

The Thales UK Pension Scheme – ANNUAL NEWSLETTER



FUTURE FOCUS

Looking towards your future.....

WELCOME TO YOUR ANNUAL NEWSLETTER

Statement from the Chairman

Dear members, welcome to FutureFocus 2016, the annual newsletter for members of the Thales UK Pension Scheme.

During 2016 we completed the important task of finalising the 2014 actuarial valuation. Despite the scheme investments continuing to perform ahead of their targets, there was an impact on the funding position of both sections due to liabilities increasing significantly. This increase in liabilities is primarily driven by the actuarial expectation that the current prolonged period of low interest rates will result in reduced long term returns on our assets. The agreement reached with Thales UK Ltd on a recovery plan to eliminate the deficit by 2028 has increased deficit contributions and a large, long term, guarantee for the scheme directly from Thales SA. All Trustees agree that this package represents a significant increase in the level of support available to the scheme.

I would like to thank all the nominees and the large number of Section 1 members for voting in our Member Nominated Director (MND) selection process during 2016. I would like to thank Geoff Fowle for his service following his stepping down as an MND in 2016 and welcome his replacement Robert Trotter to the board. We will be running a selection process for the three Section 2 MND posts in 2017.

Thales has requested that the Trustees consider if the continued use of the Retail Price Index (RPI) is appropriate for revaluation and benefit indexation by the scheme. This is a complicated subject and the Trustees are currently taking detailed advice. Any members affected will receive direct communication, it is expected that the review will conclude in March 2017.

I'm pleased to report that our continued actions to achieving value for money across the administration of the scheme resulted in a 2% reduction in the scheme running costs in 2015. The Trustees regularly benchmark and review all their appointments and are currently reviewing the Investment Consultant role.

I hope as ever, that you find the information in this newsletter informative. I would encourage all members to visit the scheme web site (thales.xpmemberservices.com), where you will find further information which is updated throughout the year.

May I again thank both our excellent pension scheme staff, advisors and my fellow Trustees for their continued dedication to the efficient delivery and security of your pension benefits and wish all of our members a healthy and prosperous 2017.

Lord Freeman, Chairman

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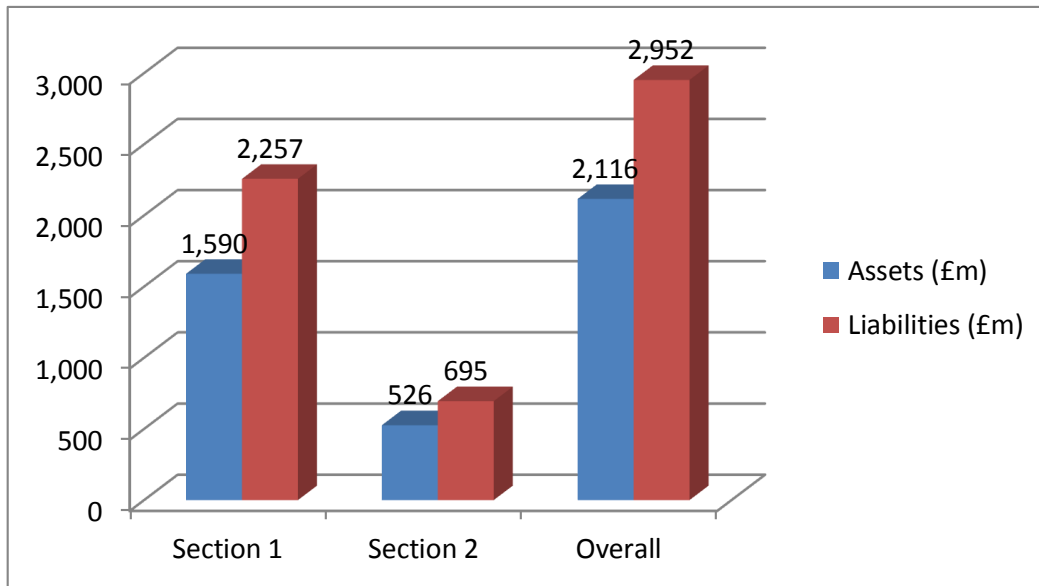
Funding Update - The 31 December 2014 Actuarial Valuation and 31 December 2015 update

The Trustees carry out an in-depth examination of the Scheme's finances at least every three years. This is called an actuarial valuation. The Trustees ask a qualified, independent professional, known as an actuary, to help to undertake this task.

