

**ALVIS PENSION SCHEME (“THE SCHEME”)
SUMMARY OF FREQUENTLY ASKED QUESTIONS**

This Summary should be used as a guideline only. Every care has been taken to ensure that it is accurate, but it is subject to changes and to the Scheme’s Trust Deed and Rules which provide the legal basis of the Scheme and with override any provisions of this summary with which they are inconsistent.

Please refer to the pensions web site at www.baesystemspensions.com for further information.

Q) Are there any immediate plans to merge the Scheme with any of the other BAE Systems pension schemes?

A) No. However, matters such as this are kept under review and, if it makes sense for the Company, the Scheme and the members, it is something that may be considered in future.

Q) What does the Company gain from members participating in SMART?

A) The savings allow the Company to pay more money into the Scheme.

The Company’s National Insurance Savings from SMART, currently 2% of your earnings for the purposes of calculating National Insurance Contributions, are paid into the relevant pension schemes, including the Alvis Pension Scheme. This means that the more people who participate in SMART, the more the Company pays into the employees’ schemes to safeguard their future.

Q) What is the Company’s contribution rate?

A) The Company meets the balance of the costs for the Scheme.

In addition, all Scheme expenses are paid by the Company by way of an adjustment to the Company’s contribution to the Scheme.

For example:

For members who have opted to participate in SMART pensions (from 1 October 2011)

19.7% of Pensionable Pay for staff members who have opted for 80ths accrual (7.29% employee contribution)

21.7% of Pensionable Pay for staff members who have opted for 60ths accrual (9.29% employee contribution)

In addition, the Company also pays an annual contribution of £7.5million each 5th April for 13 years until 5 April 2024.

N.B. Pensionable Pay is defined as your basic annual salary from time to time excluding all fluctuating emoluments such as, but not exclusively, first aid allowance, temporary supervisory allowance, commission, welder’s allowance, shift payments, overtime payments and bonus payments.

Q) Can I change my pension contribution level?

A) There are two employee contribution levels - 7.29% and 9.29% of Pensionable Salary which provide a 1/80th or 1/60th rate of pension accrual respectively.

You may choose to change your pension level each April provided that you give written notification at least one month in advance. Forms to make this change are available on the pensions website – www.baesystemspensions.com, or from the Scheme Administrators, Aon Hewitt.

Q) Can I transfer in benefits from other pension arrangements?

A) You can transfer in benefits from other pension arrangements any time before your 65th birthday.

Any transfer amount will be invested in your choice of any of the AVC funds that are being offered by the Trustees at the time the transfer is received.

Please note that only contracted-in elements of any benefits from your previous pension arrangement(s) may be transferred-in. The Scheme cannot accept any contracted-out pension benefits and so will be unable to accept any Guaranteed Minimum Pension or Protected Rights and will only accept benefits on an equalised basis.

If you are interested in transferring benefits into the Scheme, please contact Aon Hewitt, the Scheme's administrators, whose contact details can be found at the end of this document.

Q) How will the Scheme be funded now that it is closed to new entrants?

A) The Company continues to pay contributions. The existing members will continue to pay contributions to the Scheme, some of whom will be many years away from their Normal Retirement Date. The investment returns achieved by the Scheme's assets will also contribute towards the funding of the Scheme.

Retirement

Q) How is my Scheme Pension Calculated?

A) Your Scheme Pension is calculated based on your Final Pensionable Salary, Pensionable Service and chosen accrual rate(s) (1/60th or 1/80th) over your period of membership.

Further details of this calculation are shown in the Scheme Booklet – 'A guide to your benefits' and the **Early Retirement Guide** available on the pension website at www.baesystemspensions.com.

Q) What is the earliest date I can retire?

A) Your Normal Retirement Date under the Scheme is your 65th birthday.

If you are aged 55 or over you can ask to retire at any time and you will be able to draw your pension from the Scheme, provided the Company and the Trustee agrees. You will receive a pension calculated in the same way as at Normal Retirement Date based on Final Pensionable Pay and Pensionable Service at the time you actually retire, but this pension will be actuarially reduced to allow for the longer period for which it will be paid.

Further details of the reduction factors applied are included in the **Early Retirement Guide** which is available on pension website at www.baesystemspensions.com.

Q) What are the current Early Retirement Factors (ERFs) and Longevity Adjustment Factors (LAFs)? Are they likely to change? Are they different for actives and deferred members?

