THALES UK PENSION SCHEME

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR TO 31 DECEMBER 2022

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 Ground Transportation Systems Limited	Thales Ground Transportation Systems Limited

Scheme Actuary
Mr Christian Hardy FIA (Resigned 27 September 2022)
Mercer Limited
1 Tower Place West
London
EC3R 5BU

Mr Matt Smith FIA (Appointed 28 September 2022)
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 (terminated October 2022)
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 (terminated March 2022)
Insight Investment
Legal & General Investment Management Ltd (LGIM)
Loomis & Sayles & Co. (terminated October 2022)
Majedie Asset Management (terminated March 2022)
M&G Investments
Octopus
Orchard Global Asset Management
PGIM

Scheme Employers, Service Providers and Advisors (Continued)

Investment Managers (continued)
Abrdn
Nuveen
CQS
Ares

Additional Voluntary Contributions (AVC) Providers
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
Cardano Advisory
9th Floor
6 Bevis Marks
London
EC3A 7BA

Scheme Employers, Service Providers and Advisors (Continued)

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

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

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

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

Secretary to the Trustee
Philip Cameron

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C/o Thales UK Ltd
350 Longwater Avenue
Green Park
Reading
RG2 6GF

TRUSTEE'S REPORT

Introduction

Thales Pension Trustees Ltd ("the Trustee") of the Thales UK Pension Scheme (the "Scheme") is pleased to present its report together with the financial statements for the year ended 31 December 2022. 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 2025, for the three Section 2 positions.

The Trustees meet at least quarterly, during 2022 they met on the following dates:
14 February 2022
24 March 2022
12 April 2022
22 June 2022
28 September 2022
7 October 2022
2 November 2022
12 December 2022
In addition the Scheme has three subcommittees, Operations, Governance and Investment, which also meet at least quarterly.

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)
20-20 Trustee Services Limited (Employer Nominated) (Appointed 23 May 2023)
John Twigg (Member Nominated)
Nigel Baldwin (Employer Nominated)
Helen Depree (Employer Nominated) (Resigned 16 Feb 2023)
Steven Murray(Employer Nominated) (Resigned 16 Feb 2023)
Niall Mitchell(Member Nominated)
Robert Preston (Member Nominated)
Ronnie Fardell(Member Nominated)
Alison Hexter(Member Nominated)
Philip Cameron (Employer Nominated) (Appointed 16 Feb 2023)
Matthew Guy (Employer Nominated) (Appointed 16 Feb 2023)

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 48 to 76 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 reduced by £855,980,000. This was as a result of a net loss on investments of £811,307,000 and contributions and other income of £104,553,000 being offset by benefits and expenditure payments of £149,226,000.

The latest formal valuation of the Scheme was undertaken as at 31 December 2020, completed and submitted to the Pension Regulator on the 30 June 2022.

The next triennial actuarial valuation of the Scheme will be conducted with an effective date of the 31 December 2023.

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 2020. This showed that on that date:

	Section 1	Section 2
The values of the Technical Provisions were:	£3,314 million	£1,140 million
The values of the assets at that date were:	£2,077 million	£735 million
Deficit	(£1,237) million	(£405) million
Funding Level	63%	64%

TRUSTEE'S REPORT (CONTINUED)

Report on Actuarial Liabilities (Continued)

Section 1

The Trustee and Employer have agreed that from 1 July 2022 the Employer will contribute as follows:- 28.9% of members' Career Average Revalued Earnings (CARE) Salaries, plus at least £57.8m per annum, payable in monthly instalments for the period 1 July 2022 to 31 December 2034, plus £2m per annum in respect of ongoing administration expenses and amounts equal to the PPF levies. As per the Schedule of Contributions dated 30 June 2022.

The Scheme Actuary carried out a funding update as at 31 December 2022. The funding update of Section 1 showed that on 31 December 2022 the funding position was as follows:

Assets	£1,530m
Amount assessed as needed to provide benefits ("Liabilities")	£2,091m
Deficit	(£561m)
Funding level	73%

Section 2

The Trustee and Employer have agreed that from 1 July 2022 the Employer will contribute as follows:- 28.2% of members' CARE Salaries, plus £17.2m per annum, payable in monthly instalments for the period 1 July 2022 to 31 December 2034, plus £1m per annum in respect of ongoing administration expenses and amounts equal to the PPF levies. As per the Schedule of Contributions dated 30 June 2022.

The Scheme Actuary carried out a funding update as at 31 December 2022. The funding update of Section 2 showed that on 31 December 2022 the funding position was as follows:

Assets	£569m
Amount assessed as needed to provide benefits ("Liabilities")	£747m
Deficit	(£178m)
Funding level	76%

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: 1.13% per annum at 31 December 2020. 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.

TRUSTEE'S REPORT (CONTINUED)
Report on Actuarial Liabilities (Continued)

Future Retail Price inflation (RPI): 3.1% per annum at 31 December 2020. 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): 2.4% per annum at 31 December 2020. 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 2020, this long term gap was set at 1.0% per annum until 2030 and nil thereafter, which is expressed as a single equivalent difference applied both before and after 2030 of RPI less 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 ("S3 pensioner tables" & "Middle" for females) series with a 94% multiplier for males and a 95% multiplier for females, based on member's year of birth and projected in line with the CMI 2019 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 ("S3 Light pensioner tables") series with a 88% multiplier for males and a 82% 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 2020 of £1,237 million and £405 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 2034.

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 2020 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.

2020 Actuarial Valuation and Employer Guarantees

The triennial actuarial valuation as at 31 December 2020 was agreed and submitted to the Pensions Regulator on 30 June 2022. 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, the total value of the guarantees increased from £900m to £1,275m.

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.

TRUSTEE'S REPORT (CONTINUED)

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.

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.

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. During 2022 the Trustees held a dedicated training day on the 29 September.

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 March 2023 the Trustee updated the SIP. The main changes are:

- Additional information on the stewardship of assets.
- Updating of the DC Assets information.

TRUSTEE'S REPORT (CONTINUED)

Change to the Scheme Rules
There were no changes to the Scheme rules during 2022.

GMP equalisation
The Trustee is considering how to comply with the legal obligation to equalise GMPs and has a project plan in place which is being progressed accordingly. The Trustee is planning to adopt a dual record method of equalisation and is in consultation with the employer to finalise the methodology. During 2022 work continued to improve the membership data ahead of implementing GMP equalisation.

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. Accordingly, it continues to adopt the going concern basis in preparing the Scheme financial statements. The Trustees and the sponsoring employer have however agreed a Memorandum of Understanding setting out an objective to fully insure the pension benefits of the scheme, initially as a buy-in but ultimately leading to a buy out and wind up of the scheme, potentially in 2025. It is not yet clear if the objectives are achievable. It is envisaged that the position will be clarified in next year's Trustee Report and Accounts.

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 2022 (Brought forward numbers from 2021 Accounts)	**535**	**3963**	**7513**	**6021**	**1488**	**4**
Adjustments*	0	0	-1	0	-1	0
New Entrants	-	-	128	-	128	0
Death in Service	-1	-	-	-	-	-
Death in Deferment	-	-12	-	-	-	-
Death in Retirement	-	-	-340	-242	-98	-
Child Pension Ceasing	-	-	-	-	-	-
Retirements from Active	-32	-	32	32	-	-
Retirements from Deferred	-	-161	161	161	-	-
Leavers - Deferred	-13	13	0	-	-	-
Leavers - Opt Out	-	-	0	-	-	-
Retirements (full commutation)	-	-19	-32	-6	-26	-
Transfers Out	-	-23	0	-	-	-
Number as at 31 December 2022	**489**	**3761**	**7461**	**5966**	**1491**	**4**

TRUSTEE'S REPORT (CONTINUED)

Thales UK Pension Scheme - Section 2 membership movements	Active	Deferred	Total Pensioners (Pensioners + Dependants + Children)	Pensioners (Retired)	Pensioners (Dependant)	Pensioners (Children)
Number as at 1 January 2022 (Brought forward numbers from 2022 Accounts)	**601**	**1364**	**3174**	**2732**	**429**	**13**
Adjustments*	-	-	-2	-	-1	-1
New Entrants	-	-	41	-	40	1
Death in Service	-	-	-	-	-	-
Death in Deferment	-	-6	-	-	-	-
Death in Retirement	-	-	-108	-75	-33	-
Child Pension Ceasing	-	-	-1	-	-	-1
Retirements from Active	-49	-	49	49	-	-
Retirements from Deferred	-	-96	96	96	-	-
Leavers - Deferred	-10	10	-	-	-	-
Leavers - Opt Out	-	-	-	-	-	-
Retirements (full commutation)	-	-1	-11	0	-11	-
Transfers Out	-	-8	-	-	-	-
Number as at 31 December 2022	**542**	**1263**	**3238**	**2802**	**424**	**12**

*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 59 Enhanced DC members as at 31 December 2022 (64 as at 31 December 2021).

Members whose benefits are funded by annuity policies are included in the above tables. Section 1; 188 (105 pensioners and 83 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 (terminated October 2022)
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. (terminated October 2022)
Majedie Asset Management (terminated March 2022)
M&G Investments
Octopus
Orchard Global Asset Management
PGIM
Scheme Employers, Service Providers and Advisors (Continued)
Abrdn
Nuveen
CQS
Ares

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 SIP that was in place at year end was approved by the Trustee on the 8 December 2021. The latest SIP was approved by the Trustee on the 4 May 2023. 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.

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. The Trustee has set out their Stewardship and Engagement policy 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.

During 2022 the Funding Objective set by the Trustee was for the Scheme to be 100% funded on a technical provisions basis. An additional objective was to invest in assets which generate significant cashflows which can be used in the payment of benefits.

The plan was to reduce risk in the portfolio to gilts+2.0% p.a. which would be held until the Investment Objective was achieved (targeted for 2034). This is known as the "Lower for Longer" investment strategy. It was therefore a two phase process, each phase with its own return target, as outlined in the table below:

Phase	Duration	Return Target
1	Until Dec 2034	Gilts + 2% per annum
2	Onwards	Gilts + 0.75% per annum

The Trustee took steps to implement this strategy during 2022, selling equity investments, investing the proceeds in a diversified range of credit investments and gradually increasing the schemes hedging levels.

During September and October 2022 high levels of gilt market volatility materially impacted the schemes investment strategy. Marked increases in gilt yields significantly reduced the value of the schemes gilt holdings but overall resulted in material improvements in the scheme funding position while at the same time stressing the schemes collateral reserves. The Trustees decided to sell the schemes corporate bond assets to bolster the collateral and protect the hedging positions. These actions also maintained the overall expected return at a level required to meet the objective of being fully funded by 2034.

TRUSTEE'S REPORT (CONTINUED)

Investment Objectives (Continued)

In 2023 the Trustees and the sponsoring employer agreed a Memorandum of Understanding setting out an objective to fully insure the pension benefits of the scheme. The Trustees have reflected this in the SIP by removing the objective to invest in assets which generate significant cashflows which can be used in the payment of benefits and setting a new objective; to target a full buy-in of the liabilities by the end of 2023. To achieve this the Investment Sub-Committee will agree and oversee changes required to the investment policy to ensure the assets held are "insurance friendly" and can be included as part of an insurance transaction.

Changes in respect of Investment Policy

During the year the following changes to the Investment Policy were implemented:

- The disinvestment of all the listed equity mandates (Hosking and Majedie) in Q1.
- Increase of the target hedge ratios to c.90% of assets.
- Allianz and Loomis global credit mandates terminated in Q3 and proceeds transferred to the LDI mandates.

Review of Investment Performance of the Scheme

For the year ended 31 December 2022, the Scheme returned -27.7% against a benchmark return of -25.5%. The return over the last three years is -6.6% per annum (p.a.) against a benchmark of -6.1% p.a.

The total net assets held by the Scheme, as at 31 December 2022, were £2.10 billion (31 December 2020: £2.92 billion).

TRUSTEE'S REPORT (CONTINUED)

Investment performance for the period 1 January 2021 to 31 December 2021 is set out below:

Liquid Investments

Asset Class and Manager	3 months			1 year			3 years (p.a.)		
	Total (%)	Bmk (%)	Rel (%)	Total (%)	Bmk (%)	Rel (%)	Total (%)	Bmk (%)	Rel (%)
TOTAL	**-5.1**	**-5.9**	**0.8**	**-27.7**	**-25.5**	**-2.2**	**-6.6**	**-6.1**	**-0.5**
Alternative Growth Assets									
Opportunistic Credit, Brigade	-1.3	3.5	-4.8	-11.8	-6.9	-4.9	0.7	0.2	0.5
Multi-Asset Credit, CQS	2.6	2.6	0.0	-8.8	-8.8	0.0	-	-	-
UK Property, Aberdeen Standard	-17.4	-14.1	-3.3	-17.6	-9.5	-8.1	0.8	2.2	-1.4
UK Long Lease Property, LGIM	-12.9	-11.6	-1.3	-8.1	-11.4	3.3	2.5	0.6	1.9
European Long Lease Property, M&G [1]	-0.8	-0.8	0.0	3.7	3.7	0.0	3.4	3.4	0.0
European Property, M&G [1]	-5.1	-2.4	-2.7	-3.4	8.4	-11.8	2.0	8.7	-6.7
Illiquid Credit Opportunities, M&G	3.0	0.7	2.3	0.2	1.4	-1.2	2.5	0.7	1.8
Liability Matching & IG Fixed Income									
Secured Finance, Insight	1.5	0.7	0.8	-0.5	1.4	-1.9	1.3	0.7	0.6
Secured Finance, Schroder	1.2	1.9	-0.7	-	-	-	-	-	-
LDI (Section 1), LGIM	-11.6	-11.6	0.0	-68.6	-68.6	0.0	-27.8	-27.8	0.0
LDI (Section 2), LGIM	-12.8	-12.8	0.0	-58.8	-58.8	0.0	-21.2	-21.2	0.0
Currency Overlay, LGIM	0.1	0.1	0.0	-	-	-	-	-	-

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

Illiquid Investments

Asset Class and Manager	Net IRR since inception (% p.a.)		Target / benchmark	Inception
	30 June 2022	30 September 2022		
Alternative Growth Assets				
Reg. Cap. Arbitrage, Orchard [1]	10.0	10.0	10% net absolute return p.a.	Nov 2015
Stressed/Distressed & Opportunistic Credit, Carval II [1]	8.5	8.5	12-15% net IRR	Jun 2013
Stressed/Distressed & Opportunistic Credit, Carval III [1]	7.8	7.8	12-15% net IRR	June 2015
Stressed/Distressed & Opportunistic Credit, Carval IV [1]	7.5	7.4	12-15% net IRR	Sep 2017
Stressed/Distressed & Opportunistic Credit, Carval V [1]	0.1	2.1	12-15% net IRR	May 2020
Infrastructure Equity, Aviva	5.3	7.8	Annual cash yield of 7-8% per annum (net)	Nov 2018
UK Infrastructure, Ancala	10.6	11.7	Higher of RPI + 4.5% or 9%	May 2016
UK Infrastructure, Equitix II	8.7	8.8	12.5% Gross IRR	Sep 2011
UK Infrastructure, Equitix III	7.1	7.1	12.5% Gross IRR	Jun 2013
UK Infrastructure, Equitix IV	7.6	7.2	11.0% Gross IRR	Sep 2015
UK Infrastructure, Equitix M25	8.1	8.2	10.0% Gross IRR	Jan 2017
UK Infrastructure, Equitix V	7.1	6.8	10.5% Gross IRR	Jul 2018
Private Debt, Alcentra	8.1	8.1	7-9% net IRR	Mar 2018
Private Debt, Highbridge [1]	5.7	5.6	6.5%-8.5% net p.a.	Dec 2017
Care Homes, Octopus	8.7	8.9	7% annual distribution yield and 9% net IRR	Feb 2014
Ground Rents, Alpha Real	5.1	5.2	Over 5 year index linked gilt index +2% p.a.	Jan 2017
Ground Leases, PGIM [2]	2.4	2.4	Equivalent to the 1.25% indexed linked gilt 2055 +2% p.a.	Aug 2018
Farmland, Nuveen [1]	2.5	2.4	8%-12% net return p.a.	Apr 2015

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

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 emp.oyer related investments.

