

THALES UK PENSION SCHEME

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR TO 31 DECEMBER 2014

Section 1 – PSR 19011001

Section 2 – PSR 19011002

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Scheme Employers, Service Providers and Advisors

Principal Employer (the “Employer”)

Thales UK Ltd

Participating Employers

Section 1	Section 2
Thales UK Ltd	Thales UK Ltd
Thales Transport & Security Ltd	Thales Transport & Security Ltd
Thales Rail Signalling Solutions Ltd	Thales Training & Simulation (Eagle) Ltd
	Thales Training & Simulation (Ace) Ltd
	Thales Training & Simulation (Merlin) Ltd
	Thales Rail Signalling Solutions Ltd

Scheme Actuary

Mr Mark Condron FIA
 Mercer Limited
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 London
 EC3R 5BU

Independent Auditor

Deloitte LLP
 Chartered Accountants
 Reading
 United Kingdom

Investment Managers

AQR Capital Management
 BlackRock
 Brigade Capital Management LLC
 CarVal
 Credit Suisse Asset Management
 Equitix Ltd
 Legal & General Investment Management Ltd
 Majedie Asset Management
 MedicX Healthfund II LP
 M&G Investments
 Rogge Global Partners plc
 Standard Life Investments Ltd
 Stone Harbor Investment Partners (UK) LLP
 TIAA-CERF
 Vontobel Asset Management

Scheme Employers, Service Providers and Advisors (Continued)

Additional Voluntary Contributions (AVC) Providers

Phoenix life Limited
Equitable Life Assurance Society
Scottish Widows
MGM Assurance
Prudential
Friends Provident
Clerical Medical Investment Group Limited
Zurich Assurance Limited

Legal Advisor

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

Scheme Administrator

Equiniti Paymaster Ltd
Sutherland House
Russell Way
Crawley
RH10 1UH

Investment Consultants

Towers Watson
Watson House
London Road Reigate
Surrey
RH2 9PQ

Covenant Advisor

Lincoln International LLP
10th Floor
Orion House
5 Upper St Martin's Lane
London
WC2H 9EA

Tax Advisor

Deloitte LLP
Hill House
1 Little New Street
London
EC4A 3TR

Investment Custodians

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

Scheme Employers, Service Providers and Advisors (Continued)

Investment Custodians (Continued)

HSBC Global Investor Services

8 Canada Square

Canary Wharf

London

E14 5HQ

Citibank

Citigroup Centre

Canada Square

Canada Wharf

London

E14 5LB

Bank

Lloyds Bank,

City Office,

P.O. Box 72,

Bailey Drive,

Gillingham Business Park,

Kent.

ME8 0LS

Life Assurance Insurers

Ellipse (Spouses Pension and Death in Service Lump Sum)

15 Bermondsey Square

London

SE1 3UN

Secretary to the Trustee

Philip Cameron

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The Bourne Business Park

Addlestone nr Weybridge

Surrey

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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 2014. 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.

The Scheme has two separate sections; Section 1 formed from the transfer of the four former Racal schemes and the Thales Optronics Scheme and Section 2 formed from the two former Thompson schemes, the Vinten Scheme and the active members of the Avimo Scheme. The two Sections are administered, valued and accounted for in their own right.

Management of the Scheme

Exceeding the requirements of the Occupational Pension Scheme (Member-nominated Trustees and Directors) Regulations 2006 (to have at least one third of the Trustee Directors appointed by the membership), half of the Trustee Directors are appointed by Thales UK Ltd, and half are appointed by the active and pensioner membership. The current member nominated Trustee Directors are scheduled to serve until 2016, for the three Section 1 positions and 2017, for the three Section 2 positions.

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 (Employer Nominated)(Chair)
Phil Naybour (Employer Nominated)
Paul Durrant (Employer Nominated) – Resigned 11/3/15
James Bell (Member Nominated) – Resigned 11/6/14
Colin Milbourn (Member Nominated)
Joelle Dumetz (Member Nominated)
Ken McSweeney (Employer Nominated)
Dean Mason (Employer Nominated) – Resigned 6/3/15
Robert Scallon (Member Nominated)
Paul Corris (Member Nominated)
Geoff Fowle (Member Nominated)
Peter Rowley (Employer Nominated)
Nigel Baldwin (Employer Nominated) – Appointed 11/3/15
Helen Depree (Employer Nominated) – Appointed 11/3/15
John Twigg (Member Nominated) – Appointed 11/6/14

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 Employer 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 21 to 40 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 £161,591,000. This was as a result of a net return on investments of £183,824,000 and contributions of £80,754,000 being offset by benefits and expenditure payments of £102,987,000.

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.

The next formal valuation of the Scheme is currently underway with an effective date of 31 December 2014.

Section 1

The 2011 valuation revealed a deficit of £722m, representing a funding level of 64% relative to the Section's funding target. The Trustee and Employer have agreed that from 1 February 2014 the Employer will contribute as follows:-

14.7% 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.

As part of the 2011 Valuation the Trustee entered into a deed with the Employer agreeing that additional contributions would be payable from 31 December 2014 if particular funding level triggers were breached. These triggers have been breached and Interim Additional Deficit Contributions of £10.5m pa are now being made.

The Scheme Actuary carried out a funding update as at 31 December 2013. The funding update of Section 1 showed that on 31 December 2013 the funding position was as follows:-

Assets	£1,458m
Amount assessed as needed to provide benefits ("Liabilities")	£2,019m
Surplus / (Deficit)	(£561m)
Funding level	72%

Section 2

The valuation revealed a deficit of £153m at the valuation date, representing a funding level of 73% relative to the Section's funding target. The Trustee and Employer have agreed that from 1 February 2014 the Employer will contribute as follows:-

14.8% 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.

As part of the 2011 Valuation the Trustee entered into a deed with the Employer agreeing that additional contributions would be payable from 31 December 2014 if particular funding level triggers were breached. These triggers have been breached and Interim Additional Deficit Contributions of £3m pa are now being made.

TRUSTEE'S REPORT (CONTINUED)

Financial Developments (Continued)

The Scheme Actuary carried out a funding update as at 31 December 2013. The funding update of Section 2 showed that on 31 December 2013 the funding position was as follows:-

Assets	£484m
Amount assessed as needed to provide benefits ("Liabilities")	£608m
Surplus / (Deficit)	(£124m)
Funding level	80%

Member Contributions

During 2013 the Employer conducted a consultation with the active membership on the ongoing level of member contributions. The result of this consultation was a change in the Scheme rules increasing member contributions from 6% to 9% of CARE Salary up to £40,040 and, in excess of that, from 9% to 12%. This change became effective from 1st February 2014 with a corresponding reduction in Employer contributions of 3% from that date also.

Member contributions are paid through Salary Sacrifice.

For the month of September 2014, normal contributions of £1,007,914 for Section 1 and £1,015,716 for Section 2 were received by the Scheme on the 22 October 2014, three days later than the statutory deadline of the 19 October 2014. The auditor has not qualified their opinion on contributions given this only related to a timeliness issue. The Trustee has reviewed the control processes governing the timely payment of contributions and implemented changes to ensure that these controls are sufficiently robust to safeguard that contributions are paid on time in the future.

