

NORTEL NETWORKS UK PENSION PLAN
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 5 APRIL 2006

SCHEME REGISTRATION NUMBER 10092331

NORTEL NETWORKS UK PENSION PLAN

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NORTEL NETWORKS UK PENSION PLAN

TRUSTEE & ADVISERS

FOR THE YEAR ENDED 5 APRIL 2006

Principal Company	Nortel Networks UK Limited
Other Participating Companies	Clarify Limited (UK) Nortel Networks UK Pension Trust Limited
Trustee	Nortel Networks UK Pension Trust Limited
Trustee Board Directors	
Independent	W.K. Gardener, (Chairman) BESTrustees plc
Employer nominated	K. Foster I.J. Morgan H. Mehta (from 1 September 2005) G. Staunton (from 1 December 2005) P. Newcombe (to 30 November 2005)
Member nominated	N. Bowles J.W. Hern M. Wilson
Secretary to the Trustee Board	L. Hammond (from 4 July 2005) J. Dias (until 3 July 2005)
Investment Committee	W.K. Gardener, (Chairman) BESTrustees plc M. Wilson Mr I J Morgan

NORTEL NETWORKS UK PENSION PLAN

TRUSTEE & ADVISERS

FOR THE YEAR ENDED 5 APRIL 2006

Administration Discretions and Benefits Committee (ADB)

Directors, Nortel Networks UK Pension Trust Limited

I.J. Morgan, (Chairman)
BESTrustees plc
N. Bowles
J.W. Hern

Company Representatives

G. Staunton (to 30 November 2005)
H. Mehta (to 31 August 2005)
P. Masterson (from 1 September 2005)
S. Rolston (from 1 December 2005)

Elected from Consultative Committee

R. Fowell

ADB Discretions sub-Committee

BESTrustees plc
N. Bowles
P. Masterson

Registered Office of the Trust

Nortel Networks UK Pension Trust Limited
Maidenhead Office Park
Westacott Way
Maidenhead
Berkshire
SL6 3QH

Actuary

Daniel Harrison
Watson Wyatt Ltd

Administrators / Enquiries

Nortel Networks UK Pension Plan
c/o Watson Wyatt Ltd
PO Box 545
Redhill
Surrey
RH1 1YX

Independent auditors

Grant Thornton UK LLP

Legal advisers

Pinsent Masons (from July 2005)

NORTEL NETWORKS UK PENSION PLAN

TRUSTEE & ADVISERS

FOR THE YEAR ENDED 5 APRIL 2006

Investment managers	Bank of Ireland Asset Management (UK) Limited Barclays Global Investors Limited Schroder Investment Management (UK) Limited Fidelity Investments Capital International UBS Global Asset Management Western Asset Management
Global custodian	State Street Bank & Trust Company
Investment consultant	Mercer Investment Consulting
Bankers	HSBC plc

NORTEL NETWORKS UK PENSION PLAN

TRUSTEE'S REPORT

FOR THE YEAR ENDED 5 APRIL 2006

Introduction

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

The Trustee of Nortel Networks UK Pension Plan presents this annual report together with the investment report, actuarial statements and financial statements for the year ended 5 April 2006. The Report also covers any material changes from that date to the date of approval of the Report and Accounts.

The Accounts 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 (SORP) issued by the Pensions Research Accountants Group.

The Nortel Networks UK Pension Plan provides defined pension benefits payable or prospectively payable to members on their cessation of employment with the Participating Companies, or payable to members' dependants on death before or after retirement. The Plan is governed by a Trust Deed and Rules, the parties to which are Nortel Networks UK Pension Trust Limited and Nortel Networks UK Limited. The Plan was closed to new entrants on 30 June 2000.

The Plan is a contracted-out scheme for the purposes of the Social Security Pensions Act 1975, and a contracting-out certificate is in force to cover the employment of members of the Plan. This means that members do not contribute to the State Second Pension Scheme and therefore pay reduced National Insurance Contributions. The Plan was approved as an "exempt approved scheme" under the terms of the Income and Corporation Taxes Act 1988 until 5 April 2006, from 6 April 2006 the Plan became a "registered" pension scheme, the effect of which is to give tax relief on members' and employers' contributions and on the investment income and gains of the Plan. The Trustee knows of no reason why this approval may be prejudiced or withdrawn.

Management of the Plan

The Nortel Networks UK Pension Plan is set up under a Trust which ensures that the assets are kept separate from the finances of the Principal Company, Nortel Networks UK Limited 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 Pension Fund Policy Committee, a committee of the Nortel Networks (UK) Limited Board, gives overall direction to development of the Pension Plan benefit structure. The Trustee consults with this committee about investment matters in accordance with the Pensions Act 1995. The Trustee is responsible for the administration and investment policy of the Plan.

Directors of the Trustee Board

The names of the Directors are set out on page 1. 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.

Member Nominated Trustees

Following consultations in August 1997, contributing and retired members confirmed the Principal Company's proposal to retain a procedure for appointing Member Nominated Directors to the Trustee Board. This procedure provides for 3 member nominated directors to be appointed, the nominees being members of the Consultative Committee. Employees and pensioners are elected by ballot on to the Consultative Committee by employees and pensioners respectively.

NORTEL NETWORKS UK PENSION PLAN

TRUSTEE'S REPORT

FOR THE YEAR ENDED 5 APRIL 2006

Statement of Trustee's responsibilities

The financial statements are the responsibility of the Trustee. Pension scheme regulations require the Trustee to make available to Plan members, beneficiaries and certain other parties, audited financial statements for each Plan year which:

- 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 that year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Plan year, and

- contain the information specified in the Schedule to The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the financial statements have been prepared in accordance with the Statement of Recommended Practice 'Financial Reports of Pension Schemes' - November 2002.

The Trustee has supervised the preparation of the accounts and has agreed suitable accounting policies, to be applied consistently, making any estimates and judgements on a reasonable and prudent basis. It is also responsible for making available each period, commonly in the form of a Trustee's report, information about the Plan prescribed by pensions legislation, which it should ensure is consistent with the audited financial statements it accompanies.

The Trustee also has certain responsibilities in respect of contributions which are set out in the statement of Trustees' responsibilities accompanying the Trustees' summary of contributions on page 10.

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 it to safeguard the assets of the Plan and to prevent and detect fraud and other irregularities, including the maintenance of appropriate internal controls.

