

**SCHEME FUNDING REPORT OF THE ACTUARIAL
VALUATION AS AT 31 DECEMBER 2011
THALES UK PENSION SCHEME - SECTION 1
APRIL 2013**



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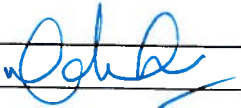
Introduction

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 2011 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

30 April 2013

Scheme Actuary

Mark Condrón

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

2.1. Past service funding position

The table on the right compares the assets and liabilities of the Section at 31 December 2011. Figures are also shown for the last valuation as at 31 December 2008 for comparison.

The table shows that as at 31 December 2011 there was a shortfall of £722 million. An alternative way of expressing the position is that the Section's assets were sufficient to cover 64% of its liabilities – this percentage is known as the funding level of the Section.

At the previous valuation at 31 December 2008 the shortfall was £527 million, equivalent to a funding level of 64%. The key reasons for the changes between the two valuations are considered in 3.2.

The liability value at 31 December 2011 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 additional support provided by the UK parent company and the French parent of that company, having agreed the approach with the Employer. Terms of this additional support are formally documented. 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.

	£ million	
	31 December 2011	31 December 2008
Total assets	1,266	956
Liabilities:		
Active members	437	321
Deferred pensioners	523	369
Pensioners	1,028	793
Total liabilities	1,988	1,483
Past service surplus / (shortfall)	(722)	(527)
Funding level	64%	64%

2.2. Correcting the shortfall

The Trustees and Employer have agreed a plan to pay off the shortfall of £722 million which requires the Employer to make the following payments.

Date	Payments
Up to 31 December 2028	£44 million p.a.

These shortfall contributions will be guaranteed by the UK parent company, Thales Holdings UK Plc, up to an initial amount of £722 million, reducing over time. This guarantee will be partly underpinned by a guarantee from the parent company, Thales SA, at an initial level of £619 million, also reducing over time. These guarantees have been agreed and will be formalised shortly.

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

2.3. Future service contributions

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

The table on the right gives a breakdown of the future service cost at 31 December 2011 and also shows the cost at 31 December 2008 for comparison. In addition to the cost of benefit accrual, the Section incurs costs related to ongoing administration and insurance premiums in respect of death in service benefits. Active members pay contributions (by salary sacrifice in most cases) to the Section as a condition of membership, at an average rate of 6.3% of CARE Salary. They are therefore deducted from the future service rate to calculate the Employer's future service contribution rate.

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

	% of CARE Salaries	
	31 December 2011	31 December 2008
Cost of pension benefits	19.3	15.0
Death benefits	1.7	1.7
Expenses	3.0	1.5
Total	24.0	18.2
Less (notional) members' contributions	(6.3)	(6.3)
Employer future service contribution rate	17.7	11.9

2.4. Additional contribution commitment

The required contributions will be reviewed at each valuation and increased/reduced as appropriate so as to continue to target correction of any remaining deficit. However, notwithstanding any changes to contributions that may be agreed as part of this process, the Trustees and the Employer have agreed that the contributions payable from 1 January 2015 and 1 January 2018 will be adjusted as set out below.

At the 31 December 2014 actuarial valuation, the Section's technical provisions deficit will be calculated as set out in the statement of funding principles dated 30 April 2013, updated for investment conditions. This will be compared to a deficit figure of £622 million, which is the projected 31 December 2014 deficit based on the assumptions set out in Appendix A. If this difference ("the 2014 Underperformance") exceeds £39 million, an additional contribution shall become payable by the Employer ("the 2014 Additional Contribution").

The 2014 Additional Contribution shall be payable in 14 equal annual instalments (effective from 1 January 2015) of an amount (as determined by the Scheme Actuary) required to eradicate the 2014 Underperformance (up to a maximum of £117 million).

