THALES UK PENSION SCHEME

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR TO 31 DECEMBER 2020

Section 1 – PSR 19011001
Section 2 – PSR 19011002

Contents

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
Mr Christian Hardy FIA
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 (terminated June 2020)
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
Aberdeen Standard Investments
Nuveen
CQS (appointed June 2020)

Scheme Employers, Service Providers and Advisors (Continued)

Additional Voluntary Contributions (AVC) Providers
Zurich
Utmost
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

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

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

Scheme Employers, Service Providers and Advisors (Continued)

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

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

Life Assurance Insurers
AIG
The AIG Building
58 Fenchurch Street
London
EC3M 4AB

Secretary to the Trustee
Philip Cameron

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Green Park
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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 2020. 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 2024, for the three Section 1 positions and October 2021, for the three Section 2 positions.

The Trustees meet at least quarterly, during 2020 they met on the following dates:
5 May 2020
24 June 2020
31 July 2020
7 October 2020
9 December 2020

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)
Joelle Dumetz (Member Nominated)
Ken McSweeney (Employer Nominated)
Paul Corris (Member Nominated) Resigned 23 October 2020
John Twigg (Member Nominated)
Nigel Baldwin (Employer Nominated)
Helen Depree (Employer Nominated)
Robert Trotter (Member Nominated) Resigned 23 October 2020
Steven Murray(Employer Nominated)
Niall Mitchell(Member Nominated)
Robert Preston (Member Nominated)
Ronnie Fardell(Member Nominated) Appointed 23 October 2020
Alison Hexter(Member Nominated) Appointed 6 November 2020

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 52 to 81 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 £97,929,000. This was as a result of a net gain on investments of £139,082,000 and contributions and other income of £102,782,000 being offset by benefits and expenditure payments of £143,935,000.

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 currently being conducted with an effective date of 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 2019 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 2019 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. No discretionary pension increases were paid during the year.

Transfer Values
The Scheme continued to provide members with transfer values, on request, throughout the year.

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. The Risk Register is reviewed at each Trustee and Subcommittee meeting and revised, as required.

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

Changes to the Statement of Investment Principles (SIP)

In September 2020 the Trustee updated the SIP. The main changes are:

- The introduction of involved the introduction of Funding Ratio Volatility (%) as a risk metric.
- The introduction of measures to assess investment manager's long term performance, costs and alignment with the Scheme's investment objectives.
- The introduction of monitoring the stewardship and engagement activities for each of its investment managers on an annual basis.
- A commitment to introduce an implementation statement within its annual report signed after 1 October 2021. The implementation statement will set out how it has acted on the principles within the SIP and will provide details of the stewardship, engagement and voting undertaken with regards to the Scheme's investments.

TRUSTEE'S REPORT (CONTINUED)

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 2020/2021 tax year from £1,055,000 to £1,073,000. 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.

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.

Pension Schemes Act 2021

The Pension Schemes Act 2021 (the "Act") has now become law. Once each element is brought into force, the Act will (a) provide The Pensions Regulator (TPR) with new regulatory powers, (b) amend pensions legislation to permit a new approach to scheme funding, (c) set out the legal framework for pensions dashboards, (d) set out reporting requirements relating to climate change risk, and (e) set out the foundation for regulations that will set out the requirements on statutory requests for transfers from DB pension schemes.

a. **TPR's new regulatory powers** – Under the Act, once further legislation has been passed (which is expected to happen in the Autumn) TPR will have new powers to scrutinise, engage with and penalise corporates and individuals who are seen to be undermining the pension scheme's position. New offences brought in by the Act include the creation of three new criminal offences and a range of civil offences with fines up to £1 million.

b. **Scheme funding** – under the Act, trustees of DB schemes are required to have a scheme-specific funding and investment strategy which will need to be reported to TPR in a statement of strategy. Regulations will set out the exact timings and content requirements for the strategy and statement and TPR will also issue a code of practice on DB scheme funding.

c. **Pensions dashboards** – the Act provides the legislative framework for pensions dashboards and detailed requirements are to follow in regulations. The obligation to participate in dashboards will apply to the largest pension schemes first. It is envisaged this will start in 2023, with a period of voluntary participation starting in 2022.

d. **Climate change risk reporting** – the Act gives the government the power to introduce regulations which will require trustees of occupational pension schemes to consider in detail how climate change will affect their scheme and investments. There will be new obligations to publish information relating to the effects of climate change in line with

TRUSTEE'S REPORT (CONTINUED)

Pension Schemes Act 2021 (Continued)

recommendations. The new requirements are subject to further consultation so they will not take effect immediately but it is proposed that new requirements will start to apply to schemes with £5 billion or more assets from October 2021.

e. **Statutory rights to transfers** – under the Act the government is given the power to make regulations on statutory transfer requests. The regulations are expected in the Autumn and may include requirements for a member to provide details of their employment and place of residence and that the member obtains information about exercising their transfer rights from a prescribed person.

Covid-19
TPR issued a number of updates on Covid-19 and its impact on pension schemes. TPR said that trustees should focus their efforts on the key risks to pension scheme members including making sure that pensions continued to be paid and minimising the risk of scams. The Scheme has adapted well to remote working in response to the pandemic. It has been and continues to be fully operative and has been well supported throughout the past year by its advisors.

Brexit
In its statement on Brexit, TPR said it did not expect that the UK's departure from the EU would have a significant effect in respect of the legislative basis under which pension schemes operate. The Trustee has a contingency plan in place to deal with any effects of Brexit on the Scheme. So far, the Scheme is operating as business as usual.

GMP equalisation
The Trustee is considering how to comply with the legal obligation to equalise GMPs through other Scheme benefits and has a project plan in place which is being progressed accordingly. In November 2020 there was a further case on this matter which confirmed that the Trustee will also need to revisit historic transfers out of the Scheme.

ESG and implementation statements
ESG is the umbrella term used to describe environmental, social and governance risks which can be incorporated into investment decision making and strategies. ESG issues are of increasing importance for pension schemes.
From 1 October 2020, trustees have been required to produce an implementation statement detailing how they have carried out the principles outlined in their Statement of Investment Principles (SIP). The statement needs to be published online by 1 October 2021. For the Scheme, the implementation statement includes details about how the SIP has been followed during the year in relation to voting and engagement as well as a description of voting behaviour by or on behalf of the Trustee during that year.

Jack's law
A new type of parental bereavement leave has been introduced via the Social Security Act 1989. The Scheme Rules have been reviewed and it has been confirmed that they contain sufficient flexibility to allow the employer to agree that parental bereavement leave shall be treated in exactly the same way as other types of family leave.

TRUSTEE'S REPORT (CONTINUED)

Going Concern

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.

The Trustee is required to follow the Trust Deed and Rules and cannot pay benefits other than in accordance with the Rules dated 30 June 2008 (as amended).

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

TRUSTEE'S REPORT (CONTINUED)

Membership Movements
The membership reconciliation for the reporting period is detailed below.

Thales UK Pension Scheme - Section 1 membership movements	Active	Deferred	Total Pensioners (Pensioners + Dependants + Children)	Pensioners	Pensioner Dependants	Pensioner Children
Number as at 1 January 2020 (Brought forward numbers from 2019 Accounts)	**668**	**4370**	**7625**	**6111**	**1510**	**4**
Adjustments*	-	-	-	-	-	-
New Entrants	-	-	121	-	120	1
Death in Service	-	-	-	-	-	-
Death in Deferment	-	-15	-	-	-	-
Death in Retirement	-	-	-329	-230	-99	-
Child Pension Ceasing	-	-	-3	-	-	-3
Retirements from Active	-24	-	24	24	-	-
Retirements from Deferred		-169	169	169	-	-
Leavers - Deferred	-35	35	-	-	-	-
Leavers - Opt Out	-	-	-	-	-	-
Retirements (full commutation)	-	-27	-40	-6	-34	-
Transfers Out	-	-40	-	-	-	-
Number as at 31 December 2020	**609**	**4154**	**7567**	**6068**	**1497**	**2**

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 2020 (Brought forward numbers from 2019 Accounts)	734	1502	3090	2665	412	13
Adjustments*	1	-1	-	-	-	-
New Entrants	-	-	48	-	48	-
Death in Service	-2	-	-	-	-	-
Death in Deferment		-4	-	-	-	-
Death in Retirement	-	-	-99	-76	-23	-
Child Pension Ceasing	-	-	-2	-	-	-2
Retirements from Active	-35	-	35	35	-	-
Retirements from Deferred	-	-61	61	61	-	-
Leavers - Deferred	-25	25	-	-	-	-
Leavers - Opt Out	-	-	-	-	-	-
Retirements (full commutation)	-	-1	-11	-1	-10	-
Transfers Out	-	-13	-	-	-	-
Number as at 31 December 2020	673	1447	3122	2684	427	11

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

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

Members who elected to join the Enhanced DC category on the 31 December 2007 are classified as deferred members. There were 72 Enhanced DC members as at 31 December 2020 (75 as at 31 December 2019).

Members whose benefits are funded by annuity policies are included in the above tables. Section 1; 196 (108 pensioners and 88 dependants), Section 2; none.

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
CQS
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 Aberdeen 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 Trustee on the 10 September 2020. 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 Trustee will monitor the stewardship and engagement activities for each of its investment managers on an annual basis. In addition, the Trustee has given its investment managers full discretion to evaluate environmental, social and corporate governance issues in the selection, retention and realisation of investments. During 2020 the Trustee reviewed their Stewardship and Engagement policy, which is detailed in the SIP. The Trustee has detailed how it has acted on the principles within the SIP and provided details of the stewardship, engagement and voting undertaken with regards to the Scheme's investments within the Implementation Statement that accompanies this report.

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.

TRUSTEE'S REPORT (CONTINUED)

Investment Objectives (Continued)

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.

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, Alpha Real, Ancala, Aviva, Brigade, Carval, CQS, Credit Suisse, Equitix, Highbridge, LGIM, M&G, Octopus, Orchard, PGIM, Standard Life, Nuveen	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 changes to the Investment Policy were implemented:

- In May 2020, the Scheme committed $42m to Carval's Credit Value Fund V. The commitment will be funded using the proceeds from the previous vintages of the Credit Value Funds that the Scheme has committed to. The commitment was made to maintain the Scheme's strategic allocation to Carval at 2% of the Scheme assets.
- In July, the Scheme terminated the Credit Suisse ILS mandate. Redemptions from the fund take place on a quarterly basis, however, a significant portion of the fund was held in 'side pockets' and could not be redeemed immediately. As at the end of the year, c.£63.5m has been distributed from the mandate and the Scheme still has a c.£26.3m allocation to the Credit Suisse mandate.

TRUSTEE'S REPORT (CONTINUED)

Changes in respect of Investment Policy (Continued)

- In July, the Scheme made commitment of £50m to a Multi-Asset Credit mandate to be managed by CQS. The commitment was funded using the redemption proceeds from the Credit Suisse ILS mandate.
- In December, there was a modest increase in the level of interest rate hedging undertaken by LGIM.

Review of Investment Performance of the Scheme

For the year ended 31 December 2020, the Scheme returned 5.4% against a benchmark return of 4.6%. The return over the last three years is 5.2% per annum (p.a.) against a benchmark of 5.0% p.a. The return over the last five years is 7.5% per annum (p.a.) against a benchmark of 7.9% p.a. Since the combined performance measurement started in January 2005 the assets have returned 7.3%p.a. against a benchmark of 6.9% p.a.

The total net assets held by the Scheme, as at 31 December 2020, were £2.77 billion (31 December 2019: £2.72 billion).

TRUSTEE'S REPORT (CONTINUED)

Investment performance for the period 1 January 2020 to 31 December 2020 is set out below:

	12 Month Return (%)			Asset Value (£m.)	Inception Date	Benchmark/ Target	Performance Target	Active/ Passive
	Fund	Benchmark	Relative	31/12/2020				
Thales UK Pension Scheme	**5.39**	**4.56**	**0.83**	**2,769.9**	Jan 2005			
Equity				**703.6**				
AQR Low Volatility[1]	5.8	15.9	-10.1	177.9	May 2013	MSCI World	Track Benchmark, with lower volatility	Active
Hosking Global Equity[1]	11.5	16.3	-4.8	119.4	Jul 2016	MSCI World US (GBP)	Outperform Benchmark	Active
LGIM Global Equity RAFI	2.8	2.0	0.9	209.9	Mar 2009	FTSE RAFI AW 3000 GBP	Track Benchmark	Passive
Majedie UK Equity	-4.0	-9.8	5.9	196.4	May 2005	FTSE All Share	Outperform Benchmark	Active
Alternative Growth Assets				**995.7**				
Alcentra CLO[1]	-0.2	1.9	-2.1	75.0	Sep 2015	3 month USD LIBOR + 1.25% p.a.	Outperform Benchmark	Active
Alcentra Private Lending	5.7	5.7	0.0	51.9	Mar 2018	7-9% net IRR	Outperform Benchmark	Active
Alpha Real	4.1	4.1	0.0	51.5	Jan 2017	Index Linked Gilts + 2% p.a.	Outperform Benchmark	Active
Ancala	8.3	8.3	0.0	25.8	May 2016	RPI + 4.5% p.a or 9% p.a.	RPI + 4.5% or 9% p.a.	Active
Aviva	2.8	2.8	0.0	56.1	Dec 2017	Yield of 7-8% p.a.	7.0 – 8.0% p.a.	Active
Brigade	1.4	3.9	-2.4	30.6	Nov 2012	Credit Suisse Leveraged Loan Index (50%) Merrill Lynch High Yield Constrained Index (50%)	+8.0 – 12.0% p.a.	Active
Carval II[1]	-39.4	6.2	-45.5	0.8	Jun 2013	Merrill Lynch High Yield	12.0 – 15.0% p.a.	Active
Carval III[1]	2.1	6.2	-4.1	11.4	Jun 2015	Merrill Lynch High Yield	12.0 – 15.0% p.a.	Active
Carval IV[1]	1.2	6.2	-4.9	15.1	Sep 2017	Merrill Lynch High Yield	12.0 – 15.0% p.a.	Active
Carval V[1]	-	-	-	3.1	May 2020	Merrill Lynch High Yield	12.0 – 15.0% p.a.	Active
CQS	-	-	-	54.4	Jul 2020	3 Month GBP LIBOR	+4.0 – 5.0% p.a.	Active
Credit Suisse IR	-	-	-	26.3	Aug 2011	3 Month GBP LIBOR	+3.0 – 5.0% p.a.	Active
Equitix II	10.5	10.5	0.0	38.6	Sep 2011	12.5% gross IRR	12.5% gross IRR	Active
Equitix III	9.4	9.4	0.0	28.0	Jun 2013	12.5% gross IRR	11.0% gross IRR	Active
Equitix IV	13.8	13.8	0.0	66.5	Sep 2015	11.0% gross IRR	10.0% gross IRR	Active
Equitix M25	9.0	9.0	0.0	21.8	Jan 2017	10.0% gross IRR	10.0% gross IRR	Active
Equitix V	7.1	7.1	0.0	22.3	Jul 2018	10.5% gross IRR	11.0% gross IRR	Active

	12 Month Return (%) Fund	Benchmark	Relative	Asset Value (£m.) 31/12/2020	Inception Date	Benchmark/ Target	Performance Target	Active/ Passive
Highbridge[1]	4.5	4.5	0.0	52.4	Dec 2017	6.5% - 8.5% net yield	+ 7.0 – 8.0% p.a.	Active
LGIM Long Lease Property	5.4	2.1	3.3	77.1	Feb 2013	AREF/IPD Long Income Property Fund Index	Absolute return	Active
M&G European Long Lease Property1	0.4	0.4	0.0	39.0	Dec 2015	European CPI + 3.0% p.a.	Outperform Benchmark	Active
M&G European Property1	1.6	4.8	-3.2	45.5	Sep 2012	IPD Pan European Property Funds Index	7.0% - 9.0% p.a.	Active
M&G Illiquid Credit Opps	0.1	0.6	-0.6	40.3	Oct 2019	3 month GBP LIBOR + 5.0% p.a.	Outperform Benchmark	Active
Nuveen1	-1.8	-1.8	0.0	26.6	Apr 2015	8% - 12% net IRR	8.0 – 12.0% net IRR	Active
Octopus Healthcare II	6.2	6.2	0.0	26.6	Feb 2014	9% net IRR	9.0% net IRR	Active
Orchard1	6.5	6.5	0.0	18.0	Nov 2015	3 month USD LIBOR + 9.0% p.a.	Outperform Benchmark	Active
PGIM	-0.8	-0.8	0.0	19.8	Aug 2018	2055 ILG + 2% p.a.	RPI + 2% p.a.	Active
Standard Life Property	-0.5	-1.1	0.6	71.3	Dec 2011	IPD All Balanced Index	Outperform Benchmark	Active
Liability Matching & IG Fixed Income				**1070.6**				
AllianzGI Global Corporate Bonds	1.5	0.7	0.8	215.0	Apr 2010	BarCap Global Aggregate Credit GBP hedged	+1.5% p.a.	Active
Insight	0.2	0.6	-0.4	117.4	Jul 2018	3 month GBP LIBOR	+ 1.0-1.5% p.a.	Active
Loomis	3.1	0.7	2.3	221.3	Feb 2018	Barclays Global Agg Corp G4 GBP hedged	+ 2.0% p.a.	Active
LGIM Swaps & Collateral 1	24.9	24.9	0.0	283.7	Apr 2012	n/a		Passive
LGIM Swaps & Collateral 2	20.3	20.3	0.0	113.9	Apr 2012	n/a		Passive
Currency Hedge	-	-	-	13.9	Dec 2011	n/a		Passive
Cash	-	-	-	105.3	Nov 2015	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.

