

Transforming Performance
Annual Report and Accounts 2013



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Transforming Performance

Helping our customers to achieve operational excellence



“The past year was transformational for Invensys. The disposal of Invensys Rail for £1,742 million has enabled us to deal with our legacy UK pension issues, recommend a substantial return of cash to shareholders and provided us with significant funds to invest in our future. It has also allowed us to carry out a reorganisation of the Group, removing our previous divisional structure and providing significant cost savings of £25 million per annum by April 2014.

“Invensys is now a focused supplier of industrial software, systems and control equipment, delivering state-of-the-art technologies to the world’s major industries. The lines of business structure we began to put in place last year has enabled us to concentrate upon those areas with the greatest opportunities for growth and profitability. We now have significant resources to invest in these businesses which we will do in a thoughtful and disciplined manner to enhance shareholder value.”

Wayne Edmunds, Chief Executive

Everything that we do is about enhancing our customers’ productivity

From oil refineries and power stations to mining companies and appliance manufacturers, Invensys’ market-leading software, systems and controls help to give our customers a competitive edge by speeding up their processes, improving accuracy, saving time, cutting waste and boosting their safety and sustainability performances.

Our long-term sustainable growth will continue to come from two key drivers: in the developed world we have a considerable base of customers who are continually seeking to improve the efficiency of their existing plants, products and facilities; and in rapidly developing economies such as India and China we are seeing greater demand for our technologies from customers as a result of the urbanisation and industrialisation taking place there.

With a deep understanding of our customers’ industries and their business needs, together with an absolute commitment to safety and project execution excellence, Invensys is well-positioned to capitalise on markets with long-term structural growth prospects.

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 10 mining companies
- 7 of the top 10 appliance manufacturers

We enable

- 20% of the world’s electricity generation
- 18% of the world’s crude oil refining
- 37% of the world’s nuclear energy generation
- 62% of the world’s liquefied natural gas production
- 23% of the world’s chemical production

Performance Highlights

A transformational year for Invensys

A full set of our financial key performance indicators (KPIs) is included in the Key Performance Indicators section within our Business Review on pages 16 to 17. Our non-financial KPIs are set out in the Corporate Responsibility section on pages 28 to 32.

Financial performance for continuing operations¹

The Group has performed well against a backdrop of fragile economic conditions and ended the year with £268 million of net cash

- Order intake was £1,700 million (2012: £1,759 million), down 3% (down 2% at CER²)
- Revenue was £1,792 million (2012: £1,764 million), up 2% (up 3% at CER)
- Operating profit³ rebounded to £131 million (2012: £93 million), up 41% (up 40% at CER)
- Underlying earnings per share (EPS)⁴ were 8.5p (2012: 5.3p), up 60%
- Operating cash flow was strong at £136 million (2012: £124 million)
- Net cash for the Group at year end (before receipt of Invensys Rail disposal proceeds) was £268 million (2012: £262 million)
- Recommended final dividend⁵ of 2.85p per share (2012: 2.75p per share); total dividends for the year of 4.6p per share (2012: 4.4p per share), an increase of 5%

Orders (£m)

£1,700_m



Order book (£m)

£1,094_m



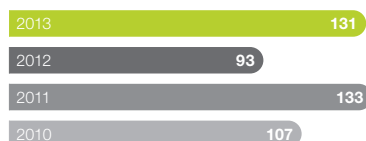
Revenue (£m)

£1,792_m



Operating profit (£m)

£131_m



Dividend (p)

4.6_p⁵



Net cash (£m)

£268_m



¹ All numbers relate to continuing operations. Continuing operations exclude Invensys Rail. Net cash includes amounts classified as assets held for sale.

² Unless otherwise stated, % change is measured as the change at constant exchange rates (CER) as a percentage of the 2012 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 the exceptional Group reorganisation costs; exceptional pension settlement gain/loss; exceptional pension past service cost; and exceptional finance costs.

⁵ The amount of the final dividend in pence per share will increase if the proposed share consolidation proceeds. Please see dividend paragraphs on page 7 for more details.

Business and other highlights

Invensys is now a focused supplier of industrial software, systems and control equipment, delivering state-of-the-art technologies to the world's major industries

- Disposal of Invensys Rail for £1,742 million was completed on 2 May 2013
 - Agreements with Trustee of UK Pension Scheme implemented with contributions of £400 million to UK Pension Scheme and £225 million to a reservoir trust; no further contributions are expected to be made for the foreseeable future
 - Subject to shareholder approval, the return of £625 million of cash to shareholders (amounting to around 76p per share) is to be implemented as soon as practicable
- Reorganisation of Group underway including the elimination of former divisional headquarters resulting in savings in overheads of £25 million per annum by April 2014
- Improved transparency going forward with four new business segments – Software, Industrial Automation, Energy Controls and Appliance

Social and environmental performance⁶

In the last year, we exceeded our 2% environmental KPI reduction targets at our manufacturing sites for energy use, carbon emissions, water use and waste generation

- CO₂ emissions within our manufacturing locations reduced by 3% in the year
- Energy consumption within our manufacturing locations reduced by 3% in the year
- Our Total Recordable Case Incident Rate (TRCIR⁷) remained flat at 0.18 this year; over the past four years, however, our TRCIR has fallen by 14%
- Our Learning and Development Centre of Expertise delivered 119,153 hours of online training

CO₂ emissions (tonnes) within our manufacturing locations

-3%



Energy consumption (MWh) within our manufacturing locations

-3%



Total Recordable Case Incident Rate

nil%



⁶ All numbers are for the Total Group and include Invensys Rail.

⁷ The TRCIR is the injury/illness incident frequency rate in the workplace per 100 employees per annum.

Our Businesses at a Glance

Our new structure

Invensys is a global technology company with four business segments



Software

15% of Group¹ revenue
£260m revenue

Our Software business is one of the world's leading developers and suppliers of industrial software with strong positions in process design, simulation and optimisation, real-time operations management and asset management.

For more information see page 11



Energy Controls

14% of Group revenue
£253m revenue

Our Energy Controls business designs and manufactures a range of process, heating, temperature and remote monitoring controls used in industrial, residential and commercial applications.

For more information see page 12



Industrial Automation

53% of Group revenue
£948m revenue

Our Industrial Automation business is a global supplier of control systems, safety systems and instrumentation to customers operating some of the world's largest and most complex industrial plants, such as oil refineries, power stations (both fossil fuel and nuclear) and petrochemical plants.

For more information see page 12



Appliance

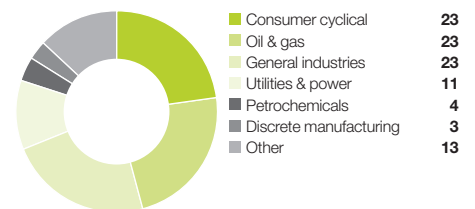
18% of Group revenue
£331m revenue

Our Appliance business designs and manufactures components and systems that control the operation of appliances, including cooking, refrigeration, laundry and dishwashing, in both the residential and commercial sectors.

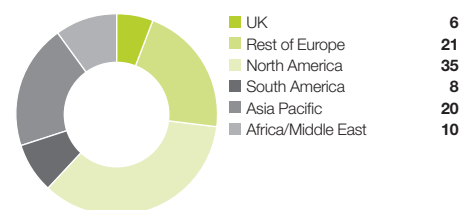
For more information see page 13

Breakdown of Group¹ revenue and employees

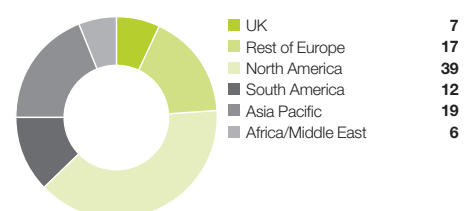
Revenue by sector (%)



Revenue by destination (%)



Employees² by geography (%)



¹ All numbers relate to continuing operations. Continuing operations exclude Invensys Rail.
² Employee numbers are as at year end.

Our Global Footprint

Our 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

Overview

United Kingdom

Revenue (£m)

2013	110
2012	100
2011	108
2010	106

£110m revenue^{1,2}
1,131 employees³

Rest of Europe

Revenue (£m)

2013	376
2012	402
2011	382
2010	376

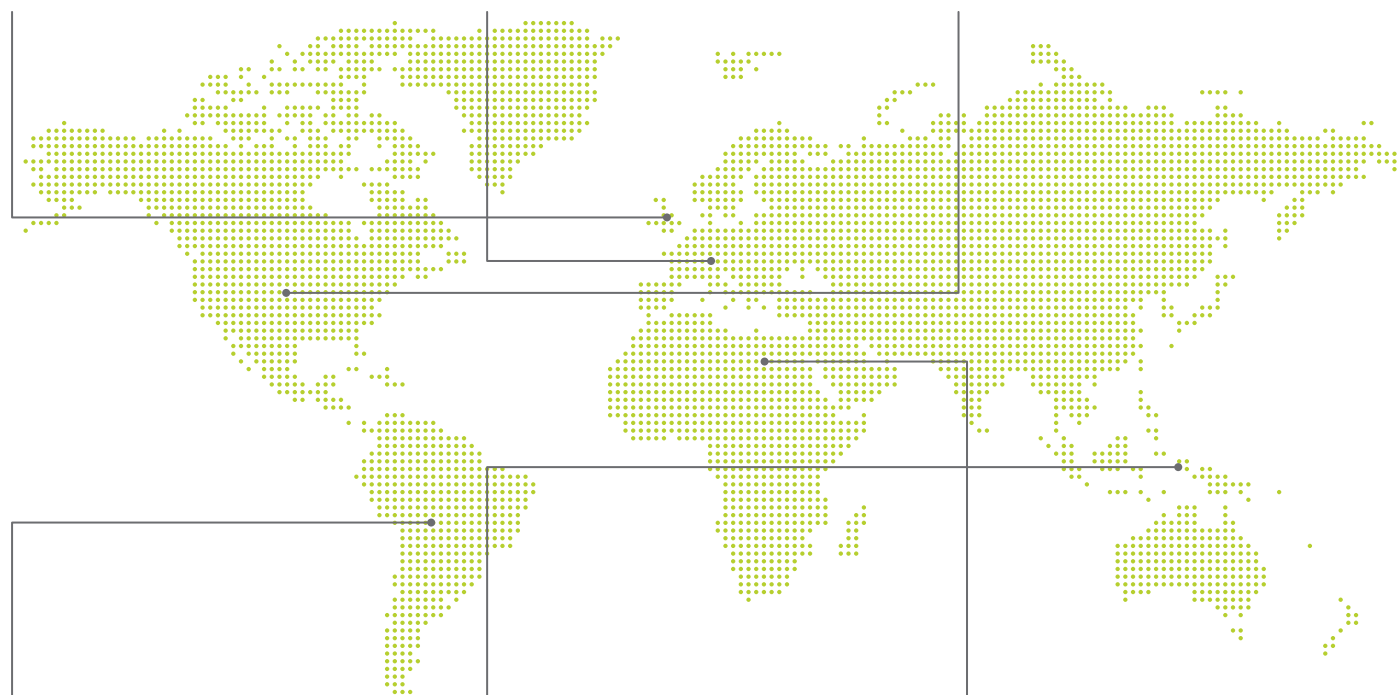
£376m revenue
2,862 employees

North America

Revenue (£m)

2013	624
2012	592
2011	597
2010	553

£624m revenue
6,616 employees



South America

Revenue (£m)

2013	146
2012	153
2011	145
2010	120

£146m revenue
2,056 employees

Asia Pacific

Revenue (£m)

2013	360
2012	342
2011	311
2010	253

£360m revenue
3,171 employees

Africa/Middle East

Revenue (£m)

2013	176
2012	175
2011	171
2010	135

£176m revenue
1,050 employees

¹ All numbers relate to continuing operations. Continuing operations exclude Invensys Rail.
² Revenue by destination.
³ Employee numbers are as at year end.

Chairman's Statement

A transformational year for Invensys



Dear Shareholder

The past year has undoubtedly been transformational for Invensys.

Our decision to sell Invensys Rail to Siemens for £1,742 million followed a detailed strategic review that concluded that a disposal would be the best way of maximising value for shareholders. As a result, we have been able to deal with our legacy UK pension issues in a way that has been acceptable to our shareholders, the Trustee and the Pension Regulator. We will also be returning £625 million of cash to shareholders and we will still retain substantial funds to invest in our more focused technology businesses both organically and through acquisitions. Going forward, one of the major priorities of your Board will be to ensure that the investment of these funds continues to build upon the significant increase in shareholder value that has already taken place.

“The past year was transformational for Invensys. Going forward, one of the major priorities of your Board will be to ensure that the investment of funds from the Invensys Rail disposal continues to build upon the significant increase in shareholder value that has already taken place.”

Sir Nigel Rudd, Chairman

Underlying EPS (p)

8.5p

Underlying EPS were 8.5p
(2012: 5.3p), up 60%

Dividend (p)

4.6p

Recommended final dividend of
2.85p per share (2012: 2.75p);
total dividends of 4.6p per share
(2012: 4.4p), up 5%

The Board

There were no changes to the membership of the Board during the year.

Francesco Caio and Pat Zito have informed the Board that they do not intend to seek re-election at the Annual General Meeting (AGM) and accordingly will be retiring from the Board at the close of that meeting. Given the smaller size of the Group following the disposal of Invensys Rail, we have decided that they will not be replaced and the future Board will now consist of the Chairman, three executive directors and five non-executive directors.

The Board would like to thank Francesco and Pat for their contributions to the Board and we wish them well for the future.

Our people

The achievements of the past year reflect the efforts of everyone at Invensys. Many were involved in the disposal of Invensys Rail and the subsequent reorganisation and all were responsible for ensuring that our daily business was not affected by these activities. On behalf of the Board, I would like to thank all of Invensys' people for contributing to such a transformational year.

Dividend and dividend policy

The Board has recommended a final dividend of 2.85 pence per share, amounting to £23 million, which brings the total dividends payable in respect of the year ended 31 March 2013 to 4.6 pence per share (2012: 4.4 pence per share), an increase of 5%. The amount paid per share could increase dependent upon the share capital consolidation as detailed below.

If the return of cash to shareholders and subsequent share capital consolidation are approved by shareholders and take place as planned, the Board has recommended that the total amount of the final dividend will remain the same, £23 million, but will be paid on the smaller number of shares in issue resulting from the share consolidation. Therefore the amount paid per share would increase and details of these changes will be set out in the circular to shareholders to be issued regarding the return of cash.

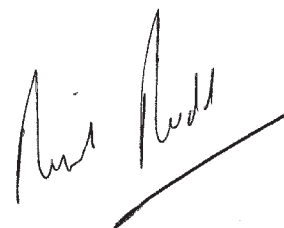
Subject to approval by shareholders at the AGM on 25 July 2013, the final dividend will be paid on 2 August 2013 to shareholders on the register at 21 June 2013. A dividend reinvestment plan (DRIP) is available for this final dividend, which will enable shareholders to reinvest their dividends directly into Invensys shares.

The Board remains committed to a progressive dividend policy with future dividend growth reflecting the long-term sustainable trend in underlying earnings per share and free cash flow.

Outlook

Looking ahead, we do not expect any significant changes to general market conditions in the near term but anticipate an improved performance due to continued growth in our higher-margin segments, especially Software, and the benefits of the Group reorganisation.

We expect our Software segment to show good growth supported by our customers' requirements for optimisation, efficiency and productivity. The Industrial Automation segment is likely to see continued strength in its brownfield revenue stream which will be offset by an anticipated decline in revenue from large greenfield projects such as China Nuclear; however, margins should improve due to the improved sales mix. Energy Controls is likely to be stable as management works to consolidate the range of businesses and drive market and technology synergies. Appliance is expected to see modest growth helped by somewhat improved conditions in North America.



Sir Nigel Rudd
Chairman

15 May 2013

Chief Executive's Statement

A thoughtful and disciplined approach to investing



The past year was transformational for Invensys. The disposal of Invensys Rail for £1,742 million has enabled us to deal with our legacy UK pension issues, recommend a substantial return of cash to shareholders and provided us with significant funds to invest in our future. It has also allowed us to carry out a reorganisation of the Group, removing our previous divisional structure and providing significant cost savings of £25 million per annum by April 2014.

Invensys is now a focused supplier of industrial software, systems and control equipment, delivering state-of-the-art technologies to the world's major industries. The lines of business structure we began to put in place last year has enabled us to concentrate upon those areas with the greatest opportunities for growth and profitability. We now have significant resources to invest in these businesses which we will do in a thoughtful and disciplined manner to enhance shareholder value.

Disposal of Invensys Rail

Following a strategic review which highlighted the likely consolidation in the global rail signalling market and the limited scope to increase the size of the Invensys Rail division, we decided to refocus the Group around our industrial software, systems and control equipment businesses and, accordingly, to dispose of Invensys Rail.

“In order to give the market greater insight into the performances of our businesses and their value, we have now changed our operating model and financial reporting with the lines of business grouped into four new business segments – Software, Industrial Automation, Energy Controls and Appliance.”

Wayne Edmunds, Chief Executive

Orders (£m)

£1,700m

Orders were £1,700 million
(2012: £1,759 million),
down 3% (down 2% at CER)

Operating profit (£m)

£131m

Operating profit was £131 million
(2012: £93 million),
up 41% (up 40% at CER)

On 28 November 2012, we announced that we had reached agreement to sell the business to Siemens for £1,742 million on a cash and debt free basis. That price represented an attractive value for the business and fully recognised Invensys Rail's leading positions in long-term growth markets with returns ahead of its peers and well-invested technology. The disposal was completed on 2 May 2013 and therefore the results of Invensys Rail have been included in discontinued operations with comparatives restated accordingly.

Following completion, a contribution of £400 million has been made to the UK Pension Scheme and a further payment of £225 million has been made into a reservoir trust. As a result of these payments, the previous deficit reduction payments of £40-47 million per annum have ceased and it is anticipated that no further contributions will be payable into the Scheme for the foreseeable future. More details of the pension arrangements are contained in the Financial Review on page 26.

As previously announced, we now intend to return £625 million of cash to shareholders and information on the return of cash will be set out in a circular to shareholders which will be issued as soon as practicable. The return of cash is subject to the approval of Invensys shareholders at a General Meeting which is expected to take place in June 2013. It is intended that shareholders will be able to elect to receive their cash as income, capital or deferred capital or a combination of the three. Following the return of cash, we are proposing a share capital consolidation that, subject to market fluctuations, will result in the share price being returned to approximately the same level as before the return of cash.

Reorganisation and revised business segment reporting

Following last year's creation of individual lines of business within our divisions to bring additional focus upon our leading brands and technologies, the disposal of Invensys Rail has enabled us to take the further step of removing our former divisional structure. This reorganisation will give rise to significant savings of around £25 million per annum by April 2014.

As a result, we have changed our external reporting from 1 April 2013 to reflect the new basis on which information will be reported internally. We will group our lines of business into four new business segments. This grouping brings together businesses with similar economic characteristics, operating margins, market drivers and technologies as well as providing greater transparency as to the true value of our market-leading businesses:

- **Software** which consists of the software businesses previously within Invensys Operations Management and includes our Wonderware®, SimSci™ and Avantis® brands.
- **Industrial Automation** which consists of the systems businesses of our Foxboro® distributed control systems (DCS) and Triconex® safety systems with the addition of the Foxboro measurement and instrumentation products previously within the equipment business of Invensys Operations Management.
- **Energy Controls** which consists of the Eurotherm® and IMServ® businesses previously included within the equipment business of Invensys Operations Management, together with the residential heating and commercial businesses that were formerly part of Invensys Controls.
- **Appliance** which consists of the Appliance controls line of business previously within Invensys Controls, together with the appliance replacement parts business formerly within Wholesale, also part of the former Invensys Controls.

Although the commentary on the past year's performance contained in this Annual Report and Accounts is based upon the previous reporting structure, we will be using these new business segments for future reporting.

The past year's performance by new business segment, together with an estimate of the allocation of cost savings from the Group reorganisation is shown on page 23 in the Financial Review.

Looking ahead

As a focused supplier of industrial software, systems and control equipment to the world's major industries, we will be focusing our investment on growing those lines of business which offer attractive long-term growth prospects with high returns on investment and excellent cash conversion. In particular, we will focus on expanding the breadth and depth of our higher-margin software businesses, which represent a major engine of future growth.

Our long-term sustainable growth will therefore be driven by maintaining and developing our leading technologies; focusing on project and commercial execution excellence; developing our portfolio through bolt-on acquisitions; supporting and expanding our customer base and growing our business in emerging markets.

Operationally and financially, Invensys is now well placed to capitalise on markets with long-term structural growth prospects and deliver further value for shareholders.



Wayne Edmunds
Chief Executive

15 May 2013

Our Business Model

Everything that we do is about enhancing our customers' productivity and profitability

Who are we?

Invensys is a global technology company that works in partnership with a broad range of industrial and commercial customers to design and supply advanced technologies that optimise their operational performance and profitability. From oil refineries and power stations to mining companies and appliance manufacturers, our market-leading software, systems and controls enable our customers to monitor, control and automate their products and processes, thereby maximising safety, efficiency, reliability and ease of use.

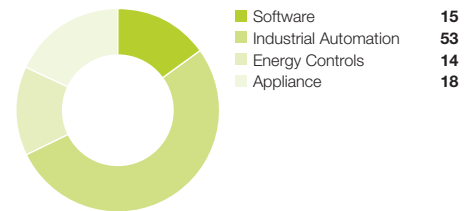
Our technologies are used by customers in plants and facilities around the world, helping to give them a competitive edge by speeding up their processes, improving accuracy, saving time, cutting waste and boosting their safety and sustainability performances.

With a deep understanding of our customers' industries and their business needs, our long-term sustainable growth is driven by an absolute commitment to project and commercial execution excellence, which also drives our reputation as a partner of choice.

How are we structured?

The sale of Invensys Rail has provided us with the opportunity to streamline the organisation and create an operational and financial structure that enables us to make substantial cost savings while providing greater transparency as to the true value of our market-leading businesses.

Revenue by business segment (%)



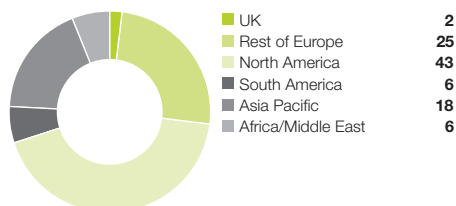
Whereas previously Invensys had three divisions – Invensys Operations Management, Invensys Rail and Invensys Controls – our lines of business are now grouped into four business segments: Software, Industrial Automation, Energy Controls and Appliance. These are outlined below.

What products and solutions do we provide?

Business segment	Overview	Core brands
1. Software	Design, simulation and optimisation software	SimSci
	Trading, planning and scheduling software	SimSci
	Operations and asset management software	Wonderware Avantis
	Visualisation and supervisory control software for real-time production management	Wonderware
2. Industrial Automation	Safety systems	Triconex
	Control systems	Foxboro
	Field devices and high-precision measurement and instrumentation products	Foxboro Foxboro Eckardt™
3. Energy Controls	Industrial controls	Eurotherm
	Commercial controls	Eliwell® Ranco®
	Residential controls	Drayton® Eberle® Robertshaw®
	Monitoring controls	IMServ Centeron™
4. Appliance	Components and systems that control the operation of appliances	Robertshaw Ranco Paragon® UNI-LINE™

1. Software

Revenue by destination (%)



Our Software business is one of the world's leading developers and suppliers of industrial software with strong positions in process design, simulation and optimisation, real-time operations management and asset management.

Our portfolio includes:

- **Wonderware** – the world's leading visualisation and supervisory control software for real-time production management
- **SimSci** – a leading supplier of process design, simulation and optimisation software
- **Avantis** – asset management software used to ensure the reliable operation of production plants and processes

Revenue by line of business (%)



Our software portfolio enables our customers to maximise the value of their manufacturing operations and supply chains across a broad range of industries. From oil refineries and power stations to mining companies and chemical manufacturers, our products help our customers to design, plan and operate their production processes in order to maximise efficiency and profitability, while enhancing reliability, safety and sustainability.

Revenue by type (%)



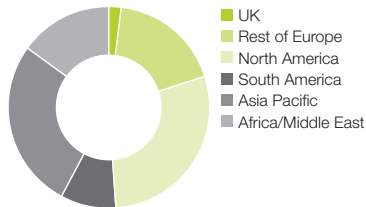
The industrial software market is fragmented with many small-to-medium-sized companies providing specialist software products that would complement our own portfolio. We therefore intend to be a consolidator in this market and we recently expanded our SimSci product range with the acquisition of **Spiral Software**, which specialises in integrated solutions for the oil refining industry, ranging from crude assay management to refinery supply chain optimisation.

Our investment in research and development is focused on improving the functionality of our software products to address the increasingly complex business requirements of our customers in today's digital world.

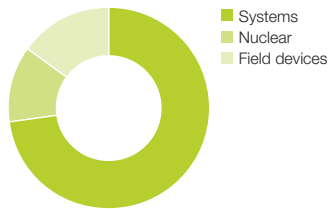
Our Business Model continued

2. Industrial Automation

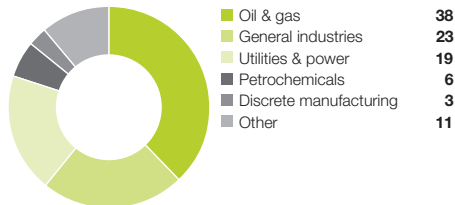
Revenue by destination (%)



Revenue by line of business (%)



Revenue by sector (%)



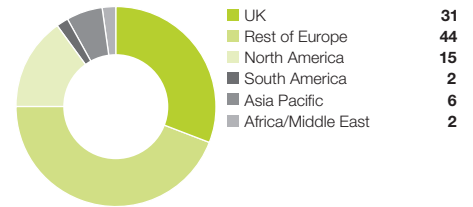
Our Industrial Automation business is a global supplier of control systems and safety systems to customers operating some of the world's largest and most complex industrial plants, such as oil refineries, power stations (both fossil fuel and nuclear) and petrochemical plants. Our **Foxboro I/A** distributed control system (DCS) is a world leader in industrial automation and our **Triconex** emergency shutdown system is recognised as the world's leading safety system. Our **Foxboro** and **Foxboro Eckardt** businesses also manufacture and supply a full range of field devices and pressure, flow and analytical measurement and instrumentation products.

During the year, 12% of Industrial Automation revenue came from our Nuclear line of business.

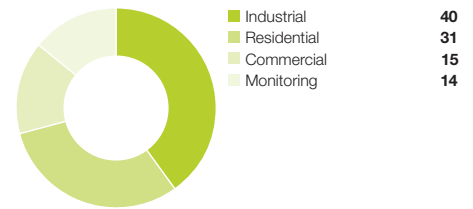
We have the second largest base of installed DCSs in the industry and many of those systems will need to be replaced over the coming decade. As a result, we will be investing further in our DCS and safety systems to ensure that we maintain our market positions for these state-of-the-art technologies.

3. Energy Controls

Revenue by destination (%)



Revenue by line of business (%)



Energy Controls comprises four lines of business:

Industrial

Our Industrial line of business manufactures a range of high-precision controllers and recorders under the **Eurotherm** brand. Products and services include process control and temperature control solutions in life sciences, heat treatment, plastics and glass, where reducing our customers' cost of energy is critical to their business success.

To enhance our niche market positions, we will continue to invest in product development and seek to acquire small-to-medium-sized companies, whose specialist products complement our own portfolio.

Commercial

Our Commercial line of business designs and supplies a range of controls under the **Eliwell** and **Ranco** brands for use in refrigeration, heating, ventilation and air-conditioning. Our customers are original equipment manufacturers, large project installers and systems integrators in the food preservation, food preparation and comfort sectors.

Our growth in Commercial will be driven by geographic expansion and the introduction of new products such as wireless-based solutions for refrigerated transportation.

Residential

Our Residential line of business designs, manufactures and distributes heating controls under the **Drayton**, **Eberle** and **Robertshaw** brands, including room thermostats, time controls, thermostatic radiator valves and under-floor heating controls, predominantly for use in homes.

Our growth in Residential will be driven by geographic expansion and the introduction of new products based on smart home energy monitoring and control systems.

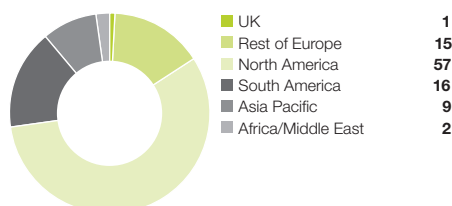
Monitoring

Our **IMServ** business provides data measurement, visualisation and control services for large industrial, commercial and retail energy users, as well as full market settlement services for managing wholesale electricity trading.

Our market-leading **Centeron** Wireless Tank Monitoring System uses state-of-the-art radio and sensor technology to remotely monitor storage tanks in a number of applications, including petroleum, propane, chemicals and agriculture.

4. Appliance

Revenue by destination (%)



Our Appliance business is the world's largest supplier of components and systems that control the operation of appliances, including cooking, refrigeration, laundry and dishwashing, in both the residential and commercial sectors.

We supply the mid- to high-end of the home appliance market, providing seven of the world's top 10 appliance manufacturers with components and systems that enhance their appliances by improving their operating and sustainability performances.

Our business model

How do we generate revenue?

Our revenue can be broken down as follows: 15% Software, 53% Industrial Automation, 14% Energy Controls and 18% Appliance.

Our customers are primarily large, global companies with complex production processes spanning a broad range of industries, including oil refineries; chemical, gas, liquefied natural gas (LNG), power, pharmaceutical and mineral processors; food and drinks companies; appliance manufacturers; metals and mining companies; water and wastewater facilities; and pulp and paper mills.

Our businesses are well-positioned to capitalise on markets that have long-term structural growth prospects. Specifically, our markets in oil, gas and power will continue to be driven by the need for new greenfield capacity in rapidly developing economies such as India and China and by our existing customers' desire to maximise the efficiency of their brownfield sites in the developed world.

During the year, 12% of the Group's revenue from continuing operations came from large contracts, defined by us as those in excess of £10 million. These large contracts sit within our Industrial Automation business segment.

Our route to market varies by product:

- Our Software routes to market vary depending upon the solution and are either direct or indirect through distributors and systems integrators;
- The majority of our Industrial Automation sales are direct;
- Our Energy Controls sales are largely indirect through distributors; and
- Our Appliance sales are primarily direct to original equipment manufacturers.

Our Business Model continued

What is our strategy?

The sale of Invensys Rail to Siemens for £1,742 million has been transformational for Invensys. In summary, it has enabled us to deal with the Group's legacy UK pension issues, return cash to shareholders and enable significant investment in our refocused strategy on our higher-margin, faster-growth markets. The sale is also enabling us to simplify the Group's management structure and make substantial cost savings, while creating an operational and financial structure that provides greater transparency as to the true value of our market-leading businesses.

In our Appliance segment we will be looking to build upon the significant investments that we have made in restructuring and product development during the last five years. Demand in its markets remains subdued but our investments will ensure that its operating performance will improve significantly as the appliance market recovers.

We will now be focusing our investment on growing the lines of business within our Software, Industrial Automation and Energy Controls business segments, which offer attractive long-term growth prospects with high returns on investment and excellent cash conversion. Our long-term sustainable growth will therefore be driven by:

Growth in software

We will be focusing on expanding the breadth and depth of our higher-margin software businesses, which represent a major engine of future growth. We will achieve this through acquisitions and additional investment in research and development.

Maintaining and developing leading technologies

As a leading technology company, research and development is fundamental to what we do, so we will continue to invest in our state-of-the-art technologies to ensure that they remain "best in class" and are evolving to meet the needs of our customers in both the developed world and in rapidly developing economies, such as China and India. During the year, we invested 4.5% of continuing operations revenue on research and development (2012: 4.2%); in Software, the investment was 19.3% of segment revenue.

Project and commercial execution excellence

Project and commercial execution excellence sits at the heart of our long-term sustainable growth strategy and it will continue to drive our reputation as a partner of choice. We will therefore be continuing to invest in employing the best people for each project and providing them with the delivery support they need to achieve consistently high levels of customer satisfaction.

Developing our portfolio through acquisition

We will supplement our organic growth by pursuing an active but disciplined programme of bolt-on acquisitions designed to broaden and enhance our market positions and product ranges, predominantly in our Software and Energy Controls business segments.

Supporting and expanding our customer base

We have a considerable base of customers whose prime focus is on maximising the reliability and efficiency of their existing plants and facilities. As a result, the opportunities for upgrading or replacing their control and safety technologies are significant and we will continue to provide them with outstanding service and support in order to capitalise on this. We will also continue to secure new greenfield contracts to expand our base of installed technologies and provide further opportunities for selling other products.

In addition, we will seek to expand into new industry sectors. Currently, 39% of our revenue from continuing operations comes from the oil & gas, petrochemicals and utilities & power sectors. Our aim is to acquire strong positions in new sectors by broadening our Software product range.

Business Review

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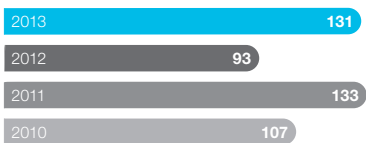

Our Industrial Automation business is a global supplier of control systems, safety systems and instrumentation to customers operating some of the world's largest and most complex industrial plants, such as oil refineries, power stations (both fossil fuel and nuclear) and petrochemical plants.

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 22 to 26.

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 28 to 32.

KPI ¹	Current year performance	Definition and rationale
Orders (£m) 	<p>Order intake was £1,700 million (2012: £1,759 million), down 3% (down 2% at constant exchange rates (CER)).</p> <p>Invensys Operations Management improved in the second half to produce orders in line with last year but Invensys Controls experienced a further market-led decline.</p>	<p>The value of orders received from binding contractual agreements with customers in the year. This excludes blanket orders (e.g. from OEMs) unless there is a firm commitment for delivery within a maximum of three months.</p> <p>This is a measure of current year performance and supports future years' revenue performance.</p>
Order book (£m) 	<p>The order book at 31 March 2013 was £1,094 million (2012: £1,158 million), down 6% (down 9% at CER).</p> <p>This includes 47% in emerging markets.</p>	<p>The cumulative value of orders received (less revenue taken to date) that we expect to convert into future revenues.</p> <p>This gives us visibility into future revenue performance and provides a measure of our business development activities.</p>
Revenue (£m) 	<p>Revenue was £1,792 million (2012: £1,764 million), up 2% (up 3% at CER).</p> <p>Revenue growth was driven by order book conversion at Invensys Operations Management more than offsetting the decline at Invensys Controls.</p>	<p>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.</p> <p>This is a measure of current year performance.</p>
Operating profit (£m) 	<p>Operating profit rebounded to £131 million (2012: £93 million), up 41% (up 40% at CER).</p> <p>The large increase reflected the successful management actions to stabilise the China Nuclear projects after the prior year was impacted by £40 million of additional costs.</p>	<p>Profit before taxation, net finance costs and exceptional items.</p> <p>This gives us an underlying measure of business profitability that is comparable over time.</p>
Operating margin (%) 	<p>Operating margin was 7.3% (2012: 5.3%).</p> <p>The increase in operating margin was driven by the factors explained under operating profit.</p>	<p>Operating profit divided by revenue.</p> <p>This is a measure of the efficiency of the profits we generate.</p>

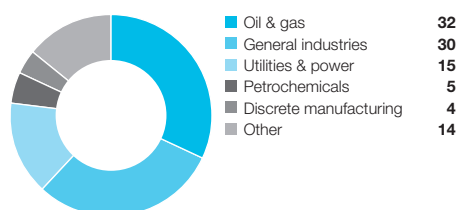
¹ All numbers relate to continuing operations. Continuing operations exclude Invensys Rail.

