

NB: the text highlighted in red was not included in letters sent to members in receipt of a dependant's pension

NortelPensionsUK

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Dear Member

Nortel Pension Update Letter

Overview . . .

- *All core parties have now agreed on how to divide over US\$ 7 Billion which was raised from the sale of Nortel's assets. The agreement was approved by the US and Canadian courts in January 2017 but a legal challenge in Canada means that the agreement is not yet effective.*
- *If the agreement does become effective, Plan funds will be boosted by monies to be received from Nortel administrators in the UK and Canada but we still do not know exactly how much and when. This means that we cannot be sure if we will definitely improve our funds enough to secure benefits for members outside of the Pension Protection Fund (PPF).*
- *Realistically, it is likely to be at least two years before the final outcome is known so we ask for your continued patience and understanding.*
- *In spite of the uncertainty above we have decided that it is appropriate to commence work on the assumption that we will have sufficient funds to secure benefits outside the PPF. This involves considering how the obligation to pay your pension benefits can be transferred from the Plan to insurer(s) or other arrangements.*
- *We will endeavour to keep members fully informed by website announcements at www.nortelpensions.com and personal letters as necessary*
- *In the meantime, your pension will continue to be paid in accordance with the rules of the PPF*
- ***IMPORTANT: A 'Beneficiary Form' is enclosed with this letter – we would be grateful if you could complete and return it to us as soon as possible***

Once again it has been an extremely eventful year and members who have been able to follow announcements on our website will know that in October 2016 all the main parties in the US, Canada and Europe (EMEA) executed a Settlement Agreement (SA) on how to share out the contents of the Lockbox (US\$7,254m) which contains the proceeds of the sale of all Nortel's former assets. This sum is allocated as set out below.

- Nortel Canada 57.1%
- Nortel US 24.3%
- Nortel UK (NNUK) 14.0%
- Other Nortel Europe (EMEA) 4.6%

The Trustee sought the direction of the English Court authorising it to implement the terms of the SA and this was received in October 2016. Other parties also required court approval and the SA finally received all the required court approvals in January 2017. However, it is not yet effective because two disabled former employees are seeking permission to appeal the Canadian Court's approval. Although the appeal court turned down this request early in March, the employees now have 60 days to ask the Supreme Court of Canada to consider their request. We will make an announcement on our website when this matter is finally determined.

If the SA becomes effective, each company's share of the Lockbox will be added to cash remaining in each company at the end of the insolvency process and the total amount is then divided in proportion to the total claims against each company.

We have an interest in both NNUK and Nortel Canada – in both cases there are uncertainties over the total amount that will be available to creditors, such as final level of claims, taxation, exchange rates and, in the case of NNUK, how much money flows up to NNUK from its subsidiaries in EMEA.

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In respect of NNUK we have previously reported that we have a claim of £2,147m which has now been accepted and is expected to represent over 90% of the claims against NNUK. We have also previously reported an accepted claim against Nortel Canada for £339.75m. We must again stress that the amount we actually receive from these claims depends on the total claims and the total cash available in NNUK and Nortel Canada.

The uncertainties set out above make it very difficult to forecast how much we will actually receive and when we will receive it. We anticipate that most of the money will be received over 2017/18 but some could be delayed until 2019 or even later – mainly as a result of liquidation and tax clearance procedures in EMEA jurisdictions.

Summarising the above, although the Settlement is indeed very welcome news for our members and hopefully marks the “beginning of the end”, there are still many uncertainties which prevent us from being definitive about the final outcome and whether or not we will achieve our primary objective of improving our funding so that we can secure members’ benefits outside of the Pension Protection Fund (PPF).

Next Steps:

In spite of these uncertainties and given the work involved, we have decided that it is appropriate to make preparations on the assumption that we will receive sufficient funds to secure benefits outside the PPF. Accordingly, a Sub-committee of the Trustee board consisting of the independent trustees has been formed and they will work closely with our advisers and the rest of the Trustee board to make sure that we are well positioned to secure benefits as soon as practicable once any monies due to us are received.

Although preparations have commenced, we still need the PPF to set in train the ending of our assessment period and this is only likely to happen when the recovery process is substantially over. We will then contact you with details of the process and how we intend to proceed.

You will of course be provided with further details as matters progress, both in general terms and with specific details of your benefits.

We have included a ‘Beneficiary Form’ with this letter which we ask that you complete and return to us in the Freepost envelope provided as soon as possible. This will replace any existing information that we may already hold for you and enable us more accurately to establish Plan liabilities. The information on this form can of course be updated by you at any time in the future. We thank you in advance for your cooperation in this matter.

Finally on this topic, a word on timescales – it has taken over eight years to reach agreement between the key parties on how the Lockbox should be divided and reach a settlement on our outstanding claims but the remaining uncertainties and the buyout process itself mean that it is likely to be at least two years before the process reaches a final conclusion. We ask for your continued patience and can give you an assurance that we will endeavour to keep you fully informed of all developments both on our website www.nortelpensions.com and by further member letters as appropriate.

Turning now to more routine topics:

- We have completed the reconciliation of our contracted-out membership records with those held by HMRC and await formal sign off of this task.
- 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. We still have no contact details for a significant minority of our deferred members so if you are still in touch with former colleagues then please check that they have provided us with up to date details.
- Recent inflation (as measured by the Consumer Price Index) has again been low and the increase in main Plan pensions-in-payment which, under PPF rules, only applies to service with Nortel from April 1997 onwards, was 0.3% from January 2017. Since the amount is so small, we again 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 2.5% for this element will take effect in April 2017. A small number of members have other ‘money purchase’ elements to their pension so we will write to you separately with details of the relevant increases.

- Some of our deferred members still have AVCs invested with external providers. Whether or not we go to buyout we will eventually have to move these investments from a Plan group policy to an

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individual policy in your name. **We encourage any members with such investments to move them to an alternative provider of their choosing as soon as possible.**

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.

We appreciate that the information contained in this letter is not easy to follow and may well have resulted in more questions than answers. If you have concerns, questions or comments then please feel free to direct them to Willis Towers Watson as noted above or use the email link on our website. We cannot promise a personal reply to every question but we will publish responses to recurring topics on our website.

Whilst the processes outlined above continue please accept our assurance that current and future Plan pensions will continue to be paid in accordance with PPF rules and procedures.

Finally, we fully understand the expectation that the global settlement would lead to a rapid conclusion of all outstanding matters and deliver future financial certainty to all our members. However, as explained above, the flow of funds will take time and hence delay the distribution to members. We hope the contents of this letter have demonstrated that we are not quite there yet but you have my assurance that the Trustee Board will continue to work diligently to reach that conclusion in the shortest possible time.

Yours sincerely,

David Davies
Chairman, Trustee Board, Nortel Networks UK Pension Plan