

**THALES UK PENSION SCHEME**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR TO 31 DECEMBER 2015**

**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**

<b>Section 1</b>	<b>Section 2</b>
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  
 Chartered Accountants  
 Reading  
 United Kingdom

**Investment Managers**

Alcentra (appointed September 2015)  
 Ancala (appointed April 2016)  
 AQR Capital Management  
 BlackRock  
 Brigade Capital Management LLC  
 CarVal  
 Credit Suisse Asset Management  
 Equitix Ltd  
 Legal & General Investment Management Ltd  
 Majedie Asset Management  
 MedicX Healthfund II LP  
 M&G Investments  
 Orchard Global Asset Management (appointed October 2015)  
 Rogge Global Partners plc  
 Standard Life Investments Ltd  
 Stone Harbor Investment Partners (UK) LLP (terminated December 2015)  
 TIAA-CERF  
 Vontobel Asset Management

**Scheme Employers, Service Providers and Advisors (Continued)**

**Additional Voluntary Contributions (AVC) Providers**

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

**Legal Advisor**

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  
Watson House  
London Road Reigate  
Surrey  
RH2 9PQ

**Covenant Advisor**

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

**Tax Advisor**

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

**Investment Custodians**

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

**Scheme Employers, Service Providers and Advisors (Continued)**

**Investment Custodians (Continued)**

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

Citibank  
Citigroup Centre  
Canada Square  
Canada Wharf  
London  
E14 5LB

**Bank**  
Lloyds Bank,  
City Office,  
P.O. Box 72,  
Bailey Drive,  
Gillingham Business Park,  
Kent.  
ME8 0LS

**Life Assurance Insurers**  
Ellipse (Spouses Pension and Death in Service Lump Sum)  
15 Bermondsey Square  
London  
SE1 3UN

**Secretary to the Trustee**  
Philip Cameron

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## 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 2015. The Scheme is a Defined Benefit scheme governed by a definitive Trust Deed dated 30 June 2008 and subsequent amendments. With effect from 1 July 2008, the Scheme merged with 8 other Thales Defined Benefit schemes. The active members of the Avimo Pension Scheme also transferred into the Scheme at this date.

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

### Management of the Scheme

Exceeding the requirements of the Occupational Pension Scheme (Member-nominated Trustees and Directors) Regulations 2006 (to have at least one third of the Trustee Directors appointed by the membership), half of the Trustee Directors are appointed by Thales UK Ltd, and half are appointed by the active and pensioner membership. The current member nominated Trustee Directors are scheduled to serve until October 2016, 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)  
Paul Durrant (Employer Nominated) – Resigned 11/3/15  
Colin Milbourn (Member Nominated)  
Joelle Dumetz (Member Nominated)  
Ken McSweeney (Employer Nominated)  
Dean Mason (Employer Nominated) – Resigned 6/3/15  
Robert Scallon (Member Nominated)  
Paul Corris (Member Nominated)  
Geoff Fowle (Member Nominated)  
Peter Rowley (Employer Nominated)  
William John Twigg (Member Nominated)  
Nigel Baldwin (Employer Nominated) – Appointed 11/3/15  
Helen Depree (Employer Nominated) – Appointed 11/3/15

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 2 Dashwood Lang Road, The Bourne Business Park, Addlestone, nr Weybridge, Surrey, KT15 2NX.

**TRUSTEE'S REPORT (CONTINUED)**

**Financial Developments**

The financial statements on pages 32 to 56 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 decreased by £11,022,000. This was as a result of a net return on investments of £6,221,000 and contributions of £92,138,000 being offset by benefits and expenditure payments of £109,381,000.

The new UK financial reporting framework Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") has been applied to the Scheme for the first time this year. Further details are included in note 1 to the financial statements.

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

The next formal valuation of the Scheme is currently underway with an effective date of 31 December 2014. The completion of this valuation is beyond the statutory time limit. The Trustee has communicated to the Pension Regulator the reasons for the delay. It is anticipated that the results will be available in quarter three 2016.

**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 2011. This showed that on that date:

	Section 1	Section 2
The values of the Technical Provisions were:	£1,988 million	£565 million
The values of the assets at that date were:	£1,266 million	£412 million
Surplus/ (Deficit)	(£722) million	(£153) million
Funding Level	64%	73%

**Section 1**

The Trustee and Employer have agreed that from 1 February 2014 the Employer will contribute as follows:- 14.7% of members Career Average Revalued Earnings (CARE) Salaries, plus £44m per annum, payable in monthly instalments for the period 1 April 2013 to 31 December 2028, plus amounts equal to the PPF levies.

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

**TRUSTEE'S REPORT (CONTINUED)**

**Report on Actuarial Liabilities (Continued)**

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

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

**Section 2**

The Trustee and Employer have agreed that from 1 February 2014 the Employer will contribute as follows:- 14.8% of members' CARE Salaries (Pensionable Salary for former Category 1 Thomson Pension Plan members), plus £8.6m per annum, payable in monthly instalments for the period 1 April 2013 to 31 December 2028, plus amounts equal to the PPF levies.

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

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

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

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:*** 5.0% per annum pre-retirement and 3.9% per annum post-retirement at 31 December 2011. The discount rate for liabilities prior to retirement differs from the discount rate for liabilities after retirement to reflect the expected change in the investment strategy as the Scheme matures. For liabilities pre-retirement the discount rate assumes a notional portfolio of assets which is heavily weighted in return seeking assets. For liabilities post-retirement the discount rate assumes a notional portfolio of assets which is heavily weighted in matching assets.

The expected return on the return seeking assets in the discount rate assumptions was set based on a realistic asset return model at a level of prudence deemed appropriate. The expected returns on the matching assets in the discount rate assumptions was set with reference to the yields on matching assets expected to be held.

***Future Retail Price inflation (RPI):*** 3.0% per annum at 31 December 2011. The RPI assumption takes into account information available in respect of UK government bond markets at the effective date of the actuarial valuation.



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

### **Report on Actuarial Liabilities (Continued)**

**Future Consumer Price inflation (CPI):** 2.3% per annum at 31 December 2011. 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 2011, 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.

**Mortality:** Generally SAPS ("S1 Normal health pensioner tables") series with a 102% multiplier for males and a 107% multiplier for females, based on member's year of birth and projected in line with the CMI 2009 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 ("S1 Light normal health pensioner tables") series with a 104% multiplier for males and a 83% 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 2011 of £722 million and £153 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 2014 and 31 December 2017. The 31 December 2014 special contributions were triggered.

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 2011 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**

#### *Update on Budget 2014 reforms*

One of the changes in the 2014 Budget was a change to full commutation (i.e. withdrawal of all benefits in a single cash sum) limits as follows:

- An increase in the full commutation limit from £18,000 to £30,000 in relation to "All Schemes Commutation" (commutation of a member's benefits across all of his/her registered pension schemes).
- An increase in the limit from £2,000 to £10,000 in relation to "Scheme-specific Commutation" (commutation of a member's benefits in one particular registered pension scheme).

The Trustee and the Employer entered into a Deed of Amendment dated 14 July 2015 to adopt the new full commutation limits referred to above.

#### *Update on April 2015 reforms*

From 6 April 2015, members of pension schemes have had more flexibility over how they take any defined contribution (DC, also known as money purchase) benefits. If the scheme rules permit, at age 55 members.

## TRUSTEE'S REPORT (CONTINUED)

### **Legislation and Scheme Changes (Continued)**

are able to access their DC pension pot in cash in full without the requirement to purchase an annuity subject to their marginal rate of income tax in that year applying to payments over and above the tax free pension commencement lump sum (i.e. the 25% tax free cash at retirement). Another option, known as income drawdown, allows a member to draw a certain amount of money out each year while keeping the rest invested.

There are DC benefits in the Scheme, most relating to additional voluntary contributions (AVCs) paid by members. However, the Scheme Rules do not currently allow members to access their DC pension pots as cash or income drawdown. These flexible options are not allowed for defined benefit (DB) pensions such as final salary or career average benefits in the Scheme.

Members of the Scheme may access the new freedoms by transferring their benefits to an alternative pension arrangement which permits the new flexibilities. Such transfers, where they involve DB benefits, are subject to a new requirement for the member to obtain appropriate independent financial advice if their pension savings exceed £30,000.

