

NORTEL NETWORKS UK PENSION PLAN

Trustee Report and Accounts

**For The Year Ended
5 April 2005**

NORTEL NETWORKS UK PENSION PLAN

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TRUSTEE BOARD AND COMMITTEES

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

Trustee	W.K. Gardener (Chairman)	Independent
Board	BESTrustees plc	Independent
Directors	L. Abraham (Mrs)	Member Nominated (to 13.04.2005)
	N. Bowles (Mrs)	Member Nominated (from 13.04.2005)
	L. Evans (Mrs)	Member Nominated (to 31.12.2004)
	K. Foster (Mrs)	Employer Nominated
	J.W. Hern	Member Nominated
	I.J. Morgan	Employer Nominated
	P. Newcombe	Employer Nominated
	M. Pahapill (Mrs)	Employer Nominated (to 01.08.2004)
	M. Stone	Employer Nominated (from 01.08.2004 to 31.12.2004)
	M. Wilson (Ms)	Member Nominated (from 13.04.2005)
	H. Mehta	Employer Nominated (from 01.09.2005)
Secretary	D. Geneen (Mrs)	(to 22.08.2004)
	J. Dias	(from 23.08.2004)
	L. Hammond	(from 01.07.2005)

Investments Committee

W.K. Gardener	Chairman	
L. Abraham (Mrs)		(to 13.04.2005)
BESTrustees plc		
M. Pahapill (Mrs)		(to 01.08.2004)
M. Wilson (Ms)		(from 13.04.2005)
D. Geneen (Mrs)	Secretary	(to 31.08.2004)
J. Gandhi	Secretary	(from 01.09.2004 to 30.06.2005)
L. Hammond	Secretary	(from 01.07.2005)

In addition, the following Company Executives are invited to attend Trustee and Investment Committee meetings:

G. Pugh	Controller, Europe Nortel Networks UK Ltd.
J. Poos	Global Head of Pensions, Nortel Canada

Administration Discretions and Benefits Committee (ADB) formerly known as the Committee of Management

Directors, Nortel Networks UK Pension Trust Limited		
I.J. Morgan	Chairman	
L. Abraham (Mrs)		(to 13.04.2005)
BESTrustees plc		
L. Evans (Mrs)		(to 31.12.2004)
N. Bowles (Mrs)		(from 13.04.2005)

Company Representatives		
G. Staunton		
H. Mehta		

Elected from Consultative Committee		
M. Wilson (Ms)		(to 13.04.2005)
R. Fowell		(from 13.04.2005)
Secretary	D. Frame	(to 31.07.2005)
	L. Hammond	(from 01.08.2005)

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Discretions sub-Committee

	L. Evans (Mrs)	(to 31.12.2004)
	BESTrustees plc	
	G. Staunton	
	N. Bowles (Mrs)	(from 13.04.2005)
Secretary	D. Frame	(to 31.07.2005)
	L. Hammond	(from 01.08.2005)

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PROFESSIONAL ADVISERS

Plan Actuary	Daniel Harrison of Watson Wyatt LLP
Auditors	Grant Thornton to 30.06.2004 Grant Thornton UK LLP from 01.07.2004
Solicitors	Lovells to 27.06.2005 Pinsent Masons from 28.06.2005
Investment Consultant	Mercer Investment Consulting
Investment Managers	Bank of Ireland Asset Management (UK) Limited Barclays Global Investors Limited Schroder Investment Management (UK) Limited Fidelity Investments Capital International from 01.08.2004 UBS Global Asset Management from 01.08.2004 Western Asset Management from 01.08.2004 Hendersons to 15.07.2004
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 Address for Enquiries, Trustee and Registered Office	Nortel Networks UK Pension Trust Limited Maidenhead Office Park Westacott Way Maidenhead Berkshire SG6 3QH Website: www.nortelpensions.com Tel No: 01628 432403
UK Pensions Manager and Secretary to the Trustee	L. Hammond BA (Hons) APMI (from 01.07.2005) D. Geneen LLB, APMI (to 22.08.2004) J. Dias (from 23.08.2004 to 30.06.2005)
Third Party Administrator from 01.08.2005	Nortel Networks UK Pension Plan c/o Watson Wyatt Limited PO Box 545 Redhill Surrey RH1 1YX Tel: 01707 607601 Fax: 01707 607563 Email: nortel.networks@eu.watsonwyatt.com

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BIOGRAPHIES OF THE DIRECTORS OF NORTEL NETWORKS UK PENSION TRUST LIMITED

W. KENNETH GARDENER: 78
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 Biwater Limited and Chairman of Bournemouth & West Hampshire Water Company. 1991-1998 ICL Director. Currently Senior Advisor 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. 1991-2003 Chairman of Telemetrix 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. A graduate and Chartered Accountant.

