

THALES UK PENSION SCHEME

ANNUAL REPORT AND FINANCIAL ACCOUNTS

FOR THE YEAR TO 31 DECEMBER 2011

Section One – PSR 19011001

Section Two – PSR 19011002

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Scheme Advisors and Employer

Scheme Actuary

Mr Mark Condron FIA
Mercer Limited
1 Tower Place West
London
EC3R 5BU

Independent Auditor

Deloitte LLP
Chartered Accountants
Crawley
United Kingdom

Investment Managers

AE Global Investment Solutions Ltd (Aegis)
BlackRock
Canyon Value Realization Fund (Cayman) Ltd
Credit Suisse Asset Management (from September 2011)
Equitix Ltd (from October 2011)
Legal & General Investment Management Ltd
Majedie Asset Management
Rogge Global Partners plc
Standard Life Investments Ltd (from September 2011)
Stone Harbor Investment Partners (UK) LLP (from September 2011)
Vontobel Asset Management (from October 2011)

Additional Voluntary Contributions (AVC) Providers

F & C Managed Pension Funds
Legal & General Assurance Society (Pensions Management) Limited
BNY Mellon Fund Managers Limited
Phoenix
Equitable Life Assurance Society
Scottish Widows
MGM Assurance
Prudential
Friends Provident
Barclays
Clerical Medical

Legal Advisor

Wragge & Co LLP
3 Waterhouse Square
142 Holborn
London
EC1N 2SW

Scheme Administrator

Xafinity Paymaster Ltd
Sutherland House
Russell Way
Crawley
RH10 1UH

Investment Consultants

Towers Watson
Watson House
London Road Reigate
Surrey
RH2 9PQ

Investment Custodians

The Northern Trust Company
50 Bank Street
Canary Wharf
London
E14 5NT

HSBC Global Investor Services
8 Canada Square
Canary Wharf
London
E14 5HQ

Citibank
Citigroup Centre
Canada Square
Canada Wharf
London
E14 5LB

Bank

Lloyds TSB Bank plc
City Office Branch
25 Gresham Street
London
EC2V 7HN

Life Assurance Insurers

Legal & General (Spouses Pension)
Canada Life (Death in Service Lump Sum)

Secretary to the Trustees

Philip Cameron

Principle Employer (the "Employer")

Thales UK Ltd

Participating Employers

Section 1	Section 2
Quintec Associates Ltd	Quintec Associates Ltd
Thales UK Ltd	Thales Air Defence Ltd
Thales Corporate Services Ltd	Thales Corporate Services Ltd
Thales Naval Ltd	Thales Information Systems Ltd
Thales e-Security Ltd	Thales Optronics Ltd
Thales Transport & Security Ltd	Thales Training & Simulation Ltd
Thales ATM Ltd	Thales e-Security Ltd
Thales Avionics Ltd	Thales UK Ltd
Thales Information Systems Ltd	Thales ATM Ltd
Thales Missile Electronics Ltd	Thales Avionics Ltd
Thales Optronics Ltd	Thales Training & Simulation (Ace) Ltd
Thales Optronics (Staines) Ltd	Thales Optronics (Staines) Ltd
Thales Optronics (Taunton) Ltd	Thales Optronics (Taunton) Ltd
Thales Research & Technology (UK) Ltd	Thales Training & Simulation (Merlin) Ltd
Thales Training & Simulation Ltd	Thales Missile Electronics Ltd
Thales Underwater Systems Ltd	Thales Naval Ltd
Thales Training & Consultancy Ltd	Thales Research & Technology (UK) Ltd
Thales Air Defence Ltd	Thales Transport & Security Ltd
Thales Rail Signalling Solutions Ltd	Thales Underwater Systems Ltd
	Thales Rail Signalling Solutions Ltd
	Thales Training & Consultancy Ltd
	Thales Training & Simulation (Eagle) Ltd

Contact for further information

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 C/o Thales UK Ltd
 2 Dashwood Lang Road
 The Bourne Business Park
 Addlestone nr Weybridge
 Surrey
 KT15 2NX

TRUSTEE'S REPORT

Introduction

The Trustee of the Thales UK Pension Scheme (the "Scheme") is pleased to present its report together with the financial statements for the year ended 31 December 2011. The Scheme is a Defined Benefit scheme governed by a Trust Deed dated 30 June 2008. With effect from 1 July 2008, the Scheme merged with 8 other Thales Defined Benefit Schemes. The active members of the Avimo Pension Scheme also transferred into the Scheme at this date.

Management of the Scheme

Exceeding the requirements of the Occupational Pension Scheme (Member-nominated Trustees and Directors) Regulations 2006, half of the Trustee Directors are appointed by Thales UK Ltd, and half are appointed by the active and pensioner membership.

During the year under review and after the year end the Trustee of the Scheme has been Thales Pension Trustees Ltd, whose Directors are:

Lord Roger Freeman (Company Nominated) – Appointed 15.03.2011
Phil Naybour (Company Nominated)
Paul Durrant (Company Nominated)
James Bell (Member Nominated)
Robert Preston (Member Nominated)
Colin Milbourn (Member Nominated)
Robert Carr (Member Nominated)
Joelle Dumetz (Member Nominated)
Victor Chavez (Company Nominated) – Resignation Date 29.03.2012
Lawrence Hammond (Company Nominated)
Mark Busby (Company Nominated) – Resignation Date 31.12.2011
Alistair Inverarity (Member Nominated)
Ken McSweeney (Company Nominated) Appointed 29.3.2012
Dean Mason (Company Nominated) Appointed 29.3.2012

The Member Nominated Trustee Directors may be removed before the end of their term only by agreement of all remaining Trustee Directors, although their appointment ceases should they cease to be an active or pensioner member of the Scheme. In accordance with the Trust Deed, the Employer, Thales UK Ltd, has the power to appoint and remove the Company Nominated Directors.

The Scheme is provided for all eligible employees of the Employer and the Participating Employers detailed on pages 4 and 5. The Employer's registered address is 2 Dashwood Lang Road, The Bourne Business Park, Addlestone nr Weybridge, Surrey, KT15 2NX.

TRUSTEE'S REPORT (CONTINUED)

Financial Developments

The financial statements on pages 19 to 36 have been prepared and audited in accordance with the Regulations made under Sections 41 (1) and (6) of the Pensions Act 1995.

During the year the Scheme's assets increased by £80,480,000. This was as a result of a net return on investments of £85,675,000 and contributions of £78,912,000 being offset by benefits and expenditure payments of £84,107,000.

The first formal valuation of the Scheme has been undertaken as at 31 December 2008, and approved by the Scheme Actuary on 1 April 2010.

Section 1

The valuation revealed a deficit of £527m, representing a funding level of 65% relative to the Scheme's funding target. The Trustee and Employer have agreed that from 1 April 2010 the employer will contribute as follows:-

- £300,000 per month until 31 May 2010, plus
- 6.9% of members Career Average Revalued Earnings (CARE) Salaries increasing to 11.9% of members' CARE Salaries from 1 June 2010, plus
- £44m per annum, payable in monthly instalments for the period 1 April 2010 to 31 December 2022, plus
- Amounts equal to the PPF levies

Section 2

The valuation revealed a deficit of £73m at the valuation date, representing a funding level of 81% relative to the Scheme's funding target. The Trustee and Employer have agreed that from 1 April 2010 the employer will contribute as follows:-

- 12.8% of members' CARE Salaries (Pensionable Salary for former Category 1 Thomson Pension Plan members), plus
- £6m per annum, payable in monthly instalments for the period 1 April 2010 to 31 December 2022, plus
- Amounts equal to the PPF levies

Member contribution rates are 6% of CARE Salary up to £40,040 and, in excess of that, 9%. Member contributions are paid through a Salary Sacrifice arrangement.

