



NORTEL NETWORKS

UK PENSION PLAN

Trustee Report and Accounts
For the year ended 5 April 2004

NORTEL
NETWORKS



Contents

Trustee Board and Committees	2	Defined Contribution Section	22
Professional Advisers	3	Membership	22
The Directors of Nortel Networks UK Pension Trust Limited	4	Developments	23
Chairman's Introduction	7	Management of Assets	23
		Additional Voluntary Contributions	23
Report of the Trustee Board	8	Other information	24
General	8	Principal and Participating Employers	24
Trustee's accounting responsibilities	8	Trust Deed and Rules	24
Constitution of the Plan	9	Annual Report and other Information	24
Trustee Board and Committees	9	Communication	24
Investment Committee	9	Benefit Statements	24
Committee of Management	9	Services@Work	25
		Newslink	25
		Website	25
		Statement of Investment Principles	25
		Myners Report	26
		Statutory Registration References	27
		Internal Disputes Resolution Procedure	27
Defined Benefit Section	10	Report of the Independent Auditors	28
Membership	10	Fund Account	29
Developments	11	Net Assets Statement	30
Investment policy	11	Notes to the Accounts	31
Management of Assets	11	Actuarial Statement	38
Fees	12	Schedule of Contributions	39
Custody of Assets	12	Actuarial Certificate	40
Asset Allocation	12	Actuary's Report	41
Investment Performance	14		
Investment Managers	15		
Individual Investment Manager Reports	16		
Bank of Ireland	16		
BGI	17		
Fidelity	18		
Henderson	18		
Schroder	19		
Pension Increases	20		
Transfer Payments	20		
Additional Voluntary Contributions	21		

This Report is split into sections that are colour-coded for easy reference. The Report has been prepared for internet application and can be downloaded if a permanent record is required.

Trustee Board and Committees

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

Trustee Board Directors

W.K. Gardener	Chairman
BESTrustees plc	Independent
L. Abraham	Member Nominated
O.L. D'Mello	Employer Nominated (to 31.08.2003)
L. Evans	Member Nominated
K. Foster	Employer Nominated
J.W. Hern	Member Nominated
I.J. Morgan	Employer Nominated
P. Newcombe	Employer Nominated (from 01.02.2004)
M. Pahapill	Employer Nominated (from 01.09.2003 to 01.08.2004)
M. Stone	Employer Nominated (from 01.08.2004)
S.K. Thomson (Dr)	Employer Nominated (to 31.01.2004)

Company Secretary

D. Geneen	(to 28.08.2004)
J. Dias	(from 30.08.2004)

Secretary to the Pension Plan

J. Gandhi	(appointed from 01.09.2004)
-----------	-----------------------------

Investment Committee

W.K. Gardener	Chairman
L. Abraham	
O.L. D'Mello	(to 31.08.2003)
BESTrustees plc	
M. Pahapill	(from 01.09.2003 to 01.08.2004)

Secretary

D. Geneen	(to 28.08.2004)
J. Gandhi	(from 01.09.2004)

In addition, the following Company Executive is invited to attend meetings:

G. Pugh	Controller, Europe Nortel Networks UK Ltd.
---------	--

Committee of Management

Directors, Nortel Networks UK Pension Trust Limited

I.J. Morgan	Chairman
BESTrustees plc	
L. Abraham	
L. Evans	

Company Representatives

G. Staunton
H. Mehta

Elected from Consultative Committee

M. Wilson

Secretary

D. Frame

Discretions Committee

G. Staunton	Chairman
BESTrustees plc	
L. Evans	

Secretary

D. Frame

Professional Advisers

Plan Actuary

R.P. Jessett of Watson Wyatt (to 27.02.2004)
D. Harrison of Watson Wyatt (from 27.02.2004)

Auditors

Grant Thornton (to 30.06.2004)
Grant Thornton UK LLP (from 01.07.2004)

Solicitors

Freshfields
Lovells

Investment Consultant

Mercer Investment Consulting

Investment Managers

Bank of Ireland Asset Management (UK) Limited
Barclays Global Investors Limited
Goldman Sachs Asset Management International (to 19.12.2003)
Henderson Investors Limited
Schroder Investment Management (UK) Limited
Fidelity Pensions Management

Global Custodian

State Street Bank & Trust Company

Bankers

HSBC plc
Bank of Scotland

Third Party Administrator for DC Plan

H.S. Administrative Services Ltd.
Aegon House
Daresbury Park
Daresbury
Warrington
WA4 4HS

Pensions Department

Nortel Networks UK Pension Trust Limited

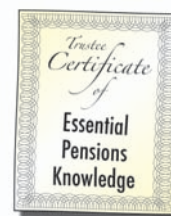
Address for Enquiries, Trustee and Registered Office

Pensions Department
Metropolitan House
Darkes Lane
Potters Bar
Hertfordshire
EN6 1AG

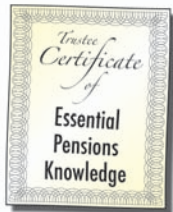
Telephone: ESN: 783 1818
External: 01707 621 818
Fax: 01707 621 899
Website: www.nortelpensions.com

UK Pensions Manager and Secretary to the Trustee

D. Geneen LLB, APMI (to 28.08.2004)



Biographies of the Directors of Nortel Networks UK Pension Trust Limited



W. Kenneth Gardener, 77 **Chairman**

1955-1975 A number of senior appointments with ICI PLC. 1975-1984 Finance Director Dunlop Holdings PLC. 1985-1992 Vice President Mergers & Acquisitions, Northern Telecom Europe (formerly STC PLC). 1986-1999 Deputy Chairman Bewater Limited and Chairman of Bournemouth & West Hampshire Water Company. 1991-1998 CL Director. Currently Director of HSBC Investment Bank plc, Corporate Finance and Advisory. Member of the Hundred Group. Led a Working Party of the Hundred Group to report on Pension Fund Management representing £100bn of funds. 1991-1993 Chairman of Telematrix Pension Fund Trustees. Independent Chairman of Nortel Networks UK Pension Trust Limited since 1987. Authorised Financial Services Authority Representative.

Holder of Trustee Certificate of Essential Pensions Knowledge.



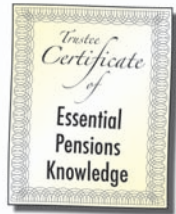
The role of a pensions trustee is a responsible one. The Pensions Management Institute (PMI) has the objective of maintaining and further developing professional standards of pensions management. The PMI runs an examination designed to test pensions knowledge across a syllabus covering pension schemes overview, legal, management, actuarial and investment. The "Trustee Certificate of Essential Pensions Knowledge" gives formal recognition of an individual trustee's pension knowledge.



BESTrustees plc **Represented by Clive Gilchrist, 53**

BESTrustees plc acts as a professional independent trustee to a wide range of pension schemes. Clive Gilchrist is managing director of BESTrustees plc. He has over 30 years' experience of the pensions and investment industries including ten years at Postel (Managers of the BT and Post Office pension schemes). He has been Vice President of the National Association of Pension Funds following his Chairmanship of its Investment Council, and has served on a number of City and industry bodies. He has recently retired as Chairman of the Pension Committee of The Association of Corporate Trustees and a Member of its Council. Director of Nortel Networks UK Pension Trust Limited since July 1995.

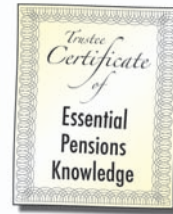
Holder of Trustee Certificate of Essential Pensions Knowledge.



Laila Abraham, 54
Plan Member

Finance Prime for R&D Succession in UK with 22 years service. Member of the Association of MBA's and Chartered Institute of Marketing. Independent Director of Berecroft Community Housing Ltd. Non-Executive Director of the Essex N.H.S. Trust and chairperson of the Governance Committee of the Trust. Director of Nortel Networks UK Pension Trust Limited since January 1995 and a member of the Investment Committee.

Holder of Trustee Certificate of Essential Pensions Knowledge.



Lorraine Evans, 55
Plan Member

Retired after 27.5 years' service based in Paignton. First elected to the Consultative and Management Committees in 1994 and appointed a Director and Trustee in November 2000. Developed employees' awareness of pensions through personal consultations, publication of articles and various communiqués. Keeps up to date on pension legislation, corporate activities and investment strategies in diverse industries to enhance her understanding of business in general, implications for pensions and consequent impact on individuals.

Holder of Trustee Certificate of Essential Pensions Knowledge.

J. William Hern, 34
Plan Member

Joined the Company in 1992 when it was known as Bell Northern Research. Has worked in a wide range of R & D projects both in the UK and also in Canada, Turkey and China. Currently is Manager of the Centrex IP Client Manager product that is part of the Company's Wireline portfolio. Holds a B.Sc (Hons) degree in Computer Science from the University of Edinburgh. Appointed Director of Nortel Networks UK Pension Trust Limited since 1 December 2002.