The estimated cost of providing the benefits you and other members have earned to date is known as the Scheme's "liabilities. To check the Scheme's (and each Section's) financial position we compare the value of its liabilities to its assets. If the Scheme/Section has fewer assets than liabilities, it is said to have a "deficit".

The formal actuarial valuation of the Scheme as at 31 December 2014 was completed in September 2016.

The financial position of the Scheme was as follows:

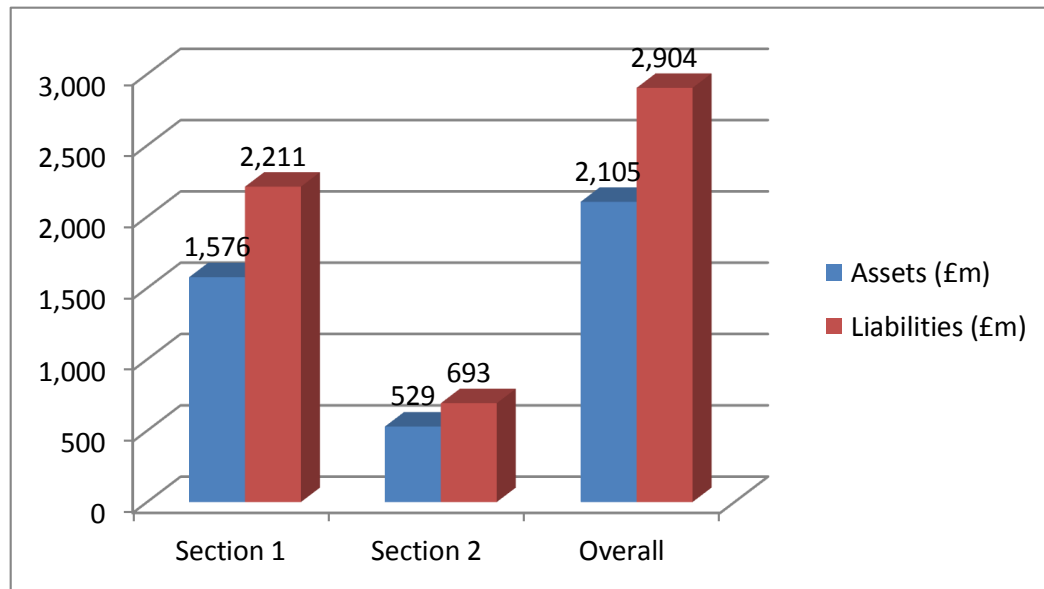


	Section 1	Section 2	Overall
Assets (£m)	1,590	526	2,116
Liabilities (£m)	2,257	695	2,952
Deficit (£m)	667	169	836
Funding Level (%)	70	76	72

The Company agreed to make "recovery plan" payments of £60 million each year until the end of 2028 (split £48.2 million for Section 1 and £11.8 million for Section 2) in addition to their regular contributions for benefits in respect of future service and expenses of running the Scheme.

The Company has given a firm commitment to increase recovery plan payments if necessary and if certain conditions are met as at 31 December 2017 and 31 December 2020. The recovery plan payments will be guaranteed by the parent company, Thales SA, at an initial level of £750 million (split £598 million for Section 1 and £152 million for Section 2), reducing gradually after 31 December 2026.

