HEALTH WEALTH CAREER

SCHEME FUNDING REPORT OF THE ACTUARIAL VALUATION

THALES UK PENSION SCHEME – SECTION 1

AS AT 31 DECEMBER 2014

MAKE TOMORROW, TODAY MERCER

CONTENTS

1 INTRODUCTION

This report is addressed to Thales Pension Trustees Limited ("the Trustees") as trustees of Section 1 ("the Section") of the Thales UK Pension Scheme ("the Scheme") and is provided to meet the requirements of Section 224(2)(a) of the Pensions Act 2004. It describes the factors considered by the Trustees when carrying out the actuarial valuation as at 31 December 2014 and the decisions reached as a result.

The purpose of the actuarial valuation is for the Trustees to determine:

- The expected cost of providing the benefits built up by members at the valuation date (the "liabilities"), and compare this against the funds held by the Section (the "assets").
- An appropriate plan for making up the shortfall if the Section has less assets than liabilities.
- The contributions needed to cover the cost of the benefits that active members will build up in the future and other costs incurred in running the Section.

SIGNATURE		DATE OF SIGNING	16 September 2016
SCHEME ACTUARY	Mark Condron	QUALIFICATION	Fellow of the Institute and Faculty of Actuaries

This report has been prepared in accordance with the version of the *Pensions Technical Actuarial Standard* current at the date this report is signed. It also complies with the relevant requirements of *Technical Actuarial Standards R: Reporting Actuarial Information*, *D: Data* and *M: Modelling*, where they apply to this report. These Standards are all issued by the Financial Reporting Council. The calculations referred to in the report use methods and assumptions appropriate for reviewing the financial position of the Section and determining a contribution rate for the future. Mercer does not accept liability to any third party in respect of this report; nor do we accept liability to the Trustees if the information provided in this report is used for any purpose other than that stated. The report may be disclosed to members and others who have a statutory right to see it. It may also be disclosed to any participating employer and, if the Trustees and Mercer consent, it may be disclosed to other third parties.

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KEY RESULTS OF THE SCHEME FUNDING ASSESSMENT

PAST SERVICE FUNDING POSITION

The table below compares the assets and liabilities of the Section at 31 December 2014. Figures are also shown for the last valuation as at 31 December 2011 for comparison.

	£m	
	31 December 2014	31 December 2011
Total assets	1,590	1,266
Liabilities:		
Active members	429	437
Deferred pensioners	655	523
Pensioners	1,173	1,028
Total liabilities	2,257	1,988
Past service surplus / (shortfall)	(667)	(722)
Funding level	70%	64%

The table shows that at 31 December 2014 there was a shortfall of £667m. An alternative way of expressing the position is that the Section's assets were sufficient to cover 70% of its liabilities – this percentage is known as the funding level of the Section.

At the previous valuation at 31 December 2011 the shortfall was £722m, equivalent to a funding level of 64%. The key reasons for the changes between the two valuations are considered in Section 3.

The liability value at 31 December 2014 shown in the table above is known as the Section's "technical provisions". The technical provisions are calculated using assumptions that the Trustees have determined are appropriate based on the Trustees' assessment of the strength of the Employer covenant, having regard for the direct covenant and additional support provided by Thales SA, the French parent company, having agreed the approach with the Employer. Throughout this report "Employer" means Thales UK Ltd.

Further details of the way in which the technical provisions are calculated are set out in Appendix A.

CORRECTING THE SHORTFALL

The Trustees and Employer have agreed a plan to pay off the shortfall of £667m which requires the Employer to make the following payments.

Date	Payments
Up to 31 August 2016	£54.5m p.a.
From 1 September 2016 to 31 December 2028	£48.2m p.a.

These shortfall contributions are guaranteed by the parent company, Thales SA, up to a maximum aggregate level of £598 million. The amount guaranteed will start to reduce after 12 years from the valuation date, down to zero over a further 8 years.

Further details of the way in which the shortfall contributions are calculated are set out in Appendix A.

