

The Thales UK Pension Scheme – Annual Newsletter

Futurefocus



Issue 3 – November 2011

Looking towards your future...

Welcome to your annual newsletter

Statement from the Chairman

Welcome to FutureFocus 2011, the annual newsletter for members of the Thales UK Pension Scheme.

Following the appointment of Victor Chavez as CEO of Thales UK earlier this year I was delighted to return to the Board of Trustees of the pension scheme, and be selected by my fellow Trustees to serve as Chairman. I would like to take this opportunity to thank Victor for all his contribution, as Chairman, over the past year.

*My aim, as Chairman, is to ensure that member's interests are protected and that the view of the Trustees is presented as one in any discussions and consultations, particularly with **Thales SA**.*

Over the last year the Trustees have continued to improve Scheme governance with the use of an electronic system called eShare. This system allows the Trustee to store scheme documentation, share meeting papers and make decisions electronically, allowing for more robust record keeping and quick decision making.

The Trustees also took the decision in 2010 to review the appointment of the Scheme's Investment Adviser. After undertaking the review Towers Watson were appointed as the Scheme's Investment Adviser in November 2010.

Since then the Trustees, in consultation with the Company, have been working closely with Towers Watson to set clear objectives and make strategic asset allocation decisions for the Scheme. The first stages of this are currently being implemented with a diversification of scheme assets away from equities to other return-seeking asset classes.

The end of 2011 will bring our second formal actuarial valuation of the scheme. This is an important task as it not only measures the scheme funding level but also agrees the recovery plan needed to fund the deficit. The Trustees working with the Scheme Actuary have agreed an action plan for the valuation and initial tasks are underway, the results of which are not expected until the end of 2012.

I hope you find this edition of FutureFocus informative. I would welcome any comments or ideas you may have for upcoming editions.

Yours sincerely,

Lord Freeman
Chairman -
Thales UK Pension Scheme



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Scheme details

Pensions department

Philip Cameron – Scheme Secretary

Nav Donovan – Pensions Officer

These two employees of Thales provide in-house support for the Trustee.

Service providers

XAFINITY PAYMASTER

Scheme Administrator – based in Crawley

WRAGGE & CO LLP

Act as the legal adviser to the Scheme – based in London

MERCER LIMITED

Actuaries and Consultants (Mark Condron – Scheme Actuary) – based in London

TOWERS WATSON

Investment Advisers – based in London

DELOITTE LLP

Scheme Auditor – based in Crawley

Lord Freeman

Chairman

Lawrence Hammond

OSC – Section 1 Trustee

Paul Durrant

OSC – Section 2 Trustee

Jim Bell

OSC – Section 2 Trustee

Joelle Dumetz

OSC – Section 2 Trustee

Phil Naybour

GSC – Section 1 Trustee

Colin Milbourn

GSC – Section 1 Trustee

Alistair Inverarity

GSC – Section 2 Trustee

Victor Chavez

ISC – Section 2 Trustee

Robert Carr

ISC – Section 1 Trustee

Robert Preston

ISC – Section 1 Trustee

Mark Busby

ISC – Section 2 Trustee

ISC – Investment Sub Committee

OSC – Operations Sub Committee

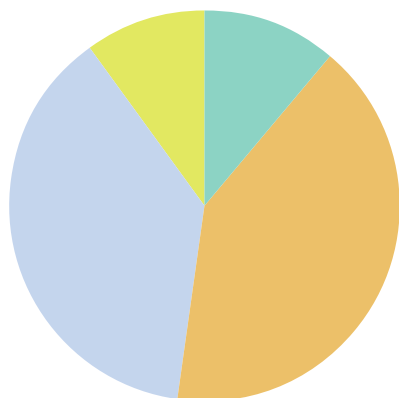
GSC – Governance Sub Committee

List of Trustees

Membership details

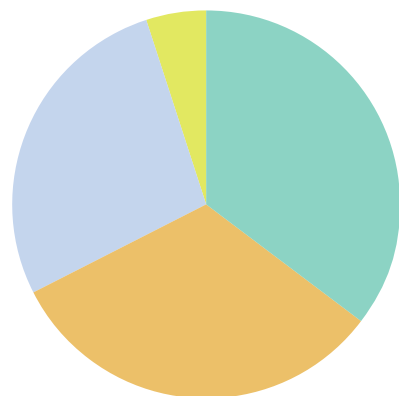
Section 1: Membership at 31/12/2010

Total: 15,498



Section 2: Membership at 31/12/2010

Total: 6,122



- Actives
- Deferreds
- Pensioners
- Dependant Pensioners

Scheme Fund Account as at 31 December 2010

	(£'000)	(£'000)	(£'000)
	Section 1	Section 2	Total
Net assets at 31 December 2009	1,086,399	361,410	1,447,809
Contributions & Other Income	61,173	19,930	81,103
Benefits and expenses	65,934	15,447	81,381
LESS: Net additions from dealing with members	(4,761)	4,483	(278)
Net returns on investments	128,244	42,006	170,250
Net increase in the fund during the period	123,483	46,489	169,972
Net assets at 31 December 2010	1,209,882	407,899	1,617,781

Funding Update

The Trustees carry out an in-depth examination of the Scheme's finances at least every three years. This is called an actuarial valuation. The Trustees ask a qualified, independent professional, known as an actuary, to help to undertake this task.

