

Dear Member

Nortel Pension Update Letter 2015

It has been an eventful year so we decided to delay sending this letter in order to report more fully on court related activities that took place late in 2015 and early this year. Before we do that, it is appropriate to repeat the assurances and objectives set out in previous update letters.

Irrespective of the outcome of the insolvency proceedings, members will continue to be entitled to applicable Pension Protection Fund ("PPF") level compensation as a minimum. Deferred members who would like some information on how future pension benefits are calculated should visit our website www.nortelpensions.com and go to Section 7 of the FAQ.

The principal objective of the Trustee Board is to secure improved benefits compared to the minimum level guaranteed by the PPF. However, this is fundamentally dependent on how successful we are in recovering funds from the Nortel insolvency proceedings both in the UK and overseas. If we are not successful in our objective, then the Plan will become the responsibility of the PPF and members will continue to receive applicable PPF level compensation.

Allocation Trial: Members who have been following the announcements on our website will know that the big news in 2015 was the handing down of decisions of the US and Canadian courts concerning the division of over US\$7Bn resulting from the sale of Nortel assets. Broadly speaking, the courts held that the US\$7Bn should be shared between each relevant company in the Nortel Group in proportion to their respective creditor claims. The courts also held that these allocation shares would be added to the existing cash in each company and then be divided between each company's creditors according to the relevant local insolvency law. Whilst this decision closely follows the position advocated by the Trustee/PPF and is good news for our members, we must sound a note of caution since the inevitable appeals are already under way. Appeal activities currently completed/planned are as follows:

- Following requests from various parties to both courts to reconsider their decisions, the judges essentially maintained their original rulings.
- Appeals have been initiated in the US by a number of US parties and also representatives of Nortel in France.
- Applications for permission to appeal have been lodged by those same parties in Canada.
- A mediation ordered by the US court commenced in New York in late October 2015. There have been a number of sessions but, at the time of writing, these have not resulted in an agreement between the parties.
- The US appeal is now scheduled to be heard in April 2016.
- The parties still await a decision from the Canadian Court of Appeal on whether permission is to be granted to formally launch an appeal there.

Claims Trial:

The Funding Guarantee

- In our last letter we reported that our separate claims in Canada had resulted in an admitted claim for £339.75m in respect of the so-called 'Funding Guarantee'. The Monitor sought permission to appeal this guarantee.
- The Trustee applied for permission to cross-appeal the amount of the Funding Guarantee (arguing that it should be for more than the £339.75m) if, but only if, the Monitor was granted leave to appeal.
- The appeal hearing was held in Toronto on 17 and 18 February 2016.
- The Court refused us permission to appeal the amount of the Funding Guarantee.
- The Court has reserved judgment on both the Monitor's application for permission to appeal against liability on the Funding Guarantee and on the actual merits of the appeal.
- It is expected that it will be some months before the decision is published.

The Insolvency Guarantee

- The Court originally rejected the Trustee's claim on the Insolvency Guarantee but the Trustee sought and was given permission to appeal that finding.

- The appeal hearing was held in Toronto on 17 and 18 February.
- The Court has reserved judgment on the appeal.
- It is expected that it will be some months before the decision is published.

If either of these appeals is adjudicated in the Trustee's favour, the amount we will actually receive on the guarantee claims depends on the dividend that is declared in Canada, which will be largely driven by the final result of the allocation dispute described above.

More detail in respect of the above summary of proceedings can be found in the Appendix to this letter.

Members will appreciate that all the outstanding appeal activities mean that we still do not know what recoveries the Plan will receive and nor are we in a position to give you a reliable estimate of when the process will reach its final conclusion.

PPF Assessment and Plan Administration: During PPF Assessment our Plan Administrators, Towers Watson (now Willis Towers Watson), will continue to be responsible for administering the Plan on a day to day basis, settling benefits as they become payable and acting as the first point of contact for any questions you may have.

Work has continued to reconcile our contracted-out membership records with those held by HMRC – this task is now over 99% complete.

We continue to work with a specialist tracing bureau to ensure our address records are up to date and have participated in the Audit Commission National Fraud Initiative to ensure that benefits from the Plan are only paid to the correct individuals.

