

Nortel Networks UK Pension Plan - Member Announcement

PLEASE READ THIS ANNOUNCEMENT CAREFULLY AS IT CONTAINS VERY IMPORTANT INFORMATION ABOUT CHANGES TO YOUR NORTEL PENSION EFFECTIVE FROM JANUARY 14, 2009.

NOTE THAT THESE CHANGES WILL NOT AFFECT YOUR ENTITLEMENT TO A PENSION FROM ANY OTHER EMPLOYER OR THE UK STATE PENSION AND WILL NOT RESULT IN A REDUCTION TO ANY UK STATE BENEFITS YOU MAY BE RECEIVING.

IF YOU ARE UNCLEAR ABOUT HOW THE CONTENTS OF THIS ANNOUNCEMENT WILL AFFECT YOU, WE URGE YOU TO SEEK INDEPENDENT FINANCIAL ADVICE.

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

March 2009

Dear Member

Many of you will have read in the press about Nortel Networks UK Limited (“NNUK”) filing for **Administration** on January 14, 2009. As you will know, NNUK is the sponsor of the Nortel Networks UK Pension Plan (“Plan”) and was hence responsible, in consultation with the Trustee of the Plan, for ensuring that the Plan had sufficient funds to pay current and future pension benefits to all members of the Plan in accordance with its rules. In normal circumstances this was achieved by NNUK making regular agreed contributions to the Plan but the Administration process has caused these contributions to cease. As a result, although the Plans assets are secure, they are currently insufficient to provide members’ full pension entitlements. In these circumstances, the **Pension Protection Fund** is required to assess the Plan and, if necessary, put in place arrangements that will ensure that pensions can continue to be paid although in some cases these will be at reduced levels (details are given below).

Administration is a formal insolvency procedure in which qualified insolvency practitioners (“Administrators”) are appointed to take control of a company and run it in accordance with certain statutory objectives. The Administrators will try to rescue NNUK as a going concern but their primary obligation is to act in the best interests of all the creditors – including the Plan. Processes similar to Administration are also taking place in the USA and Canada. The Trustee, together with its legal and financial advisers, the Pensions Regulator and the Pension Protection Fund, is already taking the necessary steps to maximise the ability of the Plan to secure additional funds both in this country and North America.

The Trustees of the Plan have a duty to act in the interests of all members. In particular they will be acting on behalf of the members to get the best possible settlement for the

Plan as a result of the Administration process. There is no need for members to act on their own or collectively to secure Pension Protection Fund benefits nor is there scope under UK law for ordinary Plan members to seek an improved settlement directly from NNUK.

Members may wish to seek their own advice, but many issues are addressed on the Plan website www.nortelpensions.com or on the following Pension Protection Fund websites www.pensionprotectionfund.org.uk and www.ppfonline.org.uk

The Pension Protection Fund (“PPF”) was set up in April 2005 under the Pensions Act 2004 to protect current and former employees in a final salary pension scheme if the employer becomes insolvent. Entering Administration determines the start date for the PPF assessment process (“Assessment”).

The PPF has not yet formally decided that Assessment has commenced for the Plan since certain processes to determine eligibility have to be carried out. However, once a formal decision has been made then Assessment will be deemed to have commenced on January 14, 2009.

Due to the complexity of the Plan, Assessment could last for two years or more and the Trustee will be working closely with the PPF during the whole of this period. During Assessment the following will apply:

1. The Trustee will still run the Plan, pay permitted **PPF pension benefits** from it and administer it subject to PPF rules;
2. Watson Wyatt will continue to provide day to day payment and administration services;
3. No further contributions can be paid to the Plan and no further benefits can be built up;
4. You will not be able to transfer benefits to another Plan;
5. No ‘discretionary’ benefits will be paid – e.g. bereavement grants.

PPF pension benefit is determined as follows:

If you are a **Male aged 65 or over** or a **Female aged 60 or over** on **January 13, 2009** then PPF pension benefit is 100% which means the amount of money you currently receive as a pension will not change.

