

THALES UK PENSION SCHEME

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR TO 31 DECEMBER 2016

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
 1 Tower Place West
 London
 EC3R 5BU

Independent Auditor

Deloitte LLP
 Statutory Auditor London
 United Kingdom

Investment Managers

Alcentra
 Ancala
 AQR Capital Management
 BlackRock
 Brigade Capital Management LLC
 CarVal
 Credit Suisse Asset Management
 Equitix Ltd
 Hosking (Appointed July 2016)
 Legal & General Investment Management Ltd
 Majedie Asset Management
 MedicX Healthfund II LP
 M&G Investments
 Orchard Global Asset Management
 Rogge Global Partners plc
 Standard Life Investments Ltd
 TIAA-CREF
 Vontobel Asset Management (Terminated May 2016)
 Wadhvani (Appointed January 2017)

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

Gowling WLG (UK) LLP
3 Waterhouse Square
142 Holborn
London
EC1N 2SW

Scheme Administrator

Equiniti Paymaster Ltd
Sutherland House
Russell Way
Crawley
RH10 1UH

Investment Consultants

Willis Towers Watson (Terminated 17/5/17)
Watson House
London Road Reigate
Surrey
RH2 9PQ

Momentum Investment Solutions & Consulting (Appointed 17/5/17)

Arundel House
1 Farm Yard
Windsor, SL4 1QL

Covenant Advisor

Lincoln Pensions
9th Floor
6 Bevis Marks
London
EC3A 7BA

Tax Advisor

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

Scheme Employers, Service Providers and Advisors (Continued)

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

Bankers

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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Green Park
Reading
RG2 6GF

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 2016. The Scheme is a Defined Benefit scheme governed by a definitive Trust Deed dated 30 June 2008 and subsequent amendments.

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 October 2020, for the three Section 1 positions and October 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)
Colin Milbourn (Member Nominated)
Joelle Dumetz (Member Nominated)
Ken McSweeney (Employer Nominated)
Robert Scallon (Member Nominated)
Paul Corris (Member Nominated)
Geoff Fowle (Member Nominated) Resigned 13 October 2016
Peter Rowley (Employer Nominated)
William John Twigg (Member Nominated)
Nigel Baldwin (Employer Nominated)
Helen Depree (Employer Nominated)
Robert Trotter (Member Nominated) Appointed 13 October 2016

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 page 3. The Employer's registered address is 350 Longwater Avenue Green Park Reading RG2 6GF

TRUSTEE'S REPORT (CONTINUED)

Financial Developments

The financial statements on pages 34 to 60 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 £327,974,000. This was as a result of a net return on investments of £348,632,000 and contributions and other income of £91,299,000 being offset by benefits and expenditure payments of £111,957,000.

The latest formal valuation of the Scheme was undertaken as at 31 December 2014, and approved by the Scheme Actuary on 16 September 2016. The completion of the valuation was five and a half months beyond the statutory time limit. The Trustee communicated to the Pension Regulator the reasons for the delay.

Report on Actuarial Liabilities

As required by FRS 102, the financial statements do not include liabilities in respect of promised retirement benefits.

Under Section 222 of the Pensions Act 2004, every scheme is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its technical provisions. The technical provisions represent the present value of the benefits members are entitled to based on pensionable service to the valuation date, assessed using the assumptions agreed between the Trustee and the Employer and set out in the Statement of Funding Principles, which is available to Scheme members on request.

The most recent full actuarial valuations of Sections 1 and 2 of the Scheme were carried out as at 31 December 2014. This showed that on that date:

	Section 1	Section 2
The values of the Technical Provisions were:	£2,257 million	£695 million
The values of the assets at that date were:	£1,590 million	£526 million
Deficit	(£667) million	(£169) million
Funding Level	70%	76%

Section 1

The Trustee and Employer have agreed that from 16 September 2016 the Employer will contribute as follows:-

16.8% of members' Career Average Revalued Earnings (CARE) Salaries, plus £48.2m per annum, payable in monthly instalments for the period 16 September 2016 to 31 December 2028, plus £2m per annum in respect of ongoing administration expenses and amounts equal to the PPF levies.

As part of the 2014 Valuation the Trustee entered into a deed with the Employer agreeing that adjusted contributions would be payable from 31 December 2017 if particular funding level triggers are breached.

TRUSTEE'S REPORT (CONTINUED)**Report on Actuarial Liabilities (Continued)**

The Scheme Actuary carried out a funding update as at 31 December 2016. The funding update of Section 1 showed that on 31 December 2016 the funding position was as follows:-

Assets	£1,816m
Amount assessed as needed to provide benefits ("Liabilities")	£2,741m
Deficit	(£925m)
Funding level	66%

Section 2

The Trustee and Employer have agreed that from 16 September 2016 the Employer will contribute as follows:-

16.8% of members' CARE Salaries (Pensionable Salary for former Category 1 Thomson Pension Plan members), plus £11.8m per annum, payable in monthly instalments for the period 16 September 2016 to 31 December 2028, plus £1m per annum in respect of ongoing administration expenses and amounts equal to the PPF levies.

The Scheme Actuary carried out a funding update as at 31 December 2016. The funding update of Section 2 showed that on 31 December 2016 the funding position was as follows:-

Assets	£609m
Amount assessed as needed to provide benefits ("Liabilities")	£891m
Deficit	(£282m)
Funding level	68%

The method and significant actuarial assumptions used to determine the technical provisions are as follows (all assumptions adopted are set out in the Appendices to the Statements of Funding Principles):

Method

The actuarial method to be used in the calculation of the technical provisions is the Projected Unit Method.

Significant actuarial assumptions

Discount interest rate: 3.65% per annum at 31 December 2014. The discount rate reflects the expected change in the investment strategy as the Scheme matures and is expressed as a single equivalent rate over the lifetime of the Scheme.

The expected return on the assets in the discount rate assumptions was set based on a realistic asset return model at a level of prudence deemed appropriate.

Future Retail Price inflation (RPI): 3.1% per annum at 31 December 2014. The RPI assumption takes into account information available in respect of UK government bond markets at the effective date of the actuarial valuation.

Future Consumer Price inflation (CPI): 2.4% per annum at 31 December 2014. The assumption for future CPI is set by reference to the RPI assumption and allows for a prudent view of the expected long term gap between RPI and CPI (at 31 December 2014, this long term gap was set at 0.7% per annum).

Pension increases: derived from the rates for future retail and consumer price inflation allowing for the caps and floors on pension increases according to the provisions in the Scheme's rules.

TRUSTEE'S REPORT (CONTINUED)

Report on Actuarial Liabilities (Continued)

Mortality: Generally SAPS ("S2 pensioner tables") series with a 99% multiplier for males and a 101% multiplier for females, based on member's year of birth and projected in line with the CMI 2014 Core Projections model with a long term trend of 1.5% p.a. For former members of the Racal Group Executive Pension Plan and of the Racal Group Executive Manager and Senior Manager Pension Scheme a base table of SAPS Light ("S2 Light pensioner tables") series with a 97% multiplier for males and a 76% multiplier for females was assumed.

Recovery Plans

The valuations of Section 1 and Section 2 as continuing Schemes revealed past service deficits as at 31 December 2014 of £667 million and £169 million, respectively. To eliminate these deficits, the Employer is making a series of additional contributions, as set out in the Schedules of Contributions, which are targeted to eliminate the deficit by 31 December 2028.

Taken in conjunction with the assumed rate of investment return on the invested assets, the Actuary certified that he expected the targets of full funding against the ongoing valuation assumptions to be achieved on payment of the above contributions.

The Employer has also agreed to make further special contributions, if applicable, to cover certain adverse deficit outcomes as at 31 December 2017 and 31 December 2020.

In the unlikely event that the Employer ceased paying contributions to the Scheme ("discontinuance"), the Trustee could seek to meet benefits payments by winding up the Sections. The terms available from insurance companies at 31 December 2014 were such that, based on each Section's assets and liabilities at that date, the premiums charged to secure accrued rights in full would have exceeded the value of each Section's assets.

Member Contributions

Member contributions are made in line with the Scheme rules, 9% of CARE Salary up to £40,040 and, in excess of that, 12%.

Member contributions are paid through Salary Sacrifice.

Pensions Increases

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

TRUSTEE'S REPORT (CONTINUED)

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 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

DEED OF AMENDMENT DATED 21 DECEMBER 2016 – LIMITED ACCRUAL MEMBERS

At the request of the Principal Employer, a new category of Scheme membership has been introduced in response to statutory changes that have reduced the annual allowance for certain individuals (currently to £10,000). For members of this new category, future benefit accrual is restricted in order to prevent the member from exceeding their reduced annual allowance. Only existing Scheme members can move to the new category, subject to meeting the eligibility criteria and with the consent of the Principal Employer.

The Trustee and the Principal Employer entered into a Deed of Amendment to introduce the new category of membership on 21 December 2016.

During 2017 a small number of members have transferred to this section. Their transfer will be reflected in the 2017 membership report.

CHANGES TO INDEXATION

Principal Employer Proposals

In 2016 the Principal Employer approached the Trustee with a proposal that, where it was possible legally (and it was not already the case), increases to pension benefits under the Scheme which link to the application of an inflation index would, from 1st April 2017, no longer be applied using the Retail Prices Index (**RPI**) but, instead, would be applied using the Consumer Prices Index (**CPI**).

This led to a review of all aspects of indexation under the Scheme. In summary, there were 4 elements to that review:

- A. "**CARE pension increases**" – i.e. the way in which 'CARE' (career average revalued earnings) pension benefits, which have been built up since 2008, are increased annually once they have been put into payment on a member's retirement.
- B. "**Special CARE pension revaluation**" – i.e. the way in which CARE pension benefits, which have been built up since 2008, are revalued during the member's period of active CARE membership.
- C. "**Special legacy final salary revaluation**" – i.e. the way in which final salary pension benefits which were built up prior to 2008 in "**Legacy DB Schemes**" are revalued whilst a member remains an active CARE member of the Scheme or an active member of the Principal Employer's separate defined contribution pension scheme.¹
- D. "**Legacy DB Scheme pension increases**" – i.e. pension increases for pensions relating to the Legacy DB Schemes once in payment.

The Court Case

Aspects A to C above were the subject of a Court case: *Thales UK Limited v Thales Pension Trustees Limited, Thales Pension Trustees (Section 1) Limited and Thales Pension Trustees (Section 2) Limited* 2017 EWHC 666 (CH).

The Court case also covered **Aspect D**, but only in the limited case of pension increases for former members of the Thales Optronics Pension Scheme ("**TOPS**", one of the Legacy DB Schemes) who left pensionable service before 1st April 1997.

In summary, the Court was asked to consider whether the relevant wording in the Scheme Rules required or permitted a change from RPI to CPI.

For the purposes of the Court case, the Trustee took on the role of representing members who could have been disadvantaged by a switch away from RPI, arguing on behalf of those members that the Rules did not allow a change.

