

THALES UK PENSION SCHEME
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR TO 31 DECEMBER 2019

Section 1 – PSR 19011001

Section 2 – PSR 19011002

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Scheme Employers, Service Providers and Advisors

Principal Employer (the “Employer”)

Thales UK Ltd

Participating Employers

Section 1	Section 2
Thales UK Ltd	Thales UK Ltd
Thales Transport & Security Ltd	Thales Transport & Security Ltd
Thales Ground Transportation Systems UK Ltd	Thales Ground Transportation Systems UK Ltd

Scheme Actuary

Mark Condron FIA (Resigned 26 June 2019)

Mercer Limited

1 Tower Place West

London

EC3R 5BU

Mr Andrew Cook FIA (Appointed 27 June 2019, resigned 9 Feb 2020)

Mercer Limited

1 Tower Place West

London

EC3R 5BU

Mr Christian Hardy FIA (Appointed 10 Feb 2020)

Mercer Limited

1 Tower Place West

London

EC3R 5BU

Independent Auditor

Deloitte LLP

Statutory Auditor

4 Brindley Place, Birmingham

B1 2HZ

Investment Managers

Alcentra

Allianz Global Investors

Alpha Real Capital LLP

Ancala Partners LLP

Aviva Investors

AQR Capital Management

Brigade Capital Management

CarVal

Credit Suisse Asset Management

Equitix Ltd

HPS Investment Partners (Highbridge)

Hosking Partners

Scheme Employers, Service Providers and Advisors (Continued)

Insight Investment
Legal & General Investment Management Ltd (LGIM)
Loomis & Sayles & Co.
Majedie Asset Management
M&G Investments
Octopus
Orchard Global Asset Management
PGIM
Aberdeen Standard Investments
Nuveen

Additional Voluntary Contributions (AVC) Providers

Zurich
Equitable Life (transferred to Utmost on the 1/1/20)
Prudential
Clerical Medical
Friends Life
Scottish Widows
Scottish Friendly
Phoenix Life

Legal Advisor

Gowling WLG (UK) LLP
4 More London Riverside
London
SE1 2AU3

Scheme Administrator

Equiniti Paymaster Ltd
Sutherland House
Russell Way
Crawley
RH10 1UH

Investment Consultants

Momentum Investment Solutions & Consulting
Arundel House
1 Farm Yard
Windsor, SL4 1QL

Mercer Limited
1 Tower Place West
London
EC3R 5BU

Scheme Employers, Service Providers and Advisors (Continued)

Covenant Advisor

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

Tax Advisor

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

Investment Custodians

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

Bankers

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

Life Assurance Insurers

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

Secretary to the Trustee

Philip Cameron

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350 Longwater Avenue
Green Park
Reading
RG2 6GF

TRUSTEE'S REPORT

Introduction

Thales Pension Trustees Ltd (“the Trustee”) of the Thales UK Pension Scheme (the “Scheme”) is pleased to present its report together with the financial statements for the year ended 31 December 2019. The Scheme is a Defined Benefit scheme governed by a definitive Trust Deed dated 30 June 2008 and subsequent amendments.

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

Management of the Scheme

Exceeding the requirements of the Occupational Pension Scheme (Member-nominated Trustees and Directors) Regulations 2006 (to have at least one third of the Trustee Directors appointed by the membership), half of the Trustee Directors are appointed by Thales UK Ltd, and half are appointed by the active and pensioner membership. The current member nominated Trustee Directors are scheduled to serve until October 2020, for the three Section 1 positions and October 2021, for the three Section 2 positions.

The Trustees meet at least quarterly, during 2019 they met on the following dates:

5 February 2019

21 March 2019

27 March 2019

25 June 2019

2 October 2019

11 December 2019

During the year under review and after the year end the Trustee of the Scheme has been Thales Pension Trustees Ltd, whose Directors are:

Peter Rowley (Employer Nominated) (Chair)

Phil Naybour (Employer Nominated)

Colin Milbourn (Member Nominated) Resigned 1 February 2019

Joelle Dumetz (Member Nominated)

Ken McSweeney (Employer Nominated)

Paul Corris (Member Nominated)

John Twigg (Member Nominated)

Nigel Baldwin (Employer Nominated)

Helen Depree (Employer Nominated)

Robert Trotter (Member Nominated)

Steven Murray (Employer Nominated)

Niall Mitchell (Member Nominated)

Robert Preston (Member Nominated) Appointed 1 February 2019

TRUSTEE'S REPORT (CONTINUED)

The Member Nominated Trustee Directors may be removed before the end of their term only by agreement of all remaining Trustee Directors, although their appointment ceases should they cease to be an active or pensioner member of the Scheme. In accordance with the Trust Deed, the Employer, Thales UK Ltd, has the power to appoint and remove the Employer Nominated Directors.

The Scheme is provided for all eligible employees of the Employer and the Participating Employers detailed on page 3. The Employer's registered address is 350 Longwater Avenue Green Park Reading RG2 6GF.

Financial Developments

The financial statements on pages 38 to 63 have been prepared and audited in accordance with the Regulations made under Sections 41 (1) and (6) of the Pensions Act 1995.

During the year the Scheme's assets increased by £226,084,000. This was as a result of a net gain on investments of £259,150,000 and contributions and other income of £104,101,000 being offset by benefits and expenditure payments of £137,167,000.

The latest formal valuation of the Scheme was undertaken as at 31 December 2017, completed and submitted to the Pension Regulator on the 29 March 2019.

The next triennial actuarial valuation of the scheme is due on the 31 December 2020.

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 2017. This showed that on that date:

	Section 1	Section 2
The values of the Technical Provisions were:	£2,551 million	£825 million
The values of the assets at that date were:	£1,885 million	£645 million
Deficit	(£666) million	(£180) million
Funding Level	74%	78%

TRUSTEE'S REPORT (CONTINUED)

Report on Actuarial Liabilities (Continued)

Section 1

The Trustee and Employer have agreed that from 1 April 2019 the Employer will contribute as follows:-

19.8% of members' Career Average Revalued Earnings (CARE) Salaries, plus at least £59.7m per annum, payable in monthly instalments for the period 1 April 2019 to 31 December 2028, plus £2m per annum in respect of ongoing administration expenses and amounts equal to the PPF levies. As per the Schedule of Contributions dated 28 March 2019.

The Scheme Actuary carried out a funding update as at 31 December 2019. The funding update of Section 1 showed that on 31 December 2018 the funding position was as follows:-

Assets	£2,013m
Amount assessed as needed to provide benefits ("Liabilities")	£2,726m
Deficit	(£713m)
Funding level	74%

Section 2

The Trustee and Employer have agreed that from 1 April 2019 the Employer will contribute as follows:-

19.6% of members' CARE Salaries, plus £15.3m per annum, payable in monthly instalments for the period 1 April 2019 to 31 December 2028, plus £1m per annum in respect of ongoing administration expenses and amounts equal to the PPF levies.

The Scheme Actuary carried out a funding update as at 31 December 2019. The funding update of Section 2 showed that on 31 December 2018 the funding position was as follows:-

Assets	£704m
Amount assessed as needed to provide benefits ("Liabilities")	£901m
Deficit	(£197m)
Funding level	78%

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: 2.80% per annum at 31 December 2017. The discount rate reflects the expected change in the investment strategy as the Scheme matures and is expressed as a single equivalent rate over the lifetime of the Scheme.

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

TRUSTEE'S REPORT (CONTINUED)

Report on Actuarial Liabilities (Continued)

Future Retail Price inflation (RPI): 3.2% per annum at 31 December 2017. The RPI assumption takes into account information available in respect of UK government bond markets at the effective date of the actuarial valuation.

Future Consumer Price inflation (CPI): 2.5% per annum at 31 December 2017. 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 2017, 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 ("S2 pensioner tables") series with a 93% multiplier for males and a 96% multiplier for females, based on member's year of birth and projected in line with the CMI 2017 Core Projections model with a long term trend of 1.5% p.a. For former members of the Racal Group Executive Pension Plan and of the Racal Group Executive Manager and Senior Manager Pension Scheme a base table of SAPS Light ("S2 Light pensioner tables") series with a 87% multiplier for males and a 81% 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 2017 of £666 million and £180 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.

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 2017 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 an annual business plan in place 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. The Trustee Board meets at least quarterly. 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 also 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 Boardpacks. 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 effectively.

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 9 of the Financial Statements. The Scheme received contributions from the Employer to cover the cost of the PPF levy as disclosed in Note 5 to the Financial Statements.

Scheme Changes

Environmental, Social and Governance Issues (ESG)

ESG is the term used to describe certain risks: environmental, social and governance, which can be incorporated into investment decision making and strategies. Examples of ESG risks include:

- **Environmental** – climate change, carbon emissions, water depletion and waste management.
- **Social** – human rights, working conditions, workforce diversity and health and safety.
- **Governance** – bribery and corruption, board structure and executive remuneration.

In 2019, ESG issues came under increased focus in a pension scheme context from the Department of Work and Pensions (DWP) and the Pensions Regulator (TPR). The Trustee has been working with its advisers to develop a policy on ESG issues. Further information on the Trustee's policy can be found in the section of this report and accounts dealing with the Scheme's investment policy and also in the Scheme's Statement of Investment Principles (see next section).

TRUSTEE'S REPORT (CONTINUED)

Changes to the Statement of Investment Principles (SIP)

In March 2019 the Trustees updated the SIP. The main changes involved the introduction of new asset class groupings and limits. Other amendments updated the SIP following completion of the 2017 actuarial valuation.

New regulations, which came into force on 1 October 2019, state that the SIP must cover:

- the trustees' policy in relation to "financially material considerations" which includes environmental, social and governance considerations, which the trustees consider financially material;
- the extent (if at all) to which non-financial matters are taken into account. Non-financial matters means the views of the members including their ethical views and their views in relation to social and environmental impact; and
- the trustees' policy in relation to the exercise of the rights (including voting rights) attaching to investments.

The Trustee has updated its SIP to meet these requirements in September 2019.

The Pension Schemes Bill 2019-2021

The Government has proposed new legislation relating to pensions in the form of the Pensions Bill 2019-2021. At the time of writing, key features of the Bill include:

- **Collective money purchase schemes** – new rules are proposed that enable this different kind of pension scheme to be set up. These are schemes where contributions are pooled and invested with a view to delivering an aspired benefit level. An important principle is that contributions into the scheme are fixed and the benefit level offered can only ever be a target or estimate.
- **Increased powers for TPR** – TPR to have new powers designed to tackle employers who are deliberately trying to avoid their pension scheme liabilities.
- **Pensions dashboards** – a pensions dashboard is an online service which would allow people to see information from multiple pensions, all in one place. The Bill sets out the framework covering the operation of a pensions dashboard, what information must be included and how it will work.
- **ESG** - the Bill provides for the making of regulations which will impose new requirements on trustees to take ESG considerations into account in the governance of their scheme.
- At the time of writing, progress of the Bill through Parliament has been delayed whilst the Government passes emergency legislation in relation to Covid-19. Therefore, these proposed provisions are not yet legally in force.

The Pensions Regulator: consultation on future of trusteeship and governance

TPR published its consultation on the future of trusteeship and governance on 2 July 2019. The consultation closed on 24th September 2019 and TPR issued its response on 19 February 2020. Key points include:

- TPR to update its Code of Practice on Trustee Knowledge and Understanding (TKU) to clarify its expectations around the standards that trustees should meet to ensure those managing pension schemes have the right knowledge and understanding and appropriate skills.
- TPR to set up an industry working group to consider how schemes can be helped to improve diversity on boards; and

TRUSTEE'S REPORT (CONTINUED)

- TPR considers that it should not be mandatory for schemes to have a professional trustee on the board (as had been considered).

Pensions Ombudsman Case

On the 22 April 2020 the High Court rejected an appeal by the Sponsor against a Pensions Ombudsman decision of the 12 December 2019 in relation to a tranche of legacy Thales Optronics Pension Scheme benefits. The point in question was which inflation index to increase pensions in payment by, the outcome of the case is that, for the benefits in question, the pension must be increased by RPI. This has the effect of reversing a decision taken in 2017 by the Trustees to increase these pensions by CPI. Currently the Trustees are in the process of adjusting the pensions concerned and making good any arrears.

Change to the lifetime allowance

There is no limit on the amount of authorised benefits an individual can build up in a registered pension scheme (i.e. a pension scheme registered with HMRC). However, an individual has a single lifetime allowance in relation to the value of benefits they can draw from such schemes. Any benefits paid out in excess of the allowance is subject to a tax charge (broadly 25% of any income and 55% of any lump sum).