The Scheme is currently undergoing its second formal triennial actuarial valuation with an effective date of 31 December 2011. The results are expected in early 2013.

Pensions Increases

There have been no pension increases other than those required either by statute, or by reference to the Scheme Rules.

Governance and Risk Management

The Trustee has in place a business plan which sets out its objectives in areas such as administration, investment, funding and communication. In addition, the Trustee has dedicated sub-committees

TRUSTEE'S REPORT, Governance and Risk Management, (CONTINUED)

made up of Directors of the Trustee which focus on Operations, Governance and Investment matters, all of which meet at least quarterly.

The Trustee has an ongoing process of assessing the risks which face the Scheme, and putting in place mitigating actions. Relevant risks are reviewed at each Trustee and subcommittee meeting.

The Trustee has formalised a number of policies and procedures during the year, covering Bribery Act compliance and improvements in cost management and approved signatures.

The Trustee continues to improve governance by use of an electronic system called eShare. This system allows the Trustee to store scheme documentation, share meeting papers and make decisions, electronically, allowing for more robust record keeping.

Trustee Knowledge and Understanding

The Pensions Act 2004 requires the Trustee to have sufficient knowledge and understanding of pensions and trust law and be conversant with the Scheme documentation. The Trustee receives regular training from its advisors in order to maintain high standards of knowledge and understanding, and maintains a record to ensure this is managed.

Pension Protection Fund

The Pension Protection Fund (PPF) Levy currently consists of two parts: a scheme based levy (20%) based on the Scheme's PPF liabilities, and a risk-based levy (80%) based on the level of underfunding in the Scheme and the risk of the Employer becoming insolvent.

The Thales UK Pension Scheme has met all levy requests from the PPF, as detailed in Note 8 of the Financial statements.

Legislation and Scheme Changes

Changes to the annual allowance and lifetime allowance

The Finance Act 2011 significantly reduced the annual allowance (i.e. the maximum 'pension input' that a member is allowed each year without giving rise to a tax charge) from £255,000 to £50,000 with retrospective effect from 6 April 2011. The total pension input is calculated on all of an individual's pension savings in registered pension schemes. It is calculated on the capital value of pension benefits accrued in a defined benefit or CARE scheme, and the amount of contributions paid into a defined contribution scheme.

A three-year 'carry-forward' mechanism enables individuals to set any previously unused annual allowance amounts against one-off spikes in 'pension inputs'. No annual allowance test will apply in the year in which an individual dies, but a test will be made in the last year before an individual draws his benefits on retirement.

In addition, the standard lifetime allowance (i.e. the maximum value of pension fund a member can accumulate over their lifetime without incurring an additional tax charge) will be reduced from £1.8 million to £1.5 million from 6 April 2012.

TRUSTEE'S REPORT, Legislation and Scheme Changes, (CONTINUED)

Relaxing the requirements to take benefits by age 75

From 6 April 2011, the statutory requirement to take certain benefits by age 75 was abolished. There is now no specific age limit by which a member of a pension scheme must draw an annuity or scheme pension to avoid incurring a tax charge.

On reaching age 65 members will be entitled to retire and draw their pension from the Scheme, which will be payable monthly in advance. The pension will be payable after the deduction of tax due under the PAYE system.

The earliest age that legislation permits members to retire and take benefits from the Scheme (other than because of ill health) is age 55. If they want to retire earlier than age 65 they have to get permission from the Company. Unless entitled to receive a pension from age 60 from their Predecessor Scheme without consents (or other conditions) being required.

These changes are not, however, mandatory and schemes can choose whether to adopt them. The Rules of TUPS have not been amended, and still currently require all retirement benefits to be taken by the member's 75th birthday. This will be considered further by the TUPS Trustees in due course.

State pension age

The State Pension Age (SPA) is the earliest age members can draw their State Pension and is specific to member's date of birth. Changes to the SPA were announced in the Government's Spending Review and will see women's retirement ages increasing to 65 between April 2010 and November 2018. Retirement ages are then due to rise to 68 by 2046. These dates are currently subject to change as they are being considered in legislation that is currently before Parliament. As a result these ages may be brought forward.

The Pensions Advisory Service has a State Pension Age Calculator to work out member's SPA. It can be found on its website - www.pensionsadvisoryservice.org.uk.

Family leave

Changes to family leave have been implemented by Thales this year. For any children born (or adoption placement) on or after 3 April 2011, fathers will be able to take additional paternity leave if their wife or partner returns to work without taking their full entitlement to leave.

This additional leave may not be taken until at least 20 weeks after the child's birth or adoption placement, and may last between 2 and 26 weeks. A father taking such leave is entitled to the same rate of statutory pay that the mother would have received had she been on leave. If members are on paid family leave, they will continue to accrue pension benefits under TUPS.

Thales UK Pension Scheme

TRUSTEE'S REPORT (CONTINUED)

Membership Movements

The membership reconciliation for the reporting period is detailed below.

Thales UK Pension Scheme – Section 1

	Actives	Deferreds	Pensioners	Dependant Pensioners	Total
Brought forward figures as at 1/1/2011	1,581	6,228	5,979	1,560	15,348
Late notifications and adjustments*	(5)	(31)	(18)	(6)	(60)
Revised Opening Balance at Start of year	1,576	6,197	5,961	1,554	15,288
ADDITIONS	Actives	Deferreds	Pensioners	Dependant Pensioners	Total
New	-	68	211		279
Spouse's Pensions into Payment				16	16
DEDUCTIONS	Actives	Deferreds	Pensioners	Dependant Pensioners	Total
Actives/Deferred members retiring	(44)	(167)			(211)
Active/Deferreds who fully commuted pension	-	(26)			(26)
Deaths of Actives/Pensioners/Dependants/Deferred Pensioners & Cessation of Children's Pension	(3)	(7)	(193)	(52)	(255)
Leavers with deferred pensions / refunds / Special leavers	(68)	-			(68)
Transfers Out	(2)	(22)			(24)
Membership at 31/12/2011	1,459	6,043	5,979	1,518	14,999

A schedule of the members affected in the above movements is recorded for the annual audit.

*Relates to late the notification of membership changes which resulted in prior year movements being processed in 2011, this also includes adjustments from data cleanse initiatives.

Thales UK Pension Scheme

TRUSTEE'S REPORT (CONTINUED)

Membership Movements

The membership reconciliation for the reporting period is detailed below.

Thales UK Pension Scheme – Section 2

	Actives	Deferreds	Pensioners	Dependant Pensioners	Total
Brought forward figures as at 1/1/2011	2,089	1,924	1,792	324	6,129
Life Assurance Members (included above)	223				223
Late notifications and adjustments*	-	-	(54)	-	(54)
Revised Opening Balance at Start of year	2,089	1,924	1,738	324	6,075
ADDITIONS	Actives	Deferreds	Pensioners	Dependant Pensioners	Total
New		71	179		250
Spouse's Pensions into Payment				10	10
DEDUCTIONS	Actives	Deferreds	Pensioners	Dependant Pensioners	Total
Actives/Deferred members retiring	(81)	(98)			(179)
Active/Deferreds who fully commuted pension	-	(11)			(11)
Deaths of Actives/Pensioners/Dependants/Deferred Pensioners & Cessation of Children's Pension	(2)	(5)	(63)	(22)	(92)
Leavers with deferred pensions / refunds / Special leavers	(71)	-			(71)
Transfers Out	(2)	(10)			(12)
Membership at 31/12/2011	1,933	1,871	1,854	312	5,970
Life Assurance Members (included above)	222				222

A schedule of the members affected in the above movements is recorded for the annual audit.

*Relates to late the notification of membership changes which resulted in prior year movements being processed in 2011, this also includes adjustments from data cleanse initiatives.

TRUSTEE'S REPORT (CONTINUED)

INVESTMENTS

General

The Trustee has sole responsibility for establishing and reviewing the investment strategy including setting objectives and the allocation to each asset class. The Trustee delegates the selection and monitoring of fund managers to the Investment Sub Committee.