¹ The Legacy DB Schemes are: Racal Group Executive Manager and Senior Manager Pension Scheme, Racal Group Staff Pension and Life Assurance Scheme, Racal Group Executive Pension Plan, Racal Decca Staff Pension and Life Assurance Scheme, Avimo Pension Scheme, Thales Optronics Pension Scheme, Thomson Pension Plan, Thomson Retirement Benefits Scheme and W Vinten Limited Pension Scheme.

The Court case was heard on 13th and 14 March 2017 and the judgment was received on 31 March 2017. The outcome was that, for now, **RPI will continue to be applied** for the indexation of the following benefits: CARE pension increases and Special CARE pension revaluation (in so far as these benefits are attributable to Pensionable CARE Service prior to 1 April 2017), Special legacy DB revaluation and legacy DB pension increases for TOPS pre 97 members. It may be necessary to revisit the issue as to the applicability of RPI (or another index) for the indexation of these benefits in the future. A change in the future cannot be ruled out completely.

The Principal Employer has confirmed that it does not intend to appeal against the decision of the Court.

Legacy DB Schemes Pension Increases – Thomson Retirement Benefits Scheme ("TRBS") and Thomson Pension Plan ("TPP")

Except in relation to pension increases for TOPS pre 97 members as mentioned in paragraph 4 above, the Court case did not cover Legacy DB Scheme pension increases.

However, the Principal Employer had also asked the Trustee to consider exercising a power contained in the legacy TRBS and TPP trust documentation that allows the Principal Employer and the Trustee to agree to change the index used for TRBS and TPP pension increases from RPI to CPI with effect from 1 April 2017.

The Trustee considered the Principal Employer's request carefully and, having weighed up all of the relevant factors and taken professional advice, it decided not to make the requested change. As a result, for now, RPI will continue to be applied.

The Trustee cannot guarantee that TRBS and TPP pension increases will always remain linked to RPI. It is possible that the Principal Employer will ask the Trustee to re-consider this issue again in the future. If so, the Trustee will consider any such request in good faith and will consider all of the relevant factors existing at that time. There is also the possibility that external factors may arise in the future which mean that it is appropriate for the Trustee to consider whether or not to continue applying RPI for TRBS and TPP pension increases.

Legacy DB Schemes Pension Increases – Racial Schemes

The Principal Employer also advised the Trustee that it wanted it to consider a change to the index used for the calculation of pension increases under the Racial Schemes from RPI to CPI.

The Trustee received legal advice that, based on the current law, the relevant wording in the Racial Scheme Rules does not allow a change from RPI to CPI. Therefore, the Trustee will continue to apply pension increases using RPI where an index is relevant (subject to any change to that legal position).

Legacy DB Schemes – Thales Optronics Pension Scheme

As part of the review of the way pension increases are applied for all elements of the Scheme, legal advice was received from a leading barrister about pension increases for those individuals who were active members of TOPS on and after 1 April 1997.

The advice says that this TOPS-related pension should increase in accordance with the relevant statutory requirements for pension increases and not simply by RPI subject to a 5% maximum (as has been the practice).

Since January 2011, statutory indexation requirements have been based on inflation using CPI rather than RPI. Leading Counsel's advice is that increases should have been provided on this basis from that date.

In addition, the maximum increase required by the statutory provisions reduced from 5% to 2.5% for pensions attributable to pensionable service on and from 6th April 2005. In the case of TOPS, this change was applicable to pension increases applied on and from 6th April 2009.

The Trustee is in the process of implementing the necessary changes to members' benefits to give effect to Leading Counsel's advice. Affected members have been communicated with.

Legacy DB Schemes – Avimo Pension Scheme and W Vinten Limited Pension Scheme

For former members of the Avimo Pension Scheme or the W Vinten Limited Pension Scheme, pension increases are already linked to CPI. Therefore, no changes were proposed by the Principal Employer.

Future Service Changes

As part of its consultation on the proposed indexation changes, the Principal Employer sought a change to CPI for certain indexation purposes in relation to future service benefits after 1 April 2017 only if the Court did not determine a change was required.

Following the Court's decision as explained above, at the request of the Principal Employer, a Deed of Amendment was entered into between the Principal Employer and the Trustee dated 31 March 2017 to change the index used in the calculation of CARE pension increases and Special CARE pension revaluation in respect of Pensionable CARE Service on and after 1 April 2017. For those benefits CPI is to be used. RPI continues to be used in relation to benefits already built up by reference to Pensionable CARE Service before that date, in line with the Court judgment.

A further Deed of Amendment is to be entered into to document the above indexation changes in more detail and to make additional changes to the calculation of the Pension Deduction (an offset which reduces a member's pension amount) under the Scheme Rules in order to ensure that the Scheme continues to meet the auto-enrolment requirements. This Deed is expected to be finalised July/August 2017.

UPDATES FROM LAST REPORT AND ACCOUNTS

End of Defined Benefit (DB) Contracting Out

Prior to 6 April 2016, the state pension consisted of two elements: the basic state pension and the state second pension (S2P). Legislation allowed occupational pension schemes to contract-out of the S2P (or its predecessor, the state earnings related pension scheme (SERPS)).

The Pensions Act 2014 introduced a single-tier state pension replacing the basic state pension and S2P from 6 April 2016 (applying to people retiring after that date).

The introduction of a single-tier state pension meant that, from April 2016, S2P ceased to exist. Schemes that were contracted-out automatically ceased to be contracted-out from 6 April 2016.

CARE benefits provided under TUPS were not contracted-out. Legacy final salary benefits (i.e. benefits accrued prior to December 2007) include salary related contracted-out benefits.

A review of the Scheme Rules by the Trustee's legal adviser concluded that only minor changes to the Rules should be made as a consequence of the end of DB contracting out. An appropriate Deed of Amendment is expected to be put in place in 2017 covering this and any other tidying up or other administrative changes required to the Rules (e.g. as a consequence of the shared parental leave requirements as mentioned in last year's report and accounts).

GENERAL LEGAL UPDATE

The Trustee, with the help of its advisers, monitors legal developments which affect the Scheme. For example:

Data Protection

Europe's new data protection legal framework is set out in the General Data Protection Regulation ("GDPR") which will come into force in all EU Member States on 25 May 2018.

It is likely that the UK will still be a Member State of the EU on 25 May 2018. Therefore, the GDPR will apply to data controllers and processors in the UK on and from this date.

The Trustee will, therefore, need to comply with the GDPR from 25 May 2018.

The Trustee is currently considering the upcoming changes and, together with its advisers, will be undertaking a review of its policies and procedures to ensure that it is compliant.

Barnardo's Case

There have been a number of Court cases looking at whether a scheme can use an alternative index to RPI for the calculation of increases to pensions in payment and the revaluation of deferred benefits.

One of the key cases in this area involved the Barnardo's pension scheme.

The Trustee has been following this case closely as one of the deeds considered in the case contains the same definition of index (in all material respects) to the definition used in the Racal Rules.

On the basis of the judgement in the second Barnardo's Case (*Barnardo's & Others v Buckinghamshire & Others* [2016] EWCA Civ 1064), the Trustee has received legal advice that it is not currently permitted to change the index used for pension increases under the Racal Schemes.

The Trustee is aware that a further appeal will be heard later this year and will monitor the position.

The above is only a summary of changes made to the Scheme. The Trustee is required to follow the Trust Deed and Rules and cannot pay benefits other than in accordance with the Rules dated 30 June 2008 (as amended).

Pensions are a complicated subject and decisions you make in relation to your pension arrangements are important. You should consider taking independent financial advice before making any pensions related decisions.

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	Deferred	Total Pensioners (Pensioners + Dependants + Children)	Pensioners	Pensioner Dependants	Pensioner Children
Number as at 1 January 2016 (Brought forward numbers from 2015 Accounts)	892	5,373	7,660	6,121	1,533	6
Adjustments*	-1	-18	-12	-13	1	-
New Entrants	-	-	76	-	76	-
Death in Service	-	-	-	-	-	-
Death in Deferment	-	-3	-	-	-	-
Death in Retirement	-	-	-232	-161	-71	-
Child Pension Ceasing	-	-	-	-	-	-
Retirements from Active	-18	-	18	18	-	-
Retirements from Deferred	-	-191	191	191	-	-
Leavers - Deferred	-23	23	-	-	-	-
Leavers - Opt Out	-	-	-	-	-	-
Retirements (full commutation)	-	-2	-32	-28	-4	-
Transfers Out	-	-33	-	-	-	-
Number as at 31 December 2016	850	5,149	7,669	6,128	1,535	6

Thales UK Pension Scheme - Section 2 membership movements	Active	Deferred	Total Pensioners (Pensioners + Dependants + Children)	Pensioners (Retired)	Pensioners (Dependant)	Pensioners (Children)
Number as at 1 January 2016 (Brought forward numbers from 2015 Accounts)	1,027	1,847	2,743	2,360	370	13
Adjustments*	-3	-	-	-	-	-
New Entrants	-	-	16	-	16	-
Death in Service	-2	-	-	-	-	-
Death in Deferment	-	-1	-	-	-	-
Death in Retirement	-	-	-52	-41	-11	-
Child Pension Ceasing	-	-	-2	-	-	-2
Retirements from Active	-38	-	38	38	-	-
Retirements from Deferred	-	-82	82	82	-	-
Leavers - Deferred	-25	25	-	-	-	-
Leavers - Opt Out	-	-	-	-	-	-
Retirements (full commutation)	-	-1	-8	-4	-4	-
Transfers Out	-	-10	-	-	-	-
Number as at 31 December 2016	959	1,778	2,817	2,435	371	11

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

Total pensioners are a sum of the three columns in beige.

Members who elected to join the Enhanced DC category on the 31/12/07 are classified as deferred members.

Members whose benefits are funded by annuity policies are included in the above tables.

Annuity policies

The Trustee holds insurance policies that secure pensions payable to specified beneficiaries. While these policies remain assets of the Trustee, the Trustee has assessed that they are not material and have therefore not valued and disclosed these policies in the Statement of Net Assets.

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:

Alcentra
Ancala
AQR Capital Management
BlackRock
Brigade Capital Management LLC
CarVal
Credit Suisse Asset Management
Equitix Ltd
Hosking (Appointed July 2016)
Legal & General Investment Management Ltd
Majedie Asset Management
MedicX Healthfund II LP
M&G Investments
Orchard Global Asset Management
Rogge Global Partners plc
Standard Life Investments Ltd
TIAA-CERF
Vontobel Asset Management (Terminated May 2016)

Following the end of the accounting period the Scheme made the commitment to and invested in the Wadhvani, Keynes Multi Asset Value Fund in January 2017.

Review of Investment Performance of the Scheme

For the year ended 31 December 2016, the Scheme returned 15.9% against a benchmark return of 18.6%. The return over the last three years is 9.0% per annum (pa) against a benchmark of 9.5% pa. Since the combined performance measurement started in January 2005 the assets have returned 7.9% pa against a benchmark of 7.4% pa.

The total net assets held by the Scheme, as at 31 December 2016, were £2.44 billion (31 December 2015: £2.11 billion).

