

**THALES UK PENSION SCHEME**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR TO 31 DECEMBER 2012**

**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)  
AQR Capital Management (from May 2012)  
BlackRock  
Brigade Capital Management LLC (from November 2012)  
Canyon Value Realization Fund (Cayman) Ltd  
Credit Suisse Asset Management  
Equitix Ltd  
Legal & General Investment Management Ltd  
Majedie Asset Management  
M&G Investments  
Rogge Global Partners plc  
Standard Life Investments Ltd  
Stone Harbor Investment Partners (UK) LLP  
Vontobel Asset Management

### **Additional Voluntary Contributions (AVC) Providers**

F & C Managed Pension Funds Limited (Closed January 12)  
Legal & General Assurance Society Limited  
BNY Mellon Fund Managers Limited (Closed January 12)  
Phoenix life Limited  
Equitable Life Assurance Society  
Scottish Widows  
MGM Assurance  
Prudential  
Friends Provident  
Barclays  
Clerical Medical Investment Group Limited  
Zurich Assurance Limited (Appointed January 12)

### **Legal Advisor**

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

**Scheme Administrator**

Equiniti Paymaster Ltd (formerly 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

Philip Cameron, Secretary to the Trustees  
 C/o Thales UK Ltd  
 2 Dashwood Lang Road  
 The Bourne Business Park  
 Addlestone nr Weybridge  
 Surrey  
 KT15 2NX

## **TRUSTEE'S REPORT**

### **Introduction**

Thales Pension Trustees Ltd ("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 2012. The Scheme is a Defined Benefit scheme governed by a definitive Trust Deed dated 30 June 2008 and subsequent amendments. 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 2012 all of the member nominated Trustee Director positions were vacated and subject to a selection process.

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)  
Phil Naybour (Company Nominated)  
Paul Durrant (Company Nominated)  
James Bell (Member Nominated)  
Robert Preston (Member Nominated) - Resigned 3.10.2012  
Colin Milbourn (Member Nominated)  
Robert Carr (Member Nominated) - Resigned 2.11.2012  
Joelle Dumetz (Member Nominated)  
Victor Chavez (Company Nominated) - Resigned 29.03.2012  
Lawrence Hammond (Company Nominated)  
Alistair Inverarity (Member Nominated) - Resigned 3.10.2012  
Ken McSweeney (Company Nominated) - Appointed 29.3.2012  
Dean Mason (Company Nominated) - Appointed 29.3.2012  
Robert Scallon (Member Nominated) - Appointed 3.10.2012  
Paul Corris (Member Nominated) - Appointed 3.10.2012  
Geoff Fowle (Member Nominated) - Appointed 2.11.2012

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 £158,907,000. This was as a result of a net return on investments of £170,544,000 and contributions of £77,433,000 being offset by benefits and expenditure payments of £89,070,000.

The latest formal valuation of the Scheme has been undertaken as at 31 December 2011, and approved by the Scheme Actuary on 30 April 2013. The completion of the valuation was one month beyond the statutory time limit. The Trustee communicated to the Pension Regulator the reasons for the delay.

### **Section 1**

The valuation revealed a deficit of £722m, representing a funding level of 64% relative to the Scheme's funding target. The Trustee and Employer have agreed that from 1 April 2013 the Employer will contribute as follows:-

- 17.7% of members Career Average Revalued Earnings (CARE) Salaries, plus
- £44m per annum, payable in monthly instalments for the period 1 April 2013 to 31 December 2028, plus
- Amounts equal to the PPF levies

### **Section 2**

The valuation revealed a deficit of £153m at the valuation date, representing a funding level of 73% relative to the Scheme's funding target. The Trustee and Employer have agreed that from 1 April 2013 the Employer will contribute as follows:-

- 17.8% of members' CARE Salaries (Pensionable Salary for former Category 1 Thomson Pension Plan members), plus
- £8.6m per annum, payable in monthly instalments for the period 1 April 2013 to 31 December 2028, 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.

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

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

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 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. All trustees are required to successfully complete the Pension Regulator Trustee Toolkit. In addition the Trustees receive 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, based on the Scheme's PPF liabilities, and a risk-based levy, 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 Government has announced in the 2012 Autumn Statement further reductions to the annual allowance (i.e. the maximum 'pension input' that a member is allowed each year without giving rise to a tax charge) from £50,000 to £40,000 with effect from 6 April 2014. 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.

The three-year 'carry-forward' mechanism still applies. This 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 £1.5 million to £1.25 million from 6 April 2014.



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

### *Automatic Enrolment*

The Government has introduced a requirement for employers to automatically enrol eligible employees into a pension scheme. This process started in October 2012 and is rolling out thereafter depending on the size of the employer. Thales staging date is April 2013. There are certain requirements which must be met for a pension scheme to qualify as a suitable vehicle for Auto Enrolment. In the case of Thales UK Pension Scheme the Scheme Actuary is required to certify that these requirements have been met. To enable the scheme to be certified a deed implementing an underpin to benefits was agreed and the certification was subsequently obtained. The underpin is expected to have little impact on benefits in practice

### *State pension*

The government has announced its intention to introduce a Flat Rate State Pension. This will replace the current Basic state Pension and the Second State Pension. The changes are scheduled to be introduced from 2016. In addition the state pension age will rise to 67 between 2026 and 2028. Further details are available on the following government website:

<https://www.gov.uk/government/publications/the-single-tier-pension-a-simple-foundation-for-saving--2>

### *Flexible Benefits*

Thales this year has introduced a Flexible Benefit structure. This allows employees, including all active members, to tailor their employment benefits to their individual circumstances. This includes increasing the amount of life cover, adding various medical related benefits and adjusting their annual leave allowance. It is not possible to flex the benefits delivered to members from 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 1/1/2012	1,459	6,043	5,979	1,518	14,999
Enhanced DC Members (included above)	83				83
Late notifications and adjustments*	(35)	(11)	(40)	(7)	(93)
Revised Opening Balance at Start of year	1,424	6,032	5,939	1,511	14,906
ADDITIONS	Actives	Deferreds	Pensioners	Dependant Pensioners	Total
New	-	41	223		264
Spouse's Pensions into Payment				80	80
DEDUCTIONS	Actives	Deferreds	Pensioners	Dependant Pensioners	Total
Actives/Deferred members retiring	(47)	(176)			(223)
Active/Deferreds who fully commuted pension	-	(9)			(9)
Deaths of Actives/ Pensioners/Dependants/ Deferred Pensioners & Cessation of Children's Pension	(2)	(6)	(172)	(62)	(242)
Leavers with deferred pensions / refunds / Special leavers	(41)	-			(41)
Transfers Out/No Benefits	-	(13)			(13)
Membership at 31/12/2012	1,334	5,869	5,990	1,529	14,722
Enhanced DC Members (included above)	72				72

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 2012, this also includes adjustments from data cleanse initiatives.

