

**NORTEL NETWORKS UK PENSION PLAN
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2020
SCHEME REGISTRATION NUMBER: 10092331**

NORTEL NETWORKS UK PENSION PLAN

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YEAR ENDED 31 MARCH 2020

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NORTEL NETWORKS UK PENSION PLAN**TRUSTEE AND ADVISERS****YEAR ENDED 31 MARCH 2020**

Principal Company	Nortel Networks UK Limited (in Administration)
Trustee	Nortel Networks UK Pension Trust Limited
Buy-Out Committee (BOC)	D.Davies (Chairman)(until 31 st October 2019) C. Gilchrist (Chairman)(from 1 st November 2019) B. Izzard (from November 2019) BESTrustees Limited
Trustee and Board Directors	Nortel Networks UK Pension Trust Limited Independent D. Davies (Chairman)(until 31 st October 2019) C Gilchrist (Chairman)(from 1 st November 2019) BESTrustees Limited Employer nominated P. Masterson Member nominated N. Bowles B. Izzard T. Rossiter
Investment Committee	C. Gilchrist (Chairman) BESTrustees Limited T. Rossiter
Secretary to the Trustee Board	Capita Employee Benefits Limited (to March 2020) Willis Towers Watson Limited (from April 2020)
Administrators (and enquiries)	Nortel Networks UK Pension Plan c/o Willis Towers Watson Limited PO Box 545 Redhill Surrey RH1 1YX
Administration Discretions and Benefits Committee (ADB)	BESTrustees Limited (Chairman) N. Bowles B. Izzard T. Rossiter
Actuary	N. Mobbs of Willis Towers Watson Limited
Independent Auditors	Grant Thornton UK LLP
Legal Advisers	Pinsent Masons LLP Hogan Lovells International LLP Travers Smith LLP
Secretary to the ADB	Capita Employee Benefits Limited (until March 2020) Willis Towers Watson (from April 2020)

NORTEL NETWORKS UK PENSION PLAN

TRUSTEE AND ADVISERS *(continued)*

YEAR ENDED 31 MARCH 2020

Investment Consultant	Mercer Investment Consulting
Investment Managers	BlackRock Advisors (UK) Limited Insight Investment Management
Global Custodian	State Street Bank & Trust Company
AVC Providers	Utmost Life and Pensions (formerly The Equitable Life Assurance Society) Aviva (until 9 May 2019) Phoenix (London Life)
Buy-Out Advisers	ISIO Services Limited 2020 (formerly KPMG LLP (UK))
Bankers	HSBC plc
Financial Advisers	PricewaterhouseCoopers LLP
Registered office of the Trustee	Nortel Networks UK Pension Trust Limited 1 Park Row Leeds LS1 5AB

NORTEL NETWORKS UK PENSION PLAN

TRUSTEE'S REPORT

YEAR ENDED 31 MARCH 2020

Introduction

Nortel Networks UK Pension Trust Limited acts as Trustee of the Nortel Networks UK Pension Plan ("the Plan").

The Trustee of the Plan presents its report together with the actuarial statements and financial statements for the year ended 31 March 2020.

Following the establishment of the buy-out contract with Legal & General Assurance Society Limited (Legal & General) in 2018/19, the Plan ceased to be responsible for majority of benefits for its members. For some members, the Plan's liability was fully extinguished by the payment of one-off lump sums at that time but for the majority there remains a residual liability in respect of recoveries received or yet to be received from the global Nortel insolvency process which is still ongoing.

During the course of the financial year, the Plan received the following recoveries - a dividend of £55.8m in July 2019 from the administrators of Nortel Networks UK Limited (NNUK) and £22.2m in respect of the Plan's claim into Nortel Canada in December 2019.

In anticipation of being able to make a further distribution of benefits towards the end of 2020, the Plan wrote to members due further benefits in March 2020 giving estimated amounts of additional pension together with alternative lump sums and statutory transfer amounts where available.

On 22 June 2020, there was a High Court judgment in the case of *Hughes v Pension Protection Fund* (PPF). This judgment related to the compensation paid by the PPF and benefits paid by pension schemes in a PPF assessment period. The Trustee and its advisers are now assessing the implications of the judgment for the Plan, noting that the judgment may become the subject of an appeal. Although the Pension Plan has now left the PPF assessment period, these ongoing legal proceedings could change the way in which we are required to allocate the additional funds we now have when securing additional benefits for Plan beneficiaries.

As a result of the foregoing, it now seems very unlikely that the Trustee will be able to make any further general distribution of benefits in 2020 and it is also unclear if this delayed distribution will be the final distribution.

The Trustee will continue to keep members up to date on progress of the foregoing both by personalised communications and announcements on its website.

As explained in note 1, the Trustee has prepared the financial statements on a cessation basis a result of the continuing recovery process noted above.

The financial statements have been drawn up in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 and the Statement of Recommended Practice, Financial Reports of Pension Schemes (Revised June 2018) issued by the Pensions Research Accountants Group.

NORTEL NETWORKS UK PENSION PLAN

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2020

The Plan provided defined pension benefits to members (or their dependants) who are current or former employees of the Principal Company or other associated companies. The Plan is governed by a Trust Deed and Rules, the parties to which are the Trustee and the Principal Company. The Plan was closed to new entrants on 30 June 2000. All contributions and all future service accrual for active members ceased with effect from 14 January 2009 when Nortel Networks UK Limited went into administration. From that date until October 2018, all benefits were calculated and paid in accordance with PPF practices and procedures.

The Plan was a contracted-out scheme for the purposes of the Social Security Pensions Act 1975, and a contracting-out certificate was in force to cover the employment of members of the Plan. This meant that members did not contribute to the State Second Pension Scheme and therefore paid reduced National Insurance Contributions. The contracting-out certificate was cancelled with effect from 13 January 2009.

The Plan is a "registered" pension scheme, the effect of which is to give tax relief on members' and employer's contributions received and on the investment income and gains earned by the Plan. The Trustee knows of no reason why this registration may be prejudiced or withdrawn.

The Trustee is conscious of the potential effect of the Covid-19 pandemic and have worked with all their advisors to understand and mitigate the effects. Post year end, particular attention has been focused on the impact on the value of underlying invested assets, the value of liabilities and the robustness of administration and payroll processes. The Trustee is comfortable that, from an investment perspective, the low-risk and fully hedged investment strategy in place does not carry significant investment risk and therefore no adjustment to the valuations within these accounts is required. The Trustee is also comfortable that its key administration and operations arrangements are continuing to function appropriately.