TRUSTEE'S REPORT (CONTINUED)

Investment performance for the period 1 January 2016 to 31 December 2016 is set out below:

	12 months (%)			Asset value 31/12/2016	Inception date	Benchmark	Performance Target	Active/ Passive
	Fund	B'mark	+/-					
Thales UK Pension Scheme	15.9	18.6	-2.7	2,404.8	Jan 2005			
Equity	28.5	29.9	-1.4	814.1				
Majedie UK Equity	18.8	16.8	2.0	193.8	May 2005	FTSE AllShare	Outperform Benchmark	Active
L&G Global Equity RAFI-3000	35.5	35.4	0.1	340.7	May 2005	FTSE RAFI AW 3000GBP	Track Benchmark	Passive
L&G Global ex UK Equity	27.6	29.1	-1.5	10.4	Mar 2009	Blended FTSE Developed ex UK and S&P/IFC Investible Ind GBP	Track Benchmark	Passive
L&G Emerging Markets RAFI	58.4	58.8	-0.4	41.5	Oct 2011	FTSE RAFI Emerging Markets	Track Benchmark	Passive
AQR Low Volatility	24.9	24.4	0.5	138.1	May 2013	MSCI World	Track Benchmark with lower volatility	Active
Hosking Global Equity	-	-	-	89.6	Jul 2016	MSCI World	Outperform Benchmark	Active
Credit	10.7	11.1	-0.4	626.2				
Blackrock Corporate Bond Fund	5.7	5.9	-0.2	132.3	Jun 2009	BarCap Agg Corp GBP Hedged	Track Benchmark	Passive
L&G UK AAA - AA - A passive	18.4	18.1	0.3	101.5	May 2005	iBoxx Sterling Non Gilts ex BBB 15+	Track Benchmark	Passive
Rogge Global Active	5.5	5.3	0.2	250.5	Apr 2010	BarCap Global Agg Credit GBP hedged	1.5% Over Benchmark	Active
Alcentra	21.9	21.3	0.6	75.0	Sep 2015	3 Month USD Libor +1.25%	Outperform Benchmark	Active
Orchard	29.6	29.1	0.5	66.9	Nov 2015	3 Month USD Libor +9%	Outperform Benchmark	Active
Liquid Alternatives	16.7	15.8	0.9	203.5				
AQR Managed Futures	-9.2	2.7	-11.9	39.3	May 2012	3 Month GBP +2% per annum	Long-term returns with low correlation with traditional investment markets	Active
Credit Suisse IR	25.7	20.1	5.6	82.4	Aug 2011	3 Month USD Libor	3.0 - 5.0%	Active
Brigade	21.7	12.7	9.0	27.0	Nov 2012	Credit Suisse Leveraged Loan Index (50%) Merrill Lynch High Yield Constrained Index (50%)	8.0 - 12.0%	Active
Carval II	27.1	15.7	11.4	37.9	Jun 2013	Merrill Lynch High Yield	13.0% - 15.0%	Active
Carval III	36.6	15.7	21.2	16.8	Jun 2015	Merrill Lynch High Yield	13.0% - 15.0%	Active
Illiquids	9.2	9.8	-0.6	308.3				
Equitix II	24.0	27.8	-3.8	25.8	Sep 2011	Index Linked Gilt +3.5%	12.5% gross / 10.0% net	Active
L&G Long Lease Property	5.5	5.0	0.5	68.2	Feb 2013	AREF/IPD Long Income Property Index	Absolute Return	
Standard Life Property	-5.6	2.8	-8.4	67.5	Nov 2011	IPD All Balanced Index	Outperform Benchmark	Active
M&G European Property	25.1	5.3	19.8	39.4	Sep 2012	IPD Pan European Index	7.0 - 9.0%	Active
Equitix III	16.7	27.8	-11.1	17.6	Jun 2013	Index Linked Gilt +3.5%	Outperform Benchmark	Active
MedicX H'care II	3.8	27.8	-24.0	20.4	Feb 2014	Index Linked Gilt +3.5%	Outperform Benchmark	Active
TIAA-CREF	33.7	7.1	26.6	12.4	Apr 2015	CPI + 5%	Outperform Benchmark	Active
Equitix IV	6.4	27.8	-21.4	15.5	Sep 2015	Index Linked Gilt +3.5%	Outperform Benchmark	Active
M&G Euro Long Lease Property	21.6	5.2	16.4	37.0	Dec 2015	CPI + 4%	Outperform Benchmark	Active
Ancala	-	-	-	4.5	May 2016	CPI + 5%	Outperform Benchmark	Active
Liability matching	-	-	-	378.1				
L&G Swaps & Collateral 1	-	-	-	286.9	Apr 2012			Passive
L&G Swaps & Collateral 2	-	-	-	91.2	Apr 2012			Passive
Cash	-	-	-	74.7				
Northern Trust Cash	-	-	-	68.7	Nov 2015			Passive
Currency Hedge	-	-	-	6.0	Dec 2011			Passive

Note: this investment report is related to Scheme investment assets only as such it excludes the cash held by the administrator, other current assets, current liabilities and AVC assets.

TRUSTEE'S REPORT (CONTINUED)

Market review – year ending 31 December 2016

Summary

Key features of 2016 were further economic stimulus by the European Central Bank, The Bank of Japan and The Bank of England and market uncertainty surrounding the UK's vote to leave the European Union and the election of Donald Trump as the next US president.

In March, the European Central Bank cut its deposit rate to -0.4% and increased its quantitative easing program by €20bn a month to €80bn. However, at the end of 2016 the ECB amended its asset purchase programme. First, it will continue its purchases until at least December 2017. Second, it has expanded the potential pool of purchasable bonds by including bonds yielding below the ECB's deposit rate of -0.4%. Finally, it will reduce its bond purchases from €80bn to €60bn per month starting from April 2017, although Mario Draghi stated that the ECB will increase future purchases if warranted.

In June, The UK electorate voted to leave the European Union. This event will result in "interesting times" for UK citizens – politically and economically. It also raises an important question for global investors as to whether this constitutes a UK-specific or global shock. Whilst it's still too early to draw definitive conclusions, recent market action has been broadly rational.

In August, policymakers cut UK interest rates from 0.50% to 0.25%. Also included in this announcement was the purchase of up to £10bn of UK corporate bonds and an expansion of the asset purchase scheme for UK government bonds of £60bn, taking the total to £435bn. Also, The Bank of Japan (BoJ) introduced a new policy framework targeting a specific yield for 10-year Japanese government bonds and a commitment to keep printing money until annual inflation exceeds 2%.

In November, Donald Trump was elected US president. On election night, equity markets initially fell by 3-5% on average, US 10-year bond yields fell by as much as 15bps, the dollar fell against the yen and euro but strengthened against emerging market currencies such as the Mexican Peso. However, after those initial price moves, US real yields and discounted inflation rates have risen significantly, the dollar strengthened against most developed and emerging currencies, and US equity prices have increased.

Sterling has depreciated significantly against other major currencies. Over the 12 months to 31 December 2016 it has depreciated by 16% against the US dollar, 14% against the euro and 19% against the yen. A weak balance of payments position and elevated Brexit-related political risk aversion has driven the fall in value. However, recent depreciation has meant that sterling now appears to be one of the most competitively-priced currencies from a labour perspective.

The Scheme's portfolio in total has returned 15.9% over the year against 18.6% for its benchmark.

Equity Markets

Equity markets have performed very strongly over 2016 with high returns across all markets. Developed equity markets produced positive returns in both local and sterling terms with Developed Asia Pacific ex Japan equities (29.9%) and North America equities (34.1%) performing the strongest in sterling terms.

Emerging market equities returned 35.4% in sterling terms outperforming developed markets which returned 29.6%. The rally over the last year was mainly driven by low valuation levels, higher dollar liquidity, commodity price increases and a partial abatement of Chinese growth concerns. Following president Trump's victory, markets have reversed some of their gains. However, currency declines have left many emerging market exporters in a more competitive position than previously and index exposure to secular growth stories, such as the Chinese tech market, is increasing over time.

Against this background the Scheme's equity portfolio produced a return of 28.5%, underperforming its combined benchmark by 1.4% with contributions to return from LGIM LGIM EM RAFI, Majedie UK equity and Hoskings Global Equity in the 5 months since its inception.

Bond Markets

Over 2016 yields have fallen across most government and corporate bonds, giving rise to strong returns. Over the 12 month period UK government bond yields decreased with long maturity UK gilts returning 18.5% over the period (as measured by FTSE-A Gilts Over 15 Years Index). Inflation-linked UK gilts have generated higher performance with the FTSE-A Index-Linked Gilts Over 15 Years Index returning 32.5%.

During 2016 Chinese authorities announced the rollout of a credit default swap market, with the aim of improving risk management flexibility for domestic and foreign investors. The announcement follows years of rising public and private sector debt, and increasing strain in the financial system. In emerging market debt, hard currency spreads widened following the US election but have since contracted. Total returns have been negatively impacted by sharply rising US Treasury bond yields. The US election has also impacted the local currency bond market, with emerging yields rising following the outcome.

The Scheme's credit portfolio returned 10.7% over the year, slightly underperforming its benchmark return by 0.4%.

Alternative Investment Markets

Following the large decline in oil prices in 2015 crude oil returned 73.0% over 2016 in sterling terms. This was driven by an agreement in November between OPEC and 11 other countries to cut production for the first time in eight years. The deal will reduce output by approximately 1.2 million barrels a day by January 2017 and is designed to drain record global oil inventories. The deal ends the disagreements between the group's three largest producers – Saudi Arabia, Iran and Iraq – that started in 2014. It was also broader than many had expected, extending beyond OPEC. Most strikingly, Russia agreed to unprecedented cuts to its own output.

The Brexit result at the end of June had a negative effect on property returns which, whilst the market has broadly stabilised, is likely to have a knock-on effect over the coming quarters particularly where funds have a high weighting to central London offices. The IPD Monthly Index returned 2.6% of the 12 month period ending 31 December 2016.

The Scheme's alternative investments, particularly those which are illiquid in nature, generally performed well over the year (there are a couple of exceptions for funds still in their investment phases where negative or low returns are to be expected). The Scheme's illiquid investments returned 9.2% over the year.

The liquid alternatives returned 16.7% against a benchmark of 15.8% over 2016. Given the number of major market reversals this year, AQR Managed Futures unsurprisingly performed poorly in the

second half of the year. However, this was made up for by strong performances from Brigade Capital Management and the Carval Credit Value funds.

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.

The Pensions Regulator has published a draft DC Code of Practice and Guidance. The Trustee, having considered legal advice, has concluded that the Scheme has DC investments that mean that the DC Code of Practice and guidance are applicable to the Scheme. As such the required Charmain's Statement on DC assets is included in this report on pages 23 to 31.

TRUSTEE'S REPORT (CONTINUED)

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.