**BESTrustees plc (represented
by Clive M. Gilchrist) 54**



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 eleven 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.

NORMA BOWLES: 59
Plan Member

Retired from Nortel Networks on 31 December 2002. Worked in the Nortel Pensions Department for 14 years including 6 years as Pensions Administration Manager. Retained her interest in pensions by working part time in the industry in 2004. Elected to the Consultative Committee in 2003 and appointed Director of Nortel Networks UK Pension Trust in April 2005. Has recently attended a Trustee training course and intends sitting for the Trustee Certificate of Essential Pensions Knowledge in October 2005.

KATHY FOSTER: 49
Plan Member

Director of Compensation & 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 Compensation & Benefits delivery throughout EMEA. 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.

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BIOGRAPHIES OF THE DIRECTORS OF NORTEL NETWORKS UK PENSION TRUST LIMITED (CONTINUED)

J. WILLIAM HERN:
Plan Member



35 Has been with Nortel since 1992, when he joined the Research & Development wing of the company (which was known as Bell Northern Research at the time). Since 1992, he has served in a number of technical and managerial capacities within the company, and worked in places as diverse as Canada, China and Turkey. Currently works for the Maidenhead Regional Technical Centre, as a network architect on the Voice-over-IP (VoIP) side of the business. He is a deferred member of the UK Pension Plan, having opted to switch-over to the Defined Contribution scheme in 2000.

IAIN J. MORGAN:
Plan Member



58 Retired from Nortel Networks in 2004 after 16 years service in various positions within the Treasury Function. Began his career as a solicitor in the City of London and subsequently spent 10 years as an investment banker. Holds an LLB (Hons) from the University of Edinburgh and an LLM from the University of Virginia. Appointed Director of Nortel Networks UK Pension Trust Limited on 1 March 2002 and subsequently re-appointed 1 May 2004 following resignation upon his retirement. Holder of Trustee Certificate of Essential Pensions Knowledge.

HITESH MEHTA:
Plan Member

37 Director in Nortel's Corporate Strategy and Development organisation since early 2005. Joined the Company in 1998, into the Corporate Development team based in London and was transferred in 1999 to the company's offices in Boston USA. On his return to the UK in 2002, Hitesh led Business Operations for the president of Nortel, EMEA and subsequently joined the Vodafone Global Account team as Commercial Director in early 2004. Holds a BSc(Hons) in Economics and is a Chartered Accountant.

S. PETER NEWCOMBE:
Plan Member

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

MAGGIE WILSON:
Plan Member

58 Joined ICL in 1974 and left in 1988 after thirteen years service (with a deferred pension from the STC plan). Held various positions in Sales Support for three years and then in Human Resources for ten years including roles as UK Resourcing Manager, Personnel Manager International Trade Division, and UK Remuneration Manager.

Joined Chloride Group plc as Group Compensation Manager in 1988 and was appointed as Director of Personnel for the Group

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in 1991, leaving in 1996. During this time was Trustee and member of the Investment Committee for the Chloride UK Pension Scheme and had close involvement in the Group's US pension plans.

Since 1996 has worked as an Interim HR Director and Consultant completing project assignments in a number of organisations including at Bass plc, Standard Life, Winterthur Life, Elementis plc and FujiFilm.

Graduate of the University of Edinburgh with an MA (Hons) in Economics (1969).

Elected to the Consultative Committee by fellow pensioners in April 2002, and was re-elected in April 2005. Served on the ADB Committee from November 2002 until 2005. Appointed Director of Nortel Networks UK Pension Trust in April 2005. Has recently attended a Trustee Training course and intends sitting for the Trustee Certificate on Essential Pension Knowledge in October 2005.

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REPORT OF THE TRUSTEE BOARD

The Trustee Board has pleasure in presenting the Report and Accounts of the Nortel Networks UK Pension Plan for the year ended 5 April 2005. The Report also covers any material changes since that date until 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 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 that section 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 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 profits of the Plan. The Trustee knows of no reason why this approval may be prejudiced or withdrawn.

