently expected.

Mitigation

The investment policy has been established to address the need to match the scheme assets and liabilities as far as is realistically possible. The current UK Main Pension Scheme deficit funding contribution schedule was agreed on the basis of a valuation undertaken at 31 March 2008, and anticipates deficit recovery contributions being made on a six-monthly basis until March 2017. This UK deficit funding contribution schedule is likely to be unchanged following the valuation undertaken at 31 March 2011. There will be an increase in the funding of the US plans to meet the Employee Retirement Income Security Act (ERISA) requirements. In addition to regular financial reporting under IAS 19, the Group regularly monitors the performance of the principal UK and US plans.

The Group is subject to ongoing litigation and environmental liabilities

As a consequence of the past disposal of a significant number of businesses, the Group has certain liabilities in relation to environmental claims (including the cost associated with the remediation of contaminated sites no longer owned by the Group), disputed taxes, litigation (including personal injury claims arising from alleged exposure to asbestos and silica), indemnity claims and other disposal costs relating to the disposed businesses. These risks have receded over time as warranties and indemnities in relation to past disposals have expired, existing disputes have been settled and remediation work on contaminated sites has been completed. The Group also has environmental liabilities in relation to the remediation of vacant sites which it owns.

Impact

All of the aforementioned liabilities are subject to a number of uncertainties, assumptions and contingencies, and there can be no assurance that the liabilities will not be substantially higher or become payable sooner than anticipated, or that the provisions in the Group's accounts in respect of any such liabilities will be sufficient.

Mitigation

The Group continually monitors the remaining liabilities and has established key performance indicators to support monthly reporting to the Board. The indicators include cash spend, provisions, insurance recoveries and estimated exposures. The Group regularly reviews the related provisions and aims in negotiations to limit the risk of future liabilities or disputes.

Governance

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Compliance

The Remuneration Report has been prepared in accordance with the requirements of the Companies Act 2006 (the Companies Act), Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and the Listing Rules of the UK Listing Authority. Ernst & Young LLP has audited the contents of the Remuneration Report to the extent required by the Companies Act (the tabular information on pages 57 to 60 relating to directors' remuneration and directors' interests in shares and all share incentive plans). The Corporate Governance Report has been prepared in accordance with section 1 of the Combined Code on Corporate Governance issued by the Financial Reporting Council (FRC) in June 2008 (the Combined Code). The Corporate Governance Report, together with the Remuneration Report on pages 48 to 60, describes how the principles set out in the Combined Code have been applied. The information required to be disclosed by sub-section 2.6 of rule 7 of the UK Listing Authority Disclosure and Transparency Rules is shown in the Directors' Report on pages 61 and 62 and is incorporated into the Corporate Governance Report by reference.

The Board has also considered, in advance of the commencement date, the principles and provisions of the new UK Corporate Governance Code (the new UK Code) published by the FRC in May 2010. The Board has decided to implement certain recommendations under the new UK Code for the year under review.

The Invensys Code of Conduct (which is part of the broader Compliance Programme) aims to ensure the business acts with integrity and complies with all laws.

A printed copy of the Combined Code and the new UK Code can be obtained free of charge from FRC publications by telephone (+44 (0)20 8247 1264), email (customer.services@cch.co.uk) and online at **www.frcpublications.com**

Our Board of Directors

The Company is committed to high standards of corporate governance and believes that effective practices are essential to business integrity, performance and accountability to shareholders. The Board recognises that governance should be enhanced by better interaction between boards and shareholders and that to do this, boards must think deeply, thoroughly and on a continuing basis about their role and overall tasks. Key to this is the leadership of the Chairman, the support to and from the Chief Executive and the culture of the Board.

This section of the Annual Report and Accounts sets out the governance framework for the Company and, in the following pages, we introduce the Board of directors, corporate governance procedures and Board practices, and remuneration policy.

1. Sir Nigel Rudd DL (64)
Chairman

Appointment
Appointed a non-executive director and Deputy Chairman on 1 January 2009 and became Chairman on 17 July 2009.

Committee membership
Chairman of Nominating Committee
Member of Remuneration Committee

Skills and previous experience
Retired as Chairman from Pendragon PLC in October 2010. He was formerly Chairman of Alliance Boots plc, Pilkington plc, Williams Holdings plc and Kidde plc; Deputy Chairman of Barclays Bank PLC; and non-executive director of BAE Systems plc.

Current external appointments
Chairman of BAA Limited; non-executive director of Sappi Limited; and Chairman of the advisory board of Barclays Private Bank. In March 2011 he became non-executive Chairman of the Business Growth Fund which is financed by the large UK banks to provide equity for small- and medium-sized businesses. He is a Deputy Lieutenant of Derbyshire and Chancellor of Loughborough University.

2. Wayne Edmunds MBA (55)
Chief Executive

Appointment
Appointed a director and Chief Financial Officer on 1 June 2009 and became Chief Executive on 24 March 2011.

Committee membership
None.

Skills and previous experience
Formerly CFO of Invensys Process Systems, having joined the Group from Reuters America, Inc. He previously held senior financial roles in the technology sector, including 17 years at Lucent Technologies, Inc.

Current external appointments
None.

3. Francesco Caio MBA MSc (53)
Non-executive director

Appointment
Appointed a non-executive director on 18 July 2009.

Committee membership
Member of Audit Committee
Member of Remuneration Committee

Skills and previous experience
Resigned as Vice Chairman of Investment Banking Europe at Nomura in April 2011. Formerly Chief Executive of Merloni Eldo S.p.A. and Chief Executive of Cable & Wireless plc. Formerly a member of the European Advisory Board of Air Products. Formerly an adviser to the Italian and British governments on telecommunication matters.

Current external appointments
Appointed Chief Executive Officer of Avio Group with effect from May 2011 and appointed non-executive director of Indesit Company in April 2010.

4. Bay Green FCA (67)
Non-executive director

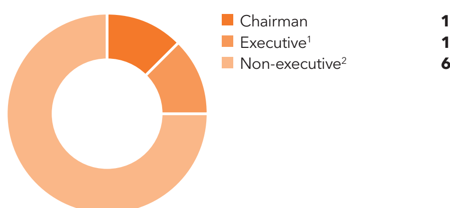
Appointment
Appointed a non-executive director on 1 January 2005 and became the Chairman of the Audit Committee on 6 December 2006.

Committee membership
Chairman of Audit Committee
Member of Nominating Committee

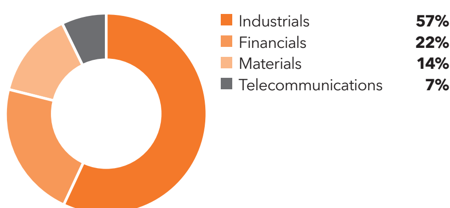
Skills and previous experience
Retired as Vice Chairman of Dresdner Kleinwort in July 2009, where he specialised in advising on mergers and acquisitions and other activities. He retired as a non-executive director of RPC Group plc in June 2009.

Current external appointments
Non-executive director of Axis-Shield plc, where he serves as Chairman of the audit committee; and trustee of Help the Hospices. He is also a specialist adviser to the Wholesale and Institutional Markets Business Unit of the Financial Services Authority.

Balance of executive and non-executive directors



Board sector experience



How the Board spends its time

1 On permanent appointment the Chief Financial Officer will become a director of the Board.
2 Deena Mattar will join the Board as a non-executive director with effect from 19 May 2011.

5. Paul Lester CBE (61)
Non-executive director

Appointment
Appointed a non-executive director on 1 January 2010.

Committee membership
Member of Remuneration Committee

Skills and previous experience
Chief Executive of VT Group plc, the support services company, from 2002 to 2010. Formerly Group Managing Director of Balfour Beatty plc and Chief Executive of Graseby plc. He was a non-executive director of Chloride Group plc until September 2010.

Current external appointments
Chairman of Greenergy, Chairman of John Laing Infrastructure Fund and Chairman of Marine Current Turbines.

6. Deena Mattar BSc FCA (45)
Non-executive director

Appointment
Will be appointed a non-executive director on 19 May 2011.

Committee membership
Will be a member of the Audit Committee with effect from 19 May 2011

Skills and previous experience
Group Finance Director and member of the board of Kier Group plc from 2001 to 2010. Formerly a senior manager of the Property and Construction Division of KPMG.

Current external appointments
None.

7. Michael Parker CBE MBA BSc (64)
Senior Independent Director

Appointment
Appointed a non-executive director on 16 May 2006 and became the Senior Independent Director on 6 December 2006.

Committee membership
Member of Audit Committee
Member of Nominating Committee
Member of Remuneration Committee

Skills and previous experience
Group Chief Executive of British Nuclear Fuels Limited (BNFL) from 2003 until his retirement in June 2009. Formerly President and Chief Executive Officer of The Dow Chemical Company.

Current external appointments
Non-executive director of PV Crystalox Solar plc and SNC-Lavalin Group Inc; Chairman of Liverpool's economic development regeneration company, Liverpool Vision; a trustee of the Royal Society for the Prevention of Accidents; and Chairman of Street League's Board of Trustees, a charity which helps disadvantaged young people through the use of football and education programmes.

8. Dr Martin Read MA D.Phil FIET (61)
Non-executive director

Appointment
Appointed a non-executive director and Chairman of the Remuneration Committee on 18 July 2009.

Committee membership
Chairman of Remuneration Committee
Member of Nominating Committee

Skills and previous experience
Chief Executive of Logica plc from 1993 to 2007. Formerly on the boards of British Airways Plc, Siemens Holdings Plc, Boots Group PLC and Asda Group plc. He led a UK Government Review on back office and IT efficiency across the public sector which reported in 2009.

Current external appointments
Appointed as Chairman of the Remuneration Consultants Group in September 2010. Non-executive director of Aegis Group plc and Lloyds of London, and senior adviser to the Indian company HCL Technologies Limited.

9. Pat Zito (62)
Non-executive director

Appointment
Appointed a non-executive director on 23 May 2007.

Committee membership
Member of Audit Committee
Member of Nominating Committee

Skills and previous experience
Held senior executive roles within Pilkington plc and subsequently Nippon Sheet Glass Company for 33 years. Before retirement he held the role of President, Worldwide Automotive Original Equipment and Aftermarket operations of Pilkington and Nippon Sheet Glass Company. Formerly a director on the board of Pilkington plc and subsequently Nippon Sheet Glass Company.

Current external appointments
None.

Other attendee at Board meetings

David Thomas MA (Oxon) ACA (56)
Acting Chief Financial Officer

Appointment
Appointed Acting Chief Financial Officer on 24 March 2011. Mr Thomas has not been appointed a statutory director of the Company.

Skills and previous experience
Joined Invensys in 2002 as Group Controller, he has worked across many of the businesses and has held CFO and CEO roles within the divisions. He was latterly Senior Vice President Business Risk with responsibility for risk management across the Group and additional responsibility for the Group's pension schemes. He was formerly a senior partner at Ernst & Young LLP specialising in long-term industrial contracting businesses.

Current external appointments
Member of the Auditing Practices Board.

Governance framework

3 Deena Mattar will join the Board and Audit Committee with effect from 19 May 2011.

Corporate Governance

The Company is committed to high standards of corporate governance and the Board is pleased to confirm that during the year the Company has been fully compliant with the provisions of the Combined Code on Corporate Governance (the Combined Code) and has decided to implement certain recommendations under the new UK Corporate Governance Code (the new UK Code) for the year under review.

The Board

Role

The Board is collectively responsible for promoting the success of the Company by directing and supervising the Company's affairs to create shareholder value. The Board provides leadership and sets the Company's strategic aims.

Its duties are set out in a formal schedule of matters specifically reserved for decision by the Board, as summarised below.

Schedule of matters reserved for the Board

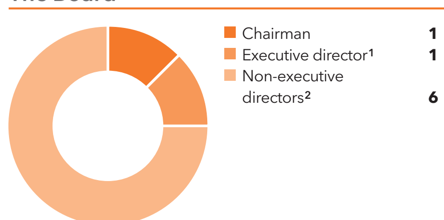
- Overall management of the Group and its long-term objectives, commercial strategy and operational planning
- Acquisitions, disposals and other transactions outside of delegated limits
- Material changes to the Group's corporate structure
- Approval of financial results and dividend policy, and declaration of interim and final dividends
- Changes to the Group's capital structure
- Changes to the Board and other senior executive leaders
- Appointment of the Group's principal advisers
- Any major changes to the Group's pension plans
- Approval of the Code of Conduct and other Group policies

The governance framework for the Group is shown on page 39. Certain decision making is delegated through structured procedures to committees (as described on page 42) and, for operational matters, to senior management.

Directors: composition and independence

The Board has been chaired by Sir Nigel Rudd since 17 July 2009. Ulf Henriksson left the Company on 24 March 2011 and was succeeded by Wayne Edmunds (who had been Chief Financial Officer of the Group since 1 June 2009) as Chief Executive. David Thomas, who has held senior financial roles within the Group since 2002, was appointed on 24 March 2011 as Acting Chief Financial Officer; a permanent appointment is to be made in due course after consideration of internal and external candidates. Mr Thomas has not been appointed a statutory director but is invited to attend Board meetings and committee meetings as appropriate. At the date of this report, the Board consisted of one executive director and six non-executive directors, in addition to the Chairman. It has been agreed that Deena Mattar will join the Board as a non-executive director with effect from 19 May 2011. The permanent appointment to the Chief Financial Officer position will also join the Board.

The Board



1 On permanent appointment, the Chief Financial Officer will become a director of the Board.
2 Deena Mattar will join the Board as a non-executive director with effect from 19 May 2011.

The Board considers that all of the current non-executive directors are independent. The non-executive directors are drawn from diverse international businesses and, as illustrated on pages 38 and 39, bring a range of skills and experience to enable them to constructively challenge and develop the Group's strategy and direction.

Although all the directors have an equal responsibility for the operations of Invensys, the role of the non-executive directors is particularly important in ensuring that the strategy and business proposals of the executive management team are fully debated, to ensure that they meet the long-term interests of shareholders and also take account of issues affecting employees, customers, suppliers and the many communities with which Invensys interacts.

The Senior Independent Director is Michael Parker, who has held this role since December 2006. Mr Parker, as the Senior Independent Director, is available for shareholders to contact and is also responsible for leading the Chairman's annual performance evaluation.

Executive directors are not permitted to hold more than one external non-executive directorship, which is in line with the Combined Code requirement and assists in broadening their experience for the benefit of the Company. The new Chief Executive, Mr Edmunds, does not hold any external non-executive directorships.

	Board		Audit Committee		Remuneration Committee		Nominating Committee	
	Attended	Possible	Attended	Possible	Attended	Possible	Attended	Possible
Current directors[3]								
Sir Nigel Rudd	9	9	–	–	8	8	2	2
Wayne Edmunds	9	9	–	–	–	–	–	–
Francesco Caio	9	9	5	6	8	8	–	–
Bay Green	8	9	5	6	–	–	2	2
Paul Lester	8	9	–	–	7	8	–	–
Michael Parker	9	9	6	6	8	8	2	2
Dr Martin Read	9	9	–	–	8	8	2	2
Pat Zito	8	9	6	6	–	–	1	2
Former director[3]								
Ulf Henriksson[4]	7	7	–	–	–	–	1	1

3 Details of meetings of the Contracts Committee are dealt with separately on page 42.
4 Attendance at meetings from 1 April 2010 to 24 March 2011 when he left the Company.

Chairman and Chief Executive
There is a clear division of responsibilities between the Chairman and the Chief Executive, which is defined in writing and approved by the Board. The Chairman is responsible for leadership of the Board and ensuring its effectiveness. He facilitates the contribution of the non-executive directors and effective communication with shareholders. He ensures that constructive relations exist between the executive and non-executive directors. The Chief Executive is responsible for executing the strategy approved by the Board for leadership of the Group and management of the business; he is supported by the Group Leadership Team, as detailed in the governance framework on page 39.

Meetings
There is an agreed schedule of Board and committee meetings. The table on page 40 sets out the attendance by directors at Board and committee meetings. This analysis only includes the committee members' attendance at meetings; in addition to members, other directors frequently attend meetings of committees at the invitation of the respective committee chairman. There were also informal meetings of the Chairman and the non-executive directors without the executive directors being present.

To increase the interaction of business leaders with the Board, the Chairman agreed with the directors that the divisional CEOs should be invited to join Board meetings on a rotational basis.

Election and re-election of directors
The Company's Articles of Association require that any director appointed during the year should stand for election at the first Annual General Meeting (AGM) following their appointment. In addition, the Articles of Association require that one third of all directors shall retire at each AGM and that all directors must seek re-election at least once every three years. The new UK Code, applicable in respect of the Company's financial year beginning 1 April 2011, recommends that all directors should seek re-election by shareholders annually. The Board has agreed to implement this provision with immediate effect and following the evaluation of performance of each director, it is proposing that all directors stand for re-election at the AGM on 28 July 2011. In addition, Deena Mattar, who will join the Board on 19 May 2011, will stand for election at the AGM.

Bay Green, non-executive director and Chairman of the Audit Committee has now completed a six-year term. In line with the Combined Code, the Nominating Committee undertook a rigorous review and concluded that Mr Green has a range of skills which adds value to the Board. As a result, they recommended to the Board that his appointment be extended and that he continue as Chairman of the Audit Committee.

The biographies of all directors are set out on pages 38 and 39.

Company Secretary
The Company Secretary is Victoria Hull, who is also Group General Counsel. She was appointed as Company Secretary on 1 January 2006 and acts as secretary to all of the committees of the Board. The Company Secretary is accountable to the Board and advises on corporate governance matters. She ensures that the Board receives briefings on changes in regulation and law, and that procedures are followed. To enable the Board to perform its duties, all directors have full and timely access to all relevant information and to the services of the Company Secretary. The appointment and removal of the Company Secretary is decided upon by the Board as a whole.

Performance evaluation
The Board has a formal review process that covers an evaluation of the performance of the Board and its committees, and an appraisal of the performance of individual directors (including the Chairman). In respect of the individual evaluations, all members of the Board are asked to assess themselves and provide feedback on other directors. The evaluations are led as indicated below.

Board member	2010/11 evaluation led by
Chairman	Senior Independent Director
Senior Independent Director and other non-executive directors	Chairman
Executive directors	Chairman and non-executive directors

The individual evaluations focussed on the effectiveness of the contributions made by individual directors and reviewed directors' training and development needs. The Board is satisfied that each director is committed to his role.

For the evaluation of the Board and its committees, directors are required to complete a questionnaire and provide comments on procedures and effectiveness. The process involves assessment by reference to the relevant roles and responsibilities under review, the terms of reference of the committees, and best practice. Results of the evaluation provide a basis for the continuing improvement in the Board's procedures, action plans and objectives for the subsequent year.

The results of the evaluation were presented to the Board and, in summary, it is satisfied that the Board and its committees remain effective. The Board agreed for the following year to develop further a number of processes to enhance effectiveness.

In light of the provision in the new UK Code which recommends that FTSE 350 companies have externally-facilitated board evaluations at least every three years, the Board recognises the value this may add and has agreed that an external evaluation will be conducted in 2012.

Induction and development
On appointment, new directors receive an induction programme tailored to their specific requirements based on their experience. The objective is to provide directors with a combination of selected written information and the opportunity to visit business sites and meet with key leaders of the Group. Accordingly, an induction programme is being developed for Deena Mattar.

The continuing development of the directors, collectively and individually, is effected through a number of channels. Directors receive regular briefings at Board meetings which are relevant to their role. These include developments in governance matters, regulatory updates and legislative changes, for example, the UK Bribery Act and the new UK Code.

As part of the Board programme at least one meeting is held offsite at a Group business location so that directors can increase their understanding of the business activity. During 2010/11, the Board visited the Invensys Engineering Excellence Centre in Egypt, a key part of the Invensys strategy for the Middle East and global engineering efforts.

Independent professional advisers are made available in order for directors to discuss matters of significance to the Group, and directors are encouraged to attend external briefings. The Board ensures that directors have access to independent professional advice on how to discharge their responsibilities as directors of the Company.

Directors' conflicts of interest
In line with the Companies Act 2006, directors are required to avoid any situation in which they have or can have a direct or indirect interest that conflicts or may possibly conflict with the interests of the Company, unless authorised by the Board. The Company's Articles of Association allow the Board to authorise such conflicts and to impose such limits or conditions as it deems necessary. There is no breach of duty if the relevant matter has been authorised in advance.

The Company has established a procedure whereby actual and potential conflicts of interest are reviewed regularly and in any event annually. Appropriate authorisation is required prior to the appointment of any new director and when any new conflict arises for a director or there is a change in circumstances that may affect an authorisation previously given. Authorisations are granted by those directors who have no interest in the matter being considered and are recorded by the Company Secretary in the Register of Directors' Conflicts. Where there is a conflict, the Board will confirm whether any conditions should be imposed under the terms of the authorisation.

During the year the Board considers the procedure was operated effectively.

Board committees
The Board delegates specific authorities to its Audit Committee, Remuneration Committee, Nominating Committee and Contracts Committee, all of which operate within defined terms of reference. Board committees are authorised to engage the services of external advisers as circumstances require, at the Company's expense. Reports of the Board committees are set out from this page to page 45. Directors receive copies of all committee minutes and the chairman of each committee provides an update on matters of significance at the Board meeting following the committee meeting.

Communication with shareholders
Communication with shareholders is at all times given a high priority, and a number of means are used to promote greater understanding and dialogue with the investment community. The Board receives regular reports from the Chief Executive and the Group's Investor Relations team. The Chairman and the Senior Independent Director are available to meet with major shareholders on request. During the year, the Chairman spoke with a number of major shareholders regarding corporate governance and remuneration matters. In addition, the Chairman of the Remuneration Committee met with major shareholders to discuss matters relating to the Company's remuneration policy.

Shareholders are kept informed of the progress of the Group during the course of the year through half-year and full-year results, statements and presentations, interim management statements, capital markets days and other announcements of material developments that are released through the London Stock Exchange and other news services. The results presentations made to the investment community are webcast and copies of supporting materials are made available on the Group's website. The executive director(s) maintain regular dialogue with the major institutional shareholders and participate in sector conferences. Shareholders can also raise questions directly with the Company at any time by contacting the Investor Relations team, whose contact details are listed on the Group's website.

The annual report and accounts are made available to shareholders at least 20 working days prior to the AGM. Directors are available at the AGM to answer questions, which provides a useful interface with private shareholders. Shareholders also have an opportunity to meet informally with directors after the meeting. Resolutions are proposed separately and voting is conducted by polls at general meetings, and voting results are announced through the London Stock Exchange. The results and proxy levels are also available on the Group's website and on request from the Company Secretary. The Company is permitted under its Articles of Association to send or supply communications to shareholders electronically, and the Company now supplies information such as notices of meetings, forms of proxy and annual reports and accounts via the Group's website. Shareholders are notified by email or post when new information is available on the website. The Company sends hard copy communications to those shareholders who have requested them. Shareholders may at any time revoke a previous instruction and elect to receive hard copies or electronic copies of shareholder information.

Remuneration Committee
Details of the Remuneration Committee and its policies, together with information on the remuneration and share interests of directors, are set out in the Remuneration Report on pages 48 to 60. The Remuneration Report should be read in conjunction with this Corporate Governance report, of which it forms an integral part.

Contracts Committee
The Contracts Committee reviews certain tenders and contracts falling within the Board's terms of reference and due for submission to customers in a period when there is no scheduled Board meeting at which they can be considered prior to submission. Meetings of the Contracts Committee must comprise at least one executive director, the Chairman (or in his place the Senior Independent Director) and any other non-executive director. The terms of reference for the Contracts Committee are available on the Group's website. The Contracts Committee met on seven occasions during the year.

Nominating Committee

Members
Sir Nigel Rudd (Committee Chairman)
Bay Green
Michael Parker
Dr Martin Read
Pat Zito

The Nominating Committee is chaired by Sir Nigel Rudd. Ulf Henriksson ceased to be a member of the Nominating Committee when he left the Company on 24 March 2011.

Meetings
Details of the meetings held during the year by the Nominating Committee and members' attendance are detailed on page 40.

Role and activities
The terms of reference for the Nominating Committee are available on the Group's website. Set out below are the Nominating Committee's responsibilities and the main activities undertaken during the year.

Responsibilities of the Nominating Committee	Activities during the year
Reviewing the composition and size of the Board and its committees	As part of its annual strategy meeting, the Nominating Committee agreed that, in the context of the Group's strategy and its stage of development, the Board had the appropriate blend of skills and experience.
Making recommendations to the Board for the appointment, reappointment and retirement of directors	The Nominating Committee conducted a search for a new non-executive director. An external firm assisted with this search.
Consider succession planning	Succession planning for all of the senior executive team was considered as part of the Nominating Committee's annual strategy meeting.
Review annually its terms of reference	The terms of reference were revised to reflect the recommendations in the new UK Code.
Make recommendations to the Board regarding the election and re-election of directors at the AGM	The provisions regarding election and re-election are set out on page 41. Following evaluation and recommendation by the Nominating Committee, and in light of the new UK Code, it was agreed that all directors will stand for re-election and, if reappointed, will serve until the conclusion of next year's AGM.
Conduct an annual evaluation of the performance of the Nominating Committee	As detailed on page 41 an evaluation was conducted during the year.

Other activities of the Nominating Committee
The Nominating Committee was pleased to recommend the appointment of Deena Mattar as a non-executive director; in making recommendations it considers whether the candidate has the appropriate range and balance of skills, experience and background to complement the Board.

Audit Committee

Members
Bay Green (Committee Chairman)
Francesco Caio
Michael Parker
Pat Zito

Deena Mattar will join the Audit Committee on her appointment as a non-executive director on 19 May 2011.

The Audit Committee is appointed by the Board from the non-executive directors of the Company and has been chaired by Bay Green since December 2006. Mr Green is a qualified chartered accountant and Fellow of the Institute of Chartered Accountants of England and Wales and, with over 30 years in financial roles, he is considered to have recent and relevant financial experience for the purposes of the Combined Code. He has held a number of senior positions in Dresdner Kleinwort and is a specialist adviser to the Wholesale and Institutional Markets Business Unit of the Financial Services Authority.

Meetings
Details of the meetings held during the year by the Audit Committee and of members' attendance are detailed on page 40.

Role and activities
The terms of reference for the Audit Committee are available on the Group's website. Set out below are the Audit Committee's responsibilities and the main activities undertaken during the year.

Responsibilities of the Audit Committee	Activities during the year
Monitoring the integrity of the Group's Financial Statements and reviewing significant financial reporting issues and accounting policies	The Audit Committee reviewed the financial disclosures in the Group's Annual Report and Accounts and half-year financial report prior to their publication. This included a review of the accounting policies and financial reporting judgements. It also reviewed the contents of the interim management statements issued by the Company.
Reviewing the Group's systems of internal control and risk management, and monitoring the effectiveness of the internal audit function	In accordance with the Combined Code, Turnbull 2005 guidance and on behalf of the Board, the Audit Committee undertook an annual assessment of the Group's system of risk management and internal control. Included in the assessment were: • consideration of the key risks facing the divisions as part of the review of the Group's strategic planning and annual operating planning processes, and the review of reports from the Risk Committee; • review of the enhancements to the overall control environment; • consideration of the key elements of the Group's control processes, including organisational structure, the application of governance rules and systems, information management (including monthly reporting routines) and risk management activities; • reports received from both internal and external audit during the course of the year; • review of the operations and effectiveness of internal audit and receipt of regular reports on projects undertaken; and • the findings from the annual self-assessment questionnaire, which requires all senior managers, from reporting unit level upwards, to certify compliance with the Group's financial and operational procedures and controls, including environmental, health and safety matters and the Invensys Code of Conduct. The Audit Committee monitored the Group's whistle-blowing programme as set out on page 47.
Making recommendations to the Board on the appointment, remuneration and terms of engagement (including non-audit services) of the external auditor	The Audit Committee recommended to the Board the reappointment of Ernst & Young LLP at the 2011 AGM. The basis of recommendation to the Board for the reappointment is described below. The external audit plan and fee proposal were approved, along with the terms of engagement for the year. The Audit Committee also agreed the policy on auditor independence and provision of non-audit services.
Review annually its terms of reference	The terms of reference were revised to reflect the recommendations in the new UK Code.
Conduct an annual evaluation of the performance of the Audit Committee	As detailed on page 41 an evaluation was conducted during the year.

Other activities of the Audit Committee

In addition to carrying out the activities necessary to discharge its standing responsibilities, the Audit Committee also received reports from management and the internal and external auditors on a number of other matters during the year. These included the findings of a detailed review of major contracts; an assessment of the Group's structure and its legal entities leading to development of a three-year rationalisation programme; and a review of the application of the Group's policy on the use of agents.

External auditor

Appointment

Ernst & Young LLP has been the Company's auditor since October 1999, following the merger of Siebe and BTR in February 1999. The Audit Committee assesses annually the qualification, expertise, resources and independence of the auditor and the effectiveness of the audit process. The assessment as to effectiveness is conducted through an external audit questionnaire with senior finance management. The Audit Committee remains satisfied with these aspects of the audit service.

Consistent with market practice, Ernst & Young LLP's audit services to the Group are provided annually through terms of engagement which are reviewed by the Audit Committee. These terms do not include any contractual obligations under which the directors would be prevented from appointing a different firm.

Following consideration of these matters at a meeting of the Audit Committee in May 2011, a unanimous recommendation was made to the Board for the reappointment of Ernst & Young LLP as the Company's external auditor to be proposed to shareholders at the 2011 AGM. The Audit Committee makes an assessment from time-to-time on whether there would be any benefit from a change in auditor or a competitive tendering process. Taking into account also the disruption to the finance team in organising a tender process, the last assessment concluded that the Audit Committee remained satisfied with the services provided by Ernst & Young LLP and could not see any cost benefit of retendering at this time.

Non-audit services

The Audit Committee has guidelines to ensure that the independence of Ernst & Young LLP, as the auditor of the Group's Financial Statements, is not impaired by providing non-audit services. They identify the non-audit services for which the use of the external auditor is permitted and those from which the external auditor is prohibited from providing. The engagements for non-audit services that are not prohibited are subject to formal approval based on the level of fees involved, with some services being covered by a pre-approval process with a quarterly monetary cap.

During the year ended 31 March 2011, these guidelines have been consistent with those recommended in the FRC's Guidance on Audit Committees 2008. In December 2010, the FRC issued an updated version of its Guidance which contained revised recommendations in relation to non-audit services. The following disclosures reflect the recommendations contained in the revised Guidance to the extent that they have already been applied by the Audit Committee in the year ended 31 March 2011. The Audit Committee's guidelines are fully aligned with the revised Guidance. The Audit Committee keeps these guidelines under review.

In respect of such non-audit services, the Audit Committee takes into account the cost-effectiveness of the firm and their knowledge of the Group. Ernst & Young LLP are engaged to provide a non-audit service only when they are a suitable supplier of the service. The services and fees are reported to the Audit Committee on a regular basis.

Non-audit services that are pre-approved are either routine in nature with a fee that is not significant in the context of the audit or are audit related services. Audit related services typically include reviews of interim financial information, reporting on regulatory returns and extended work on financial information or financial controls.

Non-audit services that require specific approval from the Audit Committee before they are contracted to Ernst & Young LLP are those that are either not audit related services, or for which the fee is significant in the context of the audit or for which the terms and conditions are unusual.

Principal non-audit services approved by the Audit Committee in 2010/11 were:

- **Global tax compliance**
  Ernst & Young LLP has been appointed to provide global tax compliance services for a three-year period from 1 April 2010. This covers most countries in which Invensys operates. These services were previously provided by various major global accounting firms and local accounting firms or the in-house finance functions. A global arrangement with a single major firm was considered to provide consistent quality across the Group, improved coordination and oversight, increased focus on risk management and additional value-added services as part of the compliance process. While other suppliers were considered, no formal tender process was undertaken. A decision was taken to appoint Ernst & Young LLP due to several factors including their extensive knowledge of the Group and, as a result, the low level of risk on transition from the existing service providers.
- **Legal entity rationalisation programme**
  Ernst & Young LLP has provided services in support of a programme to reduce the number of legal entities in the Group in order to simplify the Group's structure and reduce operating costs. Other potential suppliers of these services were also considered. Ernst & Young LLP was selected because of their knowledge of the Group which, it was concluded, would minimise duplication of effort and cost.

The services provided by Ernst & Young LLP in connection with this project include analysing the entities targeted for elimination; providing advice and recommendations on the steps required to implement the elimination; and where necessary, providing detailed local country advice on the tax consequences for each jurisdiction. Once advice on elimination has been provided, Ernst & Young LLP may (where possible) advise on the execution of the elimination of the entities, which may involve them acting as liquidators.

The provision of these services is not considered to impair Ernst & Young LLP's objectivity or independence as external auditor.

Ernst & Young LLP has policies and procedures in place to ensure that the highest standards of objectivity, independence and integrity are maintained and these comply with the Auditing Practices Board's (APB) Ethical Standards for Auditors. The audit engagement partner must approve any non-audit services offered to the Group. This ensures that the objectives of the proposed engagement are not inconsistent with the objectives of the audit; allows the identification and assessment of any related threats to Ernst & Young LLP's objectivity; and assesses the effectiveness of available safeguards to eliminate such threats or reduce them to an acceptable level. Ernst & Young LLP do not carry out non-audit services where no satisfactory safeguards exist.

Ernst & Young LLP is excluded from undertaking any work that is considered to threaten its independence or objectivity in its role as external auditor. In identifying such work, the Audit Committee takes account of the guidance in APB Ethical Standards for Auditors. Most commonly this includes any work that would involve Ernst & Young LLP in preparing financial information that is included or disclosed in the audited financial statements, or in making judgments or taking decisions on behalf of management.

Details of the amounts paid to Ernst & Young LLP as external auditor during the year for audit and other services are set out in Note 5 to the Group Financial Statements.

It is recognised that the level of fees for non-audit services is relatively high compared to audit fees. However, the Audit Committee is satisfied that its policies and procedures as explained above ensure that the selection of Ernst & Young LLP to provide these services is appropriate and does not impair their independence or objectivity as external auditor.

Accountability and audit

Financial reporting

The Group has comprehensive planning and financial reporting procedures. Management prepares detailed operational budgets for the year ahead and a three-year strategic plan, which are reviewed and approved by the Board. Performance is monitored through the monthly reporting of financial results and regular updating of forecasts for the year. The Group Accounting Policies Manual is used by all businesses in the Group to ensure that transactions and balances are recognised and measured in accordance with the Group's prescribed accounting policies. All businesses submit their results using the Group's consolidation system, which ensures that information is gathered and presented in a consistent way that facilitates the production of the consolidated financial statements.

Internal control

The directors are responsible for the establishment and maintenance of an effective system of internal control. Each of the Group's divisions is accountable to the Chief Executive and is managed by executive leadership, which provides day-to-day control over the divisions' operations within the strategic guidelines and delegated authorities determined by the Board. The internal control system is designed to meet the Group's particular needs and the risks to which it is exposed, but it should be appreciated that, however effective a system of internal control is, it can provide only reasonable and not absolute assurance against material misstatement or loss.

The findings of the annual assessment of the Group's system of internal controls undertaken by the Audit Committee, as detailed on page 44, were presented to the Board. Where weaknesses in the operation of internal controls were identified, the Audit Committee considered management's response to them. The Audit Committee paid particular consideration to the management of customer contracts and received detailed reports on major contracts from management and the external auditor. Areas for improvement were identified and actions are in hand to improve the relevant control procedures. The Board is satisfied that the information that it received throughout the year on internal controls and the information from the annual assessment on internal controls was sufficient to enable it to review the effectiveness of the Group's system of internal controls.

Risk management

The Board has responsibility for determining the nature and extent of the significant risks it is willing to take in achieving the strategic objectives and has established a structured approach to identifying, evaluating, managing, monitoring, and reporting on key risks facing the Group.

The Risk Committee has accountability for overseeing the risk management processes and procedures, and provides written reports to the Board and the Audit Committee on the key risks facing the Group. It formulates strategy and policy based on risk appetite and risk exposure. It also monitors the mitigating actions put in place by the relevant operational managers to address the identified risks. The role of the Risk Committee is more fully described on pages 32 and 33 and the risk management process is outlined on page 32. The Board reviews annually the risk management process and periodically conducts external reviews.

Risk Committee

Members at the date of this report
Chief Executive
Acting Chief Financial Officer
Group General Counsel and Company Secretary
Group Human Resources Director
EVP Finance
VP Risk Management and Insurance
VP Environmental, Health, Safety and Sustainability

Meetings
The Risk Committee meets at least three times a year and meetings are scheduled around the Audit Committee calendar so that a risk update can be reported to the Audit Committee.

Responsibilities
- Formulates strategy and policy based on risk appetite and risk exposure
- Receives reports from divisions, reviews risk management structures and compiles the Group risk register
- Prepares reports and recommendations for the Board through the Audit Committee
- Monitors actions to address key risks

During the year, the Risk Committee recommended the adoption of a risk management policy which codified some existing practices across the Group and also proposed enhancements to recognise the desire of the Board to be progressive in developing its risk management strategy. This policy was approved by the Audit Committee and has created a framework to allow management to take business risks in pursuit of shareholder value in a systematic and controlled manner.

The Risk Committee has also introduced improvements to the oversight of certain key risks for Invensys, including that relating to the management of major projects. Risk Committee meetings are minuted and disclosed to the Audit Committee.

A summary of the principal risks facing the Group is presented on pages 34 to 36.

Internal audit
Internal Audit has a direct reporting line to the Chairman of the Audit Committee, and its responsibilities include the examination and evaluation of the scope and effectiveness of the Group's system of internal control. The audit plan is constructed to cover Invensys globally over a four-year cycle, with a degree of tailoring to address specific risk concerns. During the year, Internal Audit reported regularly to the Audit Committee on its assessment of internal control issues arising in the course of its internal audit reviews of the Group's operations. As detailed earlier in this report, the Audit Committee provides a consolidated review to assist the Board in undertaking its own annual review of internal control.

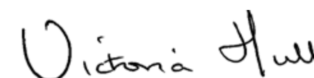
In light of the changing nature of the Group's business, the geographic spread of operations and the need for certain specialist audit resources (e.g. IT), the majority of internal audit work is outsourced to Deloitte LLP. A small Internal Audit function, reporting to the Acting Chief Financial Officer, has been retained to manage the outsourcing contract and undertake certain ad hoc assignments.

Whistle-blowing
The Audit Committee reviews arrangements under which employees can, on a confidential basis, raise concerns about potential irregularities, and the arrangements for follow-up actions. The Helpline is operated by Global Compliance Services Inc, an independent company, and is publicised to employees through the Invensys Code of Conduct. There has been increased communication of the Helpline during the year to ensure employees are aware of the facility.

Any investigations are initiated at the direction of the Vice President of Compliance and any material investigations are brought to the immediate attention of the Board. A regular report of allegations is presented to the Board at each meeting and follow-up actions are reviewed. Statistics on the volume and general nature of calls are reported annually to the Audit Committee and the Board. In addition, employees can raise concerns through other means such as electronic or postal mail sent to the Board or management, which correspondence is investigated in the same manner as concerns raised through the Helpline.

The Board receives formal written updates on compliance issues regularly at Board meetings from the Group General Counsel. No material issues were reported through these processes during the year.