Under applicable regulations, the late contributions in respect of September's monthly contributions as disclosed in the summary of contributions represented an employer related investment for the period they remained unpaid past due.

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 an annual business plan which sets out its objectives in areas such as administration, investment, funding and communication. It covers all regular aspects of the Scheme management and any ongoing major projects. 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.

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 sub-committee meeting.

The Trustee manages the governance of the Scheme by the 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. It also houses the Scheme risk register.

TRUSTEE'S REPORT (CONTINUED)

Trustee Knowledge and Understanding

The Pensions Act 2004 requires the Trustee Directors to have sufficient knowledge and understanding of pensions and trust law and be conversant with the Scheme documentation. All Trustee Directors are required to successfully complete the Pension Regulator Trustee Toolkit. In addition the Trustee Directors receive regular training from its advisors in order to maintain high standards of knowledge and understanding, and maintain 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 Scheme has met all levy requests from the PPF, as detailed in Note 8 of the Financial Statements.

Legislation and Scheme Changes

Budget 2014

The Trustee and Employer have responded to the changes delivered in the March 2014 budget. The key changes to the Scheme, as a result of the 19 March 2014 budget, are as follows:

- An increase in the trivial commutation lump sum limit and trivial commutation lump sum death benefit from £18k to £30k (as an aggregate across a member's pension arrangements).
- An increase in the size of a small pension pot under a single arrangement which can be taken as a lump sum from £2k to £10k. The Trustee and Employer are in the process of agreeing a deed to allow the commutation of small pots.

The above lump sums can now be paid from age 55 (previously 60).

April 2015 reforms

- Since 6 April 2015, from age 55, members have had flexibility over how they take any defined contribution (DC, also known as money purchase) pension pot. The tax free lump sum continues to be available. In summary, members will be able to access their DC pension pot in full without the requirement to purchase an annuity subject to their marginal rate of income tax in that year applying to payments over and above the tax free pension commencement lump sum.
- The new freedoms do not generally apply to members of private sector defined benefit (DB, also known as final salary or career average earnings) schemes like the Scheme (other than in connection with any additional voluntary contributions or AVCs which are DC in nature), but they may be accessed by allowing DB members to transfer their benefits to a DC arrangement so that they can take advantage of the new flexibilities. Such transfers are allowed by the Scheme, subject to a new requirement for the member to obtain appropriate independent financial advice if their pension savings exceed £30,000. Given that transferring out of a DB scheme is a material decision which may have significant risks attached, all scheme trustees are required to check that this advice has been obtained.

TRUSTEE'S REPORT (CONTINUED)

Legislation and Scheme Changes (Continued)

April 2015 reforms (continued)

- The Trustee and Employer have agreed to allow, subject to certain conditions, members to request a transfer from the Scheme even where the member does not have a statutory right to a transfer (where the member is less than a year from their normal pension date). This option is subject to Trustee and Employer agreement. A deed of amendment is in the process of being agreed to facilitate this.
- Trustees of schemes with DC benefits are required to signpost members who are approaching retirement to a new free guidance service. There are also various new disclosure obligations which such trustees have to comply with. A new £10,000 DC annual allowance ensures the new flexibilities are not used by members to avoid paying tax.

Death Benefits

From April 2015, there have been changes to the taxation of any unused funds which remain in a member's DC pension pot on death. These changes apply to death benefits paid on or after 6 April 2015, rather than deaths on or after that date.

Whilst initial announcements focused on DC benefits, the changes may, depending on the scheme rules, also impact on how the new tax rules will apply to lump sum death benefits from DB arrangements:

- On death before age 75 and where the member has not yet drawn his/her pension, a lump sum may be paid to beneficiaries tax free. The lump sum will be tested against the member's lifetime allowance.
- On death before age 75 but after drawing pension, a pension protection lump sum death benefit may be paid tax free.
- On death after age 75, any defined benefits lump sum death benefit or pension protection lump sum death benefit paid to beneficiaries will be subject to 45% tax, changing to the marginal income tax rate from April 2016.
- Dependants' pensions from DB arrangements will be subject to income tax at the dependant's marginal rate. This contrasts with income from a beneficiary's drawdown pension from a DC arrangement, which would be tax free.

The Trustee and Employer are currently considering whether any amendments should be made to the Scheme Rules.

Changes to the lifetime allowance

With effect from 6 April 2014, the standard lifetime allowance (i.e. the maximum pension savings a member can accumulate over their lifetime without incurring additional tax charges) was reduced from £1.5 million to £1.25 million.

This resulted in people who had planned their retirement savings by reference to the previous £1.5 million lifetime allowance needed some form of transitional protection in recognition of that planning. That form of protection is IP 2014 and is available to those with pots over £1.25 million at 6 April 2014. HMRC's online tool for applying for IP 2014 is now operational and members have until 5 April 2017 to submit the online application form to HMRC.

In the March 2015 budget, it was announced that the standard lifetime allowance would be further reduced from £1.25 million to £1.00 million from 6 April 2016. Transitional protection will be introduced.

TRUSTEE'S REPORT (CONTINUED)

Legislation and Scheme Changes (Continued)

Same Sex Marriage and Civil Partners

Under the Marriage (Same Sex Couples) Act 2013, since 29 March 2014, same sex couples have been able to marry. The rights and responsibilities of couples in same sex marriages are broadly the same as those in opposite sex marriages.

The Trustee and Employer have agreed that the Scheme should provide broadly the same benefits for same sex spouses as it does for spouses of the opposite sex. The only difference in treatment is in relation to pre-1988 Guaranteed Minimum Pensions where there is a different treatment under law. The deed effecting these changes is in the process of being agreed.

At the same time, the Trustee and Employer are amending the rules to provide that all surviving Civil Partners should also be treated in the same way as above where this has not already been included in the Rules.

Pension due to Serious Ill-Health for an Active CARE Member or a Scheme Enhanced Member

The Rules are being amended to bring them in line with practice going forwards for determining if (i) an Active CARE Member can draw a pension due to Serious Ill-Health and (ii) a Scheme Enhanced Member can apply for the payment of his Past Service Pension due to ill health or injury. The state benefit which is taken into account for these purposes is employment and support allowance.

Pension for an Active CARE Member who remains in employment after his CARE Pension Date

The Rules are being amended to bring them in line with practice going forwards for when an Active CARE Member remains in the employment of an Employer after his CARE Pension Date. In practice, such members automatically remain active members of the Scheme unless they choose to opt-out.

Late retirement

At present, not all members are allowed to draw their deferred (legacy scheme) final salary benefits late. The Trustee and Employer have agreed to amend the rules to permit Members to draw their deferred final salary benefits pensions late, subject to the appropriate consents being granted.

Definition of Money Purchase Benefits

On 24 July 2014, the new statutory definition of "money purchase benefits" came into force. The change affects two main types of benefit. For the purposes of the Scheme, the relevant change is the categorisation of pensions in payment derived from DC accounts but paid out of Scheme assets rather than being secured with insurance Employer annuities. Such benefits are not money purchase benefits. Given that, in the past, such internal annuities have been treated as DB benefits in the Scheme, their change of statutory categorisation does not have practical implications for the Scheme.

