When Experience Counts
Annual Report and Accounts 2012

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When Experience Counts
Improving efficiency while ensuring safety

"In today's changing and challenging climate, our aim continues to be to meet the needs of our customers, both in our traditional home markets and our new emerging markets. To meet this challenge, we believe that our long-standing experience in our markets and our value-added products and solutions that increase efficiency make us a global partner of choice.

"We remain committed to our strategy and a single set of standards and values, namely innovation, integrity, performance and agility. This approach applies to our people and our social and physical environment as well as our products and solutions."

Wayne Edmunds, Chief Executive

Today's world and our markets continue to change and to challenge us – our experience is key.

The presence of emerging markets continues to grow in respect of demand for energy and infrastructure. At the same time, we are seeing signs of recovery in a number of our more traditional markets, with a focus on performance improvement and capacity. Across all industries and markets however there remains a consistent theme of increasing regulatory requirements with health and safety at the forefront. Our priorities recognise the need to act responsibly and sustainably while improving efficiency, ensuring safety and reducing environmental impact.

At Invensys, we develop and apply 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

- 23 of the top 25 petroleum companies
- 48 of the top 50 chemical companies
- 18 of the top 20 pharmaceutical companies
- 35 of the top 50 nuclear power plants
- All of the top 20 mining companies
- 9 of the 20 busiest metropolitan railway systems
- All of the top 7 appliance manufacturers

We enable

- 20% of the world's electricity generation
- 17% of the world's crude oil refining
- 37% of the world's nuclear energy generation
- 64% of the world's liquefied natural gas production
- 24% of the world's chemical production

Performance Highlights

Invensys has made progress on a number of financial and operational priorities set out at the start of the year.

Financial performance[1]

- Order intake was £2,750 million (2011: £2,452 million), up 12% (13% at CER[2])
- Revenue was £2,539 million (2011: £2,486 million), up 2% (3% at CER)
- Operating profit[3] was £209 million (2011: £262 million), down 20% (20% at CER), following £60 million of additional contract costs announced in January 2012
- Underlying earnings per share[4] were 13.4p (2011: 19.8p), down 32%
- Operating cash flow was £159 million (2011: £213 million)
- Net cash for the Group at year end was £262 million (2011: £348 million)
- Recommended final dividend of 2.75p per share (2011: 2.5p per share); total dividends for the year of 4.4p per share (2011: 4.0p per share), an increase of 10%

Orders (£m)

£2,750m

Year	Orders (£m)
2012	2,750
2011	2,452
2010	2,473
2009	2,806

Order book (£m)

£2,360m

Year	Order book (£m)
2012	2,360
2011	2,204
2010	2,307
2009	2,083

Revenue (£m)

£2,539m

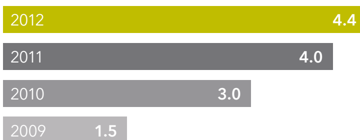
Year	Revenue (£m)
2012	2,539
2011	2,486
2010	2,243
2009	2,284

Operating profit (£m)

£209m

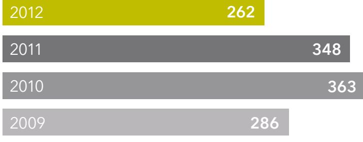
Dividend (p)

4.4p



Net cash (£m)

£262m



1 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.
2 Unless otherwise stated, % change is measured as the change at constant exchange rates (CER) as a percentage of the 2011 adjusted base and is calculated based on underlying amounts in £000s.
3 Unless otherwise stated, references to operating profit (OPBIT) are arrived at before exceptional items.
4 Calculated by reference to continuing operations before exceptional post-retirement benefits – settlement loss, past service credit and curtailment gain; and exceptional finance costs.
5 The TRCIR is the injury/illness incident frequency rate in the workplace per 100 employees per annum.

A full set of our financial KPIs is included in the Key Performance Indicators section within our Business Review on pages 18 to 19. Our non-financial KPIs are set out in the Corporate Responsibility section on pages 32 to 36.

Business and other highlights

- Strong order intake: in Invensys Rail, with major awards for rail signalling contracts in both new and core markets; and good momentum across all lines of business in Invensys Operations Management
- Good revenue growth across the Group driven by large greenfield contracts in Invensys Operations Management and new market contracts at Invensys Rail, offset by a reduction at Invensys Controls
- Sound financial position following the signing of new £600 million bank facilities and reaching final agreement on triennial review of the Invensys Pension Scheme (UK), which resulted in no change in the funding plan

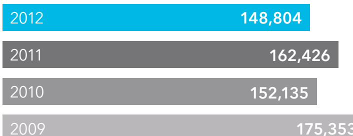
Social and environmental performance

- CO_2 emissions within our manufacturing locations reduced by 9% in the year, a reduction of 5% on a same site basis
- Energy consumption within our manufacturing locations reduced by 8% in the year, a reduction of 3% on a same site basis
- We maintained our Total Recordable Case Incident Rate (TRCIR[5]) at 0.18 this year; over the past four years, our TRCIR has fallen by 42%
- Our Learning and Development Centre of Expertise delivered over 82,000 hours of on-line training

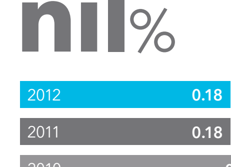
CO_2 emissions (tonnes) within our manufacturing locations

Energy consumption (MWh) within our manufacturing locations

-8%



Total Recordable Case Incident Rate



Our Divisions at a Glance
How we are structured

Invensys is a global technology group operating with three business divisions.

Invensys Operations Management

50% of Group revenue
£1,272m revenue
9,544 employees

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

For more information see page 10

Invensys Rail

31% of Group revenue
£775m revenue
3,960 employees

Invensys Rail is a multinational provider of 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

For more information see page 13

Invensys Controls

19% of Group revenue
£492m revenue
7,209 employees

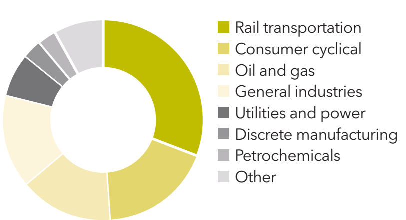
Invensys Controls is a leading global engineering and technology provider that designs, engineers and manufactures products, components, systems and services used in appliances, heating, air conditioning/cooling and refrigeration products across a wide range of industries in residential and commercial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

invensyscontrols.com

For more information see page 15

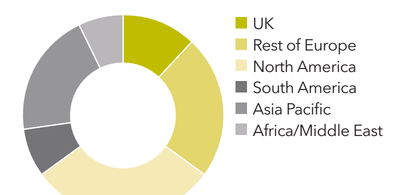
Breakdown of Group revenue and employees

Revenue by sector (%)



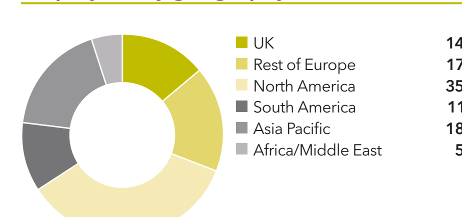
Sector	%
Rail transportation	31
Consumer cyclical	18
Oil and gas	15
General industries	15
Utilities and power	7
Discrete manufacturing	3
Petrochemicals	3
Other	8

Revenue by geography (%)



Region	%
UK	12
Rest of Europe	23
North America	30
South America	8
Asia Pacific	20
Africa/Middle East	7

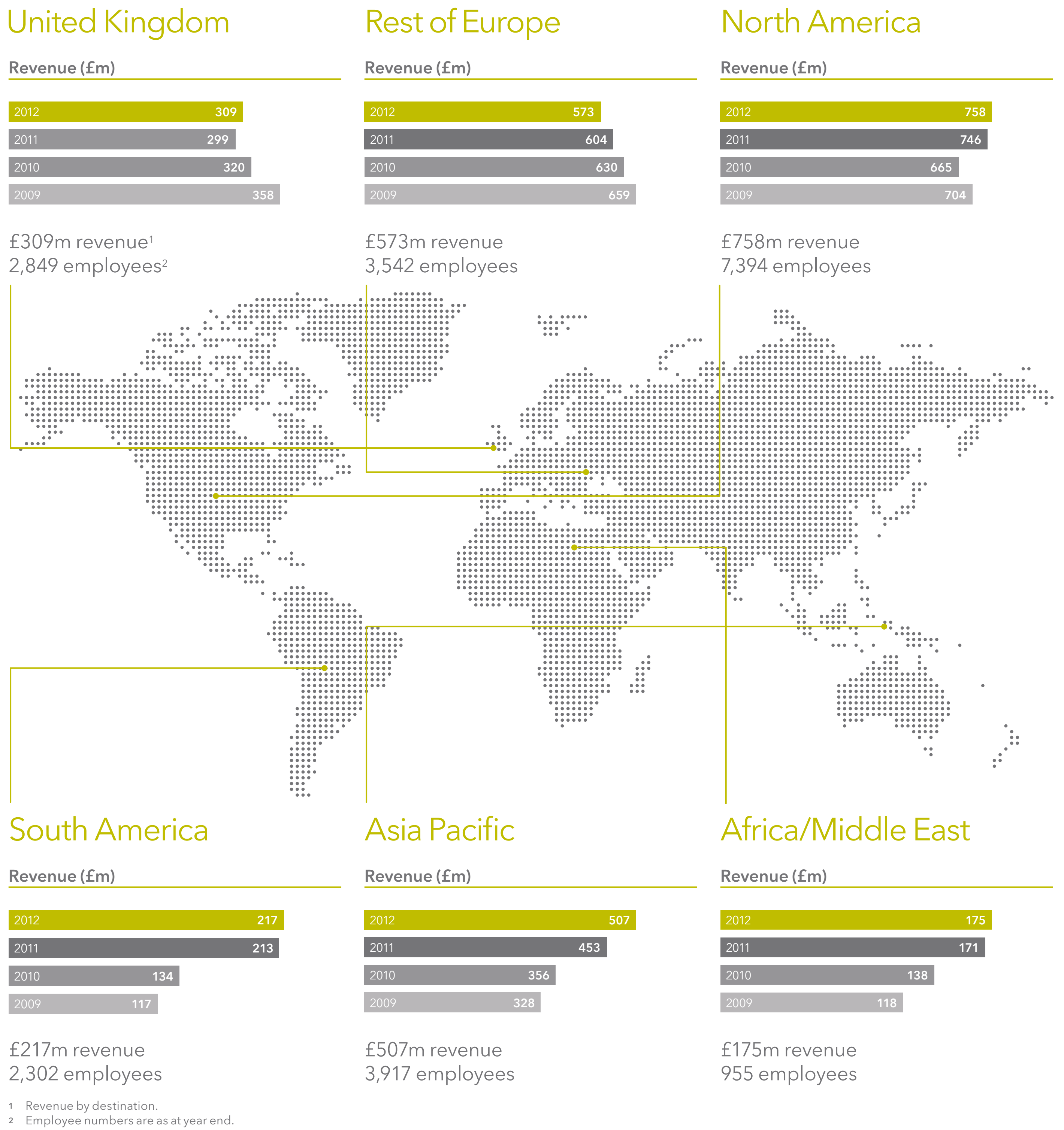
Employees by geography (%)



Region	%
UK	14
Rest of Europe	17
North America	35
South America	11
Asia Pacific	18
Africa/Middle East	5

Our Global Footprint
Operations around the world

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.



United Kingdom

Revenue (£m)

Year	Revenue
2012	309
2011	299
2010	320
2009	358

£309m revenue[1]
2,849 employees[2]

Rest of Europe

Revenue (£m)

Year	Revenue
2012	573
2011	604
2010	630
2009	659

£573m revenue
3,542 employees

North America

Revenue (£m)

Year	Revenue
2012	758
2011	746
2010	665
2009	704

£758m revenue
7,394 employees

South America

Revenue (£m)

Year	Revenue
2012	217
2011	213
2010	134
2009	117

£217m revenue
2,302 employees

Asia Pacific

Revenue (£m)

Year	Revenue
2012	507
2011	453
2010	356
2009	328

£507m revenue
3,917 employees

Africa/Middle East

Revenue (£m)

Year	Revenue
2012	175
2011	171
2010	138
2009	118

£175m revenue
955 employees

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

Chairman's Statement
A year of significant progress

"Invensys has made significant progress in a number of areas which will stand us in good stead for the future. Our divisions have each improved their market position and we have reinforced the Group's financial stability."

Sir Nigel Rudd, Chairman

Underlying EPS (p)

13.4p

Underlying EPS were 13.4p (2011: 19.8p), down 32%

Dividend (p)

4.4p

Recommended final dividend of 2.75p per share (2011: 2.5p); total dividends of 4.4p per share (2011: 4.0p), up 10%

Dear Shareholder

During the past year, Invensys has made significant progress in a number of areas which will stand us in good stead for the future. As our Chief Executive Wayne Edmunds explains in his statement on pages 8 to 9, our divisions have each improved their market position and we have reinforced the Group's financial stability with new £600 million five-year banking facilities and, as part of its triennial review, no change to the funding plan of the Invensys Pension Scheme (UK).

Wayne Edmunds has settled in well to his new role and his actions in strengthening the management team around him underlines the Board's confidence in the executive team. Whilst the additional costs on a small number of contracts have adversely affected our overall performance, these should not detract from the significant progress made in positioning our businesses for the future.

I am particularly pleased that Invensys Rail has significantly grown its order book and that Invensys Operations Management has seen excellent underlying order growth across each of its lines of business. Invensys Controls continues to perform well against the background of very difficult market conditions in its appliance segment. Also each business is ensuring that it continues to meet market needs by investing in refreshing and updating many of our core technology platforms.

Dividend and dividend policy

The Board has recommended a final dividend of 2.75 pence per share, which brings the total dividends payable in respect of the year ended 31 March 2012 to 4.4 pence per share (2011: 4.0 pence per share), an increase of 10%. Subject to approval by shareholders at the Annual General Meeting on 13 July 2012, the final dividend will be paid on 3 August 2012 to shareholders on the register at 22 June 2012. A dividend reinvestment plan (DRIP) is available for this final dividend, which will enable shareholders to reinvest their dividends directly into Invensys shares.

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. In particular, the Board has taken into account the investment required in working capital, particularly on large projects, and in research and development, the opportunities to make bolt-on acquisitions to increase our technology base and market presence, and the need to retain flexibility should an opportunity arise to reduce our pension liabilities.

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 19 May 2011, Deena Mattar was appointed to the Board as a non-executive director. She is a chartered accountant and was formerly Group Finance Director of Kier Group plc. Deena has joined the Audit Committee.

On 28 July 2011, David Thomas was appointed to the Board as Chief Financial Officer. He had been Acting Chief Financial Officer of the Group since 24 March 2011. David joined Invensys in 2002 as Group Controller, having previously been a senior partner in Ernst & Young LLP specialising in long-term industrial contracting businesses and has held a number of senior roles at Invensys including CFO and CEO roles within the divisions. He is a member of the Auditing Practices Board.

On 29 November 2011, Victoria Hull was appointed to the Board as an executive director. She is the Group's Chief Legal Officer with responsibility for the management of legal, compliance and commercial risk across the Group. She joined Invensys in 2001, since when she has been an integral member of the Group's senior management team.

The Board recognises the importance and benefits of diversity and will continue to take this into account in our recruitment process whilst ensuring that candidates are selected on merit and ensuring there is an appropriate range and balance of skills, experience and background on the Board.

Outlook

Invensys Operations Management markets remain buoyant and we expect our software and equipment lines of business to continue to perform well. Our systems business will benefit from its strong order book but growth in its operating margins will be moderated by the effects of the lower margin greenfield projects.

Invensys Rail had a very successful year in winning major projects in its core and new markets and these orders will increasingly benefit revenue in the year as we begin to mobilise our project teams. Operating margins are expected to remain within our medium-term target range but are expected to be around 15% for next year because we intend to take a more conservative view of profit recognition in the early stages of some of the large contracts in new markets.

Invensys Controls' major appliance customers are expecting a year of more stable demand, particularly in North America and Europe, and we expect continued success in commercial and wholesale.

Overall we are looking forward to a year of improving performances across our businesses.

Sir Nigel Rudd
Chairman

Chief Executive's Statement
Positioning our businesses for the future

"We have three strong businesses with leading positions in industries with structural growth drivers and it is our clear focus to ensure that we capture the opportunities available to us to build shareholder value."

Wayne Edmunds, Chief Executive

Orders (£m)

£2,750m

Orders were £2,750 million (2011: £2,452 million), up 12% (up 13% at CER)

Operating profit (£m)

£209m

Operating profit was £209 million (2011: £262 million), down 20% (down 20% at CER)

During the year, we made good progress with some significant achievements that position us well for the future. In particular, we reorganised into lines of business within the divisions to increase focus on our industry-leading technologies and we are investing in enhancing many of our core technology platforms. We also grew the Invensys Rail order book significantly and agreed the triennial review of the Invensys Pension Scheme (UK) with no change to the funding plan.

During the year, we made some significant achievements positioning us well for the future:

- Invensys Rail grew its order book significantly with major contract wins in both core and new markets.
- Invensys Operations Management achieved strong order momentum across each line of business without the benefit of any new large greenfield contract awards during the year.
- Invensys Controls did well in coping with much weaker than expected trading conditions in the appliance market in North America and Europe.
- We refocused our divisions on their lines of business to bring additional emphasis upon our leading brands and technologies.
- We have strengthened our management teams with several new appointments across the divisions.
- We are making significant investments in enhancing a number of our core technology platforms across the divisions.
- We agreed the 31 March 2011 triennial review with the Trustees of the Invensys Pension Scheme (UK) which resulted in no change to the funding plan.
- We refinanced and increased our banking facilities to ensure we have the funding capacity to underpin our financial position and support our future growth.

However it is disappointing that our profitability was reduced by £60 million of additional costs arising from our nuclear projects in China within Invensys Operations Management and a handful of contracts within Invensys Rail's Asia Pacific region. Since the announcement in January 2012, we have responded by strengthening our procedures and management teams in a number of areas.

We have three strong businesses with leading positions in industries with structural growth drivers and it is our clear focus to ensure that we capture the opportunities available to us to build shareholder value.

Our strategy

The world is changing at great speed with rapidly developing economies (RDEs) likely to overtake the developed world in terms of share of global GDP over the next decade or so. Although the core of our overall strategy remains unchanged, we need to ensure that we continue to extend our success in RDEs as they become our largest customer base.

Our core attributes support our strategy

Across our businesses we have a number of core attributes that position us well as the global economy develops, with the result that we should grow faster than the competition:

- We have distinctive technologies including software and western standard safety systems which are attractive to RDE customers. We are also adapting a number of our offerings to meet many RDE needs for scalable and adaptable products with features tailored to their markets, whilst maintaining effectiveness and safety.
- We have a large installed base with exceptional customer relationships across both the developed world and RDEs.
- As we have responded to the project issues in the year, we have strengthened our global delivery skills, in particular for large systems integration projects.
- We have proven our ability to be effective at business development, teaming and partnering to provide comprehensive market access, as evidenced in particular by our major contract wins in Invensys Rail.
- We have a strong balance sheet which provides us with flexibility in managing and financing our businesses and paying dividends to shareholders.

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 prospects 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 also has long-term structural growth prospects 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 are expected to grow due to a recovery in Europe and North America and consumer aspirations in the developing world.

In particular, RDEs including China and India are increasingly 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.

Performance highlights

Although many of the Group's businesses performed strongly with order growth in Invensys Operations Management and Invensys Rail providing visibility into next year, additional costs on a small number of contracts resulted in a reduction in profits compared to last year.

Invensys Operations Management had another year of strong order intake across each line of business despite the absence of any large greenfield project awards in the year. The underlying rate of order increase was 11% at CER with orders in systems up 7%, software up a record 20% and equipment up 11%. Revenue growth was also strong mainly due to the ramp-up of activity on many of the recently won large greenfield projects. However operating profit and margins were affected by the previously announced £40 million additional costs on our nuclear projects in China.

Invensys Rail reported a near record order intake with the award of several large contracts in new markets. Revenue was broadly flat with good growth in the UK and North America offset by an anticipated reduction in Spain and delays in mobilisation on some of the large new market contracts. Despite the previously announced £20 million additional costs, operating margin was 15.0%.

Invensys Controls had to cope with an appliance market that was much weaker than had been expected at the start of the year, resulting in a decline in revenue and profit. However its wholesale and commercial lines of business held up much better to offset some of the declines in appliance.

At the corporate centre, we have eliminated several previously group-wide functions and returned some responsibilities to the divisions, which has resulted in central costs being reduced by 17% at CER to £38 million (2011: £46 million).

Wayne Edmunds

Wayne Edmunds
Chief Executive

Our Business Model – Invensys Operations Management

Our specialty is in providing systems that help our customers operate their industrial plants and optimise their performance

50% of Group revenue

iom.invensys.com

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.

Our customers are principally large, global industrial companies with complex processes and activities. We have a large installed base: our solutions are used by more than 40,000 customers in over 200,000 plants and facilities around the world.

What products and solutions do we provide?

We operate in three lines of business: systems, software and equipment, which are outlined below. Across all three of our lines of business, we have an integrated offering, which we refer to as our enterprise control offerings.

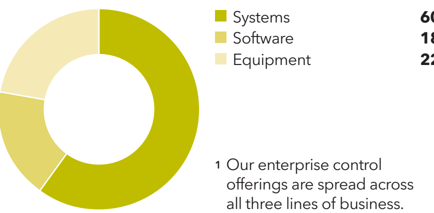
Line of business	Overview	Examples of our core brands
1. Systems[1]	Integrated solutions providing control and safety equipment and services	Foxboro® Triconex®
2. Software[2]	Software-based applications to improve and optimise customers' performance	Wonderware® SimSci-Esscor® Avantis®
3. Equipment	Measurement and instrumentation products	Foxboro Eurotherm®

1 Formerly called control and safety.
2 Formerly called advanced applications.

Our customers include

Amcor PET
AngloGold Ashanti Limited
Aracruz Celulose Pulp Mill
Arkema Group
Ash Grove Cement
Assmang Limited
Baltika Breweries
Bayer CropScience
Beam Global Spirits & Wine
Bermuda Electric Light Company Limited
Bodycote Hot Isostatic Pressing Plant
Boots UK Limited
BP
Brunei LNG Sendirian Berhad
Castle Peak Power
CF Industries
Chevron
Chevron Oronite Company LLC
China Huaneng Group
China Ministry of Railways
CM European Power Slovakia s.r.o.
Codelco
ConocoPhillips
Daelim Industrial Co. Ltd.
Daifuku Co., Ltd.
Datang Power
Delta BioFuels
DiGeronimo Aggregates
Dong Fang Electric Corporation
Duke Power
Eastman Chemical
Echelon Corporation
Eskom Lethabo Power Station
ExxonMobil
Gazprom
GenOn
Global Water Management, LLC
Great Lakes
GS Engineering & Construction Corporation
Hanover Compressor Company
Hendrick Motorsports
Hydro Aluminum
Infineum
JGC
Luminant
Meteng Pty Ltd.
Mount Packaging Systems
Nanjing Rail

Revenue by line of business[1] (%)



1 Our enterprise control offerings are spread across all three lines of business.

1. Systems

- 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 return it 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.

2. Software

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

3. Equipment

- We sell 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 offerings

- Our InFusion™ enterprise control offering based on our world-leading Wonderware operations management software, leverages an open architecture to seamlessly integrate the Invensys Operations Management portfolio, as well as new and legacy third-party offerings. 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.
- Our enterprise control offerings recognise that profit management continues to be increasingly challenging with different needs and priorities of various user groups within a plant or site – for example, priorities such as improving asset effectiveness, maximising production or looking to achieve visibility across the enterprise. Our customers have a growing need to manage their operations holistically and in real time. Combining all our technologies into a single offering addresses these dynamics and enables the linking of strategy with execution in ways that lead to an improvement in business performance.

Nefte Chim Service – YaYa Oil Refinery
New Belgium Brewing Company
NRG Huntley Power Station
Nucor Steel
Ontario Clean Water Agency
Ontario PG Nanticoke
Orley Foods
Pavan Group
PEMEX
Pepsi Bottling Ventures of Idaho
Petrobras
Petron Corporation
Phillips 66
Puerto Rico Water & Sewage Authority
PVC Compounders LLC
Qatar Petroleum
Qatargas
Rabigh Refining and Petrochemical Company (Petro Rabigh)
RasGas
Reliance Industries Ltd.
Salt River Project
Sanofi Pasteur
Sasol
Shanghai Electrical Power Generation Group
Shell
Southern Nevada Water System
Spokane Water Department
SSE
Tecnimont S.p.A.
The Go Ahead Group
The South African Breweries Limited
The Venetian and Palazzo Resort Hotels & Casino
TOTAL
Tucson Electric Power Company
Valero Energy Corporation
Westshore Terminals
Wuxi Transportation Tunnel System
Yellow River Conservancy Commission
9REN

Our Business Model – Invensys Operations Management continued

How do we generate revenue?

Our revenue can be broken down as follows: 60% systems; 18% software; and 22% equipment. Our portfolio covers the majority of vertical markets from the more discrete and batch processing industries (e.g. biotechnology, mining, pharmaceutical) to the more complex heavy process industries (e.g. refining, chemicals, oil and gas). During the year, 6% of the division's revenue was from our nuclear vertical, which forms part of our systems category.

Our large installed base provides a platform for us to generate sales from brownfield contracts. Our traditional markets have been affected by the difficult economic climate but, in recent years, we have been particularly successful in winning large greenfield contracts in the oil and gas, petrochemicals and power industries. Large contracts are defined by us as in excess of £10 million.

During the year, 15% of the division's revenue was from large contracts (2011: 16%).

Our route to market varies by product:

- The majority of our systems sales are direct;
- Equipment sales are primarily indirect through distributors;
- Our software sales are largely indirect through distributors and via systems integrators; sales of our advanced software applications are direct.

What is our strategy?

The key elements of our strategy are to continue to support our existing customers, to expand our customer base, to broaden our geographic profile and to ensure the highest standards of project execution.

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 software applications, equipment and enterprise control offerings.

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 control and safety systems, as well as up-sale opportunities to provide advanced software applications and enterprise control solutions.

Commitment to project execution
We are investing in the best people with long-standing and proven domain knowledge to manage rigorously our project execution processes. This will be managed within our recently established strong line of business organisation.

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 79% 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 through the software business.

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. This will enable us to build and consolidate a base for future brownfield and software growth within our core verticals.

As at 31 March 2012, 55% of our order book was to emerging markets (2011: 60%).

Leading technology
The development of world-class technology remains core to our strategy. We will invest in relevant areas across our portfolio to defend our core business and to increase our future differentiation – with an emphasis on reducing our customers' initial and lifecycle cost of ownership. Our network of technology and distribution partners increases our ability to develop and deliver value-adding technology to our customers.

During the year, we invested 5% of revenue on research and development (2011: 6%) in areas including enhancements to our DCS and safety platforms, advanced applications and our enterprise control offerings.

Acquisitions
We will continue to make bolt-on acquisitions to deliver unique technologies that increase the breadth of our offerings.

Our Business Model – Invensys Rail

Our focus is on safety-critical and efficient software-based signalling, communication and control systems for the rail industry

31% of Group revenue

invensysrail.com

Invensys Rail is a multinational provider of 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 varying 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, Saudi Arabia, Malaysia, China, India, New Zealand and Turkey. Our technology is now in use by over 120 rail and mass transit operators in over 30 countries, including nine of the world's 20 busiest metropolitan railway systems.

What products and solutions do we provide?

We operate in three sectors: mainline, mass transit and products, offering a broad range of systems and solutions across all three. Some of our main product offerings are as follows:

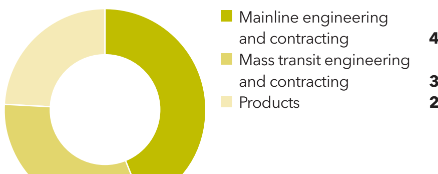
Product category	Overview
European Rail Traffic Management System (ERTMS)	Leading-edge systems that automate train operation and protection for the mainline market
Communication Based Train Control (CBTC)	Leading-edge systems that automate train operation and protection for the mass transit market
Interlockings	Signalling apparatus that ensure safe running across a network – both mainline and mass transit
Control centres	Highly complex, integrated control centres that supervise and control mainline and mass transit systems
Products	Complete range of trackside products, including crossings, point machines, relays and track circuits

Our customers include

ADIF
Brookfield Rail
CN
KiwiRail
Land Transport Authority
London Underground
Madrid Metro
MTR Corporation
Network Rail
Norfolk Southern Corp.
QR National
Queensland Rail
RENFE

Our Business Model – Invensys Rail continued

Revenue by sector (%)



Our core strengths lie in the breadth and sophistication of our technology, our domain knowledge and our reputation for commissioning and delivering projects – on time and to the right quality – for our customers and partners.

How do we generate revenue?

Invensys Rail's revenue can be broken down as follows: 44% mainline engineering and contracting; 32% mass transit engineering and contracting; and 24% products. During the year, 54% of the division's revenue was generated from contracts in excess of £10 million.

Rail signalling and control is a specialist market within the rail industry 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.

We have a flexible go-to-market approach, depending on what is appropriate for a particular market or specific contract. Contracts are bid directly with customers, through consortia or alliances, or via a subcontract.

What is our strategy?

We have 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 continue to expand geographically and build sustainable businesses in new home markets. To support this strategy, we will expand our partnership capability and make select bolt-on acquisitions.

Expand geographically
Our four traditional core markets of the UK, Iberia, North America and Australia account for 77% of the division's revenue; this compares with 78% in 2011.

Developing countries continue to accelerate rail investment and over the coming years we expect to increase significantly the contribution from other, faster-growing markets.

A key part of our strategy is to establish new home markets where we have the necessary domain knowledge, local presence and infrastructure to meet our customers' needs.

64% of our order book at 31 March 2012 related to projects outside our traditional core markets (2011: 44%).

Technology development
The majority of our markets have adopted a standards-based approach to technology in the rail industry, with ERTMS and CBTC becoming recognised as global standards.

With signalling and rail control having an increasing role in meeting the growing demands for rail as a result of 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 and commercial 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. To address this challenge, we will invest in creating the required technical solutions to provide new products, and to deliver smaller, smarter and faster solutions.

We invested 6% of the division's revenue on research and development during the year (2011: 7%).

Commitment to project execution
We adopt a best-in-class commercial contract management and project management operating model to ensure we satisfy our customers' needs for on-time commissioning.

Expansion of partnering capability
With the consortia business model becoming more prevalent in the industry, we will expand our partnerships and continue to build influential relationships, including local partners and global players within relevant areas such as civil engineering, rolling stock and system integrators.

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 continue to make bolt-on acquisitions that deliver unique technologies and/or improved market access.

Our Business Model – Invensys Controls

Our focus is on value-engineered components and devices used in appliances, heating, air conditioning and refrigeration for residential and commercial markets

19% of Group revenue

invensyscontrols.com

Invensys Controls is a leading global engineering and technology provider that 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.

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, ventilation, air conditioning and refrigeration (HVACR) controls and services.

What products and solutions do we provide?

We operate in three lines of business: appliance, commercial and wholesale, within which we offer a broad range of products as follows:

Line of business	Overview
1. Appliance	Design, engineering and manufacture of components and systems that control the operation of appliances, including cooking, refrigeration, laundry and dishwashing, in both the residential and commercial sectors
2. Wholesale	A vast array of commercial and residential products and replacement products for original equipment manufacturers (OEMs), encompassing thermostats, valves, sensors, zone controls and timers
3. Commercial	Business solutions that leverage controls used in commercial refrigeration, cooking, heating, ventilation, air conditioning, water heating and transportation

Our customers include

Alladio
Amica
Arcelik
Asko
Atlant
Baker Distributing
Berker
British Gas Services Limited
Candy
Criotec
Crosslee
Dufrio
Eliwell Iberica
Esmaltec
Fagor Appliances
Fisher & Paykel
Frigelar
Gefest
Gira
GIS Calorex
Gorenje
H&V Controls
Haceb
Haier
Hydralectric
Indurama
ITW Food Equipment
Johnstone Supply
Merten
Metalfrio
Royal Range
Samsung
Sub-Zero Wolf
Travis Perkins
Viking Range
Watkins Spa
Whirlpool Corporation
Wilbur Curtis
Worcester Bosch Group

Our Business Model – Invensys Controls continued

Revenue by line of business (%)

1. Appliance

- We help our customers 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.
- Our global product technology platforms, including Hydra™ water control valves and Aegis™ gas delivery systems, are industry-leading patented innovations with the highest standards for quality and performance.

2. Wholesale

- Our wholesale line of business sells the Invensys Controls global portfolio of well-recognised products and brands, including Eliwell®, Ranco®, Drayton®, Robertshaw® and Eberle® to wholesalers and installers and has a track record for quality, reliability and technical excellence.
- Our technical support, customer focus and partnering approach are regarded as industry-leading, by installers, specifiers and wholesalers alike who depend upon us to perform their job in the most effective way.

3. Commercial

- We are a leading designer and manufacturer of environmentally-optimised products that use the latest in electronic and electromechanical controls to regulate temperature, pressure and humidity in residential and light commercial applications.
- We bundle our strong product portfolio with our remote data management and control capabilities. This allows us to deliver flexible and open systems to our customers that meet or exceed their requirements for productivity, safety and energy savings.

How do we generate revenue?

Our revenue can be broken down as follows: 59% appliance; 24% wholesale; and 17% commercial. We generate revenue 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 key element 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.

We will focus on delivering growth in our high-margin commercial and wholesale businesses while protecting our core appliance business.

Our successful restructuring and productivity programme has enabled us to price competitively by increasing our efficiency and lowering cost. Continuous improvement remains at the heart of our strategy.

Support existing customers
Our 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 and leverage our commercial portfolio globally by transferring proven products, technology, applications and customer relationships.

Broaden addressable market
We plan to expand our addressable market by continuing to provide a cutting-edge product range and working closely with our customers. We will increase our investment and focus on our high growth higher-margin commercial and wholesale segments, while also continuing to invest in our appliance segment.

During the year, approximately 13% of the division's revenue was derived from new product introductions (2011: 10%).

Business Review

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Invensys Operations Management
Systems to help customers operate and optimise their industrial plants; featuring heavily in our portfolio are complex, heavy process industries, such as oil refining in the Middle East.

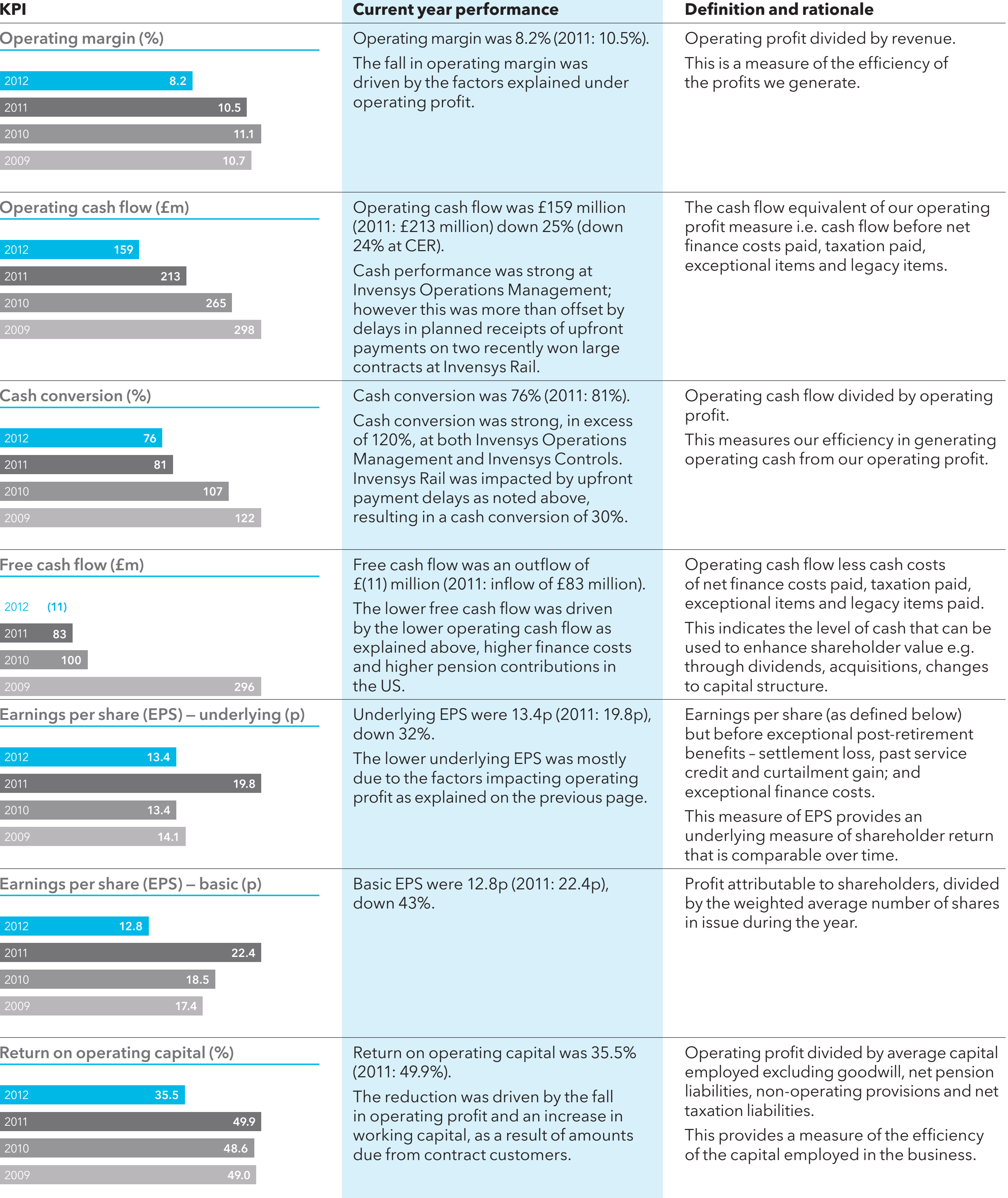
Key Performance Indicators
Tracking and driving performance

Our directors and Group management use a range of financial key performance indicators (KPIs), reported on a periodic basis, to track and drive performance. These focus on driving future growth, measuring our current year performance, profitability and efficiency and value to shareholders. These KPIs are set out below and more information is set out in the Financial Review on pages 26 to 30.