KPI ¹	Current year performance	Definition and rationale										
Operating cash flow (£m) <table border="1"> <tr><th>Year</th><th>Operating cash flow (£m)</th></tr> <tr><td>2013</td><td>136</td></tr> <tr><td>2012</td><td>124</td></tr> <tr><td>2011</td><td>142</td></tr> <tr><td>2010</td><td>167</td></tr> </table>	Year	Operating cash flow (£m)	2013	136	2012	124	2011	142	2010	167	<p>Operating cash flow was £136 million (2012: £124 million), up 10% (12% at CER).</p> <p>Cash performance was strong at both Invensys Operations Management, notwithstanding some further net outflows on the China Nuclear projects ahead of the achievement of payment milestones, and Invensys Controls.</p>	<p>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.</p>
Year	Operating cash flow (£m)											
2013	136											
2012	124											
2011	142											
2010	167											
Cash conversion (%) <table border="1"> <tr><th>Year</th><th>Cash conversion (%)</th></tr> <tr><td>2013</td><td>104</td></tr> <tr><td>2012</td><td>133</td></tr> <tr><td>2011</td><td>106</td></tr> <tr><td>2010</td><td>157</td></tr> </table>	Year	Cash conversion (%)	2013	104	2012	133	2011	106	2010	157	<p>Cash conversion was 104% (2012: 133%).</p> <p>Cash conversion was 90% at Invensys Operations Management and 115% at Invensys Controls enabling us to meet our medium-term target of 90%.</p>	<p>Operating cash flow divided by operating profit.</p> <p>This measures our efficiency in generating operating cash from our operating profit.</p>
Year	Cash conversion (%)											
2013	104											
2012	133											
2011	106											
2010	157											
Free cash flow (£m) <table border="1"> <tr><th>Year</th><th>Free cash flow (£m)</th></tr> <tr><td>2013</td><td>106</td></tr> <tr><td>2012</td><td>(11)</td></tr> <tr><td>2011</td><td>83</td></tr> <tr><td>2010</td><td>100</td></tr> </table>	Year	Free cash flow (£m)	2013	106	2012	(11)	2011	83	2010	100	<p>Free cash flow was £106 million (2012: £11 million outflow).</p> <p>The increased free cash flow was driven by higher operating cash flow, lower pension contributions into the Invensys Pension Plan (US), and lower legacy item costs.</p>	<p>Operating cash flow less cash costs of net finance costs paid, taxation paid, exceptional items and legacy items paid.</p> <p>This indicates the level of cash that can be used to enhance shareholder value e.g. through dividends, acquisitions, changes to capital structure.</p>
Year	Free cash flow (£m)											
2013	106											
2012	(11)											
2011	83											
2010	100											
Earnings per share (EPS) – underlying (p) <table border="1"> <tr><th>Year</th><th>Earnings per share (p)</th></tr> <tr><td>2013</td><td>8.5</td></tr> <tr><td>2012</td><td>5.3</td></tr> <tr><td>2011</td><td>9.3</td></tr> <tr><td>2010</td><td>(0.2)</td></tr> </table>	Year	Earnings per share (p)	2013	8.5	2012	5.3	2011	9.3	2010	(0.2)	<p>Underlying EPS were 8.5p (2012: 5.3p), up 60%.</p> <p>The increase was driven by improved operating profit, offset by higher IAS 19 finance charges.</p>	<p>Earnings per share before the exceptional Group reorganisation costs; exceptional pension settlement gain/loss; exceptional past service cost; and exceptional finance costs.</p> <p>This measure of EPS provides an underlying measure of shareholder return that is comparable over time.</p>
Year	Earnings per share (p)											
2013	8.5											
2012	5.3											
2011	9.3											
2010	(0.2)											
Earnings per share (EPS) – basic (p) <table border="1"> <tr><th>Year</th><th>Earnings per share (p)</th></tr> <tr><td>2013</td><td>0.1</td></tr> <tr><td>2012</td><td>4.7</td></tr> <tr><td>2011</td><td>11.9</td></tr> <tr><td>2010</td><td>4.2</td></tr> </table>	Year	Earnings per share (p)	2013	0.1	2012	4.7	2011	11.9	2010	4.2	<p>Basic EPS were 0.1p (2012: 4.7p), down 98%.</p> <p>The decrease was driven by Group reorganisation costs.</p>	<p>Profit attributable to shareholders, divided by the weighted average number of shares in issue during the year.</p>
Year	Earnings per share (p)											
2013	0.1											
2012	4.7											
2011	11.9											
2010	4.2											
Return on operating capital (%) <table border="1"> <tr><th>Year</th><th>Return on operating capital (%)</th></tr> <tr><td>2013</td><td>32.1</td></tr> <tr><td>2012</td><td>22.0</td></tr> <tr><td>2011</td><td>32.0</td></tr> <tr><td>2010</td><td>23.1</td></tr> </table>	Year	Return on operating capital (%)	2013	32.1	2012	22.0	2011	32.0	2010	23.1	<p>Return on operating capital was 32.1% (2012: 22.0%).</p> <p>The higher return was driven by the improvement in operating profit.</p>	<p>Operating profit divided by average capital employed excluding goodwill, net pension liabilities, non-operating provisions and net taxation liabilities.</p> <p>This provides a measure of the efficiency of the capital employed in the business.</p>
Year	Return on operating capital (%)											
2013	32.1											
2012	22.0											
2011	32.0											
2010	23.1											

Invensys Operations Management

A strong performance from the Software line of business

Revenue by sector (%)



We are reporting our performance for the year ended 31 March 2013 on the basis of the Group management structure during that year.

From 1 April 2013, we have changed the Group management structure and our future reporting of performance will reflect the four new business segments, namely Software, Industrial Automation, Energy Controls and Appliance.

Markets

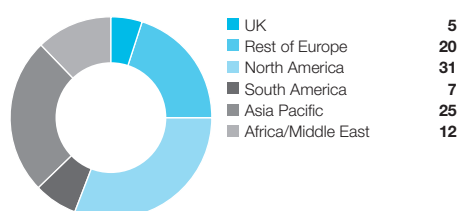
Despite the continued macroeconomic uncertainty in Europe, the outlook for the global industrial automation and software markets was unchanged in the year. Demand is being driven in emerging markets by greenfield investment for capacity expansion in the energy sectors and brownfield investment in increased efficiency in a broad range of markets elsewhere.

In Systems, the ever-increasing demands for energy in the Middle East, Brazil, India and China should make them the strongest growth markets with signs that the recent delays we have seen in the award of larger greenfield projects are coming to an end. In developed markets, ageing assets, new sources of energy and our customers' strong cash positions continue to drive service, upgrade and migration business.

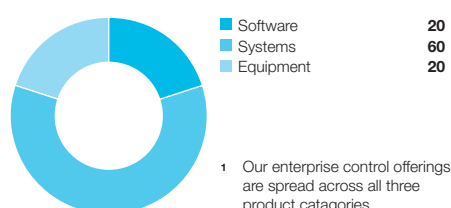
The industrial software markets have not been affected by economic uncertainty with strong demand for simulation and optimisation software to improve the reliability and performance of existing assets. This is a significant area of focus and investment as the markets show strong resilience and high returns on investment, as demonstrated by our recent acquisition of Spiral Software.

Our equipment markets have seen some slight reductions in demand, particularly resulting from the economic difficulties in Europe which have affected sales of Eurotherm products.

Revenue by destination (%)



Revenue by line of business¹ (%)



Year ended 31 March	2013	2012	% change at CER ²	% total change
Orders (£m)	1,254	1,266	-	(1)
Order book (£m)	1,037	1,088	(8)	(5)
Revenue (£m)	1,335	1,272	6	5
Operating profit ³ (£m)	146	96	51	52
Operating margin ³ (%)	10.9%	7.5%		
Operating cash flow (£m)	132	123	8	7
Operating cash conversion (%)	90%	128%		
Employees at year end (numbers)	9,808	9,544		3

² % change is measured as the change at CER as a percentage of the 2012 adjusted base and is calculated on underlying amounts in £000s.

³ All references to operating profit and operating margin are arrived at before exceptional items, unless otherwise stated.

Developments

The delivery of control and safety systems to eight nuclear reactors in China has continued in accordance with the revised project plans put in place in January 2012. On each of the three contracts, we are making good progress with no further significant issues identified.

Although we are continuing to invest in working capital to progress these contracts, with the consequent adverse effect on operating cash flow, we did reach some key payment milestones in the second half of the year which contributed to the improvement in the division's cash conversion in the second half. We are continuing with our decision not to recognise any profits from the two later contracts until we have achieved key milestones on the first reactor.

During the year, we acquired Spiral Software, a privately held company based in Cambridge, UK, which expanded our simulation and optimisation offerings. Founded in 1998, Spiral Software provides integrated solutions ranging from crude assay management to refinery supply chain optimisation, enabling clients to make the best possible choices in trading and refining crude oil. It provides the only integrated refining-industry solution designed from the ground up, bringing together feedstock data management, planning and scheduling. This means that our offerings will now fully support and optimise the entire refining value chain, from crude trading to supply chain distribution, including lifecycle modelling from design to start-up to performance optimisation.

Performance

Following a decline in orders in the first half caused primarily by the absence of large greenfield project awards, order intake improved in the second half so that overall orders for the year were in line with last year at £1,254 million (2012: £1,266 million).

Revenue in the year was up 6% at CER to £1,335 million (2012: £1,272 million). Software had another strong year with revenue up 15%. Systems revenue rose 6% at CER helped by the execution of large projects which accounted for 16% of divisional revenue. Equipment revenue declined by 2% mainly due to a shortfall at Eurotherm in Europe and North America.

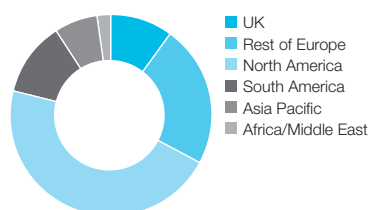
Operating profit showed a significant recovery compared to the prior year which was affected by the £40 million additional costs in respect of our nuclear projects in China. Operating profit was up 51% at CER at £146 million (2012: £96 million) and operating margin was 10.9% (2012: 7.5%); our decision not to recognise any profits on the second and third China Nuclear contracts diluted divisional margins by around 50 basis points.

Operating cash flow remained robust at £132 million (2012: £123 million) notwithstanding some further net outflows on the China Nuclear projects ahead of the achievement of payment milestones. Cash conversion for the year was 90% (2012: 128%).

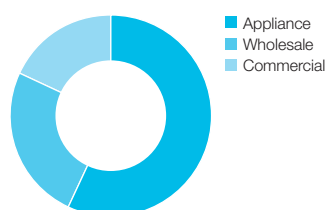
Invensys Controls

A satisfactory performance in difficult end markets

Revenue by destination (%)



Revenue by line of business (%)



Markets

The North American appliance market was more stable during the year than in previous periods but remained weak with little or no recovery despite early signs of improving sentiment within residential markets, particularly in the US. This improved sentiment is focused upon the new residential market which has little impact upon our target market of mid- to higher-end appliances. In Europe and Asia, the appliance market remained weak with few signs of any recovery in the short term but South America held up well due in part to government tax incentives in Brazil which are due to expire in June 2013.

The commercial markets in North America and Europe improved but our performance was affected by the knock-on effect of delays in new product launches by some customers. Our wholesale markets saw some improving conditions as the year progressed but were generally held back by lower demand in the heating season.

Looking forward, based upon customer comments, we expect the appliance markets in North America to see some modest improvements and in Europe to be stable or slightly declining. In Commercial and Wholesale, we expect further improvement supported by several key new product launches in the commercial business delayed beyond our year end.

Developments

The continued weakness in the appliance markets has led us to take further actions to mitigate costs and improve efficiency. In Europe, we took the decision to close the Belluno factory in Italy and move manufacturing to other plants. Elsewhere we have been reducing the size of certain facilities and investing in high-speed electronic production capabilities which will reduce unit cost and improve quality.

The investment in new product development resulted in new products representing 13% of the division's revenue in the year which is in line with the prior year, despite some delays within Commercial and Appliance.

We have continued our focus on innovation and, following our work with Thermo King in applying wireless and remote monitoring technologies to refrigerated transportation, Invensys Controls has worked with Verizon to create a new application for our Centeron tank monitoring system, using radio and sensor technology to remotely track fuel levels in a company's tanks.

Performance

Orders during the year were £446 million (2012: £493 million), down 7% at CER reflecting the continued downturn in end markets and the effect of delays in new product introductions in Commercial and Appliance. Revenue was £457 million (2012: £492 million), a 5% decrease at CER and the order book at 31 March 2013 was £57 million (31 March 2012: £70 million).

Operating profit was down 21% at CER to £27 million (2012: £35 million) with the effect of the reduced revenue and the lower than expected new product revenue in Commercial and Appliance partially offset by tight control of operating costs and overheads. Operating margin was 5.9% (2012: 7.1%). Operating cash flow was £31 million (2012: £49 million) with cash conversion at 115% (2012: 140%).

Year ended 31 March	2013	2012	% change at CER ¹	% total change
Orders (£m)	446	493	(7)	(10)
Order book (£m)	57	70	(21)	(19)
Revenue (£m)	457	492	(5)	(7)
Operating profit ² (£m)	27	35	(21)	(23)
Operating margin ² (%)	5.9%	7.1%		
Operating cash flow (£m)	31	49	(33)	(37)
Operating cash conversion (%)	115%	140%		
Employees at year end (numbers)	6,745	7,209		(6)

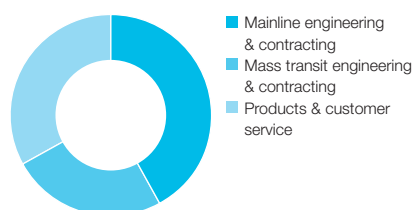
¹ % change is measured as the change at CER as a percentage of the 2012 adjusted base and is calculated on underlying amounts in £000s.

² All references to operating profit and operating margin are arrived at before exceptional items, unless otherwise stated.

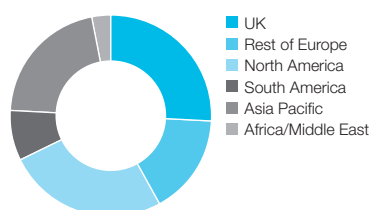
Invensys Rail (discontinued)

Continued strong order intake

Revenue by sector (%)



Revenue by destination (%)



Performance

Following the near record level of orders in the prior year, which included major awards in Saudi Arabia and Turkey, order intake during the year continued at high levels at £905 million (2012: £991 million). As a consequence, the order book at 31 March 2013 increased to £1,374 million (31 March 2012: £1,202 million).

Revenue in the period was down 1% at CER at £757 million (2012: £775 million) with good growth in products sales in North America offset by a further reduction in Spain due to government austerity measures and the expected delays in mobilisation on some of the large new market contracts won last year.

Operating profit was up 12% at CER at £125 million (2012: £116 million) and operating margin was 16.5% (2012: 15.0%).

Operating cash flow improved to £108 million (2012: £35 million) and operating cash conversion returned to more normal levels at 86% (2012: 30%).

Year ended 31 March

	2013	2012	% change at CER ¹	% total change
Orders ² (£m)	905	991	(6)	(9)
Order book ² (£m)	1,374	1,202	12	14
Revenue (£m)	757	775	(1)	(2)
Operating profit ³ (£m)	125	116	12	8
Operating margin ³ (%)	16.5%	15.0%		
Operating cash flow (£m)	108	35	213	209
Operating cash conversion (%)	86%	30%		
Employees at year end (numbers)	4,049	3,960		2

¹ % change is measured as the change at CER as a percentage of the 2012 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.

Financial Review

Simplifying our financial position



Introduction and summary

As reflected in our key performance indicator trends, the Group has performed well against a background of challenging economic conditions and ended the year with £268 million of net cash. As seen in our business division reviews on pages 18 to 21, performances by our divisions have been influenced by a number of factors. The performance of Invensys Rail was particularly strong in all aspects and was reflected in the value of the business which was realised on disposal.

The disposal of the Invensys Rail division was completed on 2 May 2013 with a provisional gain on sale of £1.4 billion. The results of Invensys Rail are reported in discontinued operations with the assets and liabilities of the business reported as held for sale at 31 March 2013. We are now proceeding with the return of £625 million of cash to shareholders which, subject to shareholder approval, is anticipated in June 2013.

We have used £625 million of the proceeds from the Invensys Rail disposal to provide funding for our UK Pension Scheme. £400 million has been paid directly into the Scheme, with a further £225 million paid into a reservoir trust to provide security in favour of the Pension Trustee to cover any remaining deficit and act as a buffer for future contingencies. As a result of these actions, the deficit reduction payments, £41 million paid this year, have now ceased and it is anticipated that no further contributions will be payable to the Scheme until 2018 at the earliest. It is expected that the reservoir trust will remove any need for the Group to make future deficit reduction payments for the foreseeable future. In addition to the main pension scheme funding arrangements, we have continued to manage other pension liabilities. Around £180 million of gross liabilities have been transferred on the disposal. In respect of our Invensys Pension Plan (US), we have recently concluded the planned second phase of a settlement to deferred members which has, in total, extinguished £133 million of liabilities.

“This has been a year of significant change for the Group with the disposal of Invensys Rail; a fundamental Group reorganisation into our new lines of business structure, and the resolution of our legacy pension issues.”

David Thomas, Chief Financial Officer

Operating cash flow (£m)

£136_m

Operating cash flow was £136 million (2012: £124 million) up 10% (up 12% at CER). Operating cash conversion was 104% (2012: 133%)

Return on operating capital (%)

32.1%

Return on operating capital was 32.1% (2012: 22.0%)

The balance of cash from the Invensys Rail disposal will be used to accelerate the strategic development of the continuing Group with investment to grow the business organically and through bolt-on acquisitions.

The new lines of business structure has been established effective 1 April 2013 and will be reported in the business segments of Software, Industrial Automation, Energy Controls and Appliance. Financial information for these segments is shown below. This fundamental reorganisation of the Group resulted in £32 million of restructuring costs, impairments of £12 million following a detailed review of investments for the new lines of business, and £31 million of provisions for legacy matters designed to bring to a conclusion on-going charges for these items. We expect annualised net savings of £25 million by April 2014, with approximately £20 million of this realised in 2013/14.

Against this background of change across Invensys, I would like to acknowledge the contribution of the finance teams who supported these projects while continuing to maintain and enhance operations and internal controls.

In terms of our divisions, Invensys Operations Management experienced good growth across all of its main lines of business delivering an operating margin of 10.9%. Our decision not to recognise any profits on our large, complex China Nuclear project has diluted this margin by about 50 basis points, though I am pleased to report that the contracts have stabilised after the significant provisions booked last year.

Weakening consumer confidence continues to adversely impact Invensys Controls revenue performance along with some delays in new product introductions in the Appliance and Commercial lines of business. Cost actions

taken in the prior periods have mitigated the impact on operating profit.

The Group has continued to invest in research and development to support its technology base, with spend during the year amounting to 4.5% of revenue (2012: 4.2%).

Following the signing of the sale agreement with Siemens, Invensys Rail was moved to discontinued operations on 28 November 2012. Notwithstanding the disposal process, it is pleasing to report a near record order intake, and the year closes with a strong order book.

The Group closed the year with a net cash balance of £268 million. Although our cash performance in the first half was disappointing, we achieved 141% cash conversion of operating profit in the second half. Looking forward, the first half is again expected to be challenging due to the timing of the underlying invoicing milestones on China Nuclear.

Business segments

The table below sets out the revenue and OPBIT for the year ended 31 March 2013 under the business division structure in place during the year and also under our new business segment structure:

2013 £ million	Invensys Operations Management		Invensys Controls		Corporate	Continuing operations		2014 estimated savings	2015 estimated savings
	revenue	OPBIT	revenue	OPBIT	OPBIT	revenue	OPBIT	OPBIT	OPBIT
Software	260	62	-	-	-	260	62	1	1
Industrial Automation	948	72	-	-	-	948	72	5	8
Energy Controls	127	17	126	19	-	253	36	1	1
Appliance	-	-	331	8	-	331	8	3	3
Corporate	-	(5)	-	-	(42)	-	(47)	10	12
	1,355	146	457	27	(42)	1,792	131	20	25

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 16 to 17.

Key performance indicators (KPIs)

For the year ended 31 March	2013	2012	% change at CER ¹	% total change
All data relates to continuing operations (other than free cash flow)				
Orders (£m)	1,700	1,759	(2)	(3)
Order book (£m)	1,094	1,158	(9)	(6)
Revenue (£m)	1,792	1,764	3	2
Operating profit ² (£m)	131	93	40	41
Operating margin ² (%)	7.3%	5.3%		
Operating cash flow (£m)	136	124	12	10
Cash conversion (%)	104%	133%		
Free cash flow (£m)	106	(11)		
Earnings per share – underlying ³ (p)	8.5p	5.3p		60
Earnings per share – basic (p)	0.1p	4.7p		(98)
Return on operating capital ⁴ (%)	32.1%	22.0%		

¹ % change is measured as the change at CER as a percentage of the 2012 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 Group reorganisation costs; exceptional pension settlement gain/loss; exceptional pension past service cost; 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.

Financial Review continued

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	2012 orders £m	Exchange movement £m	2012 CER £m	Change at CER £m	2013 orders £m	Change at CER %
Invensys Operations Management	1,266	(9)	1,257	(3)	1,254	–
Invensys Controls	493	(13)	480	(34)	446	(7)
Continuing operations	1,759	(22)	1,737	(37)	1,700	(2)

The order book for continuing operations was £1,094 million at 31 March 2013 (2012: £1,158 million). This includes 47% in emerging markets.

Revenue

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

Year ended 31 March	2012 revenue £m	Exchange movement £m	2012 CER £m	Change at CER £m	2013 revenue £m	Change at CER %
Invensys Operations Management	1,272	(10)	1,262	73	1,335	6
Invensys Controls	492	(13)	479	(22)	457	(5)
Continuing operations	1,764	(23)	1,741	51	1,792	3

Operating profit

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

Year ended 31 March	2012 OPBIT £m	Exchange movement £m	2012 CER £m	Change at CER £m	2013 OPBIT £m	Change at CER %
Invensys Operations Management	96	–	96	50	146	51
Invensys Controls	35	–	35	(8)	27	(21)
Corporate	(38)	–	(38)	(4)	(42)	(13)
Continuing operations	93	–	93	38	131	40

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	
	2013 £m	2012 £m	2013 %	2012 %
Invensys Operations Management	132	123	90	128
Invensys Controls	31	49	115	140
Corporate	(27)	(48)	–	–
Continuing operations	136	124	104	133

Exceptional items

The exceptional charge for the year totalled £88 million (2012: £33 million) comprising £75 million in respect of the Group reorganisation and £13 million of other items.

The £75 million charge for the Group reorganisation included restructuring costs of £32 million, asset impairments of £12 million (intangible assets of £9 million and property, plant and equipment of £3 million), and other operating exceptional items of £31 million relating to additional environmental and surplus property provisions following a detailed review of our facility portfolio.

Other exceptional items of £13 million included £16 million of restructuring (the closure of Invensys Controls' Belluno facility in Italy and a number of other rationalisation projects across the Group) and a past service cost of £3 million relating to the closure of a Canadian pension plan, offset by a settlement gain of £10 million relating to the Invensys Pension Plan (US) and a gain on some asset sales.

The comparative period included restructuring costs of £18 million; £5 million of property, plant and equipment impairment; and £9 million of other operating exceptional items, including a £3 million settlement loss relating to the Invensys Pension Plan (US).

Net finance costs

Net finance costs remained flat at £9 million (2012: £9 million). Lower finance income reflected reduced cash balances during the year. 2012 included the write-off of unamortised facility fees of £2 million.

Financial position

Capital structure

The Group's capital structure is as follows:

As at 31 March	2013 £m	2012 £m
Capital employed	337	314
Cash and cash equivalents	247	263
Cash and cash equivalents classified as assets held for sale	22	–
Borrowings	(1)	(1)
Net cash	268	262
Total equity – funds	605	576
Comprising:		
– Equity holders of parent	585	556
– Non-controlling interests	20	20
	605	576

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. The Group's bank facilities expire in March 2017. Following completion of the sale of the Invensys Rail division on 2 May 2013, the Group's revolving credit facility was reduced by £100 million to £150 million reflecting reduced working capital requirements. The Group's guarantee facility remains at £350 million.

Other finance charges – IAS 19

IAS 19 finance charges increased to £19 million as anticipated (2012: £4 million). The expected return on assets fell further than the discount rate, mainly due to falls in bond yields.

The changes to the accounting standard IAS 19, Employee Benefits (Revised) will apply from 2013/14. We estimate that our operating profit will be reduced by approximately £10 million as a result of this change; this is a non-cash item.

Taxation

The tax charge for continuing operations was £11 million (2012: £8 million), which comprised a current year income tax charge of £31 million (2012: £37 million), offset by prior year credits of £6 million (2012: £nil) and a deferred tax credit of £14 million (2012: £29 million). The Group is subject to several factors that affect the tax charge including the levels and mix of profitability in different jurisdictions and the availability of tax losses. The effective tax rate has been impacted by the Group reorganisation costs and tax implications of the disposal of Invensys Rail. The underlying effective tax rate for the Group, after excluding the £75 million of Group reorganisation costs and the £48 million deferred tax credit arising on the expected gain on sale, was 20% (2012: 25%). The prior year included the impact of the profit adjustment on our nuclear projects in China.

Discontinued operations

The profit from discontinued operations of £124 million (2012: £60 million) represented the results of Invensys Rail, with the increase in net earnings reflecting the improved performance of the business and a deferred tax credit of £48 million arising on the expected utilisation of tax losses on the gain on sale.

Net profit

Net profit increased to £128 million (2012: £99 million), arising from an increase in operating profit before exceptional items of £38 million and an increase in profit from discontinued operations of £64 million (including a £48 million deferred tax credit), offset by higher exceptional items of £55 million as a result of Group reorganisation costs and an increase in the IAS 19 finance charge of £15 million.

Earnings per share

Basic EPS from continuing operations were 0.1 pence per share (2012: 4.7 pence per share). Underlying EPS were 8.5 pence per share (2012: 5.3 pence per share).

Free cash flow

Free cash flow for the year was £106 million (2012: £11 million outflow). The increased free cash flow was driven by higher operating cash flow, lower pension contributions into the Invensys Pension Plan (US), and lower legacy item costs.

Total equity

Total equity increased by £29 million, principally due to net profit of £128 million, offset by IAS 19 actuarial losses of £97 million and dividends paid to equity shareholders of £37 million.

Non-controlling interests

The non-controlling interests balance was £20 million (2012: £20 million), the majority of which relates to Ranco Japan Limited.

Net cash

Net cash was £268 million (2012: £262 million) with the cost of acquisitions and dividends paid covered by free cash flow.

Capital employed

Capital employed increased by £23 million to £337 million in the year, mainly attributable to the profit in the year of £128 million and foreign exchange gain of £18 million, partially offset by pension scheme losses of £97 million. Capital employed for continuing operations of £162 million (2012: £314 million) includes operating capital of £214 million (2012: £259 million), generating a return of 32.1% (2012: 22.0%).

Pension liabilities and funding

The IAS 19 valuation of pension assets and liabilities as at 31 March 2013 resulted in a net pension liability of £477 million (2012: £426 million). Of this, £50 million has been classified as assets held for sale. The overall increase is the result of net actuarial losses of £127 million, partially offset by deficit reduction payments made throughout the year of £62 million.

Agreements with the Trustee of the UK Pension Scheme have been implemented with payments of £225 million made to a reservoir trust on 2 May 2013 and £400 million made to the UK Pension Scheme on 3 May 2013. No further deficit reduction payments are expected to be made in the foreseeable future.

In the Invensys Pension Plan (US), we have reached a further settlement with a number of deferred plan members in addition to that disclosed last year. These taken together have resulted in settlement payments during the year totalling £123 million, of which £60 million is in respect of the settlement agreed last year. Both payments have been made from scheme assets. This year's settlement gave rise to an exceptional gain of £10 million (2012: exceptional loss of £3 million). In addition, a number of smaller schemes were closed during the year and are in the process of being wound up.

As part of the requirements of the Invensys Rail disposal, a funding valuation of the Invensys Pension Scheme (UK) was undertaken effective 31 October 2012. This has been finalised at a deficit of £478 million, well within the funding provisions of the Scheme.

Dividend

The Board has recommended a final dividend of 2.85 pence per share, amounting to £23 million, which brings total dividends payable in respect of the year ended 31 March 2013 to 4.6 pence per share (2012: 4.4 pence per share), an increase of 5%. The amount paid per share could increase dependent upon the share capital consolidation as detailed below.

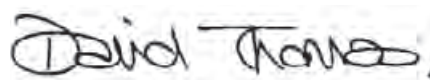
If the return of cash to shareholders and subsequent share capital consolidation are approved by shareholders and take place as planned, the Board has recommended that the total amount of the final dividend will remain the same, £23 million, but will be paid on the smaller number of shares in issue resulting from the share consolidation. Therefore, the amount paid per share would increase and details of these changes will be set out in the circular to shareholders to be issued regarding the return of cash.

Subject to approval by shareholders at the AGM on 25 July 2013, the final dividend will be paid on 2 August 2013 to shareholders on the register at 21 June 2013. 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 remains committed to a progressive dividend policy with future dividend growth reflecting the long-term sustainable trend in underlying earnings per share and free cash flow.

Summary and conclusions

With the transformation behind us and legacy matters largely addressed, we will focus on strong financial management through a simpler finance structure to support the future growth of the Group in the new lines of business structure.



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 2013. The Group's accounting policies under IFRSs are set out in Note 2 to the Group Financial Statements on pages 85 to 92. The Parent Company Financial Statements have been prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP) and include details of the Company's accounting policies.

Treasury policy

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

- appropriate financial resources are available for the maintenance and development of the Group's businesses;
- 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 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 was provided by a £250 million bank facility which matures in March 2017. This was reduced to £150 million following the completion of the Invensys Rail disposal. 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, and pays interest on its facility drawings.

As at 31 March 2013 and 31 March 2012, Invensys had no significant borrowings.

Currency risk

Transaction exposure

Currency transaction exposure arises when businesses 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 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. If it is likely that the bid will be successful and the resulting foreign currency exposure would be significant then the currency risk will be hedged.

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.

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.

This exposure has peaked following the receipt of the Invensys Rail disposal proceeds, prior to the anticipated return of cash.

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 19 to the Group Financial Statements.

Corporate Responsibility

Our approach to sustainability

Invensys is committed to the principles of economic success, environmental stewardship, diversity and social responsibility. We believe that by acting as a responsible global citizen, we will improve our performance, minimise business risk and enhance our reputation as a partner of choice.

CO₂ emissions (tonnes) within our manufacturing locations



-3%

CO₂ emissions within our manufacturing locations reduced by 3% in the year

Energy consumption (MWh) within our manufacturing locations



-3%

Energy consumption within our manufacturing locations reduced by 3% in the year

Total Recordable Case Incident Rate



nil%

Our Total Recordable Case Incident Rate (TRCIR) remained flat at 0.18 this year; over the past four years, however, our TRCIR has fallen by 14%

Introduction and summary

As Chief Executive, I am pleased to provide a summary of our approach to corporate responsibility, governance and the progress we have made during the year. Corporate responsibility, also referred to as sustainability, remains central to our value proposition, influencing the way we interact with our customers, employees, communities and shareholders.

We remain committed to reducing the environmental footprint of our operations and to working safely at both our own facilities and those of our customers. In the last year, we exceeded our 2% environmental key performance indicator (KPI) reduction targets at our manufacturing sites for energy use, carbon emissions, water use and waste generation. In addition, we maintained our leadership position in safety performance with our injury/illness incident frequency rates reflecting the effective programmes we have in place.

For the fourth consecutive year, Invensys was listed on the Dow Jones Sustainability Indexes (DJSI) in recognition of our economic, environmental and social performance. In the UK, Invensys was again listed on the FTSE4Good Index Series, which identifies companies that meet recognised standards of corporate responsibility. And once again, we reported our greenhouse gas emissions to the Carbon Disclosure Project (CDP) voluntarily and renewed our participation in the United Nations Global Compact (UNGC). Furthermore, our UK operations continue to be certified for our reductions in carbon emissions under the Carbon Trust Standard.

We continued to invest in the development of our people and we improved our organisation effectiveness by continuing to place greater accountability upon our individual businesses.

Our Sustainability Report 2013, which will be available for download from our website, provides further details of our activities and achievements during the year.

Environmental KPIs

Year ended 31 March	Unit	2013	2012	% change on same site basis ¹	% total change
Energy use					
manufacturing ²	MWh	143,897	148,804	(1)	(3)
non-manufacturing ³	MWh	55,092	54,340	2	1
CO ₂ emissions					
manufacturing ²	tonnes	52,389	53,990 ⁴	1	(3)
non-manufacturing ³	tonnes	25,749	25,274 ⁴	2	2
global fleet	tonnes	10,620	12,640	n/a	(16)
business airline travel	tonnes	23,041	23,937	n/a	(4)
Water consumed ²	cubic metres	295,611	323,820	(5)	(9)
Waste generated (non-hazardous) ²	tonnes	6,344	6,805	(4)	(7)
Waste generated (hazardous) ²	tonnes	881	1,234	(28)	(29)

¹ Measured as the percentage change from a 2012 adjusted base at the same 31 manufacturing and 112 non-manufacturing sites in operation in 2012 and 2013.

² Based on 34 manufacturing sites in 2012 and 31 manufacturing sites in 2013.

³ Based on 116 non-manufacturing locations in 2012 and 112 non-manufacturing sites in 2013.

⁴ CO₂ emissions have been recalculated using newly published emissions factors for electricity purchases.

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 2013.

Our strategy and approach to corporate responsibility

Our strategy encompasses the following key elements:

- **Efficient and safe solutions** – designing our products and services responsibly, improving our customers' efficiency and enhancing the sustainability performance of our suppliers;
- **Efficient and safe operations** – reducing the environmental footprint of our operations, maintaining a safe and healthy workplace and mitigating environmental impacts;
- **Investing in our employees and communities** – developing the potential of our employees, striving to attract and retain the best talent and engaging locally 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 effective communication. As Chief Executive, I am responsible for driving Invensys' corporate responsibility strategy, which is implemented by the Group Leadership Team with the support of key functions, including Environment, Health, Safety and Sustainability, Legal and Human Resources.

Our approach to corporate governance is set out in the Corporate Governance section on pages 44 to 56.

The principal risks which are specific to and may impact our businesses are set out in the Risks and Uncertainties section on pages 33 to 40. In addition to these risks, there are other sustainability-related risks associated with our business which are not considered to be as significant as these key risks and are therefore not discussed in this report. These sustainability-related risks are covered in more detail in our Sustainability Report 2013, which will be available for download from our website.

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, CO₂ emissions, water use, non-hazardous waste and hazardous waste generation. Energy use and CO₂ emissions within our manufacturing sites decreased by 3%, primarily as a result of the implementation of KPI efficiency projects and a consolidation of some of our operations. On a same site basis, energy use was down 1% while CO₂ emissions were up 1%. At our manufacturing sites, water consumption decreased by 9%, while our non-hazardous and hazardous waste generation rates decreased by 7% and 29% respectively. On a same site basis, water use was down 5% while non-hazardous waste and hazardous waste generation rates decreased by 4% and 28% respectively.

At our non-manufacturing sites, our energy use was up 1% and our CO₂ emissions were up 2%.

We 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.

Management 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 notice of violation was received for failing to register equipment under local air regulations. All deficiencies were corrected.

