

**NORTEL NETWORKS UK PENSION PLAN
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018
SCHEME REGISTRATION NUMBER: 10092331**

NORTEL NETWORKS UK PENSION PLAN

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YEAR ENDED 31 MARCH 2018

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NORTEL NETWORKS UK PENSION PLAN

TRUSTEE AND ADVISERS

YEAR ENDED 31 MARCH 2018

Principal Company	Nortel Networks UK Limited (in Administration)
Other Participating Companies	Nortel Networks UK Pension Trust Limited
Buy-Out Committee (BOC)	D.Davies (Chairman) BESTrustees plc C. Gilchrist
Trustee and Board Directors	Nortel Networks UK Pension Trust Limited Independent D. Davies (Chairman) BESTrustees plc Employer nominated P. Masterson C Gilchrist Member nominated N. Bowles B. Izzard T. Rossiter
Investment Committee	C. Gilchrist (Chairman - from 1 July 2017) D. Davies T. Rossiter BESTrustees plc
Secretary to the Trustee Board	Capita Employee Benefits Limited
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 plc (Chairman) N. Bowles B. Izzard T. Rossiter
Actuary	N. Mobbs of 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
Investment Consultant	Mercer Investment Consulting

NORTEL NETWORKS UK PENSION PLAN

TRUSTEE AND ADVISERS *(continued)*

YEAR ENDED 31 MARCH 2018

Investment Managers	BlackRock Advisors (UK) Limited Legal & General Investment Management Limited Insight Investment Manager (from 9 November 2017)
Global Custodian	State Street Bank & Trust Company
AVC Providers	The Equitable Life Assurance Society Friends Life Phoenix (London Life)
Buy-Out Advisers	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 2018

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 2018. The Plan left the assessment period of the Pension Protection Fund (PPF) in October 2018.

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 November 2014) issued by the Pensions Research Accountants Group.

The Plan provides 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, all benefits are 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.

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, but from 14 January 2009, Plan rules now operate subject to PPF rules.

NORTEL NETWORKS UK PENSION PLAN

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2018

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 but is obliged to take into account the PPF's view on investment strategy.

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 as modified by PPF practices and procedures. 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, the ADB is 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 and the buy-out 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

With effect from 14 January 2009, no payment of transfer values from the Plan is permitted under PPF rules except in limited cases e.g. under a Court Order in a divorce case.

NORTEL NETWORKS UK PENSION PLAN

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2018

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
- 2 Company Nominated Directors
- 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.

There were no changes to any of the Trustee Directors during the year, or to the date of approving this report.

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

In August 2017, a letter was issued to the Plan's members advising them of the Section 143 actuarial valuation results. A further letter was issued to members in March 2018 to keep them updated of the Plan's progress with buying out benefits with an insurance company, and to provide members with details of the alternate options open to them. Members had until 8 June 2018 to make positive option decisions (i.e. any choice other than their default option) regarding their benefits. Arrangements are now being made to select and appoint an annuity provider, process members' options and transfer remaining members' funds to the selected annuity provider or other options. The Trustee will keep members updated on progress.

Further benefits may be payable to members depending on any further amounts received by the Plan in the form of further recoveries from the proceeds of Nortel's global insolvency process.

NORTEL NETWORKS UK PENSION PLAN

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2018

Financial developments and financial statements

The assets of the Plan increased by £919,099,000 per page 24 over the year giving a Plan asset value of £2,917,318,000 per page 24 at 31 March 2018.

Financial development of the Plan - Recoveries

To all intents and purposes, the Recoveries process has now reached its conclusion and by the end of the financial year the Plan had received a total of £1,011m as a result of a global settlement which became effective in May 2017. This sum includes payments received from the administrators of Nortel Networks (UK) Limited ("NNUK"), Nortel Canada and (in 2014) Nortel US.

At the date of signing these accounts the Plan had received a further £82 million bringing total Recoveries to £1,093 million.

We expect to receive additional sums during the remainder of 2018 and into 2019 when NNUK and Nortel Canada finalise their dividends.

Our current expectation is that final total Recoveries figure will reach £1,200 million.

PPF Section 143 Valuation

The Recoveries outlined above mean that overall Plan assets were judged by the PPF to be sufficient to purchase benefits from an insurer which would be at least equal to the value of PPF benefits. The Section 143 valuation and was approved by the board of the PPF in August 2017.