We also monitor our performance in non-financial areas. A detailed explanation of our non-financial KPIs is set out in the Corporate Responsibility section on pages 32 to 36.

KPI	Current year performance	Definition and rationale
Orders (£m) 2012: 2,750 2011: 2,452 2010: 2,473 2009: 2,806	Order intake was £2,750 million (2011: £2,452 million), up 12% (up 13% at constant exchange rates (CER)). The increase was driven by a near record level of orders won by Invensys Rail of almost £1 billion, resulting in a Group book to bill[1] of 1.08.	The value of orders received from binding contractual agreements with customers in the year. This excludes Invensys Rail framework agreements. This also excludes blanket orders (e.g. from OEMs) unless there is a firm commitment for delivery within a maximum of three months. This is a measure of current year performance and supports future years' revenue performance.
Order book (£m) 2012: 2,360 2011: 2,204 2010: 2,307 2009: 2,083	The order book at 31 March 2012 was £2,360 million (2011: £2,204 million), up 7% (up 10% at CER). The order book achieved was driven by the strength of the order book at Invensys Rail. 48% of the Group's order book is in emerging markets.	The cumulative value of orders received (less revenue taken to date) that we expect to convert into future revenues. This gives us visibility into future revenue performance and provides a measure of our business development activities.
Revenue (£m) 2012: 2,539 2011: 2,486 2010: 2,243 2009: 2,284	Revenue was £2,539 million (2011: £2,486 million), up 2% (up 3% at CER). Revenue at Invensys Operations Management grew by 12% at CER with strong growth in the oil and gas sector and general industries. This was largely offset however by volume reductions at Invensys Controls of 13% at CER, mostly due to weakness in its appliance markets. Revenue at Invensys Rail remained consistent with the prior year.	The invoiced value of goods and services, excluding intra-group transactions and sales taxes. For long-term contracts, revenue represents the value of work performed during the year determined by reference to the stage of completion of the contract. This is a measure of current year performance.
Operating profit (£m) 2012: 209 2011: 262 2010: 248 2009: 244	Operating profit was £209 million (2011: £262 million), down 20% (down 20% at CER). The reduction in operating profit, compared to an overall increase in revenue, was driven by the need to recognise additional costs on a small number of contracts in Invensys Operations Management and Invensys Rail, as announced in the Q3 Interim Management Statement. Invensys Controls' operating profit also fell against the prior year following volume reductions in its appliance business.	Profit before taxation, net finance costs and exceptional items. This gives us an underlying measure of business profitability that is comparable over time.

1 Book to bill is defined as the ratio of orders received to revenue.



KPI	Current year performance	Definition and rationale
Operating margin (%) 2012: 8.2 2011: 10.5 2010: 11.1 2009: 10.7	Operating margin was 8.2% (2011: 10.5%). The fall in operating margin was driven by the factors explained under operating profit.	Operating profit divided by revenue. This is a measure of the efficiency of the profits we generate.
Operating cash flow (£m) 2012: 159 2011: 213 2010: 265 2009: 298	Operating cash flow was £159 million (2011: £213 million) down 25% (down 24% at CER). Cash performance was strong at Invensys Operations Management; however this was more than offset by delays in planned receipts of upfront payments on two recently won large contracts at Invensys Rail.	The cash flow equivalent of our operating profit measure i.e. cash flow before net finance costs paid, taxation paid, exceptional items and legacy items.
Cash conversion (%) 2012: 76 2011: 81 2010: 107 2009: 122	Cash conversion was 76% (2011: 81%). Cash conversion was strong, in excess of 120%, at both Invensys Operations Management and Invensys Controls. Invensys Rail was impacted by upfront payment delays as noted above, resulting in a cash conversion of 30%.	Operating cash flow divided by operating profit. This measures our efficiency in generating operating cash from our operating profit.
Free cash flow (£m) 2012: (11) 2011: 83 2010: 100 2009: 296	Free cash flow was an outflow of £(11) million (2011: inflow of £83 million). The lower free cash flow was driven by the lower operating cash flow as explained above, higher finance costs and higher pension contributions in the US.	Operating cash flow less cash costs of net finance costs paid, taxation paid, exceptional items and legacy items paid. This indicates the level of cash that can be used to enhance shareholder value e.g. through dividends, acquisitions, changes to capital structure.
Earnings per share (EPS) – underlying (p) 2012: 13.4 2011: 19.8 2010: 13.4 2009: 14.1	Underlying EPS were 13.4p (2011: 19.8p), down 32%. The lower underlying EPS was mostly due to the factors impacting operating profit as explained on the previous page.	Earnings per share (as defined below) but before exceptional post-retirement benefits – settlement loss, past service credit and curtailment gain; and exceptional finance costs. This measure of EPS provides an underlying measure of shareholder return that is comparable over time.
Earnings per share (EPS) – basic (p) 2012: 12.8 2011: 22.4 2010: 18.5 2009: 17.4	Basic EPS were 12.8p (2011: 22.4p), down 43%.	Profit attributable to shareholders, divided by the weighted average number of shares in issue during the year.
Return on operating capital (%) 2012: 35.5 2011: 49.9 2010: 48.6 2009: 49.0	Return on operating capital was 35.5% (2011: 49.9%). The reduction was driven by the fall in operating profit and an increase in working capital, as a result of amounts due from contract customers.	Operating profit divided by average capital employed excluding goodwill, net pension liabilities, non-operating provisions and net taxation liabilities. This provides a measure of the efficiency of the capital employed in the business.

Invensys Operations Management

Continuing good growth across all lines of business

Year ended 31 March	2012	2011	% change at CER[1]	% total change
Orders (£m)	**1,266**	1,340	(4)	(6)
Order book (£m)	**1,088**	1,124	(2)	(3)
Revenue (£m)	**1,272**	1,147	12	11
Operating profit[2] (£m)	**96**	123	(21)	(22)
Operating margin[2] (%)	**7.5%**	10.7%		
Operating cash flow (£m)	**123**	110	14	12
Operating cash conversion (%)	**128%**	89%		
Employees at year end (numbers)	**9,544**	8,897		7

1 % change is measured as the change at CER as a percentage of the 2011 adjusted base and is calculated on underlying amounts in £000s.
2 All references to operating profit and operating margin are arrived at before exceptional items, unless otherwise stated.

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.

Markets

The strength shown by Invensys Operations Management's markets in 2011 continued across all regions and business segments.

The rapidly developing economies of the Middle East, Asia and South America continue to expand greenfield capacity in the power, upstream and downstream oil and gas and petrochemical sectors to meet consumer and export demands. In North America and Europe, growth was good across all of our markets due to increased investment in ageing assets, transfer of knowledge and replacement of assets.

Across our lines of business, systems continued to grow based on services and upgrades of ageing assets in the developed world and good prospects for larger projects with some schemes, previously deferred, being reactivated. Software is seeing excellent recovery in areas such as optimisation, Human Machine Interface (HMI) and Manufacturing Execution Systems (MES). The equipment business is still seeing good growth driven by continuing investment in the energy sector, particularly in upstream oil and gas in North America.

Looking forward, although macroeconomic conditions remain uncertain, we believe that the demands for new capacity in emerging markets and the need to improve the efficiency of brownfield operations in the developed world will continue to drive growth in this division.

Developments

Leadership and focus

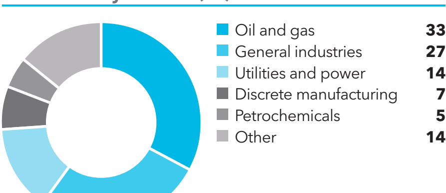
Michael J (Mike) Caliel joined the division as President and CEO with effect from 1 January 2012. Mike was previously with Invensys from 1993 to 2006, latterly as Chief Executive of Invensys Process Systems, the largest of the predecessor companies that were brought together to form Invensys Operations Management in early 2009. He has over 25 years experience in the industries in which the division operates and has in-depth knowledge of our customers as well as our products and technologies. His enthusiasm and drive will now be directed to building on the division's strong market positions.

During the year, we established a line of business structure within the division (systems, software and equipment), each with its own leadership team responsible for strategy, commercial activities and operational delivery. This structure has been established to drive accountability and to increase focus to ensure that we deliver the best value across our portfolio. In addition, we announced in November 2011 the formation of a separate global nuclear business unit to recognise the significance of the nuclear industry to this division; nuclear represented around 6% of the division's revenue in the year.

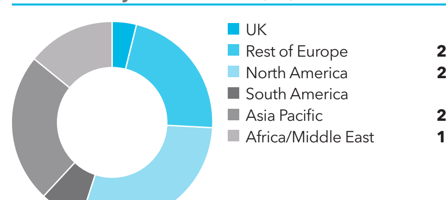
Contracts

We continued to grow our business in the year with some key contract wins related to our capabilities in software technologies and in large and complex control and safety systems.

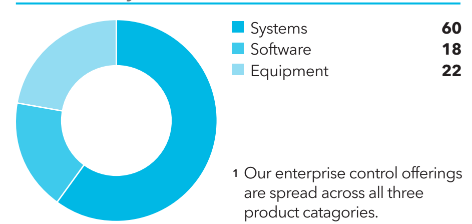
Revenue by sector (%)



Revenue by destination (%)



Revenue by line of business[1] (%)



1 Our enterprise control offerings are spread across all three product catagories.

Software

- We announced an alliance with Microsoft Corp. for migrating some of our applications to the Windows Azure™ cloud. By bringing together industrial thought and technology leaders, the alliance expands the company's continuing relationship with Microsoft and will afford end users cloud-based offerings in the manufacturing and infrastructure operations space. As Microsoft's Alliance ISV Industry Partner of the Year in 2011, this alliance further defines our position as a leading provider of automation solutions that help optimise manufacturing business operations in real time.
- We signed a multi-year, multi-million dollar contract to deliver comprehensive software solutions and services for Shell. This will provide a suite of our SimSci-Esscor® simulation solutions, including our ROMeo® optimisation software and other simulation and modelling solutions, to improve Shell's global upstream, downstream and petrochemicals production, helping it to achieve operational excellence in real time.
- The US Department of Energy has deployed a first-of-its-kind operator training simulator for an integrated gasification combined cycle (IGCC) power plant with carbon capture using our innovative simulation software-based training solutions. Our SimSci-Esscor® DYNSIM® high-fidelity simulator will help train operators for new IGCC plants now being built in the US. IGCC with carbon capture holds tremendous promise as a low-cost, clean energy source so IGCC plants are expected to be a key resource for the provision of clean fossil power in the near future.
- We signed a multi-million dollar contract to implement an integrated refinery information system (IRIS) for Saudi Aramco Total Refining & Petrochemical Company (SATORP). A joint venture between Saudi Aramco and Total France, SATORP is constructing a state-of-the-art, 400,000 barrel-per-day refinery in Jubail, Saudi Arabia, that is expected to be operational before the end of 2013. In a strategic alliance with Wipro Arabia Limited, we will provide an integrated InFusion® enterprise control solution.

Systems

- In the second half of the year following the creation of the separate nuclear business unit within systems, a review was carried out of the engineering requirements and associated costs for the three contracts to install and commission control and safety systems into eight nuclear reactors under construction in China. The review concluded that there will be a delay in delivery and the need for additional engineering to be carried out on the first contract, some of which will be reused on the later contracts. We announced in January 2012 that the cost of the additional engineering amounted to around £40 million. Since then, work has proceeded on the revised designs in accordance with our expectations. However until we have made further significant progress in project execution, we will not be recognising any profits from these three contracts.
- Invensys Operations Management signed two contracts with TNK-BP, the third largest oil company in Russia and among the top 10 private oil companies in the world by production volumes. We will provide comprehensive automation solutions and services to help drive control, environment and safety excellence at TNK-BP's Saratov oil refinery in western Russia, a seven million tonnes per year refinery.

Performance

Order intake in the year was strong across all regions and business segments. Excluding two large China nuclear orders last year, the underlying rate of order increase was 11% at CER with orders in the systems, software and equipment lines of business up 7%, 20% and 11% respectively. Reported order intake was £1,266 million (2011: £1,340 million).

The order book at 31 March 2012 was £1,088 million (2011: £1,124 million), a decrease during the period of 3% as we continue to execute the large contracts awarded in recent years. In addition, the three-year pipeline of order prospects remains strong at around £3 billion.

Revenue in the year was up 12% at CER to £1,272 million (2011: £1,147 million) driven by the significant increase in revenue from large projects, which accounted for 15% of revenue in the period, together with strong growth in software and equipment. Revenue in the systems, software and equipment lines of business were up 14%, 16% and 6% respectively at CER.

Operating profit was down 21% at CER at £96 million (2011: £123 million) due to the £40 million additional costs in respect of our nuclear projects in China; excluding these costs, operating profit would have been up 12% at CER. Operating margin was 7.5% (2011: 10.7%) or 10.7% excluding the additional costs.

Operating cash flow was £123 million (2011: £110 million) resulting in cash conversion for the year of 128% (2011: 89%) or 90% excluding the additional costs.

Invensys Rail

A successful year in significantly growing our order book

Year ended 31 March	2012	2011	% change at CER[1]	% total change
Orders[2] (£m)	**991**	558	77	78
Order book[2] (£m)	**1,202**	1,021	22	18
Revenue (£m)	**775**	772	–	–
Operating profit[3] (£m)	**116**	129	(11)	(10)
Operating margin[3] (%)	**15.0%**	16.7%		
Operating cash flow (£m)	**35**	71	(48)	(51)
Operating cash conversion (%)	**30%**	55%		
Employees at year end (numbers)	**3,960**	4,009		(1)

1 % change is measured as the change at CER as a percentage of the 2011 adjusted base and is calculated on underlying amounts in £000s.
2 Orders and order book exclude framework agreements.
3 All references to operating profit and operating margin are arrived at before exceptional items, unless otherwise stated.

Invensys Rail is a multinational provider of 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 aim is to deliver higher capacity safely and reduced travel times.

Markets

The global market for rail signalling and train control remained steady during the year with prospects continuing to be strong due to industrialisation, urbanisation, increasing capacity needs and the recognition of rail as an environmentally sustainable and efficient means of transport.

In our major traditional core markets, the UK market is supported by government commitments to continue to fund Network Rail and other rail infrastructure projects such as Crossrail and the second High Speed Line. Network Rail has retendered its signalling framework agreements covering the UK and we were successful in four out of the nine regions. In Spain, activity levels were down significantly due to government austerity measures and future investment will be reliant upon private sector financing. In the US, the market for grade crossings remains robust and we have had success in building our presence in the mass transit and mainline signalling markets.

There is a significant level of rail infrastructure investment being made outside our traditional core markets, especially in South America, the Middle East and Asia and we have been successful in winning several major projects. In China for example, major mass transit schemes will be implemented in many regional cities over the next few years and we remain confident that we will participate in this market through our agreements with China South (CSR), China's largest rolling stock manufacturer. We are also reviewing potential contracts for future bidding with CSR outside of China.

Developments

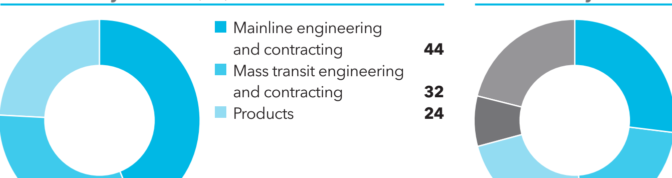
There have been several major developments in the year, in both our home and our export markets.

Home markets

Activity with Network Rail, which named us their "Supplier of the Year" in July 2011, was strong in the year and underlines our position as the UK's leading supplier of signalling and train control systems.

- In July 2011, we were selected by Network Rail to deliver the Thameslink resignalling project, one of Britain's largest and most complex resignalling schemes covering London Bridge Station and the approaching railway. This framework agreement was the first of nine awards to be made, under which there will be a series of individual commission contracts. Work commenced in August 2011 and runs through to the completion of the Thameslink project in December 2018.
- In January 2012, we achieved further success with the Network Rail framework contracts when we were appointed Primary Contractor in three of the other eight areas (Scotland, Central West and Wales & West) and named Secondary Contractor for a further four areas (Central East, Sussex & Wessex, Great Western Inner and Great Western Outer). Where we have been named Secondary Contractor, we could be called upon to lead the delivery of a project if the Primary Contractors for these areas do not have the capacity. These framework agreements run from 2012 to March 2014, at which point there will be an option for Network Rail to continue with each agreement on an annual basis for a further five years.

Revenue by sector (%)



Revenue by destination (%)

- We were also awarded a £28 million signalling contract for the Reading Western Mainline programme and the £35 million Glasgow South Suburban Resignalling contract. The scope of the Reading programme covers the remodelling of the Reading Station area from Sonning to Pangbourne, a new train care depot and four new platforms which will provide increased capacity at, and through, the station. The Glasgow contract includes the Cathcart Signal Box area, the East Kilbride branch lines and the Barrhead lines up to the limit of control from the West of Scotland Signalling Centre. This will include new Westlock interlockings and see a new generation of signalling introduced to control the area.
- We were appointed preferred bidder on one of four European Rail Traffic Management System (ERTMS) framework contracts. This contract initially covers the development stage of ERTMS provision across the UK network, after which we will demonstrate our solution at Network Rail's Integration Facility at Hertford. The final part of ERTMS deployment will see the rollout of trackside equipment on selected parts of the UK mainline network.

New and emerging markets

- The Saudi Railways Organization (SRO) announced that the Al Shoula consortium had been awarded the contract to provide the superstructure, systems, rolling stock, signalling, operation and maintenance for the Haramain High-Speed Line linking the two Holy Cities of Makkah and Madinah. This consortium is a Saudi-Spanish group which will implement the successful high-speed line model and technology applied in Spain to this new line. As a member of the Al Shoula consortium, Invensys Rail will provide the full turnkey signalling and train control systems, including its FUTUR™ 3000 and FUTUR™ 2500 Level 2 ERTMS solution. Invensys Rail's share of the three-year construction phase is valued at €298 million (around £260 million). In addition, there will be a 12-year maintenance contract which will be signed at the end of the construction phase and our share will be €185 million (around £160 million).
- We were awarded the contract to provide the signalling technology for Istanbul's CR3 Marmaray Project, a 77km commuter line linking Gezbe and Halkali under the Bosphorus. The value of the contract is €195 million (approximately £170 million). In a joint venture with Spanish civil construction company OHL, we will be responsible for designing and supplying a new signalling and Automatic Train Protection (ATP) system for the line. The project will utilise a range of Invensys Rail's state-of-the-art signalling and communication solutions including SIRIUS™ CBTC (Communication Based Train Control) and FUTUR™ ERTMS Level 1.
- In January 2012, we achieved further success in Turkey when a joint venture including Invensys Rail was awarded a project from Turkish State Railways (TCDD) to install ERTMS signalling and communications on the 310km Bandirma-Menemen railway, the main rail link between the Marmaray and Mediterranean seas. Invensys Rail's share of the award is worth €59 million.

Performance

Orders for the year were near record levels at £991 million (2011: £558 million), up 77% at CER, due to major awards in both new and core markets, particularly in Saudi Arabia and Turkey. In addition we won four of the nine framework agreements awarded by Network Rail; we do not include framework agreements in order intake or order book.

Our order book at 31 March 2012 was £1,202 million (2011: £1,021 million). In addition, the three-year pipeline of order prospects remains strong at around £6 billion.

Revenue in the period was flat at CER at £775 million (2011: £772 million) with good growth in the UK and North America offset by an anticipated reduction in Spain and delays in mobilisation on some of the large new market contracts.

Operating profit was down 11% at CER at £116 million (2011: £129 million) and operating margin was 15.0% (2011: 16.7%). Operating profit and margin were below last year due to a greater proportion of revenue arising from lower margin projects, together with the effect of previously announced additional costs amounting to £20 million on a handful of contracts within the Asia Pacific region.

Operating cash flow was £35 million (2011: £71 million) due to the investment in working capital on some of our major export contracts ahead of reaching payment milestones and continued delayed payments from customers in Spain. Also we have not yet received some significant upfront payments on the large contracts awarded in the second half of the year, which are now expected to be received later in the current year.

Invensys Controls
Resilient performance in difficult markets

Year ended 31 March	2012	2011	% change at CER[1]	% total change
Orders (£m)	**493**	554	(10)	(11)
Order book (£m)	**70**	59	19	19
Revenue (£m)	**492**	567	(13)	(13)
Operating profit[2] (£m)	**35**	56	(36)	(38)
Operating margin[2] (%)	**7.1%**	9.9%		
Operating cash flow (£m)	**49**	74	(33)	(34)
Operating cash conversion (%)	**140%**	132%		
Employees at year end (numbers)	**7,209**	7,404		(3)

1 % change is measured as the change at CER as a percentage of the 2011 adjusted base and is calculated on underlying amounts in £000s.
2 All references to operating profit and operating margin are arrived at before exceptional items, unless otherwise stated.

Invensys Controls is a leading global engineering and technology provider that 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.

Markets

The weakness seen in Invensys Controls' appliance markets in 2011 continued with greater than expected reductions in demand by customers. In the US, appliance industry shipments were down compared with the previous year, reflecting weak consumer sentiment and low levels of activity in the housing market. Our target market at the mid- to higher-end saw greater reductions with some purchasers buying lower-end products exacerbated by manufacturers reducing inventory levels to reflect the lower levels of demand. The trends in the European and Asian appliance markets were similar to those experienced in the US but South America was less affected.

The commercial markets in North America and Europe held up well but the wholesale market experienced volatile demand due to distributors reducing their levels of inventory.

Looking forward, based upon customer comments, we expect our major appliance markets in North America and Europe to be more stable, albeit at lower levels, and we anticipate some improvements in commercial and wholesale, supported by several key new product launches in the commercial business.

Developments

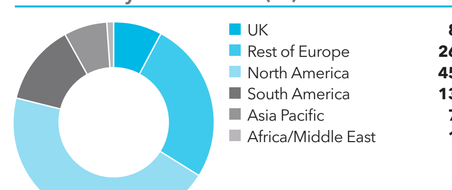
During the year, Invensys Controls suffered further significant reductions in orders and revenue in the appliance segment and substantial raw material inflation but remained profitable and cash generative. In order to achieve this, the division increased its focus on its higher-margin commercial and wholesale segments, further managed its manufacturing footprint, applied stringent cost control measures and continued to invest in new product introductions and infrastructure.

The division's strategy of geographical expansion within the commercial and wholesale segments progressed well during the year. For example, it began to leverage its Italian energy management solutions into other areas in Europe, North America and Asia Pacific. For one pilot scheme with a major retail customer, this included a fully integrated solution for heating, ventilation, air conditioning and refrigeration (HVACR) and rack control with the capability to add lighting and cook control functionality. In addition, traditionally North American products were successfully exported to South America and Europe.

In the appliance business, the emphasis on developing global platforms to drive cost-effectiveness and improve quality continued to see progress. Invensys Controls grew market share for its initial Hydra™ water valve in North America.

Revenue by line of business (%)

Revenue by destination (%)



A second production line has also started up in its Matamoros plant with opportunities secured for the bulk of its capacity from customers in North America, Asia Pacific and South America.

Investment in new product introductions (NPIs) increased during the year and despite some delays in customer launches, NPIs accounted for 13% of revenue (2011: 10%). Investment was across all three lines of business, reinforcing the division's overall niche proposition of providing value-engineered solutions and best-in-class products. In the commercial segment, the division launched an innovative programmable controller for the refrigeration business, which allows one product to be applied across the globe and reprogrammed for any particular application. In the appliance segment, Invensys Controls launched its Aegis™ gas oven valve with a key customer. The valve is a critical technology enabler allowing further expansion into the EMEA residential and commercial cooking market. In the wholesale segment, a new solution for addressing frozen condensate pipes was recently introduced further cementing our leading position in heating controls.

Performance

Orders during the year were £493 million (2011: £554 million), down 10% at CER reflecting the downturn in end markets and the effect of customers reducing inventory. Revenue was £492 million (2011: £567 million), a 13% decrease at CER. Our order book at 31 March 2012 was £70 million (2011: £59 million).

Operating profit was down 36% at CER to £35 million (2011: £56 million) with the effect of the reduced revenue partially offset by tight control of operating costs and overheads. Operating margin was 7.1% (2011: 9.9%). Operating cash flow was £49 million (2011: £74 million) with cash conversion at 140% (2011: 132%).

Financial Review
Strengthening our financial position

"With the new five-year bank facilities in place and agreement of the Invensys Pension Scheme (UK) triennial review, we enter the new financial year with a sound financial base. This will enable us to continue with the investment in our strategy."

David Thomas, Chief Financial Officer

Operating cash flow (£m)

£159m

Operating cash flow was £159 million (2011: £213 million) down 25% (down 24% at CER). Operating cash conversion was 76% (2011: 81%)

Return on operating capital (%)

35.5%

Return on operating capital was 35.5% (2011: 49.9%)

Introduction and summary

As reflected in our key performance indicator trends, the Group has had a mixed year with strong growth in orders but reduced profitability, and, as seen in our business division reviews on pages 20 to 25, varying performances by our divisions which have been influenced by a number of factors.

At an overall level, the Group's profitability has been impacted by the need to recognise significant additional contract costs in both Invensys Operations Management and Invensys Rail. However the underlying businesses have shown some encouraging trends, the Group's financial position has been strengthened in a number of areas and we have continued to invest in our future.

To enable the continued development of the Group, in March this year, we secured new five-year bank facilities totalling £600 million to support our bonding and borrowing requirements. Despite tight financial markets, this self-arranged facility was oversubscribed and supported by all of the Group's core banks. We are now well placed to finance continued growth over the medium term with an additional £200 million of headroom.

We also concluded the triennial review of the Invensys Pension Scheme (UK) with no change required to the deficit funding contribution schedule in terms of both duration and quantum, giving us certainty in our cash obligations for a number of years. In respect of our Invensys Pension Plan (US) we have recently concluded the initial phase of an offer to deferred members which will extinguish around $90 million of liabilities. A second tranche is expected to be completed in the coming year and actions are in hand on a number of smaller schemes. We continue to keep our legacy defined benefit pension liabilities under review.

The Group closed the year with a net cash balance of £262 million. Although our cash performance in the first half was disappointing, we succeeded in securing 100% cash conversion of operating profit in the second half notwithstanding the £60 million of additionally recognised costs as referred to in the Q3 Interim Management Statement. Looking forward, and having regard to the forecast receipts on our major projects, the first half is expected to again be challenging due to the timing of the underlying project milestones.

In terms of our businesses, Invensys Operations Management showed good growth across all of its main lines of business, however, the additional costs recognised on our nuclear contracts in China totalling £40 million in the second half masked the underlying progress made by the business. The China nuclear contracts are large, very long-term and complex projects with final deliveries expected to be completed in 2018. During the year the project delivery teams have been strengthened and management review procedures enhanced. There are three separate contracts, and in addition to taking a provision on the first contract, we are trading the other contracts at a zero margin pending completion of key engineering milestones.

Within Invensys Rail, we have rebuilt the order book, securing £991 million of orders in the year with successes in our core UK market with Network Rail and several major export contracts notably in Turkey and Saudi Arabia. Despite adverse profit adjustments on certain projects in the Asia Pacific region, the business still delivered an operating margin of 15.0%.

Weakening consumer confidence has adversely impacted Invensys Controls particularly in the appliance market, but actions taken in the prior periods to reduce the cost base have stood the business in good stead.

Consistent with the prior year, the Group has continued to invest in research and development to support its technology base, with spend during the year amounting to 5% of revenue.

While the focus remains on overhead control, for example as evidenced by the fall in head office costs, investment continues in new sales and project management capabilities, particularly in emerging markets, to drive future growth. 48% of the Group's order book is comprised of orders from emerging markets.

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

Financial performance

The table below 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 are set out throughout this Financial Review. Definitions and historical trends are set out in the Key Performance Indicators section on pages 18 to 19.

Key performance indicators (KPIs)

For the year ended 31 March All data relates to continuing operations (other than free cash flow)	**2012**	2011	% change at CER[1]	% total change
Orders (£m)	**2,750**	2,452	13	12
Order book (£m)	**2,360**	2,204	10	7
Revenue (£m)	**2,539**	2,486	3	2
Operating profit[2] (£m)	**209**	262	(20)	(20)
Operating margin[2] (%)	**8.2**	10.5		
Operating cash flow (£m)	**159**	213	(24)	(25)
Cash conversion (%)	**76%**	81%		
Free cash flow (£m)	**(11)**	83		(113)
Earnings per share – underlying[3] (p)	**13.4p**	19.8p		(32)
Earnings per share – basic (p)	**12.8p**	22.4p		(43)
Return on operating capital[4] (%)	**35.5%**	49.9%		

1 % change is measured as the change at CER as a percentage of the 2011 adjusted base and is calculated based on underlying amounts in £000s.
2 All references to operating profit (OPBIT) and operating margin are arrived at before exceptional items, unless otherwise stated.
3 Calculated by reference to continuing operations before the exceptional post-retirement benefits – settlement loss, past service credit and curtailment gain; and exceptional finance costs.
4 Return on operating capital at CER is calculated as OPBIT divided by average capital employed excluding goodwill, net pension liabilities, non-operating provisions and net taxation liabilities.

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	2011 orders £m	Exchange movement £m	2011 CER £m	Change at CER £m	**2012 orders £m**	Change at CER %
Invensys Operations Management	1,340	(20)	1,320	(54)	**1,266**	(4)
Invensys Rail	558	1	559	432	**991**	77
Invensys Controls	554	(5)	549	(56)	**493**	(10)
Continuing operations	**2,452**	**(24)**	**2,428**	**322**	**2,750**	**13**

The order book for continuing operations was £2,360 million at 31 March 2012 (2011: £2,204 million). This includes 48% in emerging markets.

Revenue

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

Year ended 31 March	2011 revenue £m	Exchange movement £m	2011 CER £m	Change at CER £m	**2012 revenue £m**	Change at CER %
Invensys Operations Management	1,147	(15)	1,132	140	**1,272**	12
Invensys Rail	772	6	778	(3)	**775**	–
Invensys Controls	567	(5)	562	(70)	**492**	(13)
Continuing operations	**2,486**	**(14)**	**2,472**	**67**	**2,539**	**3**

Operating profit

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

Year ended 31 March	2011 OPBIT £m	Exchange movement £m	2011 CER £m	Change at CER £m	**2012 OPBIT £m**	Change at CER %
Invensys Operations Management	123	(2)	121	(25)	**96**	(21)
Invensys Rail	129	1	130	(14)	**116**	(11)
Invensys Controls	56	(1)	55	(20)	**35**	(36)
Corporate	(46)	–	(46)	8	**(38)**	17
Continuing operations	**262**	**(2)**	**260**	**(51)**	**209**	**(20)**

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	
	2012 £m	2011 £m	**2012 %**	2011 %
Invensys Operations Management	**123**	110	**128**	89
Invensys Rail	**35**	71	**30**	55
Invensys Controls	**49**	74	**140**	132
Corporate	**(48)**	(42)	**–**	–
Continuing operations	**159**	**213**	**76**	**81**

Exceptional items

The exceptional charge for the year totalled £56 million (2011: £21 million). This included restructuring costs of £31 million, £15 million of asset impairments (intangible assets £10 million and property, plant and equipment £5 million) and £9 million of other operating exceptional items including £3 million relating to the Invensys Pension Plan (US) settlement loss.

Restructuring costs included the business improvement projects within Invensys Rail, the integration of the Invensys Operations Management businesses in Europe, the reorganisation in the Invensys Controls water heating business as a result of the loss of a major contract, along with a number of other rationalisation projects across the Group.

The comparative period 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. This credit comprised 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.

Net finance costs

Net finance costs increased to £10 million in the year (2011: £5 million) due to the write-off of unamortised fees of £2 million remaining on the old facility following the refinancing announced on 30 March 2012 and lower cash balances during the year.

Other finance charges – IAS 19

IAS 19 finance charges decreased to £3 million (2011: £14 million) mainly as a result of lower discount rates on pension liabilities.

Taxation

The tax charge for continuing operations was £35 million (2011: £37 million), which comprised a current year income tax charge of £59 million (2011: £44 million), offset by prior year credits of £4 million (2011: £6 million) and a deferred tax credit of £20 million (2011: £1 million). 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. The effective tax rate for the Group was 25% (2011: 19%); the increase was largely as a result of the impact of the profit adjustment on our nuclear projects in China within Invensys Operations Management. Excluding this, the underlying effective tax rate was 20%.

Discontinued operations

The loss from discontinued operations of £6 million (2011: £7 million) related to further provisions in respect of prior year disposals.

Net profit

Net profit decreased to £99 million (2011: £178 million), mostly due to a decrease in operating profit of £53 million, an increase in exceptional items of £35 million, offset by a decrease in the IAS 19 finance charge of £11 million.

Earnings per share

Basic EPS from continuing operations was 12.8 pence per share (2011: 22.4 pence per share). Underlying EPS, which excludes the Invensys Pension Plan (US) settlement loss of £3 million, was 13.4 pence per share (2011: 19.8 pence per share).

Free cash flow

Free cash flow for the year was a £11 million outflow (2011: £83 million inflow). The reduced free cash flow was mainly driven by lower operating cash flow, higher finance costs (including the refinancing facility fees) and additional payments into the Invensys Pension Plan (US).

Financial position

Capital structure

The Group's capital structure is as follows:

As at 31 March	2012 £m	2011 £m
Capital employed	**314**	201
Cash and cash equivalents	**263**	349
Borrowings	**(1)**	(1)
Net cash	**262**	348
Total equity - funds	**576**	549
Comprising:		
– Equity holders of parent	**556**	514
– Non-controlling interests	**20**	35
	576	549

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 business, as and when required. In March 2012 the Group signed two new five-year bank facilities totalling £600 million, comprising a £350 million multi-currency bonding and guarantee facility and a £250 million revolving credit facility. These replace the £400 million facility which was due to expire in July 2013. The interest margin and covenants are in line with the previous facility.

Total equity
Total equity increased by £27 million, principally represented by the net profit of £99 million, offset by the IAS 19 actuarial losses of £31 million, dividends paid of £33 million and £16 million to purchase and dispose of non-controlling interests.

Non-controlling interests
The non-controlling interests balance was £20 million (2011: £35 million), the majority of which relates to Ranco Japan Limited. The reduction in the non-controlling interests balance since 31 March 2011 is due to the final distribution of £6 million to the minority interest in Baan Company NV (in liquidation) and the £10 million purchase of the minority interest in a Chinese subsidiary, Shanghai Foxboro Company Limited.

Net cash
Net cash was £262 million (2011: £348 million). The reduction in net cash was primarily due to a free cash outflow of £11 million, dividend payments of £33 million, £16 million to purchase and dispose of non-controlling interests, a £10 million legal settlement, and a £7 million adverse exchange movement.

Capital employed
Capital employed increased by £113 million to £314 million in the year, mainly attributable to the profit in the year of £99 million. Capital employed includes operating capital of £440 million (2011: £390 million), generating a return of 35.5% (2011: 49.9%).

Pension liabilities and funding
The IAS 19 valuation of pension assets and liabilities as at 31 March 2012 resulted in a net pension liability of £426 million (2011: £467 million). The overall decrease is the result of deficit reduction payments made throughout the year of £80 million, partially offset by net actuarial losses of £31 million.

Final agreement has been reached with the Trustees of the Invensys Pension Scheme (UK) concerning the triennial valuation and funding deficit as at 31 March 2011 of £235 million, compared with £285 million as at 31 March 2008. Consequently, there is no change to the deficit funding contribution schedule previously agreed with the Trustees, which requires us to pay £39 million per annum (increasing by inflation) to 2017.

In the Invensys Pension Plan (US), gross liabilities will be reduced by £57 million following a settlement with a number of deferred plan members. This has resulted in a settlement loss of £3 million recognised as an exceptional item in the year.