Trustee training

The Trustee is responsible for ensuring that the Trustee Directors undertake adequate formal training during the Plan year. All Trustee Directors undertake regular training and a register of training undertaken in the year is maintained by the Secretary to the Trustee Board. Trustee Directors are being encouraged to take the on-line Trustee Training course recommended by the Regulator.

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, but it has no decision making authority.

NORTEL NETWORKS UK PENSION PLAN

TRUSTEE'S REPORT

FOR THE YEAR ENDED 5 APRIL 2006

Administration Discretions and Benefits Committee (ADB)

Membership of the ADB Committee is shown on Page 2.

This Committee, appointed by the Trustee Board, comprises Directors of the Trustee Board, elected members of the Consultative Committee and Principal Company nominees. Under the powers delegated to it by the Trustee Board, the ADB Committee has prime responsibility for ensuring that the administration of the Plan is carried out in accordance with the Trust Deed and Rules, for monitoring the service agreement with the Plan's external administrators and for exercising various discretions, for example in the payment of benefits arising from deaths and disability.

Principal and Participating Companies

Principal Company Nortel Networks UK Limited ECON: 3039077J - Reg. No. 3937799

Other Participating Companies

Clarify Limited (UK) Contracted-in (DC) - Reg. No. 2990502
Nortel Networks UK Pension Trust Limited ECON: 3039400J - Reg. No. 2091890

Where a contracting-out Certificate is required the ECON has been shown.

The Plan Scheme Contracting Out Number (SCON) is S4004664B.

Pensions increases

The Plan guarantees increases to pensions in payment and deferred pensions, other than Guaranteed Minimum Pensions which are subject to statutory conditions. The Trustee can, with the agreement of the Principal Company, award discretionary increases in excess of this guaranteed amount.

In April 2006 guaranteed pension increases in accordance with Plan Rules were given to pensioners. A pro rata payment was made for those who retired between 6 April 2005 and 5 March 2006. No discretionary increases were given but a minimum increase (where paid) was £1 per month.

Pension increases for service prior to 6 April 1997 were 2.2% based on the December RPI figures which are published each January. Increases for post 6 April 1997 service were 2.7% based on the September RPI figures which are published each October.

Increases are not applied to the pre 6 April 1988 accrued Guaranteed Minimum Pension ("GMP") part of the Plan pension. For post 6 April 1988 accrued service the Plan is required to pay up to the first 3% of any increase. Individual pensioners may also have other elements of pension which do not qualify for increases.

NORTEL NETWORKS UK PENSION PLAN

TRUSTEE'S REPORT

FOR THE YEAR ENDED 5 APRIL 2006

Membership

Details of the membership of the Plan are given below:

	Active members	Deferred members	EPB* and Q only	Pensioners	Dependents
At 6 April 2005	1,429	14,413	10,459	14,993	5,641
Adjustments to prior year	1	5	(33)	37	8
New members	-	-	-	-	296
Members leaving prior to pensionable age	(180)	180	-	-	-
Retirements	(26)	(293)	(23)	342	-
Commutations	-	-	(335)	-	(117)
Deaths	(1)	(4)	(206)	(527)	(199)
Change in status	-	59	(19)	(33)	(7)
Transfers out	-	(32)	(7)	-	-
At 5 April 2006	<u>1,223</u>	<u>14,328</u>	<u>9,836</u>	<u>14,812</u>	<u>5,622</u>

The total membership of the Plan at 5 April 2006 was 45,821 (2005: 46,935).

* EPB relates to Equivalent Pension Benefit members.

Changes to the Plan during the Plan year

There was no change to the defined benefit structure during the Plan year. Changes to Plan benefits were made following the year end, from 6th April 2006 to comply with the Tax Simplification regulations of the Pensions Act 2004.

The DC section of the Plan was fully wound up by 31st March 2005. References to the DC section on page 25 show figures for 2005 only.

Changes to the administration of the Plan

The administration of the Plan was outsourced to Watson Wyatt Ltd on 1st August 2005 (1st July 2005 for pension payroll), following the closure of the Pension Department office in Potters Bar.

NORTEL NETWORKS UK PENSION PLAN

TRUSTEE'S REPORT

FOR THE YEAR ENDED 5 APRIL 2006

Review of financial development of the Plan

The Trustee is required under the Pensions Act 1995 to obtain periodical valuations on a prescribed basis to assess whether the contributions payable are sufficient to meet minimum funding regulations. The Trustee has appointed Daniel Harrison of Watson Wyatt Ltd as Actuary to the Plan.

The last full actuarial valuation of the Plan was performed by Daniel Harrison as at 5 April 2005. The valuation indicated that on the basis of existing contribution rates the Plan was fully funded on a continuing basis. The actuarial statement based on the ongoing valuation is on page 18 - 19. The next full actuarial valuation is due no later than 5 April 2008.

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

The financial statements have been prepared and audited in compliance with the regulations made under sections 41(1) and 41(6) of the Pensions Act 1995.

The assets of the Plan increased by £246,438,000 over the year giving a Plan asset value of £1,700,790,000 at 5 April 2006.

Transfer payments

The cash equivalents paid during the year were calculated and verified in the manner prescribed by regulations under Section 97 of the Pension Schemes Act 1993 and none was less than the amount for which Section 94 (1) of that Act provides. With effect from 6 April 1997, cash equivalents have been subject to a Minimum Funding Requirement underpin.

The Plan has continued to accept reinstatements in respect of former members who opted out of membership or transferred benefits out of the Plan in circumstances where the insurance company has accepted a liability for membership. In the reporting period 2 members have had benefits reinstated following an appropriate payment from the insurance companies concerned. The Plan has also continued to accept transfers in from other plans in respect of active members.

With effect from 1 August 2006 the Trustee ceased to accept transfer payments into the Plan in respect of active members and reinstatements in respect of former members.

NORTEL NETWORKS UK PENSION PLAN

TRUSTEE'S REPORT

FOR THE YEAR ENDED 5 APRIL 2006

Funding agreement with the Company

Following negotiations with the Company a new schedule of contributions was signed by the Trustee and the Company on 30 May 2006 and reaffirmed on 26 June 2006.

This states that the Trustee has now agreed with the Company a plan to remove the ongoing funding deficit of £356 million as at 5th April 2005 by no later than 5th April 2012. The Company has agreed with the Trustees the payment of at least the following amounts.

From 6th April 2006 to 5th April 2008 a minimum annual amount of £85 million payable in quarterly instalments of £21.25million.

From 6th April 2008 equal quarterly contributions to be determined by the Company sufficient to meet the current service cost and expenses paid from the Plan and to target the removal of the remaining deficit by 5th April 2012.