**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 1/1/2012	1,933	1,871	1,854	312	5,970
Life Assurance Members (included above)	222				222
Enhanced DC Members (included above)	78				78
Late notifications and adjustments*	(12)	(6)	2	27	21
Revised Opening Balance at Start of year	1,921	1,877	1,856	339	5,991
ADDITIONS	Actives	Deferreds	Pensioners	Dependant Pensioners	Total
New		213	172		388
Spouse's Pensions into Payment				24	24
DEDUCTIONS	Actives	Deferreds	Pensioners	Dependant Pensioners	Total
Actives/Deferred members retiring	(70)	(102)			(172)
Active/Deferreds who fully commuted pension	-	(2)			(2)
Deaths of Actives/Pensioners/Dependants/Deferred Pensioners & Cessation of Children's Pension	(1)	-	(34)	(11)	(55)
Leavers with deferred pensions / refunds / Special leavers	(213)	-			(213)
Transfers Out/No Benefits	(5)	(7)	(8)		(12)
Membership at 31/12/2012	1,632	1,979	1,986	352	5,949
Life Assurance Members (included above)	222				222
Enhanced DC Members (included above)	58				58

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 2012, 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:

AQR Capital Management (from May 2012)

Aegis

BlackRock

Brigade Capital Management LLC (from November 2012)

Canyon Value Realization Fund (Cayman) Ltd (closed in November 2012, final redemption due to Q2 2013)

Credit Suisse Asset Management (CSAM)

Equitix

Legal & General Investment Management Ltd

M&G Investments

Majedie Asset Management

Rogge Global Partners plc

Standard Life Investments

Stone Harbor

Vontobel Asset Management & Investment Funds

#### **Review of Investment Performance of the Scheme**

From 30 June 2008, when the Thales UK Pension Scheme was set up, until 31 December 2012, the Scheme returned 7.6% per annum (after investment management fees) against a benchmark return of 6.8% per annum (source: Northern Trust).

The total assets held by the Scheme, as at 31 December 2012, were £1.85 billion (31 December 2011: £1.69 billion).

**TRUSTEE'S REPORT (CONTINUED)**

Investment performance for the period 1 January 2012 to 31 December 2012 is set out below:

	12 months (%)			Asset value 31/12/2012	Inception date	Benchmark	Performance Target	Active/ Passive
	Fund	B'mark	+/-					
<b>Thales UK Pension Scheme</b>	<b>10.0</b>	<b>8.3</b>	<b>1.7</b>	<b>1,827.9</b>	Jan 2005			
<b>Equity</b>	<b>13.9</b>	<b>12.6</b>	<b>1.3</b>	<b>649.6</b>				
L&G UK Equity	12.4	12.3	0.1	84.7	May 2005	FTSE All Share	Track Benchmark	Passive
Majedie UK Equity	19.6	12.3	7.3	146.5	May 2005	FTSE All Share	Outperform Benchmark	Active
L&G Global Equity RAFI-3000	12.9	13.0	-0.1	184.3	May 2005	FTSE RAFI AW 3000GBP	Track Benchmark	Passive
L&G Global ex UK Equity <sup>3</sup>	11.4	12.8	-1.4	141.0	Mar 2009	FTSE Developed ex UK (75.6%) S&P/IFC Investible Ind GBP (24.4%)	Track Benchmark	Passive
L&G Emerging Markets RAFI	10.2	10.5	-0.3	34.0	Oct 2011	FTSE RAFI Emerging Markets	Track Benchmark	Passive
Vontobel Emerging Markets	13.4	13.0	0.4	59.0	Nov 2011	MSCI Emerging Markets ND	2.0% pa	Active
<b>Credit</b>	<b>12.1</b>	<b>11.3</b>	<b>0.8</b>	<b>571.7</b>				
Blackrock Global Screened	11.2	11.2	0.0	129.7	Jun 2009	BarCap Agg Corp GBP Hedged	Track Benchmark	Passive
Blackrock North American	11.8	11.8	0.0	147.8	Nov 2009	BarCap US Long Credit Select Index	Track Benchmark	Passive
L&G UK AAA - AA - A passive	12.3	12.2	0.1	76.0	May 2005	iBoxx Sterling Non Gilts ex BBB 15+	Track Benchmark	Passive
Rogge Global Active	12.8	10.5	2.3	218.1	Apr 2010	BarCap Global Agg Credit GBP hedged	1.5%	Active
<b>Liquid Alternatives</b>	<b>6.7</b>	<b>1.6</b>	<b>5.1</b>	<b>208.4</b>				
AEGIS (Rogge)	11.7	-2.1	13.8	28.9	Jun 2009	3 Month Euro Libor	Track Benchmark	Passive
AQR	-	-	-	17.2	May 2012	3 Month GBP +2% per annum	Track Benchmark with 2/3 of the volatility	Active
Canyon Credit Hedge Fund	-	-	-	0.2	Feb 2008	n/a	n/a	n/a
Credit Suisse IR	0.1	-3.9	4.0	51.8	Aug 2011	3 Month USD Libor	3.0 - 5.0%	Active
Rogge EMC	7.1	1.4	5.7	41.4	Aug 2011	3 Month GBP Libor	Outperform Benchmark	Active
Stone Harbor	13.1	13.8	-0.7	46.5	Aug 2011	JPM GBI EM Global Diversified (50%) JPM CEMBI Broad Diversified GBP (40%) JPM EMBI Global Diversified GBP hedged (10%)	1.5 - 2.0%	Active
Brigade	-	-	-	22.4	Nov 2012	Credit Suisse Leveraged Loan Index	8.0 - 12.0%	Active
<b>Illiquids</b>	<b>4.1</b>	<b>3.1</b>	<b>1.0</b>	<b>72.2</b>				
Equitix	10.7	10.7	0.0	11.2	Sep 2011			Active
Standard Life Property	-0.5	1.1	-1.6	37.3	Nov 2011	IPD All Balanced Index	Outperform Benchmark	Active
M&G European Property	-	-	-	23.8	Sep 2011	RPI +5%	7.0 - 9.0%	Active
<b>Liability matching</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>276.2</b>				
L&G Swaps & Collateral 1	-	-	-	211.9	Mar 2010			Passive
L&G Swaps & Collateral 2	-	-	-	64.3	Mar 2010			Passive
<b>Cash</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>49.9</b>				<b>Passive</b>
Blackrock Liquidity Fund 1	0.5	0.4	0.1	13.6	Mar 2010	7 Day LIBID		Passive
Blackrock Liquidity Fund 2	-	-	-	13.6	Apr 2012	7 Day LIBID		Passive
BlackRock Duration Hedge	-	-	-	19.9	Apr 2012			Passive
Currency Hedge	-	-	-	2.8	Dec 2011			Passive

## **TRUSTEE'S REPORT (CONTINUED)**

### **Market review – year ending 31 December 2012**

#### **Summary**

Global easing measures and consequent improvements in global financial conditions have improved the growth prospects of major economies. Actual growth has moved the most in the US, where financial conditions are very easy and those sectors that are most sensitive to low interest rates (for example households and construction) have better balance sheets and are more able to respond to stimulation.