The Scheme Rules were amended by a Deed of Amendment dated 14 July 2015 to provide that: if the Trustee, the Company and the relevant Section Trustee give their consent, a member may opt to transfer his or her benefits out of the Scheme in circumstances where they would not otherwise have a statutory right to a transfer. For example, the statutory right to transfer DB benefits does not apply in the one year prior to normal retirement date. The Trustee, the Company and the Section Trustees have agreed to offer this additional flexibility provided that certain requirements are satisfied e.g. there is no evidence of pensions liberation.

The intention is to give Scheme members more freedom to transfer their benefits (subject to them obtaining financial advice for transfers over £30,000) and thereby access the new pension flexibilities outside of the Scheme.

### *Changes to the Annual Allowance (AA)*

For tax years 2016/17 onwards, the annual allowance for those with "adjusted incomes" over £150,000 will be reduced.

For every £2 of adjusted income over £150,000, the annual allowance will be reduced by £1. The maximum reduction will be £30,000 (i.e. the lowest level of annual allowance for the highest earners will be £10,000).

"Adjusted income" is all taxable income (subject to certain deductions) and includes the value of employer contributions and the member's pension contributions made under the 'net pay' method of tax relief. The latter has been included to try and ensure fairness between contributions deducted via the 'net pay' method and those made through the 'relief at source' method.

The AA reduction only applies if the member's "threshold income" exceeds £110,000. This is broadly all taxable income (less certain deductions and less member contributions made under the 'at source' method) plus income which would be income but for new salary sacrifice arrangements made after the 2015 budget. There are some uncertainties about what "made" means here and therefore who is caught by this addition.

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

### ***Legislation and Scheme Changes (Continued)***

#### ***Lifetime Allowance***

The standard lifetime allowance (LTA), which is the total value of pension savings that can be accumulated without a penalty tax charge, was reduced from £1.25 million to £1 million from 6 April 2016.

Two new forms of transitional protection are available for those who have been saving with the current threshold in mind (Fixed Protection 2016 and Individual Protection 2016). Also Individual Protection 2014 is still available until 5 April 2017.

#### ***Same Sex Marriage and Civil Partners***

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

The Scheme Rules have been amended by the Deed dated 14 July 2015 to the extent necessary so that the Scheme provides broadly the same benefits for same sex spouses as it does for spouses of the opposite sex. The only difference in treatment is in relation to pre-1988 Guaranteed Minimum Pensions where there is a different treatment under law.

At the same time, the Rules were amended to provide that all surviving Civil Partners should also be treated in the same way as above where this had not already been included in the Rules.

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

The Scheme Rules have been amended (by the July 2015 Deed referred to above) to bring them in line with practice for determining if (i) an Active CARE Member can draw a pension due to Serious Ill-Health and (ii) a Scheme Enhanced Member can apply for the payment of his Past Service Pension due to ill health or injury.

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

The Scheme Rules have been amended (by the July 2015 Deed referred to above) to bring them in line with practice for when an Active CARE Member remains in the employment of an Employer after his CARE Pension Date. The Rules now provide that such members automatically remain active members of the Scheme unless they choose to opt-out.

#### ***Late retirement***

The Scheme Rules have been amended (by the July 2015 Deed referred to above) to provide that: if the Trustee and the Company give their consent, a member may defer payment of his or her legacy DB benefits beyond normal retirement date in circumstances where the legacy scheme rules did not previously contain such an option.

The member's benefits will come into payment on the earlier of: (i) the expiry of 1 month's written notice by him to the Trustee to start payment of the pension; and (ii) his 75th birthday.

## TRUSTEE'S REPORT (CONTINUED)

### **Legislation and Scheme Changes (Continued)**

#### *Shared Parental Leave*

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

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

The Trustee and Employer will review the Scheme Rules to consider if any amendments are required to document the new requirements.

#### *End of 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 but there is little impact of the recent changes on those benefits. Prior to 6 April, there was also one active member accruing contracted-out benefits (a TPP GAD Member).

The Trustees and the Employer are considering whether any changes to the Rules are necessary as a consequence of the end of DB contracting out but minimal changes are anticipated.

#### *DC Governance*

From April 2015 new minimum governance standards were introduced in relation to occupational money purchase schemes. At the same time, new charges measures were introduced for money purchase benefits within qualifying schemes used for workplace pension reform.

To accompany the new legislation, the Pensions Regulator has published a draft DC Code of Practice and guidance (expected to come into force July 2016). Money purchase (DC) benefits under TUPS are derived from legacy arrangements prior to the 2008 merger and are both AVC and non-AVC related. No new DC contributions have been paid since the merger.

The Trustee, having considered legal advice has concluded that the DC Code of Practice and guidance are applicable to the scheme. As such the Dc Chairman's Statement has been prepared for the Scheme.

**TRUSTEE'S REPORT (CONTINUED)**

**Legislation and Scheme Changes (Continued)**

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

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

**Membership Movements**

The membership reconciliation for the reporting period is detailed below.

Thales UK Pension Scheme - Section 1 membership movements	Active	Deferred	Total Pensioners (Retired + Dependant + Children)	Pensioners (Retired)	Pensioners (Dependant)	Pensioners (Children)
<b>Number as at 1 January 2015 (B/F from 2014 Accounts)</b>	<b>1,016</b>	<b>5,529</b>	<b>7,664</b>	<b>6,120</b>	<b>1,537</b>	<b>7</b>
Adjustments*	(9)	(3)	(40)	(26)	(14)	0
New Entrants		38	326	238	88	
Death in Service	(1)					
Death in Deferment		(6)				
Death in Retirement			(257)	(179)	(78)	
Child Pension Ceasing			(1)			(1)
Retirements from Active	(32)					
Retirements from Deferred		(206)				
Leavers - Deferred	(38)					
Leavers - Opt Out						
Retirements (full commutation)		(2)	(32)	(32)		
Transfers Out		(21)				
Enhanced DC now classed as Deferred	(44)	44				
<b>Number as at 31 December 2015</b>	<b>892</b>	<b>5,373</b>	<b>7,660</b>	<b>6,121</b>	<b>1,533</b>	<b>6</b>

**TRUSTEE'S REPORT (CONTINUED)****Membership Movements (Continued)**

Thales UK Pension Scheme - Section 2 membership movements	Active	Deferred	Total Pensioners (Retired + Dependant + Children)	Pensioners (Retired)	Pensioners (Dependant)	Pensioners (Children)
Number as at 1 January 2015 (B/F from 2014 Accounts)	1,160	1,849	2,668	2,293	362	13
Adjustments*	(1)	(8)	(10)	(9)	0	(1)
New Entrants		51	137	116	20	1
Death in Service						
Death in Deferment		(4)				
Death in Retirement			(51)	(39)	(12)	
Child Pension Ceasing			0			
Retirements from Active	(30)					
Retirements from Deferred		(86)				
Leavers - Deferred	(51)					
Leavers - Opt Out						
Retirements (full commutation)			(1)	(1)		
Transfers Out		(6)				
Enhanced DC now classed as Deferred	(51)	51				
Number as at 31 December 2015	1,027	1,847	2,743	2,360	3,70	13

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

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

During the year following legal advice Enhanced DC members were reclassified from active members to deferred members.

**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 (appointed September 2015)  
AQR Capital Management  
BlackRock  
Brigade Capital Management LLC  
CarVal  
Credit Suisse Asset Management  
Equitix Ltd  
Legal & General Investment Management Ltd  
Majedie Asset Management  
MedicX Healthfund II LP  
M&G Investments  
Orchard Global Asset Management (appointed October 2015)  
Rogge Global Partners plc  
Standard Life Investments Ltd  
Stone Harbor Investment Partners (UK) LLP (terminated December 2015)  
TIAA-CERF  
Vontobel Asset Management

Following the end of the accounting period the Scheme has made a commitment to invest in the Ancala UK Infrastructure Platform B LP (from April 2016).

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

For the year ended 31 December 2014, the Scheme returned 0.7% against a benchmark return of 0.8%. The return over the last three years is 6.2% per annum (pa) against a benchmark of 5.5% pa.

The total assets held by the Scheme, as at 31 December 2014, were £2.11 billion (31 December 2013: £2.12 billion).