Biographies of the Directors of Nortel Networks UK Pension Trust Limited

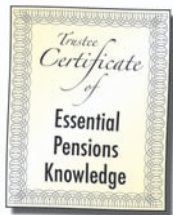
Kathy Foster, 48

Plan Member

Director of Benefits within Nortel Networks EMEA. Joined the Company in October 1994 and is employed in Maidenhead and has had a wide range of Human Resources roles in Nortel Networks and presently oversees Employee Benefits delivery throughout EMEA. Prior to joining Nortel she worked in a variety of HR roles in Chesebrough-Pond's, Hitachi Consumer Products and, Bristol-Myers. Kathy is a Chartered Member of the Chartered Institute of Personnel and Development. Appointed Director of Nortel Networks UK Pension Trust Limited since 1 March 2002.

Iain J. Morgan, 56

Plan Member



Retired from Nortel Networks 30 April 2004 after 16 years service in various positions within Nortel Networks Treasury Function. Began his career as a lawyer in the City of London and subsequently spent 10 years as an Investment Banker. Is a graduate of the University of Edinburgh from which he holds an

LL.B (Hons) and of the University of Virginia from which he holds an LL.M. Also a qualified solicitor. Appointed Director of Nortel Networks UK Pension Trust Limited from 1 March 2002 and subsequently re-appointed 1 May 2004 following his retirement from Nortel Networks.

Holder of Trustee Certificate of Essential Pensions Knowledge.

Peter Newcombe, 39

Plan Member

President of Optical Networks EMEA. Joined the Company as a Hardware Engineer in 1983 when it was known as STC Telecommunications. Moved to Transmission Division in 1991. Held a number of roles in Product Marketing and Business development. Spent 2 years in Miami with Broadband Transmission. Graduated in 1985 from UMIST University, Manchester with BSc degree in Electronics. Appointed Director of Nortel Networks UK Pension Trust Limited since 1 February 2004.

MaryAnne Pahapill, 43

Controller

Employed by Nortel Networks Corporation since 1998. Has held various positions within Nortel. Articled with BDO Dunwoody. Member of Accounting Standards Board of the Canadian Institute of Chartered Accountants since 2001. Member of Canadian Women's Foundation and Member of Financial Executives International Canada, Committee of Corporate Reporting. Appointed Director of Nortel Networks UK Pension Trust Limited since 1 September 2003 to 1 August 2004.

Michell (Mitch) Stone, 37

Director

Appointed Director of Nortel Networks from 1 August 2004 with direct responsibilities for the Company's North American Pension arrangement as well as various aspects of other global pension plans. Immediately prior to his assignment, Mitch was head of the Company's Corporate Finance Group. Prior to joining Nortel, Mitch was with Chase Manhattan Bank for over 10 years in both relationship management and corporate finance roles in Dallas, Singapore, Sydney and New York with specific industry experience in telecommunications, mining, metals, energy and real estate. Mitch, who graduated from Southern Methodist University in 1998, currently resides in Dallas, Texas.

Chairman's Introduction

I am pleased to present the 2004 Trustee Report and Accounts which I hope you will find of interest.

The Plan accounts reflect the positive returns made on our investments over the year and you will also see that the Trustee board has made some changes to the way in which assets are invested. The weighting in equities has been reduced in favour of bond investments. This reflects the mature nature of our scheme where pension payments are a significant part of the Plan's liabilities.

During the year the Government clarified its proposals to legislate in a number of areas affecting company pension schemes. In February 2004 the Government published the Pensions Bill which is destined to become the new Pensions Act.

It is designed to give greater protection to scheme members and encourage companies to maintain good company schemes. The following are the main issues addressed by the Bill:

- How to protect members should their employer become insolvent and unable to finance the pension scheme obligations.
- Encouragement for trustees to become more knowledgeable on pension matters.
- A new approach to defining what level of assets is appropriate to meet future pension scheme liabilities.
- A new body established to regulate the conduct of schemes and their trustees.
- Reducing the level of statutory minimum rates of pension increase when in payment.

For two years the Government has been looking at ways of simplifying the hugely complex set of rules and regulations governing how tax approved pension schemes are controlled. The latest proposals

announced by the Chancellor in his spring budget and included in the Finance Act 2004 are set to come into effect in April 2006.

The main changes are as follows:

- The same new rules will apply to every type of pension arrangement whether a company scheme or a personal pension, whether final salary or money purchase.
- Contributions can be of any amount at any frequency and be tax-free as long as not more than £215,000 is paid in any one tax year.
- Pensions will not be restricted in amount but once the 'Lifetime Allowance' is reached the excess will be taxed significantly.
- The 'Lifetime Allowance' is a new concept and is simply the cash value of your pension earned throughout your career. The cash value of a final salary pension is set as the amount of pension multiplied by 20. The initial Lifetime Allowance is set at £1.5m as at 5 April 2006, this is roughly equivalent to a pension of around £75,000 per annum.
- The permitted tax-free lump sum will be up to 25% of the cash value of your pension; for most people this gives a higher amount than under current rules.
- For employees with current pension rights likely to exceed these new limits special protection terms will be available.

The Trustee will be reviewing the implications of the Pensions Bill and the new tax regime in the coming months and will provide you with information as soon as it becomes available.

Report of the Trustee Board

General

The Trustee Board has pleasure in presenting the Report and Accounts of the Nortel Networks UK Pension Plan for the year ended 5 April 2004. The Report also covers any material changes since that date until the accounts were signed.

The following Trustee Directors undertook formal training during the Plan year April 2003 to April 2004 in addition to training that took place at Trustee meetings.

- **W.K. Gardener** – PwC Seminar in relation to funding
– BGI Currency Management Workshop
– Bank of Ireland Annual Conference
- **K. Foster** – PwC Seminar in relation to funding
- **I. Morgan** – NAPF Trustee Essential In depth
– PMI Trustee Certificate
- **L.A. Abraham** – Bank of Ireland Annual Conference
- **W. Hern** – Introduction to Role of Actuary & future pensions issues
– Investment & forthcoming legislation Seminar

Following consultations in August 1997, contributing and retired members confirmed Nortel's proposal to retain the "Committee of Management" 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.

Trustee's accounting responsibilities

The accounts are the responsibility of the Trustee. Pension scheme regulations require the Trustee to make available to Plan members, beneficiaries and certain other parties, audited accounts 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 which fall due 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 accounts have been prepared in accordance with the Statement of Recommended Practice, Financial Reports of Pension Schemes.

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 prudent and reasonable basis. The accounts have been prepared and audited in accordance with regulations made under Section 41 (1) and (6) of the Pensions Act 1995.

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 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.

Constitution 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 Employer and other Participating Employers. The Pension Fund Policy Committee, a committee of the Nortel Networks Board, gives overall direction to development of the Pension Plan benefit structure and is consulted about investment matters in accordance with the Pensions Act 1995. The Trustee is responsible for ensuring that the Plan is operated correctly, for the benefit of the members, in accordance with the Trust Deed and Rules of the Plan and with applicable legislation.

The Nortel Networks UK Pension Plan provides defined pension and other benefits payable or prospectively payable to members on their cessation of employment with the Participating Employers, 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.

Unlike the Defined Contribution section, now closed, where members contribute into State Second Pension, the Defined Benefit section of the Plan is a contracted-out scheme for the purposes of the Social Security Pensions Act 1975. A contracting-out certificate is in force to cover the employment of members of that section of the Plan. This means that members do not contribute to the State Second Pension and therefore pay reduced National Insurance Contributions. The Plan is also an "exempt approved scheme" under Chapter I of Part XIV of the Income and Corporation Taxes Act 1988, 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.

Trustee Board and Committees

The names of the Directors are set out on page 2, followed by a brief biography. There are nine Directors who are appointed and can be removed by the Principal Employer. All Directors have received a copy of the booklet "A Guide for Pension Scheme Trustees" issued by OPRA, and training is available. The Board met 7 times in the year and 5 trustee absences were recorded. 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.

Investment Committee

Membership of the Investment Committee is shown on page 2. This Committee was appointed to monitor and report on the performance of the Investment Managers and makes recommendations to the Trustee. During the year, it met 5 times.

Committee of Management

Membership of the Committee of Management is shown on Page 2. This Committee, appointed by the Trustee Board, comprises Directors of the Trustee Board, an elected member of the Consultative Committee and Principal Employer nominees. Under the powers delegated to it by the Trustee Board, the Committee of Management has prime responsibility for ensuring that the administration of the Nortel Networks UK Pension Plan is carried out in accordance with the Trust Deed and Rules and for exercising discretion in the payment of benefits arising from deaths, disability and for the admission of new members under the late entry procedure. It met 4 times in the year and 5 absences were recorded.