A) These factors, which apply in the calculation of Scheme benefits, may change from time to time. Details of the factors and how they are used in calculations are included in the **Early Retirement Guide** which is available on the pension website at www.baesystemspensions.com.

These factors should be used with extreme caution as the factors which apply in the calculation of your Scheme benefits may be different from those shown in the Early Retirement Guide as they change from time to time. As part of the funding valuation carried out by the Scheme Actuary every three years, a review takes place to check whether the current actuarial factors (including ERFs and cash commutation factors) continue to be appropriate. The most recent review of the actuarial factors, carried out in 2010, has been

agreed by the Trustee and the Company, following advice the Trustee has received from the Scheme Actuary. The Trustee has implemented the Scheme Actuary's recommended factors, which are different for retirements from service or deferred.

The Longevity Adjustment Factors (LAFs) are reviewed on an annual basis.

If you are considering early retirement, you should speak to your local Human Resources department in the first instance, so that they may obtain a retirement quotation from the Scheme administrators, Aon Hewitt. This quotation will be based on your own particular circumstances and the actuarial factors in force at that time.

Q) Can I take a tax-free lump sum?

- A) You will receive two options in your retirement quotation, to either;
- Receive a pension or
 - Receive a tax-free lump sum and a smaller pension.

The lump sum normally quoted is the maximum allowable by HM Revenue and Customs (HMRC) and is broadly 25% of the value of your pension. If you would like to receive a smaller lump sum to increase your pension, then please ask the Scheme administrators, Aon Hewitt, for a revised quotation.

Q) How and when is my pension paid?

- A) Your pension will be paid via BACS in advance on the 6th working day of each calendar month directly to your chosen bank or building society account.

Final pension benefits can not be calculated until after Aon Hewitt has received your last month's pay and contribution details. It may take three to four weeks after leaving to receive final pay details. Therefore there can be a delay of six to eight weeks from your date of leaving the Company to the date that your pension benefits are actually paid.

Q) How is my tax-free cash lump sum paid?

- A) Any tax-free cash lump sum you opt to take at retirement will be paid directly via BACS into your chosen bank or building society account.

Tax-free cash lump sums cannot be paid until after your final pension benefits have been calculated (please see above).

Q) Will I pay tax on my pension scheme benefits?

- A) Income Tax will be deducted at source from your monthly pension on a PAYE basis, using a tax code that is notified to us by HMRC.

Please note that if you retire immediately upon leaving the Company you will not receive a P45, as this will be sent to the HMRC office that is responsible for paying the Scheme's pensions.

As stated above you will receive the option of taking a lump sum at retirement which is free from tax, as long as it does not exceed the maximum allowable by HMRC.

Further information regarding the taxation of your Scheme benefits and the maximum tax-relieved benefits allowed by HMRC can be found in the Scheme booklet 'A guide to your benefits' which is available on the pensions website – www.baesystemspensions.com.

Q) Can I use my Severance Payment to provide additional benefits in my pension scheme?

- A) Yes - you have the option to use all or part of your severance to provide additional benefits in the Scheme, subject to HMRC regulations.

Currently, any severance payment over £30,000 is subject to tax. If the taxable element of severance is paid into a pension scheme as an Additional Voluntary Contribution (AVC), the AVC receives tax relief provided your total "pension input" (total contributions paid to any defined contribution pension scheme(s), together with the calculated value of the benefits built up in any defined benefit pension scheme) does not exceed the "Annual Allowance". It is possible to pay all of a severance payment into a pension scheme, however as the first £30,000 of a severance payment is currently received free of tax, typically members consider paying the taxable element of their severance pay as an AVC into their pension scheme. Scheme rules may also restrict the amount of contributions which can be paid.

The Annual Allowance is the tax-free limit on the amount of pension that an individual can build up during each tax year in a pension scheme registered with HMRC. Further information can be found in the Scheme Booklet 'A guide to your benefits' which is available on the pension website at www.baesystemspensions.com.

Q) How do I use part of my Severance Payment to provide additional benefits?

- A) Once the business has confirmed to Xchanging HR Services (XHRS) that you will be leaving the Company, paperwork will be issued that requires your attention. AVC forms should be completed and returned at this stage, but in any event no later than 20th of the month prior to the month you leave the Company.

