



October 2010

Dear Member

Nortel Pension Update Letter 2010

It has been over a year since we last wrote to all members. In the intervening period we hope that many of you will have been keeping an eye on developments through our website www.nortelpensions.com. Although we know that members share this information with others who have no internet access we are aware that we cannot reach all members in this way. Hence it is now opportune to formally update you with some of the things that have been happening over the last 12 months. We also want to share with you some of the steps we are taking to maximise recoveries from the various global Nortel insolvency proceedings and thereby obtain the best possible outcome for all our members.

Assessment for Pension Protection Fund (PPF)

Although we do not yet know if the Nortel pension plan (Plan) will eventually become the responsibility of the PPF we are obliged to have regard to this eventuality and continue to prepare accordingly. In this respect, our Plan administrators Towers Watson (formerly Watson Wyatt) have been involved in a number of tasks behind the scenes including:

- Carrying out detailed investigations with our legal advisers into how various elements of Plan benefits should be calculated using PPF rules and amending pensions accordingly.
- Changing pension payment dates and implementing new methods for calculating annual increases. Pensions are now paid in advance on the 1st of the month. Some of you may have read in the press about a government proposal to use the Consumer Price Index (CPI) instead of the Retail Price Index (RPI) to determine future increases/revaluations – this is still in the consultation process so we cannot say if or how it might affect members.
- Clarifying the treatment for pension increases for those members with Defined Benefit (DB) AVC policies, money purchase AVC policies and redundancy sacrifice pensions.
- Notifying members not yet in receipt of their pensions of their options in respect of future entitlements to money purchase AVC and/or redundancy sacrifice pensions.
- Commencing a project with HM Revenue and Customs (HMRC) to reconcile our own records with HMRC records since it is important that both sets of records are the same. This reconciliation process is always part of the data checking process when schemes are in the PPF Assessment period.
- Starting tracing exercises to find members we have lost contact with and/or to identify any deceased members.
- Future tasks will include carrying out a Data Audit to ensure the records we hold for every member are correct and performing a Benefit Audit to ensure that the method of calculating benefits in the past was strictly in accordance with the Plan's Trust Deed and Rules.

During PPF Assessment 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. They will also work with Capita Hartshead who have recently assumed responsibility for Trustee secretarial duties following the resignation of Louise Hammond, who was Nortel's pensions manager. Capita has wide experience of working with the PPF and will be able to provide effective support to the Trustee Board whether the Plan ultimately transfers into the PPF or is able to secure better benefits by purchasing annuities from insurance companies.

The question that is probably uppermost in your mind is 'when will PPF Assessment end and what is the expected outcome?' The short answer is 'we don't know yet'.

Nortel Networks UK Pension Trust Ltd

PO Box 545, Redhill, RH1 1YX

Tel 01707 607601 **Fax** 01707 607563 **E-mail** nortel.networks@towerswatson.com

What we do know is that, whatever the outcome, Plan members will continue to be entitled to applicable PPF level benefits as a minimum.

The principal objective of the Trustee is to secure better benefits than 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 UK and overseas. If we manage to recover at least an estimated £700M then we will have the opportunity to see if we can 'buy' better than PPF benefits by purchasing annuities for both pensioner and deferred members. If this succeeds then we will secure those better benefits through the purchase of annuities from insurance companies and if not then the Plan will become the responsibility of the PPF and members will continue to receive applicable PPF level benefits. We do not anticipate that these recovery proceedings will be concluded for at least another 12 months.

Recovery of funds from insolvency proceedings

We are pursuing a number of claims: against Nortel Networks UK Limited (NNUK) for the statutory debt it owes to the Plan; against Nortel Networks Limited in Canada for pre-existing guarantees; and for further claims against a number of Nortel overseas companies in relation to the UK Pensions Regulator's powers under the Pensions Act 2004 for financial support for the Plan to be put in place. Certain of these claims are being contested in various ways and the legal action will take some time to conclude. Please refer to the Appendix to this letter if you would like more detailed information on the claims/recovery process.