**TRUSTEE'S REPORT (CONTINUED)**

Investment performance for the period 1 January 2015 to 31 December 2015 is set out below:

	12 months (%)			Asset value 31/12/2015	Inception date	Benchmark	Performance Target	Active/ Passive
	Fund	B'mark	+/-					
Thales UK Pension Scheme	0.7	0.8	-0.1	2,082.8	Jan 2005			
Equity	0.8	0.0	0.8	680.2				
Majedie UK Equity	4.1	1.0	3.1	160.0	May 2005	FTSE All Share	Outperform Benchmark	Active
L&G Global Equity RAFI-3000	0.6	0.3	0.3	251.4	May 2005	FTSE RAFI AW 3000GBP	Track Benchmark	Passive
L&G Global ex UK Equity	-0.5	3.0	-3.5	74.5	Mar 2009	Blended FTSE Developed ex UK and S&P/IFC Investible Ind GBP	Track Benchmark	Passive
L&G Emerging Markets RAFI	-17.0	-17.0	0.0	26.2	Oct 2011	FTSE RAFI Emerging Markets	Track Benchmark	Passive
Vontobel Emerging Markets	-3.0	-10.0	7.0	54.0	Nov 2011	MSCI Emerging Markets ND	2.0% pa	Active
AQR Low Volatility	5.4	3.7	1.7	110.5	May 2013	MSCI World	Track Benchmark with lower volatility	Active
Equity Options	-	-	-	3.5	Feb 2014			Passive
Credit	-0.4	-0.8	0.5	628.4				
Blackrock Corporate Bond Fund	0.3	-0.1	0.4	140.5	Jun 2009	BarCap Agg Corp GBP Hedged	Track Benchmark	Passive
Blackrock North American	-4.2	-5.0	0.8	80.2	Nov 2009	BarCap US Long Credit Select Index	Track Benchmark	Passive
L&G UK AAA - AA - A passive	-0.6	-0.7	0.1	89.2	May 2005	iBoxx Sterling Non Gilts ex BBB 15+	Track Benchmark	Passive
Rogge Global Active	0.7	0.2	0.5	237.5	Apr 2010	BarCap Global Agg Credit GBP hedged	1.5% Over Benchmark	Active
Alcentra	-	-	-	61.6	Sep 2015	3 Month USD Libor +1.25%	Outperform Benchmark	Active
Orchard	-	-	-	19.4	Nov 2015	3 Month USD Libor +9%	Outperform Benchmark	Active
Liquid Alternatives	2.8	1.3	1.5	152.4				
AQR Managed Futures	4.1	2.7	1.4	23.3	May 2012	3 Month GBP +2% per annum	Long-term returns with low correlation with traditional investment markets	Active
Credit Suisse IR	11.3	6.0	5.3	65.6	Aug 2011	3 Month USD Libor	3.0 - 5.0%	Active
Brigade	-9.7	-1.2	-8.5	22.2	Nov 2012	Credit Suisse Leveraged Loan Index (50%) Merrill Lynch High Yield Constrained Index (50%)	8.0 - 12.0%	Active
Carval II	6.0	-2.1	8.1	34.8	Jun 2013	Merrill Lynch High Yield	13.0% - 15.0%	Active
Carval III	-	-	-	6.5	Jun 2015	Merrill Lynch High Yield	13.0% - 15.0%	Active
Illiquids	8.2	8.9	-0.7	245.6				
Equitix II	17.0	2.5	14.5	21.8	Sep 2011	Index Linked Gilt +3.5%	12.5% gross / 10.0% net	Active
L&G Long Lease Property	7.6	8.1	-0.5	68.1	Feb 2013	AREF/IPD Long Income Property Index	Absolute Return	
Standard Life Property	10.3	12.4	-2.1	71.6	Nov 2011	IPD All Balanced Index	Outperform Benchmark	Active
M&G European Property	3.3	9.9	-6.6	33.7	Sep 2012	IPD Pan European Index	7.0 - 9.0%	Active
Equitix III	10.4	2.5	7.9	13.3	Jun 2013	Index Linked Gilt +3.5%	Outperform Benchmark	Active
MedicX H'care II	4.7	2.5	2.2	13.4	Feb 2014	Index Linked Gilt +3.5%	Outperform Benchmark	Active
TIAA-CREF	-	-	-	5.6	Apr 2015	CPI + 5%	Outperform Benchmark	Active
Equitix IV	-	-	-	7.1	Sep 2015	Index Linked Gilt +3.5%	Outperform Benchmark	Active
M&G Euro Long Lease Property	-	-	-	11.0	Dec 2015	CPI + 4%	Outperform Benchmark	Active
Liability matching	-	-	-	326.9				
L&G Swaps & Collateral 1	-	-	-	231.1	Apr 2012			Passive
L&G Swaps & Collateral 2	-	-	-	95.8	Apr 2012			Passive
Cash	-	-	-	49.3				Passive
Northern Trust Cash	-	-	-	56.4	Nov 2015			Passive
Currency Hedge	-	-	-	-7.1	Dec 2011			Passive

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

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

### **Market review – year ending 31 December 2015**

#### **Summary**

Key features of 2015 were differentiation in economic policy and liquidity conditions, and uncertainty around the severity of the Chinese economic slowdown.

Over the course of the year there has been divergence between developed and emerging economies, and also amongst them. In December 2015 the ECB both decreased its overnight deposit and announced it was extending its stimulus programme by six months to March 2017. Less than two weeks later, the Federal Reserve hiked its own interest rate for the first time since 2006. Relative to expectations at the start of the year, this process of rate rises by the Fed has been slow. Similar to the ECB, The Bank of Japan remains committed to a large, open-ended quantitative easing programme until its price stability target of 2% is reached sustainably.

The regime shift in the renminbi, a correction in the Chinese equity market overvaluation, uncertainty around the severity of the Chinese economic slowdown and concerns over policymakers' competence have all worked to increase risk aversion over the second half of the year. Broader Asia, with its significant exposure to Chinese growth, suffered as a result. The wider global economy is no longer insulated from China either, with risk aversion spiking partly as a result of these Chinese issues. Towards the end of the year Chinese equities recovered slightly as it was observed that the services sector has remained healthy even whilst the manufacturing side of the Chinese economy has slowed down measurably.

Sterling has moved markedly against the US dollar and the Japanese yen over the 12 month period, depreciating by 5.5% and 5.2% respectively. Conversely, sterling has appreciated versus the euro by 5.3% over the same period.

The Scheme's portfolio in total has returned 0.7% over the year against 0.8% for its benchmark.

#### **Equity markets**

The dispersion in equity market returns was high over the year. Japanese equities did particularly well (returning 17.6% in sterling terms), in part due to the ongoing quantitative easing measures put in place by the Japanese central government. Emerging market equities have fallen considerably over the year as the region's markets have been hit by the dual forces of weaker commodity prices and a slowdown in China which has dampened investor confidence, notably in Asia. The FTSE Emerging Index returned -10.3% (in sterling terms) over 2015.

The FTSE 100 broke through the 7,000 level for the first time in its history in March, having overcome its dotcom level peak after a wait of over 15 years (it should be noted that the market has since fallen below that level – it was sat around the 6,242 mark as at 31 December 2015).

Against this background the Scheme's equity portfolio produced a return of 0.8%, outperforming its combined benchmark by 0.8%, largely down to strong alpha contributions from the Majedie UK equity fund and the Vontobel EM equity fund.

#### **Bond markets**

As at year end, yields were broadly similar to at the start of the year. This however masks more significant yield changes during the course of the year, with volatility in global bond markets increasing significantly. This increased volatility was set against a backdrop of uncertainty over both future market conditions and when the Federal Reserve and the Bank of England will raise interest rates, along with a continued battle against deflation in both Japan and Europe.

Over the year global investment grade bonds returned -0.1%. Emerging market government bonds performed reasonably in hard currency terms, with the JPM EMBI Global Diversified Index returning 1.3% over the year in sterling hedged terms. However, as emerging currencies suffered, local

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

### **Bond markets (continued)**

currency returns, as measured by the JPM GBI-EM Global Diversified Index, returned -10.0% for the year (in sterling unhedged terms). The Scheme's credit portfolio returned -0.4% over the year, though it did outperform the benchmark.