The Investment Sub Committee monitors the assets of the two sections of the Thales UK Pension Scheme. In broad terms, the two Sections follow the same investment strategy.

During the course of the accounting period, the investment managers have been:

AE Global Investment Solutions Ltd (Aegis)
BlackRock Advisors
Canyon Value Realization Fund (Cayman) Ltd
Credit Suisse Asset Management (from September 2011)
Equitix Ltd (from October 2011)
Legal & General Investment Management Ltd
Majedie Asset Management
Rogge Global Partners plc
Standard Life Investments Ltd (from September 2011)
Stone Harbor Investment Partners (UK) LLP (from September 2011)
Vontobel Asset Management (from October 2011)

Review of Investment Performance of the Scheme

From 31 January 2005, when the Thales UK Common Investment Fund (CIF), forerunner of TUPS for investment purpose, was set up, until 31 December 2011, the Scheme returned 7.2% per annum (after investment management fees) against a benchmark return of 6.7% per annum as measured by the schemes independent performance monitor, Northern Trust, Scheme Custodian.

The total assets held by the Scheme, as at 31 December 2011, were approximately £1.67 billion (31 December 2010: £1.58 billion).

Thales UK Pension Scheme

TRUSTEE'S REPORT (CONTINUED)

Investment performance for the year 31 December 2010 to 31 December 2011 is set out below:

Manager name	12 months (%)			Benchmark	Mandate	Outperformance target (relative to benchmark)
	Fund	B'mark	+/-			
Thales UK Pension Scheme	5.5	6.2	-0.7	Weighted composite index		
Equity	-6.3	-6.3	0.0	Weighted composite index		
L&G UK Equity	-3.3	-3.5	0.2	FTSE All Share	Passive	n/a
Majedie UK Equity	0.2	-3.5	3.7	FTSE All Share	Active	Absolute return
L&G Global Equity	-8.0	-7.0	-1.0	Fixed Weight Composite Index (part hedged)	Passive	n/a
L&G Global ex UK Equity	-9.8	-9.8	0.0	Fixed Weight Composite Index (part hedged)	Passive	n/a
L&G Emerging Markets	-	-	-	FTSE-RAFI Emerging Markets Equity Index	Passive	n/a
Vontobel Emerging Markets	-	-	-	Fixed Weight Composite Emerging Market Equity Index	Active	Absolute return
Credit	11.6	11.6	0.0	Weighted composite index		
Blackrock Global Screened	6.2	5.9	0.3	Barclays Capital Corporate 500 USD/EUR/GBP – Financial and Issue Capped	Passive	n/a
Blackrock North American	17.0	17.3	-0.3	Barclays Capital US Long Credit Select Index	Passive	n/a
L&G UK AAA - AA - A	12.2	11.9	0.3	iBoxx £ Non Gilt (ex BBB)	Passive	n/a
Rogge Global	5.1	5.3	-0.2	Barclays Capital Global Aggregate Credit (hedged)	Active	1.5% pa
Liquid Alternatives	1.4	1.9	-0.5	Weighted composite index		
AEGIS (Rogge)	-4.2	-1.2	-3.0	Euro LIBOR 3 month	Active	Absolute return
Canyon Credit Hedge Fund	-2.1	1.0	-3.1	USD LIBOR 3 month	Active	Absolute return
Credit Suisse IR	-	-	-	USD LIBOR 3 month	Passive	n/a
Rogge EM	-	-	-	GBP LIBOR 3 month	Passive	n/a
Stone Harbor	-	-	-	Fixed Weight Composite Index	Active	Absolute return
Illiquids	-	-	-	Weighted composite index		
Equitix	-	-	-	n/a	Active	Absolute return
Standard Life Property	-	-	-	IPD Pooled Property Funds Index – Median Return	Active	Outperform index over a 3-year rolling period
Liability matching	-	-	-			
L&G Matching 1	17.6	n/a	n/a	n/a	Passive	n/a
L&G Matching 2	18.0	n/a	n/a	n/a	Passive	n/a
Cash	-	-	-			
Blackrock Liquidity Fund	-	-	-	7 day GBP LIBID	Passive	n/a

Source: Northern Trust

Note: 12 month data is unavailable for those funds entered into part way through the year.

TRUSTEE'S REPORT (CONTINUED)

The L&G Global Equity investments consist of investments in a number of underlying pooled funds that are passively managed against an appropriate regional benchmark index. Each fund's performance tracked its respective benchmark index to within an acceptable margin. The difference between the returns reported above and the benchmark return calculated by Northern Trust are a result of differences in the geographical allocation of the portfolios compared with the global benchmark.

Market Review for 12 months from 1 January to 31 December 2011

Summary

The year as a whole was dominated by market moves in the second half, which saw widespread falls in risky assets and rises in bond markets. These moves were driven by a combination of two main factors:

- i) Slow progress in dealing with the European debt crisis, which continued to put a strain on European sovereign and bank funding; and
- ii) Mediocre growth rates reported by a number of countries in the developed world combined with a necessary slowdown in over-capacity emerging economies.

In response to these factors, policymakers stepped up their actions in the final two months of the year. Most importantly, with deleveraging risks still prominent and growth in debtor economies weak, central banks chose to 'print' more money and buy debt. The Federal Reserve in the US bought longer maturity domestic bonds, as did the Bank of England. The European Central Bank extended its purchases of periphery bonds and provided huge amounts of liquidity to European banks to help ease their immediate funding strains and prevent a near term disorderly shock.

Emerging market assets were hit by the rise in risk aversion and capital outflows towards the end of the year. However, data indicated that domestic demand has been resilient despite the downturn in exports due to modest US and European growth.

Equity markets

Global equity markets were predominately negative over the year. The FTSE All-World Index delivered a return of -6.6% (in sterling terms), with the majority of these falls coming in the third quarter as economic data readings deteriorated. Towards the end of the year, coordinated policy action by central banks helped to improve conditions and led to rallies in a number of markets. Of the regional equity indices, only North America generated positive returns over the year (in sterling terms). Emerging market equities fell significantly over the year (-18.4% as measured by FTSE AW All Emerging Index) with India being among the worst performers, returning -35.6% (in sterling terms) over the year.

Within the UK market, the FTSE All-Share Index returned -3.5% over the year, with large cap companies performing much better than small cap companies, particularly during the final months of the year.

TRUSTEE'S REPORT (CONTINUED)

Bond markets

Major bond markets produced relatively strong returns over the year as risk aversion as concerns over global growth levels led to rallies in perceived 'safe haven' markets. Yield curves in all major nominal and real bond markets flattened significantly in the last few months of the year as bond investors discounted a slower pace of economic growth in developed markets.

In the UK, corporate bonds returned 6.9% (as measured by the iBoxx Sterling Non-Gilts Index). Index-linked gilts returned 19.9%, outperforming fixed interest gilts which returned 15.6% (both measured by FTSE). Longer duration gilts saw significantly better performance than shorter-dated issues, with over 15 year index-linked gilts and over 15 year fixed interest gilts returning 25.9% and 26.3% respectively.

Corporate bond spreads remained volatile throughout the year, finishing at close to their highest level since the beginning of 2010. This was driven by ongoing liquidity pressures and increased uncertainty around the European debt crisis.

Alternative investment markets

UK commercial property returned 8.1% over the year (as measured by IPD Monthly Property Index). Property yields have remained stable over the last 12 months, however the spread over gilts has increased, largely due to the continued fall in gilt yields over the year.

Volatile and unpredictable market dynamics throughout the year created a challenging environment for hedge funds in 2011. The HFRI Fund Weighted Composite returned -5.2% (in US dollar terms) over the 12 months to 31 December 2011.