Social performance

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

Health and safety in the workplace

We are pleased to report a strong health and safety performance, as reflected in our injury/illness incident frequency rates¹. From April 2012 to the end of March 2013, our Total Recordable Case Incident Rate (TRCIR) remained flat at 0.18 and our Lost Workday Case Incident Rate (LWCIR) also remained flat at 0.05. Over the past four years, our TRCIR has fallen by 14% and our LWCIR has fallen by 38%.

Our Safety and Sustainability Awareness Metric (SSAM) is the model we use to drive and measure safety 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 safety programmes across our operations.

We grant recognition awards to those sites and business operations that demonstrate consistently strong safety performances. As of 31 March 2013, 31 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. 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 again no work-related fatalities during the year. During inspections by government officials, we received safety-related citations at six sites in five countries related to deficiencies in safety programmes, emergency response, machine guarding, electrical requirements and ergonomics. No fines were incurred and corrective actions are being taken.

We continue to encourage our businesses 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 under our *InvensysInvolved* community engagement framework. *InvensysInvolved* combines employee volunteerism and strategically-aligned company resources to address essential needs in the communities where we live and work. Under *InvensysInvolved*, our employees are encouraged to participate in four distinct areas of community service: Education, Health & Safety, Civic Enrichment and the Environment. Based on a combination of employee input and a review of our business focus, these four areas align with Invensys' broader business objectives and offer the greatest potential for positive local impact.

Some examples of projects with which we have been involved are included on the opposite page.



Information on our levels of charitable contribution is set out in the Directors' Report on page 74.

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

The Invensys Values – Agility, Innovation, Integrity and Performance – reflect the aspirations of our people and underpin the way we work together. Alignment with the Invensys Values is considered integral to the performance of our employees and they are therefore embedded within our performance assessment, internal communications and recognition arrangements.

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 supports the recommendations of Lord Davies and the Financial Reporting Council regarding diversity. This is reflected in the wide range of backgrounds and skills of our directors, as well as the appointment of two female directors to the Board. We also recognise the importance of diversity below Board level and have launched a number of diversity initiatives including an independent diversity assessment intended to highlight issues and opportunities across the business. In addition, the Invensys Women's Exchange is an established resource group that provides support, education and networking opportunities within Invensys and with our customers.

Communication and engagement with employee representatives and employees

Regular and open communication is vital to maintaining engaged teams and Invensys uses many media channels 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 the Group.

¹ The injury/illness incident frequency rates are for recordable or lost time in the workplace per 100 employees per annum consistent with US definitions. Further details regarding health and safety performance can be found on our website.



Making a difference: Bangalore, India

Our team in Bangalore partnered with the Bridge School and the Concern India Foundation to support the children of local migrant workers with educational and childcare needs.



Introducing students to engineering: Foxboro, MA, United States

Over several years, our team in Foxboro has led interactive sessions that foster interest in engineering as a career at the local high school.



Nationwide run for charity: Nuremberg, Germany

Our team in Nuremberg participated in the nationwide B2RUN run/walk event raising money for B2RUN's children-focused charity partner.

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 14 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 Invensys' goals and objectives and align them with their own. Line managers are required to hold annual performance reviews with their employees in order to discuss their performance, set personal objectives for the coming year and create personal development plans. Approximately 11,000 managerial, professional and technical employees participated in our online performance management processes last year. Other employees, such as those in manufacturing, participate 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 has led to the creation of robust succession plans for 50 senior leadership roles. OCR has also enabled the identification of key talent across the Group with 53 individuals considered to be "High Potential" or "High Professionals". Each of these employees has an individual development plan, completion of which is tracked and actively supported to achieve their potential through quarterly talent reviews with our Group Leadership Team. We also have a range of talent development programmes including our "Programme for Action Learning and Mentoring (PALM)" and the "Functional Expert to Business Partner" programme across our Finance and Legal functions.

In 2010 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 competencies have been embedded into our performance management system and form the basis for the assessment of our top talent.

Investing in our leadership and delivery capability

Our Learning and Development Centre of Expertise (CoE) has become well established and has delivered 119,153 hours of online training this year in seven languages. This year we launched a new development programme for our senior leaders called "Leading Execution" which supplemented our core programmes "Leading Leaders" and "Leadership Essentials". This year, the CoE has focused increasingly on fundamental Invensys capabilities with the delivery of our new Project Management Development Curriculum containing over 60 learning modules. We also launched an assessment of project management skills, which has resulted in a new suite of related programmes, with a particular focus on commercial and contract management.

Employee engagement

We conducted an Invensys-wide Employee Engagement Survey in November 2012 which achieved a healthy response rate of 76%.

We were pleased to see our employee engagement levels compare favourably with our global external benchmarks and that overall our people feel increasingly positive about their work with Invensys. The results have been communicated transparently and we are now implementing action plans to build on the feedback.

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 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 Chief Human Resources Officer receive regular briefings from the Chief Legal Officer and Company Secretary during which 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 asks major suppliers to comply with it (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. 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 Group policies and associated training, forms the core of the latest iteration of the Compliance Programme. During the year, we ran training courses on specific areas of compliance in our Learning Management System, highlighting critical areas of the Code of Conduct such as Anti-Bribery, Anti-Harassment/Bullying and Helpline Awareness.

Looking forward

This report demonstrates how corporate responsibility is embedded within our business and our priority for the year ahead will be to continue building on the good work achieved to date.

As far as our most valuable asset is concerned – our people – we will continue doing everything we can to create a work environment that attracts and retains the best people and which motivates them to perform at their peak. Their safety and well-being will, of course, remain our highest priority so we will continually be looking for new ways in which we can improve our performance in this critical area. We will also continue encouraging our people to reach out and bring their many talents to bear upon the communities in which they live and work.

We will strive to reduce our environmental footprint and to highlight the environmental benefits that many of our products and services offer to our customers. And finally, we will continue to operate to the highest standards of governance and good corporate citizenship.



Wayne Edmunds
Chief Executive

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 32) 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.

Operating businesses and key functional departments are 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 44.

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

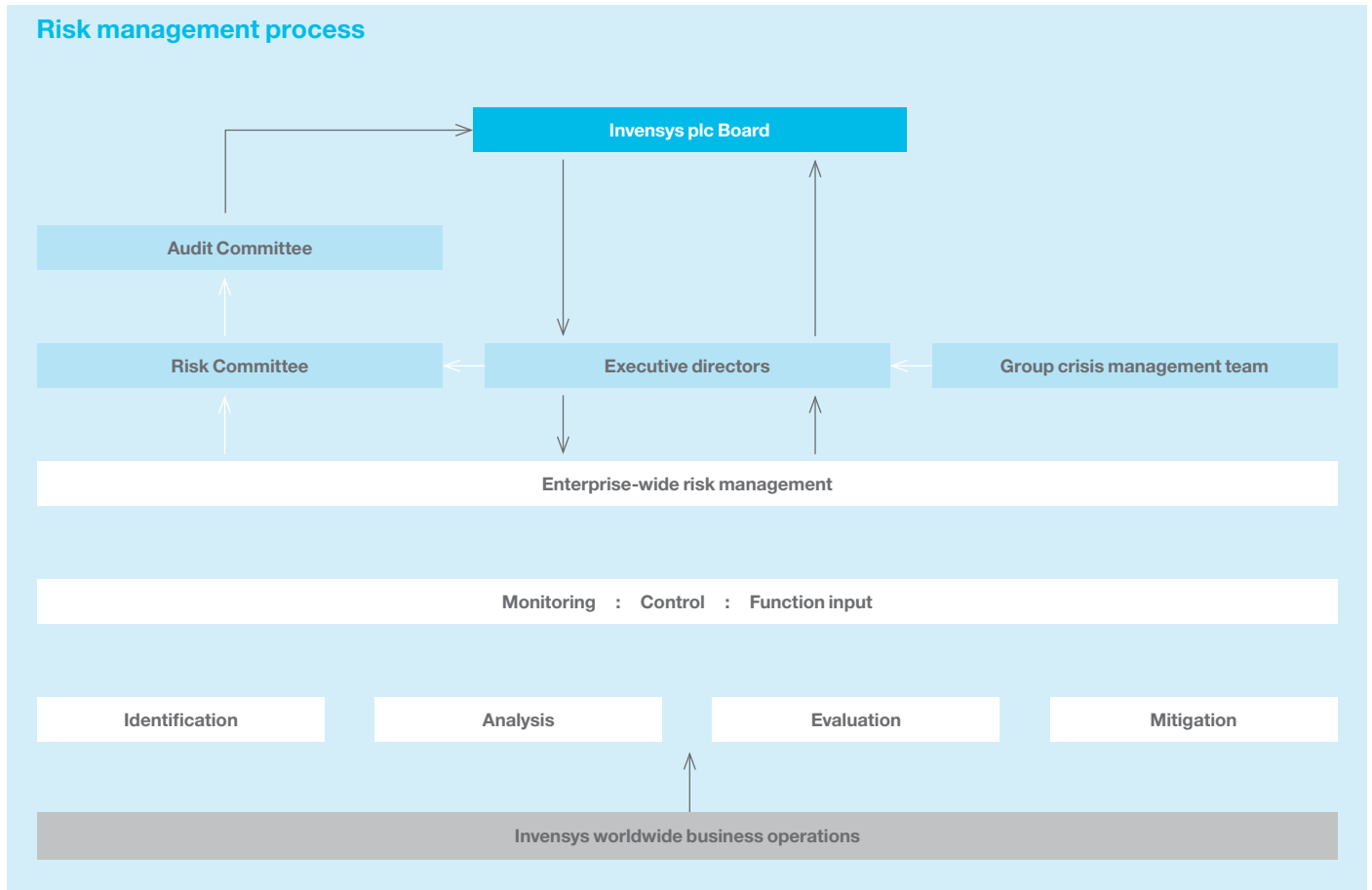
Our risk management approach is subject to continuous review and updating to take account of new and developing issues which might impact our business objectives. The following significant developments should be noted:

- The business continues to make progress against a challenging global backdrop;
- The sale of Invensys Rail has allowed us to address certain risks and offers additional opportunities:
 - We have addressed the deficit on the UK Pension Scheme and created a reservoir trust to pay future contributions if required;
 - The delayering of the management structure following the sale of Invensys Rail provides the opportunity for restructuring efficiencies; and
 - The transaction has provided significant cash which is available to grow and develop the business, both organically and through acquisitions.

Risks associated with our restructuring and acquisition strategy have been assessed and appropriate mitigating actions implemented.

Risks and Uncertainties continued

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.
- Approval of Group strategy and key risks thereto.

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 the business operations, reviews risk management structures and oversight of 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, processes and accountabilities to address and manage risk.
- Regularly prepare and update the risk registers.
- Develop and implement the business continuity strategy.

Risk review process

Identification

- Risks are recorded in the risk registers, their likelihood and impact assessed, risk owners are identified and mitigation strategies established.
- Risks are considered against appropriate categories including: strategic, people, financial, operational, reputational, legal, environmental and compliance.

Analysis

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

Evaluation

- Risks are reviewed and prioritised against the potential impact on 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 business operations at least quarterly.
- Serious emerging issues are notified immediately to the Group crisis management team.
- 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; political stability in the countries where we operate or undertake contracts; and sustainability-related risks. 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 39 and 40 and uses the Group's revenue by destination for continuing operations 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 36 to 38. 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 an illustration of this, our Software business segment continues to invest in industrial software applications 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, there is a regular review process to control individual development programmes.

The timing and frequency of substantial contract awards are uneven

Our Industrial Automation business segment is associated with the supply of technology 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 operating performance. Major projects may also impact the profitability where 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 our Industrial Automation business segment.

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, control delivery or receive timely payments may reduce the profitability of such a contract and impact cash collection.

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. Execution of major projects is 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 business segment 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 co-source partners or its supply chain

On occasions the business activities of the Group are conducted with co-source partners whose day-to-day management actions are outside 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.

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 business segments 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 material decline in the equity market, improvement in life expectancy, change in expected morbidity rates, long periods of low inflation or deflation, or future decreases in interest rates could 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 plan assets and liabilities as far as is realistically possible. On completion of the sale of Invensys Rail there was a £400 million contribution into the Scheme and the creation of a £225 million reservoir trust for the benefit of the plan. It is anticipated that no further contributions will be payable into the Scheme for the foreseeable future. The Group will continue to monitor the performance of the principal UK and US plans.

The Group is subject to on-going 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), 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 and facilitate this. The indicators include cash spend, provisions, insurance recoveries and estimated exposures. The Group has recently carried out a detailed review of the related provisions and will continue to monitor the level of provisions going forward. In negotiations it aims to limit the risk of future liabilities or disputes.

The Group is exposed to cyber risks

In common with other entities, the Group is exposed to risk of business disruption and intellectual property loss associated with adverse cyber incidents. Invensys provides products, services and solutions for industrial control systems responsible for monitoring and controlling a variety of processes and operations including gas and electricity distribution, water treatment and oil refining. These control systems may be susceptible to disruption through cyber events and the Group may incur liabilities as a result of such events.

Impact

These events 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

The Group has established quality and security processes to address this.

Country risks

Description of risk

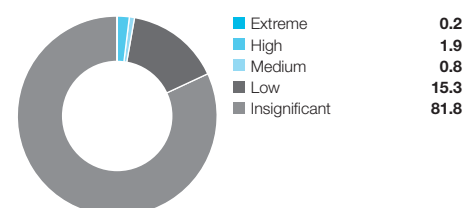
Financial risk

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 risk rating categories¹. 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 (%)



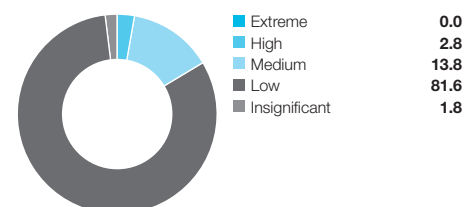
Political stability risk

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 Group².

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 (%)



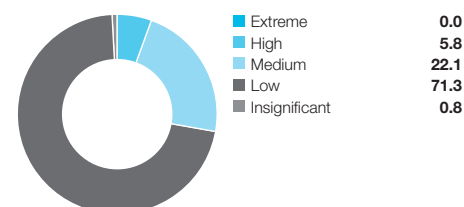
Security risk

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 Invensys' exposure using the security country risk ratings published by Control Risks Group².

Mitigation

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

Security risk exposure (%)



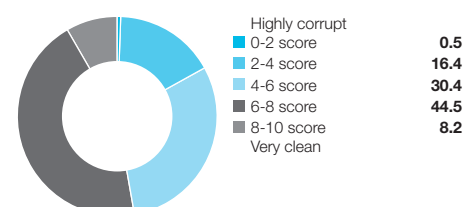
Corruption risk (anti-bribery compliance)

The Corruption Perception Index published by Transparency International³ 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 Financial risk rating categories are based on the Sovereign Rating Lists for Government Bonds using information freely available from Moody's at www.moody.com

² Political stability risk and security risk categories are as published by Control Risks Group at www.controlrisks.com

³ Adapted from Corruption Perception Index Methodology Copyright 2012 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 2013.

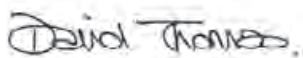
Country risks

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 developing markets, including Asia Pacific, South America and the Middle East.

As detailed on the previous page, Invensys has undertaken a review of the following country risks in respect of those territories where we generate 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 for continuing operations has been analysed and categorised in accordance with rating criteria obtained from appropriate external sources. The charts on the previous page illustrate the profile of country risk for the Group's revenue by destination and outline the broad mitigation actions in place to address these.



David Thomas
Chief Financial Officer

Governance

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

Our Drayton, Eberle and Robertshaw brands of energy controls include room thermostats, time controls, thermostatic radiator valves and under-floor heating controls, predominantly for use in homes.

Compliance

The Corporate Governance Report on pages 44 to 56 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 57 to 72, 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 73 and 74 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 57 to 72 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 69 to 72 relating to directors' remuneration and directors' interests in shares and all share incentive plans).

The Board has also considered in advance of the commencement date, the revised UK Corporate Governance Code (the 2012 Code) and, where appropriate, disclosures have been included to show how the principles and provisions of the 2012 Code will be applied.

Our Board of Directors

The role of the Board is to provide the vision and entrepreneurial leadership of the Group. Diversity in the Board's composition is a driver to effectiveness and, as detailed below, our directors are drawn from a variety of backgrounds. They have a range of general and sector-specific skills and international experience which is invaluable in challenging and developing the Group's strategy.



	Chairman	Executive directors		
	Sir Nigel Rudd (66) Chairman	Wayne Edmunds (57) Chief Executive	David Thomas (58) Chief Financial Officer	Victoria Hull (51) Chief Legal Officer & Company Secretary
Appointment	Appointed a non-executive director and Deputy Chairman on 1 January 2009 and became Chairman on 17 July 2009.	Appointed a director and Chief Financial Officer on 1 June 2009 and became Chief Executive on 24 March 2011.	Appointed Acting Chief Financial Officer on 24 March 2011 and became Chief Financial Officer and a director on 28 July 2011.	Appointed a director on 29 November 2011.
Committee membership	Nominating Committee (Chairman) Remuneration Committee	None	None	None
Skills and previous experience	Formerly Chairman of Alliance Boots plc, Pilkington plc, Williams Holdings plc, Kidde plc and Pendragon PLC; Deputy Chairman of Barclays Bank PLC; and non-executive director of BAE Systems plc.	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.	Joined Invensys in 2002 as Group Controller. Held a number of senior posts across the Group most latterly as SVP Business Risk. Formerly a senior partner at Ernst & Young LLP. Member of the Auditing Practices Board until his term expired in July 2012. Fellow of the Institute of Chartered Accountants in England and Wales.	Joined Invensys in 2001 as General Counsel and also appointed Company Secretary in January 2006. Formerly a solicitor with Clifford Chance LLP, working in their corporate finance department and Executive Director, General Counsel and Company Secretary of Telewest Communications plc.
Principal external appointments	Chairman of Heathrow Airport Holdings Limited and the Business Growth Fund; non-executive director of Sappi Limited; and senior adviser to Barclays Bank PLC. He is a Deputy Lieutenant of Derbyshire and Chancellor of Loughborough University.	None	None	None
Nationality	British	American	British	British

Changes to the Board

Francesco Caio and Pat Zito, who are non-executive directors, will not be seeking re-election this year, and will retire from the Board at the 2013 AGM.



Non-executive directors

Bay Green (69) Non-executive director	Paul Lester (63) Non-executive director	Deena Mattar (47) Non-executive director	Michael Parker (66) Senior Independent Director	Dr Martin Read (63) Non-executive director
Appointed a non-executive director on 1 January 2005 and became the Chairman of the Audit Committee on 6 December 2006.	Appointed a non-executive director on 1 January 2010.	Appointed a non-executive director on 19 May 2011.	Appointed a non-executive director on 16 May 2006 and became the Senior Independent Director on 6 December 2006.	Appointed a non-executive director and Chairman of the Remuneration Committee on 18 July 2009.
Audit Committee (Chairman until 16 May 2013) Nominating Committee	Remuneration Committee Audit Committee (from 2013 AGM)	Audit Committee (Chairman from 17 May 2013) Remuneration Committee (from 2013 AGM)	Audit Committee Nominating Committee Remuneration Committee	Remuneration Committee (Chairman) Nominating Committee
Formerly Vice Chairman of Dresdner Kleinwort Limited, where he specialised in advising on mergers and acquisitions and other activities. Non-executive director of RPC Group plc and Axis-Shields plc (where he was also chairman of the audit committee). Fellow of the Institute of Chartered Accountants in England and Wales.	Formerly Chairman of Marine Current Turbines Limited; Group Managing Director of Balfour Beatty plc; Chief Executive of Graseby plc and VT Group plc; and non-executive director of Chloride Group plc.	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 LLP. Fellow of the Institute of Chartered Accountants in England and Wales.	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. He was Chairman of Liverpool Vision Limited.	Chief Executive of Logica plc from 1993 to 2007. Formerly on the boards of British Airways Plc, Siemens Holdings Plc, Boots Group PLC, Asda Group plc and Aegis Group plc. He led a UK Government review on back office and IT efficiency across the public sector which reported in 2009.
Trustee of Help the Hospices and a specialist adviser to the Markets Division of the Financial Conduct Authority.	Chairman of Peverel Services Limited, Survitec Group Limited, Paribas Group, Norland Managed Services Limited, Greenergy Fuels Holdings Limited and the John Laing Infrastructure Fund.	Non-executive director and chairman of the audit committee at Lamprell PLC (until 27 May 2013) and RM plc. Non-executive director of Wates Group Limited.	Non-executive director of PV Crystalox Solar plc and SNC-Lavalin Group Inc. Trustee of the Royal Society for the Prevention of Accidents and also the Energy Institute; and Chairman of Street League's Board of Trustees.	Chairman of the Remuneration Consultants Group and non-executive director of Lloyds of London. Member of the UK Government Cabinet Office Efficiency and Reform Board. Senior adviser to Actis Capital LLP and Zensar Technologies Limited.
British	British	British	British	British

Corporate Governance

Dear Shareholder

I am pleased to present our Corporate Governance Report which explains the governance framework within the Group and how this has been applied and operated during the year.

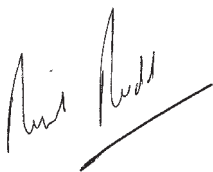
The Board sets the tone from the top and promotes principles of good corporate governance across the Group. To do this we have in place effective practices which are essential to our business integrity, performance and accountability to shareholders.

This Report, together with reports from our committee chairmen as set out on pages 51 to 72 will, I hope, provide a good overview of the systems of governance and control which operate within the Group and provide a summary of the work we have undertaken during the year.

As reported in my Chairman's Statement on page 7, Francesco Caio and Pat Zito have informed the Board that they do not intend to seek re-election at the 2013 AGM. We thank them for their contributions to the Board and we wish them well for the future. Given the reduced size and complexity of the Group following the disposal of the Invensys Rail division, it is not our current intention to replace these positions on the Board.

The Board has sought to implement the findings of the previous year's external performance evaluation, and progress against the specific objectives we set ourselves has been measured by an internal evaluation during the year. Further information about the evaluation process is set out on page 48.

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 2010 (the Code). It has also implemented, where appropriate, certain disclosures recommended in the latest revision of the UK Corporate Governance Code published in September 2012 (the 2012 Code) for the year under review.



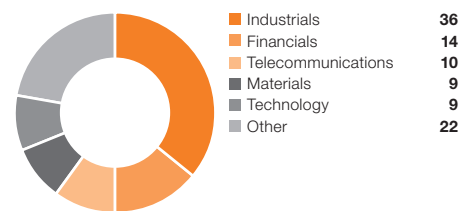
Sir Nigel Rudd
Chairman

The Board

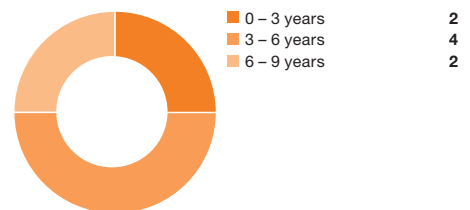
Role

Biographical details of all of the current Board directors, including their relevant skills, experience and other principal appointments, are set out on pages 42 and 43. The charts below illustrate the length of tenure of the Chairman and non-executive directors and the breadth of business experience on the Board which enables it to discharge its duties and responsibilities effectively, and to challenge and develop the Group's strategy.

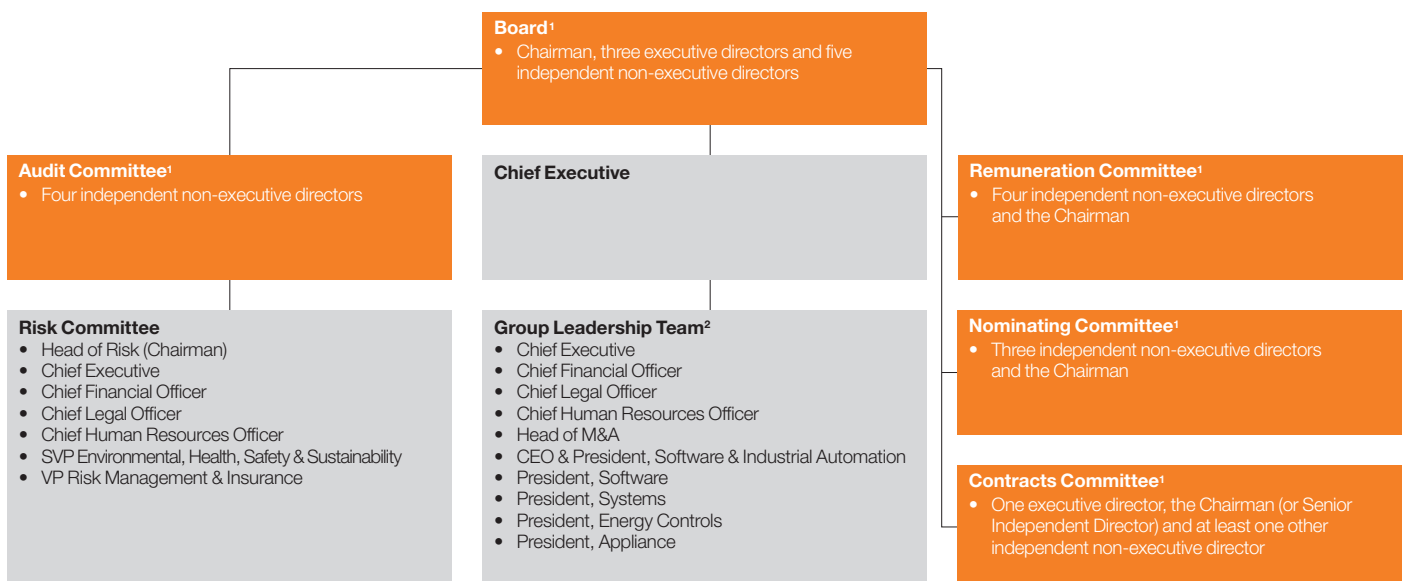
Board sector experience (%)



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



Invensys Governance Framework



Notes

¹ Board and committee memberships stated as at position following the 2013 AGM.

² As at 1 April 2013.

The Board is collectively responsible for promoting the success of the Group by directing and supervising the Group's affairs to create long-term shareholder value. The Board provides entrepreneurial leadership and sets the Group's strategic aims. In doing this it ensures there are robust corporate governance and risk management processes in place.

The Invensys Governance Framework is shown in the diagram on the opposite page. The Board's duties are set out in a formal schedule of matters reserved for the Board, as summarised in the adjacent table. Certain responsibilities are delegated to Board or executive committees through structured procedures, as set out in the Governance Framework on the opposite page. The chairman of each committee provides an update on the activities of their committee at the next Board meeting. A report from the Nominating Committee, from the Audit Committee and from the Remuneration Committee is included on pages 51 to 72. Other operational matters are dealt with by senior management through formalised delegated authorities.

Meetings – attendance and processes

There is an agreed schedule of Board and committee meetings which are held throughout the year. In 2012/13 there were eight scheduled meetings of the Board. A further seven Board meetings were called at short notice relating to consideration and negotiation of the sale of the Invensys Rail division, funding of the UK Pension Scheme and review of the return of cash and restructuring proposals.

The adjacent table sets out the attendance by all directors at Board and committee meetings. This analysis only includes the committee members' attendance at scheduled meetings.

In addition to members, other directors frequently attend meetings of committees at the invitation of the respective committee chairman. All directors attended the Board strategy meeting and the 2012 AGM.

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

- Appointments and removals of Board directors, the Company Secretary and other senior leaders
- 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, committees and individual directors
- Determining the independence of directors
- Authorisation of directors' conflicts or potential conflicts of interest

Meeting attendance¹

	Board		Audit Committee		Nominating Committee		Remuneration Committee	
	Possible	Attended	Possible	Attended	Possible	Attended	Possible	Attended
Chairman								
Sir Nigel Rudd ²	8	7	–	–	1	1	5	4
Executive directors								
Wayne Edmunds	8	8	–	–	–	–	–	–
Victoria Hull	8	8	–	–	–	–	–	–
David Thomas ³	8	7	–	–	–	–	–	–
Non-executive directors								
Francesco Caio ⁴	8	7	5	2	–	–	5	3
Bay Green	8	8	5	5	1	1	–	–
Paul Lester	8	8	–	–	–	–	5	5
Deena Mattar	8	8	5	5	–	–	–	–
Michael Parker ⁵	8	8	5	5	1	1	5	4
Dr Martin Read	8	8	–	–	1	1	5	5
Pat Zito	8	8	5	5	1	1	–	–

Notes

- ¹ Details of meetings of the Contracts Committee are dealt with separately on page 50.
- ² Sir Nigel Rudd was unable to attend the March 2013 Board and Remuneration Committee meetings due to a long-standing engagement. His absence was agreed with the Board and the Board meeting was chaired by the Senior Independent Director. Sir Nigel Rudd provided input on relevant matters on the agendas before the meetings.
- ³ Mr Thomas was absent from the March 2013 Board meeting due to an urgent operational matter which involved him attending an overseas meeting at short notice. His absence was approved by the Chairman and the Chief Executive.
- ⁴ Mr Caio was unable to attend some meetings due to prior work 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 Parker was unable to attend one meeting of the Remuneration Committee as it was called at short notice and he had an existing external commitment.

The Board and its committees each have an annual agenda programme (that aligns to the formal schedule of matters reserved for the Board) which is maintained by the Company Secretary. There are established processes in place to ensure meetings are well prepared and run effectively:

Meeting processes

- Agendas are reviewed with the Chairman/ committee chairmen against the overall calendar with key priorities and business issues being added to the agenda as required; agendas are agreed approximately six weeks before the meeting
- Meetings are scheduled to ensure there is adequate time available for meaningful discussion of items
- Papers are agreed with the Chairman/ committee chairmen and distributed electronically approximately one week before the meeting (unless the meetings have been called at short notice) to enable directors adequate time for review
- Papers are designed to be comprehensive and clear without "clutter" and contain an executive summary to present key highlights
- Relevant actions and outcomes from Board and committee meetings are tracked and disseminated to members of the Group Leadership Team which promotes transparency and ensures decisions are implemented

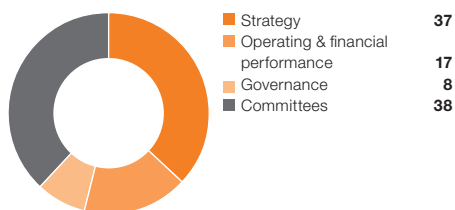
How the Board spent its time

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.

Following the annual strategic review last year, the Board engaged in a series of meetings which enabled them to provide constructive input and to implement the strategic transformation of the Group. This gave rise to the decision to dispose of the Invensys Rail division which was contingent on finding a solution to our legacy UK pension issues. The return of cash proposal and restructuring proposal to reduce costs were developed contemporaneously.

How the Board spent its time (%)



Following the disposal of Invensys Rail, a full day was spent on the annual strategic plan of the restructured Group; this included discussions with the divisional CEOs who attended this session and made presentations on their plans.

Other areas of focus during the year included the monitoring and control of major projects; review and adoption of new Board Delegated Authorities; and consideration and approval of the acquisitions of PHW and Spiral Software and subsequent review of the post-acquisition plan. All committee chairmen provided updates on the activities of their committees to the Board.

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 joined Board meetings on a rotational basis. In light of the new structure of the Group, the leaders of the Software, Industrial Automation, Energy Controls and Appliance business segments will join the meetings in future. This will enable the Board to become more acquainted with these leaders and to receive updates on performance and progress against their agreed strategies.

Directors: composition and independence

Following the retirement of Francesco Caio and Pat Zito with effect from the 2013 AGM, there will be a total of nine directors on the Board, comprising the Chairman, five non-executive directors and three executive directors.

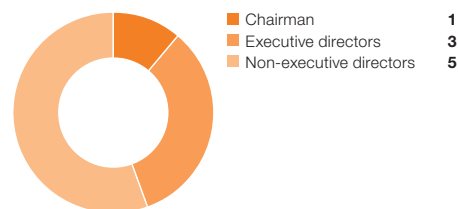
The Board considers that all of the current non-executive directors are independent. The non-executive directors are drawn from diverse international businesses and, as illustrated on pages 42 and 43, bring a range of skills and experience to enable them to constructively challenge and develop the Group's strategy and direction.

Whilst all 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.

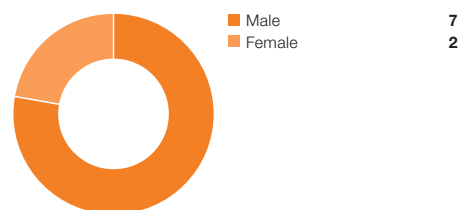
The Senior Independent Director is Michael Parker, who has held this role since December 2006. Mr Parker is available for shareholders to contact through the Invensys Investor Relations team and is also responsible for leading the Chairman's annual performance evaluation.

The Board believes that it can be of benefit to the Group as a whole for the executive directors to broaden their experience through service as a non-executive director of other businesses. Subject to individual review and in line with the Code requirements, the Group's policy is that executive directors may hold one non-executive directorship in another business and may retain the fees. None of the executive directors hold any external non-executive directorships.

Balance of non-executive and executive directors (number)



Board gender balance (number)



Chairman and Chief Executive

There is a clear division of responsibilities between the Chairman and the Chief Executive, which is defined in writing in a schedule which has been approved by the Board. The schedule was reviewed during the year and updated to conform with the provisions in the 2012 Code and the Financial Reporting Council's Guidance on Board Effectiveness. Whilst the duties are separate in practice they work collaboratively and maintain a close working relationship. A summary of the individual roles is set out below:

Summary of duties

The Chairman is responsible for:

- leadership of the Board
- facilitating the contribution of the non-executive directors and ensuring that constructive relations exist between the executive and non-executive directors
- reviewing the effectiveness of the Board
- ensuring compliance with the Board's approved procedures
- safeguarding the interests of shareholders and promoting effective communication with shareholders

The Chief Executive is responsible for:

- management and leadership of the Group; he is supported by the Group Leadership Team, as detailed in the Invensys Governance Framework on pages 44 and 45
- developing the Group's strategy in close consultation with the Chairman and executing the agreed strategy
- promoting high standards of integrity, probity and corporate governance

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 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, which concluded that each member brings skills and experience to the effectiveness of the Board, it is proposed that all directors stand for re-election at the 2013 AGM, other than Francesco Caio and Pat Zito who informed the Board that they did not intend to seek re-election and accordingly will be retiring from the Board at the close of that meeting. As detailed on page 44, given the reduced size and complexity of the Group following the disposal of the Invensys Rail division, it is not the current intention of the Board to replace these positions.

Bay Green, non-executive director and Chairman of the Audit Committee, has now completed an eight-year term. Following a rigorous review by the Nominating Committee in 2011, 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. Mr Green received overwhelming support for his re-election at the 2012 AGM. Following further review, the Board is still of the opinion that Mr Green adds value to the Board and recommends that he remain a non-executive director. However, in accordance with succession planning he will stand down as the Chairman of the Audit Committee and be replaced by Deena Mattar with effect from 17 May 2013. It is intended that Mr Green will continue as a member of the Audit Committee.

Paul Lester, non-executive director, will have completed a three-year term in July 2013. Following the outcome of his performance review, the Nominating Committee concluded that Mr Lester has skills, experience and knowledge of value to the Board and, as a result, has recommended to the Board the appointment of Mr Lester be extended for a further three-year term.

As detailed on page 52, the Nominating Committee will be reviewing succession planning over the coming year.

Company Secretary

The Company Secretary is Victoria Hull, who is also the 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. Her biographical details are set out on page 42. The combination of Ms Hull's roles as the Company Secretary and director is regularly monitored to ensure there is no conflict of interest. The Deputy Secretary attends Board and committee meetings and has the first line of responsibility for preparation of minutes and the issue of Board papers.