Our website www.nortelpensions.com has been completely updated so we hope you will find it easier to use than the old site which could no longer be maintained due to out-dated systems.

Recent inflation (as measured by the Consumer Price Index) has been extremely low and this means that the increase in main Plan pensions-in-payment from January 2016 was 0.1% which, under PPF rules, only applies to service with Nortel from April 1997 onwards. Since the amount is so small, we ask our pensioner members to accept this letter as formal notice of the increase hence avoiding the cost of individual notification. If your pension includes payments resulting from AVCs then an increase of 1.2% for this element will take effect in April 2016.

Whilst on the subject of AVCs - a number of members still have AVCs invested with external providers – may we encourage you to consider if these investments still meet your needs? Please refer to the Appendix to this letter for more information.

We continue to monitor and be conscious of the significant costs that are being incurred by all parties involved in litigation activities. Our costs are, unfortunately, necessary if we are to have a chance of meeting our objective of improving returns for our members. The PPF are fully supportive of this approach, and we can assure you that the litigation is being pursued as efficiently as possible and the progress of the case is kept under constant review.

We will continue to update the Q&A and other announcements on our website as and when there are significant developments to report so please take a look from time to time. If any of you would like to see a copy of the Q&A or any other documents but do not have access to the internet then please write to Willis Towers Watson at the above address and they will send a copy to you together with any future updates.

Seven years have now passed since NNUK entered administration and I would like to assure all of you that all members of the Trustee Board will continue to work tirelessly with their advisers to achieve the best possible outcome for all members in the shortest time possible.

Yours sincerely,

David Davies
Chairman, Trustee Board
Nortel Networks UK Pension Plan

Appendix to Member Letter 2015

The Plan is a creditor of its former sponsor NNUK and a certified claim for £2,147 Million representing the Plan deficit at the date of insolvency in 2009 has been submitted to NNUK's administrators. Note that information on court activities/decisions set out below does not impact the validity or amount of this claim.

Summary of court activities and decisions

The information below now excludes legal activities that have been completed or overtaken by subsequent events. However, all member letters published since 2009 are still available on our website – see the Communications section of www.nortelpensions.com.

UK Activities – Financial Support Directions (FSDs)

- In June 2010 the Determinations Panel (DP) of the Pensions Regulator determined that FSDs should be issued in respect of a number of Nortel companies (or "Targets") in the US, Canada and Europe.
- The administrators for the European Targets referred this determination to the Upper Tribunal in July 2010. The proceedings before the Upper Tribunal remain on hold pursuant to a Direction of the Upper Tribunal.

US Activities

- As reported in our last letter, the Trustee received a sum of US\$37.5m in exchange for giving up claims against various US parties. An additional and identical sum was paid to the Joint Administrators of the EMEA companies and it is anticipated that the majority of this sum will flow to the Plan as a result of our claim against NNUK. Other than the appeal activities relating to the Allocation Trial set out below there are currently no outstanding Trustee/PPF actions in the US.

Canadian Activities

- As reported in our last letter – in December 2014 the Canadian insolvency court allowed the Trustee a claim for £339.75m in respect of the so-called 'Funding Guarantee' against Nortel Networks Limited (NNL).
- The Trustee/PPF then decided to seek leave to appeal the disallowance of the 'Insolvency Guarantee' claim against NNL – valued at US\$150m. Leave to appeal was granted.
- NNL and the relevant officeholder (the Monitor) decided to challenge the court's decision on the allowance of the Funding Guarantee, and sought leave to appeal.
- The Trustee's position was that it would seek leave to appeal the quantum of the Funding Guarantee (arguing that it should be for more than £339.75m) if, but only if, the Monitor obtained permission to appeal liability on that guarantee.
- These appeals (on the Funding Guarantee and the Insolvency Guarantee) took place in Toronto on 17 and 18 February 2016.
- The Court refused us permission to appeal the amount of the Funding Guarantee.
- The Court has reserved judgment on the Monitor's application for permission to appeal against liability on the Funding Guarantee and on the actual merits of the Monitor's appeal.
- The Court has also reserved judgment on our appeal on the Insolvency Guarantee.
- We should remind members that the actual amount the Plan may receive will depend on the dividend that is eventually declared by NNL and that in turn will be largely driven by the results of the Allocation Trial and various appeals.
- Also as previously reported, the Joint Administrators of the EMEA estates have an admitted claim of US\$125m against NNL but since this was arrived at by way of settlement, it is not subject to appeal. The Plan is the major creditor in EMEA and hence the majority of dividend resulting from this claim will flow to the Plan.
- In a separate action in the Canadian court, the bondholders (who have principal claims totalling US\$4.1bn) sought the right to receive post-petition interest in Canada. This was denied by the court and that decision was upheld by the Ontario Court of Appeal in October 2015. The bondholders are now seeking permission to appeal this decision to the Supreme Court of Canada.