TRUSTEE'S REPORT (CONTINUED)

Additional Voluntary Contribution and other Defined Contribution funds

Until 31 December 2007, members were able to pay Additional Voluntary Contributions (AVCs) to the Scheme, with the vast majority of these being operated on a defined contribution basis. Additionally, certain groups of members paid, or had paid on their behalf by their employer, supplementary contributions on a defined contribution basis. The Trustee continues to administer the funds built up from these sources on the members' behalf.

The Trustee maintains a suite of core investment funds on an investment platform operated by Scottish Widows. 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 20 to 42.

Basis of Investment Managers' Fees

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

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.

Further Information

Further legislative disclosures are included in the Compliance Statement on pages 81 and 82.

Signed on behalf of Thales Pension Trustees Ltd on 28-Jul-2023 | 15:44:59 BST

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Thales UK Pension Scheme
Chair's Statement for the year-ended 31 December 2022

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

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

As Chair of Trustee, it is my pleasure to report to you on how the Trustee have embedded these minimum standards over the period 1 January to 31 December 2022.

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 2022
Scottish Widows	£10,471,227
Prudential	£149,268
Phoenix Life	£19,286
Scottish Friendly	£65,461
Aviva	£57,697
Clerical Medical	£33,645

Given the range of providers and mindful of the need to maintain a focused use of the Scheme's finite resources, the Trustee have again this year focussed on the DC & AVC assets held with the Scheme's top three providers which this year are Scottish Widows, Prudential and Scottish Friendly and whose total assets account for 99.0% of the Scheme's DC and AVC assets (approximately £10.7 million out of a total £10.8 million as at 31 December 2022).

1. The Scheme's default investment arrangement

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

The Trustee 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 latest Trustee' Statement of Investment Principles ('SIP') signed on 24 May 2023. The aims and objectives of the default investment arrangement 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 default investment strategy was last reviewed in October 2021 and was considered to still be broadly appropriate for most members. The conclusions from this review were:

- Targeting cash is likely to remain appropriate for the majority of Scheme members as the at-retirement target of the default, given member pot sizes, the fact that for many these funds are in addition to their main scheme benefits and a review of wider industry retirement trends.

- The current glide-path remained appropriate for the current target of the default strategy.
- The Trustee agreed to change the underlying fund in the Thales UK Pension Scheme Global Equity Fund (used in the Default Strategy) from the LGIM passive equity fund (which has a 50% UK bias) to the LGIM All World Equity Index (50% GBP hedged).
- The Trustee agreed to change the underlying fund in the Thales UK Pension Scheme Socially Responsible Fund (a self-select option) from the BMO Responsible UK Equity Fund to the Baillie Gifford Positive Change fund.

The above changes were implemented in July 2022.

The nature of this default investment arrangement 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 believe 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). 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 believe 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 10 years leading up to their expected retirement age, members' savings are gradually transitioned away from global equities and other growth-seeking assets, to investment-grade corporate bonds, 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 60% allocation in Long-dated gilts and 40% in Money Market assets.

The Trustee will continue to review the suitability of this arrangement periodically. The Trustee advisers consider whether any of the underlying funds invested with Scottish Widows, including those that make up the default investment arrangement, remain suitable on a quarterly basis and will recommend any changes to the funds if necessary.

<u>Legacy Equitable Life Lifestyle Strategy</u>

In 2012, the Trustee opted to move members' account balances that were invested in 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 throughout the 15 years leading up to their retirement age. Members have the opportunity to opt-out of this arrangement at any time.

The table below sets out the key features of this lifestyle investment arrangement and explains why the Trustee believe 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 believe 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 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 (or have subsequently made a decision to invest in the funds they are in). 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.

Following the closure of the Equitable Life With Profits Fund and the subsequent transfer of assets to Utmost, the Trustee 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 AVC transfer to the Scottish Widows platform was completed on 27 May 2021. Members received communication in regards to this transfer and they had the right to invest in other funds available on the Scottish Widows platform other than those to which they have been mapped.

2. Disclosures on core financial transactions

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

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

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

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

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

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

Core financial transaction	Key internal control
Investment switches requested by members	*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.
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 by the Trustee, over the year. 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 2022), Equiniti have met their Service Level Agreements (SLAs) to the follow extent on key tasks:

Key Tasks	Total Cases Completed	Total % achieved against SLA
Early Leaver	63	86%
Transfer Out Quotation	840	87%
Transfer Out Finalisation	159	84%
Retirement Quotation	1,423	84%
Retirement Set Up	533	85%
Death	1,558	92%
AVC's	16	94%
Complaints	57	97%
Member Record Update	1,314	94%
Divorce	82	93%
General Correspondence	9,698	94%
Total	**15,743**	**92%**

Based on the above, the Trustee is satisfied that the Scheme's core financial transactions have been processed promptly during the period to which this Statement relates.

3. Value

As required by the Occupational Pension Schemes (Scheme Administration) Regulations 1996, as amended, (the 'Administration Regulations'), the Trustee are required to report on the charges and transaction costs for the investments used in the DC and AVC arrangements and their assessment of the extent to which these charges and costs represent good value for members. When preparing this statement, the Trustee have taken account of statutory guidance when producing this section.

Scottish Widows

Members with DC and AVC assets held with Scottish Widows only bear investment and platform administration charges in this context; as Scottish Widows is the investment manager, they do not provide any wider administration services (other than processing trades), so no other 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†	0.87
Thales Corporate Bond†	0.47
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 arrangements.

Additionally, the funds listed in the table below are available to members on a self-select basis (as are the funds in the table above used in the default investment arrangements).

Self-select investment fund	TER (% p.a.)
Thales UK Equity	0.18
Thales Global Multi-Asset	0.48
Thales Socially Responsible	0.64
Thales Mixed Bond	0.38

Source: Scottish Widows as at 31 December 2022

The TER consists principally of the provider platform charge and the underlying investment 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, as noted in the value for members' section that follows.

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	0.77%
Prudential Cash	0.55%
Prudential With-Profits	No explicit charges*

**Whilst there will be a charge incurred in investing in this fund, there is no explicit annual fund management charge given the structure of this type of fund. By their nature, the charging structure of with profits policies is not immediately transparent.*

It is not currently possible to split out the various elements of the TERs in place for the Discretionary Fund, so therefore it is not possible to make a judgement about whether the specific cost being met by members for this service is considered value for money. The standard of the direct administration service provided by Prudential during the year are broadly in line with what we see on other legacy AVC providers but they are higher than the main SW funds if Andrea is comfortable with that.

Assessment of the Prudential With Profits Fund remains challenging, given the nature of the fund and the guarantees reflected in its terms.

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.

Scottish Friendly

Charges for members invested with Scottish Friendly were not provided by the time of writing this report. The Trustees will continue to chase for this information.

Transaction costs

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

When buying and selling investments, transaction 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 arrangements.

Scottish Widows Transaction costs for period 01/01/2022 to 31/12/2022	
Fund	**Transaction Costs (%)**
Thales Global Equity	0.00
Thales Diversified Growth	-0.04
Thales Corporate Bond	0.02
Thales Long Dated Gilts	0.05
Thales Index-Linked Gilt	0.02
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	0.02
Thales Socially Responsible	0.14
Thales Global Multi Asset	0.00
Thales Mixed Bond	0.02

Prudential Transaction costs for period 01/04/2021 - 31/03/2022*	
Fund	**Total Transaction Costs (%)**
Prudential Deposit	0.00
Prudential Discretionary	0.06
Prudential Cash	0.00
Prudential With-Profits	0.10

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

In accordance with the Administration Regulations, using the charges and transaction cost data provided, the Trustee has prepared illustrations 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, two examples were provided below (one based on the average member age and one based on the youngest members in the Scheme). The illustrations account for all member costs, including the Total Expense Ratio and transaction costs, and take account of an assumed rate of inflation.

The first illustration is based on the average member age in the Scottish Widows policy of 59 and uses a starting pot size of £18,078 which is reflective of the average fund value for members of this age.

	Default Strategy		Legacy Equitable Life With Profits Strategy		Highest cost fund: Thales Diversified Growth		Lowest cost and highest return fund: Thales UK Equity		Lowest return fund: Thales Money Market	
Age	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred
60	£18,546	£18,412	£18,341	£18,259	£18,742	£18,549	£18,802	£18,767	£18,171	£18,128
61	£18,944	£18,691	£18,538	£18,390	£19,431	£19,032	£19,554	£19,483	£18,264	£18,179
62	£19,267	£18,912	£18,686	£18,481	£20,144	£19,528	£20,337	£20,226	£18,358	£18,230
63	£19,449	£19,030	£18,793	£18,542	£20,884	£20,036	£21,151	£20,997	£18,452	£18,281
64	£19,547	£19,085	£18,890	£18,594	£21,652	£20,558	£21,998	£21,797	£18,547	£18,332
65	£19,646	£19,140	£18,987	£18,646	£22,447	£21,094	£22,879	£22,629	£18,642	£18,383

The second illustration is based on some of the youngest members in the Scottish Widows policy aged 43 with a starting pot size of £13,397 which is reflective of the average fund value for members of this age.

	Default Strategy		Legacy Equitable Life With Profits Strategy		Highest cost fund: Thales Diversified Growth		Lowest cost and highest return fund: Thales UK Equity		Lowest Return fund: Thales Money Market	
Age	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred
44	£13,911	£13,823	£13,847	£13,766	£13,889	£13,746	£13,933	£13,908	£13,466	£13,434
45	£14,446	£14,263	£14,313	£14,144	£14,399	£14,104	£14,491	£14,438	£13,535	£13,472
47	£15,576	£15,184	£15,292	£14,933	£15,477	£14,848	£15,674	£15,560	£13,674	£13,547
52	£18,806	£17,757	£17,892	£16,956	£18,536	£16,885	£19,073	£18,761	£14,029	£13,737
55	£21,057	£19,506	£19,169	£17,831	£20,655	£18,240	£21,457	£20,990	£14,246	£13,852
57	£22,557	£20,617	£19,910	£18,313	£22,201	£19,202	£23,209	£22,621	£14,393	£13,930
59	£23,954	£21,582	£20,589	£18,746	£23,862	£20,216	£25,104	£24,379	£14,541	£14,007
62	£25,529	£22,579	£21,282	£19,165	£26,589	£21,837	£28,242	£27,276	£14,767	£14,125
63	£25,771	£22,719	£21,404	£19,228	£27,566	£22,406	£29,372	£28,316	£14,842	£14,164
64	£25,901	£22,784	£21,514	£19,281	£28,579	£22,989	£30,548	£29,395	£14,919	£14,204
65	£26,032	£22,850	£21,625	£19,335	£29,629	£23,588	£31,771	£30,516	£14,995	£14,244

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% per annum.
3. The funds chosen for these illustrations are the most commonly used, i.e. all default arrangements, and the lowest charging and highest charging self-select fund in which members are invested.
4. The projected gross nominal growth rates (gross of charges but not transaction costs) for each fund are as follows and use the same underlying assumptions as the Statutory Money Purchase Illustration assumptions:

Thales UK Equity:	6.50%
Thales Diversified Growth:	6.00%
Thales Money Market:	3.00%

Thales Global Equity:	6.50%
Thales Corporate Bond:	4.25%
Thales Long-Dated Gilt:	3.00%
Legacy Equitable Life With Profit Strategy:	Dependent on term to selected retirement age
Default Investment Strategy:	Dependent on term to selected retirement age

Value for members

When assessing the charges and transaction costs which are payable by members, the Trustee are 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, Prudential and Scottish Friendly. As noted earlier in this Statement, the Trustee has chosen to focus on the Scheme's top three providers. Information on Prudential and Scottish Friendly was either limited or not provided at the time of writing. Therefore, the commentary below focuses primarily on the arrangement with Scottish Widows.

The Trustee have concluded that the overall benefits and options within the Scottish Widow's arrangement represent good value for money in comparison to the charge payable by members.

The reasons underpinning this conclusion include:

- The charges borne by members on investments with Scottish Widows has been assessed by our advisers as comparing favourably with those of suitable peer funds;
- The element of member charges related to 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 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 over 3 years to 31 December 2022 generally compares favourably relative to their benchmarks and objectives, acknowledging that 2022 has been a difficult year for markets which has impacted actively managed funds in this arrangement; 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. However, based on the VfM assessment review of the data, the consideration is that the transaction costs are broadly as expected and similar to those observed by other schemes.

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

Return on Investments

The Occupational Pension Schemes (Administration, Investment, Charges and Governance) (Amendment) Regulations 2021 ('the 2021 Regulations') introduce new requirements for trustee of 'relevant' occupational pension schemes.

From 1 October 2021 trustee of all relevant pension schemes are required to calculate and state the return on investments from their default and self-select funds, net of transaction costs and charges. This information must be recorded in the annual chair's statement and published on a publicly accessible website.

The tables below show performance, net of all charges and transaction costs, of all funds available to members during the Plan year.