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.

Induction and development

On appointment, new directors receive a comprehensive 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.

Deena Mattar joined the Company in May 2011 and at that time a tailored induction programme was developed for her. During the year under review, Ms Mattar completed this programme by visiting the Invensys Operations Management division to gain a deeper understanding of the Group's operations and meet with key employees.

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. During the year these included developments in governance matters, regulatory updates and legislative changes. For example, updates on the revised 2012 Code and review of new reporting requirements and obligations (including proposals from the Department for Business, Innovation & Skills: "The Future of Narrative Reporting" and "Directors' Pay").

Normally 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 the year a meeting was scheduled to be held in Turkey with senior leaders from the businesses to emphasise the importance of the wider Middle East region to Invensys. Given the activities involved with the disposal of the Invensys Rail division, the Board decided not to proceed with this trip. In the next year the Board intends to resume its schedule for offsite meetings.

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.

Board performance evaluation

An annual review is undertaken of the performance of the Board, committees and directors.

Outcomes of 2011/12 evaluation

In 2011/12, in line with the Code and best practice, the Company commissioned its first externally-facilitated performance evaluation. This was an extensive exercise conducted by an independent consultancy, Egon Zehnder, which provoked good debate. Overall it was concluded that the Board and its committees continue to operate effectively. Areas of focus were agreed and progress against these actions is set out below:

Action	Status
Focus on strategic discussions	The strategic direction of the Group has been an area of significant focus during the year. Implementation of the agreed strategy resulted in the sale of the Invensys Rail division to create a more focused supplier of industrial software, systems and control equipment.
Ensure there is appropriate consideration of project risk, including bidding and control of projects	This continues to be an area of focus for the Audit Committee and the Board, with input from the Risk Committee.
Give increased focus to developing the talent of the Group's senior leaders	Information on the top leaders is included in the Chief Executive's Board report as a standing item and plans for these leaders are regularly reviewed by the Board. An audit of the talent of the top leaders was conducted as part of the Organisational Capability Review process.
Review the format of Board meetings to ensure there is appropriate time to discuss key issues in depth	The content and format of papers were reviewed and changed with a view to enhancing discussions on key matters. In addition, papers were prepared for discussion at Board dinners to help ensure adequate time was devoted to Board matters. In months where there is no scheduled meeting a report from the Chief Financial Officer and, if required, updates from the Chief Executive and/or Chief Legal Officer are issued electronically. Any questions on these reports can be raised directly with the executive directors.
Ensure that the Board composition continues to have the appropriate balance of skills, experience and diversity	Monitored by the Nominating Committee and changes to the Board agreed for 2013/14.

2012/13 evaluation

Following the external evaluation last year, the Board conducted an internal evaluation of its performance and that of its committees and individual directors. All directors contributed to the evaluation which was conducted using a comprehensive questionnaire in which directors were asked to rate certain statements as well as providing additional commentary as required.

Individual performance evaluations focused on the effectiveness of the contributions made by directors. Consideration was given to the aggregate time commitments of the non-executive directors. The Board is satisfied that each director is committed to their role.

For the evaluation of the Board, consideration was given to procedures and effectiveness. Assessment was given to the relevant roles and responsibilities under review, the terms of reference of the committees and best practice. Following discussion of the results, the Board is satisfied that it and its committees remain effective. However, in recognising the need for continuous improvement, a number of areas of focus have been agreed for 2013/14 as summarised below and progress against these objectives will be reported in the Annual Report and Accounts 2014.

Summary of 2013/14 objectives

- Enhance the Board evaluation process to provide a more qualitative and interactive exercise.
- Deepen the non-executive directors' understanding of the new lines of business as well as providing an opportunity to meet key leaders.
- Consider further the skills, experience and geographic diversity of the Board taking into account succession planning.
- Review the remuneration strategy for appropriateness in light of the reorganised Group.
- Monitor cost savings as a result of the reorganisation.

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 an established 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 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, Nominating Committee, Remuneration Committee and Contracts Committee, all of which operate within defined terms of reference. Copies of these terms of reference, together with certain other governance-related documents can be found on the Company's website. 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 51 to 72. 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.

Group Leadership Team

The Group Leadership Team provides the senior executive management with a platform for strategic discussion and information sharing to assist with the following:

- Development of Group strategy and operational plans;
- Oversight and review of strategic plan execution, including:
 - business development opportunities and their potential impact;
 - assessment and control of risk and compliance by considering the Group's risk appetite and risk profile;
 - resources, giving consideration to succession planning for senior executives and the needs of the Group with a view to ensuring its continued ability to compete effectively in the marketplace; and
 - incentive plans and executive remuneration.

To ensure the aligned execution of the Board's strategy, Board actions and outcomes are disseminated to members of the Group Leadership Team to facilitate a remit that is broader than a purely operational committee and to encourage the consideration of the Group perspective by the leaders of the business segments.

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.

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 157). Other general shareholder information can be found on the Group's 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 Group's Investor Relations team, whose contact details are listed on our 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. During the year ended 31 March 2013, each of the Group's divisions was accountable to the Chief Executive and was managed by executive leadership which provided day-to-day control over the divisions' operations within the strategic guidelines and delegated authorities determined by the Board. Under the new Group structure that took effect from 1 April 2013, similar arrangements are in place. The internal control system is designed to meet the Group's particular needs and the risks to which it is exposed. 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 pages 54 to 55, 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. 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 have been and 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. The Risk Committee 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 Chairman of the Risk Committee presents a report at each Audit Committee meeting to provide an update of the key risks and new and emerging risks identified by the Group's businesses. This provides assurance that the risks faced by the businesses are appropriate and mitigation plans are in place.

On behalf of the Board, the Audit Committee reviews annually the risk management process and periodically conducts external reviews.

Further information on the Board's approach and appetite for risk is set out in the Risks and Uncertainties section on pages 33 to 40.

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 57 to 72. 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 that require Board approval but which are due for submission at a time when there is no scheduled Board meeting. The terms of reference of the Contracts Committee are available on the Group's website.

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 non-executive director.

The Contracts Committee met on five occasions during the year.

Nominating Committee Report

Report from Sir Nigel Rudd, Chairman of the Nominating Committee

Current members

Sir Nigel Rudd (Chairman)
Bay Green
Michael Parker
Dr Martin Read
Pat Zito¹

Note

¹ Retiring with effect from the 2013 AGM.

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.

As detailed on page 44, given the reduced size and complexity of the Group following the disposal of the Invensys Rail division, we do not currently intend to replace the non-executive director positions of Francesco Caio and Pat Zito.

We have a cycle of events for annual consideration, which included the consideration of the Board evaluation recommendations, which was externally conducted for the first time in respect of the year 2011/12. Those recommendations were considered and implemented during the current year.

Further details are described more fully below, and I hope this report is useful in describing the ongoing work of the Nominating Committee.

Membership

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

Meetings

The Nominating Committee held one meeting during the year and details of members' attendance are set out on page 45.

Effectiveness of the Nominating Committee

As detailed on page 48, an internal evaluation was conducted during the year which confirmed that the Nominating Committee was operating effectively. An area of focus for the Nominating Committee over the coming year will be to consider succession planning and the skills, experience and geographic diversity of the Board.

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 Board structure, size and composition (including the skills, knowledge, experience and diversity) compared with 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 2012/13 and subsequently.

Consideration of Board evaluation recommendations

Following the internal Board evaluation, the recommendations were reviewed and objectives for 2013/14 were agreed by the Nominating Committee in May 2013. These are set out on page 48.

Governance matters

We dealt with a number of annual governance matters, including consideration of the independence of the non-executive directors. We also conducted a review of our terms of reference, the outcome of which concluded no changes were required.

Diversity

In response to the Davies Report on "Women on Boards" we have previously confirmed our aim to increase the proportion of female representation on the Board by 2015. Following the 2013 AGM over 20% of the Board will be female. 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.

Nominating Committee Report continued

Re-election of directors

On the recommendation of the Nominating Committee, the Board has proposed that all directors seek re-election at the 2013 AGM other than Francesco Caio and Pat Zito who informed the Board that they did not wish to seek re-election.

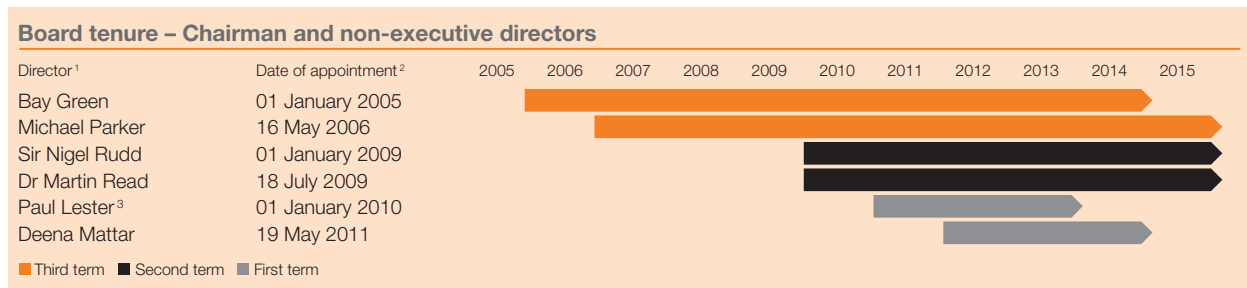
Succession planning

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. This included reviewing development plans and career opportunities across the Group.

The chart below details the Chairman and non-executive directors and their terms of office. The Nominating Committee 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 and its committees.

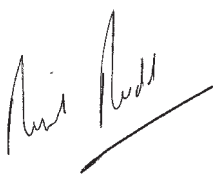
As detailed on page 47, the Board agreed (on the recommendation of the Nominating Committee) that the appointment of Paul Lester be extended for a further three-year term. The Nominating Committee also confirmed that Bay Green would retire as Chairman of the Audit Committee and be replaced by Deena Mattar with effect from 17 May 2013. Mr Green will continue as a member of the Audit Committee. Further, with effect from the 2013 AGM, Paul Lester and Deena Mattar will join the Audit Committee and Remuneration Committee respectively.

The retirement of Francesco Caio and Pat Zito was accepted and it was decided not to replace these positions given the reduced size and complexity of the Group. Over the next year the Nominating Committee will review the Board composition including the skills, experience and geographic diversity of the Board, particularly in light of the new strategic focus of the Group.



Notes

- ¹ All directors are subject to annual re-election. The chart excludes Francesco Caio and Pat Zito who informed the Board that they did not wish to seek re-election at the 2013 AGM.
- 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 the Audit Committee

Members ¹	Relevant financial qualification
Bay Green (Chairman) ²	Fellow of the Institute of Chartered Accountants
Francesco Caio ³	
Deena Mattar ²	Fellow of the Institute of Chartered Accountants
Michael Parker	
Pat Zito ³	Chartered Accountant

Notes

- 1 Paul Lester will join the Audit Committee with effect from the 2013 AGM.
- 2 Bay Green Chairman until 16 May 2013 following which he will be replaced by Deena Mattar on 17 May 2013. Mr Green will remain a member of the Audit Committee.
- 3 Retiring with effect from the 2013 AGM.

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

I invite all members of the Board to meetings of the Audit Committee. Executives from the Group's finance team (including the Chairman of the Risk Committee), as well as representatives of the external auditor and the 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 on pages 54 to 56 but I would like to preface this with a few introductory remarks.

After finalising the financial statements for the year ended 31 March 2013, I am retiring as Chairman of the Audit Committee and Deena Mattar is taking on this role. I shall continue as a member of the Audit Committee for the financial year 2013/14. I would like to take this opportunity to thank my colleagues on the Audit Committee for their contributions and support over the period of my Chairmanship. As explained earlier, I encourage all members of the Board to attend the Audit Committee meetings given that it provides a real insight into the financial operation of the Group. As a result, the Audit Committee also benefits from the contributions of other directors who are not actual members of the Audit Committee. During my tenure as Chairman, the Group's financial management has made great progress. I have worked with several Chief Financial Officers of the Group and it has been both interesting and helpful that each comes with slightly different priorities and perspectives which taken together have undoubtedly given the Audit Committee a more holistic approach in meeting its objectives.

The working relationship with the senior executives in the Finance team has also been excellent with detailed reporting and timely and comprehensive responses to any requests for additional information by the Audit Committee. Continuous improvements are being made to the Group's internal control and risk framework.

I should acknowledge the helpful contributions from the external and internal auditors who have also made themselves available on request for discussion whether or not as part of the Audit Committee.

Deena and I have worked closely together on the Audit Committee since Deena joined the Group with a view to the change of Chairmanship being a seamless event. The Audit Committee will benefit from her very practical financial background and experience of chairing such committees. She has my best wishes for her new role.

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 43 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.

Deena is also a FCA. She was formerly Group Finance Director at Kier Group plc.

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 45.

The chart below shows how we spent our time and our activities are described in detail on pages 54 to 56.



In addition, I meet periodically with the Chief Financial Officer and Group 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. Furthermore, the Audit Committee has a private meeting with the external auditor at least once a year, without management being present, to discuss their remit and any issues arising from the audit.

Audit Committee Report continued

In addition to their periodic attendance at relevant meetings where internal audit findings are considered, the Audit Committee meets at least once a year without management present 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 Board evaluation (detailed on page 48) confirmed that the Audit Committee was operating effectively, being diligent and providing good judgement. The monitoring of cost savings as a result of the reorganisation of the Group will be an area of focus for the Audit Committee over the next year.

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 accordance with corporate governance guidelines the terms of reference of the Audit Committee are reviewed annually.

During 2012/13 the Audit Committee agreed changes to its terms of reference (effective 1 April 2013) which reflected provisions of the updated 2012 Code and the Financial Reporting Council's Guidance on Audit Committees.

In summary the main duties of the Audit Committee 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, and ensure that the process accords with the Turnbull Guidance;
- 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;
- assess the effectiveness of the external audit process; and
- agree the policy on auditor independence and the non-audit services policy.

Also, with effect from 1 April 2013 to:

- review the annual report and accounts (when requested by the Board) as a whole and to advise whether it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy;
- ensure that at least once every 10 years the audit services contract is put out to tender to enable the quality and effectiveness of the existing services to be assessed; and
- report formally to the Board on how the Audit Committee has discharged its responsibilities.

The Audit Committee is satisfied that, during the year under review, 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 2012/13.

Financial reporting

The Audit Committee reviewed the form and content of the Annual Report and Accounts 2012 and the half-year financial report prior to their publication to provide assurance that the disclosures made in the financial statements were properly set in context. As part of this process, the Audit Committee received reports from management and the external auditor. Reports that the Audit Committee received from the Group Controller included the following areas for review:

- Comparison of results between management and financial accounts;
- A reconciliation with the most recent forecast approved by the Board;
- A financial overview of the results;
- Significant items in the Group Financial Statements that require critical accounting judgements, estimates and assumptions with regard to construction and long-term service provision contracts, impairment of goodwill, pension and post-retirement benefits, development costs, provisions and contingent liabilities;
- An update of key areas of focus for the Audit Committee including in particular analysis of major long-term contracts, research and development, and intangible development costs;
- Dividends and distributable reserves; and
- Liquidity risk and the basis for preparing the Group accounts on a going concern basis.

In their reports to the Audit Committee, the external auditor provided their audit opinion along with their audit findings that were of significance in relation to the audit of the financial statements included in the Annual Report and Accounts 2012 and for the half-year findings a review of the financial position and results of the operations. The Audit Committee reviewed these reports with the external auditor.

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 set 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. Last year we reported that particular attention had been given to ensuring a timely remediation of any audit recommendations; this rigour has continued this year with updates provided at each meeting.

- We reviewed arrangements under which employees can, on a confidential basis, raise concerns about potential irregularities in financial reporting or 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 monitor key controls through a governance, risk and compliance application known as the "Internal Control Framework" (ICF) which is a software application for the monitoring of key financial controls. This was implemented in April 2012 to strengthen the overall control environment through the early identification of control weaknesses. Completion of monthly assessments is comprehensive and demonstrates good compliance.
- We continue to focus on system tools to tighten our internal controls, for example establishing an automated ledger link between general ledgers and sub-ledgers in our ERP systems in the businesses to the Group's financial consolidation system that ensures a full audit trail and no allowance for manual entries.
- The Audit Committee receives a regular and comprehensive review of internal controls and accounting matters in advance of each results announcement.

The Board's review of the risk management process and its statement on internal control is contained on page 50.

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 Chairman of the Risk Committee has become a regular cadence. A standardised approach to the completion of project risk registers has facilitated reporting to the Audit Committee and enabled more sophisticated and meaningful reports. In advance of each Audit Committee meeting, I now meet privately with the Chairman of the Risk Committee to review progress and key matters to be presented in the report to the Audit Committee.

As well as reviewing the major risks in more detail, we monitored the mitigation actions put in place by management.

The role of the Risk Committee is described fully on pages 33 and 35 and the risk management and review process is outlined on pages 34 and 35. A summary of the principal risks and uncertainties facing the Group is presented on pages 35 to 38.

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 which was coordinated through completion of a questionnaire distributed to finance managers which sought feedback on the audit process.

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 2013 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 of the external auditor we discuss whether there would be any benefit from a change in auditor or a competitive tendering process. The Audit Committee remains satisfied with the services provided by Ernst & Young LLP, and does not propose to undertake a tender in the coming year. In light of the recommendation included in the updated 2012 Code for FTSE 350 companies to put their audit out to tender at least every 10 years, it is the Group's intention to carry out a tender during 2014/15.

We also discussed the proposed audit plan with the auditor and agreed key initiatives to drive cost efficiencies without impairing the service quality. In reviewing the external audit fee, we compared the fee with market rates. Long-term contracting continues to be 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 on page 56.

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

In the year, Ernst & Young LLP was engaged to provide transaction assurance services in relation to the disposal of the Invensys Rail division (for a fee of £1.3 million) and the proposed return of cash to shareholders (for a fee of £0.3 million). They continued to provide services under the global tax compliance and legal entity rationalisation programmes, both of which commenced in prior years. 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.

Audit Committee Report continued

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 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, undertake certain assignments and follow up internal audit recommendations. This function reports to the Group Controller but the internal audit managing partner has a direct reporting line to me also. At least once a year I meet privately

with the internal audit managing partner as well as his meeting the Audit Committee without the attendance of management.

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.

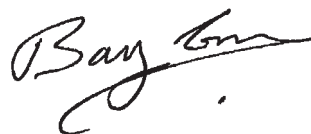
Internal Audit operates to an annual plan for financial control audits in conjunction with central continuous monitoring of these controls using the Group's ICF application. The internal audit plan is risk-based in the audit of financial controls, long-term contracts and other operational audits. The internal audit plan is integrated into an overall assurance matrix for the Group.

The effectiveness of the Internal Audit function was assessed during the year using a similar questionnaire approach to that adopted for the external auditor. The feedback has been shared with Deloitte LLP. The results concluded that the function was effective and performed in accordance with relevant professional standards. The Audit Committee agreed that questionnaires will be completed by the businesses as a matter of course after each audit to collect continuous feedback.

During the year the Audit Committee reviewed and approved an updated Internal Audit Charter.

Other matters

- As supporters of the promotion of good payment practice, we recommended to the Board that the Company sign up to the UK Government's Prompt Payment Code.
- As sponsor of a programme to reduce the number of legal entities in the Group to simplify the structure and reduce operating costs, we continue to monitor progress through six-monthly updates. Since commencement of the programme in 2011, there has been a significant reduction in the number of entities in the Group and cost savings realised.
- There has been a focus on the employee expense process and monitoring of compliance to policy.
- We reviewed and approved for recommendation to the Board, amended delegated authorities which set limits of approval for certain matters to Group management and the divisions.
- We observed closely the monitoring of major projects and, through the Group Controller and external auditor, received detailed reports on such projects.
- To ensure that the preparation of the annual report and accounts takes account of current best practice we considered guidance issued by the Financial Reporting Council and comments made by shareholder bodies on the adequacy of our disclosures. This review process has been in place for a number of years and will continue.
- The Audit Committee received briefings from the Group 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

Dear Shareholder

On behalf of the Board, I am pleased to present our Remuneration Report for 2012/13 which will be proposed for approval by advisory vote at the 2013 AGM.

We have followed closely the widespread debate on the issue of executive pay during the last year and, in the spirit of transparency, we have made significant enhancements to the Remuneration Report for 2012/13 which reflect the proposals from the Department of Business, Innovation & Skills (BIS). As I write, the BIS proposed revised directors' remuneration reporting regulations are subject to Parliamentary assent and it is anticipated that they will come into force on 1 October 2013, so we are not in a position to reflect the final regulations at this time. However, we have endeavoured to comply with the spirit of the draft regulations by making additional disclosures, including:

- a single number for the remuneration of each executive director;
- an enhanced Remuneration Policy Table which provides greater detail on each element of pay, including the link to strategy, performance metrics and changes in the year;
- a chart detailing what reward executive directors could receive for achieving minimum, target and maximum levels of performance; and
- a table providing a five-year analysis of the pay of the Chief Executive.

We are conscious of the complexity that these additional disclosures present. We have strived to make the Remuneration Report as easy as possible to digest and provide our shareholders with the information required to assess the decisions made by the Remuneration Committee in a straightforward manner.

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 has had a transformational year. This has been reflected in the remuneration outcomes for executive directors for 2012/13 with annual bonuses close to maximum payout.

With regard to the 2010 LTIP Award, this will vest at 47.2% for the Chief Executive. This vesting reflects average performance over a three-year period to 31 March 2013, which has included some disappointments as well as successes.

There will be no base salary increases for the executive directors for 2013/14. The decision to freeze executive directors' salaries was taken, on the recommendation of the Chief Executive, against the background of the restructuring of the Group resulting from the sale of the Invensys Rail division.

Our reward policy is aligned with our broader strategic goals as follows:

- A high proportion of remuneration is 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 leaders' rewards and the business for which they are responsible; and

- A personal element to leaders' annual incentive measures to ensure a focus on the delivery of key pre-determined strategic objectives.

The table on page 60 provides further detail on the link between our strategy and remuneration.

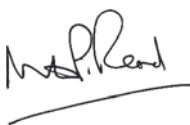
The Remuneration Committee welcomes the opportunity that this Report provides to explain our remuneration policy and to receive feedback from our shareholders. The Remuneration Committee noted that the Remuneration Report 2011/12 received a 97.7% vote in favour at the 2012 AGM. However, we consider carefully all shareholder views expressed. In the lead up to the 2012 AGM, shareholders and their representative bodies raised two points on which I would like to take this opportunity to comment:

- The Remuneration Committee's decision to increase the maximum bonus potential for the Chief Legal Officer to 200% of base salary for super-stretch performance and 100% for target performance. This decision was taken to provide equity and consistency across the incentive framework for the three executive directors and to reflect Victoria Hull's contribution to the Group; and
- The fact that additional payments were made to the former Chief Executive (Ulf Henriksson who left the Group in March 2011) in May 2012 in relation to a release and waiver of claims he might have had against the Company. This payment was approved by the Remuneration Committee to expedite negotiations with Mr Henriksson, and to provide the necessary legal protection for the Company.

On reflection, the Remuneration Committee remains satisfied that the two decisions outlined above were appropriate and in the best interests of the Company.

In general, the Remuneration Report 2011/12 was well received and, in particular, there were supportive comments in relation to the Remuneration Committee's decision not to make bonus payments to executive directors for 2011/12, given the overall disappointing financial performance of the Group. This was despite the Remuneration Committee's assessment that this was largely due to legacy issues and that the executive directors had met or exceeded their personal performance targets for the year. The fact that the Remuneration Committee has approved the payment of near maximum bonus payments for 2012/13 recognises the transformational year for Invensys and demonstrates our strong link between pay and performance.

Going forward we will review our remuneration strategy to ensure we continue to incentivise the delivery of strong financial results and the creation of shareholder value.



Dr Martin Read
Chairman of the Remuneration Committee

Alignment strategy, pay and performance

The tables below provide a summary of the key remuneration outcomes for 2012/13 and the structure for 2013/14.

The contents of the Remuneration Report are as follows:

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Base salary

Base salaries have been frozen at prior year levels for the three executive directors for 2013/14:

- Chief Executive – £669,500;
- Chief Financial Officer – £370,800; and
- Chief Legal Officer – £350,200.

Annual incentives

Bonus payments for 2012/13 were close to maximum, reflecting the transformational year for Invensys:

- Maximum bonus payment was 200% of base salary based on the achievement of super-stretch performance;
- Executive directors received bonus payments of 198.6% of salary for 2012/13, of which 98.6% of salary will be paid in deferred shares; and
- Structure of bonus plan unchanged for 2013/14.

Long-term incentives

With regard to the Long Term Incentive Plan 2007 (LTIP):

- 2010 Award will vest at 47.2% for the Chief Executive as a result of the EPS-based element being close to the maximum vesting level and the TSR-based (total shareholder return) element providing zero vesting; and
- An LTIP award will be made in 2013/14 with a value of 200% of salary for the executive directors, using EPS and TSR performance measures on a similar basis to previous awards.

1 Remuneration Committee

Members¹

Dr Martin Read (Chairman)
Francesco Caio²
Paul Lester
Michael Parker
Sir Nigel Rudd

Notes

- ¹ Deena Mattar will join the Remuneration Committee with effect from the 2013 AGM.
- ² Retiring with effect from the 2013 AGM.

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, Chief Human Resources Officer and the Vice President Total Reward are invited to attend 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 consultants to the Remuneration Committee, on issues relating to the remuneration arrangements for the executive directors and other senior leaders in the Group.

Kepler Associates was appointed by the Remuneration Committee 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. Fees paid to Kepler Associates for advice to the Remuneration Committee during 2012/13 were £88,720. 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.

New Bridge Street (part of Aon Hewitt Limited) 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 five occasions during the year and details of members' attendance are set out on page 45. One of the meetings included 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 internal Board evaluation (detailed on page 48) confirmed that the Remuneration Committee was operating effectively, focused and providing good judgement. One of the recommendations from the evaluation was that the Remuneration Committee should review the remuneration strategy for appropriateness in light of the reorganised Group.

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 responsibilities are to:

- recommend to 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 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 of the Company and the executive directors of the Board and further detail is set out on page 68.

Activities of the Remuneration Committee

The key matters considered by the Remuneration Committee during 2012/13 were to:

- review executive directors' and GLT remuneration, including base salary and incentive arrangements;
- approve the outturn of performance targets for the Executive Bonus Plan for the prior year and the structure and performance targets for the current year;
- approve annual awards under the 2007 LTIP and the Restricted Share Plan (RSP);
- assess performance conditions relating to executive share awards under the 2007 LTIP vesting during the year;
- recommend the change to the 2007 LTIP rules to allow, at the discretion of the Remuneration Committee, awards to vest early rather than only in compassionate circumstances;
- approve termination packages for leavers within the GLT;
- approve a settlement with HMRC relating to the former Chief Executive;
- approve supplementary incentive arrangements for senior leaders in the Invensys Rail division aimed at rewarding successful completion of the sale of the division;
- agree the treatment of LTIP awards for executives leaving with the sale of Invensys Rail and through reorganisation of the Group;
- consider the implications of the proposed return of cash and share consolidation on share awards;
- undertake the annual review of its terms of reference and the annual assessment of independent adviser services and costs; and
- monitor discussions around executive pay including the revised remuneration reporting requirements published by BIS.

Remuneration Report continued

2 Remuneration strategy and policy

Remuneration Policy Table for executive directors

The table below summarises the key elements of pay for executive directors and describes the purpose and link to strategy, operation, maximum opportunity, performance metrics and changes in the year.

Element of package	Purpose	Policy	Summary of operation
Base salary	<ul style="list-style-type: none"> Recognise the market value of the role and an individual's skills, contribution, experience and performance. Supports the recruitment and retention of key talent. 	<ul style="list-style-type: none"> Salary set reflects the individual's skills, experience and performance. Set pay in a competitive range by reference to relevant comparators taking into account companies with a similar market capitalisation, revenue and which operate in a relevant sector. 	<ul style="list-style-type: none"> Paid monthly in cash. Reviewed annually and fixed for the 12 months commencing 1 April. Base salary reviews take account of prevailing market practice, economic conditions and the levels of base salary review provided to the broader employee population. Executive directors' base salaries were not increased for 2013/14. Their salaries remain at: Chief Executive – £669,500; Chief Financial Officer – £370,800; and Chief Legal Officer – £350,200. It is anticipated that for incumbent executive directors, any increase in base salaries for 2014/15 will not exceed general market movements and salary increases elsewhere in the Group.
Annual bonus	<ul style="list-style-type: none"> Drive performance. Incentivise executives to achieve specific and stretching pre-determined goals over a short-term period. Reward on-going personal contribution to the success of the Group. Focus executives on targets relevant to the Group's current strategic goals. Deferred share element aligns interests with our shareholders. 	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> Target level of bonus set at 100% of base salary. Maximum bonus opportunity 200% of base salary. Weightings for 2013/14 are EPS 50%; free cash flow 25%; and personal goals 25%. 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). No changes to target calibration, measures or weightings are currently envisaged for 2014/15.
2007 LTIP	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> Invensys operates one long-term incentive plan which was approved by shareholders at the 2007 AGM. Maximum normal annual grant of 200% of base salary; actual award levels determined by individual performance. 	<ul style="list-style-type: none"> Annual award level will be 200% of base salary and subject to a three-year performance period ending 31 March 2016. Awards for executive directors will vest subject to the following performance conditions: 50% TSR performance; and 50% EPS compound annual growth rate (CAGR) (for 2013/14 against an underlying EPS figure for continuing operations of 8.5p). Further details of the 2007 LTIP performance conditions are provided in the table on page 63. Shares will only vest if the Remuneration Committee is satisfied that the underlying performance of the Group has been sufficient. The Remuneration Committee will consider the future long-term remuneration strategy in light of the refocusing of the Group following the sale of the Invensys Rail division. If this review were to result in any significant change to the remuneration strategy, shareholders would be consulted as appropriate.
Pension or cash allowance	<ul style="list-style-type: none"> Reward on-going contribution during Invensys career. Provide market-competitive benefits. 	<ul style="list-style-type: none"> Facilitate the accumulation of an appropriate level of post-retirement benefits. To better manage pension expense and mitigate risk, the defined benefit scheme was closed to new entrants in 2004. 	<ul style="list-style-type: none"> 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 and Chief Legal Officer – have defined benefit pension arrangements with respect to base salary up to a specified salary cap, with a cash allowance of 30% of base salary in lieu of pension accrual on salary above that level. It is anticipated that any new executive director would be offered a pension allowance equal to 30% of base salary in lieu of pension entitlement.
Share Ownership Guidelines	<ul style="list-style-type: none"> Align interests of executive directors with those of shareholders. 	<ul style="list-style-type: none"> Executive directors are required to build and maintain a shareholding of 200% of base salary. 	<ul style="list-style-type: none"> Executive directors will retain all 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	<ul style="list-style-type: none"> Provide an appropriate level of protection to both the executive and Invensys. 	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> Executive directors' contracts provide for 12 months' notice. Termination payments may be made on a phased basis, reducing if the director obtains alternative employment.

Strategic alignment of reward

Our approach to remuneration aims to balance risk and reward, encompassing all elements of remuneration including fixed pay, incentives, benefits and career development opportunities.

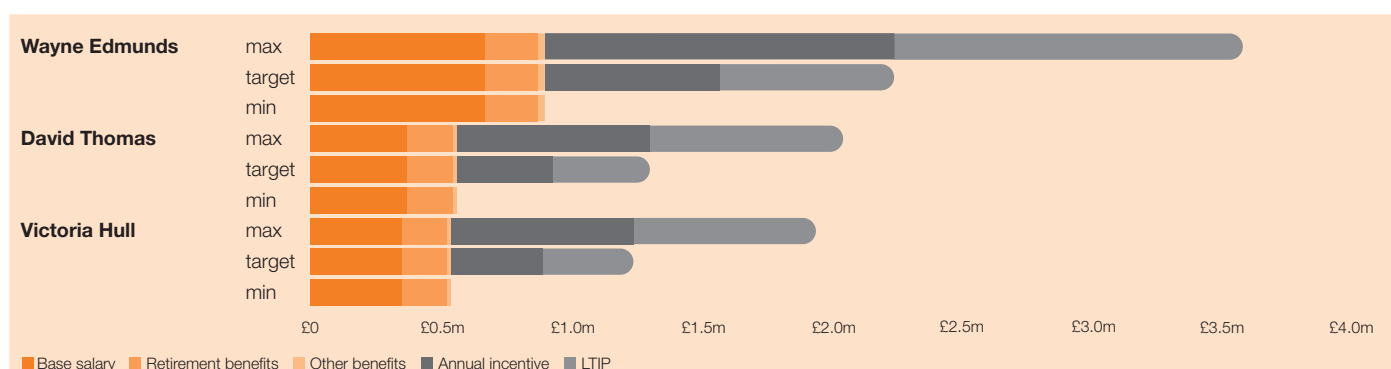
Base salary and benefits	Short- and medium-term incentives	Long-term incentives
<p>To enable Invensys to retain and enhance deep domain knowledge:</p> <ul style="list-style-type: none"> Remunerating executive directors and senior leaders at a level and in a manner that is capable of attracting, retaining and motivating high-calibre people; and Being market-competitive in the context of our reward packages. 	<p>To enable Invensys to deliver strong Group performance through sustainable growth:</p> <ul style="list-style-type: none"> At Group-level, focus on EPS and cash flow; Business targets focus on growing orders and operating profit¹, balanced with strong cash delivery; Alignment to lines of business; and A personal element to reflect the achievement of key strategic priorities. 	<p>To enable Invensys to deliver long-term profit growth and superior returns to shareholders with our leaders sharing in this success:</p> <ul style="list-style-type: none"> LTIP measures target three-year EPS growth and above-market returns to shareholders; Share Ownership Guidelines create an alignment of interest between shareholders and executives; 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 calculated after charging exceptional items.

Pay for performance: illustrative scenario analysis

In line with the current BIS proposals, the chart below shows the potential pay opportunity for each of the elements of the executive directors' remuneration under three different scenarios of minimum, target and maximum performance levels for 2013/14.



Assumptions

Component

Base salary As at 1 April 2013: Chief Executive (Mr Edmunds) £669,500, Chief Financial Officer (Mr Thomas) £370,800, Chief Legal Officer (Ms Hull) £350,200.

Retirement benefits Cash allowance paid plus (where relevant) defined benefit pension as additional value calculated as per draft BIS regulations.

Other benefits Value of other annual benefits received.

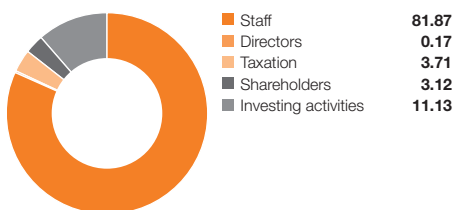
	Min	Target	Max
Annual incentive	0% of salary	100% of salary	200% of salary
LTIP	0% of salary (0% vesting)	100% of salary (50% vesting)	200% of salary (100% vesting)

Remuneration Report continued

Cash distribution statement

The chart below shows that the executive directors' aggregate total remuneration equates to 0.17% of the Group's operating cash flow.

2012/13 cash flow distribution to stakeholders (%)



Remuneration Policy

The Remuneration 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 the calculation of any financial outturns for incentive purposes if it considers that disproportionate risk has been taken to deliver performance targets.

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 competed with the Group and also benchmarked pay against FTSE companies of similar market capitalisation and/or revenue. For 2012/13 and 2013/14, the Remuneration Committee asked Kepler Associates to provide external market data on the level of base salary increases amongst comparator companies to further inform its decisions as, given the restructuring of the Group, the timing was not thought appropriate to conduct a full benchmarking exercise.