Growth in China has also improved, driven by modest amounts of monetary stimulation and increases in government investment spending. Other regions have been slower to pick-up, although this may reflect a small lag as the improvements in external demand and production work their way through into increases in domestic incomes.

The yen weakened considerably towards the end of the year, falling 9% against the US dollar. This coincided with the announcement of a higher medium-term inflation target and the possibility of a significantly accelerated pace of quantitative easing by the Bank of Japan.

#### **Equity markets**

Equity markets delivered strong performance for 2012 as a whole. Despite their major correction in the summer due to deteriorating peripheral sovereign debt conditions (especially in Spain and Italy) and weaker than expected growth rates in the US and China, policy actions boosted liquidity and equity markets rose towards the end of the year.

Global markets are well above where they were at the end of December 2011: the FTSE World index increased by 12.0% over the 12 month period and the Emerging index returned 12.8% (both in sterling terms). Developed Asia Pacific (ex Japan) equities were the strongest regional performer, returning 18.9% over the year. Japan was the weakest regional performer; however it still produced a positive absolute return of 3.3% in sterling terms.

The implied volatility on the S&P 500 Index (as measured by the 'VIX' index) fell over the year to 18.0 as at 31 December 2012.

#### **Bond markets**

The rise in bond yields has been notably smaller than the increases observed in equities and other risky assets over the last year. The historical inter-relationships between equities and bonds continue to be affected by central bank policy and investor risk aversion.

Credit spreads narrowed as a consequence of improved global liquidity and improving levels of economic activity, especially in the US. Uncertainty over the US fiscal cliff deal did see spreads rise modestly, although this was more than reversed when most of the key tax cuts and welfare payments were extended.

UK corporate bonds returned 13.0% over the year (as measured by the iBoxx Sterling Non-Gilts Index in sterling terms). Fixed interest gilts returned 2.7%, outperforming index-linked gilts, which returned 0.6% (both measured by FTSE).

It was a strong year for emerging market credit, with hard currency spreads generally falling throughout the year. Developed world easing programmes have driven a search for yield, leading to spread contraction, particularly in relative "safe-haven" emerging market issuers.

## **TRUSTEE'S REPORT (CONTINUED)**

### **Alternative investment markets**

UK commercial property returned 2.4% over the 12 month period. In comparison, returns during 2011 were 8.1% and 14.5% in 2010. Yields in the UK have been ticking upwards recently leading to falling prices, reflecting the generally weak backdrop in the UK economy. However, as in the US, the prime market remains buoyant, particularly in London, with strong foreign demand.

Over the period, hedge funds on average returned 6.2% in sterling terms (hedged). Most hedge fund strategies delivered positive returns, with macro being the worst performing strategy. The resolution of US elections, the decreased concern on US fiscal cliff issues and muted geopolitical instability contributed to gains across a number of strategies.

Commodities fell in price over the year with the S&P GSCI returning -4.3% in sterling terms. Crude oil lost 11.2% of its value over 2012 in sterling terms.

### **Additional Voluntary Contribution and other Defined Contribution funds**

Until 31 December 2007, members were able to pay Additional Voluntary Contributions (AVCs) to the Scheme, with the vast majority of these being operated on a defined contribution basis. Additionally, certain groups of members paid, or had paid on their behalf by their employer, supplementary contributions on a defined contribution basis. The Trustee continues to administer the funds built up from these sources on the members' behalf.

Following a review of these investments, the Trustee has established a new suite of core investment funds on an investment platform operated by Zurich Financial Services. This platform provides members with direct online access to fund performance, fees etc. The underlying funds performances are monitored by the Trustee using regular reporting provided by Mercer Limited.

Most of the funds were moved to the new platform during 2012 and a further tranche will be moved in 2013. A small number of investments will remain in their existing insurance policies with such members having the option to move to the new platform.

### **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 documented in the Statement of Investment Principles.

## **TRUSTEE'S REPORT (CONTINUED)**

### **2011 Actuarial Valuation**

As a result of the 2011 Actuarial Valuation in addition to the Recovery Plan the Trustee and Employer have put in place a number of guarantees to support the Scheme. Thales Holdings UK Ltd has provided guarantees totalling £875m and Thales SA provided guarantees totalling £750m. The Trustee has also agreed a derisking plan which sets out triggers for the Scheme to hedge interest rate and inflation risk and to alter the strategic asset allocation if funding levels improve ahead of expectation. The implementation details of these plans and processes required will be put in place in 2013.

### **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.

Equinity 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.

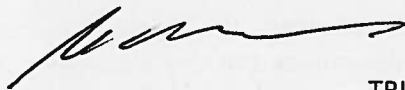
### **Basis of Investment Managers' Fees**

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.

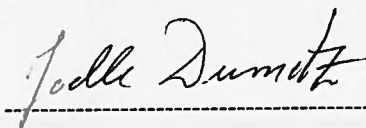
### **Further Information**

Further disclosures required by legislation are included in the Compliance Statement on pages 42 and 43.

Signed on behalf of THALES PENSION TRUSTEES LIMITED on 13 June 2013



-----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 2012 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 2012, 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

13 June 2013

## Thales UK Pension Scheme

### Financial Statements

#### Fund Account - For the year ended 31 December 2012

	Notes	Section One £'000	Section Two £'000	2012 £'000	2011 £'000
<b>Contributions and Benefits</b>					
Contributions	3	57,684	18,751	76,435	77,876
Other income	4	444	554	998	1,036
		<u>58,128</u>	<u>19,305</u>	<u>77,433</u>	<u>78,912</u>
Benefits	5	61,510	15,983	77,493	72,102
Leavers	6	1,848	1,019	2,867	3,365
Other payments	7	1,299	1,402	2,701	2,595
Administrative expenses	8	4,309	1,700	6,009	6,045
		<u>68,966</u>	<u>20,104</u>	<u>89,070</u>	<u>84,107</u>
<b>Net withdrawals from dealings with members</b>		(10,838)	(799)	(11,637)	(5,195)
<b>Returns on investments</b>					
Investment income	9	20,627	6,056	26,683	29,521
Change in market value of investments	11	108,984	37,103	146,087	70,247
Exchange rate losses		-	-	-	(10,178)
Investment management expenses	10	(1,597)	(629)	(2,226)	(3,915)
<b>Net returns on investments</b>		<u>128,014</u>	<u>42,530</u>	<u>170,544</u>	<u>85,675</u>
<b>Net increase in the fund during the year</b>		117,176	41,731	158,907	80,480
<b>Net Assets of the Scheme</b>					
<b>At 1 January</b>		1,269,531	428,730	1,698,261	1,617,781
<b>At 31 December</b>		<u>1,386,707</u>	<u>470,461</u>	<u>1,857,168</u>	<u>1,698,261</u>

The notes on pages 21 to 37 form part of these financial statements.

