

NORTEL NETWORKS UK PENSION PLAN
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 5 APRIL 2007

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 2007

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	D. Davies (Chairman) (from 1 June 2007) B. McNess (Interim Chairman) (from 22 November 2006 to 30 May 2007) W.K. Gardener (Chairman) (to 21 November 2006) BESTrustees plc
Employer nominated	K. Foster (to 21 November 2006) I.J. Morgan (to 15 April 2007) J. Poos (from 20 June 2007) C. Gilchrist (from 20 June 2007) H. Mehta G. Staunton
Member nominated	J.W. Hern (to 18 October 2006) T. Rossiter (from 1 December 2006) M. Wilson N. Bowles
Secretary to the Trustee Board	L. Hammond
Investment Committee	B. McNess (Interim Chairman) (from 22 November 2006) W.K. Gardener (Chairman) (to 21 November 2006) I.J. Morgan (to 15 April 2007) BESTrustees plc M. Wilson

NORTEL NETWORKS UK PENSION PLAN

TRUSTEE & ADVISERS

FOR THE YEAR ENDED 5 APRIL 2007

Administration Discretions and Benefits Committee (ADB)

Directors, Nortel Networks UK Pension Trust Limited

B. McNess (Chairman) (from 17 April 2007)

I.J. Morgan (Chairman) (to 15 April 2007)

J.W. Hern (to 18 October 2006)

T. Rossiter (from 8 May 2007)

BESTrustees plc

N. Bowles

Company Representatives

P. Masterson

S. Rolston

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 of Watson Wyatt Ltd (to 6 March 2007)

N Mobbs of Watson Wyatt Ltd (from 6 March 2007)

Administrators (and 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

NORTEL NETWORKS UK PENSION PLAN

TRUSTEE & ADVISERS

FOR THE YEAR ENDED 5 APRIL 2007

Investment managers

Barclays Global Investors Limited
Schroder Investment Management (UK) Limited
Henderson Global Investors (from 9 March 2007)
Capital International Ltd
Alliance Bernstein Limited (from 1 November 2006)
UBS Global Asset Management
Western Asset Management Company Ltd
Bank of Ireland Asset Management (UK) Limited (to 18 October 2006)
Fidelity Pensions Management (to 26 February 2007)

In September 2007 the Trustee appointed BNY Mellon Asset Management and Record Currency Management Ltd as active currency managers.

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 2007

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 its annual report together with the investment report, actuarial statements and financial statements for the year ended 5 April 2007. 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 registration 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.

NORTEL NETWORKS UK PENSION PLAN

TRUSTEE'S REPORT

FOR THE YEAR ENDED 5 APRIL 2007

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.

During the reporting year Ken Gardener resigned as Chairman of the Board. Pending the appointment of a new Chairman by the Company, an Interim Chairman, Bruce McNess, was provided by BESTrustees Plc. When David Davies was appointed as Chairman of the Board, Bruce McNess became the representative from BESTrustees Plc and Clive Gilchrist (formerly the representative from BESTrustees Plc) became an interim Employer Nominated Director in place of Iain Morgan. Tim Rossiter replaced Will Hern as a Member Nominated Director and John Poos replaced Kathy Foster as an Employer Nominated Director.

Member Nominated Directors

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.

The appointment of Member Nominated Directors is currently under review, in accordance with the Pensions Act 2004 which requires new arrangements to be put in place for the nomination and selection of Member Nominated Directors. Subsequent to the audit a new procedure has been agreed by the Trustee and notified to all members.

NORTEL NETWORKS UK PENSION PLAN

TRUSTEE'S REPORT

FOR THE YEAR ENDED 5 APRIL 2007

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 Trustee's responsibilities accompanying the Trustee's summary of contributions on page 11.

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.

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

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 taking the on-line Trustee Training course recommended by the Regulator and four have now completed it.

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 2007

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 2007 guaranteed pension increases in accordance with Plan Rules were given to pensioners. Owing to changes in benefits during the course of the plan different increases are applied to different periods of service, as indicated below. Individual pensioners may also have other elements of pension which do not qualify for increases.

Pensions that commenced during the period May 2006 to March 2007 will have increases pro-rated and nil increase applied after 5th March 2007 to 1st April 2007. A minimum increase of £12.00 per annum applies to pension and deferred pension increases.

Pension increases for post 6 April 1997 service were 3.6% based on the September RPI figures which are published each October.

Pension increases for service between 6 April 1988 and 5 April 1997 were 3% based on the December RPI figures which are published each January.

Note: For post 6 April 1988 accrued service the Plan is required to pay up to the first 3% of any increase. Increases are not applied to the pre 6 April 1988 accrued Guaranteed Minimum Pension ("GMP") part of the Plan pension.