MANAGEMENT OF THE PLAN

The Nortel Networks UK Pension Plan is set up under a Trust which ensures that the assets are kept separate from the finances of the Principal Company, Nortel Networks UK Limited and other Participating Companies. The 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 all the members, in accordance with the Trust Deed and Rules of the Plan and with applicable legislation.

DIRECTORS OF THE TRUSTEE BOARD

The names of the Directors are set out on page 3, followed by a brief biography on pages 6 to 8. 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.

A nominated Director is appointed for a three year period and is eligible for re election.

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MEMBER NOMINATED TRUSTEES

Following consultations in August 1997, contributing and retired members confirmed Nortel'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.

TRUSTEE'S 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 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 participating employers and the active members of the Plan and the dates on or before which such contributions are to be paid. The Trustee is also responsible for keeping records in respect of contributions received in respect of any active member of the Plan and for procuring that contributions are made to the Plan in accordance with the Schedule of Contributions.

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.

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

INVESTMENTS COMMITTEE

Membership of the Investments Committee is shown on page 3.

This Committee was established under Trustee authority to monitor and report on the performance of the Investment Managers and makes recommendations to the Trustee. It is a sub committee of the Trustee Board.

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ADMINISTRATION DISCRETIONS AND BENEFITS COMMITTEE (ADB)

Membership of the ADB Committee is shown on Page 3.

This Committee, appointed by the Trustee Board, comprises Directors of the Trustee Board, an elected member 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 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.

TRUSTEE TRAINING

The following Trustee Directors undertook formal training during the Plan year April 2004 to April 2005:

W.K. Gardener	NAPF In depth PMI Trustee Certificate
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In addition, training at the following Companies:

Barclays Global Investors
Barnet Waddingham
Bank of Ireland Asset Management
Goldman Sachs
Schroders
UBS
Mercer
PricewaterhouseCoopers
Law Debenture
Henderson
Watson Wyatt
KPMG
Russells

L.A. Abraham	NAPF Fund Management & Performance
L. Evans	PMI Managing Pension Schemes Seminar Fidelity Investments Conference NAPF In depth PMI Trustee Certificate
K. Foster	NAPF Trustee introduction
S. K. Thomson	NAPF Trustee introduction
J.W. Hern	Mercers Basic Pensions Knowledge

PRINCIPAL AND PARTICIPATING COMPANIES

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

Clarify Limited (UK) Clarify Court, London Road, Reading, Berks. RG6 1BW	Contracted-in (DC) - Reg. No. 2990502
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Nortel Networks UK Pension Trust Limited Maidenhead Office Park, Westacott Way, Maidenhead, Berkshire, SL6 3QH	ECON: 3039400J - Reg. No. 2091890
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PRINCIPAL AND PARTICIPATING COMPANIES

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 are in the DC section which is contracted-in.

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

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REPORT ON DEFINED BENEFITS SECTION

DEVELOPMENTS

Details of the membership and the movements during the year are shown on the following pages.

A Funding Update of the Plan was undertaken as at 5 April 2004. Results were made available to the Trustee in September 2004 for discussion.

A triennial valuation as at 5 April 2005 is currently being undertaken by the Actuary. The initial results of this will be available for discussion by the Trustee at the September 2005 meeting.

The most recent Actuarial Statement by the Plan actuary is as at 5 April 2004.

Total value of investments and net assets increased in the year. (See the investment reports for further information).

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

CHANGES TO THE BENEFIT STRUCTURE

There was no change to the defined benefit structure during the Plan year.

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Membership movements

	2005	2004
Contributing members		
As at 6 April 2004	1,797	1,953
Add: New entrants	<u>1</u>	<u>4</u>
	1,798	1,957
Less: Retirements		
Normal pension age	(1)	(1)
Early	(60)	(11)
Late	(1)	(2)
Ill Health	<u>(2)</u>	<u>(1)</u>
	(64)	(15)
Other		
Deferreds	(301)	(144)
Deaths in service	(4)	(1)
As at 5 April 2005	1,429	1,797