[1]Denotes funds denominated in a non-GBP currency. Returns are shown in local currency.

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 24 to 46.

On the 1 January 2020 the Scheme's remaining Equitable Life policies transferred to Utmost.

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. A Funding Level Trigger Event occurred at the end of Q1 2020, increasing the guarantees level to £900m.

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 2020 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

TRUSTEE'S REPORT (CONTINUED)

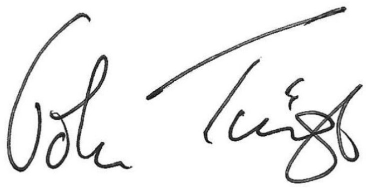
Basis of Investment Managers' Fees (Continued)

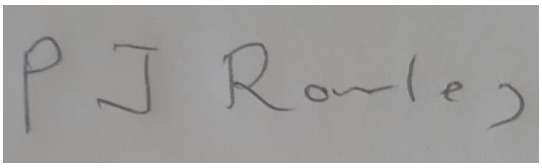
managers with a greater alignment with the Trustee's interests. The fee bases of the managers will be reviewed periodically by the Investment Sub-Committee on behalf of the Trustee.

Further Information

Further legislative disclosures are included in the Compliance Statement on pages 86 and 87.

Signed on behalf of Thales Pension Trustees Ltd on 22 July 2021





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Thales UK Pension Scheme

Chair's Statement for the year-ended 31 December 2020

Introduction
Regulations effective from 6 April 2015 require 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 Trustee has embedded these minimum standards over the period 1 January to 31 December 2020.

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 2020
Scottish Widows	£13,904,434
Utmost Life & Pensions	£889,409
Prudential	£202,797
Phoenix Life	£83,579
Scottish Friendly	£81,190
Aviva	£66,846
Scottish Widows (alternate policies)	£36,108
Clerical Medical	£31,650

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 far 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 Trustee has 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 Trustee has focused the bulk of their analysis and commentary below on Scottish Widows, Utmost Life & Pensions ("Utmost") 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 £15.0 million out of a total £15.3 million as at 31 December 2020).

The Scheme's assets with Equitable Life were transferred to Utmost Life & Pensions on 1 January 2020. Assets were firstly invested in the Utmost Secure Cash fund and, due to market volatility and potential short tenure of these funds with Utmost, the Trustee instructed Utmost to invest the funds previously held in With-Profits Funds in their Money Market fund, unless members elected to invest assets in other Utmost unit-linked funds. The Trustee has decided to consolidate the AVC arrangements into the Scheme's existing DC Section which is invested via Mercer Workplace Savings on a Scottish Widows platform and administered by Equiniti. The Trustee agreed on the mapping advice presented by Mercer on January 2021 and the Utmost

Chair's Statement for the year-ended 31 December 2020 (Continued)

AVC transfer to the Scottish Widows platform is due to be completed by June 2021. Members will now have received communication in regards to this transfer and they will be able to elect to invest in other funds available on the Scottish Widows platform other than those to which they have been mapped, should they wish to do so.

1. The Scheme's default investment arrangement

The Trustees is 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 could be considered a 'default' for the members in question.

Appendix 1 shows the Trustees' Statement of Investment Principles signed on 30 September 2020. 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 2020, and continues to reflect the Trustee intention to design a lifestyle arrangement that helps members grow their account initially and then protect its value as they get closer to retirement. Under this lifestyle arrangement, members who are 10 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 10 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 10 years leading up to their retirement age. Members have the opportunity to opt-out of this arrangement at any time.

The table below sets out the key features of this lifestyle investment arrangement and explains why the Trustee believes each one to be appropriate for the DC membership in general.

Chair's Statement for the year-ended 31 December 2020 (Continued)

Default feature	Rationale for being in members' best interests
Under this lifestyle arrangement, members who are 10 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.	The initial target allocation is split as follows: 50% in global equities and 50% in diversified growth. This investment arrangement applies until 10 years prior to their selected retirement age. 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. Whilst younger members can withstand the potential downside of equities (as they have sufficient time for markets to recover), the Trustee believes it is prudent to include an allocation to diversified assets during the growth phase, since this is expected to mitigate the impact of any fall in the value of equities on members' Accounts.
In the 9 years leading up to their expected retirement age, members' savings are gradually moved into less risky investments such as corporate bonds, gilts and Money Market instruments to offer more protection from market volatility.	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. The strategy concludes with a 60% allocation in Long-dated gilts and 40% in Money Market.

The Trustee will review the suitability of this arrangement periodically. The Trustee 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. During 2020, there were no changes made to the underlying funds invested with Scottish Widows.

Legacy Equitable Life Lifestyle Strategy

In 2012, the Trustee opted to move members' account balances that were linked to the Equitable Life With Profits Fund to a new provider, Scottish Widows, which would be able to offer a variety of different choices and investment managers through a single 'platform'. When assets were moved, the Trustee designed a lifestyle strategy for those members that did not self-select where their assets should be invested. The original intention was 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

Chair's Statement for the year-ended 31 December 2020 (Continued)

through out the 15 years leading up to their retirement age. Members have the opportunity to opt-out of this arrangement at any time.

The table below sets out the key features of this lifestyle investment arrangement and explains why the Trustee believes each one to be appropriate for the DC membership in general.

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.	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. Whilst younger members can withstand the potential downside of equities (as they have sufficient time for markets to recover), the Trustee believes it is prudent to include an allocation to diversified assets during the growth phase, since this is expected to mitigate the impact of any fall in the value of equities on members' Accounts.
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.	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. 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.

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

2. Disclosures on core financial transactions

The Trustee is 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.

Chair's Statement for the year-ended 31 December 2020 (Continued)

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 Trustee operates 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 Trustee has agreed timescales with Equiniti for the processing of all member-related services, including core financial functions relating to quoting and paying benefits. These timescales are well within any applicable statutory timescales.

Equiniti record all member transactions and benefit processing activities in a work management system, which assigns the relevant timescale to the task. Equiniti's administration reports then disclose their performance against these agreed timescales. These disclosures are considered by the Trustee at their routine meetings. The Trustee 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 Trustee arranges for spot-checks of member data and benefit calculations to ensure that core financial transactions and benefit payments are accurate. These are usually undertaken annually as part of the Scheme's independent audit.

The table below sets out the Scheme's core financial transactions and the controls that 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	*Promptness* The administrator's service level agreement for switching investments is 5 days from the date of request. *Accuracy* All switches are reconciled with manager transaction statements. All members are notified by the administrator when a switch is completed.
Payment of transfer values	*Promptness* 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. *Accuracy* All transfer values are reconciled by the provider with the individual fund managers and subject to periodic audit checks.

Chair's Statement for the year-ended 31 December 2020 (Continued)

Core financial transaction	Key internal control
Payment of benefits to members	*Promptness* 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. *Accuracy* The Scheme's administrator operates a peer review system for all benefit calculations. Data accuracy is subject to regular evaluation and updating.

There have been no material administration service issues which need to be reported here by the Trustee. They are confident that the processes and controls in place with the administrator are robust and will ensure that the financial transactions, which are important to members, are dealt with properly. Over the period to which this Statement relates (1 January to 31 December 2020), Equiniti have met their Service Level Agreements (SLAs) to the following extent on key tasks:

Key Tasks	Total Cases Completed	Total % achieved against SLA
Early Leaver	90	88%
Transfer Out Quotation	995	81%
Transfer Out Finalisation	246	95%
Retirement Quotation	1,414	77%
Retirement Set Up	455	95%
Death	1,845	90%
AVC's	61	92%
Member Record Update	1,106	96%
Divorce	114	96%
General Correspondence	6057	93%
Total	**12,383**	**90%**

3. Value

As required by Administration Regulations, the Trustee is 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 Trustee has taken account of statutory guidance when producing this section.

Chair's Statement for the year-ended 31 December 2020 (Continued)

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 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 (% p.a.)
Thales Global Equity†	0.23
Thales Diversified Growth†	0.82
Thales Corporate Bond†	0.48
Thales Long Dated Gilts	0.21
Thales Index-Linked Gilts†	0.21
Thales Money Market	0.22

† 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 (% p.a.)
Thales UK Equity	0.18
Thales Global Multi-Asset	0.47
Thales Socially Responsible	0.85
Thales Mixed Bond	0.38

Source: Scottish Widows as at 31 December 2020

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.

Utmost (heritage Equitable Life)

Members with AVC assets held with Utmost 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 Utmost.

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

Chair's Statement for the year-ended 31 December 2020 (Continued)

all With Profits members had their funds mapped into the Utmost Secure Cash Fund. Due to market volatility and potential short tenure of these funds with Utmost, the Trustee instructed Utmost to invest the funds previously held in With-Profits Funds in their Money Market fund until such time that they are ready to transfer the assets into another appropriate pension arrangement. Starting 1 July 2020, the transition of funds in the Secure Cash Fund to the Money Market fund gradually took place over the following 6 months.

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 (% p.a.)
Utmost Managed	0.75% pa
Utmost UK Equity Life (previously Pelican)	0.75% pa
Utmost UK FTSE All-Share Tracker	0.50% pa
Utmost European Equity	0.75% pa
Utmost US Equity (previously North American)	0.75% pa
Utmost Asia Pacific Equity (previously Far Eastern)	0.75% pa
Utmost Global Equity (previously International Growth)	0.75% pa
Utmost Fund of Investment Trusts**	0.75% pa
Utmost Money Market	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 Utmost 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 (% p.a.)
Prudential Deposit Admin	No explicit charges
Prudential Discretionary	0.81% pa
Prudential Cash	0.50% 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

Chair's Statement for the year-ended 31 December 2020 (Continued)

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 Trustee has assessed its annualised performance and have concluded that this compares favourably relative to suitable peer funds.

The Prudential Deposit Admin 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.

<u>Transaction costs</u>

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 costs 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 01/01/2020 to 31/12/2020	
Fund	**Transaction Costs (%)**
Thales Global Equity	0.01
Thales Diversified Growth	0.43
Thales Corporate Bond	0.03
Thales Long Dated Gilts	0.03
Thales Index-Linked Gilt	0.10
Thales Money Market	0.01

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

Thales UK Equity	0.00
Thales Socially Responsible	0.12
Thales Global Multi Asset	0.00
Thales Mixed Bond	0.08

Chair's Statement for the year-ended 31 December 2020 (Continued)

Utmost (heritage Equitable Life) Transaction costs for period 01/10/2019 to 30/09/2020*	
Fund	**Transaction Costs (% p.a.)**
Utmost Managed	0.01
Utmost UK Equity Life	0.00
Utmost UK FTSE All-Share Tracker	0.01
Utmost European Equity	0.00
Utmost US Equity	0.01
Utmost Asia Pacific Equity	0.01
Utmost Global Equity	0.01
Utmost Fund of Investment Trusts**	0.03
Utmost Money Market	0.00

Prudential Transaction costs for period 01/10/2019 - 30/09/2020*	
Fund	**Total Transaction Costs (%)**
Prudential Deposit	0.00
Prudential Discretionary	0.16
Prudential Cash	0.00

**This is the most recent transaction cost data supplied at time of writing.*
***This fund is now closed to new investments*

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 two examples 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 57, using a starting pot size of £54,198 which is reflective of the average fund value for members of this age.

Projected Pot sizes in Today's Money									
		Most Popular							
		Default Arrangement		Most expensive fund: Thales Diversified Growth		Cheapest and highest expected return fund: Thales UK Equity		Lowest expected return: Thales 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
0	57	£54,198	£54,198	£54,198	£54,198	£54,198	£54,198	£54,198	£54,198
1	58	£54,125	£53,830	£55,699	£55,100	£55,824	£55,723	£53,257	£53,132
2	59	£53,929	£53,366	£57,241	£56,017	£57,499	£57,292	£52,332	£52,088
3	60	£53,612	£52,808	£58,825	£56,950	£59,224	£58,904	£51,424	£51,064
4	61	£53,029	£52,044	£60,454	£57,898	£61,000	£60,562	£50,531	£50,060
5	62	£52,280	£51,156	£62,128	£58,862	£62,830	£62,267	£49,653	£49,075
6	63	£51,398	£50,169	£63,848	£59,841	£64,715	£64,019	£48,791	£48,110
7	64	£50,506	£49,183	£65,615	£60,838	£66,657	£65,821	£47,944	£47,165
8	65	£49,629	£48,216	£67,432	£61,850	£68,656	£67,674	£47,111	£46,237

The second illustration is based on some of the youngest members in the Scottish Widows policy aged 41 with a starting pot size of £10,791 which is reflective of the average fund value for members of this age.

Projected Pot sizes in Today's Money									
		Most Popular							
		Default Arrangement		Most expensive fund: Thales Diversified Growth		Cheapest and highest expected return fund: Thales UK Equity		Lowest expected return: Thales 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
0	41	£10,791	£10,791	£10,791	£10,791	£10,791	£10,791	£10,791	£10,791
1	42	£11,039	£10,952	£11,090	£10,971	£11,115	£11,095	£10,604	£10,579
2	43	£11,292	£11,116	£11,397	£11,153	£11,448	£11,407	£10,420	£10,371
3	44	£11,551	£11,282	£11,712	£11,339	£11,792	£11,728	£10,239	£10,167
4	45	£11,816	£11,450	£12,037	£11,528	£12,145	£12,058	£10,061	£9,967
5	46	£12,087	£11,621	£12,370	£11,720	£12,510	£12,398	£9,886	£9,771
6	47	£12,364	£11,794	£12,712	£11,915	£12,885	£12,746	£9,714	£9,579
7	48	£12,648	£11,970	£13,064	£12,113	£13,272	£13,105	£9,546	£9,391
8	49	£12,938	£12,149	£13,426	£12,315	£13,670	£13,474	£9,380	£9,206
9	50	£13,234	£12,331	£13,798	£12,520	£14,080	£13,853	£9,217	£9,025
10	51	£13,476	£12,461	£14,180	£12,728	£14,502	£14,243	£9,057	£8,848
11	52	£13,659	£12,539	£14,572	£12,940	£14,937	£14,644	£8,900	£8,674
12	53	£13,780	£12,563	£14,976	£13,155	£15,385	£15,056	£8,745	£8,503
13	54	£13,866	£12,558	£15,390	£13,374	£15,847	£15,480	£8,593	£8,336
14	55	£13,916	£12,523	£15,816	£13,597	£16,322	£15,916	£8,444	£8,172
15	56	£13,936	£12,465	£16,254	£13,823	£16,812	£16,364	£8,298	£8,011
16	57	£13,924	£12,385	£16,704	£14,053	£17,316	£16,824	£8,154	£7,854
17	58	£13,905	£12,301	£17,167	£14,287	£17,836	£17,298	£8,012	£7,699
18	59	£13,855	£12,195	£17,642	£14,525	£18,371	£17,785	£7,873	£7,548
19	60	£13,773	£12,067	£18,131	£14,767	£18,922	£18,285	£7,736	£7,400
20	61	£13,623	£11,893	£18,632	£15,013	£19,490	£18,800	£7,602	£7,254
21	62	£13,431	£11,690	£19,148	£15,263	£20,074	£19,329	£7,470	£7,111
22	63	£13,204	£11,464	£19,678	£15,517	£20,677	£19,873	£7,340	£6,972
23	64	£12,975	£11,239	£20,223	£15,775	£21,297	£20,433	£7,213	£6,835
24	65	£12,750	£11,018	£20,783	£16,038	£21,936	£21,008	£7,087	£6,700

Notes to the illustrations:

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.