NORTEL NETWORKS UK PENSION PLAN

TRUSTEE'S REPORT

FOR THE YEAR ENDED 5 APRIL 2007

Membership

Details of the membership of the Plan are given below:

The total membership of the Plan at 5 April 2007 was 44,419 (2006: 45,821).

	Active members	Deferred members	EPB* and Q** only	Pensioners	Dependants	Total
At 6 April 2006	1,223	14,328	9,836	14,812	5,622	45,821
Adjustments to prior year	(2)	4	(121)	7	3	109
New members	-	-	-	-	267	267
Members leaving with refunds	-	-	-	-	-	-
Members leaving prior to NRA	(74)	74	-	-	-	-
Retirements	(21)	(428)	-	449	-	-
Commutations	-	(287)	(280)	(20)	(5)	592
Deaths	-	(35)	(43)	(429)	(201)	708
Change in status	(1)	(35)	(11)	(94)	(71)	212
Transfers out	-	(47)	(1)	-	-	48
At 5 April 2007	<u>1,125</u>	<u>13,574</u>	<u>9,380</u>	<u>14,725</u>	<u>5,615</u>	<u>44,419</u>

A prior period adjustment arises where a member's status changed during the previous period but was not notified to Watson Wyatt in time for it to be recorded in that period's membership analysis.

* EPB relates to Equivalent Pension Benefit members.

** Q relates to members who 'qualified' for a pension under the State Graduated Pension Scheme between 1961 - 1975.

NORTEL NETWORKS UK PENSION PLAN

TRUSTEE'S REPORT

FOR THE YEAR ENDED 5 APRIL 2007

Changes to the Plan benefits during the Plan year

Changes to Plan benefits were made from 6 April 2006 to comply with the Tax Simplification regulations of the Pensions Act 2004.

Announcements were sent to all members whose contact details were held by the Trustees. The key changes to the Plan were;

- * AVCs under the Plan can be taken as tax free cash up to certain limits on retirement.
- * The amount of tax free cash available at retirement was increased in line with new Revenue guidelines.
- * Active members can draw their pension from age 50 without having to leave the Company.
- * Children's allowances will cease to be payable at age 23 at the latest.

Otherwise the Plan continues to operate as if the Inland Revenue restrictions in place prior to 6 April 2006 still applied.

Following consultation with all active members the Company has announced a number of changes to the Plan design which will become effective from 1 January 2008. The changes were agreed by the Trustee and all active members have been issued with an announcement about the changes.

Individual 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.

With effect from 1 August 2006 the Trustee ceased to accept individual transfer payments into the Plan in respect of active members and reinstatements in respect of former members. Reinstatements for active members are still permitted. In the reporting period one member has had benefits reinstated following an appropriate payment from the insurance company concerned.

Review of financial development of the Plan

The Trustees are 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 Regulations. For the period of the valuation the Trustee had appointed Daniel Harrison of Watson Wyatt Ltd as Actuary to the Plan. On 6 March 2007 Daniel Harrison resigned and Neil Mobbs was appointed as the Actuary of the Plan.

The last full actuarial valuation of the Plan was performed by Daniel Harrison as at 5 April 2005. The valuation indicated a deficit of £356m assuming the Plan continued. The actuarial statement based on the 2005 valuation is on page 20 - 21. The next full actuarial valuation is scheduled to be carried out as at 5 April 2008.

The assets of the Plan increased by £45,831,000 over the year giving a Plan asset value of £1,746,621,000 at 5 April 2007.

NORTEL NETWORKS UK PENSION PLAN

TRUSTEE'S REPORT

FOR THE YEAR ENDED 5 APRIL 2007

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. It was certified by the Actuary on 26 June 2006 and a copy of the certificate is on page 22.

This Schedule 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 Trustee 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 £21.25 million.

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.

In addition the Company has agreed to pay the Pension Protection Fund Levy each year.

Custody of Assets

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.

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, as stated above, the Principal Company makes the payment. The levy for the year from 6th April 2006 to 5 April 2007 is £511,738.18 split £284,677.17 scheme based and £227,061.01 risk based.

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 39 of this report.

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.

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 2007

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 monitoring whether contributions are made to the Plan 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.

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 schedules of contributions certified by the Actuary on 19 July 2005 and 26 June 2006 in respect of the Plan year ended 5 April 2007. The Plan Auditor reports on contributions payable under the schedules in their Auditors' Statement about contributions on page 25.