Lifestyle Arrangement	Annualised returns to 31 December 2022 (% p.a.)	
Age of member at the start of the period	1 year	5 years
25	-8.1	2.1
45	-8.1	2.1
55	-8.3	-0.2

Legacy Equitable Life With Profit	Annualised returns to 31 December 2022 (% p.a.)	
Age of member at the start of the period	1 year	5 years
25	-11.2	1.4
45	-11.2	1.4
55	-21.7	-1.6

Self-select fund	Annualized returns to 31 December 2022(% p.a.)	
	1 year	5 years
Thales UK Equity	0.7	3.0
Thales Socially Responsible	-9.2	3.7
Thales Global Equity	-6.3	4.4
Thales Global Multi-Asset	-9.5	3.7
Thales Diversified Growth	-9.8	-0.3
Thales Mixed Bond	-20.5	--
Thales Corporate Bond	-17.0	-0.8
Thales Long Dated Gilt	-40.7	-7.0
Thales Index-Linked Gilt	-39.3	-5.6
Thales Money Market	1.2	0.5

Source: *Scottish Widows and Mercer.*
Performance shown net of all charges and transaction costs. Performance has been calculated based on weighted average of underlying fund performance in the lifestyle on a quarterly basis.

At the time of writing, performance information on the other AVC arrangements had not been provided. The Trustee will continue to work with the AVC providers on information requests ahead of next year's Statement.

4. Disclosures about Trustee Knowledge and Understanding

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

The degree of knowledge and understanding required is that appropriate for the purposes of enabling the Trustee to exercise the function in question. The Trustee must also be conversant with the Scheme's own documentation (focusing on the Scheme's trust deed and rules and Statement of Investment Principles). The Trustee must also be conversant with any other documentation recording current policy relating to the administration of the Scheme generally. The Pensions

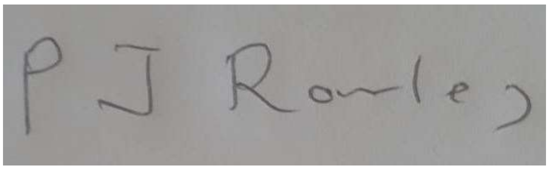
Regulator interprets 'conversant' as having a working knowledge of those documents such that the Trustee are able to use them effectively when they are required to do so in the course of carrying out their duties.

The Trustee 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 Trustee must have appropriate knowledge and understanding of the law relating to pensions and trusts and the investment of assets	It is mandatory for the Trustee to complete The Pensions Regulator's online trustee training modules when they are appointed. Ongoing training is then provided by professional advisers collectively, as part of a dedicated training day and at routine Trustee' meetings (the subjects having been agreed in advance, based on periodic self-assessment or gap analysis). Trustee also receive training on an individual basis, through attendance at relevant seminars and conferences etc. In implementing the recommendations proposed at the 2021 Investment Strategy Review during the 2022 Scheme year, the Trustee applied their knowledge of their powers under the Scheme's Trust Deed & Rules and also acted within UK Regulations regarding Scheme investments.
The Trustee must be conversant with the Scheme's own documentation	All key Scheme documentation is accessible by the Trustee. Periodic training focuses on Scheme documentation, such as the Trust Deed & Rules. The Trustee have demonstrated working knowledge of their Statement of Investment Principles (SIP) by reviewing it during the year. An updated version will be signed after Scheme year end in March 2023.
Knowledge and resources generally	The Trustee' 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 Trustee 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 Trustee attending conferences or externally-run training courses relevant to their role. The Trustee 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 Trustee' held a dedicated training day on 29 September 2022. The Trustee maintain a training log that sets out individual and whole-board based training activity. The Trustee receive and review quarterly investment performance reports from their advisor. The Trustee' professional advisors attend all meetings and are asked to input into the agenda. The Trustee 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 Trustee remain informed about changes to pension laws and their duties in relation to those changes.

Taking into account the actions taken individually and as a group, the knowledge and experience of the Trustee, and the professional advice available to them, the Trustee consider that they are able to exercise their responsibilities appropriately.



Signed: ....
Chair of the Trustee of the Thales UK Pension Scheme

Date: 28 July 2023

Appendix 1

Statement of Investment Principles (SIP) –Thales UK Pension Scheme (May 2023)

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 sets of assets, the DB assets and DC assets. 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 Trustee has also set an objective to target a full buy-in of the liabilities by the end of 2023.

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 current strategy is to invest the Scheme's assets in such a manner to support the Trustee's objective of achieving a full buy-in by the end of 2023..

The Investment Sub-Committee will agree and oversee changes required to the investment policy to ensure the assets held are "insurance friendly" and can be included as part of an insurance transaction.

The guiding principles in managing the portfolio will be:

- To structure the liability hedge to broadly match the level of interest rate and inflation sensitivity used to determine buy-in pricing.
- To divest from assets that would not typically be included as part of a buy-in transaction (subject always to (i) such divestment being made with no or minimal value haircut and (ii) the Trustee consulting the Employer beforehand) and to deleverage the LDI portfolio and/or to increase the allocation to liquid, investment-grade credit assets / bonds, provided that such assets are held in a form to allow novation / in-specie transfer to buy-in providers / insurers.

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 all 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 is governed by a Terms of Reference document. These are reviewed and agreed with the Trustee from time to time. All aspects of asset allocation strategy, liability hedging, manager structure and manager selection/de-selection will be decided by the ISC under its delegated powers.

The Trustee's policy is that there will be sufficient investments in liquid or readily realisable assets and/or sufficient distributable income generated by the investment policy 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.

Gilt repo, futures, swaps, options and other derivatives may be used for risk and efficient portfolio managementpurposes. 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. An additional 'technical' default arrangement is also considered to exist, the Legacy Equitable Life With-Profits – Lifestyle Strategy; this was created when members invested in the Equitable Life With-Profits Fund were mapped to a newly-designed lifestyle arrangement. These are 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 assets 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 default 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 10 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. DC 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 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 assets, 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 DC 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 how 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 10 years approaching their expected retirement age. The final allocation, at retirement, is 60% in Long-Dated Gilts and 40% in money market instruments. The Trustee believes this is the most suitable approach based on their understanding of the Scheme's membership.

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

The default option is a lifestyle arrangement where 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 current default invests evenly in the Passive Global Equity Fund (LGIM 50:50 Global Equity Fund) and in the Diversified Growth Fund (Insight Broad Opportunities Fund) until a member is approximately 10 years from their target retirement age. At that time, it will gradually switch monies from the Passive Global Equity Fund into the Corporate Bonds fund until approximately 6 years from the member's target retirement date, at which point monies start to gradually switch from the DGF and the Corporate Bonds fund to Long-Dates Gilts and Money Market. When the member reaches retirement date, assets will be split as follows: 60% Long-Dated Gilts and 40% Money Market assets. The strategy is appropriately designed for those members looking to buy an annuity to secure a certain level of income over the retirement period.

The default lifestyle strategy is expected, over the long-term, to provide a reasonable rate of return relative to interest rates and inflation when members are more than 10 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 and relative to annuity prices.

During the growth phase of the default investment arrangement members are invested in global equities and other growth-seeking assets. 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 will be split as follows: 60% Long-Dated Gilts and 40% Money Market assets.

The investment managers have discretion in the timing of realisations of investments and in considerations relating to the liquidity of those investments. 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 has considered risks from a number of perspectives. The list below is not exhaustive but covers the main risks that the Trustee considers and how they are managed.

Risk	How it is measured	How it is managed
Inflation Risk	Considering the real returns (i.e. returns above inflation) of the funds, with positive values indicating returns that have kept pace with inflation.	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.
Benefit Conversion Risk	Member's investments do not match how they would like to use their pots in retirement.	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 10 years approaching their expected retirement age. The final allocation, at retirement, is 40% money market instruments and 60% in Long-Dated Gilts. The Trustee believes this is the most suitable approach based on their understanding of the Scheme's membership.
Market Risk	Monitoring the performance of the funds in the default investment strategy on a quarterly basis.	The Trustee reviews the appropriateness of the default strategy at least triennially. However, the default investment strategy is set with the intention of diversifying this risk to reach a level of risk deemed appropriate for the relevant members by the Trustee.
Investment Manager Risk	In line with the 'investment manager risk' in the 'Risk Management' section of this SIP.	
Environmental, Social and Governance Risk	In line with the 'investment manager risk' in the 'Risk Management' section of this SIP.	

The risks identified in the above table are considered by the Trustee to be 'financially material considerations'. The Trustee believes the appropriate time horizon for which to assess these considerations within should be viewed at a member level. This will be dependent on the member's age and their selected retirement age.

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.

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 believe each one to be in members' best interests.

Default feature	Rationale for being in members' best interests
Members' accounts are invested in global equities and other growth-seeking assets (through a diversified growth fund). 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 believe it prudent to include an allocation to diversified assets (and bonds) during the growth phase, since this is expected to mitigate the impact of any fall in the value of equities on members' accounts.
During the 10 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, 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 an asset split of: 60% Long-Dated Gilts and 40% Money Market assets.

Legacy Equitable Life With-Profits – Lifestyle Strategy

The Scheme also has a Legacy Equitable Life With-Profits - Lifestyle Strategy. This strategy was designed to replace, to the extent that it is possible to do so, the investment returns members may have expected from the Equitable Life With-Profits Fund. The initial target allocation is split as follows: 40% in global equities, 40% in diversified growth, 15% in corporate bonds and 5% in index-linked gilts. 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. The strategy concludes with a 100% allocation to money market that broadly matches the expectation that members will take their funds entirely in the form of tax-free cash from the Scheme.

However, the AVC assets from Equitable Life were transferred to a newly-designed lifestyle arrangement without explicit member consent as the Trustee. 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 and a technical default for the Scheme.

The Trustee has considered risks from a number of perspectives. The list below is not exhaustive but covers the main risks that the Trustee considers and how they are managed.

Risk	How it is measured	How it is managed
Inflation Risk	Considering the real returns (i.e. returns above inflation) of the funds, with positive values indicating returns that have kept pace with inflation.	The growth phase of the default investment arrangement is invested primarily in global equities and other growth-seeking assets which is expected to provide returns in excess of inflation with a small allocation to Corporate Bonds and Index-Linked Gilts for diversification and risk management purposes.

Risk	How it is measured	How it is managed
Benefit Conversion Risk	Member's investments do not match how they would like to use their pots in retirement.	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.
Market Risk	Monitoring the performance of the funds in this investment strategy on a quarterly basis.	The Trustee reviews the appropriateness of this strategy at least triennially. However, the strategy is set with the intention of diversifying this risk to reach a level of risk deemed appropriate for the relevant members by the Trustee.
Investment Manager Risk	In line with the 'investment manager risk' in the 'Risk Management' section of this SIP.	
Environmental, Social and Governance Risk	In line with the 'investment manager risk' in the 'Risk Management' section of this SIP.	

The risks identified in the above table are considered by the Trustee to be 'financially material considerations'. The Trustee believes the appropriate time horizon for which to assess these considerations within should be viewed at a member level. This will be dependent on the member's age and their selected retirement age.

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

Default feature	Rationale for being in members' best interests
Members' Accounts are invested in global equities and other growth-seeking assets (through a diversified growth fund); a small allocation is also made to corporate bonds and index-linked gilts. This investment arrangement applies until 15 years prior to their selected retirement age.	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 believe 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	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

investment-grade corporate bonds, index-linked gilts, long-dated gilts and cash.	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.

Policies in relation to the default investment strategies

In addition to the Trustees' Investment Objectives (covered in Section 2), the Trustee believes that:

- The default investment arrangements manage investment and other risks through a diversified strategic asset allocation consisting of a diversified range of global asset classes. This is through actively and passively managed funds. Risk is not considered in isolation, but in conjunction with expected investment returns and outcomes for members.
- In designing the default investment arrangements, the Trustee has explicitly considered the trade-off between risk and expected returns. The balance between the different kinds of investments is expected to achieve a level of risk, and expected return, deemed appropriate for members. The Trustees received professional investment advice when designing the default options.
- If members wish to, they can opt to choose their own investment strategy on joining but also at any other future date.
- Assets are invested in the best interests of members and beneficiaries, taking into account the profile of members.
- Assets are invested in a manner which aims to ensure the security, quality, liquidity and profitability of a member's portfolio as a whole.
- Assets are invested mainly on regulated markets (those that are not must be kept to prudent levels).

DEFINED BENEFIT AND DEFINED CONTRIBUTION ASSETS

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 measurableobjective 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 forits 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).

Deviations from that range will be reviewed with the investment manager. For the DC assets, the

Trustees consider investment charges and portfolio turnover costs as part of the annual Value for Members assessment. No targets are set in relation to turnover costs.

The ISC also requires each of the investment managers to conform to the Scheme's Statement of Investment Principles.

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 their 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 accountis 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 assets.

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 delegate the day-to-day articulation of their policy, its monitoring and engagement to their Investment Advisor. The Investment Advisor provides the ISC with stewardship updates as part of its regular reports and escalates matters to them as necessary.

While the Scheme's investment managers are given full discretion in exercising stewardship obligations relating to the Scheme's investments, they are expected to prioritise stewardship and engagement activities in relation to the following ESG factors, which represent the ISC's priorities in relation to stewardship:

i. Climate change with focus on disclosures/reporting

ii. Modern Slavery

iii. Diversity & Inclusion

The ISC have chosen to prioritise these areas in particular as the ISC believes they can pose a material financial and/or reputational risk, are areas that the Scheme's investment managers are already focussing their engagement strategy on and are consistent with the Scheme's broader TCFD reporting requirements.

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. If a manager's level of engagement was viewed to be unsatisfactory, this would be escalated in the first instance by the Investment Advisor, who would feed-back to the manager that their current level and/or depth of engagement is not satisfactory, and encourage them to improve this, taking into account the Scheme’s stewardship priorities. If this did not result in an improvement in the level of engagement, the next level of escalation would be for the ISC to voice their dissatisfaction with the manager on their level and/or depth of engagement. If this [still] did not result in any improvement, the ISC would consider whether the specific circumstances justified the termination of the mandate.

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.

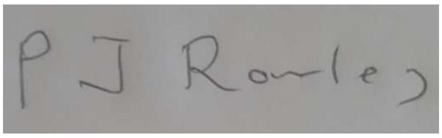
The Trustee will provide an implementation statement within its annual report signed after 1 October 2021. The implementation statement will set out how it has acted on the principles within this Statement and will provide details of the stewardship, engagement and voting undertaken with regardsto the 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: 24 May 2023

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.

AUDITOR'S REPORT

Independent auditor's report to the Trustee of the Thales UK Pension Scheme for the year ended

31 December 2022 Report on the audit of the financial statements

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

- show a true and fair view of the financial transactions of the Scheme during the year ended 31 December 2022 and of the amount and disposition at that date of its assets and liabilities, other than the liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

We have audited the financial statements which comprise:

- the fund account;
- the statement of net assets (available for benefits); and
- the related notes 1 to 19.