ADJUSTMENT TO SHORTFALL CONTRIBUTIONS

If, as at the 31 December 2017 actuarial valuation, the Section's technical provisions deficit, calculated as set out in this statement of funding principles, is more/less than £526 million (which is the technical provisions deficit envisaged at 31 December 2017 by the recovery plan put in place as part of the this valuation) and the difference between these amounts exceeds £76 million, an increase/reduction in contributions payable by the Employer to the Section will occur with effect from 1 January 2018.

The adjustment will be a level amount (as determined by the Scheme Actuary and agreed with the Employer) required to eradicate the difference by 31 December 2028.

If contributions were not adjusted with effect from 1 January 2018 and, as at the 31 December 2020 actuarial valuation, the Section's technical provisions deficit, calculated as set out in this statement of funding principles, is more/less than £398 million (which is the technical provisions deficit envisaged by the recovery plan put in place as part of this valuation) and the difference between these amounts exceeds £76 million, an increase/reduction in contributions payable by the Employer to the Section will occur with effect from 1 January 2021.

If contributions were adjusted with effect from 1 January 2018 and, as at the 31 December 2020 actuarial valuation, the Section's technical provisions deficit, calculated as set out in the statement of funding principles in force at that time, is more/less than the technical provisions deficit envisaged by the recovery plan in force at that time (but ignoring any impact of the maximum and minimum shortfall contributions limitations below) and the difference between these amounts exceeds £76 million, an increase/reduction in contributions payable by the Employer to the Section will occur with effect from 1 January 2021.

The adjustment will be a level amount (as determined by the Scheme Actuary and agreed with the Employer) required to eradicate the difference by 31 December 2028 and will be applied to the shortfall contributions in force at 31 December 2020 calculated ignoring any impact of the maximum and minimum shortfall contributions limitations below.

The adjusted shortfall contributions shall not be more than £59.7 million per annum or less than £36.7 million per annum.

The levels of the 2017 Contribution Adjustment and the 2020 Contribution Adjustment will initially be assessed by reference to the approximate methods adopted for the regular funding updates as at 31 December 2017 and 31 December 2020, and adjusted as necessary when the preliminary results of the respective actuarial valuations are available.

FUTURE SERVICE CONTRIBUTIONS

The valuation also looks at the cost of the benefits that will be built up in future. A summary of the assumptions used is provided in Appendix A.

The table below gives a breakdown of the future service cost at 31 December 2014 and also shows the cost at 31 December 2011 for comparison. Active members currently pay contributions (by salary sacrifice in most cases) to the Section as a condition of membership, at the rate of 9% of CARE salary for that part of CARE salary up to £40,040 and 12% of CARE salary for that part (if any) of the CARE salary in excess of £40,040, the average rate being 9.8%. Until 31 January 2014, these rates were 6% and 9% respectively. They are deducted from the future service rate to calculate the Employer's future service contribution rate.

	% of CARE Salaries	
	31 December 2014	31 December 2011
Cost of pension benefits	24.5	19.3
Death benefits	2.1	1.7
Expenses	See below	3.0
Less notional members' contributions	(9.8)	(6.3)
Employer's future service contribution rate	16.8 plus expenses	17.7

In addition to the cost of benefit accrual shown above, the Section incurs expenses related to ongoing administration. In order to meet the ongoing administration expenses the Trustees have agreed with the Employer that the Employer will pay a further £2m p.a. in respect of these.

The Employer also reimburses the Trustees in full for any levies paid to the Pension Protection Fund.

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EXPERIENCE SINCE LAST VALUATION

SUMMARY OF KEY INTER-VALUATION EXPERIENCE

The last actuarial valuation was carried out with an effective date of 31 December 2011.

Pensions in payment, pensions in deferment, accrued pensions of active members and CARE salaries were increased / revalued as guaranteed under the rules of the Section.

During the inter-valuation period, the investment return on the Section's assets has been 8.7% per annum.

The table summarises the contributions paid over the inter-valuation period. These figures are from the audited accounts and are in line with the rates agreed at the last actuarial valuation.