Shared Parental Leave

The Children and Families Act 2014 introduced new rights for employees who are parents (birth or adoptive) to take shared parental leave in the first year of their child's life or adoption placement. The new provisions apply in relation to children whose expected week of childbirth or adoption placement begins on or after 5 April 2015.

TRUSTEE'S REPORT (CONTINUED)

Legislation and Scheme Changes (Continued)

Shared Parental Leave (Continued)

Under the new system, parents who meet certain qualifying conditions can elect to curtail their maternity/adoption leave and convert any remaining balance to shared parental leave and pay, which can then be shared between them and their partner. In DB schemes, such as the Scheme, any period spent on paid shared parental leave will be treated as pensionable service and will continue to accrue pension benefits based on the level of pensionable earnings before they started shared parental leave. Member contributions will be based on actual earnings during the period of shared parental leave.

The Trustee and Employer will review the Scheme Rules to consider if any amendments are needed.

This is only a summary of recent changes. The Trustee of the Scheme is required to follow the Trust Deed and Rules and cannot pay benefits other than in accordance with those Rules.

TRUSTEE'S REPORT (CONTINUED)

Membership Movements

The membership reconciliation for the reporting period is detailed below.

Thales UK Pension Scheme – Section 1 Membership movements	Active Members [#]	Deferred Members	Total Pensioners	Pensioners (Retired)	Pensioners (Dependant)	Pensioners (Children)
Number as at 1 January 2014	1,136	5,723	7,608	6,075	1,526	7
Adjustments*	(27)	(29)	(91)	(74)	(17)	
New Entrants		43	308	236	72	
Death in Service	(1)					
Death in Deferment		(7)				
Death in Retirement			(148)	(104)	(44)	
Child Pension Ceasing						
Retirements from Active	(49)					
Retirements from Deferred		(188)				
Leavers - Deferred	(43)					
Leavers – Opt Out						
Retirements (full commutation)			(13)	(13)		
Transfers Out		(13)				
Number as at 31 December 2014	1,016	5,529	7,664	6,120	1,537	7

Thales UK Pension Scheme – Section 2 Membership movements	Active Members [#]	Deferred Members	Total pensioners	Pensioners (Retired)	Pensioners (Dependant)	Pensioners (Children)
Number as at 1 January 2014	1,280	1,916	2,538	2,171	357	10
Adjustments*	(43)	11	11	9	(3)	5
New Entrants		32	169	150	19	
Death in Service						
Death in Deferment		(2)				
Death in Retirement			(46)	(35)	(11)	
Child Pension Ceasing			(2)			(2)
Retirements from Active	(46)					
Retirements from Deferred		(104)				
Leavers - Deferred	(31)					
Leavers – Opt Out						
Retirements (full commutation)			(2)	(2)		
Transfers Out		(4)				
Number as at 31 December 2014	1,160	1,849	2,668	2,293	362	13

Total pensioners is a sum of the three columns in yellow.

*Relates to members whose status changed in the previous reporting year but their records weren't updated until after the year end.

The active membership figures include Enhanced DC members, 50 for Section 1 and 51 for Section 2.

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
BlackRock
Brigade Capital Management LLC
CarVal, CVI CREDIT VALUE FUND B II LP
Credit Suisse Asset Management
Equitix Ltd
Legal & General Investment Management Ltd
Majedie Asset Management
MedicX Healthfund II LP
M&G Investments
Rogge Global Partners plc
Standard Life Investments Ltd
Stone Harbor Investment Partners (UK) LLP
Vontobel Asset Management

Following the end of the accounting period the Scheme has made commitments to invest in the CarVal, CVI CREDIT VALUE FUND B III LP (from February 2015), TIAA-CERF Global Agriculture II LLC (from March 2015) and M&G European Long Lease Property Fund (from March 2015).

Review of Investment Performance of the Scheme

For the year ended 31 December 2014, the Scheme returned 11.18% against a benchmark return of 9.60%. The return over the last three years is 9.40% per annum (pa) against a benchmark of 7.89% pa, returns over 5 years are 9.17% pa against a benchmark of 7.65% pa.

The total assets held by the Scheme, as at 31 December 2014, were £2.12 billion (31 December 2013: £1.96 billion).

TRUSTEE'S REPORT (CONTINUED)

Investment performance for the period 1 January 2014 to 31 December 2014 is set out below:

	12 months (%)			Asset value 31/12/2014	Inception date	Benchmark	Performance Target	Active/ Passive
	Fund	B'mark	+/-					
Thales UK Pension Scheme	11.2	9.6	1.6	2,121.6	Jan 2005			
Equity	9.8	6.2	3.6	740.8				
Majedie UK Equity	9.4	1.2	8.2	156.7	May 2005	FTSE All Share	Outperform Benchmark	Active
L&G Global Equity RAFI-3000	8.4	8.9	-0.5	249.9	May 2005	FTSE RAFI AW 3000GBP	Track Benchmark	Passive
L&G Global ex UK Equity	10.9	10.9	0.0	142.1	Mar 2009	FTSE Developed ex UK (75.6%) S&P/IFC Investible Ind GBP (24.4%)	Track Benchmark	Passive
L&G Emerging Markets RAFI	0.7	1.3	-0.6	31.6	Oct 2011	FTSE RAFI Emerging Markets	Track Benchmark	Passive
Vontobel Emerging Markets	12.4	3.9	8.5	55.7	Nov 2011	MSCI Emerging Markets ND	2.0% pa Track Benchmark	Active
AQR Low Volatility	13.4	7.1	6.3	104.9	May 2013	MSCI World	Track Benchmark with lower volatility	Active
Credit	12.1	11.6	0.5	641.4				
Blackrock Corporate Bond Fund	8.1	8.1	0.0	140.0	Jun 2009	BarCap Agg Corp GBP Hedged	Track Benchmark	Passive
Blackrock North American	16.7	16.2	0.5	161.1	Nov 2009	BarCap US Long Credit Select Index	Track Benchmark	Passive
L&G UK AAA - AA - A passive	19.9	19.9	0.0	90.0	May 2005	iBoxx Sterling Non Gilts ex BBB 15+	Track Benchmark	Passive
Rogge Global Active	8.9	7.8	1.1	235.9	Apr 2010	BarCap Global Agg Credit GBP hedged	1.5%	Active
BlackRock Duration Hedge	-	-	-	14.3	Apr 2012			Passive
Liquid Alternatives	8.7	4.5	4.2	202.2				
AQR Managed Futures	14.0	2.6	11.4	22.4	May 2012	3 Month GBP +2% per annum	Long-term returns with low correlation with traditional investment markets	Active
Credit Suisse IR	10.7	6.5	4.2	59.1	Aug 2011	3 Month USD Libor	3.0 - 5.0%	Active
Rogge EMC	12.0	6.5	5.5	21.4	Aug 2011	3 Month GBP Libor	Outperform Benchmark	Active
Stone Harbor EMD	0.3	4.2	-3.9	41.8	Aug 2011	JPM GBI EM Global Diversified (50%) JPM CEMBI Broad Diversified GBP (10%) JPM EMBI Global Diversified GBP hedged (40%)	1.5 - 2.0%	Active
Brigade	0.9	2.4	-1.5	24.6	Nov 2012	Credit Suisse Leveraged Loan Index (50%) Merrill Lynch High Yield Constrained Index (50%)	8.0 - 12.0%	Active
Carval	18.1	2.7	15.4	32.9	Jun 2013	Merrill Lynch High Yield	13.0% - 15.0%	Active
Illiquids	11.2	16.1	-4.9	154.6				
Equitix II	17.2	23.1	-5.9	17.4	Sep 2011	Index Linked Gilt +3.5%	12.5% gross / 10.0% net	Active
L&G Long Lease Property	9.0	15.5	-6.5	37.9	Feb 2013	AREF/IPD Long Income Property Index	Absolute Return	Active
Standard Life Property	17.3	17.0	0.5	64.9	Nov 2011	IPD All Balanced Index	Outperform Benchmark	Active
M&G European Property	-1.7	4.8	-6.5	20.8	Sep 2012	IPD Pan European Index	7.0 - 9.0%	Active
Equitix III	-4.9	23.1	-28.0	6.7	Jun 2013	Index Linked Gilt +3.5%	12.5% gross / 10.0% net	Active
MedicX H'care II	-	-	-	6.9	Feb 2014	Index Linked Gilt +3.5%	12.5% gross / 10.0% net	Active
Liability matching	-	-	-	367.1				
L&G Swaps & Collateral 1	-	-	-	273.3	Apr 2012			Passive
L&G Swaps & Collateral 2	-	-	-	93.8	Apr 2012			Passive
Cash	-	-	-	15.5				Passive
Blackrock Liquidity Fund 1	1.2	0.4	0.8	3.1	Mar 2010	7 Day LIBID	Track Benchmark	Passive
Blackrock Liquidity Fund 2	0.8	0.4	0.4	10.7	Apr 2012	7 Day LIBID	Track Benchmark	Passive
Equity Options	-	-	-	4.9	Feb 2014			Passive
Currency Hedge	-	-	-	-3.2	Dec 2011			Passive