2014 Actuarial Valuation Employer Guarantees

As a result of the 2014 Actuarial Valuation and in addition to the Recovery Plan, the Trustee and Employer have put in place a number of guarantees to support the Scheme. Thales SA has provided direct guarantees that total £750m. The Trustee has also agreed a de-risking plan which increases the scheme hedge ratio by 7.5% and amended the existing triggers for the Scheme to hedge further interest rate and inflation risk if market conditions improve ahead of expectation. During 2016 the Trustee monitored the market levels daily against the set trigger levels. To date no de-risking triggers have been breached.

Custodial Arrangements

The Trustee has 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.

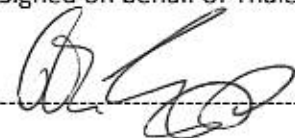
Basis of Investment Managers' Fees

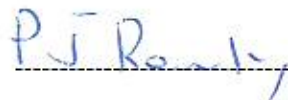
Within the Scheme, investment managers are paid on a mixture of performance-related based fees and fund value based fees rather than a fixed fee basis. The Trustee believed that this provides those investment managers with a greater alignment with the Trustee's interests. The fee bases of the managers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

Further Information

Further legislative disclosures are included in the Compliance Statement on pages 65 and 66.

Signed on behalf of Thales Pension Trustees Ltd on 31st July 2017


-----TRUSTEE DIRECTOR


-----TRUSTEE DIRECTOR

Thales UK Pension Scheme Chairman's Statement for the year-ended 31 December 2016

Introduction

Regulations effective from 6 April 2015 require the Trustees to prepare a statement showing how they have met certain minimum governance standards in relation to defined contribution benefits. These standards cover four principal areas relating to the Scheme's defined contribution benefits, namely:

- the Scheme's default investment arrangement;
- core financial transactions;
- value from member-borne deductions; and
- the Trustee's knowledge, understanding and resources.

This Statement constitutes the report to members from the Chairman of the Trustees about the extent to which the Trustee have complied with these minimum standards over the period 1 January to 31 December 2016.

The Scheme holds defined contribution and AVC assets with a range of providers, as indicated in the table below:

Provider
Zurich
Equitable Life
Prudential
Clerical Medical
Friends Life
Scottish Widows
Scottish Friendly (formerly MGM)
Phoenix

Given the range of providers, and the need to focus the use of Scheme resources proportionately, compliance with the new governance standards initially focused on those defined contribution ('DC') and AVC assets held with Zurich (given that this provider held a greater proportion of the Scheme's DC and AVC assets than any other).

This year, mindful of the need to maintain a focused use of the Scheme's finite resources whilst expanding on the approach taken last year, the Trustees have considered those DC & AVC assets held with the Scheme's top three providers (when measured by the monetary value of DC & AVC assets held). As a result, the Trustee have focused their analysis and commentary below on Zurich, Equitable Life and Prudential.

1. The Scheme's default investment arrangement

The Trustees are responsible for setting the Scheme's investment strategy and for appointing investment managers to carry out that strategy. The Trustees do not operate a default arrangement (within the meaning of the Pensions Act 2008) within each of the Scheme's legacy AVC arrangements; all members were required to specify an investment choice.

However, the Trustees sought to consolidate some of the Scheme's defined contribution and AVC assets in 2012. At that time, a bulk transfer of assets from F&C Asset Management, Legal & General Investment Management, Newton Investment Management and Equitable Life to a new arrangement with Zurich was undertaken. The vast majority of these defined contribution and AVC assets were transferred from investment funds in their original arrangement to suitable equivalent replacement funds with Zurich as part of an automatic fund-mapping exercise (for which investment advice was taken). However, the AVC assets from Equitable Life were transferred to a newly-designed lifestyle arrangement.

This new lifestyle arrangement was designed to replace, as far as possible, the returns that might reasonably have been expected from the Equitable Life With Profits Fund (from which the assets were being transferred). Although the affected members were communicated with in advance (and had the opportunity to specify an alternative investment choice from the individual fund options available), their assets were transferred to the lifestyle arrangement by default where no alternative investment selection had been made. Whilst not a universal default investment arrangement, this lifestyle arrangement can be considered a 'default' for the members in question.

The Trustees' Statement of Investment Principles ('SIP') dated 9 October 2014, includes reference to the Scheme's defined contribution and AVC assets. However, the Scheme's SIP does not currently:

- set out the aims and objectives in relation to the default investment arrangement referred to above;
- outline the basis upon which it was designated as a suitable investment arrangement in the context of members' best interests; or
- explain the Trustees' policies in relation to matters such as risk and diversification.

The Trustees have resolved to ensure that these matters are fully-addressed when the Scheme's SIP is next revised.

The nature of this default investment arrangement has not changed over the course of 2016, and therefore it continues to reflect the Trustees' original intention to designate a lifestyle arrangement that would replace, to the extent that is possible, the investment returns that the relevant members may have reasonably expected from the Equitable Life With Profits Fund. Under this lifestyle arrangement, members who are 15 or more years away from their expected retirement age, have their savings predominantly invested in funds which may be expected, over the long-term, to provide a reasonable rate of return relative to interest rates and inflation. In the 15 years leading up to their expected retirement age, members' savings are gradually moved into funds with a lower-risk profile which are considered to offer more protection from market volatility.

Members of this lifestyle arrangement are reminded (via their annual benefit statements) of the investments applying to their assets; this includes a reminder of the automated fund transfers that occur progressively throughout the 15 years leading up to their retirement age. Members have the opportunity to opt-out of this arrangement at any time.

The table below sets out the key features of this lifestyle investment arrangement and explains why the Trustees believe each one to be in members' best interests.

Default feature	Rationale for being in members' best interests
Members' Accounts are invested in global equities and other growth-seeking assets (through a diversified growth fund); a small allocation is also made to corporate bonds and index-linked gilts. This investment arrangement applies until 15 years prior to their selected retirement age.	<p>This asset allocation is designed to generate reasonable rates of return relative to interest rates and inflation during the growth phase of the strategy, whilst managing downside risk. Long-term returns in excess of earnings inflation are generally required for members to attain an adequate income in retirement.</p> <p>Whilst younger members can withstand the potential downside of equities (as they have sufficient time for markets to recover), the Trustees believe it prudent to include an allocation to diversified assets (and bonds) during the growth phase, since this is expected to mitigate the impact of any fall in the value of equities on members' Accounts.</p>
During the 15 years leading up to their expected retirement age, members' Accounts are gradually transitioned away from global equities and other growth-seeking assets, to investment-grade corporate bonds, index-linked gilts, long-dated gilts and cash.	<p>The asset allocation used during this 'risk-reduction' phase is expected to reduce investment risk for members as they approach retirement. This is achieved through a gradually increasing allocation to assets that are expected to broadly move in line with the costs of the benefit format they are expected to take at retirement.</p> <p>The strategy concludes with an allocation to cash that broadly matches the expectation that members will take their available option of tax free cash from the Scheme.</p>

The Trustees will review the suitability of this arrangement periodically. None of the other AVC arrangements in the Scheme have ever had a default investment strategy; members with assets within these arrangements elected to pay AVCs to them and were required to specify their fund choice at the time of joining. Whilst these policies have been closed for some years, these members retain the right to change their investment selection via the Scheme's third party administrator, Equiniti.

2. Disclosures on core financial transactions

The Trustees are required to explain how they ensure that the Scheme's core defined contribution and AVC financial transactions are processed promptly and accurately. As noted above, the Scheme holds defined contribution and AVC assets across a range of providers, although the outsourced Scheme administrator (Equiniti) is responsible for liaising with these providers and ensuring that the core financial transactions are implemented efficiently and accurately.

Given that the Scheme is closed to all new contributions, core financial transactions in this context constitute:

- The transfer of members' assets out of the Scheme (transfers-in are no longer permitted);
- The transfers of members' assets between different investment options available in the Scheme; and
- Payments from the Scheme to or in respect of members.

The Trustees operate an outsourced operational model with the Scheme's administration being delegated to Equiniti (although each defined contribution and AVC provider retains responsibility for processing trades at the administrator's request). The Trustees have agreed timescales with Equiniti for the processing of all member-related services, including core financial functions relating to quoting and paying benefits. These timescales are well within any applicable statutory timescales.

Equiniti record all member transactions and benefit processing activities in a work management system, which assigns the relevant timescale to the task. Equiniti's administration reports then disclose their performance against these agreed timescales. These disclosures are considered by the Trustees at their routine meetings. The Trustees require additional disclosures in respect of any transactions and benefit processing activity that has not been completed within the agreed timescales, including the cause of the delay, the extent to which agreed timescales were breached and the proposed remedial measures.

Separately, the Trustees arrange for spot-checks of member data and benefit calculations to ensure that core financial transactions and benefit payments are accurate. These are usually undertaken annually as part of the Scheme's independent audit.

The table below sets out the Scheme's core financial transactions and the controls that have continued to exist during the year at Equiniti to ensure accuracy and promptness.

Core financial transaction	Key internal control
Investment switches requested by members	<p><i>Promptness</i> The administrator's service level agreement for switching investments is 5 days from the date of request.</p> <p><i>Accuracy</i> All switches are reconciled with manager transaction statements. All members are notified by the administrator when a switch is completed.</p>
Payment of transfer values	<p><i>Promptness</i> The administrator's service level agreement for the issue of transfer-out details to a member is 10 days; the service level agreement for the payment of transfers-out to a receiving scheme is 5 days.</p> <p><i>Accuracy</i> All transfer values are reconciled by the provider with the individual fund managers and subject to periodic audit checks.</p>
Payment of benefits to members	<p><i>Promptness</i> The administrator's service level agreement for the payment of death and retirement benefits is 2 days (from receipt of all requirements).</p> <p>Periodic appraisal of the Scheme's common data helps ensure that member data is accurate, reducing the likelihood of delay arising from data gaps. Clear authorisations exist for the payment of benefits (i.e. all retirement and death benefit settlement cases are referred for Trustee consent). This balances the need for promptness on the one hand with Trustee oversight on the other.</p> <p><i>Accuracy</i> The Scheme's administrator operates a peer review system for all</p>

	benefit calculations. Data accuracy is subject to regular evaluation and updating.
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There have been no material administration service issues which need to be reported here by the Trustees. They are confident that the processes and controls in place with the administrator are robust and will ensure that the financial transactions, which are important to members, are dealt with properly. Over the period to which this Statement relates (1 January to 31 December 2016), Equiniti have met their Service Level Agreements to the following extent:

- Investment switches requested by members: 100%
- Payment of transfer values: 95.9%
- Payment of benefits to members: 95%

3. Member-borne charges and transaction costs

The Trustees are required to report on the charges and transaction costs for the investments used in the defined contribution and AVC arrangements and their assessment of the extent to which these charges and costs represent good value for members.

For the reasons outlined above, the Trustees have decided this year to focus their assessment of member-borne charges for this purpose on the DC and AVC assets held with the Scheme's top three DC & AVC arrangements (namely Zurich, Equitable Life and Prudential).

When assessing the charges and transaction costs which are payable by members, the Trustees are required to consider the extent to which these represent good value for members. On this basis (and with the help of their advisers), the Trustees have undertaken a 'value for money' assessment in relation to the defined contribution and AVC assets held with Zurich, Equitable Life and Prudential. The results of each assessment are detailed below.