Period	Employer contributions*
1 January 2012 to 31 December 2012	£57.7m
1 January 2013 to 31 December 2013	£59.7m
1 January 2014 to 31 December 2014	£58.4m

*Member contributions paid through the salary sacrifice arrangement are included in the above

REASONS FOR THE CHANGE IN FUNDING POSITION SINCE THE LAST ACTUARIAL VALUATION

The shortfall at the last valuation date was £722m. The table below sets out the main reasons for the change in the shortfall between 31 December 2011 and 31 December 2014.

	£m
Shortfall at 31 December 2011	(722)
Expected interest on shortfall	(100)
Higher than expected investment returns	187
Deficit contributions with interest	141
Change in proportions married assumption	39
Change in commutation assumption	(6)
Change in financial assumptions arising from market movements	(333)
Change in discount rate approach from pre/post retirement model to investment strategy driven model	115
Miscellaneous/Other	12
Shortfall at 31 December 2014	**(667)**

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PROJECTED FUTURE FUNDING LEVEL AND VOLATILITY

PROJECTED FUNDING POSITION AT NEXT ACTUARIAL VALUATION

As part of this valuation, the Trustees have agreed with the Employer to put in place a recovery plan to pay off the shortfall by 31 December 2028. The next actuarial valuation will take place with an effective date no later than 31 December 2017. If experience up to that date is in line with the assumptions made for this current actuarial valuation and contributions are paid at the agreed rates or amounts, the shortfall at 31 December 2017 would be £526m, equivalent to a funding level of 76%.

MATERIAL RISKS FACED BY THE SECTION

The Section is subject to some potentially material risks that are, to an extent, outside the Trustees' control, but could affect the funding level. Any material worsening of the funding level will mean more contributions are needed (either at an increased rate or at the same rate over a longer period) to be able to provide the benefits built up in the Section – unless experience acts in other ways to improve the funding level. Examples of such risks, and how the Trustees manage them, are:

- If the Employer becomes unable to pay contributions or to make good deficits in the future, the Section's assets will be lower than expected and the funding level will be worse than expected. The Trustees regularly monitor the financial strength of the Employer.
  - A parent company guarantee has been put in place so that, if the Employer cannot meet future deficit contributions, these amounts (up to defined limits) will be paid by the French parent company (see section 2).
- If future investment returns on assets are lower than assumed in the valuation, the Section's assets will be lower, and the funding level worse, than expected. The Trustees have a process in place to monitor investment performance monthly, and they review the Section's investment strategy alongside each actuarial valuation. Additionally, if expected future investment returns change such that the liability values increase by more (or decrease by less) than the assets, the funding level against the technical provisions and on the wind-up basis (see section 5) will be worse than expected. The Trustees have taken the following action to mitigate (but not fully remove) these risks:
  - An arrangement has been put in place so that additional contributions up to a cap (see section 2) will automatically be triggered and, if the cap is breached, an increase in the parent company guarantee will also automatically be triggered, both measures applying at the 31 December 2017 and 31 December 2020 valuations, if the above risks result in a larger deficit on the technical provisions basis than expected under the recovery plan.
- If improvements in life expectancy are greater than assumed, the cost of benefits will increase because members are living longer than expected. This will mean the funding level will be worse than expected. The Trustees regularly review the Section's experience and ensure that

the assumptions they make about members' life expectancy take the most recent information available into account.

- If members make decisions about their options, which increase the Section's liabilities, the funding level will be worse than expected. An example would be if members do not commute the assumed levels of pension for cash. The Trustees review the Section's experience at each valuation to ensure that their treatment of member options remains appropriate.

SENSITIVITY OF FUNDING POSITION TO CHANGES IN KEY ASSUMPTIONS

The value placed on the Section's liabilities is critically dependent on the assumptions used to carry out the calculations. If future experience differs from the assumptions the Trustees have agreed with the Employer, then the projected future funding level will be different from the level described above.

To illustrate how sensitive the funding level is to experience being different from assumed, the table below shows how the valuation results at 31 December 2014 would have differed given small changes in the key assumptions.