The Trustee wrote to all members in August 2017 informing them of the Section 143 valuation which subsequently became binding in November 2017. The Plan left the PPF assessment period in October 2018 when it completed a partial buy-out.

Plan assets are insufficient to purchase full Plan benefits for members which means members' benefits will be allocated strictly in accordance with legal requirements.

The Plan will commence wind-up following the exit from the PPF and it is expected that the wind-up will be completed in 2019 or 2020.

Buyout Process

The Plan's BOC has been working closely with our advisers during the year to structure member benefits in a way that delivers the best value for money with the funds available. We have also been able to offer choices to most members via an option process which commenced in March 2018 and concluded in August 2018.

At the same time, the BOC and our advisers have been working closely with a number of suitably qualified bulk annuity insurers to maximise the level of benefits that can be purchased with the assets available.

A competitive tendering process was initiated in the financial year. This was concluded in October 2018 resulting in the selection of an Insurer to provide ongoing pension payments for all existing pensioner members and future pensions for all of our deferred members who elected to take this option.

We anticipate that during October 2018, we will write to each member with confirmation of how his or her benefits have been secured and informing them that the responsibility for paying pensions will pass to the selected Insurer with effect from November 1, 2018.

NORTEL NETWORKS UK PENSION PLAN

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2018

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 2018.

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 2018

Membership

The changes in membership during the year are as follows:

	Deferred members	Pensioners	Dependants	Total
At 1 April 2017	11,792	14,508	4,752	31,052
Adjustments to prior period*	(123)	(22)	9	(136)
Dependants	1	1	221	223
Retirements	(310)	310	–	–
Members leaving with refunds	(2)	–	–	(2)
Deaths	(15)	(521)	(324)	(860)
Entitlement ceasing	–	–	(9)	(9)
Commutations	(159)	–	–	(159)
Other	103	(110)	(50)	(57)
At 31 March 2018	<u>11,287</u>	<u>14,166</u>	<u>4,599</u>	<u>30,052</u>

*A prior period adjustment arises where a member's status changed during the previous period but was not notified to Willis Towers Watson in time for it to be recorded in that period's membership analysis. Included in the 11,792, deferred members as at 1 April 2017 were 123 deferred members who had previously left the Plan.

There were 4,385 annuitants as at 31 March 2018 (2017: 4,911) and these are included in the number of pensioners.

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

Pension increases

Since 14 January 2009, the Plan has awarded increases to pensions in payment and calculated new pensions in accordance with Pension Protection Fund (PPF) practices and procedures. Future increases are only applied in respect of service earned from 6 April 1997 onwards and are based on increases in the consumer prices index (CPI) capped at 2.5% pa. With effect from 1 January 2018, the increase awarded was 2.5%.

The Trustee has continued to award increases to pensions arising from defined contribution benefits (e.g. externally managed AVCs or pensions arising from redundancy salary sacrifice), in line with the Retail Price Indexation, subject to a maximum of 3%. This is in accordance with the Trust Deed and Rules, since these elements of pension are not subject to PPF practices and procedures. With effect from 1 April 2018, the increase awarded was 3% for these elements of pension. The Trustee is no longer permitted to award discretionary increases to pensions in payment.

NORTEL NETWORKS UK PENSION PLAN

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2018

Report on Actuarial liabilities

The Trustee is required under the Pensions Act 1995 to obtain periodic valuations on a prescribed basis to assess whether the contributions payable are sufficient to meet minimum funding requirements.

The last full actuarial valuation of the Plan was performed by the then Plan Actuary Daniel Harrison, of Watson Wyatt LLP, as at 5 April 2005. The valuation indicated a deficit of £356m assuming the Plan continued. To conform to regulatory requirements, the last actuarial statements based on the 2005 valuation are reproduced on page 39.

Summary of methods and assumptions used

Funding method: Projected unit

Main financial assumptions:

		% per annum
Investment return	- accrued benefits pre-retirement	6.7
	- accrued benefits post-retirement	5.4
	- future benefits	6.7
Increases in earnings		4.25
Increases in pensions	- pre 6 April 1997 service	2.5
	- post 5 April 1997 service	2.75

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.