Zurich

Members with defined contribution and AVC assets held with Zurich only bear investment and platform administration charges in this context; as Zurich is the investment manager, they do not provide any wider administration services (other than processing trades), so no wider administration costs are borne by members. Administration services relating to these defined contribution and AVC assets are provided by the Scheme's administrator, Equiniti, and these costs are settled by the Scheme not members. Consequently, the assessment undertaken in this context only focuses on the investment and platform administration costs borne by members with defined contribution and AVC assets held with Zurich.

The table below shows the total expense ratio ('TER') in each of the underlying funds used in the default investment arrangement referred to under Section 1 above. The overall charge being deducted from a member's fund will reflect the member's allocations in each of the underlying funds. The TER is at its highest during the growth phase (at 0.51% p.a. which is below the charge cap of 0.75% p.a. applicable to default investment arrangements in qualifying schemes); it then reduces during the 15 years prior to the member's expected retirement age, to reflect the automated transition of assets to investment-grade corporate bond, UK Government gilt and cash funds (which have lower TERs).

Thales UK Pension Scheme

Underlying investment fund	TER
Thales Global Equity†	0.23% pa
Thales Diversified Growth†	0.83% pa
Thales Corporate Bond†	0.47% pa
Thales Long Dated Gilts	0.21% pa
Thales Index-Linked Gilts†	0.21% pa
Thales Money Market	0.22% pa

† Denotes funds used in the growth phase of the default investment arrangement.

Additionally, the funds listed in the table below are available to members on a self-select basis.

Self-select investment fund	TER
Thales UK Equity	0.18% pa
Thales Global Balanced	0.67% pa
Thales Socially Responsible	0.85% pa
Thales Mixed Bond	0.38% pa

The TER consists principally of the manager's 'annual management charge' for managing and operating a fund, but also includes the costs for other services paid for by the fund (such as the legal costs, registration fees and custodian fees). However, they exclude other costs that are also member-borne and can therefore have a negative effect on investment performance (such as underlying transaction costs). Overall, the funds in place within the Zurich arrangement are deemed to offer good or reasonable value for members.

Equitable Life

Members with AVC assets held with Equitable Life bear a TER that covers investment, platform administration and wider administration services. Whilst these members also benefit from the administration overlay provided by Equiniti, an element of the TER deducted from their fund holdings covers the direct administration undertaken by Equitable Life.

The table below shows the overall TER for each of the self-select fund options in use within this AVC arrangement.

Self-select investment	TER
Equitable Life Managed	0.75% pa
Equitable Life Pelican	0.75% pa
Equitable Life UK FTSE All-Share	0.50% pa
Equitable Life European	0.75% pa
Equitable Life North American	0.75% pa
Equitable Life Far Eastern	0.75% pa
Equitable Life International Growth	0.75% pa
Equitable Life Investment Trusts	0.75% pa
Equitable Life Money	0.50% pa

It is not currently possible to split out the various elements of the TERs in place for each fund, so therefore it is not possible to make a judgement about whether the specific cost being met by members for this service is considered value for money. However, the overall TERs in place for most

of the funds listed above have been assessed as being reasonable relative to peer funds available elsewhere in the market. The standard of the direct administration service provided by Equitable Life during the year has been reasonable.

Assessment of the Equitable Life With Profits Fund is challenging, given the nature of the fund and the guarantees reflected in its terms. Whilst payouts have been poor and expected future investment performance is weak, the inclusion of the 3.5% guaranteed investment return within the Scheme's With Profits policies mitigates this to some extent and will represent a high value to members who value the security that such a guarantee offers.

Prudential

Members with AVC assets held with Prudential also bear a TER that covers investment, platform administration and wider administration services. Whilst these members also benefit from the administration overlay provided by Equiniti, an element of the TER deducted from their fund holdings covers the direct administration undertaken by Prudential.

The table below shows the overall TER for each of the self-select fund options in use within this in AVC arrangement.

Self-select investment	TER
Prudential Deposit	0.00% pa
Prudential Discretionary	0.77% pa

It is not currently possible to split out the various elements of the TERs in place for the Discretionary Fund, so therefore it is not possible to make a judgement about whether the specific cost being met by members for this service is considered value for money. However, the overall TER in place for the fund has been assessed as being reasonable relative to peer funds available elsewhere in the market. The standard of the direct administration service provided by Prudential during the year has been reasonable.

Assessment of the Prudential With Profits Fund is challenging, given the nature of the fund and the guarantees reflected in its terms. However, the Trustees have assessed its annualised performance and have concluded that this compares favourably relative to suitable peer funds.

Conclusion

The Trustees have concluded that the overall benefits and options within these arrangements represent reasonable value for money in comparison to the charge payable by members.

The reasons underpinning this conclusion include:

- Charges for the default investment within the Zurich arrangement are below the charge cap of 0.75% pa;
- The element of each fund's Annual Management Charge for investments with Zurich has been assessed by our advisers as comparing favourably with those of peer funds;
- The element of each fund's Annual Management Charge for platform administration with Zurich has been assessed by our advisers as being good value, relative to the standard of the platform administration provided;

- The charges borne by members on investments within the Equitable Life and Prudential arrangements have been assessed by our advisers as being reasonable compared with suitable peer funds;
- The funds used within the Zurich arrangement are highly-rated by Mercer as having good prospects of achieving their objectives; and
- The performance of most funds since inception to 31 December 2016 compares favourably relative to their benchmarks and objectives.

Additionally, the Trustees pay for all wider administration, insurance, and advisory costs associated with operating the Scheme, which further enhances the value that members receive.

Underlying transaction costs

The Trustees are presently unable to separately identify the underlying transaction costs associated with, for example, disinvesting from one fund and/or investing in another, across the fund range available within each of the DC & AVC arrangements (including the default investment arrangement within the Zurich arrangement referred to in Section 1). All three providers and the underlying investment managers are awaiting the outcome of guidance to be published by the DWP and FCA in relation to transaction costs disclosure. The Trustees will assess the information disclosed following the outcome of that guidance. Should that information become readily available in the future the Trustees will seek to identify these costs and assess the extent to which they represent good value for money.

4. Disclosures about Trustee Knowledge and Understanding

The Pensions Act 2004 requires individual trustees to have appropriate knowledge and understanding of the law relating to pensions and trusts and the investment of the assets.

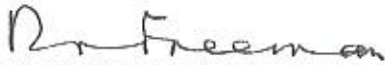
The degree of knowledge and understanding required is that appropriate for the purposes of enabling the Trustees to exercise the function in question. The Trustees must also be conversant with the Scheme's own documentation (focusing on the Scheme's trust deed and rules and Statement of Investment Principles). The Trustees must also be conversant with any other documentation recording current policy relating to the administration of the Scheme generally. The Pensions Regulator interprets 'conversant' as having a working knowledge of those documents such that the Trustees are able to use them effectively when they are required to do so in the course of carrying out their duties.

The Trustees are required to disclose how these duties have been fulfilled and how their combined knowledge and understanding, together with the advice which is available to them, enables them to properly exercise their duties and responsibilities. The table below indicates how these requirements have been met during the year.

Thales UK Pension Scheme

Requirement	How met
The Trustees must have appropriate knowledge and understanding of the law relating to pensions and trusts and the investment of assets	<p>It is mandatory for the Trustees to complete The Pensions Regulator's online trustee training modules when they are appointed.</p> <p>Ongoing training is then provided by professional advisers collectively, as part of routine Trustees' meetings (the subjects having been agreed in advance, based on periodic self-assessment or gap analysis). Trustees also receive training on an individual basis, through attendance at relevant seminars and conferences etc.</p>
The Trustees must be conversant with the Scheme's own documentation	All key Scheme documentation is accessible by the Trustees. Periodic training focuses on Scheme documentation, such as the Trust Deed & Rules.
Knowledge and resources generally	<p>The Trustees' policy requires that any new Trustee completes The Pensions Regulator's online training modules (relevant to defined contribution benefits) within 6 months of their appointment. All new Trustees are provided with a suitable induction which includes an introduction to the Scheme's key documentation.</p> <p>The Scheme's Trustee board comprises individuals with diverse professional skills and experiences (including finance, HR, and operations management) reflecting the varied nature of the challenges that its governance must address.</p> <p>The Scheme pays all reasonable expenses of the Trustees attending conferences or externally-run training courses relevant to their role. The Trustees also meet with their professional advisers at least twice annually to transact core business, and each meeting includes an overview of topical news and developments.</p>

This concludes the statement confirming how the Trustees have met the new governance requirements for the period 1 January 2016 to 31 December 2016.

Signed: 
 Chairman of the Trustees of the Thales UK Pension Scheme

Date: 31 JULY 2017

STATEMENT OF TRUSTEE'S RESPONSIBILITIES

Trustee Responsibilities in Respect of the Financial Statements

The financial statements, which are prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102"), are the responsibility of the Trustee. Pension scheme regulations require the Trustee to make available to Scheme members, beneficiaries and certain other parties, audited financial statements for each Scheme year which:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of that year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year;
- state whether applicable United Kingdom Accounting Standards, including FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- contain the information specified in Regulations 3 and 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996.

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 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.

Trustee Responsibilities in Respect of Contributions

The Trustee is responsible under pension 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.

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 2016 which comprise the fund account, the statement of net assets and the related notes 1 to 17. 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) including FRS 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland.

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 2016, 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 Regulations 3 and 3A of 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

Statutory Auditor, London, United Kingdom

31 July 2017

Thales UK Pension Scheme

Financial Statements

Fund Account - For the year ended 31 December 2016

	Notes	Section 1 £'000	Section 2 £'000	2016 £'000	2015 £'000
Contributions and Benefits					
Contributions receivable					
Employer	3	66,425	24,355	90,780	91,977
Transfers in	4	-	-	-	21
Other income	5	-	519	519	140
		66,425	24,874	91,299	92,138
Benefits paid or payable					
Transfers out	7	7,973	3,327	11,300	12,457
Administrative expenses	8	3,931	2,089	6,020	5,024
Other payments	9	1,292	1,333	2,625	2,051
		84,732	27,225	111,957	109,381
Net (withdrawals) from dealings with members		(18,307)	(2,351)	(20,658)	(17,243)
Returns on investments					
Investment income	10	21,781	6,791	28,572	28,453
Change in market value of investments	13	243,718	81,156	324,874	(18,518)
Taxation	11	(100)	(34)	(134)	(584)
Investment management expenses	12	(3,498)	(1,182)	(4,680)	(3,130)
Net returns on investments		261,901	86,731	348,632	6,221
Net increase/(decrease) in the fund during the year		243,594	84,380	327,974	(11,022)
Net Assets of the Scheme					
At 1 January		1,566,169	544,645	2,110,814	2,121,836
At 31 December		1,809,763	629,025	2,438,788	2,110,814

The notes on pages 36 to 60 form part of these financial statements.