For example, if your leaving date is 31st July, the form must be received by the XHRS Exit Team by 20th June. This will ensure that the AVC can be deducted in the month which you receive your final month's pay. If you miss the above deadline you will not be able to pay an AVC from your severance pay. There is no flexibility on this deadline.

Q) How is my Final Pensionable Salary Calculated?

- A) For service prior to 6 April 2011 Final Pensionable Salary is the highest Pensionable Salary in any Scheme Year (6 April to 5 April each year) in the previous five Scheme Years before the earliest of your Normal Retirement Date or the date that your membership of the Alvis Pension Scheme ceases.

For service after 5 April 2011 Final Pensionable Salary is the average of your Pensionable Salary over the 36 months in the previous three Scheme years before the earliest of your Normal Retirement Date, or the date that your membership of the Alvis Pension Scheme ceases if earlier.

Pensionable Salary is your average annual basic Salary from time to time excluding all "fluctuating emoluments", such as (but not limited to); first aid allowance, temporary supervisory allowance, commission, welder's allowance, shift payments, overtime payments and bonus payments.

As the calculation of Final Pensionable Salary for pre 6 April 2011 service is completed using complete Scheme years (i.e. 6 April to 5 April), the calculation can be affected by the date you leave the Scheme, especially where it is just before 5 April.

For example: for a retirement in May 2011, the Pensionable Salary for the Scheme Year 6th April 2010 to 5 April 2011 would be taken into account in the calculation of Final Pensionable Salary. However, the last Pensionable Salary taken into account in the calculation of Final Pensionable Salary for a retirement in February 2011 would be the Pensionable Salary for the Scheme Year 6 April 2009 to 5 April 2010.

You may therefore wish to take this into consideration and contact your HR department or the Scheme Administrators, Aon Hewitt, if you think you might be affected by this.

Q) How is my Pensionable Service Calculated?

A) Your Pensionable Service is your actual period of membership of the Alvis Scheme in years and complete months plus any added years and months credit you have been given as a result of your transferring the value of your benefits from a previous scheme into the Alvis Pension Scheme on an added years' basis (any additional service credit was notified to you at the time of the transfer being completed and is shown on your annual benefit statement).

Q) What is the Maximum Pensionable Service allowed?

A) Before 6 April 2006, Pensionable Service was limited to a maximum of 40 years at the Scheme's Normal Retirement Date. However, since this date your Pensionable Service may exceed 40 years, for example if you have a large transfer-in on an added years basis, but your Scheme pension cannot exceed the Scheme Maximum (please see below).

Q) What is the difference between the pension benefit provided by the Scheme Pension and the Scheme maximum pension?

A) The Scheme Maximum and the Scheme Pension are different calculations.

Scheme Pension

Your Scheme Pension is calculated based on your Final Pensionable Salary, Pensionable Service (including any additional years and months granted as a result of a transfer-in) and chosen accrual rate(s) (1/60th or 1/80th) over the period of your membership. Further examples of this calculation are shown in the Scheme Booklet – 'A guide to your benefits' and the **Early Retirement Guide** which is available on the pensions website – www.baesystemspensions.com.

Scheme Maximum

The Scheme Maximum is similar to the old Inland Revenue limit, which applied before 6 April 2006.

From 6 April 2006, the Scheme Maximum has replaced the old Inland Revenue limit in the Scheme. The Scheme Maximum limits the amount of pension payable from the Scheme at retirement – it is a simplified version of the old Inland Revenue Maximum.

The Scheme Maximum that applies to the Alvis Pension Scheme is:

- 2/3rds of your Final Remuneration - less Retained Benefits in other pension schemes of which you may have been a member and transfers-in to the Alvis Pension Scheme. Any benefits arising from Additional Voluntary Contributions (AVCs) that you have paid whilst a member of the Alvis Pension Scheme are paid in addition and do not count towards the Scheme Maximum.

OR - if greater

- 1/60th of your Final Remuneration for each year of your actual Company service.

For members who have transferred in to the Alvis Pension Scheme as part of a bulk transfer following Alvis acquiring the business, Company service is determined as the date that you joined your original employing company. Any benefits arising from AVCs that you have paid whilst a member of the Alvis Pension Scheme are paid in addition and do not count towards the Scheme Maximum.

The 1/60th measure may, for some members, provide a higher Scheme Maximum than 2/3rds of Final Remuneration.