### **Alternative investment markets**

A major feature of markets over the year was oil prices declining considerably, falling by almost 30% over the 12 months (in sterling terms). The major cause of the falls over the 12 months was the significant increase in non-OPEC related supply (such as from US shale). Falls in prices were further exacerbated by a deal struck in July 2015 between Iran and the permanent members of the UN Security council, in which Iran agreed to scale back its nuclear programme in exchange for economic sanction relief. As news of the deal broke, WTI and Brent oil prices fell considerably on the possibility of Iranian oil output increases.

Slowing Chinese growth has been a key dynamic across most industrial metals as the country imports around 40 – 45% of global metal production. As the economy transitions to a less resource-intensive path of growth, those metals which were geared towards heavy industries and construction activities have suffered.

UK commercial property has returned 13.8% over the 12 month period to end of December 2015 (as measured by IPD). The largely unexpected Conservative majority win at the May general election has helped to stimulate buyers and sellers in the UK housing market by removing uncertainty surrounding new restrictions or the possibility of a mansion tax being implemented.

The Scheme's alternative investments, particularly those which are illiquid in nature, generally performed well over the year (there are a couple of exceptions where the funds are still in their investment phases where negative returns are to be expected). The illiquid investments returned over 8% through the year, the best performing area of the portfolio.

The liquid alternatives returned 2.8% against a benchmark of 1.3% with the Credit Suisse reinsurance fund performing particularly well. There was a disappointingly large underperformance from Brigade Capital Management (the Scheme's high-yield bond manager, which can be attributed to its decisions to be overweight to the more volatile parts of the US high-yield bond market).

### **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 (expected to come into force July 2016). 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 21 to 29.

## 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. At the current Scheme year end the Trustee recognised that the current asset allocation was outside the target allocation set out in the Statement. Illiquid assets constituted 11.6% of total assets, against a target holding of 13% per the SIP. This target is expected to be achieved over a period of time, as undrawn capital commitments with illiquid managers are drawn down over time.

### **2011 Actuarial Valuation Employer Guarantees**

As a result of the 2011 Actuarial Valuation in addition to the Recovery Plan the Trustee and Employer have put in place a number of guarantees to support the Scheme. Thales Holdings UK Limited has provided guarantees totalling £875m and Thales SA has provided guarantees totalling £750m. The Trustee has also agreed a de-risking plan which sets out triggers for the Scheme to hedge interest rate and inflation risk and to alter the strategic asset allocation if funding levels improve ahead of expectation. During 2015 the Trustee monitored the funding level 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**

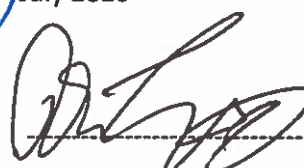
Within the Scheme, investment managers are paid on a mixture of performance-related based fees and fund value based fees rather than a fixed fee basis. The Trustee believed that this provides those investment managers with a greater alignment with the Trustee's interests. The fee bases of the managers 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 61 and 62.

Signed on behalf of Thales Pension Trustees Ltd on 27 July 2016

  
----- TRUSTEE DIRECTOR

  
----- TRUSTEE DIRECTOR

## CHAIRMAN'S STATEMENT

For the year-ended 31 December 2015

### Introduction

Regulations effective from 6 April 2015 require the Trustee 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 Trustee about the extent to which the Trustee has complied with these minimum standards over the period 6 April 2015 to 31 December 2015.

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
MGM
Phoenix

Given the range of providers, and the need to focus the use of Scheme resources proportionately, compliance with the new governance standards has initially focused on those defined contribution and AVC assets held with Zurich (this platform being designated as a new arrangement through which consolidation of some defined contribution and AVC assets was achieved in 2012 and which now holds the majority of the Scheme's defined contribution and AVC assets).

The Trustee recognise that the governance standards apply equally to the defined contribution and AVC assets held with the other providers but, in the interests of using their limited resources to greatest effect this year, and noting that all of the defined contribution and AVC arrangements in the Scheme have been closed to new contributions for some time, they have resolved this year to focus their attention on the arrangement holding the largest number of assets. The Trustee has resolved to consider the other defined contribution and AVC arrangements in the coming year.

### **CHAIRMAN'S STATEMENT (Continued)** **For the year-ended 31 December 2015**

#### **1. The Scheme's default investment arrangement**

The Trustee is responsible for setting the Scheme's investment strategy and for appointing investment managers to carry out that strategy. The Trustee does 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 Trustee sought to consolidate some of the Scheme's defined contribution and AVC assets in 2012. 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 at this time. 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 Trustee's 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 Trustee's policies in relation to matters such as risk and diversification.

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

In designating this default investment arrangement, the Trustee commissioned investment advice in 2011 to ensure that the lifestyle arrangement being put in place for the members in question was considered suitable and in the generic interests of members. The primary aim was to designate a lifestyle arrangement that would replace, to the extent that it was possible to do so, the investment returns that these 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.

**CHAIRMAN'S STATEMENT (Continued)**  
**For the year-ended 31 December 2015**

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 Trustee believes each one to be in members' best interests.

Default feature	Rationale for being in members' best interests
<p>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>	<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 Trustee believes 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>
<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>	<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 a 100% allocation to cash that broadly matches the expectation that members will take their funds entirely in the form of tax free cash from the Scheme.</p>

The Trustee will review the suitability of this arrangement periodically.

**2. Disclosures on core financial transactions**

The Trustee is 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 under the oversight of the Trustee, the outsourced Scheme administrator (Equiniti) is responsible for liaising with these providers and ensuring that the core financial transactions are implemented efficiently and accurately.

### **CHAIRMAN'S STATEMENT (Continued)** **For the year-ended 31 December 2015**

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 Trustee operates 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 Trustee has 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. A stringent Service Level Agreement is also in place with Zurich; this agreement (which relates to the processing of trades undertaken to implement the core financial transactions), is underpinned by financial penalties payable to the Trustee for non-compliance.

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 Trustee at their routine meetings. The Trustee requires 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 Trustee arranges 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 exist at Equiniti to ensure accuracy and promptness.



**CHAIRMAN'S STATEMENT (Continued)**  
**For the year-ended 31 December 2015**

Core financial transaction	Key internal control
Investment switches requested by members	<p><i>Promptness</i></p> <p>The administrator's service level agreement for switching investments is 5 days from the date of request.</p> <p><i>Accuracy</i></p> <p>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></p> <p>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></p> <p>All transfer values are reconciled by Zurich with the individual fund managers and subject to periodic audit checks.</p>
Payment of benefits to members	<p><i>Promptness</i></p> <p>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></p> <p>The Scheme's administrator operates a peer review system for all benefit calculations. Data accuracy is subject to regular evaluation and updating.</p>

There have been no material administration service issues which need to be reported here by the Trustee. 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 (6 April to 31 December 2015), Equiniti have met their Service Level Agreements to the following extent:

- Investment switches requested by members: 100%
- Payment of transfer values: 94.2%
- Payment of benefits to members: 88%

During the same period, Zurich has generally met or exceeded the targets detailed in their own Service Level Agreement.

## CHAIRMAN'S STATEMENT (Continued) For the year-ended 31 December 2015

### 3. Member-borne charges and transaction costs

The Trustee is 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 Trustee has decided this year to focus their assessment of member-borne charges for this purpose on the defined contribution and AVC assets held with Zurich. The Trustee has resolved to assess the member-borne charges applicable to the funds used within the other defined contribution and AVC providers in the coming year.

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 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 part 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 0.692% 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).

Underlying investment fund	TER
Thales Global Balanced†	0.705% pa
Thales Diversified Growth†	0.825% pa
Thales Corporate Bond†	0.465% pa
Thales Long Dated Gilts	0.205% pa
Thales Index-Linked Gilts†	0.205% pa
Thales Money Market	0.220% pa

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

### CHAIRMAN'S STATEMENT (Continued) For the year-ended 31 December 2015

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	0.180% pa
Thales Socially Responsible	0.845% pa
Thales Global Equity	0.230% pa
Thales Mixed Bond	0.380% 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).

When assessing the charges and transaction costs which are payable by members, the Trustee is required to consider the extent to which these represent good value for members. On this basis (and with the help of their advisers), the Trustee has undertaken a 'value for money' assessment in relation to the defined contribution and AVC assets held with Zurich.

