NORTEL

Dear Member

Formal Acceptance into the Pension Protection Fund (PPF) Assessment Process.

The Trustee is writing to you now to inform you that, as expected, the Nortel Networks UK Pension Plan ("the Plan") has entered the PPF Assessment Process. You may recall that we wrote to members in March 2009 informing you that this was likely to happen and indicating the effect this would have on pensions in payment (and deferment).
The fact that the Plan has entered the Assessment Process does not alter that information or the provisional statements made in the earlier letter, but nevertheless we are required to formally notify you and re-state in summary form some of the earlier information.
We have also taken the opportunity to add some additional information and clarifications that may be of interest to significant numbers of members. Considerably more information and detail is available on the Nortel UK pensions website www.nortelpensions.com so please endeavour to check this regularly.
The Assessment Process started on the date of insolvency of Nortel Networks UK Limited ("NNUK") which was January 14, 2009.

During the Assessment Process the PPF will decide on one of three possible outcomes;

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

Assessment Process

Assessing the Plan takes at least one year and can extend to between 2 and 3 years. Much will depend on the Plan and the PPF and Trustees will work in partnership through the process and ensure all parties are kept up to date with the progress at all times.

Running the Plan whilst it is being assessed for support

The Trustee will continue running the Plan, paying the pensions and the Trustee will help the PPF during the Assessment Process.
During the Assessment Process no further contributions can be paid to the Plan unless they relate to periods before the Assessment Process started.

Nortel Networks UK Pension Trust Ltd

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No further benefits can be built up from the start of the Assessment Process and you will not be able to transfer benefits to another plan.

How does this affect Plan members?
The PPF pays benefits in the form of "compensation". The level of compensation paid depends on whether you have reached the Plan's normal pension age (NPA) on or before the January 13, 2009 or you receive a survivor's/child pension or you receive an ill health pension. For the majority of Plan members NPA is age 60 but the table in Appendix 1 sets out the exceptions to this.

As we mentioned in our letter of March 2009, if on January 13, 2009, you were above NPA or if you are receiving a survivor's/child pension or an ill health pension, then the PPF will pay **100% level of compensation**.

This means that you will get the same pension you were receiving before the Assessment Process started.

More information on receiving the 100% level of compensation appears in **Note 1** at the end of this announcement.

Other Plan members who are below NPA will receive the **90% level of compensation.**
This means that you will get 90% of the pension you had earned up to the start of the Assessment Process. If you are not already in receipt of your pension then this amount will qualify for an increase related to the Retail Price Increase (RPI) up until compensation payments actually begin.
The 90% level of compensation is restricted further by an overall limit (Cap) which is reviewed each year. (On April 1, 2009 it increased by 3.5% for the 2009/2010 year).
Member information on receiving the 90% level of compensation appears in **Note 2** at the end of this announcement.

Additional Voluntary Contributions and Redundancy payments.
Some benefits in the Plan which are paid as a result of AVCs or redundancy payments are known as Money Purchase Benefits. Please note that if you have AVCs with externally managed providers or if you had any redundancy payments paid into the Plan at the time you first took your pension then these are not included in the application of the Cap or the 90% reductions. For more information on how these benefits will be treated in the Assessment Process please refer to the sections headed "Will I still receive an increase to my pension each year?" and "Are my money purchase benefits affected?" in the Notes 1 and 2 below.

Data Protection
The Assessment Process involves passing personal data about Plan members to PPF to help with the Plan review. Additionally data is supplied for statutory

reasons and, depending on whether the Plan joins the PPF, data may be needed to pay compensation 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 Trustees by any of the methods shown below.

Change to the Plan year end.
The Trustee has decided to change the Plan year end for this year only from March 31 to January 13 for the year ended January 13, 2009. The reason for this is to keep costs to a minimum for the provision of both statutory accounts and for the provision of a special set of accounts for the Plan actuary. The actuary will need these in order to be able to carry out assessment of the Plan assets and liabilities for PPF purposes as at January 13, 2009. This change does not affect your pension from the Plan.