The lifetime allowance has been increased for the 2019/2020 tax year from £1,030,000 to £1,055,000. This limit applies to the value of all your pension arrangements (i.e. not just the pension you have accrued in the Thales UK Pension Scheme) although it does not apply to your state pension. There are protections available to members if you are close to the lifetime allowance which will help you protect your benefits. Please talk to your financial adviser if you think this may apply to you.

Opposite-sex Civil Partners

The Civil Partnership (Opposite-sex Couples) Regulations 2019 were published on 11 November 2019 and came into force on 2 December 2019. The Regulations extend civil partnerships to opposite-sex couples in England and Wales. Opposite-sex couples who form a civil partnership will, broadly, be treated in law in the same way as a same-sex couple who are in a civil partnership. No changes to the Scheme Rules are required in order to implement this change.

Lloyds and GMP equalisation

As stated in last year's report and accounts, since the judgment in Lloyds Banking Group Pensions Trustees Ltd v Lloyds Bank Plc & Ors [2018], trustees have been awaiting guidance from the DWP on the equalisation of guaranteed minimum pensions (GMPs). That guidance was published on 18 April 2019. The guidance contains a method to equalise GMPs. However, the guidance also acknowledges that there is more work for the DWP and HMRC to do on this. The Trustee continues to consider the guidance with its legal and actuarial advisers.

Change to the Scheme Rules

On 19 February 2020, Thales UK Limited and the Trustee entered into a Deed which amends the Scheme Rules so as to provide the Trustee with an express power to lend assets of the Scheme and to provide indemnities and grant liens in connection with investments. The amendment was made specifically in the context of enabling the Trustee to enter into stock lending agreements which it considers suitable.

TRUSTEE'S REPORT (CONTINUED)

Pension increase exchange (PIE)

As stated in last year's report and accounts, a PIE exercise was carried out in 2018/2019 pursuant to which certain pensioner members could choose to receive a one-off uplift to part of their pension in exchange for giving up future inflationary increases on that part of their pension. The offer was open to members within scope of the PIE exercise from 19 December 2018 to 19 March 2019. The PIE offer was accepted by 444 members.

Covid-19

Subsequent to the Scheme year end there has been the emergence and spread of the new Coronavirus that is causing disruption and volatility on the financial markets. The Trustee will continue to monitor the developments and the potential impact on the plan investments across the year. Further details of the financial impact on the investment assets of the Scheme are detailed in Note 18.

The Scheme financial statements have been prepared on the going concern basis. In making this assessment, the Trustee has assessed the ability of the sponsoring employer to continue to meet its obligations to the Scheme and for the Scheme to meet its future obligations to pay member benefits as they fall due. The Trustee has reviewed information available to them from the sponsoring employer and their advisors and as a consequence, the Trustee believes the Scheme is well positioned to manage its risks successfully. In light of this the Trustee has a reasonable expectation that the Plan will continue in operational existence for the foreseeable future. Accordingly, it continues to adopt the going concern basis in preparing the Scheme financial statements.

TRUSTEE'S REPORT (CONTINUED)

Membership Movements

The membership reconciliation for the reporting period is detailed below.

Thales UK Pension Scheme - Section 1 membership movements	Active	Deferred	Total Pensioners (Pensioners + Dependants + Children)	Pensioners	Pensioner Dependants	Pensioner Children
Number as at 1 January 2019 (Brought forward numbers from 2018 Accounts)	729	4621	7645	6121	1519	5
Adjustments*	-	-1	-1	-	-1	-
New Entrants	-	-	72	-	72	-
Death in Service	-1	-	-	-	-	-
Death in Deferment	-	-12	-	-	-	-
Death in Retirement	-	-	-290	-215	-75	-
Child Pension Ceasing	-	-	-1	-	-	-1
Retirements from Active	-26	-	26	26	-	-
Retirements from Deferred		-205	205	205	-	-
Leavers - Deferred	-23	23	-	-	-	-
Leavers - Opt Out	-	-	-	-	-	-
Retirements (full commutation)	-	-12	-31	-26	-5	-
Transfers Out	-	-55	-	-	-	-
Number as at 31 December 2019	668	4370	7625	6111	1510	4

TRUSTEE'S REPORT (CONTINUED)

Thales UK Pension Scheme - Section 2 membership movements	Active	Deferred	Total Pensioners (Pensioners + Dependants + Children)	Pensioners (Retired)	Pensioners (Dependant)	Pensioners (Children)
Number as at 1 January 2019 (Brought forward numbers from 2018 Accounts)	806	1579	3003	2591	399	13
Adjustments*	1	-1	-	-	-	-
New Entrants	-	-	23	-	23	3
Death in Service	-3	-	-	-	-	-
Death in Deferment	-	-5	-	-	-	-
Death in Retirement	-	-	-57	-60	-19	-
Child Pension Ceasing	-	-	-	-	-	-
Retirements from Active	-39	-	39	39	-	-
Retirements from Deferred	-	-87	87	87	-	-
Leavers - Deferred	-31	31	-	-	-	-
Leavers - Opt Out	-	-	-	-	-	-
Retirements (full commutation)	-	-3	-5	-3	-2	-
Transfers Out	-	-12	-	-	-	-
Number as at 31 December 2019	734	1502	3090	2665	412	13

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

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

Members who elected to join the Enhanced DC category on the 31 December 2007 are classified as deferred members. There were 75 Enhanced DC members as at 31 December 2019 (77 as at 31 December 2018).

Members whose benefits are funded by annuity policies are included in the above tables. Section 1 204 (110 pensioners and 94 dependants), none in Section 2.

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
Allianz Global Investors
Alpha Real Capital LLP
Ancala Partners LLP
Aviva Investors
AQR Capital Management
Brigade Capital Management
CarVal
Credit Suisse Asset Management
Equitix Ltd
HPS Investment Partners (Highbridge)
Hosking Partners
Insight Investment
Legal & General Investment Management Ltd (LGIM)
Loomis & Sayles & Co.
Majedie Asset Management
M&G Investments
Octopus
Orchard Global Asset Management
PGIM
Standard Life Investments
Nuveen

Investment Policy

The Trustee is responsible for determining the Scheme's investment strategy. In accordance with section 35 of the Pensions Act 1995 (as amended by the Pensions Act 2004) the Trustee has produced a Statement of Investment Principles ("SIP"). The latest SIP was approved by the Trustees on the 26 September 2019. A copy of the SIP can be provided upon request. The main priority of the Trustee when considering the investment policy is to ensure that the commitment made in respect of members' pensions may be fulfilled. Investments are spread by type of investment (equities, bonds etc.), by geography, and across numerous investment managers. Spreading the investments in this way reduces the risk of a sharp fall in one particular market having a substantial impact on the Scheme's total assets.

TRUSTEE'S REPORT (CONTINUED)

Investment Policy (Continued)

The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers and to encourage the managers to exercise those rights. The extent to which environmental, social and corporate governance considerations are taken into account in this engagement policy is currently left to the discretion of the investment managers. During 2019 the Trustees have reviewed their environmental, social and corporate governance policy (ESG). As a result of this review the Trustees updated their ESG policy, which is detailed in the Statement of Investment Principles (SIP).

Investment Objectives

In setting the Scheme's investment objectives the Trustee has obtained and considered advice from the Scheme's Actuary and Investment Consultant. However, the ultimate responsibility of deciding investment policy lies solely with the Trustee. Although the Scheme is made up of two sections the Investment Objective and General Investment Policy are appropriate for both sections.

The Funding Objective set by the Trustee is for the Scheme to be 100% funded on a technical provisions basis. An additional objective is to invest in assets which generate significant cashflows which can be used in the payment of benefits.

The Investment Objective agreed by the Trustee in consultation with the Employer as part of the 2014 Actuarial Valuation and subsequently maintained as part of the 2017 Valuation is divided into three distinct phases, each with its own return target, as outlined in the table below:

Phase	Duration	Return Target
1	12 years	Gilts + 3% per annum
2	8 years	Linear reduction until Phase 3
3	Onwards	Gilts + 0.75% per annum

Phase 1 commenced in 2014, at the conclusion of the Actuarial Valuation, and is expected to end in December 2026. Following this, Phase 2 will begin and will be effective until December 2034. During Phase 2, the return objective will reduce linearly at a rate of c. 0.28% per annum until 2034 when the return objective will be equal to Gilts + 0.75% per annum. From December 2034 onwards, Phase 3 begins and the return objective will remain constant at Gilts + 0.75% per annum.

The Trustee will target the above returns while also maintaining an efficient portfolio of assets in terms of risk adjusted returns.

The expected excess return target may be achieved from return sources including active management and funding level improvements due to yields increasing ("yield reversion") in addition to the excess return generated by the Scheme's assets.

TRUSTEE'S REPORT (CONTINUED)

Strategic Asset Allocation

As part of the Actuarial Valuation in 2017, in consultation with the employer, the Trustees reviewed the Strategic Asset Allocation for Phase 1 to ensure it achieved the return objective while simultaneously maintaining a suitable diversified portfolio. The Strategic Asset Allocation categorises assets by their fundamental characteristics and for each category the Trustee has set a target allocation range. As part of their review, the Trustee agreed to consolidate the Strategic Asset Allocation into three categories, down from five, to give the Scheme greater flexibility. The Trustee regularly monitors the Scheme asset allocations to ensure they remain in accordance with the target asset allocation ranges. The table below summarises the target asset allocation ranges by asset category and investment managers for the Scheme in Phase 1:

Asset Category	Managers	Allocation Range (%)
Quoted Equity	AQR, Hosking, LGIM, Majedie	25-35
Alternative growth assets	Alcentra, AllianzGI, Alpha Real, Ancala, Aviva, Brigade, Carval, Credit Suisse, Equitix, Highbridge, LGIM, M&G, Octopus, Orchard, PGIM, Standard Life, TIAA-CREF	25-45
Liability Matching and IG fixed income including cash	AllianzGI, LGIM, Loomis, Insight	25-45

Changes in respect of Investment Policy

During the year the following change to the Investment Policy was implemented:

- In September 2019, the Scheme committed £40m to M&G's Illiquid Credit Opportunities Fund VII. The commitment (£40m) was funded using cash from the Scheme's LDI collateral.

This change is expected to reduce the level of investment risk whilst maintaining the current level of expected return, thereby further enhancing the overall efficiency of the Scheme's investment policy.

Review of Investment Performance of the Scheme

For the year ended 31 December 2019, the Scheme returned 10.6% against a benchmark return of 8.8%. The return over the last three years is 5.5% per annum (p.a.) against a benchmark of 5.6% p.a. The return over the last five years is 6.5% per annum (p.a.) against a benchmark of 7.1% p.a. Since the combined performance measurement started in January 2005 the assets have returned 7.4% p.a. against a benchmark of 7.0% p.a.

The total net assets held by the Scheme, as at 31 December 2019, were £2.72 billion (31 December 2018: £2.49 billion).

Thales UK Pension Scheme

Investment performance for the period 1 January 2019 to 31 December 2019 is set out below:

	12 Month Return (%)			Asset Value (£m.) 31/12/2019	Inception Date	Benchmark/ Target	Active/ Passive	
	Fund	Bench mark	Relative					
Thales UK Pension Scheme	10.6	8.8	1.7	2,687.1	Jan 2005			
Equity				749.9				
AQR Low Volatility	22.6	27.7	-5.1	178.2	May 2013	MSCI World	Track Benchmark with lower volatility	Active
Hosking Global Equity	20.1	22.4	-2.3	110.9	Jul 2016	MSCI World US (GBP)	Outperform Benchmark	Active
LGIM Global Equity RAFI	16.4	18.1	-1.7	251.3	Mar 2009	FTSE RAFI AW 3000 GBP	Track Benchmark	Passive
Majedie UK Equity	20.2	19.2	1.0	209.5	May 2005	FTSE All Share	Outperform Benchmark	Active
Alternative Growth Assets				974.0				
Alcentra CLO	0.3	-0.1	0.4	75.7	Sep 2015	3 month USD LIBOR + 1.25% p.a.	Outperform Benchmark	Active
Alcentra Private Lending	9.5	9.5	0.0	26.4	Mar 2018	7-9% net IRR	Outperform Benchmark	Active
Alpha Real	5.0	5.0	0.0	50.6	Jan 2017	Index Linked Gilts + 2% p.a.	1.8% yield target	Active
Ancala	14.2	14.2	0.0	24.0	May 2016	RPI + 4.5% p.a or 9% p.a.	Outperform Benchmark	Active
Aviva	3.6	3.6	0.0	59.2	Dec 2017	Yield of 7-8% p.a.	Outperform Benchmark	Active
Brigade	7.2	10.2	-3.0	30.2	Nov 2012	Credit Suisse Leveraged Loan Index (50%) Merrill Lynch High Yield Constrained Index (50%)	7.0 – 8.0% p.a.	Active
Carval II	-17.7	9.3	-27.0	2.4	Jun 2013	Merrill Lynch High Yield	8.0 - 12.0% p.a.	Active
Carval III	-0.1	9.3	-9.4	15.5	Jun 2015	Merrill Lynch High Yield	13.0 - 15.0% p.a.	Active
Carval IV	2.9	9.3	-6.5	12.0	Sep 2017	Merrill Lynch High Yield	13.0 - 17.0% p.a.	Active
Credit Suisse IR	-2.5	-1.4	-1.1	90.1	Aug 2011	3 month USD LIBOR		Active
Equitix II	10.9	10.9	0.0	36.3	Sep 2011	12.5% gross IRR	3.0 - 5.0% p.a.	Active
Equitix III	-0.9	-0.9	0.0	27.8	Jun 2013	12.5% gross IRR	Outperform Benchmark	Active
Equitix IV	17.2	17.2	0.0	57.0	Sep 2015	11.0% gross IRR	Outperform Benchmark	Active
Equitix M25	37.7	37.7	0.0	21.2	Jan 2017	10.0% gross IRR	Outperform Benchmark	Active
Equitix V	-9.5	-9.5	0.0	21.9	Jul 2018	10.5% gross IRR	Outperform Benchmark	Active
Highbridge	2.1	2.1	0.0	55.8	Dec 2017	6.5% - 8.5% net yield	Outperform Benchmark	Active
LGIM Long Lease Property	6.0	5.5	0.5	75.7	Feb 2013	AREF/IPD Long Income Property Fund Index	7.0 – 8.0% pa	Active
M&G European Long Lease Property	-1.7	-1.7	0.0	37.7	Dec 2015	European CPI + 3.0% p.a.	Absolute return	Active
M&G European Property	0.5	8.4	-7.9	43.5	Sep 2012	IPD Pan European Property Funds Index	Outperform Benchmark	Active
M&G Illiquid Credit Opps	-	-	-	40.2	Oct 2019	3 month GBP LIBOR + 5.0% p.a.	7.0 - 9.0% p.a.	Active
Octopus Healthcare II	12.5	12.5	0.0	26.4	Feb 2014	9% net IRR	Outperform	Active

Thales UK Pension Scheme

	12 Month Return (%)			Asset Value (£m.)	Inception Date	Benchmark/ Target	Active/ Passive		
	Fund	Bench mark	Relative				31/12/2019		
Orchard	9.7	9.7	0.0	21.4	Nov 2015	3 month USD LIBOR + 9.0% p.a.	Benchmark	Outperform Benchmark	Active
PGIM	3.2	3.2	0.0	20.3	Aug 2018	2055 ILG + 2% p.a.	RPI + 2% p.a.		Active
Standard Life Property	-1.3	1.6	-2.9	74.8	Dec 2011	IPD All Balanced Index	Outperform Benchmark		Active
TIAA-CREF	-3.0	-3.0	0.0	27.7	Apr 2015	8% - 12% net IRR	Outperform Benchmark		Active
							7.0 - 9.0% p.a.		Active
Liability Matching & IG Fixed Income				963.3					
AllianzGI Global Corporate Bonds	7.0	5.2	1.9	217.2	Apr 2010	BarCap Global Aggregate Credit GBP hedged	1.5% p.a.		Active
Insight	5.0	1.0	4.0	121.3	Jul 2018	3 month GBP LIBOR	2.0% p.a.		Active
Loomis	7.3	5.0	2.3	219.4	Feb 2018	Barclays Global Agg Corp G4 GBP hedged	1.0 - 1.5% p.a.		Active
LGIM Swaps & Collateral 1	18.3	18.3	0.0	276.5	Apr 2012	n/a	n/a		Passive
LGIM Swaps & Collateral 2	16.5	16.5	0.0	102.9	Apr 2012	n/a	n/a		Passive
Currency Hedge	-	-	-	6.3	Dec 2011	n/a	n/a		Passive
Cash	-	-	-	19.8	Nov 2015	n/a	n/a		Passive

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

There are no material employer related investments.

TRUSTEE'S REPORT (CONTINUED)

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 DC Code of Practice and Guidance. The Trustee, having considered legal advice, has concluded that the Scheme has DC investments that mean that the DC Code of Practice and guidance are applicable to the Scheme. As such the required Chairman's Statement on DC assets is included in this report on pages 23 to 35.

2017 Actuarial Valuation and Employer Guarantees

The triennial actuarial valuation as at 31 December 2017 was agreed and submitted to the Pensions Regulator on 27 March 2019. This is within the statutory timeframe for agreeing the valuation. As part of the valuation, the level of contributions that will be paid into the Scheme was agreed. Additionally, the two guarantees from Thales in favour of the Trustee in respect of Section 1 and Section 2 of the Scheme were improved, with a condition for the total value of the guarantees to increase from £750m to £900m, based on a scheme funding level deterioration trigger. Following the valuation, the Trustee will continue to monitor the employer covenant (the process for which is set out in a new Funding Framework Agreement) and the agreed interest rate and inflation de-risking market triggers. During 2019 the Trustee monitored the market levels daily against the set trigger levels. To date no de-risking triggers have been breached.

Custodial Arrangements

The Trustee has appointed Northern Trust Company as the Scheme's main custodian. The custodian is responsible for the safe keeping, monitoring and reconciliation of documentation relating to the ownership of investments. Investments are held in the name of the custodians' nominee companies, in line with common practice for pension scheme investments. Equiniti 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

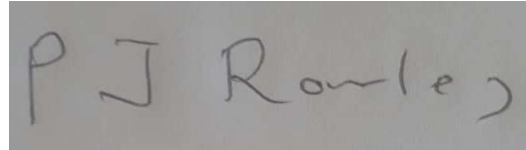

Within the Scheme, investment managers are paid on a mixture of performance-related based fees and fund value based fees rather than a fixed fee basis. The Trustee believed that this provides those investment managers with a greater alignment with the Trustee's interests. The fee bases of the managers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

TRUSTEE'S REPORT (CONTINUED)

Further Information

Further legislative disclosures are included in the Compliance Statement on pages 72 and 73.

Signed on behalf of Thales Pension Trustees Ltd on 14th July 2012



-----TRUSTEE DIRECTOR

-----TRUSTEE DIRECTOR

Thales UK Pension Scheme Chair's Statement for the year-ended 31 December 2019

Introduction

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

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

As Chair of Trustees, it is my pleasure to report to you on how the Trustees have embedded these minimum standards over the period 1 January to 31 December 2019.

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

Provider	Asset value at 31 December 2019
Scottish Widows	£15,014,300
Equitable Life (now known as Utmost Life and Pensions)	£775,000*
Prudential	£169,336
Scottish Friendly	£81,190
Phoenix Life	£78,516
Aviva	£63,429
Clerical Medical	£51,276
Scottish Widows (alternate policies)	£33,125

**Full data unavailable at time of production and therefore approximate value used*

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

Following last year's statement, and mindful of the need to maintain a focused use of the Scheme's finite resources, the Trustees have again considered those DC & AVC assets held with the Scheme's top three providers (when measured by the monetary value of DC & AVC assets held). As a result, the Trustees have focused the bulk of their analysis and commentary below on Scottish Widows, Equitable Life and Prudential (which, combined, account for 98% of the Scheme's DC and AVC assets). Between them, these three providers account for the vast majority of the Scheme's DC and AVC assets (approximately £16.0 million out of a total £16.3 million as at 31 December 2019).

The Scheme's assets with Equitable Life were transferred to Utmost Life & Pensions on 1 January 2020. Assets are currently invested in the Utmost Secure Cash fund. The Trustees are currently working with their advisers in considering the most appropriate place for these funds to be held moving forward.

Chair's Statement for the year-ended 31 December 2019 (Continued)

1. The Scheme's default investment arrangement

The Trustees are responsible for setting the Scheme's investment strategy and for appointing investment managers to carry out that strategy.

The Trustees sought to consolidate some of the Scheme's DC and AVC assets in 2012. At that time, a bulk transfer of assets from F&C Asset Management, Legal & General Investment Management, Newton Investment Management and Equitable Life (now Utmost Life & Pensions) to a new arrangement with Scottish Widows was undertaken. The vast majority of these DC and AVC assets were transferred from investment funds in their original arrangement to suitable equivalent replacement funds with Scottish Widows 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. 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.

Appendix 1 shows the Trustee's Statement of Investment Principles dated 26 September 2019. The aims and objectives of the Default Strategy are set out in this document. So too are the aims and objectives of other default investment arrangements in the Plan that arise from recent and historic fund mapping exercises.

The nature of this default investment arrangement has not changed over the course of 2019, and continues to reflect the Trustees' original intention to designate a lifestyle arrangement that would replace, to the extent that is possible, the investment returns that the relevant members may have reasonably expected from the Equitable Life With Profits Fund. Under this lifestyle arrangement, members who are 15 or more years away from their expected retirement age, have their savings predominantly invested in funds which may be expected, over the long-term, to provide a reasonable rate of return relative to interest rates and inflation. In the 15 years leading up to their expected retirement age, members' savings are gradually moved into funds with a lower-risk profile which are considered to offer more protection from market volatility.

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

The Trustees have delegated responsibility for the DC investments to the Investment Subcommittee. They review the strategy and performance of the underlying funds on a quarterly basis. During 2019 due to underperformance the ISC replaced Aberdeen Standard GARS fund with LGIM Diversified Fund.

Chair's Statement for the year-ended 31 December 2019 (Continued)

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

Default feature	Rationale for being in members' best interests
Members' Accounts are invested in global equities and other growth-seeking assets (through a diversified growth fund); a small allocation is also made to corporate bonds and index-linked gilts. This investment arrangement applies until 15 years prior to their selected retirement age.	<p>This asset allocation is designed to generate reasonable rates of return relative to interest rates and inflation during the growth phase of the strategy, whilst managing downside risk. Long-term returns in excess of earnings inflation are generally required for members to attain an adequate income in retirement.</p> <p>Whilst younger members can withstand the potential downside of equities (as they have sufficient time for markets to recover), the Trustees believe it prudent to include an allocation to diversified assets (and bonds) during the growth phase, since this is expected to mitigate the impact of any fall in the value of equities on members' Accounts.</p>
During the 15 years leading up to their expected retirement age, members' Accounts are gradually transitioned away from global equities and other growth-seeking assets, to investment-grade corporate bonds, index-linked gilts, long-dated gilts and cash.	<p>The asset allocation used during this 'risk-reduction' phase is expected to reduce investment risk for members as they approach retirement. This is achieved through a gradually increasing allocation to assets that are expected to broadly move in line with the costs of the benefit format they are expected to take at retirement.</p> <p>The strategy concludes with 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 Trustees will review the suitability of this arrangement periodically. The Trustees advisers consider on a quarterly basis whether any of the underlying funds invested with Scottish Widows, including those that make up the default investment arrangement, remain suitable and will recommend any changes to the funds if necessary. As a result of this activity in 2019, changes were made to the underlying funds in the Thales Global Multi-Asset and Thales Diversified Growth funds.

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

Chair’s Statement for the year-ended 31 December 2019 (Continued)

2. Disclosures on core financial transactions

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

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

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

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

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

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

The table below sets out the Scheme’s core financial transactions and the controls that have continued to exist during the year at Equiniti to ensure accuracy and promptness. This covers Equiniti’s work related to all of the Scheme’s DC and AVC providers.

Core financial transaction	Key internal control
Investment switches requested by members	<p><i>Promptness</i> The administrator’s service level agreement for switching investments is 5 days from the date of request.</p> <p><i>Accuracy</i> All switches are reconciled with manager transaction statements. All members are notified by the administrator when a switch is completed.</p>

Chair’s Statement for the year-ended 31 December 2019 (Continued)

Payment of transfer values	<p><i>Promptness</i> The administrator’s service level agreement for the issue of transfer-out details to a member is 10 days; the service level agreement for the payment of transfers-out to a receiving scheme is 5 days.</p> <p><i>Accuracy</i> All transfer values are reconciled by the provider with the individual fund managers and subject to periodic audit checks.</p>
Payment of benefits to members	<p><i>Promptness</i> The administrator’s service level agreement for the payment of death and retirement benefits is 2 days (from receipt of all requirements). Periodic appraisal of the Scheme’s common data helps ensure that member data is accurate, reducing the likelihood of delay arising from data gaps. Clear authorisations exist for the payment of benefits (i.e. all retirement and death benefit settlement cases are referred for Trustee consent). This balances the need for promptness on the one hand with Trustee oversight on the other.</p> <p><i>Accuracy</i> The Scheme’s administrator operates a peer review system for all 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 Trustees. They are confident that the processes and controls in place with the administrator are robust and will ensure that the financial transactions, which are important to members, are dealt with properly. Over the period to which this Statement relates (1 January to 31 December 2019), Equiniti have met their Service Level Agreements (SLAs) to the following extent:

- Investment switches requested by members: 100%
- Payment of transfer values: 100%
- Payment of benefits to members: 93%

The Trustees recognise the SLA in respect of payment of benefits to members was below expected levels during the period, which was as a result of a backlog of cases with the administrator at the beginning of 2019 and have continued to monitor performance throughout the year.