Contributions payable under the schedule in respect of the Plan year

	2007
	£'000
Employer normal contributions	85,000
Members normal contributions	2,556
Contributions payable under the schedule (as reported on by the Plan Auditor)	87,556

Reconciliation of contributions

	2007
	£'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)	87,556
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Contributions payable in addition to those payable under the schedule (and not reported on by the Plan Auditor):

Employer additional contributions	529
Members' additional voluntary contributions	300
Total contributions reported in the financial statements	88,385

Employer additional contributions relate to amounts agreed and paid by the Employer in respect of benefit enhancements to certain members.

NORTEL NETWORKS UK PENSION PLAN

INVESTMENT REPORT

FOR THE YEAR ENDED 5 APRIL 2007

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 the Pensions Act 1995. It also takes account of the principles set out in the Myners Report and the Occupational Pension Schemes (Investment) Regulations 2005. The Trustee Board has recently reviewed the SIP following changes to two manager mandates and a change to the UK/overseas split of the equity portion of assets. The revised SIP was signed on 6 June 2007 and ratified by the Trustee Board on 20 June 2007. The SIP will be reviewed by the Trustee Board annually. A copy of the SIP is available from the pensions 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 £4,252,000. As a proportion of assets under management this was 0.23%.

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.

NORTEL NETWORKS UK PENSION PLAN

INVESTMENT REPORT

FOR THE YEAR ENDED 5 APRIL 2007

Review of investment performance

Details of the Plan's investments of £1,726,869 are given in note 10 to the financial statements. An analysis of the asset allocation of the Plan's investments as at 5 April 2007 is provided below:

Fixed interest securities	2007	2006
	%	%
UK public sector quoted	9.01	7.46
UK quoted	15.62	16.94
Overseas public sector	1.49	1.33
	26.12	25.73
	<hr/>	<hr/>
Equities	2007	2006
	%	%
UK quoted equities	9.61	21.61
Overseas quoted equities	24.90	15.56
	34.51	37.17
	<hr/>	<hr/>
Other	2007	2006
	%	%
Pooled investment vehicles		
UK quoted equities	7.42	6.54
Overseas quoted equities	12.52	11.96
UK public sector quoted	17.19	16.01
Cash and cash equivalents	1.61	1.39
Other investments	0.01	0.58
AVC investments	0.62	0.62
	39.37	37.10
	<hr/>	<hr/>
Total	100.00	100.00
	<hr/> <hr/>	<hr/> <hr/>

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 2007

Investment Review

Asset Benchmark and investment performance measurement

Recognising that the Nortel Networks UK Pension Plan is a very mature fund, ie its liability profile is heavily weighted towards pensioners and deferred pensioners 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 rebalancing manager for the Plan. The Total Plan benchmark changed effective from 1 March 2007.

During the year the Investment Committee and the Trustee Board continued to conduct their review of the investment strategy. As a result, a number of changes were made during the Plan year including;

- Bank of Ireland Asset Management (UK) Limited were replaced by AllianceBernstein Limited as an overseas equity manager in November 2006.
- Fidelity Pensions Management were replaced by Henderson Global Investors in March 2007 as a UK equity manager.
- The split between the UK and overseas equities was changed from 27.5%/27.5% to 19.2%/35.8% respectively effective from 1 March 2007.
- Both AllianceBernstein Limited and Capital International Ltd were given more assets to invest and their mandates were changed from overseas excluding the UK to global including the UK from 1 March 2007.
- The allocation of assets to two UK equity managers was reduced accordingly to provide the increased assets mentioned above.

BGI was retained as the transition manager for the above transition.

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 AW North America
Europe	FTSE AW Europe ex UK
Japan	FTSE AW Japan
Pacific	FTSE AW Pacific ex Japan
Bonds	
UK Bonds	FTSE A Govt. Over 15 Years Gilts
Corporate Bonds	iBoxx £ Non Gilt All Stocks

NORTEL NETWORKS UK PENSION PLAN

INVESTMENT REPORT

FOR THE YEAR ENDED 5 APRIL 2007

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 table below shows the distribution of the Plan's assets relative to the Benchmark proportions as at 31 March 2007:

Assets	Actual	Benchmark	Range
	As at 31 March 2007	As at 31 March 2007	
	%	%	%
Equities	54.4	55.0	52.5 - 57.5
UK Equities	19.3	19.2	16.7 - 21.7
Overseas Equities	35.2	35.8	33.3 - 38.3
North America	13.6	12.0	
Europe	10.5	12.0	
Japan	6.3	7.2	
Pacific	3.8	4.7	
Other Intl	1.0	0.0	
Bonds	42.6	45.0	42.5 - 47.5
UK Government Bonds	27.2	25.0	
UK Corporate Bonds	14.4	20.0	
Overseas Bonds	1.0		
Cash/other	2.9		
	100.0	100.0	

Investment managers and custody of assets

All of the Plan's Investment Managers are authorised by the Financial Services Authority, the UK's regulator for the finance industry under the Financial Services & Markets Act 2000. They are totally independent of Nortel Networks and its subsidiaries and are generally acknowledged as leading companies providing investment management services.