Thales UK Pension Scheme

Financial Statements

Statement of Net Assets (available for benefits) – As at 31 December 2016

	Notes	Section 1 £'000	Section 2 £'000	2016 £'000	2015 £'000
Investment assets	13				
Equities		140,344	49,145	189,489	156,237
Bonds		419,237	131,470	550,707	559,531
Pooled investment vehicles		1,144,370	396,944	1,541,314	1,264,736
Derivatives		28,946	9,128	38,074	17,332
AVC investments		2,023	16,566	18,589	18,132
Cash		66,095	22,190	88,285	86,314
Other investment assets balances		3,288	1,075	4,363	7,477
		<u>1,804,303</u>	<u>626,518</u>	<u>2,430,821</u>	<u>2,109,759</u>
Investment liabilities	13				
Derivatives		(5,210)	(1,718)	(6,928)	(14,943)
Other investment liabilities		-	-	-	(756)
		<u>(5,210)</u>	<u>(1,718)</u>	<u>(6,928)</u>	<u>(15,699)</u>
Total net investments		<u>1,799,093</u>	<u>624,800</u>	<u>2,423,893</u>	<u>2,094,060</u>
Current assets	14	13,836	5,732	19,568	19,266
Current liabilities	15	(3,166)	(1,507)	(4,673)	(2,512)
Net assets at 31 December		<u>1,809,763</u>	<u>629,025</u>	<u>2,438,788</u>	<u>2,110,814</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 Report on Actuarial Liabilities on pages 7 to 9 respectively and these financial statements should be read in conjunction with that report.

The notes on pages 36 to 60 form part of these financial statements.

The financial statements on pages 34 to 35 were approved on behalf of the Trustee on 3rd July 2017

Signed on behalf of Thales Pension Trustees Ltd



Trustee Director



Trustee Director

Notes to the Financial Statements For the year ended 31 December 2016

1 Basis of preparation

The 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, Financial Reporting Standard 102 ("FRS 102") – The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council and the guidance set out in the Statement of Recommended Practice (Revised November 2014) ("the Revised SORP").

Under "Amendments to FRS 102 – Fair value hierarchy disclosures" issued by the Financial Reporting Council in March 2016, financial instruments (that is to say investments) can be categorised in line with IFRS 13 Fair Value Measurement. The Scheme financial statements have been prepared on this basis. The Trustee has elected to adopt the changes proposed by the FRC in Amendments to FRS 102 – Fair Value Hierarchy Disclosures early to align the reporting standards more consistently with International Financial Reporting Standards (IFRS).

2 Accounting policies

The following accounting policies have been applied consistently in the current and previous years. The principal accounting policies of the Scheme are as follows:

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 2016 (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.

Private equity investment holdings in excess of 50% of the issued share capital of the fund, where no control is exercisable over the operations of the entity, are treated as an investment, and are included within pooled investment vehicles.

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.

Notes to the Financial Statements
For the year ended 31 December 2016 (Continued)

2 Accounting policies (continued)

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 2016.

I Annuities

The cost of annuity purchases are charged to the Fund Account as incurred. Any income receivable from annuities is accounted for on an accruals basis and is included within investment income.

3 Contributions

	Section 1 £'000	Section 2 £'000	2016 £'000
Contributions from employer:			
Normal	11,439	11,605	23,044
Deficit funding	45,400	9,667	55,067
Additional deficit contributions ¹	7,000	2,000	9,000
Other - PPF Levy	1,530	750	2,280
Other – Employers expense contribution	667	333	1,000
Other - Top ups	389	-	389
	66,425	24,355	90,780

¹ Additional Deficit Contributions have been made to the Scheme in addition to the deficit funding contributions required by the Schedule of Contributions. These were triggered due to the position of the Scheme funding as at 31 December 2014 as per the Additional Contribution Deed dated 30 April 2013. These Additional Deficit Contributions ceased following the agreement of a new recovery plan in September 2016, relating to the December 2014 actuarial valuation.

	Section 1 £'000	Section 2 £'000	2015 £'000
Contributions from employer:			
Normal	11,459	11,699	23,158
Deficit funding	44,000	8,600	52,600
Additional deficit contributions ¹	10,500	3,000	13,500
Other – PPF Levy	1,602	747	2,349
Other – Employers expense contribution	-	-	-
Other - Top ups	370	-	370
	67,931	24,046	91,977

Notes to the Financial Statements

For the year ended 31 December 2016 (Continued)

Normal contributions from the employer include £4,439,093 and £4,431,703 (2015: £4,563,000 and £4,576,000) member contributions paid through a salary sacrifice arrangement in respect of Section 1 and Section 2 respectively.

In accordance with the new Schedule of Contributions certified by the actuary on 16 September 2016, ongoing deficit funding of £48.2m per annum is payable for Section 1 until 31 December 2028, to reduce the funding shortfall.

In accordance with the new Schedule of Contributions certified by the actuary on 16 September 2016, ongoing deficit funding of £11.8m per annum is payable for Section 2 until 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 Transfers in	Section 1 £'000	Section 2 £'000	2016 £'000
Individual transfers in from other schemes	-	-	-
	-	-	-
5 Other income	Section 1 £'000	Section 2 £'000	2015 £'000
Individual transfers in from other schemes	-	21	21
	-	21	21
Claims on term insurance policies	-	519	519
Sundry income	-	-	-
	-	519	519
5 Other income	Section 1 £'000	Section 2 £'000	2015 £'000
Claims on term insurance policies	124	-	124
Sundry income	11	5	16
	135	5	140

Notes to the Financial Statements
For the year ended 31 December 2016 (Continued)

6 Benefits paid or payable	Section 1 £'000	Section 2 £'000	2016 £'000
Pensions	66,100	16,572	82,672
Commutations and lump sums on retirement	5,350	3,505	8,855
Lump sums death benefits	78	395	473
Refund on death	8	4	12
Special lump sum death benefits	-	-	-
	<u>71,536</u>	<u>20,476</u>	<u>92,012</u>

	Section 1 £'000	Section 2 £'000	2015 £'000
Pensions	64,052	15,518	79,570
Commutations and lump sums on retirement	7,129	2,363	9,492
Lump sums death benefits	452	246	698
Refund on death	34	46	80
Special lump sum death benefits	6	3	9
	<u>71,673</u>	<u>18,176</u>	<u>89,849</u>

7 Transfers out	Section 1 £'000	Section 2 £'000	2016 £'000
Individual transfers out	<u>7,973</u>	<u>3,327</u>	<u>11,300</u>

	Section 1 £'000	Section 2 £'000	2015 £'000
Individual transfers out	<u>9,554</u>	<u>2,903</u>	<u>12,457</u>

Notes to the Financial Statements

For the year ended 31 December 2016 (Continued)

8 Administrative expenses	Section 1 £'000	Section 2 £'000	2016 £'000
Administration fees	539	216	755
Actuarial and consulting fees	1,231	527	1,758
Legal fees	516	516	1,032
Professional fees	-	-	-
Audit fees	30	30	60
Other expenses	55	30	85
PPF Levy	1,560	770	2,330
	3,931	2,089	6,020

	Section 1 £'000	Section 2 £'000	2015 £'000
Administration fees	493	202	695
Actuarial and consulting fees	1,018	412	1,430
Legal fees	172	172	344
Professional fees	9	9	18
Audit fees	30	30	60
Other expenses	51	30	81
PPF Levy	1,630	766	2,396
	3,403	1,621	5,024

9 Other payments	Section 1 £'000	Section 2 £'000	2016 £'000
Premiums on term insurance policies	1,292	1,332	2,624
Ex Gratia Payments	-	1	1
	1,292	1,333	2,625

Notes to the Financial Statements
For the year ended 31 December 2016 (Continued)

9 Other Payments (continued)

	Section 1 £'000	Section 2 £'000	2015 £'000
Premiums on term insurance policies	1,019	1,029	2,048
Ex Gratia Payments	3	-	3
	<u>1,022</u>	<u>1,029</u>	<u>2,051</u>

Term insurance is secured by policies underwritten by Ellipse & Legal and General.

10 Investment income

	Section 1 £'000	Section 2 £'000	2016 £'000
Dividends from equities	7,330	2,449	9,779
Income from bonds	11,660	3,712	15,372
Income from pooled investment vehicles	371	122	493
Interest on cash and deposits	1,154	500	1,654
Annuity income	1,266	8	1,274
	<u>21,781</u>	<u>6,791</u>	<u>28,572</u>

	Section 1 £'000	Section 2 £'000	2015 £'000
Dividends from equities	4,721	1,569	6,290
Income from bonds	14,557	4,466	19,023
Income from pooled investment vehicles	101	34	135
Interest on cash and deposits	925	631	1,556
Annuity income	1,440	9	1,449
	<u>21,744</u>	<u>6,709</u>	<u>28,453</u>

11 Taxation

The Scheme is a registered Pension Scheme under Chapter 2 of Part 4 of the Finance Act 2004 and is therefore exempt from income tax and capital gains tax. The tax charge in the Revenue Account represents irrecoverable withholding taxes arising on investment income.

Notes to the Financial Statements
For the year ended 31 December 2016 (Continued)

12 Investment management expenses

	Section 1 £'000	Section 2 £'000	2016 £'000
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Administration, management and custody*	3,498	1,182	4,680
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	Section 1 £'000	Section 2 £'000	2015 £'000
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Administration, management and custody*	2,344	786	3,130
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*Included within administrative, management and custody fees are investment manager fees for Majedie Asset Management Limited of £2,275,243 (2015: £814,685). This is due to a performance related element of the management fee agreement.

13 Investments

	Section 1 £'000	Section 2 £'000	2016 £'000
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Investment assets	1,804,303	626,518	2,430,821
Investment liabilities	(5,210)	(1,718)	(6,928)
	<u>1,799,093</u>	<u>624,800</u>	<u>2,423,893</u>

	Section 1 £'000	Section 2 £'000	2015 £'000
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Investment assets	1,566,005	543,754	2,109,759
Investment liabilities	(11,892)	(3,807)	(15,699)
	<u>1,554,113</u>	<u>539,947</u>	<u>2,094,060</u>

Investment liabilities relate to derivative investments and other investment liabilities. Investment assets include derivative related assets of £38,074,000 (2015: £17,332,000).

Notes to the Financial Statements

For the year ended 31 December 2016 (Continued)

13 Investments (continued)

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

	Section 1 £'000	Section 2 £'000	2016 £'000	2015 £'000
Investments by strategy type				
Cash	-	2	2	2
Equity	615,018	215,365	830,383	679,490
Illiquids	229,661	79,133	308,794	240,243
Investment Grade Credit	514,815	169,826	684,641	634,576
Liquid Alternative	150,872	52,674	203,546	208,816
Derivatives	23,736	7,410	31,146	2,389
Total Unitised funds	1,534,102	524,410	2,058,512	1,765,516
Non unitised funds				
Fixed interest bonds	262,968	83,824	346,792	310,412
	1,797,070	608,234	2,405,304	2,075,928
AVC investments	2,023	16,566	18,589	18,132
	1,799,093	624,800	2,423,893	2,094,060

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 pages 45, 46 and 47.