Membership - Defined Benefit Section

Defined Benefit Section

	Contributing Members	Deferred Members	EPB and Q Schemes Only	Pensioners	Dependants
	As at 5 April 2002 4,310	As at 5 April 2002 13,361	As at 5 April 2002 12,559	As at 5 April 2002 15,327	As at 5 April 2002 5,500
ADD	New / Re Entrants 0	New deferreds 2,112 Reinstated 150		New pensioners 679	New dependants 382
LESS	Retirements At Normal Retirement Date 0 Early 212 Late 0 Ill Health 10 New deferreds 2,112 Death in Service 0 Refunds 23	Retirement 424 Death 47 Transferred out 125 Full Commutation 25	Retirement 33 Death 62 Transferred out 9 Full Commutation 488	Pensioner deaths and cessations 670	Dependant deaths and cessations 292
	As at 5 April 2003 1,953	As at 5 April 2003 15,002	As at 5 April 2003 11,967	As at 5 April 2003 15,336	As at 5 April 2003 5,590
ADD	New / Re Entrants 4	New deferreds 144 Reinstated 32		New pensioners 438	New dependants 326
LESS	Retirements At Normal Retirement Date 1 Early 11 Late 2 Ill Health 1 New deferreds 144 Death in Service 1 Refunds 0	Retirement 395 Death 53 Transferred out 135 Full Commutation 33	Retirement 28 Death 59 Transferred out 18 Full Commutation 508	Pensioner deaths and cessations 628	Dependant deaths and cessations 325
	As at 5 April 2004 1,797	As at 5 April 2004 14,562	As at 5 April 2004 11,354	As at 5 April 2004 15,146	As at 5 April 2004 5,591

TOTAL SCHEME MEMBERSHIP AT 5 APRIL 2003 = 49,848

TOTAL SCHEME MEMBERSHIP AT 5 APRIL 2004 = 48,450

Developments

Contributing Membership decreased in the year from 1,953 to 1,797. At the year end the Plan retained responsibility for pension benefits for 48,450 employees, former employees and their dependants. There have been no changes to the Plan benefit structure during the year.

An Actuarial Valuation of the Plan was undertaken as at 5 April 2002. Results were made available to the Trustee in September 2002 for discussion. A copy of the Valuation Report was made available on Services@Work and a copy can be obtained from the Pensions Department upon written request. A summary of the results from the valuation was included in the Winter 2002 edition of Newslink and provided on Services@Work. The Valuation Report was signed off by the Actuary in December 2002.

The most recent Actuarial Statement by the Plan actuary as at 5 April 2002 is shown on Page 38.

Total value of investments and net assets for both the Defined Benefit and Defined Contribution Plans increased from £1,190 million to £1,381 million in the year. (See the accounts for further information).

With effect from January 2004 the Asset Allocation moved from 60% equities, 40% bonds to 55% equities, 45% bonds.

Following the disposal of several businesses, the Trustee agreed to pay a past service reserve transfer out in respect of employees who joined the new employers' pension arrangement. The following payments were made during the Plan year.

- Transfer of 11 people to NCR (Part 2) (Paid 18 September 2003)
- Transfer of 4 people to Herman Miller (Paid 3 February 2004)

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 principal aim of the Trustee's investment policy is to maintain the real value of the Plan through the acquisition and, where appropriate, retention of a diverse and overall sound range of investments. A Statement of Investment Principles required under the Pensions Act 1995 has been established following consultation with the Principal Employer. The Statement of Investment Principles is in the process of being revised to reflect changes during the Plan year. A copy is available on request from the Pensions Department whose address and telephone number is shown on page 3.

The Pensions Act 1995 defines the conditions under which pension schemes may invest in employer-related investments, and the extent of such investments. The Trustee does not invest in the securities 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.

Management of Assets

The Trustee has ultimate responsibility for investing the total 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 Board of Directors. This Committee is also the forum for consultation with the Principal Employer on investment related matters. 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. They are totally independent of Nortel Networks and its subsidiaries and are generally acknowledged as leading companies providing investment management services.

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 as a proportion of assets under management were 0.22%.

Custody of Assets

The Global Custodian who holds title to the assets comprising the portfolios is shown on page 3.

Asset Allocation

Following each of the Actuarial Valuations in 1990, 1994, 1997, 2000 and 2002 the Trustee commissioned an Asset/Liability study to assess the best strategic Investment Asset Allocation Benchmark, considering the profile of the beneficiaries and the liabilities the Plan has to pay to those beneficiaries when due. The Trustee has consulted the Principal Employer on this Benchmark, a requirement of the Pensions Act 1995.

The Asset Liability Study conducted in early 2003 with Mercer Investment Consulting, the Trustee's Investment Consultant, made some key recommendations. The Plan membership profile has changed significantly over the past three years and the vast majority of members now receive a pension or have left the Company's employment and have a deferred/preserved pension. The liabilities therefore warranted a move towards a more bond related asset allocation policy. The Trustee reviewed requirements this year to ensure a gradual transition selling UK equities to meet pension payments whilst undertaking a move to hold more bonds.

The following changes have been implemented:

- Allocation move from 60% equity, 40% bonds to 55% equities, 45% bonds from 1 January 2004.
- Change of bond benchmark with effect from 1 August 2004.
- Change of bond mandates with effect from 1 August 2004.

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.

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.

Asset allocation as at 5 April 2004

The table below show in percentages the Trustee's long term benchmark allocation with permitted ranges for each asset class and the actual holdings as at 5 April 2004.

Asset Class Index Used	Range	Actual	Benchmark
Cash/financials n/a	0% - 10%	0.2%	0%
UK index linked gilts FTA IL All Stocks	8% - 12%	9.1%	10%
UK Fixed Interest FTA > 15yr Gilts	3.5% - 6.5%	6.5%	5%
Corporate Bonds ML Sterling Non Gilt	8% - 32%	18.2%	20%
O/seas Govt Bonds JP Morgan Global Bonds (ex UK)	0% - 20%	9.5%	10%
UK Equities FTA All Share	25% - 35%	33.1%	27.5%
O/seas Equities ex UK	22.5% - 30%	23.4%	27.5%
FTA Japan		5.50%	
FTA Pacific (ex Japan)		3.68%	
FTA Europe (ex UK)		9.16%	
FTA USA		9.16%	

Top Ten Equity Investments at 5 April 2004	Value £Million	% UK Equities	% Total Securities
1. Vodafone Group	21.6	8.0	1.6
2. BP	15.6	5.8	1.2
3. Glaxo SmithKline	13.9	5.1	1.0
4. HSBC Holdings	11.8	4.3	0.9
5. Shell Transport & Trading	10.9	4.0	0.8
6. Royal Bank of Scotland Group	9.6	3.5	0.7
7. Lloyds TSB Group	6.3	2.3	0.5
8. Astrazeneca	5.7	2.1	0.4
9. British American Tobacco	5.3	2.0	0.4
10. Standard Chartered	5.3	2.0	0.4
TOTAL	106.0	39.1	7.9

Investment Performance

The Trustee retains the WM Company to independently measure and compare the performance of the invested portfolios.

	1yr as at 31/03/2004		3yr as at 31/03/2004		5yr as at 31/03/2004	
	Actual	Benchmark	Actual	Benchmark	Actual	Benchmark
PLAN RETURN	19.9%	19.9%	0.1%	0.0%	1.5%	1.0%
BGI	22.2%	22.2%	0.9%	0.9%	1.4%	1.4%
Fidelity	32.6%	32.7%	n/a	n/a	n/a	n/a
Schroders	42.7%	31.0%	1.2%	-3.8%	1.9%	-2.7%
Bank of Ireland	25.0%	32.6%	-3.1%	-4.3%	2.7%	-0.8%
Hendersons	2.9%	3.3%	5.2%	5.8%	4.9%	5.2%
WM 2000 (ex property) return	23.8%		-1.6%		0.0%	

If you require further information about the Plan's investments, please contact the Pensions Department whose address and telephone number are shown on page 3.

At 5 April 2004, 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.

Investment Managers

The investments which make up the investment portfolio were managed during the year by the six Investment Managers which reduced to 5 following the transfer to BGI of Goldman Sachs' portfolio on 19 December 2003.

The bond, equity and unit holdings were divided between the Investment Managers as follows:

Manager	Portfolio value at 5 April 2004 (£m)	Portfolio value at 5 April 2003 (£m)
Barclays Global Investors Ltd. (Passive)	643.2	495.7
Henderson Investors Ltd. (Fixed Interest)	319.3	296.4
Schroder Investment Management (UK) Ltd. (UK Equities)	138.6	100.3
Fidelity Pensions Management (UK Equities)	132.3	103.5
Bank of Ireland Asset Management (UK) Ltd. (Overseas Equities)	108.4	81.5
Goldman Sachs Asset Management International (Overseas Equities)	-	58.1
Total	1,341.8*	1,135.5*

* Excludes Cash

As a result of a review during the year, the Trustee has decided to allocate the Plan assets between 7 managers as summarised below. The passive manager covering all asset classes is BGI. BGI also acts as the Plan Rebalancing Manager.

2 active bonds managers
2 active overseas equity managers (ex UK)
2 active UK equity managers

+ } 1 passive manager
(BGI) for each
asset class

The active equity managers are expected to target an out-performance above benchmark of 2%.

The active bond managers are expected to target an out-performance above benchmark of 0.75%.

In order to achieve this the following action has been taken:

- UK equity managers Schroder Investment Management and Fidelity Pensions Management remain in post.
- Overseas manager Bank of Ireland remains in post.
- The new active overseas equity manager is Capital International from July 2004.
- New active bond managers are UBS and Western from July 2004.

For further details regarding the Statement of Investment Principles please see page 25.