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 according to the investment manager that holds the investment, with the Plan's beneficial interest noted.

NORTEL NETWORKS UK PENSION PLAN

INVESTMENT REPORT

FOR THE YEAR ENDED 5 APRIL 2007

At 5 April 2007 the top ten equity investments by market value, all of which were UK equities, were:

Top Ten Investments at 5 April 2007 *	Value in £ Millions	% of Total UK Equity	% of Total Fund
1. HSBC Holdings	15.1	4.6	0.9
2. Vodafone Group	15.0	4.5	0.9
3. BP plc	14.4	4.3	0.8
4. GlaxoSmithKline	13.2	4.0	0.8
5. AstraZeneca	12.7	3.8	0.7
6. Royal Bank of Scotland Group	12.4	3.6	0.7
7. Royal Dutch Shell 'B'	11.8	3.6	0.7
8. HBOS	7.4	2.2	0.4
9. Rio Tinto	7.2	2.2	0.4
10. Lloyds TSB	6.9	2.1	0.4
	115.9	35.1	6.8

* Includes underlying equity exposure through BGI Aquila Life UK Equity Index Fund

At 5 April 2007, there were no holdings in which the Plan had a disclosable interest under Section 134 of the Companies Act 1989 - i.e. more than 3% of the issued share capital of the company.

The table below shows the distribution of assets between the Plan's investment managers as at 5 April 2006 and 5 April 2007.

Manager	Mandate	Portfolio Value as at 5 April 2007 (£m)	Portfolio Value as at 5 April 2006 (£m)
Barclays Global Investors Ltd	Multi-Asset	637.9	569.3
Schroder Investment Management (UK) Ltd	UK Equity	86.0	201.4
Henderson Global Investors	UK Equity	87.8	-
Capital International	Global Equity	226.2	145.3
AllianceBernstein Investment Management	Global Equity	224.8	-
UBS Global Asset Management	Fixed Interest	226.3	223.5
Western Asset Management	Fixed Interest	222.7	226.4
Bank of Ireland Asset Management (UK) Ltd	Overseas Equity	-	129.9
Fidelity Investments	UK Equity	-	182.2
		1711.7 *	1,678.2 *

* Excludes Cash in Trustee bank account. Cash held by the investment managers is included in the asset values for each manager.

	2007 (£m)
Investments quoted by WM Company above	1,711.7
Futures transactions not included above	0.9
BGI Transition account	0.6
Q Scheme	2.9
AVC investments	10.8
Investment total per Note:10	1,726.9

NORTEL NETWORKS UK PENSION PLAN

INVESTMENT REPORT

FOR THE YEAR ENDED 5 APRIL 2007

INVESTMENT PERFORMANCE

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 2007 this universe comprised 150 funds with a combined market value of £348,600m.

When compared with the WM Corporate Universe of funds (ex-property) the Plan was below median over 1, 3, and 5 years, but it should be noted that each fund in the universe will have its own unique asset allocation and the Plan's investment strategy is believed to be more cautious than the median sub fund in the universe.

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

	1 year to 31/3/2007 or since inception		3 year to 31/3/2007 or since inception		5 year to 31/3/2007 or since inception	
	Actual %	Benchmark %	Actual % p.a.	Benchmark % p.a.	Actual % p.a.	Benchmark % p.a.
Barclays Global Investors Ltd	2.8	2.7	10.7	10.8	7.4	7.0
Schroder Investment Management (UK) Ltd	11.6	11.1	18.5	18.0	10.1	8.6
Henderson Global Investors**	2.9	1.5	-	-	-	-
Capital International*	3.0	4.0	17.9	18.5	-	-
AllianceBernstein IM***	4.6	4.4	-	-	-	-
UBS Global Asset Management^	1.2	0.4	6.4	5.8	-	-
Western Asset Management^	-0.8	0.4	5.8	5.8	-	-
WM Corporate Universe (ex property)	6.3		13.5		7.1	
Plan Return	2.9	3.8	10.3	11.1	6.5	6.8

*Since 30 July 2004

^ Since 4 August 2004

** Since 9 March 2007

*** Since 1 November 2006

MARKET BACKGROUND - TWELVE MONTHS TO 31 MARCH 2007

Economic Background

The Office of National Statistics reported that UK Gross Domestic Product ("GDP") grew by 2.8% over the twelve months to the end of December 2006. This compares favourably with the growth rate of 1.8% over the year to the end of December 2005.

Following previous increases, the Bank of England's Monetary Policy Committee ("MPC") increased interest rates by 0.25% to 5.25% in January 2007, their highest level in five years.