The estimated cost of providing the benefits you and other members have earned to date is known as the Scheme's "liabilities". To check the Scheme's (and each Section's) financial position we compare the value of its liabilities to its assets. If the Scheme/Section has fewer assets than liabilities, it is said to have a "deficit".

The Trustee completed the first formal valuation of the Scheme as at 31 December 2008. The financial position of the Scheme was as follows.

	Section 1	Section 2	Overall
Assets (£m)	956	303	1,259
Liabilities (£m)	1,483	376	1,859
Deficit (£m)	527	73	600
Funding Level (%)	64	80	68

The Company continues to make "recovery plan" payments of £50 million each year until the end of 2022 (split £44 million for Section 1 and £6 million for Section 2) in addition to their regular contributions for benefits in respect of future service and expenses of running the Scheme.

The Scheme Actuary has also provided the Trustee with an update of the position as at 31 December 2010.

	Section 1	Section 2	Overall
Assets (£m)	1,197	386	1,583
Liabilities (£m)	1,582	440	2,022
Deficit (£m)	385	54	439
Funding Level (%)	76	88	78

The above information forms part of your "Summary Funding Statement" which you should have received separately.

The 31 December 2011 Actuarial Valuation

The second formal actuarial valuation of the Scheme is due as at 31 December 2011. This is a very significant exercise which could potentially take to March 2013 to complete.

It requires a detailed analysis of the experience of the Scheme since the last formal valuation, both in terms benefit payments and investment markets, as well as a re-assessment of the potential future experience. This information is used by the Trustee and the Scheme's actuary to re-calculate the liabilities and the deficits. Detailed negotiations will then take place between the Trustee and the Company to agree these calculations and determine whether the recovery plans need to be changed.

The Trustee has already begun planning this exercise and gathering the data required to analyse the Scheme experience.

AVC Update

New Investment Options for Additional Voluntary Contributions (and other "Defined Contribution") Funds

In last year's Newsletter, we explained that the Trustee commenced a review of the Scheme's thirty different Additional Voluntary Contributions (AVCs) or Defined Contributions (DC) contracts across eleven providers. This is aimed at ensuring that the providers (including the support they provide to both the Trustees and members), the investment managers and the investment funds available to members, remain 'fit for purpose'.

Significant progress has been made and the Trustees are finalising the agreed solution. This will incorporate:

- A refined fund range, in line with industry best practice, which the Trustee will regularly review for quality and suitability
- An enhanced member experience in terms of service, range of options and available information (including an online facility)

We expect to roll out full details to members by the end of the year.

Legislation Update

Budget and Finance Act 2011

Changes to the annual allowance and lifetime allowance

The Finance Act 2011 significantly reduced the annual allowance (i.e. the maximum 'pension input' that a member is allowed each year without giving rise to a tax charge) from £255,000 to £50,000 with retrospective effect from 6 April 2011. The total pension input is calculated on all of your pension savings in registered pension schemes. It is calculated on the capital value of pension benefits accrued in a defined benefit or CARE scheme, and the amount of contributions paid into a defined contribution scheme.

A three-year 'carry-forward' mechanism enables individuals to set any previously unused annual allowance amounts against one-off spikes in 'pension inputs'. No annual allowance test will apply in the year in which an individual dies, but a test will be made in the last year before an individual draws his benefits on retirement.

In addition, the standard lifetime allowance (i.e. the maximum value of pension fund a member can accumulate over their lifetime without incurring an additional tax charge) will be reduced from £1.8 million to £1.5 million from 6 April 2012. Individuals who expect the value of their benefits to exceed the reduced lifetime allowance when they retire will be able to register with HMRC for a "fixed protection" regime before 6 April 2012.

We expect very few members to be affected by any these changes. If you are we will write to you individually detailing any tax implications, as you will be personally responsible for paying additional tax due.

Relaxing the requirements to take benefits by age 75

From 6 April 2011, the statutory requirement to take certain benefits by age 75 has been abolished. There is now no specific age limit by which a member of a pension scheme must draw an annuity or scheme pension to avoid incurring a tax charge.

When you reach age 65 you will be entitled to retire and draw your pension from the Scheme, which will be payable monthly in advance. Your pension will be payable after the deduction of tax due under the PAYE system.