Chair's Statement for the year-ended 31 December 2020 (Continued)

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 UK Equity:	5.50%
Thales Diversified Growth:	5.00%
Thales Money Market:	0.75%
Default Investment Strategy:	Dependent on term to selected retirement age

<u>Value for members</u>

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

The Trustee 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, Utmost Life and Prudential.

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

The reasons underpinning this conclusion include:

- 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 Utmost 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 2020 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 Scheme 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 Trustee pays for all wider administration, insurance, and advisory costs associated with operating the Scheme, which further enhances the value that members receive.

Chair's Statement for the year-ended 31 December 2020 (Continued)

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.

Requirement	How met
The Trustees must have appropriate knowledge and understanding of the law relating to pensions and trusts and the investment of assets	It is mandatory for the Trustees to complete The Pensions Regulator's online trustee training modules when they are appointed. Scheme specific induction training is also provided. 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. 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.
The Trustees must be conversant with the Scheme's own documentation	All key Scheme documentation is accessible by the Trustees. Periodic training focuses on Scheme documentation, such as the Trust Deed & Rules. The Trustees have demonstrated working knowledge of their Statement of Investment Principles (SIP) by updating it and reviewing changes on 30 September 2020.

Chair's Statement for the year-ended 31 December 2020 (Continued)

Requirement	How met
Knowledge and resources generally	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. 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. The Scheme pays all reasonable expenses of the Trustees attending conferences or externally-run training courses relevant to their role. The Trustees also meet with their professional advisers at least twice annually to transact core business, and each meeting includes an overview of topical news and developments. The Trustees' meet with their professional investment advisor at least annually. The Trustees maintain a training log that sets out individual and whole-board based training activity. The Trustees receive and review quarterly investment performance reports from their advisor. The Trustees' professional advisors attend all meetings and are asked to input into the agenda. The Trustees consider input from the Trustee's professional advisors that summarises forthcoming changes to regulations, their potential impact on the Scheme 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.

Chair's Statement for the year-ended 31 December 2020 (Continued)

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.

P J Rowley

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

Date: ……22 July 2021……………………………………………………………………………

Appendix 1

Statement of Investment Principles (SIP) – Thales UK Pension Scheme (September 2020)

Introduction

Under the Pensions Act 1995 (as amended by the Pensions Act 2004), the Thales Pension Trustees Limited (the "Trustee") is required to prepare a statement of the principles governing investment decisions. This document contains that statement and describes the investment principles pursued by the Trustee of the Thales UK Pension Scheme (the "Scheme").

The Trustee has consulted Thales Group UK Limited ("the Employer") on the principles set out in this statement and will consult the Employer on any changes to it. However, the ultimate power and responsibility for deciding investment policy lies solely with the Trustee.

Before drawing up this statement, the Trustee has obtained and considered written advice from the Scheme's Investment Consultant, The Trustee will review this document regularly, at least every three years, and without delay following a significant change in investment policy.

The Scheme is comprised of two Sections, the DB and DC Sections. The Investment Objective, Risk Management Policy and General Investment Policy adopted by the Trustee is detailed in this SIP.

The SIP will be made available to members on request and is made available on a public website, as per the regulations.

DEFINED BENEFIT ASSETS

Investment objectives

The funding objective of the Scheme is to be 100% funded on a technical provision basis.

The other major objective is to hold assets which generate cashflow, to be used in the payment of benefits.

The Trustee will review these objectives regularly and amend them as appropriate.

Investment strategy

The Trustee has received advice to determine an appropriate investment strategy for the Scheme consistent with achieving the objectives referred to above. The Trustee has agreed an approach to managing the assets over the long term, split into three distinct phases (commencing immediately after 31st December 2017) as detailed below.

Phase	Duration	Return target
1	9 years	Gilts + 3% per annum
2	8 years	Linear reduction until Phase 3
3	Onwards	Gilts + 0.75% per annum

Phase 1

Asset category	Allowable range %	Return target
Quoted Equity	25-35	Cash + 4% p.a.
Alternative growth assets	25-45	Cash + 3.5% p.a.
Liability Matching and IG fixed income including cash[1]	25-45	Gilts + 0.5% p.a.

Whilst the above table is the primary measure of asset allocation, the Company and Trustee recognise that it is only one way to look at the investment universe, and some holdings may fit in more than one category. Consequently, the Investment Sub-Committee will also review the aggregation of the return expectation and liquidity of each individual holding on a regular basis to ensure consistency with the overall desired outcome.

Interest rate and inflation trigger levels and amounts have also been set.

The guiding principles in managing the portfolio in this phase will be:

- The return expectations will be maintained around gilts +3% p.a. using 10-year assumptions
- Major changes to the portfolio will not be expected to increase risk (as measured by funding level volatility)
- There is a desire to reduce the reliance on quoted equities over this phase. Diversifying the existing portfolio into a wider range of return-seeking assets, including alternative equity assets or including but not limited to overlay management, smart beta or smart portfolio construction like for example risk parity or minimum variance

[1] In addition to traditional liability matching assets such as government bonds, this portfolio may contain a range of assets such as swaps, swaptions, total return swaps, repos and other instruments which offer exposure to movements in interest rates and inflation without the need to hold the underlying assets. This increases the exposure of the assets to those movements beyond the level that could be achieved by just holding bonds. The portfolio will always contain enough eligible collateral to back any swaps and the exposure will be limited to 100% of the assets - so the effect will be to reduce the level of risk to the funding level

- Alternative sources of return will be sought to compensate for falling fixed income yields. It may be for example higher yielding less liquid assets like infrastructure, private debt or certain long term cash flow oriented real estate strategy or also assets which normally have a low correlation to traditional asset classes, and which generate income for the investor as well as growth in the market value of the asset. For example, multi-class credit, which invests in wide variety of the credit market, both by geography and instrument selection; and Absolute Return Bonds, which invest in a range of fixed income investment asset classes that aim to provide a positive investment return regardless of the prevailing market environment
- Risks will only be taken where it is considered that there will be a return benefit
- Changes will require consideration of cash generation, cost and complexity
- Assets which would be deemed desirable in Phase 3, should be considered for purchase subject to the bullets above

The investment strategy includes a currency hedging overlay to partially hedge the Scheme's exposure to USD, Euro and Yen. Any exposure to emerging market currencies is unhedged.

The Trustee has delegated responsibility for certain investment decisions to its Investment Sub-Committee ("ISC"). All decisions of the ISC will be recorded in committee minutes and made available to the full Trustee Board

The ISC has designed and implemented a de-risking plan by agreeing de-risking triggers at which the interest rate and inflation hedge ratio will be increased.

The ISC is governed by a Terms of Reference document which may contain greater restrictions on these ranges. These are reviewed and agreed with the Trustee from time to time. All other aspects of asset allocation strategy, manager structure and manager selection/de-selection will be decided by the ISC under its delegated powers.

The Trustee will monitor the liability profile of the Scheme and will regularly review, in conjunction with the Investment Consultant and the Scheme Actuary, the appropriateness of its investment strategy.

The expected return on investments and potential investments will be assessed regularly relative to the Scheme's investment objective.

The Trustee's policy is that there will be sufficient investments in liquid or readily realisable assets to meet cashflow requirements in foreseeable circumstances so that the realisation of assets will not disrupt the Scheme's overall investments, where possible. The Trustee, together with the Scheme's administrators, will hold sufficient cash to meet benefit and other payment obligations.

The assets held must be properly diversified in such a way as to avoid excessive reliance on any particular asset, issuer or group of undertakings and so as to avoid accumulations of risk in the portfolio as a whole. Investments in assets issued by the same issuer or by issuers belonging to the same group must not expose the Scheme to excessive risk concentration.

The assets must consist predominantly of investments admitted to trading on regulated markets and that investment in assets which are not admitted to trading on such markets must in any event be kept to a prudent level.

No class of financial instruments is excluded from investment consideration.

Futures, swaps, options and other derivatives may be used for risk and efficient portfolio management purposes. Some short-term borrowing for settlement is allowed, but is strictly limited and for the purpose of trade settlement.

The Trustee's policy is to review its investments and to obtain written advice regarding their suitability for the Scheme in respect of the requirements set out in Section 36 of the Pensions Act at regular intervals. This will normally be annually but may be less frequent if there have been no significant changes. When deciding whether or not to make any new investments the Trustee will obtain written advice and consider whether future decisions about those investments should be delegated to a fund manager.

Risk Management

The Trustee recognises a number of risks involved in the investment of the Scheme's assets:

Deficit risk:

- is measured through a qualitative and quantitative assessment of the expected development of the liabilities relative to the current and alternative investment policies.
- at a scheme level the Trustee measures this risk using a Funding Ratio Volatility (%) metric.
- is managed through assessing the progress of the actual growth of the liabilities relative to the selected investment policy.

Manager risk:

- is measured by the expected deviation of the return relative to the benchmark set.
- is managed by limiting exposure to any one investment manager, consideration of the appropriate amount of the Scheme to allocate to each active portfolio and by monitoring the actual deviation of returns relative to the benchmark and factors supporting the managers' investment process.

Liquidity risk:

- is measured by the level of cashflow required by the Scheme over a specified period.
- is managed by the Scheme's administrators assessing the level of cash held in order to limit the impact of the cash flow requirements on the investment policy and through holding assets of appropriate liquidity.

Currency risk:

- is measured by the level of exposure to non-Sterling denominated assets.
- is managed by the implementation of a currency hedging programme (through a combination of a segregated currency hedging overlay and currency hedging carried out by some of the Scheme's investment managers) which reduces the impact of exchange rate movements on the Scheme's asset value.

Interest rate and inflation risk:

- is measured by comparing the likely movement in the Scheme's liabilities and assets due to movements in inflation and interest rates.
- is managed by holding a portfolio of matching assets (physical bonds and/or derivatives) that enable the Scheme's assets to better-match movements in the value of the liabilities due to inflation and interest rates.

Political risk:

- is measured by the level of concentration of any one market leading to the risk of an adverse influence on investment values arising from political intervention.
- is managed by regular reviews of the actual investments relative to policy and through the level of diversification within the existing policy.

Sponsor risk:

- is measured by receiving regular financial updates from the Employer and periodic independent covenant assessments.
- is managed through an agreed contribution and funding schedule.

Counterparty risk:

- is measured through a combination of market indicators (credit ratings and credit default swap spreads) and qualitative considerations.
- is managed by having a diverse range of counterparties and through the negotiation of a suitable collateralisation process where appropriate. The Trustee has delegated the measurement and management of counterparty risk to the relevant investment managers.

DEFINED CONTRIBUTION ASSETS

Investment objectives

The main objective of the Trustee is to ensure that there are appropriate investment options available to allow members to plan for a retirement that is both adequate and sustainable for their circumstances.

The Trustee recognises that members have differing investment needs and that these may change during the course of members' working lives. The Trustee also recognises that members have different attitudes and tolerance to risk.

The Scheme also has a default investment arrangement; this was created when members invested in the Equitable Life With Profits Fund were mapped to a newly-designed lifestyle arrangement. This is described in more detail in a separate section of this SIP.

Investment strategy and policies

The fund range the Trustee makes available includes a wide range of asset classes such as global equities, multi-asset funds, corporate bonds, diversified growth funds, bonds, gilts and money market instruments. Both active and passively managed funds are made available, depending on the asset class.

When considering appropriate investments for the DC Section of the Scheme, including the default investment arrangement, the Trustee has obtained and considered the written advice of a suitability qualified investment advisor. The advice received and arrangements implemented are, in the Trustee's opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

The funds available are all white-labelled funds and the Trustee is responsible for the selection, appointment, removal and monitoring of the underlying investment managers.

A lifestyle strategy is also available to members. This strategy seeks to gradually move the member's investments from higher to lower risk assets as the member approaches at retirement. If the member has more than 10 years to retirement they are invested in global equities and diversified growth funds. From 9 years before retirement age the member's assets are moved into less risky investments such as corporate bonds, gilts and money market instruments.

As members are able to make their own investment decisions the balance between the different kinds of investments is their decision. This balance will determine the expected return on a member's assets and should be related to the member's own risk appetite and tolerance.

The investment managers have discretion in the timing of realisations of investments and in considerations relating to the liquidity of those investments. Assets in the DC Section are invested in a long-term insurance contract with Scottish Widows. The assets underlying the insurance contract are invested in daily traded pooled funds which hold highly liquid assets, and therefore should be realisable at short notice based on either Trustee or member demand.

The items set out in this Section of the SIP are those that the Trustee considers to be financially material considerations in relation to the DC Section, and the default investment arrangement. The Trustee believes that the appropriate time horizon within which to assess these considerations should be viewed at the member level. This will be dependent on the member's age and when they expect to retire.

Risk management

Risks in a defined contribution arrangement lie with the member themselves. The Trustee has considered risks from a number of perspectives when designing the investments for the Scheme.

– Inflation:

is measured through the performance of the funds and whether this in excess of inflation.

is managed through the majority of funds being offered expected to outpace the rate of inflation (positive 'real' return), the performance of funds is monitored on a regular basis. The growth phase of the default investment arrangement is invested in global equities and other growth-seeking assets which is expected to provide returns in excess of inflation.

Market risk:

is measured through the volatility in the investment returns of the different funds

is managed by offering a range of funds, enabling members to set their own investment strategy depending on their risk tolerance and attitude. The member investment brochure reports the level of expected volatility for each of the funds from high to low. A lifestyle strategy, which looks to reduce risk as the member approaches retirement, is made available. The default investment arrangement is designed to diversify this risk to a level deemed appropriate for the majority of members.

Investment Manager risk

is measured by the performance of the investment strategy against its objectives and in an assessment of the Scheme's professional advisers including their business management, portfolio construction, idea generation and implementation.

is managed by monitoring the performance of funds on a regular basis and regularly reviewing the suitability of the strategies and funds being offered. The Scheme's investment consultant, Mercer, provides a rating of funds based on portfolio construction, idea generation, business management and implementation - these ratings are monitored on a regular basis.

Benefit Conversion risk

is measured as the difference between how members will take their retirement and members are invested

the Trustee provides a wide range of funds which enables members to invest according to how they intend to access their pension savings, a lifestyle strategy is also made available which aims to de-risk a member's savings as they approach retirement and their investment time horizon shortens. The default investment arrangement de-risks members gradually in the 15 years approaching their expected retirement age. The final allocation, at retirement, is 100% money market instruments as the Trustee expects members to access savings as a cash lump sum at retirement.

Environmental, Social and Governance risk

is measured by the impact on investment returns from any environmental, social or governance factors

the management of this risk is the responsibility of the investment managers, the Trustee's statements on ESG and stewardship are set out in a separate section of the SIP.

Default investment arrangement

For members previously invested in the Equitable Life With Profits Fund, the default investment arrangement was designed to replace, to the extent that is possible, the investment returns that relevant members may have reasonably expected from this holding. This default investment arrangement is not made accessible to other members of the Scheme.

The default investment arrangement is expected, over the long-term, to provide a reasonable rate of return relative to interest rates and inflation when members are more than 15 years from retirement, this is the growth phase. Members savings are then gradually moved to funds with lower risk, designed to provide more protection from market volatility. The arrangement is designed for members taking their assets entirely in the form of cash.

During the growth phase of the default investment arrangement members are invested in global equities and other growth-seeking assets with a small allocation to corporate bonds and index-linked gilts. The arrangement then de-risks into investment grade corporate bonds, index-linked gilts, long dated gilts and money market instruments; at retirement, after completion of de-risking, assets are invested entirely in money market instruments.

The investment managers have discretion in the timing of realisations of investments and in considerations relating to the liquidity of those investments. Assets in the DC Section are invested in a long-term insurance contract with Scottish Widows. The assets underlying the insurance contract are invested in daily traded pooled funds which hold highly liquid assets, and therefore should be realisable at short notice based on either Trustee or member demand.

In designing the default investment arrangement, and the balance between different kinds of investments, the Trustee has explicitly considered the trade-off between risk and expected returns.

The Trustee reviews the investment arrangement, at least triennially or on the back of any significant change in demographic to ensure that assets remain invested in the best interests of members.