Investment Principles

The Trustee of the Thales UK Pension Scheme has produced a Statement of Investment Principles ("the Statement") in accordance with Section 35 of the Pensions Act 1995. A copy of the Statement is available on request. The main priority of the Trustee when considering the investment policy is to ensure that the commitments made about members' pensions may be fulfilled. To ensure this, investments are spread by type of investment (equities, bonds, etc.) and geographically. Spreading the investments in this way reduces the risk of a sharp fall in one particular market having a substantial impact on the whole fund.

As part of the monthly cashflow of Scheme investments and disinvestments, the Trustee ensured that the Scheme asset allocations remained within the ranges agreed with the Scheme.

The Myners Review and Code of Best Practice

During the year the Trustee, in conjunction with its professional advisers, continued to review the recommendations contained in the Government's response to the Myners Review which set out a Code of Best Practice to assess the Scheme's level of compliance with these recommendations.

The Trustee understood that the primary purpose of the Code of Best Practice was to ensure that the Trustee had the right skill set and decision-making structures and also that it had clear objectives for the Scheme and an appropriate and well documented strategy in place for achieving these

TRUSTEE'S REPORT, The Myners Review and Code of Best Practice, (CONTINUED)

objectives. In a similar vein, the Trustee knew that it should set explicit goals for the fund managers used by the Scheme.

The Investment Sub-Committee and the Trustee in general have been continuing to working closely with their advisers to set clear objectives and make strategic asset allocation decisions for the Scheme during these difficult market conditions.

The Trustee, and in particular the Investment Sub-Committee, continually reviews its training needs, and the skills of its Directors to ensure effective decision-making, taking independent expert advice as appropriate.

Custodial Arrangements

The Trustee, and the Trustee of the Thales CIF before it, appointed Northern Trust Company as the Scheme's main custodian.

The custodian is responsible for the safe keeping, monitoring and reconciliation of documentation relating to the ownership of investments. Investments are held in the name of the custodians' nominee companies, in line with common practice for pension scheme investments.

Xafinity Paymaster Limited has been appointed by the Trustee as custodian of the cash held in connection with the administration of the Scheme.

The Trustee is responsible for ensuring the Scheme's assets continue to be securely held. It reviews its custodial arrangements from time to time.

Basis of Investment Managers' Fees


Within the Scheme, investment managers are paid on a mixture of performance-related based fees and fund value based fees rather than a fixed fee basis. The Trustee believed that this provided those investment managers with a greater alignment with the Trustee's interests. The fee bases of the managers will be reviewed periodically by the Investment Sub-Committee on behalf of the Trustee.

Further Information

Further disclosures required by legislation are included in the Compliance Statement on pages 41 and 42.

Signed on behalf of THALES PENSION TRUSTEES LIMITED on 26 June 2012


-----TRUSTEE DIRECTOR


-----TRUSTEE DIRECTOR

STATEMENT OF TRUSTEE'S RESPONSIBILITIES

The financial statements are the responsibility of the Trustee. The trust deed requires the Trustee to make available to Scheme members, beneficiaries and certain other parties, audited financial statements for each Scheme accounting period which:

- show a true and fair view of the financial transactions of the Scheme during the Scheme period and of the amount and disposition, at the end of that period, of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme period, in accordance with the applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).
- Contain the information specified in the Schedule to the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the financial statements have been prepared in accordance with the Statement of Recommended Practice "Financial reports of Pension Schemes".

The Trustee has supervised the preparation of the financial statements and has agreed suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis. The Trustee is also responsible for making available certain other information about the Scheme in the form of an Annual Report.

The Trustee is responsible under pensions legislation for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions showing the rates of contributions payable towards the Scheme by or on behalf of the Employer and the active members of the Scheme and the dates on or before which such contributions are to be paid. The Trustee is also responsible for keeping records in respect of contributions received in respect of any active member of the Scheme and for monitoring whether contributions are made to the Scheme by the employer in accordance with the Schedule of Contributions. Where breaches of the Schedule occur, the Trustee is required by the Pensions Acts 1995 and 2004 to consider making reports to the Pensions Regulator and the members.

The Trustee also has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to it to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

The Trustee is responsible for the maintenance and integrity of the corporate and financial information included on the Scheme's website. Legislation in the United Kingdom governing the preparation and dissemination of financial information differs from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF THE THALES UK PENSION SCHEME

We have audited the financial statements of the Thales UK Pension Scheme for the year ended 31 December 2011 which comprise the fund account, the net assets statement 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 Trustee, as a body, in accordance with regulation 3 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Trustee those matters we are required to state to them in an 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 Trustees as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Trustee and the auditor

As explained more fully in the Statement of Trustee's Responsibilities, the Scheme's Trustees are responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the 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 financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the 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 Scheme's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Trustees; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report 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 financial statements

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the year ended 31 December 2011, and of the amount and disposition at that date of its assets and liabilities, other than the liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- contain the information specified in Regulation 3 of, and the Schedule to, the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.



Deloitte LLP

Chartered Accountants and Statutory Auditor

Crawley, United Kingdom

26 June 2012

Thales UK Pension Scheme

Financial Statements

Fund Account - For the year ended 31 December 2011

	Notes	Section One £'000	Section Two £'000	2011 £'000	2010 £'000
Contributions and Benefits					
Contributions	3	57,749	20,127	77,876	79,872
Other income	4	681	355	1,036	1,231
		58,430	20,482	78,912	81,103
Benefits	5	58,368	13,734	72,102	68,421
Leavers	6	2,406	959	3,365	4,080
Other payments	7	1,245	1,350	2,595	2,237
Administrative expenses	8	4,134	1,911	6,045	6,643
		66,153	17,954	84,107	81,381
Net (withdrawals)/additions from dealings with members		(7,723)	2,528	(5,195)	(278)
Returns on investments					
Investment income	9	22,650	6,871	29,521	26,696
Investment management expenses	10	(2,955)	(960)	(3,915)	(2,760)
Change in market value of investments	11	55,544	14,703	70,247	147,616
Exchange rate (losses)	11	(7,867)	(2,311)	(10,178)	(1,302)
Net returns on investments		67,372	18,303	85,675	170,250
Net increase in the fund during the year		59,649	20,831	80,480	169,972
Net Assets of the Scheme					
At 1 January		1,209,882	407,899	1,617,781	1,447,809
At 31 December		1,269,531	428,730	1,698,261	1,617,781

The notes on pages 21 to 36 form part of these financial statements.

Financial Statements

Net Assets Statement – As at 31 December 2011

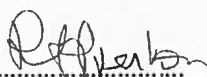
	Notes	2011 £'000	2010 £'000
Section One			
Investment assets	11	1,259,768	1,204,518
Investment liabilities	11	(2,459)	(6,238)
Current assets	12	13,081	14,493
Current liabilities	13	(859)	(2,891)
Net Assets		<u>1,269,531</u>	<u>1,209,882</u>
Section Two			
Investment assets	11	425,090	406,247
Investment liabilities	11	(758)	(1,949)
Current assets	12	4,733	4,875
Current liabilities	13	(335)	(1,274)
Net Assets		<u>428,730</u>	<u>407,899</u>
Net assets at 31 December		<u>1,698,261</u>	<u>1,617,781</u>

The accounts summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which does take account of such obligations, is dealt with in the Trustee’s Report included in the Annual Report and these accounts should be read in conjunction with it.

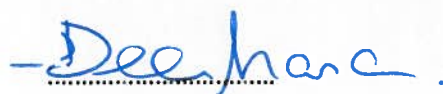
The notes on pages 21 to 36 form part of these financial statements.

The financial statements on pages 19 to 36 were approved on behalf of the Trustees on 26 June 2012.

Signed on behalf of Thales Pension Trustees Ltd


.....

Trustee Director


.....

Trustee Director

Notes to the Financial Statements **For the year ended 31 December 2011**

1. Basis of preparation

These financial statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, and with the guidelines set out in the Statement of Recommended Practice, Financial Reports of Pension Schemes (Revised May 2007).