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.

Auditor's Report (Continued)

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, our auditor's report thereon, and our auditor's statement about contributions. 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 Statement of Trustee's responsibilities, 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.

Auditor's Report (Continued)

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 and pension management, their own identification and assessment of the risks of irregularities, including those that are specific to the Scheme's business sector.

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 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's regulatory requirements.

We discussed among the audit engagement team including relevant internal specialists such as pensions actuarial specialists, IT, and real estate industry specialists 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 misappropriation of investment assets due to the significant size of investment transactions and balances. In response our procedures to respond to the risk identified included the following:

- obtaining an understanding of relevant controls over the existence of investment holdings and transactions;
- agreeing investment holdings to independent third party confirmations; and
- agreeing investment and cash reconciliations to independent evidence and bank statements.

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, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating 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;

Auditor's Report (Continued)

- performing analytical procedures to identify unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of the Trustee and pension management and legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of Trustee 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.

DocuSigned by:
Deloitte LLP
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Deloitte LLP
Statutory Auditor
Birmingham, United Kingdom

28-Jul-2023 | 11:05:07 BST

Financial Statements
Fund Account - For the year ended 31 December 2022

	Notes	Section 1 £'000	Section 2 £'000	2022 £'000	2021 £'000
Contributions and Benefits					
Contributions receivable - Employer	5	74,249	28,911	103,160	101,231
Other income	6	539	854	1,393	1,038
		74,788	29,765	104,553	102,269
Benefits paid or payable	7	(92,535)	(29,459)	(121,994)	(118,446)
Payments to and on account of leavers	8	(13,996)	(3,645)	(17,641)	(21,410)
Administrative expenses	9	(4,761)	(2,683)	(7,444)	(6,616)
Other payments	10	(1,089)	(1,058)	(2,147)	(1,997)
		(112,381)	(36,845)	(149,226)	(148,469)
Net withdrawals from dealings with members		(37,593)	(7,080)	(44,673)	(46,200)
Returns on investments					
Investment income	11	37,686	12,711	50,397	66,522
Change in market value of investments	14	(644,675)	(213,847)	(858,522)	125,642
Investment management expenses	13	(2,323)	(859)	(3,182)	(6,297)
Net returns on investments		(609,312)	(201,995)	(811,307)	185,867
Net (decrease)/increase in the fund during the year		(646,905)	(209,075)	(855,980)	139,667
Net Assets of the Scheme					
At 1 January		2,168,418	790,707	2,959,125	2,819,458
Transfers between sections		3,222	(3,222)	-	-
At 31 December		1,524,735	578,410	2,103,145	2,959,125

The notes on pages 50 to 76 form part of these financial statements.

Financial Statements
Statement of Net Assets (available for benefits) – As at 31 December 2022

	Notes	Section 1 £'000	Section 2 £'000	2022 £'000	2021 £'000
Investment assets	14				
Equities		72	26	98	176,814
Bonds		674,206	240,280	914,486	1,929,357
Pooled investment vehicles		947,436	324,224	1,271,660	1,583,398
Derivatives		94,819	28,834	123,653	11,483
Repurchase Agreements		282,809	104,073	386,882	160,695
AVC investments		1,222	9,593	10,815	14,564
Cash		11,487	5,885	17,372	233,615
Other investment assets		52,512	18,829	71,341	6,303
		2,064,563	731,744	2,796,307	4,116,229
Investment liabilities	14				
Derivatives		(12,727)	(1,869)	(14,596)	(11,139)
Repurchase Agreements		(548,753)	(160,462)	(709,215)	(1,061,918)
Other investment liabilities		-	-	-	(112,956)
		(561,480)	(162,331)	(723,811)	(1,186,013)
Total net investments		1,503,083	569,413	2,072,496	2,930,216
Current assets	15	24,977	11,012	35,989	32,041
Current liabilities	16	(3,325)	(2,015)	(5,340)	(3,132)
Net assets at 31 December		1,524,735	578,410	2,103,145	2,959,125

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which does take account of such obligations, is dealt with in the Report on Liabilities on pages 7 to 9 of the Annual Report and these financial statements should be read in conjunction with that report.

The notes on pages 50 to 76 form part of these financial statements.

The financial statements on pages 48 to 76 were approved on behalf of the Trustee on *

28-Jul-2023 | 15:44:59 BST

Signed on behalf of Thales Pension Trustees Ltd

DocuSigned by:
Alison Hexter
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.... Trustee Director

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943E9EFB860443F...
.... Trustee Director

Notes to the Financial Statements
For the year ended 31 December 2022

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 (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 SORP").

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 Trustee's Report.

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

Fund Account	Notes	Section 1 £'000	Section 2 £'000	2021 £'000
Contributions and Benefits				
Contributions receivable - Employer	5	74,042	27,189	101,231
Other income	6	329	709	1,038
		74,371	27,898	102,269
Benefits paid or payable	7	89,848	28,598	118,446
Payments to and on account of leavers	8	16,300	5,110	21,410
Administrative expenses	9	4,280	2,336	6,616
Other payments	10	1,009	988	1,997
		111,437	37,032	148,469
Net withdrawals from dealings with members		(37,066)	(9,134)	(46,200)
Returns on investments				
Investment income	11	50,354	16,168	66,522
Change in market value of investments	14	88,565	37,077	125,642
Investment management expenses	13	(4,637)	(1,660)	(6,297)
Net returns on investments		134,282	51,585	185,867
Net increase in the fund during the year		97,216	42,451	139,667
Net Assets of the Scheme: At 1 January		2,071,202	748,256	2,819,458
Net Assets of the Scheme: At 31 December		2,168,418	790,707	2,959,125

Notes to the Financial Statements
For the year ended 31 December 2022

Statement of Net Assets (available for benefits)

	Notes	Section 1 £'000	Section 2 £'000	2021 £'000
Investment assets	14			
Equities		130,075	46,739	176,814
Bonds		1,459,334	470,023	1,929,357
Pooled investment vehicles		1,172,442	410,956	1,583,398
Derivatives		7,828	3,655	11,483
Repurchase Agreements		124,932	35,763	160,695
AVC investments		1,643	12,921	14,564
Cash		174,356	59,259	233,615
Other investment assets		4,693	1,610	6,303
		3,075,303	1,040,926	4,116,229
Investment liabilities	14			
Derivatives		(8,680)	(2,459)	(11,139)
Repurchase Agreements		(835,311)	(226,607)	(1,061,918)
Other investment liabilities		(84,946)	(28,010)	(112,956)
		(928,937)	(257,076)	(1,186,013)
Total net investments		2,146,366	783,850	2,930,216
Current assets	15	24,303	7,738	32,041
Current liabilities	16	(2,251)	(881)	(3,132)
Net assets at 31 December		2,168,418	790,707	2,959,125

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

Employer normal contributions which are expressed as a rate of salary are accounted for in accordance with the Schedule of Contributions in force during the year.

Employer deficit funding contributions and contributions in relation to expenses are accounted for on the due dates set out in the Schedule of Contributions or on receipt if earlier with the agreement of the employer and Trustee. PPF Levy contributions are accounted for on the same basis as the corresponding expense.

Top up contributions and are accounted for in accordance with the agreement under which they are payable.

Notes to the Financial Statements
For the year ended 31 December 2022

4 Accounting policies (continued)

B Benefits and payments to and on account of leavers

Pensions in payment, including pensions funded by annuity contributions are accounted for in the period to which they relate.

Where members can choose whether to take their benefits as a full pension or as a lump sum with reduced pension, retirement benefits are accounted for on an accruals basis on the later of the date if retirement and the date the option is exercised.

Where the Trustee agrees or is required to settle tax liabilities on behalf of a member (such as where lifetime or annual allowances are exceeded) with a consequent reduction in that member's benefits receivable from the Scheme, any taxation due is accounted for on the same basis as the event giving rise to the tax liability and shown separately within benefits.

Individual transactions out of the Scheme are accounted for on the date the trustees of the receiving scheme accepts the liability which is normally when the transfer amount is paid.

C Investment income

Income from bonds is accounted for on an accruals basis and includes interest bought and sold on investment purchases and sales.

Income from pooled investment vehicles is accounted for when declared by the fund manager.

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

Income from cash and short term deposits is accounted for on an accruals basis.

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

Income from annuity policies is included in investment income on an accruals basis.

The change in market value of investments during the year comprises 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 and unrealised changes in market value. In the case of pooled investment vehicles which are accumulation funds, where income is reinvested within the fund without issue of further units, change in market value also includes such income.

D Administrative expenses and investment management expenses

All administrative and investment manager expenses are met by the Scheme and accounted for on an accruals basis.

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.

Notes to the Financial Statements
For the year ended 31 December 2022 (Continued)

4 Accounting policies (continued)

F Valuation of investments

Investment assets and liabilities are included at fair value. Where separate bid and offer prices are available the bid price is used for investment assets and the offer price for investment liabilities. Otherwise, the closing single price or most recent transaction price is used.

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

Bonds are valued on a clean basis, net of accrued interest. Accrued interest is included in investment income receivable.

Unitised pooled investment vehicles have been valued at the latest available bid price or single price provided by the pooled investment manager.

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.

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.

Changes in the fair value of derivative contracts are included in change in market value where the economic purpose of the contract 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.

Options are included at the net present value of future cash flows using pricing models and relevant market data at the year-end date. All gains and losses arising on these contracts are included within change in market value.

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.

Notes to the Financial Statements
For the year ended 31 December 2022 (Continued)

4 Accounting policies (continued)

G Derivatives (continued)

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

H Currency

The Scheme's functional and presentational currency is pounds sterling (GBP).

Assets and liabilities in foreign currencies are expressed in sterling at the rates of exchange ruling at the year end. Foreign currency transactions are translated into sterling at the spot exchange rates at the date of the transaction.

Gains and losses arising on conversion or translation are dealt with as part of the change in market value of investments.

5 Contributions

	Section 1 £'000	Section 2 £'000	2022 £'000
Contributions from employer:			
Normal	10,464	10,208	20,672
Deficit funding	58,750	16,250	75,000
Other - PPF Levy	2,422	1,453	3,875
Other - Employers expense contribution	2,000	1,000	3,000
Other - Top up contributions	613	-	613
	74,249	28,911	103,160

	Section 1 £'000	Section 2 £'000	2021 £'000
Contributions from employer:			
Normal	9,746	9,727	19,473
Deficit funding	59,700	15,300	75,000
Other - PPF Levy	1,983	1,162	3,145
Other - Employers expense contribution	2,000	1,000	3,000
Other - Top up contributions	613	-	613
	74,042	27,189	101,231

Normal contributions from the employer include £3,052,911 and £2,972,103 (2021: £3,261,518 and £3,220,018) 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 2022 (Continued)

Deficit funding contributions of £59.7m per annum was payable for Section 1 prior to 30 June 2022. From 1 July 2022 until 31 December 2034, £57.8m per annum is payable.

Deficit funding contributions of £15.3m per annum was payable for Section 2 prior to 30 June 2022. From 1 July 2022 until 31 December 2034, £17.2m per annum is payable.

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

6 Other income

	Section 1 £'000	Section 2 £'000	2022 £'000
Claims on term insurance policies	539	854	1,393

	Section 1 £'000	Section 2 £'000	2021 £'000
Claims on term insurance policies	329	709	1,038

7 Benefits paid or payable

	Section 1 £'000	Section 2 £'000	2022 £'000
Pensions	83,478	24,524	108,002
Commutations and lump sums on retirement	7,764	4,837	12,601
Lump sums death benefits	1,261	57	1,318
Taxation lifetime annual allowance exceeded	32	41	73
	92,535	29,459	121,994

	Section 1 £'000	Section 2 £'000	2021 £'000
Pensions	80,921	22,741	103,662
Commutations and lump sums on retirement	7,723	5,152	12,875
Lump sums death benefits	994	631	1,625
Refund on death	51	52	103
Special lump sum death benefits	159	22	181
	89,848	28,598	118,446

Notes to the Financial Statements
For the year ended 31 December 2022 (Continued)

8 Payments to and on account of leavers

	Section 1 £'000	Section 2 £'000	2022 £'000
Individual transfers to other schemes	13,996	3,645	17,641

	Section 1 £'000	Section 2 £'000	2021 £'000
Individual transfers to other schemes	16,300	5,110	21,410

9 Administrative expenses

	Section 1 £'000	Section 2 £'000	2022 £'000
Administration fees	680	291	971
Actuarial and consulting fees	699	307	1,006
Legal fees	244	244	488
Audit fees	40	40	80
Other expenses	676	348	1,024
PPF Levy	2,422	1,453	3,875
	4,761	2,683	7,444

	Section 1 £'000	Section 2 £'000	2021 £'000
Administration fees	513	217	730
Actuarial and consulting fees	1,472	682	2,154
Legal fees	192	192	384
Audit fees	35	35	70
Other expenses	42	22	64
PPF Levy	2,026	1,188	3,214
	4,280	2,336	6,616

Notes to the Financial Statements
For the year ended 31 December 2022 (Continued)

10 Other payments

	Section 1 £'000	Section 2 £'000	2022 £'000
Premiums on term insurance policies	1,089	1,058	2,147

	Section 1 £'000	Section 2 £'000	2021 £'000
Premiums on term insurance policies	1,009	998	1,997

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

11 Investment income

	Section 1 £'000	Section 2 £'000	2022 £'000
Dividends from equities	322	116	438
Income from bonds	22,457	6,622	29,079
Income from pooled investment vehicles	19,214	6,798	26,012
Interest on cash and deposits	1,047	321	1,368
Swap income received	1,287	253	1,540
Security lending income	48	25	73
Annuity income	865	8	873
	45,240	14,143	59,383
Swap expenses paid	(2,367)	(121)	(2,488)
Repurchase agreement charges	(5,187)	(1,311)	(6,498)
	(7,554)	(1,432)	(8,986)
	37,686	12,711	50,397

Notes to the Financial Statements
For the year ended 31 December 2022 (Continued)

11 Investment income (continued)

	Section 1 £'000	Section 2 £'000	2021 £'000
Dividends from equities	6,913	2,484	9,397
Income from bonds	22,477	6,853	29,330
Income from pooled investment vehicles	21,956	7,584	29,540
Interest on cash and deposits	27	7	34
Swap income received	2,469	498	2,967
Security lending income	31	12	43
Annuity income	869	8	877
	54,742	17,446	72,188
Interest on cash deposits	(995)	(376)	(1,371)
Swap expenses paid	(1,707)	(424)	(2,131)
Repurchase agreement charges	(1,686)	(478)	(2,164)
	(4,388)	(1,278)	(5,666)
	50,354	16,168	66,522

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.