Pension Protection Fund

In April 2005 the Pension Protection Fund was established and the Plan is required to pay an annual Pension Protection Fund (PPF) Levy. The Trustee is responsible for ensuring the PPF levy is paid, although the Principal Company has made the payment. The levy for the year from 6 April 2005 to 5 April 2006 was £537,612. The Principal Company has again agreed to pay the levy from 6 April 2006 to 5 April 2007.

Further information

Requests for additional information about the Plan generally, or queries relating to members' own benefits, should be sent to the contact at the address on page 36 of this report.

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

Director Date

Director Date

NORTEL NETWORKS UK PENSION PLAN

TRUSTEE'S SUMMARY OF CONTRIBUTIONS

FOR THE YEAR ENDED 5 APRIL 2006

Statement of Trustee's responsibilities in respect of contributions

The Plan's Trustee is responsible under pensions legislation for ensuring that there is prepared, maintained and from time to time revised 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 Plan's Trustee is also responsible for keeping records of contributions received in respect of any active member of the Plan and for procuring that contributions are made to the Plan in accordance with the schedule of contributions.

Trustee's summary of contributions

This summary of contributions has been prepared by, or on behalf of, and is the responsibility of the Trustee. It sets out the employer and member contributions payable to the Plan under the schedule of contributions certified by the Actuary on 19 July 2005 in respect of the Plan year ended 5 April 2006. The Plan auditor reports on contributions payable under the schedule in their auditors' statement about contributions on page 23.

Contributions payable under the schedule in respect of the Plan year

	2006
	£'000
Employer	
special contributions	46,000
Members	
normal contributions	2,735
Contributions payable under the schedule (as reported on by the Plan auditor)	48,735

Reconciliation of contributions

	2006
	£'000

Reconciliation of contributions payable under the schedule to the total contributions payable to the Plan in respect of the Plan year:

Contributions payable under the schedule (as above in the Trustee's summary)	48,735
Contributions payable in addition to those payable under the schedule (and not reported on by the Plan auditor):	
Employer additional contributions	588
Members' additional voluntary contributions	345
Total contributions reported in the financial statements	49,668

NORTEL NETWORKS UK PENSION PLAN

INVESTMENT REPORT

FOR THE YEAR ENDED 5 APRIL 2006

This investment report forms part of the report of the Trustee.

Investment policy

The Trustee invests the Plan's assets with the objective of having sufficient money to meet the cost of current and future pension and related benefits payable to members and beneficiaries of the Plan. A Statement of Investment Principles required under the Pensions Act 1995 has been established following consultation with the Principal Company and professional advisers.

Investment principles

The Statement of Investment Principles is prepared in accordance with s35, Pensions Act 1995. It covers the implications from the Myners Report and reflects the changes implemented as a result of the Asset Liability Study which was undertaken in 2003. The Statement of Investment Principles is regularly monitored and updated as changes necessitate. A copy is available from the website (www.nortelpensions.com).

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 some detail and where appropriate to make recommendations to the full Trustee Board. Expert advice is sought whenever appropriate.

The Trustee has delegated the day to day responsibility for investment of the Plan's invested assets to professional managers authorised by the Financial Services Authority, the UK's regulator for the finance industry under the Financial Services & Markets Act 2000. These managers act within broad guidelines set down by the Trustee, and provide regular reports summarising the transactions that have taken place in the period and valuations of the portfolio of assets for which they are responsible.

The investments which make up the investment portfolio are managed by the seven Investment Managers listed on page 3. The Global Custodian who holds the assets comprising the portfolios is also shown on page 3.

Fees

The fees paid to the Investment Managers are based on a percentage of the value of the portfolio under management and are performance related for some managers. 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 were £3,094,000. As a proportion of assets under management this was 0.2%.

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.

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

NORTEL NETWORKS UK PENSION PLAN

INVESTMENT REPORT

FOR THE YEAR ENDED 5 APRIL 2006

Custodial arrangements

The certificates of title to the Plan's assets are held by State Street Bank & Trust Company in the name of State Street Nominees Ltd. a/c 5H53-5H60, according to the investment manager that holds the investment, with the Plan's beneficial interest noted.

Review of investment performance

Details of the Plan's investments of £1,693,905 are given in note 10 to the financial statements. An analysis of the asset allocation of the Plan's investments as at 5 April 2006 is provided below:

Fixed interest securities	2006	2005
	%	%
UK public sector quoted	7.45	8.08
UK quoted	16.91	18.09
Overseas public sector	1.33	1.70
	<u>25.69</u>	<u>27.87</u>
Equities	2006	2005
	%	%
UK quoted equities	21.57	20.28
Overseas quoted equities	15.54	14.35
	<u>37.11</u>	<u>34.63</u>
Other	2006	2005
	%	%
Pooled investment vehicles		
UK quoted equities	33.69	33.32
Overseas quoted equities	0.59	0.55
Cash and cash equivalents	2.13	2.77
Other investments	0.17	0.20
AVC investments	0.62	0.66
	<u>37.20</u>	<u>37.50</u>
Total	<u>100.00</u>	<u>100.00</u>

The Trustee considers that the spread of investments both geographically and by investment category enables the Plan to benefit from potentially higher rates of investment growth in different markets whilst also decreasing the effect price fluctuations within a particular market may have on the Plan. The proportion of the Plan's assets invested in a particular market is determined by reference to the relative rate of return and the relative level of risk associated with that market.

NORTEL NETWORKS UK PENSION PLAN

INVESTMENT REPORT

FOR THE YEAR ENDED 5 APRIL 2006

Investment Review

Recognising that the Nortel Networks UK Pension Plan is a very mature fund, ie its liability profile is heavily weighted towards former employees rather than current employees, and that in aggregate assets need to be realised to meet benefit payments, the Trustee has adopted fixed asset proportions as a long term policy Benchmark. The investment return of the Plan's assets is measured against this Benchmark.

The Trustee does not wish in any way to fetter the full discretion of each Manager as regards day to day tactical investment decisions, but requires that Managers should work within the Benchmark proportions and ranges set out below as a long term policy. BGI is the balancing manager for the Plan. The table above shows the distribution of the Plan's assets relative to the Benchmark proportions as at 5 April 2006:

The indices used to make up the benchmark are as set out below.