3. Value

As required by Administration Regulations, the Trustees are required to report on the charges and transaction costs for the investments used in the DC and AVC arrangements and their assessment of the extent to which these charges and costs represent good value for members. When preparing this statement, the Trustees have taken account of statutory guidance when producing this section.

Scottish Widows

Members with DC and AVC assets held with Scottish Widows only bear investment and platform administration charges in this context; as Scottish Widows is the investment manager, they do not provide any wider administration services (other than processing trades), so no wider administration costs are

Chair's Statement for the year-ended 31 December 2019 (Continued)

borne by members. Administration services relating to these DC and AVC assets are provided by the Scheme's administrator, Equiniti, and these costs are settled by the Scheme not members. Consequently, the assessment undertaken in this context only focuses on the total investment and platform administration costs borne by members with DC and AVC assets held with Scottish Widows.

The table below shows the total expense ratio ('TER') in each of the underlying funds used in the default investment arrangement referred to under Section 1 above. The overall charge being deducted from a member's fund will reflect the member's allocations in each of the underlying funds.

Underlying investment fund	TER
Thales Global Equity†	0.23% pa
Thales Diversified Growth†	0.82% pa
Thales Corporate Bond†	0.47% pa
Thales Long Dated Gilts	0.21% pa
Thales Index-Linked Gilts†	0.21% pa
Thales Money Market	0.22% pa

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

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

Self-select investment fund	TER
Thales UK Equity	0.18% pa
Thales Global Multi-Asset	0.47% pa
Thales Socially Responsible	0.86% pa
Thales Mixed Bond	0.38% pa

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

Equitable Life

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

Members invested in the With Profits received a significant uplift to their fund value as a result of the transfer to Utmost Life and Pensions on 1 January 2020.

Chair's Statement for the year-ended 31 December 2019 (Continued)

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

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

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

Prudential

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

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

Self-select investment	TER
Prudential Deposit	No explicit charges
Prudential Discretionary	0.75% pa
Prudential Cash	0.55% pa
Prudential With-Profits	No explicit charges

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

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

Chair's Statement for the year-ended 31 December 2019 (Continued)

The Prudential Deposit fund is backed by the assets held within Prudential's With-Profits Fund. Any interest is declared monthly and there are no explicit charges. The fund has, to date, provided what it has intended to and has provided positive returns in a very low interest rate environment.

Transaction costs

Whilst the charges referred to above do include additional charges, they do not include transaction costs. These are costs incurred by fund managers as a result of buying, selling, lending or borrowing investments. These costs are taken into account by the fund managers when calculating the unit price for each of the funds. The transaction costs shown are calculated on a methodology known as 'slippage cost'. This compares the price of the stocks being traded when a transaction was executed with the price at which the transaction was requested. Market movements during any delay in transacting may be positive or negative and may also outweigh other explicit transaction costs. For this reason, overall transaction costs calculated on the slippage method can be negative as well as positive.

When buying and selling investments, transaction charges are often applied to the funds being bought or sold. In the below table, we set out the transaction charges applied in the underlying funds used in the default investment arrangement

Scottish Widows Transaction costs for period 01/01/2019 to 31/12/2019	
Fund	Transaction charge (%)
Thales Global Equity	0.00
Thales Diversified Growth	0.15
Thales Corporate Bond	-0.07
Thales Long Dated Gilts	-0.26
Thales Index-Linked Gilts	0.07
Thales Money Market	0.01

In addition, the transaction costs for funds on a self-select basis as shown below:

Thales UK Equity	-0.02
Thales Global Multi Asset	-0.04
Thales Socially Responsible	0.12
Thales Mixed Bond	0.24

Equitable Life Transaction costs for period 01/10/2018 to 30/09/2019*	
Fund	Transaction Cost (% p.a.)
Equitable Life Managed	0.01
Equitable Life Pelican	0.00
Equitable Life UK FTSE All-Share	0.00
Equitable Life European	0.00
Equitable Life North American	0.00
Equitable Life Far Eastern	0.00
Equitable Life International Growth	0.00
Equitable Life Investment Trusts	0.01
Equitable Life Money	0.00

Chair’s Statement for the year-ended 31 December 2019 (Continued)

Prudential Transaction costs for period 01/10/2018 - 30/09/2019*	
Fund	Total Transaction Cost (%)
Prudential Deposit	0.00
Prudential Discretionary	0.09
Prudential Cash	0.00

**This is the most recent transaction cost data supplied at time of production*

Using the charges and transaction cost data provided, the Trustee has prepared an illustration detailing the impact of the costs and charges typically paid by a member of the Scheme on their retirement savings pot. The statutory guidance provided has been considered when providing these examples. The data used has been in respect of the funds held with Scottish Widows considering these hold the vast majority of scheme assets.

The below illustration has taken into account the following elements:

- Typical Scheme savings pot size;
- Real terms investment return gross of costs and charges;
- Adjustment for the effect of costs and charges; and
- Time period of investment.

To illustrate the impact of charges on a typical member’s pension pot, we have provided an example below. This includes all member costs, including the Total Expense Ratio, transaction costs and inflation.

The first illustration is based on the average member age in the Scottish Widows policy of 59, using a starting pot size of £18,500, which is reflective of the average fund value for members of this age.

The second illustration is based on some of the youngest members in the Scottish Widows policy aged 42 with a starting pot size of £3,500, which is reflective of the average fund value for members of this age.

Projected Pot sizes in Today’s Money											
Lifestyle Option											
		Default Arrangement		Most expensive Zurich fund: Socially Responsible		Cheapest Zurich fund: Long Dated Gilts		Zurich Fund with Highest expected return: UK Equity		Zurich Fund with Lowest expected return: Money Market	
Year End	Age	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred
0	59	£18,500	£18,500	£18,500	£18,500	£18,500	£18,500	£18,500	£18,500	£18,500	£18,500
1	60	£18,509	£18,428	£19,079	£18,891	£18,315	£18,277	£19,055	£19,021	£18,318	£18,275
2	61	£18,440	£18,295	£19,675	£19,291	£18,132	£18,056	£19,627	£19,556	£18,137	£18,052
3	62	£18,315	£18,117	£20,290	£19,698	£17,951	£17,838	£20,215	£20,106	£17,958	£17,832
4	63	£18,145	£17,905	£20,925	£20,115	£17,771	£17,622	£20,822	£20,672	£17,781	£17,615
5	64	£17,966	£17,687	£21,579	£20,540	£17,593	£17,409	£21,447	£21,254	£17,605	£17,401
6	65	£17,789	£17,472	£22,254	£20,974	£17,417	£17,199	£22,090	£21,852	£17,432	£17,189

Chair's Statement for the year-ended 31 December 2019 (Continued)

Projected Pot sizes in Today's Money											
Lifestyle Option											
Year End	Age	Default Arrangement		Most expensive Zurich fund: Socially Responsible		Cheapest Zurich fund: Long Dated Gilts		Zurich Fund with Highest expected return: UK Equity		Zurich Fund with Lowest expected return: Money Market	
		Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred
0	42	£3,500	£3,500	£3,500	£3,500	£3,500	£3,500	£3,500	£3,500	£3,500	£3,500
1	43	£3,579	£3,559	£3,609	£3,574	£3,465	£3,458	£3,605	£3,599	£3,465	£3,457
2	44	£3,659	£3,618	£3,722	£3,650	£3,430	£3,416	£3,713	£3,700	£3,431	£3,415
3	45	£3,742	£3,679	£3,839	£3,727	£3,396	£3,375	£3,825	£3,804	£3,397	£3,374
4	46	£3,826	£3,741	£3,959	£3,806	£3,362	£3,334	£3,939	£3,911	£3,364	£3,333
5	47	£3,912	£3,803	£4,083	£3,886	£3,328	£3,294	£4,057	£4,021	£3,331	£3,292
6	48	£4,000	£3,867	£4,210	£3,968	£3,295	£3,254	£4,179	£4,134	£3,298	£3,252
7	49	£4,090	£3,932	£4,342	£4,052	£3,262	£3,215	£4,305	£4,251	£3,265	£3,212
8	50	£4,183	£3,998	£4,478	£4,138	£3,230	£3,176	£4,434	£4,370	£3,233	£3,173
9	51	£4,263	£4,051	£4,618	£4,225	£3,197	£3,137	£4,567	£4,493	£3,201	£3,135
10	52	£4,330	£4,091	£4,762	£4,314	£3,165	£3,099	£4,704	£4,620	£3,170	£3,096
11	53	£4,384	£4,117	£4,911	£4,406	£3,134	£3,062	£4,845	£4,750	£3,138	£3,059
12	54	£4,430	£4,135	£5,065	£4,499	£3,102	£3,025	£4,990	£4,883	£3,107	£3,021
13	55	£4,467	£4,144	£5,223	£4,594	£3,071	£2,989	£5,140	£5,021	£3,077	£2,985
14	56	£4,497	£4,148	£5,386	£4,691	£3,041	£2,952	£5,294	£5,162	£3,046	£2,948
15	57	£4,518	£4,146	£5,555	£4,790	£3,010	£2,917	£5,453	£5,307	£3,016	£2,912
16	58	£4,537	£4,142	£5,729	£4,892	£2,980	£2,882	£5,616	£5,457	£2,987	£2,877
17	59	£4,548	£4,132	£5,908	£4,995	£2,950	£2,847	£5,785	£5,610	£2,957	£2,842
18	60	£4,550	£4,116	£6,092	£5,101	£2,921	£2,812	£5,959	£5,768	£2,928	£2,807
19	61	£4,533	£4,086	£6,283	£5,208	£2,892	£2,778	£6,137	£5,931	£2,899	£2,773
20	62	£4,502	£4,047	£6,479	£5,319	£2,863	£2,745	£6,321	£6,098	£2,871	£2,739
21	63	£4,461	£4,000	£6,682	£5,431	£2,834	£2,712	£6,511	£6,269	£2,842	£2,706
22	64	£4,417	£3,951	£6,891	£5,546	£2,806	£2,679	£6,706	£6,446	£2,814	£2,673
23	65	£4,373	£3,903	£7,107	£5,663	£2,778	£2,647	£6,908	£6,627	£2,786	£2,640

Notes:

1. Values shown are estimates and are not guaranteed.
2. Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation. Inflation is assumed to be 2.5% each year.
3. The projected gross growth rates (inc inflation) for each fund are as follows and use the same underlying assumptions as the Statutory Money Purchase Illustration assumptions plus any transaction costs:

Thales Socially Responsible: 5.5%

Thales Long Dated Gilts: 1.5%

Thales UK Equity: 5.5%

Thales Money Market: 1.5%

Default Investment Strategy: Dependent on term to normal retirement age

Value for members

When assessing the charges and transaction costs which are payable by members, the Trustees are required to consider the extent to which these represent good value for members.

The Trustees with support from their advisers, Mercer Ltd, have undertaken a 'value for money' assessment in relation to the DC and AVC assets held with Scottish Widows, Equitable Life and Prudential.

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

Chair's Statement for the year-ended 31 December 2019 (Continued)

The reasons underpinning this conclusion include:

- The element of each fund's Annual Management Charge for investments with Scottish Widows 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 access with Scottish Widows has been assessed by our advisers as being good value, relative to the standard of the platform service provided;
- The charges borne by members on investments within the Equitable Life and Prudential arrangements have been assessed by our advisers as being reasonable overall compared with suitable peer funds;
- The funds used within the Scottish Widows arrangement are generally highly-rated by Mercer as having good prospects of achieving their objectives;
- The performance of funds since inception to 31 December 2019 generally compares favourably relative to their benchmarks and objectives; and
- While the transaction costs provided appear to be reflective of costs expected of the various asset classes and markets that the Plans invests in, there is not as yet any "industry standard" or universe to compare these to. As such, any comments around transaction costs at this stage can only be viewed as speculative.