Deferred members

As at 6 April 2004	14,562	15,002
Add: New deferred	301	144
Re-instated	<u>19</u>	32
	320	176
Less: Retirement	(361)	(395)
Deaths	(24)	(53)
Transfers out	(56)	(135)
Full commutation	<u>(28)</u>	(33)
	(469)	(616)
As at 5 April 2005	14,413	14,562

EPB and Q only	11,354	11,967
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As at 6 April 2004

Less:	Retirement	(48)	(28)
	Deaths	(142)	(59)
	Transfers out	(20)	(18)
	Full commutation	<u>(685)</u>	(508)
		(895)	(613)

As at 5 April 2005 **10,459** **11,354**

Pensioners

As at 6 April 2004 15,146 15,336

Add: New pensioners 473 438

Less: Pensioner deaths and cessations (626) (628)

As at 5 April 2005 **14,993** **15,146**

Dependents

As at 6 April 2004 5,591 5,590

Add: New dependents 351 326

Less: Dependent deaths and cessations (301) (325)

As at 5 April 2005 **5,641** **5,591**

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INVESTMENT REPORT

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 Company and professional advice. The Statement of Investment Principles was reviewed in September 2004. A copy is available on request from the Pensions Department whose address and telephone number is shown on page 5.

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.

MANAGEMENT

The Trustee has ultimate responsibility for investing the entire assets of the Plan. It has appointed an Investments 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 Company 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.

The investments which make up the investment portfolio are managed by the seven Investment Managers listed on page 5. The Global Custodian who holds the assets comprising the portfolios is also shown on page 5.

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 0.2%.

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ASSET ALLOCATION POLICY

Purpose

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 Company on this Benchmark, a requirement of the Pensions Act 1995.

Changes

The Trustees carried out a review of their investment strategy and as a result on 15th July 2004, Henderson was released and in August 2004 three new Managers were appointed. Capital International was appointed to manage a Global Equity portfolio followed by UBS and Western Asset Management to manage active bond portfolios.

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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 former employees rather than current employees, and that in aggregate assets need to be realised to meet benefit payments, the Trustee has adopted fixed asset proportions as a long term policy Benchmark. The investment return of the Plan's assets is measured against this Benchmark.

The Trustee does not wish in any way to fetter the full discretion of each Manager as regards day to day tactical investment decisions, but requires that Managers should work within the Benchmark proportions and ranges set out below as a long term policy. BGI is the balancing manager for the fund.

Assets	Actual As at 5 April 2005 %	Benchmark As at 5 April 2005 %	Range %
Equities			52.5% - 57.5%
UK Equities	28.2	27.5	
Overseas Equities			
North America	9.8	9.2	
Europe	8.8	9.2	
Japan	4.3	5.5	
Pacific	3.2	3.6	
Other Intl	0.5		
Bonds			42.5% - 47.5%
UK Bonds	23.6	25	
Corporate Bonds	17.6	20	
Overseas Bonds	2.1		
Cash	1.9		
	100.0	100.0	

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

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

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.

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INVESTMENT MANAGERS AND CUSTODY OF ASSETS

All 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.

	Bank of Ireland	BGI	Capital	Fidelity	UBS	Schroders	Western
Date Established	1966	1982	1962	1946	1952	1947	1971
Number of Pension Fund Clients (Equivalent briefs)	340	793	616	61	Not disclosed	30	51
	<u>£million</u>	<u>£million</u>	<u>£million</u>	<u>£million</u>	<u>£million</u>	<u>£million</u>	<u>£million</u>
Total Pension Funds Assets Under Management	17,444	88,962	94,441	43,100	33,537	26,769	11,442
Largest Fund	1,502	11,744	2,211	1,044	Not disclosed	956	1,094
Smallest Fund	1	1	50	0.1	Not disclosed	0.1	52
Fund Value 05-Apr-05	110	473	108	145	207	162	210

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

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INVESTMENT MANAGERS AND CUSTODY OF ASSETS (continued)

At 5 April 2005 the top ten equity investments by market value were:

Top Ten Investments at 5 April 2005	Value in £Millions	% UK Equity	% Total Security
1. Vodafone Group	23.4	7.9	1.7
2. BP	19.8	6.7	1.4
3. HSBC	15.9	5.4	1.2
4. Shell	15.6	5.3	1.1
5. Glaxo Smithkline	14.5	4.9	1.0
6. Royal Bank Scotland Group	9.0	3.0	0.7
7. Astrazeneca	8.1	2.7	0.6
8. BG Group	5.9	2.0	0.4
9. Standard Chartered	5.7	1.9	0.4
10. Barclays	5.2	1.8	0.3
	123.1	41.6	8.8

If you require further information about the Plan's investments, please contact the Pensions Department whose address and telephone number is shown on page 5.

