

MEMBER PRESENTATIONS – FEBRUARY & MARCH 2008

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

Note of the questions and answers which were discussed at the pensions presentations to Alvis Scheme members which were held in spring 2008.

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

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.

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

The savings allows 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' pension schemes to safeguard their future.

3) The valuation in 2006 showed the Scheme is in surplus. What is the surplus used for?

The results of the Scheme's funding valuation as at 5 April 2006 revealed a small surplus (a funding level of 111%) on an ongoing funding basis.

As communicated to members in the November 2007 edition of Pensions Update, the estimated amount needed to ensure that all members' benefits could have been paid in full if the Scheme had started winding up as at 5 April 2006 showed the Scheme was under-funded on this measure and had a funding level of 65.5%. Please note that this information must be provided by law to Scheme members each year and does not mean that the Company or the Trustees are thinking of winding-up the Scheme.

A small proportion of the surplus was used to grant discretionary increases to pensions in payment, where the pension was earned before April 1997 and does not normally received increases. The remainder of the surplus will serve as a buffer against adverse investment conditions between valuations.

Update

The Scheme's triennial actuarial valuation as at 5 April 2009 is now underway, including discussions between the Trustees and the Company. The results of the valuation will be communicated to you as soon as the Trustees are able to.

4) What is the Company's contribution rate?

The Company meets the balance of 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

12.5% of Pensionable Pay for staff members who have opted for 80ths accrual (5% employee contribution)

15.5% of Pensionable Pay for staff members who have opted for 60ths accrual (7% employee contribution)

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.

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

The Company continues to pay contributions – see Question 4.

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.

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

These factors, which apply in the calculation of Scheme benefits, may change from time to time. Therefore, in future, it is likely that tables of factors will not be published for exactly that reason.

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 February 2008, was 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 commutation factors. This will result in significant improvements in the commutation factors for post-1997 service.

In addition, the Trustee will implement the Scheme Actuary's recommended early retirement from deferred factors. This will result in small improvements in the factors. For the time being, the Trustee will continue with the current factors for early retirement from active.

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 Aon (the Scheme administrators). This quotation will be based on your own particular circumstances and the actuarial factors in force at that time.

Update

The Scheme's early retirement factors, and other factors, will be reviewed again by the Scheme Actuary as part of the 2009 valuation.

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

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

Any transfer amount will be invested with Prudential 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 the contracted-in element 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, the Scheme's administrators, whose contact details are below:

Aon Consulting
Netherton House
25 Marsh Street
Bristol
BS1 4AQ

Telephone: 01179 453589
Email: alvis@aon.co.uk

8) What is the earliest date I can retire?

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

If you are aged over 50 (this will be age 55 from 6 April 2010) 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 Trustees agree. You will receive a pension calculated in the same way as at Normal Retirement Date based on Final Pensionable Pay at and Pensionable Service completed to the time you actually retire, but this pension will be reduced to allow for the longer period for which it will be paid.

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

When you leave the Scheme, you will be sent a statement detailing the benefits you have accrued in the Scheme up to your date of leaving, together with details of how the pension will be increased up to your Normal Retirement Date.

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 PensionsUpdate 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 changes to your 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.

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

The Scheme Maximum and the Scheme Pension are different calculations.

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.

Scheme Pension

Your Scheme Pension is calculated based on your Final Pensionable Salary which is the highest Pensionable Salary in any Scheme 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.

Pensionable Salary is your 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.

For any Pensionable Service completed before 5 April 1997, you will have earned 1/60th of your Final Pensionable Salary for each year and complete month of Pensionable Service.

For Pensionable Service completed after 5 April 1997, the pension you receive from the Scheme at retirement depends upon whether you are paying a 5% contribution, to earn 1/80th of your Final Pensionable Salary for each year and proportionally for each complete month of Pensionable Service, or 7%, to earn 1/60th of your Final Pensionable Salary for each year and proportionally for each complete month of Pensionable Service.

Your Pensionable Service is your actual period of membership of the Alvis Scheme plus any added years and months credit you have been given as a result of you 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).

So, your total 'Pensionable Service' may exceed 40 years - for example, if you have a large transfer-in on an added years basis – and as long as your overall benefits are under the Scheme Maximum you will be able to receive your Scheme Pension in full.

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

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

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

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.

If you have any queries on the above FAQs, please contact Group Pensions at:-

pensions.policy@baesystems.com