Allocation Trial

- The allocation trial was a joint hearing between the US and Canadian bankruptcy courts which commenced in May 2014 and ended in September 2014. The key issue before the courts was how to distribute the money raised by the sale of Nortel's assets (over US\$7Bn). Each party (including the Trustee and PPF) put forward theories as to how the proceeds should be divided between the US, Canada and EMEA.
- The judges issued their ruling in May 2015 and directed that the money should be shared between the three regions broadly in relation to the scale of the creditor claims against each company in that region.

The judges directed that these moneys be added to the existing cash in each company and then be distributed by each company to its creditors. Both the Trustee and the PPF welcome these rulings which closely follow proposals they put forward at trial; they reject the more extreme and partisan proposals put forward by the US and Canada.

- In late May 2015 various US parties asked each court to reconsider/clarify their allocation decisions. Following a hearing in June 2015, both judges maintained their original decisions in all material respects (so far as concerns members' interests) in judgments delivered in July 2015.

The above rulings have now resulted in appeals being launched by various US parties (together with representatives of NNSA in France) in the US and applications being filed by the same parties for permission to appeal in Canada. (The parties have an automatic right of appeal to the Delaware District Court in the US but have to seek leave to appeal to the Ontario Court of Appeal in Canada.) The current status of these appeal activities is as follows:

- The Delaware District Court directed the parties to participate in a mediation that commenced in New York in late October 2015. There have now been four sessions of this mediation but we regret to report that it has, so far at least, not resulted in an agreement between the parties.
- The Delaware District Court has now scheduled a date for the hearing of the US appeals in April 2016.
- We still await a decision on whether permission to appeal the allocation judgments will be granted in Canada.

Administrative Information

Compensation Cap. We have previously referred to the proposed changes to the operation of the Compensation Cap ("Cap") under PPF rules. The Pensions Act 2014 included provisions increasing the Cap by 3% for each complete year in excess of 20 years' pensionable service. We still await details of how the Cap changes will be applied in various circumstances and will write to the very small number of members affected by this change when the necessary regulations have been formalised.

Changes to Pension Rules in April 2015. As far as members are concerned, the changes currently **only** apply to AVCs that are still invested with external providers (e.g. Equitable Life, Winterthur Life, London Life or MGM). Members may wish to consider whether these investments still meet their needs and also to check the flexibility available to them with their provider. You may also wish to take the opportunity to check if your 'expression of wishes' or beneficiary choice is still appropriate. If you are over 50, you are now able to obtain some free and impartial guidance on choices available from either the Pensions Advisory Service (TPAS) over the 'phone or face to face with your local Citizens Advice Bureau (CAB). Visit the government's Pension Wise service on www.pensionwise.gov.uk or call 0300 330 1001 for an appointment.

Looking after your data. Some personal data for Plan members (such as date of birth and salary) is required for the running of the Plan, including paying out the right benefits. The use of this data is regulated under the Data Protection Act, which places certain responsibilities on those who exercise control over the data (known as "data controllers" under the Data Protection Act). Data controllers would encompass the directors of the Plan's Trustee, and, in certain circumstances, professional advisers to the Trustee. These may include the Plan Actuary and Willis Towers Watson, who have provided further details which can be found on this website <http://www.towerswatson.com/personal-data>