**Financial Statements**

**Net Assets Statement – As at 31 December 2012**

	Notes	2012 £'000	2011 £'000
<b>Section One</b>			
Investment assets	11	1,378,435	1,259,768
Investment liabilities	11	(1,934)	(2,459)
Current assets	12	13,133	13,081
Current liabilities	13	(2,927)	(859)
<b>Net Assets</b>		<b>1,386,707</b>	<b>1,269,531</b>
<b>Section Two</b>			
Investment assets	11	467,532	425,090
Investment liabilities	11	(605)	(758)
Current assets	12	4,917	4,733
Current liabilities	13	(1,383)	(335)
<b>Net Assets</b>		<b>470,461</b>	<b>428,730</b>
<b>Net assets at 31 December</b>		<b>1,857,168</b>	<b>1,698,261</b>

The financial statements 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 and actuary certificates on pages A, B and C respectively and these financial statements should be read in conjunction with it.

The notes on pages 21 to 37 form part of these financial statements.

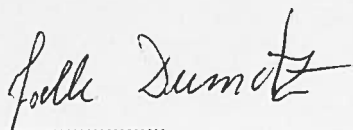
The financial statements on pages 19 to 37 were approved on behalf of the Trustees on 13 June 2013.

Signed on behalf of THALES PENSION TRUSTEES LIMITED



.....

Trustee Director



.....

Trustee Director

## **Notes to the Financial Statements** **For the year ended 31 December 2012**

### **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 fall 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 when the transfer has been agreed by both parties and the receiving scheme has accepted liability for the transfer.

#### **C Investment income**

Investment income arising on fixed interest and index linked securities has been accounted for on an accruals basis.

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

#### **D Administrative expenses and investment management expenses**

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

#### **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.

## Notes to the Financial Statements For the year ended 31 December 2012

### 2. Accounting policies (continued)

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. Differences arising on translation are included within change in market value of the investments for 2012.

In the prior period, foreign exchange rate losses of £10,789,000 were shown separate on the face of the Fund Account. In the current period, the foreign exchange rate gains of £1,718,000 are recognised as change in market value of investments as this treatment is considered more aligned with the requirements of the Statement of Recommended Practice ('the SORP')

## Thales UK Pension Scheme

### Notes to the Financial Statements

For the year ended 31 December 2012

	Section One £'000	Section Two £'000	2012 £'000	2011 £'000
<b>3 Contributions</b>				
Contributions from employer:				
Normal	11,308	12,066	23,374	24,935
Deficit funding	44,000	6,000	50,000	50,000
Augmentations	-	-	-	36
Other – PPF Levy	2,078	685	2,763	2,624
Other - Top ups	298	-	298	281
	<u>57,684</u>	<u>18,751</u>	<u>76,435</u>	<u>77,876</u>

Normal contributions from the employer include £4,053,000 and £4,031,000 (2011: £4,162,000 and £4,412,000) 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 in monthly instalments for Section One for the period 1 April 2011 to 31 December 2028, to reduce the funding shortfall

Ongoing deficit funding of £6m per annum is payable in monthly instalments for Section Two for the period 1 April 2011 to 31 March 2013 and then £8.6m per annum in monthly instalments from 1 April 2013 to 31 December 2028, 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	441	124	565	1,010
State scheme premiums refund	-	16	16	18
Compensation	-	414	414	-
Sundry income	3	-	3	8
	<u>444</u>	<u>554</u>	<u>998</u>	<u>1,036</u>

Refer to note 12 for details of the compensation.

#### **5 Benefits**

Pensions	55,265	11,594	66,859	62,706
Commutations and lump sums on retirement	5,569	4,249	9,818	7,843
Annuities purchased	86	-	86	91
Lump sums on death	590	140	730	1,462
	<u>61,510</u>	<u>15,983</u>	<u>77,493</u>	<u>72,102</u>

## Thales UK Pension Scheme

### Notes to the Financial Statements

For the year ended 31 December 2012

	Section One £'000	Section Two £'000	2012 £'000	2011 £'000
<b>6 Payments to and on account of leavers</b>				
Individual transfers to other schemes	1,848	1,019	2,867	3,365
<b>7 Other payments</b>				
Premiums on term insurance policies	1,299	1,402	2,701	2,595
Term insurance is secured by policies underwritten by Canada Life Limited and Legal & General.				
<b>8 Administrative expenses</b>				
Administration fees	510	193	703	679
Actuarial and consulting fees	1,455	575	2,030	1,963
Legal fees	199	203	402	555
Audit fees	25	25	50	128
Other expenses	42	19	61	88
PPF Levy	2,078	685	2,763	2,632
	<u>4,309</u>	<u>1,700</u>	<u>6,009</u>	<u>6,045</u>
<b>9 Investment income</b>				
Income from fixed interest securities	11,625	3,760	15,385	14,851
Dividends from equities	3,542	1,181	4,723	6,803
Income from index linked securities	2,685	641	3,326	3,875
Income from managed & unitised-authorized	590	245	835	1,034
Interest on cash and deposits	245	127	372	1,141
Other income	305	94	399	-
Annuity income	1,635	8	1,643	1,817
	<u>20,627</u>	<u>6,056</u>	<u>26,683</u>	<u>29,521</u>
<b>10 Investment management expenses</b>				
Administration, management and custody	1,597	629	2,226	3,915



## Thales UK Pension Scheme

### Notes to the Financial Statements

For the year ended 31 December 2012

#### 11 Investments

	Section One £'000	Section Two £'000	2012 £'000	2011 £'000
Investment assets	1,378,435	467,532	1,845,967	1,684,858
Investment liabilities	(1,934)	(605)	(2,539)	(3,217)
	1,376,501	466,927	1,843,428	1,681,641

Investment liabilities relate to derivative investments. Investment assets include derivative related assets of £15,742,000 (2011 £2,489,000).

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

	Section One £'000	Section Two £'000	2012 £'000	2011 £'000
<b>Investments by strategy type</b>				
Cash	13,595	13,611	27,206	7,710
Equity	486,180	162,060	648,240	565,591
Illiquids	52,273	17,424	69,697	13,819
Investment Grade Credit	446,355	137,602	583,957	508,494
Liquid Alternative	156,603	52,093	208,696	178,207
Derivatives	10,052	3,151	13,203	(728)
<b>Total Unitised funds</b>	1,165,058	385,941	1,550,999	1,273,093
<b>Non unitised funds</b>				
Fixed interest bonds	208,559	63,263	271,822	388,440
	1,373,617	449,204	1,822,821	1,661,533
<b>AVC investments</b>	2,884	17,723	20,607	20,108
	1,376,501	466,927	1,843,428	1,681,641

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.