The Trustee will continue to monitor the impact of the COVID-19 outbreak and will take any actions it deems appropriate to ensure that the Pan continues to operate in an efficient manner.

Management of the Plan

The Plan is set up under a Trust which ensures that the assets are kept separate from the finances of the Principal Company, and other participating companies. The Trustee is responsible for ensuring that the Plan is operated correctly, for the benefit of all the members, in accordance with the Trust Deed and Rules of the Plan and with applicable legislation. The Trustee remains responsible for the administration and investment policy of the Plan. From 14 January 2009 until 8 October 2018 (the period of "PPF Assessment") the Plan operated according to PPF rules.

NORTEL NETWORKS UK PENSION PLAN

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2020

Investment Committee

Membership of the Investment Committee is shown on page 1.

This Committee was established under Trustee authority to monitor and report on the performance of the Investment Managers and make recommendations to the Trustee. It is a sub-committee of the Trustee Board, with decision making responsibilities. The Trustee is responsible for determining the Plan's investment policy.

Administration Discretions and Benefits Committee (ADB)

Membership of the ADB is shown on page 1.

This Committee was established under Trustee authority and has prime responsibility for ensuring that the administration of the Plan is carried out in accordance with the Trust Deed and Rules. The ADB also has responsibility for monitoring the service agreement with the Plan's external administrators and for exercising various discretions; for example, the payment of benefits to beneficiaries arising from member deaths. In addition from May 2020 the Trustee Board adopted a one stage Procedure to directly deal with all disputes received. The ADB was responsible for reviewing the first stage of any cases arising under the Internal Dispute Resolution Procedure.

Buy-Out Committee (BOC)

Membership of the BOC is shown on page 1.

In recognition of the Trustee's objective to secure benefits for members outside of the Pension Protection Fund (PPF), the Trustee established the BOC to manage recoveries from Nortel's global insolvency and delegate certain actions and responsibilities to the BOC in accordance with the Trustee's Articles of Association, Trust Deed and Rules.

Individual transfer payments

From 14 January 2009 until 8 October 2018, no payment of transfer values from the Plan was permitted under PPF rules except in limited cases e.g. under a Court Order in a divorce case.

From 8 October 2018 members are entitled to request cash equivalent transfer value quotations, where there is a statutory entitlement to one. Cash equivalent transfer values are currently reduced to reflect the level of funds available in the Plan.

Directors of the Trustee Board

The Trustee of the Plan is a corporate Trustee, Nortel Networks UK Pension Trust Limited. This Trust Company is governed by its Memorandum and Articles of Association and it has a fiduciary responsibility for the operation and management of the Plan. The Directors of the Trust Company are set out on page 1. The current Board is constituted as follows;

- 1 Independent Chairman
- 1 Independent Director
- 1 Company Nominated Director
- 3 Member Nominated Directors

Each Director is eligible to vote and the Memorandum & Articles of Association permits a decision to be carried by simple majority. The Chairman has a casting vote.

On the 1st November 2019, David Davies retired as Chairman of the Trustee Board and was replaced by a long serving member of the Trustee Board, Clive Gilchrist of BESTrustees Limited. There were no other changes to any of the Trustee Directors during the year, or to the date of approving this report.

NORTEL NETWORKS UK PENSION PLAN

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2020

Member Nominated Directors (MNDs)

Following Nortel Networks UK Limited entering into Administration on 14 January 2009, the statutory process for selecting MNDs no longer applies. The MNDs as at 14 January 2009 have continued to serve as Directors.

Wind-up Progress

As noted in the introduction, members had liabilities discharged based on the assets of the Plan when it left PPF Assessment. This enabled the Trustee to legally fully discharge its obligations to approximately 7,400 members.

For other members, depending on their particular circumstances and options available to them, benefits were either secured with Legal & General or transferred to alternative arrangements. These benefits were the PPF compensation level of benefits plus 34% of the difference between that PPF compensation level and full Plan benefits. Following this, these members (eligible members) retained a balance within the Plan which is the difference between their full plan benefits and the amounts already secured or transferred. At 31 March 2020 there were over 21,000 eligible members.

Further recoveries from the proceeds of Nortel's global insolvency process will enable the Trustee to provide additional benefits to eligible members, although this will not reach full plan benefits.

As a result of the High Court judgment mentioned in the Introduction, it is unclear when this will happen. The wind up of the Trust will not begin until all benefits have been allocated to eligible members and paid by way of either additional premiums to Legal & General or payments in accordance with members' decisions on the options available to them.

Financial developments and financial statements

The assets of the Plan increased by £69,264K per page 21 over the year giving a Plan asset value of £157,071K per page 21 at 31 March 2020.

Financial development of the Plan - Recoveries

The Recoveries process continues and at the start of the financial year the Plan has received a total of £1,110m as a result of the global settlement which became effective in May 2017. On the 11 July 2019, a further sum was received of £55,822 followed by £22,182 in December 2019 bringing total recoveries received to £1,188 billion.

We expect to receive additional sums when NNUK finalise their dividends.

Buyout Process

The Plan's BOC continues to work closely with our advisers to ensure that further benefits are provided to members from additional recoveries.

The responsibility for paying most existing pensions passed to Legal & General with effect from November 1, 2018.

NORTEL NETWORKS UK PENSION PLAN

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2020

Statement of Trustee's responsibilities

The financial statements, which are prepared in accordance with applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice), are the responsibility of the Trustee. Pension scheme regulations require, and the Trustee is responsible for ensuring, that those financial statements:

- show a true and fair view of the financial transactions of the plan during the plan year and of the amount and disposition at the end of the plan year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the plan year; and
- contain the information specified in Regulations 3 and 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including making a statement whether the financial statements have been prepared in accordance with the relevant financial reporting framework applicable to occupational pension schemes.

In discharging the above responsibilities, the Trustee is responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgments on a prudent and reasonable basis, and for the preparation of the financial statements on a going concern basis unless it is inappropriate to presume that the plan will not be wound up.

The Trustee is also responsible for making available certain other information about the plan in the form of an annual report.