The Corporate Governance Report was approved by the Board of directors on 18 May 2011 and signed on its behalf by



Victoria Hull
Group General Counsel and Company Secretary

Remuneration Report

The Board has delegated its authority to the Remuneration Committee (the Committee) for all matters relating to remuneration policy and for determining specific arrangements for the Chairman, executive directors and selected senior management below Board level.

The contents of the Remuneration Report (the Report) are as follows:

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1 Remuneration Committee

Members

Dr Martin Read (Committee Chairman)
Francesco Caio
Paul Lester
Michael Parker
Sir Nigel Rudd

Governance

All members are independent non-executive directors, other than Sir Nigel Rudd, the Chairman of the Company. The executive directors, Head of Human Resources and the Vice President Executive Reward are invited to attend and speak at meetings, other than when their own remuneration is being considered. The Chairman does not attend when his fee is under review.

To ensure that the Group's remuneration practices remain market competitive and compliant, advice during the first quarter of the financial year was received from Deloitte LLP, as principal source of external advice as independent remuneration consultants to the Committee on issues relating to the remuneration arrangements for the executive directors. In addition, Deloitte LLP provided advice in relation to some corporate tax matters and internal audit services. Following a formal review process, Kepler Associates replaced Deloitte LLP in their capacity as independent remuneration consultants to the Committee. Kepler Associates does not provide any other advice to the Company. A copy of the terms of appointment of Deloitte LLP and Kepler Associates are available on the Group's website. Hewitt New Bridge Street provided the Committee with data in relation to total shareholder return (TSR) and ranking information for the long-term incentive schemes. The Committee was provided with legal advice from Freshfields Bruckhaus Deringer LLP, who are also lawyers to the Company.

Details of individual member's attendance at Committee meetings held during the year are provided in the Corporate Governance report on page 40. As detailed in the Corporate Governance report on page 41, the Committee's performance is reviewed annually both by the Board as a whole and by the Committee itself. The Board remains satisfied that the Committee is operating effectively and is focussed on continued improvement.

Responsibilities

The Committee is responsible for:

- agreeing with the Board the framework or broad policy for the remuneration of the Chairman, executive directors, Company Secretary, the Group Leadership Team (GLT), and certain leaders below the GLT whose remuneration is above a certain level. The fee arrangements for non-executive directors are a matter for the Chairman and the executive directors of the Board;
- reviewing the appropriateness of the remuneration policy;
- approving the design of, and determining targets for, any performance-related pay schemes operated by the Company and approving the total annual payments made under such schemes;
- reviewing the design of all share incentive plans and determining the performance conditions;
- ensuring that contractual terms on termination, and any payments made, are fair to the individual and the Company, that failure is not rewarded and that the duty to mitigate loss is fully recognised;
- determining, within the terms of the agreed policy, the remuneration packages of executive directors, the other members of the GLT, certain leaders below the GLT and the Chairman;
- overseeing any major changes in employee benefit structures throughout the Company;
- ensuring that all provisions regarding disclosure of remuneration (including pensions), as set out in the relevant provisions of the Companies Act, the Combined Code and the new UK Code are fulfilled;
- selecting remuneration consultants to advise the Committee; and
- considering any other matters as referred to the Committee by the Board.

The Committee's full terms of reference are available on the Group's website.

Activities

The principal matters considered by the Committee to the date of the Report included:

- review and appointment of new advisers;
- review of executive remuneration, including base salary and incentive arrangements;
- approval of the outturn of performance targets for the Executive Bonus Plan for the prior year;
- approval of the performance targets for the Executive Bonus Plan for the current year;
- approval of annual awards under the 2007 Long Term Incentive Plan (2007 LTIP) and the Restricted Share Plan (RSP);
- assessment of performance conditions relating to executive share awards under the 1998 Senior Executive Long Term Incentive Plan (1998 LTIP) and 2007 LTIP vesting during the year;
- approval of termination packages for leavers within the GLT, including the former Chief Executive;
- review and approval of service contracts for the new Chief Executive and Acting Chief Financial Officer;
- approval of a UK and international launch of the Savings Related Share Option Scheme;
- annual review of its terms of reference; and
- consideration of the new UK pensions tax legislation and its impact on GLT members.

2 Remuneration strategy and policy

Strategy

The Company's remuneration strategy is to provide packages that:

- align executive remuneration with shareholders' interests;
- remunerate the executive directors and senior managers at a level and in a manner that is capable of attracting, retaining and motivating high-calibre people;
- encourage a high-performance culture that links executive remuneration to the performance of the Company and the individual; and
- appropriately balance risk and reward.

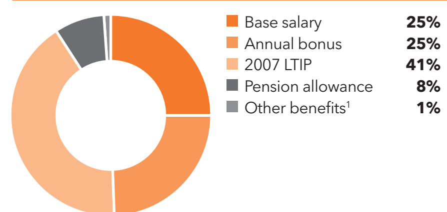
Policy

The Committee's policy is to provide competitive remuneration for the delivery of target performance, while rewarding exceptional personal and Company performance with upper quartile levels of remuneration. The Committee believes that the total reward package provides a good balance between the achievement of annual and long-term targets.

In setting the remuneration policy, the Committee is cognisant of the need to balance risk with reward, and during 2009/10 conducted an internal review of the risk considerations in reward practices. The Committee remains satisfied that the balance between risk and executive reward across the Group is appropriate. The Committee will consider risk each year and has discretion to adjust any financial outturns for incentive purposes if it considers that disproportionate risk has been taken to deliver performance targets.

The key elements of the Company's remuneration policy are described in detail below. A high proportion of executive director total reward is performance-related variable remuneration, as indicated in the chart below.

Expected value of Chief Executive package 2011/12



1 Benefits are private healthcare and car allowance.

Base salary

The Committee determines the level of base salary for each executive director annually. For 2010/11, base salaries were set within a market-competitive range based on analysis of salaries paid in FTSE 350 companies and taking into account the relative complexity, international scope and size of comparator companies. For 2011/12, the Committee commissioned a full total remuneration benchmarking report from Kepler Associates which provided relevant comparator pay analyses across a range of international companies which compete with the Group and also benchmarked pay against FTSE companies of similar market capitalisation and/or revenue. The Committee additionally considers specific factors relating to the individual (including personal performance), internal relativities, wage inflation elsewhere in the Group, and overall affordability. In determining base salary, the Committee is mindful of the pay and conditions of employees in the rest of the Group and has received relevant data from the Head of Human Resources to support its decisions. In establishing individual salary levels, the Committee is conscious that it should pay no more than is necessary to retain and motivate the executive, while ensuring business objectives are fulfilled. There is no automatic annual base salary adjustment in respect of inflation.

The Committee took into account the factors above in determining the salary of the new Chief Executive (Wayne Edmunds). With effect from 24 March 2011 (his date of appointment which superseded the normal review date of 1 April), his base salary was set at £650,000 (for 2010/11, as Chief Financial Officer, his base salary was £425,000). The Committee considers this base salary level necessary and appropriate to meet its objective of incentivising the Chief Executive and maintaining competitive pay levels. The next review date for the Chief Executive's base salary will be 1 April 2012.

Annual incentive arrangements

Performance-related bonuses may be paid to executive directors and senior leaders under the Executive Bonus Plan. This plan provides annual incentives to encourage the achievement of pre-defined annual financial objectives and personal targets (commencing 2011/12 for executive directors) to focus on the most critical measures of business success, while rewarding them for outstanding performance. In this way, the Executive Bonus Plan seeks to align the interests of shareholders and those participating in it.

For 2010/11 and 2011/12, the Committee approved the following performance calibration for the Executive Bonus Plan:

Threshold	Target	Stretch	Super-stretch
10% of target payout	100% of target payout	150% of target payout	200% of target payout

The executive directors' bonus payment for target performance is 100% of base salary, resulting in a maximum bonus opportunity for the achievement of super-stretch performance of 200% of base salary for 2010/11 and 2011/12.

Executive Bonus Plan 2010/11

The targets for executive directors for 2010/11 are set out in the table below:

Underlying EPS	Free cash flow
50%	50%

The bonuses paid to the executive directors (including the former Chief Executive) in relation to the year under review are set out on page 57. In line with the Executive Bonus Plan rules, the salary used for bonus calculation purposes is the salary effective from 1 April 2010 (adjusted for any promotion increases). In respect of 2010/11 actual performance, the bonus payments reflect the fact that the underlying EPS as measured fell between the target and the stretch levels of performance and free cash flow performance was between stretch and super-stretch levels. Taking account of the impact of certain exceptional items, the Committee determined that the aggregate outturn was a bonus payment of 159.4% of the target.

Bonus in excess of 100% of target (i.e. 100% of base salary for executive directors) for members of the GLT is paid in deferred shares (in accordance with the Deferred Share Plan), which are transferred to the individual after three years (executive directors) or two years (other relevant executives). The deferred shares to be awarded to the Chief Executive for 2010/11 will be equivalent to 59.4% of target.

Having rigorously reviewed the results achieved against the performance targets set for 2010/11, the Committee is satisfied that the targets set were challenging and that the bonuses awarded reflected the level of financial performance in the current economic environment.

Executive Bonus Plan 2011/12

The Committee reviewed the structure of the executive directors' Executive Bonus Plan for 2011/12 and decided to introduce a personal element of performance. The tables below set out the performance measure structures for the prior year comparator and 2011/12.

2010/11

Underlying EPS	Free cash flow	Personal performance
50%	50%	0%

2011/12

Underlying EPS	Free cash flow	Personal performance
50%	25%	25%

The Committee Chairman informed the Company's major shareholders of the introduction of the personal performance element for 2011/12. The Committee will determine any payment under the personal performance element after a robust review of individual and business performance against pre-determined objectives. The Committee believes that this change will improve the effectiveness of the Executive Bonus Plan and further improve the link between pay and performance for executive directors.

The Committee has carefully reviewed the financial targets to be applied for the Executive Bonus Plan for 2011/12 and is of the opinion that they are set at an appropriately stretching level. Bonus payments may also be influenced through the exercise of discretion by the Committee. As in the prior year, any bonus earned in excess of target by the GLT will be paid in deferred shares as set out above. Deferred shares are only forfeitable in the event of dismissal for cause.

Long-term incentive arrangements

The 2007 LTIP was approved by shareholders at the 2007 AGM and since then the Company has made annual awards under this plan. A separate award was implemented for the former Chief Executive in 2007 as outlined on page 60. The maximum annual award level for executive directors and other participants is normally 200% of base salary, although the Committee has discretion to make awards in excess of this level in exceptional circumstances. The Committee elected to make an award of 300% of base salary to Wayne Edmunds in relation to his appointment as Chief Executive as detailed on page 52.

Vesting of awards is based on meeting stretching performance targets over a three-year performance period and, subject to meeting all relevant conditions, shares will normally be released to participants as soon as possible following the third anniversary of the award. The satisfaction of all performance targets is subject to external verification. Performance targets for 2010/11 and 2011/12 are set out on the opposite page.

For 2011/12 a new TSR vesting schedule was adopted. The advantage of the new TSR vesting schedule is that the outturn is based on determination of actual median and upper quartile performance. The proposed new TSR calibration methodology is no more beneficial to participants than the former approach but the Committee believes that calculating TSR on this basis is simpler and more transparent. The Committee Chairman informed the Company's major shareholders of this change.

For the 2011/12 award, the Committee again considered all relevant factors and determined that the EPS part of the award continued to provide a focus on delivering stretching internal financial targets. In the opinion of the Committee these targets are appropriately stretching.

For 2010/11 the performance for the LTIP awards measured over a three-year period are set out below:

Award	Performance measure	Outline of performance measure	Target calibration
50% of award	Total Shareholder Return (TSR)	• Chosen to reinforce the focus on delivering high levels of return to shareholders. • Measured on a local currency basis. • Comparator group are constituents of Standard & Poor's Global 1200 Capital Goods Index[1]. • The performance period for the Company and each constituent of the Index will be based on the three-month average to 31 March 2013 compared with the three-month average to 31 March 2010.	• 25% to vest for performance equal to unweighted mean of the Index constituents (excluding a small number of outliers). • 100% to vest for outperformance of the mean of Index constituents (excluding outliers) equivalent to upper quartile performance. The outperformance equivalent to upper quartile performance was calculated by the Committee's then remuneration advisers to be a factor of 1.25 (i.e. 125%) of the unweighted mean. • The calculation is not weighted by reference to market capitalisation of Index constituents to avoid any single large company unduly influencing the results. An equal number of outliers at the top and bottom of the TSR range will be excluded from the mean calculation to alleviate any potential skewing of the outcome.
50% of award	Compound annual growth rate (CAGR) in underlying EPS	• Chosen to provide a focus on delivering stretching internal financial targets. • Growth is measured from a base of 13.4 pence, this being the 2009/10 underlying EPS. • The Committee has discretion to exclude from the calculation one-off items of a non-recurring nature to ensure that the focus is on underlying growth in EPS.	• 25% will vest for underlying EPS CAGR of 5%. • 100% will vest for underlying EPS CAGR of 15%.

For 2011/12 the performance for the LTIP awards measured over a three-year period are set out below:

Award	Performance measure	Outline of performance measure	Target calibration
50% of award	Total Shareholder Return (TSR)	• Chosen to reinforce the focus on delivering high levels of return to shareholders. • Measured on a local currency basis. • Comparator group are constituents of Standard & Poor's Global 1200 Capital Goods Index[1]. • The performance period for the Company and each constituent of the Index will be based on the three-month average to 31 March 2014 compared with the three-month average to 31 March 2011.	• 25% to vest for performance equal to unweighted median of the Index constituents. • 100% to vest for actual upper quartile (75th percentile) performance.
50% of award	Compound annual growth rate (CAGR) in underlying EPS	• Chosen to provide a focus on delivering stretching internal financial targets. • Growth is measured from a base of 19.8 pence, this being the 2010/11 underlying EPS. • The Committee has discretion to exclude from the calculation one-off items of a non-recurring nature to ensure that the focus is on underlying growth in EPS.	• 25% will vest for underlying EPS CAGR of 5%. • 100% will vest for underlying EPS CAGR of 15%.

Note

1 The Index was selected as the comparator group because its constituents represent a wide grouping of over 100 companies that have businesses that are, in whole or in part, similar to or in competition with some or all of those operated by Invensys, and cover a wide geographic range including the Americas, Europe and Asia Pacific.

The Committee will in all cases retain discretion to ensure that, as a condition for the vesting of shares, the underlying overall performance of the Company has been satisfactory. Factors that will be taken into account will include EPS growth and the Group's cash position. Vested awards will include an additional number of shares representing the value of any dividends that would have been paid on those vested shares had they been held throughout the vesting period. The performance conditions do not apply to 30% of an award for participants below executive director level. This is to address specific recruitment and retention issues facing the Group.

If a participant is dismissed for cause before shares are released, they will be forfeited. If a participant's employment ceases due to ill-health, disability or any other reason determined at the discretion of the Committee, other than dismissal for cause, performance will be measured at the normal vesting date. The award will then be pro rated based on the period of service, save that the Committee may moderate the application of the pro rata reduction if it considers that the participant's contribution to the business would not be properly recognised if the award was scaled down. The Committee has discretion to accelerate vesting in compassionate circumstances.

In the event of a change of control during the performance period, performance will be measured at the latest possible date before the change of control takes place to determine the proportion vesting based on performance. The proportion of the award that may be released will then be time pro rated. Subject to performance conditions, the Committee has discretion to disapply the impact of time pro rating and to permit up to 100% of awards to vest on a change of control if, due to exceptional business circumstances (to be assessed by the Committee), returns to shareholders are considered to be at a superior level.

2011 Award to Chief Executive

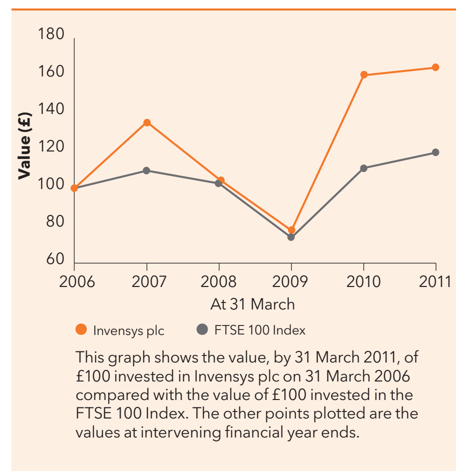
Related to his appointment as Chief Executive, Mr Edmunds will be granted an exceptional LTIP award in 2011 of an additional 100% of base salary (i.e. 300% in total) as permitted by the rules of the 2007 LTIP (reverting to the normal award level of 200% of base salary in later years). This exceptional 2007 LTIP award was agreed by the Committee after careful consideration of the lock-in provided by existing 2007 LTIP awards and the need to incentivise the new Chief Executive to lead Invensys through the next stage of its development.

2008 Award under the 2007 LTIP

For awards granted under the 2007 LTIP in 2008 (2008 Award) the performance condition was measured over the three-year period to 31 March 2011. While the 2008 Award will not vest until the third anniversary of the date of grant, the Committee has considered the extent to which the criteria have been achieved. For executive directors, with regard to the TSR part of the 2008 Award (50%), the Committee has considered the Company's comparative TSR performance analysis (provided by an independent third party) and determined that all of the shares will be available to vest on the third anniversary of the date of grant. With regard to the EPS part of the 2008 Award (50%), after considering the 2010/11 audited financial results, the Committee has determined that the threshold level of underlying EPS CAGR required for vesting was not achieved. Such shares subject to the underlying EPS performance condition will lapse. Therefore, in aggregate, 50% of the 2008 Award to executive directors will vest. It should be noted that the 2008 Award to Wayne Edmunds was made at a time when he was CFO of Invensys Process Systems, before his promotion to Chief Financial Officer in June 2009. Therefore, performance conditions do not apply to 30% of his 2008 Award and the aggregate vesting is 65%.

Performance graph

The graph below illustrates the Company's TSR performance (i.e. share price assuming reinvestment of any dividends) over the last five years relative to the FTSE 100 Index. This Index has been selected because it is a broad equity index of which the Company is a constituent.



This graph shows the value, by 31 March 2011, of £100 invested in Invensys plc on 31 March 2006 compared with the value of £100 invested in the FTSE 100 Index. The other points plotted are the values at intervening financial year ends.

Remuneration of executive directors 2011/12

The table below summarises the key elements of executive directors' remuneration as they will apply for 2011/12.

Element of remuneration package	Purpose	Policy	Summary of operation
Base salary	• Recognise the market value of the role and an individual's skills, experience and performance.	• Set pay in a competitive range by reference to relevant comparators. • Reflect the individual's skills and performance.	• Paid monthly in cash. • Reviewed annually and fixed for the 12 months normally commencing 1 April but as of date of appointment for 2011/12. • The Chief Executive's base salary was set at £650,000 from 24 March 2011.
Annual bonus	• Drive performance. • Incentivise executives to achieve specific, stretching pre-determined goals over a short-term period. • Reward ongoing personal contribution to the success of the Group. • Focus executives on targets relevant to the Group's current strategic goals.	• Bonus determined by reference to financial and personal targets. • Stretch bonus potential set by reference to UK and international market comparators (currently 150% of base salary). • For the achievement of truly exceptional super-stretch financial and personal performance, a maximum annual bonus payment of 200% of base salary is available for 2011/12.	• The Committee sets a threshold performance level (where 10% of base salary is paid) and a target level (where 100% of base salary is paid), increasing on a straight-line basis to a stretch level (where 150% of base salary is paid). For levels of performance above stretch, the targets are harder to achieve to a level of super-stretch performance. The maximum annual bonus payment is 200% of base salary. • Bonus payments are determined by the Committee after year end, based on targets set at the start of the year. The bonus amount up to target performance level is paid in cash. Any bonus earned in excess of the target performance level will be paid in deferred shares which will be released after three years (subject to the executive director not being dismissed for cause).
2007 LTIP	• Drive and reward the delivery of sustained underlying EPS and TSR performance. • Align interests of executives and shareholders through building a shareholding. • Retain key executives.	• Maximum usual annual grant of 200% of base salary; actual award levels determined by individual performance. • The normal award level to executive directors in 2011/12 is 200% of base salary. • For 2011/12 only, the Chief Executive will receive an exceptional LTIP award representing an additional 100% of base salary, making 300% in aggregate.	• Awards of shares made annually, conditional on performance measured over the three subsequent years (ending 31 March 2014 for awards in 2011/12). • For 50% of the award the performance condition will relate to the Company's TSR performance relative to the constituents of the Standard & Poor's Global 1200 Capital Goods Index. 25% will vest for performance equal to the unweighted median of the Index constituents, and 100% will vest for upper quartile performance. • For 50% of the award the performance condition will relate to the CAGR of the Company's underlying EPS. 25% will vest for 5% CAGR and 100% will vest for 15% CAGR. • Shares will only vest if the Committee is satisfied that the underlying performance of the Company has been sufficient.

Remuneration of executive directors 2011/12 continued

Element of remuneration package	Purpose	Policy	Summary of operation
Pension allowance	• Reward ongoing contribution during Invensys career.	• Facilitate the accumulation of an appropriate level of post-retirement benefits.	• The Chief Executive is entitled to a pension allowance equal to 30% of base salary in lieu of pension entitlement, which is currently paid as a contribution to a personal pension scheme.
Share Ownership Guidelines	• Align the interests of executive directors with those of shareholders.	• Executive directors are required to build and maintain a shareholding of 200% of base salary.	• Executive directors are expected to retain shares (net of taxes) acquired through the vesting of shares under the Group's executive share incentive plans until the target holding is achieved. Existing shareholdings and shares acquired in the market are also taken into account.
Service contracts	• Provide an appropriate level of protection to both the executive and Invensys.	• Notice periods not to exceed 12 months (except, where necessary, for a transitional period on joining). • Provide for mitigation and/or phasing of any payment.	• The Chief Executive's contract provides for 12 months' notice. The contract permits any termination payment to be made on a phased basis, reducing if the director obtains alternative employment.

Other benefits
Other benefits provided for executive directors include the provision of a cash allowance in place of a company car, typical life assurance/permanent health insurance benefits, private medical insurance and annual health checks. In addition, the Company pays, on a grossed-up basis, certain third-party fees incurred for UK and US tax filings and relevant immigration matters.

Restricted Share Plan (RSP)
The Company operates its RSP to grant executive leaders (other than executive directors) restricted share awards, nominal/nil price options or cash awards over Invensys shares. Release of shares is generally subject to continued employment at the relevant date, although shares may be released early in defined good leaver cases or for any other reason at the discretion of the Committee.

Savings Related Share Option Scheme
The Company operates its Savings Related Share Option Scheme in the UK and certain other countries. Participants are granted an option to purchase Invensys shares at a discounted price set at the date of invitation, using the proceeds of a savings account to which they make monthly contributions (of up to £250) for a three-year period. Executive directors are eligible to participate in the Scheme, which operates in the UK within specific tax legislation. The Scheme is not subject to performance conditions. A grant was made under the Scheme in 2009/10 and a further invitation will be extended to employees in 2011/12.

Dilution limits
The Company has at all times complied with the dilution limits set out in the rules of its share plans (principally a limit of 10% in 10 years). In the 10-year period to 31 March 2011, awards made under the Company's share schemes represented 3.9% (2010: 3.8%) of the Company's issued ordinary share capital. Shares to satisfy the deferred share element of the Executive Bonus Plan and the RSP are purchased in the market and therefore do not count towards the dilution limits.

Share Ownership Guidelines
Executives are required to build up and maintain a shareholding over time under the Share Ownership Guidelines. Under the guidelines, executives should retain at least 50% of the shares (100% of shares for executive directors) vesting under any of the executive share incentive plans or the payment of annual incentives in shares (other than to meet any tax obligations), until such time as the following minimum level of qualifying interest is reached:

Category	% of base salary
Executive directors	200%
GLT	50%
Other executives	25%

External directorships
The executive directors are permitted to hold not more than one external non-executive directorship in order to broaden their experience for the benefit of the Company. Such appointments are subject to approval by the Board, and the director may retain any fees paid in respect of such a directorship. Mr Henriksson, the former Chief Executive, joined the board of Hexagon AB as a non-executive director in 2007, from which he retained the fees payable of SEK 350,000 (approximately £34,000) for the period 1 April 2010 to 31 March 2011.

Service contracts
Policy
The new UK Code and guidelines issued by institutional investors recommend that notice periods of no more than 12 months be set as an objective for executive directors and that any payments to a departing executive director should be determined having full regard to the duty of mitigation, other than in the case of termination for cause or where a contract contains specific termination payment provisons. It is the Company's policy to achieve these objectives wherever possible. It is the Company's intention that new executive service contracts contain provisions allowing the Company to terminate employment by making a payment in lieu of notice and allowing contractual offset for future earnings.

Specific contracts

Set out below is a summary of the main provisions of the service contract of the Chief Executive:

Director	Wayne Edmunds
Date of contract	17 May 2011
Notice period	12 months

Other than in the case of summary termination, the Company may terminate Mr Edmunds' service contract by making a payment in lieu of notice equal to the value of the base salary and contractual benefits Mr Edmunds would have received during his notice period. Any payment due under those provisions may be made to him in equal monthly instalments and the Company may reduce the payment by 50% if Mr Edmunds obtains alternative employment. Mr Edmunds' service contract entitles him, in the event of a material adverse change to his title, responsibilities or status following a change of control of the Company, to terminate his employment and receive a payment equal to the payment in lieu of notice.

Payments to a former director

Mr Henriksson, who left the Company on 24 March 2011, was engaged under a service contract dated 28 April 2004, which contained a 12-month notice period. Other than in the case of summary termination, the Company had the right to terminate Mr Henriksson's service contract by making a payment in lieu of notice equal to the value of his base salary and contractual benefits during his notice period. On termination of his employment the Company made a payment in lieu of notice of £1,154,000 in accordance with his service contract, and agreed to reimburse relocation costs of up to £50,000 (plus tax thereon) if Mr Henriksson relocates to the US within 12 months of leaving the Group. The Company had the right either to pay the amount due in lieu of notice as a single lump sum or to pay the first six months' worth on departure and then on a phased basis at six-monthly intervals with appropriate reduction in the event that he found alternative employment. Payment was made to Mr Henriksson as a single lump sum. Under the terms of his service contract, Mr Henriksson was also entitled, in the event of a material adverse change to his title, responsibilities or status following a change of control of the Company, to terminate his employment and receive a payment equal to the payment in lieu of notice.

Mr Henriksson was eligible for a full-year bonus in respect of the 2010/11 financial year. The Committee agreed to the preservation of certain share awards and options held by Mr Henriksson as set out in the tables on pages 58 to 60.

During Mr Henriksson's employment, as a result of the Company recharging a proportion of his employment costs to the US businesses, Mr Henriksson incurred both US and UK tax liabilities in respect of his employment duties undertaken in the US in 2008. Deloitte LLP advised Invensys that the UK tax liabilities paid by Mr Henriksson in respect of such duties should be refunded to him by HM Revenue and Customs (HMRC). However, such refund was delayed pending a determination by the US and UK tax authorities of the relevant treaty provisions. In view of the material prejudice suffered by Mr Henriksson as a result of this temporary double taxation, Invensys Systems Inc advanced £546,000 to Mr Henriksson in 2009/10, being an amount equal to the refund due from HMRC. The refund was released by HMRC in June 2010 and subsequently Mr Henriksson repaid his loan to Invensys Systems Inc.

A similar situation arose in 2009/10, as Mr Henriksson incurred both US and UK tax liabilities in respect of his employment duties undertaken for the Company in the US in 2009. The amount of temporary double taxation suffered by Mr Henriksson and paid by him was £312,691 in relation to 2009/10, and Invensys Systems Inc advanced a subsequent loan to Mr Henriksson equal to this amount. The loan will be repayable to Invensys Systems Inc on HMRC refunding the amount to Mr Henriksson. Mr Henriksson's repayment obligations are not affected by the termination of his employment with the Company.

3 Chairman and non-executive directors

Chairman's appointment, terms and fee

Sir Nigel Rudd, who was appointed a non-executive director and Deputy Chairman on 1 January 2009, was appointed Chairman on 17 July 2009. The terms of Sir Nigel Rudd's appointment are set out in a contract dated 3 December 2008 which requires, except in the case of dismissal for cause, 12 months' notice by either party. On early termination, at the request of the Company, any compensation will be subject to mitigation.

Sir Nigel Rudd spends, on average, two days per week in his role as Chairman. From the commencement of the chairmanship, the Company agreed to fund the cost of a car and driver based on two fifths of the annualised cost of the provision of such services.

On appointment as Chairman, Sir Nigel Rudd's fee increased from £150,000 per annum to £270,000 per annum. He also elected to participate in the same arrangement as the other non-executive directors, whereby £8,000 of his fee per annum is paid in shares.

The Committee is responsible for reviewing the Chairman's fee. The Chairman is not involved in any decision on his own remuneration. The fees currently paid to the Chairman and the other non-executive directors are subject to the limits set out in the Company's Articles of Association.

Non-executive directors' appointments, terms and fees

Non-executive directors serve the Company under letters of appointment that do not contain any notice period. All non-executive directors (including the Chairman) are appointed under the Company's Articles of Association, which require that one third of all directors (including executive directors) shall retire at each AGM but that all directors must seek re-election at least once every three years. The new UK Code, applicable in respect of the Company's financial year beginning 1 April 2011, recommends that all directors should seek re-election by shareholders annually. The Board has agreed to implement this provision with effect from the AGM to be held on 28 July 2011.

Non-executive directors do not participate in any bonus or performance-related plans or any of the Group's share incentive, plans or pension schemes. Appointments of non-executive directors are terminable without payment or compensation by either the Company or director giving written notice.

Fees for non-executive directors other than the Chairman are determined by a committee of the Board comprising the Chairman and the executive directors. They are subject to the limits set out in the Articles of Association and are determined taking account of time commitments and responsibilities, together with comparative market rates and benchmarking data.

During the year the fee structure for the non-executive directors was a basic fee of £52,000 per annum, inclusive of £8,000 paid in shares to help align the interests of the non-executive directors with those of shareholders. Each non-executive director commits to retain their shares for the period of their directorship. The remuneration table on page 57 includes that part of the fee used to purchase shares, and the shares are included in Directors' Interests, also on page 57.

Additional payments of £14,000 and £10,000 are paid to the Chairman of the Audit Committee and to the Chairman of the Remuneration Committee respectively. An additional fee of £10,000 is paid to the Senior Independent Director to recognise the responsibilities that he undertakes.

The Remuneration Report was approved by the Board of directors on 18 May 2011 and signed on its behalf by

Dr Martin Read
Chairman of the Remuneration Committee

4 Directors' emoluments and interests in shares and share plans

Remuneration

The remuneration of the directors for the year ended 31 March 2011 was as follows:

	Notes	Salary/fees[5] £	Pension allowance £	Benefits[6] £	Bonuses[7] £	Termination payment £	2011[8] Total £	2010 Total £
Chairman								
Sir Nigel Rudd	1	270,000	–	–	–	–	**270,000**	235,846
Executive director								
Wayne Edmunds	2	430,192	129,808	22,364	684,347	–	**1,266,711**	1,076,423
Non-executive directors								
Francesco Caio		52,000	–	–	–	–	**52,000**	36,897
Bay Green		66,000	–	–	–	–	**66,000**	60,000
Paul Lester		52,000	–	–	–	–	**52,000**	12,500
Michael Parker		62,000	–	–	–	–	**62,000**	50,000
Dr Martin Read		62,000	–	–	–	–	**62,000**	42,538
Pat Zito		52,000	–	–	–	–	**52,000**	50,000
Former directors								
Ulf Henriksson	3, 4	828,750	294,966	101,576	1,346,930	1,154,000	**3,726,222**	2,464,365
Former directors who did not serve during 2010/11		–	–	–	–	–	**–**	291,871
		1,874,942	**424,774**	**123,940**	**2,031,277**	**1,154,000**	**5,608,933**	**4,320,440**

Notes

1 Sir Nigel Rudd was appointed on 1 January 2009 as Deputy Chairman and became Chairman on 17 July 2009. His emoluments for 2009/10 combine the relevant pro rata fees at the Deputy Chairman and Chairman level.
2 Mr Edmunds was appointed Chief Financial Officer on 1 June 2009 and his director's emoluments for 2009/10 relate to the period from this date to 31 March 2010. On 24 March 2011 he was appointed Chief Executive and his emoluments for 2010/11 combine the relevant pro rata payments as Chief Financial Officer and Chief Executive.
3 Mr Henriksson stepped down as Chief Executive and as a director of the Company on 24 March 2011 and therefore his emoluments for 2010/11 relate to the period from 1 April 2010 to this date (other than in relation to the bonus payment which has been paid in full for the year). The Company made a payment in lieu of notice of £1,154,000 in accordance with his service contract. In addition, the Company has agreed to reimburse relocation costs of up to £50,000 (plus tax thereon) if Mr Henriksson relocates to the US within 12 months of leaving the Group.
4 The emoluments of the highest-paid director, Mr Henriksson, were £3,726,222 relating to the period 1 April 2010 until he left the Company (2010: £2,464,365).
5 The fee structure for the non-executive directors (including the Chairman) includes £8,000 per annum which, after tax, is used to buy ordinary shares in the Company for each non-executive director as described on pages 55 and 56. The shares purchased on their behalf are included in Directors' Interests set out below.
6 Taxable and other benefits comprise items such as cash allowances in lieu of a company car, life assurance/permanent health insurance and private medical insurance. All executive directors are entitled to such benefits. In relation to Mr Henriksson, for 2010/11 the Company paid, on a grossed-up basis, certain third-party fees incurred for UK and US tax filings, and a notional interest charge on the loan made in relation to the US and UK temporary double taxation. The benefits stated for Mr Henriksson include £60,000 in respect of the estimated value of non-business use of a company driver and car/fuel benefits. Any such usage potentially gives rise to a taxable benefit and, pending agreement with HM Revenue & Customs as to the basis of an apportionment, it is not possible to quantify this benefit with precision in respect of the current year and potentially prior periods. Appropriate disclosure will be made in next year's remuneration report as to the amount of any benefit that is determined to arise, and the Board will in due course consider how any tax liability arising should be settled. In respect of Mr Edmunds, the benefits for 2010/11 included £3,705 relating to fees incurred for UK and US tax filings.
7 For 2010/11 an amount of £255,020 will be awarded as deferred shares to Mr Edmunds being the amount due in excess of target bonus, the vesting of which is deferred for a period of three years. All of Mr Henriksson's payment will be made in cash (net of tax) rather than any element being awarded in deferred shares. Details of deferred shares awarded in prior years are set out on page 59.
8 No directors waived emoluments in respect of the year ended 31 March 2011 (2010: nil).

Directors' Interests

Ordinary shares

The beneficial interests of the directors and their families in the shares of the Company are set out below:

	Notes	As at 31 March 2011[2,3] ordinary shares of 10p each	As at 1 April 2010
Francesco Caio	1	**2,640**	1,106
Wayne Edmunds		**33,153**	18,294
Bay Green	1	**16,629**	15,067
Paul Lester	1	**1,833**	298
Michael Parker	1	**8,196**	6,660
Dr Martin Read	1	**2,527**	992
Sir Nigel Rudd	1	**3,864**	2,329
Pat Zito	1	**19,820**	18,285

Notes

1 As described on pages 55 and 56, as part of the non-executive directors' fee arrangements, a proportion of their fee (including the Chairman) is used to acquire ordinary shares in the Company.
2 The mid-market price of an ordinary share on 31 March 2011 was 345.20p. Between 1 April 2010 and 31 March 2011, the highest mid-market price was 364.30p and the lowest mid-market price was 230.20p.
3 There have been no further changes in the interests of directors in service at the year end in ordinary shares between 1 April 2011 and 18 May 2011.

Long-term incentive awards

Long-term incentive awards are granted to executive directors as well as other senior employees under various plans operated by the Company. Awards granted to executive directors are detailed below.

2007 LTIP

Awards are normally subject to a three-year performance period, commencing at the start of the financial year during which the award is granted. There is no retention period. Further information about the 2007 LTIP and the relevant performance conditions relating to these conditional awards are set out on pages 50 to 52 of this Report and in Note 29 to the Group Financial Statements.

	Notes[1]	As at 1 April 2010	Awards granted during the year	Awards vested during the year	Awards lapsed/ forfeited during the year	**As at 31 March 2011 (or at date of cessation if earlier)**	Mid-market share price at date awards granted (p)	Mid-market share price at date awards vested (p)	Performance period	Normal release/vesting date
Wayne Edmunds										
2008	2	91,861	–	–	–	**91,861**	138	–	1 Apr 2008– 31 Mar 2011	12 Nov 2011
2009		343,155	–	–	–	**343,155**	223	–	1 Apr 2009– 31 Mar 2012	24 Jun 2012[5]
2010		–	304,245	–	–	**304,245**	283	–	1 Apr 2010– 31 Mar 2013	17 Jun 2013[5]
Former director										
Ulf Henriksson										
2007	4	459,587	–	229,793	229,794	**–**	331	260	1 Apr 2007– 31 Mar 2010	9 Aug 2010[5]
2008	2,3	503,933	–	–	–	**503,933**	312	–	1 Apr 2008– 31 Mar 2011	23 May 2011[5]
2009	3	750,366	–	–	–	**750,366**	223	–	1 Apr 2009– 31 Mar 2012	N/A
2010	3	–	604,911	–	–	**604,911**	283	–	1 Apr 2010– 31 Mar 2013	N/A

Notes

1 The conditional awards shown in the table are the maximum number (excluding shares representing accrued dividends) of ordinary shares that can vest subject to satisfaction of the relevant financial performance conditions.

2 Following consideration of the performance conditions, the Committee has determined that the TSR portion of the 2008 Awards were met in full; the EPS portion of the 2008 Awards did not meet target performance and therefore lapsed. Accordingly, Mr Henriksson's 2008 Award will vest at 50%. In respect of Mr Edmunds, his 2008 Award was granted when he was CFO of Invensys Process Systems and 30% of his award is not subject to performance conditions; therefore, in aggregate, Mr Edmunds' 2008 Award will vest at 65%.

3 Mr Henriksson left the Company on 24 March 2011. On leaving the Company, the Committee permitted the preservation in full of the 2007 LTIP award made to Mr Henriksson in 2008 (subject to the performance requirements as set out in Note 2). The 2007 LTIP awards made to him in 2009 and 2010 lapsed.

4 The TSR performance condition of the 2007 Award vested at 50%, but the EPS portion of the 2007 Award did not meet its target performance and therefore lapsed. The shares were released on 10 August 2010 and a further 4,298 shares were issued representing accrued dividends.

5 Award granted as nominal price option and, as such, can be exercised during a three-month period following the vesting date.

Restricted Share Plan

Restricted Share Plan (RSP) awards are satisfied by the transfer of existing issued shares. The vesting period for awards normally falls between one to three years. These are normally granted to executive leaders excluding executive directors. The 2008 RSP Award listed below was granted to Mr Edmunds while he was employed as CFO of Invensys Process Systems and prior to his appointment as an executive director. Further information about the RSP can be found on page 54 of this Report and at Note 29 in the Group Financial Statements.

