The Thales UK Pension Scheme (Section 2)

2023 SUMMARY FUNDING STATEMENT

It is part of the Trustee's responsibility to ensure that a full actuarial valuation of Section 2 of the Thales UK Pension Scheme ("the Section") is carried out every 3 years. The Trustee will provide you with an annual statement of how the Section is funded. Please note, in years where a full actuarial valuation is carried out, no annual statement will be shared due to the length of time it takes to finalise the valuation results. The previous statement for the Section was provided in 2022 in relation to the position as at 31 December 2021. This statement sets out the results of the actuarial update as at 31 December 2022.

How is my pension funded?

Thales UK Limited and the other participating employers in the Section ("the Employers"), pay contributions so that the Section can pay pensions and other benefits to members. You may also make contributions to help pay for your benefits if you are an active member.

The latest formal valuation of the Section was carried out at an effective date of 31 December 2020.

Results of the Formal Valuation as at 31 December 2020

The formal valuation of the Section showed that on 31 December 2020 the funding position was as follows:

Assets	£735m
Amount assessed as needed to provide benefits ("Liabilities")	£1,140m
Surplus / (Deficit)	(£405m)
Funding level	64%

As a result of the formal valuation, the Employers' contributions to the Section were amended. The Employers will pay the following contributions from 1 July 2022:

- 38.1% of Pensionable Salaries (inclusive of members' contributions), which are expected to meet the cost of future service benefits;
- £1 million per annum in respect of ongoing expenses of running the Section;
- £17.2 million per annum to 31 December 2034, in order to eliminate the deficit by 31 December 2034; and
- the Trustee have agreed with the Company that any contributions required by the Section will be guaranteed by, Thales SA, up to an amount of broadly £315 million.

Employer contributions will be reviewed as part of the next formal actuarial valuation due as at 31 December 2023.

The Trustee also obtains regular funding updates from the Scheme Actuary, which provide an estimate of the assets needed today to meet the payment of benefits allowing for future investment returns.

The previous summary funding statement showed the results of a funding update as at 31 December 2021 being a deficit of £345m and a funding level of 69%.

The latest funding update was carried out as at 31 December 2022 the results of which are shown below.

Results of the Funding Update

A funding update of the Section showed that on 31 December 2022 the funding position was as follows:

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

Change in funding position

The increase in the funding level over the year to 31 December 2022 arose because of changes to investment market conditions, in particular the rise in UK Government bond yields, which are used to place a value of the liabilities. This increase in yields decreased the liabilities throughout 2022 by more than the equivalent fall in the value placed on the Section’s assets. These factors, in addition to contributions paid by the Employers, reduce the deficit.

You should be aware that the factors affecting the funding level are very changeable, particularly stock market performance, interest rates and life expectancy. This means that the funding level can go up or down in the future.

Under the scheme funding regime, the method and assumptions used to value the liabilities have been chosen prudently and allowance has been made where appropriate for a suitable margin against adverse deviation from the assumptions. This does not represent the cost, though, of fully buying insurance policies to meet the liabilities (known as “full solvency”). This amount has been estimated as part of the actuarial valuation as at 31 December 2020 and commented on overleaf.

The importance of the Employers’ support

The Trustee’s objective is to have enough money in the Section to pay pensions now and in the future. However, this relies on the Employers continuing in business and supporting the Section because:

- Assets can go down as well as up, and when there is a shortfall, the Employers will usually need to put in more money; and
- The cost of benefits may increase so that the Employers will need to put in more money.

Only if the Section had more than enough money to buy-out the benefits in full could a refund be paid to the Employers. To date, the Section has not been in this position and no refunds have been paid.

We are required to tell you whether the Pensions Regulator has used its legal powers to make directions as to any of:

- The level of benefits available from the Section going forward
- The method or assumptions used to calculate the liabilities or the length and structure of the recovery plan
- The contributions that should be paid under the Schedule of Contributions.

The Regulator has not used its powers in relation to the Section and therefore the Section is not subject to any directions

What would happen if the Section started to wind up?

We are obliged by law to provide you with information regarding what would happen in the event that the Section were to wind up.

If the Section were to wind up, the Employers would be required to pay enough into the Section to enable your benefits to be completely secured with an insurance company. As at 31 December 2020, we estimate that the Section would have been 56% funded on an insurance company buy-out basis and the Employers would therefore have been required to pay an additional £582 million into the Section to fully secure the benefits with an insurance company. Please note that this is provided for information purposes - it does not imply that the Employer is thinking of winding-up the Section.

In the event of a wind up, it may be the case that the Employers are unable to pay the full amount required by the insurance company. The Pension Protection Fund (PPF) has been set up by the government to help protect members' pensions where a company becomes insolvent, although it does not guarantee to pay full benefits. If the Employers became insolvent and the Section entered the PPF, the PPF would take over the Section and pay compensation to members. Further information and guidance is available on the PPF's website at www.pensionprotectionfund.org.uk. Or you can contact the Pension Protection Fund by email at information@ppf.co.uk or by post at PO Box 254, Wymondham, NR18 8DN.

What is the Section invested in?

The Trustee's policy is to invest in a broad range of assets to get the best return possible while taking account of the liabilities of the Section, and the risks of having too much money in any one type of investment. As at 31 December 2022 the Section assets were invested broadly as follows:

Liability Driven Investments	40%
Credit	20%
Property/ Infrastructure	30%
Alternative investments	10%

Where can I get further information?
If you have any other questions, or would like any more information about the Scheme or the Section, please contact us at the address below.

Please note that if you are considering leaving the Section, we suggest that you consult an appropriate financial adviser before taking any action.

Yours sincerely,

Thales Pension Trustees (Section 2) Limited

Address for communication

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