At 5 April 2005, there were no holdings in which the Pension 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 bond, equity and unit holdings are divided between the Investment Managers listed on page 5.

Manager	Mandate	Portfolio value	Portfolio value
		as at at 5 April 2005 (£m)	as at at 5 April 2004 (£m)
Barclays Global Investors Ltd	Passive	473.3	643.2
Hendersons Investors Ltd	Fixed Interest	-	319.3
Bank of Ireland Asset Management (UK) Ltd	Overseas Equity	107.1	108.4
Schroder Investment Management (UK) Ltd	UK Equity	153.8	138.6
Fidelity Investments	UK Equity	143.2	132.3
UBS Global Asset Management	Fixed Interest	201.2	-
Western Asset Management	Fixed Interest	206.9	-
Capital International	Overseas Equity	106.9	-
		1,392.4 *	1,341.8 *

*Excludes Cash

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INVESTMENT PERFORMANCE

The Trustee retains the WM Company to measure and compare the performance of the investment portfolio against those of approximately 1200 other Pension Funds, representing assets of £97.5 billion at the end of 2004, which is circa 10% of all UK pension fund assets.

When compared with the WM universe of funds the Nortel Networks Plan was in the top 10%-15% of Pension Plan performance in each of the performance years over 1 year, 3 years, 5 years and 10 years.

Fund Performance relative to the WM Universe

	1 year to 31/3/2005 or since inception		3 years to 31/03/2005 or since inception		5 years to 31/03/2005 or since inception	
	Actual %	Benchmark %	Actual %	Benchmark %	Actual %	Benchmark %
Barclays Global Investors	8.8	8.9	4.7	4.0	1.0	0.7
Fidelity Investments (From (1/7/2002)	13.5	15.6	6.2	6.6		
Schroder Investment Management*	17.0	15.6	4.5	2.0	1.9	-1.7
Bank of Ireland Asset Management	3.9	8.3	-3.2	0.0	-0.4	-4.2
Capital International*	10.7	11.9				
UBS Global Asset Management*	7.2	6.8				
Western Asset Management*	7.7	6.8				
WM Corporate Universe ex Property	10.8		2.3		-0.6	
Plan Return	8.8	9.0	3.6	3.3	0.8	0.5

* Since 1 August 2004

On the following pages are the individual Investment Manager reports. They have been invited to report on market characteristics and performance of funds under investment.

NORTEL NETWORKS UK PENSION PLAN

INDIVIDUAL INVESTMENT MANAGER REPORTS

Barclays Global Investors Ltd (Passive Manager all asset classes)

Market Background

The world economy grew at its fastest in 2004 since 1976. Emerging markets such as China, India and Latin America drove much of the very strong growth, although the developed economies of the US, Japan and the UK also grew strongly.

The UK stock market was one of the better performers of 2004 despite a strong pound, rising interest rates and fears of a sharp correction in the UK housing market. The Bank of England raised interest rates three times during the year to curb consumer spending making investors wary of the UK consumer sectors. However, as net oil producer and with two large oil companies in the stock market, the UK market has been better placed than many during a period of higher oil prices.

For most of the year, the performance of US equities was relatively disappointing with heated political debate over the conduct of the war on terrorism against the backdrop of the Presidential election dampening sentiment somewhat. Data from the US labour market, as well as industrial production figures, indicated that the speed of the economic recovery might be slower than previously thought. The era of tax cuts and low interest rates that boosted consumer spending was coming to an end, regardless of the outcome of the Presidential election and perhaps not surprisingly, retail sales growth slowed. A decisive result to the presidential election removed a significant source of uncertainty for the stock markets and the balance of economic news turned more positive towards the end of the year, suggesting that the slowdown in the US economy was stabilising. At the end of 2004, US equities were at their highest level since the summer of 2001, before the terrorist attacks in September of that year.