	Change in shortfall at 31 December 2014 (£m)
Long-term inflation is 0.25% higher than assumed	+£41m
Member assumed to be one year younger	+£82m
Commutation: 5% less of maximum available cash commuted	+£6m
Discount rate is 0.25% p.a. higher	-£93m

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WIND-UP POSITION

If the Employer were to become insolvent or decide not to support the Section, the Trustees could decide to wind up the Section and secure the benefits built up with an insurance company. Insurance companies use different assumptions to the Trustees' technical provisions when calculating the value of the Section's liabilities and the price they would charge to provide the benefits.

The table below shows an estimate of the funding level of the Section at 31 December 2014 assuming all benefits were bought out with an insurer. The wind-up position at 31 December 2011 is also shown for comparison. The wind-up position is shown for information only, and does not mean that the Trustees or Employer are considering winding up the Section.

	£m	
	31 December 2014	31 December 2011
Total assets	1,593	1,266
Liabilities:		
Active members	735	652
Deferred pensioners	1,133	819
Pensioners	1,473	1,165
Expenses	47	53
Total liabilities	3,388	2,689
Past service surplus / (shortfall)	(1,795)	(1,423)
Funding level	47%	47%

As the table shows, the Section would have had a shortfall of £1,795m if it had been wound up at 31 December 2014. This means that, on average, members could only expect to receive 47% of the benefits earned to date (although the percentage coverage would differ between members depending on age and when their benefit was earned).

In practice, if the Section was wound up due to the Employer becoming insolvent, the members may be eligible for compensation from the Pension Protection Fund (PPF) if the Section's assets were less than needed to buy that compensation from an insurance company. If this was the case, members could receive a higher proportion of the benefits they have earned to date.

If experience is in line with the assumptions underpinning the agreed recovery plan, and contributions are paid at the agreed rates or amounts, the shortfall at 31 December 2017 on a wind-up basis would be £1,610m, equivalent to a funding level of 51%.

APPENDICES

A
ASSUMPTIONS

HOW THE BENEFITS ARE VALUED

In order to calculate the liabilities, the Trustees need to make assumptions about various factors that affect the cost of the benefits provided by the Section – for example, how long members will live, or the future level of inflation. The table below explains the key assumptions being made in the valuation.

Assumption	Why is it important and how does it impact on the liabilities?
Discount rate	The majority of benefits in a pension scheme are paid many years in the future. In the period before the benefits are paid, the trustees invest the funds held by the scheme with the aim of achieving a return on those funds. When calculating how much money is needed now to make these benefit payments, it is appropriate to make allowance for the investment return that is expected to be earned on these funds. This is known as "discounting". The higher the investment return achieved, the less money needs to be set aside now to pay for benefits. The calculation reflects this by placing a lower value on the liabilities if the "discount rate" is higher.
Inflation	Certain pensions in payment increase in line with price inflation, subject to a cap. In service CARE revaluations and most deferred pension revaluations are also normally linked to price inflation. A higher inflation assumption will, all other things being equal, lead to a higher value being placed on the liabilities.
Life expectancy	Pensions are paid while the member (and potentially their spouse or partner) is alive. The longer people live, the greater is the cost of providing a pension. Allowing for longer life expectancy therefore increases the liabilities.

The liabilities of the Section are calculated projecting forward all of the future benefit cash flows and discounting them back to the effective date of the valuation, using these assumptions. For example, the liability for a single pensioner is calculated by estimating the amount of each pension payment they will receive in the future, multiplying by the probability that the member will still be alive by the date of each payment, and then discounting each payment back to the effective date of the valuation; and then summing up all of these discounted amounts. The liabilities for the whole Section are calculated by summing the liabilities for each of the individual members.

ASSUMPTIONS USED TO CALCULATE TECHNICAL PROVISIONS

The tables below summarise the key assumptions used in the calculation of the technical provisions and those used for the 31 December 2011 actuarial valuation.

Financial assumptions	31 December 2014	31 December 2011
Discount rate:		
Pre-retirement	3.65% p.a.	5.00% p.a.
Post-retirement	3.65% p.a.	3.90% p.a.
Price inflation (RPI)	3.10% p.a.	3.00% p.a.
Price inflation (CPI)	2.40% p.a.	2.30% p.a.
Salary increases	3.60% p.a.	3.50% p.a.
Deferred revaluation	2.40% p.a.	2.30% p.a.
Pension increases in payment:		
RPI (5% maximum)	3.00% p.a.	2.80% p.a.
RPI (2.5% maximum)	2.10% p.a.	2.20% p.a.