DEFINED BENEFIT AND DEFINED CONTRIBUTION SECTIONS

Investment managers

In accordance with the Financial Services and Markets Act 2000, the Trustee will set general investment policy, but will delegate the responsibility for selection of specific investments to an investment manager or managers appointed by the ISC. The investment manager(s) shall provide the skill and expertise necessary to manage the investments of the Scheme competently.

The Trustee is not involved in the investment managers' day-to-day methods of operation and does not directly seek to influence attainment of their performance targets. The Trustee will maintain processes to ensure that performance is assessed on a regular basis by the ISC against a measurable objective for each manager, consistent with the achievement of the Scheme's long-term objectives, and an acceptable level of risk.

The ISC will regularly review the continuing suitability of the Scheme’s investments, including the appointed managers. The ISC seek long-term, ongoing partnerships with their investment managers to incentivise medium to long-term financial performance. The ISC does not set duration expectations for its partnerships but will monitor their suitability on an ongoing basis.

To incentivise medium to long-term financial performance, the ISC will assess investment manager performance over various periods including 3-year and since inception of the mandate. The ISC heavily biases its review of ongoing suitability of the investment manager on the assessment of the future performance expectations and the portfolio’s role in supporting the overall investment objectives.

The ISC will review the turnover and ongoing investment costs on an annual basis using the Industry standard templates and definitions developed by the Cost Transparency Initiative (CTI). Based on the guidance from its investment advisor, each portfolio has an expected investment turnover range. Deviations from that range will be reviewed with the investment manager.

The ISC also requires each of the investment managers to conform to the Scheme’s Statement of Investment Principles. The ISC will formally confirm their compliance annually.

Responsible Investment

The Trustee believes that environmental, social and corporate governance (ESG) issues including the impact of, and potential policy response to climate change can be financially material to long-term investment portfolios and should therefore be considered as part of the Scheme's investment process.

The Trustee delegates responsibility for the Scheme's policy on ESG risks to the ISC.

The ISC has given its investment managers full discretion to evaluate ESG issues in the selection, retention and realisation of investments. The ISC believes that good active managers have considered how to best account for ESG factors, including climate change risks, in their investment process. The ISC will review how the active managers have identified and managed material ESG risks (including climate change) on a regular basis.

It is accepted that pooled investments will be governed by the individual policies of the investment managers. The extent to which ESG considerations and climate changes risk are taken into account is left to the discretion of the pooled investment manager and forms part of the ISC's monitoring and ongoing assessment of these investments.

The ISC takes non-financial considerations into account in the selection of new asset classes and investment managers. Whilst it is the Trustee's preference that all companies should be run in a socially responsible way, it takes the view that its primary responsibility is currently to act in the best financial interest of the members of the Scheme and at this stage, the Trustee and ISC do not require their investment managers to take non-financial matters into account in their selection, retention and realisation of investments. The Trustee does make available an actively managed socially responsible fund in the DC Section.

Stewardship: Exercise of voting rights

The Trustee believes that good stewardship can enhance long-term portfolio performance and is therefore in the best interests of the Scheme's beneficiaries and aligned with fiduciary duty.

The Trustee delegates responsibility for the Scheme's policy on stewardship including the exercise of voting rights and engagement activities to the ISC.

The ISC's policy is to delegate responsibility for the exercising of rights (including voting rights) and stewardship obligations related to the Scheme's investments to the investment managers and to encourage the managers to exercise those rights.

To incentivise the medium to long-term non-financial performance of its investments, the ISC will monitor the stewardship and engagement activities for each of its investment managers on an annual basis. The ISC expects all its fund managers to monitor investee companies and directly engage with management on all relevant stewardship matters including performance, strategy, risks, social and environmental impact and corporate governance to improve the issuer's performance on a medium to long-term basis. The quality of each investment manager's approach forms part of the assessment of its ongoing suitability.

The ISC encourages best practice in terms of engagement with investee companies and expects the Scheme's investment managers to discharge their responsibilities in accordance with the principles of the Financial Reporting Council's 2020 UK Stewardship Code ("the Code"). The managers are required to report on the extent of their adherence to the Code, alongside their broader stewardship activities on an annual basis.

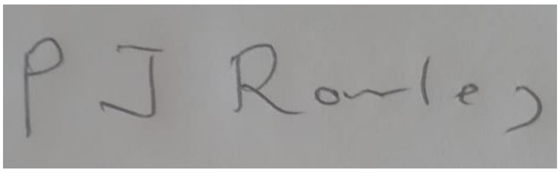
The Trustee will provide an implementation statement within its annual report signed after 1 October 2021. The implementation statement will set out how it has acted on the principles within this Statement and will provide details of the stewardship, engagement and voting undertaken with regards to the Scheme's investments.

Other matters

The Scheme is a Registered Pension Scheme for the purposes of the Finance Act 2004.

The Scheme's AVC arrangement provides for benefits to be accrued on a money purchase basis, with the value of members' funds being determined by the value of accumulated contributions adjusted for investment returns net of charges. In selecting appropriate investments, the Trustee is aware of the need to provide a range of investment options, which broadly satisfy the risk profiles of all members, given that members' benefits will be directly determined by the value of the underlying investments.

Signed:



Name: Peter Rowley (Chair)

Date: 30 Sept 2020

Authorised for and on behalf of the Trustee of the Scheme

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 Thales UK Pension Scheme

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of 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 2020 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; and
- the related notes 1 to 20.

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

In auditing the financial statements, we have concluded that the Trustee's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Scheme's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Trustee with respect to going concern are described in the relevant sections of this report.

Other information
The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Trustee is responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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 this regard.

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.

Extent to which the audit was considered capable of detecting irregularities, including fraud
Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the Scheme's industry and its control environment, and reviewed the Scheme's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of the Trustee, Scheme management*, Equniti Paymaster Ltd and the Scheme actuary* about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory framework that the Scheme operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included the Pension Act 1995, the Pensions Act 2004, the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 and the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the Scheme's ability to operate or to avoid a material penalty. These included the Scheme'sregulatory requirements.

We discussed among the audit engagement team including relevant internal specialists such as financial instruments andpensions actuarial regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud in the following area, and our specific procedures performed to address it is described below:

We responded to the significant risk of incomplete investment transactions:

- by testing the control environment at Northern Trust and reviewing each quarters investment reconciliation prepared by Northern Trust for the period 1 January to 31 December 2020. Our procedures comprised of the following:
- vouching every cash withdrawal and disbursement during the year to the Scheme bank account;
- vouching the movement of all cash and stock recorded by Northern Trust between fund managers;
- ensuring that that all income recorded by Northern Trust is recorded in their cash accounts;
- reviewing all expense items recorded by Northern Trust and sample test any unusual items or items of audit interest; and
- obtaining independent confirmations of all investments as at 31 December 2020 and vouching to the records maintained by Northern Trust, ensuring that any differences are due to pricing matters rather than unrecorded transactions.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
    - enquiring of the Trustee, Scheme management, Equiniti Paymaster Ltd and the Scheme actuary concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of Trustee and subcommittees' meetings and reviewing correspondence with the Pensions Regulator.

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

Deloitte LLP
Statutory Auditor
Birmingham, United Kingdom
22 July 2021

Financial Statements
Fund Account - For the year ended 31 December 2020

All amounts in tables are in £ millions unless otherwise stated

	Notes	Section 1 £'000	Section 2 £'000	2020 £'000	2019 £'000
Contributions and Benefits					
Contributions receivable					
Employer	5	74,838	27,944	102,782	103,459
Other income	6	-	-	-	642
		74,838	27,944	102,782	104,101
Benefits paid or payable	7	86,560	25,461	112,021	109,954
Payments to and on account of leavers	8	20,994	3,181	24,175	20,095
Administrative expenses	9	3,749	1,986	5,735	5,359
Other payments	10	1,019	985	2,004	1,759
		112,322	31,613	143,935	137,167
Net (withdrawals) from dealings with members		(37,484)	(3,669)	(41,153)	(33,066)
Returns on investments					
Investment income	11	42,902	13,850	56,752	57,119
Change in market value of investments	14	65,228	20,996	86,224	205,735
Taxation	12	(23)	(8)	(31)	(53)
Investment management expenses	13	(2,942)	(921)	(3,863)	(3,651)
Net returns on investments		105,165	33,917	139,082	259,150
Net increase in the fund during the year		67,681	30,248	97,929	226,084
Transfers between sections		(3)	3	-	-
Net Assets of the Scheme					
At 1 January		2,003,524	718,005	2,721,529	2,495,445
At 31 December		2,071,202	748,256	2,819,458	2,721,529

The notes on pages 54 to 81 form part of these financial statements.

Financial Statements

Statement of Net Assets (available for benefits) – As at 31 December 2020

	Notes	Section 1 £'000	Section 2 £'000	2020 £'000	2019 £'000
Investment assets	14				
Equities		141,462	50,831	192,293	202,084
Bonds		1,179,287	378,474	1,557,761	1,242,158
Pooled investment vehicles		1,196,657	419,265	1,615,922	1,598,790
Derivatives		36,175	11,171	47,346	26,637
Repurchase Agreements		55,522	18,758	74,280	64,471
AVC investments		1,797	13,495	15,292	16,296
Cash		108,519	38,331	146,850	86,282
Other investment assets balances		11,266	3,613	14,879	4,340
		2,730,685	933,938	3,664,623	3,241,058
Investment liabilities	14				
Derivatives		(15,678)	(4,218)	(19,896)	(4,959)
Repurchase Agreements		(667,142)	(188,554)	(855,696)	(532,616)
Other investment liabilities		(240)	(85)	(325)	(32)
		(683,060)	(192,857)	(875,917)	(537,607)
Total net investments		2,047,625	741,081	2,788,706	2,703,451
Current assets	15	25,204	8,142	33,346	21,604
Current liabilities	16	(1,627)	(967)	(2,594)	(3,526)
Net assets at 31 December		2,071,202	748,256	2,819,458	2,721,529

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 X to X of the Annual Report and these financial statements should be read in conjunction with that report.

The notes on pages 54 to 81 form part of these financial statements.

The financial statements on pages 52 to 53 were approved on behalf of the Trustee on 22 June 2021

Signed on behalf of Thales Pension Trustees Ltd

.... Trustee Director

P J Rowley
.... Trustee Director

Notes to the Financial Statements
For the year ended 31 December 2020

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	2019 £'000
Contributions and Benefits				
Contributions receivable				
Employer	5	75,129	28,330	103,459
Other income	6	130	512	642
		75,259	28,842	104,101
Benefits paid or payable	7	83,980	25,974	109,954
Payments to and on account of leavers	8	15,837	4,258	20,095
Administrative expenses	9	3,504	1,855	5,359
Other payments	10	894	865	1,759
		104,215	32,952	137,167
Net (withdrawals) from dealings with members		(28,956)	(4,110)	(33,066)
Returns on investments				
Investment income	11	43,166	13,953	57,119
Change in market value of investments	14	151,917	53,818	205,735
Taxation	12	(39)	(14)	(53)
Investment management expenses	13	(2,627)	(1,024)	(3,651)
Net returns on investments		192,417	66,733	259,150
Net (decrease) in the fund during the year		163,461	62,623	226,084
Net Assets of the Scheme: At 1 January		1,840,063	655,382	2,495,445
Net Assets of the Scheme: At 31 December		2,003,524	718,005	2,721,529

Notes to the Financial Statements
For the year ended 31 December 2020

Statement of Net Assets
(available for benefits)

	Notes	Section 1 £'000	Section 2 £'000	2019 £'000
Investment assets	14			
Equities		148,665	53,419	202,084
Bonds		934,839	307,319	1,242,158
Pooled investment vehicles		1,184,981	413,809	1,598,790
Derivatives		19,994	6,643	26,637
Repurchase Agreements		50,108	14,463	64,471
AVC investments		1,786	14,510	16,296
Cash		63,590	22,692	86,282
Other investment assets balances		3,217	1,123	4,340
		2,407,180	833,978	3,241,058
Investment liabilities	14			
Derivatives		(3,759)	(1,200)	(4,959)
Repurchase Agreements		(413,255)	(119,461)	(532,616)
Other investment liabilities		(23)	(9)	(32)
		(417,037)	(120,670)	(537,607)
Total net investments		1,990,143	713,308	2,703,451
Current assets	15	15,930	5,674	21,604
Current liabilities	16	(2,549)	(977)	(3,526)
Net assets at 31 December		2,003,524	718,005	2,721,529

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.

Notes to the Financial Statements
For the year ended 31 December 2020

4 Accounting policies (continued)

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.

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.

Notes to the Financial Statements
For the year ended 31 December 2020 (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 2020 (Continued)

5 Contributions

	Section 1 £'000	Section 2 £'000	2020 £'000
Contributions from employer:			
Normal	10,802	10,706	21,508
Deficit funding	59,700	15,300	75,000
Other - PPF Levy	1,723	938	2,661
Other – Employers expense contribution	2,000	1,000	3,000
Other - Top ups	613	-	613
	74,838	27,944	102,782

	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

Normal contributions from the employer include £3,605,910 and £3,507,404 (2019: £3,820,304 and £3,726,705) 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 2020 (Continued)

6 Other income

	Section 1 £'000	Section 2 £'000	2020 £'000
Claims on term insurance policies	-	-	-
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

7 Benefits paid or payable

	Section 1 £'000	Section 2 £'000	2020 £'000
Pensions	79,636	21,761	101,397
Commutations and lump sums on retirement	6,533	3,406	9,939
Lump sums death benefits	101	246	347
Refund on death	20	34	54
Taxation lifetime annual allowance exceeded	270	14	284
	86,560	25,461	112,021

	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
Special lump sum death benefits	124	4	128
	83,980	25,974	109,954

Notes to the Financial Statements
For the year ended 31 December 2020 (Continued)

8 Payments to and on account of leavers

	Section 1 £'000	Section 2 £'000	2020 £'000
Individual transfers to other schemes	20,994	3,181	24,175

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

9 Administrative expenses

	Section 1 £'000	Section 2 £'000	2020 £'000
Administration fees	628	262	890
Actuarial and consulting fees	1,050	463	1,513
Legal fees	247	249	496
Audit fees	41	41	82
Other expenses	24	10	34
PPF Levy	1,759	961	2,720
	3,749	1,986	5,735

	Section 1 £'000	Section 2 £'000	2019 £'000
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
	3,504	1,855	5,359

Notes to the Financial Statements
For the year ended 31 December 2020 (Continued)

10 Other payments

	Section 1 £'000	Section 2 £'000	2020 £'000
Premiums on term insurance policies	1,019	985	2,004

	Section 1 £'000	Section 2 £'000	2019 £'000
Premiums on term insurance policies	894	865	1,759

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

11 Investment income

	Section 1 £'000	Section 2 £'000	2020 £'000
Dividends from equities	3,032	1,090	4,122
Income from bonds	19,737	6,243	25,980
Income from pooled investment vehicles	18,273	6,284	24,557
Interest on cash and deposits	358	112	470
Swap income received	4,117	1,028	5,145
Annuity income	1,028	8	1,036
	46,545	14,765	61,310
Swap expenses paid	(2,523)	(694)	(3,217)
Repurchase agreement charges	(1,120)	(221)	(1,341)
	(3,643)	(915)	(4,558)
	42,902	13,850	56,752

Notes to the Financial Statements
For the year ended 31 December 2020 (Continued)

11 Investment income (continued)

	Section 1 £'000	Section 2 £'000	2019 £'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
	48,765	15,597	64,362
Swap expenses paid	(1,582)	(456)	(2,038)
Repurchase agreement charges	(4,017)	(1,188)	(5,205)
	(5,599)	(1,644)	(7,243)
	43,166	13,953	57,119

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 £23,154 section 1 & £8,320 section 2 (2019: £39,248 section 1 & £14,103 section 2).

13 Investment management expenses

	Section 1 £'000	Section 2 £'000	2020 £'000
Administration, management and custody*	2,942	921	3,683

	Section 1 £'000	Section 2 £'000	2019 £'000
Administration, management and custody*	2,627	1,024	3,651

*Included within administrative, management and custody fees are investment manager fees for Majedie Asset Management Limited of £719,750 (2019: £824,575). This is due to a performance related element of the management fee agreement.