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 2016 (Continued)****13 Investments (continued)**

The movements of investments in the year:

	Market Value at 31 December 2015 £'000	Purchases at cost and derivative payments £'000	Sales proceeds and derivative receipts £'000	Change in Market Value £'000	Market Value at 31 December 2016 £'000
Equities	156,237	83,131	(78,082)	28,203	189,489
Bonds	559,531	174,385	(287,288)	104,079	550,707
Pooled investment vehicles	1,264,736	268,863	(242,831)	250,546	1,541,314
Derivatives	2,389	6,830,573	(6,729,314)	(72,502)	31,146
AVC investments	18,132	-	(1,857)	2,314	18,589
	<u>2,001,025</u>	<u>7,356,952</u>	<u>(7,339,372)</u>	<u>312,640</u>	<u>2,331,245</u>
Cash - Sterling	818			-	824
Cash - Foreign currency	84,991			12,234	86,712
Cash - Variation margin	505			-	749
Investment income receivable	5,394			-	4,355
Other investment assets	2,083			-	8
Other investment liabilities	(756)			-	-
	<u>2,094,060</u>			<u>324,874</u>	<u>2,423,893</u>

Included within the above purchases and sales figures are transaction costs of £997,200 (2015: £682,800). 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 2016 is an investment in an investment vehicle with a year-end value of £138m. At the year end, the Scheme owned 77% 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 2016 (Continued)

13 Investments (continued)

Section 1

The movements of investments in the year:

	Market Value at 31 December 2015 £'000	Purchases at cost and derivative payments £'000	Sales proceeds and derivative receipts £'000	Change in Market Value £'000	Market Value at 31 December 2016 £'000
Equities	117,177	60,794	(58,731)	21,104	140,344
Bonds	428,573	129,895	(218,871)	79,640	419,237
Pooled investment vehicles	934,115	194,467	(172,580)	188,368	1,144,370
Derivatives	1,929	5,114,678	(5,039,128)	(53,743)	23,736
AVC investments	2,105	-	(212)	130	2,023
	<u>1,483,899</u>	<u>5,499,834</u>	<u>(5,489,522)</u>	<u>235,499</u>	<u>1,729,710</u>
Cash - Sterling	618			-	616
Cash - Foreign currency	64,082			8,219	64,916
Cash - Variation margin	386			-	563
Investment income receivable	4,114			-	3,280
Other investment assets	1,585			-	8
Other investment liabilities	(571)			-	-
	<u>1,554,113</u>			<u>243,718</u>	<u>1,799,093</u>

Notes to the Financial Statements

For the year ended 31 December 2016 (Continued)

13 Investments (continued)

Section 2

The movements of investments in the year:

	Market Value at 31 December 2015	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in Market Value	Market Value at 31 December 2016
	£'000	£'000	£'000	£'000	£'000
Equities	39,060	22,337	(19,351)	7,099	49,145
Bonds	130,958	44,490	(68,417)	24,439	131,470
Pooled investment vehicles	330,621	74,396	(70,251)	62,178	396,944
Derivatives	460	1,715,895	(1,690,186)	(18,759)	7,410
AVC investments	16,027	-	(1,645)	2,184	16,566
	<u>517,126</u>	<u>1,857,118</u>	<u>(1,849,850)</u>	<u>77,141</u>	<u>601,535</u>
Cash - Sterling	200			-	208
Cash - Foreign currency	20,909			4,015	21,796
Cash - Variation margin	119			-	186
Investment income receivable	1,280			-	1,075
Other investment assets	498			-	-
Other investment liabilities	(185)			-	-
	<u>539,947</u>			<u>81,156</u>	<u>624,800</u>

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

Notes to the Financial Statements

For the year ended 31 December 2016 (Continued)

13 Investments (continued)

Investment Fair Value Hierarchy

The fair value of financial instruments has been determined using the following fair value hierarchy:

- Level 1 The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.
- Level 3 Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

The Scheme's investment assets and liabilities have been fair valued using the above hierarchy categories as follows (there have been no changes between the categories 2015 and 2016):

	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
At 31 December 2016				
Combined sections				
Equities	189,395	-	94	189,489
Bonds	244,939	305,768	-	550,707
Pooled investment vehicles	-	782,621	758,693	1,541,314
Derivatives	(76)	31,222	-	31,146
Cash – balances held	88,285	-	-	88,285
Other investment balances	4,363	-	-	4,363
AVC investments	-	17,780	809	18,589
Other investment – liabilities	-	-	-	-
	526,906	1,137,391	759,596	2,423,893

13 Investments (continued)

Investment Fair Value Hierarchy (continued)

	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
At 31 December 2015				
Combined Sections				
Equities	156,157	-	80	156,237
Bonds	202,848	356,683	-	559,531
Pooled investment vehicles	1,284	704,494	558,958	1,264,736
Derivatives	137	2,252	-	2,389
Cash – balances held	86,314	-	-	86,314
Other investment balances	7,477	-	-	7,477
AVC investments	-	17,221	911	18,132
Other investment – liabilities	(756)	-	-	(756)
	<u>453,461</u>	<u>1,080,650</u>	<u>559,949</u>	<u>2,094,060</u>

Investment risks

FRS 102 requires the disclosure of information in relation to certain investment risks. These risks are set out by FRS 102 as follows:

Credit risk: this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Market risk: this comprises currency risk, interest rate risk and other price risk.

- **Currency risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
- **Interest rate risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.
- **Other price risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Notes to the Financial Statements For the year ended 31 December 2016 (Continued)

13 Investments (continued)

In deriving the investment objectives of the pension Scheme, the Trustee takes advice from a professional investment adviser. Assets are invested to reflect the objectives of each section, and as a result the Scheme has exposure to the risks outlined above. The Trustee manages investment risks, including credit and market risk, within risk limits which are considered when setting the individual section's strategic investment objectives. Risk in this context is described as a fall in the value of the assets, relative to the value of the liabilities, having a detrimental impact on the Scheme's funding deficit. For the Scheme the main investment risks in order of descending size are:

- Interest rate risk
- Inflation risk
- Equity risk
- Property / illiquid asset related risk
- Credit risk

Further information on the Trustees' approach to risk management and the Scheme's exposures to credit and market risks are set out below. This does not include annuity insurance policies or AVC investments as these are not considered significant in relation to the overall investments of the Scheme.

(i) Credit risk

Credit risk can be divided into two broad categories:

1. Rewarded credit risk - The Scheme's investments in debt securities through pooled and segregated arrangements exposes it to credit risk in relation to the publicly traded bonds and privately agreed credit arrangements held in these investment vehicles. The yield available on the securities varies with the degree of credit risk assumed and so the Scheme is rewarded for assuming this risk. The overall level of credit risk taken by the Scheme is monitored and compared to the level of its other main investment risks.

Credit assets held are mostly investment grade. The Scheme also invests in opportunistic credit (Brigade) and a regulatory capital relief strategy (Orchard) which are non-investment grade. The Trustee manages the associated credit risk by requesting the investment manager to diversify the portfolio to minimise the impact of default by any one issuer. Credit risk arising on other investments is mitigated by investment mandates requiring all counterparties to be at least investment grade credit rated. Exposure to the UK government could be significantly more concentrated than exposure to corporates or other entities through debt securities given the very low credit risk associated with these holdings.

2. Counterparty risk - The Scheme is also subject to counterparty risk through:
 - a. its investment in the LDI portfolio, which invests in over-the-counter ("OTC") derivatives and has cash balances.
OTC derivatives will generally be collateralised to minimise counterparty risk. The exception to this is FX contracts which are not collateralised at present. Cash is held within financial institutions which are at least investment grade credit rated, or through a diversified pooled investment vehicle.

Notes to the Financial Statements

For the year ended 31 December 2016 (Continued)

13 Investments (continued)

- b. its investment in pooled investment vehicles. The Scheme's holdings in pooled investment vehicles are unrated. The counterparty risk associated with these investments relates to the legal or operational structure of the fund leading to the Scheme being unable to realise the full net asset value of its holding in the vehicle.

Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements. The Trustee conducts due diligence on all of these points when making a new investment.

(ii) Currency risk

The Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets. Some of this risk is mitigated through investing in the hedged share classes of the pooled investment vehicles where available. On top of this, the Scheme makes use of a currency hedging overlay managed by Legal & General Investment Management to manage total scheme currency exposure to an appropriate level.

(iii) Interest rate and inflation risk

The Scheme is subject to interest rate risk because the value of the Scheme's liabilities is calculated including a reference to the yields on bond assets. It is exposed to inflation risk because the liabilities increase in line with inflation in various ways. The Trustee manages this exposure by investing in assets with a similar link to interest rates and inflation (bonds and derivatives) through the Scheme's allocation to a segregated LDI fund. Other bond and illiquid assets also exhibit a degree of interest rate and inflation linkage depending on the terms of the assets.

The instruments are used in the Scheme's LDI portfolio to reduce the impact of changes to interest rates on the Scheme's overall position. Under this strategy, if interest rates fall the value of the liability matching assets will rise to help match the increase in actuarial liabilities from a fall in the discount rate. Similarly, if interest rates rise the investments will fall in value as will actuarial liabilities because of an increase in the discount rate. The instruments reduce the impact of changes to inflation as the contracts or bonds increase in value in line with inflation in broadly the same manner as the liabilities.

(iv) Other price risk

Other price risk arises in relation to the Scheme's equity, credit, liquid alternatives and illiquid portfolios. These assets are held to generate outperformance over the liabilities which is required for the Scheme to reach its funding target. The Scheme manages this exposure to price risk, as far as reasonably practical, by constructing a diverse portfolio of investments across various markets.

Notes to the Financial Statements
For the year ended 31 December 2016 (Continued)

13 Investments (continued)

Analysis of Pooled Investment Vehicles (PIVs)

	2016 £'000	2015 £'000
Equity	466,374	467,291
Bonds	343,274	239,705
Hedge funds	326,152	218,820
Property	229,979	189,873
Private Equity	154,149	110,507
Cash	21,386	38,540
	1,541,314	1,264,736

Derivatives

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:

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.

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.

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.

At the year end, the Scheme held the following derivatives:

	2016 Assets £'000	2016 Liabilities £'000	2015 Assets £'000	2015 Liabilities £'000
Swaps (ET)	30,892	-	16,133	-
Futures (ET)	385	(461)	290	(153)
Forward foreign currency contracts (OTC)	6,797	(6,467)	909	(14,790)
	38,074	(6,928)	17,332	(14,943)

Notes to the Financial Statements

For the year ended 31 December 2016 (Continued)

13 Investments (continued)

Swaps

Section 1

Swaps (Exchange traded)	Notional Amounts £	Expiry	Assets £'000	Liabilities £'000
Interest rate swaps – Libor to fixed rate	25,517,000	May 2024	4,812	-
Interest rate swaps – Libor to fixed rate	25,517,000	June 2025	5,432	-
Interest rate swaps – Libor to fixed rate	26,878,000	June 2026	6,363	-
Interest rate swaps – Libor to fixed rate	26,878,000	May 2027	7,006	-
Total for 2016			23,613	-
Total for 2015			12,332	-

Section 2

Swaps (Exchange traded)	Notional Amounts £	Expiry	Assets £'000	Liabilities £'000
Interest rate swaps – Libor to fixed rate	7,866,000	May 2024	1,483	-
Interest rate swaps – Libor to fixed rate	7,866,000	June 2025	1,675	-
Interest rate swaps – Libor to fixed rate	8,286,000	June 2026	1,961	-
Interest rate swaps – Libor to fixed rate	8,286,000	May 2027	2,160	-
Total for 2016			7,279	-
Total for 2015			3,801	-

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 by Thales UK Pension Scheme by Legal and General as at 31 December 2016 in relation to swap contracts amounted to £14,570,000 Section 1 and £4,490,000 for Section 2.