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 Chief Human Resources Officer 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.

There will be no base salary increases for the executive directors for 2013/14. This was proposed by the Chief Executive to support the cost savings being achieved through the Group restructuring.

The Remuneration Committee considers the current base salary levels appropriate to meet its objectives of incentivising the executive directors and maintaining competitive pay levels. The next salary review date for the executive directors will be during 2014/15.

Annual incentive arrangements

Performance-related bonuses may be paid to executive directors and senior leaders under the Executive Bonus Plan (EBP). The EBP provides annual incentives to encourage the achievement of predefined annual financial objectives and personal targets to focus on the most critical measures of business success, while rewarding executives for outstanding performance. In this way, the EBP seeks to align the interests of shareholders and participants.

For 2012/13 and 2013/14, the Remuneration Committee approved the following performance calibration for the EBP:

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

The bonus payment available to executive directors 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 2012/13 and 2013/14.

Executive Bonus Plan 2012/13

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

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

In line with the EBP rules, the salary used for bonus calculation purposes is the salary effective from 1 April 2012 (adjusted for any promotion increases).

In respect of 2012/13 actual performance, the element of executive directors' bonus based on underlying EPS paid at the super-stretch level of 200% of target payment and the element based on free cash flow paid at just below super-stretch. Also, in recognition of the performance of the executive directors in this transformational year for the Group, in which their personal goals were met in full, all three executive directors received the super-stretch level of payment for personal performance.

In aggregate, the bonus payment to the executive directors in relation to 2012/13 performance was 198.6% of base salary.

The 2012/13 bonus earned in excess of 100% of target for incumbent members of the GLT is paid in deferred shares (in accordance with the rules of the Deferred Share Plan), which are transferred to the individual after three years (for executive directors) or two years (other GLT members).

In relation to the 2012/13 bonus, the executive directors will receive deferred shares with a value of 98.6% of base salary in June 2013, vesting in June 2016. A payment equal to 100% of base salary (i.e. 100% of target for the executive directors), will be paid in cash (subject to statutory tax withholdings) in June 2013.

Having reviewed the results achieved against the financial performance targets set for 2012/13, the Remuneration Committee is satisfied that the targets set were challenging.

Executive Bonus Plan 2013/14

The targets for executive directors for 2013/14 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 EBP for 2013/14 and, after considering external benchmarks, 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 GLT members 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.

For awards to be granted in 2013/14, the Remuneration Committee considered all relevant factors and determined that the two components of the award, measuring TSR and 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 that were granted in 2012/13, the EPS 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 Annual Report and Accounts 2012 and the Remuneration Committee therefore decided that the 2011/12 reported EPS did 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 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 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.

With regard to the base EPS figure for 2013/14 LTIP awards, the Remuneration Committee confirmed the use of reported underlying EPS for 2012/13 for continuing operations (i.e. 8.5p) as the earnings for Invensys Rail are reported as discontinued operations.

Following the completion of the return of cash and share capital consolidation relating to the sale of the Invensys Rail division, the Remuneration Committee will consider the impact of these events on the targets for subsisting LTIP awards.

For 2012/13 and 2013/14 the performance criteria for the LTIP awards to executive directors 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)	<ul style="list-style-type: none"> • 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 Index¹. • In relation to the 2012 Award², 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. • In relation to the 2013 Award³, the performance period for the Company and each constituent of the Index is based on the three-month average to 31 March 2016 compared with the three-month average to 31 March 2013. 	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • Chosen to provide a focus on delivering stretching internal financial targets. • 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. • In relation to the 2012 Award, growth is measured from a base of 17.2p, this being an adjusted underlying 2011/12 EPS as explained above. • In relation to the 2013 Award, growth is measured from a base of 8.5p, this being the underlying EPS figure for continuing operations following the sale of the Invensys Rail division. 	<ul style="list-style-type: none"> • 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.

Notes

- 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 2012/13.
- ³ Awards granted under the 2007 LTIP in 2013/14.

Remuneration Report continued

The Remuneration Committee will in all cases retain discretion to ensure that, as an additional condition for the vesting of any shares in respect of the TSR or EPS component of the award, 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. 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 and 2013/14, for the GLT members who are not executive directors, the percentage of shares under award to which performance conditions do not apply will be 20% of the award or less to better reflect the ability of these senior executives to influence Group 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 but can be accelerated at the discretion of the Remuneration Committee. 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. If a participant resigns, their award will lapse unless the Remuneration Committee exercises its discretion.

Previously, the Remuneration Committee only had discretion to accelerate vesting in compassionate circumstances. However, at the General Meeting of the Company held in December 2012, a change to the 2007 LTIP leaver terms was approved so that, at the discretion of the Remuneration Committee, awards can vest early in such circumstances that the Remuneration Committee considers appropriate.

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.

2010 Award under the 2007 LTIP

For awards granted under the 2007 LTIP in 2010 (2010 Award) the performance condition was measured over the three-year period to 31 March 2013. Following determination of the TSR (provided by an independent third party) and EPS performance conditions, the Remuneration Committee determined that the threshold level of vesting for the TSR portion of the 2010 Award had not been achieved; this portion of the 2010 Award (50% of the total award for executive directors) will therefore lapse. With regard to the EPS portion of the 2010 Award (50% of the total award for executive directors), the 2010 Award granted to the Chief Executive will vest at 94.4%. Therefore 47.2% will vest in aggregate as a proportion of the initial award.

In respect of the Chief Financial Officer and Chief Legal Officer, their 2010 Awards were granted prior to their appointment as executive directors and performance conditions did not apply to 30% of their awards; this portion of shares vested following the third anniversary of the date of grant. Of the 70% of the 2010 Award subject to a performance test, the TSR element (35% of the total award) lapsed and the EPS element (35% of the total award) will vest at 94.4%. Therefore 63.0% will vest in aggregate as a proportion of the initial award.

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 partly funded externally through a registered pension scheme and partly 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.

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 for the Chief Executive who is a US citizen.

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 (the 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. An offer was extended under the Scheme to eligible employees in 2009/10 and 2011/12. Awards granted in 2009/10 matured in September 2012 and participants were entitled to purchase their shares under option at the original option price of £1.75 per share.

Following the completion of the sale of Invensys Rail, participants at Invensys Rail (in the UK and overseas) holding awards granted in 2011 were permitted by the Scheme rules to exercise their options early, using the savings they had made from the commencement of the 2011 contract. Participants were permitted to purchase a pro rated number of shares under option at the original option price of £2.46 per share.

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 2013, awards made under the Company's share schemes represented 4.0% (2012: 4.2%) 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.

If the proposed return of cash to shareholders and subsequent share consolidation takes place as planned, this will have an impact on the share dilution limits outlined above.

Share Ownership Guidelines

The Remuneration Committee believes that the interests of executives should be closely aligned with those of shareholders and, to support this, executives are required to build up and maintain a shareholding over time under the Share Ownership Guidelines. The qualifying interests are shown in the adjacent table. 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 minimum level of qualifying interest is reached. Executives are not required to take additional steps beyond the vesting of share incentives to accumulate their qualifying interest.

Category	% of base salary
Executive directors	200%
GLT	50%
All other LTIP participants	25%

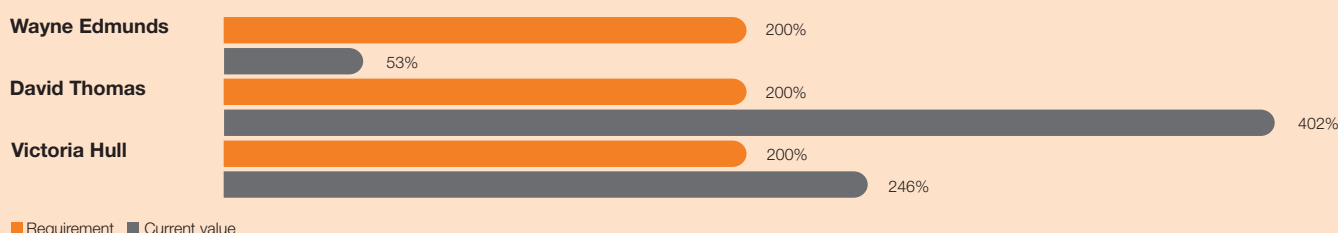
The following table provides an analysis of current executive director compliance with the Share Ownership Guidelines.

	Base salary £	Qualifying interest requirement £	Shareholding ¹	Value of shareholding ¹ £	Value of shareholding as % of qualifying interest	Value of shareholding as % of base salary
Wayne Edmunds	669,500	1,339,000	89,180	353,242	26 ²	53
David Thomas	370,800	741,600	376,030	1,489,455	201	402
Victoria Hull	350,200	700,400	217,404	861,137	123	246

Notes

- The shareholding is the balance of shares held as at 13 May 2013 and the value of the shareholding is based on the share price on the same day which was 396.1p (this being the last practicable date before publication of the Annual Report and Accounts 2013). Deferred shares which have been awarded to Mr Edmunds and Ms Hull (as set out on page 71) are not included in the shareholding balance as, under the Share Ownership Guidelines, these only count as a qualifying interest when the award vests; however, this is under review as deferred shares are only forfeitable in the event of dismissal for cause.
- During his time as an executive director of the Company, Mr Edmunds has not sold any Invensys shares resulting from the vesting of executive awards (other than for tax withholding purposes). It is Mr Edmunds' current intention to reinvest the proceeds resulting from the proposed return of cash in Invensys shares. This will ensure that he continues to move towards his 200% qualifying interest.

Qualifying interest as % of salary



Remuneration Report continued

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 executive director may retain any fees paid in respect of such a directorship.

None of the executive directors held external directorships during the year.

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 a US business, the executive incurs temporary double taxation by UK and US tax authorities, a US subsidiary of the Group may advance a loan to the executive equal to the amount of such double taxation, pending a refund from HMRC.

Mr Edmunds 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 Edmunds on 24 May 2012 in respect of temporary double taxation equal to £78,498. Part of the loan (£12,966) was repaid by Mr Edmunds during the year. The balance of the loan was repaid to Invensys Systems, Inc. on 13 May 2013 following HMRC refunding the amount to Mr Edmunds.

As described in the 2012 Remuneration Report, in 2009/10 Ulf Henriksson (a former Chief Executive) 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. This loan is still outstanding and will be repayable to Invensys Systems, Inc. on HMRC refunding the amount to Mr Henriksson.

Former Chief Executives

Under the terms of a settlement agreement concluded with a former Chief Executive, Ulf Henriksson (who retired from the Board on 24 March 2011), and as disclosed in the Annual Report and Accounts 2012, the Company agreed to be responsible for the cost of any settlement with HMRC regarding certain non-business use by Mr Henriksson of a company driver and car/fuel benefits which potentially gave rise to a personal taxable benefit. In accordance with this arrangement, the Company has during 2012/13 paid £123,689 to HMRC in full settlement of these liabilities for all relevant years.

In respect of the loan advanced to Mr Henriksson in relation to UK and US double taxation (as detailed previously), a taxable benefit of £12,507 arose representing the notional interest charge on the loan.

In April 2013, the Company received a request from a former Chief Executive, Mr Allen Yurko (who resigned from the Company in July 2001), for the payment of expenses relating to his relocation back to the US, anticipated in June 2013. This request for the payment of such expenses is based on correspondence with the Company in June 2001. The Company is considering its response to this claim in light of the time elapsed.

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:

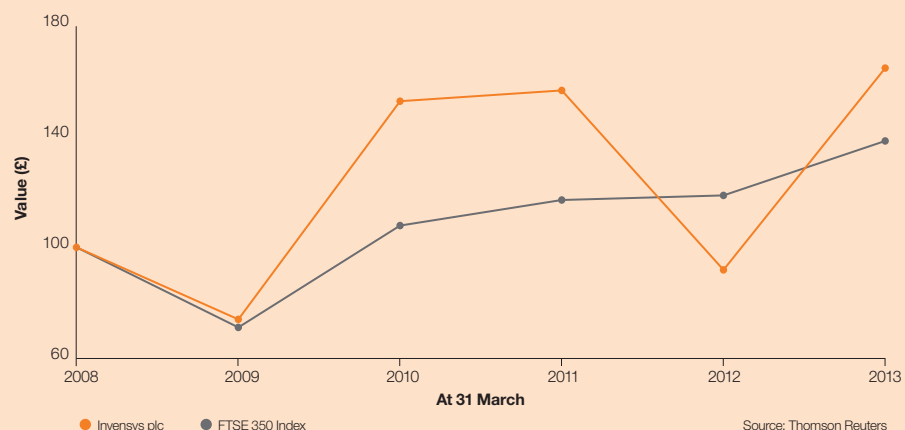
Director	Date of contract	Notice period	Summary of the main termination provisions
Wayne Edmunds	17 May 2011	12 months	Other than in the case of summary termination, the Company may terminate the executive director's service contract by making a payment in lieu of notice equal to the value of the base salary and contractual benefits (including a pension allowance of 30% of base salary) they would have received during their notice period. Any payment due under these provisions may be made to them in equal monthly instalments and the Company may reduce the payment by 50% if the director obtains alternative employment. The executive directors' service contracts entitle them, in the event of a material adverse change to their title, responsibilities or status following a change of control of the Company, to terminate their employment and receive a payment equal to the payment in lieu of notice.
David Thomas	8 November 2011	12 months	
Victoria Hull	15 May 2012	12 months	

Share performance and Chief Executive pay

The adjacent graph illustrates the Company's TSR performance (i.e. share price assuming reinvestment of any dividends) over the past 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.

The table below details the Chief Executive's "single figure" remuneration over the same five-year period.

Total shareholder return



This graph shows the value, by 31 March 2013, of £100 invested in Invensys plc on 31 March 2008 compared with the value of £100 invested in the FTSE 350 Index. The other points plotted are the values at intervening financial year-ends. Source: Thomson Reuters

Year ended 31 March	2009	2010	2011	2012	2013
Wayne Edmunds					
Single figure remuneration (£)	n/a	n/a	243,849	865,380	2,732,042
Annual bonus outcome (% of max)	n/a	n/a	53	0	99
LTIP vesting outcome (% of max)	n/a	n/a	65	0	47
Ulf Henriksson					
Single figure remuneration (£)	6,425,158	6,951,828	4,611,125	n/a	n/a
Annual bonus outcome (% of max)	50	75	81	n/a	n/a
LTIP vesting outcome (% of max)	95	51	50	n/a	n/a

Single figure

The table below sets out a single figure for the total remuneration due, or which will become due, to each executive director for 2012/13. The figures have been calculated as follows:

Base salary – the actual salary earned during 2012/13.

Retirement benefits – the value of the cash allowance paid plus (where relevant) defined benefit pension arrangements as additional value achieved calculated as per the draft BIS regulations.

Other benefits – the value of other annual benefits received.

Annual bonus – bonus paid for performance in 2012/13.

LTIP – value of the 2010 LTIP Award which will vest in June 2013 (based on performance to 31 March 2013) using the average share price over the three months to 31 March 2013 of 349.6p.

Single total figure for executive directors for 2012/13

	Base £	Retirement benefits £	Other benefits £	Annual bonus £	LTIP £	Total £
Wayne Edmunds	669,500	200,850	30,027	1,329,627	502,038	2,732,042
David Thomas	370,800	175,436	15,335	736,409	141,991	1,439,971
Victoria Hull	350,200	173,363	14,756	695,497	430,711	1,664,527

Remuneration Report continued

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 of the Company on 17 July 2009 (the terms of which were governed by a contract dated 3 December 2008). Following the extension of his appointment as Chairman for a further three-year term, he now serves under a contract dated 18 December 2012 (which contains the same terms as set out in his original contract). The contract 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.

Following consideration of the Chairman's fee at a meeting of the Remuneration Committee held in May 2013, it was decided not to increase the Chairman's fee for 2013/14.

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 (other than those retiring) 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 the 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 69 includes that part of the fee used to purchase shares and the shares are included in Directors' interests also on page 69.

The portion of the 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 15 May 2013 and signed on its behalf by:



Dr Martin Read

Chairman of the Remuneration Committee

4 Directors' emoluments and interests in shares and share plans (audited information)

Remuneration

The remuneration of the directors for the year ended 31 March 2013 was as follows:

	Notes	Salary/fees ⁴ £	Pension allowance £	Benefits ⁵ £	Bonuses £	2013 ^a total £	2012 total £
Chairman							
Sir Nigel Rudd		270,000	—	—	—	270,000	270,000
Executive directors							
Wayne Edmunds	1	669,500	200,850	30,027	1,329,627	2,230,004	865,380
Victoria Hull	2	350,200	8,652	14,756	695,497	1,069,105	122,871
David Thomas	3	370,800	27,240	15,335	736,409	1,149,784	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	7	52,000	—	—	—	52,000	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
						5,116,893	1,918,735

Notes

- The emoluments of the highest-paid director, Mr Edmunds, were £2,230,004 (2012: Mr Edmunds, £865,380).
- 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.
- 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.
- 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 page 68. The shares purchased on their behalf are included in Directors' interests set out below.
- 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 benefit for 2012/13 includes £10,108 relating to fees incurred for UK and US tax filings and a notional interest charge on the loan made in relation to the UK and US temporary double taxation (as detailed on page 66).
- No directors waived emoluments in respect of the year ended 31 March 2013 (2012: nil).
- Ms Mattar was appointed a 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.

Directors' interests in shares

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 2013 ^{2,3} ordinary shares of 10p each	As at 1 April 2012
Francesco Caio	1	5,812	4,331
Wayne Edmunds		89,180	87,756
Bay Green	1	20,940	18,710
Victoria Hull		217,404	290,357
Paul Lester	1	4,904	3,498
Deena Mattar	1	3,489	1,790
Michael Parker	1	12,175	10,416
Dr Martin Read	1	6,119	4,539
Sir Nigel Rudd	1	17,314	15,849
David Thomas		376,030	363,659
Pat Zito	1	23,943	21,966

Notes

- As described on page 68, as part of the non-executive directors' fee arrangements, a proportion of their fee (including that of the Chairman) is used to acquire ordinary shares in the Company.
- The mid-market closing price of an ordinary share on 29 March 2013 (the last trading day prior to the year end) was 350.8p. Between 1 April 2012 and 31 March 2013, the highest mid-market closing price was 366.8p and the lowest mid-market closing price was 186.1p.
- There have been no further changes in the interests of directors between 1 April 2013 and 15 May 2013.

Remuneration Report continued

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 63 to 64 of this Report and in Note 28 to the Group Financial Statements.

	Notes ¹	As at 1 April 2012	Awards granted during the year	Awards vested during the year	Awards lapsed/ forfeited during the year	As at 31 March 2013	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										
2009	2	343,155	–	–	343,155	Nil	223	–	1 Apr 2009 - 31 Mar 2012	24 Jun 2012 ⁶
2010	3	304,245	–	–	–	304,245	283	–	1 Apr 2010 - 31 Mar 2013	17 Jun 2013 ⁶
2011		627,665	–	–	–	627,665	318	–	1 Apr 2011 - 31 Mar 2014	29 Jun 2014 ⁶
2012		–	585,995	–	–	585,995	217	–	1 Apr 2012 - 31 Mar 2015	26 Jun 2015
Victoria Hull										
2009	2	249,816	–	74,944	174,872	Nil	223	217	1 Apr 2009 - 31 Mar 2012	24 Jun 2012 ⁶
2010	3	195,433	–	–	–	195,433	283	–	1 Apr 2010 - 31 Mar 2013	17 Jun 2013 ⁶
2011	4	175,746	–	–	–	175,746	318	–	1 Apr 2011 - 31 Mar 2014	29 Jun 2014 ⁶
2012		–	306,520	–	–	306,520	217	–	1 Apr 2012 - 31 Mar 2015	26 Jun 2015
David Thomas										
2009	2	82,357	–	24,707	57,650	Nil	223	217	1 Apr 2009 - 31 Mar 2012	24 Jun 2012 ⁶
2010	3	64,428	–	–	–	64,428	283	–	1 Apr 2010 - 31 Mar 2013	17 Jun 2013 ⁶
2011	5	231,753	–	–	–	231,753	318	–	1 Apr 2011 - 31 Mar 2014	29 Jun 2014 ⁶
2012		–	324,551	–	–	324,551	217	–	1 Apr 2012 - 31 Mar 2015	26 Jun 2015

Notes

- 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.
- Following consideration of the performance conditions of the 2009 Award, the Remuneration Committee determined that the threshold underlying EPS CAGR and TSR performance had not been met and shares subject to these targets lapsed. 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 was not subject to performance conditions; therefore, in aggregate, Ms Hull's and Mr Thomas' 2009 Awards vested at 30%. A further 3,303 and 1,088 shares representing accrued dividends were issued to Ms Hull and Mr Thomas.
- 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. Following consideration of the performance conditions for the 2010 Award, the Remuneration Committee has determined (as outlined on page 64) that the threshold TSR performance has not been met and this portion of the 2010 Award will lapse; the EPS portion of the 2010 Award will vest at 94.4%. Therefore, in aggregate, 47.2% of the initial award will vest for Mr Edmunds and 63.0% will vest for Ms Hull and Mr Thomas.
- 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.
- 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.
- 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 following RSP Award was granted to Ms Hull while she was employed as Group General Counsel and Company Secretary but prior to her appointment as an executive director. Further information about the RSP can be found on page 64 of this Report and at Note 28 in the Group Financial Statements.

	Notes	As at 1 April 2012	Awards granted during the year	Awards vested during the year	As at 31 March 2013	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	1	46,940	–	46,940	Nil	225	223	29 Jun 2012

Note

¹ No awards lapsed or were forfeited during the year under review. The Award shown in the table excludes shares representing accrued dividends which totalled 430.

Deferred Share Plan (DSP)

Any bonus earned under the Executive Bonus Plan in excess of target is awarded as deferred shares to executive directors and other 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 62 of this Report and in Note 28 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 2012	Awards granted during the year	Awards vested during the year	As at 31 March 2013	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	2	47,697	–	–	47,697	338	–	15 Mar 2010 - 16 Jun 2013	17 Jun 2013
2010	2	9,234	–	–	9,234	283	–	17 Jun 2010 - 16 Jun 2013	17 Jun 2013
2011	2	82,085	–	–	82,085	318	–	29 Jun 2011 - 28 Jun 2014	29 Jun 2014
Victoria Hull									
2010	2, 3	23,810	–	23,810	Nil	338	201	15 Mar 2010 - 16 Jun 2012	17 Jun 2012
2010	2, 3	4,610	–	4,610	Nil	283	201	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 an executive director and, in accordance with their terms, were released two years after their date of grant. Mr Edmunds' 2010 and 2011 awards remain subject to a three-year deferral period.

³ In respect of the release of Ms Hull's March 2010 and June 2010 awards, a further 795 and 152 shares were issued representing accrued dividends.

Remuneration Report continued

Directors' defined benefit pension entitlements

For the year ended 31 March 2013, Mr Thomas and Ms Hull participated in defined benefit pension arrangements sponsored by the Company for part of their base salaries. The specific salaries covered by the defined benefit arrangements are £280,000 and £321,360 with regard to Mr Thomas and Ms Hull respectively. Mr Edmunds does not participate in a defined benefit pension sponsored by the Company.

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 69.

The following table gives details of the individual directors' pension values for the year ended 31 March 2013, including the disclosures required by the Listing Rules of the UK Listing Authority:

Pension entitlement for the year ended 31 March 2013											
	Age as at 31 March 2013	Transfer value at 31 March 2012 £	Transfer value at 31 March 2013 £	Increase in transfer value 2013 net of contributions £	Pension accumulated at 31 March 2012 £	Pension accumulated at 31 March 2013 £	Increase in pension 2013 £	Increase in pension 2013 net of inflation £	Value of increase in pension 2013 net of inflation £	Cash allowance 2013 £	Single pensions value 2013 £
Victoria Hull	51	2,170,144	2,566,236	378,230	115,154	125,866	10,712	8,236	164,711	8,652	173,363
David Thomas	58	2,186,022	2,721,577	517,693	89,444	98,778	9,334	7,410	148,196	27,240	175,436

Notes

- The figures above are in respect of benefit entitlements within both the Invensys Pension Scheme and the Supplementary Pension Arrangement. Both Mr Thomas and Ms Hull contribute at 13% of pensionable salary for benefits in the Invensys Pension Scheme (up to the Scheme earning limit of £137,400 for 2012/13) but that no contributions are payable for benefits in the Supplementary Pension Arrangement.
- The transfer values have been calculated in accordance with the Invensys Pension Scheme's standard cash equivalent transfer value basis, as set by the Scheme's Trustees. As required by the different regulations, allowance for the current 1% reduction applied to transfer values is made in the transfer values required under the Directors Remuneration Report Regulations 2002 but no allowance is made for this reduction in the transfer values required under the Listing Rules.
- All benefits are due at age 60.

Directors' Report

The directors submit their Report and the audited accounts for the year ended 31 March 2013 as set out on pages 78 to 151 and page 156. This Report should be read in conjunction with the Corporate Governance Report on pages 44 to 56.

Principal activities

The principal activities for the year are contained in the Business Review on pages 15 to 40. The principal subsidiaries which contributed to the Group's profit or net assets in the year are listed on page 156.

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 2013 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 2013 on pages 15 to 40 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".

Dividend

The Board has recommended the payment of a final dividend for the year of 2.85 pence per share which, subject to approval by shareholders at the AGM on 25 July 2013, will be paid on 2 August 2013 to shareholders on the register at 21 June 2013. With an interim dividend of 1.75 pence per share paid during the year, the total dividends payable in respect of the year ended 31 March 2013 are 4.6 pence per share (2012: 4.4 pence per share). The amount paid per share could increase dependent upon the share consolidation as detailed below.

If the return of cash to shareholders and subsequent share capital consolidation are approved by shareholders and take place as planned, the Board has recommended that the total amount of the final dividend will remain the same, £23 million, but will be paid on the smaller number of shares in issue resulting from the share consolidation. Therefore the amount paid per share would increase and details of these changes will be set out in the circular to shareholders regarding the return of cash expected to be issued on or around 21 May 2013.

Review of the business: key sections

Section	Nature of relevant content	Pages
Chairman's Statement	Commentary on the Group's strategy and outlook	6 to 7
Chief Executive's Statement	Commentary on the Group's strategy and outlook	8 to 9
Key Performance Indicators	A discussion of key financial performance measures	16 to 17
Financial Review	A discussion of key financial performance measures	22 to 26
Financial Policies	Information on our use of financial instruments and a description of our financial risk management objectives and policies	27
Risks and Uncertainties	Identification of principal risks and uncertainties facing the Group, their impact and mitigation	33 to 40

The Company offers a dividend reinvestment plan (DRIP), 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 42 and 43. A statement of their remuneration and interests in the ordinary shares of the Company are set out in the Remuneration Report on pages 69 to 72.

Francesco Caio and Pat Zito will not be seeking re-election at the 2013 AGM and will retire from the Board at the close of that meeting.

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 (other than Mr Caio and Mr Zito) will seek re-election by shareholders at the 2013 AGM.

The Chairman's Letter and Notice of AGM explains the Board's reasons for and recommendations regarding the re-election of 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 45.

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

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 £12 million. The net assets acquired were approximately £11 million.

On 15 October 2012 the Group acquired Spiral Software, a planning, scheduling and crude oil management software company, headquartered in the UK, for a cash consideration of £38 million. The net assets acquired were approximately £24 million.

On 28 November 2012 the Group announced the proposed disposal of the Invensys Rail division for a cash consideration of £1,742 million to Siemens. The transaction completed on 2 May 2013.

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 26 on page 127.

Further to the announcement on 28 November 2012, the directors are in the process of implementing a return of cash and intend to return £625 million of cash to shareholders. Information on the return of cash will be set out in a circular to shareholders which will be issued as soon as practicable. The return of cash is subject to the approval of Invensys shareholders at a General Meeting which is expected to take place in June 2013. It is intended that shareholders (other than in the US, Canada, Australia, New Zealand, Japan and the Republic of South Africa) will be able to elect to receive their cash as income, capital or deferred capital or a combination of the three. Following the return of cash, it is proposed that a share capital consolidation take place which, subject to market fluctuations, will result in the share price being returned to approximately the same level as before the return of cash.

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 26 and 28 on page 127 and pages 128 to 132 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 28 on pages 128 to 132. 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 2012 AGM, the directors were authorised to issue relevant securities up to an aggregate nominal amount of £26.8 million (approximately one-third of the issued ordinary share capital as at 22 May 2012). In addition, the directors were authorised to allot an extra one-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 2013 AGM in line with guidelines issued by the Association of British Insurers.

In addition, the Company was authorised at the 2012 AGM to purchase in the market up to 81,229,074 ordinary shares, representing approximately 10% of the issued share capital of the Company. This authority was not used by the Company and will not be renewed at the 2013 AGM.

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	
BlackRock	4.37%	(indirect interest)
	0.73% ²	(nominal interest)
Legal & General	3.00%	(direct interest)
Prudential	9.88%	(direct interest)
	0.04%	(indirect interest)
Schroders	5.105%	(indirect interest)
ValueAct Capital Master Fund, L.P.	8.16%	(direct interest)

Notes

- 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. This policy is consistent with the UK Government's Prompt Payment Code, to which the Company is a signatory. Details of the Code can be found at: www.promptpaymentcode.org.uk

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, as well as engagement with national works councils and trade unions. 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 including the Employee Engagement Survey, and social and community issues is set out in the Corporate Responsibility Report, which begins on page 28.

Charitable and political contributions

The Board is of the view that it is not appropriate for the Company to make charitable donations at this time. 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 or charitable involvement to be maintained at reasonable levels. During the year, Group donations to charities and community causes worldwide were £0.2 million (2012: £0.2 million), with UK charities receiving £nil (2012: £nil).

At the 2012 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 2013 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 for continuing operations amounted to £79 million (2012: £74 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 15 to 40. 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 2013, 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, 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 66. 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 2013 AGM.

Annual General Meeting

The AGM of the Company will be held on Thursday 25 July 2013 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

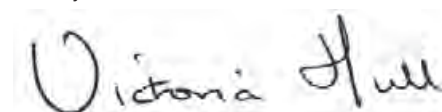
On 28 November 2012 Invensys signed an agreement to sell Invensys Rail to Siemens for a gross cash consideration of £1.7 billion. The consideration comprised £1.3 billion in exchange for the shares of Invensys Rail and £0.4 billion paid to Invensys' UK Pension Scheme. The transaction completed on 2 May 2013 and will be accounted for in the year ending 31 March 2014.

On 2 May 2013 on receipt of the proceeds from the sale of Invensys Rail, Invensys paid £225 million into a reservoir trust in favour of the Invensys UK Pension Scheme. The Reservoir Trust Deed contains a mechanism for future payments to be made from the reservoir trust to either the Pension Trustee or the Company dependent on the funding position of the Scheme, commencing in 2018. Following this payment, and the receipt by the UK Pension Scheme of the £400 million payment on the sale of Invensys Rail, the deficit reduction payments of £40-47 million per annum previously agreed with the trustees ceased. It is anticipated that no further contributions will be payable into the Scheme for the foreseeable future.

The Group proposes to return cash to shareholders of £625 million (around 76 pence per share) from the proceeds of the sale, subject to the approval of Invensys shareholders at a General Meeting which is expected to take place in June 2013. It is proposed that the return of cash will be followed by a share capital consolidation. The return of cash will be accounted for in the year ending 31 March 2014 as a reduction in retained earnings.

Following the completion of the sale of Invensys Rail on 2 May 2013, the Group's revolving credit facility was reduced by £100 million to £150 million. The Group's guarantee facility remains £350 million.

By order of the Board of directors on
15 May 2013



Victoria Hull
Chief Legal Officer &
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 15 to 40. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 22 to 26. Note 19 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 35 to 40.

The Group remains generally in a sound financial position with net cash, banking facilities totalling £500 million in place until 2017, and well-established relationships with key customers and suppliers. Following the completion of the sale of Invensys Rail on 2 May 2013, the Group's total banking facilities of £500 million comprise a cash facility of £150 million and a guarantee facility of £350 million.

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

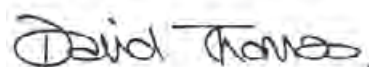
We confirm that to the best of our knowledge:

- a) the Group Financial Statements for the year ended 31 March 2013, prepared in accordance with International Financial Reporting Standards as adopted for use in the European Union or, in the case of the Company's financial statements, United Kingdom Generally Accepted Accounting Practice, 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

15 May 2013

The directors of Invensys plc are listed on pages 42 and 43.

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Our Industrial Automation business supplies control and safety systems to 35 of the top 50 nuclear power plants. In total, we enable 37% of the world's nuclear energy generation.