Sector	Index to be used
UK Equities	FTSE All Share
Overseas Equities	
North America	FTSE AWD USA
Europe	FTSE AWD Europe ex UK
Japan	FTSE AWD Japan
Pacific	FTSE AWD Pacific ex Japan
Bonds	
UK Bonds	FTSE A Govt. Over 15 Years Gilts
Corporate Bonds	iBoxx £ Non Gilt All Stocks

The broad policy on active versus passive management is to split the assets two-thirds active management and one third passive. One of the fund managers, Barclays Global Investors, therefore holds a portfolio of global equities and UK Government bonds which is passively managed against the relevant indices.

Should any of the Investment Managers wish to move outside their appropriate ranges for a significant period of time, they must first consult the Trustee and approval must be given in writing.

The Trustee considers that all the Plan's investments are readily marketable.

NORTEL NETWORKS UK PENSION PLAN

INVESTMENT REPORT

FOR THE YEAR ENDED 5 APRIL 2006

At 5 April 2006 the top ten equity investments by market value were:

Top Ten Investments at 5 April 2006	Value in £Millions	% UK Equity	% Total Plan Assets
1. BP	36.2	7.6	2.2
2. HSBC	30.7	6.4	1.8
3. Glaxo Smithkline	28.4	5.9	1.7
4. Royal Dutch Shell	26.8	5.6	1.6
5. Vodafone Group	20.5	4.3	1.2
6. Astrazeneca	12.9	2.7	0.8
7. BG Group	12.2	2.5	0.7
8. Standard Chartered	10.9	2.3	0.7
9. Rio Tinto	9.4	2.0	0.6
10. Royal Bank Scotland Group	8.8	1.8	0.5
	196.8	41.1	11.8

The table below shows the distribution of assets between the Plan's investment managers as at 5 April 2005 and 5 April 2006.

Manager	Mandate	Portfolio value as at 5 April 2006 (£m)	Portfolio value as at 5 April 2005 (£m)
Barclays Global Investors Ltd	Multi-Asset	569.3	473.3
Bank of Ireland Asset Management (UK) Ltd	Overseas Equity	129.9	107.1
Capital International	Overseas Equity	145.3	106.9
Schroder Investment Management (UK) Ltd	UK Equity	201.4	153.8
Fidelity Investments	UK Equity	182.2	143.2
UBS Global Asset Management	Fixed Interest	223.5	201.2
Western Asset Management	Fixed Interest	226.4	206.9
		1,678.0 *	1,392.4 *

* Excludes Cash in Trustee bank account. Cash held by the investment managers is included in the asset values for each manager. The amount held in the Trustee Bank Account was £12.5 m.

The total value for investments as disclosed in note 10 to the accounts includes balances which are not included in the above table and can be reconciled as follows:

	£m
Held with fund managers as above	1,678.0
Cash held in the Trustee's bank account	12.5
Amounts held with AVC providers	10.4
Policy held with Prudential ('Q' Scheme)	2.8
Accrued investment income (included in note 12)	(9.8)
	<u>1,693.9</u>

The amount included within note 12, is part of the £15m debtor figure.

NORTEL NETWORKS UK PENSION PLAN

INVESTMENT REPORT

FOR THE YEAR ENDED 5 APRIL 2006

The Trustee retains the WM Company to measure and compare the performance of the investment portfolio. In the following table, portfolio performance is compared to the WM Corporate Universe of funds (ex-property). As at 31 March 2006 this universe comprised 159 funds with a combined market value of £333,688m.

When compared with the WM Corporate Universe of funds (ex-property) the Plan was below median over 1, 3, 5 and 10 years, but it should be noted that each fund in the universe will have its own unique asset allocation.

Fund Performance relative to the WM Corporate Universe (ex-property)

Percentage returns	1 year %	3 years %pa	5 years %pa
Barclays Global Investors	21.4	17.3	6.3
<i>Benchmark-</i>	21.4	16.0	5.9
Fidelity Investments (From (1/7/2002)	27.2	24.2	11.4
<i>Benchmark-</i>	28.0	24.6	11.9
Schroder Investment Management	27.4	28.6	9.1
<i>Benchmark-</i>	28.0	24.6	5.7
Bank of Ireland Asset Management	21.5	16.4	2.8
<i>Benchmark-</i>	34.4	24.5	5.0
Capital International*	35.9	27.7	-
<i>Benchmark-</i>	35.1	28.1	-
UBS Global Asset Management**	9.0	9.6	-
<i>Benchmark-</i>	8.7	9.2	-
Western Asset Management*	8.5	10.0	-
<i>Benchmark-</i>	8.7	9.2	-
WM Corporate Universe ex Property	24.1	19.4	5.5
Plan Return	20.0	16.1	5.5
<i>Benchmark-</i>	21.3	16.6	5.7

* Since 31 August 2004

** Since 4 August 2004

NORTEL NETWORKS UK PENSION PLAN

INVESTMENT REPORT

FOR THE YEAR ENDED 5 APRIL 2006

Market Background - Twelve months to 31 March 2006

Economic Background

The Office of National Statistics (ONS) recorded growth in the UK economy of 2.2% over the year to 31 March 2006, down from 2.7% in the previous twelve months. The Bank of England's Monetary Policy Committee ("MPC") reduced interest rates by 0.25%, to 4.5% during the year under review. Rates were reduced to this level in August and had previously been unchanged for a year.

The Consumer Price Index annual inflation rate increased to 2.0% during February 2006, in line with the Bank of England's target. The UK inflation rate is currently at levels comparable to the average for the European Union as a whole.

The European Central Bank ("ECB") raised interest rates by a quarter of a percentage point to 2.5% in March 2006 due to concerns about inflationary pressures. The rise was the second in four months, after the ECB had held rates steady at 2.0% for more than two years. Many economists expect a further increase in interest rates this year although there is concern in some quarters that a premature rise could hamper Europe's economic recovery when it is just gathering momentum.

The Federal Reserve ("Fed") raised US interest rates from 2.75% to 4.75% over the year. The Fed continued with its policy of steadily increasing US interest rates at each meeting of the Federal Open Market Committee. The increase in March 2006 was the fifteenth 0.25% rise in succession, with rates now at their highest level since April 2001. Alan Greenspan stepped down as Chairman of the Federal Reserve in February, with Princeton economist Ben Bernanke approved as his replacement.

In March 2006 the Bank of Japan signalled an end to its longstanding monetary policy of holding interest rates at near zero percent, due to its increasing confidence about the strength of the economy. However, the Bank of Japan indicated that rates are likely to remain close to zero for some time yet.

Oil prices remained above \$60 a barrel for most of the year due to robust global demand, geo-political tension with Iran over its nuclear ambitions and unrest in the Nigerian Delta oil region.