2. Accounting policies

A Contributions and benefits

Contributions and benefits are accounted for in the period in which they fall due.

Normal contributions and deficit funding contributions are accounted for in the period they fell due in accordance with the Scheme rules, recommendations of the actuary and applicable schedules of contributions.

Section 75 debts are accounted for when paid or determined by the scheme actuary whichever is earliest.

Augmentations relate to the cost of augmenting benefits of certain retiring members, as advised by the Actuary, and are accounted for in accordance with the agreement under which they are received, or in the absence of an agreement, on a receipts basis.

B Transfers

Individual transfers are accounted for when the transfer has been agreed by both parties and the receiving scheme has accepted liability for the transfer.

Group transfers are accounted for on an accruals basis where the Trustee has agreed to accept the liability for member's benefits.

C Investment income

Investment income has been accounted for on an accruals basis.

Income from equity securities has been recognised on the date the stocks were quoted ex-dividend.

Foreign income is translated into sterling at the rate ruling at the date of the transaction.

D Administrative expenses and investment management expenses

All administrative and investment manager expenses are met by the Scheme.

Notes to the Financial Statements For the year ended 31 December 2011

2. Accounting policies (continued)

E Apportionment of Investment Funds

The Scheme owns total units within the Unitised Investment Funds (IF) in issue. For administrative purposes Section 1 and Section 2 invest separately in the Investment Funds to meet their investment requirements. Units are offered for subscription or surrender each month at a price which reflects the market value of the underlying assets of the IFs.

At the end of each month, the IFs are revalued and a unit price calculated for each IF. Purchases and sales of units by each Section are transacted on the first working day of the month using the relevant unit values.

F Valuation of investments

Quoted investments are valued at the last traded price on the relevant stock exchange.

The market value of pooled investment vehicles is taken as the bid price at the accounting date as advised by the investment managers.

Investments not denominated in sterling have been translated at the closing exchange rate as of that date.

Investments include cash balances held by the custodians on behalf of the investment manager, which are required for the day to day management of the investments.

All gains and losses on investments including those arising on derivative financial instruments, whether realised or unrealised, excluding unrealised gains or losses on futures contracts, are included in the change in market value for the period.

G Derivatives

Derivative contracts are valued at fair value. Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices.

Derivative contracts' changes in fair value are included in change in market value where the economic purpose of the contracts relates to assets. Where the economic purpose relates to income the change in fair value is included in investment income.

The fair value of futures contracts is determined using exchange prices at the reporting date. The fair value is the unrealised profit or loss at the current bid or offer market quoted price of the contract. The amounts included in change in market value are the realised and unrealised gains and losses.

The fair value of forward currency contracts is based on market forward exchange rates at the year end date and represents the gain or loss that would arise if the outstanding contract was matched at the year end with an equal and opposite contract.

H Foreign Currencies

Transactions in foreign currencies during the period are converted at the rate of exchange ruling at the dates of the transactions. Overseas investments and bank and short term deposits in foreign currencies are translated at the rates of exchange ruling at the Scheme year end.

Thales UK Pension Scheme

Notes to the Financial Statements

For the year ended 31 December 2011

	Section One £'000	Section Two £'000	2011 £'000	2010 £'000
3 Contributions				
Contributions from employer:				
Normal	11,665	13,270	24,935	24,115
Deficit funding	44,000	6,000	50,000	50,000
Augmentations	-	36	36	178
Other – PPF Levy	1,803	821	2,624	5,579
Other - Top ups	281	-	281	-
	<u>57,749</u>	<u>20,127</u>	<u>77,876</u>	<u>79,872</u>

Normal contributions from the employer include £4,162,000 and £4,412,000 (2010: £4,384,000 and £4,545,000) member contributions paid through a salary sacrifice arrangement in respect of Section one and Section two respectively.

Ongoing deficit funding of £44m per annum is payable for Section One, and £6m per annum is payable for Section Two for the period 1 April 2010 to 31 December 2022 to reduce the funding shortfall.

Employer other top up contributions relate to amounts received from the employer to fund additional benefit payments made to existing pensioners.

The Scheme no longer offers AVC investments to members of the legacy schemes.

4 Other income

Claims on term insurance policies	660	350	1,010	1,157
State scheme premiums refund	13	5	18	70
Sundry income	8	-	8	4
	<u>681</u>	<u>355</u>	<u>1,036</u>	<u>1,231</u>

5 Benefits

Pensions	52,662	10,044	62,706	59,401
Commutations and lump sums on retirement	4,770	3,073	7,843	7,720
Annuities purchased	49	42	91	5
Lump sums on death	887	575	1,462	1,295
	<u>58,368</u>	<u>13,734</u>	<u>72,102</u>	<u>68,421</u>

6 Payments to and on account of leavers

Individual transfers to other schemes	2,406	959	3,365	4,080
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Thales UK Pension Scheme

Notes to the Financial Statements

For the year ended 31 December 2011

	Section One £'000	Section Two £'000	2011 £'000	2010 £'000
7 Other payments				
Premiums on term insurance policies	1,245	1,350	2,595	2,237
Term insurance is secured by policies underwritten by Canada Life Limited and Legal & General.				
8 Administrative expenses				
Administration fees	487	192	679	837
Actuarial and consulting fees	1,424	539	1,963	2,277
Legal fees	285	270	555	468
Audit fees	64	64	128	174
Other expenses	64	24	88	96
PPF Levy	1,810	822	2,632	2,791
	<u>4,134</u>	<u>1,911</u>	<u>6,045</u>	<u>6,643</u>
9 Investment income				
Income from fixed interest securities	11,688	3,163	14,851	14,838
Dividends from equities	5,131	1,672	6,803	4,935
Income from managed & unitised-authorized	529	505	1,034	715
Income from index linked securities	2,619	1,256	3,875	3,687
Interest on cash and deposits	869	272	1,141	30
Annuity income	1,814	3	1,817	2,491
	<u>22,650</u>	<u>6,871</u>	<u>29,521</u>	<u>26,696</u>
10 Investment management expenses				
Administration, management and custody	2,955	960	3,915	2,760

Thales UK Pension Scheme

Notes to the Financial Statements

For the year ended 31 December 2011

11 Investments

	Section One £'000	Section Two £'000	2011 £'000	2010 £'000
Investment assets	1,259,768	425,090	1,684,858	1,610,765
Investment liabilities	(2,459)	(758)	(3,217)	(8,187)
	1,257,309	424,332	1,681,641	1,602,578

Investment liabilities relate to derivative investments. Investment assets include derivative related assets of £2,489,000 (2010 £3,580,000).

The table below shows the investment asset split between Sections by investment strategy type.

	Section One £'000	Section Two £'000	2011 £'000	Restated 2010 £'000
Investments by strategy type				
Cash	4,271	3,439	7,710	-
Equity	423,499	142,092	565,591	699,636
Illiquids	10,110	3,709	13,819	-
Investment Grade Credit	388,675	119,819	508,494	562,401
Liquid Alternative	128,598	49,609	178,207	104,216
Derivatives	(557)	(171)	(728)	(3,565)
Total Unitised funds	954,596	318,497	1,273,093	1,362,688
Non unitised funds				
Fixed interest bonds	299,397	89,043	388,440	217,109
	1,253,993	407,540	1,661,533	1,579,797
AVC investments	3,316	16,792	20,108	22,781
	1,257,309	424,332	1,681,641	1,602,578

The investments are further analysed within the various funds that comprise Unitised and Derivative Funds of the Thales UK Pension in sections headed **The movements of investments in the year** below.

The Unitisation Funds have been reorganised, therefore 2010 figures have been reallocated to show the changes

Non unitised fixed bonds represent investments designated as collateral. However none was pledged at the year end.