Note: this investment report is related to Scheme investment assets only as such it excludes the cash held by the administrator, AVC assets and the mark to market value of options held by L&G.

TRUSTEE'S REPORT (CONTINUED)

Market review – year ended 31 December 2014

Summary

The majority of asset classes have produced positive absolute performance over the 12 months, other than the notable exceptions of crude oil and commodities as a whole. Below are set out some of the major events that affected the global economy over the year.

A continuing theme throughout the year has been the volatility in equity markets that has resulted from the geo-political tension following the conflict between Russia and Ukraine. The current 'fragile' truce has alleviated some negative economic growth concerns for investors and aided a recovery in equity prices.

More recently, market turmoil since the beginning of September 2014 caused meaningful losses across credit, equities and commodities. Two key reasons for this turmoil are: i) global growth concerns, particularly in Germany (and therefore the Eurozone as a whole) and ii) monetary policy shifts, with the Federal Reserve expected to cease asset purchases in the near future.

Currency markets have been characterised by significant US dollar strength during 2014. This move has been driven by the improving US economy, but in the shorter term differentiation in growth prospects, monetary policy and risk sentiment have driven markets at various points throughout the year.

Equity markets

In aggregate developed market equity performance has been positive over 2014. The FTSE World Index (developed world equities) returned 11.3% over the year, with the FTSE Emerging Index returning 7.9%.

At the beginning of the year, the US equity market appeared to be one of the least attractive developed markets on valuation grounds. However, robust sales growth, muted wage increases and low interest rates meant profit levels increased at the aggregate level. These conditions exceeded expectations, driving markets higher over the year and meaning the US market is the best performing major developed market during 2014.

Returns in emerging markets, however, were mixed as markets digested poor growth news from China, weak commodity prices and ongoing rebalancing needs in economies with weak balance of payment positions. In aggregate, emerging equity markets continued to underperform developed markets.

Bond markets

Contrary to expectations, bond yields have fallen considerably across US, UK and German markets over the course of the year, as investors in longer-dated instruments benefited from both rate declines and roll-down effects. Moves have been most pronounced at the longer end of yield curves. US and UK 20 year zero coupon nominal bond yields declined approximately 110bps, while the German counterpart has fallen by close to 150bps. In the UK, the vast majority of falls at longer maturities have been in long-dated real interest rates, whilst in the US and Germany breakeven inflation rates have declined as well. At current levels, bond markets appear to price a depressed level for 'normative' (i.e. very long term) future cash rates, a point which is particularly true in the UK and Germany.

Over the year, UK government and corporate bonds produced strong returns, more pronounced for longer duration issues, with the FTSE-A Gilts 15+ Index returning 26.1% over the year, compared to the iBoxx Sterling Non-Gilts 15+ Years Index which returned 19.0%.

TRUSTEE'S REPORT (CONTINUED)

Alternative investment markets

Oil prices have declined considerably, falling over 50% since July. We believe that the major cause of this move is the significant increase in non-OPEC related supply during the year. In recent cases of oversupply in the markets OPEC has reduced its production in order to maintain price. However, at the end of November the organisation announced that it would not be reducing supply in the short term. In doing so, OPEC ensured that in the near term, oil markets were balanced not through supply reduction, but by price declines in the expectation that these declines would eventually lead to higher cost non-OPEC producers (such as from US shale) reducing supply in order to balance markets.

UK commercial property has returned 19.3% over the 12 month period to end of December 2014 (as measured by IPD). Yields have fallen since late last year as price rises have accelerated due to the UK economy gaining momentum.

Over the period, all major hedge fund strategies have produced positive absolute performance, with the exception of distressed strategies (in US dollar terms, as measured by HFR). The average hedge fund has returned 3.5% (sterling hedged) over the past year.

During the first three quarters of 2014 local currency returns on emerging market bond assets were reasonable. Reduced funding pressures on countries with poor balance of payment positions reduced sovereign risk premia, whilst deflationary impulses and slowing growth meant that central banks in economies with stronger external dynamics were able to reduce policy rates. This was particularly true in Eastern Europe. However, local currency bond returns were swamped by currency volatility during this period as US dollar strength negatively affected foreign currency outcomes

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.

The Trustee maintains a 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.

Investment Principles

The Trustee 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.

The Trustee regularly monitors the Scheme asset allocations to ensure they remain in accordance with the Strategic Asset Allocation as set out in the Statement of Investment Principles.

TRUSTEE'S REPORT (CONTINUED)
Investment Principles (Continued)

At the current Scheme year end the Trustee recognised that the current asset allocation was outside the target allocation set out in the Scheme Statement of Investment Principles. Equity assets were 0.3% over the SIP range of 29-35%, this is not considered to be a significant deviation. This arose due to assets only being rebalanced every quarter and there was a strong growth in equity values during the last quarter of 2014. Post year-end the Trustee has taken action to rebalance the investments through selling L&G equity funds. The Trustee is considering the question of an ongoing rebalancing policy as part of the investment strategy review associated with the ongoing 2014 actuarial valuation. In addition, illiquid assets constituted 6.8% of total assets, against a target holding of 13% per the SIP. This target is expected to be achieved over a period of time, where existing undrawn capital commitments with illiquid managers are drawn down over time.