Demographic assumptions	31 December 2014	31 December 2011
Retirement	Benefit accrual prior to 1 January 2008 has been valued at the Normal Retirement Age under the member's former scheme except for former members of the Thales Optronics Pension Scheme whose benefits have been based on retirement at age 62. Benefit accrual after 31 December 2007 has been valued using a Normal Retirement Age of 65.	Benefit accrual prior to 1 January 2008 has been valued at the Normal Retirement Age under the member's former scheme except for former members of the Thales Optronics Pension Scheme whose benefits have been based on retirement at age 62. Benefit accrual after 31 December 2007 has been valued using a Normal Retirement Age of 65.
Mortality – base table	SAPS S2P tables using year of birth and adjusted by a loading of 99% (males) and 101% (females) except former members of the Racal Group Executive Plan and the Racal Group Executive Manager and Senior Manager Pension Scheme where 97% (males) and 76% (females) of the SAPS S2P Light (year of birth) tables have been used.	SAPS S1N tables using year of birth and adjusted by a loading of 102% (males) and 107% (females) except former members of the Racal Group Executive Pension Plan and the Racal Group Executive Manage and Senior Manager Pension Scheme where 104% (male) and 83% (female) of the SAPS S1N Light (year of birth) tables have been used.
Mortality – future improvements:	CMI (2014) projections with a 1.5% p.a. long term trend.	CMI (2009) projections with a 1.5% p.a. long term trend.
Commutation	65% of HMRC maximum cash based on current commutation factors.	70% of HMRC maximum cash based on commutation factors effective from 1 April 2013.
Spouse's age	Husbands/partners in the Section are 3 years older than their wives/partners. Wives/partners in the Section are 2 years younger than their husbands/partners.	Husbands/partners in the Section are 3 years older than their wives/partners. Wives/partners in the Section are 2 years younger than their husbands/partners.

The mortality assumptions used for the 31 December 2014 valuation result in the following life expectancies for members other than former members of the Racal Group Executive Pension Plan and the Racal Group Executive Manager and Senior Manager Pension Scheme. The "cohort" figures make allow for future mortality improvements as per the table on the previous page whereas the "period" figures do not. This information may be useful to the Trustees when completing the annual scheme return.

	Cohort	Period
Life expectancy for a male aged 65 now	22.7	20.6
Life expectancy at 65 for a male aged 45 now	24.8	n/a
Life expectancy for a female aged 65 now	24.6	22.3
Life expectancy at 65 for a female aged 45 now	26.9	n/a

These assumptions have been selected by the Trustees to reflect their funding objective, after reaching agreement with the Employer. In setting the assumptions, the Trustees have assumed that the Section is ongoing (it is not in the process of being wound up).

In particular, the assumptions allow for future CARE revaluation increases for active members. The Trustees' stated funding objective (which has also been agreed with the Employer) is to reach a position where the assets are sufficient to fully cover the technical provisions by 31 December 2028.

ASSUMPTIONS USED TO CALCULATE THE RECOVERY PLAN

The contributions payable under the recovery plan will be calculated using the same assumptions as those used to calculate the technical provisions, except that asset returns are assumed to exceed the technical provisions assumptions by 50% of the difference between best estimate returns and the returns assumed in calculating the technical provisions. At the valuation date this was 0.65% p.a.

ASSUMPTIONS USED TO CALCULATE THE WIND-UP POSITION

The wind-up position looks at the Section's funding on the assumption that it had been discontinued on the valuation date and the benefits bought out with an insurance company. In doing this, it is assumed that no further benefits accrue, no further contributions are paid and active members are entitled to benefits on the basis they had left service on the valuation date. There is no allowance for any discretionary benefits being paid in the future.

The wind-up position has been estimated using Mercer's experience of recent buyout quotations and our understanding of the factors affecting this market.