NORTEL NETWORKS UK PENSION PLAN

INVESTMENT REPORT

FOR THE YEAR ENDED 5 APRIL 2006

Markets - Equities

The FTSE All-Share index posted a return of 28.0% over the year, with mid-cap stocks performing the strongest. All FTSE UK sectors produced positive returns over the period.

The FTSE AWD USA Index returned 23.1% in Sterling terms, but only 13.0% in local currency terms due to the appreciation of the US Dollar relative to Sterling over the year. The majority of FTSE AWD USA sectors produced positive returns over the period.

The FTSE AWD Europe ex UK Index returned 37.6% to the Sterling investor and 36.0% in local currency terms due to the marginal appreciation of the Euro relative to Sterling over the twelve month period. All FTSE AWD Europe ex UK sectors produced positive returns over the period.

Of the major markets, the Japanese equity market generated the highest returns in both Sterling and local currency terms over the year. The FTSE W Japan Index returned 48.2% and 50.1% to Sterling and local investors respectively. On 18 January 2006 the Japanese stock market was forced to close early for the first time in its history, as news of the raid by Government prosecutors on internet company Livedoor resulted in extremely high levels of trading volume which threatened to exceed the system's capacity. The market did however rebound strongly the following day. Japan's securities commission has since filed criminal complaints against executives of Livedoor for allegedly falsifying company accounts.

The Asia Pacific ex Japan region performed strongly over the year. The FTSE W Asia Pacific ex Japan Index returned 37.6% and 29.3% in Sterling and local currency terms respectively.

Markets - Bonds

Over the twelve month period to 31 March 2006, bond markets produced positive returns albeit these returns lagged equities over the period.

The real yield (i.e. in excess of inflation) on 50 year index-linked Government bonds fell to below 0.4% p.a. in mid-January 2006, the lowest recorded since index-linked Government bonds were first issued. The fall in yields was not confined to index-linked Government bonds, but also impacted on nominal yields on conventional Government bonds too. The fall in bond yields could be attributed to demand and supply factors in the bond market, in particular the strong demand driven by both insurers and pension funds seeking to reduce their investment risk relative to their liabilities. Yields have however since recovered, with the yield on 50 year index-linked Government bonds having risen above 0.8% p.a. as at 31 March 2006.

Within Index-Linked Gilts longer dated outperformed shorter dated Gilts with the FT-A Over 5 Year Index Linked Gilts index returning 9.0% over the twelve month period.

Over the twelve months to 31 March 2006, higher rated bonds in general produced the strongest returns. Overall, investment grade corporate bonds, as measured by the Merrill Lynch Sterling Non-Gilts Index, returned 7.8%.

Overseas bonds returned 3.7% to Sterling investors and 1.1% in local currency terms over the twelve month period.

Markets - Currencies

Over the year Sterling Cash produced a return of 4.5%. Overall, Sterling depreciated against the US Dollar and the Euro over the twelve month period, and appreciated against the Japanese Yen. The US Dollar appreciated against both the Euro and the Japanese Yen over the twelve months to 31 March 2006.

NORTEL NETWORKS UK PENSION PLAN

ACTUARIAL STATEMENT

Actuarial Statement made for the purposes of Regulation 30 of the Occupational Pension Schemes (Minimum Funding Requirement and Actuarial Valuations) Regulations 1996

Name of scheme: Nortel Networks UK Pension Plan

Effective date of valuation: 5 April 2005

1. Security of prospective rights

In my opinion, the resources of the Plan are likely in the normal course of events to meet in full the liabilities of the Plan as they fall due. In giving this opinion, I have assumed that the following amounts will be paid to the Plan:

Description of contributions

By members: 5% of pensionable pay
By the employer: £10 million paid shortly after 5 April 2005 plus £46 million a year payable in quarterly instalments from 6 April 2005 to 5 April 2007 and thereafter, subject to review at future actuarial valuations, contributions equal to 14.5% of members' pensionable pay plus such further contributions determined on an annual basis as are needed to remove the shortfall over a period not exceeding 10 years from 5 April 2005.

2. Summary of methods and assumptions used

For the purposes of Section 1 above I have assumed that the Plan will continue. The liabilities referred to relate to the benefits which are expected to become payable under the normal operation of the Plan. They take account of future benefits accruals and include appropriate allowance for future increases in pensionable pay.

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

NORTEL NETWORKS UK PENSION PLAN

ACTUARIAL STATEMENT

The financial assumptions relate to the long term, having regard to the financial conditions which prevailed at the effective date of the valuation. Further details of the method and assumptions used are set out in my report on the actuarial valuation addressed to the Trustee and the Company dated 4 April 2006.

Daniel Harrison
Fellow of the Institute of Actuaries
Watson Wyatt Limited

4 April 2006

Watson House
London Road
Reigate
Surrey
RH2 9PQ

NORTEL NETWORKS UK PENSION PLAN

ACTUARIAL CERTIFICATE

ACTUARIAL CERTIFICATE GIVEN FOR THE PURPOSES OF SECTION 58 OF THE PENSIONS ACT 1995 (CERTIFICATE OF SCHEDULE OF CONTRIBUTIONS)

Name of scheme : **Nortel Networks UK Pension Plan**

Adequacy of rates of contributions:

1. I hereby certify that, in my opinion, the rates of the contributions payable in accordance with the schedule of contributions dated 26 June 2006 are adequate for the purpose of securing that by the end of the period it covers the scheme will meet the minimum funding requirement imposed by section 56(1) of the Pensions Act 1995 and are such that they meet the uniform funding requirement specified in regulation 17 of the Occupational Pension Schemes (Minimum Funding Requirement and Actuarial Valuation) Regulations 1996.
2. In forming this opinion I have complied with the requirements imposed by sections 56(3) and 58 of the Pensions Act 1995, the Occupational Pension Schemes (Minimum Funding Requirement and Actuarial Valuations) Regulations 1996 and the mandatory guidelines on minimum funding requirement (GN 27), prepared and published by the Institute of Actuaries and the Faculty of Actuaries, and have made the assumptions prescribed by them.

Daniel Harrison
Fellow of the Institute of Actuaries

26 June 2006

Watson Wyatt LLP
Watson House
London Road
Reigate
Surrey
RH2 9PQ

Note:

The certification of the adequacy of rates of contributions for the purpose of securing the meeting of the minimum funding requirement is not a certification of their adequacy for the purpose of securing the scheme's liabilities by the purchase of annuities, if the scheme were wound up.