The Government's chosen measure of inflation, the Consumer Price Index ("CPI"), increased to 3.1% in March 2007. As a result, for the first time since the Bank of England gained its independence in 1997, the Governor has had to write to the Chancellor explaining why inflation has fallen outside its target range (currently 1% to 3% on the CPI measure). Commentators are widely predicting that interest rates are likely to increase by a further 0.5% during 2007.

The Office for National Statistics reported that the unemployment rate was up by 0.1% in the 3 months to February 2007 and 0.3% over the year. The general trend showed a continued reduction in employment in the manufacturing sector.

NORTEL NETWORKS UK PENSION PLAN

INVESTMENT REPORT

FOR THE YEAR ENDED 5 APRIL 2007

Interest rates in the eurozone ended the year to 31 March 2007 at 3.75%, compared to 2.5% in March 2006. The ECB has suggested that more increases are likely to follow. The euro area economy has continued to grow at above its trend rate, with annualised growth reaching 3.3% in the last quarter of 2006. Cheaper oil (relative to mid-2006) and the strength of the euro mean that inflation has been contained, increasing only slightly to 1.8% in January. With euro area unemployment falling to 7.4%, however, continued growth could use up spare capacity and put upward pressure on inflation rates.

In the US, the Federal Reserve Board ("the Fed") held interest rates at 5.25% for the third quarter in succession. Consumer price inflation stood at 2.4% and unemployment fell to 4.4% in March. Despite concerns over slowing housing markets and in particular lending in the subprime mortgage sector, the Fed announced that its "predominant concern remains the risk that inflation will fail to moderate as expected". The US trade deficit decreased slightly to \$58.4 billion in February 2007 from \$62.2 billion in March 2006.

The Bank of Japan ("BoJ") increased interest rates by 0.25% in July 2006 ending its long held zero-rate policy and in February of this year increased rates once again by 0.25% to 0.5% making it the highest level in more than a decade. This was attributed to a "moderately" expanding economy. However it is widely predicted that without significant inflationary pressures, the BoJ is unlikely to raise interest rates further in the short term. The 0.5% rate was kept on hold in April 2007.

At the end of the first quarter of 2007, Brent crude oil prices went above the \$68 per barrel mark from just over \$60 per barrel this time last year. Over the first part of the year, oil prices remained relatively steady at near \$60 per barrel, before rising above \$70 in April and eventually hitting a high of \$78.78 per barrel for Brent crude oil on 14 July due to strong global demand. Since then there has been a general decline in oil prices, despite OPEC's decision to further cut its output from February 2007.

Markets - Equities

Each of the major equity regions produced positive returns in local currency terms over the 12 month period ended 31 March 2007. All markets with the exception of Japan posted double digit returns.

Schroder Investment Management (UK) Limited returned 11.6% twelve month period to 31 March 2007 compared to the FTSE All-Share Index which returned 11.1%. Mid cap stocks (FTSE Mid 250 Index) outperformed both smaller and larger cap stocks over the twelve month period. Within the UK equity market, the best performing sector over the year was Utilities, which returned +23.7% relative to the FTSE All-Share Index. Consumer Services was also a strongly performing sector, returning +13.6% over the FTSE All-Share Index. Relative underperformers included the Oil & Gas and Healthcare sectors, which returned -18.7% and -12.5% relative to the FTSE All-Share Index respectively.

The FTSE AW North America Index returned -0.9% in sterling terms, and 12.0% in local currency terms. The strongest performing sectors were the Utilities and Telecommunications sectors and the Technology sector was the worst performing sector over the year.

The Europe (ex UK) region was the best performing major equity market globally (in sterling terms) with the FTSE AW Europe (ex UK) Index returning 12.4% to the sterling investor and 16.0% in local currency terms. The strongest performing sector was Basic Materials whilst the lowest sector return was posted by the Technology sector.

The FTSE AW Japan Index returned -9.9% and 1.9% to sterling and local investors respectively. The significant depreciation in the yen relative to sterling caused reduced returns to sterling investors. The Telecommunications sector was the best performing sector, and the worst performing sector was Financials.

NORTEL NETWORKS UK PENSION PLAN

INVESTMENT REPORT

FOR THE YEAR ENDED 5 APRIL 2007

The FTSE AW Asia Pacific (ex Japan) returned 13.1% to sterling investors and 21.9% in local currency terms over the year. Telecommunications was the best performing sector. Consumer Services and Healthcare were also outperforming sectors.

The MSCI World Index (a market capitalisation weighted index) returned 2.1% to sterling investors over the 12 month period.