Notes to the Financial Statements
For the year ended 31 December 2020 (Continued)

14 Investments

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

	Section 1 £'000	Section 2 £'000	2020 £'000	2019 £'000
Investments by strategy type				
Equity	524,483	188,461	712,944	751,607
Investment Grade Credit	638,499	216,402	854,901	835,543
Alternative Growth Fund	578,618	201,816	780,434	703,538
Derivatives	20,497	6,953	27,450	21,678
Total Unitised funds	1,762,097	613,632	2,375,729	2,312,366
Non unitised funds				
Bonds	884,326	280,221	1,164,547	838,626
	2,646,423	893,853	3,540,276	3,150,992
AVC investments	1,797	13,495	15,292	16,296
Other investment assets	11,025	3,529	14,554	4,308
Other investment liabilities	(611,620)	(169,796)	(781,416)	(468,145)
	2,047,625	741,081	2,788,706	2,703,451

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 66 and 67.

Notes to the Financial Statements
For the year ended 31 December 2020 (Continued)

14 Investments (continued)

	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

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 £47,346,000 (2019: £26,637,000).

Notes to the Financial Statements
For the year ended 31 December 2020 (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 2020 £'000
Equities	202,084	184,232	(181,289)	(12,734)	192,293
Bonds	1,242,158	662,170	(424,438)	77,871	1,557,761
Pooled investment vehicles	1,598,790	359,967	(369,447)	26,612	1,615,922
Derivatives	21,678	110,071	(99,622)	(4,677)	27,450
AVC investments	16,296	-	(1,580)	576	15,292
	3,081,006	1,316,440	(1,076,376)	87,648	3,408,718
Cash - Sterling	55,088				102,154
Cash - Foreign currency	30,085			(1,424)	41,665
Cash - Variation margin	1,109				3,031
Investment income receivable	4,013				5,578
Other investment assets	327				9,301
Reverse repurchase agreement	64,471				74,280
Other investment liabilities	(32)				(325)
Repurchase agreements	(532,616)				(855,696)
	2,703,451			86,224	2,788,706

Included within the above purchases and sales figures are transaction costs of £909,068 (2019: £457,000). 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 £177.8m (AQR Defensive Equity Fund). At the year end, the Scheme owned 99.47% 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 2020 (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 2020 £'000
Equities	148,665	135,532	(133,367)	(9,368)	141,462
Bonds	934,839	502,668	(317,051)	58,831	1,179,287
Pooled investment vehicles	1,184,981	278,739	(286,107)	19,044	1,196,657
Derivatives	16,235	81,897	(74,359)	(3,276)	20,497
AVC investments	1,786	-	(121)	132	1,797
	2,286,506	998,836	(811,005)	65,363	2,539,700
Cash - Sterling	40,327				75,210
Cash - Foreign currency	22,435			(135)	31,045
Cash - Variation margin	828				2,264
Investment income receivable	2,973				4,162
Other investment assets	244				7,104
Reverse repurchase agreement	50,108				55,522
Other investment liabilities	(23)				(240)
Repurchase agreements	(413,255)				(667,142)
	1,990,143			65,228	2,047,625

Notes to the Financial Statements
For the year ended 31 December 2020 (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 2020 £'000
Equities	53,419	48,700	(47,922)	(3,366)	50,831
Bonds	307,319	159,502	(107,387)	19,040	378,474
Pooled investment vehicles	413,809	81,228	(83,340)	7,568	419,265
Derivatives	5,443	28,174	(25,263)	(1,401)	6,953
AVC investments	14,510	-	(1,459)	444	13,495
	794,500	317,604	(265,371)	22,285	869,018
Cash - Sterling	14,761				26,944
Cash - Foreign currency	7,650			(1,289)	10,620
Cash - Variation margin	281				767
Investment income receivable	1,040				1,416
Other investment assets	83				2,197
Reverse repurchase agreement	14,463				18,758
Other investment liabilities	(9)				(85)
Repurchase agreements	(119,461)				(188,554)
	713,308			20,996	741,081

Notes to the Financial Statements
For the year ended 31 December 2020 (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 2020				
Combined sections				
Equities	192,293	-	-	**192,293**
Bonds	-	1, 557,761	-	**1,557,761**
Pooled investment vehicles	23,471	817,501	774,950	**1,615,922**
Derivatives	159	27,291	-	**27,450**
AVC investments	-	15,119	173	**15,292**
	215,923	2,417,672	775,123	**3,408,718**
Cash – balances held				**146,850**
Other investment balances				**14,554**
Other investment – liabilities				**-**
Repurchase agreements				**(781,416)**
				2,788,706

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 2020 (Continued)

14 Investments (continued)

Investment Fair Value Hierarchy (continued)

	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**
	602,874	1,422,612	1,055,520	**3,081,006**
Cash – balances held				**86,282**
Other investment balances				**4,340**
Other investment – liabilities				**(32)**
Repurchase agreements				**(468,145)**
				2,703,451

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. This risk totals

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 2020 (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 18 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.

Notes to the Financial Statements
For the year ended 31 December 2020 (Continued)

14 Investments (continued)

The Credit risk exposure for the Scheme is set-out in the table below. This includes the Credit risk in respect of directly held bonds, derivatives and cash, indirectly through bonds held in pooled funds and from exposure to unitised pooled fund vehicles.

CREDIT RISK	£m
Bonds	834.0
Derivatives	796.1
Cash	105.3
Pooled Investment Vehicles	1,238.1
Total	**2,973.5**

(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.

12.8% of total Scheme assets are exposed to unhedged currency risk.

(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.

Notes to the Financial Statements
For the year ended 31 December 2020 (Continued)

14 Investments (continued)

The Interest rate and Inflation risks in the table below include the interest rate and inflation exposures that are derived from the bonds and derivatives held directly in the LDI portfolios and the currency risk from non-Sterling denominated assets.

	£m
Interest Rate Risk	516.9
Inflation Risk	178.6
Currency Risk	794.1

(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.

The Other Price risk exposure for the Scheme is set-out in the table below. This includes the exposure gained directly and indirectly through pooled funds.

OTHER PRICE RISK	£m
UK Equity Fund	196.4
Pooled Investment Vehicles	960.7
Limited Partnerships	382.3
Total	**1,539.3**

Notes to the Financial Statements
For the year ended 31 December 2020 (Continued)

14 Investments (continued)

Pooled Investment Vehicles (PIVs)

The Scheme's investments in pooled investment vehicles at the year-end comprised:

	2020 £'000	2019 £'000
Equity	**471,941**	**455,217**
Bonds	**192,385**	**165,677**
Hedge funds	**30,034**	**110,970**
Property	**385,493**	**385,860**
Private Equity	**512,600**	**466,652**
Cash	**23,469**	**14,414**
	1,615,922	**1,598,790**

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 2020 (Continued)

14 Investments (continued)

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

	2020 Assets £'000	2020 Liabilities £'000	2019 Assets £'000	2019 Liabilities £'000
Swaps (Over the Counter)	27,922	(19,537)	12,780	(4,348)
Futures (Exchange Traded)	419	(260)	2,180	(128)
Forward foreign currency contracts (Over The Counter)	19,005	(99)	11,677	(483)
	47,346	(19,896)	26,637	(4,959)

Swaps

	Notional Amounts £	Expires	Assets £'000	Liabilities £'000
Swaps (over the counter)				
Inflation Swaps	25,477,050	2-5 years	1,037	-
Inflation Swaps	12,725,000	6-10 years	-	(642)
Interest Rate Swaps - Eurib to fixed rate	33,342,284	2-5 years	63	(50)
Interest Rate Swaps - Eurib to fixed rate	15,887,934	6-10 years	-	(115)
Interest Rate Swaps - Eurib to fixed rate	2,192,982	10 years over	-	(84)
Interest rate swaps – Libor to fixed rate	53,366,981	2-5 years	-	(2,151)
Interest rate swaps – Libor to fixed rate	55,397,514	6-10 years	317	(2,034)
Interest rate swaps – Libor to fixed rate	22,937,379	10 years over	1,141	(1,481)
Interest rate swaps - SONIA to fixed rate	848,678,600	2-5 years	5,908	(6,042)
Interest rate swaps - SONIA to fixed rate	274,550,000	6-10 years	17,190	(5,397)
Interest rate swaps - SONIA to fixed rate	2,722,760	10 years over	2,266	-
Total Return swaps	59,634,208	2-5 years	-	(1,541)
Total for 2020			27,922	(19,537)
Total for 2019			12,780	(4,348)

Swaps	Assets £'000	Liabilities £'000
Section 1	21,825	(15,411)
Section 2	6,097	(4,126)
Total for 2020	27,922	(19,537)
Total for 2019	12,780	(4,348)

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

For the year ended 31 December 2020 (Continued)

14 Investments (continued)

Derivative assets/(liabilities) (continued)

Futures

Futures (Exchange traded)	Economic exposure £	Expiry	Assets £'000	Liabilities £'000
10 Year USA Treasury Notes	(51,415,019)	March 2021	-	(75)
2 Year USA Treasury Notes	(16,812,291)	March 2021	-	(17)
5 Year USA Treasury Notes	(29,534,728)	March 2021	-	(36)
CBT UL Treasury Bonds	(15,623,284)	March 2021	190	-
CBT UL Treasury Notes	(343,157)	March 2021	8	(8)
Euro Buxl Bond	(2,620,945)	March 2021	-	(21)
Eurx Eur-Bobl	(14,761,869)	March 2021	11	-
Eurx Eur-Bund	(24,327,712)	March 2021	-	(37)
Eurx Eur-Schatz	(14,270,542)	March 2021	-	(8)
LIF Long Gilt	(6,370,380)	March 2021	-	(58)
USA Treasury Bonds	(25,339,257)	March 2021	210	-
Total for 2020			419	(260)
Total for 2019			2,180	(128)

Split by Section (Unitisation)

	Assets £'000	Liabilities £'000
Section 1	313	(194)
Section 2	106	(66)
Total for 2020	419	(260)
Total for 2019	2,180	(128)

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 2020 (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
1	2 months	AUD	157	GBP	(154)	3	-
1	2 months	CAD	2,159	USD	(2,143)	16	-
2	2 months	EUR	1,410	GBP	(1,442)	-	(31)
4	2 months	GBP	102,942	EUR	(102,149)	792	-
2	2 months	GBP	11,161	JPY	(10,715)	446	-
12	2 months	GBP	407,083	USD	(391,846)	15,236	-
1	2 months	USD	150	AUD	(155)	-	(6)
2	2 months	USD	1,524	GBP	(1,560)	-	(36)
2	3 months	GBP	46,159	EUR	(45,802)	357	-
6	3 months	GBP	165,476	USD	(163,321)	2,155	-
3	3 months	USD	1,399	GBP	(1,424)	-	(26)
Total for 2020						19,005	(99)
Total for 2019						11,,677	(483)

Split by Section (Unitisation)

	Assets £'000	Liabilities £'000
Section 1	14,037	(73)
Section 2	4,968	(26)
Total for 2020	19,005	(99)
Total for 2019	11,677	(483)

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 2020 (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
February 2020 to February 2021	(39,162)
March 2020 to March 2021	(4,807)
May 2020 to March 2021	(7,205)
May 2020 to April 2021	(17,576)
May 2020 to May 2021	(20,064)
June 2020 to March 2021	(11,671)
June 2020 to April 2021	(7,127)
June 2020 to May 2021	(16,972)
June 2020 to June 2021	(46,760)
July 2019 to March 2022	(5,734)
July 2019 to March 2022	5,699
July 2020 to March 2021	(59,572)
July 2020 to July 2021	(73,444)
August 2020 to February 2021	(4,990)
August 2020 to April 2021	(14,063)
August 2020 to June 2020	(13,438)
August 2020 to August 2021	(47,063)
September 2020 to September 2021	(38,825)
September 2020 to September 2022	(17,189)
September 2020 to September 2022	17,248
October 2019 to March 2022	(51,581)
October 2019 to March 2022	51,333
October 2020 to September 2021	(6,628)
October 2020 to October 2021	(56,863)
November 2020 to February 2021	(9,116)
December 2020 to February 2021	(8,769)
December 2020 to March 2021	(9,145)
December 2020 to April 2021	(68,099)
December 2020 to May 2021	(70,923)
December 2020 to June 2021	(14,642)
December 2020 to July 2021	(7,450)
December 2020 to August 2021	(22,937)
December 2020 to September 2021	(36,612)
	(781,416)

Notes to the Financial Statements
For the year ended 31 December 2020 (Continued)

14 Investments (continued)

Derivative assets/(liabilities) (continued)

Repurchase agreements (continued)

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 2020 in relation to swap contracts which amounted to £6,617,038 for Section 1 and £1,574,707 for Section 2 (2019 £9,674,000 Section 1 and £2,824,000 for Section 2). The Scheme held no collateral as at 31 December 2020 for swap contracts for Section 1 and Section 2.

Collateral held by the Scheme in the form of bonds from counterparties as at 31 December 2020 in relation to Repurchase agreements amounted to £2,809,257 for Section 1 and £996,001 for Section 2 (2019: £2,609,000 (held) for Section 1 and £397,000 (held) for Section 2). Collateral in the form of bonds that were pledged by the Scheme to counterparties as at 31 December 2020 in relation to Repurchase agreements amounted to £1,585,641 for Section 1 and £551,838 for Section 2 (2019: £7,470,000 for Section 1 and £1,059,000 Section 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.

Notes to the Financial Statements
For the year ended 31 December 2020 (Continued)

14 Investments (continued)

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 2020 £'000	%	At 31 December 2019 £'000	%
L&G YX - FTSE RAFI AW 3000 Equity Index Fund	209,903	7.4	213,561	7.8
AQR Global Defensive Equity Fund	177,881	6.3	178,197	6.5

Transaction costs

Transaction costs within the Scheme incurred in the year amounted to £909,000 (2019: £521,000). 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	2020 £'000
Equities	754	155	909
	754	155	909

Transaction costs

	Fees £'000	Commission £'000	2019 £'000
Equities	387	70	457
	387	70	457

Capital commitments

At the Scheme year end, the Scheme had undrawn but committed investments with existing investment managers of £59.0m.

Notes to the Financial Statements
For the year ended 31 December 2020 (Continued)

14 Investments (continued)

Additional voluntary contributions

The Trustee holds assets which are separately invested from the main fund, in the form of individual policies of assurance arising from members' additional voluntary contributions to the Thales legacy schemes. The Scheme no longer offers AVC arrangements for members. The AVC investments secured additional benefits, on a money purchase basis, for those members who had elected to pay AVCs. Members participating in this arrangement receive an individual annual statement made up to 31 March each year, confirming the amounts held in their account and the movements in the year. AVC assets are included in the net assets statement.

AVC investments

	2020			2019		
	Section 1 £'000	Section 2 £'000	Total £'000	Section 1 £'000	Section 2 £'000	Total £'000
Zurich	454	13,450	13,904	475	14,452	14,927
Equitable Life Assurance Society	876	13	889	829	7	836
MGM Assurance	77	-	77	81	-	81
Phoenix	84	-	84	78	-	78
Prudential	203	-	203	222	-	222
Friends Provident	67	-	67	63	-	63
Scottish Widows	36	-	36	38	-	38
Clerical Medical	-	32	32	-	51	51
	1,797	13,495	15,292	1,786	14,510	16,296

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 2020 (Continued)

15 Current assets

	Section 1 £'000	Section 2 £'000	2020 £'000
Pensions paid in advance	4,995	1,511	6,506
Contributions Employer - Normal	863	865	1,728
Contributions Employer - Deficit	5,142	1,358	6,500
Life assurance premiums paid in advance	250	242	492
PPF levy paid in advance	446	242	688
Cash deposits held with Scheme Administrator	13,262	3,924	17,186
Inter section balance	6	-	6
Amounts receivable from Scheme Advisors	240	-	240
	25,204	8,142	33,346

	Section 1 £'000	Section 2 £'000	2019 £'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
Life assurance premiums paid in advance	-	42	42
PPF levy paid in advance	226	213	439
Cash deposits held with Scheme Administrator	384	217	601
Inter section balance	4,471	1,466	5,937
	15,930	5,674	21,604

The contributions due as at 31 December 2020 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 £289,209 and £284,483 (2019: £310,792 and £299,830) 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 2020 (Continued)

16 Current liabilities

	Section 1 £'000	Section 2 £'000	2020 £'000
Lump sums on retirement	189	129	318
Death benefits	-	111	111
Accrued expenses	992	443	1,435
Equitable Life compensation payments	-	37	37
Other creditors	446	241	687
Inter section balance	-	6	6
	1,627	967	2,594

	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
Inter section balance	-	-	-
	2,549	977	3,526

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).