Dividend

The Board is recommending a final dividend of 2.75 pence per share (2011: 2.5 pence per share), resulting in total dividends for the year of 4.4 pence per share (2011: 4.0 pence per share).

Summary and conclusions

With the new five-year bank facilities in place and agreement of the Invensys Pension Scheme (UK) triennial review, we enter the new financial year with a sound financial base. This will enable us to continue with the investment in our strategy.

David Thomas
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 2012. The Group's accounting policies under IFRSs are set out in Note 2 to the Group Financial Statements on pages 87 to 95. 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;
- 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 March 2017. 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 2012 and 31 March 2011, Invensys had no significant borrowings.

Currency risk

Transaction exposure

Currency transaction exposure arises when business 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

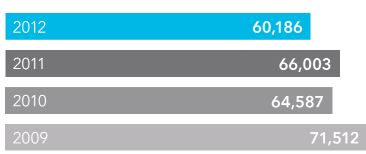
The Group monitors the identity of the counterparties with whom it deposits cash and transacts other financial instruments so as to control exposure to any territory or institution. As far as it is both feasible and practical to do so, cash is held centrally by the Treasury department. Risk is assessed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

Corporate Responsibility
Our approach to sustainability

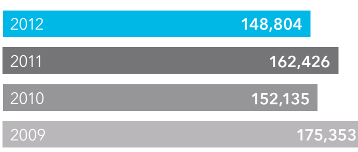
Invensys is committed to supporting the principles of economic success, environmental stewardship, diversity and social responsibility. We believe that by acting as a responsible global citizen, we will not only help minimise business risk but also enhance our reputation as a business partner.

CO_2 emissions (tonnes) within our manufacturing locations



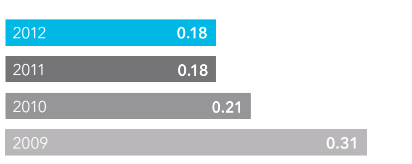
CO_2 emissions within our manufacturing locations reduced by 9% in the year, a reduction of 5% on a same site basis

Energy consumption (MWh) within our manufacturing locations



Energy consumption within our manufacturing locations reduced by 8% in the year, a reduction of 3% on a same site basis

Total Recordable Case Incident Rate



We maintained our Total Recordable Case Incident Rate (TRCIR) at 0.18 this year; over the past four years, our TRCIR has fallen by 42%

Introduction and summary

As Chief Executive, I am pleased to present a summary of our approach to corporate responsibility, governance and the progress we have made in the year. Corporate responsibility, also referred to as sustainability, is a guiding principle that is intrinsic to our value proposition and operations and it influences the way we interact with our customers, communities, employees and shareholders.

Our commitment to reduce the environmental footprint of our operations and to provide a safe workplace remain high priorities. This past year, we exceeded our 2% environmental key performance indicator (KPI) reduction targets at our manufacturing sites for energy use, carbon emissions and water use, but missed our reduction targets for waste generation. Additionally, we have maintained our leadership position in safety performance with injury/illness incident frequency rates that reflect our effective management systems.

In the UK, Invensys was again listed on the FTSE4Good Index Series, which identifies companies that meet recognised standards of corporate responsibility. For the third 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 gas emissions to the Carbon Disclosure Project (CDP). Lastly, Invensys has been recertified under the Carbon Trust Standard by achieving reductions in carbon emissions at our UK operations over the past two years.

This year, having engaged with several hundred of our team members, we refreshed our Invensys Values in order to make them more relevant and understandable. We continue to invest in the development of all our people by increasing the use of our "iGrow" learning management system and by launching a new senior leadership development programme "Leading Execution". We improved our organisation effectiveness by placing greater accountability upon the business divisions, making some key changes in our leadership teams and aligning incentives more clearly and directly with the areas of direct responsibility.

Our Sustainability Report 2012, which will be available for download from our website, provides further details of our achievements and developments in the year.

Environmental KPIs

Year ended 31 March	Unit	2012	2011	% change on same site basis[1]	% total change
Energy use					
manufacturing[2]	MWh	**148,804**	162,426	(3)	(8)
non-manufacturing[3]	MWh	**54,340**	43,658	7	24
CO_2 emissions					
manufacturing[2]	tonnes	**60,186**	66,003	(5)	(9)
non-manufacturing[3]	tonnes	**26,654**	21,569	8	24
global fleet	tonnes	**12,640**	12,502	n/a	1
business airline travel	tonnes	**23,937**	24,530	n/a	(2)
Water consumed[2]	cubic metres	**323,820**	366,602	(8)	(12)
Waste generated (non-hazardous)[2,4]	tonnes	**6,805**	6,738	4	1
Waste generated (hazardous)[2,4]	tonnes	**1,234**	1,196	3	3

1 Measured as the percentage change from a 2011 adjusted base, at the same 34 manufacturing sites and 94 non-manufacturing sites in operation in 2011 and 2012.
2 Based on 39 manufacturing sites in 2011 and 34 manufacturing sites in 2012.
3 Based on 98 non-manufacturing sites in 2011 and 116 non-manufacturing sites in 2012.
4 2011 waste data restated following the enhancement of our data collection and validation processes.

Further details regarding environmental performance can be found on our website. All data is independently verified, consistent with the Basis of Reporting and Verification and Assurance protocols outlined in our Sustainability Report 2012.

Our strategy and approach to corporate responsibility

Our strategy encompasses the following key elements:

- **Environmental:** reducing the environmental footprint of our operations, mitigating environmental impact, designing our products and services responsibly, enhancing the sustainability performance of our suppliers and delivering offerings that improve the efficiencies of our customers;
- **Social:** improving the well-being of our employees and communities, maintaining a safe and healthy workplace, attracting and retaining the best employees, and investing in the communities in which we operate; and
- **Governance:** ensuring the highest standards of ethical and honest behaviour in everything we do.

Building a successful and sustainable business requires strong values, strong governance and internal communication. Invensys' corporate responsibility strategy is driven by myself, as Chief Executive, and implemented by the Group Leadership Team, where key members with the necessary expertise ensure that aspects of corporate responsibility are embedded throughout the Group. Further detail on governance is set out in the relevant sections that follow including discussion on targets and performance regarding our KPIs. Our approach to corporate governance is set out in the Corporate Governance section on pages 48 to 59.

The principal risks which are specific to and may impact our business are set out in the Risks and Uncertainties section on pages 37 to 44. In addition to these risks, there are other sustainability-related risks associated with our overall business and our business divisions which are not considered to be as significant as these key risks, and are therefore not discussed in this report.

Environment: reducing our environmental footprint

Environmental performance

For the past year, we set a 2% absolute reduction target at our manufacturing locations for our environmental KPIs, which include energy use, CO_2 emissions, water use, non-hazardous waste and hazardous waste generation. Energy use and CO_2 emissions within our manufacturing locations on a same site basis decreased by 3% and 5% respectively, as a result of the execution of KPI efficiency projects across all divisions. Similarly, on a same site basis, water consumption decreased by 8%, non-hazardous waste generation increased by 4% and hazardous waste generation increased by 3%. For the current year, we have again set a 2% absolute reduction target for each of the KPIs.

At our non-manufacturing sites, our energy and CO_2 emissions increased by 7% and 8% respectively on a same site basis. These increases were due to the expansion of several large operations.

We continue to encourage our site and regional operations to seek external management system certification, and we have eight operations certified to the ISO 14001 environmental management system standard.

The Board continues to be briefed on Group environmental performance and receives regular reports on KPI reduction progress and any violations or environmental releases that occur. In the past year, there were no environmental releases or fines related to environmental regulations. In the US, one minor notice of violation was received for failing to update a groundwater monitoring plan at a surplus property. All deficiencies were corrected.

Invensys also completed all requirements under a Civil Sanctions enforcement agreement entered into with the UK Environment Agency related to a self-reported non-compliance finding in the prior year under the UK's Producer Responsibility (Packaging Waste) regulations.

Social: our people and our communities

The health and safety of our employees remains the highest priority.

Health and safety in the workplace

We are pleased to report that we have maintained our world-class health and safety performance, as reflected in our injury/illness incident frequency rates. From April 2011 to the end of March 2012, our TRCIR remained constant at 0.18, while our Lost Workday Case Incident Rate (LWCIR)[1] fell slightly from 0.06 to 0.05. Over the past four years, our TRCIR has fallen 42% and our LWCIR has fallen 67%.

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 the implementation of priority programmes across the business and operations.

We grant recognition awards to those locations and business operations that demonstrate consistently strong safety performance. As of 31 March 2012, 25 locations had reached the safety milestone of one million hours or more worked without a recordable incident.

We continue to support external management certifications and four operations are certified to the Occupational Health and Safety Assessment Series (OHSAS) 18001 safety management system standard.

As Chief Executive, I review health and safety performance data, including any violations or major incidents, on a monthly basis and present this 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 a safety-related citation at a location in Brazil related to the lack of ergonomic equipment and an order to control noise levels affecting neighbouring properties. We also received safety-related citations at locations in China related to lack of personal protective equipment use, required risk assessments and required emergency planning and fire protection protocols. Corrective actions are being taken and no further notices or fines have been received.

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.

Community and charitable investment

Our businesses provide a variety of programmes including "Invensys Involved" which encompasses sponsorship of activities, use of company resources and paid volunteer time to allow our employees to participate actively in community events. We used the opportunity afforded by the relationship with one of our partners to highlight our employees' involvement in community activity. This gave us the chance to nominate one of our people to carry the Olympic torch. Our torch bearer was selected from our employees who make an exceptional contribution to charities or their communities.

Information on our levels of charitable contribution is set out in the Directors' Report on page 77.

We 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.

Invensys Values

This year we have refreshed our Invensys Values in order to ensure they remain relevant, understandable and reflect the aspirations of our people. We have retained: Innovation, Agility and Integrity and replaced Courage and Meritocracy with Performance. These changes resulted from an extensive series of surveys and focus groups involving employees across Invensys.

Alignment with the Invensys Values is considered integral to the performance of our employees and has been supported with personal messages from Group Leadership Team members, workshops that are designed to be built into team meetings and with new recognition arrangements. 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 retain and attract highly capable and ambitious people to Invensys who are drawn to a high-performance work culture.

Diversity and inclusion in the workforce

Invensys seeks to recruit the best individual for every position regardless of gender, ethnic or national origin, religion, sexual orientation or any personal characteristic including disability, 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.

Invensys is committed to equal opportunities and supportive of the recommendations of Lord Davies and the Financial Reporting Council regarding diversity. This is reflected in the wide range of international backgrounds and skills of our directors, as well as the appointment of two female directors to the Board in 2011. We also recognise the importance of diversity below the Board level and have launched a renewed diversity strategy with Board-level sponsorship and a broader range of diversity initiatives being launched over the coming year. Additionally, the Invensys Women's Exchange is an established resource group within Invensys Operations Management that provides support, education and networking opportunities within Invensys and with our customers.

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.

Supporting our community. Invensys Controls, Mexico, introduced "A Toy = A Smile" programme. Over 450 toys were collected for local children.

Taking responsibility for the future. Invensys Rail, UK, graduate engineers helped local students to explore the world of engineering.

Helping the environment. Invensys Operations Management, US, engaged in various clean-up and repair projects following a devastating autumn snow storm.

Communication and engagement with employee representatives and employees

Regular and open communication is vital to maintaining engaged teams and Invensys utilises many media including regular updates from myself, an Invensys-wide intranet, global "All Hands" calls and local communications networks, including site-level briefings, smaller face-to-face meetings and employee newsletters.

Invensys has established the use of blogging through initiatives such as "iShare" and is increasingly using 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.

We also recognise our obligation and the benefits arising from consulting through more formal channels such as the Invensys European Employees Forum (IEEF), which promotes dialogue between elected employee representatives and senior management. The annual meeting between IEEF representatives and senior management has been running for 13 years.

Aligning our people with the Group's goals and objectives

During the year we use our goal deployment and performance management tools and processes to help our employees 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 managerial, professional and technical employees are participating in our online performance management processes with goals for 2012/13 on our integrated system. Other employees, such as those in manufacturing, are participating in local performance management processes.

Developing our leadership and our talent

We continue to focus on growing our 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 57 senior leadership roles. OCR has also enabled the identification of key talent across the Group with 37 "High Potential" and "High Professionals" in our leadership population and 35 considered to be "Rising Talent". Each of these employees has an individual development plan, completion of which is tracked and reported on and is actively supported to achieve their potential through quarterly talent reviews with our Group Leadership Team. We also have a range of division- or function-based talent development programmes including our "Programme for Action Learning and Mentoring (PALM)" in Invensys Operations Management and "Functional Expert to Business Partner" across our finance and legal functions.

Last year we 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 have been embedded in our performance management system and form the basis for the assessment of our leadership and our top talent.

Investing in our leadership and delivery capability

Our Learning and Development Centre of Expertise (CoE) has become well-established and, utilising seven languages, has this year delivered over 82,000 hours of online training. Whilst nearly 450 senior managers have participated in our new programmes "Leading Leaders" and "Leading Execution", the CoE has focused increasingly on core Invensys capabilities with the delivery of our new Project

Management Development Curriculum containing over 60 learning modules. This year, more than 500 employees have completed over 7,000 hours of online and instructor-led project management training. We continue to focus on the development of our talent through assessing the capability of our project management, sales and engineering professionals and to date we have assessed the competence and development needs of over 4,000 of our people.

Employee engagement

As previously reported, we conducted an Invensys-wide Employee Engagement Survey in November 2010 which achieved a response rate of 83%, up from 78% in 2008. We were pleased to see our employee engagement levels compare positively with our global external benchmarks. Action plans were developed and implemented to build on the feedback and a further survey during 2012 will assess whether we have been successful in achieving further improved results in levels of engagement.

Governance: ensuring responsible, ethical and honest behaviour

Our corporate responsibility strategy is underpinned by our business principles and Code of Conduct which stress the importance of responsible, ethical and honest behaviour.

The Invensys Code of Conduct

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 laws 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 Chief Legal Officer and Company Secretary. The Chief Executive and Group Human Resources Director receive regular briefings from the Chief Legal Officer and Company Secretary where any concerns can be raised. Legal and ethical compliance is recognised as a priority for Invensys.

The Code of Conduct is available on the Invensys website and can be read by any customer, shareholder or member of the public. Invensys has adopted a Supplier Code of Conduct based on our Code of Conduct and is having major 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 in multiple languages on the Invensys intranet.

The Code of Conduct, together with supporting policies and associated training are the core elements in the latest iteration of the Compliance Programme. During the year, we launched further training on specific areas of compliance and offered refresher courses in our Learning Management System on critical areas of the Code of Conduct, such as Anti-Bribery, Gifts and Entertainment and Conflicts of Interest.

Looking forward

This report demonstrates how we have continued to implement our strategy of embedding corporate responsibility into our operations. We have made progress in reducing our environmental footprint in a number of areas, and in increasing efficiency even as our business has developed over the last year. Furthermore, we continue to insist that our suppliers conduct business in an ethical and responsible manner.

For the coming year, our priorities centre on building on the work we have achieved to date. We will focus on working with our businesses to further accentuate the positive environmental benefits that many of our products and services help deliver in the marketplace. We will look to further reduce our environmental footprint through improvements in our KPI reduction programme – as noted on page 33 our reduction target is 2%. Employee safety, whether in the workplace or at offsite locations, will continue to be a major priority and therefore we will look for additional ways to keep our employees safe and continually improve our safety record. We will also continue to emphasise legal compliance across the organisation.

In terms of our people, we intend to continue investing in improving employee engagement across the business and will conduct an Employee Engagement Survey in November 2012, followed by detailed action planning and change initiatives. Ensuring that we attract and develop the diverse talents available to us, both within and outside Invensys, will also be a priority as will further investment in skills, especially in project management and in ensuring we have engineering capability embedded in our rapidly developing markets. We will also continue to improve understanding and awareness of our employer brand in the marketplace so that we increase pride in working for Invensys and in making our organisation a more distinctive and aspirational place to work.

Finally, we will continue to seek out opportunities to bring the talents and energy of our employees and business to bear on local community challenges.

Wayne Edmunds

Wayne Edmunds
Chief Executive

Risks and Uncertainties

Introduction to our approach and appetite for risk

The effective understanding, acceptance and management of risk is fundamental to the long-term success of Invensys. Every single employee has a role to play in this process and the Invensys risk management policy recognises that success relies on the ability to work together cohesively to address this.

The consistent application of the Invensys Code of Conduct (see page 36) is a key control in maintaining the strong reputation of the Group with regard to customers, regulatory bodies and employees.

Our businesses have developed specialist knowledge in products, services, processes and regions which allows us to understand the associated risks and accept them in an informed way. Our approach is encapsulated in the key principles of our risk management policy:

- To understand the nature and extent of risks facing the Group;
- To accept and manage within the business those risks which our employees have the skills and expertise to understand and leverage;
- To assess and transfer or avoid those risks which are beyond our appetite for risk; and
- By consideration of materiality to establish the authority levels within Invensys at which decisions on acceptance and mitigation of these risks are taken.

Each division and key functional department is required to undertake a formal review of risks. The resulting risk registers are maintained and reviewed on a monthly basis. These are consolidated and reviewed by the Head of Risk and, on a quarterly basis, a summary of the Group's key risks is then presented to the Risk Committee and Audit Committee.

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. Membership of the Risk Committee is set out on page 47.

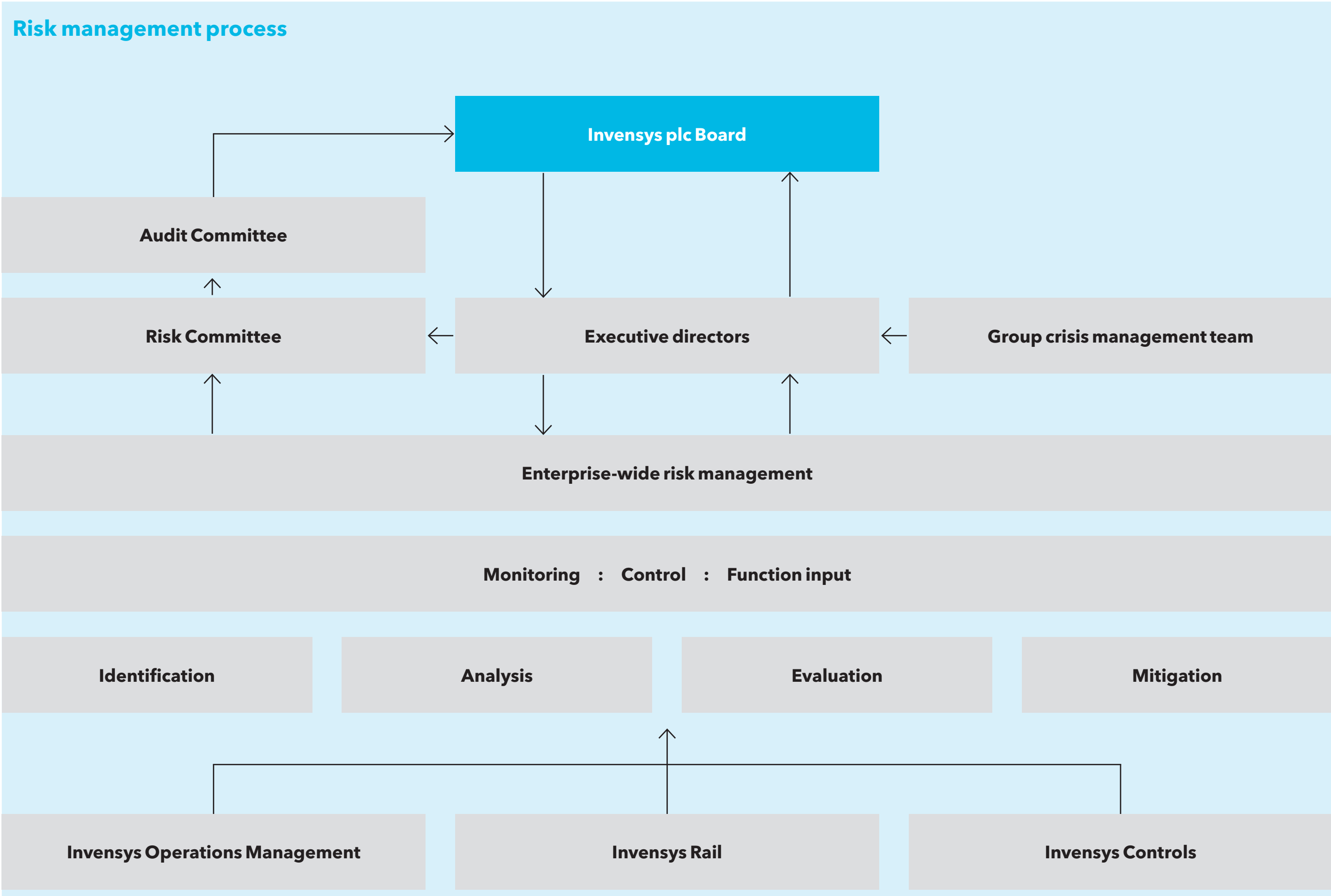
The Board has approved the acceptance of certain risks which are considered appropriate to achieve the Group's strategic objectives. The degree of risk to be accepted within the business is managed on a day-to-day basis through the Board Delegated Authority levels. These provide the framework for informed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

Key developments in the year

Our risk management approach is subject to continuous review and updating to take account of new and developing issues which might impact our business objectives. The following actions have been undertaken during the year to address significant developments:

- The Group has improved its processes and procedures to manage major contracts;
- We have managed the financial pressures on our home markets, particularly with regards to our Invensys Rail business in Spain, by continuing to grow our presence in emerging markets;
- The diverse range of economic, geopolitical and accidental external global events has prompted a review and updating of the crisis management and business continuity planning across the Group; and
- We have conducted an independent external review of risk management practices and have adopted an enhanced governance process to reflect the findings of the review.

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.
- Develops risk framework, 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 and coordinates actions to address key risks.

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.
- Develop and implement the business continuity strategy.

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 appropriate categories including: 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's 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 is consistent with ISO 31000, the international risk management standard, and has been subject to external review and updating to take account of developing risk governance practices.

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 the impact of austerity measures and 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.

Invensys has undertaken a review of certain country risks. This is shown on pages 43 and 44 and uses the Group's revenue by destination as a proxy for the relative level of exposure in each case.

The principal risks which are specific to and may impact the Group are outlined on pages 40 to 42. 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) which are becoming globally adopted standards of signalling and train control. Invensys Operations Management continues to invest in enhancements to its systems, advanced software applications and enterprise control offerings 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 create 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 our operating performance. 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 its order pipeline, 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 technology development, 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.

Impact
The Group's failure to anticipate technical and development problems, estimate costs accurately, control delivery or receive timely payments may reduce the profitability of such a contract, impact cash collection or result in a loss.

Mitigation
The Group has an established 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 non-standard contractual terms require Board approval. During the year certain contract execution issues were identified in Invensys Rail's Asia Pacific operations and our nuclear projects in China within Invensys Operations Management. This has prompted an in-depth internal review with the result that systems have been further improved and additional risk metrics have been established to monitor the execution of such major projects. These are subject to regular reporting to the Board.

The Group may be subject to financial loss and/or damage to its reputation 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 with consortia, with joint and several liability between consortium partners, and/or with 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. For example, Invensys Rail often undertakes contracts with consortium partners in traditional core markets and in new or developing markets.

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 might have a material adverse effect on the Group's business, financial performance and/or reputation. There is also a risk that regulatory non-compliance of partners could have a material adverse effect on the Group's reputation.

Mitigation
Assessment, mitigation and management of these risks are addressed by the divisions in conjunction with our legal and risk departments. In-depth due diligence on partners is undertaken where considered appropriate, and cross-indemnities entered into to mitigate liability.

Description of risk

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

The Group has a large level of gross liabilities in respect of its major pension plans relative to its market capitalisation.

Impact
With respect to both of the Group's major 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 Invensys Pension Scheme (UK) has a high proportion of pensioners relative to its active workforce which provides a level of certainty with respect to the valuation of the plan's liabilities. In addition, its investment policy has been established to address the need to match the scheme assets and liabilities as far as is realistically possible. The current Invensys Pension Scheme (UK) deficit funding contribution schedule was agreed on the basis of a valuation undertaken at 31 March 2011, and anticipates deficit recovery contributions being made on a six-monthly basis until March 2017. In addition, the Invensys Pension Plan (US) was recently de-risked by reducing the number of deferred participants. 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, or may incur, 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 these 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 performance indicators to support regular 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.

Country risks

Invensys is a global organisation with its own facilities, supply chain and customers in many countries across the world. There are diverse country risks to address in certain core markets, including financial risks relating to the Eurozone crisis, and risks in new and developing markets, including Asia, South America and the Middle East.

Invensys has undertaken a review of the following country risks in respect of those territories where we earn revenue:

- Financial risk utilising the rating categories published by credit agency Moody's;
- Political stability risk utilising the risk categories published by Control Risks Group;
- Security risk utilising the risk categories published by Control Risks Group; and
- Corruption risk utilising the risk ratings published by Transparency International.

Revenue by destination has been analysed and categorised in accordance with rating criteria obtained from appropriate external sources[1]. The charts overleaf illustrate the profile of country risk for the Group's revenue by destination and outline the broad mitigation actions in place to address these.

1 Financial risk rating categories are based on the Sovereign Rating lists for Government Bonds using information freely available from Moody's at **www.moodys.com**

Political stability risk and security risk categories are as published by Control Risks Group at **www.controlrisks.com**

Adapted from Corruption Perception Index Methodology Copyright 2011 Transparency International: the global coalition against corruption. Used with permission. For more information visit **http://www.transparency.org**

Ratings are based on information available on 31 March 2012.

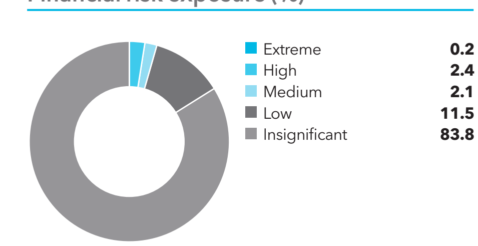
Description of risk

Financial risk

The global economy has continued to experience a sovereign debt crisis with particular concern within the Eurozone. Invensys maintains oversight of its exposures by analysing the revenue by destination for all territories against published rating categories[1]. This is summarised in the adjacent chart.

Mitigation
Key financial risks including liquidity needs, partner/supply chain exposure and cash management have been identified. Measures have been taken to minimise exposures and crisis management plans have been established to respond to developing scenarios.

Financial risk exposure (%)

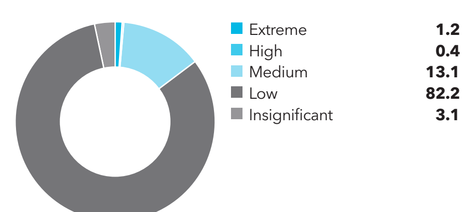


Political stability risk

Political risk considers the likelihood of state or political influences negatively affecting business operations in a country through regime instability or direct/indirect interference. The adjacent chart illustrates the Invensys exposure using the country ratings as published by Control Risks Group[1].

Mitigation
Invensys analyses current and developing issues and maintains crisis management plans designed to respond to threats and safeguard the business operations.

Political stability risk exposure (%)

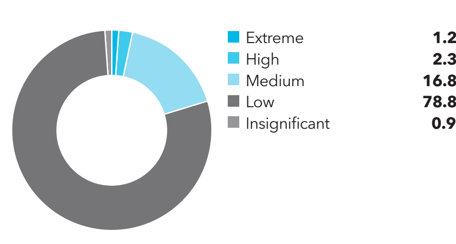


Security risk

Security risk considers the likelihood of state or non-state engagement in actions that harm the financial, physical and human assets of a company and the extent to which the state is willing and able to protect those assets. The adjacent chart illustrates the Invensys exposure using the security country risk ratings published by Control Risks Group[1].

Mitigation
Invensys analyses current and developing issues and maintains crisis management plans designed to safeguard people, assets and the business.

Security risk exposure (%)

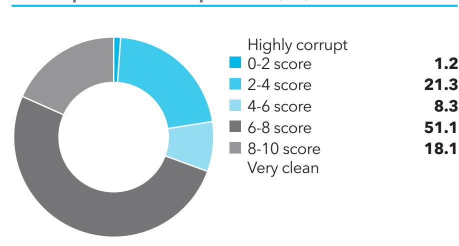


Corruption risk (anti-bribery compliance)

The Corruption Perception Index published by Transparency International[1] ranks countries according to their perceived levels of public sector corruption. A score of 10 is considered very clean and a score of zero is highly corrupt. Invensys has considered its revenue by destination against this index for all territories and this is shown on the adjacent chart.

Mitigation
Invensys has a zero tolerance approach to bribery and maintains a programme of communication and education for employees and partners. Particular focus is appropriate in higher-risk territories to ensure that Group policy is understood and enforced.

Corruption risk exposure (%)



1 See footnote on previous page.

David Thomas
Chief Financial Officer

Governance

46 Our Board of Directors
48 Corporate Governance
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75 Directors' Report
78 Statement of Directors' Responsibilities in Respect of the Preparation of the Accounts

Compliance
The Corporate Governance report on pages 48 to 59 has been prepared in accordance with the UK Corporate Governance Code issued by the Financial Reporting Council (FRC) in June 2010 (the Code). The Corporate Governance report, together with the Remuneration Report on pages 60 to 74, describes how the main principles set out in the 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 75 and 76 and is incorporated into the Corporate Governance report by reference.

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

The Remuneration Report on pages 60 to 74 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 71 to 74 relating to directors' remuneration and directors' interests in shares and all share incentive plans).

Invensys Controls
Best-in-class value-enhancing components and devices across a number of industries, including energy management for the commercial refrigeration market in the US.

Our Board of Directors

Chairman

Sir Nigel Rudd (65)
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. He is a 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.

Executive directors

Wayne Edmunds (56)
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.

David Thomas (57)
Chief Financial Officer

Appointment
Appointed Acting Chief Financial Officer on 24 March 2011 and became Chief Financial Officer and a director on 28 July 2011.

Committee membership
None.

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. He is a member of the Institute of Chartered Accountants in England and Wales.

Current external appointments
Member of the Auditing Practices Board.

Victoria Hull (50)
Chief Legal Officer and Company Secretary

Appointment
Appointed a director on 29 November 2011.

Committee membership
None.

Skills and previous experience
Joined Invensys in 2001 as General Counsel and also appointed Company Secretary in January 2006. She qualified as a solicitor with Clifford Chance, working in their corporate finance department. Formerly Executive Director, General Counsel and Company Secretary of Telewest Communications plc.

Current external appointments
None.

Non-executive directors

Francesco Caio (54)
Non-executive director

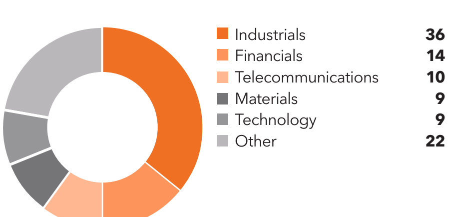
Appointment
Appointed a non-executive director on 18 July 2009.

Committee membership
Member of Audit Committee
Member of Remuneration Committee

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

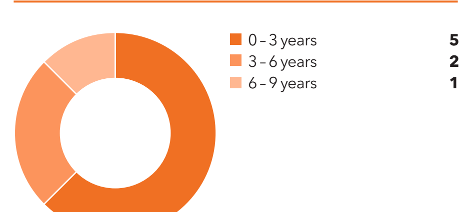
Current external appointments
Chief Executive Officer of Avio Group, non-executive director of Indesit Company, a member of the Advisory Board of Politecnico di Milano and a member of the Advisory Board of Nomura.

Board sector experience (%)



Industrials	36
Financials	14
Telecommunications	10
Materials	9
Technology	9
Other	22

Length of tenure of Chairman and non-executive directors (number of years)



0 - 3 years	5
3 - 6 years	2
6 - 9 years	1

Bay Green (68)
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 non-executive director and Chairman of the audit committee from Axis-Shield plc in November 2011. Formerly Vice Chairman of Dresdner Kleinwort, where he specialised in advising on mergers and acquisitions and other activities and he was a non-executive director of RPC Group plc. He is a Fellow of the Institute of Chartered Accountants in England and Wales.

Current external appointments
He is a trustee of Help the Hospices and a specialist adviser to the Wholesale and Institutional Markets Business Unit of the Financial Services Authority.

Paul Lester (62)
Non-executive director

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

Committee membership
Member of Remuneration Committee

Skills and previous experience
Formerly Chairman of Marine Current Turbines, Chief Executive of VT Group plc, Group Managing Director of Balfour Beatty plc, Chief Executive of Graseby plc and non-executive director of Chloride Group plc.

Current external appointments
Appointed Chairman of Peveral Group in March 2012, Chairman of Survitec Group in August 2011 and Chairman of Norland in September 2011. He is Chairman of Greenergy and Chairman of John Laing Infrastructure Fund.

Deena Mattar (46)
Non-executive director

Appointment
Appointed a non-executive director on 19 May 2011.

Committee membership
Member of Audit Committee

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. She is a Fellow of the Institute of Chartered Accountants in England and Wales.

Current external appointments
Appointed non-executive director and audit committee Chairman designate of Lamprell PLC in April 2012 and a non-executive director of RM plc in June 2011 where she serves as Chairman of the audit committee.

Michael Parker (65)
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.

Dr Martin Read (62)
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
Chairman of the Remuneration Consultants Group and non-executive director of Aegis Group plc, Lloyds of London and the UK Government Cabinet Office Efficiency and Reform Board.

Pat Zito (63)
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.

Governance framework

Board
- Chairman, three executive directors and seven independent non-executive directors

Audit Committee
- Five independent non-executive directors

Risk Committee
- Chief Executive
- Chief Financial Officer
- Chief Legal Officer and Company Secretary
- Group Human Resources Director
- EVP Finance
- SVP Environmental, Health, Safety and Sustainability
- VP Risk Management and Insurance

Chief Executive (member of GLT)

Group Leadership Team (GLT)
- Chief Financial Officer
- Chief Legal Officer and Company Secretary
- Group Human Resources Director
- CEO Invensys Operations Management
- CEO Invensys Rail
- CEO Invensys Controls

Remuneration Committee
- Four independent non-executive directors and Chairman

Nominating Committee
- Four independent non-executive directors and Chairman

Contracts Committee
- One executive director, Chairman (or Senior Independent Director) and at least one other independent non-executive director

Corporate Governance

Dear Shareholder

I am pleased to present our Corporate Governance report which outlines the role and activities of the Board. Reports from our committee chairmen are set out on pages 54 to 74.

The Company is committed to high standards of corporate governance and believes that it has in place effective practices which are essential to business integrity, performance and accountability to shareholders. The Board is pleased to confirm that during the year the Company has been fully compliant with the provisions of the UK Corporate Governance Code (the Code).

Directors recognise the importance of Board behaviour and culture, and understand that they must think deeply, thoroughly and on a continuing basis about their role and responsibilities. This year we conducted an externally-facilitated Board evaluation and, as reported on page 51, I am pleased to confirm that the review concluded that the Board worked effectively as a team. We have closely followed the debates on boardroom diversity and during the year there have been a number of changes to the Board. We were pleased to welcome Deena Mattar as a new non-executive director and were delighted with the appointment of David Thomas and Victoria Hull as executive directors. We have a breadth of skills and experience on the Board and we have a very good platform for the future. The Board evaluation confirmed that each director is contributing effectively and showing strong commitment to their role. In accordance with the provisions of the Code and following the practice of last year, all Board directors will seek re-election (or election in the case of Mr Thomas and Ms Hull) at the 2012 AGM.

I hope that this report will provide a good understanding of the systems of governance and control which operate within the Company.

Sir Nigel Rudd
Chairman

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 entrepreneurial leadership and sets the Company's strategic aims. In doing this it ensures there are robust corporate governance and risk management processes in place.

The governance framework for the Group is shown on page 47. The Board's duties are set out in a formal schedule of matters specifically reserved for decision by the Board, as summarised below. Certain responsibilities are delegated to Board committees through structured procedures. The chairman of each committee provides an oral update on the activities of their committee at the next Board meeting. A report from the Nominating Committee, Audit Committee and Remuneration Committee is included on pages 54 to 74. Other operational matters are dealt with by senior management through formalised delegated authorities.

Summary of the Board's duties

Strategy and management
- Overall management of the Group and its long-term objectives, commercial strategy and operational planning
- Acquisitions, disposals and other transactions outside of delegated limits

Group structure
- Material changes to the Group's corporate, management and control structure

Financial reporting
- Approval of financial results and dividend policy, declaration of interim dividend and proposal of final dividend

Risk management and internal control
- Approval of risk management strategy
- Review of effectiveness of Group's risk and internal control processes

Board membership and other senior appointments
- Board and other senior leaders' appointments and removals
- Membership and chairmanship of Board committees and appointment of Senior Independent Director
- Succession planning for Board and other senior leaders

Remuneration
- Remuneration policy framework and specific remuneration of executive directors and other senior leaders
- New or major changes to employee share plans
- Any major changes to the Group's pension plans

Governance
- Appointment of the Group's principal advisers and external auditor
- Approval of the Code of Conduct and other Group policies
- Approval of press releases and shareholder circulars
- Approval of terms of reference of Board committees
- Conducting annual review of Board performance, committee and individual directors
- Determining the independence of directors
- Authorisation of directors' conflicts or potential conflicts

Meetings

There is an agreed schedule of Board and committee meetings. The adjacent table 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.