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 has 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. During 2014 the Trustee monitored the funding level daily against the set trigger levels. To date no derisking triggers have been breached.

Custodial Arrangements

The Trustee have 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

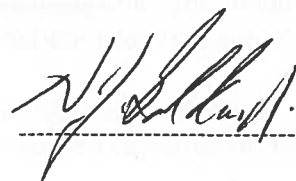
Within the Scheme, investment managers are paid on a mixture of performance-related based fees and fund value based fees rather than a fixed fee basis. The Trustee believed that this provided those investment managers with a greater alignment with the Trustee's interests. The fee bases of the managers 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 45 and 46.

Signed on behalf of Thales Pension Trustees Ltd on 25 June 2015


-----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 of Contributions 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 2014 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 Trustee is 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 2014, 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

Reading, United Kingdom

25 June 2015

Thales UK Pension Scheme

Financial Statements

Fund Account - For the year ended 31 December 2014

	Notes	Section 1 £'000	Section 2 £'000	2014 £'000	2013 £'000
Contributions and Benefits					
Contributions	3	58,425	21,778	80,203	81,714
Other income	4	388	163	551	350
		58,813	21,941	80,754	82,064
Benefits	5	70,043	19,769	89,812	86,801
Leavers	6	2,646	2,354	5,000	4,957
Other payments	7	1,305	1,287	2,592	3,223
Administrative expenses	8	3,809	1,774	5,583	6,208
		77,803	25,184	102,987	101,189
Net withdrawals from dealings with members		(18,990)	(3,243)	(22,233)	(19,125)
Returns on investments					
Investment income	9	21,591	6,374	27,965	39,224
Change in market value of investments	11	122,284	39,901	162,185	94,847
Investment management expenses	10	(4,751)	(1,575)	(6,326)	(11,869)
Net returns on investments		139,124	44,700	183,824	122,202
Net increase in the fund during the year		120,134	41,457	161,591	103,077
Net Assets of the Scheme					
At 1 January		1,459,228	501,017	1,960,245	1,857,168
At 31 December		1,579,362	542,474	2,121,836	1,960,245

The notes on pages 23 to 40 form part of these financial statements.

Financial Statements

Net Assets Statement – As at 31 December 2014

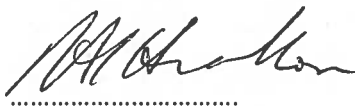
	Notes	2014 £'000	2013 £'000
Section 1			
Investment assets	11	1,581,435	1,454,929
Investment liabilities	11	(9,635)	(1,180)
Current assets	12	11,128	11,875
Current liabilities	13	(3,566)	(6,396)
Net Assets		<u>1,579,362</u>	<u>1,459,228</u>
Section 2			
Investment assets	11	543,065	499,764
Investment liabilities	11	(3,054)	(384)
Current assets	12	4,229	4,913
Current liabilities	13	(1,766)	(3,276)
Net Assets		<u>542,474</u>	<u>501,017</u>
Net assets at 31 December		<u>2,121,836</u>	<u>1,960,245</u>

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 7, 43 and 44 respectively and these financial statements should be read in conjunction with them.

The notes on pages 23 to 40 form part of these financial statements.

The financial statements on pages 21 to 22 were approved on behalf of the Trustee on 25 June 2015

Signed on behalf of Thales Pension Trustees Ltd



Trustee Director



Trustee Director

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 31 DECEMBER 2014**

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

The following accounting policies have been applied consistently in the current and previous years.

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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014 (CONTINUED)**

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 and swaps are 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 2014.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014 (CONTINUED)**

	Section 2 £'000	Section 2 £'000	2014 £'000	2013 £'000
3 Contributions				
Contributions from employer:				
Normal	12,152	12,251	24,403	26,187
Deficit funding	44,000	8,600	52,600	51,950
Augmentations	-	-	-	78
Other -- PPF Levy	1,929	927	2,856	3,179
Other - Top ups	344	-	344	320
	<u>58,425</u>	<u>21,778</u>	<u>80,203</u>	<u>81,714</u>

Normal contributions from the employer include £4,688,000 and £4,626,000 (2013: £3,857,000 and £3,703,000) member contributions paid through a salary sacrifice arrangement in respect of Section 1 and Section 2 respectively.

Ongoing deficit funding of £44m per annum is payable for Section 1 for the period 1 April 2011 to 31 December 2028, to reduce the funding shortfall.

Ongoing deficit funding of £6m per annum is payable for Section 2 for the period 1 April 2011 to 31 March 2014 and then £8.6m per annum from 1 April 2014 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	388	151	539	349
Sundry income	-	12	12	1
	<u>388</u>	<u>163</u>	<u>551</u>	<u>350</u>

5 Benefits

Pensions	61,270	14,641	75,911	70,502
Commutations and lump sums on retirement	8,140	4,901	13,041	15,565
Annuities purchased	-	-	-	43
Lump sums death benefits	633	227	860	691
	<u>70,043</u>	<u>19,769</u>	<u>89,812</u>	<u>86,801</u>

Thales UK Pension Scheme

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (CONTINUED)

	Section 1 £'000	Section 2 £'000	2014 £'000	2013 £'000
6 Payments to and on account of leavers				
Individual transfers to other schemes	2,646	2,354	5,000	4,957
7 Other payments				
Premiums on term insurance policies	1,305	1,273	2,578	3,223
Ex Gratia Payments	-	14	14	-
	<u>1,305</u>	<u>1,287</u>	<u>2,592</u>	<u>3,223</u>
Term insurance is secured by policies underwritten by Ellipse.				
8 Administrative expenses				
Administration fees	489	232	721	665
Actuarial and consulting fees	1,183	437	1,620	1,699
Legal fees	118	118	236	445
Audit fees	25	25	50	50
Other expenses	39	18	57	75
PPF Levy	1,955	944	2,899	3,274
	<u>3,809</u>	<u>1,774</u>	<u>5,583</u>	<u>6,208</u>
9 Investment income				
Income from fixed interest securities	13,400	4,065	17,465	28,792
Dividends from equities	4,544	1,515	6,059	4,979
Income from index linked securities	1,359	468	1,827	2,607
Income from managed & unitised-authorized	70	24	94	404
Interest on cash and deposits	713	292	1,005	893
Annuity income	1,505	10	1,515	1,549
	<u>21,591</u>	<u>6,374</u>	<u>27,965</u>	<u>39,224</u>
10 Investment management expenses				
Administration, management and custody*	4,751	1,575	6,326	11,869

*Included within administrative, management and custody fees are investment manager fees for Majedie Asset Management Limited of £3,471,661 (2013: £8,861,516). This is due to a performance related element of the management fee agreement.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014 (CONTINUED)**

11 Investments

	Section 1 £'000	Section 2 £'000	2014 £'000	2013 £'000
Investment assets	1,581,435	543,065	2,124,500	1,954,693
Investment liabilities	(9,635)	(3,054)	(12,689)	(1,564)
	<u>1, 571,800</u>	<u>540,011</u>	<u>2,111,811</u>	<u>1,953,129</u>

Investment liabilities relate to derivative investments and other investment liabilities. Investment assets include derivative related assets of £19,378,000 (2013: £15,170,000).