13 Investment management expenses

	Section 1 £'000	Section 2 £'000	2022 £'000
Administration, management and custody	2,323	859	3,182
	2,323	859	3,182

	Section 1 £'000	Section 2 £'000	2021 £'000
Administration, management and custody*	4,637	1,660	6,297

*Included within administrative, management and custody fees in the prior year were investment manager fees for Majedie Asset Management Limited of £3,721,167. This was due to a performance related element of the management fee agreement.

Notes to the Financial Statements
For the year ended 31 December 2022 (Continued)

14 Investments

Year for the total Scheme investments held:

	Market Value at 1 January 2022 £'000	Purchases at cost and derivative payments £'000	Sales proceeds and derivative receipts £'000	Change in Market Value £'000	Market Value at 31 December 2022 £'000
Equities	176,814	30,014	(186,423)	(20,307)	98
Bonds	1,816,817	1,024,297	(1,198,775)	(727,853)	914,486
Pooled investment vehicles	1,583,398	1,851,317	(2,149,595)	(13,460)	1,271,660
Derivatives	344	310,248	(96,073)	(105,462)	109,057
AVC investments	14,564	-	(2,389)	(1,360)	10,815
	3,591,937	3,215,876	(3,633,255)	(868,442)	2,306,116
Cash - Sterling	152,736			1,784	14,852
Cash - Foreign currency	77,762			8,136	2,520
Cash - Variation margin	3,117				-
Investment income receivable	6,072				573
Other investment assets	231				70,768
Reverse repurchase agreement	160,695				386,882
Other investment liabilities	(416)				-
Repurchase agreements	(1,061,918)				(709,215)
	2,930,216			(858,522)	2,072,496

Included within the above purchases and sales figures are transaction costs of £752,401 (2021: £621,692). 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 2021 was an investment in an investment vehicle with a value of £166m (AQR Defensive Equity Fund). The Scheme fully disinvested from the Fund during the year ended 31 December 2022. The Scheme previously owned 100% of the shares issued by this Fund. However, the Scheme had no ability to control the investing activities of the Fund, and as such the substance of the investment was that the investment is a pooled investment vehicle and was treated as such in the financial statements. The underlying assets in this Fund were listed equities.

Notes to the Financial Statements
For the year ended 31 December 2022 (Continued)

14 Investments (continued)

Section 1

The movements of investments in the year:

	Market Value at 1 January 2022 £'000	Purchases at cost and derivative payments £'000	Sales proceeds and derivative receipts £'000	Change in Market Value £'000	Market Value at 31 December 2022 £'000
Equities	130,075	22,103	(137,287)	(14,819)	72
Bonds	1,374,694	721,242	(878,622)	(543,108)	674,206
Pooled investment vehicles	1,172,442	1,386,109	(1,598,146)	(12,969)	947,436
Derivatives	(852)	236,011	(72,086)	(80,981)	82,092
AVC investments	1,643	-	(261)	(160)	1,222
	2,678,002	2,365,465	(2,686,402)	(652,037)	1,705,028
Cash - Sterling	113,985			1,319	9,629
Cash - Foreign currency	58,043			6,043	1,858
Cash - Variation margin	2,328				-
Investment income receivable	4,478				326
Other investment assets	215				52,186
Reverse repurchase agreement	124,932				282,809
Other investment liabilities	(306)				-
Repurchase agreements	(835,311)				(548,753)
	2,146,366			(644,675)	1,503,083

Notes to the Financial Statements
For the year ended 31 December 2022 (Continued)

14 Investments (continued)

Section 2

The movements of investments in the year:

	Market Value at 1 January 2022 £'000	Purchases at cost and derivative payments £'000	Sales proceeds and derivative receipts £'000	Change in Market Value £'000	Market Value at 31 December 2022 £'000
Equities	46,739	7,911	(49,136)	(5,488)	26
Bonds	442,123	303,055	(320,153)	(184,745)	240,280
Pooled investment vehicles	410,956	465,208	(551,449)	(491)	324,224
Derivatives	1,196	74,237	(23,987)	(24,481)	26,965
AVC investments	12,921	-	(2,128)	(1,200)	9,593
	913,935	850,411	(946,853)	(216,405)	601,088
Cash - Sterling	38,751			465	5,223
Cash - Foreign currency	19,719			2,093	662
Cash - Variation margin	789				-
Investment income receivable	1,594				247
Other investment assets	16				18,582
Reverse repurchase agreement	35,763				104,073
Other investment liabilities	(110)				-
Repurchase agreements	(226,607)				(160,462)
	783,850			(213,847)	569,413

Notes to the Financial Statements
For the year ended 31 December 2022 (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 2022				
Combined sections				
Equities	98	-	-	**98**
Bonds	-	914,486	-	**914,486**
Pooled investment vehicles	130,026	229,785	911,849	**1,271,660**
Derivatives	83,426	25,631	-	**109,057**
AVC investments	-	10,696	119	**10,815**
	213,550	1,180,598	911,968	**2,306,116**
Cash – balances held				**17,372**
Other investment balances				**71,341**
Other investment – liabilities				**-**
Repurchase agreements				**(322,333)**
				2,072,496

Notes to the Financial Statements
For the year ended 31 December 2022 (Continued)

14 Investments (continued)

Investment Fair Value Hierarchy (continued)

	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
At 31 December 2021				
Combined Sections				
Equities	176,814	-	-	**176,814**
Bonds	-	1,816,817	-	**1,816,817**
Pooled investment vehicles	12,149	869,558	701,691	**1,583,398**
Derivatives	299	45	-	**344**
AVC investments	-	14,416	148	**14,564**
	189,262	2,700,836	701,839	**3,591,937**
Cash – balances held				**233,615**
Other investment balances				**6,303**
Other investment – liabilities				**(416)**
Repurchase agreements				**(901,223)**
				2,930,216

Notes to the Financial Statements
For the year ended 31 December 2022 (Continued)

14 Investments (continued)

Investment risks
FRS 102 requires the disclosure of information in relation to certain investment risks. These risks are set out by FRS 102 as follows:

Credit risk: this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Market risk: this comprises currency risk, interest rate risk and other price risk.

- **Currency risk:** this is the risk that the fair value of future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
- **Interest rate risk:** this is the risk that the fair value of future cash flows of a financial asset will fluctuate because of changes in market interest rates.
- **Other price risk:** this is the risk that the fair value of future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Scheme has exposure to the risks above because of the investments it makes in following the investment strategy. The magnitude of the exposure to these risks is quantified by the asset allocation statements in the table on page 48 of this report. The Trustee manages investment risks, including credit and market risk, within risk limits which are considered when setting the Scheme's strategic investment objectives. The Trustee implements the investment objectives and risk limits through the investment management agreements that are in place with the Scheme's investment managers and these are monitored by the Investment Sub-Committee, on behalf of the Trustee, through regular reviews of the investment portfolio.
Further information on the Trustees' approach to risk management and the Scheme's exposures to credit and market risks are set out below. This does not include annuity insurance policies or AVC investments as these are not considered significant in relation to the overall investments of the Scheme.

(i) Credit Risk

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

The credit risk that arises through bonds held directly by the Scheme is mitigated by investing in government bonds where the credit risk is minimal, or corporate bonds which are rated investment grade. A relatively small proportion is held directly in sub-investment grade bonds, however, the expectation is that the additional return achieved should provide sufficient compensation for the additional credit risk that is taken. In addition, the Scheme's exposure to credit risk is managed by ensuring the investment managers' portfolios are sufficiently diversified to minimise the impact of default by any one issuer.

Notes to the Financial Statements
For the year ended 31 December 2022 (Continued)

14 Investments (continued)

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.

(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.

(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 2022 (Continued)

14 Investments (continued)

During the year there was a marked rise in interest rates which resulted in a reduction in the value of the schemes gilt holdings. This was offset by a significant improvement in the schemes funding position.

(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.

Analysis of Pooled Investment Vehicles (PIVs)

	2022 £'000	2021 £'000
Equity	172,088	429,050
Bonds	185,702	194,134
Hedge funds	6,740	11,895
Property	312,807	407,272
Private Equity	464,297	528,898
Cash	130,026	12,149
	1,271,660	1,583,398

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 2022 (Continued)

14 Investments (continued)

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

	2022 Assets £'000	2022 Liabilities £'000	2021 Assets £'000	2021 Liabilities £'000
Swaps (Over the Counter)	26,683	(14,045)	6,518	(11,139)
Futures (Exchange Traded)	-	-	951	(652)
Options	83,426	-	-	-
Forward foreign currency contracts (Over the Counter)	13,544	(551)	7,251	(2,585)
	123,653	(14,596)	14,720	(14,376)

Swaps

	Notional Amounts £	Expires	Assets £'000	Liabilities £'000
Swaps (over the counter)				
Inflation Swaps	17,000,000	May-26	2,855	-
Inflation Swaps	2,753,625	Mar-27	485	-
Inflation Swaps	78,200,000	Aug-27	820	-
Inflation Swaps	88,186,250	Nov-27	13,509	-
Interest rate swaps – SONIA to fixed rate	-9,661,400	Jan-23	40	-
Interest rate swaps – SONIA to fixed rate	129,800,000	Feb-23	-	(1,448)
Interest rate swaps – SONIA to fixed rate	121,760,000	Jun-23	57	(5)
Interest rate swaps – SONIA to fixed rate	37,350,000	Aug-23	-	(10)
Interest rate swaps – SONIA to fixed rate	16,220,000	Apr-24	-	(158)
Interest rate swaps – SONIA to fixed rate	9,770,000	Sep-24	-	(264)
Interest rate swaps – SONIA to fixed rate	47,500,000	May-26	-	(5,976)
Interest rate swaps – SONIA to fixed rate	109,508,000	Aug-27	5,922	(1,515)
Interest rate swaps – SONIA to fixed rate	3,350,000	Dec-27	-	(35)
Interest rate swaps – SONIA to fixed rate	3,000,000	May-31	648	-
Interest rate swaps – SONIA to fixed rate	1,347,300	Jun-32	-	(340)
Interest rate swaps – SONIA to fixed rate	15,720,000	Aug-32	979	(979)
Interest rate swaps – SONIA to fixed rate	21,630,000	Dec-32	-	(542)
Interest rate swaps – SONIA to fixed rate	2,209,900	Sep-34	-	(644)
Interest rate swaps – SONIA to fixed rate	769,800	Jul-35	-	(260)
Interest rate swaps – SONIA to fixed rate	5,123,000	Mar-36	-	(1,869)
Interest rate swaps – SONIA to fixed rate	2,740,000	Oct-41	1,010	-
Interest rate swaps – SONIA to fixed rate	618,560	Oct-50	358	-
Total for 2022			26,683	(14,045)
Total for 2021			6,518	(11,139)

Notes to the Financial Statements
For the year ended 31 December 2022 (Continued)

14 Investments (continued)

Derivative assets/(liabilities) (continued)

Swaps	Assets £'000	Liabilities £'000
Section 1	20,160	(9,073)
Section 2	6,523	(4,972)
Total for 2022	26,683	(14,045)
Total for 2021	6,518	(11,139)

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

Futures

Futures (Exchange traded)	Economic exposure £	Expiry	Assets £'000	Liabilities £'000
Total for 2022			-	-
Total for 2021			951	(652)

Split by Section (Unitisation)

	Assets £'000	Liabilities £'000
Section 1	-	-
Section 2	-	-
Total for 2022	-	-
Total for 2021	951	(652)

Notes to the Financial Statements
For the year ended 31 December 2022 (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
2	2 months	GBP	25,908	EUR	(29,776)	-	(551)
3	2 months	GBP	217,799	USD	(245,943)	13,544	-
Total for 2022						13,544	(551)
Total for 2021						7,251	(2,585)

Split by Section (Unitisation)

	Assets £'000	Liabilities £'000
Section 1	9,974	(406)
Section 2	3,570	(145)
Total for 2022	13,544	(551)
Total for 2021	7,251	(2,585)

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.

Options

	Assets £'000	Liabilities £'000
Put Options	83,426	-
Total for 2022	83,426	-
Total for 2021	-	-

Notes to the Financial Statements
For the year ended 31 December 2022 (Continued)

14 Investments (continued)

Derivative assets/(liabilities) (continued)

Options	Assets £'000	Liabilities £'000
Section 1	61,437	-
Section 2	21,989	-
Total for 2022	83,426	-
Total for 2021	-	-

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
October 2022 to July 2023	25,451,741
April 2022 to April 2023	(41,749,908)
September 2022 to August 2023	(75,231,299)
September 2022 to July 2023	(25,524,865)
October 2022 to May 2023	51,104,514
September 2022 to September 2023	(102,865,515)
March 2022 to February 2023	(1,520,049)
October 2022 to June 2023	25,302,910
October 2022 to August 2023	79,972,894
October 2021 to July 2023	(2,125,042)
October 2022 to September 2023	65,289,889
September 2022 to April 2024	182,430
February 2022 to January 2023	(34,587,795)
September 2022 to March 2023	(32,628,686)
September 2022 to April 2023	(14,170,498
September 2022 to September 2024	797,155
March 2022 to January 2023	(19,741,980)
September 2022 to June 2023	(69,724,526)
September 2022 to May 2023	(85,952,013)
September 2022 to February 2023	132,217
October 2022 to February 2023	953,120
October 2022 to April 2023	5,957,000
February 2022 to February 2023	(49,777,730)
August 2022 to August 2023	(2,369,800)

Notes to the Financial Statements
For the year ended 31 December 2022 (Continued)

14 Investments (continued)

Repurchase agreements (continued)

October 2022 to January 2023	27,428,000
August 2022 to January 2023	(40,119,842)
July 2022 to January 2023	(16,265,786)
October 2022 to March 2023	19,841,650
July 2022 to March 2023	(16,180,000)
December 2022 to December 2049	7,275,957
April 2022 to March 2023	(7,352,550)
November 2022 to April 2024	5,865,460

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 2022 in relation to swap contracts which amounted to £5,179,032 for Section 1 and £4,938,827 for Section 2 (2021 £6,770,944 for Section 1 and £1,731,705 for Section 2). The Scheme held no collateral as at 31 December 2022 for swap contracts for Section 1 and 2.