	Notes	As at 1 April 2010	Awards granted during the year	Awards vested during the year	**As at 31 March 2011**	Mid-market share price at date awards granted (p)	Mid-market share price at date awards vested (p)	Normal release date
Wayne Edmunds								
2008	1	25,000	–	25,000	**–**	157	319	50% 27 Nov 2010

Note

1 The final 50% of the award was released on 3 December 2010 with an additional 413 shares released representing accrued dividend shares. No lapses or forfeitures took place during the year under review.

Share options

The following option over ordinary shares in the Company was granted to the former Chief Executive under an individual arrangement pursuant to the Listing Rules of the UK Listing Authority:

	Notes	As at 1 April 2010	**As at 31 March 2011 (or at date of cessation if earlier)**	Option exercise price (p)	Date from which first exercisable	Expiry date
Former director						
Ulf Henriksson						
2004	1	535,290	**535,290**	155	50% 21 Nov 2005 50% 21 May 2007	23 Mar 2012

Note

1 The option is not subject to performance conditions. No shares under the option were granted, lapsed or exercised during the year. Mr Henriksson left the Company on 24 March 2011. On leaving the Company, Mr Henriksson was permitted to exercise the above option for a period of one year after leaving the Company.

Deferred Share Plan

Any bonus earned under the Company's Executive Bonus Plan in excess of 100% of base salary is awarded as deferred shares to executive directors and members of the GLT. The shares are released to executive directors after three years. The awards are satisfied by the transfer of existing issued shares. Further information can be found on page 50 of this Report and at Note 29 in the Group Financial Statements. Details of ordinary shares in the Company which have been awarded to executive directors under the Deferred Share Plan are set out below:

	Notes[1]	As at 1 April 2010	Awards granted during the year	**As at 31 March 2011 (or at date of cessation if earlier)[5]**	Mid-market share price at date awards granted (p)	Deferral period	Normal release date
Wayne Edmunds							
2010	2	47,697	–	**47,697**	338	15 Mar 2010–16 Jun 2013	17 Jun 2013
2010	3	–	9,234	**9,234**	283	17 Jun 2010–16 Jun 2013	17 Jun 2013
Former director							
Ulf Henriksson							
2008	4	95,644	–	**95,644**	286	24 Jul 2008–23 Jul 2011	24 Jul 2011
2010	2,4	104,298	–	**104,298**	338	15 Mar 2010–16 Jun 2013	17 Jun 2013
2010	3,4	–	20,193	**20,193**	283	17 Jun 2010–16 Jun 2013	17 Jun 2013

Notes

1 No awards vested, lapsed or were forfeited during the year under review. The awards shown in the table exclude shares representing accrued dividends.
2 Payment of a proportion of bonus for 2009/10 was made in advance of the year end. The advance bonus amounts were £352,764 for Mr Henriksson and £161,325 for Mr Edmunds. These deferred shares were granted on 15 March 2010, but will vest three years from the date that the additional amounts detailed in note 3 were granted.
3 In addition to the shares awarded under the advanced proportion of the bonus for 2009/10, a further amount of £56,416 and £25,800 was awarded as deferred shares to Mr Henriksson and Mr Edmunds respectively.
4 Mr Henriksson left the Company on 24 March 2011. On leaving the Company, Mr Henriksson's deferred share awards in respect of 2008 and 2010 will vest at the normal release date, in accordance with the rules of the plan.
5 As described on page 57 in note 7 to the remuneration table, for 2010/11 a further amount of £255,020 will be awarded as deferred shares to Mr Edmunds.

2007 CEO Special Award

The CEO Special Award was a one-off conditional share award granted to the former Chief Executive, Ulf Henriksson. The Special Award was subject to a three-year performance period. Details of the ordinary shares in the Company which were awarded to Mr Henriksson under this plan are set out below.

	Notes	As at 1 April 2010	Awards granted during the year	Awards vested during the year	Awards lapsed/ forfeited during the year	**As at 31 March 2011 (or at date of cessation if earlier)**	Mid-market share price at date awards granted (p)	Mid-market share price at date awards vested (p)	Performance period	Vesting date
Former director										
Ulf Henriksson										
2007	1,2	1,608,554	–	369,071	870,412	**369,071**	331	270	1 Apr 2007– 31 Mar 2010	50% 24 May 2010 50% 24 May 2011

Notes

1 Following the end of the performance period on 31 March 2010 and on determination of the performance criteria (as set out on page 124 in Note 29 to the Group Financial Statements), 50% of these shares vested on 24 May 2010 and these were released on 25 May 2010, together with an additional 3,787 shares representing accrued dividends.

2 Mr Henriksson left the Company on 24 March 2011 and the Committee permitted Mr Henriksson to retain his entitlement to the remaining 50% of the shares under the 2007 CEO Special Award, the performance period for which ended on 31 March 2010. These shares are to be released as soon as practicable following a 12-month period from the first release of shares on 25 May 2010 and will include an additional 8,790 shares representing accrued dividends.

Directors' Report

The directors submit their report and the audited accounts for the year ended 31 March 2011 as set out on pages 66 to 152 and page 157. This report should be read in conjunction with the Corporate Governance Report on pages 40 to 47.

Principal activities

The principal activities for the year are contained in the Business Review on pages 17 to 36. The principal subsidiaries which contributed to the Group's profit or net assets in the year are listed on page 157.

Business Review

The Company is required by the Companies Act 2006 to set out in this report a fair review of the business of the Group during the financial year ended 31 March 2011 and the position of the Group at the end of the year. This review is contained in the Business Review section of the Annual Report and Accounts (pages 17 to 36), with further commentary on the Group's strategy, performance and future development in the Chairman's Statement (pages 12 and 13) and the Chief Executive's Statement (pages 14 to 16). The Business Review includes a description of the principal risks and uncertainties facing the Group (pages 32 to 36), a discussion of key financial performance measures (pages 18 to 21), information on our use of financial instruments and a description of our financial risk management objectives and policies (page 22). The Business Review contains the information required for a management report as set out in the Disclosure and Transparency Rules (DTRs).

Dividend

The Board has recommended the payment of a final dividend for the year of 2.5 pence per share which, subject to approval by shareholders at the AGM on 28 July 2011, will be paid on 5 August 2011 to shareholders on the register at 24 June 2011. With an interim dividend of 1.5 pence per share paid during the year, the total dividends payable in respect of the year ended 31 March 2011 are 4.0 pence per share (2010: 3.0 pence per share).

We have decided to introduce a dividend reinvestment plan (DRIP), beginning with the final dividend, which will enable shareholders to reinvest their dividends directly into Invensys shares. Details of the DRIP are contained in separate documentation mailed to shareholders.

Board of directors

The current directors of the Company and their biographical details are given on pages 38 and 39. A statement of their remuneration and interests in the ordinary shares of the Company are set out in the Remuneration Report on pages 57 to 60.

As previously announced, Ulf Henriksson stepped down as Chief Executive and as a director of the Company on 24 March 2011. Wayne Edmunds, who had been Chief Financial Officer and director of the Company since 1 June 2009, succeeded Mr Henriksson as Chief Executive. David Thomas was appointed as Acting Chief Financial Officer on 24 March 2011, but he has not been appointed a statutory director of the Company.

Deena Mattar will join the Board as a non-executive director and member of the Audit Committee on 19 May 2011.

The rules governing the appointment and retirement of directors are contained in the Company's Articles of Association, which provides that any director appointed during the year holds office only until the next year's AGM and is then eligible for election by the shareholders and that, in any case, one third of the directors (or if their number is not a multiple of three the number nearest to one third) shall retire from office and, if they wish, put themselves up for re-election by the shareholders. The new UK Code, applicable in respect of the Company's financial year beginning 1 April 2011, recommends that all directors should seek re-election by shareholders annually. The Board intends to implement this provision with effect from the AGM to be held on 28 July 2011. Further information can be found in the Corporate Governance Report on pages 41 and 43.

The Chairman's Letter and Notice of AGM explains the Board's reasons for and recommendations regarding the re-election of all directors.

The powers of the directors are determined by UK legislation and the Articles of Association of the Company, together with any specific authorities that may be given to the directors by shareholders from time-to-time, such as the power to allot shares and the power to make market purchases of the Company's shares. Further information regarding matters reserved for the Board is set out in the Corporate Governance Report on page 40.

Directors' indemnity and insurance

In accordance with its Articles of Association, the Company has provided to all the directors an indemnity (to the extent permitted by the Companies Act 2006) in respect of liabilities incurred as a result of their office, and the Company has taken out an insurance policy in respect of those liabilities. Neither the indemnity nor the insurance provides cover in the event that a director is proved to have acted dishonestly or fraudulently.

Acquisitions and disposals

On 21 April 2010, the Group acquired 100% of the share capital of Skelta Software, a privately held software company headquartered in Bangalore, India, for a cash consideration of £6.4 million. On 31 December 2010, the Group disposed of a small European business that produced pumps for coffee-making machines for a cash consideration of £5.0 million.

Capital structure

Details of the issued share capital, together with details of movements in the issued share capital of the Company during the year, are shown in Note 27 on pages 118 and 119.

The Company has one class of ordinary shares which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company. Whether or not a shareholder intends to attend the AGM, votes on the resolutions are to be lodged by no later than 48 hours before the meeting takes place. There are no specific restrictions on the size of a holding nor on the transfer of shares (save as detailed on page 62), both of which are governed by the general provisions of the Articles of Association and prevailing legislation.

The Company operates an employee benefit trust in Jersey called the Invensys No.2 Employee Benefit Trust (EBT) which may be used to deliver ordinary shares in the Company under certain executive share schemes, as appropriate. The EBT has an independent trustee which waives its rights to dividends and to vote on the shareholding. Details of executive share schemes and shares held by the EBT are set out in Notes 27 and 29 on pages 118 to 119 and 120 to 130 respectively.

Shares acquired through the Company's executive share plans rank pari passu with other shares in issue and have no special rights or restrictions, save that certain share awards involve retention periods after vesting. Further information is set out in Note 29 on pages 120 to 130. The non-executive directors use a proportion of their fees to purchase shares in the Company which may not normally be transferred during a director's period of office.

At the 2010 AGM, the directors were authorised to issue relevant securities up to an aggregate nominal amount of £26.7 million (approximately one third of the issued ordinary share capital as at 27 May 2010). In addition, the directors were authorised to allot an extra third of the issued share capital in respect of a fully pre-emptive rights issue. Renewal was also sought for the directors' authorisation to allot relevant securities and to allot equity securities for cash (up to a maximum aggregate nominal amount of £4.0 million) on a pre-emptive basis. The directors did not use this authority during the year under review, other than to issue shares to satisfy awards under the Company's share incentive plans. The directors will seek to renew allotment authorities at the 2011 AGM in line with revised guidelines issued by the Association of British Insurers.

Substantial shareholders
At the date of this Report, the Company has been notified, in accordance with the DTRs, of the following interests in the ordinary share capital of the Company:

Name	% interest in issued share capital
Ameriprise	4.565% (indirect interest) 0.160% (direct interest) 0.01%[1] (nominal interest)
BlackRock	4.84% (indirect interest) 0.12%[1] (nominal interest)
Legal & General	4.98% (direct interest)
Prudential	10.05% (direct interest) 0.055% (indirect interest)
Schroders	5.105% (indirect interest)
Standard Life Investments	3.647% (direct interest) 2.332% (indirect interest)

1 This interest is a contract for difference and does not carry any voting rights.

The percentage interests stated are as disclosed at the date on which the interests were notified in accordance with DTR 5.

Supplier payment policy
It is the policy of the Group that subsidiary companies should develop long-term relationships with suppliers and establish terms of trade consistent with established practice in their country of operation, and to ensure that suppliers are aware of the terms of payment and that such terms are followed. The Company is a holding company and has no trade creditors.

Employee policy and development
Invensys has active policies of equal opportunity ranging from selection and recruitment to training and development which meet the needs of its operations around the world. If necessary, reasonable adjustments will be made for the benefit of disabled employees. Disabled people are given full and fair consideration for employment and subsequent training (including, if needed, retraining for alternative work where employees have become temporarily or permanently disabled), career development and promotion on the basis of their aptitudes and abilities.

The Group recognises the need to consult and systematically provide information on matters of concern to employees. To satisfy that need, the Group provides employees with published financial and economic information through its consultative procedures. Invensys encourages employees' involvement in the Company's performance through the Invensys Savings Related Share Option Scheme. Invensys also encourages the involvement of professional and managerial level employees in the Group's performance through the Invensys Performance Management System, which reinforces the links between the Group's business goals, the employee's contribution and his/her remuneration. Elaboration on these topics and further information concerning employees is set out in the Corporate Social Responsibility report, which begins on page 28.

Charitable and political contributions
During the year, Group donations to charities and community causes worldwide were £0.3 million (2010: £0.2 million), with UK charities receiving £nil (2010: £nil). The Board is of the view that it is not appropriate for the Company to make charitable donations given that the Company only resumed the payment of dividends in recent years. However, many of the Group's subsidiaries are influential companies and important employers in their own countries or localities, and it is therefore believed to be in the best interests of the Group for those companies' community involvement to be maintained at reasonable levels.

At the 2010 AGM, shareholders passed a resolution, on a precautionary basis, to authorise the Company to make political donations and/or incur political expenditure (as such terms are defined in sections 362 to 379 of the Companies Act 2006), in each case in amounts not exceeding £25,000 in aggregate. The definitions used in the Companies Act 2006 are broad in nature and this authority was sought to ensure that any activities undertaken throughout the Group, which could otherwise be construed to fall within these provisions, could be undertaken without inadvertently infringing them. During the year the Company granted paid leave in the amount of £8,000 to one of its employees who, during the course of that leave, campaigned for election as a candidate for the UK Labour Party.

Research and development
The Group carries out research and development in support of its activities. During the year, expenditure on the research and development of new products and processes amounted to £150 million (2010: £130 million).

Significant agreements
The Company is required to disclose any contractual or other arrangements which it considers are essential to its business. Invensys' critical relationships are with its major customers and its suppliers of services, components and raw materials, as discussed in the Business Review on pages 17 to 36. Whilst the loss of or disruption to certain of these arrangements could temporarily affect the operations of the Group, none of these arrangements are considered to be essential.

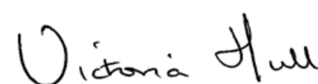
The Company is also required to disclose any significant agreements that take effect, alter or terminate on a change of control of the Company. Pursuant to section 992 of the Companies Act 2006, the directors disclose that in the event of a change of control in the Company: (i) the banking facilities described in Note 21, totalling £425 million at 31 March 2011, could cease to be available to the Group; (ii) a Master Service Agreement dated 15 May 2007, made with Genpact International, Inc for the provision of outsourced business services in relation to certain finance and related functions, would become terminable at the option of the Company; and (iii) a Master Service Agreement dated 3 July 2009, made with Cognizant Technology Solutions U.S. Corporation for the provision of certain research and development services to the Invensys Operations Management division (and also to Invensys Rail from December 2009), would become terminable at the option of the Company.

Wayne Edmunds' service contract contains provisions which would take effect in the event of a change of control. In the event of a material adverse change to his title, responsibilities or status following a change of control of the Company, he would be entitled to terminate his employment and receive a payment equal to the termination payment set out in the Remuneration Report on page 55. The service contracts of a small number of other key employees also contain provisions entitling them to terminate employment and receive compensation in the event of a change of control.

Auditor
In accordance with section 418(2) of the Companies Act 2006, each of the directors at the date of approval of this Report confirms that, so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware, and that the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of, and to establish that the auditor is aware of, any relevant audit information. Ernst & Young LLP has expressed willingness to continue in office as auditor and, in accordance with the recommendation of the Audit Committee, resolutions proposing its reappointment and to authorise the directors to determine its remuneration will be proposed at the 2011 AGM.

Annual General Meeting
The AGM of the Company will be held on Thursday, 28 July 2011 at 11.00am at The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE. The Chairman's Letter and Notice of AGM gives full details of the meeting and the resolutions to be proposed.

By order of the Board of directors



Victoria Hull
Group General Counsel and Company Secretary

Invensys plc
Registered in England & Wales number 166023

Statement of Directors' Responsibilities in Respect of the Preparation of the Accounts

The directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards adopted by the European Union or, in the case of the Company's Financial Statements, UK GAAP.

Company law requires the directors to prepare Company and Group Financial Statements for each financial year. Under that law, the directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and Group and of their profit or loss for that period. In preparing the Company and Group Financial Statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in applicable accounting standards is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- state that the Company and the Group have complied with applicable accounting standards, subject to any material departures disclosed and explained in the Financial Statements.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the transactions of the Company and of the Group and disclose with reasonable accuracy at any time the financial position of the Company and of the Group and enable them to ensure that the Financial Statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review on pages 17 to 36. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 18 to 21. Note 22 to the Financial Statements includes: the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk. The principal risks and uncertainties facing the Group, along with mitigating actions, are set out on pages 34 to 36.

The Group remains generally in a sound financial position with net cash, £425 million of banking facilities in place until 2013, and well-established relationships with key customers and suppliers.

The directors have a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the annual Financial Statements.

Directors' responsibility statement
We confirm that to the best of our knowledge:

a) the Financial Statements for the year ended 31 March 2011, prepared in accordance with International Financial Reporting Standards as adopted for use in the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation as a whole; and

b) the Business Review includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

Wayne Edmunds
Chief Executive

18 May 2011

The directors of Invensys plc are listed on pages 38 and 39.

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Independent auditor's report to the shareholders of Invensys plc

We have audited the Group Financial Statements of Invensys plc for the year ended 31 March 2011 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated cash flow statement and the related Notes 1 to 36. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's 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 Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor
As explained more fully in the Statement of Directors' Responsibilities set out on page 64, the directors are responsible for the preparation of the Group Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the Group Financial Statements
An audit involves obtaining evidence about the amounts and disclosures in the Group Financial Statements sufficient to give reasonable assurance that the Group Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the Group Financial Statements. In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on Group Financial Statements
In our opinion the Group Financial Statements:

- give a true and fair view of the state of the Group's affairs as at 31 March 2011 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion:

- the information given in the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Group Financial Statements; and
- the information given in the Corporate Governance Statement set out on pages 40 to 47 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the Group Financial Statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a Corporate Governance Statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 64, in relation to going concern; and
- the part of the Corporate Governance statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

Other matter
We have reported separately on the Parent Company Financial Statements of Invensys plc for the year ended 31 March 2011 and on the information in the Remuneration Report that is described as having been audited.

Richard Addison (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
18 May 2011

Notes
1 The maintenance and integrity of the Invensys plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Financial Statements since they were initially presented on the website.
2 Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated income statement

For the year ended 31 March	Notes	2011 £m	2010 £m
Continuing operations			
Revenue	2,3	**2,486**	2,243
Operating expenses before exceptional items		**(2,224)**	(1,995)
Operating profit before exceptional items	2,3	**262**	248
Exceptional items	3	**(21)**	(25)
Operating profit		**241**	223
Foreign exchange on financial items	7	**–**	–
Finance costs	8	**(9)**	(10)
Finance income	8	**4**	3
Other finance charges – IAS 19	25	**(14)**	(37)
Profit before taxation		**222**	179
Taxation – UK	9	**–**	3
Taxation – overseas	9	**(37)**	(29)
Profit after taxation – continuing operations		**185**	153
Loss after taxation – discontinued operations	10	**(7)**	(2)
Profit for the year		**178**	151
Attributable to:			
Profit after taxation – continuing operations			
– Equity holders of the parent		**181**	149
– Non-controlling interests		**4**	4
		185	153
Loss after taxation – discontinued operations			
– Equity holders of the parent		**(7)**	(2)
Profit for the year			
– Equity holders of the parent		**174**	147
– Non-controlling interests		**4**	4
		178	151
Earnings/(loss) per share			
Continuing operations			
Earnings per share (basic)	11	**22.4p**	18.5p
Earnings per share (diluted)	11	**22.2p**	18.4p
Discontinued operations			
Loss per share (basic)	11	**(0.9)p**	(0.2)p
Loss per share (diluted)	11	**(0.9)p**	(0.2)p
Total Group			
Earnings per share (basic)	11	**21.5p**	18.3p
Earnings per share (diluted)	11	**21.3p**	18.1p

Consolidated statement of comprehensive income

For the year ended 31 March	Notes	2011 £m	2010 £m
Profit for the year		**178**	151
Other comprehensive income			
Cash flow hedges:			
– (Losses)/gains taken to equity		**(2)**	1
– Transferred to income statement for the year – cost of sales	22	**–**	(3)
Exchange differences on translation of foreign operations		**(20)**	(7)
Actuarial gain/(loss) recognised on defined benefit pension schemes	25	**30**	(389)
Movement in irrecoverable element of potential future pension surplus	25	**–**	56
Taxation on components of other comprehensive income	9	**13**	–
Other comprehensive income/(loss) for the year, net of tax		**21**	(342)
Total comprehensive income/(loss) for the year		**199**	(191)
Attributable to:			
Equity holders of the parent		**198**	(195)
Non-controlling interests		**1**	4
		199	(191)

Consolidated balance sheet

At 31 March	Notes	2011 £m	2010 £m
ASSETS			
Non-current assets			
Property, plant and equipment	12	**237**	274
Intangible assets – goodwill	13	**291**	301
Intangible assets – other	14	**160**	133
Deferred income tax assets	15	**46**	27
Trade and other receivables	19	**22**	26
Other financial assets	16	**–**	1
		756	762
Current assets			
Inventories	17	**155**	157
Amounts due from contract customers	18	**233**	180
Trade and other receivables	19	**526**	510
Cash and cash equivalents	20	**349**	364
Income tax receivable		**8**	8
Derivative financial instruments	22	**2**	3
		1,273	1,222
Assets held for sale	23	**11**	6
TOTAL ASSETS		**2,040**	1,990
LIABILITIES			
Non-current liabilities			
Borrowings	21	**–**	(1)
Provisions	24	**(88)**	(100)
Income tax payable		**(31)**	(33)
Deferred income tax liabilities	15	**(18)**	(12)
Amounts due to contract customers	18	**(11)**	(40)
Trade and other payables	26	**(10)**	(10)
Pension liabilities	25	**(467)**	(581)
		(625)	(777)
Current liabilities			
Trade and other payables	26	**(546)**	(529)
Amounts due to contract customers	18	**(203)**	(158)
Borrowings	21	**(1)**	–
Derivative financial instruments	22	**(4)**	(9)
Income tax payable		**(27)**	(18)
Provisions	24	**(85)**	(79)
		(866)	(793)
TOTAL LIABILITIES		**(1,491)**	(1,570)
NET ASSETS		**549**	420
Capital and reserves			
Equity share capital	27	**81**	81
Treasury shares	27	**(2)**	(2)
Other reserves	28	**2,527**	2,546
Retained earnings		**(2,092)**	(2,285)
Equity holders of parent		**514**	340
Non-controlling interests		**35**	80
TOTAL EQUITY		**549**	420

These accounts were approved by the directors on 18 May 2011 and are signed on their behalf by:

Sir Nigel Rudd
Chairman

Wayne Edmunds
Chief Executive

Consolidated statement of changes in equity

	Notes	Issued share capital (Note 27) £m	Treasury shares (Note 27) £m	Share premium account (Note 28) £m
2011				
Balance at 1 April 2010		81	(2)	348
Profit for the year		–	–	–
Other comprehensive (loss)/income for the year		–	–	–
Total comprehensive (loss)/income for the year		–	–	–
Share-based payment	29	–	–	–
Purchase of own shares by Employee Share Trust	27	–	(4)	–
Distribution of own shares under share-based payment arrangements	27	–	4	–
Dividends paid to equity shareholders	35	–	–	–
Dividends paid to non-controlling interests		–	–	–
Disposal of non-controlling interests [1]		–	–	–
Balance at 31 March 2011		81	(2)	348
2010				
Balance at 1 April 2009		80	(1)	348
Profit for the year		–	–	–
Other comprehensive loss for the year		–	–	–
Total comprehensive (loss)/income for the year		–	–	–
Share-based payment	29	–	–	–
Purchase of own shares by Employee Share Trust	27	–	(8)	–
Distribution of own shares under share-based payment arrangements	27	–	7	–
Dividends paid to equity shareholders	35	–	–	–
Dividends paid to non-controlling interests		–	–	–
Purchase of non-controlling interests [2]		–	–	–
Issue of share capital	27	1	–	–
Balance at 31 March 2010		81	(2)	348

1 Includes £41 million interim distribution made to the non-controlling shareholders of Baan.
2 Relates to the purchase of 3.67 million shares from the non-controlling shareholders of Baan.

Other reserves: Capital reserve (Note 28) £m	Special reserve (Note 28) £m	Cash flow hedge reserve (Note 28) £m	Foreign exchange reserve (Note 28) £m	Total other reserves £m	Retained earnings £m	**Attributable to equity holders of the Parent £m**	Non-controlling interests £m	**Total equity £m**
1,582	495	(6)	127	2,546	(2,285)	**340**	80	**420**
–	–	–	–	–	174	**174**	4	**178**
–	–	(2)	(17)	(19)	43	**24**	(3)	**21**
–	–	(2)	(17)	(19)	217	**198**	1	**199**
–	–	–	–	–	8	**8**	–	**8**
–	–	–	–	–	–	**(4)**	–	**(4)**
–	–	–	–	–	(4)	**–**	–	**–**
–	–	–	–	–	(28)	**(28)**	–	**(28)**
–	–	–	–	–	–	**–**	(3)	**(3)**
–	–	–	–	–	–	**–**	(43)	**(43)**
1,582	495	(8)	110	2,527	(2,092)	**514**	35	**549**
1,582	495	(4)	134	2,555	(2,081)	**553**	87	**640**
–	–	–	–	–	147	**147**	4	**151**
–	–	(2)	(7)	(9)	(333)	**(342)**	–	**(342)**
–	–	(2)	(7)	(9)	(186)	**(195)**	4	**(191)**
–	–	–	–	–	9	**9**	–	**9**
–	–	–	–	–	–	**(8)**	–	**(8)**
–	–	–	–	–	(7)	**–**	–	**–**
–	–	–	–	–	(20)	**(20)**	–	**(20)**
–	–	–	–	–	–	**–**	(2)	**(2)**
–	–	–	–	–	–	**–**	(9)	**(9)**
–	–	–	–	–	–	**1**	–	**1**
1,582	495	(6)	127	2,546	(2,285)	**340**	80	**420**

Consolidated cash flow statement[1]

For the year ended 31 March	Notes	2011 £m	2010 £m
Operating activities			
Operating profit:			
– Continuing operations	2,3	**241**	223
Depreciation of property, plant and equipment	12	**41**	43
Amortisation of intangible assets – other	14	**26**	22
Provision for impairment charged to operating profit	3	**10**	10
Loss on sale of assets and operations	2	**–**	5
Sale of property, plant and equipment		**2**	1
Non-cash charge for share-based payment	29	**8**	9
(Increase)/decrease in inventories		**(5)**	5
(Increase)/decrease in receivables		**(49)**	6
Decrease in net amounts due to contract customers		**(40)**	(9)
Increase in payables and provisions		**55**	1
Difference between pension contributions paid and amounts recognised in operating profit		**(82)**	(100)
Cash generated from operations		**207**	216
Income taxes paid		**(30)**	(41)
Interest paid		**(6)**	(9)
Net cash flows from operating activities		**171**	166
Investing activities			
Interest received		**5**	4
Purchase of property, plant and equipment		**(32)**	(34)
Expenditure on intangible assets – other		**(61)**	(36)
Sale of trade investments	16	**1**	–
Purchase/disposal of non-controlling interests		**(43)**	(9)
Purchase of subsidiaries	32	**(6)**	–
Net cash flow arising on disposal	32	**(4)**	(12)
Cash invested in financial assets		**–**	13
Cash payments on swap contracts		**(9)**	–
Cash flows from investing activities		**(149)**	(74)
Financing activities			
Purchase of Invensys plc shares	27	**(4)**	(8)
Transfers of treasury bonds to cash equivalents		**–**	8
Repayment of short-term borrowings		**–**	(8)
Dividends paid to equity holders of the parent	35	**(28)**	(19)
Dividends paid to non-controlling interests		**(3)**	(2)
Cash flows from financing activities		**(35)**	(29)
Net (decrease)/increase in cash and cash equivalents		**(13)**	63
Cash and cash equivalents at beginning of year		**364**	296
Net foreign exchange difference		**(2)**	5
Cash and cash equivalents at end of year	20	**349**	364

1 Further cash flow information is set out in Note 31.

Accounting policies

Statement of compliance
The Group's consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and in accordance with the Companies Act 2006.

Basis of preparation
The accounting policies which follow set out the policies and measurement bases that have been applied in preparing the Financial Statements for the year ended 31 March 2011. The consolidated Financial Statements are presented in sterling and all amounts are rounded to the nearest million (£m) unless otherwise indicated.

The Group's date of transition to IFRSs was 1 April 2004.

Basis of consolidation
The consolidated Financial Statements comprise Invensys plc and its subsidiaries for the financial year to 31 March each year. The Group does not currently have any material associates. The Financial Statements of subsidiaries are prepared for the same reporting year as the Parent Company, using consistent accounting policies.

All intragroup balances and transactions have been eliminated.

The results of subsidiaries sold or acquired during the year are consolidated up to, or from, the date control passes.

Business combinations completed on or after 1 April 2010
Business combinations are accounted for using the acquisition method. The cost of the business combination is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interest in the acquiree. For each business combination, any non-controlling interest in the acquiree is measured either at fair value or at the proportionate share of the acquiree's identifiable net assets. Consideration transferred includes any contingent consideration measured at its acquisition date fair value. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that qualifies for classification as equity is not remeasured until it is finally settled. Acquisition costs incurred are expensed.

Any excess of the cost of the acquisition over the net identifiable assets acquired is recognised as goodwill in the balance sheet. If the cost is lower than the net identifiable assets acquired, the difference is recognised in profit or loss.

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interest;
- Derecognises the cumulative translation differences, recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss; and
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

If a subsidiary with a non-controlling interest incurs losses, the non-controlling interest's share in those losses is attributed to non-controlling interests in equity even if that results in a deficit balance.

Business combinations completed prior to 1 April 2010
In comparison to the approach explained above, the following differences apply to the accounting for business combinations completed prior to 1 April 2010.

Non-controlling interests (formerly known as minority interests) were measured at the proportionate share of the acquiree's identifiable net assets and costs directly attributable to the acquisition formed part of the cost of the business combination. Contingent consideration was included in the cost of the business combination if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate could be determined. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

On loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying value of such investments at 1 April 2010 has not been restated.

A non-controlling interest's share in losses was attributed to non-controlling interests in equity until the balance was reduced to nil. Any further excess losses were attributed to the parent unless the non-controlling interest had a binding obligation to cover them. Any such losses prior to 1 April 2010 have not been reallocated between the non-controlling interest and the parent.

In accordance with the exemption permitted by IFRS 1, First-time Adoption of International Financial Reporting Standards, applied by the Group on transition to IFRS, business combinations prior to IFRS transition were not restated to comply with IFRS 3, Business Combinations.

Changes in accounting policies
The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended IFRSs and International Financial Reporting Interpretations Committee (IFRIC) interpretations during the year. All have been endorsed for use in the EU.

IFRS 3	Business Combinations (revised)
IAS 27	Consolidated and Separate Financial Statements (amended)
Amendments to IFRS 1	Additional Exemptions for First-time Adopters
Amendments to IFRS 2	Group Cash-settled Share-based Payment Transactions
Amendment to IAS 32	Classification of Rights Issues
Amendment to IAS 39	Eligible Hedged Items
Improvements to IFRS	Annual improvements April 2009
IFRIC 17	Distributions of Non-cash Assets to Owners
IFRIC 18	Transfers of Assets from Customers

The principal effects of these changes are as follows:

IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements (amended)
IFRS 3 (revised) applies to business combinations completed on or after 1 April 2010, and so has been applied to the acquisition of Skelta Software Private Limited (Skelta) (see Note 32). The revised standard continues to require the purchase method of accounting (now referred to as the acquisition method) to be applied to business combinations but introduces some changes to the accounting treatment, including the recognition of acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received rather than as part of the cost of the acquisition. The revised standard also contains new guidance on how to determine what constitutes consideration transferred for the acquiree. Among other things, this helps to clarify whether contingent payments to selling shareholders are contingent consideration in the business combination or are separate transactions, the distinction depending on the nature of the particular arrangements in place. In the case of Skelta, the amounts treated in accordance with this guidance as separate transactions rather than contingent consideration are disclosed in Note 32. The accounting for business combinations that occurred before 1 April 2010 was not required to be restated, so there is no effect on the Group's reported income or net assets on adoption.

The basis of consolidation applied under IAS 27 has been amended to reflect the revised approach to business combinations. In addition, the accounting for a change in the ownership interest of a subsidiary that does not result in a loss of control has been amended so that the transaction is accounted for as an equity transaction which does give rise to goodwill or result in any gain or loss; and losses arising in subsidiaries in which there is a non-controlling interest are allocated to the non-controlling interest even if they result in a deficit in the balance of non-controlling interests in equity. The changes apply only to losses of control of subsidiaries and transactions with non-controlling interests that occur after 1 April 2010. Their application has had no material effect on the reported income or net assets of the Group in year ended 31 March 2011.

The descriptions of the accounting policies applicable to business combinations, the basis of consolidation and goodwill with effect from 1 April 2010 have been amended to reflect these changes.

Improvements to IFRS – Annual improvements April 2009
Among changes to several IFRSs, the Improvements to IFRS adopted for the first time this year has clarified that IFRS 8, Operating Segments, requires the separate disclosure of total segment assets only if such an amount is regularly provided to the chief operating decision maker. As a result, with effect from 31 March 2011, Invensys will present in Note 2, Operating segment information, a single measure of segment net assets/(liabilities), rather than separate measures of segment assets and segment liabilities, as this disclosure better reflects the measure of segment assets and liabilities used in practice. The comparative disclosure for the year ended 31 March 2010 has been re-presented accordingly.

Other than the changes noted above, adoption of these standards and interpretations has not had any material effect on the Financial Statements of the Group.

Exceptional items
Exceptional items are material items of income and expense that should be separately disclosed to assist in the understanding of the Group's financial performance and in making projections of future results. Such items may be operating or non-operating in nature. Exceptional items are presented separately on the face of the income statement and analysed in the Notes to the Financial Statements.

Foreign currencies
The presentational currency of the Group and functional currency of Invensys plc is sterling.

The Financial Statements for each of the Group's subsidiaries are prepared using their functional currency. The functional currency is generally the currency of the primary economic environment in which an entity operates.

Foreign currency transactions
Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rates ruling at the balance sheet date. Exchange differences arising are recognised in the income statement unless:

a) the monetary assets or liabilities to which they relate form the hedging instrument in a cash flow hedging relationship that qualifies for hedge accounting; or

b) the monetary assets or liabilities to which they relate form part of a net investment in a foreign operation;

in which case they are recognised directly in equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

Non-monetary assets and liabilities measured at fair value in foreign currency are translated at the rates prevailing when the fair value was determined. Gains and losses arising on retranslation are included in the income statement for the period, except for exchange differences arising on non-monetary assets and liabilities where the changes in fair value are recognised directly in equity.

Financial statements of foreign operations
The trading results of overseas subsidiaries are translated into sterling at average rates of exchange ruling during the year. Assets and liabilities of overseas subsidiaries, including goodwill, are translated into sterling at closing rates of exchange ruling at the balance sheet date. All resulting exchange differences are recognised directly in a separate component of equity. On disposal of a foreign operation, any cumulative exchange differences held in equity are transferred to the consolidated income statement, as part of the profit or loss on sale.

Translation differences that arose before the date of transition to IFRS were deemed to be zero at that date. As a result, if a foreign operation is sold, there is no exchange difference recognised in the income statement relating to the period prior to that date.

Revenue
Composition of revenue
Revenue comprises the invoiced value of goods and services supplied by the Group excluding intragroup transactions and sales taxes. Revenue relating to construction contracts, including long-term service provision contracts, represents the value of work performed during the year determined by reference to the stage of completion of the contract. Discounts given to customers against list prices, such as trade or volume discounts, are deducted in arriving at the value of revenue. Settlement discounts are reported as an expense in the income statement.

Recognition of revenue and profits
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The specific methods used to recognise the different forms of revenue earned by the Group are set out below.

Sale of goods
Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be reliably measured. For sales of software solutions, revenue is recognised when a signed contract exists, delivery to the customer has occurred, no significant vendor obligations remain and collection of the sales proceeds is considered probable. A contract to deliver goods, including software solutions, that requires significant production, modification, customisation or integration of the goods, is accounted for in its entirety as a construction contract.

Profit is recognised at the time of sale.

Construction contracts and rendering of services
Revenue from construction contracts and long-term service provision contracts is recognised by reference to the stage of completion of contract activity at the balance sheet date. This is normally determined by the proportion that contract costs incurred to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. If the nature of a particular contract means that costs incurred do not accurately reflect the progress of contract activity, an alternative approach is used such as the achievement of pre-determined contract milestones.

Variations in contract work, claims and incentive payments are included in revenue from construction contracts when certain criteria are met. Variations are included when the customer has agreed to the variation or acknowledged liability for the variation in principle. Claims are included when negotiations with the customer have reached an advanced stage such that the customer is certain to accept the claim. Incentive payments are included when a contract is sufficiently advanced that it is probable that the performance standards triggering the incentive will be achieved.

Profit attributable to contract activity is recognised if the final outcome of such contracts can be reliably assessed. On all contracts, full provision is made for any losses in the year in which they are first foreseen.

Revenue from services provided on a short-term or one-off basis is recognised when the service is complete.

When a transaction combines a supply of goods with the provision of a significant service, revenue from the provision of the service is recognised separately from the revenue from the sale of goods by reference to the stage of completion of the service unless the service is essential to the functionality of the goods supplied, in which case the whole transaction is treated as a construction contract. Revenue from a service that is incidental to the supply of goods is recognised at the same time as the revenue from the supply of goods.

Research and development
All research expenditure is expensed as incurred. Development expenditure is expensed as incurred unless it meets the criteria for recognition as an intangible asset (see policy on Other intangible assets).

Pension costs and other post-retirement benefits
For defined benefit plans, the service cost of providing retirement benefits to employees during the year is charged to operating profit or loss in the year. The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit actuarial valuation method. The full cost of providing amendments to benefits in respect of past service that vests immediately is also charged to operating profit or loss in the year. The expected return on the assets of the schemes during the year based on the market value of scheme assets at the start of the financial year is included within Other finance charges – IAS 19. This also includes a charge representing the expected increase in liabilities of the schemes during the year, arising from the liabilities of the scheme being one year closer to payment. Differences between actual and expected returns on assets during the year are recognised in the statement of comprehensive income in the year, together with differences from changes in assumptions. The net surplus or deficit on defined benefit pension schemes is reported on the balance sheet within the pension asset or liability.

The value of any defined benefit asset recognised is restricted to the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan. When the Group is committed to making minimum funding payments to a defined benefit plan, and the present value of the agreed funding payments exceeds the liability in respect of the plan as measured under IFRS, a provision is recognised for any part of the resulting surplus that would not be recoverable.

For defined contribution schemes the amount charged to the income statement in respect of pension costs is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown either as accruals or prepayments in the balance sheet.