The Trustee has concluded that the overall benefits and options within the Zurich arrangement represent reasonable value for money in comparison to the annual management charge payable by members. The assessment has not focused on any additional expenses (as referred to above), which are borne by members, due to the availability of data and the variability of additional expenses.

The reasons underpinning this conclusion include:

- Charges for the default investment arrangement are below the charge cap of 0.75% pa;
- The element of each fund's Annual Management Charge for investments 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 has been assessed by our advisers as being good value, relative to the standard of the platform administration provided;
- The funds used are highly-rated by Mercer as having good prospects of achieving their objectives; and
- The performance of the funds to 31 December 2015 compares favourably relative to their benchmarks and objectives (over the last 3 years all eight underlying funds have outperformed their benchmark).

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

The Trustee is 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 the Zurich arrangement (including the default investment arrangement referred to in Section 1).

### **CHAIRMAN'S STATEMENT (Continued)** **For the year-ended 31 December 2015**

Zurich 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 Trustee will assess the information disclosed following the outcome of that guidance. Should that information become readily available in the future the Trustee 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 Trustee Directors 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 Trustee Directors to exercise the function in question. The Trustee Directors 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 Trustee Directors 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 Trustee Directors are able to use them effectively when they are required to do so in the course of carrying out their duties.

The Trustee is 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.

**CHAIRMAN'S STATEMENT (Continued)**  
**For the year-ended 31 December 2015**

Requirement	How met
The Trustee 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 Trustee 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 Trustee's meetings (the subjects having been agreed in advance, based on periodic self-assessment or gap analysis). Trustee Directors also receive training on an individual basis, through attendance at relevant seminars and conferences etc.</p>
The Trustee must be conversant with the Scheme's own documentation	All key Scheme documentation is accessible by the Trustee. Periodic training focuses on Scheme documentation, such as the Trust Deed & Rules.
Knowledge and resources generally	<p>The Trustee's policy requires that any new Trustee Director completes The Pensions Regulator's online training modules (relevant to defined contribution benefits) within 6 months of their appointment. All new Trustee Directors 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 Trustee has met the DC Code of Practice requirements for the period 6 April 2015 to 31 December 2015.

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

Date: 27 July 2016

### **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 2015 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 Trustee 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 Trustee; 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 2015, 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 to the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

*Deloitte LLP*

Deloitte LLP  
Chartered Accountants and Statutory Auditor  
Reading, United Kingdom

27 July 2016

## Thales UK Pension Scheme

### Financial Statements

#### Fund Account - For the year ended 31 December 2015

	Notes	Section 1 £'000	Section 2 £'000	2015 £'000	2014 £'000
<b>Contributions and Benefits</b>					
<b>Contributions receivable</b>					
Employer	3	67,931	24,046	91,977	80,203
Transfers in	4	-	21	21	-
Other income	5	135	5	140	551
		68,066	24,072	92,138	80,754
<b>Benefits paid or payable</b>					
Payments to and on account of leavers	7	9,554	2,903	12,457	5,000
Administrative expenses	8	3,403	1,621	5,024	5,583
Other payments	9	1,022	1,029	2,051	2,592
		85,652	23,729	109,381	102,987
<b>Net (withdrawals)/additions from dealings with members</b>		(17,586)	343	(17,243)	(22,233)
<b>Returns on investments</b>					
Investment income	10	21,744	6,709	28,453	28,640
Change in market value of investments	13	(14,569)	(3,949)	(18,518)	162,185
Taxation	11	(438)	(146)	(584)	(675)
Investment management expenses	12	(2,344)	(786)	(3,130)	(6,326)
<b>Net returns on investments</b>		4,393	1,828	6,221	183,824
<b>Net (decrease)/increase in the fund during the year</b>		(13,193)	2,171	(11,022)	161,591
<b>Net Assets of the Scheme</b>					
<b>At 1 January</b>		1,579,362	542,474	2,121,836	1,960,245
<b>At 31 December</b>		1,566,169	544,645	2,110,814	2,121,836

The notes on pages 34 to 56 form part of these financial statements.



# Thales UK Pension Scheme

## Financial Statements

### Statement of Net Assets (available for benefits) – As at 31 December 2015

	Notes	Section 1 £'000	Section 2 £'000	2015 £'000	2014 £'000
<b>Investment assets</b>	<b>13</b>				
Equities		117,177	39,060	156,237	152,870
Bonds		428,573	130,958	559,531	650,114
Pooled investment vehicles		934,115	330,621	1,264,736	1,264,039
Derivatives		13,250	4,082	17,332	19,378
AVC investments		2,105	16,027	18,132	18,822
Cash		65,086	21,228	86,314	32,460
Other investment assets balances		5,699	1,778	7,477	8,221
		<u>1,566,005</u>	<u>543,754</u>	<u>2,109,759</u>	<u>2,145,904</u>
<b>Investment liabilities</b>	<b>13</b>				
Derivatives		(11,321)	(3,622)	(14,943)	(12,690)
Other investment liabilities		(571)	(185)	(756)	(21,403)
		<u>(11,892)</u>	<u>(3,807)</u>	<u>(15,699)</u>	<u>(34,093)</u>
<b>Total net investments</b>		<b>1,554,113</b>	<b>539,947</b>	<b>2,094,060</b>	<b>2,111,811</b>
<b>Current assets</b>	<b>14</b>	<b>13,545</b>	<b>5,721</b>	<b>19,266</b>	<b>15,357</b>
<b>Current liabilities</b>	<b>15</b>	<b>(1,489)</b>	<b>(1,023)</b>	<b>(2,512)</b>	<b>(5,332)</b>
<b>Net assets at 31 December</b>		<u><u>1,566,169</u></u>	<u><u>544,645</u></u>	<u><u>2,110,814</u></u>	<u><u>2,121,836</u></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 34 to 56 form part of these financial statements.

The financial statements on pages 32 to 57 were approved on behalf of the Trustee on ~~27~~ July 2016

Signed on behalf of Thales Pension Trustees Ltd

  
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Trustee Director

  
.....

Trustee Director

## **Notes to the Financial Statements** **For the year ended 31 December 2015**

### **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").

This is the first year FRS 102 and the Revised SORP have applied to the Scheme's financial statements with a transition date of 1 January 2014. No changes were required to the net assets of the Scheme as a result of the transition.

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 early-adopt the changes proposed by the FRC in Amendments to FRS 102 – Fair Value Hierarchy Disclosures 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 bonds, derivatives and pooled investment vehicles 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 2015 (Continued)

#### **2 Accounting policies (continued)**

##### **E Apportionment of Investment Funds**

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

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

##### **F Valuation of investments**

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

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

Investments not denominated in sterling have been translated at the closing exchange rate as of that date. Investments include cash balances held by the custodians on behalf of the investment manager, which are required for the day to day management of the investments.

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

##### **G Derivatives**

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

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

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

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

##### **H Foreign Currencies**

Transactions in foreign currencies during the period are converted at the rate of exchange ruling at the dates of the transactions. Overseas investments and bank and short term deposits in foreign currencies are translated at the rates of exchange ruling at the Scheme year end. Differences arising on translation are included within change in market value of the investments for 2015.

**Notes to the Financial Statements**  
**For the year ended 31 December 2015 (Continued)**

**2 Accounting policies (continued)**

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

<sup>1</sup> 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.

	Section 1 £'000	Section 2 £'000	2014 £'000
<b>Contributions from employer:</b>			
Normal	12,152	12,251	24,403
Deficit funding	44,000	8,600	52,600
Other – PPF Levy	1,929	927	2,856
Other - Top ups	344	-	344
	58,425	21,778	80,203

Normal contributions from the employer include £4,563,000 and £4,576,000 (2014: £4,688,000 and £4,626,000) member contributions paid through a salary sacrifice arrangement in respect of Section 1 and Section 2 respectively.

Ongoing deficit funding of £54.5m per annum is payable for Section 1 for the period 1 April 2015 to 31 December 2028, to reduce the funding shortfall.

Ongoing deficit funding of £11.6m per annum is payable for Section 2 for the period from 1 April 2015 to 31 December 2028, to reduce the funding shortfall.