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

	Section 1 £'000	Section 2 £'000	2014 £'000	2013 £'000
Investments by strategy type				
Cash	3,075	10,723	13,798	27,788
Equity	557,417	185,811	743,228	770,462
Illiquids	107,280	35,760	143,040	110,011
Investment Grade Credit	494,100	152,350	646,450	587,581
Liquid Alternative	156,767	52,154	208,921	181,419
Derivatives	5,159	1,529	6,688	4,137
Total Unitised funds	<u>1,323,798</u>	<u>438,327</u>	<u>1,762,125</u>	<u>1,681,398</u>
Non unitised funds				
Fixed interest bonds	245,881	84,983	330,864	251,280
	<u>1,569,679</u>	<u>523,310</u>	<u>2,092,989</u>	<u>1,932,678</u>
AVC investments	<u>2,121</u>	<u>16,701</u>	<u>18,822</u>	<u>20,451</u>
	<u>1,571,800</u>	<u>540,011</u>	<u>2,111,811</u>	<u>1,953,129</u>

The investments are further analysed within the various funds that comprise Unitised and Derivative Funds of the Thales UK Pension Scheme in sections headed **The movements of investments in the year on Page 28.**

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 2014 (CONTINUED)**

11 Investments (continued)

The movements of investments in the year:

	Market Value at 31 December 2013 £'000	Purchases at cost and derivative payments £'000	Sales proceeds and derivative receipts £'000	Change in Market Value £'000	Market Value at 31 December 2014 £'000
Fixed interest securities	329,707	190,253	(180,414)	40,590	380,136
Equities	136,188	119,086	(110,302)	7,898	152,870
Index linked securities	230,899	54	(1,346)	40,371	269,978
Pooled investment vehicles	1,176,706	253,893	(279,065)	112,505	1,264,039
Derivatives					
Swaps	(9,470)	-	-	25,251	15,781
Futures	2,790	22,193	(925)	(29,482)	(5,424)
Options	-	21,229	-	(21,229)	-
Variation margin futures	(2,790)	2,790	-	-	-
Forward contracts	10,817	8,439,852	(8,438,318)	(16,020)	(3,669)
AVC investments	20,451	52	(2,969)	1,288	18,822
	<u>1,895,298</u>	<u>9,049,402</u>	<u>(9,013,339)</u>	<u>161,172</u>	<u>2,092,533</u>
Cash - Sterling	14,147			-	3,227
Cash - Foreign currency	38,164			1,013	23,069
Cash - Variation margin	-			-	6,164
Investment income receivable	5,945			-	6,125
Amounts due to brokers	-			-	(21,229)
Other investment assets	-			-	2,096
Other investment liabilities	(425)			-	(174)
	<u>1,953,129</u>			<u>162,185</u>	<u>2,111,811</u>

Included within the above purchases and sales figures are transaction costs of £675,600 (2013: £829,119). 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.

Included within pooled investment vehicles as at 31 December 2014 is an investment in an investment vehicle with a year-end value of £92m. At the year end, the Scheme owned 79% of the shares issued by this Fund. However, the Scheme has no ability to control the investing activities of the Fund, and as such the substance of the investment is that the investment is a pooled investment vehicle, and has been treated as such in the financial statements.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014 (CONTINUED)**

11 Investments (continued)

Section 1

The movements of investments in the year:

	Market Value at 31 December 2013 £'000	Purchases at cost and derivative payments £'000	Sales proceeds and derivative receipts £'000	Change in Market Value £'000	Market Value at 31 December 2014 £'000
Fixed interest securities	251,972	145,421	(137,900)	31,016	290,509
Equities	102,141	89,314	(82,726)	5,923	114,652
Index linked securities	177,345	41	(1,029)	31,002	207,359
Pooled investment vehicles	874,877	186,891	(209,425)	84,747	937,090
Derivatives					
Swaps	(7,238)	-	-	19,301	12,063
Futures	2,132	16,964	(707)	(22,535)	(4,146)
Options	-	15,924	-	(15,924)	-
Variation margin futures	(2,132)	2,132	-	-	-
Forward contracts	8,164	6,085,131	(6,083,885)	(12,168)	(2,758)
AVC investments	2,435	-	(462)	148	2,121
	<u>1,409,696</u>	<u>6,541,818</u>	<u>(6,516,134)</u>	<u>121,510</u>	<u>1,556,890</u>
Cash - Sterling	10,629			-	2,468
Cash - Foreign currency	29,207			774	17,511
Cash - Variation margin	-			-	4,711
Investment income receivable	4,542			-	4,675
Amounts due to brokers	-			-	(15,924)
Other investment assets	-			-	1,602
Other investment liabilities	(325)			-	(133)
	<u>1,453,749</u>			<u>122,284</u>	<u>1,571,800</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014 (CONTINUED)**

11 Investments (continued)

Section 2

The movements of investments in the year:

	Market Value at 31 December 2013 £'000	Purchases at cost and derivative payments £'000	Sales proceeds and derivative receipts £'000	Change in Market Value £'000	Market Value at 31 December 2014 £'000
Fixed interest securities	77,735	44,832	(42,514)	9,574	89,627
Equities	34,047	29,772	(27,576)	1,975	38,218
Index linked securities	53,554	13	(317)	9,369	62,619
Pooled investment vehicles	301,829	67,002	(69,640)	27,758	326,949
Derivatives					
Swaps	(2,232)	-	-	5,950	3,718
Futures	658	5,229	(218)	(6,947)	(1,278)
Options	-	5,305	-	(5,305)	-
Variation margin futures	(658)	658	-	-	-
Forward contracts	2,653	2,354,721	(2,354,433)	(3,852)	(911)
AVC investments	18,016	52	(2,507)	1,140	16,701
	<u>485,602</u>	<u>2,507,584</u>	<u>(2,497,205)</u>	<u>39,662</u>	<u>535,643</u>
Cash - Sterling	3,518			-	759
Cash - Foreign currency	8,957			239	5,558
Cash - Variation margin	-			-	1,453
Investment income receivable	1,403			-	1,450
Amounts due to brokers	-			-	(5,305)
Other investment assets	-			-	494
Other investment (liabilities)	(100)			-	(41)
	<u>499,380</u>			<u>39,901</u>	<u>540,011</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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014 (CONTINUED)**

11 Investments (continued)

Sub-analysis of year end investment holdings by section:

	Section 1 £'000	Section 2 £'000	2014 £'000	2013 £'000
Fixed interest securities:				
UK public sector quoted	11,496	3,597	15,093	12,330
UK corporate quoted	10,341	3,189	13,530	26,071
Overseas public sector quoted	21,065	6,494	27,559	25,449
Overseas corporate quoted	247,607	76,347	323,954	265,857
	<u>290,509</u>	<u>89,627</u>	<u>380,136</u>	<u>329,707</u>
Equities:				
UK quoted	96,268	32,090	128,358	115,363
Overseas quoted	18,384	6,128	24,512	20,825
	<u>114,652</u>	<u>38,218</u>	<u>152,870</u>	<u>136,188</u>
Index linked securities:				
UK public sector quoted	163,240	49,440	212,680	180,711
UK corporate quoted	44,119	13,179	57,298	50,188
	<u>207,359</u>	<u>62,619</u>	<u>269,978</u>	<u>230,899</u>
Pooled investment vehicles:				
Other	876,171	306,643	1,182,814	1,138,645
Property	60,919	20,306	81,225	38,061
	<u>937,090</u>	<u>326,949</u>	<u>1,264,039</u>	<u>1,176,706</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014 (CONTINUED)**