The Board met nine times during the year, eight of which were scheduled meetings and one called at short notice. The unscheduled meeting related to operational matters as subsequently included in the early release of the Q3 Interim Management Statement. In addition to standing routine matters, the summary below outlines other matters considered by the Board and its committees.

How the Board spent its time

The chart below provides a summary of the work of the Board and its committees during the year.

At each scheduled meeting the Board received reports from the Chief Executive on operational matters, the Chief Financial Officer on financial performance and the Chief Legal Officer on legal, regulatory and compliance matters. The Board spent considerable time during the year providing constructive input into strategic planning with a full day spent on the annual strategic plan; this included discussions with the divisional CEOs who attended this session and made presentations. Other areas of focus included the monitoring and control of major projects, consideration of the new banking facilities and renewal of the Group's insurance programme. All committee chairmen provided oral updates on the activities of their committees.

There were also informal meetings of the Chairman and the non-executive directors without the executive directors being present. In addition, the non-executive directors are in regular informal communication with the executive directors and other senior leaders.

To increase the visibility of business leaders to the Board, the divisional CEOs join Board meetings on a rotational basis.

How the Board spent its time (%)

Meeting attendance[1]

	Board		Audit Committee		Remuneration Committee		Nominating Committee	
	Possible	Attended	Possible	Attended	Possible	Attended	Possible	Attended
Chairman								
Sir Nigel Rudd	9	9	–	–	3	3	3	3
Executive directors								
Wayne Edmunds	9	9	–	–	–	–	–	–
Victoria Hull[2]	5	5	–	–	–	–	–	–
David Thomas[3]	7	7	–	–	–	–	–	–
Non-executive directors								
Francesco Caio[4]	9	8	5	3	3	2	–	–
Bay Green[5]	9	8	5	5	–	–	3	3
Paul Lester[5]	9	8	–	–	3	3	–	–
Deena Mattar[6]	8	8	4	4	–	–	–	–
Michael Parker	9	9	5	5	3	3	3	3
Dr Martin Read	9	9	–	–	3	3	3	3
Pat Zito	9	9	5	5	–	–	3	3

Notes

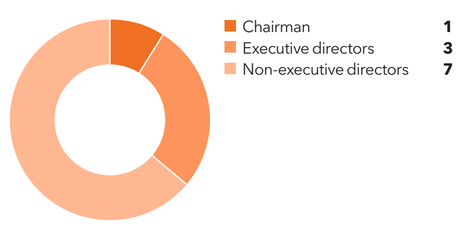
1 Details of meetings of the Contracts Committee are dealt with separately on page 53.
2 Ms Hull was appointed as a director on 29 November 2011 and her attendance is from this date.
3 Mr Thomas was appointed as a director on 28 July 2011 and his attendance is from this date. The table does not include his attendance at meetings while he was Acting Chief Financial Officer.
4 Mr Caio was unable to attend some meetings due to prior commitments. All absences were approved in advance with the Chairman or committee chairmen as relevant and Mr Caio provided input on relevant matters on the agendas before the meetings.
5 Mr Green and Mr Lester were unable to attend the unscheduled Board meeting as it was called at such short notice.
6 Ms Mattar was appointed as a director on 19 May 2011 and her attendance is from this date.

Directors: composition and independence

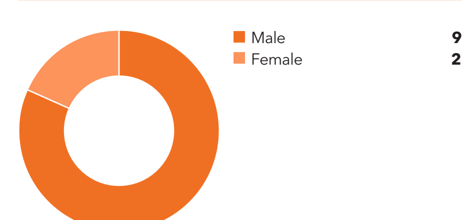
There are currently 11 directors on the Board, comprising the Chairman, seven non-executive directors and three executive directors. As reported in the 2011 Annual Report, Deena Mattar was appointed a non-executive director on 19 May 2011. On 28 July 2011, David Thomas, who had been Acting Chief Financial Officer of the Group since March 2011, was appointed to the role on a permanent basis and became a director of the Company. In addition, Victoria Hull, the Chief Legal Officer, was appointed as a director of the Company on 29 November 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 46 and 47, bring a range of skills and experience to enable them to constructively challenge and develop the Group's strategy and direction.

Balance of non-executive and executive directors (number)



Board gender balance (number)



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 is available for shareholders to contact through the Investor Relations department 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 Code requirement and assists in broadening their experience for the benefit of the Company. None of the executive directors hold any external non-executive directorships.

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 47.

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 line with the Code, all directors are required to seek re-election by shareholders annually. Following the evaluation of performance of each director, the Board is proposing that all directors stand for re-election at the AGM on 13 July 2012. In addition, Victoria Hull and David Thomas, who have joined the Board since the 2011 AGM, will stand for election at the 2012 AGM.

Bay Green, non-executive director and Chairman of the Audit Committee, has now completed a seven-year term. Following a rigorous review by the Nominating Committee last year, it was concluded that Mr Green had a range of skills which added value to the Board and, as a result, they recommended to the Board that his appointment be extended and that he continue as Chairman of the Audit Committee. Following further review the Board is still of this opinion and continues to recommend the re-election of Mr Green as a director.

Michael Parker, non-executive director and Senior Independent Director, will have completed a six-year term in July 2012. Following a rigorous review, the Nominating Committee concluded that Mr Parker has skills, experience and knowledge of value to the Board and, as a result, recommended to the Board the appointment of Mr Parker be extended for a further three-year term and that he continue as the Senior Independent Director. In addition, the Nominating Committee considered the appointments of Sir Nigel Rudd, Francesco Caio and Dr Martin Read, who will have all completed three-year terms in July 2012, and recommended their appointments each be extended for a further three-year term. Dr Martin Read will continue as the Chairman of the Remuneration Committee.

The biographies of all directors are set out on pages 46 and 47.

Company Secretary

The Company Secretary is Victoria Hull, who is also Chief Legal Officer. 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.

As detailed on page 49, Ms Hull was appointed as a director during the year. It was agreed by the Board that her combination of legal skills and commercial acumen would greatly assist the Board's decision making.

Board performance evaluation

An annual review is undertaken of the performance of the Board, committees and individual directors. In line with the Code and best practice, the Company decided in 2011/12 to commission its first independently-facilitated Board performance evaluation. Following a review of facilitators in the market, Egon Zehnder, which does not have any other connection with the Company, was appointed to conduct the evaluation process.

The process began with a briefing discussion with the Chairman and Company Secretary. The approach that Egon Zehnder adopted to conduct the evaluation was to interview each Board member and certain other senior leaders. A structured discussion framework was used so that the discussions were appropriately structured and maximised the value of time spent with individuals.

The face-to-face discussions comprised two parts. The first covered Board roles and processes and the second part addressed the style and content of colleagues' contributions to arrive at an understanding of Board processes, the behaviours of each member and the Board as a whole.

The findings of the discussions were presented to the Board by Egon Zehnder. The review concluded that the Board was aligned in its view of the main issues facing the Company and that it worked effectively as a team.

Summary of 2012/13 actions

The main themes arising from the review, which were agreed would form the basis of the action plan for further improvement in 2012/13, were as follows:

- Continue the focus on strategic discussions;
- Ensure there is appropriate consideration of project risk, including bidding and control of projects;
- Give increased focus to developing the talent of the Group's senior leaders;
- Review the format of Board meetings to ensure there is appropriate time to discuss key issues in depth; and
- Ensure that the Board composition continues to have the appropriate balance of skills, experience and diversity.

As part of the evaluation discussions with Egon Zehnder, views on the performance of individual directors were sought. These views, including the performance of the Chairman, were presented to the Board as a whole.

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.

Following her appointment to the Company, an induction programme was agreed for Deena Mattar which enabled her to meet with key executives at Head Office (including Tax, Treasury, Corporate Communications and Legal) to develop an awareness of core processes, people and the business. She was briefed on Board procedures and governance matters by the Company Secretary. Separately she visited the headquarters of the Invensys Rail and Invensys Controls divisions in order to meet key employees and gain a deeper understanding of the Group's operations. Arrangements to visit the Invensys Operations Management headquarters are to be made during the coming year. Given her appointment as a member of the Audit Committee, she also met with the external auditor.

Induction for David Thomas and Victoria Hull was deemed unnecessary given their existing positions within the Company.

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, updates on the introduction of the Bribery Act and changes in EU governance matters (including the Code and Lord Davies' report on gender diversity).

As part of the annual 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 2011/12, the Board visited Invensys Rail's business location in Madrid. This provided an opportunity for the Board to have an in-depth discussion on several key elements of the Invensys Rail division including major projects, market trends, research and development direction and divisional processes. The Board also had the opportunity to interact with a wider representation of staff through an onsite town hall meeting and tour of the facilities. Finally, directors visited some of the major local installations and met with key clients including Madrid Metro and ADIF.

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 Nominating Committee, Audit Committee and Remuneration Committee are included on pages 54 to 74. 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 general business topics. In addition, the Chairman of the Remuneration Committee held discussions with major shareholders on relevant matters during the course of the financial year.

Shareholders are kept informed of the progress of the Group during the course of the year through half-year and full-year results, 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 (details of which can be found in Shareholder Information on page 170). Other general shareholder information can be found on our website.

The Chief Executive and Chief Financial Officer 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.

Accountability and audit

Financial planning and 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 Group's system of internal control and for reviewing its effectiveness. 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 57, 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 has continued to pay particular consideration to the management of customer contracts and received detailed reports on major contracts from management and the external auditor. As reported in the Group's Q3 Interim Management Statement in January 2012 and referred to elsewhere in this Annual Report and Accounts, a number of operational issues relating to certain nuclear projects in China within Invensys Operations Management and rail signalling projects in Invensys Rail's Asia Pacific operations were identified. Investigations concluded that additional costs would be incurred in order to complete the projects and in some cases revenue recognition has been delayed. An in-depth internal review has been conducted with the result that systems have been further improved and additional risk metrics have been established. 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. The Board is satisfied that, where the need to improve internal controls was identified during the year, appropriate actions are being taken.

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 creating and 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 Board reviews annually the risk management process and periodically conducts external reviews.

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 60 to 74. 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 considers 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 at least one other independent non-executive director. The terms of reference for the Contracts Committee were reviewed during the year and no changes recommended. The terms of reference are available on the Group's website.

The Contracts Committee met on five occasions during the year.

Nominating Committee Report

Report from Sir Nigel Rudd, Chairman of Nominating Committee

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

I have chaired the Nominating Committee since 17 July 2009.

I am pleased to present this report of the Nominating Committee which explains our role and our principal activities during the year.

There have been a number of changes to the Board during the year and this has been an area of focus for the Nominating Committee. We were very pleased to be able to recommend to the Board the appointment of Deena Mattar as a new non-executive director and David Thomas and Victoria Hull as executive directors. They all have high skill levels which will contribute to the effectiveness of the Board and, with their fellow directors, help support the long-term success of the Company.

Membership
All of the members of the Nominating Committee are independent non-executive directors save for myself.

Meetings
The Nominating Committee held three meetings during the year and details of members' attendance are set out on page 49.

Effectiveness of the Nominating Committee
The externally-facilitated Board evaluation (detailed on page 51) confirmed that the Nominating Committee was operating effectively.

Role
The Nominating Committee has a number of responsibilities as set out in its terms of reference which are available on the Group's website. In summary the key roles are to:

- review the structure, size and composition (including the skills, knowledge, experience and diversity) required of the Board compared to its current position and make recommendations to the Board with regard to any changes;
- consider succession planning with regard to the Board and senior leaders; and
- make recommendations to the Board regarding the appointment, reappointment and retirement of directors.

Activities of the Nominating Committee
Set out below are the key matters considered by the Nominating Committee during 2011/12.

Board changes
Following the appointment of Wayne Edmunds (the former CFO) as Chief Executive, the Nominating Committee led the selection process for a new Invensys CFO. We engaged the services of a search agency. The search was undertaken against a detailed job specification and included both internal and external candidates. Having completed the process, the Nominating Committee recommended the appointment of David Thomas who had been Acting Chief Financial Officer since 24 March 2011 and he was subsequently appointed to the Board on 28 July 2011.

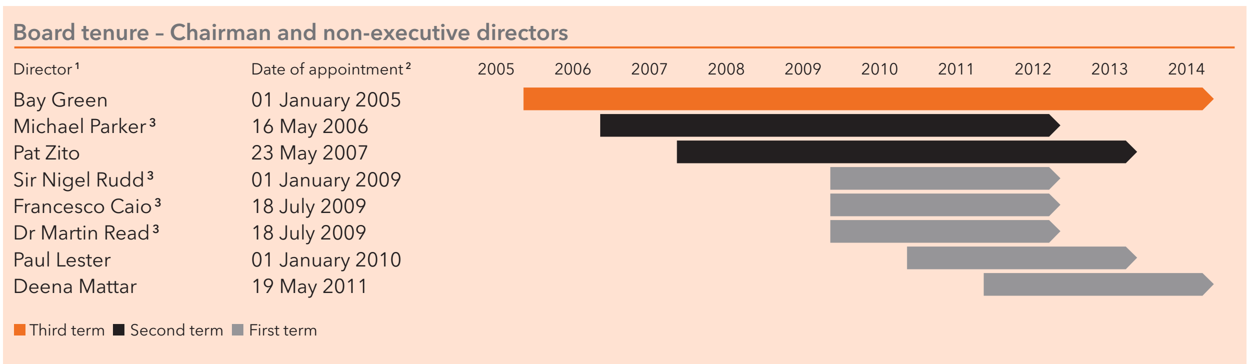
The Nominating Committee also recommended to the Board the appointment of Victoria Hull as an executive director. Ms Hull joined the Company in 2001 as the Group's Chief Legal Officer with responsibility for the management of legal, compliance and commercial risk across the Group. It was agreed that her legal skills and commercial acumen would greatly assist the Board's decision making. She was appointed to the Board on 29 November 2011.

Diversity

The Nominating Committee reviewed the recommendations of Lord Davies' report "Women on Boards" which was published in February 2011. We recognise the importance and benefits of diversity and will continue to take this into account in our recruitment processes whilst ensuring that candidates are selected on merit and ensuring that there is an appropriate range and balance of skills, experience and background on the Board.

Succession planning

Succession planning is a key area of discussion for the Nominating Committee. We reviewed the capability of our leadership team and considered the succession plans for the executive directors. The chart below details the Chairman and non-executive directors and their terms of office. The Nominating Committee regularly reviews this information to help plan the membership of the Board to ensure we have the appropriate skill sets, relevant experience and diversity on the Board. As detailed on page 50, the Board agreed that the appointments of Sir Nigel Rudd, Francesco Caio, Michael Parker and Dr Martin Read each be extended for a further three-year term.



Notes

1. All directors are subject to annual re-election.
2. The commencement of the first term of office is the date of the AGM in the relevant year of appointment.
3. Appointment to be extended for a further three-year term.

Sir Nigel Rudd
Chairman of the Nominating Committee

Audit Committee Report

Report from Bay Green, Chairman of Audit Committee

Members	Qualification
Bay Green (Chairman of Audit Committee)	Fellow of Institute of Chartered Accountants
Francesco Caio	
Deena Mattar	Fellow of Institute of Chartered Accountants
Michael Parker	
Pat Zito	Chartered Accountant

I have chaired the Audit Committee since 2006 and I am pleased to have this opportunity to explain the work of the Audit Committee.

I invite all members of the Board to meetings of the Audit Committee. Executives from the Group's finance team as well as the external auditor and internal audit partner (as required) join our meetings. Consequently, our meetings are well attended.

A description of our activities during the year is set out below but I would like to preface them with a few introductory remarks about some of our work. During the last year, we have continued to work with the executives to enhance key financial controls and resolve promptly any control weaknesses. Our Group was largely built through acquisition and has a very broad geographic spread of operations with the inevitable result that there have been many variations in operating procedures. The Group also continues to take on larger long-term contracts in emerging markets requiring diligent monitoring and control. Against this background the Group has been working to standardise routine accounting processes and strengthen contract execution and commercial management activities on major projects.

One of the Audit Committee's key priorities is to ensure that it provides oversight of the risk processes to enable the Group to achieve its strategic goals. We have therefore continued to focus on risk management and the risk reporting systems that were formalised some six years ago when the calibration of risk was only just starting to gain the general recognition and emphasis that it has today. We aim constantly to improve the risk reporting systems to deliver the key information in a succinct and clear format. We have had our risk systems reviewed against current practices elsewhere and are encouraged that our framework is relatively well advanced. In this connection, we were pleased to be recognised during the year in the Institute of Chartered Secretaries and Administrators (ICSA) Hermes Transparency Awards for the "Best Risk Management Disclosure" in last year's Annual Report. The Board, the Audit Committee and the executives have put much time and effort into risk management.

Finally, in such a widespread and diverse Group it is inevitable that something may go wrong however well managed. In such an event, the Audit Committee examines the circumstances in detail and seeks to ensure that such improvements as are appropriate are implemented without delay.

Membership

All of the members of the Audit Committee are independent non-executive directors.

I am a qualified chartered accountant and Fellow of the Institute of Chartered Accountants in England and Wales (FCA) and have worked in financial roles for over 30 years. My full biography is set out on page 47 together with those of the other members of the Audit Committee. As part of my commitment to the Audit Committee, I attend technical update seminars on a regular basis.

I was delighted that Deena Mattar, FCA, joined the Audit Committee on her appointment as a non-executive director on 19 May 2011. She chairs the audit committee at RM plc and was formerly CFO at Kier Group plc. She is a valuable addition to the Audit Committee.

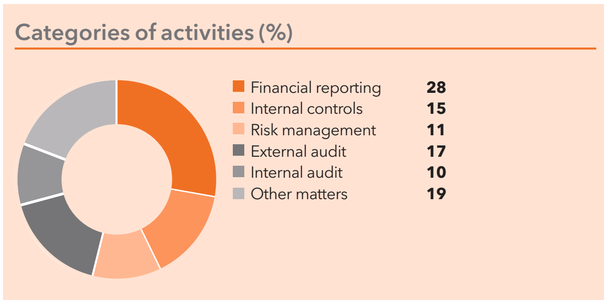
The Board is satisfied that at least one member of the Audit Committee has recent and relevant financial experience as required for corporate governance purposes.

Meetings

The Audit Committee held five scheduled meetings during the year and details of members' attendance are set out on page 49.

The chart below shows how we spent our time and our activities are described in detail on pages 57 to 59.

Categories of activities (%)



In addition, I meet periodically with the Chief Financial Officer and Group Financial Controller for business updates with particular emphasis on financial performance. In advance of each Audit Committee, I meet with key executives and the external auditor to ensure that the reporting and discussion will appropriately address the Audit Committee agenda matters. At the time of the half-year and full-year results, I have a private meeting with the external auditor to ensure that any issues they have identified are raised and discussed appropriately at the subsequent Audit Committee meeting. These are supplementary to those meetings between the Audit Committee and the external auditor without management being present as recommended for good corporate governance.

In addition to their attendance at relevant meetings where internal audit findings are considered, I meet at least once a year with the managing partner from Deloitte LLP who is responsible for the provision of internal audit services to the Group.

Effectiveness of the Audit Committee
The externally-facilitated Board evaluation (detailed on page 51) confirmed that the Audit Committee was operating effectively, being diligent and providing good judgement. An area where we intend to continue to focus in the coming year is long-term contract risk, particularly in the monitoring and control of major long-term contracts.

Role and responsibilities
The Audit Committee has a number of responsibilities as set out in its terms of reference which are available on the Group's website. In summary the key roles are to:

- review and recommend to the Board the financial statements and formal announcements relating to financial performance, including a review of accounting policies and financial reporting judgements;
- examine, on behalf of the Board, the effectiveness of the Group's systems of internal controls and risk management;
- monitor and review the effectiveness of the Internal Audit function;
- oversee the relationship with the external auditor and make recommendations to the Board regarding their appointment and remuneration; and
- agree the policy on auditor independence and the non-audit services policy.

The terms of reference of the Audit Committee are reviewed on an annual basis. No material changes were made to the terms of reference during 2011/12.

The Audit Committee is satisfied that it has fully discharged its responsibilities under its terms of reference.

Activities of the Audit Committee
Set out below are the key matters considered by the Audit Committee during 2011/12.

Financial reporting
We reviewed the form and content of the Group's Annual Report and Accounts and half-year financial report prior to their publication to provide assurance that the disclosures made in the financial statements were set properly in context. As part of this process, we received reports from management and the external auditor. In particular we reviewed areas of critical accounting judgements, estimates and assumptions. These are set out in Note 3 to the Group Financial Statements and include construction and long-term service provision contracts, impairment of goodwill, pension and post-retirement benefits, development costs and provisions and contingent liabilities.

The Audit Committee reviewed the liquidity risk and the basis for preparing the Group accounts on a going concern basis, this being a relatively straightforward activity this year following the securing of new five-year bank facilities.

Internal controls
During the year we have examined the key elements of the internal control processes and provided assurance to the Board on the effectiveness of the internal control environment. Set out below are a number of the activities that have been completed in our review of financial, operational and compliance controls.

- We considered the results of internal control self-assessment returns from the businesses and reviewed management responses to any identified weaknesses.
- We received a report from the external auditor which sets out their key observations on the internal control environment that had arisen during their annual audit, along with management's remediation plans to strengthen further the internal controls within the Group.
- At most meetings we receive a summary of the financial control audits performed by Internal Audit, including the key recommendations. The audits include reviews of processes relating to accounting and finance, revenue, project management and contracting, capital expenditure, procurement, inventory, payroll and general computer controls. Particular attention has been given to ensuring a timely remediation of any audit recommendations.
- We reviewed arrangements under which employees can, on a confidential basis, raise concerns about potential irregularities in financial reporting on other matters, and the arrangements for follow-up actions.
- Significant variances between results and internal forecasts are considered and where such variances are indicative of control failings, management actions to address weaknesses are reviewed.
- We commissioned Deloitte LLP (see section on internal audit on page 59) to conduct a review of compliance with financial controls of the Group's Agent Policy.
- We have monitored the development and implementation of a governance risk and compliance software application for the monitoring of key financial controls across the Group to strengthen the overall control environment. This application (known as the "Internal Control Framework") will document the Group's key financial controls and collect evidence from business units of compliance with those controls.

The Board's review of the risk management process and its statement on internal control is contained on page 53.

Risk management
As the Audit Committee is responsible for reviewing risk management processes and reporting systems on behalf of the Board, presentation of an update from the Risk Committee has become a regular cadence. As well as reviewing the major risks we monitored the mitigation actions put in place by management and reviewed the minutes of the Risk Committee.

The role of the Risk Committee is described fully on pages 37 and 38 and the risk management and review process is outlined on pages 38 and 39. A summary of the principal risks and uncertainties facing the Group is presented on pages 39 to 44.

Audit Committee Report
continued

External auditor

Ernst & Young LLP has been the Company's auditor since October 1999. During the year we reviewed the qualification of the audit team, the rotation policies, auditor independence and their firm-wide procedures and credentials, together with the effectiveness of the audit process. This assessment included feedback from the Group's senior finance management. We also considered Ernst & Young LLP's own annual transparency report which provides information on the structure and governance of the audit firm and outlines their processes relating to audit quality and auditor objectivity. Following the results of the assessment we remained satisfied with the effectiveness and performance of Ernst & Young LLP and recommended to the Board their reappointment which will be considered at the 2012 AGM.

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

As part of the annual assessment we discuss whether there would be any benefit from a change in auditor or a competitive tendering process. Whilst the Audit Committee remains satisfied with the services provided by Ernst & Young LLP, we have been following the debate about changes to the audit system including proposals from the Financial Reporting Council and the European Commission. Pending finalisation of these initiatives and taking into account also the disruption to the finance team in organising a tender process and internal cost to the Group, the Audit Committee does not see any benefit in retendering at this time.

We also discussed the proposed audit plan with the auditor and agreed key initiatives to drive cost efficiencies without impairing the service quality. Long-term contracting is a key area of focus in the audit.

Non-audit services

One of our responsibilities is to ensure the independence of our external auditor is not impaired in the provision of any non-audit services. We have a policy in place which governs the non-audit services that can be appropriately performed by the external auditor. This is set out in the following table.

During the year we receive a quarterly report on non-audit services which we review at our scheduled meetings.

Ernst & Young LLP was not engaged to undertake any significant new areas of work during the year. They continued to provide services under the global tax compliance and legal entity rationalisation programmes, both of which commenced during the previous year. Other potential suppliers were originally considered for these programmes, but the external auditor's knowledge of the Group, and the efficiencies that could be achieved as a result, were key factors for their engagement with this work.

Non-audit services policy

Under this policy the external auditor is prohibited from undertaking any work that is considered to threaten its independence or objectivity in its role. Prohibited work specifically includes bookkeeping services, the design and implementation of financial information systems, appraisal or valuation services, actuarial or legal services and any other work that would involve the external auditor in preparing financial information that is included or disclosed in the audited financial statements, or in making judgements or taking decisions on behalf of management.

The external auditor is permitted to undertake work in other areas as long as it is the most suitable supplier of the service and the terms and conditions of the engagement, including the level of the fee, do not impair its objectivity or independence. Under the policy, the Audit Committee pre-approves the use of the external auditor for routine non-audit services, subject to a quarterly and annual monetary cap. Routine non-audit services include advice on accounting, auditing and financial reporting matters; assurance over internal accounting and risk management procedures; non-statutory audit (including reviews of interim financial information); project assurance and advice on accounting process improvement; due diligence in connection with business acquisitions and disposals; corporate income tax and indirect tax compliance and advisory services; and tax services in respect of business acquisitions and disposals. Specific approval is required from the Audit Committee for any of these services that would result in the pre-approved monetary cap being exceeded, and for any other services that are not included in the list of pre-approved services.

When determining whether the external auditor is the most suitable supplier of a particular service, management and the Audit Committee take into account the cost-effectiveness of the service and the external auditor's knowledge of the Group.

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.

Internal audit

The majority of internal audit work for the Group continues to be outsourced to Deloitte LLP. The Group maintains a small internal audit function, to manage the outsourcing contract and undertake certain assignments. The Deloitte LLP internal audit managing partner has a direct reporting line to me and at least once a year we hold a private meeting without management present.

Internal Audit has reported regularly to the Audit Committee on the results of internal control audits undertaken under a rolling plan agreed in advance. Internal control issues are monitored by the Audit Committee to resolution.

Going forward, Deloitte LLP will operate to an annual plan for financial control audits in conjunction with central continuous monitoring of these controls using the Group's Internal Control Framework application. The internal audit plan will be risk-focused in the audit of financial controls, long-term contracts and other operational audits.

We have reviewed the performance of Internal Audit and consider the function to be effective and to perform in accordance with the relevant professional standards.

Other matters

- We have initiated a review with management of the cost and direction of our information technology systems and are intending to benchmark them in more detail against general practice.
- As sponsor of a programme to reduce the number of legal entities in the Group to simplify the structure and reduce operating costs, we review a six-monthly update on its progress.
- We review and approve for recommendation to the Board, amended delegated authorities which set limits of approval for certain matters to Group management and the divisions.
- We observe closely the monitoring of major projects and receive detailed reports on such projects. Over the last two years we have attended field reviews of major projects.
- We review the adequacy of the Group's borrowing facilities.
- To ensure that the preparation of the annual report and accounts takes account of current best practice we consider guidance issued by the Financial Reporting Council and comments made by shareholder bodies on the adequacy of our disclosures.
- The Audit Committee receives briefings from the Group Financial Controller and Chief Legal Officer about developments in financial reporting standards, compliance matters and best practice to ensure we continue to focus on the right areas.

Bay Green
Chairman of the Audit Committee

Remuneration Report

Dear Shareholder

On behalf of the Board, I am pleased to present our Remuneration Report for 2011/12 which will be proposed for approval at the 2012 AGM.

We have closely followed the widespread debate on the issue of executive pay. We welcomed the opportunity to be involved in discussions and, on behalf of the Company, we submitted a response to the Department of Business Innovation & Skills discussion paper on "Executive Remuneration" and the consultation "The Future of Narrative Reporting".

We note the Government's proposed initiatives to improve the communication of remuneration and are supportive of simplification and transparency in reporting. With this in mind we have endeavoured to enhance our Remuneration Report and, whilst the regulations have not yet been finalised, we have included some additional disclosures particularly with regard to how shareholder views are taken into account, the link between the Company's strategy and remuneration and our use of remuneration consultants.

Our remuneration strategy has remained consistent at Invensys over many years – the Remuneration Committee believes that pay should reflect performance with a high proportion of total reward based on growth in profit and the creation of shareholder value.

As outlined in the Chief Executive's Statement on pages 8 and 9, the Company made some good progress during the year, but our profitability was reduced by additional costs and provisions related to certain major projects. Company performance has, of course, been reflected in the remuneration outcomes for executive directors for 2011/12:

- The financial element of the executive directors' annual incentive plan did not achieve the threshold levels of performance required to deliver a payment;
- For the first time in 2011/12, a personal performance element to the executive directors' annual incentive plan was introduced with a 25% weighting of the overall bonus opportunity. After detailed consideration of the personal performance of each executive director in the context of the performance objectives set, the Remuneration Committee concluded that the executive directors had met or exceeded their personal performance targets for the year. However, in light of the overall financial performance of the Company, the executive directors and the Remuneration Committee agreed that no bonus payment would be made to executive directors in respect of 2011/12;
- The financial performance thresholds for the 2009 Award under the 2007 Long Term Incentive Plan (LTIP) (which had the potential to vest based on performance over three years to 31 March 2012) were not achieved and the 2009 Award will lapse for the Chief Executive (who served as an executive director for that three-year period); and
- The base salary increases of 3% agreed by the Remuneration Committee in relation to the executive directors for 2012/13 are modest and reflect general pay movements in the Group and the broader UK market.

Our reward policy, which remains largely unchanged, is aligned with our broader strategic goals by providing:

- A high proportion of remuneration directly linked to the annual and long-term performance of the Group. Base salaries are, on the whole, set at levels which are around market median for the sectors and countries in which we operate. High levels of reward can only be achieved by delivering our strategic financial performance goals;
- A clear line of sight between divisional leaders' rewards and the business for which they are responsible; and
- A personal element to executive directors' annual incentive measures to ensure a focus on business development objectives and strengthening project management capability.

The table on page 63 provides further detail on the link between our strategy and remuneration.

The Remuneration Committee welcomes the opportunity that this Report provides to explain our remuneration policy and to receive feedback from our shareholders. The Remuneration Committee was pleased that the 2010/11 Report received a 93.8% vote in favour at the 2011 AGM, but we are not complacent and we consider carefully all shareholder views expressed. In the lead up to the 2011 AGM, shareholders and their representative bodies raised two main issues on which I would like to comment:

- **The additional one-off 100% of salary LTIP award made to the current Chief Executive in 2011 (i.e. 100% in addition to the 'normal' 200% as per the LTIP rules).** The Remuneration Committee felt that it was entirely appropriate to make this additional award on appointing a new Chief Executive to give him a bigger potential stake in the future success of the Group under his leadership.
- **The fact that the Remuneration Committee did not apply mitigation in providing termination terms to the former Chief Executive (Ulf Henriksson).** The terms provided were in line with his contractual entitlement based on twelve-months' base salary plus contractual benefits and the bonus paid was a payment earned during the financial year 2010/11. The Remuneration Committee believes in the principle of mitigation and all executive directors' contractual terms include an ability to mitigate by paying money due at termination in instalments. However, in this case, the Remuneration Committee decided that it was more important to move forward under new leadership and to achieve a prompt clean break with the former Chief Executive, and did not therefore invoke the contractual mitigation provisions.

The Remuneration Committee remains satisfied that the two decisions outlined above were appropriate.

In conclusion, we believe that our remuneration strategy incentivises the delivery of strong financial results and the creation of shareholder value.

Dr Martin Read
Chairman of the Remuneration Committee

The contents of the Remuneration Report are as follows:

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	Members Governance Effectiveness of the Remuneration Committee Role Activities of the Remuneration Committee	
2	**Remuneration strategy and policy**	**63**
	Strategic alignment of reward Policy Base salary Annual incentive arrangements Long-term incentive arrangements Pension arrangements Performance graph Remuneration of executive directors 2012/13 Restricted Share Plan (RSP) Savings Related Share Option Scheme Dilution limits Share Ownership Guidelines External directorships Service contracts Tax loans Former Chief Executive	
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1 Remuneration Committee

Members
Dr Martin Read (Chairman of Remuneration Committee)
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. At the invitation of the Chairman of the Remuneration Committee, other non-executive directors also attend meetings. The executive directors, Group Human Resources Director and the Vice President Total Reward are invited to attend and speak at meetings, other than when their own remuneration is being considered. The Chairman of the Company 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 year was received from Kepler Associates, the independent remuneration consultants to the Remuneration Committee, on issues relating to the remuneration arrangements for the executive directors and other senior leaders in the Company.

Kepler Associates was appointed by the Remuneration Committee following a full review in 2010. Their reporting relationship is to the Chairman of the Remuneration Committee, although they work with management in supporting the Remuneration Committee. During the year, they have provided advice to the Remuneration Committee on a broad range of issues including executive base salaries, total remuneration market positioning, incentive design and corporate governance issues as they relate to remuneration. The role of Kepler Associates is to provide independent advice to the Remuneration Committee and they have no delegated authority to make any decisions on behalf of the Remuneration Committee. Kepler Associates does not provide any other advice to the Company. A copy of the terms of appointment of Kepler Associates is available on the Group's website. Kepler Associates is a member of the Remuneration Consultants Group and adheres to its code of conduct.

Hewitt New Bridge Street provided the Remuneration Committee with data in relation to total shareholder return (TSR) and ranking information for the 2007 Long Term Incentive Plan (2007 LTIP). The Remuneration Committee was provided with legal advice from Freshfields Bruckhaus Deringer LLP, who are also lawyers to the Company.

The Remuneration Committee met on three occasions during the year and details of members' attendance are set out on page 49. One of the meetings was structured as a strategy session which focused specifically on the appropriateness of the remuneration policy for the following financial year.

Communication with shareholders is given a high priority and the Chairman of the Remuneration Committee held discussions with shareholders on relevant matters during the course of the financial year.

Effectiveness of the Remuneration Committee
The externally-facilitated Board evaluation (detailed on page 51) confirmed that the Remuneration Committee was operating effectively, being focused and providing good judgement. In light of the increased focus on the oversight of risk management, the Remuneration Committee will continue to pay particular attention to the balance between risk and incentives.

Role
The Remuneration Committee has a number of responsibilities as set out in its terms of reference which are available in full on the Group's website. In summary the key roles are to:

- agree with the Board the 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 and, within the terms of this agreed policy, approve individual remuneration packages;
- approve the targets for any performance-related incentives and approve the total annual payments made under such plans;
- review the design of all share incentive plans and determine the performance conditions;
- ensure that contractual terms on termination, and any payments made, are fair to the individual and the Group, that failure is not rewarded and that the duty to mitigate loss is recognised;
- oversee any major changes in employee benefit structures throughout the Group; and
- select independent remuneration consultants to advise the Remuneration Committee.

The Remuneration Committee is satisfied that it has fully discharged its responsibilities under its terms of reference.

The fee arrangements for non-executive directors are a matter for the Chairman and the executive directors of the Board and further detail is set out on page 70.

Activities of the Remuneration Committee
Set out below are the key matters considered by the Remuneration Committee during 2011/12:

- review of executive directors' and GLT 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 LTIP and the Restricted Share Plan (RSP);
- assessment of performance conditions relating to executive share awards under the 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 and remuneration packages for the current Chief Executive, Chief Financial Officer, Chief Legal Officer and certain other senior leaders (as required by the Remuneration Committee's terms of reference);
- approval of an offer to employees under the Savings Related Share Option Scheme;
- approval of the introduction of the Sustained Divisional Performance Incentive for divisional CEOs which is aimed at rewarding consistent long-term performance;
- annual review of its terms of reference;
- approval of a revised Directors' Expenses Policy;
- annual assessment of independent adviser services and costs; and
- monitoring of discussions around executive pay including review of revised institutional guidelines on remuneration.

2 Remuneration strategy and policy

Strategic alignment of reward

Our remuneration philosophy, which aims to balance risk and reward, encompasses all elements of remuneration including fixed pay, short- and long-term incentives, benefits and career development.