The Trustee also has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the plan and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

The Trustee is responsible under pensions legislation for preparing, maintaining and from time to time revising a schedule of contributions showing the rates of contributions payable towards the plan by or on behalf of the employer and the active members of the plan and the dates on or before which such contributions are to be paid. The Trustee is also responsible for keeping records in respect of contributions received in respect of any active member of the plan and for adopting risk-based processes to monitor whether contributions are made to the plan by the employer in accordance with the schedule of contributions. Where breaches of the schedule occur, the Trustee is required by the Pensions Acts 1995 and 2004 to consider making reports to The Pensions Regulator and the members.

After the Company's filing for Administration on 14 January 2009, all contributions ceased. As a result, no contributions were receivable for the year ended 31 March 2020.

The Trustee is responsible for the maintenance and integrity of the financial information of the plan included on the plan's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

NORTEL NETWORKS UK PENSION PLAN**TRUSTEE'S REPORT** *(continued)***YEAR ENDED 31 MARCH 2020****Membership**

The changes in membership during the year are as follows:

	Deferred members	Pensioners	Dependants	Total
At 1 April 2019	10,399	10,728	2,964	24,091
Adjustments to prior period	16	1	4	21
Deaths	(112)	(574)	(204)	(890)
Entitlement ceasing	–	–	(42)	(42)
All benefits assigned or settled	(1,558)	(418)	–	(1,976)
At 31 March 2020	<u>8,745</u>	<u>9,737</u>	<u>2,722</u>	<u>21,204</u>

There were no active members at any time during the year.

As at 31 March 2020 there are 9,737 pensioners, 2,722 dependant pensioners and 8,745 deferred members in the Plan. The nature of the benefits still due for the Plan is explained on page 6 under "Wind-up progress".

Pension increases

Since member pensions were secured out with Legal & General in October 2018 the Plan has not been making pension payments (apart from in respect of a small number of new dependants who were not secured with Legal & General in October 2018).

Going forward, inflation increases will be paid by Legal & General to those members who did not elect to have a fixed pension. Defined Contribution elements (e.g AVCs) will continue to have inflation linked increases as before.

NORTEL NETWORKS UK PENSION PLAN**TRUSTEE'S REPORT** *(continued)***YEAR ENDED 31 MARCH 2020**

Report on Actuarial liabilities

As required by Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' (FRS 102), the Annual report and financial statements do not include liabilities in respect of promised retirement benefits.

Under section 222 of the Pensions Act 2004, every ongoing scheme is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its technical provisions, which represent the present value of benefits to which members are entitled based on pensionable service to the valuation date. This is assessed and then set out in a Statement of Funding Principles, which is made available to scheme members on request. However, the Plan entered into wind-up on 14 January 2009, before its first actuarial valuation under section 222 of the Pensions Act 2004 was completed.

During wind-up there is no requirement to prepare such actuarial valuations. Instead the Plan Actuary, following the emergence of the Plan from PPF Assessment in October 2018, reports on the Plan's estimated liability annually. The main purpose of this report is estimate what proportion of the Plan's remaining liabilities can be secured by the available assets. The Plan Actuary's first such report considers the position at 31 March 2019.

The liabilities were valued using a method and assumptions that the Plan Actuary considered provided an estimate of the cost of securing these liabilities with an insurance company. These assumptions were derived from the insurance company pricing achieved by the Plan Trustee in buying out the first tranche of liabilities in October 2018 with Legal & General, adjusted to reflect changes in conditions to 31 March 2019. The main assumptions used in valuing the liabilities were set out in the Plan Actuary's report to the Trustee dated 31 March 2020.

The table below sets out the estimated solvency position of the Plan at 31 March 2019.

	31 March 2019 £ million
Solvency liabilities (including estimated future costs of winding up, but excluding Plan liabilities of c£2.9 billion discharged in 2018)	1,145
Market value of assets	88
(Deficit)/Surplus	(1,057)
Solvency level (assets ÷ liabilities)	8%

The asset value is the audited value as at 31 March 2019, excluding any insolvency recoveries the Plan received after 31 March 2019. Over the year to 31 March 2020 the Plan received approximately £78 million in recoveries, and further recoveries are expected.

NORTEL NETWORKS UK PENSION PLAN

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2020

Investment management

Management

The Trustee has ultimate responsibility for investing the entire assets of the Plan. It has appointed an Investment Committee which meets regularly to review investment matters in detail and, where appropriate, to make recommendations to the full Trustee Board. Expert advice is sought whenever appropriate.

The investments which make up the investment portfolio are managed by the Investment Managers listed on page 2. The Global Custodian who holds the assets comprising the portfolios is also shown on page 2.

Fees

The fees paid to the Investment Managers are based on a percentage of the value of the portfolio under management. Fees to the Global Custodian are based on a percentage of the value of the assets it holds and on the transactions by the Investment Managers. Total fees paid to Investment Managers and the Global Custodian for the year ended 31 March 2020 were £401,000 (2019: £1,326,000).

Investment policy

The Trustee is responsible for determining the Scheme's investment strategy.

In accordance with section 35 of the Pensions Act 1995, the Trustee has agreed a Statement of Investment Principles (SIP) following consultation with the professional advisers and a copy is available on request.

In October 2018, the Plan completed a bulk annuity transaction and the majority of the Plan's assets and liabilities were either transferred to Legal and General Assurance Society (LGAS), to alternative pension providers (as transfer values) or members (as commutation lump sums and back payments). The residual assets held by the Plan are invested in a pooled liability hedging mandate and in liquidity funds as shown below:

- 90% in liability hedging mandate with Insight
- 10% in liquidity funds with Insight

NORTEL NETWORKS UK PENSION PLAN**TRUSTEE'S REPORT** *(continued)***YEAR ENDED 31 MARCH 2020****Review of investment holdings**

Details of the Plan's investments of £156,119,000 are given in note 9 to the financial statements. An analysis of the asset allocation of the Plan's investments as at 31 March 2020 is provided below:

	31 Mar '20	<i>31 Mar '19</i>
	%	%
Pooled investment vehicles		
- Tailored Funds	99.04	96.88
Bonds	-	0.02
Cash	0.06	0.14
AVC investments	0.90	2.96
Total	100.00	<i>100.00</i>

At 31 March 2020 the pooled investment vehicle - Tailored Funds represents the Plan's ownership of a liquidity fund and liability solutions funds designed to provide a total return which reflects that of a deferred annuity consistent with the Plan's liability hedging mandate.