Investment manager portfolios	Bank of Ireland	BGI	Fidelity	Henderson Investors as at 31.12.03	Schroder
	£million	£million	£million	£million	£million
Date Established	1966	1982	1946	1934	1947
Number of Pension Fund Clients	341	793	57	227	31
Total Pension Fund Assets Under Management	31,000	74,568	37,737	19,777	31,476
Largest Fund	694	10,358	1,614	1,491	458
Smallest Fund	1	0.1	0.1	0.05	6.7

Individual Investment Manager Reports

Bank of Ireland Asset Management (UK) Ltd. (International Equities)

Equity Background

The fall of the regime in Iraq boosted markets and the perceived risks of widespread deflation in the industrial world soon began to fade. Taken as a whole, global equity markets enjoyed exceptionally strong returns over the year under review.

Signs of a recovery in US corporate profitability and investment spending generated a wave of enthusiasm amongst investors. With risk appetite rising equities with strong cashflow were out of favour relative to "high beta" (more volatile) stocks. Speculative buying was particularly strong in emerging markets, small-to-mid cap and cyclical equities. Indeed, unprofitable and highly-gearred companies' stocks performed very strongly relative to higher-quality corporations.

The increased appetite for risk was reflected by the concentration of price advances in more speculative sectors. In broad terms, technology, materials, financials and industrials were amongst the top performing sectors, while healthcare, consumer staples and utilities featured at the opposite end of the performance table. As a consequence, valuations for low-quality companies advanced to very expensive levels as buyers of many technology and cyclical stocks implicitly took a very optimistic view of future earnings. The performance gap between these sectors and higher-quality large cap stocks narrowed towards the end of 2003 but widened again in late-March.

Investment Activities

US equities as measured by the S&P 500 rose 14.5%. In the portfolio Johnson & Johnson was a disappointing performer (down -23.4%) as sales of its leading Procrit drug came under pressure from generic competitors and the launch of rival Boston Scientific's drug coated stent also weighed on sentiment towards the stock. Despite these negatives, the company announced a 17.7% increase in sales for the first quarter of 2004 over the previous year. The strongest contributor to performance was Altria (up 68.0%) as the anti-tobacco litigation environment showed significant signs of improvement.

European equities rose 31.8%. UBS was the strongest contributor to performance (up 41.0%) as corporate finance fees were buoyed by a pick-up in M&A activity as well as a strengthening of UBS's competitive position, while asset-based and investment fund fees rose on the recovery in equity markets.

Activity during the year saw a number of additions to the Japanese holdings as the improved economic environment meant better prospects for Japanese companies and therefore more confidence in individual company earnings. New names included Fanuc, the world leader in factory automation systems, Shin-etsu Chemical, a diversified chemicals manufacturer and Ricoh, a leading office automation systems manufacturer. In addition several financial companies were added: banks Mitsubishi Tokyo Financial and Sumitomo Mitsui Financial, and non-life insurance companies Millea Holdings and Mitsui Sumitomo Insurance.

Barclays Global Investors Ltd. (Passive Manager All Asset Classes)

Market background

World stock markets rallied in 2003. US equity markets rose sharply when it seemed that the war in Iraq would come to an unexpectedly swift end. The rally was initially driven by an increase in risk appetite after the end of the war in Iraq, but in the latter half of 2003, share prices were driven by better economic news. The comparatively defensive nature of the UK stock market, with its lack of technology and industrial cyclical companies, made the market a relative underperformer.

Continental Europe, with its large export sector and cyclical industries, should benefit from global economic recovery. However, deliberate attempts by Asian policy makers to keep their currencies undervalued have meant that the euro has carried most of the burden of dollar weakness on its own. This stifled exports and acted as a brake on economic recovery.

The Asia-Pacific economy grew very strongly as Asian consumers reached the key levels of wealth where discretionary spending tends to take off. The rapid industrialisation of China sucked in imports, including vast amounts of commodities from the rest of the region. The Japanese economy in particular, benefited from the investment boom in China which led to a surge in demand for Japanese machine tools, in turn stimulating other parts of the economy.

UK corporate bond returns exceeded those of UK government bonds in 2003, as risk aversion dissipated and investors clamoured for higher yields. Lower-rated BBB and A rated bonds delivered the strongest performance. The government's consultative paper, CP-195, affected demand for corporate bonds from insurance companies and was responsible for some of the recent weakness in lower rated (A and BBB) longer-maturity corporate bonds. Overall demand for corporate bonds, relative to other assets, has fallen from the very strong level seen in 2003.

BGI acts as the Plan's Rebalancing Manager, maintaining the asset allocation of the Total Fund in line with the strategic benchmark. In addition, BGI manages a portfolio of indexed global equities and global bonds. BGI's indexed portfolios are designed to track the relevant market indices to a high degree of accuracy. Activity within each sector is low and therefore transaction costs are kept to a minimum.

Trading activity focuses on maintaining the Total Fund asset allocation at its neutral benchmark position. This involves disinvesting from the most overweight asset classes and investing in underweight asset classes.

Fidelity Pensions Management (UK Equities)

UK stocks advanced over most of the twelve months and closed with substantial gains. Stocks rebounded from depressed levels at the start, which resulted from worries about the war in Iraq. The UK equity market benefited from the global recovery and demand grew for companies likely to gain from a stronger economy at the expense of more defensive sectors, such as tobacco, utilities and food producers. However, renewed concerns about terrorism at the end resulted in a market correction.

The fund benefited from strong returns from the media/entertainment and leisure/hotels sectors. In the former, the holding in Granada provided the outstanding contribution, as investors warmed to the company ahead of its merger with Carlton Communications to form ITV. Among leisure and hotel companies, overweight positions in William Hill and Hilton proved successful. Both experienced strong revenue growth from their UK betting shops, as longer opening hours and the abolition of taxes on customers' bets boosted industry turnover. The fund's positioning in the food-production sector proved less rewarding. It was mainly hindered by the holding in Unilever. Here, investor sentiment turned negative after a number of poorly received announcements about sales growth. Being underweight in the aerospace/defence sector also detracted from the portfolio's returns.

The portfolio manager's preference for cyclical-service sectors was evident in the fund's positioning at the end of the review period. The leisure/hotels, media/entertainment and support services sectors represented some of the largest relative exposures in the portfolio. The fund was overweight in a number of pharmaceutical companies, notably in Shire and GlaxoSmithKline, which appeared undervalued. The fund manager maintained the portfolio's underweight positions in the banks, mining and beverages sectors. Its relatively small holding in HSBC was the main factor making it underweight in banks. Over the twelve months, the portfolio moved from underweight to a rather neutral weighting in the telecommunications service sector.

Henderson Global Investors (Global Fixed Interest)

Sluggish economic growth and the rising threat of deflation prompted the US Federal Reserve to cut interest rates by 0.75% to 1.00% in June 2003. While companies struggled, record mortgage refinancing, driven by low interest rates and robust housing prices, supported consumer spending, and economic data gradually improved: US GDP growth peaked at 8.2% in the third quarter before slowing to a still-respectable 4.1% in the fourth. But the Federal Reserve said it could be 'patient' before raising interest rates because inflation posed no imminent threat and the labour market remained distinctly sluggish.

The UK's economic outlook seemed to deteriorate in early 2003, as evidence of slowing service sector growth compounded persistent weakness in manufacturing. In July, the Bank of England's Monetary Policy Committee (MPC) cut the base rate to 3.50%, the lowest level since 1955. Consumer spending accelerated, however, and soon attention turned to growing levels of household indebtedness. The MPC, hoping to tame both housing prices and consumer spending, raised the base rate to 3.75% in November and 4.00% the following February.

In the first half of 2003, when investors were focused on the anaemic state of the global economy and the war in Iraq, global bond markets rallied strongly on the back of their 'safe haven' status. Even as political uncertainties receded, and optimism about the global economic outlook grew, fears of deflation continued to support them: in fact, short-dated bond yields in the US, Europe and Japan sank to record-low levels in June. However, following the US Federal Reserve's interest-rate cut later that month, government bonds sold off sharply as investors anticipated that the current interest rate cycle had ended and that growth would accelerate. This view was validated by a strong recovery in industrial output. Concerns about weak job creation drove yields sharply lower again in early 2004; however, strong payrolls data in early April triggered a sharp reversal, and 10-year Treasury yields ended the period at 4.22%, up 0.27% on the year.

Schroder Investment (UK) Management Ltd. (UK Equities)

The domestic economy has remained relatively strong, although many commentators point to a 'two speed' economy, with manufacturing lagging the service sectors. Consumer strength for much of the year has fuelled economic growth, spurred on by low borrowing costs, which at 3.75% are at their lowest for almost 50 years, low unemployment and rising house prices. However, there are signs that the consumer boom is slowing down. While this defensive market outperformed its continental counterparts, it too has suffered a sharp decline on concerns about the US and global economic recovery, and the outbreak of hostilities in the Middle East.

The portfolio retains an economically-sensitive bias and we prefer the corporate rather than the consumer sector. However, as valuations between cyclical and other areas have converged, opportunities exist across a broad range of sectors and stock-specific factors are becoming increasingly important in determining relative performance.

The portfolio's twelve month return, up 42.7%, has been strong and has exceeded the benchmark comfortably. Good stock picking as well as timely exposure to a number of areas sensitive to economic recovery have been beneficial. Media, engineering and support services holdings made significant positive contributions, with many of the best performers (e.g. RAC, United Business Media) benefiting also from a degree of internal restructuring.