Detailed analysis of the reserves that would need to be held by an insurance company has not been carried out. Consideration has been given to the market terms for the financial instruments in which insurance companies would be expected to invest. An approximate allowance has been made for the reserves an insurance company would maintain to cover the risks involved and the statutory reserving requirements. The results are, therefore, only a guide to the wind-up position and should not be taken as a quotation. Market changes, both in interest rates and in supply and demand for buyout business, mean that if a buyout ultimately proceeds, actual quotations may differ.

The wind-up funding level is only an estimate since it is not based on an actual quotation. The true position could only be established by obtaining quotations in the buyout market.

The tables below set out the assumptions used to assess the funding level in the event of the Section being wound up. The assumptions used at 31 December 2011 are also shown for comparison.

Financial assumptions	31 December 2014	31 December 2011
Discount rate:		
Non-pensioners (Pre-retirement,:<15 yrs/>15 yrs)	2.70% p.a./2.00% p.a.	3.50% p.a.
Non pensioners (Post retirement)	2.20% p.a.	3.70% p.a. (Actives)/3.50% p.a. (Deferred)
Pensioners	2.20% p.a.	3.30% p.a.
Deferred revaluation	3.00% p.a.	3.30% p.a.
Pension increases:		
LPI (5% maximum) Non pensioners/Pensioners	3.80% p.a./3.10% p.a.	3.90% p.a./3.30% p.a.
LPI (2.5% maximum) Non Pensioners/Pensioners	2.40% p.a./2.30% p.a.	2.40% p.a./2.40% p.a.
Expense allowance	1.40% of liabilities	2.00% of liabilities

Demographic assumptions	31 December 2014	31 December 2011
Retirement	Earliest age at which member can elect to take each tranche of benefits without actuarial reduction.	Earliest age at which member can elect to take each tranche of benefits without actuarial reduction.
Mortality – base table	SAPS S2P (year of birth) tables with adjustments of 101% (males) and 103% (females) SAPS S2P Light (year of birth) tables for former members of the Racal Group Executive Pension Plan and the Racal Group Executive Manager and Senior Manager Pension Scheme with adjustments of 99% (males) and 78% (females).	SAPS S1N tables using year of birth and adjusted by a loading of 97% males and 102% females except former members of the Racal Group Executive Pension Plan and the Racal Group Executive Manager and Senior Manager Pension Scheme where 99% (males) and 78% (females) of the SAPS S1N Light (year of birth) tables have been used.
Mortality – future improvements:	CMI (2014) projections with a 2% p.a. for males/1.5% p.a. for females long term trend.	CMI (2009) projections with 2% p.a. males and 1.5% p.a. females long term trend.
Commutation	No Allowance.	No Allowance.
Proportion married	90% males/80% females.	90% males/80% females.
Spouse's age	Husbands/partners in the Section are 3 years older than their wives/partners. Wives/partners in the Section are 2 years younger than their husbands/partners.	Husbands/partners in the Section are 3 years older than their wives/partners. Wives/partners in the Section are 2 years younger than their husbands/partners.

As the Trustees' current investment policy includes investment in different assets than would typically be held by an insurer, the wind-up position on a given date may be significantly different from the position estimated at the valuation date.

B

SUMMARY MEMBERSHIP DATA

The membership data is summarised in the table, with figures at the previous valuation shown for comparison.

Data in relation to members of the Section were supplied by the Trustees, via the Section's administrator Equiniti Pension Solutions. The accuracy of the data provided has been relied on. While reasonableness checks on the data have been carried out, they do not guarantee the completeness or the accuracy of the data. Consequently Mercer does not accept any liability in respect of its advice where it has relied on data that is incomplete or inaccurate.

Actives members detailed below exclude some in service members who do not accrue post 31 December 2007 CARE benefits but receive active member revaluations on their accrued pensions as long as they remain in service.