11 Investments (continued)

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

	£'000	£'000	£'000	£'000	£'000	2014 £'000
	Equity and Illiquid	Invest Grade	Liquid Alternative	Cash and Derivatives	Matching Assets	Total Funds
Fixed Interest						
UK Public Quoted	-	-	-	-	15,093	15,093
UK Corporate Quoted	-	13,530	-	-	-	13,530
Overseas Public Quoted	-	27,559	-	-	-	27,559
Overseas Corporate Quoted	-	323,954	-	-	-	323,954
Equities						
UK quoted	128,358	-	-	-	-	128,358
Overseas quoted	24,512	-	-	-	-	24,512
Index Linked						
UK Public Quoted	-	3,353	-	-	209,327	212,680
UK Corporate Quoted	-	-	-	-	57,298	57,298
Pooled Investment Vehicles						
Other	644,474	247,584	208,705	13,783	68,268	1,182,814
Property	81,225	-	-	-	-	81,225
	878,569	615,980	208,705	13,783	349,986	2,067,023
Derivatives	-	-	-	6,688	-	6,688
	878,569	615,980	208,705	20,471	349,986	2,073,711
Cash	8,319	25,834	216	13	-	34,382
Pending	(1,289)	-	-	-	(19,940)	(21,229)
Investment Income Receivable	669	4,636	-	2	818	6,125
	886,268	646,450	208,921	20,486	330,864	2,092,989

AVC assets are not included in the above analysis.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014 (CONTINUED)**

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.

Options

Option contracts were entered into during the year to reduce the volatility relating to the Scheme's equity portfolio. The Scheme implemented a put-spread collar structure; all contracts expired on the 31 Dec 2014.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014 (CONTINUED)**

11 Investments (continued)

Derivative assets/(liabilities) (continued)

SWAPS

Section 1

Swaps (Exchange traded)	Economic exposure £	Expiry	2014	
			Assets £'000	Liabilities £'000
Interest rate swaps – Libor to fixed rate	25,517,000	May 2024	2,425	-
Interest rate swaps – Libor to fixed rate	25,517,000	June 2025	2,773	-
Interest rate swaps – Libor to fixed rate	26,878,000	June 2026	3,260	-
Interest rate swaps – Libor to fixed rate	26,878,000	May 2027	3,605	-
			12,063	-

Section 2

Swaps (Exchange traded)	Economic exposure £	Expiry	2014	
			Assets £'000	Liabilities £'000
Interest rate swaps – Libor to fixed rate	7,866,000	May 2024	748	-
Interest rate swaps – Libor to fixed rate	7,866,000	June 2025	855	-
Interest rate swaps – Libor to fixed rate	8,286,000	June 2026	1,005	-
Interest rate swaps – Libor to fixed rate	8,286,000	May 2027	1,111	-
			3,719	-

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

Collateral pledged to Thales UK Pension Scheme by Legal and General as at 31 December 2014 in relation to swap contracts amounted to £10,192,000 Section 1 and £2,954,000 for Section 2.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014 (CONTINUED)**

11 Investments (continued)

Derivative assets/(liabilities) (continued)

Futures

Number of Contracts	Futures (Exchange traded)	Economic exposure £	Expiry	2014	
				Assets £'000	Liabilities £'000
436	10 Year USA Treasury Notes	(35,025,177)	March 2015	-	(192)
31	10 Year USA Treasury Notes	2,513,513	March 2015	9	-
24	CBT UL Treasury Bonds	2,412,088	March 2015	114	-
793	CBT UL Treasury Bonds	(79,963,599)	March 2015	-	(3,610)
6	Eur0 Buxl Bond	706,832	March 2015	31	-
200	Eurx Eur-Schatz	17,605,340	March 2015	26	-
30	Eurx Eur-Bobl	3,081,827	March 2015	19	-
33	Eurx Eur-Bund	4,010,923	March 2015	70	-
33	LIF Long Gilt	3,859,190	March 2015	85	-
41	ME 10 Year Canadian Bond	3,166,897	March 2015	58	-
18	SFE 10 year Treasury Bond	1,201,039	March 2015	12	-
16	TSE 10 year JGB	(12,440,138)	March 2015	-	(81)
61	USA Treasury Bonds	5,527,502	March 2015	104	-
824	USA Treasury Bonds	(73,935,215)	March 2015	-	(2,055)
71	2 Year USA Treasury Notes	9,901,159	March 2015	-	(14)
				528	(5,952)
Split by Section (Unitisation)					
Section 1				404	(4,550)
Section 2				124	(1,402)
				528	(5,952)

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. Therefore the closing balance of the further assets and liabilities have been split 76% / 24% in line with the year end unitisation of the Scheme.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014 (CONTINUED)**

11 Investments (continued)

Derivative assets/(liabilities) (continued)

Forward foreign currency contracts (over the counter)

2014

Number of Contracts	Settlement date	Currency bought	Currency Sold	Assets £'000	Liabilities £'000
6	1 month	GBP	USD	-	(1,338)
4	1 month	USD	GBP	9	(324)
30	2 month	GBP	USD	324	(4,908)
8	2 months	GBP	JPY	620	-
10	2 months	GBP	EUR	1,660	-
2	2 month	CAD	USD	-	(74)
2	2 month	EUR	GBP	-	(4)
2	2 month	CAD	AUD	1	-
2	2 month	CHF	EUR	-	-
2	2 month	USD	NZD	-	(42)
2	2 month	EUR	SEK	1	-
4	2 month	USD	JPY	25	(29)
2	2 month	USD	EUR	4	-
4	3 month	MXN	USD	424	-
2	3 month	JPY	USD	-	(18)
				3,068	(6,737)
Split by Section (Unitisation)					
Section 1				2,345	(5,149)
Section 2				723	(1,588)
				3,068	(6,737)

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. Therefore the closing balance of the further assets and liabilities have been split 76% / 24% in line with the year end unitisation of the Scheme.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014 (CONTINUED)**

11 Investments (continued)

Annuity policies

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.

Custodian

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.

Employer Related Investments

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.

For the month of September 2014, normal contributions of £1,007,914 for Section 1 and £1,015,716 for Section 2 were received by the Scheme on the 22 October 2014, three days later than the statutory deadline of the 19 October 2014. Under applicable regulations, these late contributions represented an employer related investment for the period they remained unpaid past due.