The next full actuarial valuation as at 31 March 2008 was being undertaken by the Plan Actuary, but this was not completed.

The Plan Actuary has determined that the Plan deficit was £2,147 million as at 13 January 2009. This now represents the Plan's Section 75 claim against Nortel Networks UK Limited (In Administration).

The Trustee (assisted by its legal, actuarial and financial advisers) has been cooperating with the UK Pensions Regulator (TPR) and the PPF in order to pursue all avenues to maximise recovery of monies from the Principal Company's UK and overseas insolvency processes. This has resulted in the Settlement Agreement outlined on page 6.

For the latest position on recovery activities members should refer to the Plan's website at www.nortelpensions.com.

Section 143 Valuation

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 Trustee has now written to members giving formal notification of the Section 143 valuation. There have been no valid objections to this valuation, so it is now binding and the Trustee is now continuing with the buy-out process.

NORTEL NETWORKS UK PENSION PLAN

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2018

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 2018 were £1,304,000 (2017: £1,994,000). As a proportion of assets under management this was 0.04% for the year (2017: 0.10%).

NORTEL NETWORKS UK PENSION PLAN

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2018

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 Principal Company and professional advisers and a copy is available on request.

The main priority of the Trustee when considering investment policy is to aim to ensure that the benefits payable to members are met as they fall due.

The Trustee's objective is to continue to follow a relatively low-risk strategy, and to retain the type of assets and level of liquidity that would be appropriate in the event of implementing a buy-out. As at 31 March 2018, the Trustee's strategy was to hold broadly:

- 55% in investments that share characteristics with the long term liabilities of the Plan (at the PPF level of benefits). These assets are invested in a customised Liability Driven Investment ("LDI") fund, which uses government bonds ("gilts"), gilt repurchase agreements and derivative instruments to hedge 100% of the impact of interest rate and inflation movements on the scaled-up liabilities (after the contribution from sterling non-gilt assets to the hedge); and
- 25% in sterling non-gilt assets, which hedge a small proportion of the impact of interest rate movements on the Plan's liabilities and also provide some potential for return in excess of the Plan's liabilities.
- 20% in cash and liquidity funds, which are intended to decrease leverage within the Plan's investments and increase the Plan's liquidity.

The actual allocations will vary from the above due to market price movements and the wide rebalancing ranges adopted by the Trustee.

At 31 March 2018, the Trustee was targeting interest rate and inflation hedge ratios of 100% of the PPF liabilities scaled-up to allow for anticipated recovery payments. The actual interest rate and inflation hedge ratios as at 31 March 2018 were 100.5% and 101.5% of the respective targets.

The actual allocations will vary from the above due to market price movements and the wide rebalancing ranges adopted by the Trustee. The table below shows the actual asset allocations as at 31 March 2018:

Asset Class	Actual Allocation
LDI	48.5%
Sterling Non-Gilts	25.1%
Cash and Liquidity	26.4%

NORTEL NETWORKS UK PENSION PLAN

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2018

Review of investment holdings

Details of the Plan's investments of £2,911,291,000 are given in note 9 to the financial statements. An analysis of the asset allocation of the Plan's investments as at 31 March 2018 is provided below:

	31 Mar '18	31 Mar '17
	%	%
Pooled investment vehicles		
- Tailored Funds	74.65	73.25
- Return Seeking	25.01	26.25
	<u>99.66</u>	<u>99.50</u>
Insurance policies	0.07	-
Derivatives	-	0.29
Other investments	0.08	(0.07)
AVC investments	0.19	0.28
Total	<u>100.00</u>	<u>100.00</u>

At 31 March 2018 the pooled investment vehicle - Tailored Funds represents the Plan's ownership of a liability solutions fund designed to provide a total return which reflects that of a fixed rate deferred annuity consistent with the Plan's liability hedging mandate.

Investment Report

Introduction

Nortel Networks UK Limited, the Plan's sponsoring employer, entered into administration on 14 January 2009. The PPF confirmed on 30 March 2009, with an effective date of 14 January 2009, that the Plan is in assessment for the purposes of determining its eligibility to enter the PPF. While this assessment takes place, the Trustee retains overall responsibility for the Plan.