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF

NORTEL NETWORKS UK PENSION PLAN

FOR THE YEAR ENDED 5 APRIL 2006

We have audited the financial statements of The Nortel Networks UK Pension Plan for the year ended 5 April 2006 that comprise the fund account, the net assets statement and the related notes. These have been prepared under the accounting policies set out in the related notes.

Respective responsibilities of the Trustee and auditors

The trustee's responsibilities for obtaining an annual report, including audited financial statements prepared in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice), are set out in the Statement of Trustee's Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements show a true and fair view and contain the information required by the relevant legislation. We also report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises the Trustee's Report, the Investment Report, the actuarial statements, the Compliance Statement and the Further Information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by or on behalf of the trustees in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Plan's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF

NORTEL NETWORKS UK PENSION PLAN

FOR THE YEAR ENDED 5 APRIL 2006

Opinion

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the Plan during the Plan year ended 5 April 2006, and of the amount and disposition as at that date 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 Regulation 3 of and the Schedule to the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996.

Grant Thornton UK LLP
Chartered Accountants
Registered Auditor

London

The maintenance and integrity of the area of the employer's website where the pension scheme financial statements are reproduced is the responsibility of the Trustees. The work of the auditors does not involve consideration of these matters, and accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

**STATEMENT OF THE INDEPENDENT AUDITOR ABOUT CONTRIBUTIONS, UNDER
REGULATION 4 OF THE OCCUPATIONAL PENSION SCHEMES (REQUIREMENT TO
OBTAIN AUDITED ACCOUNTS AND A STATEMENT FROM THE AUDITOR)
REGULATIONS 1996, TO THE TRUSTEE OF THE NORTEL NETWORKS UK PENSION PLAN**

FOR THE YEAR ENDED 5 APRIL 2006

We have examined the Summary of Contributions payable to the Nortel Networks UK Pension Plan in respect of the Plan year ended 5 April 2006 which is set out on page 10.

Respective responsibilities of the Trustee and Auditors

As described on page 10, the Plan's Trustee is responsible, for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions which sets out the rates and due dates of certain contributions payable towards the Plan by or on behalf of the employer and the active members of the Plan. The Trustee has a general responsibility for procuring that contributions are made to the Plan in accordance with the Schedule of Contributions.

It is our responsibility to provide a statement about contributions paid under the Schedule of Contributions.

Basis of statement about contributions

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to give reasonable assurance that contributions reported in the summary of contributions have been paid in accordance with the relevant requirements. For this purpose, the work that we carried out included examination, on a test basis, of evidence relevant to the amounts of contributions paid to the Plan and the timing of those payments under the Schedule of Contributions. Our Statement about contributions is required to refer to those breaches of the Schedule of Contributions which come to our attention in the course of our work.

Statement about contributions

In our opinion contributions for the Plan year ended 5 April 2006 as reported in the Summary of Contributions have been paid in accordance with:

- the schedule of contributions certified by the actuary on 11 February 2003 for the period 6 April 2005 to 18 July 2005 and with
- the schedule of contributions certified by the actuary on 19 July 2005 for the period 19 July 2005 to 5 April 2006.

**Grant Thornton UK LLP
Chartered Accountants
Registered Auditor
London**

NORTEL NETWORKS UK PENSION PLAN

FUND ACCOUNT

FOR THE YEAR ENDED 5 APRIL 2006

	Notes	2006 £'000	2005 £'000
Contributions and other income			
Contributions receivable	3	49,668	52,637
Transfers in	4	137	945
Other income	5	4	-
		<u>49,809</u>	<u>53,582</u>
Benefits and other payments			
Benefits payable	6	82,975	83,507
Payments to and on account of leavers	7	2,677	4,144
Administrative expenses	8	1,362	1,436
		<u>87,014</u>	<u>89,087</u>
Net withdrawals from dealings with members		<u>(37,205)</u>	<u>(35,505)</u>
Returns on investments			
Investment income	9	37,960	34,619
Change in market value of investments	10	248,777	77,756
Investment management and custodian expenses	11	(3,094)	(3,159)
Net returns on investment		<u>283,643</u>	<u>109,216</u>
Net increase in the fund for the year		<u>246,438</u>	<u>73,711</u>
Net assets of the Plan at 6 April 2005		<u>1,454,352</u>	<u>1,380,641</u>
Net assets of the Plan at 5 April 2006		<u>1,700,790</u>	<u>1,454,352</u>

The notes to the financial statements form part of these financial statements.

NORTEL NETWORKS UK PENSION PLAN

NET ASSETS STATEMENT

AT 5 APRIL 2006

	Notes	2006 £'000	2005 £'000
Defined benefit section			
Investments			
	10		
Fixed interest securities		435,241	400,666
Equities		628,652	497,663
Pooled investment vehicles		580,639	486,706
Q' Policy Issued by Prudential		2,836	2,761
Cash and cash equivalents		36,078	39,853
Other investments		19	21
AVC investments		10,440	9,500
		<u>1,693,905</u>	<u>1,437,170</u>
Current assets and liabilities			
	12	6,885	17,182
		<u>1,700,790</u>	<u>1,454,352</u>
Defined contribution section			
Assets designated to members			
Investments			
	10		
Cash and cash equivalents		-	5
		<u>-</u>	<u>5</u>
Assets not designated to members			
Current assets and liabilities			
	12	-	(5)
		<u>-</u>	<u>(5)</u>
		<u>-</u>	<u>-</u>
		<u>1,700,790</u>	<u>1,454,352</u>
Net assets of Plan at 5 April 2006		<u>1,700,790</u>	<u>1,454,352</u>

The notes to the financial statements form part of these financial statements.

The financial statements were approved by the Trustee of Nortel Networks UK Pension Plan by:

Director Date

Director Date

NORTEL NETWORKS UK PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 5 APRIL 2006

1. Basis of preparation

The financial statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 and with the guidelines set out in the Statement of Recommended Practice, Financial Reports of Pension Schemes - revised November 2002.

The financial statements summarise the transactions and net assets of the Plan. Liabilities to pay pensions and other benefits which are expected to become payable after the end of the Plan year are not dealt with in the financial statements. The actuarial position of the Plan, which does take account of such liabilities, is dealt with in the statement by the actuary on page 18 - 19 of the annual report and these financial statements should be read in conjunction with it.

2. Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the current year and preceding year, is set out below.