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

4. Disclosures about Trustee Knowledge and Understanding

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

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

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

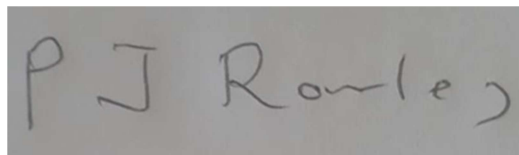
Chair’s Statement for the year-ended 31 December 2019 (Continued)

Requirement	How met
<p>The Trustees must have appropriate knowledge and understanding of the law relating to pensions and trusts and the investment of assets</p>	<p>It is mandatory for the Trustees to complete The Pensions Regulator’s online trustee training modules when they are appointed.</p> <p>Ongoing training is then provided by professional advisers collectively, as part of a dedicated training day and at routine Trustees’ meetings (the subjects having been agreed in advance, based on periodic self-assessment or gap analysis). Trustees also receive training on an individual basis, through attendance at relevant seminars and conferences etc.</p> <p>During the Scheme year, changes were made to two funds as recommended by the Trustee’s professional investment advisor. In agreeing to these changes, the Trustees applied their knowledge of their powers under the Scheme’s Trust Deed & Rules and also acted within UK Regulations regarding Scheme investments.</p>
<p>The Trustees must be conversant with the Scheme’s own documentation</p>	<p>All key Scheme documentation is accessible by the Trustees. Periodic training focuses on Scheme documentation, such as the Trust Deed & Rules.</p> <p>The Trustees have demonstrated working knowledge of their Statement of Investment Principles (SIP) by updating it and reviewing changes on 26 September 2019.</p>
<p>Knowledge and resources generally</p>	<p>The Trustees’ policy requires that any new Trustee completes The Pensions Regulator’s online training modules (relevant to defined contribution benefits) within 6 months of their appointment. All new Trustees are provided with a suitable induction which includes an introduction to the Scheme’s key documentation.</p> <p>The Scheme’s Trustee board comprises individuals with diverse professional skills and experiences (including finance, HR, and operations management) reflecting the varied nature of the challenges that its governance must address.</p> <p>The Scheme pays all reasonable expenses of the Trustees attending conferences or externally-run training courses relevant to their role. The Trustees also meet with their professional</p>

	<p>advisers at least twice annually to transact core business, and each meeting includes an overview of topical news and developments.</p> <p>The Trustees' meet with their professional investment advisor at least annually.</p> <p>The Trustees maintain a training log that sets out individual and whole-board based training activity.</p> <p>The Trustees receive and review quarterly investment performance reports from their advisor.</p> <p>The Trustees' professional advisors attend all meetings and are asked to input into the agenda.</p> <p>The Trustees consider input from the Trustee's professional advisors that summarises forthcoming changes to regulations, their potential impact on the Plan and the actions required to ensure compliance. In doing so, the Trustees remain informed about changes to pension laws and their duties in relation to those changes.</p>
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Taking into account the actions taken individually and as a group, the knowledge and experience of the Trustees, and the professional advice available to them, the Trustees consider that they are able to exercise their responsibilities appropriately.

This DC Chair Statement will be published as part of the Trustee Annual Report and Accounts on the Scheme's member website; <http://thales.xpmemberservices.com>



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

Date: 14th July 2020

Statement of Trustee's Responsibilities

The financial statements, which are prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK (FRS 102), are the responsibility of the Trustee. Pension Scheme regulations require, and the Trustee is responsible for ensuring, that those financial statements:

- 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 its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and
- contain the information specified in the Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including making a statement whether the financial statements have been prepared in accordance with the relevant financial reporting framework applicable to occupational pension schemes.

In discharging the above responsibilities, the Trustee is responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgments on a prudent and reasonable basis, and for the preparing of the financial statements on a going concern basis unless it is inappropriate to presume that the Scheme will not be wound up.

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 them to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

The Trustee is responsible for the maintenance and integrity of the corporate and financial information included on the Scheme's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Trustee Responsibilities in Respect of Contributions

The Trustee is responsible under pensions legislation for preparing, maintaining and from time to time reviewing and if necessary revising a Schedule of Contributions showing the rates of contributions payable towards the Scheme by or on behalf of the employer of the Scheme and the dates on or before which such contributions are to be paid.

The Trustee is also responsible for adopting risk-based processes to monitor whether contributions are made to the Scheme by the employer in accordance with the Schedule of Contributions. Where breaches of the Schedule of Contributions occur, the Trustee is required by the Pensions Acts 1995 and 2004 to consider making reports to The Pensions Regulator and the members.

Independent auditor's report to the trustee of the Thales UK Pension Scheme

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of the Thales UK Pension Scheme (the 'Scheme'):

- show a true and fair view of the financial transactions of the scheme during the year ended 31 December 2018 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, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

We have audited the financial statements which comprise:

- the fund account;
- the statement of net assets available for benefits ; and
- the related notes 1 to 18.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the scheme in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the trustee's use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the trustee has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the scheme's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Other information

The trustee is responsible for the other information. The other information comprises the information included in the annual report¹, other than the financial statements and our auditor's report thereon. Our

opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of trustee

As explained more fully in the trustee's responsibilities statement, the trustee is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the trustee determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the trustee is responsible for assessing the scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the trustee either intends to liquidate the scheme or to cease operations, or has no realistic alternative but to do so.

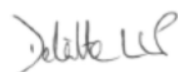
Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the scheme's 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 scheme's 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 scheme's trustee as a body, for our audit work, for this report, or for the opinions we have formed.



Deloitte LLP
Statutory Auditor
Birmingham, United Kingdom,
15 July 2020

Financial Statements

Fund Account - For the year ended 31 December 2019

	Notes	Section 1 £'000	Section 2 £'000	2019 £'000	2018 £'000
Contributions and Benefits					
Contributions receivable					
Employer	5	75,129	28,330	103,459	104,562
Other income	6	130	512	642	315
		<u>75,259</u>	<u>28,842</u>	<u>104,101</u>	<u>104,877</u>
Benefits paid or payable	7	83,980	25,974	109,954	102,645
Payments to and on account of leavers	8	15,837	4,258	20,095	34,690
Administrative expenses	9	3,504	1,855	5,359	6,111
Other payments	10	894	865	17,59	1,621
		<u>104,215</u>	<u>32,952</u>	<u>137,167</u>	<u>145,067</u>
Net (withdrawals) from dealings with members		(28,956)	(4,110)	(33,066)	(40,190)
Returns on investments					
Investment income	11	43,166	13,953	57,119	54,222
Change in market value of investments	14	151,917	53,818	205,735	(52,882)
Taxation	12	(39)	(14)	(53)	-
Investment management expenses	13	(2,627)	(1,024)	(3,651)	(3,402)
Net returns on investments		<u>192,417</u>	<u>66,733</u>	<u>259,150</u>	<u>(2,062)</u>
Net increase/(decrease) in the fund during the year		163,461	62,623	226,084	(42,252)
Net Assets of the Scheme					
At 1 January		1,840,063	655,382	2,495,445	2,537,697
At 31 December		<u>2,003,524</u>	<u>718,005</u>	<u>2,721,529</u>	<u>2,495,445</u>

The notes on pages 40 to 63 form part of these financial statements.

Financial Statements

Statement of Net Assets (available for benefits) – As at 31 December 2019

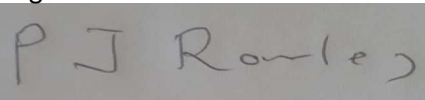
	Notes	Section 1 £'000	Section 2 £'000	2019 £'000	2018 £'000
Investment assets	14				
Equities		148,665	53,419	202,084	176,384
Bonds		934,839	307,319	1,242,158	1,325,824
Pooled investment vehicles		1,184,981	413,809	1,598,790	1,514,895
Derivatives		19,994	6,643	26,637	3,878
Repurchase Agreements		50,108	14,463	64,471	-
AVC investments		1,786	14,510	16,296	15,436
Cash		63,590	22,692	86,282	48,975
Other investment assets balances		3,217	1,123	4,340	41,894
		<u>2,407,180</u>	<u>833,978</u>	<u>3,241,058</u>	<u>3,127,286</u>
Investment liabilities	14				
Derivatives		(3,759)	(1,200)	(4,959)	(13,996)
Repurchase Agreements		(413,255)	(119,361)	(532,616)	(637,646)
Other investment liabilities		(23)	(9)	(32)	-
		<u>(417,037)</u>	<u>(120,570)</u>	<u>(537,607)</u>	<u>(651,642)</u>
Total net investments		<u>1,990,143</u>	<u>713,308</u>	<u>2,703,451</u>	<u>2,475,644</u>
Current assets	15	15,930	5,674	21,604	22,324
Current liabilities	16	(2,549)	(977)	(3,526)	(2,523)
Net assets at 31 December		<u><u>2,003,524</u></u>	<u><u>718,005</u></u>	<u><u>2,721,529</u></u>	<u><u>2,495,445</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 Liabilities on pages 7 to 9 of the Annual Report and these financial statements should be read in conjunction with that report.


The notes on pages 41 to 67 form part of these financial statements.

The financial statements on pages 39 to 67 were approved on behalf of the Trustee on 14th July 2019

Signed on behalf of Thales Pension Trustees Ltd



Trustee Director



Trustee Director

Notes to the Financial Statements
For the year ended 31 December 2019

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 2018) (“the Revised SORP”). The Scheme Trustees have taken advantage of the option to adopt the amendments to FRS 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland Triennial Review 2017 incremental Improvements and Clarification issued December 2017, and the SORP (revised 2018).

2 Identification of the financial statements

The Scheme is established as a trust under English law. The address for enquiries to the scheme is included in the Trustees Report.

3. Comparative disclosures for the Fund Account and statement of Net Assets

Fund Account	Notes	Section 1 £'000	Section 2 £'000	2018 £'000
Contributions and Benefits				
Contributions receivable				
Employer	5	75,888	28,674	104,562
Other income	6	315	-	315
		76,203	28,674	104,877
Benefits paid or payable	7	79,825	22,820	102,645
Payments to and on account of leavers	8	28,020	6,670	34,690
Administrative expenses	9	4,019	2,092	6,111
Other payments	10	816	805	1,621
		112,680	32,387	145,067
Net (withdrawals) from dealings with members		(36,477)	(3,713)	(40,190)
Returns on investments				
Investment income	11	41,155	13,067	54,222
Change in market value of investments	14	(38,933)	(13,949)	(52,882)
Taxation	12	-	-	-
Investment management expenses	13	(2,542)	(860)	(3,402)
Net returns on investments		(320)	(1,742)	(2,062)
Net decrease in the fund during the year		(36,797)	(5,455)	(42,252)
Net Assets of the Scheme: At 1 January		1,876,860	660,837	2,537,697
Net Assets of the Scheme: At 31 December		1,840,063	655,382	2,495,445

Notes to the Financial Statements

For the year ended 31 December 2019

**Statement of Net Assets
(available for benefits)**

	Notes	Section 1 £'000	Section 2 £'000	2018 £'000
Investment assets	14			
Equities		129,759	46,625	176,384
Bonds		1,003,038	322,786	1,325,824
Pooled investment vehicles		1,122,604	392,291	1,514,895
Derivatives		2,872	1,006	3,878
AVC investments		1,647	13,789	15,436
Cash		36,479	12,496	48,975
Other investment assets balances		31,099	10,795	41,894
		<u>2,327,498</u>	<u>799,788</u>	<u>3,127,286</u>
Investment liabilities	14			
Derivatives		(10,391)	(3,605)	(13,996)
Repurchase Agreements		(489,528)	(148,118)	(637,646)
Other investment liabilities		-	-	-
		<u>(499,919)</u>	<u>(151,723)</u>	<u>(651,642)</u>
Total net investments		<u>1,827,579</u>	<u>648,065</u>	<u>2,475,644</u>
Current assets	15	14,267	8,057	22,324
Current liabilities	16	(1,783)	(740)	(2,523)
Net assets at 31 December		<u>1,840,063</u>	<u>655,382</u>	<u>2,495,445</u>

4 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.

Notes to the Financial Statements **For the year ended 31 December 2019**

4 Accounting policies (continued)

C Investment income

Investment income arising on Bonds and pooled investment vehicles has been accounted for on an accruals basis when the income has been advised by the investment manager.

Income from equity securities has been recognised on the date the stocks were quoted ex-dividend.

Receipts or payments under swap contracts, representing the difference between the swapped cash flows, are included in investment income

D Administrative expenses and investment management expenses

All administrative and investment manager expenses are met by the Scheme.

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 bid price on the relevant stock exchange. The market value of pooled investment vehicles is taken at the Net Asset Value or single price, at the accounting date as advised by the investment managers.

Bonds are valued on a clean basis, net of accrued interest.

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.

Repurchase agreements (where the Scheme has sold assets with the agreement to repurchase at a fixed date and price) are included in the financial statements at the cost of the repurchase agreement (as a liability). The assets sold are reported in the appropriate asset class in the investments note at their fair value reflecting the fact that the Scheme retains the risks and rewards of ownership of those assets.

Reverse Repurchase agreements (where the Scheme has bought assets with the agreement to sell at a fixed date and price) are included in the financial statements at the cost of the repurchase agreement (as a liability). The assets sold are reported in the appropriate asset class in the investments note at their fair value reflecting the fact that the Scheme retains the risks and rewards of ownership of those assets.