Collateral held by the Scheme in the form of bonds from counterparties as at 31 December 2022 in relation to Repurchase agreements amounted to £nil for Section 1 and £382,671 for Section 2 (2021: £20,471,197 for Section 1 and £6,677,006 for Section 2). The Scheme had £112,002,045 pledged collateral for Section 1 and £27,836,918 for Section 2 as at 31 December 2022 in relation to Repurchase agreements for Section 1 and Section 2 (2021: £nil for Section 1 and £nil 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 2022 (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 2022 £'000	%	At 31 December 2021 £'000	%
Schroder Opportunity Secured Income Fund	148,949	7.1	-	-
LGIM Sterling Liquidity Fund	129,416	6.1	10,873	0.5
UK (Gov Of) 1.25% SNR 22/10/71	117,253	5.6	-	-
LDI Solutions Plus Secured Finance Fund	115,396	5.5	-	-
L&G YX - FTSE RAFI AW 3000 Equity Index Fund	-	-	229,335	7.8
AQR Global Defensive Equity Fund	-	-	165,147	5.6

Transaction costs

Transaction costs within the Scheme incurred in the year amounted to £752,401 (2021: £621,692). 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	2022 £'000
Equities			

Transaction costs

	Fees £'000	Commission £'000	2021 £'000
Equities	127	495	622
	127	495	622

Capital commitments

At the Scheme year end, the Scheme had undrawn but committed investments with existing investment managers of £*m (GBP) (2021: £15.4m), $* (USD) (2021: $50.6m), representing *% (2021: 1.8%) of total assets.

Notes to the Financial Statements
For the year ended 31 December 2022 (Continued)

14 Investments (continued)

Additional voluntary contribution (AVC) investments

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. The aggregate amounts of AVC investments are as follows:

	2022			2021		
	Section 1 £'000	Section 2 £'000	Total £'000	Section 1 £'000	Section 2 £'000	Total £'000
Scottish Widows	930	9,560	10,490	1,254	12,888	14,142
MGM Assurance	65	-	65	80	-	80
Phoenix	35	-	35	57	-	57
Prudential	149	-	149	182	-	182
Friends Provident	70	-	70	70	-	70
Clerical Medical	-	34	34	-	33	33
	1,249	9,594	10,843	1,643	12,921	14,564

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 2022 (Continued)

15 Current assets

	Section 1 £'000	Section 2 £'000	2022 £'000
Pensions paid in advance	5,286	1,725	7,011
Contributions due - Employers	8,022	4,439	12,461
PPF Levy paid in advance	636	382	1,018
Cash deposits held with Scheme Administrator	10,958	4,466	15,424
Other debtors	75	-	75
	24,977	11,012	35,989

	Section 1 £'000	Section 2 £'000	2021 £'000
Pensions paid in advance	5,105	1,595	6,700
Contributions due - Employers	5,916	2,137	8,053
Life assurance premiums paid in advance	71	70	141
PPF Levy paid in advance	512	307	819
Cash deposits held with Scheme Administrator	12,524	3,629	16,153
Amount receivable from annuity provider	130	-	130
Inter section balance	45	-	45
	24,303	7,738	32,041

The contributions due as at 31 December 2022 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 £249,431 and £236,609 (2021: £259,118 and £257,334) 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 2022 (Continued)

16 Current liabilities

	Section 1 £'000	Section 2 £'000	2022 £'000
Unpaid benefits	406	104	510
Accrued expenses	1,265	1,528	2,793
Other creditors	1,654	383	2,037
	3,325	2,015	5,340

	Section 1 £'000	Section 2 £'000	2021 £'000
Unpaid benefits	988	139	1,127
Accrued expenses	751	316	1,067
Equitable Life compensation payments	-	37	37
Other creditors	512	344	856
Inter section balance	-	45	45
	2,251	881	3,132

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 51).

MND's who are pensioners and not part of the Thales payroll will be paid £5000 p/a in monthly instalments.

18 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.

Notes to the Financial Statements
For the year ended 31 December 2022 (Continued)

19 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 2022 (2021: nil).

CERTIFICATION OF SCHEDULE OF CONTRIBUTIONS SECTION 1

Mercer

Certificate 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 30 June 2022.

Adherence to statement of funding principles

I hereby certify that, in my opinion, this schedule of contributions is consistent with the statement of funding principles dated 30 June 2022.

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	DocuSigned by: Christian Hardy B29F251AB3384C6...
Scheme Actuary	Christian Hardy
Qualification	Fellow of the Institute and Faculty of Actuaries
Date of signing	30 June 2022
Name of employer	Mercer Limited
Address	Four Brindley Place Birmingham B1 2JQ

CERTIFICATION OF SCHEDULE OF CONTRIBUTIONS SECTION 2

Mercer

Certificate 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 30 June 2022.

Adherence to statement of funding principles

I hereby certify that, in my opinion, this schedule of contributions is consistent with the statement of funding principles dated 30 June 2022.

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	DocuSigned by: Christian Hardy B29F351AB2364C6...
Scheme Actuary	Christian Hardy
Qualification	Fellow of the Institute and Faculty of Actuaries
Date of signing	30 June 2022
Name of employer	Mercer Limited
Address	Four Brindley Place Birmingham B1 2JQ

CERTIFICATE OF TECHNICAL PROVISIONS – SECTION 1

Appendix E

Certificate of Technical Provisions

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

Calculation of technical provisions

I certify that, in my opinion, the calculation of the Section's technical provisions as at 31 December 2020 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the Trustees of the Section and set out in the statement of funding principles dated 30 June 2022.

Signature	
Name	Christian Hardy
Date	30 June 2022
Name of employer	Mercer Limited
Address	Four Brindley Place Birmingham B1 2JQ
Qualification	Fellow of the Institute and Faculty of Actuaries

CERTIFICATE OF TECHNICAL PROVISIONS – SECTION 2

Appendix E

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 2020 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the Trustees of the Section and set out in the statement of funding principles dated 30 June 2022.

Signature	Christian Hardy
Name	Christian Hardy
Date	30 June 2022
Name of employer	Mercer Limited
Address	Four Brindley Place Birmingham B1 2JQ
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 2022 to which this statement is attached.

Opinion on Statement about Contributions

In our opinion, except for the effects of the departure from the Schedules of Contributions, as stated within the basis for qualified Statement about Contributions paragraph, contributions for the Scheme year ended 31 December 2022, as reported in the Summary of Contributions and payable under the Schedules of Contributions have in all material respects been paid from 1 January 2022 to 29 June 2022 in accordance with the Schedule of Contributions certified by the Actuary on 4 April 2019 and for the period 30 June 2022 to 31 December 2022 at least in accordance with the Schedules of Contributions certified by the Actuary on 30 June 2022.

Basis for qualified Statement about Contributions

During the year, Employer and Employee Normal, Deficit Funding and Other Employers expense contributions for Section 1 amounting to £5,965,000, and the Employer and Employee Normal and Deficit Funding contributions for Section 2 amounting to £2,373,737 were paid 1 day later than the due date set out in the Schedules of Contributions.

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 Schedules of Contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme and the timing of those payments under the Schedules of Contributions.

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 Schedules of Contributions and for monitoring whether contributions are made to the Scheme by the employer in accordance with the Schedules of Contributions.

It is our responsibility to provide a statement about contributions paid under the Schedules 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.

DocuSigned by:
Deloitte LLP
1577FB51AA5C445...

Deloitte LLP
Statutory Auditor
Birmingham, United Kingdom

Date: 28-Jul-2023 | 11:05:07 BST

SUMMARY OF CONTRIBUTIONS

The contributions payable to the Scheme during the year are shown below, split between those contributions paid per the Schedules of Contributions and those paid in addition to the amounts required by the Schedules of Contributions.

	Section 1 £'000	Section 2 £'000	2022 £'000
Contributions from Employer:			
Normal	10,464	10,208	20,672
Deficit funding	58,750	16,250	75,000
Other – PPF Levy	2,422	1,453	3,875
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)	73,636	28,911	102,547
Other contributions payable:			
Other Employer - Top ups	613	-	613
Total contributions payable per the Fund Account	74,249	28,911	103,160

Normal contributions from the employer include £3,052,911 and £2,972,103 (2021: £3,261,518 and £3,220,018) 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.

Employer and Employee Normal, Deficit Funding and Other Employers expense contributions for Section amounting to £5,965,000, and the Employer and Employee Normal and Deficit Funding contributions for Section 2 amounting to £2,373,737 were paid 1 day later than the due date set out in the Schedules of Contributions. Due to the materiality of the late contributions, the Auditor's statement about contributions has been qualified.

Signed on behalf of Thales Pension Trustee Ltd

DocuSigned by:
Alison Hexter
9511084D411C48A...

.... Trustee Director

28-Jul-2023 | 15:44:59 BST Date

DocuSigned by:
943E9EFB860443F...

.... Trustee Director

28-Jul-2023 | 10:04:48 BST Date

Thales UK Pension Scheme (“the Scheme”) – Defined Benefit Sections
Implementation Statement

1. Introduction

This Statement has been prepared by the Trustee in relation to the DB Sections of the Scheme for the Scheme year ending 31 December 2022. The purpose of this Statement is to:

- ✓ summarise how the policies included in the Statement of Investment Principles (‘SIP’) have 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 on environmental, social, and corporate governance (ESG) issues, and policies on engagement and voting have been adhered to in 2022.

Key highlights from an ESG perspective are shown on pages 2 and 3, and a summary of significant votes made on behalf of the Trustee are set out on page 4.

This Statement has been produced in accordance with regulatory requirements 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.

There were several changes that were implemented over the Scheme year as part of the revised strategic objective as well as in response to the gilts crisis, as described in Section 3.

2. Review and changes to the SIP

During the year, the Trustee reviewed the SIP for the DB Sections of the Scheme. No revisions were made to the SIP in 2022.

Following the Scheme year, the SIP has been updated to reflect the Stewardship Priorities agreed by the Trustee which have been set out on page 3 of this Statement.

3. Investment Objectives and Investment Strategy

The funding objective of the Scheme is to be 100% funded on a low-risk (gilts + 0.5% pa) basis by 2034. 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 these objectives over the Scheme year.

The current investment strategy is to target a level of return consistent with achieving the longer-term ambition of being fully funded on a low-risk basis whilst seeking to limit the downside risks associated with the investment policy, with a particular focus on minimizing fundamental risks. The investment policy is highly diversified across a range of asset classes, in both public and private markets and is implemented using several investment managers.

There were several changes to the investment policy over the year as part of the implementation of the strategy outlined above and actions taken in response to the gilts crisis which are summarised in the Appendix.

4. 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.

During the Scheme year, the Trustee reviewed the ESG, stewardship and engagement activity undertaken by the Scheme's managers based on the managers activities over the 2021 calendar year. The information below provides some key highlights for the Scheme.

The table in the appendix outlines the Trustee's policies set out in the SIP and how these have been implemented in 2022.

21

Out of 21 managers are signatories to the United Nations Principles of Responsible Investment

8

Out of 21 managers are Signatories / Supporters of the UK Stewardship Code

3,176

Engagements over 2021 [1]

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

5. Stewardship & Engagement activity

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 remainder of the Scheme's listed equities with voting rights were redeemed in full during the first quarter of the Scheme year. The Trustee has reviewed the voting undertaken by the Scheme's managers over this short period, but the focus of the Trustee has been on the engagement activity undertaken by the Scheme's investment managers.

The Trustee has also formalised the Scheme's stewardship priorities, which are listed below. The Schemes investment managers are expected to prioritise stewardship and engagement activities in relation to these priorities.

The ISC, on behalf of the Trustee, is in the process of sharing the stewardship priorities with the Scheme's investment managers and the SIP has subsequently been updated to reflect these.

1. Climate change with focus on disclosures/reporting
2. Modern Slavery
3. Diversity & Inclusion

6. Assessment of how the policies in the SIP have been followed for the year to 31 December 2022

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

Voting activity

The voting activity information from the Scheme's investment managers[1] over the 2022 calendar year is summarised in the table below. The voting information for the individual managers has been reviewed by the Investment-Sub Committee (ISC), 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.

	Liontrust[3] UK Focus Strategy	AQR Global Defensive equity	Hosking Global equity	LGIM passive equity
➢ How many meetings were you eligible to vote at?	4	133	146	3,695
➢ How many resolutions were you eligible to vote on?	67	1,898	2,133	43,863
➢ What % of resolutions did you vote on for which you were eligible?	100%	96%	100%	100%
➢ Of the resolutions on which you voted, what % did you vote with management?	99%	93%	92%	81%
➢ Of the resolutions on which you voted, what % did you vote against management?	2%	7%	8%	19%
➢ Of the resolutions on which you voted, what % did you abstain from voting?	0%	0%	3%	1%
➢ What % of resolutions, on which you did vote, did you vote contrary to the recommendation of your proxy adviser? (if applicable)	5%	2%	9%	13%

Example of significant vote

Manager X[2]

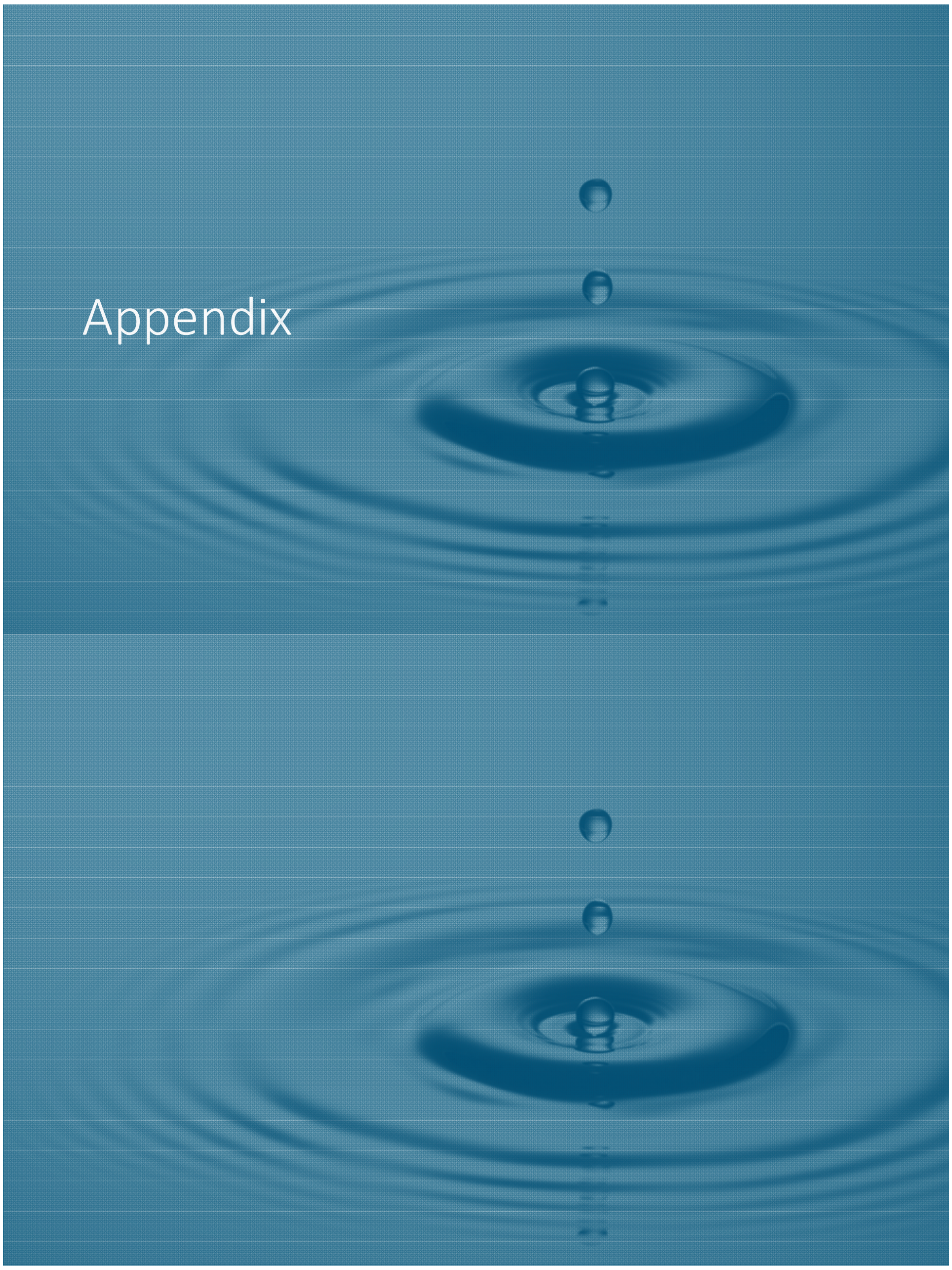
On 4 March 2022, Manager X voted in favour of a resolution regarding a report on civil rights from Company A. Manager X supports proposals related to diversity and inclusion policies as they consider these issues to be a material risk to companies.