For some time we have been investing on the basis of a benign environment for equities. Monetary policy has been accommodative, corporate profits have been recovering and earnings expectations have been generally rising. Many of the factors that have most supported equities over the last year, particularly those that relate to economic recovery, are no longer as powerful. Whereas for most of 2003 we felt that the likelihood was for further favourable surprises, given low valuations and depressed sentiment, we now see the risks to this view as more evenly balanced. Cost-cutting for many companies has now largely run its course, leaving them dependent on demand growth for further recovery. Corporate sector demand is likely to accelerate but consumer demand, in both the UK and the United States, could be more fragile; especially as low interest rates and tax cuts have pulled demand forward, making it vulnerable to a reversal of these trends. Some companies, having been in a comparative "sweet spot" as demand has picked up from depressed levels, now face rising input costs which could apply pressure to margins while pricing power is difficult, and at some stage lead to an upturn in inflation. There is no longer a trend of steady estimate increases for UK companies; indeed, the recent tendency has been for some trimming of forecasts, largely in response to currency pressures.

In these circumstances, we are not relying on further valuation expansion to justify the investment case for cyclical stocks that already reflect a good deal of confidence in future earnings prospects. While their current trading outlook remains favourable, our valuation discipline is leading us to be cautious about extrapolating this too far. Companies such as Morgan Crucible or FKI where demand recovery tends to occur later in the cycle and where restructuring is in its early stages are attractive but we have sold more fully-valued cyclicals such as HBOS. We continue to expect corporate demand to accelerate but feel that consumer demand is more fragile, having been supported by low interest rates and tax cuts.

Pension Increases

The Plan provides increases to pensions in payment other than pre 6 April 1988 Guaranteed Minimum Pensions (GMPs). Post 6 April 1988 GMPs are increased up to 3% per annum subject to statute. The Trustee can, with the agreement of the Principal Employer, award discretionary increases in excess of this amount. Deferred pensions are also increased in accordance with statute.

Pro-rata payments were made to those who retired during the Plan year. No discretionary increases were given but a minimum increase (where paid) was £1 per month.

Pension increases for service prior to 6 April 1997 are determined by the December RPI figures which are published each January. Increases for post 6 April 1997 service are based on the September RPI which is published each October.

The table below details the increases that have been paid:

Pensions for Pre 6 April 1997 Service

6 April	Annual Increases	RPI Increase December to December
1992	4.0%	4.5%
1993	3.0%	2.6%
1994	2.0%	1.9%
1995	3.0% *	2.9%
1996	3.0%	3.2%
1997	2.5%	2.5%
1998	3.0%	3.6%
1999	3.0%	2.8%
2000	1.8%	1.8%
2001	2.9%	2.9%
2002	0.7%	0.7%
2003	2.9%	2.9%
2004	2.8%	2.8%

* Plus any additional amounts necessary, (ranging from 1.2% – 11%), to restore $\frac{3}{4}$ of the rise in the RPI since pension commenced.

Pensions for Post 6 April 1997 Service

6 April	Annual Increases	RPI Increase September to September
1998	3.6%	3.6%
1999	3.2%	3.2%
2000	1.1%	1.1%
2001	3.3%	3.3%
2002	1.7%	1.7%
2003	1.7%	1.7%
2004	2.8%	2.8%

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 were 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. There are no discretionary benefits included within the cash equivalent transfer value.

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. Some 15 current members and 160 deferred pensioners have had benefits reinstated following an appropriate payment from the insurance companies concerned.

The reinstatement of membership is now intermittent as most of this exercise has been completed. Some 10 cases remain outstanding.

Additional Voluntary Contributions

Members are able to enhance their pension benefits at retirement by the payment of Additional Voluntary Contributions (AVCs). These may be applied either:

- to purchase additional pension within the normal Plan benefit structure; or
- to accumulate a Fund with Nationwide Building Society; or
- to accumulate a Fund with the Equitable Life Assurance Society; or
- to accumulate a Fund through Winterthur Life multi-manager platform.

Like normal plan contributions these receive full tax relief subject to a maximum annual contribution to all pension arrangements of 15% of salary. Further details may be obtained from the Secretary of the Plan.

AVC Providers

London Life

Historically members contributed to London Life. 20 accounts are still held.

MGM Assistance

There is just one deferred member who was part of Unitel with AVC benefits.

Nationwide Building Society

There are currently 280 Building Society accounts.

Winterthur Life Assurance

The funds listed below have been made available to all active and deferred members. There are 13 funds available to members:

	Number of accounts in force	
	Active	Deferred
Cash	24	82
Fixed Interest	15	35
BGI Global Equity Tracker	23	32
BGI UK Equity Tracker	18	33
Winterthur Life with Profits	20	50
Deutsche Managed	11	15
Threadneedle European	5	15
Threadneedle Property	17	27
Fidelity American	11	29
Fidelity SE Asia	3	12
Fidelity Special Situations	13	26
Credit Suisse Fellowship Ethical	3	6
Lifestyle	15	18
Total	178	380

All funds are in use. There are currently 100 active and 218 deferred members. Some members have more than one fund.

Equitable Life Assurance Society

	Number of accounts in force	
	Active	Deferred
With Profits	68	308
Managed Funds	9	51
Lifestyle	9	45
Unit Linked	22	86
Total	108	490

All funds are in use. There are currently 474 accounts to which only 39 members were contributing actively during the Plan year.

Trustee Report - Defined Contribution Section

Membership

The Defined Contribution Plan was open to all permanent employees of the Principal and Participating Employers until 30 June 2003. A summary of membership for the Defined Contribution section of the Plan is given below. All DC members have been issued with option letters as this section of the Plan is being wound up.

Contributing Members

Deferred Members

As at 5 April 2002		1,734	As at 5 April 2002		2,937
ADD	New Entrants	162	New deferreds		939
			Adjustment*		25
LESS	New deferreds	939	Leavers identified at 5 April 2004		
	Death in service	–	Retirement		19
	Transferred to GPP	–	Deaths		–
	Transferred to other Personal Pensions Plans	–	Refunds		41
	Full Commutation	–	Transfers		436
			Leaver No Benefit		988
As at 5 April 2003		932	As at 5 April 2003		2,417
ADD	New Entrants	–	Open previously closed accounts		852
LESS	New deferreds	–	Leavers identified at 5 April 2004		
	Death in service	–	Retirement		11
	Transferred to GPP	446	Deaths		–
	Transferred to other Personal Pensions Plans	2	Refunds		–
	Full Commutation	279	Transfers		203
			Leaver No Benefit		–
As at 5 April 2004		205	As at 5 April 2004		3,055

* Leavers between 05.04.01 and 05.04.02 but not identified until after 05.04.02.

TOTAL SCHEME
MEMBERSHIP AT 5 APRIL
2003 = 3,349

TOTAL SCHEME
MEMBERSHIP AT 5 APRIL
2004 = 3,260

Developments

A Defined Contribution section was added to the Plan, and offered to all new members from 1 July 2000. Existing members of the Defined Benefit section were offered the opportunity to switch across to the new Defined Contribution section with effect from 1 September 2000 and each subsequent 1 July. Circa 240 expressed an interest in 2000, 32 in 2001 and 6 enquired as at 1 July 2002.

Barclay Global Investors (BGI) and Schroder Investment Management were appointed as Investment Managers. HS Administrative Services Limited (HS Admin.) was contracted to provide administration services. The cost of administration and investment fees were met by the members.

The Deed of Amendment, executed on 30 June 2000, incorporated the Defined Contribution arrangements into the Trust Deed & Rules. The consolidation exercise was completed on 21 August 2003.

Members did not have to contribute to the Plan. There was a core contribution by the employer of at least 2% of Pensionable Pay. Members elected up to 6% additional employer contribution from their flex allowance to which a further 0.1% was added for each 1% elected.

Closure with effect from 30 June 2003

The Trustee was informed that the Company has decided to close the DC section from 30 June 2003. As a result of this decision the Trustee also decided to wind up the DC section. Members have been offered the opportunity to transfer all accrued benefits to other pension arrangements or, where appropriate, offered immediate retirement, a refund of contributions or a payment on the grounds of triviality.

From 1 July 2003 Nortel Networks UK Limited offered all employees the opportunity to join its Group Personal Pension Plan (GPP).

Members will continue to be able to switch the assets within their Account(s) until such time as they are transferred to other pension arrangements or paid as a benefit. No new money has been paid to Member Accounts since July 2004.

Management of assets

Assets are managed by the selected investment managers, currently BGI and Schroders.

At 5 April 2004 members had chosen to invest in the following funds:

		Total Invested	Number of
		£	accounts held
BGI	UK equities (passive)	814,800	372
	International equities (passive)	641,193	333
	Bonds (passive)	384,161	180
	Cash	1,317,184	1,334
	Cash deposits	18,004	
Schroders	UK equities (active)	726,588	208
	International Overseas Equity Fund (active)	682,302	341
	Cash deposits	294	
	TOTAL	4,584,526	

Note: Some members hold more than one Asset Class.

Additional Voluntary Contributions

All members' AVCs are included in the above figures.