If you are receiving a **survivor’s pension** (e.g. as a spouse or partner of a former member of the Plan) OR you are in receipt of an **ill health pension** OR are in receipt of a **child pension** then PPF pension benefit is 100% which means the amount of money you currently receive as a pension will not change.

If you are covered by any of the above descriptions then skip the remainder of this paragraph and go straight to ‘Future Increases in Pension’

For all other members of the Plan the **key criteria** is whether you had reached the PPF definition of **Normal Pension Age** (“NPA”) for the Plan before commencement of the Assessment i.e. **on or before January 13, 2009**. For the vast majority of members NPA is 60 but it must be remembered that the Plan assumed responsibility for a number

of earlier pension schemes (e.g. STC, ICL) and members who left service prior to May 1990 may have a different NPA. The Trustee regrets that a definitive breakdown is not currently available but this issue will be addressed in our next update.

If you had reached NPA on or before January 13, 2009 then PPF pension benefit is 100% which means the amount of money you currently receive (or are entitled to) as a pension will not change.

If you had NOT reached NPA by January 13, 2009 then PPF pension benefit will be up to 90% of your entitlement under the Plan **but** the maximum pension you can receive is subject to an age related **cap** which is applied **either** at your age on January 13, 2009 if you were already in receipt of a pension at that date **or** at your age on the date that you actually take your pension in the future. **By way of example**, the cap is currently £27,946.52 per annum for age 60 which means the maximum pension you can receive is 90% of this figure i.e. £25,151.87. The cap sum is reviewed periodically (expected to increase by 3.5% on April 1, 2009) and is higher for ages over 60 and lower for ages under 60. Further reductions will also apply in respect of any lump sum or early retirement considerations. As you may appreciate, the calculation is complex but, as noted below, members will be notified personally if an immediate reduction in pension must be made.

It is also worth noting that if you are **already in receipt of your pension** and part of that pension arises from the use of an **externally invested** Additional Voluntary Contribution (“AVC”) fund then that part will be excluded from PPF cap calculations and will continue to be paid in accordance with Plan rules. The same will also apply to any redundancy amounts which you put into the Plan **provided** that you took your pension at the same time as you were made redundant. This interpretation of the AVC and redundancy situation is based on guidance by the PPF and the current understanding of the legal position but some caution must be exercised since there remains uncertainty which may be clarified by further cases later this year.

If you are **not already in receipt of your pension** then AVC sums cannot now be used to buy benefits in the Plan and you will have to purchase benefits from an external provider.

Future Increases in Pension

There will be no increases to **pensions in payment** except in respect of Retail Price Index (“RPI”) inflation for that part of pensionable service accrued from April 1997 onwards – subject to a maximum of 2.5% per annum.

If your pension includes an amount which resulted from the use of an AVC or redundancy element as described above then you will continue to receive inflation increases on this amount in accordance with Plan rules i.e. RPI subject to a maximum increase of 3% per annum.

Pensions in deferment will increase by RPI subject to a maximum increase of 5% per annum but when pension is eventually taken it will be subject to the 90% factor and the cap applicable for your age at that time.

Future Survivor's Pension

If you are a member currently in receipt of a pension then you will recall that when you retired you were offered the choice of a 'full pension' or a 'lump sum' payment and a 'reduced pension'. On your death, under Plan rules, your spouse or partner would have been entitled to a survivor's pension based on up to 50% of your 'full pension' level even if you had elected to take a 'lump sum' and 'reduced pension'. This is not the case under PPF rules where the survivor's pension benefit will be 50% of the member's pension at the time of his/her death.