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

## Notes to the Financial Statements

### For the year ended 31 December 2012

#### 11 Investments (continued)

The movements of investments in the year:

	Market Value at 31 December 2011 £'000	Purchase at cost and derivative payments £'000	Sales proceeds and derivative receipts £'000	Change in Market Value £'000	Market Value at 31 December 2012 £'000
Fixed interest securities	334,446	180,248	(148,056)	13,040	379,678
Equities	117,416	100,556	(96,811)	19,436	140,597
Index linked securities	251,641	158,836	(178,895)	(857)	230,725
Pooled investment vehicles	933,232	585,550	(587,342)	86,247	1,017,687
Derivatives					
Swap	-	-	-	3,608	3,608
Futures	(214)	6,259	(4,820)	1,320	2,545
Variation margin futures	214	-	-	(2,759)	(2,545)
Forward contracts	(728)	7,260,627	(7,275,671)	22,821	7,049
AVC investments	20,108	1,716	(2,517)	1,300	20,607
	<u>1,656,115</u>	<u>8,293,792</u>	<u>(8,294,112)</u>	144,156	<u>1,799,951</u>
Cash - Sterling	16,827			-	15,720
Cash - Foreign currency	2,574			1,931	21,673
Investment income receivable	6,125			-	6,340
Other investment liabilities	-			-	(256)
	<u>1,681,641</u>			<u>146,087</u>	<u>1,843,428</u>

Included within the above purchases and sales figures are transaction costs of £829,119 (2011: £895,910). 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 2012**

**11 Investments (continued)**

**Section One**

The movements of investments in the year:

	Market Value at 31 December 2011 £'000	Purchase at cost and derivative payments £'000	Sales proceeds and derivative receipts £'000	Change in Market Value £'000	Market Value at 31 December 2012 £'000
Fixed interest securities	254,426	137,831	(113,169)	10,670	289,758
Equities	87,919	75,387	(72,585)	14,727	105,448
Index linked securities	193,154	123,425	(138,704)	(645)	177,230
Pooled investment vehicles	700,885	434,903	(439,348)	63,588	760,028
Derivatives					
Swap	-	-	-	2,758	2,758
Futures	(164)	4,784	(3,684)	1,009	1,945
Variation margin futures	164	-	-	(2,109)	(1,945)
Forward contracts	(557)	5,531,736	(5,543,174)	17,343	5,348
AVC investments	3,316	-	(601)	169	2,884
	<u>1,239,143</u>	<u>6,308,066</u>	<u>(6,311,265)</u>	107,510	<u>1,343,454</u>
Cash - Sterling	11,711			-	11,837
Cash - Foreign currency	1,791			1,474	16,566
Investment income receivable	4,664			-	4,840
Other investment liabilities	-			-	(196)
	<u>1,257,309</u>			<u>108,984</u>	<u>1,376,501</u>

## Notes to the Financial Statements

For the year ended 31 December 2012

### 11 Investments (continued)

#### Section Two

The movements of investments in the year:

	Market Value at 31 December 2011 £'000	Purchase at cost and derivative payments £'000	Sales proceeds and derivative receipts £'000	Change in Market Value £'000	Market Value at 31 December 2012 £'000
Fixed interest securities	80,020	42,417	(34,887)	2,370	89,920
Equities	29,497	25,169	(24,226)	4,709	35,149
Index linked securities	58,487	35,411	(40,191)	(212)	53,495
Pooled investment vehicles	232,347	150,647	(147,994)	22,659	257,659
Derivatives					
Swap	-	-	-	850	850
Futures	(50)	1,475	(1,136)	311	600
Variation margin futures	50	-	-	(650)	(600)
Forward contracts	(171)	1,728,891	(1,732,497)	5,478	1,701
AVC investments	16,792	1,716	(1,916)	1,131	17,723
	<u>416,972</u>	<u>1,985,726</u>	<u>(1,982,847)</u>	36,646	456,497
Cash - Sterling	5,116			-	3,883
Cash - Foreign currency	783			457	5,107
Investment income receivable	1,461			-	1,500
Other investment liabilities	-			-	(60)
	<u>424,332</u>			<u>37,103</u>	<u>466,927</u>

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.

**Notes to the Financial Statements**

**For the year ended 31 December 2012**

**11 Investments (continued)**

**Sub-analysis of year end investment holdings by section:**

	Section One £'000	Section Two £'000	2012 £'000	2011 £'000
<b>Fixed interest securities:</b>				
UK public sector quoted	11,608	3,643	15,251	8,683
UK corporate quoted	27,063	8,343	35,406	7,197
Overseas public sector quoted	10,359	3,194	13,553	15,948
Overseas corporate quoted	240,728	74,740	315,468	302,618
	<b>289,758</b>	<b>89,920</b>	<b>379,678</b>	<b>334,446</b>
<b>Equities:</b>				
UK quoted	91,205	30,402	121,607	117,416
Overseas quoted	14,243	4,747	18,990	-
	<b>105,448</b>	<b>35,149</b>	<b>140,597</b>	<b>117,416</b>
<b>Index linked securities:</b>				
UK public sector quoted	137,216	41,543	178,759	200,037
UK corporate quoted	40,014	11,952	51,966	51,604
	<b>177,230</b>	<b>53,495</b>	<b>230,725</b>	<b>251,641</b>
<b>Pooled investment vehicles:</b>				
UK Managed Funds				
Other	733,990	248,980	982,970	927,927
Property	26,038	8,679	34,717	5,305
	<b>760,028</b>	<b>257,659</b>	<b>1,017,687</b>	<b>933,232</b>

## Thales UK Pension Scheme

### Notes to the Financial Statements For the year ended 31 December 2012

#### 11 Investments (continued)

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

	£'000	£'000	£'000	£'000	£'000	2012
	Equity and Illiquid	Invest Grade	Liquid Alternative	Cash and Derivatives	Matching Assets	£'000 Total Funds
<b>Fixed Interest</b>						
UK Public Quoted	-	1,842	-	-	13,409	15,251
UK Corporate Quoted	-	13,553	-	-	-	13,553
Overseas Public Quoted	-	35,406	-	-	-	35,406
Overseas Corporate Quoted	-	286,543	28,925	-	-	315,468
<b>Equities</b>						
UK quoted	121,607	-	-	-	-	121,607
Overseas quoted	18,990	-	-	-	-	18,990
<b>Index Linked</b>						
UK Public Quoted	-	-	-	-	178,759	178,759
UK Corporate Quoted	-	-	-	-	51,966	51,966
<b>Pooled Investment Vehicles</b>						
Other	529,540	219,873	179,470	27,182	26,905	982,970
Property	34,717	-	-	-	-	34,717
	<b>704,854</b>	<b>557,217</b>	<b>208,395</b>	<b>27,182</b>	<b>271,039</b>	<b>1,768,687</b>
<b>Derivatives</b>						
	-	-	-	13,203	-	13,203
	<b>704,854</b>	<b>557,217</b>	<b>208,395</b>	<b>40,385</b>	<b>271,039</b>	<b>1,781,890</b>
<b>Cash</b>	12,261	22,015	301	10	4	34,591
<b>Investment Income Receivable</b>	823	4,725	-	14	778	6,340
	<b>717,938</b>	<b>583,957</b>	<b>208,696</b>	<b>40,409</b>	<b>271,821</b>	<b>1,822,821</b>

AVC assets are not included in the above analysis.