Further information on the Plan or your pension benefits.
If you have any queries about your Plan membership please visit the Nortel pensions website at www.nortelpensions.com or contact the Trustee by any of the methods shown below.

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

Telephone: 01707 607601
Fax: 01707 607563
E-mail: Nortel.Networks@eu.watsonwyatt.com

Further Information on the Pension Protection Fund.
Please note that the PPF does not hold scheme membership details and cannot comment on your individual case. They will be unable to help you if you contact them directly to ask about your personal circumstances, however, they will be able to assist you if you have general queries about the PPF.

General information is available from www.pensionprotectionfund.org.uk
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

NOTE 1
Members entitled to 100% level of compensation

What happens to my pension?
Your pension will continue at its current level in the form of compensation.

Will it still be paid on the same day?
Yes. For the remainder of 2009 your compensation will continue to be paid on or around 18th of the month for that month. From January 2010 the payment dates will be harmonised to follow those of the PPF and changed to 1st of the month in advance. You will be reminded about this change nearer the time.

Will I have to pay back any of the tax free cash I received when I retired?
No.

Will I still receive an increase to my compensation each year?
Future pension increases will be at levels specified by the PPF. In all cases these will be lower than under the Plan.

That part of your pension that you earned whilst working for NNUK on or after April 6, 1997 increases each year in line with the RPI which cannot exceed 2.5%. No other part of your pension will increase.

However, if your compensation includes any amounts resulting from externally invested AVCs or redundancy payments taken into the Plan at the time of retirement then these amounts will continue to be increased for inflation from April 1st each year. Please refer to the Frequently Asked questions document on the Nortel website for more details of the treatment of AVCs and redundancy payments.

Under the PPF, the normal date for both increases to compensation in payment and compensation in deferment is January 1st so the first date for these increases will be January 1, 2010.

Element	**Increase Date**	**Increase Rate RPI Capped at**
Deferred Pensions	January 1st	5% pa
Pensions in Payment		
AVC/Redundancy amount	April 1st	3% pa
Earned pre April 1997	No Increase	N/A
Earned April 1997 onwards	January 1st	2.5% pa

What happens to my life assurance or death benefits during the Process?
Since the Assessment Process has started, any life assurance or other lump sum benefit provision on death under the pension plan ceased with effect from January 14, 2009.

Is my spouse or partner entitled to a pension/compensation on my death?
Survivors' benefits which are payable under the Plan rules must be reduced to the PPF level of compensation. PPF compensation of 50% of the member's compensation in payment at the date of death is payable to surviving spouses, qualifying unmarried partners and civil partners from the death of a member upon production of the relevant evidence e.g. marriage/civil partnership certificate. In the case of unmarried partners, evidence will have to be provided of cohabitation and that they were financially dependent or interdependent with the Plan member to qualify for benefits.

What children's benefits are payable if they fall due during the Assessment Process and afterwards?
Children's pensions payable under the Plan rules must be paid at the PPF level of compensation.
In accordance with PPF rules, compensation will be paid to dependent children up to age 18 or age 23 if they are either in qualifying further education or is incapable of working by reason of a disability under the Disability Discrimination Act 1995. No compensation is payable beyond the age of 23.
The amount of compensation depends on whether compensation is being paid to a surviving spouse or partner.
If it is being paid, the amount of compensation will be as follows;
One child – 25% of the member's compensation
Two or more children – 50% of the member's compensation, divided equally between the children.
If no other compensation is being paid, the amount of compensation will be as follows;
One child – 50% of the member's compensation
Two or more children – 100% of the member's compensation, divided equally between the children.

Are my money purchase benefits (i.e. AVCs or redundancy payments) affected?
PPF compensation is only provided for defined benefit plans. Money purchase benefits will generally be dealt with before the scheme transfers to PPF and are not subject to the Cap or the 90% level of compensation.

