



> THIS IS THE WAY

NORTEL

newslink

pensions newsletter



Changes to Newslink

You will have noticed some changes to Newslink with this edition as it is shorter and much more pension focussed.

It will be issued twice a year and it aims to keep members up to date with the changing face of pensions in the UK.

Newslink has undergone a transformation to make it more of an informative publication as there is much going on in the world of pensions today.

A Letter from your Chairman

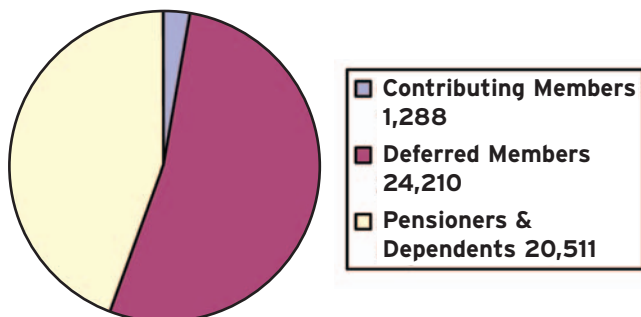
Dear Members,

I am pleased to be able to write to you again since my last letter to you in August 2005. In that letter I said that you would receive the new edition of Newslink in its new format in December 2005. Unfortunately due to various administrative difficulties and a desire to give up to date meaningful news this letter has been delayed.

Pension Plan

The Pension Plan increased from £1,380 million in April 2004 to £1,454 million at April 2005. The Plan Accounts have been available on the Pensions Web site since September 2005. (www.nortelpensions.com) These show the details of the Plan at April 2005, salient points of which are summarised here:

For the year ending 5th April 2005 the number of members contributing to the Plan fell from 1797 to 1429 with a further fall to 1288 at year end. In total the Plan now covers 46,009, employees, former employees and their dependants; the number in each group is shown below, at 31st December 2005:

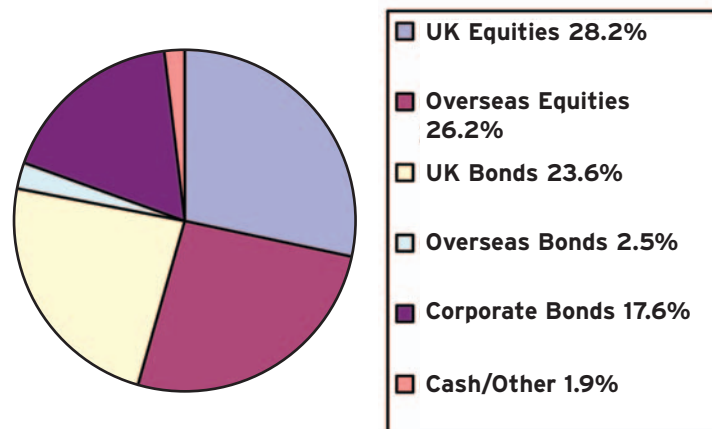


The Plan is very mature with only a small number of active members, representing less than 3% of the overall membership, actively contributing to the scheme. The remaining 97% of the membership consists of members already receiving pensions or having deferred pensions. This means that it is critical that the Trustees continue to focus their efforts on ensuring that sufficient funds are available to meet plan liabilities as and when they fall due in the future. The Trustees intend to do this by maintaining and growing the value of the Plan's investments and eliminating the funding deficit through a combination of an effective investment strategy and contributions from the company.

Investments

The Investment Committee, which is a sub-committee of the Trustee Board, met four times during the year to review the Investment Managers and monitor the investments.

The split of investments is shown below



The financial summary of the Plan is shown below;

	£m
Fund as at 6 April 2004	1,380
Total income from Contributions and Investments	88
Pensions, Fees and Expenses	92
Increase in value of investments	78
Fund at 6 April 2005	1,454

The Plan's total income from contributions and investments during 2004/5 was almost equivalent to its expenditures for that year, although the capital value of its investments fortunately increased. Throughout 2005 the Plan continued to perform well mainly due to improvements in equity markets. At the end of December the Fund stood at £1,630m, which is an increase of £250 million since April, 2004 and an increase of £176 million since April 2005.

Funding Discussions with the Company

The last formal actuarial valuation of the Fund was carried out in April 2002 although the trustees obtained interim valuations in 2003 and 2004. The latter indicated that there was a funding deficit at April 2004 of approximately £315 million, which represented an ongoing funding level of approximately 81%. The formal triennial actuarial valuation as at April 2005 is currently in process but has not yet been concluded. Preliminary indications are however that while the amount of

the deficit has increased, the ongoing funding level has not materially changed from the 81% level, because the liabilities have increased partly due to increased longevity. The basic methodology is consistent with the previous valuations. The trustees are currently in active discussion with the company on the basis of Scheme Specific Funding.

As you know, the Trustee has agreed with Nortel the payment of special company contributions of £46m for each of the plan years, 2005/2006 and 2006/2007.

In the latter part of last year the Trustee formed a Working Party led by myself to carry out negotiations with the Company on the long term funding plan. The other members are Clive Gilchrist, Iain Morgan and Hitesh Mehta.