Base salary and benefits	Short- and medium-term incentives	Long-term incentives
To enable Invensys to retain and enhance deep domain knowledge: • remunerating executive directors and senior leaders at a level and in a manner that is capable of attracting, retaining and motivating high-calibre people; and • being market competitive with our reward packages.	To enable Invensys to deliver strong Group performance through sustainable growth in the divisions and strengthened project execution: • at Group-level, focus on EPS and cash flow; • division targets focus on growing orders and operating profit[1], balanced with strong cash delivery; • strong line of sight to lines of business; and • specific incentives focus on sustained financial performance in the divisions and the delivery of major projects over several years.	To enable Invensys to deliver long-term profit growth and superior returns to shareholders with our leaders sharing in this success: • LTIP measures target three-year EPS growth and above-market returns to shareholders; • Share Ownership Guidelines create a community of interest between shareholders and executives aligning executive remuneration with shareholders interests; and • we encourage a high-performance culture that clearly links executive remuneration to the performance of the Group and the individual.

Note

1 Operating profit is arrived at after charging exceptional items.

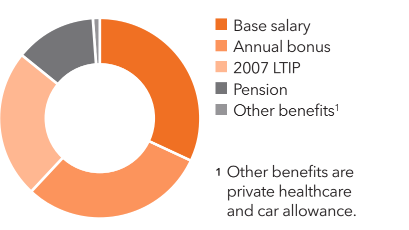
Policy

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

In setting the remuneration policy, the Remuneration Committee is cognisant of the need to balance risk with reward and remains satisfied with its reward practices. The Remuneration Committee considers 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 adjacent chart.

Average expected value of executive directors' packages 2012/13 (%)



Base salary

The Remuneration Committee determines the level of base salary for each executive director annually. For 2011/12, the Remuneration 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. For 2012/13, the Remuneration Committee asked Kepler Associates to provide external market data to further inform its decisions. The Remuneration Committee additionally considers specific factors relating to the individual (including personal performance), internal relativities, wage inflation elsewhere in the Group and more general market movements, and overall affordability. In determining base salary, the Remuneration Committee is mindful of the pay and conditions of employees in the rest of the Group and has received relevant data from the Group Human Resources Director to support its decisions. In establishing individual salary levels, the Remuneration 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. The base salary increases of 3% for the executive directors reflect individual personal performance and are in line with general pay movements in the Group and broader UK market.

On his promotion to Chief Executive with effect from 24 March 2011 (his date of appointment which superseded the normal review date of 1 April), Wayne Edmunds' base salary was set at £650,000. Effective 1 April 2012, his salary was increased by 3% to £669,500.

On promotion to the Board as Chief Financial Officer with effect from 28 July 2011, David Thomas' base salary was set at £360,000. Effective 1 April 2012, his base salary was increased by 3% to £370,800.

On promotion to the Board with effect from 29 November 2011, Victoria Hull's base salary was set at £340,000. Effective 1 April 2012, her base salary was increased by 3% to £350,200.

The Remuneration Committee considers these base salary levels necessary and appropriate to meet its objective of incentivising the executive directors and maintaining competitive pay levels. The next review date for the executive directors' base salaries will be 1 April 2013.

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 (which commenced in 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 2011/12 and 2012/13, the Remuneration 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 Chief Executive and Chief Financial Officer's 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 2011/12 and 2012/13. The Chief Legal Officer's bonus payment for target performance was 75% of base salary with a maximum opportunity of 150% of base salary for 2011/12. For 2012/13, the Remuneration Committee agreed to increase the Chief Legal Officer's bonus opportunity to 100% of base salary for target performance and 200% of base salary for the achievement of super-stretch performance. This change was made to reflect the Chief Legal Officer's contribution to the Group and to create a consistent incentive framework for the three executive directors.

Executive Bonus Plan 2011/12

The targets for executive directors for 2011/12 are set out in the table below:

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

In line with the Executive Bonus Plan rules, the salary used for bonus calculation purposes is the salary effective from 1 April 2011 (adjusted for any promotion increases). In respect of 2011/12 actual performance, the bonus outcome reflects the fact that the underlying EPS as measured fell below the threshold level of performance, and free cash flow performance was also below threshold level, resulting in an aggregate zero payment in relation to the financial measures (75% weighting). In relation to the personal performance element of bonus (25% weighting), after careful consideration the Remuneration Committee concluded that the executive directors had met or exceeded their personal performance targets for the year. However, in light of the overall financial performance of the Group, the executive directors and the Remuneration Committee agreed that no bonus payment would be made to executive directors in respect of 2011/12.

The bonus in excess of 100% of target 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 GLT members). No deferred shares will be awarded to executive directors in respect of 2011/12 as performance was below target.

Having reviewed the results achieved against the financial performance targets set for 2011/12, the Remuneration Committee is satisfied that the targets set were challenging. The threshold for bonus payment in respect to the financial performance targets was not met.

Executive Bonus Plan 2012/13

The targets for executive directors for 2012/13 are set out in the table below:

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

The Remuneration Committee has carefully reviewed the financial and personal performance targets to be applied for the Executive Bonus Plan for 2012/13 and is of the opinion that they are set at appropriately stretching levels. Bonus payments may also be influenced through the exercise of discretion by the Remuneration Committee. Any bonus earned in excess of target by the GLT will be paid in deferred shares as set out previously. 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. The maximum annual award level for executive directors and other participants is normally 200% of base salary, although the Remuneration Committee has discretion to make awards in excess of this level in exceptional circumstances.

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 2011/12 and 2012/13 are set out in the table below.

For awards to be granted in 2012/13, the Remuneration Committee considered all relevant factors and determined that the two parts of the award, half TSR and half EPS, continue to provide a focus on both comparative shareholder returns and delivering stretching internal financial targets. In the opinion of the Remuneration Committee these TSR and EPS targets are appropriately stretching.

With regard to the EPS part of the awards to be granted in 2012/13, the EPS compound annual growth rate (CAGR) target would normally use the EPS for the prior year as the base (i.e. EPS for 2011/12). The Group's reported EPS for 2011/12 was depressed due to the loss of profit associated with certain projects as discussed in the Business Review on pages 18 to 30 and the Remuneration Committee therefore decided that the 2011/12 reported EPS does not form an appropriate base on which to apply the CAGR target for the purpose of LTIP performance measurement. Reported underlying EPS for 2011/12 was 13.4p. In determining the adjusted base EPS figure of 17.2p for awards to be granted in 2012/13, the Remuneration Committee took account of the:

- historical EPS performance of the Group;
- exceptional impact which certain projects had on profitability in 2011/12; and
- need to set performance conditions which are both stretching and achievable.

The use of an adjusted base EPS figure of 17.2p for awards to be granted in 2012/13 means that the CAGR target is significantly more stretching than it would be using the underlying EPS for 2011/12 of 13.4p.

In light of the significant decrease in the share price of the Company over the year, the Remuneration Committee gave detailed consideration as to whether it would be appropriate to reduce the level of awards to be granted to executive directors in 2012/13 to a level below the normal award of 200% of base salary. However, given that the adjusted EPS base for the EPS part of the awards to be granted in 2012/13 is 28% higher than the underlying EPS for 2011/12, and our wish to incentivise executive directors to deliver a significant improvement in shareholder value going forward, awards at the normal level of 200% of base salary are considered appropriate.

For 2011/12 and 2012/13 the performance criteria 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 comprises constituents of Standard & Poor's Global 1200 Capital Goods Index[1]. • In relation to the 2011 Award[2] the performance period for the Company and each constituent of the Index is based on the three-month average to 31 March 2014 compared with the three-month average to 31 March 2011. • In relation to the 2012 Award[3], the performance period for the Company and each constituent of the Index is based on the three-month average to 31 March 2015 compared with the three-month average to 31 March 2012.	• 25% will vest for performance equal to the unweighted median of the Index constituents. • 100% will vest for actual upper quartile (75th percentile) performance. • Vesting between these points will be on a straight-line basis.
50% of award	Compound annual growth rate (CAGR) in underlying EPS	• Chosen to provide a focus on delivering stretching internal financial targets. • In relation to the 2011 Award, growth is measured from a base of 19.8 pence, this being the 2010/11 underlying EPS. • In relation to the 2012 Award, growth is measured from a base of 17.2 pence, this being an adjusted 2011/12 EPS as explained above. • The Remuneration Committee has discretion to exclude from the calculation one-off items of a non-recurring nature to ensure that the primary focus is on growth in underlying EPS.	• 25% will vest for underlying EPS CAGR of 5%. • 100% will vest for underlying EPS CAGR of 15%. • Vesting between these points will be on a straight-line basis.

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.
2 Awards granted under the 2007 LTIP in 2011/12.
3 Awards granted under the 2007 LTIP in 2012/13.

The Remuneration Committee will in all cases retain discretion to ensure that, as an additional condition for the vesting of any TSR or EPS shares, the underlying overall performance of the Company has been satisfactory. Factors that will be taken into account will include consistency of earnings 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 GLT level. This is to address specific recruitment and retention issues facing the Group. For awards granted in 2012/13, for the GLT members who are not executive directors (i.e. the three divisional CEOs and the Group Human Resources Director), the percentage of shares under award to which performance conditions do not apply will be reduced from 30% to 20% of the award to better reflect the ability of senior executives to influence performance.

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 Remuneration Committee, the financial performance tests will be measured at the normal vesting date. If a participant resigns their award will lapse unless the Remuneration Committee exercises its discretion. Subject to the outcome of the financial performance tests, the award will then be pro rated based on the period of service, save that the Remuneration 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 Remuneration 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 Remuneration 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 Remuneration Committee), returns to shareholders are considered to be at a superior level.

2011 Award to Chief Executive

As disclosed in the 2011 Annual Report, related to his appointment as Chief Executive, Mr Edmunds was granted an exceptional 2007 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. This exceptional 2007 LTIP award was agreed by the Remuneration 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.

2009 Award under the 2007 LTIP

For awards granted under the 2007 LTIP in 2009 (2009 Award) the performance condition was measured over the three-year period to 31 March 2012. Following determination of the TSR (provided by an independent third party) and EPS performance conditions, neither targets were met. The 2009 Award granted to the Chief Executive will therefore lapse in full.

In respect of the Chief Financial Officer and Chief Legal Officer, their 2009 Awards were granted prior to their appointment as executive directors and performance conditions do not apply to 30% of their awards; this portion of shares will vest following the third anniversary of the date of grant.

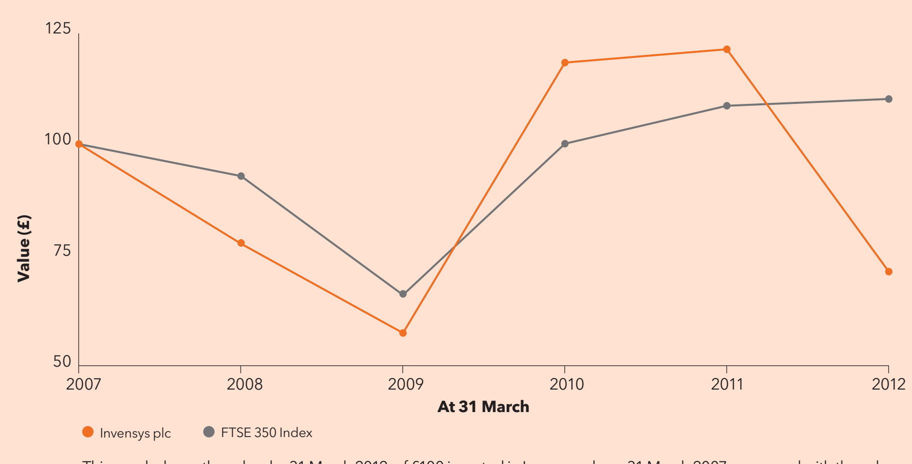
Pension arrangements

The Chief Executive receives a cash allowance in lieu of pension with a value of 30% of base salary.

As both the Chief Financial Officer and the Chief Legal Officer joined Invensys prior to the defined benefit plan being closed to new participants in 2004, both continue to participate in a defined benefit plan for part of base salary. These defined benefit arrangements are based on a specified salary and are part externally-funded through a registered pension scheme and part reserved for within the Company. The specified salaries covered by the defined benefit arrangements are £280,000 and £321,360 with regard to the Chief Financial Officer and Chief Legal Officer respectively. The pension benefit on the difference between actual salary and the level covered by the defined benefit arrangements is delivered through a cash allowance with a value of 30% of that difference.

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 350 Index. This Index has been selected because the Company has been a constituent for the whole of the period illustrated.



This graph shows the value, by 31 March 2012, of £100 invested in Invensys plc on 31 March 2007 compared with the value of £100 invested in the FTSE 350 Index. The other points plotted are the values at intervening financial year-ends.

Remuneration of executive directors 2012/13

The table below summarises the key elements of executive directors' remuneration as they will apply for 2012/13.

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, experience and performance.	• Paid monthly in cash. • Reviewed annually and fixed for the 12 months normally commencing 1 April. • With effect from 1 April 2012 salaries set at: Chief Executive – £669,500; Chief Financial Officer – £370,800; and Chief Legal Officer – £350,200.
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 target bonus). • Maximum bonus opportunity of up to 200% of target bonus for achievement of truly exceptional super-stretch financial and personal performance.	• Target level of bonus set at 100% of base salary. • Maximum bonus opportunity 200% of base salary. • Bonus up to target performance level paid in cash; bonus earned in excess of target performance level will be paid in deferred shares (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 normal annual grant of 200% of base salary; actual award levels determined by individual performance.	• Annual award level will be 200% of base salary and subject to a three-year performance period ending 31 March 2015. • Awards will vest subject to following performance conditions: 50% TSR performance; and 50% EPS CAGR (for 2012/13 against a base EPS figure of 17.2p). • Shares will only vest if the Remuneration Committee is satisfied that the underlying performance of the Company has been sufficient.
Pension or cash allowance	• Reward ongoing contribution during Invensys career.	• Facilitate the accumulation of an appropriate level of post-retirement benefits.	• Chief Executive – entitled to pension allowance equal to 30% of base salary in lieu of pension entitlement (currently paid in part as a contribution to a personal pension scheme). • Chief Financial Officer/Chief Legal Officer – have defined benefit pension arrangements with respect to base salary up to a specified salary, with a cash allowance of 30% of base salary in lieu of pension accrual on salary above that level.
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 will retain shares (net of taxes) acquired through the vesting of executive share awards until target holding is achieved. Existing shareholdings and market purchased shares 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.	• Executive directors' contracts provide for 12 months' notice. Termination payment 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 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 on a pro rated basis in defined good leaver cases or for any other reason at the discretion of the Remuneration Committee.

Savings Related Share Option Scheme
The Company operates its Savings Related Share Option Scheme (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 2011/12. Awards granted in 2009/10 will mature in September 2012 and participants will be entitled to purchase their shares under option at the original option price.

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 2012, awards made under the Company's share schemes represented 4.2% (2011: 3.9%) 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.

Service contracts
Policy
The 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 provisions. It is the Company's policy to achieve these objectives wherever possible. It is the Company's intention that new executive service contracts continue to 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 contracts of the executive directors.

Director	Date of contract	Notice period	Summary of the main provisions
Wayne Edmunds	17 May 2011	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 (including a pension allowance of 30% of base salary) 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.
David Thomas	8 November 2011	12 months	The termination provisions (including rights in the event of a change of control) of the service contracts for Mr Thomas and Ms Hull are the same as for Mr Edmunds.
Victoria Hull	15 May 2012	12 months	

Tax loans

It is the Company's policy that if, as a result of the Company recharging a proportion of an executive's employment costs to the US business, the executive incurs temporary double taxation by UK and US tax authorities, a US Group subsidiary may advance a loan to the executive equal to the amount of such double taxation, pending a refund from HMRC.

The Company anticipates that a loan with respect to temporary double taxation may be advanced by Invensys Systems Inc to Mr Edmunds in the 2012/13 financial year in respect of his employment duties undertaken for the Company in the US in 2011.

As described in last year's Remuneration Report, in 2009/10, Mr Henriksson incurred both US and UK tax liabilities in respect of his employment duties undertaken for the Company in the US in 2009. Invensys Systems Inc advanced a loan to Mr Henriksson in June 2010 equal to £312,691 and this loan will be repayable to Invensys Systems Inc on HMRC refunding the amount to Mr Henriksson.

Former Chief Executive

Mr Henriksson retired from the Board on 24 March 2011 and was paid a payment in lieu of notice as fully described in last year's Remuneration Report. On 11 May 2012, the Company agreed with Mr Henriksson that, in consideration for a release and waiver of any claims Mr Henriksson might have against the Company:

(a) consistent with its policy in relation to temporary double taxation in the UK and US (as described above), the Company would make a payment to cover the funding costs of any temporary double taxation arising in respect of Mr Henriksson's post-2009/10 periods of employment with the Company, calculated by reference to a notional interest rate of 3% per annum;

(b) in relation to certain non-business use by Mr Henriksson of a company driver and car/fuel benefits which potentially gave rise to a taxable benefit (a matter previously disclosed to shareholders), the Company will be responsible for the cost of any settlement with HMRC, subject to Mr Henriksson's cooperation in dealing with this matter;

(c) as permitted by the rules, the Company will accelerate the vesting of 124,491 shares conditionally awarded to Mr Henriksson in 2010 under the Deferred Share Plan (with an additional 4,163 shares to be released representing accrued dividend shares), rather than such shares vesting in 2013 (as previously indicated to shareholders);

(d) in relation to relocation costs of up to £50,000 (plus tax thereon) if Mr Henriksson relocates to the US (an obligation previously disclosed to shareholders), the Company will extend the period in which it will pay such costs, from 24 March 2012 to 31 August 2012; and

(e) the Company will pay a maximum of £30,000 in respect of legal fees incurred by Mr Henriksson in connection with the termination of his employment.

As reported in the 2011 Annual Report, Mr Henriksson was entitled to contractual benefits during his notice period. Such taxable benefits amounted to £17,744 and comprised private medical insurance, certain third party fees incurred for UK and US tax filings, and a notional interest charge on the loan made in relation to UK and US double taxation as detailed above.

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 would be subject to mitigation.

Sir Nigel Rudd spends, on average, two days per week in his role as Chairman. The Company funds the cost of a car and driver based on two fifths of the annualised cost of the provision of such services.

Sir Nigel Rudd's fee is £270,000 per annum and he participates in the same arrangement as the other non-executive directors, whereby £8,000 of his fee per annum is paid in shares.

The Remuneration 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.

As set out in the Corporate Governance report, Sir Nigel Rudd's appointment was for a three-year term from his date of appointment as Chairman. The Board has agreed to extend his appointment as Chairman for a further three-year term on the same terms as set out in his original contract.

Non-executive directors' appointments, terms and fees
Non-executive directors serve the Company under letters of appointment that do not contain any notice period and are initially appointed for a term of three years. In accordance with the Code all directors will seek re-election annually by shareholders.

Non-executive directors do not participate in any bonus or performance-related plans or any of the Company'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 by taking account of time commitments and responsibilities, together with comparative market rates and benchmarking data. The fee structure for the non-executive directors is set out below.

Non-executive directors' fees	
Basic fee	£52,000[1]
Additional fee for chairing committees	
– Audit	£14,000
– Remuneration	£10,000
Additional fee for Senior Independent Director	£10,000

Note
1 Basic fee includes £8,000 paid in shares. The Remuneration table on page 71 includes that part of the fee used to purchase shares, and the shares are included in Directors' interests, also on page 71.

The portion of fee paid in shares helps to 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 Report was approved by the Board of directors on 16 May 2012 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 2012 was as follows:

	Notes	Salary/fees[7] £	Pension allowance £	Benefits[8] £	Bonuses £	**2012[9] Total £**	2011 Total £
Chairman							
Sir Nigel Rudd		270,000	–	–	–	**270,000**	270,000
Executive directors							
Wayne Edmunds	1, 6	650,000	195,000	20,380	nil	**865,380**	1,266,711
Victoria Hull	2	115,949	1,907	5,015	nil	**122,871**	–
David Thomas	3	242,769	16,185	10,397	nil	**269,351**	–
Non-executive directors							
Francesco Caio		52,000	–	–	–	**52,000**	52,000
Bay Green		66,000	–	–	–	**66,000**	66,000
Paul Lester		52,000	–	–	–	**52,000**	52,000
Deena Mattar	4	45,133	–	–	–	**45,133**	–
Michael Parker		62,000	–	–	–	**62,000**	62,000
Dr Martin Read		62,000	–	–	–	**62,000**	62,000
Pat Zito		52,000	–	–	–	**52,000**	52,000
Former director							
Ulf Henriksson	5, 6	–	–	–	–	**–**	3,726,222
		1,669,851	**213,092**	**35,792**	**nil**	**1,918,735**	**5,608,933**

Notes

1. On 24 March 2011 Mr Edmunds was appointed Chief Executive and his emoluments for 2010/11 combine the relevant pro rata payments as Chief Financial Officer and Chief Executive.
2. Ms Hull was appointed a director of the Company on 29 November 2011 and her emoluments for 2011/12 relate to the period from this date to 31 March 2012.
3. Mr Thomas was appointed a director of the Company on 28 July 2011 and his emoluments for 2011/12 relate to the period from this date to 31 March 2012.
4. Ms Mattar was appointed a non-executive director of the Company on 19 May 2011 and her emoluments for 2011/12 relate to the period from this date to 31 March 2012.
5. 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 was 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.
6. The emoluments of the highest-paid director, Mr Edmunds, were £865,380 (2011: Mr Henriksson £3,726,222 relating to the period 1 April 2010 until he left the Company on 24 March 2011).
7. 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 69 and 70. The shares purchased on their behalf are included in Directors' interests set out below.
8. Taxable and other benefits for executive directors comprise items such as cash allowance in lieu of a company car, life assurance/permanent health insurance and private medical insurance. All executive directors are entitled to such benefits. In respect of Mr Edmunds, the benefits for 2010/11 and 2011/12 include £3,705 and £3,030 respectively relating to fees incurred for UK and US tax filings.
9. No directors waived emoluments in respect of the year ended 31 March 2012 (2011: 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 2012[2,3] ordinary shares of 10p each	As at 1 April 2011 (or date of appointment if later)
Francesco Caio	1	**4,331**	2,640
Wayne Edmunds		**87,756**	33,153
Bay Green	1	**18,710**	16,629
Victoria Hull		**290,357**	290,357
Paul Lester	1	**3,498**	1,833
Deena Mattar	1	**1,790**	–
Michael Parker	1	**10,416**	8,196
Dr Martin Read	1	**4,539**	2,527
Sir Nigel Rudd	1	**15,849**	3,864
David Thomas		**363,659**	306,277
Pat Zito	1	**21,966**	19,820

Notes

1. As described on pages 69 and 70, 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 closing price of an ordinary share on 30 March 2012 (the last trading day prior to the year end) was 199.00p. Between 1 April 2011 and 31 March 2012, the highest mid-market closing price was 351.80p and the lowest mid-market closing price was 180.90p.
3. There have been no further changes in the interests of directors in service at the year end in ordinary shares between 1 April 2012 and 16 May 2012.

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 held by 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. Further information about the 2007 LTIP and the relevant performance conditions relating to these conditional awards are set out on pages 65 to 66 of this report and in Note 29 to the Group Financial Statements.

	Notes[1]	As at 1 April 2011 (or at date of appointment if later)	Awards granted during the year	Awards vested during the year	Awards lapsed/ forfeited during the year	**As at 31 March 2012**	Mid-market closing share price at date awards granted (p)	Mid-market closing share price at date awards released (p)	Performance period	Normal vesting date
Wayne Edmunds										
2008	2	91,861	–	59,709	32,152	**–**	138	210	1 Apr 2008– 31 Mar 2011	12 Nov 2011
2009	3	343,155	–	–	–	**343,155**	223	–	1 Apr 2009– 31 Mar 2012	24 Jun 2012[8]
2010		304,245	–	–	–	**304,245**	283	–	1 Apr 2010– 31 Mar 2013	17 Jun 2013[8]
2011		–	627,665	–	–	**627,665**	318	–	1 Apr 2011– 31 Mar 2014	29 Jun 2014[8]
Victoria Hull[4]										
2009	3	249,816	–	–	–	**249,816**	223	–	1 Apr 2009– 31 Mar 2012	24 Jun 2012[8]
2010	5	195,433	–	–	–	**195,433**	283	–	1 Apr 2010– 31 Mar 2013	17 Jun 2013[8]
2011	6	175,746	–	–	–	**175,746**	318	–	1 Apr 2011– 31 Mar 2014	29 Jun 2014[8]
David Thomas[4]										
2008	2	35,950	–	35,950	–	**–**	312	251	1 Apr 2008– 31 Mar 2011	23 May 2011[8]
2009	3	82,357	–	–	–	**82,357**	223	–	1 Apr 2009– 31 Mar 2012	24 Jun 2012[8]
2010	5	64,428	–	–	–	**64,428**	283	–	1 Apr 2010– 31 Mar 2013	17 Jun 2013[8]
2011	7	231,753	–	–	–	**231,753**	318	–	1 Apr 2011– 31 Mar 2014	29 Jun 2014[8]

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 performance conditions.
2. The TSR performance of the 2008 Award was met in full, but the EPS portion of the 2008 Award did not meet its target performance and therefore lapsed. In respect of Mr Edmunds and Mr Thomas, their 2008 Awards were granted prior to their appointment as executive directors and 30% of their award was not subject to performance conditions; therefore, in aggregate, their 2008 Awards vested at 65%. Mr Thomas' shares were released on 16 August 2011 and a further 1,245 shares were issued representing accrued dividends. Mr Edmunds' shares were released on 15 November 2011 and a further 2,070 shares were issued representing accrued dividends.
3. Following consideration of the performance conditions of the 2009 Award, the Remuneration Committee determined (as outlined on page 66) that the threshold underlying EPS CAGR and TSR performance had not been met and shares subject to these targets will lapse. In respect of Ms Hull's and Mr Thomas' 2009 Awards these were granted prior to their appointment as executive directors and 30% of the award is not subject to performance conditions; therefore, in aggregate, Ms Hull's and Mr Thomas' 2009 Awards will vest at 30%.
4. Mr Thomas and Ms Hull were appointed as directors of the Company on 28 July 2011 and 29 November 2011 respectively.
5. Awards granted to Ms Hull and Mr Thomas under the 2007 LTIP in 2010 were made prior to their appointment as executive directors and therefore 30% of these awards are not subject to performance conditions.
6. The award granted to Ms Hull under the 2007 LTIP in 2011 was made prior to her appointment as an executive director and therefore 30% of this award is not subject to performance conditions.
7. The award granted to Mr Thomas under the 2007 LTIP in 2011 was made prior to his appointment as an executive director but during his appointment as Acting Chief Financial Officer and 100% of this award is subject to performance conditions.
8. Award granted as nominal price option and, as such, can be exercised during a three-month period following the vesting date.

Restricted Share Plan (RSP)

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 2009 RSP Award listed below was granted to Ms Hull while she was employed as Group General Counsel and Company Secretary to the Company and prior to her appointment as an executive director. Further information about the RSP can be found on page 68 of this Report and at Note 29 in the Group Financial Statements.

	Notes[1]	At date of appointment	Awards granted during the year	Awards vested during the year	**As at 31 March 2012**	Mid-market closing share price at date awards granted (p)	Mid-market closing share price at date awards vested (p)	Normal vesting date
Victoria Hull								
2009	2	46,940	–	–	**46,940**	225	–	29 Jun 2012[3]

Notes

1 No awards lapsed or were forfeited during the year under review. The award shown in the table excludes shares representing accrued dividends.
2 Ms Hull was appointed a director of the Company on 29 November 2011.
3 Award granted as nominal price option and, as such, can be exercised during a three-month period following the vesting date.

Deferred Share Plan (DSP)

Any bonus earned under the Company's Executive Bonus Plan in excess of target 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 64 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 DSP are set out below:

	Notes[1]	As at 1 April 2011 (or at date of appointment if later)	Awards granted during the year	Awards vested during the year	**As at 31 March 2012**	Mid-market closing share price at date awards granted (p)	Mid-market closing share price at date awards vested (p)	Deferral period	Normal vesting date
Wayne Edmunds									
2010		47,697	–	–	**47,697**	338	–	15 Mar 2010–16 Jun 2013	17 Jun 2013
2010		9,234	–	–	**9,234**	283	–	17 Jun 2010–16 Jun 2013	17 Jun 2013
2011		–	82,085	–	**82,085**	318	–	29 Jun 2011–28 Jun 2014	29 Jun 2014
Victoria Hull									
2010	2	23,810	–	–	**23,810**	338	–	15 Mar 2010–16 Jun 2012	17 Jun 2012
2010	2	4,610	–	–	**4,610**	283	–	17 Jun 2010–16 Jun 2012	17 Jun 2012
2011	2	38,804	–	–	**38,804**	318	–	29 Jun 2011–28 Jun 2013	29 Jun 2013

Notes

1 No awards lapsed or were forfeited during the year under review. The awards shown in the table exclude shares representing accrued dividends.
2 The 2010 and 2011 awards granted to Ms Hull were granted prior to her appointment as a director and therefore will be released two years after the date of grant.

Directors' defined benefit pension entitlements

For the year ended 31 March 2012 Mr Thomas and Ms Hull participated in defined benefit pension arrangements sponsored by the Company for part of base salary. The specific salaries covered by the defined benefit arrangements are £280,000 and £321,360 with regard to Mr Thomas and Ms Hull respectively.

The defined benefit schemes provide benefits which are part externally funded and part reserved for within the Company. The amounts of cash allowances are specified in the Remuneration table on page 71.

The following table gives details of the individual directors' pension values for the year ended 31 March 2012, including the disclosures required by the Listing Rules of the UK Listing Authority:

	Notes	**Accrued pension at year ended 31 March 2012 £ per annum**	Increase in accrued pension £ per annum	Transfer value of accrued pension £ per annum	Transfer value of accrued pension at end of previous year £	Change in transfer value over year net of contributions £	Increase in accrued pension net of revaluation £ per annum	Transfer value of increase net of revaluation and contributions made £
Victoria Hull	1, 2, 3, 4, 5	**115,154**	13,754	2,170,144	1,525,022	645,122	8,459	159,414
David Thomas	1, 2, 3, 4, 5	**89,444**	20,778	2,186,022	1,404,519	764,655	17,192	403,326

Notes

1 The benefits relate to participation in the approved pension scheme up to the scheme earnings limit of £129,600 for the year ended 31 March 2012. With respect to earnings above that limit, benefits are provided through an unfunded supplementary pension arrangement.

2 The changes in transfer values over the year reflect any changes in pensionable pay and the service of each director. They also take into account changes in the actuarial assumptions, particularly those related to equity and bond returns.

3 All benefits are due at age 60.

4 Pensions in payment are guaranteed to increase by the level of inflation subject to a maximum increase of 5% per annum.

5 For death before retirement a spouse's pension of two thirds of the member's prospective pension is payable, if applicable, plus a capital sum of four times the member's salary. For death after retirement a spouse's pension of two thirds of the member's pension is payable. In the event of death after leaving service but before commencement of pension a spouse's pension of two thirds of the accrued preserved pension is payable plus a capital sum of five times the accrued preserved pension. In all circumstances children's allowances are also payable if applicable.

Directors' Report

The directors submit their Report and the audited accounts for the year ended 31 March 2012 as set out on pages 80 to 164 and page 169. This Report should be read in conjunction with the Corporate Governance report on pages 48 to 59.

Principal activities

The principal activities for the year are contained in the Business Review on pages 17 to 44. The principal subsidiaries which contributed to the Group's profit or net assets in the year are listed on page 169.

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 2012 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 on pages 17 to 44 with further commentary and specific areas of note incorporated into the sections shown in the adjacent table.

The Business Review contains the information required for a management report as set out in the Disclosure and Transparency Rules (DTRs) and takes account of the best practice guidance contained in the Accounting Standards Board's Reporting Statement "Operating and Financial Review".

Review of the business: key sections

Section	Nature of relevant content	Pages
Chairman's Statement	Further commentary on the Group's strategy, performance and future development	6 to 7
Chief Executive's Statement	Further commentary on the Group's strategy, performance and future development	8 to 9
Key Performance Indicators	A discussion of key financial performance measures	18 to 19
Financial Review	A discussion of key financial performance measures	26 to 30
Financial Policies	Information on our use of financial instruments and a description of our financial risk management objectives and policies	31
Risks and Uncertainties	Identification of principal risks and uncertainties facing the Group, their impact and mitigation	37 to 44

Dividend

The Board has recommended the payment of a final dividend for the year of 2.75 pence per share which, subject to approval by shareholders at the AGM on 13 July 2012, will be paid on 3 August 2012 to shareholders on the register at 22 June 2012. With an interim dividend of 1.65 pence per share paid during the year, the total dividends payable in respect of the year ended 31 March 2012 are 4.4 pence per share (2011: 4.0 pence per share).

We introduced a dividend reinvestment plan (DRIP) in 2011, which enables shareholders to reinvest their dividends directly into Invensys shares. For further information on the DRIP please contact Equiniti, the Company's registrars.

Board of directors

The current directors of the Company and their biographical details are given on pages 46 and 47. A statement of their remuneration and interests in the ordinary shares of the Company are set out in the Remuneration Report on pages 71 to 74.

As previously announced, David Thomas was appointed Chief Financial Officer and a director of the Company on 28 July 2011, and Victoria Hull was appointed as a director of the Company on 29 November 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 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. However in accordance with the Code, all directors will seek re-election by shareholders at the 2012 AGM. In addition David Thomas and Victoria Hull who joined the Board during the year, will stand for election at the 2012 AGM. Further information can be found in the Corporate Governance report on page 50.

The Chairman's Letter and Notice of AGM explains the Board's reasons for and recommendations regarding the election and 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 48.

Directors' indemnity and insurance

The Company maintains directors' and officers' liability insurance which provides appropriate cover for legal actions brought against its directors or officers.

Acquisitions and disposals

No acquisitions or disposals of operations took place during the year under review.

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 133 and 134.

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 below), 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 133 to 134 and 135 to 142 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 135 to 142. 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 2011 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 24 May 2011). 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 £4.1 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 2012 AGM in line with revised guidelines issued by the Association of British Insurers.

In addition, the Company was authorised at the 2011 AGM to purchase in the market up to 80,971,705 ordinary shares, representing approximately 10% of the issued share capital of the Company. Although this authority was not used by the Company, approval will be sought from shareholders at the 2012 AGM to renew this standard authority for a further year. The Company will only buy back shares if the directors believe that it is in the shareholders' best interests.

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[1] in issued share capital
Ameriprise	4.565% (indirect interest) 0.16% (direct interest) 0.01% (nominal interest)
BlackRock	4.37% (indirect interest) 0.73%[2] (nominal interest)
Lloyds Banking Group	6.75% (indirect interest)
Marathon Asset Management	4.94% (indirect interest)
Prudential	9.88% (direct interest) 0.04% (indirect interest)
Ruffer	5.11% (direct interest)
Schroders	5.105% (indirect interest)
Standard Life Investments	2.853% (direct interest) 1.495% (indirect interest)

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

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

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 a range of active policies that extend from business compliance, as reflected in our Code of Conduct, to developing the full capabilities of our people. We continue to focus on promoting diversity and equal opportunities in areas ranging from selection and recruitment to training and development so that we can meet the needs of our businesses and customers around the world. If necessary, reasonable adjustments will be made for the benefit of disabled employees. People with disabilities 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 that impact our employees. To satisfy that need, the Group provides employees with published financial and economic information through its consultative procedures and through groups such as the Invensys European Employees' Forum (IEEF). Invensys encourages employees' involvement in the Company's performance through the Invensys Savings Related Share Option Scheme. Invensys also encourages the involvement of technical, 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. Greater detail on these topics and further information concerning employees and social and community issues is set out in the Corporate Responsibility report, which begins on page 32.

Charitable and political contributions

During the year, Group donations to charities and community causes worldwide were £0.2 million (2011: £0.3 million), with UK charities receiving £nil (2011: £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 2011 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. Shareholders will be asked to renew this resolution at the 2012 AGM.

No political donations were made during the year under review.

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 £117 million (2011: £129 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 44. 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 Schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, the directors disclose that in the event of a change of control in the Company: (i) the banking facilities described in Note 21, totalling £600 million at 31 March 2012, could cease to be available to the Group; (ii) a Master Service Agreement dated 15 May 2007, made with Genpact International, LLC for the provision of outsourced business services in relation to certain finance, IT 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.

The executive directors' service contracts contain provisions which would take effect in the event of a change of control. In the event of a material adverse change to their title, responsibilities or status following a change of control of the Company, they would be entitled to terminate their employment and receive a payment equal to the termination payment set out in the Remuneration Report on page 69. 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 2012 AGM.

Annual General Meeting

The AGM of the Company will be held on Friday, 13 July 2012 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.

Post balance sheet event

On 10 May 2012 Invensys acquired 100% of the share capital of PHW Inc., a privately held manufacturer of cab signalling systems and other safety electronic train control systems for the North America mainline and mass transit industries for a cash consideration of £11 million. The net assets acquired were approximately £6 million.

By order of the Board of directors

Victoria Hull

Victoria Hull
Chief Legal Officer 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, United Kingdom Generally Accepted Accounting Practice.

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 18 to 45. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 26 to 30. 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 39 to 44.