Investment Report**Introduction**

Over the course of the year the Plan received recovery payments of approximately £78 million. With the exception of £5m which was transferred to the Trustee Bank Account to cover ongoing expenses, the cash was invested with Insight and used to extend the Plan's interest rate and inflation hedge.

During the year under review, the Plan's investments were managed predominately by Insight, with a small legacy holding with BlackRock. A summary of the manager allocations as at the start and end of the year is provided in Section 3.

1. Investment Principles

The Trustee of the Nortel Networks UK Pension Plan ("the Plan") has drawn up a Statement of Investment Principles ("SIP") to comply with the requirements of the Pensions Act 1995 ("the Act"), as revised from time to time, and subsequently legislation. The Trustee has consulted a suitably qualified person by obtaining written advice from Mercer Limited ("the Investment Consultant").

Overall investment policy falls into two parts; the strategic management of the assets, which is fundamentally the responsibility of the Trustee, and the day to day management of the assets, which is delegated to professional investment managers.

The Plan's SIP sets out the general principles underlying the investment policy. Details of how this policy has been implemented are set out in a separate Investment Policy Implemented Document ("IPID").

NORTEL NETWORKS UK PENSION PLAN**TRUSTEE'S REPORT** *(continued)***YEAR ENDED 31 MARCH 2020**

2. Socially Responsible Investment and Corporate Governance

The Trustee believes that environmental, social, and corporate governance (ESG) factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

The Trustee has considered the issues in relation to corporate governance and on the exercise of voting rights. The Trustee recognises that good corporate governance creates the framework within which a company can be managed in the long term interests of shareholders, in particular voting at Annual and Extraordinary General Meetings on the election of directors, the issuance of equity and the appointment of auditors are fundamental in protecting shareholders interests.

The Trustee has given the appointed investment managers full discretion in evaluating ESG factors, including climate change considerations, exercising voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

3. Investment Performance

Asset Class	Last Year		Last 3 Years		Last 5 Years	
	Fund (%)	Benchmark (%)	Fund (% p.a.)	Benchmark (% p.a.)	Fund (% p.a.)	Benchmark (% p.a.)
Insight Liquidity	0.53	0.63	0.70	0.66	0.67	0.53
Total	0.53	0.63	0.70	0.66	0.67	0.53

NORTEL NETWORKS UK PENSION PLAN**TRUSTEE'S REPORT** *(continued)***YEAR ENDED 31 MARCH 2020****Asset Allocation**

Manager (Asset Class)	Actual Asset Allocation			
	Start of Period (£m)	End of Period (£m)	Start of Period (%)	End of Period (%)
Insight (LDI and Liquidity)	56.2	154.7	81.2	97.9
Cash (Trustee Bank Account)	13.0	3.4	18.8	2.1
Total*	69.2	158.1	100.0	100.0

*Source: Investment Managers and Mercer

4. AVC Investments

Prior to the insolvency of the sponsoring employer, the Trustee made available to Plan members a choice of external Additional Voluntary Contribution ("AVC") investment arrangements.

At the end of the financial year, certain remaining member AVCs were held under a temporary Trustee arrangement with Utmost Life and Pensions. These AVCs were formerly held with Equitable Life.

In August 2020, most of the above AVCs were transferred to member specific arrangements with the Aviva Master Trust meaning that the Plan has now discharged all of its former AVC member liabilities.

5. Custodial Arrangements

Manager	Custodian
Insight (Sterling Liquidity plus)	Northern Trust International Fiduciary Services (Ireland) Ltd

Source: Investment Managers.

All of the Plan's Investment Managers are authorised by the Financial Conduct Authority, the UK's regulator for the finance industry. They are generally acknowledged as leading companies providing investment management services.

With respect to the Plan's assets invested in pooled funds, the safekeeping of the underlying assets is undertaken by custodians selected and monitored by the fiduciaries of the pooled funds.

The Trustee is responsible for ensuring the Plan's assets continue to be securely held. The Trustee reviews the custodian arrangements from time to time and the Plan's auditor is authorised to make whatever investigations it deems are necessary as part of the annual audit procedure.

NORTEL NETWORKS UK PENSION PLAN

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2020

Rights attaching to investments

The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers.

Custody of assets

The day-to-day administration and custody of Plan investments has been delegated by the Trustee to State Street Bank & Trust Company. State Street Bank & Trust Company is remunerated on a fees basis.

Employer-related investments

The Pensions Act 1995 defines the conditions under which pension plans may invest in employer-related investments, and the extent of such investments. The Trustee does not invest in the shares of Nortel Networks Corporation, any of its subsidiaries, in property occupied by, leased to, or otherwise owned or occupied by them. The lending of money to any Participating Company, their subsidiaries or holding companies is prohibited by the Trust Deed and Rules.

Matters relating to the Trustees

The Trustee has received a copy of the Guide for Pension Scheme Trustees issued by The Pensions Regulator.

Plan advisers

There are written agreements in place between the Trustee and each of the Plan advisers listed on pages 1 and 2 of the Annual Report.

Statutory Registration References

The Pensions Regulator - The Plan is registered under Reference 10092331

General Data Protection Regulation 2018 - The Trustee is registered under Reference 70417191 (www.ico.gov.uk)

HMRC Pension Scheme Tax Reference (PSTR) - The Plan's reference is 00302665RV

Communications

All members receive any relevant communications by post or, where initiated by them, via email. Members are also able to access the Plan's website (www.nortelpensions.com)

In December 2019 the Trustee wrote to eligible members to provide advance notification of the expected distribution of further benefits resulting from the receipt of additional funds from the Nortel global insolvency process. This letter included details of any member-specific options and details of the availability of an independent financial advice arrangement to assist members to consider any options, available to them.

In March 2020 the Trustee wrote to eligible members giving details of estimated additional pension amounts resulting from the additional funds mentioned above together with estimates of an alternative lump sum payment where available. In addition, some members not currently in receipt of pensions were provided with guaranteed statutory transfer amounts at their request.