The Scheme Actuary has also provided the Trustee with an update of the position as at 31 December 2015:



	Section 1	Section 2	Overall
Assets (£m)	1,576	529	2,105
Liabilities (£m)	2,211	693	2,904
Deficit (£m)	635	164	799
Funding Level (%)	71	76	72

The above information forms part of your “Summary Funding Statement” which you should have received separately.

EU Referendum - The impact of the UK's vote to leave the EU

The financial positions shown above were calculated at a date before the UK's vote to leave the EU on 23 June 2016. As you may know, the result of the vote has caused political and economic uncertainty for the UK, along with volatility in the financial markets.

The actuarial valuation and subsequent update reflect the financial position at a particular point in time, but this will have changed subsequently, and the immediate effects of the vote are likely to mean that there has been an increase in the volatility of the funding level. However, financial positions of schemes do change from day to day and the Trustees are continuing to carefully monitor the financial security of your benefits and to consider whether any further action is needed to improve the security of members' benefits.

2016 Member Nominated Director (MND) Selection Process

Following the call for nominations for the role of Member Nominated Director (MND) of Thales UK Pension Scheme (Section 1), two valid nominations were received by the cutoff date. In line with the selection process the following members were therefore selected to serve as MND's:

Paul Corris

Robert Trotter

A further two nominations were received past the nomination cutoff date and there was an election to determine which of these two nominees would fill the remaining Section 1 MND post. The result of the election was:

Colin Milbourn - 1816

Robert Preston - 986

Colin Milbourn was therefore elected as the third Section 1 MND. All MND's serve for a period of four years. If any cease to be an MND during that period Robert Preston will be selected automatically as a replacement.

A selection process for the three Section 2 MND posts will be undertaken during 2017, starting with nomination forms being circulated in June 2017.

Annual Allowance

The amount of your annual pension savings that can benefit from tax relief is limited to what is known as the 'Annual Allowance'. The most that you can save tax-free towards all your pension arrangements is the lower of 100% of your earnings and the Annual Allowance of £40,000. Changes to the operation of the Annual allowance were effective from 6 April 2016.

Scheme savings for the 2016/17 tax year will be assessed as 16 times the real increase in accrued pension over the period 6 April 2016 to 5 April 2017 and details will be included in your 2017 annual benefit statement.

From 6 April 2016, a Tapered Annual Allowance has been introduced for individuals with gross taxable income (including for this purpose individual and employer pension contributions and the value of defined benefit pension accrued over the course of the year) of over £150,000. For every £2 of gross income over £150,000 the Annual Allowance will be reduced by £1. In this way, the Annual Allowance will reduce from £40,000 to a minimum of £10,000.

However, there will be a threshold of £110,000 of taxable income (but here pension contributions are excluded) below which taxpayers will not be subject to the Tapered Annual Allowance and the standard Annual Allowance of £40,000 will be available in full.

As a result of these changes, more individuals will now be caught by the Annual Allowance. If you think you will be affected, you should make sure you understand how the Tapered Annual Allowance will be determined, the implications of exceeding the Annual Allowance and the options available to you.

Lifetime Allowance - Registering for Protection

The 'Lifetime Allowance' is the limit on the pension savings you can build up over your entire working lifetime before a tax penalty applies.

You may recall that the Lifetime Allowance was reduced from £1.25m to £1m from 6 April 2016. Certain individuals are able to apply for to HMRC to protect a higher LTA. If you are eligible for protection, it is your responsibility to gather the necessary information, follow the online application process and notify the administrator of the reference number for any protection you are granted.

Neither the Trustee nor their professional advisors take any responsibility for individuals who fail to register for protection. Details of the available protections and how to apply are on the GOV.UK website and a link to the page is provided below.

<https://www.gov.uk/guidance/pension-schemes-protect-your-lifetime-allowance>

Pensions Liberation and Flexibility

We continue to draw members' attention to the rise in 'pension liberation fraud', where companies claim that they can help you cash in your pension early. You should remain alert to offers to convert pension into cash early and if in any doubt, take advice from a registered adviser. You can find out more about these fraudulent schemes on <http://www.thepensionsregulator.gov.uk/individuals/dangers-of-pension-scams.aspx>.