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

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

## Thales UK Pension Scheme

### Notes to the Financial Statements For the year ended 31 December 2015 (Continued)

4 Transfers in	Section 1 £'000	Section 2 £'000	2015 £'000
Individual transfers in from other schemes	-	21	21

	Section 1 £'000	Section 2 £'000	2014 £'000
Individual transfers in from other schemes	-	-	-

5 Other income	Section 1 £'000	Section 2 £'000	2015 £'000
Claims on term insurance policies	124	-	124
Sundry income	11	5	16
	<u>135</u>	<u>5</u>	<u>140</u>

	Section 1 £'000	Section 2 £'000	2014 £'000
Claims on term insurance policies	388	151	539
Sundry income	-	12	12
	<u>388</u>	<u>163</u>	<u>551</u>

## Notes to the Financial Statements

For the year ended 31 December 2015 (Continued)

6 Benefits paid or payable	Section 1	Section 2	2015
	£'000	£'000	£'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>

	Section 1	Section 2	2014
	£'000	£'000	£'000
Pensions	61,270	14,641	75,911
Commutations and lump sums on retirement	8,140	4,901	13,041
Lump sums death benefits	633	227	860
Refund on death	-	-	-
Special lump sum death benefits	-	-	-
	<u>70,043</u>	<u>19,769</u>	<u>89,812</u>

7 Payments to and on account of leavers	Section 1	Section 2	2015
	£'000	£'000	£'000
Individual transfers to other schemes	<u>9,554</u>	<u>2,903</u>	<u>12,457</u>

	Section 1	Section 2	2014
	£'000	£'000	£'000
Individual transfers to other schemes	<u>2,646</u>	<u>2,354</u>	<u>5,000</u>

## Thales UK Pension Scheme

### Notes to the Financial Statements For the year ended 31 December 2015 (Continued)

8 Administrative expenses	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
Under provision of prior year fees	12	12	24
Other expenses	39	18	57
PPF Levy	1,630	766	2,396
	<u>3,403</u>	<u>1,621</u>	<u>5,024</u>

	Section 1 £'000	Section 2 £'000	2014 £'000
Administration fees	489	232	721
Actuarial and consulting fees	1,183	437	1,620
Legal fees	118	118	236
Audit fees	25	25	50
Other expenses	39	18	57
PPF Levy	1,955	944	2,899
	<u>3,809</u>	<u>1,774</u>	<u>5,583</u>

9 Other payments	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>

	Section 1 £'000	Section 2 £'000	2014 £'000
Premiums on term insurance policies	1,305	1,273	2,578
Ex Gratia Payments	-	14	14
	<u>1,305</u>	<u>1,287</u>	<u>2,592</u>

Term insurance is secured by policies underwritten by Ellipse.

## Thales UK Pension Scheme

### Notes to the Financial Statements For the year ended 31 December 2015 (Continued)

10 Investment income	Section 1	Section 2	2015
	£'000	£'000	£'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>

	Section 1	Section 2	2014
	£'000	£'000	£'000
Dividends from equities	5,050	1,684	6,734
Income from bonds	14,759	4,533	19,292
Income from pooled investment vehicles	70	24	94
Interest on cash and deposits	713	292	1,005
Annuity income	1,505	10	1,515
	<u>22,097</u>	<u>6,543</u>	<u>28,640</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.

12 Investment management expenses	Section 1	Section 2	2015
	£'000	£'000	£'000
Administration, management and custody*	<u>2,344</u>	<u>786</u>	<u>3,130</u>

	Section 1	Section 2	2014
	£'000	£'000	£'000
Administration, management and custody*	<u>4,751</u>	<u>1,575</u>	<u>6,326</u>

\*Included within administrative, management and custody fees are investment manager fees for Majedie Asset Management Limited of £814,685 (2014: £3,471,661). This is due to a performance related element of the management fee agreement.



**Notes to the Financial Statements**  
**For the year ended 31 December 2015 (Continued)**

13 Investments	Section 1 £'000	Section 2 £'000	2015 £'000
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>

	Section 1 £'000	Section 2 £'000	2014 £'000
Investment assets	1,597,510	548,394	2,145,904
Investment liabilities	(25,710)	(8,383)	(34,093)
	<u>1,571,800</u>	<u>540,011</u>	<u>2,111,811</u>

Investment liabilities relate to derivative investments and other investment liabilities. Investment assets include derivative related assets of £17,332,000 (2014: £19,378,000). The table below shows the investment assets split between Sections by investment strategy type.

	Section 1 £'000	Section 2 £'000	2015 £'000	2014 £'000
<b>Investments by strategy type</b>				
Cash	-	2	2	13,798
Equity	509,614	169,876	679,490	743,228
Illiquids	180,199	60,044	240,243	143,040
Investment Grade Credit	484,966	149,610	634,576	646,450
Liquid Alternative	156,839	51,977	208,816	208,921
Derivatives	1,929	460	2,389	6,688
<b>Total Unitised funds</b>	<u>1,333,547</u>	<u>431,969</u>	<u>1,765,516</u>	<u>1,762,125</u>
<b>Non unitised funds</b>				
Fixed interest bonds	218,461	91,951	310,412	330,864
	<u>1,552,008</u>	<u>523,920</u>	<u>2,075,928</u>	<u>2,092,989</u>
<b>AVC investments</b>	2,105	16,027	18,132	18,822
	<u>1,554,113</u>	<u>539,947</u>	<u>2,094,060</u>	<u>2,111,811</u>

The investments are further analysed within the various funds that comprise Unitised and Derivative Funds of the Thales UK Pension Scheme in sections headed **The movements of investments in the year** on pages 28, 35 and 36.

**Notes to the Financial Statements**  
**For the year ended 31 December 2015 (Continued)**

**13 Investments (continued)**

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

The movements of investments in the year:

	Market Value at 31 December 2014 £'000	Purchases at cost and derivative payments £'000	Sales proceeds and derivative receipts £'000	Change in Market Value £'000	Market Value at 31 December 2015 £'000
Equities	152,870	119,070	(113,592)	(2,111)	156,237
Bonds	650,114	182,053	(255,064)	(17,572)	559,531
Pooled investment vehicles	1,264,039	263,004	(284,299)	21,992	1,264,736
Derivatives	6,688	8,507,435	(8,490,127)	(21,607)	2,389
AVC investments	18,822	-	(1,285)	595	18,132
	<u>2,092,533</u>	<u>9,071,562</u>	<u>(9,144,367)</u>	<u>(18,703)</u>	<u>2,001,025</u>
Cash - Sterling	3,227			-	818
Cash - Foreign currency	23,069			185	84,991
Cash - Variation margin	6,164			-	505
Investment income receivable	6,125			-	5,394
Amounts due to brokers	(21,229)			-	-
Other investment assets	2,096			-	2,083
Other investment liabilities	(174)			-	(756)
	<u>2,111,811</u>			<u>(18,518)</u>	<u>2,094,060</u>

Included within the above purchases and sales figures are transaction costs of £682,800 (2014: £675,600). 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 2015 is an investment in an investment vehicle with a year-end value of £92m. At the year end, the Scheme owned 79% of the shares issued by this Fund. However, the Scheme has no ability to control the investing activities of the Fund, and as such the substance of the investment is that the investment is a pooled investment vehicle, and has been treated as such in the financial statements.