The vote was passed, but Manager X continues to engage on the topic.

[1] The Scheme disinvested from its equity holdings during the first half of 2022, and, as such, the table above only includes voting activity information covering this period.

[2] Details anonymised at the manager's request.

[3] Majedie Asset Management was acquired by Liontrust on 1 April 2022.


Appendix

Statement of Investment Principles

Summary of policies in the SIP and how these have been implemented over the Scheme year – Defined Benefit (DB) Sections

	Policy	In the year to 31 December 2022
Investment objectives	The funding objective is to be 100% funded on a low-risk (gilts + 0.5% pa) basis by 2034.	There were no changes to the investment objectives over the year.
Investment strategy	The investment strategy has been revised to move to a lower risk approach. The return expectation has been reduced and will be maintained at a level consistent with achieving the longer-term ambition (currently around gilts +2% p.a.).	The Trustee has received advice to determine an appropriate investment strategy for the Scheme consistent with achieving the investment objectives. The ISC, on behalf of the Trustee, has responsibility for implementing the revised investment strategy. Over the year, the ISC has reviewed the ongoing appropriateness of components of the investment policy through the quarterly reporting and regular reviews provided by the investment advisor. As part of the implementation of the investment strategy, several changes were made over the year, including: • Disinvesting from the remaining equity holdings; • Appointing three new managers for a Secured Finance, a Private Debt and a Real Estate Debt mandate respectively; and • Increasing the level of liability hedging. The Trustee considered the managers' approach to ESG issues as part of the due diligence process when appointing the new managers for the Scheme. Following the gilt crisis in October 2022, the Scheme disinvested from its Invetsment Grade Credit mandates to top-up the LDI collateral. All changes have been made in line with the principles in the SIP.
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.

Statement of Investment Principles

Summary of policies in the SIP and how these have been implemented over the Scheme year – Defined Benefit (DB) Sections

	Policy	In the year to 31 December 2022
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 manages 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.
Investment Managers	The Trustee delegates day to day management of the DB Sections' assets to its investment managers and the ISC regularly reviews the continuing suitability of investments including the appointed managers. Processes will be maintained to ensure performance is assessed on a regular basis against measurable objectives for each manager, consistent with the achievement of the Scheme's long- term objectives, and an acceptable level of risk. The Trustee seeks long-term, ongoing partnerships with its investment managers to incentivise medium to long-term financial and non-financial performance. Performance is assessed over various periods. When deciding whether or not to make any new investments the Trustee will obtain written advice from its investment advisor. Turnover and ongoing investment costs will be reviewed annually using the Industry standard templates and definitions developed by the Cost Transparency Initiative (CTI). Investment managers are required to conform to the Scheme's Statement of Investment Principles.	The ISC reviews the ongoing suitability and performance of the investment managers through the quarterly reporting provided by the investment advisor 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. Where appropriate, investment managers are asked to complete the transaction cost template provided by the Cost Transparency Initiative (CTI) on an annual basis. The investment advisor reviews turnover as part of the assessment of the Buy & Refresh mandates and will raise any issues of excessive turnover in their regular reporting to the ISC. The investment managers have confirmed their ongoing compliance with the SIP as reported in the annual Stewardship & Engagement Report.

Statement of Investment Principles

Summary of policies in the SIP and how these have been implemented over the Scheme year – Defined Benefit (DB) Sections

	Policy	In the year to 31 December 2022
Environmental, Social, Governance (ESG) 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 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 Scheme's active managers identify and manage material ESG risks including climate change, forms part of the ISC's and the investment advisor's appraisal when managers are appointed. The investment advisor reports on any changes or improvements in managers' assessment of ESG risks as part of the annual ESG, Stewardship & Engagement report to the ISC. 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. The Trustee has also prepared the first climate report for the Scheme in line with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) which will cover the Trustees assessment of and approach to climate related risks and opportunities.
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. 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 Scheme had exposure to listed equities only in the first half of the year, and the voting records of these managers is summarised in the annual Stewardship & Engagement Report reviewed by the ISC. 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. The Trustee has agreed the Scheme's stewardship priorities. While the Scheme's investment managers are given full discretion in exercising stewardship obligations relating to the Scheme's investments, they are expected to prioritise stewardship and engagement activities in relation to the Scheme's stewardship priorities. The SIP has subsequently been updated to reflect this. Where relevant, the ISC reviews the investment managers compliance with the UK Stewardship Code as part of the annual Stewardship & Engagement report.

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- Past performance is not generally indicative of future performance.
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Thales UK Pension Scheme (the 'Scheme') – DC Assets

Annual Statement of Investment Principles Implementation Statement – 31 December 2022

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 during the Scheme Year. 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 Assets is included in the table below, alongside the relevant actions taken by the Trustee in connection with each of these policies. The Scheme is closed to future contributions and comprises member top up DC and AVC payments. The value of these assets as at 31 December 2022 was £10.5m, which is considerably smaller than the Scheme's investments in relation to the DB benefits in the Scheme.

The statement is based on, and should be read in conjunction with, the latest version of the SIP (dated 30 September 2020) that was in place for the Scheme Year for the DC Assets. The first two Sections of this statement set out the investment objectives of the Scheme and the changes which have been made to the SIP during the Scheme Year, respectively. The third Section of this statement sets out how, and the extent to which, the policies in the SIP covering the DC Assets have been followed.

The relevant 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.

Sections 3 and 4 include information on the engagement and key voting activities of the underlying investment managers for the DC Assets of the Scheme.

Statement of Investment Principles

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 Scheme's DC Assets are as follows:

- To ensure that there are appropriate investment options available to allow members to Scheme 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 which is designed to meet the needs of all members. They also offer a legacy lifestyle strategy, which was created when members previously invested in the Equitable Life With Profits Fund were mapped to a newly-designed lifestyle arrangement available only to those members.

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 arrangement is outlined in the SIP.

Review of the SIP

The last revision of the SIP that included the DC Assets, was agreed in 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.

A SIP was produced and signed in September 2021 but only covered the DB Assets. As such, in preparing this Statement, only the SIP signed on September 2020 has been considered applicable for the DC Assets.

A combined version of the SIP including both DB and DC Assets was produced in Q1 2023 and was signed on 6 March 2023. The changes made in the SIP in Q1 2023 were made after the Scheme year-end so they are not considered as this Statement only covers the year to 31 December 2022.

Assessment of how the policies in the SIP have been followed for the year to 31 December 2022

The information provided in this section highlights the work undertaken by the Trustee during the Scheme year to 31 December 2022, and longer term where relevant, and sets out how this work followed the Trustee's policies in the SIP relating to the DC Assets of the Scheme.

In summary, it is the Trustee's view that the policies in the SIP have been followed during the Scheme Year.

Strategic Asset Allocation

Kinds of investments to be held, the balance between different kinds of investments

Policy

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.

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 retirement. If the member has 10 years to retirement they are invested in global equities and diversified growth funds. From 10 years before retirement age the member's assets are moved into less risky investments such as corporate bonds, gilts and money market instruments.

How has this policy been met over the Scheme Year?

The investments held and the balance between investments in the Scheme during the Scheme year are consistent with what is described in the SIP. Members have freedom to select their own investments from the range provided by the Trustee. This includes pre-designed strategies that members can invest in.

The Trustee reviews the investment arrangements, 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 latest triennial Investment Strategy Review was undertaken in November 2021. The conclusions from this review were:

- Targeting cash is likely to remain appropriate for the majority of Scheme members as the at-retirement target of the default investment arrangement, given member pot sizes remain relatively small, the fact that for many these funds are in addition to their main scheme benefits and wider industry retirement trends.
- The current cash lifestyle glidepath remained appropriate for the default investment arrangement.
- Change the underlying fund of the Thales UK Pension Scheme Global Equity Fund from the LGIM passive equity fund (which has a 50% UK bias) to the LGIM All World Equity Index, which reflects global market capitalisation and is 50% currency hedged.
- Change the underlying fund in the Thales UK Pension Scheme Socially Responsible Fund from the BMO Responsible UK Equity Fund to the Baillie Gifford Positive Change fund, as a more geographically diverse fund that focuses on all elements of ESG.

The changes set out in the third and fourth bullet point above were implemented during the year. These investments are consistent with the policy presented above.

Expected return on investments

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.

Thales UK Pension Scheme (the 'Scheme') – DC Assets

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.

How has this policy been met over the Scheme Year?

The Trustee regularly reviews 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. Members have freedom to select their own investments from the range provided with the Trustee to suit their risk and return preferences.

Performance of the investment options have been monitored during the year by considering quarterly reports produced by the Mercer Workplace Savings ('MWS') team.

Risks, including the ways in which risks are to be measured and managed

Policy

Investment 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 ("ESG") Risk

How has this policy been met over the Scheme Year?

The Trustee regularly monitors these risks and the appropriateness of the investments in light of the risks described above through quarterly reports produced by the MWS team.

In addition, the Trustee maintains a risk register of the key risks relevant to the Scheme, including relevant investment risks, and this was reviewed during the year. The risk register rates the impact and likelihood of the risks and summarise existing mitigations and additional necessary actions.

Investment Mandates

Securing compliance with the legal requirements about choosing investments

Policy

When considering appropriate investments for the DC Assets 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).

How has this policy been met over the Scheme Year?

The Trustee considered recommendations and advice from their investment consultant as part of the latest triennial Investment Strategy Review with agreed changes, following those recommendations, being implemented in July 2022. The Trustee wrote in November 2022 to members invested within the default investment arrangement, communications were issued following the Scheme year-end.

Realisation of Investments

Policy

The investment managers have discretion in the timing of realisations of investments and in considerations relating to the liquidity of those investments.

DC 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.

How has this policy been met over the Scheme Year?

The Trustee delegates the administration of the DC and AVC arrangement to Equiniti who manage the process of realising assets and investing monies on the Scottish Widows platforms. The Trustee received an administration report on a quarterly basis from Equiniti which compared the processing of core financial transactions to Service Level Agreements (SLAs) and regulatory timelines. There have been no material administration service issues, which need to be reported by the Trustee, over the year. Scottish Widows has also met all monthly agreed contractual service levels. Scottish Widows' SLA performance was 100% across all SLAs over all months of 2022 for their investment only services. During the year, the assets remained invested in daily-traded pooled funds and there were no raised issues identified in respect of fund illiquidity.

Monitoring the Investment Managers

Incentivising asset managers to align their investment strategies and decisions with the Trustee's policies

Policy

In accordance with the Financial Services and Markets Act 2000, the Trustee will set a general investment policy, but will delegate the responsibility for selection of specific investments to an investment manager or managers appointed by the Investment Sub Committee ('ISC'). The investment managers 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 Trustee 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 continued suitability of the Scheme's investments, including the appointed managers.

How has this policy been met over the Scheme Year?

The Trustee assessed investment manager performance over various periods including 3-year and since inception of the mandate during the year. The Trustee 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. Mercer's manager research rating reflects Mercer's forward-looking assessment of a manager's ability to meet or exceed their objectives.

The suitability of the arrangements are also covered in Investment Strategy Reviews. Following the triennial Investment Strategy Review undertaken in November 2021 a recommendation to replace the BMO Responsible UK Equity Fund (the underlying fund of the Thales UK Pension Scheme Socially Responsible Fund) with the Baillie Gifford Positive Change Fund. In addition, the Trustee reviewed the Thales UK Pension Scheme Global Equity as part this review and agreed to change the current LGIM passive global equity fund (which had a significant bias to UK equities) to the LGIM All World Equity Index (50% GBP hedged). These changes were implemented in July 2022.

Evaluation of asset managers' performance and remuneration for asset management services

Policy

To incentivise medium to long-term financial performance, the Trustee will assess investment manager performance over various periods including 3-year and since inception of the mandate. The Trustee 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).

How has this policy been met over the Scheme Year?

The remuneration for investment managers used by the Scheme is based on assets under management; the levels of these fees were reviewed annually as part of the annual value for money assessment to ensure they continue to represent value for members. The Trustee reviewed and benchmarked managers' remuneration as part of their annual Chair Statement and Value for Members assessment carried out and finalised in April 2023. The overall assessment concluded that the Scheme currently provides good value for members. From an investment governance perspective fees are competitive, generally the funds have delivered and they remain highly rated by Mercer.

In relation to performance, a quarterly monitoring report was produced by MWS and reviewed by the Trustee during the year. Mercer's manager research ratings, which reflects Mercer's forward-looking assessment of a manager's ability to meet or exceed their objectives, were included in the quarterly monitoring reports.

Incentivising 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

Policy

The Trustee will regularly review the continuing suitability of the Scheme's investments, including the appointed managers. The Trustee seek long-term, ongoing partnerships with their investment managers to incentivise medium to long-term financial performance.

How has this policy been met over the Scheme Year?

The Trustee expects all underlying investment managers to incorporate the consideration of longer-term factors, such as ESG, into their decision making process where appropriate. The extent to which this is so will be considered during the selection, retention and realisation of manager appointments.