Notes to the Financial Statements

For the year ended 31 December 2019 (Continued)

4 Accounting policies (continued)

F Valuation of investments (continued)

Bond investments are bought subject to contractual agreements ('Reverse Repurchase Agreements') for the resale of equivalent securities. The securities bought are excluded from their respective investment classes. The contracts to sell back the equivalent securities, the Reverse Repurchase Agreements, are an investment asset and the Market Value reported is the cash paid to the counterparty at inception of the Agreements.

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.

Receipts and payments arising from derivative instruments are reported as sale proceeds or purchase investments, except for swap receipts and payments, which are recorded as investment income.

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 2019.

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.

Notes to the Financial Statements
For the year ended 31 December 2019 (Continued)

5 Contributions	Section 1 £'000	Section 2 £'000	2019 £'000
Contributions from employer:			
Normal	11,216	11,109	22,325
Deficit funding	59,700	15,300	75,000
Other - PPF Levy	1,646	921	2,567
Other – Employers expense contribution	2,000	1,000	3,000
Other - Top ups	567	-	567
	75,129	28,330	103,459

	Section 1 £'000	Section 2 £'000	2018 £'000
Contributions from employer:			
Normal	10,890	10,750	21,640
Additional contributions - Augmentations	-	268	268
Deficit funding	60,658	15,591	76,249
Other – PPF Levy	1,915	1,065	2,980
Other – Employers expense contribution	2,000	1,000	3,000
Other - Top ups	425	-	425
	75,888	28,674	104,562

Normal contributions from the employer include £3,820,304 and £3,726,705 (2018: £4,014,792 and £3,868,973) member contributions paid through a salary sacrifice arrangement in respect of Section 1 and Section 2 respectively.

Ongoing deficit funding of £59.7m per annum is payable for Section 1 for the period 1 April 2019 to 31 December 2028, to reduce the funding shortfall.

Ongoing deficit funding of £15.3m per annum is payable for Section 2 for the period from 1 April 2019 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.

Notes to the Financial Statements

For the year ended 31 December 2019 (Continued)

6 Other income	Section 1 £'000	Section 2 £'000	2019 £'000
Claims on term insurance policies	128	512	640
Other income	2	-	2
	130	512	642
	130	512	642

	Section 1 £'000	Section 2 £'000	2018 £'000
Claims on term insurance policies	315	-	315
	315	-	315
	315	-	315

7 Benefits paid or payable	Section 1 £'000	Section 2 £'000	2019 £'000
Pensions	76,553	20,548	97,101
Commutations and lump sums on retirement	7,084	4,760	11,844
Lump sums death benefits	192	570	762
Refund on death	27	92	119
Taxation lifetime annual allowance exceeded	124	4	128
	83,980	25,974	109,954
	83,980	25,974	109,954

	Section 1 £'000	Section 2 £'000	2018 £'000
Pensions	71,216	19,293	90,509
Commutations and lump sums on retirement	7,886	3,190	11,076
Lump sums death benefits	609	255	864
Refund on death	48	10	58
Special lump sum death benefits	66	72	138
	79,825	22,820	102,645
	79,825	22,820	102,645

Notes to the Financial Statements
For the year ended 31 December 2019 (Continued)

8 Payments to and on account of leavers

	Section 1 £'000	Section 2 £'000	2019 £'000
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State scheme premium	32	11	43
Individual transfers to other schemes	15,805	4,247	20,052
	<u>15,837</u>	<u>4,258</u>	<u>20,095</u>

	Section 1 £'000	Section 2 £'000	2018 £'000
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State scheme premium	11	-	11
Individual transfers to other schemes	28,009	6,670	34,679
	<u>28,020</u>	<u>6,670</u>	<u>34,690</u>

9 Administrative expenses

	Section 1 £'000	Section 2 £'000	2019 £'000
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Administration fees	638	246	884
Actuarial and consulting fees	802	316	1,118
Legal fees	288	286	574
Audit fees	37	37	74
Other expenses	57	26	83
PPF Levy	1,682	944	2,626
	<u>3,504</u>	<u>1,855</u>	<u>5,359</u>

	Section 1 £'000	Section 2 £'000	2018 £'000
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Administration fees	677	275	952
Actuarial and consulting fees	1,126	485	1,611
Legal fees	182	179	361
Audit fees	30	30	60
Other expenses	53	35	88
PPF Levy	1,951	1,088	3,039
	<u>4,019</u>	<u>2,092</u>	<u>6,111</u>

Notes to the Financial Statements
For the year ended 31 December 2019 (Continued)

10 Other payments	Section 1	Section 2	2019
	£'000	£'000	£'000
Premiums on term insurance policies	894	865	1,759
Ex gratia payments	-	-	-
	<u>894</u>	<u>865</u>	<u>1,759</u>

	Section 1	Section 2	2018
	£'000	£'000	£'000
Premiums on term insurance policies	814	805	1,619
Ex Gratia Payments	2	-	2
	<u>816</u>	<u>805</u>	<u>1,621</u>

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

11 Investment income	Section 1	Section 2	2019
	£'000	£'000	£'000
Dividends from equities	5,244	1,884	7,128
Income from bonds	22,031	6,984	29,015
Income from pooled investment vehicles	16,402	5,585	21,987
Interest on cash and deposits	804	309	1,113
Swap income received	3,183	827	4,010
Annuity income	1,101	8	1,109
	<u>48,765</u>	<u>15,597</u>	<u>64,362</u>
Swap expenses paid	(1,582)	(456)	(2,038)
Repurchase agreement charges	(4,017)	(1,188)	(5,205)
	<u>(5,599)</u>	<u>(1,644)</u>	<u>(7,243)</u>
	<u>43,166</u>	<u>13,953</u>	<u>57,119</u>

Notes to the Financial Statements
For the year ended 31 December 2019 (Continued)

11 Investment income (continued)	Section 1	Section 2	2018
	£'000	£'000	£'000
Dividends from equities	5,454	1,960	7,414
Income from bonds	24,719	7,539	32,258
Income from pooled investment vehicles	10,100	3,424	13,524
Interest on cash and deposits	808	381	1,189
Swap income received	3,297	1,083	4,380
Annuity income	1,169	7	1,176
	<u>45,547</u>	<u>14,394</u>	<u>59,941</u>
Swap expenses paid	(3,418)	(998)	(4,416)
Repurchase agreement charges	(974)	(329)	(1,303)
	<u>(4,392)</u>	<u>(1,327)</u>	<u>(5,719)</u>
	<u>41,155</u>	<u>13,067</u>	<u>54,222</u>

12 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 of £39,248 section 1 & £14,103 section 2 (2018: £nil).

13 Investment management expenses	Section 1	Section 2	2019
	£'000	£'000	£'000
Administration, management and custody*	<u>2,627</u>	<u>1,024</u>	<u>3,651</u>

	Section 1	Section 2	2018
	£'000	£'000	£'000
Administration, management and custody*	<u>2,542</u>	<u>860</u>	<u>3,402</u>

*Included within administrative, management and custody fees are investment manager fees for Majedie Asset Management Limited of £824,575 (2018: £939,012). This is due to a performance related element of the management fee agreement.

Notes to the Financial Statements
For the year ended 31 December 2019 (Continued)

14 Investments

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

	Section 1 £'000	Section 2 £'000	2019 £'000	2018 £'000
Investments by strategy type				
Equity	552,926	198,681	751,607	644,507
Illiquids	-	-	-	521,937
Investment Grade Credit	624,041	211,502	835,543	780,648
Alternative Growth Fund	522,199	181,339	703,538	172,085
Derivatives	16,235	5,443	21,678	(10,119)
Total Unitised funds	1,715,401	596,965	2,312,366	2,109,058
Non unitised funds				
Bonds	632,909	205,717	838,626	946,902
	2,348,310	802,682	3,150,992	3,055,960
AVC investments	1,786	14,510	16,296	15,436
Other investment assets	3,194	1,114	4,308	41,894
Other investment liabilities	(363,147)	(104,998)	(468,145)	(637,646)
	1,990,143	713,308	2,703,451	2,475,644

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 52 and 53.

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

Investment liabilities relate to derivative investments and other investment liabilities. Investment assets include derivative related assets of £26,637,000 (2018: £3,878,000).

Notes to the Financial Statements

For the year ended 31 December 2019 (Continued)

14 Investments (continued)

Year for the total Scheme investments held:

	Market Value at 1 January 2019 £'000	Purchases at cost and derivative payments £'000	Sales proceeds and derivative receipts £'000	Change in Market Value £'000	Market Value at 31 December 2019 £'000
Equities	176,384	87,461	(90,653)	28,892	202,084
Bonds	1,325,824	353,913	(503,143)	65,564	1,242,158
Pooled investment vehicles	1,514,895	477,895	(492,582)	98,582	1,598,790
Derivatives	(10,118)	103,583	(83,739)	11,952	21,678
AVC investments	15,436	-	(1,467)	2,327	16,296
	<u>3,022,421</u>	<u>1,022,852</u>	<u>(1,171,584)</u>	<u>207,317</u>	<u>3,081,006</u>
Cash - Sterling	11,894				55,088
Cash - Foreign currency	31,887			(1,582)	30,085
Cash - Variation margin	5,194				1,109
Cash - Variation margin payable	-				-
Investment income receivable	7,418				4,013
Other investment assets	34,476				327
Reverse repurchase agreement	-				64,471
Other investment liabilities	-				(32)
Repurchase agreements	(637,646)				(532,616)
	<u>2,475,644</u>			<u>205,735</u>	<u>2,703,451</u>

Included within the above purchases and sales figures are transaction costs of £457,000 (2018: £521,000). 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 2019 is an investment in an investment vehicle with a year-end value of £178.8.8m (AQR Defensive Equity Fund). At the year end, the Scheme owned 47.11% 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 2019 (Continued)

14 Investments (continued)

Section 1

The movements of investments in the year:

	Market Value at 1 January 2019 £'000	Purchases at cost and derivative payments £'000	Sales proceeds and derivative receipts £'000	Change in Market Value £'000	Market Value at 31 December 2019 £'000
Equities	129,759	64,342	(66,690)	21,254	148,665
Bonds	1,003,038	264,326	(381,938)	49,413	934,839
Pooled investment vehicles	1,122,604	355,334	(365,755)	72,798	1,184,981
Derivatives	(7,519)	77,201	(62,176)	8,729	16,235
AVC investments	1,647	-	(41)	180	1,786
	<u>2,249,529</u>	<u>761,203</u>	<u>(876,600)</u>	152,374	<u>2,286,506</u>
Cash - Sterling	8,804				40,327
Cash - Foreign currency	23,794			(457)	22,435
Cash - Variation margin	3,881				828
Cash - Variation margin payable	-				-
Investment income receivable	5,563				2,973
Other investment assets	25,536				244
Reverse repurchase agreement	-				50,108
Other investment liabilities	-				(23)
Repurchase agreements	(489,528)				(413,255)
	<u>1,827,579</u>			<u>151,917</u>	<u>1,990,143</u>

Notes to the Financial Statements
For the year ended 31 December 2019 (Continued)

14 Investments (continued)

Section 2

The movements of investments in the year:

	Market Value at 1 January 2019 £'000	Purchases at cost and derivative payments £'000	Sales proceeds and derivative receipts £'000	Change in Market Value £'000	Market Value at 31 December 2019 £'000
Equities	46,625	23,119	(23,963)	7,638	53,419
Bonds	322,786	89,587	(121,205)	16,151	307,319
Pooled investment vehicles	392,291	122,561	(126,827)	25,784	413,809
Derivatives	(2,599)	26,382	(21,563)	3,223	5,443
AVC investments	13,789	-	(1,426)	2,147	14,510
	<u>772,892</u>	<u>261,649</u>	<u>(294,984)</u>	<u>54,943</u>	<u>794,500</u>
Cash - Sterling	3,090				14,761
Cash - Foreign currency	8,093			(1,125)	7,650
Cash - Variation margin	1,313				281
Cash - Variation margin payable	-				-
Investment income receivable	1,855				1,040
Other investment assets	8,940				83
Reverse repurchase agreement	-				14,463
Other investment liabilities	-				(9)
Repurchase agreements	(148,118)				(120,570)
	<u>648,065</u>			<u>53,818</u>	<u>713,308</u>

Notes to the Financial Statements

For the year ended 31 December 2019 (Continued)

14 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
At 31 December 2019				
Combined sections				
Equities	201,991	-	93	202,084
Bonds	384,416	857,742	-	1,242,158
Pooled investment vehicles	14,414	529,084	1,055,292	1,598,790
Derivatives	2,053	19,625	-	21,678
AVC investments	-	16,161	135	16,296
	<u>602,874</u>	<u>1,422,612</u>	<u>1,055,520</u>	3,081,006
Cash – balances held				86,282
Other investment balances				4,340
Other investment – liabilities				(32)
Repurchase agreements				(532,616)
Reverse Repurchase agreements				64,471
				<u>2,703,451</u>

Investment assets not included in the main fair value table are held at amortised cost, and therefore are not held at fair value.