Furthermore, at the 31 December 2017 actuarial valuation, the Section's technical provisions deficit will be calculated as set out in the statement of funding principles dated 30 April 2013 or, if the technical provisions deficit as at the 31 December 2014 valuation exceeded £622 million, the statement of funding principles effective for the 31 December 2014 valuation, updated for investment conditions. This will be compared to the expected 31 December 2017 deficit projected from the 31 December 2011 or the 31 December 2014 valuation respectively. If this difference ("the 2017 Underperformance") exceeds £39 million, an additional contribution may become payable by the Employer ("the 2017 Additional Contribution").

The 2017 Additional Contribution shall be payable in 11 equal annual instalments (effective from 1 January 2018) of an amount (as determined by the Scheme Actuary) required to eradicate the 2017 Underperformance.

Each annual instalment of the 2017 Additional Contribution, when added to each annual instalment of the 2014 Additional Contribution, shall not be more than £17.4 million.

The 2014 Additional Contribution will cease with effect from 31 December 2017 if the Section's technical provisions deficit as at 31 December 2017 is less than £500 million.

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Experience since last valuation

3.1. Summary of key inter-valuation experience

The last actuarial valuation was carried out with an effective date of 31 December 2008. Since the last valuation, the following significant events have occurred:

- Following a change to the statutory index, the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI) is now used for revaluation in deferment. Increases to pensions in payment are largely unaffected by this change.
- Pensions in payment, pensions in deferment, accrued pensions of active members and CARE Salaries were increased/revalued as guaranteed under the Rules of the Scheme.
- Take up of the cash commutation option was significantly less than the maximum cash available.
- During the inter-valuation period, the investment return on the Section's assets has been 10.1% 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.

Date	Employer contributions*
31 December 2008 to 31 December 2009	£56.4m
31 December 2009 to 31 December 2010	£56.2m
31 December 2010 to 31 December 2011	£55.9m

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

3.2. Reasons for the change in funding position since the last actuarial valuation

As noted in 2.1, the shortfall at the last valuation date was £527 million. The table below sets out the main reasons for the change in the shortfall between 31 December 2008 and 31 December 2011.

	£ m
Shortfall at 31 December 2008	(527)
Expected interest on shortfall	(87)
Higher than expected investment returns	163
Employer contributions in excess of cost of benefits built up over inter-valuation period	139
Other experience	(24)
Change in financial assumptions	(294)
Change in cash commutation factors and take-up assumptions	(55)
Allowance for improved life expectancy	(37)
Shortfall at 31 December 2011	(722)

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Projected future funding level and volatility

4.1. 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 2014. 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 2014 would be £622 million, equivalent to a funding level of 70%.

4.2. 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.
 - Guarantees have been agreed so that, if the Employer cannot meet future deficit contributions, these amounts (up to defined limits) will be paid by the UK parent company or the French parent of that company (see 2.1).
- 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 gilt yields 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 will automatically be triggered at 31 December 2014 and 31 December 2017 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 Scheme’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.

4.3. 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 in 4.1.

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 2011 would have differed given small changes in the key assumptions.

Date	Change in liabilities at 31 December 2011 (£ m)
Initial technical provisions	1,988
Post-retirement investment return is 0.25% lower than assumed	+67
Long-term CPI inflation is 0.25% higher than assumed	+16
Long-term RPI inflation is 0.25% higher than assumed	+35
Commutation take-up plus 10%	-10

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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 on the right shows an estimate of the funding level of the Section at 31 December 2011 assuming all benefits were bought out with an insurer. The wind-up position at 31 December 2008 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.

As the table shows, the Section would have had a shortfall of £1,423 million if it had been wound up at 31 December 2011. 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 underlying the agreed recovery plan, and contributions are paid at the agreed rates or amounts, the shortfall at 31 December 2014 on a wind-up basis would be £1,340 million, equivalent to a funding level of 51%.