The earliest age that legislation permits you to retire and take benefits from the Scheme (other than because of ill health) is age 55. If you want to retire earlier than age 65 you will have to get the permission from the Company unless you were entitled to receive a pension from age 60 from your Predecessor Scheme without consents (or other conditions) being required.

These changes are not, however, mandatory and schemes can choose whether to adopt them. The Rules of TUPS have not been amended, and still currently require all retirement benefits to be taken by the member's 75th birthday. This will be considered further by the TUPS Trustees in due course.

Other developments

Removal of the Default retirement age

As was outlined in last year's Future focus, the law applying to default retirement age changed from 1 October 2011. Active members employed by Thales will have received a Company announcement detailing the removal of default retirement ages in Thales and a new flexible approach to retirement. The way benefits are built up and calculated by the pension scheme is not affected by these changes. The scheme will continue to have a Normal Retirement Age (NRA) of 65 for the calculation of CARE benefits. If you wish to retire earlier than 65 it will be treated as an early retirement. If you wish not to take your pension until after age 65 you will be treated as a late retirement. If you do decide to continue in employment with Thales past (NRA) you can elect to continue to accrue further benefits or stop contributions and become a Postponed Pensioner.

It is important that members are aware that the default position under TUPS rules is that you will stop contributing and become a Postponed Pensioner on reaching NRA. If you wish to continue accruing benefits past NRA then you must make an election in writing to the scheme administrator stating this prior to reaching NRA. Further details on early and late retirement can be found in the scheme booklet (a copy is on the TUPS web site:

<http://thales.xpmemberservices.com>) or by contacting the scheme administrator.

The State Pension Age (SPA) is the earliest age you can draw your State Pension and is specific to your date of birth. Changes to the SPA announced in the Government's Spending Review will see women's retirement ages increase to 65 between April 2010 and November 2018. Retirement ages are then due to rise to 68 by 2046. These dates are currently subject to change as they are being considered in legislation that is currently before Parliament. As a result these ages may be brought forward.

The Pensions Advisory Service has a State Pension Age Calculator to work out your SPA. **It can be found on its website – www.pensionsadvisoryservice.org.uk**

State pension age

Changes to family leave have been implemented this year. For any children born (or adoption placement) on or after 3 April 2011, fathers will be able to take additional paternity leave if their wife or partner returns to work without taking their full entitlement to leave.

This additional leave may not be taken until at least 20 weeks after the child's birth or adoption placement, and may last between 2 and 26 weeks. A father taking such leave is entitled to the same rate of statutory pay that the mother would have received had she been on leave. If you are on paid family leave, you will continue to accrue pension benefits under TUPS.

Family leave

Brian Cole – Life before retirement

Brian Cole based in Crawley (Avionics), currently works as a Production Supervisor and is coming up for retirement shortly. We took the opportunity recently to interview him about his life in Thales and what he plans to do next. Read on to find out what he has to say.

Brian left school and joined Thales UK, then known as Mullard, at the age of 15 to work as a trainee wireman. Thales enrolled him on a three-month learning programme at a local college, and offered him a three-year traineeship on successful completion of the course. Although a long time ago now, Brian says *'having the support from Thales to gain qualification as a certified IPC specialist was very valuable at the start of my career'*. Brian's current role involves fitting and building specialist radar equipment to a high specification. Although Brian started as a trainee wireman he now heads a team of eight as a Production Supervisor. The team has a wealth of experience working in their specialist area, and overall hold a total of 249 years of specialist knowledge and skill with Thales.

Brian describes his career progression within Thales as challenging and diverse, but providing an enjoyable and stimulating place to grow as Thales has developed and expanded as a business over the years.

'Over the years working at Thales I've travelled to Scotland, Holland, Sweden and Germany as well as other docking sites across the UK. This has given me the opportunity to interact

internationally with other companies which has developed my skill and experience further,' Brian said. Brian has also had the opportunity to work alongside his fellow colleagues on projects such as Watchkeeper, the unmanned aircraft, and The Royal Navy Mk7 Sea King, which provides airborne surveillance and control.

Brian's 65th birthday fell on 29 August 2011 after 50 years of service with Thales. Having enjoyed every moment of his working career, Brian has never had a reason to leave Thales.

Earlier this year Brian contacted the Scheme Administrators, Xafinity Paymaster, to review his retirement options and found the information provided of great value. Xafinity Paymaster efficiently and promptly provided Brian with the required options, following which he requested a further quotation and received the documentation within 5 working days. The experience had been smooth, hassle free and the options had been easy to understand, with Brian commenting *'It is a nice start to retirement'*.