Notes to the Financial Statements
For the year ended 31 December 2019 (Continued)

14 Investments (continued)

Investment Fair Value Hierarchy (continued)

	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
At 31 December 2018				
Combined Sections				
Equities	176,286	-	98	176,384
Bonds	533,643	792,181	-	1,325,824
Pooled investment vehicles	-	540,368	974,527	1,514,895
Derivatives	(3,585)	(6,533)	-	(10,118)
AVC investments	-	15,313	123	15,436
	<u>706,344</u>	<u>1,341,329</u>	<u>974,748</u>	<u>3,022,421</u>
Cash – balances held				48,975
Other investment balances				41,894
Other investment – liabilities				-
Repurchase agreements				(637,646)
				<u>2,475,644</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 of 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 of 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 of 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 2019 (Continued)

14 Investments (continued)

The Scheme has exposure to the risks above because of the investments it makes in following the investment strategy. The magnitude of the exposure to these risks is quantified by the asset allocation statements in the table on page 48 of this report. The Trustee manages investment risks, including credit and market risk, within risk limits which are considered when setting the Scheme's strategic investment objectives. The Trustee implements the investment objectives and risk limits through the investment management agreements that are in place with the Scheme's investment managers and these are monitored by the Investment Sub-Committee, on behalf of the Trustee, through regular reviews of the investment portfolio.

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

(i) Credit Risk

The Scheme is exposed to credit risk because it invests directly in bonds, over the counter (OTC) derivatives, has cash balances and enters into repurchase agreements. This pertains primarily to the Scheme's investments in global corporate bonds and the liability hedging portfolio. The Scheme also invests in pooled investment vehicles and is therefore exposed to credit risk in relation to instruments it holds in the pooled investment vehicles. The overall level of credit risk taken by the Scheme is monitored and compared to the level of its other main investment risks

The credit risk that arises through bonds held directly by the Scheme is mitigated by investing in government bonds where the credit risk is minimal, or corporate bonds which are rated investment grade. A relatively small proportion is held directly in sub-investment grade bonds, however, the expectation is that the additional return achieved should provide sufficient compensation for the additional credit risk that is taken. In addition, the Scheme's exposure to credit risk is managed by ensuring the investment managers' portfolios are sufficiently diversified to minimise the impact of default by any one issuer. Credit risk arising on derivatives depends on whether the derivative is exchange traded or OTC. OTC derivative contracts are traded directly between counterparties and are not guaranteed by any regulated exchange and therefore the Scheme is subject to the risk of failure of the counterparty it transacts with. The credit risk for OTC derivatives is mitigated by collateral arrangements. Similarly, credit risk on repurchase agreements is mitigated through collateral arrangements. Credit risk also arises on forward currency contracts. Although there are no explicit collateral requirements for these contracts, cash is held to meet unrealised losses and all counterparties are required to be at least investment grade rated.

The Scheme's cash is held with financial institutions which are at least investment grade rated.

Credit risk arising from pooled investment vehicles relates to the legal or operational structure of the pooled vehicle leading to the Scheme being unable to realise the full net asset value of its holding in the vehicle. This risk is mitigated by the underlying assets of the pooled arrangements being ring fenced from the pooled fund manager, the regulatory environments in which the pooled managers operate, and diversification of investments amongst the number of pooled arrangements. The Trustee conducts due diligence on all of these points when making a new investment. Credit risk applies to 56% of the Scheme assets.

Notes to the Financial Statements

For the year ended 31 December 2019 (Continued)

14 Investments (continued)

(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. In addition, the Scheme has a currency hedging overlay managed by Legal & General Investment Management to manage total scheme currency exposure to an appropriate level. The level of currency hedging is reviewed by the ISC, on behalf of the Trustee, as part of the regular review of the Scheme's investment policy. The Scheme's fixed income mandates with overseas FX exposures are 100% hedged, 30% of the Global Equity mandate's exposure to developed market overseas currencies is hedged and 30% of the overseas FX exposure for the property mandates is hedged.

(iii) Interest rate and inflation risk

The Scheme is subject to interest rate risk because some of Scheme's investments are held in bonds, derivative contracts, and cash. In addition, the Scheme is exposed to inflation risk because some of the Scheme's investments are in assets which have payments linked to inflation (in particular, inflation linked bonds, derivative contracts and illiquid assets).

However, the predominant exposure to interest rate and inflation risk is in respect of the Scheme's liabilities. The value of the Scheme's liabilities will fluctuate with changes in interest rates. Changes in inflation will also impact the value of the liabilities because a proportion of the Scheme's benefit payments increase in line with inflation in various ways.

The Scheme's exposure to interest rate and inflation risk in respect of the liabilities is mitigated by investing in assets that respond in a similar way to changes in interest rates and inflation. In particular, there is a segregated liability hedging mandate in place which seeks to hedge a specific proportion of the Scheme's exposure to interest rate and inflation risk. Under this strategy, if interest rates fall the value of the liability matching assets will rise to help match the increase in the value of the actuarial liabilities from a fall in the discount rate. Similarly, if interest rates rise the investments will fall in value as will the actuarial liabilities because of an increase in the discount rate.

As at the 31 December 2019 the Scheme had a net interest rate PV(01) of £5,015,000 and a net inflation IE(01) of £1,998,000

(iv) Other price risk

Other price risk arises in relation to the Scheme's holdings in equities, hedge funds, insurance linked securities, infrastructure, property (including ground leases and farmland), opportunistic credit, and private debt. 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 practicable, by constructing a diverse portfolio of investments across various markets. Other price risk applies to 44% of the Scheme assets.

Notes to the Financial Statements
For the year ended 31 December 2019 (Continued)

14 Investments (continued)

Analysis of Pooled Investment Vehicles (PIVs)

	2019 £'000	2018 £'000
Equity	455,217	286,004
Bonds	165,677	124,250
Hedge funds	110,970	283,933
Property	385,860	383,859
Private Equity	466,652	399,073
Cash	14,414	37,776
	1,598,790	1,514,895

Derivatives

Objectives and Policies

The Trustee has authorised the use of derivatives by the investment managers as part of the overall investment strategy for the Scheme. The main objectives for the use of derivatives are summarised as follows:

Swaps

Swaps are used to modify the Scheme's exposure to various asset classes. Interest rate swaps were held to decrease the Scheme's risk to the impact of interest rate fluctuations on floating rate loans.

Futures

Futures contracts are entered into as a method of balancing the Scheme's exposure to a particular market or sector. Futures often provide a cheap and efficient way of modifying portfolio risk to remain within asset allocations governed by the investment strategy of the Scheme.

Forward foreign exchange contracts

The forward foreign currency contracts are held to hedge against foreign currency exposure from various investments. As there are multiple contracts in various currencies, it is impractical to list in detail all of the currencies sold.

Notes to the Financial Statements

For the year ended 31 December 2019 (Continued)

14 Investments (continued)

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

	2019 Assets £'000	2019 Liabilities £'000	2018 Assets £'000	2018 Liabilities £'000
Swaps (Over the Counter)	12,780	(4,348)	2,480	(5,019)
Futures (Exchange Traded)	2,180	(128)	-	(3,585)
Forward foreign currency contracts (Over The Counter)	11,677	(483)	1,398	(5,392)
	<u>26,637</u>	<u>(4,959)</u>	<u>3,878</u>	<u>(13,996)</u>

Swaps

	Notional Amounts £	Expires	Assets £'000	Liabilities £'000
Swaps (over the counter)				
Inflation Swaps	38,202	2-5 years	502	(202)
Interest Rate Swaps - Eurib to fixed rate	37,917	2-5 years	506	-
Interest Rate Swaps - Eurib to fixed rate	13,769	6-10 years	506	-
Interest rate swaps – Libor to fixed rate	106,057	2-5 years	76	(528)
Interest rate swaps – Libor to fixed rate	35,740	6-10 years	236	(884)
Interest rate swaps – Libor to fixed rate	9,058	10 years over	238	(834)
Interest rate swaps - SONIA to fixed rate	360,393	2-5 years	2,746	(823)
Interest rate swaps - SONIA to fixed rate	507,279	6-10 years	7,970	(1,077)
Total for 2019			<u>12,780</u>	<u>(4,348)</u>
Total for 2018			<u>2,480</u>	<u>(5,019)</u>

Swaps	Assets £'000	Liabilities £'000
Section 1	9,718	(3,306)
Section 2	3,062	(1,042)
Total for 2019	<u>12,780</u>	<u>(4,348)</u>
Total for 2018	<u>2,480</u>	<u>(5,019)</u>

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

Notes to the Financial Statements

For the year ended 31 December 2019 (Continued)

14 Investments (continued)

Derivative assets/(liabilities) (continued)

Futures

Futures (Exchange traded)	Economic exposure £	Expiry	Assets £'000	Liabilities £'000
10 Year USA Treasury Notes	(32,281,173)	March 2020	246	-
2 Year USA Treasury Notes	(6,181,544)	March 2020	6	-
5 Year USA Treasury Notes	(32,858,759)	March 2020	105	-
CBT UL Treasury Bonds	(17,414,866)	March 2020	468	-
Euro Buxl Bond	(1,680,933)	March 2020	74	-
Eurx Eur-Bobl	(29,212,998)	March 2020	160	-
ME 10 Year CDN	(6,882,525)	March 2020	-	(126)
Eurx Eur-Bund	(42,616,068)	March 2020	702	-
Eurx Eur-Schatz	(2,564,972)	March 2020	-	(2)
LIF Long Gilt	(4,204,160)	March 2020	17	-
USA Treasury Bonds	(20,830,652)	March 2020	402	-
Total for 2019			2,180	(128)
Total for 2018			-	(3,585)

Split by Section (Unitisation)

	Assets £'000	Liabilities £'000
Section 1	1,628	(95)
Section 2	552	(33)
Total for 2019	2,180	(128)
Total for 2018	-	(3,585)

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 2019 (Continued)

14 Investments (continued)

Derivative assets/(liabilities) (continued)

Forward foreign currency contracts (over the counter)

Number of Contracts	Settlement date	Currency bought code	Currency bought '000	Currency sold code	Currency sold '000	Assets £'000	Liabilities £'000
12	1-3 months	GBP	143,123	EUR	(141,649)	1,473	-
21	1-3 months	GBP	577,183	USD	(567,812)	9,374	(3)
1	1 month	MXN	6,338	JPY	(6,089)	249	-
1	1 month	USD	6,047	MXN	(6,338)	-	(291)
2	2 months	GBP	12,351	JPY	(11,981)	371	-
1	3 months	AUD	1,996	USD	(1,945)	51	-
2	3 months	EUR	2,634	GBP	(2,651)	-	(17)
1	3 months	EUR	4,282	SEK	(4,296)	-	(14)
2	3 months	GBP	76	CAD	(77)	-	(1)
2	3 months	JPY	4,322	USD	(4,292)	31	-
1	3 months	NOK	4,216	EUR	(4,089)	127	-
1	3 months	NZD	24	USD	(23)	1	-
1	3 months	USD	6,209	CAD	(6,367)	-	(157)
Total for 2019						11,677	(483)
Total for 2018						1,398	(5,392)

Split by Section (Unitisation)

	Assets £'000	Liabilities £'000
Section 1	8,648	(358)
Section 2	3,029	(125)
Total for 2019	11,677	(483)
Total for 2018	1,398	(5,392)

The forward foreign currency contracts are not split by section as the contracts are in the name of the Scheme, and not separately by Section. Therefore the closing balance of the further assets and liabilities have been split 76% / 24% in line with the year-end unitisation of the Scheme.

Notes to the Financial Statements

For the year ended 31 December 2019 (Continued)

14 Investments (continued)

Derivative assets/(liabilities) (continued)

Repurchase agreements

The Trustee uses gilt repurchase agreements to maintain gilt returns while using the cash released by the gilt sales to achieve investment objectives.

The Scheme held the following open repurchase agreements at the year-end:

Duration	Notional principal and liability at year end £'000s
January 2019 to January 2020	(89,515)
February 2019 to February 2020	(36,923)
April 2019 to April 2020	(19,948)
June 2019 to June 2020	(26,921)
July 2019 to May 2020	(24,188)
July 2019 to June 2020	(36,376)
July 2019 to July 2020	(97,509)
July 2019 to March 2022	(5,734)
July 2019 to March 2022	5,699
August 2019 to August 2020	(33,795)
September 2019 to June 2020	7,440
September 2019 to September 2020	(38,351)
October 2019 to March 2020	(11,670)
October 2019 to October 2020	(60,106)
October 2019 to March 2022	(51,581)
October 2019 to March 2022	51,333
	(468,145)

Collateral

The Scheme receives collateral in the form of cash or securities in respect of derivative contracts in order to reduce credit risk. Collateral received in the form of cash managed by Legal & General Assurance (Pensions Management) Limited is recorded in the net asset statement with a corresponding liability. These items are designated as deposits received from counterparties. Any interest payable or receivable arising is recorded as interest expense or interest income respectively.