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 2013 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated cash flow statement and the related Notes 1 to 36. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 76, 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 2013 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 44 to 56 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 76, 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 2013 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
15 May 2013

Notes

- ¹ The maintenance and integrity of the Invensys plc website is the responsibility of the directors; the work carried out by the auditor does not involve consideration of these matters and, accordingly, the auditor accepts 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	2013 £m	2012 £m
Continuing operations			
Revenue	4,5	1,792	1,764
Operating expenses before exceptional items		(1,661)	(1,671)
Operating profit before exceptional items	4,5	131	93
Exceptional items	5	(88)	(33)
Operating profit		43	60
Finance costs	8	(10)	(12)
Finance income	8	1	3
Other finance charges – IAS 19	25	(19)	(4)
Profit before taxation		15	47
Taxation – UK	9	1	(1)
Taxation – overseas	9	(12)	(7)
Profit after taxation – continuing operations		4	39
Profit after taxation – discontinued operations	10	124	60
Profit for the year		128	99
Attributable to:			
Profit after taxation – continuing operations			
– Equity holders of the parent		1	38
– Non-controlling interests		3	1
		4	39
Profit after taxation – discontinued operations			
– Equity holders of the parent		124	60
Profit for the year			
– Equity holders of the parent		125	98
– Non-controlling interests		3	1
		128	99
Earnings per share			
Continuing operations			
Earnings per share (basic)	11	0.1p	4.7p
Earnings per share (diluted)	11	0.1p	4.7p
Discontinued operations			
Earnings per share (basic)	11	15.3p	7.4p
Earnings per share (diluted)	11	15.2p	7.3p
Total Group			
Earnings per share (basic)	11	15.4p	12.1p
Earnings per share (diluted)	11	15.3p	12.0p

Consolidated statement of comprehensive income

For the year ended 31 March	Notes	2013 £m	2012 £m
Profit for the year		128	99
Other comprehensive income			
Cash flow hedges:			
– Losses taken to equity		(1)	–
– Transferred to income statement – profit from discontinued operations		8	–
Exchange differences on translation of foreign operations		18	(12)
Actuarial loss recognised on defined benefit pension schemes	25	(127)	(31)
Movement in irrecoverable element of potential future pension surplus	25	30	(4)
Taxation on components of other comprehensive income	9	(2)	21
Other comprehensive loss for the year, net of tax		(74)	(26)
Total comprehensive income for the year		54	73
Attributable to:			
Equity holders of the parent		53	71
Non-controlling interests		1	2
		54	73

Consolidated balance sheet

At 31 March	Notes	2013 £m	2012 £m
ASSETS			
Non-current assets			
Intangible assets – goodwill	12	297	289
Intangible assets – other	13	78	168
Property, plant and equipment	14	194	227
Trade and other receivables	15	10	26
Amounts due from contract customers	16	5	11
Deferred income tax assets	17	109	70
		693	791
Current assets			
Inventories	18	111	145
Trade and other receivables	15	389	500
Amounts due from contract customers	16	172	273
Income tax receivable		11	10
Derivative financial instruments	19	1	3
Cash and cash equivalents	20	247	263
		931	1,194
Assets held for sale	22	599	10
		2,223	1,995
LIABILITIES			
Current liabilities			
Trade and other payables	23	(391)	(533)
Amounts due to contract customers	16	(140)	(205)
Provisions	24	(88)	(65)
Income tax payable		(28)	(49)
Derivative financial instruments	19	(5)	(3)
Borrowings	21	(1)	(1)
		(653)	(856)
Non-current liabilities			
Trade and other payables	23	(12)	(10)
Amounts due to contract customers	16	(16)	(23)
Provisions	24	(98)	(74)
Income tax payable		(24)	(15)
Deferred income tax liabilities	17	–	(15)
Pension liabilities	25	(427)	(426)
		(577)	(563)
Liabilities held for sale	22	(388)	–
		(1,618)	(1,419)
NET ASSETS			
		605	576
Capital and reserves			
Equity share capital	26	82	81
Treasury shares	26	(1)	(1)
Other reserves	27	2,545	2,515
Retained earnings		(2,041)	(2,039)
Equity holders of parent			
Non-controlling interests		20	20
		605	576

These accounts were approved by the directors on 15 May 2013 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 26) £m	Treasury shares (Note 26) £m	Share premium account (Note 27) £m
2013				
Balance at 1 April 2012		81	(1)	349
Profit for the year		–	–	–
Other comprehensive income/(loss) for the year		–	–	–
Total comprehensive income for the year		–	–	–
Share-based payment expense	28	–	–	–
Issue of shares		1	–	3
Purchase of own shares by Employee Share Trust		–	(1)	–
Distribution of own shares under share-based payment arrangements		–	1	–
Dividends paid to equity shareholders	34	–	–	–
Dividends paid to non-controlling interests		–	–	–
Balance at 31 March 2013		82	(1)	352
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 expense	28	–	–	–
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	34	–	–	–
Dividends paid to non-controlling interests		–	–	–
Disposal of non-controlling interests		–	–	–
Purchase of non-controlling interests		–	–	–
Balance at 31 March 2012		81	(1)	349

Other reserves				Total other reserves £m	Retained earnings £m	Attributable to equity holders of the Parent £m	Non-controlling interests £m	Total equity £m
Capital reserve (Note 27) £m	Special reserve (Note 27) £m	Cash flow hedge reserve (Note 27) £m	Foreign exchange reserve (Note 27) £m					
1,582	495	(8)	97	2,515	(2,039)	556	20	576
–	–	–	–	–	125	125	3	128
–	–	7	20	27	(99)	(72)	(2)	(74)
–	–	7	20	27	26	53	1	54
–	–	–	–	–	10	10	–	10
–	–	–	–	3	–	4	–	4
–	–	–	–	–	–	(1)	–	(1)
–	–	–	–	–	(1)	–	–	–
–	–	–	–	–	(37)	(37)	–	(37)
–	–	–	–	–	–	–	(1)	(1)
1,582	495	(1)	117	2,545	(2,041)	585	20	605
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

Consolidated cash flow statement¹

For the year ended 31 March	Notes	2013 £m	2012 £m
Operating activities			
Operating profit:			
– Continuing operations	4,5	43	60
– Discontinued operations	4,10	125	93
Depreciation of property, plant and equipment	4	34	37
Amortisation of intangible assets	4	31	31
Provision for impairment charged to operating profit	4	13	15
(Profit)/loss on sale of assets and operations	4	(3)	1
Non-cash charge for share-based payment	28	10	4
Decrease in inventories		7	8
Decrease in receivables		22	5
Increase in net amounts due from contract customers		(120)	(30)
Increase/(decrease) in payables and provisions		143	(33)
Difference between pension contributions paid and amounts recognised in operating profit		(70)	(77)
Cash generated from operations		235	114
Income taxes paid		(44)	(34)
Interest paid		(12)	(10)
Facility fees paid		–	(5)
Net cash flows from operating activities		179	65
Investing activities			
Interest received		1	3
Purchase of property, plant and equipment	4	(35)	(38)
Proceeds from sale of property, plant and equipment		5	–
Proceeds from sale of intangible assets		1	–
Expenditure on intangible assets	4	(44)	(51)
Purchase of non-controlling interests		–	(16)
Acquisitions	31	(50)	–
Acquisition costs	31	(1)	–
Net cash acquired on acquisition	31	3	–
Net cash flow arising on disposal of operations	31	(11)	(7)
Cash payments on swap contracts		(1)	(1)
Cash flows from investing activities		(132)	(110)
Financing activities			
Purchase of Invensys plc shares		(1)	(1)
Proceeds from exercise of share options		–	1
Dividends paid to equity holders of the parent		(37)	(33)
Dividends paid to non-controlling interests		(1)	(1)
Cash flows from financing activities		(39)	(34)
Net increase/(decrease) in cash and cash equivalents		8	(79)
Cash and cash equivalents at beginning of year		263	349
Net foreign exchange difference		(2)	(7)
Cash and cash equivalents at end of year²	20,22	269	263
Net cash flows from discontinued operations			
		2013 £m	2012 £m
Operating		110	46
Investing		(40)	(38)
Financing		–	–
Net cash inflow		70	8

¹ Further information on the consolidated cash flow statement is set out in Note 30.

² Analysed between net cash and cash equivalents of continuing operations of £247 million and assets held for sale of £22 million.

Notes to the Financial Statements

1 General information

The Group Financial Statements of Invensys plc for the year ended 31 March 2013 were authorised for issue in accordance with a resolution of the directors on 15 May 2013 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. Invensys Rail has been classified as discontinued following the decision to sell the division in the current year, and the sale completed subsequent to the year end (Note 35). Discontinued operations also include additional costs incurred relating to prior year disposals. Operations presented as discontinued are explained in Note 10.

During the year ended 31 March 2013, Invensys consisted of the following divisions: Invensys Operations Management, Invensys Controls and Invensys Rail. The principal activities of each of the divisions are as follows:

Continuing operations

- 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 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.

Discontinued operations

- Invensys Rail – provided software-based signalling, communication and control systems that enabled the safe and efficient operation of trains in mainline and mass transit networks across the world.

The Group was managed on the above basis during the year. Further detail on the activities of each of the above divisions is given in the Business Review section of this Annual Report and Accounts. The basis on which the Group will be managed going forward is explained in the Our Business at a Glance and Our Business Model sections.

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 2013. 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 amended IFRSs during the year. All have been endorsed for use in the EU.

IFRS 1	Amendments to IFRS 1 – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters
IFRS 7	Amendments to IFRS 7 – Disclosures: Transfers of Assets
IAS 12	Amendments to IAS 12 – Deferred Tax: Recovery of Underlying Assets

Adoption of these standards 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

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.

Notes to the Financial Statements continued

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.

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 (including a distributor or a wholesaler) 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. Revenue is recognised on software sales made via a distributor or systems integrator when there is an agreement in place between Invensys and the distributor or systems integrator, and the distributor or systems integrator has provided evidence of onward sale of the licence to an end user. 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 predetermined 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 experience gains or losses arising on the scheme liabilities and differences from changes in assumptions. The net surplus or deficit on defined benefit pension schemes is reported on the balance sheet within the pension asset or liability.

The value of any defined benefit asset recognised is restricted to the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan. When the Group is committed to making minimum funding payments to a defined benefit plan, and the present value of the agreed funding payments exceeds the liability in respect of the plan as measured under 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 identifiable net assets are assessed and adjustments are made to bring the accounting policies of the business acquired into alignment with those of the Group. 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.

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

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 88.

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
Customer-related intangible assets	6-8 years

Notes to the Financial Statements continued

2 Accounting policies continued

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. 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:

- there is a change in contractual terms, other than a renewal or extension of the arrangement;
- a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
- there is a change in the determination of whether fulfilment is dependent on a specified asset; or
- there is a substantial change to the asset.

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

Inventories

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

Cash and cash equivalents

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

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

Taxation

Income tax on profit or loss

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

Current tax

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

Deferred income tax

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

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

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

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

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

Financial instruments

Derivative financial instruments

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

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

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

- a) Fair value hedges, which hedge the exposure to changes in the fair value of a recognised asset or liability;
- b) Cash flow hedges, which hedge exposure to variability in cash flows that is attributable to either a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or the foreign currency risk of a firm commitment; and
- c) Net investment hedges, which hedge exposure to changes in the value of the Group's net investment in foreign operations due to changes in exchange rates.

Notes to the Financial Statements continued

2 Accounting policies continued

The accounting treatment for these categories is as follows:

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

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

Debt instruments

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

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

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

Financial guarantee contracts

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

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

Derecognition of financial instruments

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

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

Impairment of financial assets

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

Assets carried at amortised cost

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

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

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

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

Share-based payment

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

For equity-settled share options and share awards, 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 (IAS/IFRSs)		Effective date – financial periods beginning on or after*
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 7	Amendments to IFRS 7 – Offsetting Financial Assets and Financial Liabilities	1 January 2013
IFRS 13	Fair Value Measurement	1 January 2013
IAS 19	IAS 19 Employee Benefits (Revised)	1 January 2013
IFRS 10	Consolidated Financial Statements (and subsequent amendments)	1 January 2014
IFRS 11	Joint Arrangements (and subsequent amendments)	1 January 2014
IFRS 12	Disclosures of Interests in Other Entities (and subsequent amendments)	1 January 2014
IAS 27	Separate Financial Statements (2011) (and subsequent amendments)	1 January 2014
IAS 28	Investments in Associates and Joint Ventures (2011)	1 January 2014
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
Various	Improvements to IFRSs 2009-2011	1 January 2013

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 effective dates shown are those set by the International Accounting Standards Board except for those standards and interpretations that have been endorsed for use in the EU with a later effective date. Currently such later effective dates apply to IFRSs 10, 11 and 12; IASs 27 and 28; and their subsequent amendments.

The Group expects to adopt these standards and interpretations in accordance with their effective dates under IFRSs as adopted by the EU.

Notes to the Financial Statements continued

2 Accounting policies continued

The revision of IAS 19 is 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 revision, 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 revision is 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. Had the revised IAS 19 been effective in the current period, there would have been no net impact on 'Other finance charges – IAS 19', however an additional charge to operating profit would have been incurred in respect of administration costs.

Other than the revision of 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, estimates 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 revenue 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 within continuing operations in the year ended 31 March 2013 was £747 million (2012: £652 million), and within discontinued operations £539 million (2012: £581 million). The net amount due from contract customers on projects in progress at 31 March 2013 was £21 million (2012: £56 million including Invensys Rail). Further details of amounts due from and to contract customers are included in Note 16.

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 2013 was £297 million (2012: £289 million including Invensys Rail). 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 12.

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 2013 was £427 million (2012: £426 million including Invensys Rail). 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 2013, the carrying amount of capitalised development costs was £68 million (2012: £155 million including Invensys Rail). Further details including an explanation of impairment losses recognised are given in Note 13.

Provisions and contingent liabilities

The Group currently recognises provisions for a number of liabilities including environmental claims and onerous lease contracts. 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 2013, the estimated amount of liabilities requiring provisions was £186 million (2012: £139 million including Invensys Rail). Further details are given in Note 24. Details of the Group's contingent liabilities are set out in Note 29.

4 Operating segment information

For management purposes, in the year ended 31 March 2013 the Group was organised into divisions based on their products and services and had three reportable segments: Invensys Operations Management, Invensys Rail and Invensys Controls. There have been no changes to the composition of these operating segments during the year; however, Invensys Rail has been classified as a discontinued operation and was sold subsequent to the year end date (Note 35).

Descriptions of the products and services provided by these divisions are set out in Note 1. Operations presented as discontinued are explained in Note 10.

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 95.

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

Segment revenue	Total revenue 2013 £m	Inter-company revenue ¹ 2013 £m	External revenue 2013 £m	Total revenue 2012 £m	Inter-company revenue ¹ 2012 £m	External revenue 2012 £m
Division						
Invensys Operations Management	1,344	9	1,335	1,283	11	1,272
Invensys Controls	458	1	457	493	1	492
Eliminations	(10)	(10)	–	(12)	(12)	–
Continuing operations	1,792	–	1,792	1,764	–	1,764
Invensys Rail	757	–	757	775	–	775
Discontinued operations	757	–	757	775	–	775
Total Group	2,549	–	2,549	2,539	–	2,539

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

Segment profit	Operating profit/(loss) before exceptional items 2013 £m	Operating profit/(loss) before exceptional items 2012 £m	Operating profit/(loss) after exceptional items 2013 £m	Operating profit/(loss) after exceptional items 2012 £m
Division				
Invensys Operations Management	146	96	103	90
Invensys Controls	27	35	5	25
Total segment	173	131	108	115
Corporate	(42)	(38)	(65)	(55)
Continuing operations	131	93	43	60
Invensys Rail	125	116	125	93
Discontinued operations	125	116	125	93
Total Group	256	209	168	153
Reconciliation to profit before taxation:				
Finance costs			(10)	(12)
Finance income			1	3
Other finance charges – IAS 19			(19)	(4)
Profit from discontinued operations			(125)	(93)
Profit before taxation – continuing operations			15	47

Notes to the Financial Statements continued

4 Operating segment information continued

Components of segment profit: depreciation and amortisation	Depreciation 2013 £m	Depreciation 2012 £m	Amortisation 2013 £m	Amortisation 2012 £m
Division				
Invensys Operations Management	15	14	15	14
Invensys Controls	15	17	–	–
Corporate	1	1	–	–
Continuing operations	31	32	15	14
Invensys Rail	3	5	16	17
Discontinued operations	3	5	16	17
Total Group	34	37	31	31

Components of segment profit: other material items	Restructuring 2013 £m	Restructuring 2012 £m	Impairment: PPE/ intangibles 2013 £m	Impairment: PPE/ intangibles 2012 £m	(Loss)/profit on sale of assets and operations 2013 £m	Loss on sale of assets and operations 2012 £m	Other operating exceptional items ² 2013 £m	Other operating exceptional items ³ 2012 £m
Division								
Invensys								
Operations								
Management	(19)	(6)	(11)	–	(1)	–	(12)	–
Invensys Controls	(21)	(6)	(1)	(3)	1	(1)	(1)	–
Corporate	(8)	(6)	–	(2)	3	–	(18)	(9)
Continuing operations	(48)	(18)	(12)	(5)	3	(1)	(31)	(9)
Invensys Rail	–	(13)	(1)	(10)	–	–	1	–
Discontinued operations	–	(13)	(1)	(10)	–	–	1	–
Total Group	(48)	(31)	(13)	(15)	3	(1)	(30)	(9)

1 PPE represents property, plant and equipment.

2 Other exceptional items in 2013 includes £23 million environmental provisions, £14 million surplus property provisions, £10 million Invensys Pension Plan (US) settlement gain and a £3 million pension past service cost.

3 Other exceptional items in 2012 includes £3 million relating to the Invensys Pension Plan (US) settlement loss.

Revenue from external customers	External revenue 2013 £m	External revenue 2012 £m
Geographical analysis by origin¹		
United Kingdom	116	109
Other regions:		
– Rest of Europe	380	397
– United States	659	605
– North America – other	121	112
– South America	133	138
– Asia Pacific	262	276
– Africa and Middle East	121	127
	1,676	1,655
Continuing operations	1,792	1,764
Geographical analysis by destination²		
United Kingdom	110	100
Other regions:		
– Rest of Europe	376	402
– United States	515	489
– North America – other	109	103
– South America	146	153
– Asia Pacific	360	342
– Africa and Middle East	176	175
	1,682	1,664
Continuing operations	1,792	1,764

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.

Segment net assets/(liabilities)	Net assets/ (liabilities) 2013 £m	Net assets/ (liabilities) 2012 £m
Division		
Invensys Operations Management	240	189
Invensys Controls	144	157
Total segment net assets	384	346
Corporate	(156)	(79)
Continuing operations	228	267
Invensys Rail ¹	221	183
Discontinued operations	221	183
Total Group	449	450
Reconciliation to total net assets/(liabilities):		
Intangible assets – goodwill	297	289
Cash and cash equivalents	247	263
Pension liabilities	(427)	(426)
Other net assets held for sale – Invensys Rail	(24)	–
Other (borrowings, current and deferred income tax assets/(liabilities), and derivative financial instruments)	63	–
Total net assets	605	576

¹ The segment net assets of Invensys Rail for 2013 are classified as assets held for sale and liabilities held for sale on the balance sheet. Further information is set out in Note 22.

Components of segment assets: capital expenditure (capex)	Capex: PPE 2013 £m	Capex: PPE 2012 £m	Capex: intangibles – other 2013 £m	Capex: intangibles – other 2012 £m
Division				
Invensys Operations Management	13	18	20	21
Invensys Controls	16	10	–	–
Corporate	–	2	–	–
Continuing operations	29	30	20	21
Invensys Rail	6	8	24	30
Discontinued operations	6	8	24	30
Total Group	35	38	44	51

Non-current assets ¹	Non-current assets 2013 £m	Non-current assets 2012 £m
Geographical analysis by origin²		
United Kingdom	195	229
Other regions:		
– Rest of Europe	57	121
– United States	231	252
– North America – other	33	31
– South America	16	19
– Asia Pacific	42	52
– Africa and Middle East	5	6
	384	481
	579	710

¹ Non-current assets for this purpose consist of property, plant and equipment, intangible assets – goodwill, intangible assets – other and other receivables. In the current period this excludes such assets of Invensys Rail which are classified as assets held for sale. In accordance with IFRS 5, the comparative period has not been restated and therefore includes the assets of Invensys Rail.

² Information is presented based on the location of the assets.

Information about major customers

The Group had no single external customer that accounted for 10% or more of the Group's total external revenue in the years ended 31 March 2013 or 31 March 2012.

Notes to the Financial Statements continued

5 Operating profit and analysis of revenue

	Notes	2013 £m	2012 £m
Continuing operations			
Revenue		1,792	1,764
Cost of sales		(1,174)	(1,192)
Gross profit		618	572
Distribution costs		(9)	(10)
Administrative costs		(403)	(402)
Research and development costs		(75)	(67)
Operating profit before exceptional items		131	93
Restructuring costs	4	(48)	(18)
Other operating exceptional items:			
– Settlement gain/(loss) on pension benefits	25	10	(3)
– Past service cost on pension benefits	25	(3)	–
– Environmental provisions		(23)	(6)
– Surplus property provisions		(14)	–
– Other		(1)	–
Total other operating exceptional items		(31)	(9)
Impairment: property, plant and equipment	14	(3)	(5)
Impairment: intangible assets – other	13	(9)	–
Profit/(loss) on sale of assets and operations	4	3	(1)
Exceptional items		(88)	(33)
Operating profit		43	60

	2013 £m	2012 £m
Continuing operations		
Analysis of revenue		
Sale of goods – products	985	988
Sale of goods – solutions	570	577
Rendering of services	237	199
Revenue	1,792	1,764
Finance income	1	3
Total revenue	1,793	1,767

Operating profit from continuing operations has been arrived at after charging the following:

	Notes	2013 £m	2012 £m
Depreciation of property, plant and equipment	14	31	32
Amortisation of intangible assets – other ¹	13	15	14
Total depreciation and amortisation expense		46	46
Operating lease payments	29	30	30
Employee benefits expense	7	751	693

¹ Of which £4 million (2012: £3 million) is recorded within cost of sales, £9 million (2012: £8 million) in research and development costs, and £2 million (2012: £3 million) in administrative costs.

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

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.

	2013 £m	2012 £m
Audit of the financial statements	1.5	1.5
Local statutory audits for subsidiaries	1.7	1.9
Fees for audit	3.2	3.4
Fees for non-audit services:		
– Audit-related assurance services ¹	0.2	0.3
– Taxation compliance services	1.5	1.3
– Taxation advisory services ²	1.0	0.7
– Other assurance services ²	1.0	–
– Other non-audit services ³	0.2	0.4
Fees for non-audit services	3.9	2.7
Fees for audit and non-audit services	7.1	6.1

¹ 2013: includes £0.2 million (2012: £0.2 million) for the half year review.

² 2013: taxation advisory services and other assurance services include £0.6 million (2012: nil) and £1.0 million (2012: nil) respectively in relation to the disposal of Invensys Rail of £1.3 million and the return of cash to shareholders of £0.3 million.

³ 2013: includes £0.2 million (2012: £0.2 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 (2012: £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:

	2013	2012
Total Group	15,856	15,583
Production	2,081	2,080
Marketing and distribution	1,575	1,578
Finance and administration	1,306	1,393
Research and development	20,818	20,634

The aggregate payroll costs of these people were as follows:

	Notes	2013 £m	2012 £m
Total Group		826	781
Wages and salaries		62	63
Social security costs		39	37
Pension and post-retirement costs	25	10	5
Share-based payment expense	28	57	41
Other payroll costs		994	927

Details of directors' remuneration are contained within the Remuneration Report on pages 57 to 72.

Notes to the Financial Statements continued

8 Finance costs and finance income

	Note	2013 £m	2012 £m
Continuing operations			
Interest payable on bank loans and overdrafts		(1)	(1)
Total interest expense for financial instruments not at fair value through profit and loss		(1)	(1)
Credit facility fees		(6)	(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		(10)	(12)
Bank interest receivable ²		1	3
Finance income		1	3
Net finance costs		(9)	(9)

¹ 2012: 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.

9 Taxation

(i) Analysis of income tax (credit)/charge in the consolidated income statement

Income tax (credit)/charge recognised within the consolidated income statement is analysed as follows:

	Note	2013 £m	2012 £m
UK corporation tax			
– Current income tax charge		–	1
– Adjustments in respect of prior years		(1)	–
		(1)	1
Overseas tax			
– Current income tax charge		31	36
– Adjustments in respect of prior years		(5)	–
		26	36
Total current income tax – continuing operations		25	37
Deferred income tax			
– Current deferred income tax credit		(13)	(24)
– Adjustments in respect of prior years		(1)	(5)
Total deferred income tax – continuing operations		(14)	(29)
Taxation – continuing operations		11	8
Taxation – discontinued operations	10	(21)	25
Total income tax (credit)/charge		(10)	33

Pension costs gave rise to an exceptional tax credit from continuing operations of £1 million in the current year (2012: £8 million exceptional tax credit resulting from restructuring costs and intangible asset impairment).

Total income tax (credit)/charge is analysed as follows:

	Continuing 2013 £m	Discontinued 2013 £m	Total 2013 £m	Continuing 2012 £m	Discontinued 2012 £m	Total 2012 £m
Analysed as:						
– Taxation – UK	(1)	1	–	1	3	4
– Taxation – overseas	12	(22)	(10)	7	22	29
	11	(21)	(10)	8	25	33

(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:

	2013 £m	2012 £m
Current income tax related to components of other comprehensive income		
Current income tax credit on defined benefit schemes	(4)	(14)
	(4)	(14)
Deferred income tax related to components of other comprehensive income		
Deferred income tax charge/(credit) on defined benefit schemes	6	(7)
	6	(7)
Total income tax charge/(credit) related to components of other comprehensive income	2	(21)

(iii) Total tax reconciliation

The total tax credit for the year of £10 million (2012: £33 million charge) is lower than the standard rate of UK corporation tax of 24% (2012: 26%). The key factors are explained below:

	2013 £m	2012 £m
Profit before tax:		
– Continuing operations	15	47
– Discontinued operations	103	85
	118	132
Tax at the UK corporate income tax rate of 24% (2012: 26%)	28	34
Current year losses and other temporary differences not recognised	27	7
Tax effect of expenses that (are)/are not deductible	(1)	3
Tax effect of utilisation of tax losses not previously recognised	(3)	(3)
Recognition of carried forward losses in current year	(25)	(7)
Expected utilisation of tax losses on gain on sale	(48)	–
Differences in effective overseas tax rates	24	9
Adjustments in respect of prior years	(12)	(10)
Total income tax (credit)/charge	(10)	33

(iv) Factors that may affect future tax charges

The Group is subject to several factors which affect the tax charge including the levels and mix of profitability in different jurisdictions and the availability of tax losses.

(v) Franked investment income group litigation order

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

In December 2006 the European Court of Justice issued its guidance to the UK High Court on the compatibility of certain UK tax provisions within EU community law. The test cases returned to the UK High Court for the full hearing in July 2008, with the UK High Court issuing its 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. A hearing took place in February 2012 at the ECJ on the questions referred from the Court of Appeal. The issue of time limits was heard by the Supreme Court in February 2012 and, in May 2012, the Supreme Court decided in favour of the principal test claimant that claims submitted before 8 September 2003 can go back to 1973. However, for claims issued on or after 8 September 2003 (which is relevant for Invensys), only a majority of Supreme Court judges supported the taxpayer's arguments that their right to recover any wrongly paid tax should extend back to 1973. A further reference to the ECJ has therefore been made. It is expected that the overall process may take several years to complete.

Notes to the Financial Statements continued

9 Taxation continued

The ECJ judgement of 13 November 2012 confirms that the UK treatment of EU dividends was discriminatory and produces the same outcome for third country dividends from 1994 in certain circumstances. The judgement also confirms that the claim can cover dividends from all indirect as well as direct EU subsidiaries and also ACT paid by a superior holding company.

The case is now likely to revert to the UK High Court to apply the November 2012 ECJ judgement and the date of the trial is awaited.

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

10 Discontinued operations

On 28 November 2012, the Board announced that it had entered into an agreement with respect to the sale of Invensys Rail to Siemens. This followed a strategic review by the Board of the Group's businesses which resulted in a decision to implement a strategy aimed at refocusing the Group around its industrial software, systems and control equipment business and, accordingly, to dispose of its Invensys Rail business. The disposal would also provide funds to address the Group's UK pension position, enable a capital return to shareholders and provide funds for investment in the retained group. Invensys Rail was classified as a disposal group held for sale at 28 November 2012, at which date the group was available for immediate sale subject to completion of the terms of the sale agreement, and the sale was considered to be highly probable. With effect from that date, no depreciation or amortisation has been charged on the non-current assets of Invensys Rail and those assets have been measured at the lower of their carrying amount and their fair value less costs to sell. The sale of Invensys Rail was completed subsequent to the year end (Note 35), and the group is presented as a discontinued operation and disposal group held for sale (Note 22) in the Financial Statements.

Discontinued operations comprise Invensys Rail, and additional costs incurred in respect of disposals in prior years.

Profit for the year from discontinued operations

	2013 £m	2012 £m
Revenue	757	775
Operating expenses before exceptional items	(632)	(659)
Operating profit before exceptional items	125	116
Exceptional items:		
– Restructuring costs	–	(13)
– Impairment: intangible assets – other	(1)	(10)
– Other operating exceptional items	1	–
Operating profit	125	93
Finance income	–	1
Finance costs	(5)	(2)
Other finance credit – IAS 19	1	1
Loss on assets divested	(18)	(8)
Profit before taxation – discontinued operations	103	85
Current income tax:		
– Current income tax related to pre-tax profit	(15)	(21)
– Current income tax: adjustments in respect of prior years	5	5
– Deferred income tax charge	(17)	(9)
– Deferred income tax credit - expected utilisation of tax losses on gain on sale	48	–
Profit after taxation – discontinued operations	124	60

11 Earnings per share

	2013	2012
Earnings per share (pence)		
Continuing operations		
Basic	0.1p	4.7p
Diluted	0.1p	4.7p
Before exceptional Group reorganisation costs; exceptional pension settlement gain/loss; exceptional pension past service cost; and exceptional finance costs		
Basic	8.5p	5.3p
Diluted	8.4p	5.3p
Discontinued operations		
Basic	15.3p	7.4p
Diluted	15.2p	7.3p
Total Group		
Basic	15.4p	12.1p
Diluted	15.3p	12.0p
Weighted average number of shares (million)		
Basic	814	812
Effect of dilution – share options	5	2
Diluted	819	814
Earnings (£m)		
Continuing operations		
Basic	1	38
Before exceptional Group reorganisation costs; exceptional pension settlement gain/loss; exceptional pension past service cost; and exceptional finance costs		
– Exceptional pension settlement (gain)/loss	(10)	3
– Exceptional pension past service cost	3	–
– Exceptional Group reorganisation costs	75	–
– Exceptional finance costs	–	2
Underlying	69	43
Discontinued operations		
Basic	124	60
Total Group		
Basic	125	98

The basic earnings per share for the year has been calculated using 814 million shares (2012: 812 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 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.

Notes to the Financial Statements continued

12 Intangible assets – goodwill

	£m
Cost	
At 1 April 2011	446
Exchange adjustments	(3)
At 31 March 2012	443
Additions	15
Exchange adjustments	10
Classified as held for sale	(16)
At 31 March 2013	452
Accumulated impairment losses	
At 1 April 2011	155
Exchange adjustments	(1)
At 31 March 2012	154
Exchange adjustments	1
At 31 March 2013	155
Net book value	
At 31 March 2012	289
At 31 March 2013	297

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

	2013 £m	2012 £m
– IMServ	33	33
– Remaining Invensys Operations Management	263	240
Invensys Operations Management	296	273
Invensys Controls	1	1
Continuing operations	297	274
Invensys Rail	16	15
Discontinued operations	16	15
	313	289

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.

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 2013 %	Growth rate ¹ 2013 %	Discount rate 2012 %	Growth rate ¹ 2012 %
Invensys Operations Management				
– IMServ	10.7	2.3	11.1	2.4
– Remaining Invensys Operations Management	11.8	3.1	12.2	3.3
Invensys Controls	11.9	2.8	12.3	3.0

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 (2012: £nil).

Sensitivity to changes 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 (£m)		2.3
Key assumption	Terminal growth rate	Discount rate
Value of key assumption	2.3%	10.7%
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)	0.6%	0.6%

The assumptions for the terminal growth rate would change if the long term GDP for market growth differs 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.

Notes to the Financial Statements continued

13 Intangible assets – other

	Note	Development costs £m	Computer software costs £m	Other ¹ £m	Total £m
Cost					
At 1 April 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
Additions		33	4	–	37
Acquisition of subsidiaries	31	23	–	3	26
Disposals		–	(2)	–	(2)
Exchange adjustments		3	2	–	5
Classified as held for sale		(230)	(11)	–	(241)
At 31 March 2013		134	44	4	182
Accumulated amortisation					
At 1 April 2011		116	34	1	151
Charge for the year		26	5	–	31
Impairment losses for the year ²		10	–	–	10
Disposals		(1)	(3)	–	(4)
Exchange adjustments		(1)	2	–	1
At 31 March 2012		150	38	1	189
Charge for the year		28	3	–	31
Impairment losses for the year ²		9	1	–	10
Disposals		–	(2)	–	(2)
Exchange adjustments		1	2	–	3
Classified as held for sale		(122)	(5)	–	(127)
At 31 March 2013		66	37	1	104
Net book value					
At 31 March 2012		155	13	–	168
At 31 March 2013		68	7	3	78

¹ Other includes customer relationships, customer contracts, patents, trademarks and licences.

² Of impairment losses of £10 million in 2013 (2012: £10 million) £9 million relates to the write-off of development projects as part of the Group reorganisation relating to assets held by Invensys Operations Management (2012: £nil) and £1 million relates to the write-off of computer software costs in Invensys Rail prior to classification as held for sale (2012: £10 million of development costs in Invensys Rail).

14 Property, plant and equipment

	Note	Land and buildings £m	Plant and equipment £m	Total £m
Cost				
At 1 April 2011		198	630	828
Additions		14	24	38
Disposals		(3)	(61)	(64)
Exchange adjustments		(3)	(16)	(19)
At 31 March 2012		206	577	783
Additions		3	30	33
Acquisition of subsidiaries	31	3	-	3
Disposals		(3)	(19)	(22)
Exchange adjustments		4	12	16
Classified as held for sale		(25)	(57)	(82)
At 31 March 2013		188	543	731
Accumulated depreciation and impairment losses				
At 1 April 2011		91	500	591
Charge for the year		8	29	37
Provision for impairment		2	3	5
Disposals		(3)	(60)	(63)
Exchange adjustments		(1)	(13)	(14)
At 31 March 2012		97	459	556
Charge for the year		5	29	34
Provision for impairment		1	2	3
Disposals		(2)	(18)	(20)
Exchange adjustments		3	10	13
Classified as held for sale		(8)	(41)	(49)
At 31 March 2013		96	441	537
Net book value				
At 31 March 2012		109	118	227
At 31 March 2013		92	102	194

No amounts were included within property, plant and equipment in respect of assets held under finance leases in either year.

There was £nil million (2012: £1 million) depreciation charged in the year in respect of assets held under finance leases.

Included in plant and equipment at 31 March 2013 was an amount of £9 million (2012: £12 million) relating to expenditure for plant and equipment in the course of construction.

Impairment losses of £3 million in the year ended 31 March 2013 relate to the write-down of buildings and equipment as part of the Group reorganisation, £2 million in relation to Invensys Operations Management and £1 million in relation to Invensys Controls (2012: £5 million related to the write-down of buildings and equipment associated with restructuring projects undertaken in Invensys Controls and £2 million for the write-down of land and buildings in Corporate). 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.

Notes to the Financial Statements continued

15 Trade and other receivables

	Note	2013 £m	2012 £m
Non-current			
Other receivables		10	26
		10	26
Current			
Trade receivables		291	398
Prepayments and accrued income		28	32
Other receivables		70	70
		389	500
Total trade and other receivables		399	526
Classification to financial assets			
Financial assets: loans and receivables	19(i)	341	463
Non-financial assets		58	63
		399	526

Trade receivables are recorded net of an allowance for estimated irrecoverable amounts from the sale of goods. The average credit period taken on sale of goods is 49 days.

The allowance that has been made for estimated irrecoverable amounts from the sale of goods is £9 million (2012: £11 million). This allowance has been determined by reference to past default experience and future recoverability. The net reversal in the year of previously recognised impairment losses as a result of irrecoverable receivables balances is £1 million (2012: £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:

	2013 £m	2012 £m
At 1 April	11	12
Charged in year	3	2
Released in year	(4)	(2)
Utilised in year	(1)	(1)
At 31 March	9	11

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

	2013 £m	2012 £m
Neither past due nor impaired	230	317
Past due but not impaired – past due by:		
– 1 to 30 days	33	34
– 31 to 60 days	11	19
– 61 to 90 days	7	5
– 91 to 120 days	3	3
– 121 days and over	7	20
	291	398

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 19.

The directors consider that the carrying amount of current and non-current trade and other receivables approximates to their fair value.

16 Amounts due from/(to) contract customers

	2013 £m	2012 £m
Amounts due from contract customers:		
Amounts expected to be recovered within 12 months	172	273
Amounts expected to be recovered after more than 12 months	5	11
	177	284
Amounts due to contract customers:		
Amounts expected to be settled within 12 months	(140)	(205)
Amounts expected to be settled after more than 12 months	(16)	(23)
	(156)	(228)
Net amounts due from contract customers	21	56
Analysed as:		
Contract costs incurred plus recognised profits less recognised losses to date	835	3,111
Less: progress billings	(814)	(3,055)
Contracts in progress at balance sheet date	21	56
Revenue from construction contracts	747	1,233

At 31 March 2013, retentions held by customers for contract work amounted to £20 million (2012: £37 million) and advances received from customers for contract work amounted to £nil million (2012: £8 million).