The Group remains generally in a sound financial position with net cash, banking facilities totalling £600 million in place until 2017, 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 2012, 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

David Thomas
Chief Financial Officer

16 May 2012

The directors of Invensys plc are listed on pages 46 and 47.

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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 2012 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 37. 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 78, 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 2012 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 matters 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 48 to 59 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 78, 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 UK Corporate Governance 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 2012 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
16 May 2012

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 Group 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	2012 £m	2011 £m
Continuing operations			
Revenue	4,5	**2,539**	2,486
Operating expenses before exceptional items		**(2,330)**	(2,224)
Operating profit before exceptional items	4,5	**209**	262
Exceptional items	5	**(56)**	(21)
Operating profit		**153**	241
Finance costs	9	**(13)**	(9)
Finance income	9	**3**	4
Other finance charges – IAS 19	25	**(3)**	(14)
Profit before taxation		**140**	222
Taxation – UK	10	**(4)**	–
Taxation – overseas	10	**(31)**	(37)
Profit after taxation – continuing operations		**105**	185
Loss after taxation – discontinued operations	11	**(6)**	(7)
Profit for the year		**99**	178
Attributable to:			
Profit after taxation – continuing operations			
– Equity holders of the parent		**104**	181
– Non-controlling interests		**1**	4
		105	185
Loss after taxation – discontinued operations			
– Equity holders of the parent		**(6)**	(7)
Profit for the year			
– Equity holders of the parent		**98**	174
– Non-controlling interests		**1**	4
		99	178
Earnings/(loss) per share			
Continuing operations			
Earnings per share (basic)	12	**12.8p**	22.4p
Earnings per share (diluted)	12	**12.8p**	22.2p
Discontinued operations			
Loss per share (basic)	12	**(0.7)p**	(0.9)p
Loss per share (diluted)	12	**(0.8)p**	(0.9)p
Total Group			
Earnings per share (basic)	12	**12.1p**	21.5p
Earnings per share (diluted)	12	**12.0p**	21.3p

Consolidated statement of comprehensive income

For the year ended 31 March	Notes	2012 £m	2011 £m
Profit for the year		**99**	178
Other comprehensive income			
Cash flow hedges:			
– Losses taken to equity		**–**	(2)
Exchange differences on translation of foreign operations		**(12)**	(20)
Actuarial (loss)/gain recognised on defined benefit pension schemes	25	**(31)**	30
Movement in irrecoverable element of potential future pension surplus	25	**(4)**	–
Taxation on components of other comprehensive income	10	**21**	13
Other comprehensive (loss)/income for the year, net of tax		**(26)**	21
Total comprehensive income for the year		**73**	199
Attributable to:			
Equity holders of the parent		**71**	198
Non-controlling interests		**2**	1
		73	199

Consolidated balance sheet

At 31 March	Notes	2012 £m	2011 £m
ASSETS			
Non-current assets			
Property, plant and equipment	13	**227**	237
Intangible assets – goodwill	14	**289**	291
Intangible assets – other	15	**168**	160
Deferred income tax assets	16	**70**	46
Amounts due from contract customers	18	**11**	–
Trade and other receivables	19	**26**	22
		791	756
Current assets			
Inventories	17	**145**	155
Amounts due from contract customers	18	**273**	233
Trade and other receivables	19	**500**	526
Cash and cash equivalents	20	**263**	349
Income tax receivable		**10**	8
Derivative financial instruments	22	**3**	2
		1,194	1,273
Assets held for sale	23	**10**	11
TOTAL ASSETS		**1,995**	2,040
LIABILITIES			
Non-current liabilities			
Provisions	24	**(74)**	(88)
Income tax payable		**(15)**	(31)
Deferred income tax liabilities	16	**(15)**	(18)
Amounts due to contract customers	18	**(23)**	(11)
Trade and other payables	26	**(10)**	(10)
Pension liabilities	25	**(426)**	(467)
		(563)	(625)
Current liabilities			
Trade and other payables	26	**(533)**	(546)
Amounts due to contract customers	18	**(205)**	(203)
Borrowings	21	**(1)**	(1)
Derivative financial instruments	22	**(3)**	(4)
Income tax payable		**(49)**	(27)
Provisions	24	**(65)**	(85)
		(856)	(866)
TOTAL LIABILITIES		**(1,419)**	(1,491)
NET ASSETS		**576**	549
Capital and reserves			
Equity share capital	27	**81**	81
Treasury shares	27	**(1)**	(2)
Other reserves	28	**2,515**	2,527
Retained earnings		**(2,039)**	(2,092)
Equity holders of parent		**556**	514
Non-controlling interests		**20**	35
TOTAL EQUITY		**576**	549

These accounts were approved by the directors on 16 May 2012 and are signed on their behalf by:

Wayne Edmunds
Chief Executive

David Thomas
Chief Financial Officer

Consolidated statement of changes in equity

	Notes	Issued share capital (Note 27) £m	Treasury shares (Note 27) £m	Share premium account (Note 28) £m
2012				
Balance at 1 April 2011		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	–	–	–
Issue of shares		–	–	1
Purchase of own shares by Employee Share Trust		–	(1)	–
Distribution of own shares under share-based payment arrangements		–	2	–
Dividends paid to equity shareholders	35	–	–	–
Dividends paid to non-controlling interests		–	–	–
Disposal of non-controlling interests[1]		–	–	–
Purchase of non-controlling interests		–	–	–
Balance at 31 March 2012		81	(1)	349
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		–	(4)	–
Distribution of own shares under share-based payment arrangements		–	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

1 2012: Final distribution to the non-controlling shareholders of Baan (2011: Includes £41 million interim distribution made to 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	(8)	110	2,527	(2,092)	**514**	35	**549**
–	–	–	–	–	98	**98**	1	**99**
–	–	–	(13)	(13)	(14)	**(27)**	1	**(26)**
–	–	–	(13)	(13)	84	**71**	2	**73**
–	–	–	–	–	4	**4**	–	**4**
–	–	–	–	1	–	**1**	–	**1**
–	–	–	–	–	–	**(1)**	–	**(1)**
–	–	–	–	–	(2)	**–**	–	**–**
–	–	–	–	–	(33)	**(33)**	–	**(33)**
–	–	–	–	–	–	**–**	(1)	**(1)**
–	–	–	–	–	–	**–**	(6)	**(6)**
–	–	–	–	–	–	**–**	(10)	**(10)**
1,582	495	(8)	97	2,515	(2,039)	**556**	20	**576**
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**

Consolidated cash flow statement[1]

For the year ended 31 March	Notes	2012 £m	2011 £m
Operating activities			
Operating profit:			
– Continuing operations	4,5	**153**	241
Depreciation of property, plant and equipment	13	**37**	41
Amortisation of intangible assets – other	15	**31**	26
Provision for impairment charged to operating profit	4,5	**15**	10
Loss on sale of assets and operations	4	**1**	–
Purchase of property, plant and equipment	13	**(38)**	(32)
Sale of property, plant and equipment		**–**	2
Non-cash charge for share-based payment	29	**4**	8
Decrease/(increase) in inventories		**8**	(5)
Decrease/(increase) in receivables		**5**	(49)
Increase in net amounts due from contract customers		**(30)**	(40)
(Decrease)/increase in payables and provisions		**(33)**	55
Difference between pension contributions paid and amounts recognised in operating profit		**(77)**	(82)
Cash generated from operations		**76**	175
Income taxes paid		**(34)**	(30)
Interest paid		**(10)**	(6)
Facility fees paid		**(5)**	–
Net cash flows from operating activities		**27**	139
Investing activities			
Interest received		**3**	5
Expenditure on intangible assets – other		**(51)**	(61)
Sale of trade investments		**–**	1
Purchase/disposal of non-controlling interests		**(16)**	(43)
Purchase of subsidiaries	32	**–**	(6)
Net cash flow arising on disposal of operations	32	**(7)**	(4)
Cash payments on swap contracts		**(1)**	(9)
Cash flows from investing activities		**(72)**	(117)
Financing activities			
Purchase of Invensys plc shares		**(1)**	(4)
Proceeds from exercise of share options		**1**	–
Dividends paid to equity holders of the parent		**(33)**	(28)
Dividends paid to non-controlling interests		**(1)**	(3)
Cash flows from financing activities		**(34)**	(35)
Net decrease in cash and cash equivalents		**(79)**	(13)
Cash and cash equivalents at beginning of year		**349**	364
Net foreign exchange difference		**(7)**	(2)
Cash and cash equivalents at end of year	20	**263**	349

1 Further information on the consolidated cash flow statement is set out in Note 31.

Notes to the Financial Statements

1 General information

The Group Financial Statements of Invensys plc for the year ended 31 March 2012 were authorised for issue in accordance with a resolution of the directors on 16 May 2012 and the balance sheet was signed on the Board's behalf by Wayne Edmunds and David Thomas. 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 further operations have been discontinued in the current year. Additional costs have been incurred relating to prior year disposals. Operations presented as discontinued are explained in Note 11.

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 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.
- Invensys Rail – provides 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.
- 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 Our Business Model section of this Annual Report and Accounts. This is the basis on which the Group is managed.

2 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 2012. The consolidated Financial Statements are presented in sterling and all amounts are rounded to the nearest million (£m) unless otherwise indicated.

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.

IAS 24	Related Party Disclosures (revised)
Amendments to IFRS 1	Limited Exemption from Comparative IFRS 7 Disclosures
Amendments to IFRIC 14	Prepayments of a Minimum Funding Requirement
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments
Improvements to IFRSs	Annual improvements May 2010

Adoption of these standards and interpretations has not had any material effect on the Financial Statements of the Group.

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.

2 Accounting policies continued

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 IFRSs (1 April 2004), business combinations prior to IFRS transition were not restated to comply with IFRS 3, Business Combinations.

Exceptional items

Exceptional items are material items of income and expense that are 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 dates 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 a 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 foreign subsidiaries are translated into sterling at average rates of exchange ruling during the year. Assets and liabilities of foreign 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 IFRSs (1 April 2004) 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 vest 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.

2 Accounting policies continued

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 IFRSs, 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 91.

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 IFRSs (1 April 2004). 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.

2 Accounting policies continued

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.

2 Accounting policies continued

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.

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.

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 (IASs/IFRSs)		Effective date – financial periods beginning on or after
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
IAS 1	Amendments to IAS 1 — Presentation of Items of Other Comprehensive Income	1 July 2012
IFRS 1	Amendments to IFRS 1 — Government Loans	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 19	Amendments to IAS 19 Employee Benefits	1 January 2013
IAS 27	Separate Financial Statements (2011)	1 January 2013
IAS 28	Investments in Associates and Joint Ventures (2011)	1 January 2013
IAS 32	Amendments to IAS 32 — Offsetting Financial Assets and Financial Liabilities	1 January 2014
IFRS 9	Financial Instruments: Classification and Measurement (and subsequent amendments)	1 January 2015

International Financial Reporting Interpretations Committee (IFRIC)		Effective date – financial periods beginning on or after
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	1 January 2013

The Group expects to adopt these standards and interpretations in accordance with their effective dates.

The amendments to IAS 19 are expected to have an impact on the amounts recognised in profit or loss and other comprehensive income for the Group's defined benefit pension plans. Under the amendments, the return on plan assets recognised in profit or loss within 'Other finance charges — IAS 19' will be calculated using a plan's discount rate, rather than its expected rate of return on plan assets. Assuming that the discount rate is lower than the expected rate of return on plan assets, this will result in an increase in the net charge recognised as 'Other finance charges — IAS 19' within profit or loss. The extent of the impact will depend on the discount rates and expected rates of return on plan assets that apply when the amendments are first adopted in the financial year ending 31 March 2014. There will be a corresponding change in the amount recognised in other comprehensive income, so that the net impact on total comprehensive income will be nil. The Group will assess the impact of this and other aspects of the amendments to IAS 19 prior to their first adoption.

Other than the amendment to IAS 19 noted above, 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.

3 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.

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 2012 was £1,233 million (2011: £1,193 million). The net amount due from contract customers on projects in progress at 31 March 2012 was £56 million (2011: £19 million). Further details of amounts due from and to contract customers are included in Note 18.

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 2012 was £289 million (2011: £291 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 14.

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 2012 was £426 million (2011: £467 million). Further details, including an analysis of the sensitivity of the Invensys Pension Scheme (UK) and Invensys Pension Plan (US) 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 2012, the carrying amount of capitalised development costs was £155 million (2011: £150 million). Further details including an explanation of impairment losses recognised are given in Note 15.

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 2012, the estimated amount of liabilities requiring provisions was £139 million (2011: £173 million). Further details are given in Note 24. Details of the Group's contingent liabilities are set out in Note 30.

4 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 Our Business Model section; 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 11.

Operating results of each of these divisions are monitored 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) comprise amounts considered to be net operating assets/(liabilities) used for operating performance assessment; items not included in these net operating assets/(liabilities) are identified in the reconciliation on page 98.

These segments are monitored by divisional chief executives and reviewed by the Chief Executive and Chief Financial Officer.

Segment revenues	**Total revenue 2012 £m**	**Inter-company revenue[1] 2012 £m**	**External revenue 2012 £m**	Total revenue 2011 £m	Inter-company revenue[1] 2011 £m	External revenue 2011 £m
Division						
Invensys Operations Management	**1,283**	**11**	**1,272**	1,156	9	1,147
Invensys Rail	**775**	**–**	**775**	772	–	772
Invensys Controls	**493**	**1**	**492**	567	–	567
Eliminations	**(12)**	**(12)**	**–**	(9)	(9)	–
Continuing operations	**2,539**	**–**	**2,539**	2,486	–	2,486

Segment profit	**Operating profit/(loss) before exceptional items 2012 £m**	Operating profit/(loss) before exceptional items 2011 £m	**Operating profit/(loss) after exceptional items 2012 £m**	Operating profit/(loss) after exceptional items 2011 £m
Division				
Invensys Operations Management	**96**	123	**90**	123
Invensys Rail	**116**	129	**93**	118
Invensys Controls	**35**	56	**25**	35
Total segment	**247**	308	**208**	276
Corporate	**(38)**	(46)	**(55)**	(35)
Continuing operations	**209**	262	**153**	241
Reconciliation to profit before taxation:				
Finance costs			**(13)**	(9)
Finance income			**3**	4
Other finance charges – IAS 19			**(3)**	(14)
Profit before taxation – continuing operations			**140**	222

Components of segment profit: depreciation and amortisation	**Depreciation 2012 £m**	Depreciation 2011 £m	**Amortisation 2012 £m**	Amortisation 2011 £m
Division				
Invensys Operations Management	**14**	15	**14**	12
Invensys Rail	**5**	5	**17**	14
Invensys Controls	**17**	20	**–**	–
Corporate	**1**	1	**–**	–
Continuing operations	**37**	41	**31**	26

1 Inter-company revenue is invoiced at prevailing market prices.

4 Operating segment information continued

Components of segment profit: other material items	Restructuring 2012 £m	Restructuring 2011 £m	Impairment: PPE[1]/ intangibles 2012 £m	Impairment: PPE/ intangibles 2011 £m	Loss on sale of assets and operations 2012 £m	Loss on sale of assets and operations 2011 £m	Other operating exceptional items[2] 2012 £m	Other operating exceptional items[3] 2011 £m
Division								
Invensys Operations Management	(6)	–	–	–	–	–	–	–
Invensys Rail	(13)	(5)	(10)	(6)	–	(1)	–	1
Invensys Controls	(6)	(8)	(3)	(4)	(1)	1	–	(10)
Corporate	(6)	(8)	(2)	–	–	–	(9)	19
Continuing operations	(31)	(21)	(15)	(10)	(1)	–	(9)	10

Segment net assets/(liabilities)	Net assets/ (liabilities) 2012 £m	Net assets/ (liabilities) 2011 £m
Division		
Invensys Operations Management	189	216
Invensys Rail	183	121
Invensys Controls	157	169
Total segment net assets	529	506
Corporate	(79)	(107)
Continuing operations	450	399
Reconciliation to total net assets/(liabilities):		
Intangible assets – goodwill	289	291
Cash and cash equivalents	263	349
Pension liabilities	(426)	(467)
Other (borrowings, current and deferred income tax assets/(liabilities))	–	(23)
Total net assets	576	549

Components of segment assets: capital expenditure (capex)	Capex: PPE 2012 £m	Capex: PPE 2011 £m	Capex: intangibles – other 2012 £m	Capex: intangibles – other 2011 £m
Division				
Invensys Operations Management	18	13	21	19
Invensys Rail	8	6	30	42
Invensys Controls	10	10	–	–
Corporate	2	3	–	–
Continuing operations	38	32	51	61

1 Property, plant and equipment.
2 Other exceptional items includes £3 million relating to the Invensys Pension Plan (US) settlement loss.
3 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.

Geographical analysis

Revenue from external customers	External revenue 2012 £m	External revenue 2011 £m
Geographical analysis by origin[1]		
United Kingdom	**368**	353
Other regions:		
– Rest of Europe	**615**	656
– United States	**772**	740
– North America – other	**112**	113
– South America	**149**	145
– Asia Pacific	**396**	366
– Africa and Middle East	**127**	113
	2,171	2,133
	2,539	2,486
Geographical analysis by destination[2]		
United Kingdom	**309**	299
Other regions:		
– Rest of Europe	**573**	604
– United States	**629**	623
– North America – other	**129**	123
– South America	**217**	213
– Asia Pacific	**507**	453
– Africa and Middle East	**175**	171
	2,230	2,187
	2,539	2,486

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[3]	Non-current assets 2012 £m	Non-current assets 2011 £m
Geographical analysis by origin[4]		
United Kingdom	**229**	230
Other regions:		
– Rest of Europe	**121**	125
– United States	**252**	245
– North America – other	**31**	32
– South America	**19**	25
– Asia Pacific	**52**	48
– Africa and Middle East	**6**	5
	481	480
	710	710

3 Non-current assets for this purpose consist of property, plant and equipment, intangible assets – goodwill, intangible assets – other and other receivables.
4 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 2012 or 31 March 2011.

5 Operating profit and analysis of revenue

	Notes	2012 £m	2011 £m
Revenue		2,539	2,486
Cost of sales		(1,766)	(1,649)
Gross profit		773	837
Distribution costs		(10)	(14)
Administrative costs		(455)	(466)
Research and development costs		(99)	(95)
Operating profit before exceptional items		**209**	**262**
Restructuring costs	4	(31)	(21)
Other operating exceptional items:			
– Settlement loss on post-retirement benefits	25	(3)	–
– Past service credit on post-retirement benefits[1]	25	–	20
– Curtailment gain on post-retirement benefits	25	–	1
– Other operating exceptional items[2]		(6)	(11)
Total other operating exceptional items		(9)	10
Impairment: property, plant and equipment	13	(5)	(4)
Impairment: intangible assets – other	15	(10)	(6)
Loss on sale of assets and operations	4	(1)	–
Exceptional items		**(56)**	**(21)**
Operating profit		**153**	**241**

1 2011: arose as a result of amendments made to the benefits payable under the terms of the US Healthcare Plan.
2 2012: charge for environmental provisions of £6 million (2011: includes net £10 million of costs to settle a legal case).

	2012 £m	2011 £m
Analysis of revenue		
Sale of goods – products	1,177	1,196
Sale of goods – solutions	1,130	1,049
Rendering of services	232	241
Revenue	2,539	2,486
Finance income	3	4
Total revenue	**2,542**	**2,490**

Operating profit has been arrived at after charging the following:

	Notes	2012 £m	2011 £m
Depreciation of property, plant and equipment	13	37	41
Amortisation of intangible assets – other[1]	15	31	26
Total depreciation and amortisation expense		68	67
Operating lease payments	30	38	37
Employee benefits expense	7	927	892

1 Of which £3 million (2011: £3 million) is recorded within cost of sales, £24 million (2011: £20 million) in research and development costs, and £4 million (2011: £3 million) in administrative costs.

The disclosures related to discontinued operations are set out in Note 11.

6 Fees for audit and other services

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

	2012 £m	2011 £m
Audit of the financial statements	**1.5**	2.0
Local statutory audits for subsidiaries	**1.9**	1.9
Fees for audit	**3.4**	3.9
Fees for non-audit services:		
– Audit related assurance services[1]	**0.3**	0.3
– Taxation compliance services	**1.3**	1.3
– Taxation advisory services	**0.7**	0.6
– Other non-audit services[2]	**0.4**	0.3
Fees for non-audit services	**2.7**	2.5
Fees for audit and non-audit services	**6.1**	6.4

1 2012: includes £0.2 million (2011: £0.2 million) for the half year review.
2 2012: includes £0.2 million (2011: £0.3 million) for services in respect of a programme to rationalise the legal entities of the Group.

In addition Ernst & Young LLP received £0.1 million (2011: £0.1 million) for the audit of the Group Pension Schemes.

7 Staff numbers and employee benefits expense

The average number of people employed by the Group (including directors) during the year was as follows:

	2012	2011
Production	**15,583**	15,367
Marketing and distribution	**2,080**	2,045
Finance and administration	**1,578**	1,601
Research and development	**1,393**	1,328
	20,634	20,341

The aggregate payroll costs of these people were as follows:

	Notes	2012 £m	2011 £m
Wages and salaries		**781**	706
Social security costs		**87**	102
Pension and post-retirement costs	25	**37**	37
Share-based payment expense	29	**5**	9
Other payroll costs		**17**	38
		927	892

Details of Directors' remuneration are contained within the Remuneration Report on pages 60 to 74.

8 Foreign exchange on financial items

Foreign exchange on financial items continues to be £nil, as in previous periods, as foreign exchange differences arising on derivatives used in the management of the Group's cash are offset by foreign exchange differences on corresponding cash balances and intra-Group loans which do not form part of the lender's net investments in foreign operations.

9 Finance costs and finance income

	Note	2012 £m	2011 £m
Interest payable on bank loans and overdrafts		(1)	–
Total interest expense for financial instruments not at fair value through profit and loss		(1)	–
Credit facility fees		(7)	(6)
Amortisation of refinancing costs		(1)	(1)
Unwind of discount of provisions	24	(1)	(1)
Other		(1)	(1)
Exceptional finance costs[1]		(2)	–
Finance costs		(13)	(9)
Bank interest receivable[2]		3	4
Finance income		3	4
Net finance costs		(10)	(5)

1 Relates to the write-off of capitalised facility fees for the multi-currency credit facility with a term of five years from July 2008 which was cancelled on 30 March 2012.
2 Total interest income for financial instruments not at fair value through profit and loss.

10 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	2012 £m	2011 £m
UK corporation tax			
– Current income tax charge		4	1
– Adjustments in respect of prior years		–	(1)
		4	–
Overseas tax			
– Current income tax charge		55	43
– Adjustments in respect of prior years		(4)	(5)
		51	38
Total current income tax – continuing operations		55	38
Deferred income tax			
– Current deferred income tax credit		(16)	(2)
– Adjustments in respect of prior years		(4)	1
Total deferred income tax – continuing operations		(20)	(1)
Taxation – continuing operations		35	37
Taxation – discontinued operations	11	(2)	–
Total income tax expense		33	37

Restructuring costs and intangible asset impairment gave rise to an exceptional tax credit of £8 million in the current year (2011: £3 million exceptional tax credit resulting from restructuring costs and impairment of property, plant and equipment).

Total income tax expense is analysed as follows:

	Continuing 2012 £m	Discontinued 2012 £m	Total 2012 £m	Continuing 2011 £m	Discontinued 2011 £m	Total 2011 £m
Analysed as:						
– Taxation – UK	4	–	4	–	–	–
– Taxation – overseas	31	(2)	29	37	–	37
	35	(2)	33	37	–	37

(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:

	2012 £m	2011 £m
Current income tax related to components of other comprehensive income		
Current income tax credit on defined benefit schemes	(14)	–
	(14)	–
Deferred income tax related to components of other comprehensive income		
Deferred income tax credit on defined benefit schemes	(7)	(13)
	(7)	(13)
Total income tax credit related to components of other comprehensive income	(21)	(13)

(iii) Total tax reconciliation

The total tax charge for the year of £33 million (2011: £37 million) is lower than the standard rate of UK corporation tax of 26% (2011: 28%). The key factors are explained below:

	2012 £m	2011 £m
Profit/(loss) before tax:		
– Continuing operations	140	222
– Discontinued operations	(8)	(7)
	132	215
Tax at the UK corporate income tax rate of 26% (2011: 28%)	34	60
Current year losses and other temporary differences not recognised	7	10
Tax effect of expenses that are not/(are) deductible	3	(6)
Tax effect of utilisation of tax losses not previously recognised	(3)	(27)
Recognition of carried forward losses in current year	(7)	(6)
Differences in effective overseas tax rates	9	11
Adjustments in respect of prior years	(10)	(5)
Total income tax expense	33	37

(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.

10 Taxation continued

(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 judgement 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 judgement 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 judgement 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 and the Supreme Court heard the appeal in February 2012. Several questions were separately referred back to the European Court of Justice for further clarification and a hearing took place in February 2012 at the European Court of Justice. The courts' decisions are awaited. 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.

11 Discontinued operations

No operations have been discontinued in the year ended 31 March 2012 or 31 March 2011. In the year ended 31 March 2012, there was a net charge of £6 million (2011: £7 million) representing additional costs of £8 million (2011: £7 million) incurred in respect of prior year disposals against which there was a £2 million tax credit (2011: £nil).

12 Earnings/(loss) per share

	2012	2011
Earnings/(loss) per share (pence)		
Continuing operations		
Basic	**12.8p**	22.4p
Diluted	**12.8p**	22.2p
Before exceptional post-retirement benefits – settlement loss, past service credit and curtailment gain; and exceptional finance costs		
Basic	**13.4p**	19.8p
Diluted	**13.4p**	19.6p
Discontinued operations		
Basic	**(0.7)p**	(0.9)p
Diluted	**(0.8)p**	(0.9)p
Total Group		
Basic	**12.1p**	21.5p
Diluted	**12.0p**	21.3p
Weighted average number of shares (million)		
Basic	**812**	808
Effect of dilution – share options	**2**	8
Diluted	**814**	816
Earnings (£m)		
Continuing operations		
Basic	**104**	181
Before exceptional post-retirement benefits – settlement loss, past service credit and curtailment gain; and exceptional finance costs		
– Operating profit	**153**	241
– Exceptional settlement loss	**3**	–
– Exceptional past service credit	**–**	(20)
– Exceptional curtailment gain	**–**	(1)
– Exceptional finance costs	**2**	–
– Finance costs	**(13)**	(9)
– Finance income	**3**	4
– Other finance charges – IAS 19	**(3)**	(14)
– Operating profit less net finance costs	**145**	201
– Taxation on operating profit less net finance costs	**(35)**	(37)
– Non-controlling interests	**(1)**	(4)
Underlying	**109**	160
Discontinued operations		
Basic	**(6)**	(7)
Total Group		
Basic	**98**	174

The basic earnings/(loss) per share for the year has been calculated using 812 million shares (2011: 808 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.

13 Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Total £m
Cost			
At 1 April 2010	220	703	923
Additions	6	26	32
Disposals	(5)	(67)	(72)
Disposal of subsidiaries	(3)	(6)	(9)
Exchange adjustments	(7)	(26)	(33)
Classified as held for sale	(13)	–	(13)
At 31 March 2011	198	630	828
Additions	**14**	**24**	**38**
Disposals	**(3)**	**(61)**	**(64)**
Exchange adjustments	**(3)**	**(16)**	**(19)**
At 31 March 2012	**206**	**577**	**783**
Accumulated depreciation and impairment losses			
At 1 April 2010	98	551	649
Charge for the year	5	36	41
Provision for impairment	4	–	4
Disposals	(4)	(62)	(66)
Disposal of subsidiaries	(1)	(4)	(5)
Exchange adjustments	(3)	(21)	(24)
Classified as held for sale	(8)	–	(8)
At 31 March 2011	91	500	591
Charge for the year	**8**	**29**	**37**
Provision for impairment[1]	**2**	**3**	**5**
Disposals	**(3)**	**(60)**	**(63)**
Exchange adjustments	**(1)**	**(13)**	**(14)**
At 31 March 2012	**97**	**459**	**556**
Net book value			
At 31 March 2011	107	130	237
At 31 March 2012	**109**	**118**	**227**

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 2011	–	1	1
At 31 March 2012	**–**	**–**	**–**

[1] Includes £1 million of a property impairment reversal.

There was £1 million (2011: £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 £nil (2011: £1 million) has been pledged as security for liabilities.

Included in plant and equipment at 31 March 2012 was an amount of £12 million (2011: £6 million) relating to expenditure for plant and equipment in the course of construction.

Impairment losses of £5 million in the year ended 31 March 2012 comprises £3 million for the write-down of buildings and equipment associated with a restructuring project undertaken in Invensys Controls and £2 million for the write-down of land and buildings in Corporate (2011: £4 million related to the write-down of buildings in Invensys Controls resulting from further changes in production). 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.

14 Intangible assets – goodwill

	£m
Cost	
At 1 April 2010	461
Additions	3
Exchange adjustments	(18)
At 31 March 2011	446
Exchange adjustments	(3)
At 31 March 2012	**443**
Accumulated impairment losses	
At 1 April 2010	160
Exchange adjustments	(5)
At 31 March 2011	155
Exchange adjustments	(1)
At 31 March 2012	**154**
Net book value	
At 31 March 2011	291
At 31 March 2012	**289**

An analysis of the carrying amount of goodwill by operating segment is set out below:

	2012 £m	2011 £m
– IMServ	**33**	33
– Remaining Invensys Operations Management	**240**	242
Invensys Operations Management	**273**	275
Invensys Rail	**15**	15
Invensys Controls	**1**	1
Continuing operations	**289**	291

Goodwill acquired in business combinations has been allocated to four cash generating units (CGUs). 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.

14 Intangible assets – goodwill continued

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 2012 %	**Growth rate[1] 2012 %**	Discount rate 2011 %	Growth rate[1] 2011 %
Invensys Operations Management				
– IMServ	**11.07**	**2.4**	11.04	2.5
– Remaining Invensys Operations Management	**12.20**	**3.3**	12.50	3.0
Invensys Rail	**9.11**	**2.9**	10.66	2.7
Invensys Controls	**12.32**	**3.0**	13.10	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 (2011: £nil).

Sensitivity to change in assumptions

With respect to the assessment of 'value in use' of all CGUs, except IMServ, management believes that no reasonable change in any of the above key assumptions would cause the carrying value of those CGUs to exceed its recoverable amount. With respect to IMServ the details are tabulated below:

Amount by which the CGU's recoverable amount exceeds its carrying amount		£1.2m
Key assumption	Terminal growth rate	Discount rate
Value of key assumption	2.4%	11.1%
Amount by which the value assigned to the key assumption must change in order for the CGU's recoverable amount to be equal to its carrying amount (% points)	0.2%	0.1%

The assumptions for the terminal growth rate would change if the long term GDP for market growth differ from the actual growth. The discount rate would change if there is a change to the Group's weighted cost of capital caused by a change in market rates or the risk profile of the Group.

15 Intangible assets – other

	Note	Development costs £m	Computer software costs £m	Patents, trademarks and licences £m	Total £m
Cost					
At 1 April 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
Additions		**44**	**7**	**–**	**51**
Disposals		**(1)**	**(3)**	**(1)**	**(5)**
Exchange adjustments		**(4)**	**3**	**1**	**–**
At 31 March 2012		**305**	**51**	**1**	**357**
Accumulated amortisation					
At 1 April 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
Charge for the year		**26**	**5**	**–**	**31**
Impairment losses for the year[1]		**10**	**–**	**–**	**10**
Disposals		**(1)**	**(3)**	**–**	**(4)**
Exchange adjustments		**(1)**	**2**	**–**	**1**
At 31 March 2012		**150**	**38**	**1**	**189**
Net book value					
At 31 March 2011		150	10	–	160
At 31 March 2012		**155**	**13**	**–**	**168**

1 Impairment losses of £10 million in 2012 (2011: £6 million) relate to write-off of development projects in Invensys Rail.

16 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 2010	(43)	52	(2)	8	15
Credit /(charge) to income statement	5	2	–	(6)	1
Transfers	1	–	–	(1)	–
Credit to other comprehensive income	–	–	13	–	13
Acquisition of subsidiary	(1)	–	–	–	(1)
Exchange differences	1	(3)	1	1	–
At 31 March 2011	(37)	51	12	2	28
Credit to income statement	**3**	**10**	**3**	**4**	**20**
Credit to other comprehensive income	**–**	**–**	**7**	**–**	**7**
Exchange differences	**1**	**–**	**–**	**(1)**	**–**
At 31 March 2012	**(33)**	**61**	**22**	**5**	**55**

16 Deferred income tax assets and liabilities continued

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:

	2012 £m	2011 £m
Deferred income tax assets	70	46
Deferred income tax liabilities	(15)	(18)
	55	28

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 £34 million (2011: £13 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.

As at 31 March 2012 the Group had income tax losses, capital losses, pension and other retirement benefit obligations and other deductible temporary differences carried forward in respect of which no deferred income tax assets were recognised amounting to £8,196 million (2011: £8,098 million). The Group's pension, other retirement obligations and other deductible temporary differences have no expiry date restrictions. The expiry date of income tax losses and capital losses carried forward is dependent upon the tax law of the various territories in which the losses arose. A summary of expiry dates for losses in respect of which these restrictions apply is set out below:

	Gross losses £m	Tax value £m	Gross losses expiring within four years £m
Income tax losses			
Americas	453	158	–
Europe	875	221	8
Asia Pacific	49	18	32
	1,377	397	40
Capital losses [1]	6,194	1,493	5
Pension, other retirement obligations and other deductible temporary differences	625	191	–
	8,196	2,081	45

1 Of the total capital losses in the Group, £6 billion are carried forward in the UK.

The standard rate of UK corporation tax has reduced to 24% from 1 April 2012 and is expected to continue to fall by 1% each year to 22% in 2014. The impact of the rate change to 22% would reduce the total unrecognised deferred income tax assets by £130 million.

17 Inventories

	2012 £m	2011 £m
Raw materials and consumables	**85**	83
Work in progress	**27**	30
Finished goods	**33**	42
	145	155

Cost of inventories recognised as an expense

	2012 £m	2011 £m
Cost of inventories recognised as an expense	**939**	811
Including:		
– Write-down of inventories to net realisable value	**1**	2

18 Amounts due from/(to) contract customers

	2012 £m	2011 £m
Amounts due from contract customers:		
Amounts expected to be recovered within 12 months	**273**	233
Amounts expected to be recovered after more than 12 months	**11**	–
	284	233
Amounts due to contract customers:		
Amounts expected to be settled within 12 months	**(205)**	(203)
Amounts expected to be settled after more than 12 months	**(23)**	(11)
	(228)	(214)
Net amounts due from contract customers	**56**	19
Analysed as:		
Contract costs incurred plus recognised profits less recognised losses to date	**3,111**	2,790
Less: progress billings	**(3,055)**	(2,771)
Contracts in progress at balance sheet date	**56**	19
Revenue from construction contracts	**1,233**	1,193

At 31 March 2012, retentions held by customers for contract work amounted to £37 million (2011: £30 million) and advances received from customers for contract work amounted to £8 million (2011: £11 million).

The directors consider that the carrying amount of amounts due from/(to) contract customers is a reasonable approximation of their fair value.

19 Trade and other receivables

	Note	2012 £m	2011 £m
Non-current			
Other receivables		**26**	22
		26	22
Current			
Trade receivables		**398**	431
Prepayments and accrued income		**32**	25
Other receivables		**70**	70
		500	526
Total trade and other receivables		**526**	548
Classification to financial assets			
Financial assets: loans and receivables	22(i)	**463**	497
Non-financial assets		**63**	51
		526	548

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 46 days.

The allowance that has been made for estimated irrecoverable amounts from the sale of goods is £11 million (2011: £12 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 (2011: £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:

	2012 £m	2011 £m
At 1 April	**12**	13
Charged in year	**2**	3
Released in year	**(2)**	(3)
Utilised in year	**(1)**	(1)
At 31 March	**11**	12

As at 31 March, the analysis of trade receivables that were past due but not impaired is as follows:

	2012 £m	2011 £m
Neither past due nor impaired	**317**	350
Past due but not impaired – past due by:		
– 1 to 30 days	**34**	36
– 31 to 60 days	**19**	16
– 61 to 90 days	**5**	8
– 91 to 120 days	**3**	3
– 121 days and over	**20**	18
	398	431

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

	2012 £m	2011 £m
Cash at banks and in hand	154	149
Short-term deposits	109	200
Cash and cash equivalents	263	349

Cash and cash equivalents attract interest based on relevant national LIBID equivalents. Short-term deposits have an average maturity of 15 days (2011: 10 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 2012 restricted cash and cash equivalents held in such territories totalled £58 million (2011: £58 million).

Cash and cash equivalents include £29 million (2011: £31 million) of collateral held in the ordinary course of business to provide security for local bonding facilities.

21 Borrowings

(i) Bank and other loans

	2012 £m	2011 £m
On demand or within one year	1	1

Borrowings of £1 million (2011: £1 million) relates to finance leases. Finance leases are secured by charges over the assets to which they relate. At 31 March 2012 £nil of such loans were classified as non-current liabilities (2011: £nil).