**Notes to the Financial Statements**  
**For the year ended 31 December 2012**

**11 Investments (continued)**

**Derivative assets/(liabilities)**

**Objectives and Policies**

The Trustee has authorised the use of derivatives by the investment managers as part of the overall investment strategy for the Scheme. The main objectives for the use of derivatives are summarised as follows:

**Futures**

Futures contracts are entered into as a method of balancing the Scheme's exposure to a particular market or sector. Futures often provide a cheap and efficient way of modifying portfolio risk to remain within asset allocations governed by the investment strategy of the Scheme.

**Swaps**

Swaps are used to modify the Scheme's exposure to various asset classes. Interest rate swaps were held to decrease the Scheme's risk to the impact of interest rate fluctuations on floating rate loans.

**Forward foreign exchange contracts**

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.

**Section one**

Swaps (Exchange traded)	Economic exposure	Expiry	2012	
			Assets £'000	Liabilities £'000
	£			
Interest rate swaps – Libor to fixed rate	25,517,000	May 2024	760	-
Interest rate swaps – Libor to fixed rate	25,517,000	June 2025	710	-
Interest rate swaps – Libor to fixed rate	26,878,000	June 2026	678	-
Interest rate swaps – Libor to fixed rate	26,878,000	May 2027	610	-
			2,758	-

**Section two**

Swaps (Exchange traded)	Economic exposure	Expiry	2012	
			Assets £'000	Liabilities £'000
	£			
Interest rate swaps – Libor to fixed rate	7,866,000	May 2024	234	-
Interest rate swaps – Libor to fixed rate	7,866,000	June 2025	219	-
Interest rate swaps – Libor to fixed rate	8,286,000	June 2026	209	-
Interest rate swaps – Libor to fixed rate	8,286,000	May 2027	188	-
			850	-

**Swaps** – The notional principle (economic exposure) of the swap is the amount used to determine the value of swapped interest receipts and payments.

**Notes to the Financial Statements**  
**For the year ended 31 December 2012**

**11 Investments (continued)**

**Derivative assets/(liabilities) (continued)**

Number of Contracts	Futures (Exchange traded)	Economic exposure £	Expiry	2012	
				Assets £'000	Liabilities £'000
65	10 Year USA Treasury Notes	5,309,616	March 2013	-	(23)
449	10 Year USA Treasury Notes	36,677,193	March 2013	80	-
10	5 Year USA Treasury Notes	765,389	March 2013	1	-
15	CBT UL Treasury Bonds	1,500,404	March 2013	-	(27)
43	CBT UL Treasury Bonds	4,301,157	March 2013	97	-
650	CBT UL Treasury Bonds	65,017,491	March 2013	1,461	-
6	Eurx E-Schatz	666,410	March 2013	20	-
45	Eurx Eur-Schatz	4,046,019	March 2013	5	-
39	Eurx Eur-Bobl	4,043,185	March 2013	23	-
128	Eurx Eur-Bund	15,119,966	March 2013	-	(160)
77	LIF Long Gilt	9,156,840	March 2013	-	(5)
451	ME 10 Year Canadian Bond	37,768,395	March 2013	-	(36)
18	SFE 10 year Treasury Bond	1,417,734	March 2013	-	(13)
31	TSE 10 year JGB	31,683,999	March 2013	189	-
104	USA Treasury Bonds	9,437,096	March 2013	-	(114)
54	USA Treasury Bonds	4,900,030	March 2013	-	(47)
861	USA Treasury Bonds	78,128,263	March 2013	1,088	-
117	2 Year USA Treasury Notes	15,868,866	March 2013	6	-
				2,970	(425)

**Futures** – The economic exposure represents the notional value of stocks purchased under the futures contract and therefore the value is subject to market movements.

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 2012**

**11 Investments (continued)**

**Derivative assets/(liabilities) (continued)**

**Forward foreign currency contracts (over the counter)**

				<b>2012</b>	
<b>Number of Contracts</b>	<b>Settlement date</b>	<b>Currency bought</b>	<b>Currency Sold</b>	<b>Assets £'000</b>	<b>Liabilities £'000</b>
1	1 month	GBP	USD	2,007	-
3	1 month	USD	GBP	-	(919)
1	2 months	AUD	CAD	-	(2)
1	2 months	AUD	GBP	-	(2)
1	2 months	AUD	USD	-	(31)
1	2 months	CAD	GBP	-	(4)
1	2 months	CHF	JPY	2	-
2	2 months	EUR	Various	-	(23)
3	2 months	EUR	GBP	2	-
1	2 months	EUR	USD	21	-
6	2 months	GBP	CAD	6	-
14	2 months	GBP	EUR	4	(322)
8	2 months	GBP	JPY	1,947	-
17	2 months	GBP	USD	4,865	-
3	2 months	JPY	USD	-	(265)
4	2 months	Various	USD	284	-
2	2 months	USD	AUD	6	-
7	2 months	USD	Various	-	(176)
1	2 months	USD	Various	19	-
2	3 months	USD	GBP	-	(365)
2	6 months	USD	Various	-	(5)
				<b>9,163</b>	<b>(2,114)</b>

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 2012**

**11 Investments (continued)**

The Trustee holds insurance policies that secure pensions payable to specified beneficiaries. These policies remain assets of the Trustee 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, who provide custodian services for Legal and General directly.

The Scheme does not hold any direct employer related investments. 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 the Scheme year end:

	At 31 December 2012 £'000	%	At 31 December 2011 £'000	%
UK Gov 1.875% I/L 22/11/2022	-	-	138,612	8.2
Legal & General North American Equity Index	-	-	110,162	6.5
RX - WORLD (EX UK) DEV Equity Index	105,540	5.7	-	-
L&G YX - FTSE RAFI AW 3000 Equity Index	183,896	9.9	-	-

**Investment Commitments**

As at 31 December 2012 the Scheme had made commitments totalling £32m for further investment in the L&G Long Lease Property Fund.

**Notes to the Financial Statements**  
**For the year ended 31 December 2012**

**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 included in the net assets statement.

**AVC investments**

	Section One £'000	Section Two £'000	2012 £'000	2011 £'000
Zurich Assurance Limited	-	17,641	17,641	-
BNY Mellon Fund Managers Limited	-	-	-	10,332
Legal & General Assurance Society Limited	806	-	806	6,487
Equitable Life Assurance Society	1,207	14	1,221	1,394
MGM Assurance	144	-	144	176
Phoenix Life Limited	116	14	130	156
Prudential	464	-	464	589
Friends Provident	9	-	9	9
Scottish Widows	127	-	127	183
Barclays	11	-	11	11
Clerical Medical Investment Group Limited	-	54	54	51
F & C Managed Pension Funds Limited	-	-	-	720
	<u>2,884</u>	<u>17,723</u>	<u>20,607</u>	<u>20,108</u>

During 2012 Zurich Assurance Limited was appointed as the Scheme AVC provide. AVC assets held with BNY Mellon, Legal & General and F & C Managed Pension Fund on behalf of Section 2 were migrated to the new Zurich AVC provider during the year. 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. In the event that this occurs the fund unit values and movement will continue to be maintained for the two sections separately.