**Notes to the Financial Statements**

**For the year ended 31 December 2015 (Continued)**

**13 Investments (continued)**

**Section 1**

The movements of investments in the year:

	Market Value at 31 December 2014 £'000	Purchases at cost and derivative payments £'000	Sales proceeds and derivative receipts £'000	Change in Market Value £'000	Market Value at 31 December 2015 £'000
Equities	114,652	89,302	(85,194)	(1,583)	117,177
Bonds	497,868	139,148	(194,951)	(13,492)	428,573
Pooled investment vehicles	937,090	195,056	(214,732)	16,701	934,115
Derivatives	5,159	6,476,437	(6,463,258)	(16,409)	1,929
AVC investments	2,121	-	(94)	78	2,105
	<u>1,556,890</u>	<u>6,899,943</u>	<u>(6,958,229)</u>	<u>(14,705)</u>	<u>1,483,899</u>
Cash - Sterling	2,468			-	618
Cash - Foreign currency	17,511			136	64,082
Cash - Variation margin	4,711			-	386
Investment income receivable	4,675			-	4,114
Amounts due to brokers	(15,924)			-	-
Other investment assets	1,602			-	1,585
Other investment liabilities	(133)			-	(571)
	<u>1,571,800</u>			<u>(14,569)</u>	<u>1,554,113</u>

**Notes to the Financial Statements**  
**For the year ended 31 December 2015 (Continued)**

**13 Investments (continued)**

**Section 2**

The movements of investments in the year:

	Market Value at 31 December 2014	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in Market Value	Market Value at 31 December 2015
	£'000	£'000	£'000	£'000	£'000
Equities	38,218	29,768	(28,398)	(528)	39,060
Bonds	152,246	42,905	(60,113)	(4,080)	130,958
Pooled investment vehicles	326,949	67,948	(69,567)	5,291	330,621
Derivatives	1,529	2,030,998	(2,026,869)	(5,198)	460
AVC investments	16,701	-	(1,191)	517	16,027
	<u>535,643</u>	<u>2,171,619</u>	<u>(2,186,138)</u>	<u>(3,998)</u>	<u>517,126</u>
Cash - Sterling	759			-	200
Cash - Foreign currency	5,558			49	20,909
Cash - Variation margin	1,453			-	119
Investment income receivable	1,450			-	1,280
Amounts due to brokers	(5,305)			-	-
Other investment assets	494			-	498
Other investment liabilities	(41)			-	(185)
	<u>540,011</u>			<u>(3,949)</u>	<u>539,947</u>

**Notes to the Financial Statements**  
**For the year ended 31 December 2015 (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.

For the purposes of this analysis daily priced funds have been included in (1), weekly priced funds in (2), monthly net asset values for Pooled Investment Vehicle funds and monthly net asset values for Private Equity funds in (3). The Scheme's investment assets and liabilities have been fair valued using the above hierarchy categories as follows:

	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
<b>At 31 December 2015</b>				
<b>Combined sections</b>				
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>

13 Investments (continued)

Investment Fair Value Hierarchy (continued)

	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
<b>At 31 December 2014</b>				
<b>Combined Sections</b>				
Equities	152,785	-	85	152,870
Bonds	209,327	440,787	-	650,114
Pooled investment vehicles	3,353	825,880	434,806	1,264,039
Derivatives	(5,424)	12,112	-	6,688
Cash – balances held	32,460	-	-	32,460
Other investment balances	8,221	-	-	8,221
AVC investments	-	17,901	921	18,822
Other investment – liabilities	(21,403)	-	-	(21,403)
	<u>379,319</u>	<u>1,296,680</u>	<u>435,812</u>	<u>2,111,811</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 2015 (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 Trustee's 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 2015 (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 2015 (Continued)**

**13 Investments (continued)**

**Analysis of Pooled Investment Vehicles (PIVs)**

	2015	2014
	£'000	£'000
Equity	467,291	499,597
Bonds	306,257	351,521
Hedge funds	218,820	186,206
Property	123,321	88,112
Private Equity	110,507	56,550
Cash	38,540	82,053
	1,264,736	1,264,039
	1,264,736	1,264,039

**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.

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

	2015	2015	2014	2014
	Assets	Liabilities	Assets	Liabilities
	£'000	£'000	£'000	£'000
Swaps (ET)	16,133	-	15,781	-
Futures (ET)	290	(153)	528	(5,952)
Forward foreign currency contracts (OTC)	909	(14,790)	3,068	(6,737)

## Thales UK Pension Scheme

17,332	(14,943)	19,377	(12,689)
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### Notes to the Financial Statements

#### For the year ended 31 December 2015 (Continued)

#### 13 Investments (continued)

##### Swaps

##### Section 1

Swaps (Over The Counter)	Notional Amounts £	Expiry	Assets £'000	Liabilities £'000
Interest rate swaps – Libor to fixed rate	25,517,000	May 2024	2,529	-
Interest rate swaps – Libor to fixed rate	25,517,000	June 2025	2,836	-
Interest rate swaps – Libor to fixed rate	26,878,000	June 2026	3,313	-
Interest rate swaps – Libor to fixed rate	26,878,000	May 2027	3,654	-
<b>Total for 2015</b>			<b>12,332</b>	<b>-</b>
<b>Total for 2014</b>			<b>12,063</b>	<b>-</b>

##### Section 2

Swaps (Over The Counter)	Notional Amounts £	Expiry	Assets £'000	Liabilities £'000
Interest rate swaps – Libor to fixed rate	7,866,000	May 2024	780	-
Interest rate swaps – Libor to fixed rate	7,866,000	June 2025	874	-
Interest rate swaps – Libor to fixed rate	8,286,000	June 2026	1,021	-
Interest rate swaps – Libor to fixed rate	8,286,000	May 2027	1,126	-
<b>Total for 2015</b>			<b>3,801</b>	<b>-</b>
<b>Total for 2014</b>			<b>3,719</b>	<b>-</b>

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

Collateral pledged to Thales UK Pension Scheme by Legal & General as at 31 December 2015 in relation to swap contracts amounted to £11,942,000 Section 1 and £3,681,000 for Section 2.

**Notes to the Financial Statements**  
**For the year ended 31 December 2015 (Continued)**

**13 Investments (continued)**

**Futures**

Futures (Exchange traded)	Economic exposure £	Expiry	Assets £'000	Liabilities £'000
10 Year USA Treasury Notes	(27,335,640)	March 2016	90	-
10 Year USA Treasury Notes	1,281,358	March 2016	-	(4)
5 Year USA Treasury Notes	(9,713,520)	March 2016	23	-
CBT UL Treasury Bonds	(1,076,650)	March 2016	6	-
CBT UL Treasury Bonds	6,029,242	March 2016	33	-
Eur0 Buxl Bond	3,012,808	March 2016	-	(41)
Eurx Eur-Schatz	15,286,516	March 2016	-	(28)
Eurx Eur-Bobl	4,044,892	March 2016	-	(28)
Eurx Eur-Bund	(9,544,051)	March 2016	66	-
LIF Long Gilt	3,269,560	March 2016	-	(5)
ME 10 Year Canadian Bond	3,649,746	March 2016	69	-
SFE 10 year Treasury Bond	1,127,464	March 2016	3	-
TSE 10 year JGB	(15,971,322)	March 2016	-	(34)
USA Treasury Bonds	104,315	March 2016	-	(1)
USA Treasury Bonds	(1,356,096)	March 2016	-	(2)
2 Year USA Treasury Notes	7,811,535	March 2016	-	(10)
<b>Total for 2015</b>			290	(153)
<b>Total for 2014</b>			528	(5,952)

**Split by Section (Unitisation)**

Futures (Exchange traded)	Assets £'000	Liabilities £'000
Section 1	222	(117)
Section 2	68	(36)
<b>Total for 2015</b>	290	(153)
<b>Total for 2014</b>	528	(5,952)

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

The futures contracts are not split by section as the contracts are in the name of the Scheme, and not separately by Section. Therefore the closing balance of the 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 2015 (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
3	1 month	GBP	USD	-	(2,343)
3	1 month	USD	GBP	572	-
2	2 month	USD	GBP	27	-
1	2 month	EUR	USD	-	(3)
1	2 months	GBP	EUR	-	(10)
1	3 months	USD	PHP	-	(64)
6	3 months	GBP	USD	-	(5,610)
4	3 months	GBP	EUR	-	(871)
2	3 months	GBP	JPY	-	(624)
1	3 months	EUR	GBP	15	-
1	3 months	EUR	USD	44	-
1	3 months	USD	CAD	3	-
4	3 months	GBP	USD	-	(3,648)
1	3 months	GBP	EUR	-	(1,373)
1	3 months	USD	JPY	-	(5)
1	3 months	NOK	EUR	-	(143)
1	3 months	USD	MXN	175	-
2	3 months	MXN	USD	-	(96)
1	3 months	PHP	USD	24	-
1	3 months	USD	TWD	49	-
<b>Total for 2015</b>				<b>909</b>	<b>(14,790)</b>
<b>Total for 2014</b>				<b>3,068</b>	<b>(6,737)</b>

**Split by Section (Unitisation)**

	Assets £'000	Liabilities £'000
Section 1	695	(11,204)
Section 2	214	(3,586)
<b>Total for 2015</b>	<b>909</b>	<b>(14,790)</b>
<b>Total for 2014</b>	<b>3,068</b>	<b>(6,737)</b>

## Notes to the Financial Statements

### For the year ended 31 December 2015 (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 Assurance (Pensions Management) Limited. These securities were held in the name of HSBC Global Investors Services and Citibank, who provide custodian services for Legal and General directly.