Other information

Principal and Participating Employers

Principal Employer

Nortel Networks UK Limited
ECON: 3039077J

Reg. No. 3937799

Other Participating Employers

Nortel Networks UK Pension Trust Limited

ECON: 3039400J
5th Floor, Metropolitan House, Darkes Lane, Potters Bar,
Hertfordshire, EN6 1AG

Reg. No. 2091890

Clarify Limited (UK), Clarify Court, London Road, (Contracted-in DC)
Reading, Berks. RG6 1BW
Ceased participation on 30 June 2003

Reg. No. 2990502

Periphonics Limited, Maidenhead Office Park, (Contracted-in DC)
Westacott Way, Maidenhead,
Berks. SL6 3QH
Ceased participation on 30 June 2003

Reg. No. 2466031

Sonoma Europe Limited, c/o Clyde & Co. (Contracted-in DC)
51 Eastcheap, London EC3M 1JP
Ceased participation on 30 June 2003

Reg. No. 2490002

Where a contracting-out Certificate is required the ECON has been shown. Where there is no requirement it is because all members associated with that Participating Employer were in the DC section which was contracted-in until its closure on 30 June 2003.

The Plan SCON is S4004664B.

Trust Deed and Rules

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.

Copies of the Trust Deed and Rules are available for inspection by arrangement with the Secretary of the Plan. Members may contact the Secretary for any further information about their benefits in the Plan.

Annual Report and other Information

Members, other beneficiaries, prospective members and Trade Union representatives are entitled to inspect Plan documentation and receive a copy of the annual report on request.

Communication

Benefit Statements

Members or their survivors are also entitled, on request, to an annual statement of personal benefits accrued in the Plan, and to a statement of the transfer value available on leaving the Plan or rights available in exchange for a specified transfer value from a previous scheme. To avoid the need for members to make such requests, an annual benefit statement is issued automatically to every contributing member of the Plan.

Benefit Statements have been issued annually to contributing members since 1986.

In July contributing DB Plan members were issued with a Benefit Statement for the year to 5 April 2004. This illustrated the benefits they had accrued to the 5 April 2004 and also projected the benefits that would be payable assuming they stayed in service on the same Pensionable Pay until Normal Pension Date. The statement also incorporated a projection for State Pension Benefits.

Services@Work

Services@Work and e-mail have become the main communication media for the Pensions Department 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.

Topics for the Plan year have included:

- Information in respect of Winterthur Life AVCs
- Information in respect of Building Society AVCs
- Financial Updates from Chairman regarding Funding

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 new website www.nortelpensions.com.

Newslink

Newslink is issued to all pensioners (unless declined) quarterly and provides a valuable medium for conveying updated information. Specific updates have covered:

- Pension Increases
- Announcement of new Trustee Directors
- Updates from Chairman of the Trustee

Website

The Pensions website www.nortelpensions.com has been operational for just over one year.

It has been decided to extend this information service to all members.

Statement of Investment Principles

The Statement was reviewed in Spring 2003 and Summer 2004. It covers implications from the Myners Report. It also reflects some of the changes implemented as a result of the recent Asset Liability Study and will be updated to include details of the 3 new investment managers. The Statement of Investment Principles is constantly under review and will be updated as further changes necessitate. The Statement of Investment Principles is prepared in accordance with s35, Pensions Act 1995. A copy is available on request from the Pensions Department whose address is on page 3.

Myners Report

In 2001 the Government published its Principles which effectively endorsed the Myners Report "Institutional Investment in the UK – a review". The Trustee reviewed its practice and considered the extent to which it complies. Broadly speaking the Nortel Networks Plan was compliant. Action taken has followed consultation with the Trustee's Consultants and Investment Managers and shared with the Principal Employer. Principles that have resulted in some action by the Trustee are detailed below:

Effective decision making

When the Trustee elects to take investment decisions it must have sufficient expertise and appropriate training and ensure that it has the right set of skills, both individually and collectively.

Action

All Trustee Directors have received some training in 2003/04. Formal training is detailed on page 8.

To draw up a forward looking business plan.

This was introduced in December 2001 and has been reviewed annually since.

Clear Objectives

The Trustee should take account of its attitude to risk, specifically its willingness to accept underperformance due to market conditions.

The Trustee has requested additional information and risk measures from investment managers and liaises more frequently with its appointed Investment Adviser on risk.

Explicit Mandates

Any objective, benchmarks and risk parameters should be covered in the Investment Managers' Agreements along with risk tolerances that are coherent with the fund's aggregate objective.

In conjunction with the asset allocation review, the Trustee with the Investment Consultant has reviewed benchmarks and considered appropriate criteria. Changes will be reflected in the 2004 Statement of Investment Principles.

Statutory Registration References

Statutory Registration

- Occupational Pensions Regulatory Authority (OPRA) – 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.

Internal Disputes Resolution Procedure

A copy of the Internal Disputes Resolution Procedure is available on request from the Pensions Department whose address is on page 3.

After contacting the Human Resources Department and/or Pensions Department, any dispute which remains unresolved should be referred through the Internal Disputes Resolution Procedure to the Secretary to the Committee of Management in the first instance or to OPAS. Any disputes still unresolved following a decision by the Committee of Management may be referred to the full Trustee Board. Should any dispute remain unresolved following a resolution of the Trustee Board, it may be referred to OPAS and then the Pensions Ombudsman as follows:

1. Pensions Advisory Service ('OPAS')

An independent voluntary organisation with local advisers who are expert in pension matters. To find out the name and address of your local OPAS adviser, ask your local Citizens Advice Bureau (they hold an OPAS directory of advisers), or contact OPAS Headquarters. There is no charge for this service.

11 Belgrave Road, London SW1V 1RB

Tel: 0845 601 2923

2. Pensions Ombudsman

Appointed under the Social Security Act 1990 to deal with complaints against, and disputes with, occupational and personal pension schemes. He is completely independent and acts as an impartial adjudicator. There is no charge for his services.

11 Belgrave Road, London SW1V 1RB

Tel: 020 7834 9144

3. Occupational Pensions Regulatory Authority (OPRA)

A Regulatory Body set up by Parliament to ensure occupational pension scheme members' interests are protected under the Pensions Act 1995 and that schemes comply with the law.

Invicta House
Trafalgar Place
Brighton BN1 4DW

Tel: 01273 627 600

By order of Trustee Board



20 September 2004

Report of the Independent Auditors to the Trustee of the Nortel Networks UK Pension Plan

We have audited the accounts of the Nortel Networks UK Pension Plan for the year ended 5 April 2004 which comprise the principal accounting policies, the Fund Account, the Net Assets Statement and Notes to the Accounts. These accounts have been prepared under the accounting policies set out therein.

Respective Responsibilities of Trustee and Auditors

The Trustee's responsibilities for obtaining audited accounts which comply with United Kingdom law and accounting standards and for making available certain other information about the scheme in the form of an Annual Report are set out in the section headed 'Trustee's accounting responsibilities'. The Trustee is also responsible for procuring that contributions are made to the scheme in accordance with the schedule of contributions certified by the actuary. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and our profession's ethical guidance.

We report to you our opinion as to whether the accounts 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 provide a statement about contributions, in which we report to you our opinion as to whether contributions have been paid in accordance with the schedule of contributions certified by the actuary. We report to you if we have not received all the information and explanations that 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 accounts.

Basis of Audit Opinion and Statement about Contributions

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by or on behalf of the trustees in the preparation of the accounts, and of whether the accounting policies are appropriate to the scheme'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 accounts 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 accounts.

Our work also included examination, on a test basis, of evidence relevant to the amounts of contributions payable to the scheme and the timing of those payments in order to provide us with reasonable assurance that contributions have been paid in accordance with the schedule of contributions certified by the actuary on 11 February 2003.

Statement about Contributions under the Scheme

In our opinion contributions payable to the scheme during the year ended 5 April 2004 have been paid in accordance with the schedule of contributions certified by the actuary on 11 February 2003.

Opinion

In our opinion the accounts show a true and fair view of the financial transactions of the scheme during the scheme year ended 5 April 2004, 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 scheme 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 made under the Pensions Act 1995.