Goodwill
On a business combination the net identifiable assets are assessed and adjustments are made to bring the accounting policies of the business acquired into alignment with those of the Group. For a business combination with an acquisition date on or after 1 April 2010, the excess of the aggregate of the acquisition date fair value of consideration transferred and the amount recognised for any non-controlling interest in the acquiree over the identifiable net assets acquired is included in intangible assets as goodwill. For a business combination with an acquisition date before 1 April 2010, goodwill was determined as the excess of the price paid over the Group's interest in the fair value of identifiable net assets acquired.

Any costs of integrating the acquired business are taken to the income statement.

Goodwill arising on business combinations before 1 April 2004 has been retained at the previous UK GAAP amount subject to being tested for impairment at that date. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

Goodwill is not amortised but is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired, and it is subsequently carried at cost less accumulated impairment losses. The Group's policy on testing assets for impairment is set out under 'Impairment of non-financial assets' on page 76.

Gains and losses on the disposal of a business include the carrying amount of goodwill relating to the business sold.

Other intangible assets

Other intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses. The cost of intangible assets acquired in a business combination is the fair value at acquisition date. The cost of separately acquired intangible assets, including computer software, comprises the purchase price and any directly attributable costs of preparing the asset for use. Amortisation begins when an asset is available for use and is calculated on a straight-line basis to allocate the cost less residual value of assets over their estimated useful lives using the following annual rates or useful lives:

Development costs	10 to 25%
Computer software costs	10 to 25%
Patents, trademarks and licences	Shorter of period of the agreement or 15 years

Useful lives are examined on an annual basis and adjustments where applicable are made on a prospective basis. No intangible assets other than goodwill are considered to have indefinite useful lives.

Expenditure incurred on development projects is capitalised as an intangible asset if it meets the recognition criteria set out in IAS 38, Intangible Assets. These require it to be probable that the expenditure will generate future economic benefits and can be measured reliably. To meet these criteria, it is necessary to be able to demonstrate, among other things, the technical feasibility of completing the intangible asset so that it will be available for use or sale.

Costs incurred in the preliminary stage of a development project are considered to be research costs, and are recognised in the income statement as incurred. These costs are incurred to determine the product concepts and alternatives, evaluate the alternatives and related risks, assess the technical feasibility of concepts, make the final selection from the possible alternatives and prepare the high level design and project planning. The costs incurred in the following development stage for substantially new or improved products are assessed against the IAS 38 criteria and considered for recognition as an asset when they meet those criteria. These costs are generally incurred in developing the detailed product design, software configuration and software interfaces; the coding of software, building of prototypes and integration of the software with hardware; and testing and releasing the product to manufacture and pilot production.

Development expenditure directed towards incremental improvements in existing products does not qualify for recognition as an intangible asset.

In general the costs of developing software products that are sold in packaged form and not integrated and sold with hardware are not recognised as intangible assets. The uncertainties associated with the functionality of these products mean that technical feasibility is achieved only immediately prior to or after field trial tests at customer sites. As a result minimal or no costs are considered to meet the IAS 38 criteria for recognition.

An intangible asset acquired in a business combination is recognised separately from the goodwill arising on the business combination if the asset's fair value can be measured reliably, regardless of whether the asset had been recognised previously by the acquiree.

Property, plant and equipment

Items of property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. The cost of property, plant and equipment comprises purchase price and directly attributable costs.

Items of property, plant and equipment are depreciated to their residual values on a straight-line basis over their estimated useful lives at the following rates applied to original cost:

Freehold land	nil
Freehold buildings	2 to 2.5%
Leasehold properties	Over the period of the lease
Plant and equipment	7 to 35%

Useful lives and residual values are examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

Impairment of non-financial assets

At each reporting date, the Group assesses whether there is any indication that any non-financial asset (excluding goodwill) may be impaired. Goodwill is tested for impairment annually whether or not there is any indication of impairment. Goodwill was also tested for impairment at the date of transition to IFRS. If there is an indication of impairment, the Group makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is written down to its recoverable amount and an impairment loss is recognised in the income statement.

An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset. If the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets the recoverable amount of the cash generating unit to which the asset belongs is determined.

The calculation of an asset's value in use uses a discount rate that reflects the asset specific risks and the time value of money.

Leased assets

Assets held under finance leases are capitalised and included in property, plant and equipment at fair value or, if lower, the present value of the minimum lease payments. Capitalised leased assets are subsequently depreciated over the shorter of the lease term or the asset's useful life. Obligations related to finance leases, net of finance charges in respect of future periods, are included as appropriate within liabilities. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Other leases are classified as operating leases. Lease payments, including any premium paid at the outset of the lease, made under operating leases are recognised as an expense over the lease term on a straight-line basis.

The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at its inception date and an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

A reassessment is made after inception of the lease only if one of the following applies:

a) there is a change in contractual terms, other than a renewal or extension of the arrangement;

b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;

c) there is a change in the determination of whether fulfilment is dependent on a specified asset; or

d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting commences or ceases from the date when the change in circumstances gave rise to the reassessment for scenarios a), c) or d) and at the date of renewal or extension period for scenario b).

Inventories
Inventories are valued at the lower of cost and estimated net realisable value. Provision is made for obsolete and slow-moving items. Cost comprises the cost of raw materials, determined on a first-in, first-out cost basis, and an appropriate proportion of labour and manufacturing overheads based on normal operating capacity, to reflect the costs incurred in bringing the product to its present location and condition.

Cash and cash equivalents
Cash and cash equivalents includes cash in hand, call deposits and other short-term liquid investments with original maturities of three months or less.

Cash and short-term deposits at the balance sheet date are offset against bank loans and overdrafts where formal rights of set-off exist and there is an intention to settle on a net basis.

Taxation
Income tax on profit or loss
Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised either in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or directly in equity.

Current tax
The current tax payable is based on taxable profit for the year and any adjustment to tax payable in respect of previous years. Taxable profit differs from profit reported in the income statement as it excludes items that are never taxable or deductible, or which are taxable or deductible in other years. The Group's current tax assets and liabilities are calculated using tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax
Deferred income tax is accounted for using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding amounts used for taxation purposes. Deferred income tax assets are recognised to the extent that it is probable that taxable profit will be available against which the asset can be utilised.

No deferred income tax asset or liability is recognised in respect of temporary differences associated with investments in subsidiaries where the Group is able to control the timing of reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Such assets and liabilities are also not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets other than goodwill or liabilities in a transaction that affects neither the taxable profit nor the accounting profit. A deferred income tax asset is recognised on the initial recognition of goodwill arising in a business combination if the carrying amount of the goodwill is less than its tax base and the deferred income tax asset qualifies for recognition. No deferred income tax liability is recognised as a result of the initial recognition of goodwill.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax is measured at the tax rates that are expected to apply in the periods in which the asset is realised or the liability is settled, based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax assets and liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and they relate to income taxes levied by the same taxation authority, and the Group intends to settle its current tax assets and liabilities on a net basis.

Financial instruments
Derivative financial instruments
The Group primarily uses forward foreign currency contracts to manage its exposures to fluctuations in foreign exchange rates. These instruments are accounted for as hedges when they are designated as hedges at the inception of the contract. The Group does not hold or issue derivative financial instruments for financial trading purposes.

All derivative financial instruments are recognised at fair value in the balance sheet. The fair values of forward foreign exchange contracts are calculated by reference to forward exchange rates for contracts with similar maturity profiles.

The designation of derivative financial instruments as hedges is carried out according to the Group's risk management policies. Hedges fall into three categories:

a) Fair value hedges, which hedge the exposure to changes in the fair value of a recognised asset or liability;

b) Cash flow hedges, which hedge exposure to variability in cash flows that is attributable to either a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or the foreign currency risk of a firm commitment; and

c) Net investment hedges, which hedge exposure to changes in the value of the Group's net investment in foreign operations due to changes in exchange rates.

The accounting treatment for these categories is outlined below:

Fair value hedges
When a hedging instrument is remeasured at fair value, any resulting gain or loss is recognised in the income statement. Any gain or loss on the hedged item that is attributable to the hedged risk is adjusted against the carrying amount of the hedged item and similarly recognised in the income statement.

Cash flow and net investment hedges
The portion of the gain or loss on a hedging instrument that is determined to be an effective hedge is recognised in equity. Any ineffective portion of the gain or loss is recognised in the income statement. When a hedged cash flow related to a hedged item results in the recognition of a non-financial asset or liability, the associated gains or losses previously recognised in equity are included in the initial measurement of the asset or liability. For all other cash flow hedges, the gains or losses that are recognised in equity are transferred to the income statement in the same period in which the hedged item affects the income statement. In the case of a net investment hedge, this takes place on disposal.

Where borrowings are used to hedge the Group's net investment in foreign operations, the portion of the gain or loss on the borrowings that is determined to be an effective hedge, in accordance with IAS 39, Financial Instruments: Recognition and Measurement, is recognised in equity. Any gains or losses arising from changes in fair value of derivative financial instruments that do not qualify as hedges are recognised in the income statement.

Derivative instruments held by the Group's pension and post-retirement benefit schemes are accounted for within the schemes themselves and are reflected in the Group Financial Statements within the amounts reported for those schemes.

Other financial assets
The Group's other financial assets are classified as either available-for-sale, at fair value through profit or loss, or held-to-maturity. These financial assets are recognised initially at fair value and subsequently measured as follows: (a) at fair value for available-for-sale financial assets. Gains and losses are recognised in equity except for impairment losses, interest and dividends arising from these assets which are recognised in the income statement; (b) at fair value for financial assets at fair value through profit or loss. Net gains or losses are based on changes in fair value; and (c) at amortised cost, using the effective interest rate method, for held-to-maturity financial assets. Changes to the carrying amount of held-to-maturity assets are recognised in the income statement.

Trade and other receivables are measured at amortised cost less any provision for impairment. Trade and other receivables are discounted when the time value of money is considered material. Any change in their value is recognised in the income statement.

Debt instruments
All loans and borrowings are initially recognised at fair value of the consideration received less directly attributable issue costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation of any difference between the initially recognised amount and the maturity amount. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in the income statement through the amortisation process and when the liabilities are derecognised.

Financial guarantee contracts
A financial guarantee contract is a contract issued by the Group that requires the Group to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. In a very limited number of cases, the Group has issued such contracts to guarantee certain borrowings by third parties.

Financial guarantee contracts are initially recognised at fair value and subsequently measured at the higher of (a) the estimated outflow of resources required to meet any present obligation under the contract (in accordance with IAS 37, Provisions, Contingent Liabilities and Contingent Assets); and (b) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18, Revenue.

Derecognition of financial instruments
A financial asset or liability is generally derecognised when the contract that gives rise to it is settled, sold, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

Impairment of financial assets
At each reporting date, the Group assesses whether a financial asset or group of financial assets is impaired.

Assets carried at amortised cost
Assets carried at amortised cost, such as loans and receivables, are impaired if there is objective evidence that an impairment loss has been incurred. The loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account and the amount of the loss is recognised in the income statement.

The assessment considers whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is recognised are not included in a collective assessment of impairment.

If the amount of a recognised impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. The reversal is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

For trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Available-for-sale financial investments
If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the income statement. Reversals of impairment losses on debt instruments are reversed through the income statement, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

Share-based payment
The Group operates various equity-settled and cash-settled share schemes.

For equity-settled share options, the services received from employees are measured by reference to the fair value of the share options. The fair value is calculated at grant date using a valuation model and recognised in the consolidated income statement, together with a corresponding increase in shareholders' equity, on a straight-line basis over the vesting period, based on an estimate of the number of options that will eventually vest. Vesting conditions, other than market conditions, are not taken into account when estimating the fair value. Market conditions are those conditions that are linked to the share price of the Company.

For equity-settled share award schemes, the fair value is calculated based on the share price at the grant date and, where applicable, any market vesting conditions, and expensed over the vesting period based on the number of shares expected to vest. No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market or non-vesting condition; which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance or service conditions are satisfied.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognised is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

For cash-settled share awards, the services received from employees are measured at fair value and recognised in the consolidated income statement as an expense over the vesting period with recognition of a corresponding liability. The fair value of the liability is remeasured at each reporting date and at the date of settlement, with changes in fair value recognised in the consolidated income statement.

In accordance with the exemption permitted by IFRS 1, First-time Adoption of International Financial Reporting Standards, applied by the Group on transition to IFRSs, the requirements of IFRS 2, Share-based Payment, have not been applied to equity instruments granted on or before 7 November 2002 and those vesting before 1 January 2005.

Treasury shares
Own equity instruments which are re-acquired (treasury shares) are deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Treasury shares are purchased and held by the Employee Share Trust to meet future distributions of shares to employees under the Group's various share option and share award schemes.

New standards and interpretations not applied
The IASB and IFRIC have issued the following standards and interpretations with an effective date after the date of these Financial Statements:

International Accounting Standards (IAS/IFRSs)		Effective date – financial periods beginning on or after
IFRS 1	Amendments to IFRS 1 – Limited Exemption from Comparative IFRS 7 Disclosures	1 July 2010
IAS 24	Related Party Disclosures (revised)	1 January 2011
IFRS 1	Amendments to IFRS 1 – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters	1 July 2011
IFRS 7	Amendments to IFRS 7 – Disclosures: Transfers of Assets	1 July 2011
IAS 12	Amendments to IAS 12 – Deferred Tax: Recovery of Underlying Assets	1 January 2012
IFRS 9	Financial Instruments: Classification and Measurement – Financial Assets	1 January 2013
IFRS 9	Financial Instruments: Classification and Measurement – Financial Liabilities	1 January 2013
IFRS 10	Consolidated Financial Statements	1 January 2013
IFRS 11	Joint Arrangements	1 January 2013
IFRS 12	Disclosures of Involvement with Other Entities	1 January 2013
IFRS 13	Fair Value Measurement	1 January 2013
IAS 27	Separate Financial Statements (2011)	1 January 2013
IAS 28	Investments in Associates and Joint Ventures (2011)	1 January 2013
Various	Improvements to IFRSs (May 2010)	Various

International Financial Reporting Interpretations Committee (IFRIC)		Effective date – financial periods beginning on or after
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	1 July 2010
IFRIC 14	Amendments to IFRIC 14 – Prepayments of a Minimum Funding Requirement	1 January 2011

The Group expects to adopt these standards and interpretations in accordance with their effective dates. The directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Group Financial Statements in the period of initial application.

Critical accounting judgements, estimates and assumptions

In applying the Group's accounting policies, management is required to make judgements and assumptions concerning the future in a number of areas. Actual results may be different from those estimated using these judgements and assumptions. The key sources of estimation uncertainty and critical accounting judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the 'value in use' of the cash generating units to which the goodwill is allocated. Estimating a value in use amount requires management to make an estimate of the expected future cash flows from the cash generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 March 2011 was £291 million (2010: £301 million). Details of the key assumptions used in testing for impairment and the sensitivity of the calculations to any reasonably possible change in those assumptions are given in Note 13.

Pension and post-retirement benefits

The cost of defined benefit pension plans and other post employment medical benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. The net pension liability at 31 March 2011 is £467 million (2010: £581 million). Further details, including an analysis of the sensitivity of the UK Main Pension Scheme to changes in the principal assumptions, are given in Note 25.

Development costs

Costs incurred in developing new products are capitalised in accordance with the Group's accounting policy for other intangible assets. These costs arise mainly in the Invensys Operations Management and Invensys Rail divisions. Determining the amounts to be capitalised requires management to make assumptions and estimates regarding the expected future cash generation of new products and the expected period of benefits. At 31 March 2011, the carrying amount of capitalised development costs was £150 million (2010: £123 million). Further details, including an explanation of impairment losses recognised, are given in Note 14.

Provisions and contingent liabilities

The Group currently recognises provisions for a number of liabilities, including environmental claims and onerous lease rentals. The amounts recognised for provisions represent the best estimate of the probable outflow of resources embodying economic benefits that will be required to settle these liabilities. No provisions are recognised for contingent liabilities. Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events, or current obligations that are not recognised because it is not probable that they will result in an outflow of resources embodying economic benefits or because the amount of the obligation cannot be measured with sufficient reliability.

The determination of whether a liability should be disclosed as a contingent liability or recognised as a provision requires judgements to be made on the existence of a present obligation and the probability of future events. When a provision is required, the amount recognised is determined using judgements and assumptions, based on current knowledge, to estimate the amount and timing of future cash outflows arising from the liabilities. At 31 March 2011, the estimated amount of liabilities requiring provisions was £173 million (2010: £179 million). Further details are given in Note 24. Details of the Group's contingent liabilities are set out in Note 30.

Construction and long-term service provision contracts

Invensys Operations Management and Invensys Rail undertake projects that frequently span more than one accounting period and are accounted for as construction or long-term service provision contracts. The Group's accounting policies for these projects require revenues and costs to be allocated to individual accounting periods and the consequent recognition at period end of contract assets or liabilities for projects still in progress. The application of these policies requires management to apply judgement in estimating the total revenue and total costs expected on each project. Such estimates are revised as a project progresses to reflect the current status of the project and the latest information available to management. Project management teams perform regular reviews to ensure the latest estimates are appropriate.

The amount of revenue relating to projects accounted for as construction or long-term service provision contracts recognised in the year ended 31 March 2011 was £1,193 million (2010: £1,048 million). The net amount due from contract customers on projects in progress at 31 March 2011 was £19 million (2010: £18 million due to contract customers). Further details of amounts due from and to contract customers are included in Note 18.

Notes to the Financial Statements

1 General information
The Group Financial Statements of Invensys plc for the year ended 31 March 2011 were authorised for issue in accordance with a resolution of the directors on 18 May 2011 and the balance sheet was signed on the Board's behalf by Sir Nigel Rudd and Wayne Edmunds. Invensys plc is a limited company incorporated and domiciled in England & Wales whose shares are publicly traded.

Invensys Group comprises continuing operations and discontinued operations. No new operations have been discontinued in the current year. During the year the Group disposed of a small European business from within the Invensys Controls division. Additional costs have been incurred relating to prior year disposals. Operations presented as discontinued are explained in Note 10.

Continuing operations consist of the following divisions: Invensys Operations Management, Invensys Rail and Invensys Controls. The principal activities of each of the continuing operations divisions are as follows:

- Invensys Operations Management – is a technology, software and consulting business that creates and applies technologies to facilitate the safe and efficient operation of industrial and commercial operations such as oil refineries, fossil fuel and nuclear power plants, petrochemical works and other manufacturing sites.
- Invensys Rail – provides signalling, communication and control systems that facilitate the safe and efficient operation of trains in mainline and mass transit networks across the world.
- Invensys Controls – designs, engineers and manufactures products, components, systems and services used in appliances, heating, air conditioning/cooling and refrigeration products across a wide range of industries in residential and commercial markets.

Further details on the activities of each of the above continuing operations are given in the Business Review. This is the basis on which the Group is managed.

2 Operating segment information
For management purposes, the Group is organised into divisions based on their products and services and has three reportable operating segments as explained in the Business Review: Invensys Operations Management, Invensys Rail and Invensys Controls. There have been no changes to the composition of these operating segments during the year. Descriptions of the products and services provided by these divisions are set out in Note 1. Operations presented as discontinued are explained in Note 10.

Management monitors the operating results of each of these divisions separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated primarily on operating profit or loss before exceptional items as identified in the consolidated income statement. Restructuring costs and impairment losses on operating assets, which are reported in the consolidated income statement as exceptional items, are also monitored at the segment level. Other exceptional items together with foreign exchange gains or losses, finance costs, finance income, finance charges relating to pension arrangements under IAS 19, Employee Benefits and income tax are managed on a Group basis and are not allocated to operating segments.

Segment net assets/(liabilities) are determined based on the net operating assets/(liabilities) monitored by the divisional chief executives on a segment basis. At 31 March 2010 the totals of segment assets and liabilities were disclosed separately, but 'Improvements to IFRS' (April 2009), which has been adopted for the year ended 31 March 2011, has clarified that IFRS 8, Operating Segments, requires the separate disclosure of total segment assets only if such an amount is regularly provided to the chief operating decision maker. As a result it is considered that the disclosure of segment net assets/(liabilities) is more appropriate as it better reflects the measure of segment assets and liabilities used in practice. The comparative disclosure for the year ended 31 March 2010 has been re-presented accordingly.

2 Operating segment information continued

Segment revenues	Total revenue 2011 £m	Inter-company revenue[1] 2011 £m	External revenue 2011 £m	Total revenue 2010 £m	Inter-company revenue[1] 2010 £m	External revenue 2010 £m
Division						
Invensys Operations Management	1,156	9	1,147	1,009	9	1,000
Invensys Rail	772	–	772	700	–	700
Invensys Controls	567	–	567	544	1	543
Eliminations	(9)	(9)	–	(10)	(10)	–
Total Group	2,486	–	2,486	2,243	–	2,243

Segment profit	Operating profit/(loss) before exceptional items 2011 £m	Operating profit/(loss) before exceptional items 2010 £m	Operating profit/(loss) after exceptional items 2011 £m	Operating profit/(loss) after exceptional items 2010 £m
Division				
Invensys Operations Management	123	92	123	63
Invensys Rail	129	141	118	136
Invensys Controls	56	53	35	40
Total segment profit	308	286	276	239
Corporate	(46)	(38)	(35)	(16)
Continuing operations	262	248	241	223
Reconciliation to profit before taxation:				
Finance costs			(9)	(10)
Finance income			4	3
Other finance charges – IAS 19			(14)	(37)
Profit before taxation – continuing operations			222	179

Components of segment profit: depreciation and amortisation	Depreciation 2011 £m	Depreciation 2010 £m	Amortisation 2011 £m	Amortisation 2010 £m
Division				
Invensys Operations Management	15	15	12	11
Invensys Rail	5	5	14	11
Invensys Controls	20	22	–	–
Corporate	1	1	–	–
Continuing operations	41	43	26	22

1 Inter-company revenue is invoiced at market prices.

Components of segment profit: exceptional items	Restructuring 2011 £m	Restructuring 2010 £m	Impairment: PPE/ intangibles 2011 £m	Impairment: PPE/ intangibles 2010 £m	(Loss)/gain on sale of assets and operations 2011 £m	(Loss)/gain on sale of assets and operations 2010 £m	Other operating exceptional items [1] 2011 £m	Other operating exceptional items [2] 2010 £m
Division								
Invensys Operations Management	–	(26)	–	(2)	–	(1)	–	–
Invensys Rail	(5)	(5)	(6)	–	(1)	–	1	–
Invensys Controls	(8)	(5)	(4)	(8)	1	–	(10)	–
Corporate	(8)	(7)	–	–	–	(4)	19	33
Continuing operations	(21)	(43)	(10)	(10)	–	(5)	10	33

Segment net assets/(liabilities)	Net assets/ (liabilities) 2011 £m	Net assets/ (liabilities) 2010 £m
Division		
Invensys Operations Management	216	203
Invensys Rail	121	68
Invensys Controls	169	215
Total segment net assets	506	486
Corporate	(107)	(120)
	399	366
Reconciliation to total net assets/(liabilities):		
Intangible assets – goodwill	291	301
Cash and cash equivalents	349	364
Pension liabilities	(467)	(581)
Other (borrowings, current and deferred income tax assets/(liabilities))	(23)	(30)
Total net assets	549	420

Components of segment assets: capital expenditure (capex)	Capex: PPE 2011 £m	Capex: PPE 2010 £m	Capex: intangibles – other 2011 £m	Capex: intangibles – other 2010 £m
Division				
Invensys Operations Management	13	14	19	13
Invensys Rail	6	8	42	23
Invensys Controls	10	12	–	–
Corporate	3	–	–	–
Continuing operations	32	34	61	36

1 Other exceptional items includes a past service credit of £20 million arising from amendments made to the benefits payable under the terms of the US Healthcare Plan and net £10 million of costs to settle a legal case.
2 Other exceptional items includes the US pension curtailment gain of £36 million arising from the closure of the defined benefit portion of the Invensys US pension plans.

2 Operating segment information continued
Geographical analysis

Revenue from external customers	External revenue 2011 £m	External revenue 2010 £m
Geographical analysis by origin[1]		
United Kingdom	353	367
Other countries:		
– Rest of Europe	656	645
– United States	740	676
– North America – other	113	59
– South America	145	114
– Asia Pacific	366	311
– Africa and Middle East	113	71
	2,133	1,876
	2,486	2,243
Geographical analysis by destination[2]		
United Kingdom	299	320
Other countries:		
– Rest of Europe	604	630
– United States	623	563
– North America – other	123	102
– South America	213	134
– Asia Pacific	453	356
– Africa and Middle East	171	138
	2,187	1,923
	2,486	2,243

1 Revenue is presented based on the location of the Invensys business making the supply.
2 Revenue is presented based on the location of the customer receiving the supply.

Non-current assets[1]	Non-current assets 2011 £m	Non-current assets 2010 £m
Geographical analysis by origin[2]		
United Kingdom	230	235
Other countries:		
– Rest of Europe	125	127
– United States	245	267
– North America – other	32	34
– South America	25	27
– Asia Pacific	48	40
– Africa and Middle East	5	4
	480	499
	710	734

1 Non-current assets for this purpose consist of property, plant and equipment, intangible assets – goodwill, intangible assets – other and other receivables.
2 Information is presented based on the location of the assets.

Information about major customers
The Group had no single external customer that accounted for 10% or more of the Group's total external revenues in the years ended 31 March 2011 or 31 March 2010.

3 Operating profit and analysis of revenue

	Notes	2011 £m	2010 £m
Revenue		**2,486**	2,243
Cost of sales		**(1,649)**	(1,459)
Gross profit		**837**	784
Distribution costs		**(14)**	(13)
Administrative costs		**(466)**	(427)
Research and development costs		**(95)**	(96)
Operating profit before exceptional items		**262**	248
Restructuring costs	2	**(21)**	(43)
Other operating exceptional items:			
– Past service credit on post-retirement benefits[1]	25	**20**	–
– Curtailment gains on pension benefits[2]	25	**1**	36
– Other operating exceptional items[3]		**(11)**	(3)
Total other operating exceptional items		**10**	33
Impairment: property, plant and equipment	12	**(4)**	(8)
Impairment: intangible assets – other	14	**(6)**	(2)
Loss on sale of assets and operations	2	**–**	(5)
Exceptional items		**(21)**	(25)
Operating profit		**241**	223

1 Arises as a result of amendments made to the benefits payable under the terms of the US Healthcare Plan.
2 2010: the gain arose from the closure of the defined benefit portion of the Invensys US pension plans.
3 2011: includes net £10 million of costs to settle a legal case.

	2011 £m	2010 £m
Analysis of revenue		
Sale of goods – products	**1,196**	1,096
Sale of goods – solutions	**1,049**	908
Rendering of services	**241**	239
Revenue	**2,486**	2,243
Finance income	**4**	3
Total revenue	**2,490**	2,246

The disclosures related to discontinued operations are set out in Note 10.

4 Group operating profit

Total Group[1] operating profit has been arrived at after charging/(crediting) the following:

	Notes	2011 £m	2010 £m
Depreciation of property, plant and equipment	12	**41**	43
Amortisation of intangible assets – other[2]	14	**26**	22
Impairment of property, plant and equipment	12	**4**	8
Impairment of intangible assets	14	**6**	2
Total depreciation, amortisation and impairment expense		**77**	75
Operating lease payments	30	**37**	43
Fees for audit and other services	5	**7**	7
Employee benefits expense	6	**892**	780
Net foreign exchange gain[3]		**–**	(3)

1 Continuing and discontinued operations.
2 Of which £3 million (2010: £2 million) is recorded within cost of sales and £23 million (2010: £20 million) is included within overhead costs. Of this £23 million, £20 million (2010: £16 million) is booked in research and development costs, and £3 million (2010: £4 million) in administrative costs.
3 Of which £nil (2010: £3 million gain) relates to cash flow hedges. See Note 22.

5 Fees for audit and other services
The Group has recognised the following amounts payable to its Group auditors in respect of the fees for audit and other services provided to the Group.

	2011 £m	2010 £m
Audit of the financial statements	**1.0**	1.1
Local statutory audits for subsidiaries	**2.5**	2.6
Fees for audit	**3.5**	3.7
Fees for other services:		
– taxation advisory services	**1.9**	2.0
– corporate finance transaction advisory services	**0.3**	0.2
– other services[1]	**0.8**	1.0
Fees for other services	**3.0**	3.2
Fees for audit and other services	**6.5**	6.9

1 Includes £0.2 million (2010: £0.2 million) for the half year review, £0.1 million (2010: £0.1 million) for the audit of the Group pension schemes and £0.5 million (2010: £0.7 million) for other assurance services.

6 Staff numbers and employee benefits expense
The average number of people employed by the Group (including directors) during the year was as follows:

	2011	2010
Production	**15,367**	15,030
Marketing and distribution	**2,045**	2,192
Finance and administration	**1,601**	1,552
Research and development	**1,328**	1,583
	20,341	20,357

The aggregate payroll costs of these people were as follows:

	Notes	2011 £m	2010 £m
Wages and salaries		**706**	633
Social security costs		**102**	76
Pension and post-retirement costs	25	**37**	30
Share-based payment expense	29	**9**	11
Other payroll costs		**38**	30
		892	780

Details of Directors' remuneration are contained within the Remuneration Report on pages 48 to 56.

7 Foreign exchange on financial items

Foreign exchange on financial items is £nil (2010: £nil). This includes £1 million gains (2010: £1 million losses) of foreign exchange relating to derivatives used in the management of the Group's cash, offset by £1 million losses (2010: £1 million gains) of foreign exchange on corresponding cash balances and intra-group loans which do not form part of the lenders' net investment in foreign operations.

8 Finance costs and finance income

	Note	2011 £m	2010 £m
Interest payable on other loans		–	(1)
Total interest expense for financial instruments not at fair value through profit and loss		–	(1)
Bonding costs		(6)	(5)
Amortisation of refinancing costs		(1)	(1)
Unwind of discount of provisions	24	(1)	(2)
Other		(1)	(1)
Finance costs		(9)	(10)
Bank interest receivable[1]		4	3
Finance income		4	3
Net finance costs		(5)	(7)

1 Total interest income for financial instruments not at fair value through profit and loss.

9 Taxation

(i) Analysis of income tax expense in the consolidated income statement

Income tax expense recognised within the consolidated income statement is analysed as follows:

	Note	2011 £m	2010 £m
UK corporation tax			
– Current income tax charge		1	1
– Adjustments in respect of prior years		(1)	(4)
		–	(3)
Overseas tax			
– Current income tax charge		43	38
– Adjustments in respect of prior years		(5)	(10)
		38	28
Total current income tax – continuing operations		38	25
Deferred income tax			
– Current deferred income tax (credit)/charge		(2)	2
– Adjustments in respect of prior years		1	(1)
Total deferred income tax – continuing operations		(1)	1
Taxation – continuing operations		37	26
Taxation – discontinued operations	10	–	(1)
Total income tax expense		37	25

Restructuring costs and impairment of property, plant and equipment gave rise to an exceptional tax credit of £3 million in the current year (2010: £6 million exceptional tax credit resulting from reversal of the exceptional tax charge that arose from the recognition of the PPP settlement credit in the year ended 31 March 2008 and restructuring costs).

Total income tax expense is analysed as follows:

	Continuing 2011 £m	Discontinued 2011 £m	Total 2011 £m	Continuing 2010 £m	Discontinued 2010 £m	Total 2010 £m
Analysed as:						
– Taxation – UK	–	–	–	(3)	–	(3)
– Taxation – overseas	37	–	37	29	(1)	28
	37	–	37	26	(1)	25

(ii) Analysis of income tax in other comprehensive income

Income tax relating to components of other comprehensive income and recognised within the consolidated statement of comprehensive income is as follows:

	2011 £m	2010 £m
Deferred income tax related to components of other comprehensive income		
Deferred income tax credit on defined benefit schemes	(13)	–
	(13)	–

(iii) Total tax reconciliation
The total tax charge for the year of £37 million (2010: £25 million) is lower than the standard rate of UK corporation tax of 28% (2010: 28%). The key factors are explained below:

	2011 £m	2010 £m
Profit/(loss) before tax:		
– Continuing operations	222	179
– Discontinued operations	(7)	(3)
	215	176
Tax at the UK corporate income tax rate of 28% (2010: 28%)	60	49
Adjustments in respect of prior years	(5)	(16)
Current year losses and other temporary differences not recognised	10	8
Tax effect of expenses that are deductible	(6)	(17)
Tax effect of utilisation of tax losses not previously recognised	(27)	(6)
Recognition of carried forward losses in current year	(6)	(1)
Differences in effective overseas tax rates	11	8
Total income tax expense	37	25

(iv) Factors that may affect future tax charges
The Group is subject to several factors which affect the tax charge including the levels and mix of profitability in different jurisdictions and the availability of tax losses.

(v) Franked investment income group litigation order
In December 2006 Invensys filed a claim in the High Court for compensation arising from the payment of advance corporation tax and from satisfying liabilities to corporation tax arising from the receipt of dividends from non-UK resident subsidiaries. Invensys contends that these tax liabilities were incurred in breach of its EU community law rights. Invensys is part of a Group Litigation Order with 24 other corporates from whom two test cases were selected to proceed to trial on a representative basis.

In December 2006 the European Court of Justice issued its guidance to the UK High Court on the compatibility of certain UK tax provisions within EU community law. The test cases returned to the UK High Court for the full hearing in July 2008, with the UK High Court issuing its judgment on 27 November 2008.

The UK High Court judgement in November 2008 found in favour of the claimants on certain key aspects of the claim. The judgment concluded, inter alia, that dividends received from EU subsidiaries should be, and should have been, effectively exempt from UK taxation. It also concluded that certain dividends received from EU subsidiaries before 5 April 1999 and, in some limited circumstances, after 1993 from outside the EU, should have been treated as franked investment income, with the consequence that advance corporation tax need not have been paid.

The case was heard by the Court of Appeal in October 2009 and the judgment was handed down on 23 February 2010. The Court of Appeal has determined that various questions should be referred back to the European Court of Justice for further clarification. In addition, the Court determined that the claim should be restricted to six years and not cover claims dating back to 1973. The principal test claimant has sought leave to appeal to the Supreme Court in the UK on the time limits although no date has yet been set for the hearing. It is expected that the overall process may take several years to complete.

Given the complexity and uncertainty over the issues raised it is not possible to predict the amounts and final outcome with any reasonable certainty. Therefore no contingent asset has been recognised in the Group Financial Statements.

10 Discontinued operations
No operations have been discontinued in the year to 31 March 2011 or 31 March 2010. In the year ended 31 March 2011, net £7 million (2010: £3 million) of additional costs were incurred in respect of prior year disposals against which there was £nil tax (2010: £1 million credit).

11 Earnings/(loss) per share

	Notes	2011	2010
Earnings/(loss) per share (pence)			
Continuing operations			
Basic		22.4p	18.5p
Diluted		22.2p	18.4p
Before exceptional post-retirement benefits past service credit, pensions curtailment gains and PPP settlement credit			
Basic		19.8p	13.4p
Diluted		19.6p	13.3p
Discontinued operations			
Basic		(0.9)p	(0.2)p
Diluted		(0.9)p	(0.2)p
Total Group			
Basic		21.5p	18.3p
Diluted		21.3p	18.1p
Weighted average number of shares (million)			
Basic		808	805
Effect of dilution – share options		8	6
Diluted		816	811
Earnings (£m)			
Continuing operations			
Basic		181	149
Before exceptional post-retirement benefits past service credit, pensions curtailment gains and PPP settlement credit			
– Operating profit		241	223
– Exceptional past service credit	25	(20)	–
– Exceptional curtailment gains	25	(1)	(36)
– Finance costs	8	(9)	(10)
– Finance income	8	4	3
– Other finance charges – IAS 19	25	(14)	(37)
Operating profit less net finance costs		201	143
– Taxation on operating profit less net finance costs[1]	9	(37)	(31)
– Non-controlling interests		(4)	(4)
		160	108
Discontinued operations			
Basic		(7)	(2)
Total Group			
Basic		174	147

1 Includes £nil (2010: £5 million) for the reversal of the exceptional tax charge that arose from the recognition of the PPP settlement credit.

The basic earnings/(loss) per share for the year has been calculated using 808 million shares (2010: 805 million), being the weighted average number of shares in issue during the year, excluding those held as Treasury shares which are treated as cancelled, and the profit after taxation and non-controlling interests for continuing operations, discontinued operations and total Group as shown above.

An additional earnings per share calculation for continuing operations has been included since the directors consider that this gives useful additional indications of underlying performance.

The diluted earnings/(loss) per share has been calculated in accordance with IAS 33, Earnings per Share without reference to adjustments in respect of certain share options which are considered to be anti-dilutive.

There have been no significant transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these Financial Statements.

12 Property, plant and equipment

	Notes	Land and buildings £m	Plant and equipment £m	Total £m
Cost				
At 1 April 2009		232	744	976
Additions		4	30	34
Disposals		(2)	(62)	(64)
Exchange adjustments		(1)	(9)	(10)
Classified as held for sale		(13)	–	(13)
At 31 March 2010		**220**	**703**	**923**
Additions		**6**	**26**	**32**
Disposals		**(5)**	**(67)**	**(72)**
Disposal of subsidiaries	32	**(3)**	**(6)**	**(9)**
Exchange adjustments		**(7)**	**(26)**	**(33)**
Classified as held for sale		**(13)**	**–**	**(13)**
At 31 March 2011		**198**	**630**	**828**
Accumulated depreciation and impairment losses				
At 1 April 2009		97	574	671
Charge for the year		5	38	43
Provision for impairment[1]		6	2	8
Disposals		(2)	(56)	(58)
Exchange adjustments		(2)	(7)	(9)
Classified as held for sale		(6)	–	(6)
At 31 March 2010		98	551	649
Charge for the year		**5**	**36**	**41**
Provision for impairment		**4**	**–**	**4**
Disposals		**(4)**	**(62)**	**(66)**
Disposal of subsidiaries	32	**(1)**	**(4)**	**(5)**
Exchange adjustments		**(3)**	**(21)**	**(24)**
Classified as held for sale		**(8)**	**–**	**(8)**
At 31 March 2011		**91**	**500**	**591**
Net book value				
At 31 March 2010		122	152	274
At 31 March 2011		**107**	**130**	**237**

Amounts included within property, plant and equipment in respect of assets held under finance leases are:

	Land and buildings £m	Plant and equipment £m	Total £m
Net book value			
At 31 March 2010	–	1	1
At 31 March 2011	**–**	**1**	**1**

1 Includes £1 million of a property impairment reversal.

There was £nil (2010: £nil) depreciation charged in the year in respect of assets held under finance leases.

Leased assets are pledged as security for the related finance lease. The title to plant and machinery with a carrying amount of £1 million (2010: £2 million) has been pledged as security for liabilities.

Included in plant and equipment at 31 March 2011 was an amount of £6 million (2010: £11 million) relating to expenditure for plant and equipment in the course of construction.

