

The Thales UK Pension Scheme – Annual Newsletter

Futurefocus

Welcome To Your Annual Newsletter

Statement from the Chairman

Welcome to the new Thales UK Pension Scheme newsletter, which the Trustee will issue annually to members to update them on events during the year and to provide them with information relating to the Scheme Accounts, and Scheme Funding.

You will be aware from previous communications that the Thales UK Pension Scheme has been created from the merger of 8 defined benefit schemes on 30 June 2008. Since that point the Trustee Directors of the Scheme have been working hard on your behalf to make the transition as smooth as possible. The transition has included the selection of a number of new advisors and administrators who have been appointed following a comprehensive tender exercise. The year has also seen the election of a number of new Member Nominated Trustee Directors. The Trustee Directors were particularly impressed with the turnout of voters, which exceeded all expectations.

The economic environment since the merger has been difficult, and whilst the Trustee Directors have been working hard to mitigate any losses to the Scheme Assets during that period it is expected that, similar to the majority of UK pension schemes, the economic downturn will have had a negative impact on the actuarial valuation at 31 December 2008 which is currently underway. The Trustee Directors continue to manage

the scheme assets as long term investments to provide pension income for the next 50 years and beyond.

All that leaves me to say is that I hope you find this newsletter informative, and please do let us know if there is anything you would like to see in future editions.

Lord Freeman

Chairman – Thales UK Pension Scheme



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Scheme Structure

The Thales UK Pension Scheme “The Scheme” is made up of two ring-fenced sections, depending on the funding levels of the predecessor schemes when the merger took place. The sections are as follows:-

Section 1	Section 2
Racal Group Executive Pension Plan	Thomson Retirement Benefits Scheme
Racal Decca Staff Pension & Life Assurance Scheme	Thomson Pension Plan
Racal Group Staff Pension & Life Assurance Scheme	W Vinten Pension Scheme
Racal Group Executive Manager & Senior Manager Pension Scheme	Benefits of Active Avimo Pension Scheme Members
Thales Optronics Pension Scheme	

The Trustee Directors are allocated to either Section 1 or Section 2 Trustee Companies so that they can make separate decisions in the event of a dispute between the sections.

Underlying the main Trustee Board is 3 Sub-Committees made up of Trustees from the main board. These sub-committees all operate under delegated authority of the main trustee board. They are as follows:-

Governance Sub-Committee (GSC)

Responsible for monitoring compliance to the Scheme Governance structure. It also manages the annual scheme audit and the trustee training program, Working with the scheme legal advisors it monitors changes in pensions law and any resulting impact on the Scheme.

Operations Sub-Committee (OSC)

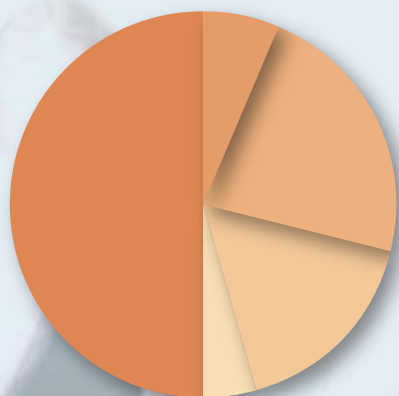
Responsible for all operational issues relating to the Scheme including, implementing the policies and procedures governing the scheme, exercising trustee discretion, monitoring advisers performance and the administration of the Scheme.

Investment Sub-Committee (ISC)

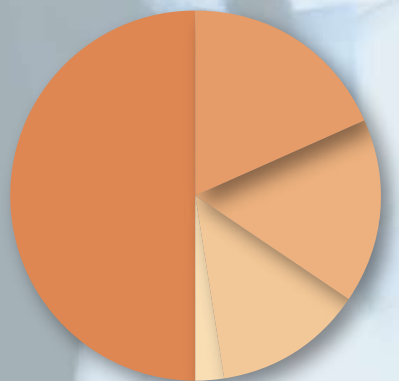
Responsible for managing the Investment Advisers and for making delegated investment decisions after considering their advice, or passing recommendations, to the main Trustee board, for larger investment decisions.

Membership

Section 1



Section 2



Fund Account

	Section 1	Section 2	Total
Contributions & Other Income	43,155	7,442	50,597
Transfer In from Predecessor Scheme	1,028,215	355,917	1,384,132
LESS			
Benefits & expenses	(30,721)	(11,150)	(41,871)
Net additions from dealing with members	1,040,649	352,209	1,392,858
Net returns on investments	(80,335)	(32,183)	(112,518)
Net increase in the fund during the period*	960,314	320,028	1,280,340
Net assets at 31 December 2008*	960,314	320,028	1,280,340

*Please bear in mind that at the start of the period (ie just prior to the merger) the Scheme had no assets. As such the figures above are not representative of a typical year.