In summary, the PPF Assessment activity is proceeding in accordance with expectations but there is still a long way to go before we can quantify the Plan's total recoveries and hence whether we can secure member benefits which are better than those available within the PPF.

Hopefully our next letter to you all will see us much closer to a conclusion on all matters but in the meantime we will continue to update the Q&A and other announcements on our website. If any of you would like to see a copy of the Q&A but do not have access to the internet then please write to Towers Watson at the above address and we will send one to you

Yours sincerely,

David Davies
Chairman, Trustee Board
Nortel Networks UK Pension Plan

Appendix to Member Letter October 2010

Recovery of funds from insolvency proceedings

The worldwide assets of Nortel companies are gradually being sold and to date this has generated over US\$3Bn. This money is 'locked away' until the various 'groups' (principally, USA, Canada and Europe) have come to an agreement on how this money will be divided between the groups – we will call this the **Allocation Process**. This will then flow down to the various Nortel companies within each group and thereafter to each of the company's creditors. We/PPF are claiming for much more than the £700M mentioned above since the amount that has to be recovered to buy **full** Plan benefits for all members is an estimated £2.1Bn – we will call this the **Deficit**. The following recovery activities are now in progress:

- The Plan is a creditor of its former sponsor **Nortel Networks UK Limited (NNUK)** and a claim has been lodged with NNUK Administrators for the Deficit. The Plan represents about 90% of total creditor claims against NNUK which means when the Allocation Process is finalised the Plan will receive around 90% of the available monies NNUK receives.
- The Plan has two guarantees from Nortel Networks Limited in Canada – one was in support of the 2006 Funding Agreement (guaranteeing outstanding obligations of approximately £490M) and the other arose from the restructuring of certain European Nortel companies (guaranteeing NNUK's statutory debt to the scheme up to a maximum of US\$150M). Claims in respect of these guarantees were submitted in Canada by the Trustee/PPF. The claims verification procedure in Canada is only just getting under way so we do not yet know how these claims will be treated and how they might interact with claims mentioned in the next paragraph.
- The Trustee/PPF submitted claims for the Deficit against a number of Nortel companies in the US, Canada and Europe. These claims relate to the **Pensions Regulator (tPR)** exercising its powers under the Pensions Act 2004 for the possible issue by tPR of a **Financial Support Direction (FSD)** under which certain Nortel companies (other than NNUK) would be responsible for putting in place financial support for the Plan. It should be noted that tPR acts entirely independently of the Trustee/PPF in respect of this activity.

In January 2010 tPR issued a **Warning Notice** to a number of Nortel companies which, as the name suggests, warned the companies of its intention to refer the matter to the **Determinations Panel (DP)** – an independent arm of tPR created by UK legislation. The DP met in June 2010 and decided that it was reasonable for an FSD to be issued in respect of a number of Nortel companies in US, Canada and Europe. The relevant Nortel companies chose not to make any submissions to the DP, although representatives for some European Nortel companies attended the hearing before the DP as observers. The DP's decision has been appealed to the Upper Tribunal by some of the relevant Nortel companies and we currently await further developments on this front.

The 'claims' process works in a similar way in most countries – individuals and organisations (creditors) who claim they are owed money by each Nortel company submit details of their claim to the company's administrators. The administrators decide whether and how much of each claim to accept and this can be subject to challenge and possible court action. The total claims for each company are then compared with how much money is available to that company from the Allocation Process and each creditor will receive a dividend or share subject to rules governing the priority of claims in each jurisdiction. For example, if unsecured creditor claims for a company were £10M and it had £5M left from the Allocation Process after settlement of any priority claims then, broadly speaking, each creditor will receive 50% of the amount claimed.

Since the FSD Warning Notice was issued there have been a number of court actions.

- In Canada, the issue of the Warning Notice by tPR was judged to have infringed the Canadian insolvency process and this judgement was upheld on appeal. tPR is now considering whether to appeal further but it should be noted that the appeal court specifically said that its decision did not prevent the Trustee/PPF seeking to assert its prior claims as part of the Canadian insolvency procedure.
- The US insolvency judge also took the view that the Warning Notice breached insolvency procedures and the Trustee/PPF are now appealing this decision.