Following entry into the assessment period, the Trustee decided to reduce the level of investment risk within the Plan. This was done in consultation with both the PPF and the Trustee's investment advisors. This de-risking involved reducing the allocation to equities and introducing a liability hedging ("LDI") mandate. At 31 March 2018, the Plan was hedging 100.5% and 101.5% respectively of the interest rate and inflation sensitivity of the Plan's scaled-up liabilities (scaled to include the value of anticipated recovery payments from the sale of Nortel's corporate estate).

The Trustee also introduced a new currency hedging mandate in order to reduce the currency risk associated with some of the anticipated recovery payments which were expected to be denominated in US Dollars. The currency hedge was implemented in March 2016 and the value of the hedge was adjusted during the year under review to reflect changes in the estimated value of the recovery payment and conversion of some of the US Dollar payments to Sterling.

NORTEL NETWORKS UK PENSION PLAN

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2018

During the course of the year, the Plan received recovery payments of approximately £988 million. Part of this cash was used to increase the Plan's existing allocation to corporate bonds. The remainder was invested in two new liquidity mandates, managed by Insight Investment ("Insight").

During the year under review, the Plan's investments were managed by BlackRock, Legal & General Investment Management ("LGIM") and Insight. 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 has produced a Statement of Investment Principles ("SIP") in accordance with Section 35 of the Pensions Act 1995 and the Occupational Pension Plan's (Investment) Regulations 2005, as amended from time to time. A copy of the SIP is available on request.

The Trustee has decided to limit the Plan's investments in illiquid assets, in recognition of the need to hold assets that will be either readily realisable or transferred to a bulk annuity provider when the Trustee moves to buy out the Plan's liabilities. The Trustee has therefore decided not to allocate any assets to 'alternative' asset classes, and, as a consequence, has adopted an overweight position in bonds and cash relative to the PPF's SIP guidelines. The Trustee acknowledges that this will result in the Plan's assets targeting a lower return than would be expected under the PPF's asset allocation ranges.

Changes in interest rates and inflation cause the Plan's liabilities to change in value. To reduce risk relative to the liabilities, the Trustee has chosen to invest in liability hedging assets with interest rate and inflation sensitivity, such as government bonds and interest rate and inflation swaps (derivative instruments).

2. Socially Responsible Investment and Corporate Governance

The Trustee believes that good stewardship can enhance long-term portfolio performance, and is therefore in the best interests of the Plan's beneficiaries and aligned with fiduciary duty.

The Trustee believes that environmental social and corporate governance ("ESG") can affect the performance of investment portfolios and should therefore be considered as part of the Plan's investment process.

The Trustee has given the investment managers full discretion when evaluating ESG issues and in exercising rights and stewardship obligations relating to the Plan's investments, taking account of current best practice, including the UK Corporate Governance Code and the UK Stewardship Code.

The Trustee encourages the investment managers, who are registered with the Financial Conduct Authority (FCA), to comply with the UK Stewardship Code.

The Plan's investment managers exercise voting rights and undertake engagement (collaborative or other) in accordance with their own corporate governance policy including escalation procedures to protect investment value.

For segregated or bespoke pooled fund mandates, the Trustee will expect the investment managers to have a policy on how they take social and environmental issues into account when investing on behalf of the Plan. In particular, where the investment manager believes that these issues will impact on performance or risk, the investment manager will be expected to take them into account in their decision making. It will however be made clear to the investment managers that any decisions taken by them should be in the best long terms financial interest of the Plan and its members. For multi-client pooled fund mandates, the Trustee will take into account the policies of the investment

NORTEL NETWORKS UK PENSION PLAN

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2018

managers at the time of selection.

For segregated or bespoke pooled fund mandates, the Trustee will require the investment managers to have a formal policy on corporate governance which highlights any areas where their policy does not conform to best practice and the reason why. For multi-client pooled fund mandates, the Trustee will take into account the policies of the investment managers at the time of selection. The Trustee will monitor its FCA registered managers' adherence to the UK Stewardship Code on a regular basis.

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.)
LGIM - Sterling Non-Gilts	1.3	1.2	3.6	3.6	5.0	5.0
BlackRock - LDI* **	0.6	1.6	10.0	6.6	9.5	5.4
Insight Liquidity	-	-	-	-	-	-
Total***	-0.5	1.6	7.1	7.8	7.6	n/a

Figures shown are based on Mercer estimates and performance provided by the Investment Managers, Mercer estimates and Thomson Reuters Datastream.