Grant Thornton UK LLP
Chartered Accountants
Registered Auditors
London
20 September 2004

Note: The maintenance and integrity of the Nortel Networks UK Pension Plan's website is the responsibility of the Trustee: the work carried out by 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 accounts since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

Fund Account for the year ended 5 April 2004

	Defined Benefit Section	Defined Contribution Section	Year Ended 05.04.04 TOTAL £000	Year Ended 05.04.03 TOTAL £000	Note
CONTRIBUTIONS AND INCOME					
Contributions receivable	64,058	805	64,863	53,003	2
Transfers-in from other schemes	1,444	73	1,517	6,250	3
TOTAL	65,502	878	66,380	59,253	
BENEFITS AND OTHER PAYMENTS					
Pensions and benefits payable	(78,298)	(111)	(78,309)	(82,573)	4
Payments to and on account of leavers	21	(1,214)	(1,193)	(227)	5
Transfers : Individual transfers to other schemes	(1,979)	(6,029)	(8,008)	(5,376)	6
Bulk Transfers	(2,066)	(1,322)	(3,388)	(571)	6
Administrative expenses	(1,170)	(127)	(1,297)	(1,344)	7
TOTAL	(83,492)	(8,703)	(92,195)	(90,091)	
NET ADDITIONS/(WITHDRAWALS) FROM DEALINGS WITH MEMBERS	(17,990)	(7,825)	(25,815)	(30,838)	
INVESTMENT RETURN					
Investment and other income	27,105	9	27,114	28,565	8
Change in market value of investments	191,579	1,742	193,321	(206,739)	9
Irrecoverable tax charge	(1,134)	–	(1,134)	(1,364)	
Investment managers' fees & expenses	(2,985)	–	(2,985)	(2,472)	10
NET RETURNS ON INVESTMENTS	214,565	1,751	216,316	(182,010)	
NET INCREASE/(DECREASE) IN THE FUND	196,575	(6,074)	190,501	(212,848)	
OPENING NET ASSETS	1,180,566	9,574	1,190,140	1,402,988	
CLOSING NET ASSETS	1,377,141	3,500	1,380,641	1,190,140	

Net Assets Statement as at 5 April 2004

	As at 05.04.04 TOTAL £000	As at 05.04.03 TOTAL £000	Note
DEFINED BENEFIT SECTION			
INVESTMENTS			
Securities:			
Quoted Equities			
UK	267,063	201,033	
Overseas	171,212	138,389	
Pooled Investment Vehicles	584,310	498,254	
Bonds			
UK Index Linked (Public Quoted)	68,209	66,935	
UK Fixed Interest (Public Quoted)	27,583	0	
UK Fixed Interest Corporate (Public Quoted)	142,438	157,933	
Fixed Interest Overseas Government (Public Quoted)	77,890	69,843	
Cash and Other financial investments	3,140	3,069	
Total Securities	1,341,845	1,135,456	
AVC Investments	9,687	9,037	
Past Bonus Investments	30	36	
Q Scheme Policy	3,359	2,923	
Short-term deposits and cash	8,404	12,576	
Current Assets and Liabilities	13,816	20,538	11
DEFINED CONTRIBUTION SECTION			
INVESTMENTS			
Managed Funds	4,566	9,193	
Cash	322	394	
Current Assets and Liabilities	(1,388)	(13)	11
NET ASSETS OF THE PLAN	1,380,641	1,190,140	

The accounting policies and notes form part of these accounts.

Income and investment assets attributable to the defined benefit section are separately invested and segregated from investments attributable to members' defined contribution benefits.

Approved by the Trustee on 20 September 2004.

For Nortel Networks UK Pension Trust Limited.



Director



Director

For BESTrustees plc

Notes to the Accounts

01 Accounting Policies

The accounts have been prepared 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 (SORP), Financial Reports of Pension Schemes.

The accounts summarise the transactions and net assets of the Plan. They do not include the liabilities to pay pensions and other benefits in the future. The actuarial position of the Plan, which does take account of such liabilities, is dealt with in the statement by the actuary on page 38 of the annual report and these accounts should be read in conjunction therewith.

The principal accounting policies of the Plan are set out below. The policy in respect of transfers has changed from the previous year to take into account the revised SORP. Previously transfers were treated only on a cash basis.

(a) Fund account

Income and expenditure are included on the accruals basis as follows:

- (i) Contributions - relating to wages and salaries paid during the year.
- (ii) Dividends - by reference to the ex-dividend date.
- (iii) Interest - to the extent that the period for which it is payable falls within the year.
- (iv) Benefits - payable for the accounting year.
- (v) Transfers - accounted for on a cash basis, unless at the year end the Trustee has agreed to accept the liability before receipt of funds. In such cases transfer values are accounted for on accruals basis.

(b) Investments

Investments are valued at the Net Assets Statement date as follows:

- (i) Stocks and shares are stated at market value at the year end. In the case of listed securities these are mid-market values.
- (ii) Managed funds are stated at average of offer and bid price at the Plan year end.
- (iii) Insurance Policies are stated at insurers' valuations on actuarial advice.

(c) Foreign Currencies

Assets or liabilities denominated in currencies other than sterling have been translated into sterling at the rates of exchange ruling at the year end.

Forward foreign exchange hedging has been effected to mitigate adverse rate of exchange variations when settling foreign security transactions.

02 Contributions Receivable

	Defined Benefit Section	Defined Contribution Section	Year Ended 05.04.04 TOTAL	Year Ended 05.04.03 TOTAL
	£,000	£,000	£,000	£,000
Members' normal contributions	3,814	–	3,814	5,849
Members' AVC contributions	486	111	597	1,223
Company contributions	–	678	678	3,441
Special Company contributions	59,659	16	59,675	42,345
Defined Benefit AVCs	99	–	99	145
Total	64,058	805	64,863	53,003

As the Plan meets the Minimum Funding Requirement (MFR) the Company is not required to make regular contributions. The Company has paid a voluntary contribution in each of the last two Plan years.

03 Transfers in from Other Schemes

	Defined Benefit Section	Defined Contribution Section	Year Ended 05.04.04 TOTAL	Year Ended 05.04.03
	£,000	£,000	£,000	£,000
Individual transfers in from other schemes	844	73	917	6,250
Bulk transfers in from other schemes	600	–	600	–
Total	1,444	73	1,517	6,250

04 Pensions and Benefits Payable

	Defined Benefit Section	Defined Contribution Section	Year Ended 05.04.04 TOTAL	Year Ended 05.04.03
	£,000	£,000	£,000	£,000
Pensions	74,475	–	74,475	71,355
Commutations of pensions and lump sum retirement benefits	2,803	11	2,814	9,903
Death benefits	1,020	–	1,020	1,315
Total	78,298	11	78,309	82,573

05 Payments to and on Account of Leavers

	Defined Benefit Section	Defined Contribution Section	Year Ended 05.04.04 TOTAL	Year Ended 05.04.03
	£,000	£,000	£,000	£,000
Refunds of contributions (net)	4	10	14	153
Income tax on refunds	1	3	4	54
Trivial commutations	—	1,201	1,201	—
CEPs	(26)	—	(26)	20
Total	(21)	1,214	1,193	227

06 Transfers out of Other Schemes

	Defined Benefit Section	Defined Contribution Section	Year Ended 05.04.04 TOTAL	Year Ended 05.04.03
	£,000	£,000	£,000	£,000
Individual transfers out to other schemes	1,979	6,029	8,008	5,376
Bulk Transfers	2,066	1,322	3,388	571
Total	4,045	7,351	11,396	5,947

07 Administrative Expenses

	Defined Benefit Section	Defined Contribution Section	Year Ended 05.04.04 TOTAL	Year Ended 05.04.03
	£,000	£,000	£,000	£,000
Salaries and employment costs	495	—	495	454
Actuarial Fees	113	—	113	142
Audit Fees	68	—	68	73
Legal Fees	79	—	79	44
Travel and Administrative Expenses	230	127	357	374
Temporary Support	20	—	20	14
Computer, Facility and Services Expenses	99	—	99	174
Other Fees	66	—	66	69
Total	1,170	127	1,297	1,344

08 Investment Income

	Defined Benefit Section	Defined Contribution Section	Year Ended 05.04.04 TOTAL	Year Ended 05.04.03
	£,000	£,000	£,000	£,000
Fixed Interest Securities	13,696	—	13,696	14,889
Equity Dividends	12,197	—	12,197	13,068
Pooled Investment Vehicles	—	—	—	43
Interest on Cash Deposits	628	9	637	267
Underwriting Commission	7	—	7	11
Interest on Cash Deposits (Internally Managed)	577	—	577	317
Total	27,105	9	27,114	28,565

The reduction of investment income attributable to the Defined Benefit Section for Fixed Interest and Equity Dividends is due mainly to the decision by the Trustee to move a significant portion of these investments to a Managed Fund. Income generated from Managed Funds is reinvested within the Funds resulting in an increased holding of units.

09 Changes In Value of Investments

	Defined Benefit Section	Defined Contribution Section	Year Ended 05.04.04 TOTAL	Year Ended 05.04.03
	£,000	£,000	£,000	£,000
Securities	188,366	1,742	190,108	(204,516)
"Q" Policy at Prudential	436	—	436	(978)
AVC Accounts	645	—	645	(246)
Past Bonus Accounts	1	—	1	1
Change in Value of Currencies	2,131	—	2,131	(1000)
Total	191,579	1,742	193,321	(206,739)

10 Investment Management Fees

	Defined Benefit Section	Defined Contribution Section	Year Ended 05.04.04 TOTAL	Year Ended 05.04.03
	£,000	£,000	£,000	£,000
Administration and Management	2,792	—	2,792	2,291
Custodian Fees	193	—	193	181
Total	2,985	—	2,985	2,472

Investment Managers' fees are borne by the Plan. Fees are based on a sliding scale percentage of the value of assets managed and from 1 January 1996 some investment management fees have been calculated on a performance related basis.

