

# Stanhope Pension Trust Limited



Date: 7 July 2006

Dear Member of the G.E.C. 1972 Plan

On 25 May 2006 it was announced that Fortress Investment Group would potentially make an offer to acquire **telent** plc ("**telent**"). This offer, to be made by one of their group companies, which has the backing of **telent's** Board, was formally confirmed on 20 June 2006 and the transaction is now subject to approval by **telent's** shareholders and confirmation by the court - a process which should be completed by mid August 2006 and will result in **telent** becoming a private company, no longer listed on the London (or any other) Stock Exchange.

The key features impacting the G.E.C. 1972 Plan (the Plan) are-

- **telent** remains the Plan sponsor
- members rights and benefits are unaffected and remain unchanged
- the funds placed in Escrow for the benefit of the Plan after the Ericsson transaction last October remain unaffected and the principles of the Escrow are also unchanged
- the funding arrangements put in place as part of this transaction build on the improvement to the Plan's funding position achieved last October.

It is anticipated that the acquisition of **telent** by Fortress provides the company with new opportunities for growth. If these opportunities progress as expected they have the potential to strengthen **telent's** position and therefore the position of the Plan; a stronger sponsor is in a better position to support the Plan if such support is required.

This deal also provided the Trustee with an opportunity to bring forward agreement of ongoing funding arrangements; these had been envisaged back in November but had not yet been agreed with **telent**.

Since last October the Trustee has also been working on revising the Plan's investment strategy, the first key element of which was implemented recently. This put in place an investment structure which is designed to protect around 80% of the Plan's assets from the adverse effects of rising inflation and fluctuating interest rates. Further work is being undertaken on broadening the range of investments, so that the risk associated with a fall in any one area of investment is reduced.

## New Funding Arrangements

The new funding arrangements, which run for nine years, are encapsulated in two separate agreements.

Firstly, as mentioned earlier, the funds held in the Escrow remain in place to support any shortfall in funding of the Plan below the level required under accounting standard IAS 19. In addition, a formal Scheme Funding Plan (“SFP”) has been developed. This is required by the new pensions legislation, and its implementation formed the basis for clearance of the transaction by the Pensions Regulator. The SFP forms an additional trigger for the release of funds from the Escrow to the Plan. Secondly, a Contribution and Escrow agreement was developed and agreed. After a three-year grace period, progressively stronger funding targets are established, over and above those provided for in the SFP. Any contributions due under this agreement will be paid into a second escrow fund (“Escrow 2”) which will be subject to substantially the same security arrangements as the first Escrow. As a strengthening of **telent’s** ability to support the Plan (its covenant) is envisaged as the business develops, provisions have been included that cash can move between Escrow 2 and **telent** and that the amounts due under this agreement can be reduced if **telent’s** covenant has strengthened significantly. However, at the end of a nine-year period, any amounts due under the Contribution and Escrow provisions must be paid into the Plan or the first Escrow without any reduction being allowed for the improved covenant of **telent**.

Both these agreements contain provisions that give the Trustee the right to review the Plan actuarial valuation, the investment strategy and the previously agreed funding plan, in the event of either a change of control of **telent** or a significant deterioration in the value of the **telent** covenant.

This Contribution and Escrow agreement is very important as it supports the Trustee’s principal objective of having sufficient resources to de-risk the Plan’s investment strategy further at the earliest opportunity. At present this target date is some 15 years away from where we are now and is the point at which a substantial proportion of the Plan’s liabilities will be represented by pensions in payment.

## Conclusion

During this process the Trustee Board has been ably supported by the **telent** Pensions Office in Stafford and has worked very closely with its advisers, Penfida, on corporate matters, Watson Wyatt, on actuarial and investment considerations and Sackers on legal issues. Everyone has worked extremely hard to achieve these arrangements and we should all be very grateful for all of their efforts which has resulted in us building strong, ongoing funding arrangements over and above the additional £675m funding secured as part of the Ericsson transaction last year.

Yours faithfully

Chris Holden  
Chairman of the Trustee