Note that, from age 55, there is now greater flexibility to access your pension via legitimate means but you will first have to transfer to a defined contribution pension arrangement. Any such member transferring from a defined benefit scheme with pension savings of more than £30,000 will be required to take and pay for financial advice before doing this. The Trustees are required to verify that advice has been taken.

Expression of Wish Form – a reminder

A completed Expression of Wish form indicates to whom you wish any lump sum death benefit to be paid in the event of your death. You are therefore encouraged to keep your Expression of Wish form up-to-date as your circumstances change. The form is applicable to the life assurance benefit for active members, but also to any lump sum death benefit following the death of a deferred member (typically, a refund of your own contributions) and a pensioner member who dies within 5 years of pension commencing (where a balance of the 5-year pension guarantee is payable as a lump sum death benefit).

Whilst the Expression of Wish form is not binding on the Scheme Trustee, as for tax reasons death benefits are payable under discretionary trusts, the Trustee will have regard to your wishes in using its discretion. As a result, the benefit does not form part of your Estate and therefore is free of income and inheritance tax under current legislation.

If you are unsure if you have completed an Expression of Wish form in the past, or if you think a previously completed form may no longer reflect your current circumstances, you should complete and submit a current form which would supersede any previously completed form. A blank form for completion is available to print from the Scheme website (under "Member Info" then "Member Forms") at <http://thales.xpmemberservices.com/Member-Info/Member-Forms>. Alternatively a form can be supplied on request to Equiniti, the Scheme administrator, whose contact details are shown at the end of this Newsletter. The original signed form should be submitted to Equiniti by post (e-mailed copies are not accepted).

Changes of Address

Do our administrators hold your correct address?

If you have moved since you last notified us of your address, please contact our administrators, Equiniti, using the contact details at the end of this newsletter.

Scheme Details

List of Trustees

Lord Freeman (Chairman– Section 1 Trustee)

Peter Rowley (Operations Sub-committee (OSC) – Section 1 Trustee)

Helen Depree (OSC – Section 2 Trustee)

John Twigg (OSC – Section 2 Member-nominated Trustee)

Joelle Dumetz (Governance Sub-committee (GSC) – Section 2 Member-nominated Trustee)

Phil Naybour (GSC – Section 1 Trustee)

Colin Milbourn (GSC - Section 1 Member-nominated Trustee)

Ken McSweeney (ISC – Section 2 Trustee)

Nigel Baldwin (ISC – Section 2 Trustee)

Paul Corris (ISC – Section 1 Member-nominated Trustee)

Robert Scallon (ISC – Section 2 Member-nominated Trustee)

Robert Trotter (OSC – Section 1 Member-nominated Trustee)

Service Providers

EQUINITI PENSION SOLUTIONS – Scheme Administrator
– based in Crawley

GOWLING WLG (UK) LLP – act as the legal adviser to the
Scheme – based in London

MERCER LIMITED – Actuaries and Consultants (Mark
Condrón – Scheme Actuary) – based in London