If you were NOT in receipt of your pension/compensation at the start of the Assessment Process then any AVC sums which are invested with external providers (e.g. Equitable Life, Winterthur Life, London Life or MGM) cannot be brought into the Plan when you retire and neither can any redundancy payments (the latter also known as 'sacrifice pension'). These sums will have to be used to purchase an annuity with an approved external provider of your choice. None of these money purchase benefits form part of PPF compensation. At the time of your retirement the Trustee will contact you about these benefits.

If you were in receipt of your pension/compensation at the start of the Assessment Process then that part of your pension resulting from externally invested AVCs (e.g. Equitable Life, Winterthur Life, London Life or MGM) and any redundancy payment (provided retirement was not deferred beyond the date of redundancy) are classed as money purchase benefits and will not become part of PPF compensation at the end of the Assessment Process. Initially, these sums will continue to be paid as part of your normal pension payment and, as noted above, inflation increases will be added on April 1st each year. At some time later in the Assessment Process, the Trustee will arrange to 'buy out' these money purchase benefits with an external insurance provider and the cost will be charged to Plan funds. Note that the benefits that will be purchased will be the same as those which members were entitled to under the Plan – i.e. will include RPI inflation (up to 3% per annum) and, if so elected at the time of retirement, a future 50% benefit for member's surviving partner/spouse. Once the buyout is completed, members will receive two pension payments each month – one from the external insurance company and one from the PPF.

I retired for ill health reasons – is this affected in any way?
With effect from the beginning of the Assessment Process (January 14, 2009) no **new** ill health compensation will be considered or put into payment. In respect of any existing ill health compensation in payment on January 13, 2009, these will continue for the life of the pensioner. However, note that if an ill health pensions was awarded less than three years prior to January 14, 2009 then the PPF has the power to review the circumstances surrounding the grant of the pension – if the award was judged to be incorrectly made then payment could be suspended until the member reaches NPA.
If you are in this category the Trustee will write to you individually. If payments are affected this will not take effect until after the Assessment Process finishes.

NOTE 2
Members entitled to 90% level of compensation

This section applies to employees, deferred members and pensioners whose age was below the NPA on January 13, 2009 (if you were above NPA then the comments under NOTE 1 apply).
At most you will receive 90% of your current pension or entitlement. If your pension is greater than the 'Cap' mentioned at the beginning of this letter then there is a further reduction to comply with PPF requirements (the PPF Cap is age dependent and is explained below).
If you have a pension in payment that includes an amount attributable to a 'Money Purchase Benefit' (e.g. AVC or lump sum contribution) that was paid into the plan at the time that you started to take your pension then this part is treated separately (as described below). It is also deducted from your pension before the effect of the Cap is assessed, so may have the effect of reducing the impact of the Cap.

I took early retirement how much pension will I receive?
Most members will receive 90% of their current pension. If your pre-commutation pension is greater than £27,946.52 at age 60 (i.e. the Cap in force for age 60 at January 13, 2009 – different figures are used for other ages) there is a further reduction to this amount to comply with PPF requirements.
Future increases will be at rates specified by the PPF rules.
If you think you may be affected by the Cap please look at the full calculation on the Nortel pensions website www.nortelpensions.com

I have not yet taken my pension. How much am I entitled to?
As you are under the Plan's normal pension age and you are a deferred member, you will receive 90% of your pension earned up to the start of the Assessment Process subject to early retirement factors or capping as set out below. Future increases will be at rates specified by the PPF rules.

What is the effect of the Compensation Cap and reductions below the 90% level of compensation?
Most pensions in payment will only be subject to a 90% level of compensation, but some larger pensions will be reduced further by the Cap. The Cap is adjusted depending on your age when you start to receive PPF compensation.
To illustrate this, after allowing for the 90% level of compensation, the 'Cap' for the year beginning April 1, 2009 is;
£26,032.19 of pension per year at age 60 (full amount is £28,924.65)
£24,122.05 of pension per year at age 55 (full amount is £26,802.28)
The level of the 'Cap is reviewed on April 1st each year.