**Notes to the Financial Statements**  
**For the year ended 31 December 2012**

	Section One £'000	Section Two £'000	2012 £'000	2011 £'000
<b>12 Current assets</b>				
Pensions paid in advance	3,248	828	4,076	3,848
Contributions Employer normal	596	622	1,218	1,327
Contributions Employee	334	312	646	696
Contributions Employer other – PPF levy	2,078	685	2,763	2,569
Contributions Employer - Deficit	3,667	500	4,167	4,167
Life assurance premiums paid in advance	760	807	1,567	1,135
AVC benefit receivable from provider	50	128	178	178
Compensation receivable	-	414	414	160
Cash deposits held with Scheme Administrator	2,062	621	2,683	3,726
Inter section balance	338	-	338	8
	13,133	4,917	18,050	17,814

The contributions due as at 31 December 2012 were received after the year end in accordance with the due date set out in the Schedule of contributions.

Compensation receivable at the Scheme year end of £414k for Section 2 relates to the resolution of an historical administrative error, where a disinvestment was made in error from the Scheme AVC holdings in Equitable Life in respect of members of the Thompson Retirement Savings Plan (TRPS), rather than divesting from Equitable Life AVC assets held within the TRPS. An agreement between the various parties involved was signed in December 2012, directing that £414,237 was to be paid to the Scheme in compensation. This was fully settled in January 2013 with £348,237 being paid from TRSP and £66,000 directly from TRSP's administrator.

**13 Current liabilities**

Lump sums on retirement	65	123	188	104
Death benefits	237	-	237	94
Accrued expenses	2,621	922	3,543	980
Other creditors	4	-	4	8
Inter section balance	-	338	338	8
	2,927	1,383	4,308	1,194

**Notes to the Financial Statements**  
**For the year ended 31 December 2012**

**14 Related party transactions**

Certain Directors of the Trustee are active members of the Scheme. Their benefits are accrued 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.

**15 Post balance sheet events**

No post balance sheet events have occurred that have not been reported elsewhere in the Trustee report.

**CERTIFICATION OF SCHEDULE OF CONTRIBUTIONS**  
**SECTION 1**



TALENT · HEALTH · RETIREMENT · INVESTMENTS

**CERTIFICATION OF SCHEDULE OF CONTRIBUTIONS**

Name of Scheme and name of Section

Thales UK Pension Scheme – Section 1

**Adequacy of rates of contributions**

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 30 April 2013.

**Adherence to statement of funding principles**

I hereby certify that, in my opinion, this schedule of contributions is consistent with the statement of funding principles dated 30 April 2013.

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

Mark Condon

Qualification

Fellow of the Institute and Faculty of Actuaries

Date of signing

30 April 2013

Name of employer

Mercer Limited

Address

Tower Place West  
 London  
 EC3R 5BU



Mercer Limited is authorised and regulated by the Financial Services Authority  
 Registered in England No. 304273 Registered Office: 1 Tower Place West  
 Tower Place, London EC3R 5BU



MARSH & McLENNAN  
 COMPANIES

**CERTIFICATION OF SCHEDULE OF CONTRIBUTIONS**  
**SECTION 2**



TALENT • HEALTH • RETIREMENT • INVESTMENTS

**CERTIFICATION OF SCHEDULE OF CONTRIBUTIONS**

Name of Scheme and name of Section

Thales UK Pension Scheme – Section 2

**Adequacy of rates of contributions**

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 30 April 2013.

**Adherence to statement of funding principles**

I hereby certify that, in my opinion, this schedule of contributions is consistent with the statement of funding principles dated 30 April 2013.

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

Mark Condron

Qualification

Fellow of the Institute and Faculty of Actuaries

Date of signing

30 April 2013

Name of employer

Mercer Limited

Address

Tower Place West  
London  
EC3R 5BU



Mercer Limited is authorised and regulated by the Financial Services Authority  
Registered in England, No. 02067761 Registered Office: 1 Tower Place West,  
Tower Place, London, EC3R 5BU



**CERTIFICATE OF TECHNICAL PROVISIONS – SECTION 1**

ACTUARIAL VALUATION AS AT 31 DECEMBER 2011  
SCHEME FUNDING REPORT

THALES UK PENSION SCHEME – SECTION 1

**APPENDIX F**

**Certificate of technical provisions**

Name of the 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 2011 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 section and set out in the statement of funding principles dated 30 April 2013.

Signature



Name

Mark Condron

Date of signing

30 April 2013

Name of employer

Merger Limited

Address

Tower Place  
London  
EC3R 5BU

Qualification

Fellow of the Institute and Faculty of Actuaries

MERCER

22



**CERTIFICATE OF TECHNICAL PROVISIONS – SECTION 2**

THALES UK PENSION SCHEME – SECTION 2

ACTUARIAL VALUATION AS AT 31 DECEMBER 2011  
SCHEME FUNDING REPORT

**APPENDIX F**

**Certificate of technical provisions**

Name of the 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 2011 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 section and set out in the statement of funding principles dated 30 April 2013.

Signature



Name

Mark Condron

Date of signing

30 April 2013

Name of employer

Mercer Limited

Address

Tower Place  
London  
EC3R 5BU

Qualification

Fellow of the Institute and Faculty of Actuaries

MERCER

## **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 2012 on page 45.

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 2012 as reported in the summary of contributions on page 45 and payable under the schedules of contributions have in all material respects for the period from 1 January 2012 to 31 December 2012 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

13 June 2013

## 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	2012 £'000
<b>Contributions from Employer:</b>			
Normal	11,308	12,066	23,374
Deficit funding	44,000	6,000	50,000
Other – PPF Levy	2,078	685	2,763
Total contributions payable under the schedules of contributions (as reported on by the Scheme Auditor)	57,386	18,751	76,137
<b>Other contributions payable:</b>			
Employer Other contributions – top ups	298	-	298
Total contributions payable per the fund account	57,684	18,751	76,435

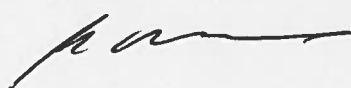
Normal contributions from the employer include £4,053,000 and £4,031,000 (2011: £4,162,000 and £4,412,000) member contributions paid through a salary sacrifice arrangement in respect of Section one and Section two respectively.

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 dated 1 April 2010.

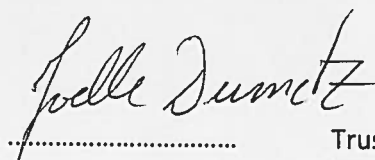
Deficit funding of £44m per annum was received for Section One, and £6m per annum was received for Section Two as set out in the Schedule of Contributions dated 1 April 2010.

Employer other top up contributions relate to amounts received from the Employer to fund additional employer benefit payments made to existing pensioners and are outside the scope of the auditor's statement about contributions.