Whilst the Trustee had initially hoped to secure further member benefits by the end of 2020, it is now clear that this is very unlikely to happen as a result of the High Court judgment mentioned in the Introduction. Members will be kept up to date with personalised letters and website announcements as appropriate

NORTEL NETWORKS UK PENSION PLAN

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2020

Website

The Plan's website has been in operation since January 2003. It kept members up to date with developments during the Recovery process and now includes general information about the result of the buyout process. Future developments will also be captured. The website is no longer used for pension forecasts or notifying administrative changes.

Summary Funding Statement

Since September 2006, and in accordance with regulations issued by the Pensions Regulator, a Summary Funding Statement, contained within the Chairman's annual letter, was issued to all members.

Internal disputes resolution procedure

Disputes resolution procedures can be found on the Plan's website (www.nortelpensions.com). Note that the Plan adopted a single stage IDR procedure with effect from May 1st, 2020.

Contact for further information

Any queries or complaints about the Plan, including requests from individuals for information about their benefits or for a copy of Plan documentation, should be sent to:

Nortel Networks UK Pension Plan, c/o Willis Towers Watson, PO Box 545, Redhill, Surrey RH1 1YX

website: www.nortelpensions.com
contact email: nortel-trustee@willistowerswatson.com
contact phone: 01707 607601

Signed for and on behalf of the Trustee of the Nortel Networks UK Pension Plan by:

Bob Hymas

R J Hymas on behalf of BESTrustees Limited **Date** 25/9/2020

Brian Izzard

Brian Izzard **Date** 25/9/2020

NORTEL NETWORKS UK PENSION PLAN
TRUSTEE'S SUMMARY OF CONTRIBUTIONS
YEAR ENDED 31 MARCH 2020

Contributions payable under the schedule in respect of the Plan period

After the Company's filing for Administration on 14 January 2009, all contributions ceased. As a result, no contributions were receivable for the year ended 31 March 2020.

Reporting requirements

Regulations and other relevant guidance require the Scheme Auditor to provide a Statement about Contributions. The fact that, as explained above, no contributions were receivable is not recognised in these requirements and so it is still necessary for both the Trustee and the Scheme Auditor to give statements in this annual report.

Trustee's responsibility in connection with contributions

The Trustee is responsible for keeping records in respect of contributions received in respect of any active member of the Plan and for monitoring whether contributions are made to the Plan by the employer in accordance with relevant requirements. Where breaches occur, the Trustee is required by the Pensions Acts 1995 and 2004 to consider making reports to The Pensions Regulator and the members.

Signed for and on behalf of the Trustee of the Nortel Networks UK Pension Plan by:

Bob Hymas

R J Hymas on behalf of BESTrustees Limited **Date** 25/9/2020

Brian Izzard

Brian Izzard **Date** 25/9/2020

NORTEL NETWORKS UK PENSION PLAN

AUDITORS' STATEMENT ABOUT CONTRIBUTIONS TO THE TRUSTEE OF THE NORTEL NETWORKS UK PENSION PLAN

YEAR ENDED 31 MARCH 2020

We have examined the summary of contributions to the Nortel Networks UK Pension Plan (the 'Plan') in respect of the Plan year ended 31 March 2020 which is set out on previous page. In our opinion, contributions for the Plan year ended 31 March 2020 as reported in the summary of contributions have been paid in accordance with the Plan rules and recommendations of the actuary.

Scope of work on statement about contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the summary of contributions have been paid in accordance with the Plan rules and recommendations of the actuary. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Plan and the timing of those payments under the Plan rules and recommendations of the actuary.

Respective responsibilities of Trustees and the auditor

As explained more fully in the statement of Trustee's responsibilities set out on page 18, the Trustee is responsible for preparing, and from time to time reviewing and if necessary revising, a schedule of contributions and for monitoring whether contributions are made to the Plan by the employer in accordance with the schedule of contributions, or the Plan rules and recommendations of the actuary. It is our responsibility to provide a statement about contributions paid under the Plan rules and recommendations of the actuary and to report our opinion to you.

Use of our statement

This statement is made solely to the Trustee, as a body, in accordance with the Pensions Act 1995 and Regulations made thereunder. Our work has been undertaken so that we might state to the Trustee those matters we are required to state to the Trustee in an auditor's statement about contributions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Trustee as a body, for our work, for this statement, or for the opinions we have formed.



Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London

Date: 25/9/2020

NORTEL NETWORKS UK PENSION PLAN

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF NORTEL NETWORKS UK PENSION PLAN

YEAR ENDED 31 MARCH 2020

Opinion

We have audited the financial statements of the Nortel Networks UK Pension Plan (the 'Plan') for the year ended 31 March 2020, which comprise the fund account, the statement of net assets (available for benefits) and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- show a true and fair view of the financial transactions of the Plan during the year ended 31 March 2020, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- contain the information specified in Regulations 3 and 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Plan in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Trustee and the related disclosures and the appropriateness of the basis of preparation of the financial statements. All of these depend on assessments of the future economic environment.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties. However, no audit should be expected to predict the unknowable factors or all possible future implications for a Plan associated with these particular events.

NORTEL NETWORKS UK PENSION PLAN

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF NORTEL NETWORKS UK PENSION PLAN *(continued)*

YEAR ENDED 31 MARCH 2020

Emphasis of matter – basis of preparation of the financial statements

We draw attention to note 2 to the financial statements which describes the basis of preparation of the financial statements. As described in that note, the Trustee has secured additional recoveries from the global Nortel insolvency processes which will enable additional benefits to be payable to eligible members, which are expected to be completed in 2021. On this basis the Trustee believes that it is no longer appropriate to prepare the financial statements on the going concern basis, and they have been prepared on the cessation basis. Our opinion is not modified in respect of this matter.

Other information

The Trustee is responsible for the other information. The other information comprises the information included in the annual report and financial statements, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Trustee for the financial statements

As explained more fully in the Trustee's responsibilities statement set out on page 7, the Trustee is responsible for the preparation of financial statements which show a true and fair view, and for such internal control as the Trustee determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Trustee is responsible for assessing the Plan's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustee either intends to wind up the Plan, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

NORTEL NETWORKS UK PENSION PLAN

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF NORTEL NETWORKS UK PENSION PLAN *(continued)*

YEAR ENDED 31 MARCH 2020

Use of our report

This report is made solely to the Trustee, as a body, in accordance with the Pensions Act 1995 and Regulations made thereunder. Our audit work has been undertaken so that we might state to the Trustee those matters we are required to state to the Trustee in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Trustee as a body, for our audit work, for this report, or for the opinions we have formed.



Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London

Date: 25/9/2020

NORTEL NETWORKS UK PENSION PLAN**FUND ACCOUNT****YEAR ENDED 31 MARCH 2020**

	Note	2020 £'000	2019 £'000
Other income	4	78,004	98,559
		<u>78,004</u>	<u>98,559</u>
Benefits paid or payable	5	(484)	(123,255)
Payments to and on account of leavers	6	(765)	(373,495)
Purchase of annuity contracts	7	-	(2,324,619)
Administrative expenses	8	(6,845)	(8,288)
		<u>(8,094)</u>	<u>(2,829,657)</u>
Net additions/(withdrawals) from dealings with members		69,910	(2,731,098)
Returns on investments			
Investment income	9	7,946	216
Change in market value of investments	10	(8,347)	(97,303)
Investment management expenses	11	(245)	(1,326)
Net return on investments		(646)	(98,413)
Net increase/(decrease) in the fund during the year		69,264	(2,829,511)
Net assets of the Scheme			
At 1 April		<u>87,807</u>	<u>2,917,318</u>
At 31 March		<u>157,071</u>	<u>87,807</u>

The notes on pages 23 to 33 form part of these Annual report and financial statements.

NORTEL NETWORKS UK PENSION PLAN
STATEMENT OF NET ASSETS (AVAILABLE FOR BENEFITS)
AS AT 31 MARCH 2020

	Note	2020 £'000	2019 £'000
Investment assets	10		
Bonds		–	10
Pooled investment vehicles	13	154,613	56,184
AVC investments	14	1,407	1,717
Cash	15	99	81
		<u>156,119</u>	<u>57,992</u>
Current assets	20	4,308	31,603
Current liabilities	21	(3,356)	(1,788)
Net assets of the Scheme at 31 March		<u><u>157,071</u></u>	<u><u>87,807</u></u>

The financial statements summarise the transactions of the Plan and deal with the net assets at the disposal of the Trustee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Plan period.

Signed for and on behalf of the Trustee of the Nortel Networks UK Pension Plan by:

Bob Hymas

R J Hymas on behalf of BESTrustees Limited **Date** 25/9/2020

Brian Izzard

Brian Izzard **Date** 25/9/2020

The notes on pages 23 to 33 form part of these Annual report and financial statements.

NORTEL NETWORKS UK PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2020

1. General information

The Plan is governed by a definitive Trust Deed and Rules and subsequent deeds of amendment.

The Plan was established to provide defined pension benefits to members (or their dependants) who were former employees of the Principal Company or its associated companies.

The Trustee has prepared the financial statements on a cessation basis a result of the continuing recovery process.

The Trustees will only commence wind up once all eligible member benefits are secured. The Plan left the PPF Assessment period and buy-out of the majority of member benefits in 2018. As noted on page 3 the Trustee hopes to complete the buy out of remaining member benefits in 2021.

2. Basis of preparation

The Plan entered into a PPF assessment period with effect from 14 January 2009. Such an event will often trigger a pension scheme to commence winding-up, and require the Trustee to consider whether it is appropriate to continue to prepare accounts on a going concern basis. Whilst assessment periods normally last for a period of approximately two years, the Plan was in an unusual position in that the timing of the completion of the assessment period was dependent on the result of recoveries arising from Nortel's global insolvency process. The PPF actuary determined in July 2017 that the Plan was overfunded on a PPF basis and hence the PPF approved what is known as a Section 143 valuation in August 2017.

The Plan left Pension Protection Fund (PPF) assessment on 8 October 2018, formally entering the winding-up process from 8 October 2018, with the effective date of commencement backdated to 14 January 2009. The formal legal wind up of the Trust has not yet commenced, and will not until all eligible member benefits are secured.

A partial buy-out was completed in October 2018 to secure benefits for all members at least equal to PPF levels. As stated in the Introduction to the Trustee's report, the Trustee has secured additional recoveries from the global Nortel insolvency processes which will enable additional benefits to be payable to eligible members, expected to be completed in 2021. On this basis the Trustee believes it is no longer appropriate to prepare the financial statements on the going concern basis, and they have been prepared on the cessation basis. No changes to the figures recognised in the financial statements were required in applying the cessation basis.

The benefits for most members who were already in receipt of a pension (together with some new pensioners) were secured through a buy-out contract with Legal & General Assurance Society Limited (Legal & General who became legally responsible for paying these pensions from 1 November 2018 onwards).

Statement of compliance

The individual financial statements of the Nortel Networks UK Limited Pension Plan have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard (FRS) 102 - The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council ("FRS 102") and the guidance set out in the Statement of Recommended Practice "Financial Reports of Pension Schemes" (revised June 2018) ("the SORP").

This is the first year of adoption for the 2018 SORP. There have been no restatements of prior year figures as a result of this adoption.

NORTEL NETWORKS UK PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2020

3. Accounting policies

The principal accounting policies, applied in the preparation of these financial statements are set out below.

Other income

Settlement income from the global insolvency process of the former employer is recognised as received by the Trustee. All other income is accounted for on an accrual basis.

Foreign currency conversion

Assets and liabilities in foreign currencies are expressed in sterling at the rates of exchange ruling at the year end. Foreign currency transactions during the year are recorded at the exchange rate on the date of the transactions. All gains and losses on foreign currency investment and cash balances and transactions are included as part of change in market value of investments.

Functional currency

The Plan's functional currency and presentational currency is pounds sterling (GBP).

Transfers to and from other schemes

Individual transfers in or out are accounted for when paid or received which is normally when member liability is accepted or discharged. There were no transfers in during the financial year.

Purchase of annuity contracts

The purchase of bulk annuity contracts transferring the liability to pay benefits to an insurer and the establishment of annuity policies in the names of individual members are recognised on the date the contract was executed by the relevant parties.

Benefits

Pensions payable in respect of the Plan year are accounted for by reference to the year to which they relate.

Benefits and any associated taxation due to lifetime allowance where the member has elected the Plan to settle the liability on their behalf, the Trustee has deducted the relevant amount and sent it to HMRC.

Expenses

Administrative expenses and investment management expenses are accounted for by reference to the year to which they relate.

Investment income

Interest is accrued on a daily basis.