Mercer's ESG ratings, reflecting Mercer's view on the extent to which ESG and active ownership practices (voting and engagement) are integrated into the fund manager's strategy, were considered quarterly as part of the quarterly performance monitoring provided by MWS.

ESG considerations also formed part of the triennial investment review undertaken in November 2021.

Monitoring portfolio turnover costs

Policy

Thales UK Pension Scheme (the 'Scheme') – DC Assets

The Trustee will review the turnover and ongoing investment costs on an annual basis using industry standard templates and definitions developed by the Cost Transparency Initiative (CTI).

How has this policy been met over the Scheme Year?

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 on how to assess these costs and incorporate this in 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 obtained from Scottish Widows for each underlying fund and disclosed in the annual Chair's Statement (the latest Statement is available on pages 24 to 46 of the Trustee Report & Accounts: https://thales.xpmemberservices.com/assets/uploads/annual-reports/TUPS_2021_Trustee_Report_and_Accounts.pdf. The 2022 version will be updated on the website during 2023.

The duration of the arrangements with asset managers

Policy

The Trustee seek long-term, ongoing partnerships with their investment managers to incentivise medium to long-term financial performance. The Trustee does not set duration expectations for its partnerships but will monitor their suitability on an ongoing basis.

How has this policy been met over the Scheme Year?

The policy above reflects the current Trustee practice. Following the triennial Investment Strategy Review undertaken in November 2021 a recommendation to replace the BMO Responsible UK Equity Fund (the underlying fund of the Thales UK Pension Scheme Socially Responsible Fund) with the Baillie Gifford Positive Change Fund. In addition, the Trustee reviewed the Thales UK Pension Scheme Global Equity as part this review and agreed to change the current LGIM passive global equity fund (which had a significant bias to UK equities) to the LGIM All World Equity Index (50% GBP hedged). These changes were implemented in July 2022.

Financial and non-financial considerations and how those considerations are taken into account in the selection, retention and realisation of investments

Policy

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 take 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 does not require its investment managers to take non-financial matters into account in their selection, retention and realisation of investments.

How has this policy been met over the Scheme Year?

The monitoring report was 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, where researched by Mercer as the Scheme's investment consultant, remained generally highly rated during the year. The Trustee is comfortable with the ratings applied by its investment consultant and continues to closely monitor the ratings and any significant developments at each of the underlying investment managers.

The Trustee will complete its first Task Force on Climate-Related Financial Disclosures (TCFD) report and publish it online, as required, ahead of its 31 July 2023 deadline. This report aim to represent a significant amount of work completed by the Trustee and various other stakeholders to evidence progress made with how climate related factors are considered on behalf of members in the Scheme.

Voting and Engagement Disclosures

The exercise of the rights (including voting rights) attaching to the investments and undertaking 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).

Thales UK Pension Scheme (the 'Scheme') – DC Assets

Policy

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 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.

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 change 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.

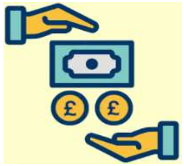
How has this policy been met over the Scheme Year?

The voting records of the DC Assets equity investment managers – Legal & General Investment Management, Baillie Gifford and Insight are summarised in later sections of this Statement.

The Scheme invests in the following daily dealt and daily priced pooled funds that holds an equity component:

Fund	Underlying Manager and Strategy
Thales Global Equity	**LGIM - All World Equity**
	LGIM - All World Equity GBP Hedged
Thales UK Equity	LGIM - UK Equity
Thales Socially Responsible	Baillie Gifford – Positive Change
Thales Global Multi-Asset	LGIM - Diversified
Thales Diversified Growth	**Insight - Broad Opportunities**
Thales Corporate Bond	**M&G - UK Corporate Bonds**
Thales Mixed Bond	LGIM – Active Aggregate All Stocks

A number of these funds are used in the default investment arrangement, these are shown in bold.



Examples of Engagement Activity by the Scheme's Equity Investment Managers

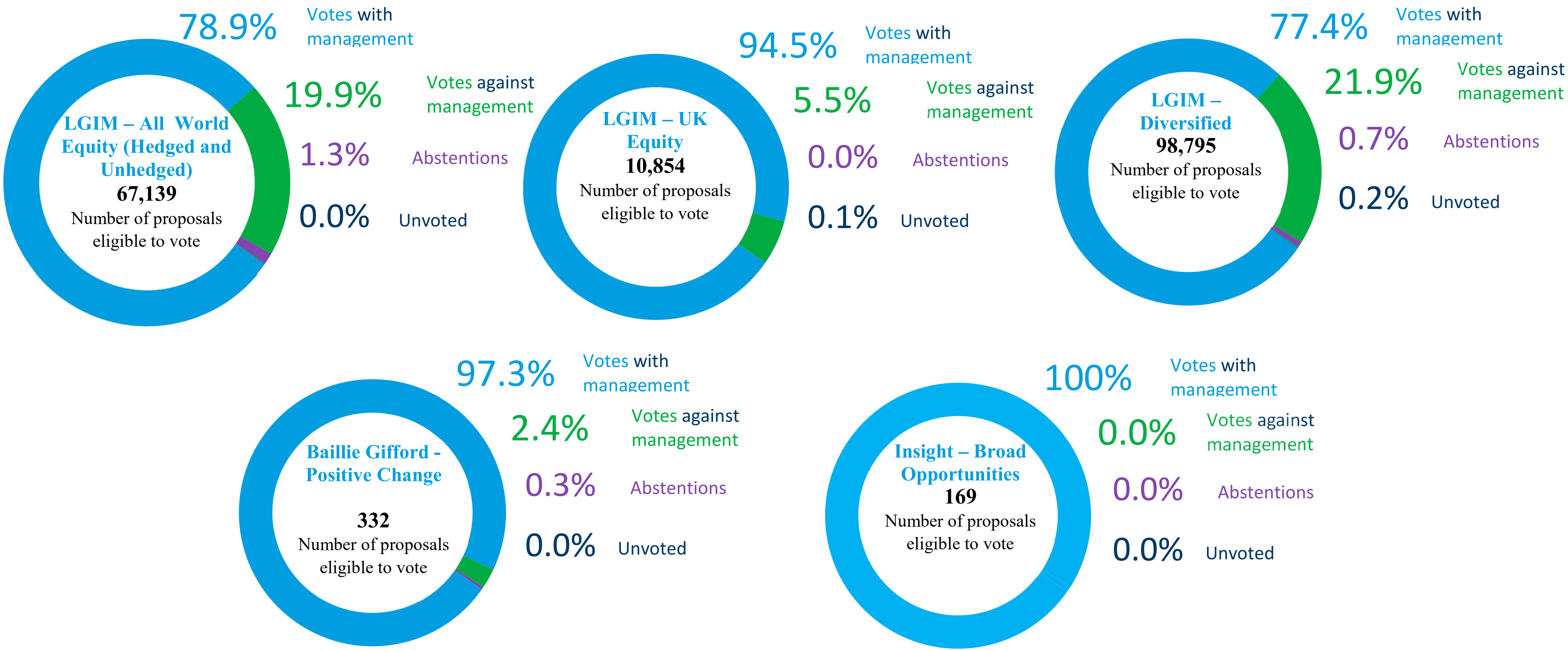
The following are examples of engagement activity undertaken by the Scheme's Equity investment managers.

Fund	Number of engagements undertaken at a firm level in the year	Split between E, S and G of engagements	% of engagements pertaining to climate issues	% of engagements pertaining to Board Diversity	Key Themes for Engagement, as applicable
LGIM - All World Equity / LGIM - All World Equity GBP Hedged	818 company engagements	E = 49.8%; S = 15.5%; G = 23.8%	Climate Change: 23.8% Environmental Opportunities: 0.5%	Board Composition & Effectiveness: 4.5%	Public Health, Climate Change, Environmental Opportunities, Labour Standards, Human Rights, Diversity, Deforestation, Inequality
Insight Broad Opportunities Fund	948 company engagements	N/A	N/A	N/A	Climate Change, Natural resource use/impact, pollution and waste, Human and labour rights (e.g. supply chain rights, community relations), Inequality, Public Health, Board effectiveness - Diversity
LGIM - Diversified	947 company engagements	E = 46.9%; S = 14.8%; G = 28.1%	Climate Change: 20.7% Environmental Opportunities: 0.4%	Board Composition & Effectiveness: 4.5%	Public Health, Climate Change, Environmental Opportunities, Labour Standards, Human Rights, Diversity, Deforestation, Inequality

Thales UK Pension Scheme (the 'Scheme') – DC Assets
Voting Activity during the Scheme year

A summary of the voting activity, provided by LGIM, for the Scheme's equity investments is set out below. Over the prior 12 months, the Trustee has not actively challenged the investment manager of each externally managed fund on their voting activity. The Trustee does not use the direct services of a proxy voter.

Votes "for / against management" assess how active managers are in voting against management and seeks to obtain the rationale behind voting



Source: Managers. Totals may not sum due to rounding.

Thales UK Pension Scheme (the ‘Scheme’) – DC Assets

Significant votes undertaken by the investment managers, on behalf of the Trustee

The Scheme’s Stewardship Priorities

The Scheme invests solely in pooled funds. As such, voting rights are delegated to the investment managers and the Trustee expects their investment managers to engage with the investee companies on their behalf. However, the Trustee has also considered what the Scheme’s stewardship priorities should be as a result of the new requirements introduced this year for the SIP Implementation Statement in relation to ‘significant votes’. While the Scheme's investment managers are given full discretion in exercising stewardship obligations relating to the Scheme's investments, they are expected to prioritise stewardship and engagement activities in relation to the following ESG factors, which represent the ISC’s priorities in relation to stewardship:

- Climate change with focus on disclosures/reporting
- Modern Slavery
- Diversity & Inclusion

The ISC have chosen to prioritise these areas in particular as the ISC believes they can pose a material financial and/or reputational risk, are areas that the Scheme’s investment managers are already focussing their engagement strategy on and are consistent with the Scheme’s broader TCFD reporting requirements. The revised SIP being produced in early 2023 captures the above priorities.

Significant votes for the Scheme year

In this section, the Trustee has set out the ‘most significant votes’ in relation to Scheme’s investments. The Trustee has reviewed the information provided by the managers on voting and highlighted the votes that focus on the stewardship priority areas above. The Trustee has weighted this analysis towards the funds holding the largest value of member savings (i.e. the underlying funds of the Thales Global Equity, Thales Global Multi-Asset and the Thales Socially Responsible Funds) and the companies that represent the largest underlying holdings within those funds.

On the most significant votes table there is a column included for what Stewardship Priority is being addressed which explains why each vote is significant. The final outcome column below represents the result of the Resolution after all the votings: Passed (✓) or Not-Passed (×).

Approximate size of fund's holding as at the date of the vote (as % of portfolio) is included on column **Size** on the table below.

LGIM publicly communicates its vote instructions on its website with the rationale for all votes **against** management. It is LGIM’s policy not to engage with their investee companies in the three weeks prior to an AGM as their engagement is not limited to shareholder meeting topics. Baillie Gifford did not communicate their intent to vote against management in the vote included below.

In terms of next steps, LGIM state they “will continue to engage with our investee companies, publicly advocate our position on this issue and monitor company and market-level progress” for all votes disclosed below. Baillie Gifford did not provide details of next steps on the vote disclosed below.

Thales UK Pension Scheme (the ‘Scheme’) – DC Assets

Fund	Company	Size	Date	Stewardship Priority	How the manager voted	Summary of the Resolution	Rationale for the Manager vote	Final outcome
LGIM - All World Equity/ LGIM Diversified Fund	Apple Inc.	3.85% (0.37% for the LGIM Diversified Fund)	04/03/ 2022	Diversity & Inclusion	For	Report on Civil Rights Audit	A vote in favour is applied as LGIM supports proposals related to diversity and inclusion policies as we consider these issues to be a material risk to companies.	☑
LGIM - All World Equity	Alphabet Inc.	1.11%	01/06/ 2022	Climate Change	For	Report on Physical Risks of Climate Change	A vote in favour is applied as LGIM expects companies to be taking sufficient action on the key issue of climate change.	☒
LGIM - All World Equity	Exxon Mobil Corporation	0.57%	25/05/ 2022	Climate Change	For	Set GHG Emissions Reduction targets Consistent With Paris Agreement Goal	A vote FOR is applied in the absence of reductions targets for emissions associated with the company’s sold products and insufficiently ambitious interim operational targets. LGIM expects companies to introduce credible transition plans, consistent with the Paris goals of limiting the global average temperature increase to 1.5 C. This includes the disclosure of scope 1, 2 and material scope 3 GHG emissions and short-, medium- and long-term GHG emissions reduction targets consistent with the 1.5 C goal.	☒
LGIM Diversified	NextEra Energy, Inc.	0.34%	19/05/ 2022	Diversity & Inclusion	Against	Elect Director Rudy E. Schupp	A vote against is applied as LGIM expects a company to have at least 25% women on the board with the expectation of reaching a minimum of 30% of women on the board by 2023. We are targeting the largest companies as we believe that these should demonstrate leadership on this critical issue. Independence: A vote against is applied as LGIM expects a board to be regularly refreshed in order to maintain an appropriate mix of independence, relevant skills, experience, tenure, and background.	☑

Fund	Company	Size	Date	Stewardship Priority	How the manager voted	Summary of the Resolution	Rationale for the Manager vote	Final outcome

LGIM Diversified	Royal Dutch Shell Plc	0.29%	24/05/2022	Climate Change	Against	Approve the Shell Energy Transition Progress Update	A vote against is applied, though not without reservations. We acknowledge the substantial progress made by the company in strengthening its operational emissions reduction targets by 2030, as well as the additional clarity around the level of investments in low carbon products, demonstrating a strong commitment towards a low carbon pathway. However, we remain concerned of the disclosed plans for oil and gas production, and would benefit from further disclosure of targets associated with the upstream and downstream. businesses.	☑
LGIM Diversified Fund	American Tower Corporation	0.27%	18/8/2022	Diversity & Inclusion	Against	Elect Director Robert D. Hormats	Diversity: A vote against is applied as the company has an all-male Executive Committee.	☑
Baillie Gifford – Positive Change	Tesla Inc	3.84%	04/08/2022	Climate Change	Against	Requesting a report on how the company's corporate lobbying is aligned with the Paris Climate Agreement	We opposed the resolution requesting a report on how the company's corporate lobbying is aligned with the Paris Climate Agreement. Given Tesla's core mission is to accelerate the world's transition to sustainable energy and its entire business strategy is in alignment with the Paris Agreement, we believe additional disclosures would be a burdensome with no real benefit to shareholders.	☒

Source: Managers.