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

17 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 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
(Charge)/credit to income statement	(5)	45	-	5	45
Charge to other comprehensive income	-	-	(6)	-	(6)
Classified as held for sale	24	(5)	(1)	(6)	12
Exchange differences	(1)	3	1	-	3
At 31 March 2013	(15)	104	16	4	109

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:

	2013 £m	2012 £m
Deferred income tax assets	109	70
Deferred income tax liabilities	-	(15)
	109	55

Notes to the Financial Statements continued

17 Deferred income tax assets and liabilities continued

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 £50 million (2012: £34 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 2013, 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 £8,120 million (2012: £8,196 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	Losses expiring within four years £m
Income tax losses			
Americas	255	89	–
Europe	901	227	3
Asia Pacific	49	17	27
	1,205	333	30
Capital losses¹	6,213	1,500	12
Pension, other retirement obligations and other deductible temporary differences	702	209	–
	8,120	2,042	42

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 23% from 1 April 2013. Deferred tax not recognised has therefore been calculated using the standard rate of corporation tax of 23% (2012: 24%). Further reductions to the standard rate are proposed to reduce the rate to 20% with effect from 1 April 2015. As this legislation was not substantively enacted by the balance sheet date, it has not been reflected in these Financial Statements. The impact of the rate change to 20% would reduce the total unrecognised deferred income tax assets by £195 million.

18 Inventories

	2013 £m	2012 £m
Raw materials and consumables	64	85
Work in progress	20	27
Finished goods	27	33
	111	145

Cost of inventories recognised as an expense

	2013 £m	2012 £m
Cost of inventories recognised as an expense	681	939
Including:		
– Write down of inventories to net realisable value	2	1
– Reversals of impairments in inventories	(1)	–

19 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 2013. This is not expected to change as a result of the disposal of Invensys Rail.

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 are not in place, 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 continuing Group's financial liabilities at 31 March 2013 and total Group at 31 March 2012 based on contractual undiscounted payments:

31 March 2013	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:							
– Short-term bank and other loans	1	–	–	–	–	–	1
– Provisions	8	7	1	1	1	2	20
– Trade and other payables	375	2	6	–	–	2	385
Unrecognised liabilities:							
– Operating lease commitments	43	27	20	15	11	46	162
	427	36	27	16	12	50	568
Derivative financial liabilities:							
– Foreign exchange swaps and forwards	5	–	–	–	–	–	5
Total financial liabilities	432	36	27	16	12	50	573

Notes to the Financial Statements continued

19 Financial risk management and financial instruments continued

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

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 2013 and 31 March 2012, the Group had no significant borrowings.

The interest rate profiles of the Group's cash and cash equivalents and short and long-term borrowings are set out in Notes 20 and 21 respectively. All other financial assets and liabilities of the Group are non-interest bearing and a statement has been made to that effect in the relevant balance sheet notes.

Interest rate risk sensitivity analysis

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on the three main trading currencies of the Group, 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 2013 and 31 March 2012.

	Increase/ (decrease)	Effect on profit before tax: increase/ (decrease) 2013 £m	Effect on profit before tax: increase/ (decrease) 2012 £m
Sterling	1%	0.4	0.5
Euro	1%	0.3	0.5
US dollar	1%	0.4	0.3
Sterling	(1%)	(0.4)	(0.5)
Euro	(1%)	(0.3)	(0.5)
US dollar	(1%)	(0.4)	(0.3)

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 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. If it is likely that the bid will be successful, and the resulting foreign currency exposure would be significant, then the currency risk will be hedged.

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.

The Group's exposure to foreign currency risk is as follows:

As at 31 March	US dollar 2013 £m	Euro 2013 £m	Other (excl Sterling) 2013 £m	US dollar 2012 £m	Euro 2012 £m	Other (excl Sterling) 2012 £m
Net assets of non-Sterling functional currency entities	360	121	214	261	134	212
Net unhedged monetary assets not held in entities' functional currencies	138	26	15	44	21	22
Gross exposure	498	147	229	305	155	234

The significant exchange rates that applied during the year are set out in Note 36.

Currency risk sensitivity analysis

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar and Euro exchange rate, with all other variables held constant, of:

- the Group's profit before tax due to changes in the sterling value of financial instruments not in hedging relationships (assuming year end levels of such items are held constant); and
- the Group's equity due to changes in the sterling value of financial instruments in hedging relationships.

	Strengthening/ weakening US dollar and euro rate	Effect on profit before tax: increase/ (decrease) 2013 £m	Effect on equity: increase/ (decrease) 2013 £m	Effect on profit before tax: increase/ (decrease) 2012 £m	Effect on equity: increase/ (decrease) 2012 £m
Euro	+5%	1	6	1	7
US dollar	+5%	7	19	2	14
Euro	-5%	(1)	(6)	(1)	(6)
US dollar	-5%	(7)	(17)	(2)	(12)

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 19(i) on page 112). Credit risks arising from acting as guarantor are disclosed in Note 29.

It should be noted that the Group has exposure of approximately £80 million with one major customer spread over several contracts.

Details of collateral held as security and other credit enhancements in respect of receivables are given in Note 15.

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; and
- interest cover and other financial ratios (principally the ratio of EBITDA to total borrowings and net finance costs) are maintained at appropriate levels, and compliance with covenant arrangements is tested semi-annually.

Funding is arranged centrally and managed by the Treasury department. The Treasury department can make use of a number of approved funding instruments, including bilateral bank facilities, syndicated bank facilities, public bonds or loan notes, private placements and commercial paper programmes. New long-term funding requires approval under the Group's Board Delegated Authority Levels, with facilities in excess of £100 million requiring Board approval.

Notes to the Financial Statements continued

19 Financial risk management and financial instruments continued

The main credit facility in place at 31 March 2013 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 regularly undertaken to review financing requirements and the availability of funding to meet these. In considering these, the Board takes into account the cost of any financing 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 2013 and 31 March 2012.

The Group's capital structure is as follows:

As at 31 March	Notes	2013 £m	2012 £m
Capital employed		337	314
Cash and cash equivalents	20	247	263
Cash and cash equivalents classified as assets held for sale	22	22	–
Borrowings	21	(1)	(1)
Net cash		268	262
Total capital (equals total equity)		605	576
Comprising:			
– Equity holders of parent		585	556
– Non-controlling interests		20	20
		605	576

Net cash was £268 million (2012: £262 million), with no amounts held on deposit with a maturity of more than three months (2012: £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 2013 £m	Fair value 2013 £m	Book value 2012 £m	Fair value 2012 £m
Financial assets					
Loans and receivables: trade and other receivables	15	341	341	463	463
Cash and cash equivalents	20	247	247	263	263
Derivative financial instruments:					
– Foreign exchange swaps and forwards	19(ii)	1	1	3	3
		589	589	729	729
Financial liabilities					
Financial liabilities at amortised cost:					
– Borrowings	21	(1)	(1)	–	–
– Finance leases	29	–	–	(1)	(1)
– Provisions	24	(20)	(20)	(16)	(16)
– Trade and other payables	23	(385)	(385)	(506)	(506)
Derivative financial instruments:					
– Foreign exchange swaps and forwards	19(ii)	(5)	(5)	(3)	(3)
		(411)	(411)	(526)	(526)

The fair values 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; and
- 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 2013 and 31 March 2012, the Group had no arrangements in place to guarantee borrowings by third parties.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

As at 31 March 2013:	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets at fair value				
Derivative financial instruments:				
– Foreign exchange swaps and forwards	–	1	–	1
	–	1	–	1
Financial liabilities at fair value				
Derivative financial instruments:				
– Foreign exchange swaps and forwards	–	(5)	–	(5)
	–	(5)	–	(5)
As 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)

During the years ended 31 March 2013 and 31 March 2012, 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.

The fair value of derivative financial instruments from continuing operations (foreign exchange swaps and forwards) is as follows:

	Fair value 2013 £m	Fair value 2012 £m
Derivative assets	1	3
Derivative liabilities	(5)	(3)
	(4)	–

The notional principals and fair values of derivatives from discontinued operations are not significant to the Group.

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 notional principal of such derivatives from continuing operations (which typically have a term of less than one year), in the year ended 31 March 2013 was £115 million (2012: £256 million).

These instruments are designated and effective as cash flow hedges. £1 million relating to hedged cash flows that have not yet impacted the income statement have been deferred and recognised in equity at 31 March 2013 (2012: £nil). £nil (2012: £nil) has been transferred to the income statement in respect of hedge relationships where the underlying sales or purchases have been recognised during the year ended 31 March 2013.

As a result of the sale of Invensys Rail, the underlying forecast transactions which were previously hedged are no longer expected to occur. Therefore £8 million has been transferred to the income statement during the year ended 31 March 2013 in respect of discontinued cash flow hedges (2012: £nil). This amount is included within profit from discontinued operations.

Ineffectiveness recognised in the income statement from continuing operations

No amounts were recognised in the income statement relating to the ineffectiveness of cash flow hedges (2012: £nil).

Notes to the Financial Statements continued

19 Financial risk management and financial instruments continued

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 £3 million (2012: £nil).

Changes in the fair value of these derivatives resulted in a loss of £3 million in the year ended 31 March 2013 (2012: £nil). These are taken directly to the income statement.

The currency assets and liability positions resulting from entering into these derivatives at 31 March were:

	Assets 2013 £m	Liabilities 2013 £m	Net assets/ (liabilities) 2013 £m	Assets 2012 £m	Liabilities 2012 £m	Net assets/ (liabilities) 2012 £m
Sterling	42	(115)	(73)	3	(84)	(81)
Euro	21	-	21	23	-	23
US dollar	26	-	26	35	-	35
Japanese yen	15	-	15	12	-	12
Other	52	(44)	8	12	(3)	9
	156	(159)	(3)	85	(87)	(2)

20 Cash and cash equivalents

	2013 £m	2012 £m
Cash at banks and in hand	148	154
Short-term deposits	99	109
Cash and cash equivalents	247	263

Cash and cash equivalents attract interest based on relevant national LIBID equivalents. Short-term deposits have an average maturity of 6 days (2012: 15 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 19.

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 realised reserves. At 31 March 2013, restricted cash and cash equivalents held in such territories totalled £51 million (2012: £58 million).

Cash and cash equivalents include £10 million (2012: £12 million) of collateral held in the ordinary course of business to provide security for local bonding facilities. £22 million cash and cash equivalents is classified as held for sale in respect of discontinued operations of which £12 million is held as collateral (2012: £17 million).

21 Borrowings

(i) Bank and other loans falling due within and after more than one year

	2013 £m	2012 £m
On demand or within one year	1	1

Borrowings of £1 million (2012: £1 million) are secured by charges over the assets to which they relate. At 31 March 2013, £nil of such loans were classified as non-current liabilities (2012: £nil).

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

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

Committed bank, other loans and borrowings

Notes	Maturity	Facility 2013 £m	Interest rate	Borrowings 2013 £m	Borrowings 2012 £m
Revolving credit facility	1,2,3,4	March 2017	250	LIBOR + 1.25%	-

1 Interest is currently charged at LIBOR plus 1.25% based on balance sheet leverage.

2 Utilisation fees are charged based on 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 is 0.005:1).

4 Interest is currently charged on the undrawn portion at a rate of 0.5% based on balance sheet leverage.

Committed bond and guarantee facilities

	Notes	Maturity	Facility 2013 £m	Fees	Drawings 2013 £m	Drawings 2012 £m
Committed multi-currency bonding and guarantee facility	1,2,3	March 2017	350	1.25%	205	253

¹ 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 is 0.005:1).

² Interest is currently charged on the undrawn portion at a rate of 0.5% based on balance sheet leverage.

³ Fees are currently charged at 1.25% based on balance sheet leverage.

Of the total Group drawings, £55 million relates to discontinued operations (2012: £48 million).

Uncommitted bond and guarantee facilities

In addition, at 31 March 2013, bonds and guarantees totalling £47 million were held in continuing operations (2012: £59 million) issued under uncommitted facilities. Of these, £10 million (2012: £12 million) are supported by cash collateral and a further £6 million (2012: £7 million) are supported by guarantees issued under the Group's committed multi-currency bonding and guarantee facility.

In relation to discontinued operations at 31 March 2013, £266 million (2012: £168 million) was issued under uncommitted facilities. Of these £12 million (2012: £17 million) are supported by cash collateral and a further £nil (2012: £7 million) are supported by guarantees issued under the Group's committed multi-currency bonding and guarantee facility.

22 Assets held for sale

Assets and liabilities held for sale at 31 March 2013 consisted of the assets and liabilities of Invensys Rail and the Group's surplus freehold properties (2012: surplus freehold properties). Invensys Rail has been classified as a discontinued operation and disposal group held for sale, as set out in Note 10. Surplus freehold properties are properties that are vacant, no longer used for operational purposes and are being actively marketed for sale. They 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:

	2013 £m	2012 £m
Non-current assets		
Intangible assets – goodwill	16	–
Intangible assets – other	125	–
Property, plant and equipment	27	–
Trade and other receivables	15	–
Deferred income tax assets	3	–
Current assets		
Inventories	34	–
Trade and other receivables	114	–
Amounts due from contract customers	229	–
Cash and cash equivalents	22	–
Surplus property portfolio	14	10
Assets classified as held for sale	599	10
Current liabilities		
Trade and other payables	(247)	–
Amounts due to contract customers	(71)	–
Provisions	(2)	–
Non-current liabilities		
Trade and other payables	(2)	–
Provisions	(1)	–
Deferred income tax liabilities	(15)	–
Pension liability	(50)	–
Liabilities classified as held for sale	(388)	–
Net assets classified as held for sale	211	10

Notes to the Financial Statements continued

23 Trade and other payables

	Note	2013 £m	2012 £m
Non-current			
Other payables		12	10
		12	10
Current			
Trade payables		144	274
Accruals and deferred income		174	166
Interest payable		2	2
Other payables		71	91
		391	533
Total trade and other payables		403	543
Classification to financial liabilities			
Financial liabilities at amortised cost	19(i)	385	506
Non-financial liabilities		18	37
		403	543

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 19.

The directors consider that the carrying amount of both current and non-current trade and other payables approximates to their fair value.

24 Provisions

	Warranties £m	Restructuring £m	Environmental £m	Onerous contracts £m	Other £m	Total £m
At 1 April 2012	13	17	45	16	48	139
Charged in year	7	48	28	11	19	113
Released in year	(2)	(2)	(3)	(3)	(9)	(19)
Utilised in year	(6)	(20)	(5)	(4)	(11)	(46)
Unwind of discount of provisions	-	-	1	-	-	1
Exchange adjustments	1	-	2	-	-	3
Classified as held for sale	(2)	(2)	-	-	(1)	(5)
At 31 March 2013	11	41	68	20	46	186

	Note	2013 £m	2012 £m
Analysed as:			
Current liabilities		88	65
Non-current liabilities		98	74
		186	139
Classification to financial liabilities			
Financial liabilities at amortised cost	19(i)	20	16
Non-financial liabilities		166	123
		186	139

Warranties are provided for in the normal course of business based on an assessment of future claims with reference to past claims. Such costs are generally incurred over the product life cycle. The actual amount of costs that will be incurred will depend upon the level and nature of future claims.

Restructuring provisions cover committed costs, the majority of which are expected to be incurred within one year of the balance sheet date.

Provisions for environmental remediation are made when a clean-up is probable and the amount can be determined reliably. This generally coincides with a commitment to a formal plan or, if earlier, on divestment or closure of inactive sites. These costs are expected to be incurred over the next 30 years.

Provisions for onerous contracts relate to lease rentals in respect of vacant property and the costs of other onerous contracts. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The provisions represent the best estimate of the unavoidable costs remaining under the current contractual terms of the contracts. These liabilities are expected to crystallise largely within the next 15 years.

Other provisions principally relate to legal claims, claims under workers' compensation or similar employee disability benefit schemes and other miscellaneous obligations. These liabilities are expected to crystallise largely within the next 10 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.

Notes to the Financial Statements continued

25 Pensions and post-retirement benefits

(i) Defined contribution schemes

The Group operates 31 defined contribution schemes. Pension costs in respect of defined contribution schemes represented contributions payable in the year and amounted to £19 million (2012: £19 million). At 31 March 2013, there were £nil (2012: £nil) of outstanding contributions included in payables.

(ii) Defined benefit schemes – general

The Group operates 50 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 who have defined benefits is the Invensys Pension Scheme (UK). 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. A further full actuarial valuation was carried out with a valuation date of 31 October 2012 as part of the requirements for the disposal of Invensys Rail. This did not impact the current year funding plan. More detail on future funding is provided in Note 25(x). The assumptions that had the most effect on the results of the March 2011 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 2013 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 2013 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	4.34	3.98
Rate of increase to pensions in payment ¹	3.60	n/a	2.37	2.59
Discount rate for scheme liabilities	4.20	4.00	4.03	3.54
Inflation rate ²	3.50	n/a	3.17	2.54

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), 2.50% for the Other Funded scheme and 2.50% for the Other Unfunded scheme.

As at 31 March 2012 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	4.75	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.

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

Invensys Pension Scheme (UK)

Standard SAPS actuarial mortality tables S1PA were applied. 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	23.4
Retiring in 20 years at age 65:	Male	23.4
	Female	24.9

Invensys Pension Plan (US)

The mortality table adopted was the RP 2000 Table for combined employee/annuitants, projected to 2020 using projection scale AA.

Sensitivities

Invensys Pension Scheme (UK) and Invensys Pension Plan (US)

The two largest schemes within the Group are the Invensys Pension Scheme (UK) (representing 76% of gross liabilities of all defined benefit schemes) and the Invensys Pension Plan (US) (17%). 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))	(4,628)	4,478	(150)	(1,033)	936	(97)
A 0.1% increase in the assumed inflation rate would have the following effect ² :						
(Increase in defined benefit obligation)/increase in scheme assets	(57)	29	(28)	-	1	1
A 0.1% decrease in the assumed discount rate would have the following effect ³ :						
(Increase in defined benefit obligation)/increase in scheme assets	(67)	49	(18)	(11)	8	(3)
A one-year increase to the pensioners' lives would have the following effect:						
Increase in defined benefit obligation	(233)	-	(233)	(40)	-	(40)
Applying an additional 0.25% underpin to the improvement in mortality would have the following effect:						
Increase in defined benefit obligation	(64)	-	(64)	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 results 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.

Notes to the Financial Statements continued

25 Pensions and post-retirement benefits continued

(iv) Defined benefit schemes – income and expenses

The amounts that have been recognised in the consolidated income statement and consolidated statement of comprehensive income for the year ended 31 March 2013 are set out below:

	Funded schemes			Unfunded schemes	Total £m
	Invensys Pension Scheme (UK) £m	Invensys Pension Plan (US) £m	Other £m	£m	
Analysis of amounts charged to the consolidated income statement:					
Current service cost	(6)	–	–	(3)	(9)
Past service cost	–	–	(3)	–	(3)
Settlements	–	10	–	–	10
Total (charge)/credit to operating profit – continuing operations	(6)	10	(3)	(3)	(2)
Current service cost – discontinued	(4)	–	(4)	–	(8)
Total charge to discontinued operations	(4)	–	(4)	–	(8)
Expected return on plan assets	178	51	13	–	242
Interest on plan liabilities	(198)	(44)	(13)	(5)	(260)
Other finance (charge)/credit – IAS 19	(20)	7	–	(5)	(18)
Analysed as:					
(Charge)/credit to continuing operations	(20)	7	(1)	(5)	(19)
Credit to discontinued operations	–	–	1	–	1
Total Group	(20)	7	–	(5)	(18)
Analysis of amounts recognised in the consolidated statement of comprehensive income:					
Actual return less expected return on scheme assets	261	43	5	–	309
Experience (losses)/gains arising on the scheme liabilities	(33)	6	(4)	–	(31)
Changes in assumptions underlying the present value of the plan liabilities	(304)	(71)	(19)	(11)	(405)
Actuarial loss	(76)	(22)	(18)	(11)	(127)
Movement in irrecoverable element of potential future pension surplus (Note 25 (vii))	30	–	–	–	30

The amounts that were 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	Total £m
	Invensys Pension Scheme (UK) £m	Invensys Pension Plan (US) £m	Other £m	£m	
Analysis of amounts charged to the consolidated income statement:					
Current service cost – continuing operations	(4)	–	(1)	(3)	(8)
Settlements	–	(3)	–	–	(3)
Total charge to operating profit – continuing operations	(4)	(3)	(1)	(3)	(11)
Current service cost – discontinued	(5)	–	(5)	–	(10)
Total charge to discontinued operations	(5)	–	(5)	–	(10)
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)
Analysed as:					
Credit/(charge) to continuing operations	2	1	(2)	(5)	(4)
Credit to discontinued operations	–	–	1	–	1
Total Group	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					
	(4)	–	–	–	(4)
The amounts (charged)/credited to operating profit were (charged)/credited to the following lines in the consolidated income statement:					
				2013 £m	2012 £m
Cost of sales				(4)	(4)
Administrative costs				(5)	(4)
Other exceptional items				7	(3)
Total net credit to operating profit – continuing operations				(2)	(11)

Notes to the Financial Statements continued

25 Pensions and post-retirement benefits continued

(v) Defined benefit schemes – changes in present value of defined benefit obligations and fair value of plan assets

Changes in the present value of the defined benefit obligation for the year ended 31 March 2013 were as follows:

	Funded schemes			Unfunded schemes	Total £m
	Invensys Pension Scheme (UK) £m	Invensys Pension Plan (US) ¹ £m	Other £m	£m	
Opening present value of defined benefit obligation	(4,326)	(1,070)	(274)	(131)	(5,801)
Current service cost	(10)	–	(4)	(3)	(17)
Past service cost	–	–	(3)	–	(3)
Contributions by employees	–	–	(1)	–	(1)
Benefit payments	243	66	12	10	331
Interest on plan liabilities	(198)	(44)	(13)	(5)	(260)
Actuarial losses	(337)	(65)	(23)	(11)	(436)
Settlements	–	133	3	–	136
Exchange adjustments	–	(53)	(2)	(1)	(56)
Closing present value of defined benefit obligation	(4,628)	(1,033)	(305)	(141)	(6,107)

Changes in the fair value of plan assets for the year ended 31 March 2013 were as follows:

	Funded schemes			Total £m
	Invensys Pension Scheme (UK) £m	Invensys Pension Plan (US) ¹ £m	Other £m	
Opening fair value of plan assets	4,233	972	204	5,409
Expected return on plan assets	178	51	13	242
Contributions by employer	49	10	11	70
Contributions by employees	–	–	1	1
Benefit payments	(243)	(66)	(12)	(321)
Actuarial gains	261	43	5	309
Settlements	–	(123)	(3)	(126)
Exchange adjustments	–	49	1	50
Closing fair value of plan assets	4,478	936	220	5,634
Actual return on plan assets	439	94	18	551

¹ During the year, a settlement was made with a number of deferred plan members of the Invensys Pension Plan (US). A settlement to extinguish liabilities of £133 million has been made, resulting in an exceptional settlement gain of £10 million.

Changes in the present value of the defined benefit obligation for the year ended 31 March 2012 were as follows:

	Funded schemes			Unfunded schemes	Total £m
	Invensys Pension Scheme (UK) £m	Invensys Pension Plan (US) £m	Other £m	£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			Total £m
	Invensys Pension Scheme (UK) £m	Invensys Pension Plan (US) £m	Other £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

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

Reconciliation of assets and liabilities recognised in the balance sheet as at 31 March 2013:

	Funded schemes			Unfunded schemes	Total £m
	Invensys Pension Scheme (UK) £m	Invensys Pension Plan (US) £m	Other £m	£m	
Present value of defined benefit obligation	(4,628)	(1,033)	(305)	(141)	(6,107)
Fair value of plan assets	4,478	936	220	–	5,634
Deficit in the plan	(150)	(97)	(85)	(141)	(473)
Irrecoverable element of potential future pension surplus (Note 25 (vii))	(4)	–	–	–	(4)
Net liability	(154)	(97)	(85)	(141)	(477)
The net liability is presented on the balance sheet as follows:					
Non-current pension liability	(154)	(97)	(35)	(141)	(427)
Liabilities held for sale	–	–	(50)	–	(50)
Net liability	(154)	(97)	(85)	(141)	(477)

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

	Funded schemes			Unfunded schemes	Total £m
	Invensys Pension Scheme (UK) £m	Invensys Pension Plan (US) £m	Other £m	£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)

(vii) Impact of IFRIC 14

During the year, the Group was 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 exceeded the liability in respect of the scheme as measured under IFRSs, and would therefore, when paid, have given rise to a surplus as measured under IFRSs, a provision was 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 2013, the present value of the agreed funding payments exceeded the liability of the scheme under IFRSs, and consequently the irrecoverable element of the pension surplus is £4 million (2012: £34 million). The future funding requirements of the Invensys Pension Scheme (UK) are disclosed further in Note 25(x).

As at 31 March	2013 £m	2012 £m
Deficit in the scheme	(150)	(93)
Future minimum funding requirements	161	190
Potential future pension surplus	11	97
Irrecoverable element of potential future pension surplus	(4)	(34)
Recoverable element of potential future pension surplus	7	63
Movement in irrecoverable element of potential future pension surplus	30	(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.

Notes to the Financial Statements continued

25 Pensions and post-retirement benefits continued

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 £2.2 billion as at 31 October 2012, the date of the last actuarial valuation prepared as part of the requirements for the disposal of Invensys Rail.

(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 2013 were:

	Invensys Pension Scheme (UK)		Invensys Pension Plan (US)		Other		Total
	Expected long-term rate of return ¹ %	Market value £m	Expected long-term rate of return ¹ %	Market value ² £m	Expected long-term rate of return ¹ %	Market value £m	Market value £m
Equities	7.0	42	7.1	296	7.0	137	475
Bonds	3.3	3,741	5.5	542	4.1	62	4,345
Other	2.7	695	4.6	98	5.1	21	814
Fair value of plan assets		4,478		936		220	5,634

¹ Expected long-term rate of return is shown for completeness, but will not be used as a basis for developing the 2013/14 income statement charge due to changes in the revised version of IAS 19 which will apply in that period.

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 ² £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

² The change in mix of plan assets in the Invensys Pension Plan (US) results from an improved allocation of assets previously included within 'other' and does not represent a change to the underlying investment strategy of the plan.

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	Total £m
	Invensys Pension Scheme (UK) £m	Invensys Pension Plan (US) £m	Other £m	£m	
Year ended 31 March 2013					
Present value of defined benefit obligation	(4,628)	(1,033)	(305)	(141)	(6,107)
Fair value of plan assets	4,478	936	220	–	5,634
Deficit in the plan	(150)	(97)	(85)	(141)	(473)
Experience adjustments on plan liabilities	(33)	6	(4)	–	(31)
Experience adjustments on plan assets	261	43	5	–	309
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)

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 £487 million (2012: loss of £390 million).

Notes to the Financial Statements continued

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 for the total Group amounted to £39 million (2012: £37 million).

As at 31 March 2013, the estimated levels of contribution expected to be paid to defined benefit schemes in the year to 31 March 2014 was as follows:

	Funded schemes		Unfunded schemes		Total £m
	Invensys Pension Scheme (UK) ¹ £m	Invensys Pension Plan (US) £m	Other £m	£m	
	51	10	8	8	77

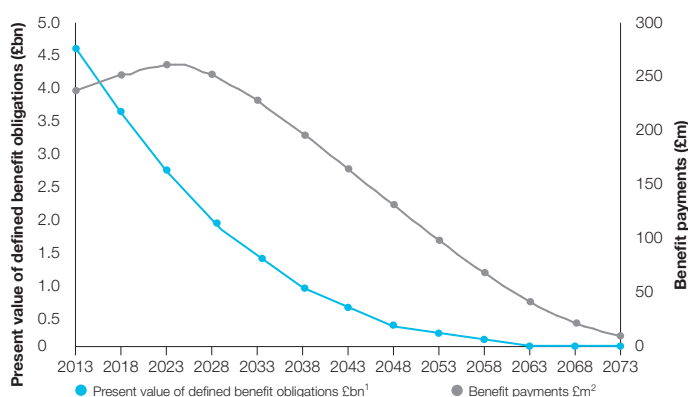
¹ Following the disposal of Invensys Rail on 2 May 2013, the Invensys Pension Scheme (UK) deficit reduction payment of £41 million will no longer be paid. Other regular contributions will also be reduced.

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. Following the sale of the Invensys Rail division as detailed in Note 35, a contribution of £400 million has been made to the Invensys Pension Scheme (UK) and a further payment of £225 million has been made into a reservoir trust. As a result of these payments, the previous deficit reduction payments of £40-47 million per annum have ceased and it is anticipated that no further deficit reduction contributions will be payable into the scheme.

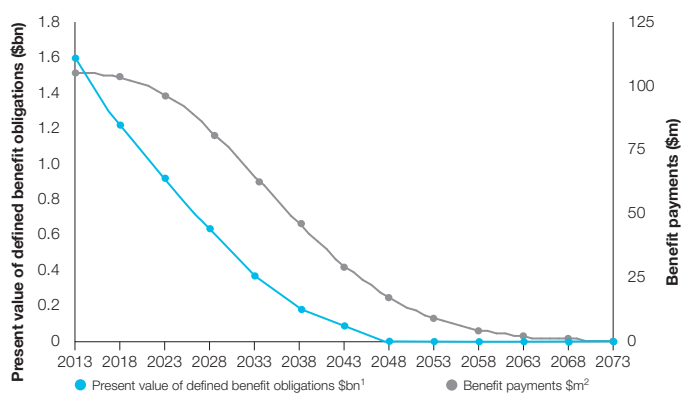
Under the Invensys Pension Plan (US), contributions will be made at the level required to meet the minimum requirements set forth by the Pension Protection Act of 2006 and related regulations. From time to time, discretionary amounts are contributed to enhance the security of participants' benefits based 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 2013:

Invensys Pension Scheme (UK)



Invensys Pension Plan (US)



- The present value of defined benefit obligations has been adjusted to 31 March 2013 prices.
- Benefit payments include assumed inflation.

26 Issued share capital

Issued share capital

	Number of shares million 2013	£m 2013	Number of shares million 2012	£m 2012
Issued and fully paid:				
Ordinary shares of 10p each	816	82	813	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 2011		
Issue of ordinary shares of 10p each	810	81
	3	–
At 31 March 2012	813	81
Issue of ordinary shares of 10p each	3	1
At 31 March 2013	816	82

Shares reserved for issue under share options and awards

During the year, the Company issued 2,902,726 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), and Invensys 2007 Long Term Incentive Plan (2007 LTIP) (2012: 3,000,762 under the SRSOS, OSRSOS, Invensys 1998 Senior Executive Long Term Incentive Plan (1998 LTIP), 2007 LTIP, 2007 CEO Special Award and options granted to the former Chief Executive under an individual arrangement).

During the year, conditional awards over a total of 5,629,601 ordinary shares were granted under the 2007 LTIP (2012: 4,784,560). No options were granted under the SRSOS and OSRSOS (2012: 2,110,542).

There were 12,337,370 conditional awards outstanding under the 2007 LTIP as at 31 March 2013 (2012: 12,034,692 under the 1998 LTIP and 2007 LTIP). These conditional awards will be released at various dates between 2013 and 2015, subject to the satisfaction of the performance requirements and any appropriate holding period.

Outstanding options under the SRSOS and OSRSOS as at 31 March 2013 were as follows: 18,765 shares exercisable between September 2013 and March 2014 at an exercise price of 175 pence per share (2012: 2,185,135) and 1,825,241 shares exercisable between September 2014 and March 2015 at an exercise price of 246 pence per share (2012: 2,040,249).

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		
Purchase of shares	716,763	(2)
Distribution of shares under share option and share award schemes	326,000	(1)
	(651,545)	2
At 31 March 2012	391,218	(1)
Purchase of shares	343,000	(1)
Distribution of shares under share option and share award schemes	(416,665)	1
At 31 March 2013	317,553	(1)

Shares held by the Invensys Employee Share Trust

At 31 March 2013, the Invensys No.2 Employee Benefit Trust (the Trust) held 317,553 ordinary shares of 10 pence each in Invensys plc with a market value of £1 million (2012: 391,218 ordinary shares of 10 pence each with a market value of £1 million). The Trust holds ordinary shares in the Company which may be used to deliver ordinary shares under certain executive share schemes. All the shares held by the Trust are solely for this purpose and are distributed to employees in accordance with the terms of the Company's schemes. Shares held by the Trust are accounted for as treasury shares and deducted from equity. During the year 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 2013 (2012: nil).

Notes to the Financial Statements continued

27 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.

28 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 prior 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 10 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 £10 million (2012: £5 million) related to share-based payment transactions during the year, of which £10 million (2012: £4 million) related to equity-settled and £nil (2012: £1 million) related to cash-settled transactions. The carrying amount of the liability relating to the cash-settled awards at 31 March 2013 is £1 million (2012: £1 million).

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

(ii) Executive share options

The Company's executive share option schemes have expired and are no longer in use. All remaining options lapsed or were exercised in the year ended 31 March 2012, and none remained outstanding in the year ended 31 March 2013. Executive share options included 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.

Details of relevant options outstanding as at 31 March 2013 and 31 March 2012 are detailed below. No options were granted in the year.

	Executive Share Option Scheme	
	Number of share options	Weighted average share price (p)
Outstanding at 1 April 2011	803,298	532.71
Lapsed during the prior year	(268,008)	1,287.92
Exercised during the prior year	(535,290)	154.59
Outstanding at 31 March 2012 and 31 March 2013	–	–
Exercisable at 31 March 2012 and 31 March 2013	–	–

(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). All remaining awards under the LTIP and 2007 CEO Special Award were exercised in the year ended 31 March 2012, and none remained outstanding in the year ended 31 March 2013.

Grants

Details of grants made during the year ended 31 March 2013 are detailed below:

	2007 LTIP	RSP
Total number of awards granted	5,898,116	427,345
Weighted average fair value	215.01p	216.21p
Exercise price	n/a	n/a
Expected volatility	41.4%	n/a
Weighted average expected award life	3.0 years	3.0 years
Expected option life	n/a	n/a
Expected dividend yield	2.05%	0%
Risk-free interest rate	0.87%	n/a

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

No grants were made for the LTIP or 2007 CEO Special Award for the year ended 31 March 2013 or 31 March 2012.

Awards outstanding

Details of relevant awards outstanding as at 31 March 2013 are detailed below:

	2007 LTIP	RSP	DSP
Outstanding at the beginning of the year	12,850,666	717,285	480,930
Granted during the year	5,898,116	427,345	–
Dividends during the year	47,272	9,954	2,796
Forfeited during the year	(1,282,906)	(10,833)	–
Exercised during the year	(1,133,185)	(287,960)	(215,285)
Lapsed during the year	(3,022,174)	(1,436)	–
Outstanding at the end of the year	13,357,789	854,355	268,441
Weighted average share price at the date of exercise for the options exercised (p)	218.50	224.88	213.74
Weighted average remaining contractual life (years)	1.54	1.74	0.51

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

	2007 LTIP	RSP	DSP	LTIP	2007 CEO Special Award
Outstanding at the beginning of the year	15,309,776	1,085,931	472,685	11,012	377,861
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	(2,115,248)	(478,698)	(212,278)	(11,012)	(377,861)
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)	268.65	292.58	307.65	303.50	293.10
Weighted average remaining contractual life (years)	1.35	1.44	1.20	n/a	n/a

Notes to the Financial Statements continued

28 Share-based payment plans continued

(iv) All employee schemes

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

Grants

No options were granted under these schemes in the year ended 31 March 2013.