WILLIS TOWERS WATSON – Investment Advisers – based
in London

Pensions Department

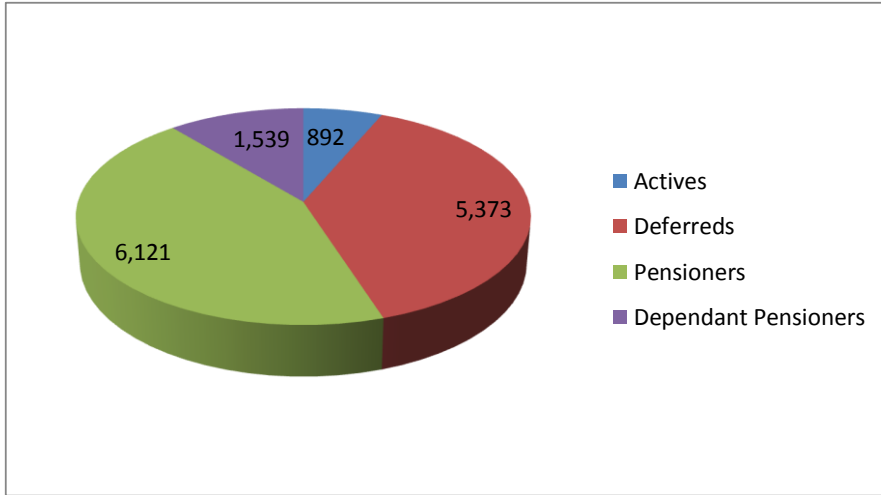
Philip Cameron – Secretary to the Trustees

James Carrell – UK Pensions Manager

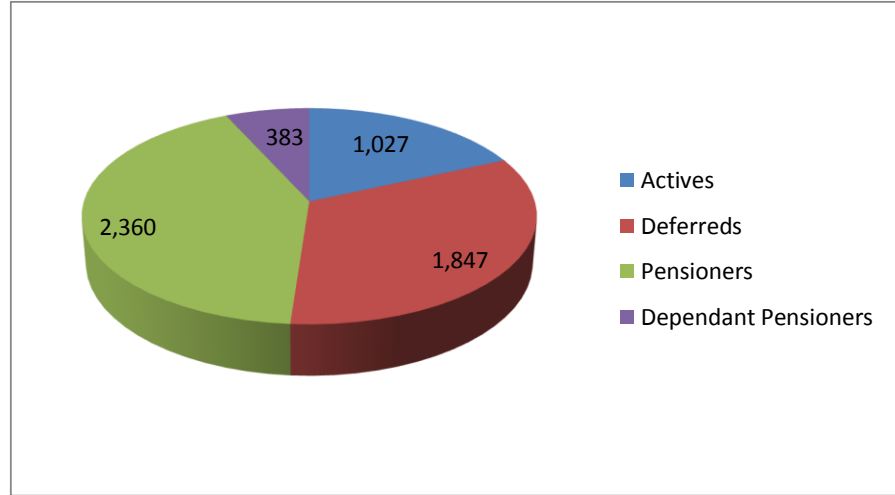
These two employees of Thales provide in-house support for the Trustees.

Membership Details as at 31 December 2015

Section 1



Section 2



Scheme Accounts as at 31 December 2015

	(£'000)	(£'000)	(£'000)
	Section 1	Section 2	Total
Net assets at 31 December 2014	1,579,362	542,474	2,121,836
Contributions & Other Income	68,066	24,072	92,138
Benefits and expenses	85,652	23,729	109,381
Net additions (reductions) from dealing with members	(17,586)	343	(17,243)
Net returns on investments	4,393	1,828	6,221
Net increase in the fund during the period	(13,193)	2,171	(11,022)
Net assets at 31 December 2015	1,566,169	544,645	2,110,814

WHO TO CONTACT

In the event of a query regarding your benefits please contact Equiniti in the first case. You can access Member Web directly via <http://thales.xpmemberservices.com>, or alternatively contact the helpline on 01293 603060, or by email at thales@equiniti.com. If you would prefer to contact them by post then please write to:

Thales UK Pension Scheme
C/o Equiniti
Sutherland House
Russell Way
Crawley
West Sussex
RH10 1UH

If Equiniti are unable to answer your query, or you are in any way dissatisfied with the service you have received, please contact the Secretary to the Trustees at:-

Thales UK Pension Scheme
C/o Philip Cameron
2 Dashwood Lang Road
The Bourne Business Park
Addlestone nr Weybridge
Surrey
KT15 2NX

**If you require a large print version of this document please
phone the Scheme Administrator on 01293 603060**