The Trustee Board

1. Colin Milbourn, GSC, Section 1

I am a Member Nominated Trustee working out of the new Sapphire site in Crawley. I have been a Trustee for some years having previously been a Trustee of the Racal-Decca Staff Pension & Life Assurance Scheme.

2. Jim Bell, OSC, Section 1

I am a Principal Quality Engineer in Thales Belfast. I began working life as a fitter apprentice in 1966 with Short Brothers and Harland subsequently SMS which became a joint venture company with Thomson's, now Thales in 2000. I was elected as a Member Nominated Trustee for The Thomson Pension Plan in 2000 and when the various schemes merged to become TUPS I was elected as a Member Nominated Trustee for Section 2, representing the Operations Sub-Committee.

3. Joelle Dumetz, OSC, Section 2

I have been a Trustee for many years, having previously been a Member Nominated Trustee of the Thomson Retirement Benefit Scheme prior to the merger. I take my role as a Trustee very seriously and continue to undertake professional qualifications through the Pensions Management Institute. I work for Thales Training and Simulation in Crawley. I have also been a Trustee of the Thales Common Investment Fund.

4. Lawrence Hammond, OSC, Section 1

I am the Vice President of Legal UK and in my role I am responsible for the legal, security and secretariat activities for Thales UK. I have over 20 years legal experience. I was in private practice from 1988 until 1995 when I joined Racal Electronics Plc (acquired by Thales in 2000) where I worked for

various parts of the Group in Mergers & Acquisitions, Pensions and Commercial disciplines. Since 2000 I have held various commercial law roles, the most recent prior to my current role, being the Legal Director for the Security, Solutions and Services Division, a role I held from 2005 to 2007. I graduated with a law degree with honours in 1987 and qualified as an English solicitor in 1990.

5. Les James, ISC, Section 2

I joined Redifon Communications in 1969 after 14 years in the RAF. I retired in 2004. I was invited to become a Trustee of the Redifon Pension Scheme in 1992 after the Maxwell debacle. I've been re-elected on several occasions as a Member Nominated Trustee. I've attended many training sessions to make sure I am up to date with current pension requirements.



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6. Paul Durrant, OSC, Section 2

As Compensation and Benefits Director for the UK, and the former Pension Services Manager, I am ideally placed to be able to offer a wealth of experience to the Trustee Board, both in terms of technical understanding of pensions, but also in terms of my understanding of the legacy arrangements underpinning the Thales UK Pension Scheme.

7. Phil Naybour, GSC, Section 1

I have ten years senior management experience in Thales Group. I have run two business lines (BL e-Security (now ISS) and BL Helicopter Solutions) and I am now Vice President: Future Strategic Tanker Aircraft programme. I also serve on the Thales UK Management Forum and the DAE UK Executive committee. Prior to this I was Managing Director of Racal Asia Ltd. based in Hong Kong. I have been a Trustee for one year.

8. Robert Carr, ISC, Section 1

I am a Business Systems Engineer based at Glasgow, age 56 with 31 years service, a former Member Nominated Director of the Optronics Pension Scheme. I am passionate about ensuring that member's benefit both accrued and future accruals are protected and efficiently managed. As a member of the Investment Sub Committee I am committed to working with our advisors and the company to reduce risk from the portfolio whilst trying to maintain maximum return.

9. Robert Preston, ISC, Section 1

I have been a Member Nominated Trustee of the Thales UK Pension Scheme (TUPS) since its inception and from the year 2000 held a similar position on the Racal Executive Pension Plan. I took early retirement in 1998. I was a Trustee Director on the Common Investment Fund and I am now on the

Investment Sub Committee of TUPS which meets approximately monthly as now-a-days investments matters are quite complex and need close management. I look forward to continuing my services as a Trustee and hope that my experience in engineering and interest in investments and Stock Markets can be brought to bear in this important, challenging and interesting task.