	31 December 2014	31 December 2011
Active members		
Number	971	1,342
Total CARE Salaries (£000s p.a.)	49,007	61,498
Average CARE Salary (£ p.a.)	50,471	45,825
Average age	52.10	50.3
Average past service	20.5	18.0
Deferred pensioners		
Number	5,535	6,041
Total deferred pensions revalued to valuation date (£000s p.a.)	27,102	26,315
Average deferred pension (£ p.a.)	4,896	4,356
Average age	52.9	51.3
Pensioners		
Number	7,380	7,122
Total pensions payable (£000s p.a.)	62,099	53,095
Average pension (£ p.a.)	8,414	7,455
Average age	73.8	72.6

C
ASSETS

The market value of the Section's invested assets was £1,577,241,000 on the valuation date (excluding AVCs).

The Trustees' investment strategy is to proportion the Section's assets by asset class as shown in the table below. The actual distribution of assets will vary over time due to changes in financial markets. The table also shows the distribution of assets at the valuation date.

The Trustees also hold annuity policies, the proceeds of which are paid in to the Trustees' bank account and used to fund pension payments. The value of this income stream has been included in the value the asset shown in sections 2 and 5.

The Trustees also hold additional voluntary contributions (AVCs), which are separately invested, and group life insurance policies which insure the lump sum death-in service benefits and spouses'/dependants' death-in service pensions. These assets have been excluded from the market value shown as they exactly match the value of the benefits they cover.

	Investment strategy	Actual market value of assets at 31 December 2014	
	%	£m	%
Gilts	16	245.9	15.6
Equities	32	557.4	35.3
Illiquids	13	107.3	6.8
Liquid Alternatives	11	156.8	10.0
Derivatives		5.2	0.3
Investment Grade credit	28	494.1	31.3
Cash deposits		3.1	0.2
Net current assets/(liabilities)		7.6	0.5
Total	100	1577.2	100

The details of the assets at the valuation date and the financial transactions during the inter-valuation period have been obtained from the audited accounts for the Section.

D
BENEFIT SUMMARY

The benefits valued are as set out in the benefit summary provided to the Trustees dated 16 May 2012. This broadly reflects the benefits communicated to members via membership booklets, announcements and correspondence outlining special terms where applicable.

The benefits that will emerge from AVCs paid by members have been excluded from the valuation, as have the corresponding assets, since the value of these liabilities is exactly matched by these assets.

E
SUMMARY OF PPF BENEFITS

If the Scheme winds up when the Employer is insolvent, its members may be eligible for compensation from the Pension Protection Fund. Normally, a scheme's assets and liabilities would only transfer to the PPF if the assets were insufficient to buy out the benefits provided by the PPF. The compensation that the PPF could provide would be broadly 100% of the pension in payment for members over pension age and 90% of a capped amount of the pension built up for members under pension age. Under the current PPF provisions:

- Pensions in payment will be increased annually, at the lower of 2.5% and the change in the Consumer Price Index (CPI), in respect of service after 5 April 1997 only. Pensions accrued before April 1997 are not increased.

- Benefits in deferment are revalued in line with the scheme's rules for any period between the member's exit and the scheme's entry into the PPF. With limited exceptions, revaluation between the entry date and the member's normal pension age will be in line with increases in the CPI subject to a maximum of 5% per annum compounded over the revaluation period in respect of service pre-6 April 2009, and CPI subject to a maximum of 2.5% per annum for service post-5 April 2009.

- With limited exceptions, spouses' pensions will be 50% of members' PPF compensation.

- The pensions of members aged less than their scheme's normal pension age when the scheme enters the PPF will be capped. The cap depends on the member's age when the pension is paid and is increased from time to time. For example, in 2015/16 the cap is £36,401 at age 65 – so, the maximum amount of compensation for members retiring at their normal pension age of 65 will be 90% of this, £32,761 per annum.

- The PPF does not cover defined contribution benefits and these would be bought out separately with an insurer.

F

CERTIFICATE OF TECHNICAL PROVISIONS

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

Calculation of technical provisions

I certify that, in my opinion, the calculation of the section's technical provisions as at 31 December 2014 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 16 September 2016.

Signature	
Name	Mark Condron
Date of signing	16 September 2016
Name of employer	Mercer Limited
Address	Tower Place London EC3R 5BU
Qualification	Fellow of the Institute and Faculty of Actuaries

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