Concentration of Investments

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

	At 31 December 2014 £'000	%	At 31 December 2013 £'000	%
BlackRock Selection Fund	140,025	6.5	129,510	6.6
L&G RX- WORLD (EX UK) DEV Equity Index Fund	105,846	5.0	131,907	6.7
L&G YX - FTSE RAFI AW 3000 Equity Index Fund	249,393	11.6	230,010	11.7

Capital commitments

At the Scheme year end, the Scheme had undrawn but committed investments with existing investment managers of £69m.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014 (CONTINUED)**

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 1 £'000	Section 2 £'000	2014 £'000	2013 £'000
Zurich	667	16,612	17,279	18,628
Equitable Life Assurance Society	983	6	989	1,087
MGM Assurance	103	-	103	96
Phoenix	53	19	72	83
Prudential	275	-	275	425
Friends Provident	9	-	9	9
Scottish Widows	31	-	31	63
Clerical Medical	-	64	64	60
	<u>2,121</u>	<u>16,701</u>	<u>18,822</u>	<u>20,451</u>

During 2013 Zurich was appointed as the Scheme AVC provider. 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 2013. In 2014 the Scheme has completed the transfer of all Section 2 AVC holdings to Zurich.

During 2013 the transfer of Section 1 AVC holdings held with Legal & General to Zurich was completed.

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 2014 (CONTINUED)**

	Section 1 £'000	Section 2 £'000	2014 £'000	2013 £'000
12 Current assets				
Pensions paid in advance	3,681	1,014	4,695	4,369
Contributions Employer - Normal	980	1,007	1,987	2,179
Contributions Employer - Deficit	3,667	717	4,384	4,384
Life assurance premiums paid in advance	312	307	619	721
AVC benefit receivable from provider	-	-	-	207
Annuities receivable	123	-	123	123
PPF levy paid in advance	467	226	693	775
Cash deposits held with Scheme Administrator	1,879	958	2,837	3,991
Inter section balance	19	-	19	39
	<u>11,128</u>	<u>4,229</u>	<u>15,357</u>	<u>16,788</u>

The contributions due as at 31 December 2014 were received after the year end in accordance with the due date set out in the Schedule of Contributions. Normal contributions from the Employer include £388,735 and £391,928 (2013: £292,463 and £327,757) member contributions paid through a salary sacrifice arrangement in respect of Section 1 and Section 2 respectively.

13 Current liabilities

Lump sums on retirement	174	351	525	977
Death benefits	77	151	228	278
Accrued expenses	2,848	983	3,831	7,014
Equitable Life compensation payments	-	34	34	588
Other creditors	467	228	695	776
Inter section balance	-	19	19	39
	<u>3,566</u>	<u>1,766</u>	<u>5,332</u>	<u>9,672</u>

The Equitable Life compensation payments relate to proceeds received by the Scheme in respect of compensation from the Equitable Life Payment Scheme. This compensation is to be distributed to the membership that previously held benefits via the Scheme's group policy with Equitable Life.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014 (CONTINUED)

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 ("top ups") are paid on behalf of the Principal Employer. The Scheme is reimbursed in advance by the Employer for these unfunded pension payments (details are on Page 25).

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 could have been expected on 31 December 2011 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

Mark Condron

Scheme Actuary

Mark Condron

Qualification

Fellow of the Institute and Faculty of Actuaries

Date of signing

30 January 2014

Name of employer

Mercer Limited

Address

Tower Place West
 London
 EC3R 5BU



Mercer Limited is authorised and regulated by the Financial Conduct Authority.
 Registered in England No. 0940733 Registered Office: 1 Tower Place West
 Tower Place, London EC3R 5BU



CERTIFICATION OF SCHEDULE OF CONTRIBUTIONS
SECTION 2



TA FNT • 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 could have been expected to on 31 December 2011 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 January 2014

Name of employer

Mercer Limited

Address

Tower Place West
 London
 EC3R 5BU



Mercer Limited is a company authorised by the Financial Conduct Authority. Registered in England and Wales No. 3040574 Registered Office: 1 Tower Place West, Tower Place, London EC3R 6SU



CERTIFICATE OF TECHNICAL PROVISIONS – SECTION 1

THALES UK PENSION SCHEME – SECTION 1

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 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	Mercer Limited
Address	Tower Place London EC3R 5BU
Qualification	Follow of the Institute and Faculty of Actuaries

MERCER

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 2014 on pages 48 to 49.

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 summaries of contributions have in all material respects been paid at least in accordance with the schedules 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 schedules of contributions.

Statement about Contributions payable under the schedules of contributions

In our opinion contributions for the Scheme year ended 31 December 2014 as reported in the summary of contributions and payable under the schedules of contributions have in all material respects been paid for the period from 1 January 2014 to 31 January 2014 at least in accordance with the schedule of contributions certified by the Scheme actuary on 30 April 2013, and for the period from 1 February 2014 to 31 December 2014 at least in accordance with the schedule of contributions certified by the Scheme actuary on 30 January 2014.



Deloitte LLP
Chartered Accountants and Statutory Auditor
Reading, United Kingdom
25 June 2015

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 1 £'000	Section 2 £'000	2014 £'000
Contributions from Employer:			
Normal	12,152	12,251	24,403
Deficit funding	44,000	8,600	52,600
Other – PPF Levy	1,929	927	2,856
Total contributions payable under the schedules of contributions (as reported on by the Scheme auditor)	58,081	21,778	79,859
Other contributions payable:			
Other Employer - Top ups	344	-	344
Total contributions payable per the fund account	58,425	21,778	80,203

Normal contributions from the employer include £4,688,000 and £4,626,000 (2013: £3,857,000 and £3,703,000) member contributions paid through a salary sacrifice arrangement in respect of Section 1 and Section 2 respectively.

Normal contributions are based on members' Pensionable Earnings. Member contribution rates were 6% of CARE Salary up to £40,040 and in excess of that 9%, until 1 February 2014 and 9% of CARE Salary up to £40,040 and in excess of that 12%, as per the Scheme Rules. The employer rates were 17.7% for Section 1 and 17.8% for Section 2 until 1 February 2014 and 14.7% for Section 1 and 14.8% for Section 2 from 1 February 2014, as per the schedule of contributions certified on 30 January 2014.

Ongoing deficit funding of £44m per annum is payable for Section 1 for the period 1 April 2011 to 31 December 2028, to reduce the funding shortfall.

Ongoing deficit funding of £6m per annum is payable for Section 2 for the period 1 April 2011 to 31 March 2014 and then £8.6m per annum from 1 April 2014 to 31 December 2028, to reduce the funding shortfall.

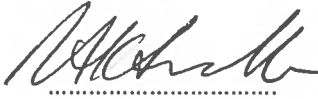
Employer other top up contributions relate to amounts received from the Employer to fund additional employer benefit payments made to existing pensioners and are outside the scope of the auditor's statement about contributions, as these amounts are not required under either of the schedules of contributions in place in the year.

For the month of September 2014, normal contributions of £1,007,914 for Section 1 and £1,015,716 for Section 2 were received by the Scheme on the 22 October 2014, three days later than the statutory deadline of the 19 October 2014. The auditor has not qualified their opinion on contributions given this only related to a timeliness issue. The Trustee has reviewed the control processes governing the timely payment of contributions and implemented changes to ensure that these controls are sufficiently robust to safeguard that contributions are paid on time in the future.

SUMMARY OF CONTRIBUTIONS (CONTINUED)

Under applicable regulations, the late contributions in respect of September's monthly contributions as disclosed in the summary of contributions represented an employer related investment for the period they remained unpaid past due.

Signed on behalf of Thales Pension Trustee Ltd



Trustee Director
Date



Trustee Director
Date