Impairment losses of £4 million relates to the write-down of buildings in Invensys Controls resulting from further changes in production (2010: £8 million comprised £5 million for the write-down of buildings and equipment associated with a restructuring project undertaken in Invensys Controls and £3 million for the write-down of property, plant and equipment; £2 million in Invensys Operations Management and £1 million in Invensys Controls). The recoverable amounts of these assets were estimated based on their fair value less costs to sell. Fair values were determined based on an assessment of the current market values of the assets and past experience of sales of similar assets.

13 Intangible assets – goodwill

	Note	£m
Cost		
At 1 April 2009		469
Exchange adjustments		(8)
At 31 March 2010		461
Additions	32	3
Exchange adjustments		(18)
At 31 March 2011		**446**
Accumulated impairment losses		
At 1 April 2009		163
Exchange adjustments		(3)
At 31 March 2010		160
Exchange adjustments		(5)
At 31 March 2011		**155**
Net book value		
At 31 March 2010		301
At 31 March 2011		**291**

Goodwill acquired in business combinations has been allocated to four cash generating units (CGUs). An analysis of the carrying amount of goodwill by operating segment is set out below:

	2011 £m	2010 £m
– IMServ	**33**	33
– Remaining Invensys Operations Management	**242**	251
Invensys Operations Management	**275**	284
Invensys Rail	**15**	16
Invensys Controls	**1**	1
Continuing operations	**291**	301

IMServ is a part of Invensys Operations Management, but management continues to monitor IMServ's goodwill separately. These four CGUs represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

Annual impairment test
The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. Goodwill is tested separately for each CGU or group of CGUs that represent the lowest level within the Group at which the goodwill is allocated and monitored for internal management purposes. The recoverable amounts of the CGUs are determined from 'value in use' calculations using cash flow projections over a five-year period.

The key assumptions for the 'value in use' calculations are:

- revenue volumes;
- revenue prices;
- operating costs;
- growth rate assumptions for years four and five of the cash flow projections;
- growth in perpetuity applied to calculate the terminal value; and
- discount rate.

Expected revenue volumes, revenue prices and operating costs are those included in the most recent financial annual operating plans and three-year strategic plans approved by the Board. Annual operating plans are detailed financial forecasts covering the first year of the Group's three-year strategic plan. The key assumptions underlying the forecasts for the CGUs over the period of the annual operating and strategic plans are order growth, taking account of the level of historic growth, and expected future developments in markets and operations, and macroeconomic forecasts for the territories and industries in which they operate.

Cash flows for years four and five are projected at a growth rate appropriate for the relevant CGUs. These growth rates take into consideration forecast GDP growth rates for the countries of operation, expected market growth rates for those regions and the levels of growth achieved historically by the CGUs and forecast in the periods covered by the three-year strategic plan. Lower growth rates are applied in perpetuity to calculate the terminal values of the CGUs. These rates do not exceed the average long-term growth rate for the relevant markets. A long-term discount rate is derived for the CGUs by adjusting the Group's weighted average cost of capital to reflect the relative level of risk associated with the cash flow projections. The discount rate is a pre-tax rate. These discount rates and growth rates are as follows:

	Discount rate 2011 %	**Growth rate[1] 2011 %**	Discount rate 2010 %	Growth rate[1] 2010 %
Invensys Operations Management				
– IMServ	**11.04**	**2.5**	11.75	2.0
– Remaining Invensys Operations Management	**12.50**	**3.0**	12.83	3.0
Invensys Rail	**10.66**	**2.7**	10.98	2.6
Invensys Controls	**13.10**	**2.7**	12.75	2.7

1 In perpetuity.

In all cases the recoverable amounts of these CGUs were in excess of their carrying values and no impairment arose in the year (2010: £nil).

Sensitivity to changes in assumptions
With respect to the assessment of 'value in use' of all CGUs, management believes that no reasonable possible change in any of the above key assumptions would cause the carrying value of those CGUs to exceed its recoverable amount.

14 Intangible assets – other

	Note	Development costs £m	Computer software costs £m	Patents, trademarks and licences £m	Total £m
Cost					
At 1 April 2009		187	42	–	229
Additions		34	1	1	36
Disposals		–	(1)	–	(1)
Elimination of fully amortised assets		(4)	–	–	(4)
Exchange adjustments		(2)	(1)	–	(3)
At 31 March 2010		215	41	1	257
Additions		**55**	**6**	**–**	**61**
Additions – acquired through business combinations	32	**3**	**–**	**–**	**3**
Disposals		**–**	**(1)**	**–**	**(1)**
Exchange adjustments		**(7)**	**(2)**	**–**	**(9)**
At 31 March 2011		**266**	**44**	**1**	**311**
Accumulated amortisation					
At 1 April 2009		78	28	–	106
Charge for the year		18	4	–	22
Impairment losses for the year[1]		2	–	–	2
Elimination of fully amortised assets		(4)	–	–	(4)
Exchange adjustments		(2)	–	–	(2)
At 31 March 2010		92	32	–	124
Charge for the year		**21**	**5**	**–**	**26**
Impairment losses for the year[1]		**6**	**–**	**–**	**6**
Disposals		**–**	**(1)**	**–**	**(1)**
Exchange adjustments		**(3)**	**(2)**	**1**	**(4)**
At 31 March 2011		**116**	**34**	**1**	**151**
Net book value					
At 31 March 2010		123	9	1	133
At 31 March 2011		**150**	**10**	**–**	**160**

1 Impairment losses of £6 million in the year ended 31 March 2011 relates to the write-down of development technology at Invensys Rail (2010: £2 million relating to the write-down of a specific development asset in Invensys Controls), which are no longer expected to generate future revenues.

15 Deferred income tax assets and liabilities

The following are the major deferred income tax assets/(liabilities) recognised by the Group and movements thereon during the current and prior year:

	PPE/ intangibles £m	Tax losses £m	Pension and other retirement benefit obligations £m	Other £m	Total £m
At 1 April 2009	(35)	57	–	(5)	17
(Charge)/credit to income statement[1]	(9)	(4)	(2)	14	(1)
Exchange adjustments	1	(1)	–	(1)	(1)
At 31 March 2010	(43)	52	(2)	8	15
Credit/(charge) to income statement[1]	**5**	**2**	**–**	**(6)**	**1**
Transfers	**1**	**–**	**–**	**(1)**	**–**
Credit to other comprehensive income	**–**	**–**	**13**	**–**	**13**
Acquisition of subsidiary	**(1)**	**–**	**–**	**–**	**(1)**
Exchange adjustments	**1**	**(3)**	**1**	**1**	**–**
At 31 March 2011	**(37)**	**51**	**12**	**2**	**28**

1 Included in Other is a charge of £4 million relating to inventories (2010: £9 million credit).

Certain deferred income tax assets and liabilities have been offset where a legal right of offset exists. The following is the analysis of the deferred income tax balances (after offset) for financial reporting purposes:

	2011 £m	2010 £m
Deferred income tax assets	**46**	27
Deferred income tax liabilities	**(18)**	(12)
	28	15

As a result of changes to tax legislation, dividends received from subsidiaries on or after 1 July 2009 are largely exempt from UK tax but may be subject to dividend withholding taxes levied by the overseas tax jurisdictions in which those subsidiaries operate. The gross temporary differences of those overseas subsidiaries affected by such potential taxes is £13 million (2010: £22 million). No deferred income tax liability is recognised on these temporary differences as the Group is able to control the timing of reversal and it is probable that they will not reverse in the foreseeable future.

Unrecognised deferred income tax assets

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that taxable profit will be available against which the asset can be utilised.

The Group has unrecognised income tax losses of £1,183 million with a tax value of £370 million (2010: £1,229 million with a tax value of £396 million) available for offset against future profits. Included in unrecognised tax losses are losses of £40 million (2010: £48 million) that will expire within four years.

The Group has unrecognised capital losses of £6,247 million (2010: £1,341 million) that are only available for offset against future capital gains. Included in capital losses are losses of £19 million (2010: £170 million) that will expire within four years. Other capital losses may be carried forward indefinitely.

A deferred income tax asset has not been recognised on temporary differences of £668 million with a tax value of £212 million (2010: £823 million with a tax value of £272 million) in respect of pension and other retirement benefit obligations and other deductible temporary differences.

The standard rate of UK corporation tax will reduce to 26% from 1 April 2011 and will continue to fall by 1% each year to 23% in 2014. The impact of the rate change to 23% would reduce the total unrecognised deferred income tax assets by £196 million.

16 Other financial assets

	2011 £m	2010 £m
Other financial assets – non-current:		
Available-for-sale investments	**–**	1
	–	1

Available-for-sale investments

Available-for-sale financial assets held at 31 March 2010 consisted of investments in listed ordinary shares and therefore had no fixed maturity date or coupon rate. These investments were not acquired with the intention of selling them in the near term, and were measured at fair value derived from quoted market prices in active markets. During the year ended 31 March 2011, these investments were sold with no gain or loss arising on their disposal.

17 Inventories

	2011 £m	2010 £m
Raw materials and consumables	83	87
Work in progress	30	30
Finished goods	42	40
	155	157

Cost of inventories recognised as an expense

	2011 £m	2010 £m
Cost of inventories recognised as an expense	811	833
Including:		
– Write down of inventories to net realisable value	2	4
– Reversals of impairments in inventories	–	(1)

18 Amounts due from/(to) contract customers

	2011 £m	2010 £m
Amounts due from contract customers:		
Amounts expected to be recovered within 12 months	233	180
	233	180
Amounts due to contract customers:		
Amounts expected to be settled within 12 months	(203)	(158)
Amounts expected to be settled after more than 12 months	(11)	(40)
	(214)	(198)
Net amounts due from/(to) contract customers	19	(18)
Analysed as:		
Contract costs incurred plus recognised profits less recognised losses to date	2,790	3,696
Less: progress billings	(2,771)	(3,714)
Contracts in progress at balance sheet date	19	(18)
Revenue from construction contracts	1,193	1,048

At 31 March 2011, retentions held by customers for contract work amounted to £30 million (2010: £35 million) and advances received from customers for contract work amounted to £11 million (2010: £11 million).

The directors consider that the carrying value of amounts due from/(to) contract customers is a reasonable approximation of their fair value.

19 Trade and other receivables

	Note	2011 £m	2010 £m
Non-current			
Other receivables		**22**	26
		22	26
Current			
Trade receivables		**431**	421
Prepayments and accrued income		**25**	27
Other receivables		**70**	62
		526	510
Total trade and other receivables		**548**	536
Classification to financial assets			
Financial assets: loans and receivables	22i	**497**	475
Non-financial assets		**51**	61
		548	536

Trade receivables are recorded net of an allowance for estimated irrecoverable amounts from the sale of goods. The average credit period taken on sales of goods is 51 days.

The allowance that has been made for estimated irrecoverable amounts from the sale of goods is £12 million (2010: £13 million). This allowance has been determined by reference to past default experience and future recoverability. The net impairment loss recognised in the year as a result of irrecoverable receivables balances is £nil (2010: £nil).

Trade and other receivables are predominantly non-interest bearing. Other receivables include amounts owed by associated undertakings, interest receivable, refundable deposits, refunds due in respect of VAT, sales and payroll taxes, commissions earned and insurance recoveries.

Movements in the provision for impairment of receivables were as follows:

	2011 £m	2010 £m
At 1 April	**13**	14
Charged in year	**3**	4
Released in year	**(3)**	(4)
Utilised in year	**(1)**	(1)
At 31 March	**12**	13

As at 31 March, the analysis of trade receivables that were past due but not impaired is as follows:

	2011 £m	2010 £m
Neither past due nor impaired	**350**	341
Past due but not impaired – past due by:		
– 1 to 30 days	**36**	39
– 31 to 60 days	**16**	21
– 61 to 90 days	**8**	7
– 91 to 120 days	**3**	7
– 121 days and over	**18**	6
	431	421

Generally the Group does not hold any collateral as security against trade receivables that are impaired or past due but not impaired. The Group performs credit verification procedures on all customers. Receivable balances are monitored on an ongoing basis.

Further information on the Group's approach to credit risk in relation to trade and other receivables is given in Note 22.

The directors consider that the carrying amount of current and non-current trade and other receivables approximates to their fair value.

20 Cash and cash equivalents

	2011 £m	2010 £m
Cash at bank and in hand	**149**	170
Short-term deposits	**200**	194
Cash and cash equivalents	**349**	364

Cash and cash equivalents attract interest based on relevant national LIBID equivalents. Short-term deposits have an average maturity of 10 days (2010: 11 days). The fair value of cash and cash equivalents is not materially different from their book value. For information on the exposure of the Group's cash and cash equivalents balances to credit risk refer to Note 22.

Restricted cash and short-term deposits
The Group has operations in a number of territories including China, Brazil and India which place restrictions on the ability of subsidiaries to lend money to other Group entities outside those territories. However, distributions to the Group are permitted from audited reserves. At 31 March 2011 restricted cash and cash equivalents held in such territories totalled £58 million (2010: £68 million).

Cash and cash equivalents include £31 million (2010: £37 million) of collateral held in the ordinary course of business to provide security for local bonding facilities. In addition, the Group has bonds and guarantees issued under uncommitted facilities which are outlined in Note 21.

21 Borrowings

(i) Bank and other loans falling due within and after more than one year

	2011 £m	2010 £m
On demand or within one year	**1**	–
Repayable over one but not more than two years	**–**	1
Total bank and other loans	**1**	1
Less: amounts due for settlement within 12 months (current liabilities)	**(1)**	–
Amounts due for settlement after 12 months (non-current liabilities)	**–**	1

(ii) Loan repayment dates, interest rates and principal terms

	Notes	Maturity	Committed facilities 2011 £m	Interest rate	2011 £m	2010 £m
Bank loans						
Multicurrency credit facility	1	July 2013	**400**	LIBOR + 1.50%	**–**	–
Bilateral credit facility	1	July 2013	**25**	LIBOR + 1.50%	**–**	–
			425		**–**	–
Other loans and borrowings						
Finance leases	2	Various	**1**	Various	**1**	1
			426		**1**	1

1 Interest is charged at LIBOR plus 1.50% based on balance sheet leverage. This facility contains covenants in relation to financial ratios; acquisitions are permitted up to £100 million per annum in aggregate, in addition the proceeds from certain disposals may also be used for acquisitions; dividends are allowed, provided they are paid out of the previous year's free cash flow (this restriction does not apply if the Company has an investment grade rating).

2 Finance leases are secured by charges over the assets to which they relate. At 31 March 2011 £nil of such loans were classified as non-current liabilities (2010: £1 million).

As at 31 March 2011, the committed syndicated loan facility available to the Group was a £400 million multicurrency credit facility with a term of five years from July 2008. The facility is available for utilisation as loans, letters of credit or bank guarantees. The available facility at 31 March 2011 and 31 March 2010 was £400 million, of which £254 million was drawn at 31 March 2011 for the provision of bonds and guarantees (2010: £240 million).

As at 31 March 2011, the committed bilateral local loan facility available to the Company was a £25 million subordinated multicurrency credit facility with a term of two years and seven months from December 2010. The facility is available for utilisation as loans, letters of credit or bank guarantees. The available facility at 31 March 2011 was £25 million of which £nil was drawn at 31 March 2011.

In addition, at 31 March 2011, the Group has bonds and guarantees totalling £219 million (2010: £245 million) issued under uncommitted facilities. Of these, £31 million (2010: £37 million) are supported by cash collateral and a further £17 million (2010: £20 million) are supported by guarantees issued under the Group's committed syndicated loan facility.

(iii) Undrawn committed facilities

	2011 £m	2010 £m
Expiring in more than two years	**171**	160
	171	160

22 Financial risk management and financial instruments

The Group's principal financial instruments comprise bank facilities for cash advances, guarantees, leases, cash and cash equivalents, other financial assets, trade and other receivables and trade and other payables. The Group also enters into derivative transactions, primarily forward currency contracts. This note explains the nature and extent of the risks arising from financial instruments; how those risks arise; the objectives, policies and processes used by the Group for managing the risks; and the methods used to measure the risks.

Overview of treasury policy

The Group manages its exposure to risks arising from its use of financial instruments by the application of its treasury policy.

The Group's treasury policy is approved by the Board and seeks to ensure that:

- appropriate financial resources are available for the maintenance and development of the Group's divisions;
- the financial risk of currency, interest rate and counterparty credit exposure is understood, measured and managed appropriately; and
- the Treasury department operates as a cost centre and that no speculative transactions are undertaken.

There have been no significant changes in the Group's exposures to risk, and its approach to managing those exposures, in the year ended 31 March 2011 compared to the year ended 31 March 2010.

Policy in respect of the major areas of treasury management is set out below.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

Operating within the strict controls of the Group's treasury policy, the Treasury department manages this risk, ensuring that sufficient funding and liquidity is available to meet the expected needs of the Group together with a prudent level of headroom to allow for cash flow and bank guarantee variability. In addition to the free cash flow of the Group, Invensys adopts a flexible approach to liquidity management using a mixture of long-term debt facilities and short-term cash deposits. Funding is provided by bank facilities which mature in July 2013, as described in Note 21(ii). The undrawn level of these facilities as set out in Note 21(iii) together with the Group's cash balances as set out in Note 20, are the key measures of the Group's liquidity.

Bank guarantees issued by the Group as set out in Note 21(ii) represent a potential liquidity requirement. This risk is mitigated by issuing guarantees under the committed syndicated loan facility and holding sufficient liquidity to cover the forecast cash requirements of guarantees issued under uncommitted facilities.

Liquidity management is centralised through cash pooling arrangements and inter-company funding structures, under the control of the Treasury department. In countries where cash pooling arrangements cannot be implemented, cash balances are monitored to ensure that surplus amounts are repatriated and deficits adequately funded. The Treasury department maintains sufficient back-up liquidity in the form of available cash balances and committed facilities.

Standard business practices include the strict application of credit control procedures to ensure the collection of cash from customers in accordance with agreed credit periods and terms that result in positive cash flows over the life of a construction or long-term service provision contract whenever possible.

22 Financial risk management and financial instruments continued

The following table summarises the maturity profile of the Group's financial liabilities at 31 March 2011 and 31 March 2010 based on contractual undiscounted payments:

31 March 2011	Up to 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	>5 years £m	Total £m
Non-derivative financial liabilities:							
– Finance leases	1	–	–	–	–	–	1
– Provisions	5	5	3	1	1	10	25
– Trade and other payables	509	6	–	–	–	1	516
– Unrecognised liabilities:							
– Operating lease commitments	51	36	28	22	17	84	238
	566	47	31	23	18	95	780
Derivative financial liabilities:							
– Foreign exchange swaps and forwards	4	–	–	–	–	–	4
Total financial liabilities	570	47	31	23	18	95	784

31 March 2010	Up to 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	>5 years £m	Total £m
Non-derivative financial liabilities:							
– Finance leases	–	1	–	–	–	–	1
– Provisions	6	5	4	3	2	8	28
– Trade and other payables	487	6	–	–	–	2	495
– Unrecognised liabilities:							
– Operating lease commitments	50	41	32	28	21	95	267
	543	53	36	31	23	105	791
Derivative financial liabilities:							
– Foreign exchange swaps and forwards	9	–	–	–	–	–	9
Total financial liabilities	552	53	36	31	23	105	800

Interest rate risk

The Group is exposed to risk arising from the effect of changes in floating interest rates on the level of interest it receives on its cash deposits.

As at 31 March 2011 and 31 March 2010, in line with the Group having a net cash position, Invensys had no significant borrowings.

The interest rate profiles of the Group's cash and cash equivalents and short- and long-term borrowings are set out in Notes 20 and 21 respectively. All other financial assets and liabilities of the Group are non-interest bearing and a statement has been made to that effect in the relevant balance sheet notes.

Interest rate risk sensitivity analysis
The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating-rate cash and borrowings). There is no impact on the Group's equity. The same assumptions have been used for the years ended 31 March 2011 and 31 March 2010.

	Increase/ decrease	Effect on profit before tax: increase/ (decrease) 2011 £m	Effect on profit before tax: increase/ (decrease) 2010 £m
GBP	1%	**1.2**	1.2
Euro	1%	**0.6**	0.4
US dollar	1%	**0.5**	0.5
GBP	–1%	**(1.2)**	(1.2)
Euro	–1%	**(0.6)**	(0.4)
US dollar	–1%	**(0.5)**	(0.5)

Currency risk
Transaction exposure
Currency transaction exposure arises when the units face revenues or costs in a currency other than their own. The incidence of this risk varies across the Group and is subject to change. However, the majority of revenues and costs will usually be in the functional currency of the business undertaking the transaction. Where this is not the case and the exposure is significant, it is the Group's policy for units to hedge their exposures. The Group predominantly uses forward currency contracts to manage transaction exposure.

The Group is also subject to exchange risk when making bids, particularly on major contracts, where movements against the specific exchange rate assumed within a bid would lead to a change in the anticipated margin on the contract should the bid be successful. This exposure to contract risk is hedged if significant.

Translation exposure
The majority of the Group's operating capital is employed in overseas locations and is denominated in foreign currencies, particularly US dollars. As a consequence, changes in exchange rates affect both net asset values and reported results. This risk is not hedged directly, but to the extent that the Group has debt, any that is held in foreign currency would reduce the level of net assets exposed to currency fluctuations. The interest expense related to such debt would also reduce the level of earnings exposed to exchange rate movements.

The Group's exposure to foreign currency risk is as follows:

As at 31 March	US dollar 2011 £m	Euro 2011 £m	Other (excl GBP) 2011 £m	US dollar 2010 £m	Euro 2010 £m	Other (excl GBP) 2010 £m
Net assets of non-GBP functional currency entities	**221**	**107**	**200**	122	86	203
Net unhedged monetary assets not held in entities' functional currencies	**56**	**16**	**(41)**	26	(25)	(65)
Gross exposure	**277**	**123**	**159**	148	61	138

The significant exchange rates that applied during the year are set out in Note 36.

22 Financial risk management and financial instruments continued

Currency risk sensitivity analysis

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar and euro exchange rate, with all other variables held constant, of:

- the Group's profit before tax due to changes in the sterling value of financial instruments not in hedging relationships (assuming year end levels of such items are held constant); and
- the Group's equity due to changes in the sterling value of financial instruments in hedging relationships.

	Strengthening/ weakening US dollar and euro rate	**Effect on profit before tax: increase/ (decrease) 2011 £m**	**Effect on equity: increase/ (decrease) 2011 £m**	Effect on profit before tax: increase/ (decrease) 2010 £m	Effect on equity: increase/ (decrease) 2010 £m
Euro	+5%	**2**	**6**	(1)	5
US dollar	+5%	**3**	**12**	1	6
Euro	–5%	**(2)**	**(5)**	1	(4)
US dollar	–5%	**(3)**	**(11)**	(1)	(6)

Credit risk

The Group is exposed to risk if a counterparty to a financial instrument fails to meet its contractual obligations. Such a risk arises principally in relation to receivables due from customers and cash deposited with banks or other financial institutions.

The Group monitors the identity of the counterparties with whom it deposits cash and transacts other financial instruments so as to control exposure to any territory or institution. As far as it is both feasible and practical to do so, cash is held centrally by the Treasury department. Risk is assessed using ratings from major credit rating agencies.

The maximum credit risk exposure relating to financial assets is represented by their respective carrying values as at the balance sheet date (see 22(i) on page 103). Credit risks arising from acting as guarantor are disclosed in Note 30.

There are no significant concentrations of credit risk within the Group.

Details of collateral held as security and other credit enhancements in respect of receivables are given in Note 19.

Based on past experience, the directors believe that there is no significant credit risk associated with receivables that are neither past due nor impaired. The Group trades only with recognised, creditworthy third parties, and performs credit verification procedures on all customers. Receivable balances, including uninvoiced receivables reported as amounts due from contract customers, are monitored on an ongoing basis.

The Group has not renegotiated the terms of any significant financial assets such that those assets would have been past due or impaired had the terms not been renegotiated.

Capital management

Capital is managed under the Group's treasury policy. The policy sets out a strategy for the long-term funding of the Group, with the objective of ensuring the Group has access to appropriate sources of funding to support its businesses, as and when required. Key aspects of the policy are:

- The Group's debt capacity is determined as part of the annual strategic review process;
- Appropriate contingency levels are maintained to cover unforeseen events;
- Financing is obtained from multiple sources, for example capital markets, bank debt and cash resources;
- Funds are raised from various geographical locations;
- The Group aims to maintain a consistent credit rating;
- The Group aims to maintain strong relationships with its banks and rating agencies;
- Interest cover and other financial ratios (principally the ratio of EBITDA to total borrowings and net finance costs) are maintained at appropriate levels, and compliance with covenant arrangements is tested semi-annually.

Funding is arranged centrally and managed by the Treasury department. The Treasury department can make use of a number of approved funding instruments, including bilateral bank facilities, syndicated bank facilities, public bonds or loan notes, private placements and commercial paper programmes. New long-term funding requires approval under the Group's Board Delegated Authority Levels, with facilities in excess of £100 million requiring Board approval.

The main credit facility in place at 31 March 2011 provides liquidity for the Group until July 2013 and supports the current strategy of the Group. This facility, including the related covenant arrangements, is described further in Note 21(ii) and the amount of undrawn committed facilities is disclosed in Note 21(iii). Investigations are continually undertaken to review alternative financing arrangements. In making those considerations the Board takes into account the cost of any refinancing compared to the benefits, which include terms and conditions, the cost of funding and repayment schedules.

There were no significant changes in the Group's approach to capital management during the years ended 31 March 2011 and 31 March 2010.

The Group's capital structure is as follows:

As at 31 March	Notes	2011 £m	2010 £m
Capital employed		**201**	57
Cash and cash equivalents	20	**349**	364
Borrowings	21	**(1)**	(1)
Net cash		**348**	363
Total capital (equals total equity)		**549**	420
Comprising:			
– Equity holders of parent		**514**	340
– Non-controlling interests		**35**	80
		549	420

Net cash was £348 million (2010: £363 million), with no amounts held on deposit with a maturity of more than three months (2010: £nil).

(i) Classification and fair values of financial assets and liabilities

The following table sets out the classification, carrying amounts and fair values of the Group's financial assets and liabilities. The fair value is defined as the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties. Where market values are not available, fair values have been calculated by discounting cash flows at prevailing interest rates translated at year end exchange rates. Provisions have been included where there is a contractual obligation to settle in cash.

22 Financial risk management and financial instruments continued

The fair value of financial assets and liabilities at 31 March was:

	Notes	Book value 2011 £m	Fair value 2011 £m	Book value 2010 £m	Fair value 2010 £m
Financial assets					
Available-for-sale investments	16	–	–	1	1
Loans and receivables: Trade and other receivables	19	497	497	475	475
Cash and cash equivalents	20	349	349	364	364
Derivative financial instruments:					
– Foreign exchange options, swaps and forwards	22(ii)	2	2	3	3
		848	848	843	843
Financial liabilities					
Financial liabilities at amortised cost:					
– Finance leases	21	(1)	(1)	(1)	(1)
– Provisions	24	(23)	(23)	(27)	(27)
– Trade and other payables	26	(516)	(516)	(495)	(495)
Derivative financial instruments:					
– Foreign exchange options, swaps and forwards	22(ii)	(4)	(4)	(9)	(9)
		(544)	(544)	(532)	(532)

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- Available-for-sale investments: fair values are derived from quoted market prices in active markets.
- Loans and receivables: trade and other receivables; cash and cash equivalents; provisions and trade and other payables: the directors consider that the carrying amount of these financial assets and liabilities approximates to their fair value.
- Short- and long-term bank and other loans; finance leases: fair values are evaluated based on interest rates.
- Derivative financial instruments: foreign exchange swaps and forwards: fair values are derived using forward pricing and swap models. The models incorporate various inputs including the credit quality of counterparties and foreign exchange spot and forward rates.

The Group has, in the ordinary course of business, provided indemnities to banks in respect of performance guarantees issued to customers. The fair value of such indemnities is not material as the likelihood of any liability arising from them is considered remote.

At 31 March 2011 and 31 March 2010, the Group had no arrangements in place to guarantee borrowings by third parties.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As at 31 March 2011	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets at fair value				
Derivative financial instruments:				
– Foreign exchange swaps and forwards	–	2	–	2
	–	2	–	2
Financial liabilities at fair value				
Derivative financial instruments:				
– Foreign exchange swaps and forwards	–	(4)	–	(4)
	–	(4)	–	(4)

As at 31 March 2010	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets at fair value				
Available-for-sale investments	1	–	–	1
Derivative financial instruments:				
– Foreign exchange swaps and forwards	–	3	–	3
	1	3	–	4
Financial liabilities at fair value				
Derivative financial instruments:				
– Foreign exchange swaps and forwards	–	(9)	–	(9)
	–	(9)	–	(9)

During the years ended 31 March 2011 and 31 March 2010, there were no transfers between Level 1 and 2 fair value measurements, and no financial instruments requiring Level 3 fair value measurements were held.

(ii) Derivative financial instruments

A summary of derivative financial instruments is as follows:

	Fair value 2011 £m	Fair value 2010 £m
Derivative assets	**2**	3
Derivative liabilities	**(4)**	(9)
	(2)	(6)

The Group uses derivatives to hedge currency transaction exposure, currency translation exposure and contract pricing exposure. The figures in the above table are analysed by category below.

Foreign exchange swaps and forwards used to hedge transaction exposure

The Group uses foreign exchange swaps and forwards to hedge currency exposure arising from sales and purchases made by the Group's units in currencies other than their own functional currency. The turnover (i.e. notional principal) of such derivatives (which typically have a term of less than one year), excluding swaps, in the year to 31 March 2011 was £506 million (2010: £614 million) and their fair value at 31 March was:

	Fair value 2011 £m	Fair value 2010 £m
Derivative assets	**2**	3
Derivative liabilities	**(4)**	(9)
	(2)	(6)

All of these instruments are designated and effective as cash flow hedges. £8 million losses relating to hedged cash flows that have not yet impacted the income statement have been deferred and recognised in equity at 31 March 2011 (2010: £6 million). £nil (2010: £3 million gain) has been transferred to the income statement during the year to 31 March 2011 in respect of contracts which matured. This amount is included within cost of sales in the income statement.

Foreign exchange swaps and forwards used to hedge translation exposure

The Group uses foreign exchange swaps and forwards to match the currency profile of its net debt to that of its net assets, revenue and earnings and ensure that it has sufficient cash available to meet its payment obligations by currency as they fall due. The fair value of such derivatives (which typically have a term of less than one year) is £nil (2010: £nil).

The currency assets and liabilities created by such derivatives at 31 March were:

	Assets 2011 £m	**Liabilities 2011 £m**	**Net assets/ (liabilities) 2011 £m**	Assets 2010 £m	Liabilities 2010 £m	Net assets/ (liabilities) 2010 £m
Sterling	**4**	**(81)**	**(77)**	–	(10)	(10)
Euro	**35**	**(5)**	**30**	–	–	–
US dollar	**30**	**–**	**30**	–	–	–
Japanese yen	**11**	**–**	**11**	10	–	10
Other	**4**	**–**	**4**	–	–	–
	84	**(86)**	**(2)**	10	(10)	–

22 Financial risk management and financial instruments continued

Changes in the fair value of these derivatives resulted in a gain of £1 million in the year to 31 March 2011 (2010: £1 million loss). These are taken directly to foreign exchange in the income statement, see Note 7.

(iii) Ineffectiveness recognised in the income statement

No amounts were recognised in the income statement relating to the ineffectiveness of cash flow hedges (2010: £nil).

23 Assets held for sale

Assets held for sale relate to surplus freehold properties that are vacant, no longer used for operational purposes and are being actively marketed for sale. These properties are expected to be sold within a year of the date of their classification as held for sale and are included in Corporate in the operating segment analysis in Note 2.

The major classes of assets classified as held for sale as at 31 March are:

	2011 £m	2010 £m
Current assets		
Surplus property portfolio	11	6
	11	6

24 Provisions

	Warranties £m	Restructuring £m	Environmental £m	Onerous contracts £m	Other £m	Total £m
At 1 April 2010	18	19	52	27	63	179
Charged in year	11	22	2	–	35	70
Released in year	(3)	(1)	–	–	(3)	(7)
Utilised in year	(8)	(25)	(7)	(4)	(20)	(64)
Transferred	–	(2)	1	1	–	–
Unwind of discount of provisions	–	–	1	–	–	1
Exchange adjustments	(1)	–	(3)	(1)	(1)	(6)
At 31 March 2011	17	13	46	23	74	173

	Note	2011 £m	2010 £m
Analysed as:			
Current liabilities		85	79
Non-current liabilities		88	100
		173	179
Classification to financial liabilities			
Financial liabilities at amortised cost	22(i)	23	27
Non-financial liabilities		150	152
		173	179

Warranties are provided for in the normal course of business based on an assessment of future claims with reference to past claims. Such costs are generally incurred over the product life cycle. The actual amount of costs that will be incurred will depend upon the level and nature of future claims.

Restructuring provisions cover committed costs, the majority of which are expected to be incurred within one year of the balance sheet date.

Provisions for environmental remediation are made when a clean-up is probable and the amount can be determined reliably. This generally coincides with a commitment to a formal plan or, if earlier, on divestment or closure of inactive sites. These costs are expected to be incurred over the next 30 years.

Provisions for onerous contracts relate to lease rentals in respect of vacant property and the costs of other onerous contracts. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The provisions represent the best estimate of the unavoidable costs remaining under the current contractual terms of the contracts. These liabilities are expected to crystallise largely within the next 15 years.

Other provisions principally relate to legal claims, claims under workers' compensation or similar employee disability benefit schemes and other miscellaneous obligations. These liabilities are expected to crystallise largely within the next ten years. The costs are estimated based on the expected outcome of the legal claim or obligation. The amount of the final liability and timing of payment, if any, is dependent upon the final outcome of any litigation or other negotiation involved.

The directors consider that the carrying amount of provisions equates to their fair value.

25 Pensions and post-retirement benefits

(i) Defined contribution schemes

The Group operates 28 defined contribution schemes. Pension costs in respect of defined contribution schemes represented contributions payable in the year and amounted to £18 million (2010: £12 million). At 31 March 2011, there were £1 million (2010: £1 million) of outstanding contributions included in payables.

(ii) Defined benefit schemes – general

The Group operates 56 funded and unfunded defined benefit pension and post-retirement schemes. Contributions to the defined benefit schemes are made in accordance with the recommendations of the independent actuary of the relevant scheme. There are two main funded defined benefit schemes in the UK and US, together with other smaller schemes in the rest of the world. The main UK scheme is final salary in nature. The main US Plan ceased to be a final salary scheme following its closure to future accrual and the freezing of benefits for existing members with effect from 1 November 2009.

The principal Group scheme covering the majority of UK employees is the Invensys Pension Scheme. The Invensys Pension Scheme (UK) is a funded defined benefit scheme. The assets of this scheme are held separately from those of the Group. These assets are managed by trustees, who are required to act in the best interests of the scheme's beneficiaries. The Trustee Board is made up of nine directors, four nominated by the Company and five by the members. The Company is responsible for appointing the Chairman from the Board. The last full actuarial valuation of the scheme for funding purposes was carried out with a valuation date of 31 March 2008 by independent actuaries using the projected unit credit method for valuing the liabilities. The assumptions that had the most effect on the results of this valuation for funding purposes are those relating to the discount rate and inflation on scheme liabilities and mortality assumptions. The current actuarial valuation of the scheme for funding purposes with a valuation date of 31 March 2011 is currently underway.

There are numerous schemes operated by overseas subsidiaries. Of these the largest Invensys Pension Plan (US) is assessed annually by an actuary, and the other overseas defined benefit schemes are normally assessed periodically by independent actuaries in accordance with local practice.

The Group also operates a number of non-pension post-retirement benefit plans, the majority of which relate to the provision of medical benefits to retired former employees of the Group's subsidiaries in the US. These schemes are generally unfunded.

The last full valuations of all schemes on an IAS 19 basis have been updated to 31 March 2011 to reflect market conditions and material events in the plans.

(iii) Defined benefit schemes – major assumptions

The major assumptions made when valuing the liabilities of funded and unfunded schemes under IAS 19 are as follows:

As at 31 March 2011 the major financial assumptions are:

	Funded schemes			Unfunded schemes	
	Invensys Pension Scheme (UK) %	Invensys Pension Plan (US) %	Other %	US healthcare[1] %	Other %
Major assumptions					
Rates of increase in salaries	4.95	n/a	4.19	n/a	3.09
Rate of increase to pensions in payment[2]	3.80	n/a	2.64	n/a	2.63
Discount rate for scheme liabilities	5.30	5.65	5.27	4.50	5.21
Inflation rate[3]	3.70	n/a	3.16	n/a	2.60

1 The assumptions used for medical trend rates for beneficiaries of the US healthcare plan were 8.0% per annum, declining to an ultimate rate of 4.5% per annum (2010: 8.3% declining to 4.5%).
2 The pension increase assumption disclosed for the Invensys Pension Scheme (UK) is in line with RPI, subject to a floor of 3.0% and a ceiling of 5.0%.
3 The inflation rate for the UK schemes is based on RPI. An additional inflation rate assumption for CPI is now required for the Invensys Pension Scheme (UK) (2.95%) and for one Other funded scheme (2.95%) to reflect the UK Government's change of the inflation measure used to determine minimum pension increases which impacts on some of the pension increases within these schemes.

25 Pensions and post-retirement benefits continued

As at 31 March 2010 the major financial assumptions were:

	Funded schemes			Unfunded schemes	
	Invensys Pension Scheme (UK) %	Invensys Pension Plan (US) %	Other %	US healthcare[1] %	Other %
Major assumptions					
Rates of increase in salaries	4.95	n/a	4.24	n/a	3.02
Rate of increase to pensions in payment[2]	3.80	n/a	3.18	n/a	2.59
Discount rate for scheme liabilities	5.50	5.95	5.39	5.95	5.23
Inflation rate	3.70	2.50	3.13	n/a	2.56

1 The assumptions used for medical trend rates for beneficiaries of the US healthcare plan were 8.0% per annum, declining to an ultimate rate of 4.5% per annum (2010: 8.3% declining to 4.5%).

2 The pension increase assumption disclosed for the Invensys Pension Scheme (UK) is in line with RPI, subject to a floor of 3.0% and a ceiling of 5.0%.

UK Main Scheme: Deferred pension increases

In 2010, the UK Government changed the inflation measure used to determine the minimum pension increases to be applied to the statutory index-linked features of retirement benefits from the Retail Prices Index (RPI) to the Consumer Prices Index (CPI). In general, annual CPI increases have been lower than annual RPI increases and therefore the change has reduced the overall liabilities of the scheme. The UK Accounting Standards Board has published guidance on how to account for this situation for companies that report under UK GAAP. Urgent Issues Task Force (UITF) Abstract 48, Accounting implications of the replacement of the retail prices index with the consumer prices index for retirement benefits, sets out how to apply the requirements of the UK standard FRS 17, Retirement Benefits, to the change from using RPI to using CPI. The Group considers that this guidance is relevant and useful when determining how to account for this change under its IFRS accounting policies, as the requirements of FRS 17 are substantially the same as the equivalent requirements of IAS 19, Employee Benefits.

As the scheme was not obligated to increase pensions in line with RPI, the change to using CPI is considered to be a change in the increase assumption, and gives rise to an actuarial gain in accordance with IAS 19. In the main, the change to CPI affects only deferred pensions and has limited impact on pensions already in payment. The impact of the change is highlighted in Note 25(iv).