11 Current Assets and Liabilities

	Defined Benefit Section	Defined Contribution Section	As at 05.04.04 TOTAL	As at 05.04.03
	£,000	£,000	£,000	£,000
Current Assets				
• Due from Nortel Networks UK Limited	–	–	–	104
• Other Debtors	786	2	788	220
• Income Tax Recoverable	38	–	38	108
• Sale Proceeds from Investments	32,547	–	32,547	17,798
• Dividends Due and Interest Receivable	9,087	–	9,087	9,184
Total	42,458	2	42,460	27,414
Current Liabilities				
• Due from Nortel Networks UK Limited	(52)	–	(52)	–
• Due to external pension schemes	(20)	(1,100)	(1,120)	(17)
• Benefits payable	(332)	–	(332)	(432)
• Other creditors	(1,150)	(290)	(1,440)	(1,407)
• Purchase settlements	(27,088)	–	(27,088)	(5,033)
Total	(28,642)	(1,390)	(30,032)	(6,889)
Net Current Assets/Liabilities	13,816	(1,388)	12,428	20,525

12 Forward Exchange Transactions

At 5 April 2004 there were open forward exchange transactions outstanding, with net unrealised gains from this source of £5,317 (at 5 April 2003, there were open forward exchange unrealised losses of £229,354).

13 Tax Status

The Plan is an approved plan under Part I of Chapter XIV of the Income and Corporation Taxes Act 1988.

14 Contingent Liabilities

There were no material contingent liabilities at 5 April 2004 nor at 5 April 2003.

15 Commitments

- (i) There were no material capital commitments at 5 April 2004 nor at 5 April 2003.
- (ii) At 5 April 2004 no calls were due on share transactions (5 April 2003 - No calls due).

16 Business Acquisitions

There is one historical business acquisition 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.

17 Movements on Investments during the Year ended 5 April 2004

Defined Benefit Section

	Opening Market Value £000	% of Holding	Purchases at Cost £000	Sales Proceeds £000	Market Value Changes £000	Closing Market Value £000	% of Holding
Equities	339,422	29.26%	283,976	(275,898)	90,775	438,275	32.15%
Unit Trusts/Managed Funds (Non Property)	498,254	42.95%	166,995	(173,990)	93,051	584,310	42.86%
Index Linked Securities	66,935	5.77%	153,266	(157,802)	5,810	68,209	5.00%
Fixed Interest Securities	227,776	19.64%	583,445	(562,040)	(1,270)	247,911	18.18%
Cash & Other Financial Investments	3,069	0.26%	142,600	(142,529)	–	3,140	0.23%
Short Deposits & Cash	12,576	1.08%	34,675	(38,847)	–	8,404	0.62%
Q Policy at Prudential	2,923	0.25%	–	–	436	3,359	0.25%
AVCs	NOTE A 9,037	0.78%	NOTE B 557	(552)	645	NOTE A 9,687	0.71%
Past Bonus Accounts	36	0.01%	–	(7)	1	30	0.00%
GRAND TOTALS	1,160,028	100.00%	1,365,514	(1,351,665)	189,448	1,363,325	100.00
NOTE A							
The Net Assets of the AVC Fund were invested with:							
Nationwide Building Society Retirement Savings Plan	180					178	
Winterthur Life	1,314					3,362	
Equitable Life	7,250					5,938	
London Life	290					206	
M.G.M Assurance	3					3	
	9,037					9,687	
NOTE B							
AVC Purchases:							
Members' Contributions			486				
Company Contributions to Retirement Savings Plan			2				
AVCs Received with Transfers in			69				
			557				

Movements on Investments during the Year ended 5 April 2004

Defined Contribution Section

	Opening Market Value £000	% if Holding	Purchases at Cost £000	Sales Proceeds £000	Market Value Changes £000	Closing Market Value £000	% of Holding
Managed Funds	9,193	95.89%	1,100	(7,469)	1,742	4,566	93.41%
Cash & Shorts Deposits	394	4.11%	–	(72)	–	322	6.59%
GRAND TOTALS	9,587	100.00%	1,100	(7,541)	1,742	4,888	100.00

Actuarial Statement

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

Nortel Networks UK Pension Plan

Effective date of valuation: 5 April 2002

1. Security of prospective rights

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

Description of contributions

By members: 5% of pensionable pay

By the employer: £33 million in October 2002 and, subject to review at future actuarial valuations, contributions equal to 14.6% 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 20 years.

2. Summary of methods and assumptions used

For the purposes of Section 1 above I have assumed that the scheme will continue. The liabilities referred to relate to the benefits which are expected to become payable under the normal operation of the scheme. 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	6.0
- future benefits	6.5
Increases in earnings	4.0
Increases in pensions	
- pre 6 April 1997 service	2.25
- post 5 April 1997 service	2.5

Further details of the method and assumptions used are set out in the report on the actuarial valuation addressed to the Trustee and the Principal Company dated 19 December 2002.



R P Jessett
Fellow of the Institute of Actuaries
Partner, Watson Wyatt LLP

19 December 2002

Watson House
London Road
Reigate
Surrey
RH2 9PQ

Schedule of Contributions

This schedule specifies, for the period of five years commencing from the date on which this schedule is certified, the rates and due dates of employer and employee contributions to the Plan. It is subject to review from time to time as required by legislation and by the Plan's Trust Deed and Rules and following actuarial valuations.

1 Name of Employers

Nortel Networks UK Limited and any subsidiaries of Nortel Networks UK Limited, or any other company which is participating in the Plan from time to time.

2 Employee contributions

Members contribute as set out in the Rules.

3 Employer contributions

Normal contributions

Defined Benefit Section

Nil, or such other amount as may be agreed between Nortel Networks UK Limited and any other participating employer from time to time, subject to review annually and at future actuarial valuations.

Defined Contribution Section

Company contributions shall be paid in respect of core and further contributions as required under the Rules, or at such other rate as may be agreed by the Company and Trustee in respect of a particular individual or group of members.

Special Company contributions

Contributions required to cover the cost of benefit improvements or augmentations should be paid in addition to the above amounts, as determined by the Actuary.

Further special Company contributions may be paid as determined by the Company following actuarial reviews of the Plan.

4 Due dates of payment

All normal contributions are due by the 19th of each month after that in which contributions are deducted from earnings. Special Company contributions in respect of benefit improvements or augmentations are to be paid by the later of 3 months from the date the improvement or augmentation is granted or the date that it is formally agreed by the Trustee, or before the expiry of such other period as advised by the Actuary. Further Special Company contributions are to be paid from time to time as determined by the Company.

Agreed on behalf of the Trustees

W K Gardener



Date: 10.02.03

Agreed on behalf of the Nortel Networks UK Limited

G Lloyd



Date: 10.02.03

Date of Schedule: 11.02.03

Actuarial certificate given for the purposes of section 58 of the pensions act 1995 (certification 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 11 February 2003 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.



R P Jessett
Fellow of the Institute of Actuaries
Partner, Watson Wyatt LLP

11 February 2003

Watson Wyatt Partners
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.

Report of the Scheme Actuary to the Trustee of the Nortel Networks UK Pension Plan

An actuarial valuation of the Plan was made by the previous Scheme Actuary, Mr R P Jessett of Watson Wyatt LLP as at 5 April 2002. The valuation showed that the value of the assets of the Plan fell short of the value of the benefits which had accrued in respect of pensionable service prior to that date, based on the assumptions set out in the valuation report.

The valuation also showed that, on the assumptions adopted, contributions would be needed from participating employers at the rate of 14.6% of members' pensionable salaries in order to meet the cost of benefit accruals for service after the valuation date. Following discussions between the Trustee and Nortel Networks UK Limited it was agreed that a payment of £33 million would be paid in October 2002 to meet the cost of accruing benefits since the valuation date and to strengthen the Plan's funding position. The financial position of the Plan and its future contribution requirements would then be reviewed at least annually.

Calculations were also made to check that the assets held by the Plan were sufficient to cover the Minimum Funding Requirement. These calculations showed that the value of the assets at the valuation date was 110% of the value of the accrued liabilities calculated in the prescribed manner. The Schedule of Contributions dated 10 February 2003, agreed between the Trustee and Nortel Networks UK Limited, indicates that the employer need, by law, pay no contributions to the Plan during the period covered by the certificate, subject to review annually and at future actuarial valuations. The certificate confirming that this Schedule of Contributions meets the Minimum Funding Requirement appears on page 40.

The certificate under Regulation 30 of the Occupational Pension Schemes (Minimum Funding Requirement and Actuarial Valuation) Regulations 1996, confirming that the resources of the Plan would be sufficient to meet the benefits of the Plan as they fall due, is shown on page 40. This certificate was given on the basis that the Plan will continue and by reference to the assumptions specified in the

certificate. However, as noted in the full valuation report, had the Plan been wound up on the valuation date there would not have been sufficient assets to buy out members' accrued rights on the open market. It has been agreed that the financial position of the Plan should be examined at regular intervals, and an interim valuation was undertaken as at 5 April 2003. These calculations showed that the funding position of the Plan had deteriorated further, and following discussions between the Trustee and Nortel Networks UK Limited it was agreed that payments totalling £59 million would be paid in September 2003 to meet the cost of accruing benefits in the year to 5 April 2004 and to strengthen the Plan's funding position. A further interim review has been undertaken as at 5 April 2004, and discussions are currently taking place between the Trustee and Nortel Networks UK Limited regarding the level of contribution to be paid.

The Schedule of Contributions dated 10 February 2003 continues to satisfy the statutory Minimum Funding Requirement.

The next formal actuarial valuation is due to be made as at 5 April 2005.



D C Harrison
Partner
Watson Wyatt LLP
July 2004