I am due to retire in two years time will I be restricted by the 'Cap' at today's rate? Plan members retiring in the future will be affected by the 'Cap' in force at the time they start to receive their compensation.

Please see the frequently asked questions document on the Nortel pensions website www.nortelpensions.com for an example of how this works.

When will my pension/compensation be reduced?
If your compensation is going to be reduced you will receive a separate letter in May 2009. The reduction will take effect from the May 18, 2009 payroll.

My pension/compensation has been overpaid – will I have to repay the Plan?
Yes. The overpayments from January 14, 2009 to April 30, 2009 will be calculated and deducted from your compensation paid from May 2009 to March 2010.

I already receive a pension. Will I still receive an increase to my Pension/compensation each year?
Future pension increases will be at levels specified by the PPF. In all cases these will be lower than under the Plan.

That part of your pension that you earned whilst working for NNUK on or after April 6, 1997 increases each year in line with the RPI which cannot exceed 2.5%. No other part of your pension will increase.

Under the PPF, the normal date for both increases to compensation in payment and compensation in deferment is January 1st so the first date for these increases will be January 1, 2010.

Element	Increase Date	Increase Rate RPI Capped at
Deferred Pensions	January 1st	5% pa
Pensions in Payment		
AVC/Redundancy amount	April 1st	3% pa
Earned pre April 1997	No Increase	N/A
Earned April 1997 onwards	January 1st	2.5% pa

However, if your compensation includes any amounts resulting from externally invested AVCs or redundancy payments taken into the Plan at the time of retirement then these amounts will continue to be increased for inflation from April 1st each year. Please refer to the Frequently Asked questions document on the Nortel website for more details of the treatment of AVCs and redundancy payments.

I was a deferred member before the Assessment Process began. Under the Plan rules my pension/compensation is 'Inflation proofed' until I retire. Will this still happen?
Yes - this still applies.
Your benefits earned up to the date the Assessment Process started will be

reviewed in line with changes in the Retail Prices Index. The maximum increase will be 5% up until the day before you start to receive your compensation.

Is my spouse or partner entitled to a pension/compensation on my death?

Survivors' benefits which are payable under the Plan rules must be reduced to the PPF level of compensation. PPF compensation of 50% of the member's compensation in payment at the date of death is payable to surviving spouses, qualifying unmarried partners and civil partners at the death of a member upon production of the relevant evidence e.g. marriage/civil partnership certificate. In the case of unmarried partners, evidence will have to be provided of cohabitation and that they were financially dependent or interdependent with the Plan member to qualify for benefits.

If a member had not taken early retirement prior to the start of the Assessment Process and died before reaching his/her NPA for the Plan then the age of the member immediately prior to death will be deemed to be his/her NPA and compensation will be payable at 50% of what the member would have been entitled to under the Plan.

Are children's pensions/ compensation payable?

Children's pensions payable under the Plan rules must be paid at the PPF level of compensation.

In accordance with PPF rules, compensation will be paid to dependent children up to age 18 or age 23 if they are either in qualifying further education or is incapable of working by reason of a disability under the Disability Discrimination Act 1995. No compensation is payable beyond the age of 23.

The amount of compensation depends on whether compensation is also payable to a surviving spouse or partner. If compensation is being paid, the amount of compensation will be as follows;

One child - 25% of the member's compensation

Two or more children - 50% of the member's compensation, divided equally between the children.

If no other compensation is being paid, the amount of compensation will be as follows;

One child - 50% of the member's compensation

Two or more children - 100% of the member's compensation, divided equally between the children.

Are my money purchase benefits affected (i.e. AVCs and redundancy payments)?

PPF compensation is only provided for defined benefit plans.

If you were NOT in receipt of your pension at the start of the Assessment Process then any AVC sums which are invested with external providers (e.g. Equitable Life, Winterthur Life, London Life, MGM) cannot be brought into the Plan when you retire and neither can any redundancy payments (the latter also known as 'sacrifice pension'). At retirement these sums will have to be used to purchase an annuity with an approved external provider of your choice. None of these money purchase benefits form part of PPF compensation.