The demographic assumptions which were applied for the main schemes are as follows:

Invensys Pension Scheme (UK)

Standard actuarial mortality tables PA92 were adopted using year of birth and medium cohort projections. The probability of death at each age was multiplied by 122% for males and 135% for females. Future improvements in life expectancy have been allowed for in line with medium cohort improvements subject to a floor of 1.00% for males and 1.25% for females.

By way of illustration the impact of the application of these mortality tables on the expected longevity of pensioners is shown below:

		Years
Retiring today at age 65:	Male	**21.0**
	Female	**23.5**
Retiring in 20 years at age 65:	Male	**22.8**
	Female	**25.9**

Invensys Pension Plan (US)

The mortality table adopted was the RP 2000 Table for combined employee/annuitants, projected to 2015 using projection scale AA.

Sensitivities

Invensys Pension Scheme (UK) and Invensys Pension Plan (US)

The two largest schemes within the Group are the Invensys Pension Scheme (UK) (representing 75% of gross liabilities of all defined benefit schemes) and the Invensys Pension Plan (US) (18%). The principal sensitivities, with all other variables held constant, for these two schemes are illustrated below:

	Invensys Pension Scheme (UK)			Invensys Pension Plan (US)		
	Defined benefit obligation £m	Assets[1] £m	Net effect £m	Defined benefit obligation £m	Assets[1] £m	Net effect £m
Total defined benefit obligation/scheme assets (Note 25 (v))	(4,118)	3,988	(130)	(959)	834	(125)
A 0.1% increase in the assumed inflation rate would have the following effect[2]:						
(Increase in defined benefit obligation)/increase in scheme assets	(50)	30	(20)	–	1	1
A 0.1% decrease in the assumed interest rate would have the following effect[3]:						
(Increase in defined benefit obligation)/increase in scheme assets	(60)	45	(15)	(10)	7	(3)
A one year increase to the pensioners' lives would have the following effect:						
Increase in defined benefit obligation	(145)	–	(145)	(27)	–	(27)
Applying an additional 0.25% underpin to the improvement in mortality would have the following effect:						
Increase in defined benefit obligation[4]	(30)	–	(30)	n/a	n/a	n/a

1 The movement of assets in this table shows the estimated impact on asset values arising from a change of market conditions consistent with the change in discount rate and inflation assumptions shown.
2 This sensitivity assumes that a 0.1% increase in future inflation expectations result in a 0.1% increase in all inflation related pension increase assumptions. As a result of the upper and lower limits on the majority of inflation related pension increases, a given change in the inflation assumption may result in a smaller change in pension increase assumptions and hence smaller change in the liabilities (particularly where such a change in inflation is large).
3 This illustrates the sensitivity of assets and liabilities to a 0.1% change in bond yields. The discount rate used to determine the liabilities is based on AA corporate bond yields.
4 This sensitivity is not applied to the Invensys Pension Plan (US) because US mortality tables do not use such underpins.

US healthcare plan

A 1% movement in the assumed rate of increase in US healthcare costs would have the following effects:	Increase £m	Decrease £m
Defined benefit obligation: (increase)/decrease	(1)	1

25 Pensions and post-retirement benefits continued

(iv) Defined benefit schemes – income and expenses

The amounts that have been recognised in the consolidated income statement and consolidated statement of comprehensive income for the year ended 31 March 2011 are set out below:

	Funded schemes			Unfunded schemes		
	Invensys Pension Scheme (UK) £m	Invensys Pension Plan (US) £m	Other £m	US healthcare £m	Other £m	Total £m
Analysis of amounts (charged)/credited to the consolidated income statement:						
Current service cost – continuing operations	(10)	–	(7)	–	(2)	(19)
Past service credit	–	–	–	20	–	20
Curtailments	–	–	1	–	–	1
Total (charge)/credit to operating profit	(10)	–	(6)	20	(2)	2
Expected return on plan assets	216	51	12	–	–	279
Interest on plan liabilities	(217)	(55)	(15)	(1)	(5)	(293)
Other finance charges – IAS 19	(1)	(4)	(3)	(1)	(5)	(14)
Analysis of amounts recognised in the consolidated statement of comprehensive income:						
Actual return less expected return on scheme assets	49	60	6	–	–	115
Experience (losses)/gains arising on the scheme liabilities	(15)	(12)	4	1	2	(20)
Changes in assumptions underlying the present value of the plan liabilities[1]	(46)	(30)	14	(3)	–	(65)
Actuarial (loss)/gain	(12)	18	24	(2)	2	30
Movement in irrecoverable element of potential future pension surplus (Note 25 (vii))	–	–	–	–	–	–

1 Changes in assumptions underlying the present value of the plan liabilities includes a credit of £73 million relating to the Invensys Pension Scheme (UK), and £15 million relating to one Other funded scheme arising from the reduction in scheme liabilities as a result of the change to using CPI instead of RPI to determine minimum pension increases, as explained in Note 25(iii).

The amounts that were recognised in the consolidated income statement and consolidated statement of comprehensive income for the year ended 31 March 2010 are set out below:

	Funded schemes			Unfunded schemes		
	Invensys Pension Scheme (UK) £m	Invensys Pension Plan (US) £m	Other £m	US healthcare £m	Other £m	Total £m
Analysis of amounts (charged)/credited to the consolidated income statement:						
Current service cost – continuing operations	(7)	(3)	(5)	–	(3)	(18)
Settlements	–	–	–	–	1	1
Curtailments	–	34	–	–	2	36
Total (charge)/credit to operating profit	(7)	31	(5)	–	–	19
Expected return on plan assets	204	48	11	–	–	263
Interest on plan liabilities	(221)	(57)	(14)	(2)	(6)	(300)
Other finance charges – IAS 19	(17)	(9)	(3)	(2)	(6)	(37)
Analysis of amounts recognised in the consolidated statement of comprehensive income:						
Actual return less expected return on scheme assets	263	2	23	–	–	288
Experience gains/(losses) arising on the scheme liabilities	72	(6)	–	5	(1)	70
Changes in assumptions underlying the present value of the plan liabilities	(504)	(177)	(49)	(3)	(15)	(748)
Decrease in restriction of asset recognised	–	–	1	–	–	1
Actuarial (loss)/gain	(169)	(181)	(25)	2	(16)	(389)
Movement in irrecoverable element of potential future pension surplus (Note 25 (vii))	56	–	–	–	–	56

The amounts (charged)/credited to operating profit were (charged)/credited to the following lines in the consolidated income statement:

	2011 £m	2010 £m
Cost of sales	**(12)**	(10)
Administrative costs	**(7)**	(8)
Other exceptional items	**21**	37
Total net credit to operating profit	**2**	19

25 Pensions and post-retirement benefits continued

(v) Defined benefit schemes – changes in present value of defined benefit obligations and fair value of plan assets

Changes in the present value of the defined benefit obligation for the year ended 31 March 2011 were as follows:

		Funded schemes			Unfunded schemes		
	Note	Invensys Pension Scheme (UK) £m	Invensys Pension Plan (US) £m	Other £m	US healthcare £m	Other £m	Total £m
Opening present value of defined benefit obligation		(4,056)	(982)	(283)	(29)	(120)	(5,470)
Current service cost		(10)	–	(7)	–	(2)	(19)
Past service credit		–	–	–	20	–	20
Contributions by employees		(1)	–	–	–	–	(1)
Benefit payments		227	60	12	2	8	309
Interest on plan liabilities		(217)	(55)	(15)	(1)	(5)	(293)
Net liabilities transferred on disposal	32	–	–	–	–	1	1
Actuarial (losses)/gains		(61)	(42)	18	(2)	2	(85)
Transfers (from)/to other schemes[1]		–	(9)	9	–	–	–
Curtailments		–	–	1	–	–	1
Exchange adjustments		–	69	3	1	3	76
Closing present value of defined benefit obligation		(4,118)	(959)	(262)	(9)	(113)	(5,461)

Changes in the fair value of plan assets for the year ended 31 March 2011 were as follows:

	Funded schemes			
	Invensys Pension Scheme (UK) £m	Invensys Pension Plan (US) £m	Other £m	Total £m
Opening fair value of plan assets	3,902	820	197	4,919
Expected return on plan assets	216	51	12	279
Contributions by employer	47	13	10	70
Contributions by employees	1	–	–	1
Benefit payments	(227)	(60)	(12)	(299)
Actuarial gains	49	60	6	115
Transfers to/(from) other schemes[1]	–	9	(9)	–
Exchange adjustments	–	(59)	(2)	(61)
Closing fair value of plan assets	3,988	834	202	5,024
Actual return on plan assets	265	111	18	394

1 During the year, the assets and liabilities of the Retirement Plan for the Bargaining Employees of Safetran were transferred to a new section of the Invensys Pension Plan (US).

Changes in the present value of the defined benefit obligation for the year ended 31 March 2010 were as follows:

	Funded schemes			Unfunded schemes		
	Invensys Pension Scheme (UK) £m	Invensys Pension Plan (US) £m	Other £m	US healthcare £m	Other £m	Total £m
Opening present value of defined benefit obligation	(3,618)	(859)	(210)	(34)	(127)	(4,848)
Current service cost	(7)	(3)	(5)	–	(3)	(18)
Contributions by employees	(1)	–	–	–	–	(1)
Benefit payments	223	57	12	3	8	303
Interest on plan liabilities	(221)	(57)	(14)	(2)	(6)	(300)
Actuarial (losses)/gains	(432)	(183)	(49)	2	(16)	(678)
Transfers[1]	–	–	(13)	–	13	–
Settlements[2]	–	–	–	–	4	4
Curtailments	–	34	–	–	2	36
Exchange adjustments	–	29	(4)	2	5	32
Closing present value of defined benefit obligation	(4,056)	(982)	(283)	(29)	(120)	(5,470)

Changes in the fair value of plan assets for the year ended 31 March 2010 were as follows:

	Funded schemes			
	Invensys Pension Scheme (UK) £m	Invensys Pension Plan (US) £m	Other £m	Total £m
Opening fair value of plan assets	3,610	855	162	4,627
Expected return on plan assets	204	48	11	263
Contributions by employer	47	13	8	68
Contributions by employees	1	–	–	1
Benefit payments	(223)	(57)	(12)	(292)
Actuarial gains	263	2	23	288
Transfers (from)/to other schemes	–	(2)	2	–
Exchange adjustments	–	(39)	3	(36)
Closing fair value of plan assets	3,902	820	197	4,919
Actual return on plan assets	467	50	34	551

1 During the year, the German unfunded plan was amalgamated with the German funded plan.
2 The gain of £4 million relating to the defined benefit obligation is offset by a loss of £3 million relating to payments as a result of an agreement reached to settle the liabilities, resulting in a net gain on settlements of £1 million recognised in the income statement.

25 Pensions and post-retirement benefits continued

(vi) Defined benefit schemes – reconciliation of balance sheet amounts

Reconciliation of assets and liabilities recognised in the balance sheet as at 31 March 2011:

	Funded schemes			Unfunded schemes		
	Invensys Pension Scheme (UK) £m	Invensys Pension Plan (US) £m	Other £m	US healthcare £m	Other £m	Total £m
Present value of defined benefit obligation	(4,118)	(959)	(262)	(9)	(113)	(5,461)
Fair value of plan assets	3,988	834	202	–	–	5,024
Deficit in the plan	(130)	(125)	(60)	(9)	(113)	(437)
Irrecoverable element of potential future pension surplus (Note 25 (vii))	(30)	–	–	–	–	(30)
Net liability	(160)	(125)	(60)	(9)	(113)	(467)
The net liability is presented on the balance sheet as follows:						
Non-current pension liability	(160)	(125)	(60)	(9)	(113)	(467)
Net liability	(160)	(125)	(60)	(9)	(113)	(467)

Reconciliation of assets and liabilities recognised in the balance sheet as at 31 March 2010:

	Funded schemes			Unfunded schemes		
	Invensys Pension Scheme (UK) £m	Invensys Pension Plan (US) £m	Other £m	US healthcare £m	Other £m	Total £m
Present value of defined benefit obligation	(4,056)	(982)	(283)	(29)	(120)	(5,470)
Fair value of plan assets	3,902	820	197	–	–	4,919
Deficit in the plan	(154)	(162)	(86)	(29)	(120)	(551)
Irrecoverable element of potential future pension surplus (Note 25 (vii))	(30)	–	–	–	–	(30)
Net liability	(184)	(162)	(86)	(29)	(120)	(581)
The net liability is presented on the balance sheet as follows:						
Non-current pension liability	(184)	(162)	(86)	(29)	(120)	(581)
Net liability	(184)	(162)	(86)	(29)	(120)	(581)

(vii) Impact of IFRIC 14
The Group is committed to make payments to the UK Main Pension Scheme under a deficit funding contribution schedule agreed with the trustees. Where the present value of the agreed funding payments exceeds the liability in respect of the scheme as measured under IFRS, and would therefore, when paid, give rise to a surplus as measured under IFRS, a provision is recognised for any part of that surplus that would not be recoverable. Any surplus on the UK Main Pension Scheme ultimately repaid by the trustees would currently be subject to a 35% tax charge prior to being repaid, so a liability for this tax is recognised at the relevant balance sheet date. At 31 March 2011 the present value of the agreed funding payments exceeds the liability of the scheme under IFRS and consequently the irrecoverable element of the pension surplus is £30 million (2010: £30 million).

As at 31 March	2011 £m	2010 £m
Deficit in the scheme	(130)	(154)
Future minimum funding requirements	215	239
Potential future pension surplus	85	85
Irrecoverable element of potential future pension surplus	(30)	(30)
Recoverable element of potential future pension surplus	55	55
Movement in irrecoverable element of potential future pension surplus	–	56

As required by IAS 19 liabilities for each scheme are determined using the projected unit credit actuarial valuation method. This is an accrued benefits valuation method that discounts the best estimate of future cash flows and makes allowance for projected earnings.

If the UK Main Pension Scheme were to be wound up, the relevant employers would be responsible, under section 75 of the Pensions Act 1995 to fund the UK Main Pension Scheme up to the levels of the cost of buying out the benefits for all scheme members with an insurer. This cost would be considerably more than the value placed on the ongoing liabilities for accounting purposes. The deficit in the UK Main Pension Scheme calculated on a winding up basis was approximately £1.4 billion as at 31 March 2008, the date of the last actuarial valuation. This will be reviewed and updated at the next valuation.

(viii) Defined benefit schemes – expected rate of return and analysis of scheme assets
The expected long-term rate of return and market value of funded defined benefit schemes at 31 March 2011 are:

	Invensys Pension Scheme (UK)		Invensys Pension Plan (US)		Other		Total
	Expected long-term rate of return %	Market value £m	Expected long-term rate of return %	Market value £m	Expected long-term rate of return %	Market value £m	Market value £m
Equities	7.8	200	7.4	172	7.8	116	488
Bonds	4.8	2,800	5.9	264	4.8	61	3,125
Other	7.1	988	6.4	398	5.6	25	1,411
Fair value of plan assets		3,988		834		202	5,024

The expected long-term rate of return and market value of funded defined benefit schemes at 31 March 2010 are:

	Invensys Pension Scheme (UK)		Invensys Pension Plan (US)		Other		Total
	Expected long-term rate of return %	Market value £m	Expected long-term rate of return %	Market value £m	Expected long-term rate of return %	Market value £m	Market value £m
Equities	8.0	331	7.8	144	8.0	97	572
Bonds	5.0	2,630	6.3	242	5.1	68	2,940
Other	6.8	941	6.5	434	6.2	32	1,407
Fair value of plan assets		3,902		820		197	4,919

The expected return on each asset class has been determined on the basis of market expectations for the rate of return on each asset class over the life of the related obligation, at the balance sheet date. In respect of the UK Main Pension Scheme, Government and Corporate Bond indices have been used to set the expected rate of return on bonds, and a risk premium has been applied to determine the expected long-term rate of return on equity investments. Similar processes are applied to other schemes.

The investment strategy determined by the trustees of the Invensys Pension Scheme continues to reflect the mature nature of the scheme with assets predominantly invested in bonds or bond-like investments.

25 Pensions and post-retirement benefits continued

(ix) Defined benefit schemes – history of experience adjustments

	Funded schemes			Unfunded schemes		
	Invensys Pension Scheme (UK) £m	Invensys Pension Plan (US) £m	Other £m	US healthcare £m	Other £m	Total £m
Year ended 31 March 2011						
Present value of defined benefit obligation	**(4,118)**	**(959)**	**(262)**	**(9)**	**(113)**	**(5,461)**
Fair value of plan assets	**3,988**	**834**	**202**	**–**	**–**	**5,024**
Deficit in the plan	**(130)**	**(125)**	**(60)**	**(9)**	**(113)**	**(437)**
Experience adjustments on plan liabilities	**(15)**	**(12)**	**4**	**1**	**2**	**(20)**
Experience adjustments on plan assets	**49**	**60**	**6**	**–**	**–**	**115**
Year ended 31 March 2010						
Present value of defined benefit obligation	(4,056)	(982)	(283)	(29)	(120)	(5,470)
Fair value of plan assets	3,902	820	197	–	–	4,919
Deficit in the plan	(154)	(162)	(86)	(29)	(120)	(551)
Experience adjustments on plan liabilities	72	(6)	–	5	(1)	70
Experience adjustments on plan assets	263	2	23	–	–	288
Year ended 31 March 2009						
Present value of defined benefit obligation	(3,618)	(859)	(210)	(34)	(127)	(4,848)
Fair value of plan assets	3,610	855	162	–	–	4,627
Deficit in the plan	(8)	(4)	(48)	(34)	(127)	(221)
Experience adjustments on plan liabilities	96	5	10	1	(1)	111
Experience adjustments on plan assets	(301)	(65)	(42)	–	–	(408)
Year ended 31 March 2008						
Present value of defined benefit obligation	(3,888)	(695)	(211)	(26)	(119)	(4,939)
Fair value of plan assets	3,878	663	181	–	–	4,722
Deficit in the plan	(10)	(32)	(30)	(26)	(119)	(217)
Experience adjustments on plan liabilities	(11)	(7)	1	3	1	(13)
Experience adjustments on plan assets	(34)	16	(12)	–	–	(30)
Year ended 31 March 2007						
Present value of defined benefit obligation	(4,099)	(738)	(214)	(32)	(119)	(5,202)
Fair value of plan assets	3,856	637	188	–	–	4,681
Deficit in the plan	(243)	(101)	(26)	(32)	(119)	(521)
Experience adjustments on plan liabilities	(11)	(10)	(4)	–	(2)	(27)
Experience adjustments on plan assets	(156)	8	5	–	–	(143)

Cumulative actuarial gains and losses

The cumulative amount of actuarial gains and losses recognised since 1 April 2004 in the consolidated statement of comprehensive income is a loss of £355 million (2010: £385 million).

(x) Pensions and post-retirement benefits – other
Total pension service costs charged to the income statement in respect of defined benefit and defined contribution schemes amounted to £37 million (2010: £30 million).

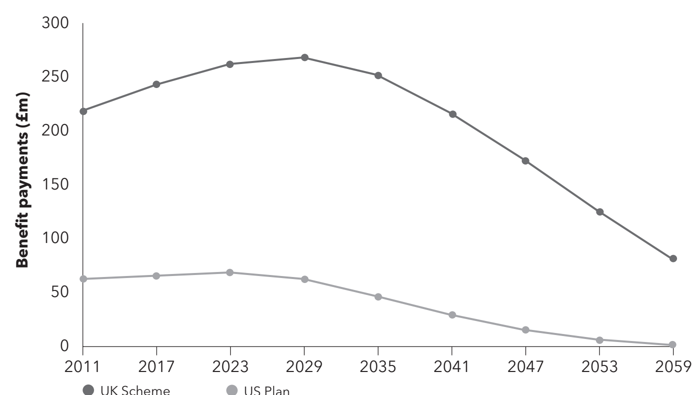
The estimated levels of contributions expected to be paid to defined benefit schemes in the year to 31 March 2012 are as follows:

	Funded schemes			Unfunded schemes		
	Invensys Pension Scheme (UK) £m	Invensys Pension Plan (US) £m	Other £m	US healthcare £m	Other £m	Total £m
	48	35	7	2	7	99

Regarding rates of contributions for future years, the deficit funding contribution schedule for the UK Main Pension Scheme is subject to revision after the next triennial valuation which will have a reference date of 31 March 2011. In the meantime, contributions to the UK Main Pension Scheme will continue to be made at the rate of 19.8% of pensionable salaries. In addition, the Company will continue to make annual supplemental contributions to the scheme. These amount to £39 million in the year ending 31 March 2012 increasing by £1 million per annum until 31 March 2014 and then £2 million per annum thereafter until 2017. Where the proceeds from the sale of a business exceed £1 million, at least 8% of the proceeds net of tax and costs will be paid as additional contributions to the UK Main Pension Scheme.

Under the US Plan, contributions will be made at the level required to meet the minimum requirements set forth by the Pension Protection Act of 2006 and related regulations. From time to time, discretionary amounts are contributed to enhance the security of participants' benefits based on other considerations, including available cash flow and the Company's tax position.

The following graph shows a projection of the benefit payments from the Invensys Pension Scheme (UK) and Invensys Pension Plan (US) based on the assumptions underlying the IAS 19 assessment of obligations at 31 March 2011:



26 Trade and other payables

	Note	2011 £m	2010 £m
Non-current			
Other payables		10	10
		10	10
Current			
Trade payables		280	271
Accruals and deferred income		174	167
Interest payable		3	1
Other payables		89	90
		546	529
Total trade and other payables		556	539
Classification to financial liabilities			
Financial liabilities at amortised cost	22(i)	516	495
Non-financial liabilities		40	44
		556	539

Terms and conditions of the above financial liabilities are as follows:
Trade payables are non-interest bearing and are on average normally settled on 50-day terms. Interest payable on the Group's borrowing facility is settled quarterly. Other payables include sales taxes, social security and payroll taxes, payroll creditors, customer advances (not related to construction contracts), payments received from customers in advance of work performed on construction contracts and commissions payable. They are non-interest bearing. The majority of non-current other payables will mature in more than one year but in less than two years; there is a small proportion that will mature in over five years.
The maturity profile of trade and other payables classified as financial liabilities is given in Note 22.

The directors consider that the carrying amount of both current and non-current trade and other payables approximates to their fair value.

27 Issued share capital

Issued share capital

Issued and fully paid:	Number of shares million 2011	£m 2011	Number of shares million 2010	£m 2010
Ordinary shares of 10p each	810	81	807	81

A reconciliation of the issued, allotted and fully paid share capital is as follows:

	Number of shares million	Share capital £m
At 1 April 2009	801	80
Issue of ordinary shares of 10p each	6	1
At 31 March 2010	807	81
Issue of ordinary shares of 10p each	3	–
At 31 March 2011	810	81

Shares reserved for issue under share options and awards
During the year the Company issued 2,226,021 ordinary shares of 10 pence each pursuant to the exercise of options under the Invensys Savings Related Share Option Scheme (SRSOS), Invensys Overseas Savings Related Share Option Scheme (OSRSOS), Invensys 1998 Senior Executive Long Term Incentive Plan (1998 LTIP), Invensys 2007 Long Term Incentive Plan (2007 LTIP) and the 2007 CEO Special Award (2010: 6,051,095 under the SRSOS, OSRSOS, 1998 LTIP and 2007 LTIP).

On 17 June 2010, 13 September 2010, 8 December 2010 and 14 March 2011, conditional awards over a total of 5,267,195 shares were granted under the 2007 LTIP (2010: 6,956,484 under the 2007 LTIP).

There were 14,279,061 conditional awards outstanding under the 1998 LTIP and 2007 LTIP at 31 March 2011 (2010: 13,765,202). These conditional awards will be released at various dates between 2011 and 2014, subject to the satisfaction of the performance requirements and any appropriate holding period. As at 31 March 2011, outstanding shares awarded under the CEO Special Award (including shares representing accrued dividends) were 377,861 (2010: 1,608,554). These will be released as soon as practicable following a 12-month period from the first release of shares on 25 May 2010.

As at 31 March 2011, outstanding executive share options exercisable, subject to the satisfaction of the relevant performance conditions, at various dates between 2011 and 2012 and at various prices between 154.59 pence and 1,307.31 pence per ordinary share, and at a weighted average price of 532.71 pence per ordinary share, were 803,298 (2010: 1,134,026).

Outstanding options under the Company's various savings related share option schemes at 31 March 2011, exercisable between 2012 and 2013 at 175.00 pence per ordinary share, and at a weighted average price of 387.03 pence per ordinary share, were nil (2010: 18,487), and at a weighted average price of 175.00 pence per ordinary share, were 2,717,450 (2010: 2,928,317).

Treasury shares
Treasury shares comprise shares held by the Invensys Employee Share Trust and restricted shares.

The movement in treasury shares is set out below:

	Number of shares	£m
At 1 April 2009	414,534	1
Purchase of shares	2,723,442	8
Transfer of legal title of restricted shares	570,076	1
Distribution of shares under share option and share award schemes	(2,907,596)	(8)
At 31 March 2010	**800,456**	2
Purchase of shares	**1,496,530**	4
Transfer of legal title of restricted shares	**(570,076)**	(1)
Distribution of shares under share option and share award schemes	**(1,010,147)**	(3)
At 31 March 2011	**716,763**	2

Shares held by the Invensys Employee Share Trust
At 31 March 2011, the Invensys No.2 Employee Benefit Trust (the Trust) held 716,763 ordinary shares of 10 pence each in Invensys plc with a market value of £2 million (2010: 230,380 ordinary shares of 10 pence each with a market value of £1 million). The Trust holds ordinary shares in the Company which may be used to deliver ordinary shares under certain executive share schemes. All the shares held by the Trust are solely for this purpose and are distributed to employees in accordance with the terms of the Company's schemes. Shares held by the Trust are accounted for as treasury shares and deducted from equity. During the year under review the Company established a Rabbi Trust in the US which is used to deliver ordinary shares of the Company in the US under certain executive share schemes. The Rabbi Trust held no ordinary shares at 31 March 2011.

Restricted shares
570,076 restricted shares with a market value of £1 million were issued on 15 March 2010 as a replacement award for the remaining shares still to be issued under the 2006 LTIP Award, RSP and DSP awards. Participants receiving the restricted shares were required to retain them until the service condition was satisfied on the vesting date of the original award in June 2010. If the service conditions were not satisfied on this date, legal ownership of the share reverted to Invensys plc. These shares were accounted for as treasury shares as at 31 March 2010. There was no equivalent arrangement in place at 31 March 2011.

28 Nature and purpose of other equity reserves

The analysis of the balance and movement on other equity reserves is shown in the consolidated statement of changes in equity. The nature and purpose of these reserves are as follows:

Share premium account
This reserve records the consideration premium for shares issued at a value that exceeds their nominal value.

Capital reserve
Previously the Group merger reserve, this reserve was created on the merger of BTR plc and Siebe plc in February 1999 and is non-distributable.

Special reserve
This reserve represents the balance remaining after the elimination of the deficit in the reserves of the Parent Company following the capital reduction on 22 January 2009. The reserve will remain pending the settlement or consent of creditors (or contingent creditors) of the Parent Company in existence at the date of the capital reduction. The reserve is non-distributable.

Cash flow hedge reserve
This reserve records, for each hedged item in an effective cash flow hedge, the cumulative change in fair value of the expected future cash flow on the hedged item from the inception of the hedge relationship.

Foreign exchange reserve
The foreign exchange reserve is used to record exchange differences arising from the translation of the Financial Statements of foreign subsidiaries. It is also used to record the foreign exchange on net investments in these subsidiaries.

29 Share-based payment plans

Measurement of fair value

Share awards
An 'adjusted market value' method of valuation, based on market value at grant date and market-based performance conditions, has been used to calculate the fair value of all share awards granted during the year.

Share options
The Black-Scholes option pricing model has been used to calculate the fair value of all share options granted during the year. These options were granted under savings related share option schemes for which vesting is not dependent on market conditions.

Expected volatility was based on both historical volatility of the Company's share price over the previous ten years and on the implied volatility of traded options of the Group's shares. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Share-based payment expense
The Group recognised total expenses of £9 million (2010: £11 million) related to share-based payment transactions during the year, of which £8 million (2010: £9 million) related to equity-settled and £1 million (2010: £2 million) related to cash-settled transactions. The carrying amount of the liability relating to the cash-settled awards at 31 March 2011 is £1 million (2010: £2 million).

The Company operates various share schemes under which options and awards have been granted and are outstanding as detailed below:

Plans for senior employees

Executive share options

Invensys 1998 Senior Executive Share Option Scheme

Grant details

An executive share option scheme under which options have been granted to directors and senior executives at no cost. Options are exercisable between the third and tenth anniversary of the grant date at a price equal to the average middle market quoted price of the Company's shares over the five dealing days which precede the date of grant. Options are satisfied by the issue of new shares or, in the case of awards granted as share appreciation rights, in cash.

Vesting requirements
Performance requirements:
Earnings per share (EPS) performance of RPI + 12% over a three-year period to be applied each year until the earlier of when the condition is met, or the measurement period, the last financial year of which is the year preceding that, in which the option will lapse.

No performance conditions are attached to the option granted to the former Chief Executive Mr Henriksson under a separate arrangement on 1 June 2004.

Service requirements:
The general rule is that the option will forfeit if the participant leaves employment, although options may be exercisable for a certain period of time in defined good leaver cases or with the consent of the Remuneration Committee.

Scheme use
The Company can no longer make grants under this scheme as the scheme expired in July 2008.

Details of executive share options outstanding under this scheme including the option granted to Mr Henriksson under a separate arrangement on 1 June 2004, are as follows:

	2011		2010	
	Number of share options	**Weighted average exercise price (p)**	Number of share options	Weighted average exercise price (p)
Outstanding at the beginning of the year	**1,134,026**	**937.18**	1,461,805	1,253.02
Granted during the year	**–**	**–**	–	–
Forfeited during the year	**–**	**–**	(34,104)	1,607.43
Exercised during the year	**–**	**–**	–	–
Lapsed during the year	**(330,728)**	**1,933.18**	(293,675)	2,431.44
Outstanding at the end of the year	**803,298**	**532.71**	1,134,026	937.18
Exercisable at the end of the year	**803,298**	**532.71**	1,134,026	937.18

Range of exercise prices for options outstanding at the end of the year, are as follows:

	Number of share options	Weighted average exercise price (p)	Weighted average remaining contractual life (years)
2011			
154.59p	**535,290**	**154.59**	**1.0**
1,213.72p to 1,307.31p	**268,008**	**1,287.91**	**0.2**
	803,298	**532.71**	**0.7**
2010			
154.59p	535,290	154.59	4.2
1,213.72p to 2,311.33p	598,736	1,636.85	0.9
	1,134,026	937.18	2.5

29 Share-based payment plans continued

Long-term incentives

Invensys 1998 Senior Executive Long Term Incentive Plan (LTIP)

Grant details

A long-term incentive plan under which awards were granted to executive directors and senior executives at no (or nominal) cost. Depending on the country in which the participant is resident the award would be delivered using one of the following mechanisms: (a) a nominal or nil price option which is a right to acquire shares for a nominal or nil payment (unless the Company determines otherwise); (b) a conditional share award; or (c) a cash award (granted in respect of a notional number of shares). Awards are normally subject to a three-year performance period, commencing on the date of award, followed by a retention period. For awards granted prior to 22 July 2005 the retention period was two years; for awards made on or after 22 July 2005, 50% of any shares vesting on satisfaction of the performance requirements were released at the end of the performance period with the other 50% being deferred for one year.

Vesting requirements

Performance requirements:

TSR test

TSR ranked against a peer group, selected at the discretion of the Remuneration Committee (with no retesting opportunities). TSR must rank at the median position (when the peer group is ranked in descending order of TSR) in order for 25% of the shares subject to the award to be available (subject to the retention period), rising to 100% of the shares if the upper decile position is achieved. Between these positions, the number of shares will be calculated on a straight-line basis. If at least median position is not achieved the whole award will lapse. The peer groups selected for the relevant awards are as follows:

- awards granted prior to 22 July 2005: the companies that comprised the FTSE Mid 250 Index on the date of grant; and
- awards granted on or after 22 July 2005: ABB, Eaton, Emerson, GE, Honeywell, Johnson Controls, Rockwell, Schlumberger, Schneider, Siemens, Smiths Group and Yokogawa.

Overall performance test

The Remuneration Committee must be satisfied that: (a) for awards granted prior to 22 July 2005 there has been a sustained delivery over the performance period, regarding the trading performance of continuing operations, disposal proceeds and reduction in Group indebtedness; (b) for awards granted on or after 22 July 2005 that two underpins have been met: (1) achievement of stretching internal free cash flow targets; and (2) efficient management of legacy liability items; and (c) for awards granted on or after 1 June 2006 that two underpin tests have been met: (1) relating to the successful completion of the 2006 Refinancing and in addition that there has been a sustained improvement in the underlying financial performance of the Group; and (2) efficient management of legacy liability items.

Service requirements:

The general rule is that the award will forfeit if the participant leaves employment, although shares may be released subject to the satisfaction of the performance conditions in defined good leaver cases or with the consent of the Remuneration Committee.

Scheme use

Awards are no longer granted under this scheme since its expiry in July 2008. Long-term incentive awards are now granted under the Invensys 2007 Long Term Incentive Plan.

Details of relevant LTIP awards outstanding during the year are as follows:

	Number of awards 2011	Number of awards 2010
Outstanding at the beginning of the year	**927,208**	8,590,076
Granted during the year	**–**	–
Dividends during the year	**4,549**	8,859
Forfeited during the year	**(31,818)**	(118,749)
Exercised during the year	**(679,739)**	(6,305,102)
Lapsed during the year	**(209, 188)**	(1,247,876)
Outstanding at the end of the year	**11,012**	927,208

The weighted average share price at the date of vesting for the awards vested is 299 pence (2010: 251 pence).

The LTIP awards outstanding at the end of the year have a weighted average remaining contractual life of 0.2 years (2010: 0.3 years).

2007 Senior Executive Long Term Incentive Plan (2007 LTIP)

Grant details

A long-term incentive plan under which awards are granted to executive directors and senior executives at no (or nominal) cost. Depending on the country in which the participant is resident the award would be delivered using one of the following mechanisms: (a) a nominal or nil price option which is a right to acquire shares for a nominal or nil payment (unless the Company determines otherwise); (b) a conditional share award; or (c) a cash award (granted in respect of a nominal number of shares). Awards are normally subject to a three-year performance period, commencing on the start of the financial year in which the date of the award falls. There is no retention period.

Vesting requirements

Performance requirements:
Awards are subject to two independent performance conditions. For executive directors (a) 50% of an award is based on growth in the Company's TSR relative to the constituent companies of the Standard & Poor's Global 1200 Capital Goods Index; and (b) 50% of an award is based on the compound annual growth rate in the Group's Earnings Per Share. For all other participants (a) 35% of an award is based on growth in the Company's TSR relative to the constituent companies of the Standard & Poor's Global 1200 Capital Goods Index; and (b) 35% of an award is based on the compound annual growth rate in the Group's Earnings Per Share. There are no performance conditions applying to the remaining 30% of an award. In addition, the Remuneration Committee retains discretion to ensure that, as a condition for the vesting of shares, the underlying overall performance of the Group must be satisfactory. Factors that will be taken into account will include EPS growth and the Group's cash position over the performance period.

Service requirements:
The general rule is that the award will forfeit if the participant leaves employment, although shares may be released, subject to satisfaction of the performance conditions, in defined good leaver cases or with the consent of the Remuneration Committee.

Scheme use

The 2007 LTIP is used as the Group's main share-based long-term incentive plan under which share awards are granted. The first grants under this plan were made in the year ended 31 March 2008.

Grants made during the years ended 31 March 2011 and 31 March 2010 are detailed below:

	LTIP awards granted in the year ended 31 March 2011	LTIP awards granted in the year ended 31 March 2010
Total number of awards granted	**5,680,828**	7,255,510
Weighted average fair value	**243.73p**	171.18p
Exercise price	**n/a**	n/a
Expected volatility	**46.3%**	n/a
Weighted average expected award life	**3.0 years**	3.0 years
Expected dividend yield	**1.32%**	0%
Risk free interest rate	**2.93%**	n/a

Details of relevant 2007 LTIP awards outstanding during the year are as follows:

	Number of awards 2011	Number of awards 2010
Outstanding at the beginning of the year	**13,554,707**	7,988,320
Granted during the year	**5,680,828**	7,255,510
Dividends during the year	**41,896**	2,725
Forfeited during the year	**(803,134)**	(1,338,709)
Exercised during the year	**(1,661,746)**	(42,146)
Lapsed during the year	**(1,502,775)**	(310,993)
Outstanding at the end of the year	**15,309,776**	13,554,707

The weighted average share price at the date of vesting for the awards vested is 277 pence (2010: 233 pence).

The 2007 LTIP awards outstanding at the end of the year have a weighted average remaining contractual life of 1.4 years (2010: 1.6 years).

29 Share-based payment plans continued

2007 CEO Special Award (Special Award)

Grant details

Approved by shareholders at the 2007 Annual General Meeting, the Special Award is a one-off conditional share award granted to the Chief Executive equal to 700% of his 2007/08 base salary. The Special Award was subject to a three-year performance period ending on 31 March 2010 followed by a holding period and detailed below.

Vesting requirements

Performance requirements:

The performance measures applying to the Special Award reflected those applying to the 2007 LTIP with some elements being more demanding. The Special Award was split into two layers, each of which vested on a different basis. For the first layer equal to 200% of base salary, 20% would vest for threshold performance and 100% for maximum performance. For the second layer equal to 500% of base salary, there will be no vesting for threshold performance, but 100% would vest for maximum performance. Vesting in each layer was to be on a straight-line basis between these points.

For each layer of the Special Award 50% would vest based on TSR and 50% based on EPS growth, as for the 2007 LTIP. However, for the TSR part of the Special Award, maximum vesting would require more stretching performance equivalent to upper quintile. This was calculated by the advisers to the Remuneration Committee as outperformance of the mean of the Standard & Poor's Global 1200 Capital Goods Index constituents by a factor of 1.4 (i.e. 40%). In addition, the Remuneration Committee retained discretion to ensure that as a condition for the vesting of shares, the underlying overall performance of the Company had been satisfactory. In the case of the TSR performance target, factors that would be taken into account will include EPS growth and the Company's cash position.

Result of performance requirements for CEO Special Award

With regard to the TSR test, the Remuneration Committee determined that 93.0% of the first layer of shares and 91.3% of the second layer of shares were available to vest. Of this total, 50% were released as soon as practicable following the announcement of the full-year results for 2009/10 and the balance will be released as soon as practicable following a 12-month period from the first release at 25 May 2010.

With regard to the EPS part of the award (50%), after considering the 2009/10 audited financial results, the Remuneration Committee determined that the threshold level of EPS CAGR required for vesting was not achieved and the shares subject to the EPS performance condition, as a result, lapsed.

Service requirements:

The general rule is that the award would be forfeited if the participant left employment, although shares may be released in defined good leaver cases or with the consent of the Remuneration Committee. The holder left the Company on 24 March 2011 and the Remuneration Committee permitted retention of the entitlement to the remaining 50% of the shares under the Special Award.