* The LDI benchmark return is the change in the value of the PPF liabilities which have been scaled to reflect the anticipated recovery payment.

** Figures shown represent leveraged returns as provided by BlackRock. On an unleveraged basis, returns over the quarter to 31 March 2018 were estimated to be -0.5% for the LDI mandate and -0.6% for the Total Plan.

*** The total asset and benchmark returns include the performance of terminated mandates. Total asset returns are calculated on a money-weighted basis (excluding the Trustee bank account and Currency Hedge mandate value).

NORTEL NETWORKS UK PENSION PLAN

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2018

Asset Allocation

Manager (Asset Class)	Actual Asset Allocation			
	Start of Period (£m)	End of Period (£m)	Start of Period (%)	End of Period (%)
BlackRock (LDI)	1,459.7	1,409.5	73.4	48.5
LGIM (Sterling Non-Gilts)	525.1	728.1	26.4	25.1
BlackRock (Currency Hedge)	2.5	0.0	0.1	-
Insight (government Liquidity)	-	463.2	-	16.0
Insight (Sterling Liquidity Plus)	-	300.5	-	10.3
Cash (Trustee Bank Account)	1.3	3.7	0.1	0.1
Total*	1,988.6	2,905.0	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.

The Trustee reviews the Providers for continued suitability at least every three years and more frequently as warranted. Current providers include Friends Life (formerly Winterthur Life), Equitable Life, Phoenix Life (formerly London Life).

5. Custodial Arrangements

Manager	Custodian
LGIM (pooled non-gilts fund)	HSBC Bank Plc
BlackRock (segregated currency hedge)	StateStreet Global Services
BlackRock (bespoke pooled LDI fund)	JP Morgan
Insight (Government Liquidity)	Northern Trust International Fiduciary Services
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. With respect to the Plan's assets invested in bespoke pooled funds, the safekeeping of the underlying assets is undertaken by a custodian selected and monitored by the Trustee.

NORTEL NETWORKS UK PENSION PLAN

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2018

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.

Socially responsible investments

The Trustee has delegated responsibility for the selection, retention and realisation of investments to the investment managers (within certain guidelines and restrictions). The Trustee's policy is that the extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments is left to the discretion of the active investment managers.

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.

NORTEL NETWORKS UK PENSION PLAN

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2018

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 and also with the Principal Company. Insight investment managers were appointed during the year.

Statutory Registration References

The Pensions Regulator - The Plan is registered under Reference 10092331

Data Protection Act 1998 - 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 e-mail. Members are also able to access the Plan's website (www.nortelpensions.com)

Following the Nortel Networks UK Limited Company filing for Administration on 14 January 2009 the Trustee posted a Q&A on the Plan's website to address questions about the Administration and the effect of this on the Plan. The Trustee issued an update letter on the Plan's progress through the assessment period and the recovery process to Plan members in April 2017.

In August 2017, a letter was issued to the Plan's members advising them of the Section 143 valuation results. A further letter was issued to members in March 2018 to keep them updated of the Plan's progress with buying out benefits with an insurance company, and to provide members with details of the alternative options open to them. Members had until 8 June 2018 to make positive option decisions (i.e. any choice other than the member's default option). Arrangements are now being made to select and appoint an annuity provider, process members' options and transfer remaining members' funds to the selected annuity provider or other options. The Trustee will keep members updated on progress.

Website & ePensions Administration (ePA)

The Plan's website has been in operation since January 2003. It provides access to member administrative records for deferred members via ePA. This enables deferred members to view their record, and update some information.

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. Since the Plan formally entered the PPF assessment period, however, it is no longer required to produce a Summary Funding Statement.

Internal disputes resolution procedure

Disputes resolution procedures can be found on the Plan's website (www.nortelpensions.com).

NORTEL NETWORKS UK PENSION PLAN

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2018

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: <http://www.nortelpensions.com>
contact email: nortel.networks@willistowerswatson.com
contact phone: 01707 607601

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

Director 

Date 8/10/18

Director 

Date 2/12/18