

April 2010

Thales UK Pension Scheme – Section 1

Actuarial valuation as at
31 December 2008

MERCER



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Summary

An initial actuarial valuation of Section 1 of the Thales UK Pension Scheme (“the Section”) has been carried out as at 31 December 2008.

The key conclusions from the valuation are:

- The Section showed a deficit of £527m at the valuation date based on the assumptions made for calculating its technical provisions. This measure compares the Section’s assets with the value of the past service benefits at 31 December 2008. It represents a funding level of 65% relative to the Section’s funding target.
- Based on the assumptions used to assess the technical provisions, the cost to the Employer of the CARE benefits accruing for future service was 11.9% of CARE Salaries.
- If the Section had been discontinued at the valuation date, there would have been insufficient Section assets to buy out all the benefits with an insurance company. The estimated wind-up funding level at the valuation date was 42%.
- Thales UK Limited (“the Employer”) and the Trustees have agreed that the Employer will contribute as follows:
 - £300,000 per month until 31 May 2010, plus
 - 6.9% of members’ CARE Salaries increasing to 11.9% of members’ CARE Salaries from 1 June 2010, plus
 - £44 million per annum, payable in monthly instalments for the period 1 April 2010 to 31 December 2022, plus
 - Amounts equal to the PPF levies.
 - No additional contributions are required from the Employer to meet the death benefit insurance costs or expenses since allowance for these is included in the amounts above.

- Contributions will generally be paid monthly in arrears with each payment due by the 19th of each month. The PPF levy costs will be paid annually as required.
- In determining the funding target and the above pattern of Employer contributions, the Trustees have taken account of guarantees provided by Thales Holdings UK Plc and Thales SA.
- Member contributions or Employer contributions in respect of the Pay Conversion salary sacrifice arrangement are payable in addition to the above, at the rates set out in the Scheme Rules. Contributions will be paid by the 19th of the month following the month of sacrifice or contribution deduction (as appropriate) from members' salaries.
- If the assumptions made for assessing the recovery plan are borne out in practice, these contributions will eliminate the shortfall of £527m against the technical provisions by 31 December 2022 and will improve the wind-up funding position of the Section.
- These contributions are set out in the schedule of contributions and recovery plan enclosed as appendices.
- The recovery plan, the schedule of contributions and a summary of the valuation will be submitted to the Pensions Regulator.

Signature**Scheme Actuary**

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Date of signing

1 April 2010

Qualification

Fellow of the Faculty of Actuaries

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This report is addressed to the Thales Pension Trustees Limited (“the Trustees”) and has been prepared in accordance with the version of the Board for Actuarial Standards’ *Guidance Note 9: Funding Defined Benefits – Presentation of Actuarial Advice* current at the date this report is signed.

The calculations in the report use methods and assumptions appropriate for reviewing the financial position of the Section and determining the appropriate contribution rate for the future. Mercer does not accept liability to any third party in respect of this report; nor does Mercer accept liability to the Trustees if the advice is used for any purpose other than that stated (for example for company accounting or corporate mergers/acquisitions).

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