Details of the Group's other borrowings arrangements are set out below.

(ii) Loan repayment dates, interest rates and principal terms

Bank, other loans and borrowings, bond and credit facilities outstanding at 31 March 2012:

	Notes	Maturity	Facility 2012 £m	Interest rate	Borrowings 2012 £m
Committed revolving credit facility	1,2,3,4	March 2017	250	LIBOR + 1.25%	–

	Notes	Maturity	Facility 2012 £m	Fees	Drawings 2012 £m
Committed multi-currency bonding and guarantee facility	3,4,5	March 2017	350	1.25%	253

1 Interest is currently charged at LIBOR plus 1.25% based on balance sheet leverage.
2 Utilisation fees are charged based on the proportion of the revolving credit facility drawn as loans.
3 This facility contains covenants whereby if total borrowings to EBITDA are greater then 2.5:1 then restrictions on acquisitions and dividends apply (current borrowings to EBITDA is 0.005:1).
4 Interest is currently charged on the undrawn portion at a rate of 0.5% based on balance sheet leverage.
5 Fees are currently charged at 1.25% based on balance sheet leverage.

Bank, other loans and borrowings, bond and credit facilities outstanding at 31 March 2011:

	Notes	Maturity	Facility 2011 £m	Interest rate	Drawings 2011 £m
Committed revolving credit facilities					
Multi-currency credit facility	1	July 2013	400	LIBOR + 1.50%	254
Bilateral credit facility		July 2013	25	LIBOR + 1.50%	–
			425		254

1 At 31 March 2011, drawings of £254 million related to the provision of bonds and guarantees.

21 Borrowings continued

On 30 March 2012 the £400 million multi-currency credit facility, maturing in July 2013, which could be used for cash or guarantees was cancelled. This was replaced by two new five-year bank facilities totalling £600 million, comprising a £250 million revolving credit facility and a £350 million multi-currency bonding and guarantee facility.

On 30 March 2012 the £25 million bilateral credit facility, maturing in July 2013, was also cancelled.

Uncommitted bond and guarantee facilities

In addition, at 31 March 2012, the Group had bonds and guarantees totalling £227 million (2011: £219 million) issued under uncommitted facilities. Of these, £29 million (2011: £31 million) are supported by cash collateral and a further £14 million (2011: £17 million) are supported by guarantees issued under the Group's committed syndicated loan facility.

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 2012.

The Group's 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 a £250 million bank facility which matures in March 2017, as described in Note 21(ii). The undrawn level of this facility 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.

The following table summarises the maturity profile of the Group's financial liabilities at 31 March 2012 and 31 March 2011 based on contractual undiscounted payments:

31 March 2012	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	4	2	2	1	3	18
– Trade and other payables	495	8	–	–	–	3	506
– Unrecognised liabilities:							
– Operating lease commitments	49	36	25	19	16	73	218
	551	48	27	21	17	79	743
Derivative financial liabilities:							
– Foreign exchange swaps and forwards	3	–	–	–	–	–	3
Total financial liabilities	554	48	27	21	17	79	746

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

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, and pays interest on its facility drawings.

As at 31 March 2012 and 31 March 2011, 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.

22 Financial risk management and financial instruments continued

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, on 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 2012 and 31 March 2011.

	Increase/ (decrease)	**Effect on profit before tax: increase/ (decrease) 2012 £m**	Effect on profit before tax: increase/ (decrease) 2011 £m
Sterling	1%	**0.5**	1.2
Euro	1%	**0.5**	0.6
US dollar	1%	**0.3**	0.5
Sterling	(1%)	**(0.5)**	(1.2)
Euro	(1%)	**(0.5)**	(0.6)
US dollar	(1%)	**(0.3)**	(0.5)

Currency risk

Transaction exposure

Currency transaction exposure arises when business 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 unit undertaking the transaction. Where this is not the case and the exposure is significant, it is the Group's policy for business 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:

At 31 March	**US dollar 2012 £m**	**Euro 2012 £m**	**Other (excl Sterling) 2012 £m**	US dollar 2011 £m	Euro 2011 £m	Other (excl Sterling) 2011 £m
Net assets of non-Sterling functional currency entities	**261**	**134**	**212**	221	107	200
Net unhedged monetary assets not held in entities' functional currencies	**44**	**21**	**22**	56	16	(41)
Gross exposure	**305**	**155**	**234**	277	123	159

The significant exchange rates that applied during the year are set out in Note 37.

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, on:

- 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) 2012 £m**	**Effect on equity: increase/ (decrease) 2012 £m**	Effect on profit before tax: increase/ (decrease) 2011 £m	Effect on equity: increase/ (decrease) 2011 £m
Euro	+5%	**1**	**7**	2	6
US dollar	+5%	**2**	**14**	3	12
Euro	-5%	**(1)**	**(6)**	(2)	(5)
US dollar	-5%	**(2)**	**(12)**	(3)	(11)

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 Note 22(i) on page 119). 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 major 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.

22 Financial risk management and financial instruments continued

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 2012 provides liquidity for the Group until March 2017 and supports the current strategy of the Group. This facility, including the related covenant arrangements, is described further in Note 21(ii). Investigations are continually undertaken to review financing requirements and the availability of funding to meet these. 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 2012 and 31 March 2011.

The Group's capital structure is as follows:

At 31 March	Notes	**2012 £m**	2011 £m
Capital employed		**314**	201
Cash and cash equivalents	20	**263**	349
Borrowings	21	**(1)**	(1)
Net cash		**262**	348
Total capital (equals total equity)		**576**	549
Comprising:			
– Equity holders of parent		**556**	514
– Non-controlling interests		**20**	35
		576	549

Net cash was £262 million (2011: £348 million), with no amounts held on deposit with a maturity of more than three months (2011: £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.

The fair value of financial assets and liabilities at 31 March was:

	Notes	Book value 2012 £m	Fair value 2012 £m	Book value 2011 £m	Fair value 2011 £m
Financial assets					
Loans and receivables: Trade and other receivables	19	**463**	**463**	497	497
Cash and cash equivalents	20	**263**	**263**	349	349
Derivative financial instruments:					
– Foreign exchange options, swaps and forwards	22(ii)	**3**	**3**	2	2
		729	**729**	848	848
Financial liabilities					
Financial liabilities at amortised cost:					
– Finance leases	30	**(1)**	**(1)**	(1)	(1)
– Provisions	24	**(16)**	**(16)**	(23)	(23)
– Trade and other payables	26	**(506)**	**(506)**	(516)	(516)
Derivative financial instruments:					
– Foreign exchange options, swaps and forwards	22(ii)	**(3)**	**(3)**	(4)	(4)
		(526)	**(526)**	(544)	(544)

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:

- 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 2012 and 31 March 2011, 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.

At 31 March 2012:	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets at fair value				
Derivative financial instruments:				
– Foreign exchange swaps and forwards	–	3	–	3
	–	3	–	3
Financial liabilities at fair value				
Derivative financial instruments:				
– Foreign exchange swaps and forwards	–	(3)	–	(3)
	–	(3)	–	(3)

22 Financial risk management and financial instruments continued

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)

During the years ended 31 March 2012 and 31 March 2011, 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

The Group uses derivatives to hedge currency transaction exposure, currency translation exposure and contract pricing exposure.

A summary of derivative financial instruments, all of which related to foreign exchange swaps and forwards, is as follows:

	Fair value 2012 £m	Fair value 2011 £m
Derivative assets	**3**	2
Derivative liabilities	**(3)**	(4)
	–	(2)

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 business 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 ended 31 March 2012 was £1,165 million (2011: £506 million).

All of these instruments are designated and effective as cash flow hedges. £8 million relating to hedged cash flows that have not yet impacted the income statement have been deferred and recognised in equity at 31 March 2012 (2011: £8 million). £nil (2011: £nil) has been transferred to the income statement during the year ended 31 March 2012 in respect of contracts which matured.

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 ensures 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 (2011: £nil).

The currency assets and liabilities created by such derivatives at 31 March were:

	Assets 2012 £m	**Liabilities 2012 £m**	**Net assets/ (liabilities) 2012 £m**	Assets 2011 £m	Liabilities 2011 £m	Net assets/ (liabilities) 2011 £m
Sterling	**3**	**(84)**	**(81)**	4	(81)	(77)
Euro	**23**	**–**	**23**	35	(5)	30
US dollar	**35**	**–**	**35**	30	–	30
Japanese yen	**12**	**–**	**12**	11	–	11
Other	**12**	**(3)**	**9**	4	–	4
	85	**(87)**	**(2)**	84	(86)	(2)

Changes in the fair value of these derivatives resulted in a gain of £nil in the year ended 31 March 2012 (2011: £1 million). These are taken directly to foreign exchange in the income statement, see Note 8.

(iii) Ineffectiveness recognised in the income statement
No amounts were recognised in the income statement relating to the ineffectiveness of cash flow hedges (2011: £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 4.

The major classes of assets classified as held for sale as at 31 March are:

	2012 £m	2011 £m
Current assets		
Surplus property portfolio	10	11
	10	11

24 Provisions

	Warranties £m	Restructuring £m	Environmental £m	Onerous contracts £m	Other £m	Total £m
At 1 April 2011	17	13	46	23	74	173
Charged in year	6	32	6	1	11	56
Released in year	–	(1)	–	(2)	(2)	(5)
Utilised in year	(10)	(27)	(8)	(6)	(35)	(86)
Unwind of discount of provisions	–	–	1	–	–	1
At 31 March 2012	13	17	45	16	48	139

	Note	2012 £m	2011 £m
Analysed as:			
Current liabilities		65	85
Non-current liabilities		74	88
		139	173
Classification to financial liabilities			
Financial liabilities at amortised cost	22(i)	16	23
Non-financial liabilities		123	150
		139	173

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.

24 Provisions continued

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 30 defined contribution schemes. Pension costs in respect of defined contribution schemes represented contributions payable in the year and amounted to £19 million (2011: £18 million). At 31 March 2012, there were £nil (2011: £1 million) of outstanding contributions included in payables.

(ii) Defined benefit schemes – general

The Group operates 53 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 Invensys Pension Scheme (UK) is final salary in nature. The Invensys Pension Plan (US) 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 2011 by independent actuaries using the projected unit credit method for valuing the liabilities. This latest valuation has not changed the scheme's funding plan for the next three years. 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.

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 2012 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 2012 the major financial assumptions are:

	Funded schemes			Unfunded schemes
	Invensys Pension Scheme (UK) %	Invensys Pension Plan (US) %	Other %	%
Major assumptions				
Rates of increase in salaries	4.75	n/a	4.30	3.67
Rate of increase to pensions in payment[1]	3.60	n/a	2.47	2.58
Discount rate for scheme liabilities	4.70	4.55	4.61	4.28
Inflation rate[2]	3.50	n/a	3.11	2.55

1 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%.
2 The inflation rate for the UK schemes is based on RPI. An additional inflation rate assumption for CPI is required for the Invensys Pension Scheme (UK), one Other Funded scheme and one Other Unfunded scheme 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. This has been assessed as 2.50% for the Invensys Pension Scheme (UK), 2.60% (reflecting a longer duration) for the Other Funded scheme and 2.50% for the Other Unfunded scheme.

As at 31 March 2011 the major financial assumptions were:

	Funded schemes			Unfunded schemes
	Invensys Pension Scheme (UK) %	Invensys Pension Plan (US) %	Other %	%
Major assumptions				
Rates of increase in salaries	4.95	n/a	4.19	3.09
Rate of increase to pensions in payment[1]	3.80	n/a	2.64	2.63
Discount rate for scheme liabilities	5.30	5.65	5.27	5.15
Inflation rate[2]	3.70	n/a	3.16	2.60

1 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%.
2 The inflation rate for the UK schemes is based on RPI. An additional inflation rate assumption for CPI is required for the Invensys Pension Scheme (UK) and for one Other Funded scheme and one Other Unfunded scheme 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. This has been assessed as 2.95% for the Invensys Pension Scheme (UK) and 2.95% for the Other Funded plan.

Invensys Pension Scheme (UK): Deferred pension increases
In order to determine some minimum pension increases, the Consumer Price Index (CPI) is used as the inflation measure. The main inflation rate remains the Retail Prices Index (RPI) which is the driver for pension increases in payment. This is in line with changes made by the UK Government to statutory index-linked features of retirement benefits. As the scheme was not obligated to increase pensions in line with RPI, the change to using CPI was considered to be a change in the increase assumption, and gave rise to an actuarial gain in accordance with IAS 19. In the main, the change to CPI affected only deferred pensions and had limited impact on pensions already in payment.

The demographic assumptions which were applied for the main schemes are as follows:

Invensys Pension Scheme (UK)
Standard SAPS actuarial mortality tables S1PA were adopted. Based on Scheme experience, the probability of death at each age was multiplied by 103% for males and 113% for females. Future improvements in life expectancy have been allowed for in line with the standard CMI model projections subject to a long term trend of 1.00% for males and females. These mortality tables are consistent with those agreed by the Trustees for the 31 March 2011 formal valuation of the Scheme.

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	**22.0**
	Female	**23.3**
Retiring in 20 years at age 65:	Male	**23.3**
	Female	**24.9**

Invensys Pension Plan (US)
The mortality table adopted was the RP 2000 Table for combined employee/annuitants, projected to 2015 using projection scale AA.

25 Pensions and post-retirement benefits continued

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))	(4,326)	4,233	(93)	(1,070)	972	(98)
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)	–	–	–
A 0.1% decrease in the assumed interest rate would have the following effect[3]:						
(Increase in defined benefit obligation)/increase in scheme assets	(61)	49	(12)	(11)	9	(2)
A one year increase to the pensioners lives would have the following effect:						
Increase in defined benefit obligation	(208)	–	(208)	(29)	–	(29)
Applying an additional 0.25% to the improvement in mortality would have the following effect:						
Increase in defined benefit obligation[4]	(52)	–	(52)	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 all bond yields. The discount rate used to determine the liabilities is based on AA corporate bond yields.
4 This is a slightly different sensitivity to last year, where there was a 0.25% increase in the underpin to mortality improvements.

(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 2012 are set out below:

	Funded schemes			Unfunded schemes	
	Invensys Pension Scheme (UK) £m	Invensys Pension Plan (US) £m	Other £m	£m	Total £m
Analysis of amounts charged to the consolidated income statement:					
Current service cost	(9)	–	(6)	(3)	(18)
Settlements	–	(3)	–	–	(3)
Total charge to operating profit	(9)	(3)	(6)	(3)	(21)
Expected return on plan assets	215	53	13	–	281
Interest on plan liabilities	(213)	(52)	(14)	(5)	(284)
Other finance credit/(charge) – IAS 19	2	1	(1)	(5)	(3)
Analysis of amounts recognised in the consolidated statement of comprehensive income:					
Actual return less expected return on scheme assets	214	107	(1)	–	320
Experience gains/(losses) arising on the scheme liabilities	19	1	6	(2)	24
Changes in assumptions underlying the present value of the plan liabilities	(237)	(111)	(16)	(11)	(375)
Actuarial loss	(4)	(3)	(11)	(13)	(31)
Movement in irrecoverable element of potential future pension surplus (Note 25 (vii))	(4)	–	–	–	(4)

25 Pensions and post-retirement benefits continued

The amounts that were 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	£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)	18	2
Expected return on plan assets	216	51	12	–	279
Interest on plan liabilities	(217)	(55)	(15)	(6)	(293)
Other finance charges – IAS 19	(1)	(4)	(3)	(6)	(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	3	(20)
Changes in assumptions underlying the present value of the plan liabilities[1]	(46)	(30)	14	(3)	(65)
Actuarial (loss)/gain	(12)	18	24	–	30
Movement in irrecoverable element of potential future pension surplus	–	–	–	–	–

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 (charged)/credited to operating profit were (charged)/credited to the following lines in the consolidated income statement:

	2012 £m	2011 £m
Cost of sales	**(12)**	(12)
Administrative costs	**(6)**	(7)
Other exceptional items	**(3)**	21
Total net (charge)/credit to operating profit	**(21)**	2

(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 2012 were as follows:

	Funded schemes			Unfunded schemes	
	Invensys Pension Scheme (UK) £m	Invensys Pension Plan (US) £m	Other £m	£m	Total £m
Opening present value of defined benefit obligation	(4,118)	(959)	(262)	(122)	(5,461)
Current service cost	(9)	–	(6)	(3)	(18)
Contributions by employees	(1)	–	–	–	(1)
Benefit payments	233	60	15	9	317
Interest on plan liabilities	(213)	(52)	(14)	(5)	(284)
Actuarial losses	(218)	(110)	(10)	(13)	(351)
Settlements	–	(3)	–	–	(3)
Exchange adjustments	–	(6)	3	3	–
Closing present value of defined benefit obligation	(4,326)	(1,070)	(274)	(131)	(5,801)

Changes in the fair value of plan assets for the year ended 31 March 2012 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	3,988	834	202	5,024
Expected return on plan assets	215	53	13	281
Contributions by employer	48	32	8	88
Contributions by employees	1	–	–	1
Benefit payments	(233)	(60)	(15)	(308)
Actuarial gains/(losses)	214	107	(1)	320
Exchange adjustments	–	6	(3)	3
Closing fair value of plan assets	4,233	972	204	5,409
Actual return on plan assets	429	160	12	601

25 Pensions and post-retirement benefits continued

Changes in the present value of the defined benefit obligation for the year ended 31 March 2011 were as follows:

	Funded schemes			Unfunded schemes	
	Invensys Pension Scheme (UK) £m	Invensys Pension Plan (US) £m	Other £m	£m	Total £m
Opening present value of defined benefit obligation	(4,056)	(982)	(283)	(149)	(5,470)
Current service cost	(10)	–	(7)	(2)	(19)
Past service credit	–	–	–	20	20
Contributions by employees	(1)	–	–	–	(1)
Benefit payments	227	60	12	10	309
Interest on plan liabilities	(217)	(55)	(15)	(6)	(293)
Net liabilities transferred on disposal	–	–	–	1	1
Actuarial (losses)/gains	(61)	(42)	18	–	(85)
Transfers (from)/to other schemes[1]	–	(9)	9	–	–
Curtailments	–	–	1	–	1
Exchange adjustments	–	69	3	4	76
Closing present value of defined benefit obligation	(4,118)	(959)	(262)	(122)	(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 ended 31 March 2011, 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).

(vi) Defined benefit schemes – reconciliation of balance sheet amounts

Reconciliation of assets and liabilities recognised in the balance sheet as at 31 March 2012:

	Funded schemes			**Unfunded schemes**	
	Invensys Pension Scheme (UK) £m	**Invensys Pension Plan (US) £m**	**Other £m**	**£m**	**Total £m**
Present value of defined benefit obligation	**(4,326)**	**(1,070)**	**(274)**	**(131)**	**(5,801)**
Fair value of plan assets	**4,233**	**972**	**204**	**–**	**5,409**
Deficit in the plan	**(93)**	**(98)**	**(70)**	**(131)**	**(392)**
Irrecoverable element of potential future pension surplus (Note 25 (vii))	**(34)**	**–**	**–**	**–**	**(34)**
Net liability	**(127)**	**(98)**	**(70)**	**(131)**	**(426)**
The net liability is presented on the balance sheet as follows:					
Non-current pension liability	**(127)**	**(98)**	**(70)**	**(131)**	**(426)**
Net liability	**(127)**	**(98)**	**(70)**	**(131)**	**(426)**

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	£m	Total £m
Present value of defined benefit obligation	(4,118)	(959)	(262)	(122)	(5,461)
Fair value of plan assets	3,988	834	202	–	5,024
Deficit in the plan	(130)	(125)	(60)	(122)	(437)
Irrecoverable element of potential future pension surplus (Note 25 (vii))	(30)	–	–	–	(30)
Net liability	(160)	(125)	(60)	(122)	(467)
The net liability is presented on the balance sheet as follows:					
Non-current pension liability	(160)	(125)	(60)	(122)	(467)
Net liability	(160)	(125)	(60)	(122)	(467)

25 Pensions and post-retirement benefits continued

(vii) Impact of IFRIC 14

The Group is committed to make payments to the Invensys Pension Scheme (UK) 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 IFRSs, and would therefore, when paid, give rise to a surplus as measured under IFRSs, a provision is recognised for any part of that surplus that would not be recoverable. Any surplus on the Invensys Pension Scheme (UK) 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 2012 the present value of the agreed funding payments exceeds the liability of the scheme under IFRSs and consequently the irrecoverable element of the pension surplus is £34 million (2011: £30 million).

At 31 March	2012 £m	2011 £m
Deficit in the scheme	(93)	(130)
Future minimum funding requirements	190	215
Potential future pension surplus	97	85
Irrecoverable element of potential future pension surplus	(34)	(30)
Recoverable element of potential future pension surplus	63	55
Movement in irrecoverable element of potential future pension surplus	(4)	–

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 Invensys Pension Scheme (UK) were to be wound up, the relevant employers would be responsible, under section 75 of the Pensions Act 1995 to fund the Invensys Pension Scheme (UK) 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 Invensys Pension Scheme (UK) calculated on a winding up basis was approximately £1.5 billion as at 31 March 2011, 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 2012 were:

	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	7.3	201	7.1	185	7.4	119	505
Bonds	3.7	3,464	5.5	347	4.2	61	3,872
Other	6.0	568	4.6	440	5.2	24	1,032
Fair value of plan assets		4,233		972		204	5,409

The expected long-term rate of return and market value of funded defined benefit schemes at 31 March 2011 were:

	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	3,008[1]	5.9	264	4.8	61	3,125
Other	7.1	780[1]	6.4	398	5.6	25	1,411
Fair value of plan assets		3,988		834		202	5,024

1 Reclassification of £208 million from Other to Bonds.

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 Invensys Pension Scheme (UK), 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.

(ix) Defined benefit schemes – history of experience adjustments

	Funded schemes			Unfunded schemes	
	Invensys Pension Scheme (UK) £m	Invensys Pension Plan (US) £m	Other £m	£m	Total £m
Year ended 31 March 2012					
Present value of defined benefit obligation	**(4,326)**	**(1,070)**	**(274)**	**(131)**	**(5,801)**
Fair value of plan assets	**4,233**	**972**	**204**	**–**	**5,409**
Deficit in the plan	**(93)**	**(98)**	**(70)**	**(131)**	**(392)**
Experience adjustments on plan liabilities	**19**	**1**	**6**	**(2)**	**24**
Experience adjustments on plan assets	**214**	**107**	**(1)**	**–**	**320**
Year ended 31 March 2011					
Present value of defined benefit obligation	(4,118)	(959)	(262)	(122)	(5,461)
Fair value of plan assets	3,988	834	202	–	5,024
Deficit in the plan	(130)	(125)	(60)	(122)	(437)
Experience adjustments on plan liabilities	(15)	(12)	4	3	(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)	(149)	(5,470)
Fair value of plan assets	3,902	820	197	–	4,919
Deficit in the plan	(154)	(162)	(86)	(149)	(551)
Experience adjustments on plan liabilities	72	(6)	–	4	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)	(161)	(4,848)
Fair value of plan assets	3,610	855	162	–	4,627
Deficit in the plan	(8)	(4)	(48)	(161)	(221)
Experience adjustments on plan liabilities	96	5	10	–	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)	(145)	(4,939)
Fair value of plan assets	3,878	663	181	–	4,722
Deficit in the plan	(10)	(32)	(30)	(145)	(217)
Experience adjustments on plan liabilities	(11)	(7)	1	4	(13)
Experience adjustments on plan assets	(34)	16	(12)	–	(30)

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 £390 million (2011: £355 million).

25 Pensions and post-retirement benefits continued

(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 (2011: £37 million).

The estimated levels of contributions expected to be paid to defined benefit schemes in the year to 31 March 2013 are as follows:

	Funded schemes			Unfunded schemes	
	Invensys Pension Scheme (UK) £m	Invensys Pension Plan (US) £m	Other £m	£m	Total £m
	48	11	8	8	75

Regarding rates of contributions for future years, following the triennial valuation of the Invensys Pension Scheme (UK) (valuation date 31 March 2011), contributions to the Invensys Pension Scheme (UK) will be made at the rate of 19.8% of pensionable salaries up to the date of the next triennial valuation. In addition, the Company will continue to make annual supplemental contributions to the scheme. These amount to £40 million in the year ending 31 March 2013 increasing by a further £1 million in the year ending 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 Invensys Pension Scheme (UK). The funding plan is subject to revision after the next triennial valuation which will have a reference date of 31 March 2014.

Under the Invensys Pension Plan (US), 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 graphs show a projection of the benefit payments and the present value of the defined benefit obligations 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 2012:

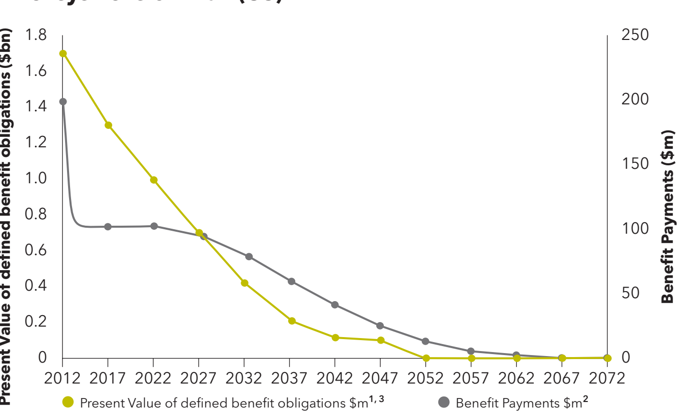
Invensys Pension Scheme (UK)

Present Value of defined benefit obligations (£bn)

Benefit Payments (£m)

Present Value of defined benefit obligations £m[1]   Benefit Payments £m[2]

Invensys Pension Plan (US)



1 The present value of defined benefit obligations has been adjusted to today's prices.
2 Benefit payments include assumed inflation.
3 The sharp decrease in benefit payments in the Invensys Pension Plan (US) is a result of the projected settlement with a number of deferred plan members.

26 Trade and other payables

	Note	2012 £m	2011 £m
Non-current			
Other payables		**10**	10
		10	10
Current			
Trade payables		**274**	280
Accruals and deferred income		**166**	174
Interest payable		**2**	3
Other payables		**91**	89
		533	546
Total trade and other payables		**543**	556
Classification to financial liabilities			
Financial liabilities at amortised cost	22(i)	**506**	516
Non-financial liabilities		**37**	40
		543	556

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:	2012 Number of shares million	2012 £m	2011 Number of shares million	2011 £m
Ordinary shares of 10p each	**813**	**81**	810	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 2010	807	81
Issue of ordinary shares of 10p each	3	–
At 31 March 2011	**810**	**81**
Issue of ordinary shares of 10p each	**3**	**–**
At 31 March 2012	**813**	**81**

27 Issued share capital continued

Shares reserved for issue under share options and awards

During the year the Company issued 3,000,762 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), the 2007 CEO Special Award and an option granted to the former chief executive under an individual arrangement (2011: 2,226,021 under the SRSOS, OSRSOS, 1998 LTIP, 2007 LTIP and 2007 CEO Special Award).

On 29 June 2011, 8 September 2011 and 20 December 2011 conditional awards over a total of 4,784,560 ordinary shares were granted under the 2007 LTIP (2011: 5,267,195). On 14 July 2011, options over a total of 2,110,542 ordinary shares were granted under the SRSOS and OSRSOS (2011: nil).

There were 12,034,692 conditional awards outstanding under the 2007 LTIP as at 31 March 2012 (2011: 14,279,061 under the 1998 LTIP and 2007 LTIP). These conditional awards will be released at various dates between 2012 and 2014, subject to the satisfaction of the performance requirements and any appropriate holding period. As at 31 March 2012, no share awards remained outstanding under the CEO Special Award (2011: 377,861, including shares representing accrued dividends).

As at 31 March 2012, there were no outstanding executive share options (2011: 803,298).

Outstanding options under the SRSOS and OSRSOS as at 31 March 2012 were as follows: 2,185,135 shares exercisable between September 2012 and March 2013 at an exercise price of 175 pence per share (2011: 2,717,450), and 2,040,249 shares exercisable between September 2014 and March 2015 at an exercisable price of 246 pence per share (2011: nil).

Treasury shares

Treasury shares comprise shares held by the Invensys Employee Share Trust.

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 schemes	(1,010,147)	(3)
At 31 March 2011	**716,763**	**2**
Purchase of shares	**326,000**	**1**
Distribution of shares under share schemes	**(651,545)**	**(2)**
At 31 March 2012	**391,218**	**1**

Shares held by the Invensys Employee Share Trust

At 31 March 2012, the Invensys No.2 Employee Benefit Trust (the Trust) held 391,218 ordinary shares of 10 pence each in Invensys plc with a market value of £1 million (2011: 716,763 ordinary shares of 10 pence each with a market value of £2 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 ended 31 March 2011, 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 2012 (2011: nil).

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 or 31 March 2012.

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

(i) 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 £5 million (2011: £9 million) related to share-based payment transactions during the year, of which £4 million (2011: £8 million) related to equity-settled and £1 million (2011: £1 million) related to cash-settled transactions. The carrying amount of the liability relating to the cash-settled awards at 31 March 2012 is £1 million (2011: £1 million).

The Company operates various share schemes under which options and awards have been granted and are outstanding as set out below:

29 Share-based payment plans continued

(ii) Executive share options

Executive share options detailed below include options granted under the Invensys 1998 Senior Executive Share Option Scheme and the option granted to the former Chief Executive, Ulf Henriksson, under a separate arrangement on 1 June 2004.

Grants

No executive share options were granted in the year ended 31 March 2012 or the year ended 31 March 2011.

Options outstanding

Details of relevant options outstanding as at 31 March 2012 are detailed below:

	Executive share options	
	Number of share options	Weighted average exercise price (p)
Outstanding at the beginning of the year	803,298	532.71
Lapsed during the year	(268,008)	1,287.92
Exercised during the year	(535,290)	154.59
Outstanding at the end of the year	–	–
Exercisable at the end of the year	–	–

Details of relevant options outstanding as at 31 March 2011 are detailed below:

	Executive share options	
	Number of share options	Weighted average exercise price (p)
Outstanding at the beginning of the year	1,134,026	937.18
Lapsed during the year	(330,728)	1,933.18
Outstanding at the end of the year	803,298	532.71
Exercisable at the end of the year	803,298	532.71

There were no executive share options outstanding at 31 March 2012. The range of exercise prices for options outstanding at 31 March 2011 are detailed below:

	Executive share options		
	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

(iii) Long-term incentives
Long-term incentives include awards granted under the Invensys 1998 Senior Executive Long Term Incentive Plan (LTIP), the Invensys 2007 Long Term Incentive Plan (2007 LTIP), the 2007 CEO Special Award, the Invensys Restricted Share Plan (RSP) and the Deferred Share Plan (DSP).

Grants
Details of grants made during the year ended 31 March 2012 are detailed below:

	2007 LTIP	RSP	DSP
Total number of awards granted	**5,011,551**	**339,551**	**215,673**
Weighted average fair value	**253.07p**	**300.39p**	**279.38p**
Exercise price	**n/a**	**n/a**	**n/a**
Expected volatility	**46.3%**	**n/a**	**n/a**
Weighted average expected award life	**3.0 years**	**2.1 years**	**2.4 years**
Expected option life	**n/a**	**n/a**	**n/a**
Expected dividend yield	**1.32%**	**0%**	**n/a**
Risk free interest rate	**2.36%**	**n/a**	**n/a**

Details of grants made during the year ended 31 March 2011 are detailed below:

	2007 LTIP	RSP	DSP
Total number of awards granted	5,680,828	563,219	70,003
Weighted average fair value	243.73p	291.96p	n/a
Exercise price	n/a	n/a	n/a
Expected volatility	46.3%	n/a	n/a
Weighted average expected award life	3.0 years	2.1 years	3.0 years
Expected dividend yield	1.32%	0%	n/a
Risk free interest rate	2.93%	n/a	n/a

No grants were made under the LTIP or 2007 CEO Special Award for the year ended 31 March 2012 or 31 March 2011.

Awards outstanding
Details of relevant awards outstanding as at 31 March 2012 are detailed below:

	LTIP	2007 LTIP	2007 CEO Special Award	RSP	DSP
Outstanding at the beginning of the year	**11,012**	**15,309,776**	**377,861**	**1,085,931**	**472,685**
Granted during the year	**–**	**5,011,551**	**–**	**339,551**	**215,673**
Dividends during the year	**–**	**56,210**	**–**	**9,001**	**4,850**
Forfeited during the year	**–**	**(4,429,048)**	**–**	**(238,500)**	**–**
Exercised during the year	**(11,012)**	**(2,115,248)**	**(377,861)**	**(478,698)**	**(212,278)**
Lapsed during the year	**–**	**(982,575)**	**–**	**–**	**–**
Outstanding at the end of the year	**–**	**12,850,666**	**–**	**717,285**	**480,930**
Weighted average share price at the date of exercise for the options exercised (p)	**303.50**	**268.65**	**293.10**	**292.58**	**307.65**
Weighted average remaining contractual life (years)	**n/a**	**1.35**	**n/a**	**1.44**	**1.20**

Details of relevant awards outstanding as at 31 March 2011 are detailed below:

	LTIP	2007 LTIP	2007 CEO Special Award	RSP	DSP
Outstanding at the beginning of the year	927,208	13,554,707	1,608,554	2,226,638	641,181
Granted during the year	–	5,680,828	–	563,219	70,003
Dividends during the year	4,549	41,896	12,577	14,122	1,295
Forfeited during the year	(31,818)	(803,134)	–	(39,411)	–
Exercised during the year	(679,739)	(1,661,746)	(372,858)	(1,194,629)	(239,794)
Lapsed during the year	(209,188)	(1,502,775)	(870,412)	(484,008)	–
Outstanding at the end of the year	11,012	15,309,776	377,861	1,085,931	472,685
Weighted average share price at the date of exercise for the options exercised (p)	299.00	277.00	n/a	301.00	306.00
Weighted average remaining contractual life (years)	0.20	1.40	0.20	1.10	1.20

29 Share-based payment plans continued

All employee schemes

All employee schemes comprise the Invensys Savings Related Share Option Scheme and the Invensys Overseas Savings Related Share Option Scheme.

Grants

Details of grants made during the year ended 31 March 2012 are detailed below:

	Invensys Savings Related Scheme	Invensys Overseas Savings Related Scheme
Total number of awards granted	929,839	1,949,328
Weighted average fair value	118.77p	118.77p
Exercise price	246.00p	246.00p
Expected volatility	46%	46%
Weighted average expected award life	3 years	3 years
Expected option life	n/a	n/a
Expected dividend yield	1.32%	1.32%
Risk free interest rate	2.36%	2.36%

No options were granted under these schemes in the year ended 31 March 2011.

Options outstanding

Details of relevant options outstanding as at 31 March 2012 are detailed below:

	Invensys Savings Related Scheme		Invensys Overseas Savings Related Scheme	
	Number of share options	Weighted average share price (p)	Number of share options	Weighted average share price (p)
Outstanding at the beginning of the year	1,136,130	175.00	1,581,320	175.00
Granted during the year	929,839	246.00	1,949,328	246.00
Forfeited during the year	(28,152)	191.36	(21,266)	190.59
Exercised during the year	(29,283)	175.00	(13,546)	175.00
Lapsed during the year	(109,091)	202.41	(35,316)	201.84
Outstanding at the end of the year	1,899,443	207.94	3,460,520	214.62
Exercisable at the end of the year	–	n/a	–	n/a
Weighted average share price at the date of exercise for the options exercised	n/a	175.00	n/a	175.00

Details of relevant options outstanding as at 31 March 2011 are detailed below:

	Invensys Savings Related Scheme		Invensys Overseas Savings Related Scheme	
	Number of share options	Weighted average share price (p)	Number of share options	Weighted average share price (p)
Outstanding at the beginning of the year	1,259,558	178.11	1,687,246	175.00
Granted during the year	–	–	–	–
Forfeited during the year	(34,008)	175.00	(5,536)	175.00
Exercised during the year	(10,221)	175.00	(11,858)	175.00
Lapsed during the year	(79,199)	224.49	(88,532)	175.00
Outstanding at the end of the year	1,136,130	175.00	1,581,320	175.00
Exercisable at the end of the year	–	n/a	–	n/a
Weighted average share price at the date of exercise for the options exercised (p)	n/a	175.00	n/a	175.00

Range of exercise prices for options outstanding at the end of the year, are as follows:

	Invensys Savings Related Scheme			Invensys Overseas Savings Related Scheme		
	Number of share options	Weighted average exercise price (p)	Weighted average remaining contractual life (years)	Number of share options	Weighted average exercise price (p)	Weighted average remaining contractual life (years)
2012						
175.00p	1,018,207	175.00	0.4	1,529,214	175.00	0.4
246.00p	881,236	246.00	2.42	1,931,306	246.00	2.42
	1,899,443	**207.94**	**1.35**	**3,460,520**	**214.62**	**1.54**
2011						
175.00p	1,136,130	175.00	1.3	1,581,320	175.00	1.3

(iv) Explanation of schemes

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 were 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 preceded the date of grant. Options were 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 attached to the option granted to the former Chief Executive Mr Henriksson under a separate arrangement on 1 June 2004.