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%

Options outstanding

Details of relevant options outstanding as at 31 March 2013 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	1,899,443	207.94	3,460,520	214.62
Granted during the year	–	–	–	–
Forfeited during the year	(30,565)	214.43	(121,856)	188.75
Exercised during the year	(994,933)	175.31	(1,108,075)	175.21
Lapsed during the year	(81,197)	242.26	(425,857)	140.61
Outstanding at the end of the year	792,748	240.00	1,804,732	239.32
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	175.31	n/a	175.21

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	18,765	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

	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)
2013						
175.00p	–	–	–	18,765	175.00	–
246.00p	792,748	246.00	1.42	1,785,967	246.00	1.42
	792,748	246.00	1.42	1,804,732	245.26	1.42
2012						
175.00p	1,018,207	175.00	0.4	1,529,214	175.00	0.4
246.00p	881,236	246.00	2.4	1,931,306	246.00	2.4
	1,899,443	207.94	1.4	3,460,520	214.62	1.5

(v) Explanation of long-term incentive schemes for senior employees

2007 Invensys 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 nil (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 Group Leadership Team members who are not executive directors: (a) 40% 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) 40% of an award is based on the CAGR in the Group's Earnings Per Share. There are no performance conditions applying to the remaining 20% of an award. 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.

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.

Notes to the Financial Statements continued

28 Share-based payment plans continued

Deferred Share Plan (DSP)

Grant details

Any bonus earned under the Executive Bonus Plan (EBP) from 2007/08 onwards 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 executive in the EBP.

Service requirements:

Save where a participant is dismissed for cause before the relevant release date, shares under award will be released to participants on the release date, unless the Remuneration Committee in its absolute discretion should decide on a different release date.

Scheme use

From 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.

(vi) Explanation of 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.

29 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 (2012: £1 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

	2013 £m	2012 £m
Total Group		
Minimum lease payments	41	39
Sublease receipts	–	(1)
Operating lease payments	41	38

Operating lease commitments

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

	Land and buildings 2013 £m	Other 2013 £m	Total 2013 £m	Land and buildings 2012 £m	Other 2012 £m	Total 2012 £m
Not later than one year	50	9	59	42	7	49
After one year but not more than five years	85	11	96	89	7	96
Later than five years	60	–	60	73	–	73
	195	20	215	204	14	218

The total of future minimum sublease payments expected to be received under non-cancellable subleases at 31 March 2013 is £7 million (2012: £8 million).

Obligations under finance leases

At 31 March 2013 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 2013 £m	Present value of minimum payments 2013 £m	Minimum lease payments 2012 £m	Present value of minimum payments 2012 £m
Payable not later than one year	–	–	1	1
Payable after one year but not more than five years	–	–	–	–
Total gross payments	–	–	1	1
Less: finance charges allocated to future periods	–	–	–	–
Present value of finance lease obligations	–	–	1	1
Amount due for settlement within 12 months		–		1
Amount due for settlement after 12 months		–		–

Notes to the Financial Statements continued

29 Commitments and contingencies continued

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 as outlined in Note 21.

30 Reconciliation of cash flows

	2013 £m	2012 £m
Net cash flows from operating activities	179	65
Capital expenditure included within investing activities	(79)	(89)
Proceeds from sale of property, plant and equipment	5	–
Interest paid	12	10
Taxation paid (operating)	44	34
Restructuring	21	27
Other operating exceptional item: costs to settle legal case	–	10
Facility fees paid	–	5
Legacy items:		
– Pension contributions	62	80
– Other legacy payments	–	17
	62	97
Operating cash flow	244	159
Restructuring	(21)	(27)
Net finance costs paid	(11)	(7)
Facility fees paid	–	(5)
Taxation paid (operating)	(44)	(34)
Legacy items	(62)	(97)
Free cash flow	106	(11)
Operating cash flow attributable to:		
Continuing operations	136	124
Discontinued operations	108	35

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 84.

31 Analysis of business combinations and business disposals

(i) Business combinations

Year ended 31 March 2013

On 10 May 2012, Invensys Rail acquired 100% of the share capital of PHW Inc. (PHW), 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 £12 million. The Group acquired PHW as part of the continuing process to broaden the range of technologies and solutions that Invensys Rail is able to sell to its global customer base. PHW provides complementary Positive Train Control (PTC) onboard products.

On 15 October 2012, Invensys Operations Management acquired 100% of the share capital of Spiral Software (Spiral), a privately held company based in Cambridge, United Kingdom, for cash consideration of £38 million. Spiral Software provides integrated solutions ranging from crude assay management to refinery supply chain optimisation. The acquisition of Spiral strengthens Invensys Operations Management's position in the hydrocarbon processing industry and extends the refinery optimisation solutions that it offers to its customers.

The acquisitions have been accounted for using the acquisition method of accounting and the Group Financial Statements include the results of PHW and Spiral from their date of acquisition to 31 March 2013.

Acquisition of PHW

The fair value of the identifiable assets and liabilities of PHW at the date of acquisition was:

	Fair value recognised on acquisition £m
Intangible assets – other ¹	5
Inventories	2
Trade and other receivables	1
Amounts due from contract customers	1
Cash and cash equivalents	2
Total assets	11
Total identifiable net assets at fair value	11
Goodwill arising on acquisition	1
Total purchase consideration transferred	12
Total purchase consideration transferred comprises: – cash payment	12

¹ The intangible assets acquired represent the technology in respect of the existing product range and customer relationships.

Trade and other receivables includes trade receivables of £1 million. The gross contractual amount of trade receivables is £2 million. £1 million of the trade receivables has been impaired and it is expected that £1 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 PHW with those of the Group. None of the goodwill is expected to be deductible for tax purposes.

Costs relating to the acquisition are negligible and have been expensed through operating profit in the year ended 31 March 2013.

Under the terms of the acquisition agreement, additional amounts of up to £6 million will become payable to the former owners of PHW dependent on the attainment of certain agreed performance targets subsequent to the acquisition of PHW by the Group, as well as their continued employment. These amounts will be expensed as incurred, to the extent that payment is probable. £1 million has been expensed in the year.

From the date of acquisition to 31 March 2013, PHW contributed a profit of £1 million to the net profit before tax of discontinued operations and revenue of £8 million. These amounts are included in the Group Financial Statements for the year ended 31 March 2013. Had PHW been part of the Group for the whole of the year ended 31 March 2013, 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.

Notes to the Financial Statements continued

Acquisition of Spiral

The fair value of the identifiable assets and liabilities of Spiral at the date of acquisition was:

	Fair value recognised on acquisition £m
Property, plant and equipment	3
Intangible assets – other ¹	21
Trade and other receivables	1
Cash and cash equivalents	1
Trade and other payables	(2)
Net assets	24
Goodwill arising on acquisition	14
Total purchase consideration transferred	38
Total purchase consideration comprises: – cash payment	38

¹ The intangible assets acquired represent the technology in respect of the existing product range, customer contracts and customer relationships.

The goodwill shown above is attributed to the expected synergies, knowledge and expertise of the workforce and key management personnel, and other benefits arising from combining the assets and activities of Spiral with those of the Group. None of the goodwill is expected to be deductible for tax purposes.

Costs relating to the acquisition of Spiral of £1 million were expensed in the year ended 31 March 2013 through operating profit and are included in exceptional items in the income statement.

Under the terms of the acquisition agreement, additional amounts of up to £5 million will become payable to the former owners of Spiral dependent on the attainment of certain agreed performance targets subsequent to the acquisition of Spiral by the Group, as well as their continued employment. These amounts will be expensed as incurred, to the extent that payment is probable. £1 million has been expensed in the year.

From the date of acquisition to 31 March 2013, Spiral contributed a loss of £1 million to the net profit before tax of the Group and revenue of £4 million. These amounts are included in the Group Financial Statements for the year ended 31 March 2013. Had Spiral been part of the Group for the whole of the year ended 31 March 2013, the profit of the Group would not have been materially different and the impact on the revenue of the Group for the year would have been £8 million.

Cash flows on acquisitions

	Fair value recognised on acquisition £m
Analysis of the aggregate cash flows on acquisitions: – cash paid (included in cash flows from investing activities)	(50)
– net cash acquired with the subsidiaries (included in cash flows from investing activities)	3
– transaction costs of the acquisitions (included in cash flows from investing activities)	(1)
Net cash outflow	(48)

Year ended 31 March 2012

There were no acquisitions in the year.

(ii) Business disposals

Invensys Rail was classified as discontinued during the year ended 31 March 2013. The sale was completed subsequent to the year end date (Note 35) and will be accounted for in the year ending 31 March 2014. No operations were discontinued in the year ended 31 March 2012. Additional costs have been incurred in both years in relation to prior year disposals.

	2013 £m	2012 £m
Net cash flow arising on disposal: – cash costs of disposal	(11)	(7)
	(11)	(7)

32 Directors' loans

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 2013 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.

A further loan has been advanced to Mr Edmunds during the year ended 31 March 2013 in view of the double taxation suffered in relation to his US employment duties in 2010/11 and 2011/12. Invensys Systems Inc. advanced £78,498 on 24 May 2012 to Mr Edmunds, being an amount equal to the expected refunds due from HMRC. As at 31 March 2013 an amount of £65,532 remained outstanding, with the balance being repaid to Invensys Systems Inc. on 13 May 2013 following HMRC refunding the amount to Mr Edmunds.

No further loan has been advanced to any director during the year ended 31 March 2013.

33 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 156.

Details of transactions that have been entered into with related parties for the years ended 31 March 2013 and 31 March 2012 are as follows:

(i) Remuneration of key management personnel

The key management comprises the Group Leadership Team and the non-executive directors. This represents a change from previous years, when key management was considered to comprise only the directors. The Group has changed its conclusion on the composition of key management as a result of the increased contribution to decision making made by those members of the Group Leadership Team who are not also directors. The membership of the Group Leadership Team and the non-executive directors are disclosed on pages 43 and 44.

Remuneration is as follows:

	2013 £m	2012 £m
Short-term employee benefits	8	2
Share-based payment	1	–
	9	2

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 (2012: none) other than the directors' loans disclosed in Note 32.

34 Dividends paid and proposed

	2013 £m	2012 £m
Paid during the year		
Equity dividends on ordinary shares:		
– Interim dividend for the year ended 31 March 2013: 1.75p (2012: 1.65p)	15	13
– Final dividend for the year ended 31 March 2012: 2.75p (2011: 2.5p)	22	20
	37	33
Proposed for approval by shareholders at the AGM		
Equity dividends on ordinary shares:		
– Final dividend for the year ended 31 March 2013: 2.85p (2012: 2.75p)	23	22
	23	22

The interim dividend for the year ended 31 March 2013 was declared by the Board on 14 November 2012 and paid on 21 December 2012.

The final dividend for the year ended 31 March 2012 was approved by shareholders on 13 July 2012 and paid on 3 August 2012.

Subject to approval by shareholders at the AGM on 25 July 2013, the proposed final dividend for the year ended 31 March 2013 will be paid on 2 August 2013 to shareholders on the register at 21 June 2013, and will be accounted for as an appropriation of retained earnings in the year ended 31 March 2014.

The Invensys Employee Share Trust has waived its right to the final dividend for the year ended 31 March 2013 payable on the 317,553 shares that it owns (2012: 391,218 shares). The Trust also waived its right to the interim dividend for the year ended 31 March 2013 payable on the 106,338 shares that it owned.

Notes to the Financial Statements continued

35 Events after the balance sheet date

Sale of Invensys Rail

On 28 November 2012, Invensys signed an agreement to sell Invensys Rail to Siemens for a gross cash consideration of £1.7 billion. The consideration comprised £1.3 billion in exchange for the shares of Invensys Rail and £0.4 billion paid to Invensys's UK Pension Scheme. The transaction completed on 2 May 2013 and will be accounted for in the year ending 31 March 2014.

Payment to reservoir trust in favour of Invensys's UK Pension Scheme

On 2 May 2013 on receipt of proceeds from the sale of Invensys Rail, Invensys paid £225 million into a reservoir trust in favour of Invensys's UK Pension Scheme. The Reservoir Trust Deed contains a mechanism for future payments to be made from the reservoir trust to either the pension trustee or the Company dependent on the funding position of the scheme, commencing in 2018. Following this payment, and the receipt by the UK Pension Scheme of the £400 million payment on the sale of Invensys Rail, the deficit reduction payments of £40 – 47 million per annum previously agreed with the trustees ceased. It is anticipated that no further contributions will be payable into the scheme for the foreseeable future.

Return of cash

The Group proposes to return cash to shareholders of £625 million (around 76 pence per share) from the proceeds of the sale, subject to the approval of Invensys shareholders at a General Meeting which is expected to take place in June 2013. It is proposed that the return of cash will be followed by a share capital consolidation. The return of cash will be accounted for in the year ending 31 March 2014 as a reduction in retained earnings.

Bank facilities

Following the completion of the sale of Invensys Rail on 2 May 2013, the Group's revolving credit facility was reduced by £100 million to £150 million. The Group's guarantee facility remains at £350 million.

36 Exchange rates

	Year ended 31 March 2013 average	Year ended 31 March 2012 average	As at 31 March 2013 closing	As at 31 March 2012 closing
US\$ to £1	1.58	1.60	1.52	1.60
Euro to £1	1.22	1.16	1.19	1.20

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Research and development is fundamental to what we do. We continue to invest in our state-of-the-art technologies to ensure that they remain 'best in class'.

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 2013 which comprise the Parent Company balance sheet and the related Notes 1 to 15. 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 76, 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 2013;
- 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 2013.

Richard Addison (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
15 May 2013

Notes

- ¹ The maintenance and integrity of the Invensys plc website is the responsibility of the directors; the work carried out by the auditor does not involve consideration of these matters and, accordingly, the auditor accepts 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	2013 £m	2012 £m
Fixed assets			
Investments in subsidiary undertakings	4	3,072	3,062
		3,072	3,062
Current assets			
Debtors: amounts falling due within one year	5	204	183
		204	183
Current liabilities			
Creditors: amounts falling due within one year	6	(707)	(707)
		(707)	(707)
Net current liabilities		(503)	(524)
Total assets less current liabilities		2,569	2,538
Pension liability	9	(33)	(31)
		2,536	2,507
Capital and reserves			
Called up share capital	10	82	81
Treasury shares	10,11	(1)	(1)
Share premium account	11	352	349
Other non-distributable reserves	11	1,428	1,418
Special reserve	11	495	495
Profit and loss account	11	180	165
Shareholders' funds – equity		2,536	2,507

These accounts were approved by the directors on 15 May 2013 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 amendment to FRS 29 (IFRS 7) Disclosures – Transfers of Financial Assets, which 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 £54 million (2012: £95 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 (2012: £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 2012	3,065
Cost of share-based payments in respect of employees of subsidiary undertakings	10
At 31 March 2013	3,075
Amounts provided	
At 1 April 2012	(3)
At 31 March 2013	(3)
Net book value	
At 1 April 2012	3,062
At 31 March 2013	3,072

Principal subsidiary undertakings at 31 March 2013 are disclosed on page 156.

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.

Notes to the Parent Company Financial Statements continued

5 Debtors: amounts falling due within one year

	2013 £m	2012 £m
Amounts owed by subsidiary undertakings	204	183
	204	183

6 Creditors: amounts falling due within one year

	2013 £m	2012 £m
Amounts owed to subsidiary undertakings	706	706
Other creditors	1	1
	707	707

7 Borrowings

(i) Bank and other loans

The Company had no outstanding bank or other loans in place at 31 March 2013 or 31 March 2012.

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

Committed bank, other loans and borrowings

	Notes	Maturity	Facility 2013 £m	Interest rate	Borrowings 2013 £m	Borrowings 2012 £m
Revolving credit facility	1,2,3,4	March 2017	250	LIBOR + 1.25%	–	–

¹ Interest is currently charged at LIBOR plus 1.25% based on balance sheet leverage.

² Utilisation fees are charged based on 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 is 0.005:1).

⁴ Interest is currently charged on the undrawn portion at a rate of 0.5% based on balance sheet leverage.

Committed bond and guarantee facilities

	Notes	Maturity	Facility 2013 £m	Fees	Drawings 2013 £m	Drawings 2012 £m
Committed multi-currency bonding and guarantee facility	1,2,3	March 2017	350	1.25%	205	253

¹ 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 is 0.005:1).

² Interest is currently charged on the undrawn portion at a rate of 0.5% based on balance sheet leverage.

³ Fees are currently charged at 1.25% based on balance sheet leverage.

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

The Company operates one unfunded defined benefit pension scheme. The last full valuation of the scheme on an FRS 17 (IAS 19) basis has been updated to 31 March 2013, 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 principal 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 (2012: £nil). At 31 March 2013, the outstanding contributions included in creditors were £nil (2012: £nil).

Unfunded defined benefit scheme

The major assumptions relating to the unfunded scheme are:

	2013 %	2012 %
Major assumptions		
Rates of increase in salaries	4.75	4.75
Rate of increase to pensions in payment ¹	3.60	3.60
Discount rate for scheme liabilities	4.20	4.70
Inflation rate ²	3.50	3.50

¹ The rate of increase for UK deferred pensions was 3.50% (2012: 3.50%).

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.

Notes to the Parent Company Financial Statements continued

9 Pensions and post-retirement benefits continued

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. These mortality tables are consistent with those agreed by the Trustees for the 31 March 2011 formal valuation of the scheme.

The changes in the present value of the unfunded scheme liabilities are analysed below:

	2013 £m	2012 £m
Present value of scheme liabilities at beginning of year	31	27
Current service cost ¹	–	–
Contributions	(1)	(1)
Other finance charges ²	1	3
Actuarial loss	2	2
Present value of scheme liabilities at end of year	33	31

¹ Charged to operating profit (less than £0.5 million).

² Charged to profit before tax.

History of experience adjustments

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Present value of scheme liabilities	33	31	27	26	24
Deficit in scheme	33	31	27	26	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 £7 million (2012: £5 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 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:

	2013		2012	
	Number of shares million	£m	Number of shares million	£m
Ordinary shares of 10p each	816	82	813	81
	816	82	813	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 2012	813	81
Issue of ordinary shares of 10p each	3	1
At 31 March 2013	816	82

Shares reserved for issue under share options and awards

During the year, the Company issued 2,902,726 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), and Invensys 2007 Long Term Incentive Plan (2007 LTIP) (2012: 3,000,762 under the SRSOS, OSRSOS, 2007 LTIP, Invensys 1998 Senior Executive Long Term Incentive Plan (1998 LTIP), 2007 CEO Special Award and options granted to the former Chief Executive under an individual arrangement).

During the year, conditional awards over a total of 5,629,601 ordinary shares were granted under the 2007 LTIP (2012: 4,784,560). No options were granted under the SRSOS and OSRSOS (2012: 2,110,542).

There were 12,337,370 conditional awards outstanding under the 2007 LTIP as at 31 March 2013 (2012: 12,034,692 under the 1998 LTIP and 2007 LTIP). These conditional awards will be released at various dates between 2013 and 2015, subject to the satisfaction of the performance requirements and any appropriate holding period.

Outstanding options under the SRSOS and OSRSOS as at 31 March 2013 were as follows: 18,765 shares exercisable between September 2013 and March 2014 at an exercise price of 175 pence per share (2012: 2,185,135) and 1,825,241 shares exercisable between September 2014 and March 2015 at an exercise price of 246 pence per share (2012: 2,040,249).

Treasury shares

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

The movement in treasury shares is set out below:

	Number of shares	£m
At 1 April 2012	391,218	(1)
Purchase of shares	343,000	(1)
Distribution of shares under share option and share award schemes	(416,665)	1
At 31 March 2013	317,553	(1)

Shares held by the Invensys Employee Share Trust

At 31 March 2013, the Invensys No.2 Employee Benefit Trust (the Trust) held 317,553 ordinary shares of 10 pence each in Invensys plc with a market value of £1 million (2012: 391,218 ordinary shares of 10 pence each with a market value of £1 million). The Trust holds ordinary shares in the Company which may be used to deliver ordinary shares under certain executive share schemes. All the shares held by the Trust are solely for this purpose and are distributed to employees in accordance with the terms of the Company's schemes. Shares held by the Trust are accounted for as treasury shares and deducted from equity. During the year 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 2013 (2012: 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 2012	349	(1)	1,418	495	165
Issue of shares	3	–	–	–	–
Share-based payment	–	–	10	–	–
Purchase of own shares by Employee Share Trust	–	(1)	–	–	–
Distribution of own shares under share-based payment arrangements	–	1	–	–	–
Profit for the financial year	–	–	–	–	54
Dividends declared and paid	–	–	–	–	(37)
Actuarial loss on pension liability	–	–	–	–	(2)
At 31 March 2013	352	(1)	1,428	495	180

The amount of profit and loss account reserves available for distribution is £179 million (2012: £164 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.

Notes to the Parent Company Financial Statements continued

12 Commitments and contingencies

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 2013, provisions in the Group accounts included £7 million (2012: £9 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 28 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 expense

The Company recognised £10 million (2012: £4 million) related to equity settled share-based payment transactions during the year.

(ii) Executive share options

The Company's executive share option schemes have expired and are no longer in use. All remaining options lapsed or were exercised in the year ended 31 March 2012, and none remained outstanding in the year ended 31 March 2013. Executive share options included 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.

Details of relevant options outstanding as at 31 March 2013 and 31 March 2012 are detailed below. No options were granted in the year.

	Executive Share Option	
	Number of share options	Weighted average exercise price (p)
Outstanding at 1 April 2011	592,617	257.33
Lapsed during the prior year	(57,327)	1,216.62
Exercised during the prior year	(535,290)	154.59
Outstanding at 31 March 2012 and 31 March 2013	-	-
Exercisable at 31 March 2012 and 31 March 2013	-	-

(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). All remaining awards under the LTIP and 2007 CEO Special Award were exercised in the year ended 31 March 2012, and none remained outstanding in the year ended 31 March 2013.

Grants

Details of grants made during the year ended 31 March 2013 are detailed below:

	2007 LTIP
Total number of awards granted	2,164,524
Weighted average fair value	174.54p
Exercise price	n/a
Expected volatility	41.4%
Weighted average expected award life	3.0 years
Expected dividend yield	2.05%
Risk-free interest rate	0.87%

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

	2007 LTIP	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	46.30%	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

No grants were made for the RSP, LTIP or 2007 CEO Special Award for the year ended 31 March 2013 or 31 March 2012.

Awards outstanding

Details of relevant awards outstanding as at 31 March 2013 are detailed below:

	2007 LTIP	RSP	DSP
Outstanding at the beginning of the year	4,983,027	158,793	386,146
Granted during the year	2,164,524	–	–
Dividends during the year	19,045	5,068	6,959
Forfeited during the year	(143,485)	(3,334)	–
Exercised during the year	(441,510)	(131,466)	(215,285)
Lapsed during the year	(1,484,350)	(1,436)	–
Outstanding at the end of the year	5,097,251	27,625	177,820
Weighted average share price at the date of exercise for the options exercised (p)	220.56	227.70	213.74
Weighted average remaining contractual life (years)	2.02	2.59	0.64

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

	2007 LTIP	RSP	DSP	2007 CEO Special Award
Outstanding at the beginning of the year	6,559,271	542,557	399,453	377,861
Granted during the year	1,844,288	–	120,889	–
Dividends during the year	27,031	4,336	3,107	–
Transferred out to Group companies	103,838	32,000	–	–
Forfeited during the year	(2,236,083)	(181,845)	–	–
Exercised during the year	(952,605)	(238,255)	(137,303)	(377,861)
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)	269.44	312.47	304.84	n/a
Weighted average remaining contractual life (years)	1.30	0.75	1.19	n/a

Notes to the Parent Company Financial Statements continued

13 Share-based payment plans continued

(iv) Explanation of long-term incentive schemes for senior employees

Invensys 2007 Senior Executive Long Term Incentive Plan (2007 LTIP)

Grant details

A long-term incentive plan under which awards are granted to executive directors and senior executives at nil (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 nil price option award which is a right to acquire shares for a nil or 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 Group Leadership Team members who are not executive directors: (a) 40% 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) 40% of an award is based on the CAGR in the Group's Earnings Per Share. There are no performance conditions applying to the remaining 20% of an award. 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.

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.

Deferred Share Plan (DSP)

Grant details

Any bonus earned under the Executive Bonus Plan (EBP) from 2007/08 onwards 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. From 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 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 executive in the EBP.

Service requirements:

Save where a participant is dismissed for cause before the relevant release date, shares under award will be released to participants on the release date, unless the Remuneration Committee in its absolute discretion should decide on a different release date.

Scheme use

From 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 £33 million with a tax value of £8 million (2012: £31 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 (2012: £51 million with a tax value of £12 million) available for offset against future profits.

The Company has unrecognised capital losses of £50 million (2012: £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 23% from 1 April 2013 and is expected to reduce to 20% with effect from 1 April 2015. The impact of the rate change to 20% would reduce the total unrecognised deferred income tax assets by £4 million.

15 Events after the balance sheet date

Return of cash

The Group proposes to return cash to shareholders of £625 million (around 76 pence per share) from the proceeds of the sale of Invensys Rail, subject to the approval of Invensys shareholders at a General Meeting which is expected to take place in June 2013. It is proposed that the return of cash will be followed by a share capital consolidation. The return of cash will be accounted for in the year ending 31 March 2014 as a reduction in retained earnings.

Bank facilities

Following the completion of the sale of Invensys Rail on 2 May 2013, the Group's revolving credit facility was reduced by £100 million to £150 million. The Group's guarantee facility remains at £350 million.

Other Information

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Our market-leading Wonderware real-time operations management software enables our customers to achieve operational excellence and drive continuous improvement. It is used in over 180 countries worldwide and across virtually every industry.

Five Year Financial Summary

Summary consolidated income statement

For the year ended 31 March	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Revenue	1,792	1,764	1,714	1,543	1,648
Operating expenses before exceptional items	(1,661)	(1,671)	(1,581)	(1,436)	(1,538)
Operating profit before exceptional items	131	93	133	107	110
Exceptional items	(88)	(33)	(11)	(20)	(65)
Operating profit	43	60	122	87	45
Finance costs	(10)	(12)	(9)	(10)	(12)
Exceptional finance income	–	–	–	–	27
Finance income	1	3	4	3	8
Other finance charges – IAS 19	(19)	(4)	(12)	(36)	(34)
Profit before taxation	15	47	105	44	34
Taxation charge	(11)	(8)	(5)	(6)	(5)
Profit after taxation – continuing operations	4	39	100	38	29
Profit after taxation – discontinued operations	124	60	78	113	104
Profit for the year	128	99	178	151	133
Attributable to:					
Equity holders of the parent	125	98	174	147	130
Non-controlling interests	3	1	4	4	3
	128	99	178	151	133

Summary consolidated balance sheet

As at 31 March	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Property, plant and equipment	194	227	237	274	305
Intangible assets – goodwill	297	289	291	301	306
Intangible assets – other	78	168	160	133	123
	569	684	688	708	734
Net trading liabilities	(103)	(9)	(59)	(91)	(90)
Net cash ¹	246	262	348	363	286
Deferred taxation	109	55	28	15	17
Net pension liability	(427)	(426)	(467)	(581)	(308)
	394	566	538	414	639
Net assets held for sale	211	10	11	6	1
	605	576	549	420	640
Equity holders of parent	585	556	514	340	553
Non-controlling interests	20	20	35	80	87
	605	576	549	420	640

¹ Net cash for the Group of £268 million includes £22 million classified as held for sale.

Other key data

	2013	2012	2011	2010	2009
Orders – continuing operations (£m)	1,700	1,759	1,894	1,656	1,838
Order book	1,094	1,158	1,183	1,050	960
Operating margin ¹ – continuing operations (%)	7.3%	5.3%	7.8%	6.9%	6.7%
Net finance cost cover (times) ²	15.3	10.4	27.9	15.2	30.4
Underlying earnings per share (basic) – continuing operations (p)	8.5	5.3	9.3	(0.2)	–
Earnings per share (basic) – continuing operations (p)	0.1	4.7	11.9	4.2	3.2
Return on operating capital ³	32.1%	22.0%	32.0%	23.1%	22.1%
Number of employees at year end – total Group	20,934	20,959	20,664	20,044	20,529
Share price – high (p)	367	352	373	349	344
Share price – low (p)	186	181	225	163	122
Share price – at year end (p)	351	199	345	341	166
Number of ordinary shares in issue at year end (million)	816	813	810	807	801

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 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 Deutschland GmbH	Germany
Invensys Group Holdings Limited	England & Wales
Invensys Group Limited	England & Wales
Invensys Holding France SAS	France
Invensys Holdings Limited	England & Wales
Invensys Inc.	USA
Invensys International Holdings Limited	England & Wales
Invensys USA Finance Inc.	USA
Siebe Inc.	USA

Operating companies

Eberle Controls GmbH	Germany
Eckardt SAS	France
Elektronika Slovensko, a.s.	Slovak Republic
Eliwell Controls Srl	Italy
Eurotherm Automation SASU	France
Eurotherm Limited	England & Wales
Foxboro-Eckardt GmbH	Germany
Foxboro Scada Srl	Italy
IMServ Europe Limited	England & Wales
Invensys (Qingdao) Controls Company Limited	China
Invensys Appliance Controls Ltda	Brazil
Invensys Appliance Controls sro	Czech Republic
Invensys Controls Australia Pty Limited	Australia
Invensys Controls Italy Srl	Italy
Invensys Controls UK Limited	England & Wales
Invensys India Private Limited	India
Invensys Korea Limited	Korea
Invensys Middle East FZE	UAE
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 SAM	Monaco
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 NV	Netherlands
Invensys Systems (UK) Limited	England & Wales
Robertshaw Controls Company	USA
Siebe Appliance Controls GmbH	Germany
Shanghai Foxboro Company Limited	China
Shanghai Invensys Process Systems Company Limited	China

All subsidiaries are 100% owned.

Invensys, the Invensys logo, Avantis, Centeron, Eberle, Eliwell, Eurotherm, Drayton, Foxboro, Foxboro-Eckardt, IMServ, Paragon, Ranco, Robertshaw, Siebe, SimSci, Spiral Software, Triconex, UNI-LINE and Wonderware are trademarks of Invensys plc, its subsidiaries or affiliates. All other brands and product names may be trademarks of their respective owners.

The following were principal subsidiary undertakings during the year, but with effect from 2 May 2013 transferred with the Invensys Rail disposal.

Invensys Australia Corporate Pty Ltd	Australia
Dimetronic SA	Spain
Invensys Ibérica SAU	Spain
Invensys Rail Corporation	USA
Invensys Rail Limited	England & Wales
Invensys Rail Pty Limited	Australia
Westinghouse Brake and Signal Holdings Limited	England & Wales

Dimetronic, FUTUR, SIRIUS, and Westinghouse are trademarks that were transferred with the Invensys Rail disposal.

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 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 plus network extras.
Lines are open from 8.30am to 5.30pm Monday to Friday, excluding bank holidays.

Information on how to manage your shareholdings can be found at <https://help.shareview.co.uk> where you will find:

- answers to commonly asked questions regarding shareholder registration;
- links to downloadable forms, guidance notes, and Company history fact sheets; and
- a choice of contact methods – via email, telephone, or writing.

If your question is not answered by the information provided, you can send your enquiry via secure email from these pages. You will be asked to complete a structured form and to provide your shareholder reference number (this can be found on share certificates and recent tax vouchers), name and address. You will also need to provide your email address if this is how you would like to receive your response.

Electronic communications

Shareholders can 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 will be required). Once registered you will also be able to update your details such as a change of address or register for your dividends to be paid directly into your chosen bank/building society.

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 via the Internet or by 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 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 +1 800 937 5449 or +1 718 921 8124 (toll-free for US residents only).

Further information is also available at www.adr.db.com

Financial calendar

Financial year end 2012/13	31 March 2013
Full-year results 2012/13 announced	16 May 2013
Ex dividend date	19 June 2013
Record date for 2012/13 final dividend	21 June 2013
Closing date for DRIP Mandate Form	12 July 2013
Annual General Meeting	25 July 2013
Payment date for 2012/13 final dividend	2 August 2013
Settlement date for DRIP shares	8 August 2013
Half-year results 2013/14 announced	7 November 2013

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 2013 AGM will be held on Thursday 25 July 2013 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

The Board has recommended a final dividend of 2.85 pence per share, amounting to £23 million, which brings the total dividends payable in respect of the year ended 31 March 2013 to 4.6 pence per share (2012: 4.4 pence per share), an increase of 5%. The amount paid per share could increase dependent upon the share capital consolidation as detailed below.

If the return of cash to shareholders and subsequent share capital consolidation are approved by shareholders and take place as planned, the Board has recommended that the total amount of the final dividend will remain the same, £23 million, but will be paid on the smaller number of shares in issue resulting from the share consolidation. Therefore the amount paid per share would increase and details of these changes will be set out in the circular to shareholders to be issued regarding the return of cash.

Shareholder Information continued

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

Registered office

Invensys plc, 3rd Floor, 40 Grosvenor Place, London SW1X 7AW
Tel: +44 (0)20 3155 1200
Fax: +44 (0)20 3155 1201
Registered in England & Wales number 166023

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; the Financial Conduct Authority (FCA) has found that the average amount lost by investors is £20,000, with around £200 million lost in the UK each year. 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 FCA before getting involved. You can check at www.fca.org.uk/firms/systems-reporting/register
- The FCA 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 FCA, 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 FCA can be contacted on their Consumer Helpline on 0800 111 6768 and more information can be found on the FCA website www.fca.org.uk/consumers/protect-yourself/report-an-unauthorised-firm
- 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 FCA

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	IEEF	Invensys European Employees Forum
ADR	American Depositary Receipt	IFRIC	International Financial Reporting Interpretations Committee
APB	Auditing Practices Board	IFRS	International Financial Reporting Standard
BIS	Department of Business, Innovation & Skills	ISO	International Organization for Standardization
CAGR	Compound annual growth rate	KPI	Key performance indicator
CDP	Carbon Disclosure Project	LNG	Liquefied natural gas
CER	Constant exchange rates	LTIP	Long Term Incentive Plan
CGU	Cash generating unit	LWCIR	Lost Workday Case Incident Rate
CoE	Centre of Expertise	MWh	Megawatt Hours
CPI	Consumer Price Index	NPI	New product introduction
DCS	Distributed control system	OCR	Organisational Capability Review
DJSI	Dow Jones Sustainability Indexes	OEM	Original Equipment Manufacturer
DRIP	Dividend reinvestment plan	OHSAS	Occupational Health and Safety Assessment Series
DSP	Deferred Share Plan	OPBIT	Operating profit before interest and taxation (before exceptional items)
DTRs	Disclosure and Transparency Rules	OSRSOS	Overseas Savings Related Share Option Scheme
EBITDA	Earnings before interest, taxation, depreciation and amortisation	PALM	Programme for Action Learning and Mentoring
EBP	Executive Bonus Plan	PPE	Property, plant and equipment
EBT	Employee Benefit Trust	PPP	Public Private Partnership
EPS	Earnings per share	RDE	Rapidly developing economy
ERP	Enterprise Resource Planning	RSP	Restricted Share Plan
FCA	Fellow of the Institute of Chartered Accountants	RPI	Retail Price Index
FCA	Financial Conduct Authority	SRSOS	Savings Related Share Option Scheme
FRS	Financial Reporting Standard	SSAM	Safety and Sustainability Awareness Metric
GDP	Gross Domestic Product	TRCIR	Total Recordable Case Incident Rate
GLT	Group Leadership Team	TSR	Total Shareholder Return
HMI	Human Machine Interface	UK GAAP	United Kingdom Generally Accepted Accounting Practice
HMRC	Her Majesty's Revenue & Customs	UNGC	United Nations Global Compact
IAS	International Accounting Standard		
ICF	Internal Control Framework		

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Front cover:

Urbanisation and industrialisation drive the demand for natural resources so it's not surprising that governments and companies everywhere are turning to "smart" technologies to optimise the performance of their infrastructure and processes. And this is precisely where Invensys comes in because everything that we do is about enhancing our customers' productivity. Our market-leading software, systems and energy controls speed up processes, improve accuracy, save time, cut waste and boost safety and sustainability performances.