The comparative figures have been restated in line with the new strategy groupings introduced during the year.

Notes to the Financial Statements

For the year ended 31 December 2011

11 Investments (continued)

The movements of investments in the year:

	Market Value at 31 December 2010 £'000	Purchase at cost and derivative payments £'000	Sales proceeds and derivative receipts £'000	Change in Market Value £'000	Market Value at 31 December 2011 £'000
Fixed interest securities	310,504	120,098	(111,207)	15,051	334,446
Index linked securities	213,328	57,217	(53,646)	34,742	251,641
Equities	153,288	97,727	(126,812)	(6,787)	117,416
Pooled investment vehicles	882,838	555,820	(527,701)	22,275	933,232
Derivatives					
Futures	1,156	3,358	(1,763)	(2,965)	(214)
Variation margin futures	(1,156)	1,156	-	214	214
Forward contracts	(3,565)	5,313,281	(5,318,880)	8,436	(728)
AVC investments	22,781	571	(2,525)	(719)	20,108
	<u>1,579,174</u>	<u>6,149,228</u>	<u>(6,142,534)</u>	<u>70,247</u>	<u>1,656,115</u>
Cash - Sterling	12,987				16,827
Cash - Foreign currency	4,565				2,574
Investment income receivable	5,852				6,125
	<u>1,602,578</u>				<u>1,681,641</u>

Included within the above purchases and sales figures are transaction costs of £895,910 (2010: £851,635). Indirect transaction costs are also borne by the Scheme which are incurred through the bid-offer spread on investments within pooled investment vehicles. However, such costs are taken into account in calculating the market price and are not therefore separately identifiable.

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

Notes to the Financial Statements

For the year ended 31 December 2011

11 Investments (continued)

Section One

The movements of investments in the year:

	Market Value at 31 December 2010 £'000	Purchase at cost and derivative payments £'000	Sales proceeds and derivative receipts £'000	Change in Market Value £'000	Market Value at 31 December 2011 £'000
Fixed interest securities	234,563	91,603	(84,835)	13,095	254,426
Index linked securities	164,787	43,093	(41,279)	26,553	193,154
Equities	116,320	73,860	(95,534)	(6,727)	87,919
Pooled investment vehicles	664,094	413,723	(395,170)	18,238	700,885
Derivatives					
Futures	881	2,564	(1,347)	(2,262)	(164)
Variation margin futures	(881)	881	-	164	164
Forward contracts	(2,718)	4,058,393	(4,062,657)	6,425	(557)
AVC investments	3,766	-	(508)	58	3,316
	<u>1,180,812</u>	<u>4,684,117</u>	<u>(4,681,330)</u>	<u>55,544</u>	<u>1,239,143</u>
Cash - Sterling	9,625				11,711
Cash - Foreign currency	3,383				1,791
Investment income receivable	4,460				4,664
	<u>1,198,280</u>				<u>1,257,309</u>

Thales UK Pension Scheme

Notes to the Financial Statements

For the year ended 31 December 2011

11 Investments (continued)

Section Two

The movements of investments in the year:

	Market Value at 31 December 2010 £'000	Purchase at cost and derivative payments £'000	Sales proceeds and derivative receipts £'000	Change in Market Value £'000	Market Value at 31 December 2011 £'000
Fixed interest securities	75,941	28,495	(26,372)	1,956	80,020
Index linked securities	48,541	14,124	(12,367)	8,189	58,487
Equities	36,968	23,867	(31,278)	(60)	29,497
Pooled investment vehicles	218,744	142,097	(132,531)	4,037	232,347
Derivatives					
Futures	275	794	(416)	(703)	(50)
Variation margin futures	(275)	275	-	50	50
Forward contracts	(847)	1,254,888	(1,256,223)	2,011	(171)
AVC investments	19,015	571	(2,017)	(777)	16,792
	398,362	1,465,111	(1,461,204)	14,703	416,972
Cash - Sterling	3,362				5,116
Cash - Foreign currency	1,182				783
Investment income receivable	1,392				1,461
	404,298				424,332

The pooled investment vehicles for both sections are operated by UK registered companies except for the Alternative Investment Funds which are operated by Cayman or Irish registered companies.

The purchases in AVC investments is the reinvestment of dividends received.

	Section One £'000	Section Two £'000	2011 £'000	2010 £'000
Fixed interest securities:				
UK public sector quoted	6,637	2,046	8,683	3,289
UK corporate quoted	5,475	1,722	7,197	19,029
Overseas public sector quoted	12,084	3,864	15,948	13,461
Overseas corporate quoted	230,230	72,388	302,618	274,725
	254,426	80,020	334,446	310,504

Notes to the Financial Statements

For the year ended 31 December 2011

11 Investments (continued)

	Section One £'000	Section Two £'000	2011 £'000	2010 £'000
Index linked securities:				
UK public sector quoted	153,419	46,618	200,037	213,328
UK corporate quoted	39,735	11,869	51,604	-
	193,154	58,487	251,641	213,328
Equities:				
UK quoted	87,919	29,497	117,416	153,288
Pooled investment vehicles:				
Other	697,004	230,923	927,927	882,838
Property	3,881	1,424	5,305	-
	700,885	232,347	933,232	882,838

Thales UK Pension Scheme

Notes to the Financial Statements For the year ended 31 December 2011

11 Investments (continued)

The table below shows the investments classes split by strategic type.

	£'000	£'000	£'000	£'000	£'000	2011 £'000
	UK Equity and Illiquid	Invest Grade	Liquid Alternative	Cash and Derivatives	Matching Assets	Total Funds
Fixed Interest						
UK Public Quoted	-	4,912	-	-	3,771	8,683
UK Corporate						
Quoted	-	15,948	-	-	-	15,948
O/S Public						
Quoted	-	7,197	-	-	-	7,197
O/S Corporate						
Quoted	-	276,705	25,913	-	-	302,618
Index Linked						
UK Public Quoted	-	-	-	-	200,037	200,037
UK Corporate						
Quoted	-	-	-	-	51,604	51,604
Equities						
UK	117,416	-	-	-	-	117,416
Pooled Investment Vehicles						
Other	445,752	195,575	152,294	1,816	132,490	927,927
Property	5,305	-	-	-	-	5,305
	568,473	500,337	178,207	1,816	387,902	1,636,735
Derivatives	-	-	-	(728)	-	(728)
	568,473	500,337	178,207	1,088	387,902	1,636,007
Cash	10,028	3,492	-	5,880	1	19,401
Investment						
Income						
Receivable	909	4,665	-	14	537	6,125
	579,410	508,494	178,207	6,982	388,440	1,661,533

Notes to the Financial Statements
For the year ended 31 December 2011

11 Investments (continued)

Forward foreign currency contracts (over the counter)

					2011	
Number of Contracts	Settlement date	Currency bought	Currency Sold	Assets £'000	Liabilities £'000	
3	1 month	USD	GBP	1,085	-	
1	1 month	GBP	USD	-	(654)	
2	2 months	GBP	USD	-	(1,051)	
1	2 months	USD	GBP	7	-	
4	2 months	EUR	GBP	-	(46)	
5	2 months	GBP	JPY	-	(76)	
10	2 months	GBP	EUR	1,281	-	
7	2 months	GBP	USD	-	(1,039)	
1	2 months	GBP	USD	5	-	
1	2 months	JPY	GBP	1	-	
1	2 months	DKK	USD	-	(4)	
1	2 months	NOK	USD	-	(161)	
1	2 months	PLN	EUR	17	-	
1	2 months	AUD	EUR	9	-	
2	2 months	EUR	USD	-	(148)	
3	2 months	GBP	AUD	-	(2)	
1	2 months	GBP	CAD	-	(4)	
4	2 months	USD	Various	49	-	
2	2 months	CAD	Various	8	-	
1	3 months	USD	KRW	26	-	
1	6 months	PHP	USD	-	(32)	
1	6 months	CNY	USD	1	-	
				2,489	(3,217)	

The forward foreign currency contracts are held to hedge against foreign currency exposure from various investments. As there are multiple contracts in various currencies, it is impractical to list in detail all of the currencies sold.