Markets - Bonds

Long-dated gilts finished in negative territory over the twelve month period to 31 March 2007, although shorter-dated bonds and corporates produced positive returns. While overseas bond markets returned 3.0% in local currency terms, as with equities the impact of currency movements reduced returns for sterling investors (to -5.1%).

Over the year, short-dated gilts have performed better than longer-dated gilts with the FTSE A Over 15 Year Gilt Index returning 1.1% over the year. There has been a marginal increase in fixed interest gilt yields over the year, particularly since the low levels seen in January 2006 when strong demand driven by institutional investors to reduce risk in their pension plans drove yields down. The largest increase in yields over the year has been at the short end of the market, particularly in response to the increase in the Bank of England base rate in August and November 2006.

Within the index-linked gilts sector, shorter-dated issues also outperformed medium-dated gilts. Over the twelve month period, the FT-A Up to 5 Year Index Linked Gilt index returned 4.0% whilst its Over 5 Year and the Over 15 Year counterparts returned 2.7% and 3.0% respectively. Index-linked gilt yields have continued to increase since they hit a record low in mid-January 2006.

Over the twelve months to 31 March 2007, BBB rated bonds produced the strongest returns when compared to the wider market. Overall, investment grade corporate bonds, as measured by the iBoxx £ Non Gilt All Stock Index returned 1.1 % over the year.

Over the twelve month period, the Plan's two bond managers, UBS Global Asset Management and Western Asset Management, have returned 1.2% and -0.8% respectively.

Markets - Currencies

Over the year Sterling appreciated against all the major currencies, in particular the dollar and yen. Sterling traded at \$1.73:£1, €1.43:£1 and ¥204.7:£1 at the end of March 2006, and appreciated to \$1.96:£1, €1.47:£1 and ¥231.6:£1 as at 31 March 2007.

Over the same period, the US Dollar appreciated against the yen by 0.1% and depreciated against the euro by 9.5%.

NORTEL NETWORKS UK PENSION PLAN

ACTUARIAL STATEMENT

* This Statement refers to 2005 Actuarial valuation as a matter of record

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

* This Statement refers to 2005 Actuarial valuation as a matter of record

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 2007

We have audited the financial statements of The Nortel Networks UK Pension Plan for the year ended 5 April 2007 that comprise the fund account, the net assets statement and the related notes. These Financial Statements have been prepared under the accounting policies set out in the related notes.

Respective responsibilities of the Trustee and auditors

As described in the Statement of Trustee's Responsibilities, the Plan's Trustee is responsible 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).

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 specified in the schedule to the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995. We also report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if the information specified by law is not disclosed.

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 statement and certificate, 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 Trustee 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 2007

Opinion

In our opinion the financial statements:

- show a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the financial transactions of the Plan during the plan year ended 5 April 2007, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the 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 Auditors**

London

**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 2007

We have examined the Summary of Contributions to the Nortel Networks UK Pension Plan in respect of the plan year ended 5 April 2007 which is set out on page 11.

Respective responsibilities of the Trustee and Auditors

As described on page 11, 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 is also responsible for keeping records in respect of contributions received in respect of the active members of the Plan and for monitoring whether contributions are made to the Plan by the employer in accordance with the Schedule of Contributions.

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

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 in all material respects been paid at least 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 payable 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 2007 as reported in the Summary of Contributions have, in all material respects, been paid at least in accordance with:

- the Schedule of Contributions certified by the Plan Actuary on 19 July 2005 for the period 6 April 2006 to 25 June 2006 and
- the Schedule of Contributions certified by the Plan Actuary on 26 June 2006 for the period 26 June 2006 to 5 April 2007.

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

NORTEL NETWORKS UK PENSION PLAN

FUND ACCOUNT

FOR THE YEAR ENDED 5 APRIL 2007

	Notes	2007 £'000	2006 £'000
Contributions and other income			
Contributions receivable	3	88,385	49,668
Transfers in	4	240	137
Other income	5	-	4
		<u>88,625</u>	<u>49,809</u>
Benefits and other payments			
Benefits payable	6	87,633	82,975
Payments to and on account of leavers	7	1,560	2,677
Administrative expenses	8	1,482	1,362
		<u>90,675</u>	<u>87,014</u>
Net withdrawals from dealings with members		<u>(2,050)</u>	<u>(37,205)</u>
Returns on investments			
Investment income	9	37,789	37,960
Change in market value of investments	10	14,344	248,777
Investment management and custodian expenses	11	(4,252)	(3,094)
Net returns on investment		<u>47,881</u>	<u>283,643</u>
Net increase in the fund for the year		<u>45,831</u>	<u>246,438</u>
Net assets of the Plan at 6 April 2006		<u>1,700,790</u>	<u>1,454,352</u>
Net assets of the Plan at 5 April 2007		<u>1,746,621</u>	<u>1,700,790</u>