	£ m	
	31 December 2011	31 December 2008
Total assets	1,266	956
Liabilities:		
Active members	652	588
Deferred pensioners	819	695
Pensioners	1,165	946
Expenses	53	45
Total liabilities	2,689	2,274
Past service surplus / (shortfall)	(1,423)	(1,318)
Funding level	47%	42%

APPENDIX A

Assumptions

A.1. 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 it is important and how it impacts on the liabilities
Discount rate	<p>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”.</p> <p>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.</p> <p>A prudent approach is to invest the funds held in respect of retired members in lower risk assets (which therefore have a lower expected return) than those held for members who are still some way from retirement. Therefore, the discount rate assumption is split into pre and post-retirement rates (with pre-retirement being higher).</p>
Inflation	<p>Certain pensions in payment increase in line with price inflation, typically 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.</p>
Life expectancy	<p>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.</p>

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 be 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.

A.2. 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 2008 actuarial valuation.

Financial assumptions	31 December 2011	31 December 2008
Discount rate:		
Pre-retirement	5.0% p.a.	5.8% p.a.
Post-retirement	3.9% p.a.	4.8% p.a.
Price inflation (RPI)	3.0% p.a.	2.7% p.a.
Price inflation (CPI)	2.3% p.a.	n/a
Salary increases	3.5% p.a.	3.7% p.a.
Deferred revaluation	2.3% p.a.	2.7% p.a.
Pension increases in payment:		
RPI with a minimum of 0% and a maximum of 5%	2.8% p.a.	2.6% p.a.
RPI with a minimum of 0% and a maximum of 2.5%	2.2% p.a.	2.1% p.a.

Demographic assumptions	31 December 2011	31 December 2008
Retirement	Benefits accrual prior to 1 January 2008 has been valued at the Normal Retirement Age under the member's former scheme.	Benefits accrual prior to 1 January 2008 has been valued at the Normal Retirement Age under the member's former scheme.
	Benefit accrual after 31 December 2007 has been valued using a Normal Retirement Age of 65.	Benefit accrual after 31 December 2007 has been valued using a Normal Retirement Age of 65.
Mortality – base table	SAPS Normal 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 Manager and Senior Manager Pension Scheme where 104% (males) and 83% (females) of the SAPS Light (year of birth) tables have been used.	SAPS Normal tables using year of birth and adjusted by a loading of 93% (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 97% (males) and 84% (females) of the SAPS Light (year of birth) tables have been used.
Mortality – future improvements:	CMI (2009) projections with a 1.5% per annum long term trend.	Medium cohort projections with 0.75% minimum improvement per annum (starting from 2003).
Commutation	70% of HMRC maximum cash based on updated commutation factors effective from 1 April 2013.	Maximum permissible under HMRC Rules based on current commutation factors.

The mortality assumptions used for the 31 December 2011 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. This information may be useful to the Trustees when completing the annual scheme return.

	Cohort	Period
Life expectancy for a male aged 65 now	22.3	20.0
Life expectancy at 65 for a male aged 45 now	24.5	n/a
Life expectancy for a female aged 65 now	24.2	21.8
Life expectancy at 65 for a female aged 45 now	26.6	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.

A.3. Assumptions used to calculate the recovery plan contributions

The contributions payable under the recovery plan will be calculated using the same assumptions as those used to calculate the technical provisions, with the exception of the following during the period of the recovery plan:

Future gilt yields

The yields available on UK Government conventional and index-linked gilt stocks will increase by 0.3% p.a. at all durations, with the impact spread linearly between 31 December 2011 and 31 December 2017.

Investment return on existing assets and future contributions

Equities and other return-seeking assets will initially return 6.0% p.a., increasing to 6.3% p.a. linearly between 31 December 2011 and 31 December 2017.

Gilt returns will be in line with the notional portfolio composed of UK Government conventional gilt stocks referred to above, initially yielding 3.0% p.a. as at 31 December 2011.

Corporate bonds will return 4.7% p.a.

Asset allocation

Section assets are assumed to be allocated as follows at the beginning and the end of the recovery period.