Notes to the Financial Statements
For the year ended 31 December 2020 (Continued)

18 Covid-19

The impact of Covid-19 has caused volatility and uncertainty across investment markets globally. The Trustees, in consultation with its advisers, will continue to monitor the economic impact going forward on the Scheme. For the purposes of these financial statements Covid-19 and its economic effects will be treated as an ongoing non-adjusting post balance sheet event.
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 the novel coronavirus 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 Scheme's investment return and the fair value of the Scheme investments.

19. Subsequent events

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 have determined that there were no additional subsequent events requiring adjustment to or disclosure in the Scheme financial statements.

20. Brexit

On 31 December 2020, the transition period following the withdrawal of the UK from the EU ended. Following the agreement of the exit deal it is unlikely there will be long-term and short-term ramifications on the Scheme. The Trustee continues to monitor the situation and are taking appropriate advice on the impact on the investment portfolio.

21. Contingent liability

The high court judgement on 26 October 2018 confirmed that UK pensions schemes should provide equal benefits for men and women for service from May 1990 despite inequalities in GMP legislation.

A supplemental judgement has been issued regarding the impact of GMP equalisation on historic transfers out. The Trustee is aware that the issue will affect historic transfers made from the Fund and are working with their advisers and administrators to identify the impacted transfers and look at next steps.
As soon as this review is finalised and any liability quantified, a communication will be issued to affected members

Other than the above, in the opinion of the Trustee, the scheme has no contingent liabilities as at
31 December 2020 (2019: nil).

CERTIFICATION OF SCHEDULE OF CONTRIBUTIONS
SECTION 1

MERCER
MAKE TOMORROW, TODAY

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 Condron
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

CERTIFICATION OF SCHEDULE OF CONTRIBUTIONS
SECTION 2

MERCER
MAKE TOMORROW, TODAY

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 Condron
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

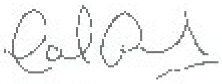
CERTIFICATE OF TECHNICAL PROVISIONS – SECTION 1

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 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 Condron
Date of signing	4/4/2019
Name of employer	Mercer Limited
Address	One Christchurch Way Woking GU21 6JG
Qualification	Fellow of the Institute and Faculty of Actuaries

CERTIFICATE OF TECHNICAL PROVISIONS – 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 section's 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 Condron
Date of signing	4/4/2019
Name of employer	
Address	One Christchurch Way Woking GU21 6JG
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 2020 to which this statement is attached.

In our opinion contributions for the Scheme year ended 31 December 2020 as reported in the Summary of Contributions and payable under the Schedule of Contributions have in all material respects been paid from 1 January 2020 to 31 December 2020 at least in accordance with the Schedule of Contributions 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

Deloitte LLP
Statutory Auditor
Birmingham, United Kingdom

Date: 22 July 2021

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**	**2020**
	£'000	**£'000**	**£'000**
Contributions from Employer:			
Normal	10,802	10,706	21,508
Additional contributions - Augmentation	-	-	-
Deficit funding	59,700	15,300	75,000
Other – PPF Levy	1,723	938	2,661
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)	74,225	28,330	102,169
Other contributions payable:			
Other Employer - Top ups	613	-	613
Total contributions payable per the Fund Account	74,838	27,944	102,782

Normal contributions from the employer include £3,605,910 and £3,507,404 (2019: £3,820,304 and £3,726,705) 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

P J Rowley

……………………………. Trustee Director
Date 22 July 2021

……………………………. Trustee Director
Date 22 July 2021

momentum

Thales UK Pension Scheme ("the Scheme") – Defined Benefit Section
Implementation Statement

Introduction

This Statement has been prepared by the Trustee in relation to the DB Sections of the Plan for the year ending 31 December 2020. The purpose of this Statement is to:

- summarise how the Statement of Investment Principles ('SIP') has been followed during the year (set out in the appendix),
- outline any changes that have been made to the SIP over the period (set out below); and
- provide details of how the Trustee's policies (as set out in the SIP) on environmental, social, and corporate governance (ESG) issues, and policies on engagement and voting have been adhered to. Key highlights from an ESG perspective are shown on page 2, and a summary of a couple of significant votes made on behalf of the Trustee are set out on page 3.

This Statement has been produced in accordance with new regulatory requirements now in force and the guidance published by the Pensions Regulator. **In summary, the Trustee believes that: a) the policies outlined in the SIP have been adhered to over the Scheme year; and b) the investment managers are adhering to the Trustee's policies on ESG, engagement and voting.**

Review and changes to the SIP

During the year, the Trustee reviewed the SIP for the DB Sections of the Scheme. Revisions were made to reflect the new requirements under the Occupational Pension Scheme (Investment and Disclosure) (Amendment and Modification) Regulations 2019, relating to the following:

- How the arrangements with asset managers incentivise them to align their investment strategy and decisions with the Trustee's policies in the SIP.
- How the arrangements incentivise the asset managers to make decisions based on medium to long-term financial and non-financial performance of an equity and/or debt issuer and to use engagement to improve their performance in the medium to long-term.
- How the method (and time horizon) of the asset manager's evaluation is in line with the Trustee's policies in the SIP.
- How the Trustee monitors portfolio turnover costs incurred by the asset manager and how those managers define and monitor this.
- The duration of the arrangement with the asset managers.

Investment Objectives and Investment Strategy

The funding objective of the Scheme is to be 100% funded on a technical provision basis. The Scheme's other major objective is to hold assets which generate cashflow, to be used in the payment of benefits.

The current investment strategy consists of 3 distinct phases and has been in place for several years. For the first phase of the strategy asset allocation ranges have been agreed across three broad categories; quoted equities, alternative growth assets, and liability matching & investment grade fixed income. The investment policy is highly diversified across a range of asset classes, in both public and private markets and is implemented using a number of investment managers.

There were no changes to the objectives or the investment strategy over the year.

Environmental, Social and Governance Risks

The Trustee believes that environmental, social and corporate governance (ESG) issues including the impact of, and potential policy response to climate change can be financially material to long-term investment portfolios and should therefore be considered as part of the Scheme's investment process. The table in the appendix outlines the Trustee's policy and how this has been implemented over the year. The information below provides some key highlights for the Scheme:

22

Out of 22 managers are signatories to the United Nations Principles of Responsible Investment

18

Out of 22 managers are Signatories / Supporters of the UK Stewardship Code

4,150

Engagements over 2020 [1]

[1] For the managers for which mandate specific data was available

Voting activity

The voting activity information from the Scheme's investment managers over the period is summarised in the table below. Examples of a couple of significant votes that have been cast by the investment managers are also summarised below. The voting information for the individual managers has been reviewed by the Investment-Sub Committee, on behalf of the Trustee, as part of the assessment of the annual ESG and Stewardship report.

The investment managers do make use of proxy voting services to analyse vote issues and make recommendations. They are not obliged to follow these recommendations and vote all proxies based on their own voting policies.

	Majedie UK Focus Strategy	AQR Global Defensive equity	Hosking Global equity	LGIM passive equity
➢ How many meetings were you eligible to vote at?	59	406	534	4,020
➢ How many resolutions were you eligible to vote on?	932	5,742	6,693	47,337
➢ What % of resolutions did you vote on for which you were eligible?	100%	77%	99%	100%
➢ Of the resolutions on which you voted, what % did you vote with management?	96%	93%	90%	81%
➢ Of the resolutions on which you voted, what % did you vote against management?	4%	7%	10%	18%
➢ Of the resolutions on which you voted, what % did you abstain from voting?	1%	0%	1%	0%
➢ What % of resolutions, on which you did vote, did you vote contrary to the recommendation of your proxy adviser? (if applicable)	3%	0%	2%	0%

Case study – Whitehaven Coal

LGIM voted for a resolution to approve capital protection, as shareholders were requesting the company to provide a report on the potential wind-down of the company's coal operations.

LGIM voted for this as LGIM has publicly advocated for a 'managed decline' for fossil fuel companies, in line with global climate targets, with capital being returned to shareholders instead of spent on diversification and growth projects that risk becoming stranded assets.

Case study – Golden Ocean Group Ltd.

On 31 August 2020, Hosking voted for a resolution to elect John Fredriksen as Director against the recommendation of their proxy advisor.

With a proven track record of rebuilding failing shipping companies, John Fredriksen is one of the key factors behind Hosking's continued investment in this company and so voting against his re-election was not supported.

Assessment of how the policies in the SIP have been followed for the year to 31 December 2020

The information provided in the appendix highlights the work undertaken by the Trustee during the year and sets out how this work followed the Trustee policies in the SIP.

Appendix

Statement of Investment Principles (SIP)

Outline of the policies in the Scheme's SIP for the DB Sections and how these have been implemented

	Policy	In the year to 31 December 2020
Investment objectives	The funding objective of the Scheme is to be 100% funded on a technical provision basis. The Scheme's other major objective is to hold assets which generate cashflow, to be used in the payment of benefits.	There were no changes to the investment objectives over the year. Consideration will be given to the investment objectives alongside the actuarial valuation.
Investment strategy	The investment strategy consists of 3 distinct phases. The Trustee has received advice to determine an appropriate investment strategy for the Scheme consistent with achieving the investment objectives and has adopted a number of guiding principles.	The Investment Sub-Committee reviews the ongoing appropriateness of the investment policy on a regular basis through the quarterly reporting provided by the investment advisor. There were several changes made to the Scheme's investment policy over the period, including the termination of the Credit Suisse ILS mandate, the introduction of the CQS MAC mandate and a modest increase in the target liability hedging ratio. All changes have been made in line with the guiding principles.

Statement of Investment Principles (SIP)

Outline of the policies in the Scheme's SIP for the DB Sections and how these have been implemented

	Policy	In the year to 31 December 2020
Governance	The Trustee has delegated responsibility for certain investment decisions, including asset allocation strategy, manager structure and manager selection/de-selection, to its Investment Sub-Committee ("ISC").	Over the calendar year, the ISC has performed their duties in line with the activities set out in their terms of reference.
Risk management and measurement	There are various risks to which the Scheme's DB Sections are exposed. The Trustee has set out their approach to managing these risks in the SIP.	The Trustee manage risks by setting an appropriate investment strategy, using suitably qualified and experienced providers, diversifying the investment arrangements and performing regular monitoring. The ISC has monitored the volatility of the investment strategy and the key sources of risk in the quarterly investment reports over the period under review. The ISC also maintains an investment risk register which is kept under review.

Statement of Investment Principles (SIP)

Outline of the policies in the Scheme's SIP for the DB Sections and how these have been implemented

	Policy	In the year to 31 December 2020
Investment Managers 	The Trustee delegates the day to day management of the DB Scheme's assets to a number of investment managers, and the ISC regularly reviews the continuing suitability of investments including the appointed managers. The Trustee will maintain processes to ensure that performance is assessed on a regular basis by the ISC against a measurable objective for each manager, consistent with the achievement of the Scheme's long- term objectives, and an acceptable level of risk. The ISC seek long-term, ongoing partnerships with their investment managers to incentivise medium to long-term financial and non-financial performance. To incentivise medium to long-term financial performance, the ISC will assess investment manager performance over various periods including 3-year and since inception of the mandate. When deciding whether or not to make any new investments the Trustee will obtain written advice from their investment advisor. The ISC will review the turnover and ongoing investment costs on an annual basis using the Industry standard templates and definitions developed by the Cost Transparency Initiative (CTI). The ISC also requires each of the investment managers to conform to the Scheme's Statement of Investment Principles.	The ISC regularly reviews the continuing suitability and performance of the investment managers through the quarterly reporting provided by the investment advisors and the custodian. The ISC also reviews core components of the policy which includes an assessment on the ongoing appropriateness of the mandates in place and how these are structured. The ISC is satisfied that the contractual arrangements in place continue to incentivise the managers to make decisions based on medium to long term financial and non-financial performance. Performance expectations have been linked to the objectives of each mandate. Where possible, mandates have been structured with a longer-term objective to encourage "investing" over "trading" and are assessed as such. The investment advisor has provided advice on the appointment of each new mandate which confirms the objectives are consistent with the Scheme's SIP. Investment manager performance is assessed on a net of fees basis. The investment managers have completed the transaction cost template provided by the Cost Transparency Initiative (CTI). This information will be assessed going forwards. Where appropriate, the Trustee will challenge the level of costs incurred if they were assessed to be too high relative to expectations. The investment managers are asked to confirm ongoing compliance with the SIP as reported in the annual Stewardship & Engagement Report.

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Statement of Investment Principles (SIP)

Outline of the policies in the Scheme's SIP for the DB Sections and how these have been implemented

	Policy	In the year to 31 December 2020
Responsible Investments 	The Trustee believes that environmental, social and corporate governance (ESG) issues including the impact of, and potential policy response to climate change can be financially material to long-term investment portfolios and should therefore be considered as part of the Scheme's investment process. The Trustee delegates responsibility for the Plan's policy on ESG risks to the ISC. The ISC has given its investment managers full discretion to evaluate ESG issues in the selection, retention and realisation of investments. The ISC believes that good active managers have considered how to best account for ESG factors, including climate change risks, in their investment process. The Trustee and ISC do not require their investment managers to take non-financial matters into account in their selection, retention and realisation of investments.	The evaluation of how the Fund's active managers identify and manage material ESG risks including climate change, form part of the ISC's and the investment advisor's ongoing appraisal of the manager's performance. The investment adviser has provided an annual Stewardship & Engagement Report to the ISC with an assessment of the investment manager's ESG policies and how these have been implemented over the year. Based on the information provided as part of this report the ISC is satisfied that all investment managers have complied with the Scheme's ESG policies.

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Statement of Investment Principles (SIP)

Outline of the policies in the Scheme's SIP for the DB Sections and how these have been implemented

	Policy	In the year to 31 December 2020
Stewardship: Exercise of voting rights 	The Trustee believes that good stewardship can enhance long-term portfolio performance and is therefore in the best interests of the Scheme's beneficiaries and aligned with fiduciary duty. The Trustee delegates responsibility for the Scheme's policy on stewardship including the exercise of voting rights and engagement activities to the ISC. The ISC expects all its fund managers to monitor investee companies and directly engage with management on all relevant stewardship matters including performance, strategy, risks, social and environmental impact and corporate governance to improve the issuer's performance on a medium to long-term basis. The ISC will monitor the stewardship and engagement activities for each of its investment managers on an annual basis. The quality of each investment manager's approach forms part of the assessment of its ongoing suitability. In addition, the ISC expects managers to comply with the UK Stewardship Code (where appropriate), and to have effective policies addressing potential conflicts of interest in matters of stewardship.	The ISC has delegated its voting rights to the investment managers. The ISC does not use the direct services of a proxy voter. The investment managers do make use of proxy voting services to analyse vote issues and make recommendations. They are not obliged to follow these recommendations and vote all proxies based on their own voting policies. The Fund has exposure to listed equities, and the voting records of these managers is summarised in the Stewardship & Engagement Report. The engagement activity undertaken by the Scheme's managers has also been assessed as part of the annual Stewardship & Engagement report. The ISC has not had direct engagement with the issuers or other holders of debt or equity. Eighteen out of Twenty-two managers are Signatories / Supporters of the UK Stewardship Code.

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Thales UK Pension Scheme – DC Section

Annual Implementation Statement – December 2020

Introduction

This statement, written for the benefit of the members of the Thales UK Pension Scheme (the "Scheme"), sets out how, and the extent to which, the Statement of Investment Principles ('SIP') produced by the Trustee has been followed over the 12 months to 31 December 2020. This statement has been produced in accordance with The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 and the guidance published by the Pensions Regulator.

The SIP is a document drafted by the Trustee in order to help govern the Scheme's investment strategy. It details a range of investment-related policies, a summary of which, for the DC Section, is included in the table later in the document, alongside the relevant actions taken by the Trustee in connection with each of these policies. This DC Section has been closed to contributions since 2008 and is built up of member top up DC and AVC payments. The value of this section as at 31 March 2021 was valued at £13.6m and so this section is considerably smaller than the Scheme's investments in relation to the DB Section.

Investment Objectives of the Scheme

The Trustee believes it is important to consider the policies within the SIP in the context of the investment objectives it has set. The investment objectives for the DC Section are as follows:

- To ensure that there are appropriate investment options available to allow members to plan for a retirement that is both adequate and sustainable for their circumstances.
- The Trustee recognises that members have differing investment needs and that these may change during the course of members' working lives.
- The Trustee recognises that members have different attitudes and tolerance to risk.
- The Scheme also has a default investment arrangement; this was created when members invested in the Equitable Life With Profits Fund were mapped to a newly-designed lifestyle arrangement in 2012.