10. Victor Chavez, ISC, Section 2

I am the Deputy Chief Executive for Thales UK with broad responsibility for the performance of the UK business. I joined Thomson-CSF in 1999 as the Business Development Director responsible for UK defence programmes, a role which expanded substantially with the acquisition of Racal in 2000. In 2004 I was appointed Director – Business Development, Sales & Marketing for Land & Joint Systems Division, before being appointed as VP, Business Development, Sales & Marketing for



The Pensions Team

Thales UK in 2006. I was appointed to my current role in October 2008. I graduated in Physics from the University of York in 1984, followed in 1993 by an MSc in Satellite Engineering & Telecommunications at the University of Surrey.

Mark Busby, XXX, Section X

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Philip Cameron, Secretary to the Trustee

The Scheme Secretary is appointed by the Trustee Board to manage the Scheme from an operational perspective. This involves liaison with the Scheme advisers on a day to day basis, organisation of Trustee and sub committee meetings and dealing with any formal disputes raised by the membership. He is also responsible for the implementation of Trustee decisions, the maintenance of the Scheme governance structure, and ensuring that at all times the scheme operates within the Scheme Rules, and the requirements of legislation.

The Pensions Department

Thales Pensions Department operates out of the Weybridge office, and is headed up by the Pension Services Manager, David Roberts, supported by Navprit Donovan. Part of the Pensions Department role within Thales is to provide support to the Scheme Secretary to deliver the secretariat services required by Thales UK Pension Scheme. In particular this includes involvement in the Trustee Meeting process, and day to day management of the 3rd party administration provider and pension payroll functions (both contracted out to Xafinity Paymaster who speak about their services later in this publication).



Legislation Changes

Budget 2009

Restricting tax relief for pension contributions

The Government has introduced a new measure to restrict tax relief for pension savers earning over £150,000 per year. Those earning over £180,000 will only be allowed relief at the basic rate of tax of 20% while those earning between £150,000 and £180,000 will have relief restricted on a tapering basis downwards as earning increase. 'Earnings' means total income from all sources for the year and individuals will have to work out if they are caught and are responsible for any additional tax.

Frozen Allowances

The lifetime and annual allowances will be frozen for five years (from 2010/11) on reaching £1.8 million and £255,000 respectively. Any other limits that are set by reference to the allowances will also be frozen.

Other developments

Divorce simplification

From 6 April 2009 shared rights deriving from contracted-out rights (safeguarded rights) will be treated in the same way as other shared rights.

Scheme governance

Best practice in scheme governance is developing as an important focus for the Pension Regulator. It has finalised its record-keeping guidance for trust-based schemes such as the TUPS, listing the areas where record keeping is urgent (e.g. on buy outs) or convenient (e.g. valuations).

Changes to Statutory Revaluation

The Government has changed the rate of statutory revaluation from Limited Price Indexation (LPI) of RPI with a maximum of 5%, to LPI of RPI with a maximum of 2.5%, with effect from 6 April 2009. This will only affect benefits accrued post 6 April 2009 (benefits accrued before this date will be subject to former Statutory Revaluation rates), and will only affect members who become deferred.

Active members will continue to have their pre 1 January 2008 benefits revalued at a rate of RPI with a maximum of 8%.



Scheme Advisers

Since there is a range of new advisers, the Trustees would like to take this opportunity to give you a run down of who they are:-

XAFINITY PAYMASTER – Scheme Administrator – based in Crawley.

The Trustees of the Thales UK Pension Scheme have appointed Xafinity Paymaster to their panel of advisers.

Xafinity Paymaster was founded in 1836 and today is one of the UK's leading business process outsourcing companies. Xafinity Paymaster provides pensions administration services, pensions payments and collection services, and cash handling and accounting services to the Trustees of the Thales UK Pension Scheme.

The Xafinity Paymaster Team.



WRAGGE & CO LLP – act as the legal adviser to the Scheme – based in London.

Wragge & Co LLP was appointed as legal adviser to the Trustee with effect from 24 March 2009. Wragge & Co is a large commercial law firm with over 1,000 employees. It has a strong reputation in the pensions field. Wragge & Co will be helping the Trustee with day to day queries and strategic advice, including on areas relating to funding, investment and governance.

MERCER LIMITED – Actuaries and Consultants – based in London.

Following the merger of the pension schemes to form the Thales UK Pension Scheme, the Trustee formally appointed the professional advisers to the merged Scheme, including an actuary. The actuary chosen by the Trustee is Peter Bowers, who works for Mercer Limited.

Mercer Limited is a leading global provider of consulting, outsourcing and investment services. Peter is a Fellow of the Institute of Actuaries and

has worked for Mercer for 25 years, where he is a Worldwide Partner. Mercer provided actuarial services to four of the eight schemes that merged to form the Thales UK Pension Scheme, and Peter had been actuary to these schemes for many years.