Service requirements:
Options would be forfeited if the participant left employment, although options may have been 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 plan expired in July 2008.

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:
Total Shareholder Return (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 was achieved. Between these positions, the number of shares would be calculated on a straight-line basis. If at least median position was not achieved the whole award would lapse. The peer groups selected for the relevant awards were 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.

29 Share-based payment plans continued

Overall performance test

The Remuneration Committee must be satisfied that: (a) for awards granted prior to 22 July 2005 there had 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 had 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 had been met: (1) successful completion of the 2006 Refinancing and, in addition, a sustained improvement in the underlying financial performance of the Group; and (2) efficient management of legacy liability items.

Service requirements:
Awards would be forfeited if the participant left employment, although shares may have been 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.

Invensys 2007 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 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 (CAGR) 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 CAGR in the Group's Earnings Per Share. There are no performance conditions applying to the remaining 30% of an award. The Remuneration Committee retains discretion to ensure that, as a condition for the vesting of any TSR/EPS shares, the underlying overall performance of the Group has been satisfactory. Factors that will be taken into account will include consistency of earnings and the Group's cash position over the performance period.

Service requirements:
If a participant is dismissed for cause before shares are released, the award will be forfeited. If a participant resigns, their award will lapse unless the Remuneration Committee exercise their discretion. If a participant's employment ceases for good leaver reasons or any other reason determined at the discretion of the Remuneration Committee, the financial performance tests will be measured at the normal vesting date and, subject to the outcome of the financial performance tests, the award will be pro-rated based on the period of service and released on the normal vesting date.

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.

2007 CEO Special Award (Special Award)

Grant details

Approved by shareholders at the 2007 Annual General Meeting, the Special Award was a one-off conditional share award granted to the former 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 as 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 Group had been satisfactory. In the case of the TSR performance target factors that would be taken into account included 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 was released following a 12-month period from the first release at 25 May 2010, on 26 May 2011.

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 shares under the Special Award, that have now been released.

Scheme use
The Special Award was a one-off grant at no cost made during the year ended 31 March 2008.

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:
Release of shares is generally subject to continued employment at the relevant date, although shares may be released early, on a pro-rata basis, in defined good leaver cases or for any other reason at the discretion of the Remuneration Committee.

Scheme use
The plan is operated predominantly for senior executives in special circumstances, such as recruitment and retention situations.

Deferred Share Plan (DSP)
Grant details
The DSP was introduced in 2007/08 to replace the Turnaround Bonus Overlay Plan (TBOP). Any bonus earned under the Executive Bonus Plan (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. All awards are satisfied by the transfer of existing issued shares.

Vesting requirements
Performance requirements:
The amount of shares granted is set by reference to the performance targets specified for the relevant executives 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 will only be 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.

29 Share-based payment plans continued

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. Invitations were offered under this Scheme in the years ended 31 March 2010 and 31 March 2012.

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 with the options being settled in shares or cash depending on the participant's country of residence.

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. Invitations were offered under this Scheme in the years ended 31 March 2010 and 31 March 2012.

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 £1 million (2011: £2 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

	2012 £m	2011 £m
Minimum lease payments	39	38
Sublease receipts	(1)	(1)
Operating lease payments	38	37

Operating lease commitments

Future minimum rentals payable under non-cancellable operating leases are as follows:

	Land and buildings 2012 £m	Other 2012 £m	Total 2012 £m	Land and buildings 2011 £m	Other 2011 £m	Total 2011 £m
Not later than one year	42	7	49	44	7	51
After one year but not more than five years	89	7	96	92	11	103
Later than five years	73	–	73	84	–	84
	204	14	218	220	18	238

The total of future minimum sublease payments expected to be received under non-cancellable subleases at 31 March 2012 is £8 million (2011: £14 million).

Obligations under finance leases

At 31 March 2012 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 2012 £m	Present value of minimum payments 2012 £m	Minimum lease payments 2011 £m	Present value of minimum payments 2011 £m
Payable not later than one year	1	1	1	1
Payable after one year but not more than five years	–	–	–	–
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		1
Amount due for settlement after 12 months		–		–

There were no sublease arrangements in place for these assets at 31 March 2012 or 31 March 2011.

30 Commitments and contingencies continued

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 2012 was 4% (2011: 4%). 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 £227 million as at 31 March 2012 (2011: £219 million) which are outlined in Note 21.

31 Reconciliation of cash flows

	2012 £m	2011 £m
Net cash flows from operating activities	27	139
Capital expenditure included within investing activities	(51)	(61)
Interest paid	10	6
Taxation paid (operating)	34	30
Restructuring	27	25
Other operating exceptional item: costs to settle legal case	10	–
Facility fees paid	5	–
Legacy items:		
– Pension contributions	80	62
– Other legacy payments	17	12
	97	74
Operating cash flow	159	213
Restructuring	(27)	(25)
Net finance costs paid	(7)	(1)
Facility fees paid	(5)	–
Taxation paid (operating)	(34)	(30)
Legacy items	(97)	(74)
Free cash flow	(11)	83
Operating cash flow attributable to:		
Continuing operations	159	213

The directors use two KPI measures of the Group's cash performance, operating cash flow and free cash flow. Both measures are reconciled above, starting from net cash flow from operating activities reported in the Consolidated Cash Flow Statement on page 86.

32 Analysis of business combinations and business disposals

(i) Business combinations

Year ended 31 March 2012

There were no acquisitions in the year.

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 and advanced workflow software solutions. The acquisition was accounted for using the acquisition method of accounting and the Group Financial Statements for the year ended 31 March 2011 include the results of Skelta from its date of acquisition to 31 March 2011, with goodwill arising on the acquisition of £3 million.

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.

32 Analysis of business combinations and business disposals continued

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 were expensed in the year ended 31 March 2011 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 to 31 March 2011, Skelta 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.

(ii) Business disposals

No operations have been discontinued in the years ended 31 March 2012 or 31 March 2011. 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.

	2012 £m	2011 £m
Net cash flow arising on disposal:		
– cash consideration	–	5
– cash costs of disposal	(7)	(9)
	(7)	(4)

33 Director's loan

During the year ended 31 March 2011, a loan was made to Mr Henriksson while he was a director of the Company in view of the double taxation suffered in relation to his US employment duties in 2009/10. Mr Henriksson left the Company on 24 March 2011. Invensys Systems Inc. advanced £312,691 on 29 June 2010 to Mr Henriksson, being an amount equal to the expected refunds due from HMRC. As at 31 March 2012 this loan remains outstanding, is free of any interest, and will be repayable within five business days from the date of HMRC making the expected refund to Mr Henriksson. Mr Henriksson's repayment obligations are not affected by the termination of his employment with the company.

No further loan has been advanced to any director during the year ended 31 March 2012.

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 169.

Details of transactions that have been entered into with related parties for the years ended 31 March 2012 and 31 March 2011 are as follows:

(i) Remuneration of key management personnel
Key management comprises the directors. Remuneration is as follows:

	2012 £m	2011 £m
Short-term employee benefits	2	4
Termination benefits	–	1
Share-based payment	–	1
	2	6

Short-term employee benefits comprise salary and benefits earned during the year and bonuses awarded for the year.

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 (2011: none) other than the director's loan disclosed in Note 33.

35 Dividends paid and proposed

	2012 £m	2011 £m
Paid during the year		
Equity dividends on ordinary shares:		
– Interim dividend for the year ended 31 March 2012: 1.65p (2011: 1.5p)	13	12
– Final dividend for the year ended 31 March 2011: 2.5p (2010: 2.0p)	20	16
	33	28
Proposed for approval by shareholders at the AGM		
Equity dividends on ordinary shares:		
– Final dividend for the year ended 31 March 2012: 2.75p (2011: 2.5p)	22	20
	22	20

The interim dividend for the year ended 31 March 2012 was declared by the Board on 2 November 2011 and paid on 9 December 2011.

The final dividend for the year ended 31 March 2011 was approved by shareholders on 28 July 2011 and paid on 5 August 2011.

Subject to approval by shareholders at the AGM on 13 July 2012, the proposed final dividend for the year ended 31 March 2012 will be paid on 3 August 2012 to shareholders on the register at 22 June 2012, and will be accounted for as an appropriation of retained earnings in the year ended 31 March 2013.

The Invensys Employee Share Trust has waived its right to the final dividend for the year ended 31 March 2012 payable on the 391,218 shares that it owns (2011: 716,763 shares). The Trust also waived its right to the interim dividend for the year ended 31 March 2012 payable on the 240,350 shares that it owned.

36 Events after the balance sheet date

On 10 May 2012 Invensys acquired 100% of the share capital of PHW Inc., a privately held manufacturer of cab signalling systems and other safety electronic train control systems for the North American mainline and mass transit industries for a cash consideration of £11 million. The net assets acquired were approximately £6 million. The acquisition will be accounted for in the year ending 31 March 2013 using the purchase method of accounting.

The disclosure of further information in these Financial Statements is impractical because of the short time between the acquisition date and the date at which the Financial Statements were authorised for issue.

37 Exchange rates

	Year ended 31 March 2012 average	Year ended 31 March 2011 average	**As at 31 March 2012 closing**	As at 31 March 2011 closing
US dollar to £1	**1.60**	1.55	**1.60**	1.61
Euro to £1	**1.16**	1.17	**1.20**	1.14

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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 2012 which comprise the Parent Company balance sheet and the related Notes 1 to 14. 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 78, 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 2012;
- 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 matters 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 2012.

Richard Addison (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
16 May 2012

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 Parent Company 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	2012 £m	2011 £m
Fixed assets			
Investments in subsidiary undertakings	4	**3,062**	3,058
		3,062	3,058
Current assets			
Debtors: amounts falling due within one year	5	**183**	118
Debtors: amounts falling due after more than one year	5	**–**	2
		183	120
Creditors: amounts falling due within one year			
– Other creditors	6	**(707)**	(710)
		(707)	(710)
Net current liabilities		**(524)**	(590)
Total assets less current liabilities		**2,538**	2,468
Pension liability	9	**(31)**	(27)
		2,507	2,441
Capital and reserves			
Called up share capital	10	**81**	81
Treasury shares	10,11	**(1)**	(2)
Share premium account	11	**349**	348
Other non-distributable reserves	11	**1,418**	1,414
Special reserve	11	**495**	495
Profit and loss account	11	**165**	105
Shareholders' funds – equity		**2,507**	2,441

These accounts were approved by the directors on 16 May 2012 and are signed on their behalf by:

Wayne Edmunds
Chief Executive

David Thomas
Chief Financial Officer

Notes to the Parent Company Financial Statements

1 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:

- Improvements to Financial Reporting Standards 2010
- UITF 47 (IFRIC 19), Extinguishing Financial Liabilities with Equity Instruments

The adoption of these annual improvements 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.

2 Profit attributable to the Parent Company

The profit dealt with in the accounts of the Parent Company, Invensys plc, is £95 million (2011: £96 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.

3 Fees for audit and other services

Fees paid to the Company's auditor for the audit of the Financial Statements were £0.1 million (2011: £0.1 million).

Fees paid to the Company's auditor 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.

4 Investments in subsidiary undertakings

	£m
Cost	
At 1 April 2011	3,061
Cost of share-based payments in respect of employees of subsidiary undertakings	4
At 31 March 2012	**3,065**
Amounts provided	
At 1 April 2011	(3)
At 31 March 2012	**(3)**
Net book value	
At 1 April 2011	3,058
At 31 March 2012	**3,062**

Principal subsidiary undertakings at 31 March 2012 are disclosed on page 169.

The investments in subsidiary undertakings have 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.

5 Debtors

	2012 £m	2011 £m
Amounts falling due within one year:		
– Amounts owed by subsidiary undertakings	**183**	117
– Prepayments	**–**	1
	183	118
Amounts falling due after more than one year:		
– Prepayments	**–**	2
	–	2

6 Creditors: amounts falling due within one year

	2012 £m	2011 £m
Other creditors – amounts owed to subsidiary undertakings	**706**	709
Sundry creditors	**1**	1
Other creditors	**707**	710

7 Borrowings

(i) Bank and other loans

The Company had no outstanding bank or other loans in place at 31 March 2012 or 31 March 2011.

(ii) Loan repayment dates, interest rates and principal terms

Bank, other loans and borrowings, bond and credit facilities outstanding at 31 March 2012:

	Notes	Maturity	Facility 2012 £m	Interest rate	Borrowings 2012 £m
Committed revolving credit facility	1,2,3,4	March 2017	250	LIBOR + 1.25%	–

	Notes	Maturity	Facility 2012 £m	Fees	Drawings 2012 £m
Committed multi-currency bonding and guarantee facility	3,4,5	March 2017	350	1.25%	253

1 Interest is currently charged at LIBOR plus 1.25% based on balance sheet leverage.
2 Utilisation fees are charged based on the proportion of revolving credit facility drawn as loans.
3 This facility contains covenants whereby if total borrowings to EBITDA are greater than 2.5:1 then restrictions on acquisitions and dividends apply (current borrowings to EBITDA are 0.005:1).
4 Fees are currently charged on the undrawn portion at a rate of 0.5% based on balance sheet leverage.
5 Fees are currently charged at 1.25% based on balance sheet leverage.

Bank, other loans and borrowings, bond and credit facilities outstanding at 31 March 2011:

	Notes	Maturity	Facility 2011 £m	Interest rate	Drawings 2011 £m
Committed revolving credit facilities					
Multi-currency credit facility	1	July 2013	400	LIBOR + 1.50%	254
Bilateral credit facility		July 2013	25	LIBOR + 1.50%	–
			425		254

1 At 31 March 2011, drawings of £254 million related to the provision of bonds and guarantees.

On 30 March 2012, the £400 million multi-currency credit facility, maturing in July 2013, which could be used for cash or guarantees was cancelled. This was replaced by two new five-year bank facilities totalling £600 million, comprising a £250 million revolving credit facility and a £350 million multi-currency bonding and guarantee facility.

On 30 March 2012, the £25 million bilateral credit facility, maturing in July 2013, was also cancelled.

(iii) Undrawn committed borrowing facilities

	Note	2012 £m	2011 £m
Expiring in more than two years	1	250	171
		250	171

1 At 31 March 2011, these facilities were available for drawings as cash or bonds and guarantees.

8 Financial instruments

The Company has taken advantage of the exemption under FRS 29, Financial Instruments: Disclosure, for the Parent Company Financial Statements.

9 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 2012, to reflect market conditions and material events in the plan.

The Company also participates in the Invensys Pension Scheme (UK), which is the principal Group scheme covering the majority of UK employees. The Invensys Pension Scheme (UK) 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, its deficit and its principle sensitivities 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 Invensys Pension Scheme (UK) represented contributions payable in the year and amounted to £nil (2011: £nil). At 31 March 2012, the outstanding contributions included in creditors were £nil (2011: £nil).

(ii) Unfunded defined benefit scheme

The major assumptions relating to the unfunded scheme are:

	2012 £m	2011 £m
Major assumptions		
Rates of increase in salaries	**4.75**	4.95
Rate of increase to pensions in payment[1]	**3.60**	3.80
Discount rate for scheme liabilities	**4.70**	5.30
Inflation rate[2]	**3.50**	3.70

1 The rate of increase for UK deferred pensions was 3.50% (2011: 3.70%).
2 The inflation rate is based on RPI. An additional inflation rate assumption for CPI of 2.50% is used to reflect the UK Government's change of the inflation measure used to determine minimum pension increases.

Standard SAPS actuarial mortality tables S1PA were adopted. Based on Scheme experience, the probability of death at each age was multiplied by 103% for males and 113% for females. Future improvements in life expectancy have been allowed for in line with the standard CMI model projections subject to a long term trend of 1.00% for males and 1.00% for females.

The changes in the present value of the unfunded scheme liabilities are analysed below:

	2012 £m	2011 £m
Present value of scheme liabilities at beginning of year	**27**	26
Current service cost[1]	**–**	–
Contributions	**(1)**	(1)
Other finance charges[2]	**3**	2
Actuarial loss	**2**	–
Present value of scheme liabilities at end of year	**31**	27

1 Charged to operating profit (less than £0.5 million).
2 Charged to profit before tax.

History of experience adjustments

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Present value of scheme liabilities	**31**	27	26	24	24
Deficit in scheme	**31**	27	26	24	24
Experience losses on scheme liabilities	**–**	–	–	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 £5 million (2011: £3 million loss).

Contributions – rates for future years

Regarding rates of contributions for future years, in respect of the Invensys Pension Scheme (UK), 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.

10 Called up share capital and treasury shares

Issued share capital

The issued, allotted and fully paid share capital was as follows:

	2012 Number of shares million	2012 £m	2011 Number of shares million	2011 £m
Ordinary shares of 10p each	813	81	810	81
	813	81	810	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 2011	810	81
Issue of ordinary shares of 10p each	3	–
At 31 March 2012	**813**	**81**

Shares reserved for issue under share options and awards

During the year the Company issued 3,000,762 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) and Invensys 2007 Long Term Incentive Plan (2007 LTIP), the 2007 CEO Special Award and options granted to the former Chief Executive under an individual arrangement (2011: 2,226,021 under the SRSOS, OSRSOS, 1998 LTIP, 2007 LTIP and 2007 CEO Special Award).

On 29 June 2011, 8 September 2011 and 20 December 2011 conditional awards over a total of 4,784,560 ordinary shares were granted under the 2007 LTIP (2011: 5,267,195). On 14 July 2011, options over a total of 2,110,542 ordinary shares were granted under the SRSOS and OSRSOS (2011: nil).

There were 12,034,692 conditional awards outstanding under the 2007 LTIP as at 31 March 2012 (2011: 14,279,061 under the 1998 LTIP and 2007 LTIP). These conditional awards will be released at various dates between 2012 and 2014, subject to the satisfaction of the performance requirements and any appropriate holding period. As at 31 March 2012, no share awards remained outstanding under the CEO Special Award (2011: 377,861, including shares representing accrued dividends).

As at 31 March 2012, there were no outstanding executive share options (2011: 803,298).

Outstanding options under the SRSOS and OSRSOS as at 31 March 2012 were as follows: 2,185,135 shares exercisable between September 2012 and March 2013 at an exercise price of 175 pence per share (2011: 2,717,450) and 2,040,249 shares exercisable between September 2014 and March 2015 at an exercise price of 246 pence per share (2011: nil).

Notes to the Parent Company Financial Statements continued

10 Called up share capital and treasury shares continued

Treasury shares

Treasury shares comprise shares held by the Invensys Employee Share Trust.

The movement in treasury shares is set out below:

	Number of shares	£m
At 1 April 2011	716,763	2
Purchase of shares	326,000	1
Distribution of shares under share schemes	(651,545)	(2)
At 31 March 2012	**391,218**	**1**

Shares held by the Invensys Employee Share Trust

At 31 March 2012, the Invensys No.2 Employee Benefit Trust (the Trust) held 391,218 ordinary shares of 10 pence each in Invensys plc with a market value of £1 million (2011: 716,763 ordinary shares of 10 pence each with a market value of £2 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 ended 31 March 2011, 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 2012 (2011: nil).

11 Reserves

	Share premium account £m	Treasury shares £m	Other non-distributable reserves £m	Special reserve £m	Profit and loss account £m
At 1 April 2011	348	(2)	1,414	495	105
Issue of shares	1	–	–	–	–
Share-based payment	–	–	4	–	–
Purchase of own shares by Employee Share Trust	–	(1)	–	–	–
Distribution of own shares under share-based payment arrangements	–	2	–	–	–
Profit for the financial year	–	–	–	–	95
Dividends declared and paid	–	–	–	–	(33)
Actuarial loss on pension liability	–	–	–	–	(2)
At 31 March 2012	**349**	**(1)**	**1,418**	**495**	**165**

The amount of profit and loss account reserves available for distribution is £164 million (2011: £103 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.

12 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 2012, provisions in the Group accounts included £9 million (2011: £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.

13 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.

(i) 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

The Company recognised £4 million (2011: £8 million) related to equity settled share-based payment transactions during the year.

(ii) Executive share options

Executive share options detailed below include options granted under the Invensys 1998 Senior Executive Share Option Scheme and the option granted to the former Chief Executive, Ulf Henriksson, under a separate arrangement on 1 June 2004.

Grants

No executive share options were granted in the year ended 31 March 2012 or the year ended 31 March 2011.

Options outstanding

Details of relevant options outstanding as at 31 March 2012 are detailed below:

	Executive share options	
	Number of share options	**Weighted average exercise price (p)**
Outstanding at the beginning of the year	**592,617**	**257.33**
Lapsed during the year	**(57,327)**	**1,216.62**
Exercised during the year	**(535,290)**	**154.59**
Outstanding at the end of the year	**–**	**–**
Exercisable at the end of the year	**–**	**–**

Details of relevant options outstanding as at 31 March 2011 are detailed below:

	Executive share options	
	Number of share options	Weighted average exercise price (p)
Outstanding at the beginning of the year	592,617	257.33
Lapsed during the year	–	–
Outstanding at the end of the year	592,617	257.33
Exercisable at the end of the year	592,617	257.33

13 Share-based payment plans continued

There were no executive share options outstanding at 31 March 2012. The range of exercise prices for options outstanding at 31 March 2011 are detailed below:

	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 2,311.33p	57,327	1,216.62	0.3
	592,617	257.33	0.9

(iii) Long-term incentives

Long-term incentives include awards granted under the Invensys 1998 Senior Executive Long Term Incentive Plan (LTIP), the Invensys 2007 Senior Executive Long Term Incentive Plan (2007 LTIP), the 2007 CEO Special Award, the Invensys Restricted Share Plan (RSP) and the Deferred Share Plan (DSP).

Grants

Details of grants made during the year ended 31 March 2012 are detailed below:

	2007 LTIP	**RSP**	**DSP**
Total number of awards granted	**1,844,288**	–	**120,889**
Weighted average fair value	**256.39p**	–	**279.38p**
Exercise price	**n/a**	–	**n/a**
Expected volatility	**46.3%**	–	**n/a**
Weighted average expected award life	**3.0 years**	–	**2.7 years**
Expected option life	**n/a**	–	**n/a**
Expected dividend yield	**1.32%**	–	**n/a**
Risk free interest rate	**2.36%**	–	**n/a**

Details of grants made during the year ended 31 March 2011 are detailed below:

	2007 LTIP	RSP	DSP
Total number of awards granted	2,271,505	276,774	70,003
Weighted average fair value	230.36p	284.18p	n/a
Exercise price	n/a	n/a	n/a
Expected volatility	46.30%	n/a	n/a
Weighted average expected award life	3.0 years	1.4 years	3.0 years
Expected dividend yield	1.32%	0%	n/a
Risk free interest rate	2.93%	n/a	n/a

No grants were made under the LTIP or 2007 CEO Special Award for the year ended 31 March 2012 or 31 March 2011.

Awards outstanding

Details of relevant awards outstanding as at 31 March 2012 are detailed below:

	LTIP	2007 LTIP	2007 CEO Special Award	RSP	DSP
Outstanding at the beginning of the year	–	6,559,271	377,861	542,557	399,453
Granted during the year	–	1,844,288	–	–	120,889
Dividends during the year	–	27,031	–	4,336	3,107
Transferred in from Group companies	–	103,838	–	32,000	–
Forfeited during the year	–	(2,236,083)	–	(181,845)	–
Exercised during the year	–	(952,605)	(377,861)	(238,255)	(137,303)
Lapsed during the year	–	(362,713)	–	–	–
Outstanding at the end of the year	–	4,983,027	–	158,793	386,146
Weighted average share price at the date of exercise for the options exercised (p)	n/a	269	n/a	312	305
Weighted average remaining contractual life (years)	n/a	1.30	n/a	0.75	1.19

Details of relevant awards outstanding as at 31 March 2011 are detailed below:

	LTIP	2007 LTIP	2007 CEO Special Award	RSP	DSP
Outstanding at the beginning of the year	282,050	5,665,817	1,608,554	623,804	417,783
Granted during the year	–	2,271,505	–	276,774	70,003
Dividends during the year	1,065	13,782	12,577	2,074	411
Transferred out to Group companies	–	(159,952)	–	(69,703)	–
Forfeited during the year	–	–	–	–	–
Exercised during the year	(283,115)	(736,608)	(372,858)	–	(88,744)
Lapsed during the year	–	(495,273)	(870,412)	–	–
Vested during the year	–	–	–	(290,392)	–
Outstanding at the end of the year	–	6,559,271	377,861	542,557	399,453
Weighted average share price at the date of exercise for the options exercised (p)	327	n/a	n/a	304	309
Weighted average remaining contractual life (years)	–	1.40	0.20	1.10	1.40

(iv) Explanation of schemes

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 were 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 would lapse.

No performance conditions attached to the option granted to the former Chief Executive Mr Ulf Henriksson under a separate arrangement on 1 June 2004.

Service requirements:
Options would be forfeited if the participant left employment, although options may have been 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 plan expired in July 2008.

13 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:

Total Shareholder Return (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) 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:

Awards would be forfeited if the participant left employment, although shares may have been 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.

Invensys 2007 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 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). Awards are normally subject to a three-year performance period, commencing on the start of the financial year in which the date of award falls.

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 (CAGR) 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 CAGR in the Group's Earnings Per Share. There are no performance conditions applying to the remaining 30% of an award. The Remuneration Committee retains discretion to ensure that, as a condition for the vesting of any TSR/EPS shares, the underlying overall performance of the Company has been satisfactory. Factors that will be taken into account will include consistency of earnings and the Group's cash position over the performance period.

Service requirements:
If a participant is dismissed for cause before shares are released, the award will be forfeited. If a participant resigns their award will lapse unless the Remuneration Committee exercise their discretion. If a participant's employment ceases for defined good leaver reasons or any other reason determined at the discretion of the Remuneration Committee the financial performance tests will be measured at the normal vesting date and, subject to the outcome of the financial performance tests, the award will be pro-rated based on the period of service and released on the normal vesting date.

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.

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 as 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 included 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 was released following a 12-month period from the first release at 25 May 2010, on 26 May 2011.

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 shares under the Special Award, that have now been released.

Scheme use
The Special Award is a one-off grant at no cost made during the year ended 31 March 2008.

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:
Release of shares is generally subject to continued employment at the relevant date, although shares may be released early, on a pro-rated basis, in defined good leaver cases or for any other reason at the discretion of the Remuneration Committee.

Scheme use
The plan is operated predominantly for senior executives in special circumstances, such as recruitment and retention situations.

13 Share-based payment plans continued

Deferred Share Plan (DSP)

Grant details

The DSP was introduced in 2007/08 to replace the TBOP. Any bonus earned under the Executive Bonus Plan (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 relevant executives 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.

14 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 profit will be available against which the asset can be utilised.

A deferred income tax asset has not been recognised on temporary differences of £31 million with a tax value of £7 million (2011: £28 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 £12 million (2011: £51 million with a tax value of £13 million) available for offset against future profits.

The Company has unrecognised capital losses of £50 million (2011: £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 has reduced to 24% from 1 April 2012 and is expected to continue to fall by 1% each year to 22% in 2014. The impact of the rate change to 22% would reduce the total unrecognised deferred income tax assets by £3 million.

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Five Year Financial Summary

Summary consolidated income statement

For the year ended 31 March	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Revenue	**2,539**	2,486	2,243	2,284	2,108
Operating expenses before exceptional items	**(2,330)**	(2,224)	(1,995)	(2,040)	(1,854)
Operating profit before exceptional items	**209**	262	248	244	254
Exceptional items	**(56)**	(21)	(25)	(66)	62
Operating profit	**153**	241	223	178	316
Foreign exchange losses	**–**	–	–	–	(21)
Exceptional finance costs	**(2)**	–	–	(1)	(36)
Finance costs	**(11)**	(9)	(10)	(12)	(63)
Exceptional finance income	**–**	–	–	27	–
Finance income	**3**	4	3	8	18
Other finance charges – IAS 19	**(3)**	(14)	(37)	(35)	(15)
Profit before taxation	**140**	222	179	165	199
Taxation charge	**(35)**	(37)	(26)	(23)	(30)
Profit after taxation – continuing operations	**105**	185	153	142	169
(Loss)/profit after taxation – discontinued operations	**(6)**	(7)	(2)	(9)	167
Profit for the year	**99**	178	151	133	336
Attributable to:					
Equity holders of the parent	**98**	174	147	130	334
Non-controlling interests	**1**	4	4	3	2
	99	178	151	133	336

Summary consolidated balance sheet

As at 31 March	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Property, plant and equipment	**227**	237	274	305	282
Intangible assets – goodwill	**289**	291	301	306	215
Intangible assets – other	**168**	160	133	123	92
	684	688	708	734	589
Net trading liabilities	**(9)**	(59)	(91)	(90)	(6)
Net cash	**262**	348	363	286	73
Deferred taxation	**55**	28	15	17	6
Net pension liability	**(426)**	(467)	(581)	(308)	(284)
	566	538	414	639	378
Net assets held for sale	**10**	11	6	1	2
	576	549	420	640	380
Equity holders of parent	**556**	514	340	553	311
Non-controlling interests	**20**	35	80	87	69
	576	549	420	640	380

Summary consolidated cash flow statement

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Operating profit before exceptional items – continuing	**209**	262	248	244	254
Operating profit before exceptional items – discontinued	**–**	–	–	–	14
Operating profit before exceptional items – total Group	**209**	262	248	244	268
Depreciation	**37**	41	43	46	47
Amortisation	**31**	26	22	22	19
Purchase of property, plant and equipment	**(38)**	(27)	(34)	(32)	(37)
Expenditure on intangible assets – other	**(51)**	(61)	(36)	(24)	(21)
Sale of property, plant and equipment	**–**	–	1	3	1
Other	**41**	45	39	46	46
Pension contributions	**(36)**	(36)	(34)	(37)	(38)
Working capital movement	**(34)**	(37)	16	30	(38)
Operating cash flow – continuing	**159**	213	265	298	258
Operating cash flow – discontinued	**–**	–	–	–	(11)
Operating cash flow – total Group	**159**	213	265	298	247
Restructuring	**(27)**	(25)	(46)	(41)	(31)
Net finance (costs)/income	**(12)**	(1)	(5)	2	(39)
Net exceptional finance costs/(income)	**–**	–	–	26	(18)
Sale of financial assets	**–**	–	–	5	–
PPP settlement proceeds	**–**	–	–	95	–
Operating taxation paid	**(34)**	(30)	(41)	(34)	(33)
Legacy payments	**(97)**	(74)	(73)	(55)	(62)
Free cash flow	**(11)**	83	100	296	64
Dividends paid to equity shareholders	**(33)**	(28)	(19)	–	–
Dividends paid to non-controlling interests	**(1)**	(3)	(2)	(1)	(1)
Net cash (outflow)/inflow from acquisitions and disposals	**(23)**	(52)	(21)	(67)	264
Pension contributions from disposal proceeds	**–**	–	–	(12)	(55)
Purchase of Invensys plc shares	**(1)**	(4)	(8)	(3)	(13)
Proceeds from exercise of share options	**1**	–	–	–	–
Cost to settle legal case	**(10)**	–	–	–	–
Reclassification of financial assets as cash equivalents	**–**	–	13	–	–
Cash payments on swap contracts	**(1)**	(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)
Currency movement	**(7)**	(2)	6	26	(9)
Movement in net cash	**(86)**	(15)	77	213	239
Opening net cash/(debt)	**348**	363	286	73	(166)
Closing net cash	**262**	348	363	286	73

Other key data

	2012	2011	2010	2009	2008
Orders – continuing operations (£m)	**2,750**	2,452	2,473	2,806	2,036
Order book (£m)	**2,360**	2,204	2,307	2,083	1,294
Operating margin[1] – continuing operations (%)	**8.2%**	10.5%	11.1%	10.7%	12.0%
Net finance cost cover (times)[2]	**20.9**	52.4	35.4	61.0	5.6
Underlying earnings per share (basic)[3] – continuing operations (p)	**13.4**	19.8	13.4	14.1	17.0
Earnings per share (basic) – continuing operations (p)	**12.8**	22.4	18.5	17.4	21.1
Return on operating capital (%)[4]	**35.5%**	49.9%	48.6%	49.0%	53.3%
Number of employees at year end – total Group	**20,959**	20,664	20,044	20,529	22,928
Share price – high (p)	**352**	373	349	344	428
Share price – low (p)	**181**	225	163	122	186
Share price – at year end (p)	**199**	345	341	166	225
Number of ordinary shares in issue at year end (million)	**813**	810	807	801	797

1 Before exceptional items.
2 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).
3 Before exceptional post-retirement benefits – settlement loss, past service credit and curtailment gain; and exceptional finance costs.
4 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 Holding 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 SASU	France
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[1]	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 LLC	Russia
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 SASU	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 Company Limited	China
Shanghai Invensys Process Systems Company Limited	China

Invensys Rail

Dimetronic SA	Spain
Invensys Rail Corporation	USA
Invensys Rail Limited	England & Wales
Invensys Rail Projetos de Transporte Ltda	Brazil
Invensys Rail Pty Limited	Australia
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
Invensys Appliance Controls SA	France
Invensys Appliance Controls sro	Czech Republic
Invensys Controls Australia Pty Limited	Australia
Invensys Controls Italy Srl	Italy
Invensys Controls UK Limited	England & Wales
Invensys SAM	Monaco
Robertshaw Controls Company	USA
Siebe Appliance Controls GmbH	Germany

All subsidiaries are 100% owned.

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1 Company also contains Invensys Controls 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. Lines are open from 8.30am to 5.30pm Monday to Friday, excluding bank holidays.

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, registered 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 2011/12	31 March 2012
Full-year results 2011/12 announced	17 May 2012
Ex dividend date	20 June 2012
Record date for 2011/12 final dividend	22 June 2012
Closing date for DRIP Mandate Form	13 July 2012
Annual General Meeting	13 July 2012
Payment date for 2011/12 final dividend	3 August 2012
Settlement date for DRIP shares	9 August 2012
Half-year results 2012/13 announced	15 November 2012

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
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 2012 AGM will be held on Friday, 13 July 2012 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 2011/12 final dividend of 2.75 pence per share (2011: 2.5 pence per share). The total dividends for the year ended 31 March 2012 are 4.4 pence per share (2011: 4.0 pence per share).

The Company decided to introduce a dividend reinvestment plan (DRIP) in 2011, which enables shareholders to reinvest their dividends directly into Invensys shares. For further information on the DRIP please contact Equiniti. 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.

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.

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: 0845 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**

Glossary

AGM	Annual General Meeting
ADR	American Depositary Receipt
APB	Auditing Practices Board
ATP	Automatic Train Protection
CAGR	Compound Annual Growth Rate
CBTC	Communication Based Train Control
CDP	Carbon Disclosure Project
CER	Constant exchange rates
CGU	Cash generating unit
CSR	China South Locomotive & Rolling Stock Corporation Limited
CoE	Centre of Expertise
CPI	Consumer Price Index
DCS	Distributed control system
DJSI	Dow Jones Sustainability Indexes
DRIP	Dividend reinvestment plan
DSP	Deferred Share Plan
DTRs	Disclosure and Transparency Rules
EBP	Executive Bonus Plan
EBT	Employee Benefit Trust
EPS	Earnings per share
ERP	Enterprise Resource Planning
ERTMS	European Rail Traffic Management System
FCA	Fellow of the Institute of Chartered Accountants
FRS	Financial Reporting Standard
FSA	Financial Services Authority
GLT	Group Leadership Team
HMI	Human Machine Interface
HVACR	Heating, ventilation, air conditioning and refrigeration
IAS	International Accounting Standard
IEEF	Invensys European Employees Forum
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standard
IGCC	Integrated gasification combined cycle
ISO	International Organization for Standardization
KPI	Key performance indicator
LTIP	Long Term Incentive plan
LWCIR	Lost Workday Case Incident Rate
MES	Manufacturing Execution Systems
MWh	Megawatt Hours
NPI	New product introduction
OCR	Organisation Capability Review
OEM	Original Equipment Manufacturer
OHSAS	Occupational Health and Safety Assessment Series
OPBIT	Operating profit before interest and taxation (before exceptional items)
OSRSOS	Overseas Savings Related Share Option Scheme
OTC	Over-The-Counter
PALM	Programme for Action Learning and Mentoring
PPE	Property, plant and equipment
PPP	Public Private Partnership
RDE	Rapidly developing economy
RSP	Restricted Share Plan
RPI	Retail Price Index
SRSOS	Savings Related Share Option Scheme
SSAM	Safety and Sustainability Awareness Metric
TRCIR	Total Recordable Case Incident Rate
TSR	Total Shareholder Return
UITF	Urgent Issues Task Force
UK GAAP	United Kingdom Generally Accepted Accounting Principles
UNGC	United Nations Global Compact

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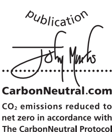

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