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

NORTEL NETWORKS UK PENSION PLAN

NET ASSETS STATEMENT

AT 5 APRIL 2007

	Notes	2007 £'000	2006 £'000
Investments	10		
Fixed interest securities		439,825	435,241
Equities		595,864	628,652
Index-linked securities		829	-
Pooled investment vehicles		648,527	580,639
Q' Policy Issued by Prudential		2,862	2,836
Cash and cash equivalents		27,873	23,539
Other investments		299	9,837
AVC investments		10,790	10,440
		<u>1,726,869</u>	<u>1,691,184</u>
Current assets and liabilities	12	19,752	9,606
Net assets of Plan at 5 April 2007		<u>1,746,621</u>	<u>1,700,790</u>

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

The financial statements were approved by the Trustees 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 2007

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 20 - 21 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 they fall due.

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 2007

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 Trustee 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'.

Derivative contracts are stated at market value.

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 2007

3. Contributions receivable

	2007	<i>2006</i>
	£'000	<i>£'000</i>
Employers		
Normal	85,000	<i>46,000</i>
Additional contributions	529	<i>588</i>
Members		
Normal	2,556	<i>2,735</i>
Additional voluntary contributions	300	<i>345</i>
	88,385	<i>49,668</i>

The normal contribution by the Employer of £85m is in accordance with the Schedule of Contributions dated 26 June 2006. Employer additional contributions relate to amounts agreed and paid by the Employer in respect of benefit enhancements to certain members.

4. Transfers in

	2007	<i>2006</i>
	£'000	<i>£'000</i>
Individual transfers in from other schemes	240	<i>137</i>

5. Other income

	2007	<i>2006</i>
	£'000	<i>£'000</i>
Claims on insurance policies	-	<i>4</i>

NORTEL NETWORKS UK PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 5 APRIL 2007

6. Benefits payable

	2007	<i>2006</i>
	£'000	<i>£'000</i>
Pensions	80,460	<i>79,201</i>
Commutations and retirement lump sums	6,398	<i>2,935</i>
Lump sum death benefits	775	<i>839</i>
	87,633	<i>82,975</i>

7. Payments to and on account of leavers

	2007	<i>2006</i>
	£'000	<i>£'000</i>
Refunds to members leaving service	-	<i>13</i>
Payments for members reinstated in state scheme	(8)	<i>(6)</i>
Individual transfers to other schemes	1,568	<i>2,670</i>
	1,560	<i>2,677</i>

8. Administrative expenses

	2007	<i>2006</i>
	£'000	<i>£'000</i>
Administration fees	1,190	<i>782</i>
Audit fee	69	<i>48</i>
Actuarial fees	144	<i>157</i>
Legal fees	51	<i>38</i>
Other administration costs	-	<i>320</i>
Other fees	28	<i>17</i>
	1,482	<i>1,362</i>

NORTEL NETWORKS UK PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 5 APRIL 2007

9. Investment income

	2007	<i>2006</i>
	£'000	<i>£'000</i>
Income from fixed interest securities	19,969	<i>22,476</i>
Dividends from equities	17,290	<i>15,661</i>
Interest on cash deposits	1,086	<i>549</i>
Other investment income	-	<i>8</i>
Irrecoverable withholding tax	(556)	<i>(734)</i>
	37,789	<i>37,960</i>

NORTEL NETWORKS UK PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 5 APRIL 2007

10. Investments

	Value at 06/04/06 £'000	Purchases at cost £'000	Sale proceeds £'000	Change in market value £'000	Value at 05/04/07 £'000
Fixed interest securities	435,241	515,527	(506,236)	(4,707)	439,825
Equities	628,652	1,481,919	(1,531,116)	16,409	595,864
Index-linked securities	-	1,191	(591)	229	829
Pooled investment vehicles	580,639	106,207	(56,590)	18,271	648,527
Q' Policy Issued by Prudential	2,836	-	(68)	94	2,862
Cash and cash equivalents	23,539	29,692	(8,819)	(16,539)	27,873
Other investments	19	-	-	-	19
AVC investments	10,440	264	(501)	587	10,790
	<u>1,681,366</u>	<u>2,134,800</u>	<u>(2,103,921)</u>	<u>14,344</u>	<u>1,726,589</u>
Other investments	9,818				280
	<u>1,691,184</u>				<u>1,726,869</u>

The change in market value of investments during the year comprises increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year. Changes to the figures in respect of the closing balances at 6 April 2006 is due to the re-analysis of the Trustee bank accounts and the inclusion of investment balances reported in current assets and liabilities in the previous year.