Investment income is reported net of attributable tax credits but gross of withholding taxes which are accrued in line with the associated investment income. Irrecoverable withholding taxes are reported separately as a tax charge, where material.

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year including profits and losses realised in sales of investments during the year.

NORTEL NETWORKS UK PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2020

Annuity income

Income arising from annuity policies held by the Trustee and received by the Plan is included within investment income, accrued to match the related benefit payable.

Investments

Investments are included at fair value.

Pooled Investment Vehicles are stated at bid price for funds with bid/offer spreads, or single price where there are no bid/offer spreads as provided by the investment manager.

4. Other income

	2020	2019
	£'000	£'000
Insolvency settlement income	78,004	98,548
Other income	–	11
	<u>78,004</u>	<u>98,559</u>

Income of £78,004,000 (2019: £98,548,000) received during the year ended 31 March 2020 relates to proceeds received from Nortel's global insolvency process.

5. Benefits paid or payable

	2020	2019
	£'000	£'000
Pensions	137	46,049
Commutations and retirement lump sums	323	77,036
Lump sum death benefits	24	8
Taxation where lifetime or annual allowance exceeded	–	162
	<u>484</u>	<u>123,255</u>

Taxation arising on benefits paid or payable is in respect of members whose benefits exceeded the lifetime or annual allowance and who elected to take lower benefits from the Plan in exchange for the Plan settling their tax liability.

Winding Up Lumps Sums and Trivial Commutation Lump Sum Death Benefit payments are included in the figure above 'Commutations and Retirement Lump Sums'.

NORTEL NETWORKS UK PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2020

6. Payments to and on account of leavers

	2020	2019
	£'000	£'000
Refunds of contributions in respect of non-vested leavers	7	2
Payments for members joining the state scheme	(19)	–
Bulk transfers to other schemes (AVC's only)	456	–
Individual transfers to other schemes	321	373,493
	<u>765</u>	<u>373,495</u>

The negative state scheme amounts were received from the HMRC. These payments relate to the GMP reconciliation carried out as a result of the Plan ceasing to contract out and were refunds of surplus monies that was identified by the HRMC against Nortel SCOs and refunded to the Plan.

7. Purchase of annuity programmes

	2020	2019
	£'000	£'000
Buy-out with Legal & General	–	2,324,619
	<u>–</u>	<u>2,324,619</u>

See page 4 of Trustee Report for further details on L&G buy-out contract executed in the previous year.

As at 31 March 2020, following a buy-out transaction to secure benefits with Legal & General, the pensioners and deferred members have retained benefits within the Plan which will be secured at a later date in a subsequent buy-out transaction.

8. Administrative expenses

	2020	2019
	£'000	£'000
Administration fees	2,075	3,145
Legal and recovery fees	3,136	3,353
Trustee's fees and expenses	172	234
Actuarial fees	829	1,014
Audit fee	68	72
Other fees	565	470
	<u>6,845</u>	<u>8,288</u>

All expenses in the current year are shown gross of VAT. Prior to May 2015, all expenses were shown net of VAT.

The legal recovery fees include advice from lawyers and financial advisers in the UK in the pursuit of maximum recoveries from Nortel's insolvency process.

The Trustee's fees and expenses include fees for Professional Trustee services and honorarium payments to Trustee Directors who are former employees of Nortel.

NORTEL NETWORKS UK PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2020

9. Investment income

	2020	2019
	£'000	£'000
Income from pooled investment vehicles	7,920	–
Annuity income	14	130
Other investment income	–	2
Bank interest	12	84
	<u>7,946</u>	<u>216</u>

10. Investments

	Value at 1	Purchases	Sales	Change in	Value at 31
	April 2019	at cost	proceeds	market	March 2020
	£'000	£'000	£'000	value	£'000
Bonds	10	501	(501)	(10)	–
Pooled investment vehicles	56,184	245,532	(138,476)	(8,627)	154,613
AVC investments	1,717	–	(582)	272	1,407
	<u>57,911</u>	<u>246,033</u>	<u>(139,559)</u>	<u>(8,365)</u>	<u>156,020</u>
Cash	81			18	99
	<u>57,992</u>			<u>(8,347)</u>	<u>156,119</u>

The change in market value of investments during the year comprises increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Included within the above purchases and sales figures are transaction costs of £Nil (2019: £Nil). Costs are also borne by the Plan in relation to transactions in pooled investment vehicles. However, such costs are taken into account in calculating the bid/offer spread of these investments and are not therefore separately identifiable.

11. Investment management expenses

	2020	2019
	£'000	£'000
Administration and management	175	1,257
Custody fees	70	69
	<u>245</u>	<u>1,326</u>

12. Taxation

The Plan is a registered Pension Scheme under Chapter 2 of Part 4 of the Finance Act 2004 and is therefore exempt from income tax and capital gains tax.

NORTEL NETWORKS UK PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2020

13. Pooled investment vehicles

The Plan's investments in pooled investment vehicles at the year-end comprised:

	2020	2019
	£'000	£'000
Insight Liquidity Plus	14,713	3
Insight (LDI)	139,900	56,181
	<u>154,613</u>	<u>56,184</u>

The above managed funds are invested with Insight £154,613k (2019: £56,184k).

14. AVC investments

	2020	2019
	£'000	£'000
Utmost (formerly Equitable Life)	1,398	1,596
Aviva	-	109
Phoenix Life	9	12
	<u>1,407</u>	<u>1,717</u>

The Trustee holds assets invested separately from the main fund in the form of insurance policies, which secure additional benefits on a money purchase basis for those members electing to pay AVC. Members participating in these arrangements each receive an annual statement confirming the amounts held on their behalf and the movements in the year. The aggregate amounts of AVC investments are shown above.

In August 2020, most of the AVCs were transferred to member specific arrangements with the Aviva Master Trust meaning that the Plan has now discharged all of its former AVC member liabilities.