#### Employer Related Investments

The Scheme does not hold any direct employer related investments. Due to the nature of the pooled funds 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.

#### Transaction costs

Transaction costs within the Scheme incurred in the year amounted to £683,000 (2014: £676,000). 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	2015 £'000
Equities	502	181	683
Bonds	-	-	-
	<u>502</u>	<u>181</u>	<u>683</u>

	Fees £'000	Commission £'000	2014 £'000
Equities	459	209	668
Bonds	8	-	8
	<u>467</u>	<u>209</u>	<u>676</u>

#### Capital commitments

At the Scheme year end, the Scheme had undrawn but committed investments with existing investment managers of £123.5m.

**Notes to the Financial Statements**  
**For the year ended 31 December 2015 (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**

	2015			2014		
	Section 1 £'000	Section 2 £'000	Total £'000	Section 1 £'000	Section 2 £'000	Total £'000
Zurich	647	15,933	16,580	667	16,612	17,279
Equitable Life Assurance Society	961	7	968	983	6	989
MGM Assurance	115	-	115	103	-	103
Phoenix	67	22	89	53	19	72
Prudential	273	-	273	275	-	275
Friends Provident	9	-	9	9	-	9
Scottish Widows	33	-	33	31	-	31
Clerical Medical	-	65	65	-	64	64
	<u>2,105</u>	<u>16,027</u>	<u>18,132</u>	<u>2,121</u>	<u>16,701</u>	<u>18,822</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 2015 (Continued)**

14 Current assets	Section 1	Section 2	2015
	£'000	£'000	£'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

	Section 1	Section 2	2014
	£'000	£'000	£'000
Pensions paid in advance	3,681	1,014	4,695
Contributions Employer - Normal	980	1,007	1,987
Contributions Employer - Deficit	3,667	717	4,384
Life assurance premiums paid in advance	312	307	619
Annuities receivable	123	-	123
PPF levy paid in advance	467	226	693
Cash deposits held with Scheme Administrator	1,879	958	2,837
Inter section balance	19	-	19
	11,128	4,229	15,357

The contributions due as at 31 December 2015 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 £372,638 and £373,735 (2014: £388,735 and £391,928) 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 2015 (Continued)**

15 Current liabilities	Section 1	Section 2	2015
	£'000	£'000	£'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
	1,489	1,023	2,512

	Section 1	Section 2	2014
	£'000	£'000	£'000
Lump sums on retirement	174	351	525
Death benefits	77	151	228
Accrued expenses	2,848	983	3,831
Equitable Life compensation payments	-	34	34
Other creditors	467	228	695
Inter section balance	-	19	19
	3,566	1,766	5,332
	3,566	1,766	5,332

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 25).

**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**



TALENT • HEALTH • RETIREMENT • INVESTMENTS

**CERTIFICATION OF SCHEDULE OF CONTRIBUTIONS**

**Name of Scheme and name of Section**

Thales UK Pension Scheme – Section 1

**Adequacy of rates of contributions**

I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 31 December 2011 to be met by the end of the period specified in the recovery plan dated 30 April 2013.

**Adherence to statement of funding principles**

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

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

**Signature**

**Scheme Actuary**

Mark Condron

**Qualification**

Fellow of the Institute and Faculty of Actuaries

**Date of signing**

30 January 2014

**Name of employer**

Mercer Limited

**Address**

Tower Place West  
 London  
 EC3R 5BU



Thales UK is a member of the Financial Conduct Authority  
 Registration Number: 194273 Registered Office: 1 Tower Place West  
 Tower Place, London EC3R 5BU



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



TA FNT • HEALTH • RETIREMENT • INVESTMENTS

**CERTIFICATION OF SCHEDULE OF CONTRIBUTIONS**

Name of Scheme and name of Section

Thales UK Pension Scheme – Section 2

**Adequacy of rates of contributions**

I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected to on 31 December 2011 be met by the end of the period specified in the recovery plan dated 30 April 2013.

**Adherence to statement of funding principles**

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

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

Signature

Scheme Actuary

Mark Condon

Qualification

Fellow of the Institute and Faculty of Actuaries

Date of signing

30 January 2014

Name of employer

Mercer Limited

Address

Tower Place West  
London  
EC3R 5BU



Thales UK Pension Scheme is a defined contribution scheme established by the Thales Group Limited, as trustee, registered in England No. 02068462, of Tower Place West, London EC3R 5BU.



**CERTIFICATE OF TECHNICAL PROVISIONS – SECTION 1**

THALES UK PENSION SCHEME – SECTION 1

ACTUARIAL VALUATION AS AT 31 DECEMBER 2011  
SCHEME FUNDING REPORT

**APPENDIX F**

**Certificate of technical provisions**

Name of the Scheme and name of section

Thales UK Pension Scheme - Section 1

Calculation of technical provisions

I certify that, in my opinion, the calculation of the section's technical provisions as at 31 December 2011 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the trustees of the section and set out in the statement of funding principles dated 30 April 2013.

Signature



Name

Mark Condron

Date of signing

30 April 2013

Name of employer

Mercer Limited

Address

Tower Place  
London  
EC3R 5BU

Qualification

Fellow of the Institute and Faculty of Actuaries

MERCER

**CERTIFICATE OF TECHNICAL PROVISIONS – SECTION 2**

THALES UK PENSION SCHEME – SECTION 2


ACTUARIAL VALUATION AS AT 31 DECEMBER 2011  
SCHEME FUNDING REPORT

**APPENDIX F**

**Certificate of technical provisions**

Name of the Scheme and name of section  
Thales UK Pension Scheme - Section 2

Calculation of technical provisions  
I certify that, in my opinion, the calculation of the section's technical provisions as at 31 December 2011 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the trustees of the section and set out in the statement of funding principles dated 30 April 2013.

Signature  
  
 Name  
Mark Condrion  
 Date of signing  
30 April 2013  
 Name of employer  
Mercor Limited  
 Address  
Tower Place  
London  
EC3R 5BU  
 Qualification  
Fellow of the Institute and Faculty of Actuaries

MERCOR

## **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 2015 on page 64.

This statement is made solely to the Trustee, 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 Trustee 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 Trustee 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 Trustee is 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 Trustee is also responsible for keeping records in respect of contributions received in respect of active members of the Scheme and for monitoring whether contributions are made to the Scheme by the employer in accordance with the schedule of contributions.

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

#### Scope of work on Statement about Contributions

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

#### Statement about Contributions payable under the schedules of contributions

In our opinion contributions for the Scheme year ended 31 December 2015 as reported in the summary of contributions on page 64 and payable under the schedules of contributions have in all material respects been paid at least in accordance with the schedules of contributions certified by the Scheme actuary on 30 January 2014.



Deloitte LLP  
Chartered Accountants and Statutory Auditor  
Reading, United Kingdom  
27 July 2016

## 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	2015 £'000
<b>Contributions from Employer:</b>			
Normal	11,459	11,699	23,158
Deficit funding	44,000	8,600	52,600
Additional Deficit Contributions	10,500	3,000	13,500
Other – PPF Levy	1,602	747	2,349
Total contributions payable under the schedules of contributions (as reported on by the Scheme auditor)	67,561	24,046	91,607
<b>Other contributions payable:</b>			
Other Employer - Top ups	370	-	370
Total contributions payable per the Fund Account	67,931	24,046	91,977

Normal contributions from the employer include £4,563,000 and £4,576,000 (2014: £4,688,000 and £4,626,000) 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. The employer rates were 14.7% for Section 1 and 14.8% for Section 2, as per the schedules of contributions certified on 30 January 2014.

Ongoing deficit funding of £54.5m per annum is payable for Section 1 for the period 1 January 2015 to 31 December 2028, to reduce the funding shortfall.

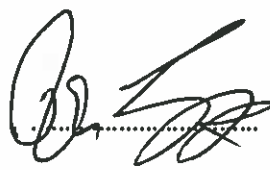
Ongoing deficit funding of £11.6m per annum is payable for Section 2 for the period from 1 January 2015 to 31 December 2028, to reduce the funding shortfall.

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

  
 ..... Trustee Director  
 Date 27/7/16