Opening balances at 6 April 2006 have been amended to reflect the re-analysis of the Trustee bank accounts and the inclusion of other investment related balances previously reported as current assets and liabilities.

Employer related investments

There were no employer related investments during the year.

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 2007

Fixed interest securities

	2007	<i>2006</i>
	£'000	<i>£'000</i>
UK public sector quoted	146,856	<i>126,243</i>
UK quoted	269,784	<i>286,469</i>
Overseas public sector	14,366	<i>22,529</i>
Gilts futures contracts	8,819	<i>-</i>
	439,825	<i>435,241</i>

Equities

	2007	<i>2006</i>
	£'000	<i>£'000</i>
UK quoted equities	165,903	<i>365,435</i>
Overseas quoted equities	429,961	<i>263,217</i>
	595,864	<i>628,652</i>

Index-linked securities

	2007	<i>2006</i>
	£'000	<i>£'000</i>
UK quoted index-linked securities	829	<i>-</i>
	829	<i>-</i>

NORTEL NETWORKS UK PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 5 APRIL 2007

Pooled investment vehicles

	2007	<i>2006</i>
	£'000	<i>£'000</i>
Managed funds - other	648,527	<i>580,639</i>
Unit trusts - other	2,862	<i>2,836</i>
	651,389	<i>583,475</i>

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

Cash and cash equivalents

	2007	<i>2006</i>
	£'000	<i>£'000</i>
Cash equivalents (cash backing futures)	(10,003)	<i>(1,147)</i>
Cash	37,876	<i>24,686</i>
	27,873	<i>23,539</i>

AVC investments

The Trustee holds 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: -

	2007	<i>2006</i>
	£'000	<i>£'000</i>
Equitable Life	5,334	<i>5,495</i>
Winterthur Life	5,079	<i>4,579</i>
London Life	172	<i>165</i>
Nationwide Building Society	200	<i>196</i>
M G M Assurance	5	<i>5</i>
	10,790	<i>10,440</i>

NORTEL NETWORKS UK PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 5 APRIL 2007

11. Investment management expenses

	2007	<i>2006</i>
	£'000	<i>£'000</i>
Administration and management	4,022	<i>2,874</i>
Custody fees	230	<i>220</i>
	4,252	<i>3,094</i>

12. Current assets and liabilities

	2007	<i>2006</i>
	£'000	<i>£'000</i>
Contributions due		
Employers	41	<i>-</i>
Members	209	<i>-</i>
Other current assets and liabilities		
Other debtors and prepayments	276	<i>137</i>
Cash balances	23,358	<i>12,539</i>
Benefits payable	(1,330)	<i>(1,168)</i>
Accruals	(2,647)	<i>(1,902)</i>
Other creditors	(155)	<i>-</i>
	19,752	<i>9,606</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 2007 (5 April 2006 - 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.

During the reporting year some administrative expenses relating to the wind up activity of the Whitworth scheme have been paid from the Plan pending receipt of the distribution of assets from the Whitworth Scheme on completion of the wind up exercise.

NORTEL NETWORKS UK PENSION PLAN

COMPLIANCE STATEMENT

FOR THE YEAR ENDED 5 APRIL 2007

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

Matters relating to the Trustee

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

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 the relevant sections of the Pensions Act 1995, and is available from the website (www.nortelpensions.com).

Plan advisers

There are written agreements in place between the Trustees and each of the Plan advisers listed on pages 2 and 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.

Changes to Plan Actuary

On 6 March 2007 Daniel Harrison resigned and Neil Mobbs was appointed as the Actuary of the Plan.

As required by Regulations made under the Pensions Act 1995, Daniel Harrison confirmed in his letter of resignation that he knew of no circumstances connected with the resignation that significantly affected the interests of the members, prospective members or beneficiaries of the Plan.

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 2007

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 to the relevant information on [Services@Work](#).

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. In December 2006 the Trustee agreed a process with Watson Wyatt Limited to initiate a tracing exercise for the 5,054 Deferred members for whom no address was listed on the database. 3,317 Deferred members have now been traced and Watson Wyatt Limited are updating their records.

Pensioners

Newslink is issued to all pensioners, and provides a valuable medium for conveying updated information.

Website & ePA

The Pensions website (www.nortelpensions.com) has been in operation since January 2003. It provides access to the member administrative records via ePA. On line access to member administrative records was 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. To date a total of 3,855 members used the system running a total of 7,134 quotations. The Trustee monitors the use of ePA quarterly.

Summary Funding Statement

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

An updated Summary Funding Statement was issued to all members in September 2007.

NORTEL NETWORKS UK PENSION PLAN

FURTHER INFORMATION

FOR THE YEAR ENDED 5 APRIL 2007

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 scheme members 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 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