15. Cash and cash equivalents

	2020	2019
	£'000	£'000
Cash assets		
Cash - UK	<u>99</u>	<u>81</u>

16. Fair value determination

The fair value of financial instruments has been determined using the following fair value hierarchy:

- Level 1: The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.
- Level 2: Inputs other than quoted prices that are observable (i.e. developed using market data) the asset or liability, either directly or indirectly.
- Level 3: Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

NORTEL NETWORKS UK PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2020

16. Fair value determination (continued)

The Plan's investment assets and liabilities have been fair valued using the above hierarchy categories as follows:

	At 31 March 2020			Total
	Level 1	Level 2	Level 3	
	£'000	£'000	£'000	£'000
Bonds	–	–	–	–
Pooled investment vehicles	–	154,613	–	154,613
AVC investments	–	1,398	9	1,407
Cash	99	–	–	99
	<u>99</u>	<u>156,011</u>	<u>9</u>	<u>156,119</u>

	<i>At 31 March 2019</i>			<i>Total</i>
	Level 1	Level 2	Level 3	
	£'000	£'000	£'000	£'000
Bonds	–	10	–	10
Pooled investment vehicles	–	56,184	–	56,184
AVC investments	–	951	766	1,717
Cash	81	–	–	81
	<u>81</u>	<u>57,145</u>	<u>766</u>	<u>57,992</u>

NORTEL NETWORKS UK PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2020

17. Investment risk disclosures

Investment Risks

FRS 102 requires the disclosure of information in relation to certain investment risks. These risks are set out by FRS 102 as follows:

Credit risk: this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Market risk: this is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk, each of which is further detailed below.

- **Currency risk**: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
- **Interest rate risk**: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.
- **Other price risk**: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (rather than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Plan has exposure to some of the above risks because of the investments the Trustee makes to implement its investment strategy. The Trustee manages investment risks within agreed risk limits, which are set taking into account the Plan's strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreements in place with the Plan's investment managers and are monitored by the Trustee through regular monitoring of the investment portfolios. The investment objectives and risk limits of the Plan are further detailed in the Plan's Statement of Investment Principles ("the SIP").

Further information on the Trustee's approach to risk management and the Plan's exposure to credit and market risks is set out below. This does not include AVC investments as the level of exposure to AVC assets is not considered significant in relation to the overall investments of the Plan.

NORTEL NETWORKS UK PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2020

17. Investment risk disclosures (continued)

Investment Strategy

In 2018 the Plan completed a bulk annuity transaction to enable the Plan to exit the PPF, as a precursor to the eventual winding-up of the Plan.

Following the bulk annuity transaction, the main priority of the Trustee when considering investment policy is to ensure that the residual assets and future recoveries can be used to enhance the level of members benefits insured with Legal and General Assurance Society("LGAS").

The Trustee's objective is to follow a low-risk strategy, and to retain the type of assets that would move approximately in line with annuity prices. As at 31 March 2020, the Trustee's strategy was to hold broadly:

- 90% in investments that share characteristics with the expected future benefits. These assets are invested in pooled Liability Driven Investment ("LDI") funds, which use government bonds ("gilts") and gilt repurchase agreements to hedge approximately 100% of the impact of interest rate and inflation movements on the value of the total assets (including estimated recoveries, less expense reserves).
- 10% in cash and liquidity funds, which provide liquidity for de-leveraging events within the LDI portfolio and any cash requirements above the expense reserves. The actual allocations will vary from the above due to market price movements.

Market Risk

The following table shows the market risks which affected each of the Plan's defined benefit investments as at 31 March 2020:

Fund / Portfolio	Market Risk		
	Interest Rate Risk	Other Price Risk	Currency Risk
Insight LDI Portfolio	X	n/a	n/a
Insight Liquidity Plus Fund	X	n/a	n/a

NORTEL NETWORKS UK PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2020

17. Investment risk disclosures (continued)

Credit Risk

The Plan is subject to credit risk because it holds cash and invests in liquidity funds.

The Plan also invests in pooled investment vehicles which invest in government bonds, money market instruments and gilt repurchase agreements.

The pooled investment arrangements used by the Plan comprise of open-ended Irish collective asset management vehicles. The Plan is therefore directly exposed to credit risk arising from these pooled investment vehicles and is indirectly exposed to credit risks arising from the underlying investments held by these pooled vehicles.

Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled manager operates and diversification of investments amongst a number of pooled arrangements. Cash held by the pooled manager's custodian is not ring-fenced but the credit risk arising on this is mitigated by the use of regular cash sweeps (typically daily) and investing cash in liquidity funds.

The information given above in relation to pooled fund assets reflects the position as at the current year end.

18. Concentration of investments

The following investments amounted to more than 5% of the total net assets of the Scheme:

	2020		2019	
	£'000	%	£'000	%
Insight Fully Funded Index-linked Gilts 2031-2040	82,197	52.0	–	–
Insight Fully Funded Index-linked Gilts 2041-2050	27,243	17.2	–	–
Insight LDI GBP Liquidity Plus Holding Fund	14,713	9.3	<i>56,182</i>	<i>63.9</i>
Insight Partially Funded Index-linked Gilts 2031-2040	12,080	7.6	–	–
Insight Fully Funded Index-linked Gilts 2051-2065	10,619	6.7	–	–

19. Employer related investments

There were no employer-related investments during the year or at the year end.

NORTEL NETWORKS UK PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2020

20. Current assets

	2020	2019
	£'000	£'000
Other debtors	–	17,856
VAT reclaim	950	754
Benefits paid in advance	–	24
Cash balances	3,358	12,969
	<u>4,308</u>	<u>31,603</u>

The other debtor of £17,856k for 2019 are retirement lump sum commutation payments (“PCLSs”) relating to members who retired at the time of the insurance transaction (in October 2018). Their PCLSs were settled from the Plan to members, with residual pensions being secured and bought out with L&G. During the year this debtor was cleared by recovering funds from L&G.

21. Current liabilities

	2020	2019
	£'000	£'000
Unpaid benefits	–	163
Accrued expenses	3,345	1,614
Other creditors	11	11
	<u>3,356</u>	<u>1,788</u>

22. Related-parties

The Plan pays benefits to certain Trustee Directors who are beneficiaries of the Plan. Such benefits are paid on the same terms as other Plan members.

As disclosed in note 8, non-professional Trustee Directors receive expenses for meeting attendance, and honoraria payments solely in their capacity as Trustee Directors.

All of the above transactions were made in accordance with the Plan Rules.

23. Contingent liabilities and contractual commitments

In the opinion of the Trustee, the Plan had no material contingent liabilities and no material contractual commitments as at 31 March 2020 (31 March 2019 - £Nil).

In August 2020, all the AVCs were transferred to member specific arrangements with the Aviva Master Trust meaning that the Plan has now discharged all of its former AVC member liabilities.