	31 December 2011	31 December 2028
Return seeking assets	54%	40%
Gilts	16%	21%
Corporate bonds	30%	39%

The asset allocations are assumed to change linearly between these dates.

A.4. 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 completing a buyout.

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 2008 are also shown for comparison.

Financial assumptions	31 December 2011	31 December 2008
Discount rate:		
Non-pensioners (pre-retirement)	3.5% p.a.	3.7% p.a.
Non-pensioners (post-retirement)	3.7% p.a. actives / 3.5% p.a. deferreds	3.8% p.a.
Pensioners	3.3% p.a.	4.0% p.a.
Pension increases:		
– LPI (5% maximum) Non pensioners / pensioners	3.9% p.a. / 3.3% p.a.	3.2% p.a. / 2.9% p.a.
– LPI (2.5% maximum) Non pensioners / pensioners	2.4% p.a. / 2.4% p.a.	2.3% p.a. / 2.0% p.a.
Expense allowance	2.0% of liabilities	2.0% of liabilities

Demographic assumptions	31 December 2011	31 December 2008
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 Normal 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 Light (year of birth) tables have been used	PA92 tables using year of birth
Mortality – future improvements:	CMI (2009) projections with 2% (males) and 1.5% (females) per annum long term trend	Medium cohort projections with 1.5% (males) and 1% (females) minimum improvement per annum starting from 2007
Commutation	No allowance	No allowance
Proportion married	90% (males) 80% (females)	90% (males) 80% (females)
Spouse's age	Husbands are 3 years older than their Wives. Wives are 2 years younger than their husbands	Wives are 3 years younger than their husbands

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.

APPENDIX 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 Scheme's administrator Equiniti Paymaster Ltd. 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 opposite exclude 83 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 2011	31 December 2008
Active members		
Number	1,342	1,704
Total CARE Salaries (£000s p.a.)	61,498	72,611
Average CARE Salary (£ p.a.)	45,825	42,612
Average age	50.3	47.9
Average past service (years)	18.0	15.0
Deferred pensioners		
Number	6,041	6,774
Total deferred pensions revalued to valuation date (£000s p.a.)	26,315	26,122
Average deferred pension (£ p.a.)	4,356	3,856
Average age	51.3	49.5
Pensioners		
Number	7,122	6,818
Total pensions payable (£000s p.a.)	53,095	43,934
Average pension (£ p.a.)	7,455	6,444
Average age	72.6	71.4

APPENDIX C

Assets

The market value of the Section's assets was £1,266,215,000 on the valuation date (excluding additional voluntary contributions (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 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.

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 Scheme.

	Actual market value of assets at 31 December 2011	
	£ m	%
Fixed gilts	299.4	24
Corporate bonds	388.7	31
Equities	423.5	33
Cash and Alternative Investments	142.4	11
Net current assets/(liabilities)	12.2	1
Total	1,266.2	100.0

APPENDIX D

Benefit summary

The benefits valued are as set out in the benefit summary provided to the Trustees on 16 May 2012, which was subsequently confirmed as being correct. 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 and the pensions being paid by insurers have been excluded from the valuation, as have the corresponding assets, since the value of these liabilities is exactly matched by these assets.

APPENDIX 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. 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.
- Where scheme rules do not provide for revaluation in respect of a period of service, then no revaluation will be provided under the PPF in respect of that service.
- 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 2011/12 the cap is £33,219 at age 65 – so, the maximum amount of compensation for members retiring at their normal pension age of 65 will be 90% of this, £29,897 per annum.

APPENDIX 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 2011 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 April 2013.

Signature



Name

Mark Condrón

Date of signing

30 April 2013

Name of employer

Mercer Limited

Address

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Qualification

Fellow of the Institute and Faculty of Actuaries

- Based on the PPF benefits, and the financial and demographic assumptions prescribed by the PPF, the Section is estimated to be 67% funded at the valuation date.



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