Final Remuneration for the purposes of the Scheme Maximum may be different to Pensionable Salary, as it includes any taxable bonuses which are not included in your Pensionable Salary. The Scheme Maximum can therefore be greater than 2/3rds of your Pensionable Salary.

If your Scheme Pension exceeds either of the above limits at retirement, then your benefits will be restricted to the Scheme Maximum.

Q) What will happen to my Additional Voluntary Contributions (AVCs)?

- A) There are two main AVC providers under the Scheme, Prudential and Equitable Life. Please note that Equitable Life is closed to new AVC payers; however, the information below applies to both Equitable Life and Standard Life AVCs.

If you have paid AVCs you may take your benefits from your AVC fund(s) at your date of retirement or alternatively defer them to a future date but no later than age 75. AVCs can be used towards your tax-free lump sum or they can be used to purchase an additional pension from the Scheme or an annuity with an external pension provider.

If you defer taking your AVCs until a later date, you must use them to purchase additional pension in the Scheme or purchase an external annuity and will only be able to take 25% of the AVCs value as a tax-free cash lump sum (unless the value of the AVCs were already taken into account in the calculation of the tax-free cash lump sum you took at retirement).

The pension estimates you receive from the Scheme administrators, Aon Hewitt, assume you will take your AVCs at the same time as your main Scheme benefits. Please refer to the Scheme member booklet 'A guide to your benefits' and the Prudential "Key Features" AVC booklet for more information, both of which can be found via the pensions website www.baesystemspensions.com.

Q) How are my benefits calculated if I go part-time?

- A) For any period of part-time Pensionable Service, your Scheme pension will be calculated in accordance with the following formula:

$$\text{Equivalent full-time Pensionable Salary} \times \frac{\text{Part-time working hours}}{\text{Full-time working hours}}$$

The Scheme pension in respect of any period of full-time Pensionable Service will be calculated separately and added to the Scheme pension in respect of your part-time Pensionable Service.

Leaving but not retiring

Q) What happens if I do not start to receive my pension immediately on leaving?

- A) If you are under age 55 at your date of leaving the Company, or are aged 55 or over and decide not to start to receive your pension immediately on leaving, you will become a deferred (or preserved) member of the pension scheme. Your pension will remain in the Scheme until you retire, die or decide to transfer your benefits to another pension arrangement.

Q) Can I request an early retirement pension from deferred?

- A) It is possible to request an early retirement pension from deferred status. If you are interested in applying to retire from deferred status, then you should contact the pension scheme administrator, Aon Hewitt closer to your chosen retirement date and request a quotation. Please note that the Scheme Trustees will need to consent to your early retirement application.

An pension that is paid earlier than your normal retirement age will be reduced to take into account the longer period of its payment and the Longevity Adjustment Factors in force at the

date of retirement. The reductions when retiring from deferred status may be different to the reductions that apply if you retire immediately from active service. Further information is shown in the Scheme Booklet 'A guide to your benefits' and the **Early Retirement guide**, both of which are available on the pension website at www.baesystemspensions.com.

Q) If I leave the Scheme before drawing my pension, what information will I continue to receive?

- A) The deferred pension certificate that will be sent to you by the Scheme administrators, Aon Hewitt, after you leave the Company will provide details of the amount of your pension earned to the date you left the Scheme and the increases that will be applied to your pension whilst it is deferred. It will also provide details of the option you have to transfer your deferred benefits to an alternative pension arrangement, together with details of any benefits payable from the pension scheme should you die before you retire.

By law, you must be sent an update of the Scheme's funding position each year ("the Summary Funding Statement). This will normally be communicated to you in the autumn of each year in the Scheme's newsletter, which you will also continue to receive annually.

In addition, if you pay Additional Voluntary Contributions (AVCs), you will continue to receive a statement confirming your current AVC fund value each year.

It is important that you notify the Scheme administrators of any change of address after you leave the Scheme, so that you continue to receive communications about the Scheme, and so that the administrators can contact you as you approach your Normal Retirement Date in order to pay the benefits that are due to you from the Scheme.

Please refer to the pensions website - www.baesystemspensions.com - for further information.

The Scheme's Administrators contact details are as follows:

Aon Hewitt
Netherton House
25 Marsh Street
Bristol
BS1 4AQ.

Telephone: 01179 453589

Email: alvis@aonhewitt.co.uk

If you have any queries on the above FAQs, please contact Group Pensions at:-
pensions.policy@baesystems.com

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