The forward foreign currency contracts are not split by section as the contracts are in the name of the Scheme, and not separately by section.

Notes to the Financial Statements
For the year ended 31 December 2011

11 Investments (continued)

Derivative assets/(liabilities) (continued)

Futures (Exchange traded)	Economic exposure £	Expiry	2011	
			Assets £'000	Liabilities £'000
10 Year USA Treasury Notes	3,290,570	March 2012	32	-
10 Year USA Treasury Notes	25,649,570	March 2012	-	(235)
5 Year USA Treasury Notes	8,010,449	March 2012	-	(38)
2 Year USA Treasury Notes	4,683,126	March 2012	1	-
2 Year USA Treasury Notes	25,828,150	March 2012	-	(15)
USA Treasury Bonds	13,977,140	March 2012	139	-
UL Year USA Treasury Bonds	5,256,780	March 2012	-	(28)
Eurx E-Schatz	1,382,516	March 2012	-	(4)
SFE 10 year Treasury Bond	5,568,669	March 2012	62	-
Eurx Eur-Bobl	8,255,911	March 2012	126	-
LIF Long Gilt	11,710,020	March 2012	-	(336)
TSE 10 year JGB	10,718,940	March 2012	-	(59)
10 Year CDN Bnd	12,998,840	March 2012	141	-
			501	(715)

The futures contracts are held as a fixed interest hedge.

The futures contracts are not split by section as the contracts are in the name of the Scheme, and not separately by section.

Notes to the Financial Statements
For the year ended 31 December 2011

11 Investments (continued)

The Trustee holds insurance policies that secure pensions payable to specified beneficiaries. These policies remain assets of the Trustees but, as is permitted under current regulations and accounting practice, the Trustee has decided that these policies need not be valued in the net assets statement.

The Northern Trust Company has been appointed by the Scheme as custodian of the securities held by the Scheme, except those securities held with Legal & General Assurance (Pensions Management) Limited. These securities were held in the name of HSBC Global Investors Services and Citibank.

The Scheme does not hold any employer related investments apart from employers' deficit contributions paid late in the year (March contributions £4,166,667 were paid 16 days late, which represents less than 0.1% of the Scheme's net assets). There were no other direct employer related investments in the year. Due to the nature of the pooled funds the Scheme invests in, the Trustee recognises there will be exposure to indirect employer related investments by virtue of composition of some of the pooled investment vehicles. The Trustee has considered the quantum of the potential exposure, and have concluded that the indirect exposure is minimal and certainly less than 5% of the net assets of the Scheme at the year end.

The following investments represent more than 5% of the net assets of the Scheme:

	At 31 December 2011 £'000	%	At 31 December 2010 £'000	%
UK Gov 1.875% I/L 22/11/2022	138,612	8.2	91,617	5.7
Legal & General North American Equity Index	110,162	6.5	-	-
Legal & General UK Equity Index	-	-	223,249	13.8
Blackrock Index Selection Fund	-	-	109,861	6.8

Notes to the Financial Statements
For the year ended 31 December 2011

11 Investments (continued)

Additional voluntary contributions

The Trustee holds assets which are separately invested from the main fund, in the form of individual policies of assurance arising from members additional voluntary contributions to the Thales legacy schemes. The Scheme no longer offers AVC arrangements for members. The AVC investments secured additional benefits, on a money purchase basis, for those members who had elected to pay AVCs. Members participating in this arrangement receive an individual annual statement made up to 31 March each year, confirming the amounts held in their account and the movements in the year. AVC assets are accounted for on an accruals basis in the same way as other contributions, and the resulting investments are included in the net assets statement.

AVC investments

	Section One £'000	Section Two £'000	2011 £'000	2010 £'000
BNY Mellon	-	10,332	10,332	11,929
Legal & General Assurance Society Limited	973	5,514	6,487	7,106
Equitable Life Assurance Society	1,233	161	1,394	1,696
MGM Assurance	176	-	176	173
Phoenix	142	14	156	136
Prudential	589	-	589	623
Friends Provident	9	-	9	9
Scottish Widows	183	-	183	176
Barclays	11	-	11	11
Clerical Medical	-	51	51	58
F & C Managed Pension Funds	-	720	720	864
	<u>3,316</u>	<u>16,792</u>	<u>20,108</u>	<u>22,781</u>

Post the Scheme year end, the Scheme has completed the transfer all section 2 AVC holdings to Zurich. There are ongoing discussions and consideration for the further transfer of section 1 AVC holdings to Zurich. The fund unit values and movement will continue to be maintained for the two sections separately.

Thales UK Pension Scheme

Notes to the Financial Statements For the year ended 31 December 2011

	Section One £'000	Section Two £'000	2011 £'000	2010 £'000
12 Current assets				
Death benefit receivable	-	-	-	161
Pensions paid in advance	3,124	724	3,848	3,749
Contributions Employer normal	614	713	1,327	1,390
Contributions Employee	341	355	696	721
Contributions Employer other – PPF levy	1,770	799	2,569	2,463
Contributions Employer - Deficit	3,667	500	4,167	4,167
Life assurance paid in advance	539	596	1,135	1,135
AVC benefit receivable from provider	50	128	178	178
Sundry debtors	152	8	160	-
Cash deposits held with Scheme Administrator	2,824	902	3,726	5,394
Inter section balance	-	8	8	10
	13,081	4,733	17,814	19,368

The contributions due as at 31 December 2011 were received after the year end in accordance with the due date set out in the Schedule of contributions.

13 Current liabilities

Lump sums on retirement	103	1	104	367
Death benefits	78	16	94	201
Accrued expenses	669	311	980	3,582
Other creditors	1	7	8	5
Inter section balance	8	-	8	10
	859	335	1,194	4,165

14 Related party transactions

Certain Directors of the Trustee are active members of the Scheme. Their benefits are in accordance with the Scheme rules and were on the same terms as normally granted to members.

Certain pensions were paid by Thales Shared Services Payroll. These were reimbursed by the Scheme on a monthly basis. The costs associated with the pension payroll arrangement are contained in note 5.

Notes to the Financial Statements
For the year ended 31 December 2011

15 Post balance sheet events

A Section 75 debt was triggered in Section 1 in June 2009 in respect of the cessation of Thales Training and Consultancy Limited as a participating employer. The arrangements for dealing with the debt are currently being finalised. The debt has been certified by the Scheme Actuary at £7.5m. The Trustees and the Principal Employer have agreed to deal with this by way of an apportionment arrangement whereby Thales Training and Consultancy Limited pay £1 with the balance being guaranteed by Thales UK Limited, a deed of apportionment to put this arrangement into place is currently being prepared.

CERTIFICATION OF SCHEDULE OF CONTRIBUTIONS
SECTION 1

Certification of schedule of contributions

Name of Scheme and Name of Section

Thales UK Pension Scheme – Section 1

Adequacy of rates of contributions

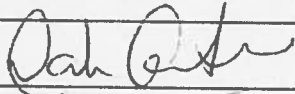
1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective can be expected to be met by the end of the period specified in the recovery plan dated 1 April 2010.

Adherence to statement of funding principles

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the statement of funding principles dated 1 April 2010.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the section's liabilities by the purchase of annuities, if the section were to be wound up.

Signature



Scheme Actuary

M Condron

Date of signing

1 April 2010

Name of employer

Mercer Limited

Address

Tower Place West
London
EC3R 5BU

Qualification

Fellow of the Faculty of Actuaries

CERTIFICATION OF SCHEDULE OF CONTRIBUTIONS
SECTION 2

Certification of schedule of contributions

Name of Scheme and name of section

Thales UK Pension Scheme – Section 2

Adequacy of rates of contributions

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective can be expected to be met by the end of the period specified in the recovery plan dated 1 April 2010.