- The policies set out in the SIP are intended to help meet the overall investment objectives of the Scheme. Detail on the Trustee objectives with respect to the default investment option is outlined in the SIP. The Implementation Statement relates to the relevant SIPs in force over the period, namely:

    - 1 January 2020 to 29 September 2020.

    - 30 September 2020 to 31 December 2020.

The SIP can be found at http://thales.xpmemberservices.com/assets/uploads/Thales-SIP-Sept-2020-final-signed-20200930.pdf and sets out the policies referenced here.

Review of the SIP

During the year, the Trustee reviewed the SIP of the Scheme once. A revised SIP was signed on 30 September 2020 in order to expand further on:

- How the arrangement with the asset manager incentivises the asset manager to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term.
- How the method (and time horizon) of the evaluation of asset manager's performance and the remuneration for asset management services are in line with the Trustee's policies mentioned in the SIP.
- How the Trustee monitors portfolio turnover costs incurred by the asset manager and how they define and monitor targeted portfolio turnover or turnover range.

Area of focus: Investment Strategy

	Requirement	Relevant Policy / Section of the SIP	Actions taken by the Trustee over the 12 months 31 December 2020
1	How does the Trustee secure compliance with the legal requirements when choosing investments?	*When considering appropriate investments for the DC Section of the Scheme, the Trustee has obtained and considered the written advice of a suitability qualified investment advisor. The advice received and arrangements implemented are, in the Trustee's opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).*	The Scheme's AVC assets with Equitable Life were transferred to Utmost Life & Pensions on 1 January 2020 ("Utmost"). The Trustees took written advice from Mercer on the suitability of this transition and assets were firstly invested in the Utmost Secure Cash fund which provided a guarantee that the fund would not go down in value. Following further written advice from Mercer, the Trustees instructed Utmost to gradually switch these assets into Utmost's Money Market fund over the second half of 2020, unless members elected to invest assets in other Utmost unit-linked funds.
2	What kind of investments can the Trustee hold?	*The main objective of the Trustee is to ensure that there are appropriate investment options available to allow members to plan for a retirement that is both adequate and sustainable for their circumstances.* *When considering appropriate investments for the DC Section of the Scheme, including the default investment arrangement the Trustee has obtained and considered the written advice of a suitability qualified investment advisor.*	The fund range the Trustee makes available includes a wide range of asset classes such as global equities, multi-asset funds, corporate bonds, diversified growth funds, bonds, gilts and money market instruments. Both active and passively managed funds are made available, depending on the asset class. For members previously invested in the Equitable Life With Profits Fund, the default investment arrangement was designed to replace, to the extent that is possible, the investment returns that relevant members may have reasonably expected from this holding. This default investment arrangement is not made accessible to other members of the Scheme and has not changed over the year. Alternative lifestyle strategies are available to members. This strategy seeks to gradually move the member's investments from higher to lower risk assets as the member approaches at retirement. If the member has more than 10 years to retirement they are invested in global equities and diversified growth funds. From 9

		The funds available are all white-labelled funds and the Trustee is responsible for the selection, appointment, removal and monitoring of the underlying investment managers. A lifestyle strategy is also available to members.	years before retirement age the member's assets are moved into less risky investments such as corporate bonds, gilts and money market instruments. This strategy has not changed over the year and hence no advice was required. The Trustee reviews the investment arrangement, at least triennially or on the back of any significant change in demographic to ensure that assets remain invested in the best interests of members.
3	How does the Trustee determine the balance between different kinds of investments?	*In designing the default investment arrangement and lifestyle strategies, and the balance between different kinds of investments, the Trustee has explicitly considered the trade-off between risk and expected returns.* *All the funds available for members to select are white-labelled funds and the Trustee is responsible for the selection, appointment, removal and monitoring of the underlying investment managers.* *As members are able to make their own investment decisions the balance between the different kinds of investments is their decision. This balance will determine the expected return on a member's assets and should be related to the member's own risk appetite and tolerance.*	The Trustee reviews the default investment strategy, other investment lifestyle fund and the self select fund range, at least triennially or on the back of any significant change in demographic to ensure that assets remain invested in the best interests of members. The Trustee receives a quarterly monitoring report that monitors the risk and return of all investment options within the Scheme. The Trustee is satisfied that the spread of funds available, and the investment managers' policies on investing in individual securities within each asset type or fund, provides adequate diversification of investments.

4	How does the Trustee determine the return expectation of funds?	*In designing the default investment arrangement and other lifestyle investment strategies, the balance between different kinds of investments, the Trustee has explicitly considered the trade-off between risk and expected returns.*	The Trustees regularly review the fund range on offer to members and in doing so ensures that there is a wide range of different funds available which offer members different investment risk and expected returns. When deciding to move members' assets into the Utmost Money Market Fund, the Trustees took into consideration the extreme market volatility early in 2020 due to the Covid pandemic and also the potential short term nature of the investment ahead of consolidation with the Scheme's other DC funds held by Scottish Widows.
5	How does the Trustee manage the process of realising certain investments?	*The investment managers have discretion in the timing of realisations of investments and in considerations relating to the liquidity of those investments.* *Assets are invested in a long-term insurance contract with Scottish Widows. The assets underlying the insurance contract are invested in daily traded pooled funds which hold highly liquid assets, and therefore should be realisable at short notice based on either Trustee or member demand.*	The Trustee delegates the administration of the AVC arrangement to Equiniti who manage the process of realising assets and investing monies on the Scottish Widows platforms. The Trustee receives an administration report on a quarterly basis from Equiniti which comparing the processing of core financial transactions to Service Level Agreements (SLAs) and regulatory timelines. There have been no material administration service issues Identified during the period covered by this statement. Scottish Widows has also met all monthly agreed contractual service levels.

Area of focus: Risk Management

	Requirement	Relevant Policy / Section of the SIP	Actions taken by the Trustee over the 12 months 31 December 2020
1	What risks is the DC Section exposed to and how are those risks measured and managed?	*Risks in a defined contribution arrangement lie with the member themselves. The Trustee has considered risks from a number of perspectives when designing the investments for the Scheme:* - *Market Risk* - *Inflation Risk* - *Investment Manager Risk* - *Benefit Conversion Risk* - *Environmental, Social and Governance Risk*	The Trustee regularly monitors these risks and the appropriateness of the investments in light of the risks described above through quarterly reports produced by Mercer's MWS team.
2	How does the Trustee account for financially material considerations over the appropriate time horizon of the investments, including how those considerations are taken into account in the selection, retention and	*The items set out in the "Investment strategy and policies" Section of the SIP are those that the Trustee considers financially material considerations in relation to the DC Section, The Trustee believes that the appropriate time horizon within which to assess these considerations should be viewed at the member level. This will be dependent on the member's age and when they expect to retire.*	The monitoring report is reviewed by the Trustee on a quarterly basis, this includes ratings (both general and specific ESG) from the Investment Consultant. Additionally, when implementing a new underlying manager the Trustee considers the ESG rating of the underlying manager. All of the underlying managers remained generally highly rated by the Scheme's Investment Consultants during the year, except BMO. The research for BMO's Responsible UK Equities strategy is out of date and revisiting this strategy is not a current research priority. As a result, in April 2020, Mercer moved the rating for BMO's UK Ethical Equities strategy to R. The Trustee is comfortable with the ratings applied by its Investment Consultant and continues to closely monitor the ratings and any

	realisation of investments?		significant developments at each of the underlying investment managers.
3	How and to what extent (if at all) are non-financial matters taken into account in the selection, retention and realisation of investments?	*The Investment Sub-Committee (ISC) takes non-financial considerations into account in the selection of new asset classes and investment managers. The Trustee does make available an actively managed socially responsible fund in the DC Section.*	There were no changes to this policy during the year.

Area of focus: Stewardship

	Requirement	Relevant Policy / Section of the SIP	Actions taken by the Trustee over the 12 months 31 December 2020
1	How does the Trustee exercise its rights (including voting rights) attaching to the DC Section's investments?	*The Trustee delegates responsibility for the Scheme's policy on stewardship including the exercise of voting rights and engagement activities to the ISC.* *The ISC's policy is to delegate responsibility for the exercising of rights (including voting rights) and stewardship obligations related to the Scheme's investments to the investment managers and to encourage the managers to exercise those rights.*	The voting records of the main DC Section's equity investment managers – Legal & General Investment Management, BMO and Insight are summarised in Appendix A.
2	How does the Trustee undertake engagement activities in respect of the investments? (Including the methods by which, and the circumstances under which, the Trustee would monitor and engage with relevant persons about relevant matters).	*The Trustee encourages best practice in terms of engagement with investee companies and expects the Scheme's investment managers to discharge their responsibilities in accordance with the principles of the Financial Reporting Council's 2020 UK Stewardship Code ("the Code"). The managers are required to report on the extent of their adherence to the Code, alongside their broader stewardship activities on an annual basis .* *The Trustee believes that good active managers have considered how to best account for ESG factors, including climate change risks, in their investment process. The ISC will review how the active managers have identified and managed material ESG risks (including climate change) on a regular basis.*	It is accepted that pooled investments will be governed by the individual policies of the investment managers. The extent to which ESG considerations and climate changes risk are taken into account is left to the discretion of the pooled investment manager and forms part of the ISC's monitoring and ongoing assessment of these investments. Engagement for the DC Section's investment managers is summarised in Appendix B.

Area of focus: Scheme Arrangement with Asset Managers

	Requirement	Relevant Policy / Section of the SIP	Actions taken by the Trustee over the 12 months 31 December 2020
1	How the arrangement with the asset manager incentivises the asset manager to align its investment strategy and decisions with the trustee policies	*The Trustee will set general investment policy, but will delegate the responsibility for selection of specific investments to an investment manager or appointed managers. The investment manager(s) shall provide the skill and expertise necessary to manage the investments of the Scheme competently.* *The Trustee will maintain processes to ensure that performance is assessed on a regular basis against a measurable objective for each manager, consistent with the achievement of the Scheme's long-term objectives, and an acceptable level of risk.*	To incentivise medium to long-term financial performance, the ISC will assessed investment manager performance over various periods including 3-year and since inception of the mandate during the year. The ISC heavily biases its review of ongoing suitability of the investment manager on the assessment of the future performance expectations and the portfolio's role in supporting the overall investment objectives. The Trustee accesses the Investment Manager's products through the MWS providers' insurance platforms. The MWS team appoints underlying investment managers for the funds and the Trustee selects funds based on their capabilities, and therefore the perceived likelihood of achieving the expected return and risk characteristics required. Mercer's manager research rating reflects Mercer's forward-looking assessment of a manager's ability to meet or exceed their objectives. If the Trustees or MWS (where applicable) are dissatisfied, then they will look to replace the manager. If the investment objective for a particular manager's fund changes, the Trustees and MWS (where applicable) will review the fund appointment to ensure it remains consistent with the Trustees' wider investment objectives and policies. This was not necessary during the year and no action was taken by the Trustee.
2	How the arrangement incentivises the asset manager to make	*The ISC will regularly review the continuing suitability of the Scheme's investments, including the*	The Delegated Investment Manager expects all underlying investment managers to incorporate the consideration of longer-term factors, such as ESG, into their decision making process where appropriate. The

	decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term.	*appointed managers. The ISC seek long-term, ongoing partnerships with their investment managers to incentivise medium to long-term financial performance.*	extent to which this is so will be considered during the selection, retention and realisation of manager appointments. Investment managers to discuss the performance of an issuer of debt or equity should use Voting and engagement activity. The Delegated Investment Manager engages with underlying investment managers on this activity and if dissatisfied will look to replace the manager. The Trustee expects external investment managers to incorporate consideration of longer-term factors, such as ESG into their decision-making process where appropriate. The Trustee‘s focus is on longer-term performance but shorter-term performance is monitored to ensure any concerns can be identified in a timely manner. The Trustee reviewed both absolute and relative performance of the Investment Managers products (or funds) on a quarterly basis during the year but made no changes as a result.
3	How the method (and time horizon) of the evaluation of the asset manager's performance and the remuneration for asset management services are in line with the trustee' policies.	*To incentivise medium to long-term financial performance, the ISC will assess investment manager performance over various periods including 3-year and since inception of the mandate. The ISC heavily biases its review of ongoing suitability of the investment manager on the assessment of the future performance expectations and the portfolio's role in supporting the overall investment objectives.*	As well as the quarterly monitoring report that the Trustees receive, the fund range is formally reviewed on at least a triennial basis. MWS provides quarterly views on the Scheme's fund range and carry out an annual review of the MWS funds offered. During 2020, this did not result in any changes to the funds. The Trustees reviewed and benchmarked managers' remuneration as part of their annual Chair Statement and Value For Members assessment carried out in April 2020. The next formal review by the Trustees will take later in 2021.
4	How the trustee monitor portfolio turnover costs incurred by the asset manager, and how	*The ISC will review the turnover and ongoing investment costs on an annual basis using the Industry standard templates and definitions developed by the Cost Transparency*	Portfolio turnover costs for each of the funds are reviewed on an annual basis as part of the annual value for members' assessment. The ability to assess the appropriateness of these costs is limited by the availability of data. The Trustee will monitor industry developments in how to assess these costs and incorporate this in

	they define and monitor targeted portfolio turnover or turnover range.	*Initiative (CTI). Based on the guidance from its investment advisor, each portfolio has an expected investment turnover range.*	future value for members' assessments. Importantly, performance is reviewed net of portfolio turnover costs. Transaction costs, using the 'slippage cost methodology' (as defined in COBS 19.8 of the FCA Handbook), are disclosed in the annual Chair's Statement (the latest Statement is available on pages 23 to 35 of the Trustee Report & Accounts: http://thales.xpmemberservices.com/assets/uploads/annual-reports/TUPS-Report-and-Accounts-31-12-19-final-signed.pdf). The Trustee has obtained costs for each underlying fund from Scottish Widows based on the 'slippage cost' methodology.
5	The duration of the arrangement with the asset manager	*The ISC does not set duration expectations for its partnerships but will monitor their suitability on an ongoing basis.*	During the year short term changes were made with regard to the former Equitable Life AVC assets held with Utmost. No changes were made to the other DC assets invested on the Scottish Widows platform. There was no set expected duration to the asset invested with Utmost, however the Trustees took the opportunity to consider consolidating these AVC arrangements into the Scheme's existing DC Section. This consolidation took place in June 2021 and so are outside of the period covered by this statement

Appendix A – Manager Voting Responsibility

The Trustee has delegated their voting rights to the investment manager. The Section "Stewardship: Exercise of voting rights" of the SIP states: *"The Trustee delegates responsibility for the Scheme's policy on stewardship including the exercise of voting rights and engagement activities to the ISC. The ISC's policy is to delegate responsibility for the exercising of rights (including voting rights) and stewardship obligations related to the Scheme's investments to the investment managers and to encourage the managers to exercise those rights".*

The Trustee has delegated investment voting rights to the investment managers. The majority of voting activity will arise in respect of public equities. The Trustee has received information relating to funds that invest in public equities during the Scheme year. The Scheme makes available to members the following daily dealt and daily priced pooled funds. A number of these funds are used in the Default Strategy option, these are shown in bold.

Fund	Underlying Manager and Strategy
Thales UK Equity	LGIM - UK Equity
Thales Socially Responsible	BMO - UK Ethical
Thales Global Equity	LGIM - Global Equity (50:50)
Thales Global Multi-Asset	LGIM - Diversified
Thales Diversified Growth	Insight - Broad Opportunities
Thales Mixed Bond	LGIM - Aggregate Bonds
Thales Corporate Bond	M&G - UK Corporate Bonds
Thales Long Dated Gilt	LGIM - Fixed Interest Gilts
Thales Index-Linked Gilt	LGIM - Index-Linked Gilts
Thales Money Market	BlackRock - Cash

Overview of use of proxy services

LGIM's Investment Stewardship team uses ISS's 'ProxyExchange' electronic voting platform to electronically vote clients' shares. All voting decisions are made by LGIM and they do not outsource any part of the strategic decisions. To ensure LGIM proxy provider votes in accordance with their position on ESG, they have put in place a custom voting policy with specific voting instructions.

Insight would utilise Minerva to analyse resolutions against Insight-specific voting policy templates to determine the direction of the vote, where applicable.