Scheme use

The Special Award is a one-off grant at no cost made during the year ended 31 March 2008.

Details of the Special Award outstanding during the year are as follows:

	Number of awards 2011	Number of awards 2010
Outstanding at the beginning of the year	**1,608,554**	1,608,554
Granted during the year	**–**	–
Forfeited during the year	**–**	–
Dividends during the year	**12,577**	–
Exercised during the year	**(372,858)**	–
Lapsed during the year	**(870,412)**	–
Outstanding at the end of the year	**377,861**	1,608,554

The Special Award outstanding at the end of the year has a weighted average remaining contractual life of 0.2 years (2010: 0.9 years).

Invensys Restricted Share Plan (RSP)

Grant details

A restricted share plan whereby awards, to be satisfied by the transfer of existing issued shares or in cash, are granted to certain senior employees at no cost. The vesting period for awards is determined separately for each award. Vesting periods normally fall between one and three years.

Vesting requirements

Performance requirements:
Awards are not subject to specific performance conditions apart from continued employment throughout the vesting period and satisfactory personal performance.

Service requirements:
The general rule is that the award will forfeit if the participant leaves employment, although shares may be released in defined good leaver cases or with the consent of the Remuneration Committee.

Scheme use

The plan is operated predominantly for senior executives in special circumstances, such as recruitment and retention situations.

Grants made during the years ended 31 March 2011 and 31 March 2010 are detailed below:

	RSP awards granted in the year ended 31 March 2011	RSP awards granted in the year ended 31 March 2010
Total number of awards granted	**563,219**	1,188,039
Weighted average fair value	**291.96p**	219.97p
Weighted average exercise price	**n/a**	n/a
Expected volatility	**n/a**	n/a
Weighted average expected award life	**2.1 years**	2.1 years
Expected dividend yield	**0%**	0%
Risk free interest rate	**n/a**	n/a

Details of relevant RSP awards outstanding during the year are as follows:

	Number of awards 2011	Number of awards 2010
Outstanding at the beginning of the year	**2,226,638**	3,371,225
Granted during the year	**563,219**	1,188,039
Dividends during the year	**14,122**	10,202
Forfeited during the year	**(39,411)**	(153,082)
Exercised during the year	**(1,194,629)**	(2,143,495)
Lapsed during the year	**(484,008)**	(46,251)
Outstanding at the end of the year	**1,085,931**	2,226,638

The weighted average share price at the date of vesting for the awards vested is 301 pence (2010: 267 pence).

The RSP awards outstanding at the end of the year have a weighted average remaining contractual life of 1.1 years (2010: 0.6 years).

Turnaround Bonus Overlay Plan (TBOP)

Grant details

The Company introduced the TBOP in 2005/06 under which executives had the opportunity to receive a supplemental bonus of up to 100% of their base salary in respect of the relevant financial year to be paid in shares upon reaching specified target levels of performance. The TBOP operated in addition to the existing Executive Bonus Plan (EBP). Any bonuses earned under the TBOP (the Overlay Bonus) were payable in shares with 50% of the shares awarded being released following the first anniversary of those shares being awarded and the other 50% being released following the second anniversary. All awards made under the TBOP had been forfeited or exercised by 31 March 2010.

Vesting requirements

Performance requirements:
The amount of the Overlay Bonus (which in turn determines the level of the award) was set by reference to the performance targets specified for the executive in the EBP.

Service requirements:
Release of the shares was generally subject to continued employment at the relevant date although shares may have been released early in defined good leaver cases or with the consent of the Remuneration Committee.

29 Share-based payment plans continued

Scheme use

The first grant under the TBOP was made on 1 June 2006. It was originally anticipated that the TBOP would be operated up to and including the financial year 2007/08. However, as a result of the changes made to the annual incentive arrangements for 2007/08 onwards, the TBOP ceased one year early. The final awards under the TBOP were granted in the year ended 31 March 2008 in respect of the financial year 2006/07.

No grants were made in the years ended 31 March 2011 or 31 March 2010.

Details of relevant TBOP awards outstanding during 2009/10 are as follows:

	Number of awards 2011	Number of awards 2010
Outstanding at the beginning of the year	**–**	496,628
Granted during the year	**–**	–
Forfeited during the year	**–**	–
Exercised during the year	**–**	(496,628)
Lapsed during the year	**–**	–
Outstanding at the end of the year	**–**	–

The weighted average share price at the date of vesting for the awards vested in the year ended 31 March 2010 was 237 pence.

No TBOP awards remained outstanding at 31 March 2011 or 31 March 2010.

Deferred Share Plan (DSP)

Grant details

The DSP was introduced in 2007/08 to replace the TBOP. Any bonus earned under the EBP for 2007/08 in excess of target performance was paid in deferred shares, with any bonus earned up to the target performance being paid in cash. The shares would be released to the individual after three years in the case of executive directors and two years for all other participants. For 2008/09 onwards, the DSP is only used for executive directors and members of the Group Leadership Team; in all other respects the same terms apply as outlined in the previous paragraph. All awards are satisfied by shares purchased in the market.

Vesting requirements

Performance requirements:
The amount of shares granted is set by reference to the performance targets specified for the executive in the EBP.

Service requirements:
Save where a participant is dismissed for cause before the relevant release date, shares under award will be released to participants on the release date, unless the Remuneration Committee in its absolute discretion should decide on a different release date.

Scheme use

The first grant under the DSP was made on 24 July 2008 and was used for all participants in the EBP who earned bonuses in excess of target. For 2008/09 onwards, where applicable, bonus in excess of target performance is only paid in deferred shares to executive directors and members of the Group Leadership Team. Bonus payments for all other members of the EBP are paid entirely in cash.

Grants made during the years ended 31 March 2011 and 31 March 2010 are detailed below:

	DSP awards granted in the year ended 31 March 2011	DSP awards granted in the year ended 31 March 2010
Total number of awards granted	**70,003**	307,038
Exercise price	**n/a**	n/a
Expected volatility	**n/a**	n/a
Weighted average expected award life	**3.0 years**	2.5 years
Expected divided yield	**n/a**	n/a
Risk free interest rate	**n/a**	n/a

Details of relevant DSP awards outstanding during the year are as follows:

	Number of awards 2011	Number of awards 2010
Outstanding at the beginning of the year	**641,181**	489,729
Granted during the year	**70,003**	307,038
Dividends during the year	**1,295**	1,871
Forfeited during the year	**–**	(12,997)
Exercised during the year	**(239,794)**	(144,460)
Lapsed during the year	**–**	–
Outstanding at the end of the year	**472,685**	641,181

The weighted average share price at the date of vesting for the awards vested is 306 pence (2010: 292 pence).

The DSP awards outstanding at the end of the year have a weighted average remaining contractual life of 1.2 years (2010: 1.3 years).

All employee schemes

Invensys Savings Related Share Option Scheme

Grant details

The Scheme, which operates in the UK, is based on a savings plan and is offered to eligible full and part-time employees. Options may be granted at up to a 20% discount to the market price of the Company's shares immediately preceding the date of invitation. The vesting period for the options is three years.

Vesting requirements

Performance requirements:
The Scheme operates in the UK within specific tax legislation and is therefore not subject to performance conditions. However, a participant is required to complete the savings contract in order to exercise their options.

Service requirements:
The general rule is that the option will forfeit if the participant leaves employment, although options may be exercisable for a certain period of time in defined good leaver cases.

Scheme use

The use of the Scheme and potential future launches are reviewed on a regular basis. An invitation was offered under this Scheme in the year ended 31 March 2010 and a further invitation will be extended to employees in 2011/12.

No options were granted in the year ended 31 March 2011. The options granted during the year ended 31 March 2010 are detailed below:

	Options granted in the year ended 31 March 2010
Total number of awards granted	1,275,082
Weighted average fair value	68.70p
Exercise price	175.00p
Expected volatility	31%
Expected option life	3 years
Expected dividend yield	1.0%
Risk free interest rate	2.3%

29 Share-based payment plans continued

Details of relevant options outstanding during the year are as follows:

	2011		2010	
	Number of share options	**Weighted average exercise price (p)**	Number of share options	Weighted average exercise price (p)
Outstanding at the beginning of the year	**1,259,558**	**178.11**	20,700	430.39
Granted during the year	**–**	**–**	1,275,082	175.00
Forfeited during the year	**(34,008)**	**175.00**	(12,574)	176.53
Exercised during the year	**(10,221)**	**175.00**	(536)	175.00
Lapsed during the year	**(79,199)**	**224.49**	(23,114)	233.30
Outstanding at the end of the year	**1,136,130**	**175.00**	1,259,558	178.11
Exercisable at the end of the year	**–**	**n/a**	–	n/a

The weighted average share price at the date of exercise for the options exercised is 175 pence (2010: 175 pence).

Range of exercise prices for options outstanding at the end of the year, are as follows:

	Number of share options	Weighted average exercise price (p)	Weighted average remaining contractual life (years)
2011			
175.00p	**1,136,130**	**175.00**	**1.3**
387.03p	**–**	**–**	**–**
	1,136,130	**175.00**	**1.3**
2010			
175.00p	1,241,071	175.00	2.3
387.03p	18,487	387.03	0.5
	1,259,558	178.11	2.3

Invensys Overseas Savings Related Share Option Scheme

Grant details

The Scheme operates in a number of overseas countries which are selected by reference to the numbers of eligible employees and local legal and tax requirements. It is based on a savings plan and is offered to eligible full and part-time employees. Options may be granted at up to a 20% discount to the market price of the Company's shares immediately preceding the date of invitation. The vesting period for the options is three years.

Vesting requirements

Performance requirements:

There are no performance conditions. However, a participant is required to complete the savings contract in order to exercise their options.

Service requirements:

The general rule is that the option will forfeit if the participant leaves employment, although options may be exercisable for a certain period of time in defined good leaver cases.

Scheme use

The use of the Scheme and potential future launches are reviewed on a regular basis. An invitation was offered under this Scheme in the year ended 31 March 2010 and a further invitation will be extended to employees in 2011/12.

No options were granted in the year ended 31 March 2011. The options granted during the year ended 31 March 2010 are detailed below:

	Options granted in the year ended 31 March 2010
Total number of awards granted	1,727,599
Weighted average fair value	68.70p
Exercise price	175.00p
Expected volatility	31%
Expected option life	3 years
Expected dividend yield	1.0%
Risk free interest rate	2.3%

Details of relevant options outstanding during the year are as follows:

	2011		2010	
	Number of share options	**Weighted average exercise price (p)**	Number of share options	Weighted average exercise price (p)
Outstanding at the beginning of the year	**1,687,246**	**175.00**	–	–
Granted during the year	**–**	**–**	1,727,599	175.00
Forfeited during the year	**(5,536)**	**175.00**	–	n/a
Exercised during the year	**(11,858)**	**175.00**	(112)	175.00
Lapsed during the year	**(88,532)**	**175.00**	(40,241)	175.00
Outstanding at the end of the year	**1,581,320**	**175.00**	1,687,246	175.00
Exercisable at the end of the year	**–**	**n/a**	–	n/a

The weighted average share price at the date of exercise for the options exercised is 175 pence (2010: 175 pence).

Range of exercise prices for options outstanding at the end of the year, are as follows:

	Number of share options	Weighted average exercise price (p)	Weighted average remaining contractual life (years)
2011			
175.00p	**1,581,320**	**175.00**	**1.3**
	1,581,320	**175.00**	**1.3**
2010			
175.00p	1,687,246	175.00	2.3
	1,687,246	175.00	2.3

30 Commitments and contingencies

Capital expenditure

Capital expenditure for property, plant and equipment contracted at the balance sheet date but for which no provision has been made in the accounts amounted to £2 million (2010: £3 million).

Operating leases

The Group has entered into commercial leases on certain land and buildings, motor vehicles and items of plant and equipment. Land and buildings leases are generally subject to periodic rent reviews. Some leases have renewal options. These are at the option of the Group, sometimes subject to a minimum notice period. In some cases rent escalations are set out in the lease contract. There are no material contingent rents payable. No significant restrictions are placed upon the Group by entering into these leases.

Operating lease payments

	2011 £m	2010 £m
Minimum lease payments	**38**	43
Sublease receipts	**(1)**	–
Operating lease payments	**37**	43

Operating lease commitments

Future minimum rentals payable under non-cancellable operating leases are as follows:

	Land and buildings 2011 £m	**Other 2011 £m**	**Total 2011 £m**	Land and buildings 2010 £m	Other 2010 £m	Total 2010 £m
Not later than one year	**44**	**7**	**51**	42	8	50
After one year but not more than five years	**92**	**11**	**103**	113	9	122
Later than five years	**84**	**–**	**84**	95	–	95
	220	**18**	**238**	250	17	267

The total of future minimum sublease payments expected to be received under non-cancellable subleases at 31 March 2011 is £14 million (2010: £20 million).

Obligations under finance leases

At 31 March 2011 future minimum payments due under finance leases and similar hire purchase arrangements together with the present value of the net minimum lease payments are as follows:

	Minimum lease payments 2011 £m	**Present value of minimum payments 2011 £m**	Minimum lease payments 2010 £m	Present value of minimum payments 2010 £m
Payable not later than one year	**1**	**1**	–	–
Payable after one year but not more than five years	**–**	**–**	1	1
Total gross payments	**1**	**1**	1	1
Less: finance charges allocated to future periods	**–**		–	
Present value of finance lease obligations	**1**		1	
Amount due for settlement within 12 months		**1**		–
Amount due for settlement after 12 months		**–**		1

There were no sublease arrangements in place for these assets at 31 March 2011 or 31 March 2010.

The Group leases a small proportion of its plant and equipment under finance leases, but does not currently have any significant finance lease arrangements. The average effective borrowing rate for the year ended 31 March 2011 was 4% (2010: 7%). The fair value of the Group's finance lease obligations approximates to their carrying amount.

The Group's finance lease liabilities are secured against the assets to which they relate.

Contingent liabilities
Group companies have given performance guarantees to certain subsidiaries (and certain former subsidiaries prior to disposal) in the normal course of business. Counter-indemnities have been received from purchasers in the case of guarantees given in favour of former subsidiaries. At the balance sheet date, the directors are not aware of any circumstances that may give rise to a liability to the Group under these performance guarantees.

No member of the Group is engaged in nor (so far as the directors are aware) has pending, or is threatened by, or has against it any legal or arbitration proceedings which may have a significant effect on the financial position of the Group, other than those already disclosed.

The Group had contingent liabilities in respect of bank guarantees issued under uncommitted local facilities of £219 million as at 31 March 2011 (2010: £245 million) which are outlined in Note 21.

31 Reconciliation of cash flows

	2011 £m	2010 £m
Net cash flows from operating activities	171	166
Capital expenditure included within investing activities	(93)	(70)
Interest paid	6	9
Taxation paid (operating)	30	41
Restructuring	25	46
Legacy items:		
– Pension contributions	62	60
– Other legacy payments	12	13
	74	73
Operating cash flow	**213**	265
Restructuring	(25)	(46)
Net finance costs paid	(1)	(5)
Taxation paid (operating)	(30)	(41)
Legacy items	(74)	(73)
Free cash flow	**83**	100
Operating cash flow attributable to:		
Continuing operations	213	265
	213	265

The directors consider that the best measure of the Group's cash performance is free cash flow, as calculated above.

32 Analysis of business combinations and business disposals

(i) Business combinations

Year ended 31 March 2011

On 21 April 2010, Invensys acquired 100% of the share capital of Skelta Software Private Limited (Skelta), a privately held software company headquartered in Bangalore, India, for cash consideration of £6.4 million. Skelta provides business process management (BPM) and advanced workflow software solutions. The acquisition has been accounted for using the acquisition method of accounting and the Group Financial Statements include the results of Skelta from its date of acquisition to 31 March 2011.

The fair value of the identifiable assets and liabilities of Skelta at the date of acquisition was:

	Fair value recognised on acquisition £m
Property, plant and equipment	0.2
Intangible assets – other[1]	2.9
Trade and other receivables	1.3
Cash and cash equivalents	0.6
Total assets	5.0
Trade and other payables	(0.1)
Amounts due to contract customers	(0.4)
Current tax payable and deferred income tax liability	(1.1)
Total liabilities	(1.6)
Total identifiable net assets at fair value	3.4
Goodwill arising on acquisition	3.0
Total purchase consideration transferred	6.4
Total purchase consideration transferred comprises:	
– cash payment	6.4
	6.4
Analysis of cash flows on acquisition:	
– cash paid (included in cash flows from investing activities)	(6.4)
– net cash acquired with the subsidiary (included in cash flows from investing activities)	0.6
– transaction costs of the acquisition (included in cash flows from operating activities)	(0.3)
Net cash outflow	(6.1)

1 The intangible assets acquired relate to capitalised development costs.

Trade and other receivables includes trade receivables of £0.7 million. The gross contractual amount of trade receivables is £1.2 million. £0.5 million of the trade receivables have been impaired, £0.2 million has been collected and it is expected that £0.5 million of the remaining contractual amount can be collected.

The goodwill shown above is attributed to the expected synergies and other benefits arising from combining the assets and activities of Skelta with those of the Group. None of the goodwill is expected to be deductible for tax purposes.

Costs relating to the acquisition of Skelta of £0.3 million have been expensed in the year and are included in exceptional items in the income statement.

Under the terms of the acquisition agreement, costs of up to £2.0 million will become payable to the former owners of Skelta dependent on the achievement of certain agreed performance targets subsequent to the acquisition of Skelta by the Group.

From its acquisition date of 21 April 2010, Skelta has contributed a profit of £0.1 million to the net profit before tax of the Group and revenue of £2.2 million. These amounts are included in the Group Financial Statements for the year ended 31 March 2011. Had Skelta been part of the Group for the whole of the year ended 31 March 2011, the profit and revenue of the Group for the year would not have been materially different from the amounts shown in the Group Financial Statements.

Year ended 31 March 2010

There were no acquisitions in the year.

(ii) Business disposals
No operations have been discontinued in the years to 31 March 2011 or 31 March 2010. In the year ended 31 March 2011, the Group disposed of net assets of £4 million relating to a small European business in Invensys Controls. The sale completed on 31 December 2010 for cash consideration of £5 million. The net assets sold comprised property, plant and equipment of £4 million, working capital of £1 million and pension liabilities of £1 million. The gain on disposal of £1 million is included within exceptional items in the income statement. The assets and liabilities had not been treated as held for sale and prior to their disposal, were included in the Invensys Controls operating segment. Additional costs have also been incurred in both years, in relation to prior year disposals.

	2011 £m	2010 £m
Net cash flow arising on disposal:		
– cash consideration	5	–
– cash costs of disposal	(9)	(12)
	(4)	(12)

33 Directors' loan and pension commutation

Director's loan
The following loans were made to Mr Henriksson while he was a director of the Company. Mr Henriksson left the Company on 24 March 2011.

Year ended 31 March 2010
Mr Henriksson incurs both US and UK tax liabilities in respect of his employment duties undertaken in the US. Deloitte LLP has advised that the UK tax liabilities paid by Mr Henriksson in respect of such duties should be refunded to him by HM Revenue and Customs (HMRC). However, such refund was delayed pending a determination by the US and UK tax authorities of the relevant treaty provisions. In view of the double taxation suffered, Invensys Systems Inc. advanced £546,000 on 14 April 2009 to Mr Henriksson, being an amount equal to the expected refunds due from HMRC. This loan was free of any interest and was repayable within five business days from the date of HMRC making the refund to Mr Henriksson. The refund was paid by HMRC on 28 June 2010 and Mr Henriksson subsequently repaid the loan within five business days as required.

Year ended 31 March 2011
A further loan of £312,691 was advanced to Mr Henriksson on 29 June 2010 in respect of the double taxation suffered in respect of his US employment duties in 2009/10 pending the refund of the amount by HMRC. This loan was made on the same terms as the previous loan, and will be repayable within five business days from the date of HMRC making the refund to Mr Henriksson. Mr Henriksson's repayment obligations are not affected by the termination of his employment with the Company.

Director's pension commutation
Year ended 31 March 2010
Kathleen O'Donovan left Invensys as Chief Financial Officer on 31 December 2002. Part of her pension entitlement for service at Invensys was provided through an Unfunded Unapproved Retirement Benefit Scheme (UURBS). As permitted by her termination agreement, Ms O'Donovan requested a commutation of her UURBS during the year. The Remuneration Committee agreed to pay £2.1 million commutation on a fair value basis, resulting in a reduction in the accrued IAS 19 pension liability. The cash settlement was made in March 2010, in addition, the Company bore National Insurance costs of £268,800.

34 Related party disclosures

These Financial Statements include the Financial Statements of the Group and its subsidiaries. Details of the Group's principal subsidiaries are included in the listing of Principal Subsidiaries on page 157.

Details of transactions that have been entered into with related parties for the years ended 31 March 2011 and 31 March 2010 are as follows:

(i) Remuneration of key management personnel
Key management comprises the directors. Remuneration is as follows:

	2011 £m	2010 £m
Short-term employee benefits	4	4
Post-employment benefits	–	–
Other long-term benefits	–	–
Termination benefits	1	–
Share-based payment	1	2
	6	6

Short-term employee benefits comprise salary and benefits earned during the year and bonuses awarded for the year. Post-employment benefits comprise the cost of pensions and post-retirement benefits.

Full details of individual directors' remuneration are given in the Remuneration Report.

(ii) Other related party transactions
There are no other related party transactions that have a material effect on the financial position or performance of the Group in the year (2010: none) other than the director's loan disclosed in Note 33.

35 Dividends paid and proposed

	2011 £m	2010 £m
Paid during the year		
Equity dividends on ordinary shares:		
– Interim dividend for the year ended 31 March 2011: 1.5p (2010: 1.0p)	12	8
– Final dividend for the year ended 31 March 2010: 2.0p (2009: 1.5p)	16	12
	28	20
Proposed for approval by shareholders at the AGM		
Equity dividends on ordinary shares:		
– Final dividend for the year ended 31 March 2011: 2.5p (2010: 2.0p)	20	16
	20	16

The interim dividend for the year ended 31 March 2011 was declared by the Board on 3 November 2010 and paid on 10 December 2010.

The final dividend for the year ended 31 March 2010 was approved by shareholders on 28 July 2010 and paid on 6 August 2010.

Subject to approval by shareholders at the AGM on 28 July 2011, the proposed dividend for the year ended 31 March 2011 will be paid on 5 August 2011 to shareholders on the register at 24 June 2011, and will be accounted for as an appropriation of retained earnings in the year ending 31 March 2012.

The Invensys Employee Share Trust has waived its right to the final dividend for the year ended 31 March 2011 payable on the 716,763 shares that it owns (2010: 230,380 shares). The Trust also waived its right to the interim dividend for the year ended 31 March 2011 payable on the 749,884 shares that it owned.

36 Exchange rates

	Year ended 31 March 2011 average	Year ended 31 March 2010 average	As at 31 March 2011 closing	As at 31 March 2010 closing
US dollar to £1	1.55	1.59	1.61	1.50
Euro to £1	1.17	1.13	1.14	1.11

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Independent auditor's report to the shareholders of Invensys plc

We have audited the Parent Company Financial Statements of Invensys plc for the year ended 31 March 2011 which comprise the Parent Company balance sheet and the related Notes 1 to 13. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's 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 Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor
As explained more fully in the Statement of Directors' Responsibilities set out on page 64, the directors are responsible for the preparation of the Parent Company Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Parent Company Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the Parent Company Financial Statements
An audit involves obtaining evidence about the amounts and disclosures in the Parent Company Financial Statements sufficient to give reasonable assurance that the Parent Company Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the Parent Company Financial Statements. In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on Parent Company Financial Statements
In our opinion the Parent Company Financial Statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2011;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Parent Company Financial Statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company Financial Statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter
We have reported separately on the Group Financial Statements of Invensys plc for the year ended 31 March 2011.

Richard Addison (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
18 May 2011

Notes
1 The maintenance and integrity of the Invensys plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Financial Statements since they were initially presented on the website.
2 Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Parent Company Financial Statements

Parent Company balance sheet

At 31 March	Notes	2011 £m	2010 restated £m
Fixed assets			
Investments in subsidiary undertakings	3	**3,058**	3,050
		3,058	3,050
Current assets			
Debtors: amounts falling due within one year	4	**118**	47
Debtors: amounts falling due after more than one year	4	**2**	3
		120	50
Creditors: amounts falling due within one year			
– Other creditors	5	**(710)**	(708)
		(710)	(708)
Net current liabilities		**(590)**	(658)
Total assets less current liabilities		**2,468**	2,392
Pension liability	8	**(27)**	(26)
		2,441	2,366
Capital and reserves			
Called up share capital	9	**81**	81
Treasury shares	9,10	**(2)**	(2)
Share premium account	10	**348**	348
Other non-distributable reserves	10	**1,414**	1,406
Special reserve	10	**495**	495
Profit and loss account	10	**105**	38
Shareholders' funds – equity		**2,441**	2,366

These accounts were approved by the directors on 18 May 2011 and are signed on their behalf by:

Sir Nigel Rudd
Chairman

Wayne Edmunds
Chief Executive

Parent Company accounting policies

Basis of accounting
These accounts are prepared under the historical cost convention and in accordance with applicable UK accounting standards. The policies are consistent with the previous year except for the adoption of the following amended standards and new Urgent Issues Task Force (UITF) abstract:

- Amendment to FRS 25 (IAS 32), Financial Instruments: Presentation – Puttable Financial Instruments and Obligations Arising on Liquidation
- Amendment to FRS 26 (IAS 39), Financial Instruments: Recognition and Measurement – Eligible Hedged Items
- FRS 30, Heritage Assets
- Amendment to FRS 20 (IFRS 2) Group Cash-settled Share-based Payment Transactions
- Improvements to Financial Reporting Standards 2009
- Amendment to FRS 25 (IAS 32), Financial Instruments: Presentation – Classification of Rights Issues
- UITF 48, Accounting implications of the replacement of the retail prices index with the consumer prices index for retirement benefits.

The amendment to FRS 20 (IFRS 2) Group Cash-settled Share-based Payment Transactions has resulted in the Company recognising in its separate accounts the financial effect of share options and awards over its equity shares granted to employees of subsidiary undertakings. Previously the Company recognised only those options and awards made to employees of the Company itself. For options and awards made to employees of subsidiary undertakings, the Company records an increase in its investment in subsidiaries with a credit to equity equivalent to the FRS 20 cost in subsidiary undertakings. This change in accounting has been applied retrospectively, subject to the transitional arrangements of FRS 20. The effect of the change has been to increase shareholders' funds and net assets by £33 million at 31 March 2010.

Adoption of the other amended standards and the new UITF abstract has not had any material effect on the Financial Statements of the Company.

Foreign currencies
Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All exchange differences are included in the profit and loss account for the year.

Pension costs and other post-retirement benefits
For defined benefit plans, the service cost of providing retirement benefits to employees during the year is charged to operating profit or loss in the year. The cost of providing benefits under the defined benefit schemes is determined separately for each scheme using the projected unit credit actuarial valuation method. The full cost of providing amendments to benefits in respect of past service that vests immediately is also charged to operating profit or loss in the year. The net surplus or deficit on defined benefit pension schemes is reported on the balance sheet within the pension asset or liability.

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown either as accruals or prepayments in the balance sheet.

Investments in subsidiary undertakings
Investments in subsidiary undertakings are held at cost less provisions for impairment where a permanent diminution in value has been identified.

Borrowing costs
Borrowing costs are recognised as an expense when incurred.

Debt instruments
Borrowings are stated at net proceeds received after deduction of issue costs. The issue costs of debt instruments are amortised over the life of the instrument using the effective interest rate method.

Taxation
Deferred income tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more tax, or a right to pay less tax, in the future. Timing differences arise from the inclusion of income and expenditure in taxation computations in periods different to those in which they are included in the financial statements.

Deferred income tax assets are recognised only to the extent that it is considered more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted.

Deferred income tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Share-based payment
The Company operates various equity-settled and cash-settled share schemes. For equity-settled share options, the services received from employees are measured by reference to the fair value of the share options. The fair value is calculated at grant date using a valuation model and recognised in the profit and loss account, together with a corresponding increase in shareholders' equity, on a straight-line basis over the vesting period, based on an estimate of the number of options that will eventually vest. Vesting conditions, other than market conditions, are not taken into account when estimating the fair value. Market conditions are those conditions that are linked to the share price of the Company.

For equity-settled share award schemes, the fair value is calculated based on the share price at the grant date and, where applicable, any market vesting conditions, and expensed over the vesting period based on the number of shares expected to vest. No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market or non-vesting condition; which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance or service conditions are satisfied.

The financial effect of share options and awards over its equity shares granted to employees of subsidiary undertakings are recognised by the Company in its individual financial statements. In particular, the Company records an increase in its investment in subsidiaries with a credit to equity equivalent to the FRS 20 cost in subsidiary undertakings.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognised is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

For cash-settled share awards, the services received from employees are measured at the fair value of the liability and recognised in the profit and loss account on a straight-line basis over the vesting period. The fair value of the liability is remeasured at each reporting date and at the date of settlement with changes in fair value recognised in the profit and loss account.

In accordance with the transitional arrangements in FRS 20 (IFRS 2), Share-based Payment, the requirements of FRS 20 have not been applied to equity instruments granted on or before 7 November 2002 and those vesting before 1 January 2005.

Treasury shares
Own equity instruments which are re-acquired (treasury shares) are deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Treasury shares are purchased and held by the Employee Share Trust to meet future distributions of shares to employees under the Group's various share option and share award schemes.

Dividend income
Revenue is recognised when the Company's right to receive payment is established.

Notes to the Parent Company Financial Statements

1 Profit attributable to the Parent Company
The profit dealt with in the accounts of the Parent Company, Invensys plc, is £96 million (2010: £45 million). In accordance with the exemption granted under section 408 of the Companies Act 2006, a separate profit and loss account for the Company has not been presented.

2 Fees for audit and other services
Fees paid to the Company's auditors for the audit of the Financial Statements were £0.1 million (2010: £0.1 million).

Fees paid to the Company's auditors for non-audit services to the Company itself are not disclosed in the Company Financial Statements of Invensys plc because the Group Financial Statements are required to disclose such fees on a consolidated basis.

3 Investments in subsidiary undertakings

	£m
Cost	
At 1 April 2010 as previously reported	3,020
Accounting policy change for the amendment to FRS 20	33
At 1 April 2010 restated	3,053
Cost of share-based payments in respect of employees of subsidiary undertakings	8
At 31 March 2011	**3,061**
Amounts provided	
At 1 April 2010	(3)
At 31 March 2011	**(3)**
Net book value	
At 1 April 2010 as previously reported	3,017
At 1 April 2010 restated	3,050
At 31 March 2011	**3,058**

Principal subsidiary undertakings at 31 March 2011 are disclosed on page 157.

The investment in subsidiary undertaking has been subjected to an impairment review in the context of the Company's equity worth by reference to the Group's market value. No impairment has arisen in the year.

4 Debtors

	2011 £m	2010 £m
Amounts falling due within one year:		
– Amounts owed by subsidiary undertakings	117	46
– Prepayments	1	1
	118	47
Amounts falling due after more than one year:		
– Prepayments	2	3
	2	3

5 Creditors: amounts falling due within one year

	2011 £m	2010 £m
Other creditors – amounts owed to subsidiary undertakings	**709**	707
Sundry creditors	**1**	1
Other creditors	**710**	708

6 Borrowings

(i) Bank and other loans

The Company had no outstanding bank or other loans in place at 31 March 2011 or 31 March 2010. A new local loan facility was obtained in the year ended 31 March 2011 as explained below.

(ii) Loan repayment dates, interest rates and principal terms

	Note	Maturity	Committed facilities 2011 £m	Interest rate %	2011 £m	2010 £m
Multicurrency credit facility	1	July 2013	**400**	LIBOR + 1.50%	**–**	–
Bilateral credit facility	1	July 2013	**25**	LIBOR + 1.50%	**–**	–
			425		**–**	–

1 Interest is charged at LIBOR plus 1.50% based on balance sheet leverage. This facility contains covenants in relation to financial ratios; acquisitions are permitted up to £100 million per annum in aggregate, in addition the proceeds from certain disposals may also be used for acquisitions; dividends are allowed, provided they are paid out of the previous year's free cash flow (this restriction does not apply if the Company has an investment grade rating).

As at 31 March 2011, the committed syndicated loan facility available to the Company was a £400 million multicurrency credit facility with a term of five years from July 2008. The facility is available for utilisation as loans, letters of credit or bank guarantees. The available facility at 31 March 2011 and 31 March 2010 was £400 million, of which £254 million was drawn at 31 March 2011 for the provision of bonds and guarantees (2010: £240 million).

As at 31 March 2011, the committed bilateral local loan facility available to the Company was a £25 million subordinated multicurrency credit facility with a term of two years and seven months from December 2010. The facility is available for utilisation as loans, letters of credit or bank guarantees. The available facility at 31 March 2011 was £25 million of which £nil was drawn at 31 March 2011.

(iii) Undrawn committed facilities

	2011 £m	2010 £m
Expiring in more than two years	**171**	160
	171	160

7 Financial instruments

The Company has taken advantage of the exemption under FRS 29, Financial Instruments: Disclosure, for the Parent Company Financial Statements.

8 Pensions and post-retirement benefits

(i) Pensions and post-retirement benefits

The Company operates one unfunded defined benefit pension scheme. The last full valuation of the scheme on a FRS 17 (IAS 19) basis has been updated to 31 March 2011, to reflect market conditions and material events in the plan.

The Company also participates in the UK Main Pension Scheme, which is the principal Group scheme covering the majority of UK employees. The UK Main Pension Scheme is a funded defined benefit scheme. However, the Company is unable to separately identify on a consistent and reasonable basis its share of the underlying assets and liabilities of the Group's defined benefit scheme to which it participates, mainly because of the difficulty in obtaining accurate information for disposed companies and the subjective nature of any allocation basis. Therefore the Company accounts for this scheme as a defined contribution scheme, in accordance with the provisions of FRS 17. The scheme is currently in deficit on an IAS 19 basis using the projected credit actuarial valuation method to determine the scheme's liabilities. Details of the scheme and its deficit are included in Note 25 to the Group Financial Statements in accordance with the accounting and disclosure requirements of IAS 19, which are generally equivalent to those of FRS 17.

Pension costs in respect of the UK Main Pension Scheme represented contributions payable in the year and amounted to £nil (2010: £nil). At 31 March 2011, the outstanding contributions included in creditors were £nil (2010: £nil).

(ii) Unfunded defined benefit scheme

The major assumptions relating to the unfunded scheme are:

	2011 £m	2010 £m
Major assumptions		
Rates of increase in salaries	4.95	4.95
Rate of increase to pensions in payment[1]	3.80	3.80
Discount rate for scheme liabilities	5.30	5.50
Inflation rate	3.70	3.70

1 The rate of increase for UK deferred pensions was 3.70% (2010: 3.70%).

Standard actuarial mortality tables PA92 were adopted using year of birth and medium cohort projections. The probability of death at each age was multiplied by 122% for males and 135% for females. Future improvements in life expectancy have been allowed for in line with medium cohort improvements subject to a floor of 1.00% for males and 1.25% for females.

The present value of the unfunded scheme liabilities at the balance sheet date is:

	2011 £m	2010 £m
Present value of liabilities	27	26
Pension liability	27	26

The changes in the present value of the unfunded scheme liabilities are analysed below:

	2011 £m	2010 £m
Present value of scheme liabilities at beginning of year	26	24
Current service cost[1]	–	–
Contributions	(1)	(3)
Other finance charges[2]	2	2
Settlements and curtailments	–	(1)
Actuarial loss	–	4
Present value of scheme liabilities at end of year	27	26

1 Charged to operating profit.
2 Charged to profit before tax.

History of experience adjustments

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Present value of scheme liabilities	**27**	26	24	24	25
Deficit in scheme	**27**	26	24	24	25
Experience losses on scheme liabilities	**–**	–	1	–	1

Cumulative actuarial gains and losses
The cumulative amount of actuarial gains and losses recognised since 1 April 2002 in the statement of total recognised gains and losses is a loss of £3 million (2010: £3 million).

Contributions – rates for future years
Regarding rates of contributions for future years, in respect of the UK Main Pension Scheme, contributions to the Scheme will be made at the rate of 19.8% of pensionable salaries up to the date of the next triennial valuation. Details of the annual supplemental contributions to be made to the Scheme are set out in Note 25(x) to the Group Financial Statements.

9 Called up share capital and treasury shares

Issued share capital
The issued, allotted and fully paid share capital was as follows:

	Number of shares million 2011	£m 2011	Number of shares million 2010	£m 2010
Ordinary shares of 10p each	**810**	**81**	807	81
	810	**81**	807	81

A reconciliation of the issued, allotted and fully paid share capital of the Company is as follows:

	Number of shares million	Share capital £m
At 1 April 2010	807	81
Issue of ordinary shares of 10p each	3	–
At 31 March 2011	**810**	**81**

Shares reserved for issue under share options and awards
During the year the Company issued 2,226,021 ordinary shares of 10 pence each pursuant to the exercise of options under the Invensys Savings Related Share Option Scheme (SRSOS), Invensys Overseas Savings Related Share Option Scheme (OSRSOS), Invensys 1998 Senior Executive Long Term Incentive Plan (1998 LTIP), Invensys 2007 Long Term Incentive Plan (2007 LTIP) and the 2007 CEO Special Award (2010: 6,051,095 under the SRSOS, OSRSOS, 1998 LTIP and 2007 LTIP).

On 17 June 2010, 13 September 2010, 8 December 2010 and 14 March 2011, conditional awards over a total of 5,267,195 shares were granted under the 2007 LTIP (2010: 6,956,484 under the 2007 LTIP).

There were 14,279,061 conditional awards outstanding under the 1998 LTIP and 2007 LTIP at 31 March 2011 (2010: 13,765,202). These conditional awards will be released at various dates between 2011 and 2014, subject to the satisfaction of the performance requirements and any appropriate holding period. As at 31 March 2011, outstanding shares awarded under the CEO Special Award (including shares representing accrued dividends) were 377,861 (2010: 1,608,554). These will be released as soon as practicable following a 12-month period from the first release of shares on 25 May 2010.

As at 31 March 2011, outstanding executive share options exercisable, subject to the satisfaction of the relevant performance conditions, at various dates between 2011 and 2012 and at various prices between 154.59 pence and 1,307.31 pence per ordinary share, and at a weighted average price of 532.71 pence per ordinary share, were 803,298 (2010: 1,134,026).

Outstanding options under the Company's various savings related share option schemes at 31 March 2011, exercisable between 2012 and 2013 at 175.00 pence per ordinary share, and at a weighted average price of 387.03 pence per ordinary share, were nil (2010: 18,487), and at a weighted average price of 175.00 pence per ordinary share, were 2,717,450 (2010: 2,928,317).

9 Called up share capital and treasury shares continued

Treasury shares

Treasury shares comprise shares held by the Invensys Employee Share Trust and restricted shares.