Investment income

Income from UK investments is accounted for on an accruals basis. Income from overseas investments is accounted for when received. Realised and unrealised capital gains and losses on investments are dealt with in the fund account in the year which they arise. Interest on cash deposits and fixed interest securities is accounted for by reference to the period to which it relates.

UK dividend income is accounted for when the securities are quoted ex-dividend. Interest on cash deposits is accounted for by reference to the period to which it relates.

Investment income arising from the underlying investments of the Pooled Investment Vehicles is reinvested within the Pooled Investment Vehicles and reflected in the unit price. It is reported within "Change in market value of Investments".

Contributions

Employee contributions including additional voluntary contributions are accounted for when they are deducted from pay.

Employers' normal and additional contributions are accounted for in the period to which the corresponding pay relates.

Employer special contributions are accounted for in the period they fall due as payable to the Plan.

Benefits

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

Benefits are accounted for in the period in which the member notifies the Trustees of their decision on the type or amount of benefit to be taken or, if there is no member choice, on the date of retirement or leaving.

NORTEL NETWORKS UK PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 5 APRIL 2006

Transfers to and from other schemes

Individual transfers into and out of the Plan are accounted on a cash basis.

Group transfers are accounted for in accordance with the terms of the transfer agreement.

Expenses

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

Investments

As a general principle investment assets are included in the financial statements at their market value at the year end.

Pooled Investment Vehicles are included at the average of the closing bid and offer price (the mid price). The fees and costs of acquiring and disposing of investments are included in their purchase and sale price.

The market value of quoted securities is based on the middle market quotation on the relevant Stock Exchange. Other securities are valued by the Trustee at the year end. Investment management fees are accounted for on an accruals basis and are separately disclosed in the notes.

Annuities purchased by the Trustees which fully match the benefits for certain members are included in these financial statements at nil value. The cost of purchasing these annuities is reported within the Fund Account under 'Benefits payable'.

Foreign currency conversion

Assets and liabilities in foreign currencies, including the effect of forward exchange contracts, are expressed in sterling at the rates of exchange ruling at the year end. Surpluses and deficits arising on conversion or translation are dealt with as part of realised and unrealised investment gains and losses. Other surpluses and deficits are dealt with as other receipts or payments as appropriate.

NORTEL NETWORKS UK PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 5 APRIL 2006

3. Contributions receivable

	2006	<i>2005</i>
	£'000	<i>£'000</i>
Employers		
Special	46,000	<i>48,636</i>
Additional contributions	588	<i>71</i>
Members		
Normal	2,735	<i>3,401</i>
Additional voluntary contributions	345	<i>529</i>
	49,668	<i>52,637</i>

As the Plan meets the Minimum Funding Requirement (MFR) the Company is not required to make regular contributions. The special company contribution was a voluntary contribution by the company of £46m. Employer additional contributions relate to amounts agreed and paid by the Employer in respect of benefit enhancements to certain members.

4. Transfers in

	2006	<i>2005</i>
	£'000	<i>£'000</i>
Group transfers in from other schemes	-	<i>114</i>
Individual transfers in from other schemes	137	<i>831</i>
	137	<i>945</i>

5. Other income

	2006	<i>2005</i>
	£'000	<i>£'000</i>
Claims on insurance policies	4	<i>-</i>

NORTEL NETWORKS UK PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 5 APRIL 2006

6. Benefits payable

	2006	<i>2005</i>
	£'000	<i>£'000</i>
Pensions	79,201	<i>76,332</i>
Commutations and retirement lump sums	2,935	<i>5,472</i>
Lump sum death benefits	839	<i>1,703</i>
	82,975	<i>83,507</i>

7. Payments to and on account of leavers

	2006	<i>2005</i>
	£'000	<i>£'000</i>
Refunds to members leaving service	13	<i>-</i>
Payments for members reinstated in state scheme	(6)	<i>(5)</i>
Individual transfers to other schemes	2,670	<i>4,149</i>
	2,677	<i>4,144</i>

8. Administrative expenses

	2006	<i>2005</i>
	£'000	<i>£'000</i>
Administration fees	782	<i>424</i>
Audit fee	48	<i>48</i>
Actuarial fees	157	<i>107</i>
Legal fees	38	<i>162</i>
Other administration costs	320	<i>583</i>
Other fees	17	<i>112</i>
	1,362	<i>1,436</i>

All other Plan operating costs are borne by the principal employer.

NORTEL NETWORKS UK PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 5 APRIL 2006

9. Investment income

	2006	<i>2005</i>
	£'000	<i>£'000</i>
Income from fixed interest securities	22,476	<i>20,842</i>
Dividends from equities	15,661	<i>14,445</i>
Interest on cash deposits	549	<i>544</i>
Other investment income	8	<i>2</i>
Irrecoverable withholding tax	(734)	<i>(1,214)</i>
	37,960	<i>34,619</i>

10. Investments

	Value at	Purchases	Sale	Change in	Value at
	06/04/05	at cost	proceeds	market	05/04/06
	£'000	£'000	£'000	value	£'000
				£'000	
Fixed interest securities	400,666	371,944	(356,495)	19,126	435,241
Equities	497,663	367,883	(362,469)	125,575	628,652
Pooled investment vehicles	486,706	110,333	(120,498)	104,098	580,639
Q' Policy Issued by Prudential	2,761	-	(371)	446	2,836
Cash and cash equivalents	39,853	12,497	(14,662)	(1,610)	36,078
Other investments	21	-	(2)	-	19
AVC investments	9,500	356	(558)	1,142	10,440
	1,437,170	863,013	(855,055)	248,777	1,693,905

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.

Employer related investments

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

Concentration of investments

There were no investments amounting to more than 5 per cent of the total net assets of the Plan.

NORTEL NETWORKS UK PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 5 APRIL 2006

Fixed interest securities

	2006	<i>2005</i>
	£'000	<i>£'000</i>
UK public sector quoted	126,243	<i>116,146</i>
UK quoted	286,469	<i>260,034</i>
Overseas public sector	22,529	<i>24,486</i>
	435,241	<i>400,666</i>

Equities

	2006	<i>2005</i>
	£'000	<i>£'000</i>
UK quoted equities	365,435	<i>291,458</i>
Overseas quoted equities	263,217	<i>206,205</i>
	628,652	<i>497,663</i>

Pooled investment vehicles

	2006	<i>2005</i>
	£'000	<i>£'000</i>
Managed funds - other	580,639	<i>486,706</i>
Unit trusts - other	2,836	<i>2,761</i>
	583,475	<i>489,467</i>

The companies operating pooled investment vehicles are registered in the United Kingdom.