BMO typically exercise voting rights electronically. BMO currently vote using 'ProxyExchange", the electronic voting platform provided by Institutional Shareholder Services (ISS). BMO do not follow ISS's vote recommendations, except as provided for in their Conflict of Interest policy or if instructed by clients. Instead, ISS assists us though pre-populating our vote instructions in accordance with their guidelines. BMO Responsible Investment team reviews a proportion of meetings based on an internal prioritisation model. Mandates where voting is not applicable are not included in the list below:

Manager	Manager Voting Policy	Key votes undertaken over the year 1 January 2020 to 31 December 2020
Legal and General Investment Management	All decisions are made by LGIM's Investment Stewardship team and in accordance with their relevant Corporate Governance & Responsible Investment and Conflicts of Interest policy documents which are reviewed annually. Each member of the team is allocated a specific sector globally so that the voting is undertaken by the same individuals who engage with the relevant company. This ensures LGIM stewardship approach flows smoothly throughout the engagement and voting process and that engagement is fully integrated into the vote decision process, therefore sending consistent messaging to companies.	**UK Equity Index Fund** Number of resolutions voted: 12,486 % of votes against management: 6.9% % of votes with management: 93.1% % of abstain votes: 0% **Global Equity Fixed Weights (50:50) Index Fund** Number of resolutions voted: 43,617 % of votes against management: 16.2% % of votes with management: 83.7% % of abstain votes: 0.1% **Diversified Fund** Number of resolutions voted: 111,059 % of votes against management: 17.5% % of votes with management: 82.0% % of abstain votes: 0.6%
BMO	BMO standard voting approach is to either vote for or against resolutions where these options are available to shareholders. However, there are cases where they consider abstaining to be appropriate, for example, where company practices have improved significantly but do not fully meet BMO expectations. With respect to shareholder resolutions, we may abstain in cases where we agree with the broader issue highlighted but do not agree with the way in which the resolutions prescribe change.	**Responsible UK Equity Growth Fund** Number of resolutions voted: 33 % of votes against management: 72.7% % of votes with management: 15.2% % of abstain votes: 12.1%

Manager	Manager Voting Policy	Key votes undertaken over the year 1 January 2020 to 31 December 2020
Insight Investment	Insight retains the services of Minerva Analytics (Minerva) for the provision of proxy voting services and votes at meetings where it is deemed appropriate and responsible to do so. Minerva provides research expertise and voting tools through sophisticated proprietary IT systems allowing Insight to take and demonstrate responsibility for voting decisions. Independent corporate governance analysis is drawn from thousands of market, national and international legal and best practice provisions from jurisdictions around the world. Independent and impartial research provides advance notice of voting events and rules-based analysis to ensure contentious issues are identified. Minerva Analytics analyses any resolution against Insight-specific voting policy templates which will determine the direction of the vote.	**Broad Opportunities Fund** Number of resolutions voted: 151 % of votes against management: 0% % of votes with management: 100% % of abstain votes: 0%

Most significant votes undertaken in the funds containing equity for the period of 1 January to 31 December 2020

A great emphasis is placed on the LGIM Diversified Fund as this fund has the largest allocation within the Scheme.

There were no significant votes disclosed for Insight Broad Opportunities Fund. The corporate structure of closed-end investment companies held in the strategy includes an independent board which is responsible for providing an overall oversight function on behalf of all shareholders. This governance framework includes a range of aspects including setting out investment objectives, and on an ongoing basis ensuring that the underlying strategy and portfolio activities within it remain within the agreed framework. This governance framework, that is with an independent board acting on behalf of shareholders, generally limits contentious issues that can arise with other listed entities. As a result, examples of significant votes cast that may be comparable to other listed entities are not applicable to the strategy’s exposures.

Fund	Key votes undertaken during the year – 1 January 2020 to 31 December 2020
LGIM Diversified Fund	**Company:** Lagardere **Summary of the resolution:** Shareholder resolutions A to P. Activist Amber Capital, which owned 16% of the share capital at the time of engagement, proposed 8 new directors to the Supervisory Board (SB) of Lagardere, as well as to remove all the incumbent directors (apart from two 2019 appointments). **Date:** 5th May 2020 **Criteria for assessing as significant:** LGIM noted significant media and public interest on this vote given the proposed revocation of the company's board. **Vote Decision:** LGIM voted in favour of five of the Amber-proposed candidates (resolutions H,J,K,L,M) and voted off five of the incumbent Lagardere SB directors (resolutions B,C,E,F,G). **Outcome of the vote:** Even though shareholders did not give majority support to Amber's candidates, its proposed resolutions received approx. between 30-40% support, a clear indication that many shareholders have concerns with the board. (Source: ISS data) **Rationale for the voting decision:** Proposals by Amber were due to the opinion that the company strategy was not creating value for shareholders, that the board members were not sufficiently challenging management on strategic decisions, and for various governance failures. The company continues to have a commandite structure; a limited partnership, which means that the managing partner has a tight grip on the company, despite only having 7 % share capital and 11% voting rights. LGIM engages with companies on their strategies, any lack of challenge to these, and with governance concerns. The company strategy had not been value-enhancing and the governance structure of the company was not allowing the SB to challenge management on this. Where there is a proxy contest, LGIM engages with both the activist and the company to understand both perspectives. LGIM engaged with both Amber Capital, where we were able to speak to the proposed new SB Chair, and also Lagardere, where we spoke to the incumbent SB Chair. This allowed us to gain direct perspectives from the individual charged with ensuring their board includes the right individuals to challenge management.
	Company: Whitehaven Coal **Summary of the resolution:** Resolution 6 - Approve capital protection. Shareholders are asking the company for a report on the potential wind-down of the company's coal operations, with the potential to return increasing amounts of capital to shareholders. **Date:** 22nd October 2020 **Criteria for assessing as significant:** The vote received media scrutiny and is emblematic of a growing wave of green shareholder activism. **Vote Decision:** LGIM voted for the resolution. **Outcome of the vote:** The resolution did not pass, as a relatively small amount of shareholders (4%) voted in favour. However, the environmental profile of the company continues to remain in the spotlight: in late 2020 the company pleaded guilty to 19 charges for breaching mining laws that resulted in significant environmental harm. As the company is on LGIM's Future World Protection List of exclusions, many of our ESG-focused funds and select exchange-traded funds were not invested in the company. **Rationale for the voting decision:** The role of coal in the future energy mix is increasingly uncertain, due to the competitiveness of renewable energy, as well as increased regulation: in Q4 2020 alone three of Australia's main export markets for coal - Japan, South Korea and China - have announced targets for carbon neutrality around 2050. LGIM has publicly advocated for a 'managed decline' for fossil fuel companies, in line with global climate targets, with capital being returned to shareholders instead of spent on diversification and growth projects that risk becoming stranded assets. As the most polluting fossil fuel, the phase-out of coal will be key to reaching these global targets.

LGIM Global Equity Fixed Weights (50:50) Index Fund	**Company:** Amazon **Summary of the resolution:** Shareholder resolutions 5 to 16 **Date:** 27th May 2020 **Criteria for assessing as significant:** The market attention was significant leading up to the AGM, with: 12 shareholder proposals on the table the largest number of any major US company this proxy season Diverse investor coalitions submitting and rallying behind the proposals, including global, different types of investors and first time co-filers/engagers Substantial press coverage with largely negative sentiment related to the company's governance profile and its initial management of COVID-19 Multiple state treasurers speaking out and even holding an online targeted pre-annual meeting investor forum entitled 'Workplace & Investor Risks in Amazon.com, Inc.'s COVID-19 Response 'Anecdotally, the Stewardship team received more inquires related to Amazon than any other company this season. **Vote Decision:** Of 12 shareholder proposals, we voted to support 10. We looked into the individual merits of each individual proposal, and there are two main areas which drove our decision-making: disclosure to encourage a better understanding of process and performance of material issues (resolutions 5, 6, 7, 8, 10, 13, 15 and 16) and governance structures that benefit long-term shareholders (resolutions 9 and 14). **Outcome of the vote:** Resolution 5 to 8, and 14 to 16 each received approx. 30% support from shareholders. Resolutions 9 and 10 received respectively 16.7 and 15.3% support. Resolution 11 received 6.1% support. Resolution 12 received 1.5 % support. Resolution 13 received 12.2% support. (Source: ISS data) **Rationale for the voting decision:** In addition to facing a full slate of proxy proposals, in the two months leading up to the annual meeting, Amazon was on the front lines of a pandemic response. The company was already on the back foot owing to the harsh workplace practices alleged by the author of a seminal article in the New York Times published in 2015, which depicted a bruising culture. The news of a string of workers catching COVID-19, the company's response, and subsequent details, have all become major news and an important topic for our engagements leading up to the proxy vote. Our team has had multiple engagements with Amazon over the past 12 months. The topics of our engagements touched most aspects of ESG, with an emphasis on social topics: Governance: Separation of CEO and board chair roles, plus the desire for directors to participate in engagement meetings Environment: Details about the data transparency committed to in their 'Climate Pledge' Social: Establishment of workplace culture, employee health and safety The allegations from current and former employees are worrying. Amazon employees have consistently reported not feeling safe at work, that paid sick leave is not adequate, and that the company only provides an incentive of $2 per hour to work during the pandemic. Also cited is an ongoing culture of retaliation, censorship, and fear. We discussed with Amazon the lengths the company is going to in adapting their working environment, with claims of industry leading safety protocols, increased pay, and adjusted absentee policies. However, some of their responses seemed to have backfired. For example, a policy to inform all workers in a facility if COVID-19 is detected has definitely caused increased media attention.
	Company: The Procter & Gamble Company (P&G) **Summary of the resolution:** Resolution 5 - Report on effort to eliminate deforestation. **Date:** 13th October 2020 **Criteria for assessing as significant:** It is linked to LGIM's five-year strategy to tackle climate change and attracted a great deal of client interest. **Vote Decision:** LGIM voted in favour of the resolution. **Outcome of the vote:** The resolution received the support of 67.68% of shareholders (including LGIM). **Rationale for the voting decision:** P&G uses both forest pulp and palm oil as raw materials within its household goods products. The company has only obtained certification from the Roundtable on Sustainable Palm Oil for one third of its palm oil supply, despite setting a goal for 100% certification by 2020. Two of their Tier 1 suppliers of palm oil were linked to illegal deforestation. Finally, the company uses mainly Programme

	for the Endorsement of Forest Certification (PEFC) wood pulp rather than Forestry Stewardship Council (FSC) certified wood pulp. Palm oil and Forest Pulp are both considered leading drivers of deforestation and forest degradation, which is responsible for approximately 12.5% of greenhouse gas emissions that contribute to climate change. The fact that Tier 1 suppliers have been found to have links with deforestation calls into question due diligence and supplier audits. Only FSC certification offers guidance on land tenure, workers', communities and indigenous people's rights and the maintenance of high conservation value forests. LGIM engaged with P&G to hear its response to the concerns raised and the requests raised in the resolution. We spoke to representatives from the proponent of the resolution, Green Century. In addition, we engaged with the Natural Resource Defence Counsel to fully understand the issues and concerns. Following a round of extensive engagement on the issue, LGIM decided to support the resolution. Although P&G has introduced a number of objectives and targets to ensure their business does not impact deforestation, we felt it was not doing as much as it could. The company has not responded to CDP Forest disclosure; this was a red flag to LGIM in terms of its level of commitment. Deforestation is one of the key drivers of climate change. Therefore, a key priority issue for LGIM is to ensure that companies we invest our clients' assets in are not contributing to deforestation. LGIM has asked P&G to respond to the CDP Forests Disclosure and continue to engage on the topic and push other companies to ensure more of their pulp and wood is from FSC certified sources.
LGIM UK Equity Index Fund	**Company:** Barclays **Summary of the resolution:** Resolution 29 - Approve Barclays' Commitment in Tackling Climate Change Resolution 30 - Approve Share Action Requisitioned Resolution **Date:** 07th May 2020 **Criteria for assessing as significant:** Since the beginning of the year there has been significant client interest in our voting intentions and engagement activities in relation to the 2020 Barclays AGM. We thank our clients for their patience and understanding while we undertook sensitive discussions and negotiations in private. We consider the outcome to be extremely positive for all parties: Barclays, Share Action and long-term asset owners such as our clients. **Vote Decision:** LGIM voted for resolution 29, proposed by Barclays and for resolution 30, proposed by Share Action. **Outcome of the vote:** Resolution 29 - supported by 99.9% of shareholders Resolution30 - supported by 23.9% of shareholders (source: Company website) **Rationale for the voting decision:** The resolution proposed by Barclays sets out its long-term plans and has the backing of Share Action and co-filers. We are particularly grateful to the Investor Forum for the significant role it played in coordinating this outcome.
BMO Responsible UK Equity Growth Fund	**Company:** On The Beach Group Plc **Summary of the resolution:** Approve Remuneration Report **Date:** 6th February 2020 **Criteria for assessing as significant:** among the available options this vote was selected due to high Percentage Votable Shares **Vote Decision:** Against **Rationale for the voting decision:** Any increase in the size of awards under the short-term/long-term incentive scheme(s) should be accompanied by a corresponding increase in performance expectations. Lastly, companies should consider introducing deferral element and clawback provisions to the short- and long-term incentive schemes in line with market best practice.

	Company: UDG Healthcare Plc **Summary of the resolution:** Approve Remuneration Policy **Date:** 28th January 2020 **Criteria for assessing as significant:** among the available options this vote was selected due to high Percentage Votable Shares **Vote Decision:** Against **Rationale for the voting decision:** Core concerns are the level of pension contribution to serving executives and the annual bonus paid fully in cash.

Appendix B – Manager Engagement over the Scheme year

The table below summarises the engagement activity during the Scheme year for the following managers that hold equity mandates. Engagement activity was not provided by all managers.

Fund	Number of engagements undertaken at a firm level in the year	Number of engagements undertaken on behalf of the holdings in this fund in the year	% of engagements pertaining to ESG issues	Split between E, S and G of engagements (and any comments on this matter)	Key Themes for Engagement, as applicable and/or SGD Targets
BMO Responsible UK Equity Growth Fund	131	Engagements:131 Companies Engaged: 46 Milestones achieved: 31 Countries covered: 4	Companies Engaged by Issues: 169 Milestones achieved by Issue: 31	**Companies engaged:** Climate Change: 11.83% Environmental Standards: 4.14% Business Conduct: 2.37% Human Rights: 4.73% Labour Standards: 47.34% Public Health: 8.28% Corporate Governance: 21.30% **Milestones achieved:** Climate Change: 32.26% Environmental Standards: 6.45% Business Conduct: 0.00% Human Rights: 0.00% Labour Standards: 16.13% Public Health: 3.23% Corporate Governance: 41.94%	No Poverty, Zero Hunger, Good Health and Well-Being, Quality Education, Gender Equality, Clean Water and Sanitation, Affordable and Clean Energy, Decent Work and Economic Growth, Industry, Innovation and Infrastructure, Reduced Inequalities, Sustainable Cities and Communities, Responsible Consumption and Production, Climate Action, Life Below Water, Life on Land, Peace, Justice and Strong Institutions.
Insight Broad Opportunities Fund	1,210 (90% included some form of ESG dialogue)	36 engagements across the 12 direct holdings in the Fund.	39%	13 included board engagements and 14 included ESG discussions. We would expect to be able to provide a more granular breakdown of our engagements during 2021.In Q2 2020, we participated in a consultation which contributed to the exclusion of companies that derive more than 5% revenue from thermal coal from the S&P 500 ESG index. This change came into effect from Q3 2020. In Q4	In the period immediately after mobility related restrictions were introduced in the UK in March 2020, we had six discussions with portfolio companies to assess pandemic impact. Engagement focussed on assessing the impact of the pandemic on continuity of services to public sector counterparts, availability of facilities and assurance of cashflows; impact of lower power price forecasts on

				2020, we participated in a consultation with Deutsche Boerse in relation of the potential launch of derivatives on ESG screened fixed income exposures. The discussion focussed on key attributes that may be attractive for institutional investors in ESG screened fixed income exposures. As part of incorporating ESG screened exposures over 2020, we engaged with a number of financial counterparties to discuss approach to implementation, costs, liquidity and other relevant considerations which contributed to further development in some of the newer ESG screened instruments. In Q4 2020, we shared a virtual panel discussion with external investors and Chicago Mercantile Exchange (CME) on the evolution of ESG investing and the adoption of S&P 500 ESG derivatives."	expected cashflows and overall impact on demand-based assets due to restriction of movement of people and goods.