Collateral in the form of bonds were pledged by the Scheme to counterparties as at 31 December 2019 in relation to swap contracts which amounted to £9,674,000 for Section 1 and £2,824,000 for Section 2 (2018 £7,858,000 Section 1 and £2,548,000 for Section 2). The Scheme held no collateral as at 31 December 2019 for swap contracts for Section 1 and Section 2.

Notes to the Financial Statements

For the year ended 31 December 2019 (Continued)

14 Investments (continued)

Collateral (continued)

Collateral held by the Scheme in the form of bonds from counterparties as at 31 December 2019 in relation to Repurchase agreements amounted to £2,609,000 for Section 1 and £397,000 for Section 2 (2018: £11,548,000 (pledged) for Section 1 and £3,646,000 (pledged) for Section 2). Collateral in the form of bonds that were pledged by the Scheme to counterparties as at 31 December 2019 in relation to Repurchase agreements amounted to £7,470,000 for Section 1 and £1,059,000 for Section 2 (2018: £0 for both Section 1 and 2). The underlying assets collateralised remain assets of the Scheme, or the counterparty.

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.

Concentration of Investments

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

	At 31 December 2019		At 31 December 2018	
	£'000	%	£'000	%
L&G YX - FTSE RAFI AW 3000 Equity Index Fund	213,561	7.8	214,439	8.6
AQR Global Defensive Equity Fund	178,197	6.5	155,773	6.2

Transaction costs

Transaction costs within the Scheme incurred in the year amounted to £521,000 (2018: £457,000). 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	2019 £'000
Equities	387	70	457
	<u>387</u>	<u>70</u>	<u>457</u>

Notes to the Financial Statements
For the year ended 31 December 2019 (Continued)

14 Investments (continued)

Transaction costs (continued)

	Fees £'000	Commission £'000	2018 £'000
Equities	444	77	521
	<u>444</u>	<u>77</u>	<u>521</u>

Capital commitments

At the Scheme year end, the Scheme had undrawn but committed investments with existing investment managers of £73.5m.

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

	2019			2018		
	Section 1 £'000	Section 2 £'000	Total £'000	Section 1 £'000	Section 2 £'000	Total £'000
Zurich	475	14,452	14,927	444	13,733	14,177
Equitable Life Assurance Society	829	7	836	742	7	749
MGM Assurance	81	-	81	73	-	73
Phoenix	78	-	72	68	-	68
Prudential	222	-	222	229	-	229
Friends Provident	63	-	63	54	-	54
Scottish Widows	38	-	38	37	-	37
Clerical Medical	-	51	51	-	49	49
	<u>1,786</u>	<u>14,510</u>	<u>16,296</u>	<u>1,647</u>	<u>13,789</u>	<u>15,436</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 2019 (Continued)

Current assets			
15	Section 1	Section 2	2019
	£'000	£'000	£'000
Pensions paid in advance	4,772	1,453	6,225
Contributions Employer - Normal	935	925	1,860
Contributions Employer - Deficit	5,142	1,358	6,500
Overpayment of lump sum receivable	-	42	42
Life assurance premiums paid in advance	226	213	439
PPF levy paid in advance	384	217	601
Cash deposits held with Scheme Administrator	4,471	1,466	5,937
	<u>15,930</u>	<u>5,674</u>	<u>21,604</u>

	Section 1	Section 2	2018
	£'000	£'000	£'000
Pensions paid in advance	4,383	1,328	5,711
Contributions Employer - Normal	893	880	1,773
Contributions Employer - Deficit	5,142	1,358	6,500
Life assurance premiums paid in advance	215	213	428
PPF levy paid in advance	495	282	777
Cash deposits held with Scheme Administrator	3,127	3,996	7,123
Inter section balance	12	-	12
	<u>14,267</u>	<u>8,057</u>	<u>22,324</u>

The contributions due as at 31 December 2019 were received after the year end in accordance with the due date set out in the Schedules of Contributions. Normal contributions from the Employer include £327,610 and £315,609 (2018: £340,871 and £337,321) 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 2019 (Continued)

16 Current liabilities	Section 1 £'000	Section 2 £'000	2019 £'000
Lump sums on retirement	464	122	586
Death benefits	217	-	217
Accrued expenses	1,484	605	2,089
Equitable Life compensation payments	-	37	37
Other creditors	384	213	597
	2,549	977	3,526
	2,549	977	3,526

	Section 1 £'000	Section 2 £'000	2018 £'000
Lump sums on retirement	159	-	159
Death benefits	344	53	397
Accrued expenses	785	356	1,141
Equitable Life compensation payments	-	37	37
Other creditors	495	282	777
Inter section balance	-	12	12
	1,783	740	2,523
	1,783	740	2,523

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.

17 Related party transactions

Certain Directors of the Trustee are active members or pensioners of the Scheme. Their benefits are accrued and paid 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 45).

18 Post balance sheet events

No post balance sheet events have occurred that have not been reported elsewhere in the Trustee report.

The Trustees have considered the potential risks to the scheme of the United Kingdom leaving the European Union.

The Trustees are considering the implications for the Scheme of the recent court case ruling relating to GMP Equalisation. The Trustees have received advice from the Scheme Actuary that the estimated increase in accrued liabilities due to GMP equalisation will not be material in terms of the overall Scheme liabilities.

From 1 January 2020 to the date of signing these Financial Statements, global financial markets have experienced and may continue to experience significant volatility resulting from the spread of a novel coronavirus known as COVID-19. The outbreak of COVID-19 has resulted in travel and border restrictions, quarantines, supply chain disruptions, lower consumer demand, and general market uncertainty. The effects of COVID-19 have and may continue to adversely affect the global economy, the economies of certain nations, and individual issuers, all of which may negatively impact the Schemes investment return and the fair value of the Scheme investments.

As at 30 April 2020 the fair value of the schemes investment vehicles as provided by the Custodian was £2,567m compared to an audited year end value of £2,687m. In accordance with the requirements of FRS 102 and the Pensions SORP the fair valuations at the date of the statement of net assets reflect the economic conditions in existence at that date.

The Trustee has evaluated all subsequent events or transactions for potential recognition or disclosure through to the date on which these financial statements were signed and has determined that there were no additional subsequent events requiring adjustment to or disclosure in the Scheme financial statements

CERTIFICATION OF SCHEDULE OF CONTRIBUTIONS
SECTION 1



CERTIFICATION OF SCHEDULE OF CONTRIBUTIONS

Name of Scheme and name of Section

Thales UK Pension Scheme – Section 1

Adequacy of rates of contributions

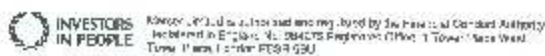
I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective can be expected to be met by the end of the period specified in the recovery plan dated 27 March 2019.

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 27 March 2019.

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 Candron
Qualification	Fellow of the Institute and Faculty of Actuaries
Date of signing	4/4/2019
Name of employer	Mercer Limited
Address	One Christchurch Way Woking GU21 8JG



CERTIFICATION OF SCHEDULE OF CONTRIBUTIONS
SECTION 2



CERTIFICATION OF SCHEDULE OF CONTRIBUTIONS

Name of Scheme and name of Section Thales UK Pension Scheme – Section 2

Adequacy of rates of contributions

I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective can be expected to be met by the end of the period specified in the recovery plan dated 27 March 2019.

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 27 March 2019.

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

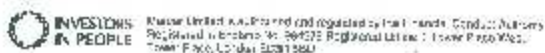
Scheme Actuary Mark Condon

Qualification Fellow of the Institute and Faculty of Actuaries

Date of signing 4 | 4 | 2019

Name of employer Mercer Limited

Address One Christchurch Way
Woking
GU21 6JG



CERTIFICATE OF TECHNICAL PROVISIONS – SECTION 1

SCHEME FUNDING REPORT OF THE
ACTUARIAL VALUATION AS AT 31 DECEMBER
2017

THALES UK PENSION SCHEME
SECTION 1

F

CERTIFICATE OF TECHNICAL PROVISIONS

Name of the Scheme and name of section Thales UK Pension Scheme Section 1

Calculation of technical provisions

I certify that, in my opinion, the calculation of the sections technical provisions as at 31 December 2017 is made in accordance with regulations under section 227 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 27 March 2019.

Signature



Name

Mark Condon

Date of signing

4/4/2019

Name of employer

Mercer Limited

Address

One Christchurch Way
Woking
GU21 6JG

Qualification

Fellow of the Institution and Faculty of Actuaries

CERTIFICATE OF TECHNICAL PROVISIONS – SECTION 2

SCHEME FUNDING REPORT OF THE
ACTUARIAL VALUATION AS AT 31 DECEMBER
2017

THALES UK PENSION SCHEME
SECTION 2

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 sections technical provisions as at 31 December 2017 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 27 March 2019.

Signature	
Name	Mark Connor
Date of signing	4/4/2019
Name of employer	
Address	One Christchurch Way Woking GU21 5JG
Qualification	Fellow of the Institute and Faculty of Actuaries

COMPLIANCE STATEMENT

Constitution

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

Taxation status

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

Pension increases

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

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

Calculation of transfer values

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

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

Pension Tracing Service

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

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

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

COMPLIANCE STATEMENT (CONTINUED)

Pensions Ombudsman Early Resolution 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 Ombudsman Early Resolution Service. Initially they will listen to your issue and if possible help you there and then; for more complex problems or issues where a number of documents are involved they may pass you on to the Early Resolution Team who can go into more detail.

Using this service will not affect your right to apply to the Ombudsman for formal adjudication if you later choose to do so.

They can be contacted at:

Pensions Ombudsman's Early Resolution Service

The Pensions Ombudsman

10 South Colonnade

Canary Wharf

London

E14 4PU

Telephone: 0800 917 4487

Email: enquiries@pensions-ombudsman.org.uk

Website: www.pensions-ombudsman.org.uk

Pensions Ombudsman

In cases where a complaint or dispute cannot be resolved 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

10 South Colonnade

Canary Wharf

London

E14 4PU

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 2018 to which this statement is attached.

In our opinion contributions for the Scheme year ended 31 December 2019 as reported in the Summary of Contributions and payable under the Schedules of Contributions have in all material respects been paid from 1 January 2019 to 3 April 2019 at least in accordance with the Schedules of Contributions certified by the scheme actuary on 20 January 2017 and subsequently at least in accordance with the Schedule of Contribution certified by the scheme actuary on 4 April 2019.

Scope of work on statement about contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the attached Summary of Contributions have in all material respects been paid at least in accordance with the Schedule 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 Schedule of Contributions.

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 preparing and from time to time reviewing and if necessary revising a Schedule of Contributions 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.

Use of our report

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.



Deloitte LLP
Statutory Auditor
Birmingham, United Kingdom

Date: 15 July 2020

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.

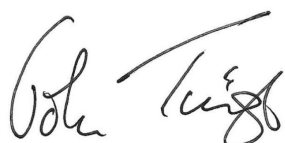
	Section 1	Section 2	2019
	£'000	£'000	£'000
Contributions from Employer:			
Normal	11,216	11,109	22,325
Additional contributions - Augmentation	-	-	-
Deficit funding	59,700	15,300	75,000
Other – PPF Levy	1,646	921	2,567
Other – Employers expense contribution	2,000	1,000	3,000
Total contributions payable under the schedules of contributions (as reported on by the Scheme auditor)	75,129	28,330	103,459
Other contributions payable:			
Other Employer - Top ups	425	-	425
Total contributions payable per the Fund Account	75,888	28,674	104,562

Normal contributions from the employer include £3,820,304 and £3,726,705 (2018: £4,014,792 and £3,868,973) member contributions paid through a salary sacrifice arrangement in respect of Section 1 and Section 2 respectively.

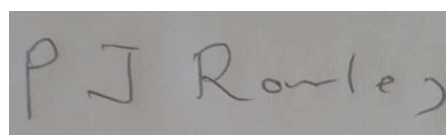
Normal contributions are based on members' Pensionable Earnings. Member contribution rates 9% of CARE Salary up to £40,040 and in excess of that 12%, as per the Scheme Rules.

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 any of the Schedules of Contributions in place in the year.

Signed on behalf of Thales Pension Trustee Ltd



..... Trustee Director
14th July 2020 Date



..... Trustee Director
14th July 2020 Date