CARDANO – Investment Advisers – based in London.

Cardano provide investment advice to the Trustees and Investment Sub-Committee. They also implement a hedging strategy designed to reduce the Scheme's equity market risk. Their advice covers the Trustee's investment objectives, how much to invest in different types of investments and risk management. They also advise on the selection of investment managers and the Trustee's Statement of Investment Principles.

Deloitte LLP – Scheme Auditor – based in Crawley.

Deloitte LLP are the auditors for the Thales UK Pension Scheme. Their role involves advising the Governance Sub-Committee on risk management strategies and improving business performance.

Scheme Update/Investment Update

Actuarial Valuation

The Scheme actuary is currently preparing the first formal valuation of the merged Scheme as at 31 December 2008. Following completion of the valuation, the Trustee will be able to produce the first funding statement for the new Scheme, which summarises the financial position of the Scheme and how the Trustee and Company are addressing any funding shortfall. This statement is known as a "Summary Funding Statement" and will be issued to all members. You will subsequently receive annual updates in future years.

- Is required to be done every 3 years
- An actuary will assess the level of funding to ensure that there is enough funding for now and future pension payments
- The valuation will take into account the amount, if any the employer will need to contribute into the scheme taking into account the associated risks.

Investment Update

Review of Investment Performance

From the beginning of 2005, when the Thales CIF (Common Investment Fund) was set up, until 31 December 2008 the return was 4.7% per annum (after investment management fees) against a benchmark of 5.0% per annum. The investment return for the six months to 31 December 2008 was -8.4%.

The total assets held by the Thales CIF on behalf of the Scheme, as at 31 December 2008, were approximately £1.25 billion (31 March 2007: £1.41 billion).



Market Review

Global equity markets suffered considerably over the 6 months as the banking/liquidity crisis continued and the world's economies entered into a severe global recession. The UK equity market fell by 21.1% while overseas markets fell by a similar amount.

Fixed interest Government bonds performed very well over the 6 months, benefiting from their 'safe haven' status and falling interest rates during 2008. Corporate bonds, in contrast continued to suffer. The spread of corporate bond yields over Government bond yields remained at historically high levels over the period, reflecting investors' negative outlook and liquidity issues in the market.

Following the falls during the previous 12 months, the UK commercial property market worsened considerably, falling over 15% over the 6 month period to 31 December 2008. Commodities also fell sharply as the global recession impacted demand.

Reaching Retirement

Thinking of retiring before age 55?

This could be your last chance!

It's important to remember that, as a result of legislative changes, from 6 April 2010 the minimum age at which you can claim your pension benefits will increase from 50 to 55 (if you are suffering from serious ill health you may still be able to take your pension at any age). As previously, you will need to obtain the consent of the Trustee and the Company (as appropriate) to take early retirement from the Scheme. If you are considering early retirement, now is a good time to work out if you are affected by the change in the minimum retirement age.

So, for example, if your 50th birthday was on 6 April 2009 you are currently eligible to apply for early retirement, but after 5 April 2010, you won't be able to retire early until after your 55th birthday.

Managing your money

Sometimes it can be confusing knowing where to go for clear, impartial advice about financial matters.

www.moneymadeclear.fsa.gov.uk is a website run by the Financial Services Authority, the UK's financial watchdog. It includes guides to help you get to grips with your money, making the most of your money at different stages in your life and a section dedicated to preparing for and managing your finances in retirement. All the main financial products from bank accounts to savings are explained in simple language, and there are tools to help you plan and manage your finances.

The 'Money Box' programme on Radio 4 (broadcast on Saturdays at 12.00pm with a repeat on Wednesdays at 3.00pm) aims to 'help you make more of your money'. Past programmes (which can be downloaded as podcasts from the website at **news.bbc.co.uk/1/hi/programmes/moneybox/**) have looked at fuel bills and saving energy, charitable giving and identity protection.



Who to contact

In the event of a query regarding your benefits please contact Xafinity Paymaster in the first case. Their helpline number is **01293 603060**, or they can be contacted by email at **thales@xafinitypaymaster.com**. If you would prefer to contact them by post then please write to:

Thales UK Pension Scheme

C/o Xafinity Paymaster
Sutherland House
Russell Way
Crawley
West Sussex
RH10 1UH

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

Thales UK Pension Scheme

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

Thales UK Pension Scheme

2 Dashwood Lang Road
The Bourne Business Park
Addlestone, nr Weybridge
Surrey KT15 2NX