Signed on behalf of THALES PENSION TRUSTEES LIMITED



..... Trustee Director  
Date  
13 June 2013



..... Trustee Director  
Date 13 June 2013



# THALES

## THALES UK PENSION SCHEME

Thales UK Pension Scheme  
2 Dashwood Lang Road  
The Bourne Business Park, Addlestone  
Nr. Weybridge, Surrey KT15 2NX  
Direct Line (01932) 824800  
Direct Fax (01932) 824886  
[www.thalesgroup.com/uk](http://www.thalesgroup.com/uk)

Deloitte LLP  
Global House  
High Street  
Crawley  
West Sussex  
RH10 1DL

For the attention of Neil Harris, Audit Partner:

13 June 2013

Dear Sirs

### Thales UK Pension Scheme ("The Scheme")

This representation letter is provided in connection with your audit of the Scheme's financial statements / examination of the Scheme's summary of contributions for the year ended 31 December 2012 for the purpose of expressing an opinion as to whether the financial statements show a true and fair view of the financial transactions of the Scheme during the period from 1 January 2012 to 31 December 2012 and of amount and disposition at the end of the Scheme period of its assets and liabilities, other than the liabilities to pay pensions and benefits after the end of the period, in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) and making a statement about contributions.

We confirm, to the best of our knowledge and belief, the following representations.

#### *Financial statements*

1. We understand and have fulfilled our responsibilities for the preparation of the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice which show a true and fair view, as set out in the terms of the audit engagement letter.
2. Where required, the value at which assets and liabilities are recorded in the net assets statement is, in the opinion of the trustees, the fair value. We are responsible for the reasonableness of any significant assumptions underlying the valuation, including consideration of whether they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Scheme. Any significant changes in those values since the year end date have been disclosed to you.

3. We confirm the completeness of the information provided regarding the identification of related parties, and the adequacy of related party disclosures in the financial statements. We have made enquiries of any key managers or other individuals who are in a position to influence, or who are accountable for the stewardship of the Scheme and confirm that we  
  
have disclosed in the financial statements all transactions relevant to the Scheme and we are not aware of any other such matters required to be disclosed in the financial statements, whether under Statement of Recommended Practice: Financial Reports of Pension Schemes or other requirements.
4. All events subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment of or disclosure have been adjusted or disclosed.
5. The effects of uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is detailed in the appendix to this letter.
6. We confirm that the financial statements have been prepared on the going concern basis. We do not intend to wind up the Scheme. We are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the Scheme's ability to continue as a going concern. We confirm the completeness of the information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including our plans for future actions.
7. There have been no events subsequent to 31 December 2012 which require adjustment of or disclosure in the financial statements or notes thereto

*Information provided*

8. We have provided you with all relevant information and access as agreed in the terms of the audit engagement letter and required by the Scheme Administration Regulations.
9. All transactions have been recorded and are reflected in the financial statements and the underlying accounting records.
10. We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
11. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
12. We have notified you of the Foster fraud case which has been reported to the Police. We are not aware of any other fraud or suspected fraud that affects the Scheme and involves:
  - (i). management;
  - (ii). employees who have significant roles in internal control; or
  - (iii). others where the fraud could have a material effect on the financial statements.
13. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.



14. We have disclosed to you the identity of the Scheme's related parties and all the related party relationships and transactions of which we are aware.
15. No significant or material claims in connection with litigation have been or are expected to be received.
16. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.
17. We confirm that the Scheme is a Registered Pension Scheme. We are not aware of any reason why the tax status of the Scheme should change.
18. We are not aware of any actual or possible instances of non-compliance with laws and regulations, the effects of which should be considered when preparing financial statements.
19. Other than as notified to you in respect of the late signing of the 2011 actuarial valuation we have not made any reports to The Pensions Regulator nor are we aware of any such reports made by any of our advisors. We also confirm that we are not aware of any other matters which have arisen that would require a report to The Pensions Regulator.
20. We have drawn to your attention all correspondence and notes of meetings with regulators.
21. We have not commissioned advisory reports except for which may affect the conduct of your work in relation to the Scheme's financial statements and schedule of contributions.
22. We confirm that, under section 27 of the Pensions Act 1995, no trustee of the Scheme is connected with, or is an associate of Deloitte LLP, which would render Deloitte LLP ineligible to act as auditor to the Scheme.
23. You have been informed of all changes to the Scheme rules.
24. There has been no "self-investment" in a Scheme employer or stock-lending, except for the very small indirect exposure as part of the investments in pooled investment vehicles. We have reviewed the Scheme's exposure to self investment and have concluded that this is minimal, and certainly within the 5% self investment limit.
25. No transactions have been made which are not in the interests of the Scheme members or the Scheme during the Scheme year or subsequently.
26. All trades in complex financial instruments are in accordance with our risk management policies, have been conducted on an arm's length basis and have been appropriately recorded in the accounting records, including consideration of whether the complex financial instruments are held for hedging, asset/liability management or investment purposes. None of the terms of the trades have been amended by any side agreement and no documentation relating to complex financial instruments (including any embedded derivatives and written options) and other financial instruments has been withheld.

We confirm that the above representations are made on the basis of adequate enquiries of management and staff (and where appropriate, inspection of evidence) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully



Signed on behalf of the Board of Trustees

## APPENDIX 1

### UNCORRECTED MISSTATEMENTS:

#	Investment Manager	Description of the uncorrected misstatement and explanation of why not adjusted	Amount (if applicable)
1	M&G	<p>For the M&amp;G investment holding, there was an overstatement in the number of investment units held at the yearend as reported by Northern Trust compared to the number of units reported by the investment manager. The difference was due to the timing of the posting of a conversion between distribution and accumulation units.</p> <p>An additional secondary market purchase of units was made in early November 2012. This was a purchase of units within the distributing share class. Northern Trust booked the units accordingly. Northern Trust however did not account for the fact that the distributing units actually converted to accumulation units at a lower nominal on 3 November 2012. The conversion notification was not received from the investment manager until April 2013 at which point Northern Trust adjusted the position.</p> <p>The misstatement was caused by the delay in receiving investment information. Pooled investment vehicles have been overstated as a result by £1,957,569. The error is not material.</p>	<p>£1,957,569</p> <p>Dr Fund Account CIMV Cr PIVs CIMV</p>
2	Equitix	<p>The Equitix valuation included in the financial statements is based on the share of partner's current account as at 30 September 2012 rather than as at 31 December 2012.</p> <p>The share of the partners' current account is based on the management accounts from the previous quarter. The investor statements themselves are often sent out to investors before the management accounts for the same quarter have been prepared, therefore there is always a lag of one quarter in the information contained in the investor statements. This delay caused an understatement of the valuation.</p> <p>The December 2012 management accounts valuation is £1,933,559 higher than the</p>	<p>£1,933,559</p> <p>Cr Fund Account CIMV Dr PIVs CIMV</p>

		pooled investment vehicle valuation used in the financial statements so investments have been understated by this amount. The misstatement was caused by the delay in receiving investment information. The error is not material.	
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