Notes to the Financial Statements

For the year ended 31 December 2016 (Continued)

13 Investments (continued)

Futures

Futures (Exchange traded)	Economic exposure £	Expiry	Assets £'000	Liabilities £'000
10 Year USA Treasury Notes	(30,777,377)	March 2017	137	-
5 Year USA Treasury Notes	41,708,302	March 2017	-	(169)
CBT UL Treasury Bonds	2,723,466	March 2017	-	(17)
Eur0 Buxl Bond	(1,036,816)	March 2017	-	(15)
Eurx Eur-Schatz	7,572,203	March 2017	9	-
Eurx Eur-Bobl	14,942,709	March 2017	124	-
Eurx Eur-Bund	(9,808,283)	March 2017	-	(146)
LIF Long Gilt	(1,635,790)	March 2017	-	(30)
ME 10 Year Canadian Bond	4,066,803	March 2017	-	(51)
SFE 10 year Treasury Bond	1,347,445	March 2017	7	-
OSE 10 year JGB	2,084,929	March 2017	2	-
USA Treasury Bonds	(14,996,739)	March 2017	106	-
2 Year USA Treasury Notes	30,688,557	March 2017	-	(33)
Total for 2016			385	(461)
Total for 2015			290	(153)

Split by Section (Unitisation)

Futures (Exchange traded)	Assets £'000	Liabilities £'000
Section 1	290	(347)
Section 2	95	(114)
Total for 2016	385	(461)
Total for 2015	290	(153)

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 future 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 2016 (Continued)

13 Investments (continued)

Derivative assets/(liabilities) (continued)

Forward foreign currency contracts (over the counter)

Number of Contracts	Settlement date	Currency bought	Currency Sold	Assets £'000	Liabilities £'000
4	2 months	GBP	USD	-	(5,855)
1	2 months	USD	EUR	25	-
1	2 months	JPY	USD	-	(18)
1	2 months	EUR	GBP	2	-
1	2 months	USD	MYR	-	(12)
2	2 months	GBP	EUR	-	(554)
1	2 months	USD	JPY	233	-
1	2 months	USD	AUD	2	-
1	2 months	CAD	USD	-	(1)
2	3 months	GBP	JPY	1,661	-
7	3 months	GBP	USD	2,036	-
3	3 months	GBP	EUR	2,297	-
1	3 months	BRL	USD	194	-
1	3 months	USD	BRL	-	(27)
1	3 months	RUB	USD	268	-
2	3 months	USD	TWD	79	-
Total for 2016				6,797	(6,467)
Total for 2015				909	(14,790)

Split by Section (Unitisation)

	Assets £'000	Liabilities £'000
Section 1	5,043	(4,863)
Section 2	1,754	(1,604)
Total for 2016	6,797	(6,497)
Total for 2015	909	(14,790)

Notes to the Financial Statements

For the year ended 31 December 2016 (Continued)

13 Investments (continued)

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.

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. 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 that 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.

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 2016		At 31 December 2015	
	£'000	%	£'000	%
BlackRock Selection Fund	132,256	5.4	124,455	5.9
L&G YX - FTSE RAFI AW 3000 Equity Index Fund	340,382	14.0	251,216	11.9
AQR Global Defensive Equity Fund	138,051	5.7	110,512	5.2

Notes to the Financial Statements

For the year ended 31 December 2016 (Continued)

13 Investments (continued)

Transaction costs

Direct transaction costs within the Scheme incurred in the year relating to equities and other assets amounted to £855,000 (2015: £683,000). In addition to these transaction costs, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. These costs are not separately advised to the Scheme.

	Fees £'000	Commission £'000	2016 £'000
Equities	342	146	488
Pooled investment vehicles	142	-	142
Other assets	367	-	367
	<u>851</u>	<u>146</u>	<u>997</u>

	Fees £'000	Commission £'000	2015 £'000
Equities	502	181	683
Bonds	-	-	-
	<u>502</u>	<u>181</u>	<u>683</u>

Capital commitments

At the Scheme year end, the Scheme had undrawn but committed investments with existing investment managers of £165.9m.

Notes to the Financial Statements

For the year ended 31 December 2016 (Continued)

13 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

	2016			2015		
	Section 1 £'000	Section 2 £'000	Total £'000	Section 1 £'000	Section 2 £'000	Total £'000
Zurich	583	16,493	17,076	647	15,933	16,580
Equitable Life Assurance Society	1,013	7	1,020	961	7	968
MGM Assurance	75	-	75	115	-	115
Phoenix	70	-	70	67	22	89
Prudential	240	-	240	273	-	273
Friends Provident	9	-	9	9	-	9
Scottish Widows	33	-	33	33	-	33
Clerical Medical	-	66	66	-	65	65
	<u>2,023</u>	<u>16,566</u>	<u>18,589</u>	<u>2,105</u>	<u>16,027</u>	<u>18,132</u>

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 2016 (Continued)

14 Current assets	Section 1 £'000	Section 2 £'000	2016 £'000
Pensions paid in advance	4,006	1,139	5,145
Contributions Employer - Normal	991	1,000	1,991
Contributions Employer - Deficit	4,183	1,067	5,250
Life assurance premiums paid in advance	206	212	418
PPF levy paid in advance	384	192	576
Cash deposits held with Scheme Administrator	4,013	2,122	6,135
Inter section balance	53	-	53
	13,836	5,732	19,568

	Section 1 £'000	Section 2 £'000	2015 £'000
Pensions paid in advance	3,854	1,104	4,958
Contributions Employer - Normal	934	955	1,889
Contributions Employer - Deficit	4,542	967	5,509
Life assurance premiums paid in advance	236	241	477
PPF levy paid in advance	378	174	552
Cash deposits held with Scheme Administrator	3,578	2,280	5,858
Inter section balance	23	-	23
	13,545	5,721	19,266

The contributions due as at 31 December 2016 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 £364,457 and £363,057 (2015: £372,638 and £373,735) member contributions paid through a salary sacrifice arrangement in respect of Section 1 and Section 2 respectively.

Notes to the Financial Statements

For the year ended 31 December 2016 (Continued)

15 Current liabilities	Section 1 £'000	Section 2 £'000	2016 £'000
Lump sums on retirement	51	5	56
Death benefits	-	10	10
Accrued expenses	2,731	1,210	3,941
Equitable Life compensation payments	-	37	37
Other creditors	384	192	576
Inter section balance	-	53	53
	3,166	1,507	4,673

	Section 1 £'000	Section 2 £'000	2015 £'000
Lump sums on retirement	111	184	295
Death benefits	82	225	307
Accrued expenses	918	380	1,298
Equitable Life compensation payments	-	37	37
Other creditors	378	174	552
Inter section balance	-	23	23
	1,489	1,023	2,512

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.

16 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 38).

17 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



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 2014 to be met by the end of the period specified in the recovery plan dated 16 September 2016.

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 16 September 2016.

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

20 January 2017

Name of employer

Mercer Limited

Address

Tower Place West
London
EC3R 5BU

CERTIFICATION OF SCHEDULE OF CONTRIBUTIONS

SECTION 2



CERTIFICATION OF SCHEDULE OF CONTRIBUTIONS

Name of Scheme and name of Section

Thales UK Pension Scheme – Section 2

Adequacy of rates of contributions

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 2014 to be met by the end of the period specified in the recovery plan dated 16 September 2016.

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 16 September 2016.

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

20 January 2017

Name of employer

Mercer Limited

Address

Tower Place West
London
EC3R 5BU

CERTIFICATE OF TECHNICAL PROVISIONS – SECTION 1

SCHEME FUNDING REPORT OF THE
ACTUARIAL VALUATION AS AT 31 DECEMBER
2014

THALES UK PENSION SCHEME
SECTION 1

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 2014 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 16 September 2016.

Signature



Name

Mark Condron

Date of signing

16 September 2016

Name of employer

Mercer Limited

Address

Tower Place
London
EC3R 5BU

Qualification

Fellow of the Institute and Faculty of Actuaries

CERTIFICATE OF TECHNICAL PROVISIONS – SECTION 2

SCHEME ADMINISTRATION REPORT FOR THE
ANNUAL VALUATION AS AT 31 DECEMBER
2014

THALES UK PENSION SCHEME
2014 FINANCIAL STATEMENT

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 2014 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 16 September 2016.

Signature



Name

Mark Condron

Date of signing

16 September 2016

Name of employer

Merger Limited

Address

Tower Place
London
EC3R 5BU

Qualification

Fellow of the Institute and Faculty of Actuaries

COMPLIANCE STATEMENT

Constitution

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

Taxation status

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

Pension increases

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

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

Calculation of transfer values

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

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

Pension Tracing Service

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

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

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

COMPLIANCE STATEMENT (CONTINUED)

The Pensions Advisory Service

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

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

Pensions Ombudsman

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

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

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

We have examined the summary of contributions to the Thales UK Pension Scheme for the Scheme year ended 31 December 2016 on page 68.

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 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 2016 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 to 15 September 2016 at least in accordance with the schedules of contributions certified by the Scheme actuary on 30 January 2014, and for the period from 16 September to 31 December 2016 at least in accordance with the schedules of contributions certified by the Scheme actuary on 16 September 2016.



Deloitte LLP

Statutory Auditor

London, United Kingdom

31 July 2017

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	2016 £'000
Contributions from Employer:			
Normal	11,439	11,605	23,044
Deficit funding	45,400	9,667	55,067
Additional Deficit Contributions	7,000	2,000	9,000
Other – PPF Levy	1,530	750	2,280
Other – Employers expense contribution	667	333	1,000
Total contributions payable under the schedules of contributions (as reported on by the Scheme auditor)	66,036	24,355	90,391
Other contributions payable:			
Other Employer - Top ups	389	-	389
Total contributions payable per the Fund Account	66,425	24,355	90,780

Normal contributions from the employer include £4,439,093 and £4,431,703 (2015: £4,563,000 and £4,576,000) 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 9% of CARE Salary up to £40,040 and in excess of that 12%, as per the Scheme Rules.

Additional deficit funding has been contributed to the Scheme in addition to the deficit funding contributions required by the schedules of contributions. These were triggered due to the position of the Scheme funding as at 31 December 2014 as per the Additional Deed dated 30 April 2013.

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.

Signed on behalf of Thales Pension Trustee Ltd



Trustee Director
Date 31/7/17



Trustee Director
Date 31/7/17