When will the changes to pension take effect

It will be clear from the above summary of pension benefits that some members who are below NPA will currently be receiving pension payments that are in excess of those allowed by the PPF. The Trustee is obliged by law to reduce pension payments to PPF levels during the Assessment and to make this change as quickly as possible and backdate it to January 14, 2009. Watson Wyatt have considerable work to do to effect this change and we have therefore agreed with the PPF that:

Where applicable, reduced pensions will commence in May 2009 and the recovery of any 'overpayments' made from January 14, 2009 to April 30, 2009 will be spread over the remainder of the 2009/2010 tax year. Pension payments will continue to be made on or before the 18th of each month – each payment being two weeks in arrears and two weeks in advance.

If you are one of the members affected by this change you will receive a separate letter detailing the amount of your pension from May 2009 and how the phasing of the recovery of any overpayment will take place. You should receive this letter by the end of April 2009.

What will happen to the Plan after the Assessment process

There are three possible outcomes to the Assessment process:-

1. The Plan can be 'rescued' either as a result of the existing employer coming out of Administration and continuing to run the Plan or a new employer is found who is willing to take responsibility for the Plan, or
2. The cash that the Plan receives from the Administration process is sufficient to 'buy out' PPF pension benefit levels (or better) from an insurance company, or
3. If neither of the above are achieved then at the end of the Assessment the Plan will become the responsibility of the PPF who will continue to pay pension to members in accordance with the benefit levels outlined above.

Data Protection

The Assessment process involves passing personal data about Plan members to the PPF to help with the scheme review. Additionally data is supplied for statutory reasons and, depending on whether the Plan joins the PPF, data may be needed to pay pension to members. In order to carry this out the PPF may need to pass data to appropriate third parties.

If you are concerned about this please contact the Trustee at the address at the top of this announcement.

What should you do now ?

This announcement is not designed to be a comprehensive guide to the operation of the PPF or to cover the personal circumstances of every Plan member. Accordingly, the Trustee has put together more information including an FAQ which are all available on the Plan website www.nortelpensions.com under the button marked "Frequently Asked Questions". You are advised to visit this part of the pensions website frequently as the Q & A will be updated from time to time by the Trustee. You can contact the Trustee via email at this website or by post at the address given at the top of this announcement. This address can also be used to request a paper copy of the Q & A if you do not have access to the internet.

If you are a deferred member of the Plan you will have access to ePA via the pensions website. From here you can access your own personal pensions record and make sure that all your personal details are correct. If the Plan should formally enter the PPF then it will be vital that all member records have been validated prior to entry to ensure ongoing and effective future support. If you notice any errors or omissions on your record please email the pensions administrators, Watson Wyatt, from the website telling them about the problem. **Note** that the ability of ePA to make your own personal calculations is unlikely to be restored for some months.

As soon as the Trustee has received notification from the PPF that the Plan is formally in the Assessment period then members must be contacted within 28 days of the notification and information contained in this announcement will be updated at that time.

Further Information on the Pension Protection Fund

General information is available on the PPF website at:
www.pensionprotectionfund.org.uk or by writing to the following address:

Pension Protection Fund
Knollys House
17 Addiscombe Road
Croydon
Surrey
CR0 6SR
Tel: 0845 600 2541
Fax: 0208 633 4903
Email: information@ppf.gsi.gov.uk

Update on the Consultative Committee (CC)

The CC was a body elected by Plan members and its function was to bring to the attention of NNUK and the Trustee the views of the membership on the “operation” of the Plan. Under the Assessment process the operation of the Plan is determined solely by PPF rules and NNUK has no discretion in this respect. Consequently, at a special meeting of the CC on February 13, 2009 NNUK (in Administration) informed the CC that during Assessment the CC has no formal status and hence, as currently constituted, the CC ceased to exist after the meeting.

However, the Trustee recognises that the current members of the CC have been duly elected by members of the Plan to represent their views and, accordingly, the Trustee has invited the former CC members to make proposals as to what role and contribution a replacement representative body could undertake. This will then be considered by the entire Trustee Board.

David Davies
Chairman of the Trustee Board