If you were in receipt of your pension at the start of the Assessment Process then that part of your pension resulting from externally invested AVCs (e.g. Equitable Life, Winterthur Life, London Life, MGM) and any redundancy payment (provided retirement was not deferred beyond the date of redundancy) are classed as money purchase benefits and will not become part of PPF compensation at the end of the Assessment Process. Initially, these sums will continue to be paid as part of your normal compensation payment and, as noted above, inflation increases will be added on April 1st each year. At some time later in the Assessment Process, the Trustee will arrange to 'buy out' these money purchase benefits with an external insurance provider and the cost will be charged to Plan funds. Note that the benefits that will be purchased will be the same as those which members were entitled to under the Plan – i.e. will include RPI inflation (up to 3% per annum) and, if so elected at the time of retirement, a future 50% benefit for member's surviving partner/spouse. Once the buyout is completed, members will receive two pension payments each month – one from the external insurance company and one from the PPF.

I am over 50. Can I still take early retirement?
During the Assessment Process members can apply for early retirement because the Plan rules currently allow it. Benefits are payable at PPF levels using PPF early retirement factors and the PPF rates for exchanging pension for a cash lump sum. If the Plan is eventually transferred to the PPF members can take early retirement from age 50 (Age 55 from 6 April 2010). Compensation will be reduced using PPF factors. Members must normally give six months notice before opting for early payment of compensation.

Under PPF rules will Plan members under 55 in 2010 be able to draw a pension (i.e. will members who currently have a right to retire at age 50 under the Plan rules continue to have this right)?
This issue is likely to become the subject of further legislation to reflect the HMRC position on the minimum pension age which is currently age 50 for our Plan. At this stage there is no further information that can be given but the Trustee's legal advisers have written to the Department for Work and Pensions (DWP) requesting clarification and guidance on how the legislation may be changed. **If it is not changed then members will not be able to take their pension from the Plan until age 55 from April 2010.**

APPENDIX 1

DETERMINATION OF NORMAL PENSION AGE

The PPF legislation provides that:
"Normal pension age is the age specified in the admissible rules as the earliest age at which the pension or lump sum becomes payable without actuarial adjustment."

Using the above definition, the **NPA for the Plan is age 60** with the following exceptions:

NPA is 65 for MALE MEMBERS ONLY who:

- are holding Equivalent Pension Benefits (EPB) or Q entitlements*;
- were a member of the STC Employees (UK) Pension Plan (Including STC Non-Contributory and Works Plans) who left service prior to April 6, 1988;
- were a member of the STC Senior Staff (UK) Pension Plan who left service prior to April 6, 1988;
- were a member of the ICL Pension Fund who left service prior to April 6, 1988;
- were a member of Northern Telecom Retirement Benefits Scheme who left service prior to April 6, 1990;
- were Nortel Networks UK members who left service prior to May 17, 1990 at your own request.

NPA is 62 for MALE MEMBERS ONLY who:

- were Nortel Networks UK members who left service prior to May 17, 1990 at the company's request.
- were STC Executive Plan members
- were Supplementary Category 3 (ex-ICL and ex-STC) members who left service prior to May 17, 1990.

NPA is 57 for FEMALE MEMBERS ONLY who:

- were STC Executive Plan members
- were Supplementary Category 1 (ex-ICL and ex-STC) members who left service prior to May 17, 1990
- were Supplementary Category 2 (ex-ICL and ex-STC) members who left service prior to May 17, 1990.

NPA is 58 for members who:

- were Supplementary Category 1 (ex-ICL, ex-STC and Northern Telecom) members from May 18, 1990.
- were Female STC Senior Executive Plan Members

* If your NPA is anything other than age 65 and your pension includes EPBs or Q scheme pension, it is only those elements (i.e. the EPBs or Q scheme pension) which have an NPA of 65.