In December 2005 the Trustee Board was pleased to meet with Peter Currie (CFO Nortel Networks Ltd), Kate Stevenson (Group Treasurer Nortel Networks Ltd) and John Poos (Global Head of Pensions Nortel Networks Ltd) as part of these negotiations.

The Working Party is continuing discussions with the Company with a view to agreeing a Statement of Funding Principles and Deficit Reduction plan which will eliminate the deficit over as short a period as Nortel can reasonably afford. The new Pension Regulator's Code of Practice requires the trustees to negotiate the level of contributions in order to achieve this. The updated actuarial valuation of the Plan which is currently underway is an integral part of this process.

In line with many other pension funds we have appointed financial advisors to support us in this work. We are grateful that Nortel will pay for this advice directly as well as paying the Pension Fund Protection levy.

Company Refinancing & Class Action Suits

Recently Nortel Networks Ltd has refinanced some of its corporate debt and is in the process of settling certain class action suits in the USA. These transactions are seen as a critical part of the Group's recovery process and as trustees we have pressed for assurance that our Pension Plan claims are in no way jeopardised.

I would like to assure members that both the Company and the trustees are committed to the challenge of solving the long term funding needs of the UK Pension Plan.

Trustee Board

I am pleased to announce that Gerry Staunton was

appointed as a Trustee Director to the Board effective December 2005. Gerry replaces Peter Newcombe and we now have a full complement of Trustees on the Board:

Kenneth Gardener	Chairman - Independent
Clive Gilchrist	Representing BESTrustees - Independent
Kathy Foster	Employer Nominated
Iain Morgan	Employer Nominated
Hitesh Mehta	Employer Nominated
Gerry Staunton	Employer Nominated
Norma Bowles	Member Nominated
Will Hern	Member Nominated
Maggie Wilson	Member Nominated

Secretary to the Trustee Board Louise Hammond

In addition I am pleased to report that Maggie Wilson passed her exam and gained her Certificate in Essential Trustee Knowledge in October 2005.

All the trustees, and particularly the newer ones, are applying themselves to training in the ever increasing challenges which trustees face in safeguarding the interests of Plan members.

The Outsourced Pensions Administrators

As you know the Trustee appointed Watson Wyatt LLP, a third party, to run the day to day administration of the Plan from August 2005. This is working well as I am sure any of you who have contacted them will know. Details of how to contact them are shown on page 4.

STOP PRESS: I understand that Watsons have just won the "Benefits Administration Provider of the Year".

Increase in Pensions

Finally, the Company and the trustees have just declared a pension increase, on the excess of pension over Guaranteed Minimum Pensions (GMP) of 2.2% for pensions for service before April 1997 and 2.7% for those pensions or portions of pension accrued after April 1997, to be applied to pensions from April 2006.

Yours sincerely



Kenneth Gardener
Chairman of Trustees

Vacancies on the Consultative Committee

We are pleased to offer you the chance to get involved with your Plan by becoming a member of the Consultative Committee. This committee provides a forum for members to put their views to the Trustees and it includes representatives elected by the membership.

What is involved?

- The Committee usually meets twice year
- Full support and training will be given to those elected.
- Travel costs within the UK are paid by Nortel.

The term of office is three years and after this you may wish to stand for re-election.

Four employee and five pensioner members complete their current term in April 2006 and may decide to stand for re-election but you are also invited to say if you are interested in becoming a committee member

If so please email Amanda King on the following email address

AKing2@nortel.com

including your name, address, telephone number, a photo and a brief CV of no more than 100 words by Friday 28th April 2006.

You will then be invited to vote by ballot by a separate mailing later in the Spring.

The current committee comprises;

Current Members

Pat Masterson
Robert Fowell
Tim Rossiter
William Hern
Patrick Maguire
Andy Stephens
Norma Bowles
Brian Edwards
Lorraine Evans
David Hind
Brian Izzard
Maureen Renouf
Alick Stevenson
Maggie Wilson

Role

Company Nominated - Chair
Employee member - Harlow
Employee member - Harlow
Deferred member - Maidenhead
Employee member - Monkstown
Employee member - Monkstown
Pensioner
Pensioner
Pensioner
Pensioner
Pensioner
Pensioner
Pensioner
Pensioner
Pensioner

Contact Details

Don't forget the new contact details of the outsourced administrators Watson Wyatt Limited

If you are **in receipt** of a pension and you have a query the contact details are as follows;

Nortel Networks UK Pension Plan
C/o Watson Wyatt Limited
PO Box 311
Redhill
Surrey
RH1 1 YH

Tel: 01737 788106
Fax: 01737 768182

Email: Nortel.Networks@eu.watsonwyatt.com

If you are **not yet receiving** your pension from the Plan the contact details are;

Nortel Networks UK Pension Plan
C/o Watson Wyatt Limited
PO Box 545
Redhill
Surrey
RH1 1 YX

Tel: 01707 607601
Fax: 01701 607563

Email: Nortel.Networks@eu.watsonwyatt.com

Please do not contact GR communications in future as all correspondence should go to the new administrators.

If you want to see latest information on the Plan eg. the Plan accounts, Committee membership etc. you can always visit the Pensions website at www.nortelpensions.com