NORTEL NETWORKS UK PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 5 APRIL 2006

Cash and cash equivalents

	2006	<i>2005</i>
	£'000	<i>£'000</i>
Cash equivalents (cash backing futures)	(1,147)	<i>7,409</i>
Cash	37,225	<i>32,444</i>
	36,078	<i>39,853</i>

Other investments

	2006	<i>2005</i>
	£'000	<i>£'000</i>
Other investments	19	<i>21</i>

AVC investments

The trustees hold assets invested separately from the main fund in the form of individual building society accounts and insurance policies, which secure additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions. Members participating in this arrangement 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 below: -

	2006	<i>2005</i>
	£'000	<i>£'000</i>
Equitable Life	5,495	<i>5,277</i>
Winterthur Life	4,579	<i>3,813</i>
London Life	165	<i>217</i>
Nationwide Building Society	196	<i>189</i>
M G M Assurance	5	<i>4</i>
	10,440	<i>9,500</i>

NORTEL NETWORKS UK PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 5 APRIL 2006

11. Investment management expenses

	2006	<i>2005</i>
	£'000	<i>£'000</i>
Administration and management	2,874	<i>2,873</i>
Custody fees	220	<i>286</i>
	3,094	<i>3,159</i>

12. Current assets and liabilities

	2006	<i>2005</i>
	£'000	<i>£'000</i>
Contributions due		
Employers	-	<i>10,000</i>
Other current assets and liabilities		
Amounts due from Nortel Networks UK Limited	-	<i>190</i>
Other debtors and prepayments	15,284	<i>16,111</i>
Amounts due to Nortel Networks UK Limited	-	<i>(133)</i>
Creditors	-	<i>(22)</i>
Benefits payable	(1,168)	<i>(447)</i>
Accruals	(1,902)	<i>(2,292)</i>
Other creditors	(5,329)	<i>(6,230)</i>
	6,885	<i>17,177</i>

The members' and employers' contributions shown as due above were received after the year end in accordance with the Schedule of Contributions.

13. 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 5 April 2006 (5 April 2005 - Nil)

14. Business Acquisitions

There is one historical business acquisition, Whitworth Electric Company, where Plan members' accrued benefits have not yet been transferred to the Plan. Such transfers are only recognised in the Accounts when a binding agreement to transfer has been signed. The transfer is not material in the context of the overall Fund.

NORTEL NETWORKS UK PENSION PLAN

COMPLIANCE STATEMENT

FOR THE YEAR ENDED 5 APRIL 2006

The purpose of this compliance statement is to disclose some additional information required by law.

Matters relating to the Trustee

The Trustee has received a copy of the Guide for Pension Scheme Trustees issued by the The Pensions Regulator, (who replaced the Occupational Pensions Regulatory Authority (Opra) as the regulator of work-based pensions in the UK on 6 April 2005).

Plan investments

The investment managers appointed on behalf of the Trustee to manage funds under Section 34(4) of the Pensions Act 1995 are properly authorised under the Financial Services and Markets Act 2000 to manage investments or are specifically exempted from the requirements of the Act. The investment managers appointed have the appropriate knowledge and experience necessary to manage the particular investments delegated.

A statement of investment principles has been produced as required by Section 35 of the Pensions Act 1995, and is available from the website (www.nortelpensions.com).

Plan advisers

There are written agreements in place between the Trustee and each of the Plan advisers listed on pages 2 & 3 of the Annual Report and also with the Principal Employer. Other than the changes shown in page 2 there were no other changes in Plan advisers 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.dpr.gov.uk)

Contributions Agency - The Plan is contracted-out under Reference 603534 - SCON S4004664B

Inland Revenue Pension Schemes Office - The Plan is registered under Reference SF14/21813

NORTEL NETWORKS UK PENSION PLAN

COMPLIANCE STATEMENT

FOR THE YEAR ENDED 5 APRIL 2006

Communications

Employees

Annual benefit statements which include state scheme forecasts are issued to all active members.

Services@Work and e-mail have become the main communication media when contacting active members. All communications can be targeted where necessary to specific members or categories of members by an e-mailed web alert. The web alert provides a direct routing People/Benefits/Pensions to the relevant information on Services@Work.

The extent to which members access pensions information is monitored monthly and has proved to be very successful. For areas where computer access is not so prevalent, notices are still provided for notice boards by Human Resources.

Deferred Members

Deferred members receive any relevant communications by post or, where initiated by them, via e-mail. Deferred members have also been made aware of the Plan's website www.nortelpensions.com.

Pensioners

Newslink has been issued to all pensioners (unless declined), and provides a valuable medium for conveying updated information.

Website

The Pensions website (www.nortelpensions.com) has been in operation since January 2003.

ePA

On line access to member administrative records has been launched and communicated to all active and deferred members in September 2006. This enables members to view their record, update some information and perform retirement and transfer value calculations.

NORTEL NETWORKS UK PENSION PLAN

FURTHER INFORMATION

FOR THE YEAR ENDED 5 APRIL 2006

Internal disputes resolution procedure

Disputes resolution procedures can be found on the Pensions web site www.nortelpensions.com

The Registrar, TPAS, the Pensions Ombudsman and the Pensions Regulator

In accordance with the Occupational Pension Schemes (Disclosure of Information) Regulations 1996, as amended, members are advised that:

- information regarding the Plan has been given to the Pensions Tracing Service;
- the Pensions Advisory Service (TPAS) of 11 Belgrave Road, London, SW1V 1RB is able to assist members and beneficiaries with difficulties which they cannot resolve with the trustee or the plan administrator;
- the Pensions Ombudsman of 11 Belgrave Road, London, SW1V 1RB may investigate and determine any complaint or dispute of fact or law which they have failed to resolve with the trustee or administrator of an occupational pension scheme.

In addition to the above The Pensions Regulator of Napier House Trafalgar Place Brighton BN1 4DW (who on 6 April 2005 replaced the Occupational Pensions Regulatory Authority (Opra) as the regulator of work-based pensions in the UK) regulates company pension schemes and enforces the law as it relates to them. It has wide ranging powers which include the power to:

- suspend, disqualify and remove a trustee, or director of a trustee company, for consistently not carrying out their duties;
- wind up schemes where necessary;
- apply for injunctions to prevent the misuse and misappropriation of Plan assets and apply for restitution where necessary.

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 Watson Wyatt Ltd
PO Box 545
Redhill
Surrey
RH1 1YX