The movement in treasury shares is set out below:

	Number of shares	£m
At 1 April 2010	800,456	2
Purchase of shares	1,496,530	4
Transfer of legal title of restricted shares	(570,076)	(1)
Distribution of shares under share option and share award schemes	(1,010,147)	(3)
At 31 March 2011	**716,763**	**2**

Shares held by the Invensys Employee Share Trust

At 31 March 2011, the Invensys No. 2 Employee Benefit Trust (the Trust) held 716,763 ordinary shares of 10 pence each in Invensys plc with a market value of £2 million (2010: 230,380 ordinary shares of 10 pence each with a market value of £1 million). The Trust holds ordinary shares in the Company which may be used to deliver ordinary shares under certain executive share schemes. All the shares held by the Trust are solely for this purpose and are distributed to employees in accordance with the terms of the Company's schemes. Shares held by the Trust are accounted for as treasury shares and deducted from equity. During the year under review the Company established a Rabbi Trust in the US which is used to deliver ordinary shares of the Company in the US under certain executive share schemes. The Rabbi Trust held no ordinary shares at 31 March 2011.

Restricted shares

570,076 restricted shares with a market value of £1 million were issued on 15 March 2010 as a replacement award for the remaining shares still to be issued under the 2006 LTIP Award, RSP and DSP awards. Participants receiving the restricted shares were required to retain them until the service condition was satisfied on the vesting date of the original award in June 2010. If the service conditions were not satisfied on this date, legal ownership of the share reverted to Invensys plc. These shares were accounted for as treasury shares as at 31 March 2010. There was no equivalent arrangement in place at 31 March 2011.

10 Reserves

	Share premium account £m	Treasury shares £m	Other non-distributable reserves £m	Special reserve £m	Profit and loss £m
At 1 April 2010 as previously reported	348	(2)	1,373	495	38
Accounting policy change for the amendment to FRS 20	–	–	33	–	–
At 1 April 2010 restated	348	(2)	1,406	495	38
Share-based payment	–	–	8	–	–
Actuarial loss on pension liability	–	–	–	–	–
Purchase of own shares by Employee Share Trust	–	(4)	–	–	–
Distribution of own shares under share-based payment arrangements	–	4	–	–	(1)
Profit for the financial year	–	–	–	–	96
Dividends declared and paid	–	–	–	–	(28)
At 31 March 2011	**348**	**(2)**	**1,414**	**495**	**105**

The amount of profit and loss account reserves available for distribution is £103 million (2010: £36 million). The remaining balance is non distributable as it arose prior to the capital reduction and cancellation of reserves that became effective on 22 January 2009.

11 Commitments and contingencies

Operating leases

The Company has no operating lease obligations.

Contingent liabilities

The Company has given performance guarantees to certain subsidiaries (and certain former subsidiaries prior to disposal) in the normal course of business. Counter-indemnities have been received from purchasers in the case of guarantees given in favour of former subsidiaries.

These performance guarantees include guarantees in respect of lease obligations. As at 31 March 2011, provisions in the Group accounts included £10 million (2010: £10 million) in respect of leases guaranteed by the Company.

At the balance sheet date, the directors are not aware of any circumstances that may give rise to a liability to the Company under performance guarantees.

The Company is not engaged in nor (so far as the directors are aware) has pending, or is threatened by, or has against it any legal or arbitration proceedings which may have a significant effect on its financial position.

12 Share-based payment plans

The Company operates various share schemes under which options and awards are made to employees of the Company and employees of its subsidiary undertakings. In respect of the Company's employees, the options and awards granted and outstanding are detailed below. Details for all options and awards granted and outstanding, including those in respect of the employees of subsidiary undertakings, are contained in Note 29 to the Group Financial Statements.

Plans for senior employees

Executive share options

Invensys 1998 Senior Executive Share Option Scheme

Grant details

An executive share option scheme under which options have been granted to directors and senior executives at no cost. Options are exercisable between the third and tenth anniversary of the grant date at a price equal to the average middle market quoted price of the Company's shares over the five dealing days which precede the date of grant. Options are satisfied by the issue of new shares or in the case of awards granted as share appreciation rights, in cash.

Vesting requirements

Performance requirements:
Earnings per share (EPS) performance of RPI + 12% over a three-year period to be applied each year until the earlier of when the condition is met, or the measurement period, the last financial year of which is the year preceding that, in which the option will lapse.

No performance conditions are attached to the option granted to the former Chief Executive Mr Henriksson under a separate arrangement on 1 June 2004.

Service requirements:
The general rule is that the option will forfeit if the participant leaves employment, although options may be exercisable for a certain period of time in defined good leaver cases or with the consent of the Remuneration Committee.

Scheme use

The Company can no longer make grants under this scheme as the scheme expired in July 2008.

Details of executive share options outstanding under this scheme including the option granted to Mr Henriksson under a separate arrangement on 1 June 2004, are as follows:

	2011		2010	
	Number of share options	**Weighted average exercise price (p)**	Number of share options	Weighted average exercise price (p)
Outstanding at the beginning of the year	**592,617**	**257.33**	593,805	261.05
Transferred in during the year	**–**	**n/a**	–	n/a
Granted during the year	**–**	**n/a**	–	n/a
Forfeited during the year	**–**	**n/a**	–	n/a
Exercised during the year	**–**	**n/a**	–	n/a
Lapsed during the year	**–**	**n/a**	(1,188)	2,117.61
Outstanding at the end of the year	**592,617**	**257.33**	592,617	257.33
Exercisable at the end of the year	**592,617**	**257.33**	592,617	257.33

Range of exercise prices for options outstanding at the end of the year, are as follows:

	Number of share options	Weighted average exercise price (p)	Weighted average remaining contractual life (years)
2011			
154.59p	**535,290**	**154.59**	**1.0**
1,213.72p to 1,307.31p	**57,327**	**1,216.62**	**0.3**
	592,617	**257.33**	**0.9**
2010			
154.59p	535,290	154.59	4.2
1,213.72p to 2,311.33p	57,327	1,216.62	1.3
	592,617	257.33	3.9

12 Share-based payment plans continued

Long-term incentives

Invensys 1998 Senior Executive Long Term Incentive Plan (LTIP)

Grant details

A long-term incentive plan under which awards were granted to executive directors and senior executives at no (or nominal) cost. Depending on the country in which the participant is resident the award would be delivered using one of the following mechanisms: (a) a nominal or nil price option which is a right to acquire shares for a nominal or nil payment (unless the Company determines otherwise); (b) a conditional share award; or (c) a cash award (granted in respect of a notional number of shares). Awards are normally subject to a three year performance period, commencing on the date of award, followed by a retention period. For awards granted prior to 22 July 2005 the retention period was two years; for awards made on or after 22 July 2005, 50% of any shares vesting on satisfaction of the performance requirements were released at the end of the performance period with the other 50% being deferred for one year.

Vesting requirements

Performance requirements:

TSR test

TSR ranked against a peer group, selected at the discretion of the Remuneration Committee (with no retesting opportunities). TSR must rank at the median position (when the peer group is ranked in descending order of TSR) in order for 25% of the shares subject to the award to be available (subject to the retention period), rising to 100% of the shares if the upper decile position is achieved. Between these positions, the number of shares will be calculated on a straight-line basis. If at least median position is not achieved the whole award will lapse. The peer groups selected for the relevant awards are as follows:

- awards granted prior to 22 July 2005: the companies that comprised the FTSE Mid 250 Index on the date of grant; and
- awards granted on or after 22 July 2005: ABB, Eaton, Emerson, GE, Honeywell, Johnson Controls, Rockwell, Schlumberger, Schneider, Siemens, Smiths Group and Yokogawa.

Overall performance test

The Remuneration Committee must be satisfied that: (a) for awards granted prior to 22 July 2005 there has been a sustained delivery over the performance period, regarding the trading performance of continuing operations, disposal proceeds and reduction in Group indebtedness; (b) for awards granted on or after 22 July 2005 that two underpins have been met: (1) achievement of stretching internal free cash flow targets; and (2) efficient management of legacy liability items; and (c) for awards granted on or after 1 June 2006 that two underpin tests have been met: (1) relating to the successful completion of the 2006 Refinancing and in addition that there has been a sustained improvement in the underlying financial performance of the Group; and (2) efficient management of legacy liability items.

Service requirements:

The general rule is that the award will forfeit if the participant leaves employment, although shares may be released subject to the satisfaction of the performance conditions in defined good leaver cases or with the consent of the Remuneration Committee.

Scheme use

Awards are no longer granted under this scheme since its expiry in July 2008. Long-term incentive awards are now granted under the Invensys 2007 Long Term Incentive Plan.

Details of relevant LTIP awards outstanding during the year are as follows:

	Number of awards 2011	Number of awards 2010
Outstanding at the beginning of the year	**282,050**	3,451,424
Dividends during the year	**1,065**	4,507
Transferred out to Group companies	–	(138,899)
Forfeited during the year	–	–
Exercised during the year	**(283,115)**	(2,461,977)
Lapsed during the year	–	(573,005)
Outstanding at the end of the year	–	282,050

The weighted average share price at the date of vesting for the awards vested is 327 pence (2010: 253 pence).

The LTIP awards outstanding at the end of the prior year have a weighted average remaining contractual life of nil (2010: 0.3 years).

Invensys 2007 Senior Executive Long Term Incentive Plan (2007 LTIP)

Grant details

A long-term incentive plan under which awards are granted to executive directors and senior executives at no (or nominal) cost. Depending on the country in which the participant is resident the award would be delivered using one of the following mechanisms: for awards granted up to and including 7 March 2008 (a) a nominal price option award which is a right to acquire shares for a nominal payment (unless the Company determines otherwise); (b) a conditional share award; or (c) a cash award (granted in respect of a nominal number of shares); and for awards granted from 8 March 2008 to date (a) a nominal price option award which is a right to acquire shares for a nominal payment (unless the Company determines otherwise); or (b) a conditional share award. Awards are normally subject to a three-year performance period, commencing on the start of the financial year in which the date of the award falls. There is no retention period.

Vesting requirements

Performance requirements:
Awards are subject to two independent performance conditions. For executive directors (a) 50% of an award is based on growth in the Company's TSR relative to the constituent companies of the Standard & Poor's Global 1200 Capital Goods Index; and (b) 50% of an award is based on the compound annual growth rate in the Group's Earnings Per Share. For all other participants (a) 35% of an award is based on growth in the Company's TSR relative to the constituent companies of the Standard & Poor's Global 1200 Capital Goods Index; and (b) 35% of an award is based on the compound annual growth rate in the Group's Earnings Per Share. There are no performance conditions applying to the remaining 30% of an award. In addition, the Remuneration Committee retains discretion to ensure that, as a condition for the vesting of shares, the underlying overall performance of the Group must be satisfactory. Factors that will be taken into account will include EPS growth and the Group's cash position over the performance period.

Service requirements:
The general rule is that the award will forfeit if the participant leaves employment, although shares may be released, subject to satisfaction of the performance conditions, in defined good leaver cases or with the consent of the Remuneration Committee.

Scheme use

The 2007 LTIP is used as the Group's main share-based long-term incentive plan under which share awards are granted. The first grants under this plan were made in the year ended 31 March 2008.

Grants made during the years ended 31 March 2011 and 31 March 2010 are detailed below:

	LTIP awards granted in the year ended 31 March 2011	LTIP awards granted in the year ended 31 March 2010
Total number of awards granted	**2,271,505**	2,919,942
Weighted average fair value	**230.36p**	174.17p
Exercise price	**n/a**	n/a
Expected volatility	**46.3%**	n/a
Weighted average expected award life	**3.0 years**	3.0 years
Expected dividend yield	**1.32%**	0%
Risk free interest rate	**2.93%**	n/a

12 Share-based payment plans continued

Details of relevant 2007 LTIP awards outstanding during the year are as follows:

	Number of awards 2011	Number of awards 2010
Outstanding at the beginning of the year	**5,665,817**	3,115,441
Granted during the year	**2,271,505**	2,919,942
Dividends during the year	**13,782**	350
Transferred out to Group companies	**(159,952)**	(136,634)
Forfeited during the year	**–**	(138,081)
Exercised during the year	**(736,608)**	–
Lapsed during the year	**(495,273)**	(95,201)
Outstanding at the end of the year	**6,559,271**	5,665,817

The 2007 LTIP awards outstanding at the end of the year have a weighted average remaining contractual life of 1.4 years (2010: 1.6 years).

2007 CEO Special Award (Special Award)

Grant details

Approved by shareholders at the 2007 Annual General Meeting, the Special Award is a one-off conditional share award granted to the Chief Executive equal to 700% of his 2007/08 base salary. The Special Award was subject to a three-year performance period ending on 31 March 2010 followed by a holding period and detailed below.

Vesting requirements

Performance requirements:

The performance measures applying to the Special Award reflected those applying to the 2007 LTIP with some elements being more demanding. The Special Award was split into two layers, each of which vested on a different basis. For the first layer equal to 200% of base salary, 20% would vest for threshold performance and 100% for maximum performance. For the second layer equal to 500% of base salary, there would be no vesting for threshold performance, but 100% would vest for maximum performance. Vesting in each layer was to be on a straight-line basis between these points.

For each layer of the Special Award 50% would vest based on TSR and 50% based on EPS growth, as for the 2007 LTIP. However, for the TSR part of the Special Award, maximum vesting would require more stretching performance equivalent to upper quintile. This was calculated by the advisers to the Remuneration Committee as outperformance of the mean of the Standard & Poor's Global 1200 Capital Goods Index constituents by a factor of 1.4 (i.e. 40%). In addition, the Remuneration Committee retained discretion to ensure that as a condition for the vesting of shares, the underlying overall performance of the Company had been satisfactory. In the case of the TSR performance target, factors that would be taken into account will include EPS growth and the Company's cash position.

Result of Performance Requirements for CEO Special Award

With regard to the TSR test, the Remuneration Committee determined that 93.0% of the first layer of shares and 91.3% of the second layer of shares were available to vest. Of this total, 50% were released as soon as practicable following the announcement of the full-year results for 2009/10 and the balance will be released as soon as practicable following a 12-month period from the first release at 25 May 2010.

With regard to the EPS part of the award (50%), after considering the 2009/10 audited financial results, the Remuneration Committee determined that the threshold level of EPS CAGR required for vesting was not achieved and the shares subject to the EPS performance condition, as a result, lapsed.

Service requirements:

The general rule is that the award would be forfeited if the participant left employment, although shares may be released in defined good leaver cases or with the consent of the Remuneration Committee. The holder left the Company on 24 March 2011 and the Remuneration Committee permitted retention of the entitlement to the remaining 50% of the shares under the Special Award.

Scheme use
The Special Award is a one-off grant at no cost made during the year ended 31 March 2008.

Details of the Special Award outstanding during the year are as follows:

	Number of awards 2011	Number of awards 2010
Outstanding at the beginning of the year	**1,608,554**	1,608,554
Granted during the year	**–**	–
Dividends during the year	**12,577**	–
Exercised during the year	**(372,858)**	–
Lapsed during the year	**(870,412)**	–
Outstanding at the end of the year	**377,861**	1,608,554

The Special Award outstanding at the end of the year has a weighted average remaining contractual life of 0.2 years (2010: 0.9 years).

Invensys Restricted Share Plan (RSP)
Grant details
A restricted share plan whereby awards, to be satisfied by the transfer of existing issued shares or in cash, are granted to certain senior employees at no cost. The vesting period for awards is determined separately for each award. Vesting periods normally fall between one and three years.

Vesting requirements
Performance requirements:
Awards are not subject to specific performance conditions apart from continued employment throughout the vesting period and satisfactory personal performance.

Service requirements:
The general rule is that the award will forfeit if the participant leaves employment, although shares may be released in defined good leaver cases or with the consent of the Remuneration Committee.

Scheme use
The plan is operated predominantly for senior executives in special circumstances, such as recruitment and retention situations.

Grants made during the years ended 31 March 2011 and 31 March 2010 are detailed below:

	RSP awards granted in the year ended 31 March 2011	RSP awards granted in the year ended 31 March 2010
Total number of awards granted	**276,774**	709,919
Weighted average fair value	**284.18p**	219.60p
Weighted average exercise price	**n/a**	n/a
Expected volatility	**n/a**	n/a
Weighted average expected award life	**1.4 years**	1.4 years
Expected dividend yield	**0%**	0%
Risk free interest rate	**n/a**	n/a

Details of relevant RSP awards outstanding during the year are as follows:

	Number of awards 2011	Number of awards 2010
Outstanding at the beginning of the year	**623,804**	921,957
Granted during the year	**276,774**	709,919
Dividends during the year	**2,074**	2,148
Transferred out to Group companies	**(69,703)**	(133,822)
Forfeited during the year	**–**	(44,443)
Vested during the year	**(290,392)**	(831,955)
Outstanding at the end of the year	**542,557**	623,804

The weighted average share price at the date of vesting for the awards vested is 304 pence (2010: 261 pence).

The RSP awards outstanding at the end of the year have a weighted average remaining contractual life of 1.1 years (2010: 1.1 years).

12 Share-based payment plans continued

Turnaround Bonus Overlay Plan (TBOP)

Grant details

The Company introduced the TBOP in 2005/06 under which executives had the opportunity to receive a supplemental bonus of up to 100% of their base salary in respect of the relevant financial year to be paid in shares upon reaching specified target levels of performance. The TBOP operated in addition to the existing Executive Bonus Plan (EBP). Any bonuses earned under the TBOP (the Overlay Bonus) were payable in shares with 50% of the shares awarded being released following the first anniversary of those shares being awarded and the other 50% being released following the second anniversary. All awards made under the TBOP had been forfeited and exercised by 31 March 2010.

Vesting requirements

Performance requirements:
The amount of the Overlay Bonus (which in turn determines the level of the award) was set by reference to the performance targets specified for the executive in the EBP.

Service requirements:
Release of the shares was generally subject to continued employment at the relevant date although shares may have been released early in defined good leaver cases or with the consent of the Remuneration Committee.

Scheme use

The first grant under the TBOP was made on 1 June 2006. It was originally anticipated that the TBOP would be operated up to and including the financial year 2007/08. However, as a result of the changes made to the annual incentive arrangements for 2007/08 onwards, the TBOP ceased one year early. The final awards under the TBOP were granted in the year ended 31 March 2008 in respect of the financial year 2006/07.

No grants were made in the years ended 31 March 2011 or 31 March 2010.

Details of relevant TBOP awards outstanding during 2009/10 are as follows:

	Number of awards 2011	Number of awards 2010
Outstanding at the beginning of the year	–	221,603
Granted during the year	–	–
Transferred in from Group companies	–	–
Forfeited during the year	–	–
Exercised during the year	–	(221,603)
Lapsed during the year	–	–
Outstanding at the end of the year	–	–

The weighted average share price at the date of vesting for the awards vested in the year ended 31 March 2010 was 237 pence.

No TBOP awards remained outstanding at 31 March 2011 or 31 March 2010.

Deferred Share Plan (DSP)

Grant details

The DSP was introduced in 2007/08 to replace the TBOP. Any bonus earned under the EBP for 2007/08 in excess of target performance was paid in deferred shares, with any bonus earned up to the target performance being paid in cash. The shares would be released to the individual after three years in the case of executive directors and two years for all other participants. For 2008/09 onwards, the DSP is only used for executive directors and members of the Group Leadership Team; in all other respects the same terms apply as outlined in the previous paragraph. All awards are satisfied by shares purchased in the market.

Vesting requirements

Performance requirements:
The amount of shares granted is set by reference to the performance targets specified for the executive in the EBP.

Service requirements:
Save where a participant is dismissed for cause before the relevant release date, shares under award will be released to participants on the release date, unless the Remuneration Committee in its absolute discretion should decide on a different release date.

Scheme use

The first grant under the DSP was made on 24 July 2008 and was used for all participants in the EBP who earned bonuses in excess of target. For 2008/09 onwards, where applicable, bonus in excess of target performance is only paid in deferred shares to executive directors and members of the Group Leadership Team. Bonus payments for all other members of the EBP are paid entirely in cash.

Grants made during the years ended 31 March 2011 and 31 March 2010 are detailed below:

	DSP awards granted in the year ended 31 March 2011	DSP awards granted in the year ended 31 March 2010
Total number of awards granted	**70,003**	233,806
Exercise price	**n/a**	n/a
Expected volatility	**n/a**	n/a
Weighted average expected award life	**3.0 years**	2.7 years
Expected dividend yield	**n/a**	n/a
Risk free interest rate	**n/a**	n/a

Details of relevant DSP awards outstanding during the year are as follows:

	Number of awards 2011	Number of awards 2010
Outstanding at the beginning of the year	**417,783**	281,501
Granted during the year	**70,003**	233,806
Dividends during the year	**411**	802
Forfeited during the year	**–**	–
Exercised during the year	**(88,744)**	(86,722)
Lapsed during the year	**–**	(11,604)
Outstanding at the end of the year	**399,453**	417,783

The weighted average share price at the date of vesting for the awards vested is 309 pence (2010: 273 pence).

The DSP awards outstanding at the end of the year have a weighted average remaining contractual life of 1.4 years (2010: 2.0 years).

Measurement of fair value

Share awards

An ‘adjusted market value’ method of valuation, based on market value at grant date and market-based performance conditions has been used to calculate the fair value of all share awards granted during the year.

Share-based payment expense

The Company recognised total expenses of £nil (2010: £nil) related to equity settled share-based payment transactions during the year.

13 Deferred income tax assets

A deferred income tax asset has not been recognised on temporary differences of £28 million with a tax value of £7 million (2010: £26 million with a tax value of £7 million) in respect of pension obligations.

The Company has unrecognised income tax losses of £51 million with a tax value of £13 million (2010: £51 million with a tax value of £14 million) available for offset against future profits.

The Company has unrecognised capital losses of £50 million (2010: £50 million) that are only available for offset against future capital gains. These capital losses may be carried forward indefinitely.

The standard rate of UK corporation tax will reduce to 26% from 1 April 2011 and will continue to fall by 1% each year to 23% in 2014. The impact of the rate change to 23% would reduce the total unrecognised deferred income tax assets by £4 million.

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Financial Summary

Summary consolidated income statement

For the year ended 31 March	**2011 £m**	2010 £m	2009 £m	2008 £m	2007 £m
Revenue	**2,486**	2,243	2,284	2,108	1,999
Operating expenses before exceptional items	**(2,224)**	(1,995)	(2,040)	(1,854)	(1,783)
Operating profit before exceptional items	**262**	248	244	254	216
Exceptional items	**(21)**	(25)	(66)	62	(27)
Operating profit	**241**	223	178	316	189
Foreign exchange (losses)/gains	**–**	–	–	(21)	35
Exceptional finance costs	**–**	–	(1)	(36)	(67)
Finance costs	**(9)**	(10)	(12)	(63)	(82)
Exceptional finance income	**–**	–	27	–	–
Finance income	**4**	3	8	18	16
Other finance charges – IAS 19	**(14)**	(37)	(35)	(15)	(10)
Profit before taxation	**222**	179	165	199	81
Taxation charge	**(37)**	(26)	(23)	(30)	(20)
Profit after taxation – continuing operations	**185**	153	142	169	61
(Loss)/profit after taxation – discontinued operations	**(7)**	(2)	(9)	167	148
Profit for the year	**178**	151	133	336	209
Attributable to:					
Equity holders of the parent	**174**	147	130	334	207
Non-controlling interests	**4**	4	3	2	2
	178	151	133	336	209

Summary consolidated balance sheet

As at 31 March	**2011 £m**	2010 £m	2009 £m	2008 £m	2007 £m
Property, plant and equipment	**237**	274	305	282	314
Intangible assets – goodwill	**291**	301	306	215	206
Intangible assets – other	**160**	133	123	92	90
	688	708	734	589	610
Net trading liabilities[1]	**(59)**	(91)	(90)	(6)	(66)
Net cash/(debt)	**348**	363	286	73	(166)
Deferred taxation	**28**	15	17	6	1
Net pension liability	**(467)**	(581)	(308)	(284)	(522)
	538	414	639	378	(143)
Net assets held for sale	**11**	6	1	2	3
	549	420	640	380	(140)
Equity holders of parent	**514**	340	553	311	(200)
Non-controlling interests	**35**	80	87	69	60
	549	420	640	380	(140)

1 Includes fixed asset investments.

Summary consolidated cash flow statement

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Operating profit before exceptional items – continuing	**262**	248	244	254	216
Operating profit before exceptional items – discontinued	**–**	–	–	14	29
Operating profit before exceptional items – total Group	**262**	248	244	268	245
Depreciation	**41**	43	46	47	52
Amortisation	**26**	22	22	19	14
Purchase of property, plant and equipment	**(27)**	(34)	(32)	(37)	(46)
Expenditure on intangible assets – other	**(61)**	(36)	(24)	(21)	(26)
Sale of property, plant and equipment	**–**	1	3	1	4
Other	**45**	39	46	46	50
Pension contributions	**(36)**	(34)	(37)	(38)	(40)
Working capital movement	**(37)**	16	30	(38)	37
Operating cash flow – continuing	**213**	265	298	258	251
Operating cash flow – discontinued	**–**	–	–	(11)	39
Operating cash flow – total Group	**213**	265	298	247	290
Restructuring	**(25)**	(46)	(41)	(31)	(21)
Net finance (costs)/income	**(1)**	(5)	2	(39)	(74)
Net exceptional finance costs/(income)	**–**	–	26	(18)	(38)
Facility fees capitalised within prepayments	**–**	–	–	–	(15)
Sale of associates	**–**	–	–	–	3
Sale of financial assets	**–**	–	5	–	10
PPP settlement proceeds	**–**	–	95	–	–
Operating taxation paid	**(30)**	(41)	(34)	(33)	(20)
Legacy payments	**(74)**	(73)	(55)	(62)	(24)
Free cash flow[1]	**83**	100	296	64	111
Dividends paid to equity shareholders	**(28)**	(19)	–	–	–
Dividends paid to non-controlling interests	**(3)**	(2)	(1)	(1)	(3)
Net cash (outflow)/inflow from acquisitions, disposals, fundamental reorganisation costs and closure costs	**(52)**	(21)	(67)	264	154
Pension contributions from disposal proceeds	**–**	–	(12)	(55)	(18)
Share (purchases)/issues	**(4)**	(8)	(3)	(13)	323
Reclassification of financial assets as cash equivalents	**–**	13	–	–	–
Cash payments on swap contracts	**(9)**	–	–	–	–
Transfer of treasury bonds defeasing 144A Covenants	**–**	8	(7)	–	–
Transfer out of balances not qualifying as cash	**–**	–	(13)	–	–
Transfer of facility costs to prepayments	**–**	–	(6)	–	–
Amortisation of facility fees within debt	**–**	–	–	(11)	(25)
Currency movement	**(2)**	6	26	(9)	49
Movement in net cash	**(15)**	77	213	239	591
Opening net cash/(debt)	**363**	286	73	(166)	(757)
Closing net cash/(debt)	**348**	363	286	73	(166)

1 Free cash flow excludes pension contributions made from the proceeds on business disposals. Prior year comparatives have been changed accordingly.

Other key data

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Orders – continuing operations[1] (£m)	**2,452**	2,473	2,806	2,036	2,101
Order book (£m)	**2,204**	2,307	2,083	1,294	2,052
Operating margin[2] – continuing operations (%)	**10.5%**	11.1%	10.7%	12.0%	10.8%
Operating margin[2] – total Group (%)	**10.5%**	11.1%	10.7%	10.6%	9.5%
Net finance cost cover[3] (times)	**52.4**	35.4	61.0	5.6	3.3
Underlying earnings per share (basic)[4] – continuing operations (p)	**19.8**	13.4	14.1	17.0	12.6
Earnings per share (basic) – continuing operations (p)	**22.4**	18.5	17.4	21.1	8.2
Return on operating capital[5]	**49.9%**	48.6%	49.0%	53.3%	41.9%
Number of employees at year end – total Group	**20,664**	20,044	20,529	22,928	27,313
Share price – high (p)	**373**	349	344	428	305
Share price – low (p)	**225**	163	122	186	167
Share price – at year end (p)	**345**	341	166	225	291
Number of ordinary shares in issue at year end (million)	**810**	807	801	797	796

1 Orders and order book have not been restated to be consistent with the income statement.
2 Before exceptional items.
3 Net finance cost cover is measured as the number of times operating profit before exceptional items covers net finance cost (finance income less finance costs).
4 Before exceptional post-retirement benefits past service credit, pensions curtailment gains, PPP settlement credit and exceptional finance costs and income.
5 Return on operating capital is calculated as operating profit before exceptional items divided by capital employed excluding goodwill, net pensions deficit, non-operating provisions and net taxation liabilities.

Principal Subsidiaries

Principal subsidiary undertakings and their country of incorporation are shown below. A complete list of all subsidiary undertakings will be filed with the Company's annual return.

Holding companies

Invensys Australia Corporate Pty Ltd	Australia
Invensys Deutschland GmbH	Germany
Invensys Group Holdings Limited	England & Wales
Invensys Group Limited	England & Wales
Invensys Holdings Limited	England & Wales
Invensys Holdings France SAS	France
Invensys Iberica SAU	Spain
Invensys Inc	USA
Invensys International Holdings Limited	England & Wales
Invensys USA Finance Inc	USA

Invensys Operations Management

Eckardt SAS	France
Eurotherm Automation SAS	France
Eurotherm Inc	USA
Eurotherm Limited	England & Wales
Eurotherm Srl	Italy
Foxboro-Eckardt GmbH	Germany
Foxboro Scada Srl	Italy
IMServ Europe Limited	England & Wales
Invensys Eurotherm Sp.z o.o	Poland
Invensys India Private Limited*	India
Invensys Korea Limited	Korea
Invensys Middle East FZE	UAE
Invensys Process Systems Argentina SA	Argentina
Invensys Process Systems Japan Inc	Japan
Invensys Process Systems (Australia) Pty Limited**	Australia
Invensys Process Systems (S) Pte Limited	Singapore
Invensys Saudi Arabia Company Limited	Saudi Arabia
Invensys Systems Brasil Ltda	Brazil
Invensys Systems Canada Inc	Canada
Invensys Systems France SAS	France
Invensys Systems GmbH	Germany
Invensys Systems Inc	USA
Invensys Systems Italia SpA	Italy
Invensys Systems Kazakhstan LLP	Kazakhstan
Invensys Systems Mexico SA	Mexico
Invensys Systems NV	Netherlands
Invensys Systems (UK) Limited	England & Wales
Shanghai Foxboro Co Limited (70% owned)	China
Shanghai Invensys Process Systems Company Limited	China

Invensys Rail

Dimetronic SA	Spain
Invensys Rail Pty Limited	Australia
Invensys Rail Limited	England & Wales
Invensys Rail Corporation	USA
Westinghouse Brake and Signal Holdings Limited	England & Wales

Invensys Controls

Eberle Controls GmbH	Germany
Elektronika Slovensko a.s.	Slovak Republic
Eliwell Controls Srl	Italy
Invensys (Qingdao) Controls Company Limited	China
Invensys Appliance Controls Ltda (Brazil)	Brazil
Invensys Appliance Controls SA	France
Invensys Appliance Controls sro	Czech Republic
Invensys Controls Australia Pty Limited	Australia
Invensys Controls UK Limited	England & Wales
Invensys Controls Italy Srl	Italy
Invensys SAM	Monaco
Ranco Japan Limited (71% owned)	Japan
Robertshaw Controls Company	USA
Siebe Appliance Controls GmbH	Germany

All subsidiaries are 100% owned unless stated otherwise.

Invensys, the Invensys logo, Avantis, Dimetronic, Eberle, Eliwell, Eurotherm, Foxboro, I/A Series, IMServ, InFusion, Ranco, Robertshaw, Skelta, SimSci-Esscor, Triconex, Westinghouse, and Wonderware are trademarks of Invensys plc, its subsidiaries or affiliates. All other brands and product names may be trademarks of their respective owners.

* Company also contains Invensys Controls business.
** Company also contains Invensys Rail business.

Shareholder Information

Ordinary shares
The Company's shares are listed on the London Stock Exchange.

Registrars
For all enquiries about the registration of your shares and changes of name and address, please contact the Company's registrars: Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA
Tel: 0871 384 2036 inside the UK
Tel: +44 (0)121 415 7040 outside the UK
Calls are charged at 8 pence per minute from a BT landline. Other telephony provider costs may vary.

Electronic communications
Shareholders can also view up-to-date information about their shareholding and register to receive future electronic communications from the Company by visiting **www.shareview.co.uk** (shareholder reference number, shown on share certificates and tax vouchers, will be required).

Invensys nominee service
The Company has a nominee service under which shareholders can hold their shares electronically rather than in certificate form. Through the service, shareholders can also take advantage of streamlined dealing arrangements. Details of the service are contained in the Invensys Corporate Nominee Service brochure, which is available from Equiniti.

Shareview dealing service
Shareholders may buy or sell shares by Internet or telephone through Shareview, a share dealing service provided by Equiniti. For Internet purchases and sales, log on to **www.shareview.co.uk/dealing** and for telephone purchases and sales, call 08456 037 037 (inside the UK only) between 8.00am and 4.30pm, Monday to Friday.

American Depositary Receipts (ADRs)
The Company has a sponsored Level 1 ADR programme for which the Deutsche Bank Trust Company acts as Depositary. The Company is quoted on the premium tier of the US Over-The-Counter (OTC) market, OTCQX International Premier; more information can be obtained from **www.otcqx.com**. Each ADR represents one ordinary share of the Company. The ADRs trade under the ticker symbol IVNYY. For enquiries, beneficial ADR holders may contact the dedicated Invensys plc ADR shareholder services line on +1 800 301 3517 (toll free for US residents only).

Further information is also available at **www.adr.db.com**

Financial calendar

Financial year end 2010/11	31 March 2011
Full-year results 2010/11 announced	19 May 2011
Ex dividend date	22 June 2011
Record date for 2010/11 final dividend	24 June 2011
Closing date for DRIP Mandate Form	15 July 2011
Annual General Meeting	28 July 2011
Payment date for 2010/11 final dividend	5 August 2011
Settlement date for DRIP shares	11 August 2011
Half-year results 2011/12 announced	3 November 2011

Results announcements
Results announcements are issued to the London Stock Exchange and are released through its news services. Shortly thereafter they are made available at **www.invensys.com**

Financial reports
This Annual Report and Accounts, together with other published summary documents and copies of previous financial reports, is available at **www.invensys.com**

Annual General Meeting (AGM)
The AGM is the Company's principal forum for communication with private shareholders. Investors holding shares in the Company through a nominee service should arrange to be appointed as a corporate representative or proxy in respect of their shareholding in order to attend and vote at the meeting. The 2011 AGM will be held on Thursday, 28 July 2011 at 11.00am at The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE.

ShareGift
Shareholders with small holdings of shares who do not wish to sell such shares because the sales commission applied would be disproportionate to the sale price may consider donating them to charity. The Orr Mackintosh Foundation operates a charity share donation scheme, ShareGift.

ShareGift can be contacted at 17 Carlton House Terrace, London SW1Y 5AH or by telephone on +44 (0)20 7930 3737 or online at **www.sharegift.org**

Dividend
Subject to shareholder approval, the directors recommend a 2010/11 final dividend of 2.5 pence per share (2010: 2.0 pence per share). The total dividends for the year ended 31 March 2011 are 4.0 pence per share (2010: 3.0 pence per share).

As dividends are currently only paid in sterling, for overseas shareholders with small shareholdings it may not be economically viable for them to convert sterling payments into their local currency. Shareholders can, should they so wish, arrange for their dividends to be paid to a charity in the UK. ShareGift is a UK registered charity which takes unwanted shares and donations and uses the proceeds to make donations to a wide range of other UK registered charities.

In order to donate outstanding dividend payments to charity, shareholders need to send a signed letter of authority to Equiniti asking them to make all outstanding payments payable to ShareGift or another charity. If not ShareGift, the charity's full name and address needs to be included.

For future dividends, if shareholders wish for these to be paid direct to ShareGift, this needs to be clearly stated in their letter of authority. For all other charities, shareholders will need to include the charity's bank account details to enable the payments to be made by Equiniti via BACS.

The Company has decided to introduce a dividend reinvestment plan (DRIP) beginning with this final dividend, which will enable shareholders to reinvest their dividends directly into Invensys shares. Details of the DRIP are contained in separate documentation mailed to shareholders.

In future the Company will issue a consolidated tax voucher to those shareholders who receive dividends direct to their bank accounts. This will be issued in December of each year when the interim dividend (if any) is normally paid, unless shareholders advise the registrars in writing that they wish to receive a separate tax voucher with each dividend payment. Institutions and other companies that hold shares in the Company will continue to receive a tax voucher for each dividend payment.

Identity theft
Criminals may steal your personal information, putting your shareholding at risk. Tips on protecting your shareholding:

- Ensure all your certificates are kept in a safe place or hold your shares electronically in CREST via a nominee.
- Keep all correspondence from the registrars which shows your shareholder reference number in a safe place, or destroy correspondence by shredding.
- If you change address, inform the registrars. If you receive a letter from the registrars regarding a change of address and have not recently moved, please contact them immediately. You may be the victim of identity theft.
- If you are buying or selling shares, only deal with brokers registered in your country of residence or the UK.

Forward-looking statements
This report includes forward-looking statements, within the meaning of the US Private Securities Litigation Reform Act 1995, which are based on market projections, forecasts and expectations. Forward-looking statements are by their nature subject to uncertainties and external factors that may affect the actual outcomes compared with those anticipated.

Unsolicited mail
The Company is legally obliged to make its share register available to the general public. Consequently, some shareholders may receive unsolicited mail, including correspondence from unauthorised investment firms. If you wish to limit the amount of unsolicited mail you receive please contact: The Mailing Preference Service, DMA House, 70 Margaret Street, London W1W 8SS.

Tel: +44 (0)845 703 4599 or online at **www.mpsonline.org.uk**

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For the latest investor information and news, visit our website at **www.invensys.com**

Warning to shareholders
In recent years, many companies have become aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters which imply a connection to the company concerned. These are typically from overseas-based "brokers" who target UK shareholders, offering to sell them what often turn out to be worthless or high-risk shares in US or UK investments.

They can be very persistent and extremely persuasive, and a 2006 survey by the Financial Services Authority (FSA) reported that the average amount lost by investors is around £20,000. It is not just the novice investor who has been duped in this way: many of the victims had been successfully investing for several years. Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free reports about the Company.

If you receive any unsolicited investment advice:

- Make sure you get the correct name of the person and organisation and make a record of any other information they give you (e.g. telephone number, address, etc.).
- Check that they are properly authorised by the FSA before getting involved. You can check at **www.fsa.gov.uk/register/home.do**
- The FSA also maintains on its website a list of unauthorised overseas firms who are targeting or have targeted UK investors, and any approach from such organisations should be reported to the FSA, so that this list can be kept up-to-date and any other appropriate action can be considered.
- If you deal with an unauthorised firm, you would not be eligible to receive payment under the Financial Services Compensation Scheme. The FSA can be contacted on 0845 606 1234 or by completing an online form at **www.fsa.gov.uk/pages/doing/regulated/law/alerts/overseas.shtml**
- Inform the Company's registrars on 0871 384 2036. They are not able to investigate such incidents themselves but will record the details and pass them on to the Company and liaise with the FSA.

Details of any share dealing facilities that the Company endorses will be included in Company mailings.

More detailed information on this or similar activity can be found on the Money Advice Service website at **www.moneyadviceservice.org.uk**

Notes

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