Adherence to statement of funding principles

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the statement of funding principles dated 1 April 2010.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the section's liabilities by the purchase of annuities, if the section were to be wound up.

Signature



Scheme Actuary

M Condron

Date of signing

1 April 2010

Name of employer

Mercer Limited

Address

Tower Place West
London, EC3R 5BU

Qualification

Fellow of the Faculty of Actuaries

CERTIFICATE OF TECHNICAL PROVISIONS – SECTION 1

Certification

Certificate of technical provisions

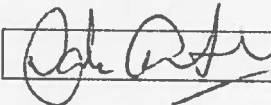
Name of Scheme and
Name of Section

Thales UK Pension Scheme – Section 1

Calculation of technical provisions

I certify that, in my opinion, the calculation of the Section's technical provisions as at 31 December 2008 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the trustees of the Scheme and set out in the statement of funding principles dated 1 April 2010.

Signature



Name

M Condron

Date of signing

1 April 2010

Address

Mercer Limited
Tower Place West,
London, EC3R 5BU

Qualification

Fellow of the Faculty of Actuaries

CERTIFICATE OF TECHNICAL PROVISIONS – SECTION 2

Certification

Certificate of technical provisions

Name of Scheme and name of Section

Thales UK Pension Scheme – Section 2

Calculation of technical provisions

I certify that, in my opinion, the calculation of the Section's technical provisions as at 31 December 2008 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the trustees of the Scheme and set out in the statement of funding principles dated 1 April 2010.

Signature



Name

M Condron

Date of signing

1 April 2010

Address

Mercer Limited
Tower Place West,
London, EC3R 5BU

Qualification

Fellow of the Faculty of Actuaries

COMPLIANCE STATEMENT

Constitution

The Scheme is a defined benefit Career Average Revalued Earnings (CARE) arrangement, with legacy final salary benefits, and was established by deed on 9 January 2008. It is governed by the Supplementary Deed and Rules.

Taxation status

In accordance with the provisions of Schedule 36 of Finance Act 2004 the Scheme became a registered pension scheme under Chapter 2 of Part 4 of Finance Act 2004.

Pension increases

Pensions in payment during the year were increased in accordance with the Rules.

The Guaranteed Minimum Pension ("GMP") element of both deferred pensions and pensions in payment were increased as required by legislation. These increases are also provided for in the Rules of the Scheme. Deferred Pensions in excess of the GMP are increased in line with statutory requirements.

Calculation of transfer values

No allowance is made in the calculation of transfer values for discretionary pension increases.

All cash equivalents (transfer values) paid during the year have been calculated and verified in the manner required by the regulations issued under section 97 of the Pension Schemes Act 1993. None of the cash equivalents paid were less than the amount provided for under section 94(1) of the Pension Schemes Act 1993.

Pension Tracing Service

The Pension Tracing Service provides a service that enables members (and their dependants) to trace a benefit entitlement under a former employer's scheme. Enquiries should be addressed to:-

Pension Tracing Service
Tyneview Park
Whitley Road
Newcastle upon Tyne
NE98 1BA
Tel No: 0845 600 2537

The information provided includes details of the address at which the Trustees of a pension scheme may be contacted. This Scheme has been registered with the Registrar.

COMPLIANCE STATEMENT (CONTINUED)

The Pensions Advisory Service

Members and beneficiaries of occupational pension schemes that have problems concerning their Scheme, which are not satisfied by the information or explanation given by the administrators or the Trustees, can consult with The Pensions Advisory Service (TPAS). A local advisor can usually be contacted through a Citizen's Advice Bureau. Alternatively, TPAS can be contacted at:-

The Pensions Advisory Service
11 Belgrave Road
London
SW1V 1RB
Tel No: 0845 601 2923

Pensions Ombudsman

In cases where a complaint or dispute cannot be resolved, normally after the intervention of TPAS, an application can be made to the Pensions Ombudsman for him to investigate and determine any complaint or dispute of fact or law involving occupational pension schemes. The address is:

The Pensions Ombudsman
11 Belgrave Road
London
SW1V 1RB
Tel No: 020 7630 2200

INDEPENDENT AUDITOR'S STATEMENT ABOUT CONTRIBUTIONS TO THE TRUSTEE OF THE THALES UK PENSION SCHEME

We have examined the summary of contributions to the Thales UK Pension Scheme for the Scheme year ended 31 December 2011 on page 44.

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

Respective responsibilities of Trustee and the auditor

As explained more fully in the Statement of Trustee's Responsibilities, the Scheme's Trustees are responsible for ensuring that there is prepared, maintained and from time to time revised a schedule of contributions showing the rates and due dates of certain contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme. The Trustees are also responsible for keeping records in respect of contributions received in respect of active members of the Scheme and for monitoring whether contributions are made to the Scheme by the employer in accordance with the schedule of contributions.

It is our responsibility to provide a Statement about Contributions paid under the schedule of contributions and to report our opinion to you.

Scope of work on Statement about Contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the attached summary of contributions have in all material respects been paid at least in accordance with the schedule of contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme and the timing of those payments under the schedule of contributions.

Statement about Contributions payable under the schedules of contributions

In our opinion contributions for the Scheme year ended 31 December 2011 as reported in the summary of contributions on page 44 and payable under the schedules of contributions have in all material respects for the period from 1 January 2011 to 31 December 2011 been paid at least in accordance with the schedules of contributions certified by the Scheme actuary on 1 April 2010.



Deloitte LLP

Chartered Accountants and Statutory Auditor

Crawley, United Kingdom

26 June 2012

Thales UK Pension Scheme

SUMMARY OF CONTRIBUTIONS

The contributions payable to the Scheme during the year are shown below, split between those contributions paid per the schedules of contributions and those paid in addition to the amounts required by the schedules of contributions.

	Section One £'000	Section Two £'000	2011 £'000	2010 £'000
Contributions from employer:				
Normal	11,665	13,270	24,935	24,115
Deficit funding	44,000	6,000	50,000	50,000
Augmentations	-	36	36	178
Other – PPF Levy	1,803	821	2,624	5,579
Total contributions payable under the schedules of contributions (as reported on by the scheme Auditor)	57,468	20,127	77,595	79,872
Other contributions payable:				
Employer Other contributions – top ups	281	-	281	-
Total contributions payable per the fund account	57,749	20,127	77,876	79,872

Normal contributions from the employer include £4,162,000 and £4,412,000 member contributions paid through a salary sacrifice arrangement in respect of Section one and Section two respectively.

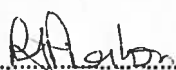
Contributions are based on members' Pensionable Earnings. The rates of contributions paid by the members of both sections are 6%/9% and by the employer 11.9% for Section one and 12.8% for Section two respectively, as set out in the Scheme rules and the Schedule of Contributions.

Ongoing deficit funding of £44m per annum is payable for Section One, and £6m per annum is payable for Section Two for the period 1 April 2010 to 31 December 2022 to reduce the funding shortfall.

Employer other top up contributions relate to amounts received from the employer to fund additional employer benefit payments made to existing pensioners and are not subject to audit.

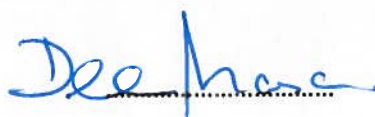
Due to an administrative error, the March 2011 deficit contributions of £3,666,666 for Section 1 and £500,000 for Section 2 that were due by 19 April 2011 were actually paid to the Scheme 16 days late on 5 May 2011. Consequently, the Trustee has improved the control procedures to ensure the future timeliness of all contribution payments.

Signed on behalf of Thales Pension Trustees Ltd



Trustee Director
Date

26.6.12



Trustee Director
Date

26.6.12