During his retirement Brian plans to spend more time with his family, take longer holidays and perhaps even consider having a part-time job. At this moment in time Brian hasn't planned too far into the future as he believes that spontaneity is the spice of life. Brian says *'I will be sad to leave as I have many fond memories from my time at Thales, I've made some great friends'*. In fact Brian met his wife when he joined Thales, and they have been married for forty years. For the immediate future, Brian has decided to continue to work for the Company for a further six months, and will review his options next year.



Brian Cole present day.



Brian as a youngster doing assembly work.

We wish Brian every happiness in his well earned retirement.

Member Web

In 2010, the Trustees launched Member Web as part of their on-going commitment to improve the way we engage and communicate with members of the Pension Scheme.

The website includes a range of Scheme documentation that you are able to view including the earlier additions of the newsletter and the Trustee Report and Accounts. Active and Deferred members of the Scheme are able to access their Pension Scheme information, view benefit statements and run calculations online.

Unfortunately due to the complex nature of some member's benefits, it has not been possible to provide automatic calculations for all categories of members. Those members will still be required to contact Xafinity Paymaster for benefit estimates. If you cannot remember your user ID, or have any queries in relation to the online tool you can contact Xafinity Paymaster directly.

The website is maintained and developed by Xafinity Paymaster, the Scheme Administrator, who work closely with the Trustees to ensure the site evolves into a tool that meets the needs of all members. Over the next year there are a number of key developments that Xafinity Paymaster – in conjunction with the Trustees – will be undertaking to further improve the level of engagement with all members, in particular the interaction with pensioner members.

You can access the site directly
<http://thales.xpmemberservices.com>

Since the launch of Member Web approximately 26% of the active population have accessed Member Web and 18% of the deferred population, but we are keen to ensure that all members use this useful tool.

You can access the site directly
<http://thales.xpmemberservices.com>

You can also update your expression of wish form by simply downloading the form from the website and returning it to Xafinity Paymaster. We recommend that you complete an expression of wish form to aid the Trustees in identifying who you wish to be your elected beneficiary. The expression of wish form is not legally binding, but the Trustees will take it into consideration when exercising their discretion. If you are unsure if we hold an expression of wish form on file please contact Xafinity Paymaster.

The Trustees also welcome any feedback on how we could further improve the site.

Company Update – Transforming Thales in the UK

Thales UK will achieve its Vision by 2015 and become a resilient, integrated business, diversified both in terms of the sectors it addresses between domestic and export markets, with a well-defined role within the Thales Group. The business will be operationally excellent with common processes and infrastructure, with a culture of continuous improvement, strongly positioned in all its chosen sectors and delivering exceptional customer satisfaction. This will be underpinned by a culture of instinctive collaborative behaviour, mutual interdependency, openness and trust.

In Thales UK we are facing some quite significant challenges – financial, market-based, competitors, organisational, culture after re-structuring. There is considerable opportunity and some urgency to transform the UK business into a successful and high-performing country of the Thales Group.

Over the next three years Thales UK will continue to focus on capturing market share, winning key bids (particularly exports) and transforming the business through improved efficiency, effectiveness and leadership & culture – the three pillars of the UK Transformation Programme.

'Effectiveness' is doing the right thing through an agile, responsive and market-focused strategy (systems, services and products), supported and underpinned by best in class business capture and delivery. Effectiveness comes from having the right vision, strategy and operating model.

'Leadership & Culture' – An organisation will not change & transform successfully unless it fully engages its people with the changes and clearly articulates and embeds the behavioural changes required. If we only improve the business processes and technology, but not how people utilise and interact with these, then the full benefits will not be realised.

'Efficiency' is all about delivering improvements across a portfolio of projects addressing all areas of our cost base, labour, materials, and overhead. It is about delivering efficiency improvements through cost savings, cost avoidance and re-investment in the business.

What does it mean for staff and pensioners?

Ultimately successful transformation of Thales in the UK to achieve its vision and goals will provide:

- **Future security:** The increased investment in capability will help to attract & retain more customers, help to increase sales and enable us to remain competitive in a tough market place – this will safeguard future jobs and pensions
- **Better customer service:** We can offer our customers more and give them a better experience when they contact us
- **More business:** The significant changes we are making to transform Thales UK will ultimately create opportunity for new business
- **Make it easier for staff to do their job:** The additional or upgraded tools, processes and systems which will be available as a result of the implementation of all the changes will make it easier for day-to-day for staff to do their roles

An enhanced reputation: Thales UK's professional reputation is critical to maintain and enhance the transformation programme we are undertaking will ensure we continue to improve this and our customer closeness.

Who to contact

In the event of a query regarding your benefits please contact Xafinity Paymaster in the first case. You can access Member Web directly via:

<http://thales.xpmemberservices.com>, or alternatively contact the helpline on **01293 603060**, or 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