European equities participated in the global equity bounce at the end of 2004 although parts of the European economy, most notably Germany, remain stubbornly depressed. Domestic economic demand remains weak with continental European consumers saving heavily rather than spending. This leaves Europe's economy dependent on exports, but as the important US export market cools (and the euro remains strong, especially relative to the US dollar) this could end the economic recovery. Europe's long-term problems remain: unfavourable demographics, low productivity growth, high unemployment and inflexible markets. Supply-side reforms to encourage job creation are slowly being pursued in countries such as Germany and Italy. However, they will take years to take effect and in the short term could make consumers more reluctant to spend.

Japan started the year by far the best performing of all the developed world equity markets. But as the recovery in Japan's domestic demand - a critical condition for Japan's long-term recovery - seemed to be waning, Japan's recovery was left reliant on export demand. Japan has been a major beneficiary of the investment boom in China, through surging sales of Japanese machine tools, in turn stimulating other parts of the Japanese economy. But as the Chinese authorities tried to restrain the country's rampant growth, investors became increasingly concerned that the Chinese investment boom would turn to bust and this, coupled with a slowdown in the US, meant that the outlook for Japanese profits was looking less attractive. The stabilisation of the US slowdown later in the year provided some relief for Japanese exporters, which make up a large proportion of the Japanese stock market. Strong growth in the Asia-Pacific region continued into 2004 due largely to strong performances from the Australian and New Zealand equity markets. China has been a major source of export growth for many countries in the region and during the year there was some concern that the Chinese authorities would slow the economy too aggressively. However, sentiment soon improved and with the IMF forecasting Chinese real GDP to grow 7.5% in 2005, investors remain convinced about the long-run growth story for China. This dominates investors' attitudes to the region as a whole, with equity markets in Hong Kong and Singapore sharing in the improved sentiment.

NORTEL NETWORKS UK PENSION PLAN

Defined Benefit (DB) Section

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 UK government bonds (gilts). 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.

Defined Contribution (DC) Section

The ongoing disinvestment from the defined contribution section was completed during the first quarter of 2005.

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

Equity Background

Despite some notable headwinds, major equity markets produced positive local currency returns for the twelve months under review, although there was a considerable divergence in performance from market to market. The broad trend of economic data was generally upbeat in most major economies but as the year progressed market volatility increased as the price of oil trended sharply upwards to reach record highs, prompting concerns about whether the pace of economic growth could be maintained going forward. Indeed, the price of oil and its inverse relationship with stock market performance was the dominant influence on market sentiment over the review period. Each time the oil price surged, most equity markets tended to go into reverse but resumed their upwards trajectory as the price eased.

During the period, economic data maintained a generally positive trend, notwithstanding some weakness during the summer months – characterised as a 'soft patch' by the US Federal Reserve. However, this did not deter the central bank from embarking on an interest tightening cycle in June and rates were raised by twenty-five basis points at seven successive meetings of the Federal Open Market Committee. Subdued growth in Europe and the emerging stream of weak economic data in Japan resulted in the central banks maintaining rates at 2% and 0% respectively.

Global corporate profits over the period enjoyed a significant recovery and company earnings tended to exceed analysts' forecasts. Positive revisions to profit forecast dominated in all regions in 2004 highlighting the broad-based nature of the global expansion and improvement in corporate profitability over the year. This global trend of upward revisions to profit forecasts is supported by the very strong trend in actual profit growth. Earnings per share growth rose 26% in 2004, the highest pace in real terms in over 30 years for global equity markets. However, towards the end of the period, there was mounting evidence that growth in corporate profits has peaked.

The S&P 500 index of America's largest corporations advanced 4.5% in local currency terms but a modest 1.1% in sterling terms as the continued weakness of the US dollar once again removed some of the lustre for non-US investors. The FTSE World Europe (ex UK) index returned 15.5%. The Topix gained a modest 0.4% in local currency terms but yen weakness resulted in a fall of 5.8% for sterling-based investors. Meanwhile the Pacific region's stock markets, as measured by the FTSE World Pacific Basin (ex Japan) index, rose 12.3% over the year.

Investment Activities

For much of the period under review our investment thesis centered around our expectation that the preference for high-beta, low-quality and small-cap stocks would begin to reverse and, for a short period, this came to pass. It emerged however, that the lure of riskier assets hadn't been exhausted and commodity, technology and small cap stocks bounced following the re-election of President George Bush in early November.

NORTEL NETWORKS UK PENSION PLAN

Against this background, we found our investment style and approach to be largely out of favour, particularly in Q4 2004, as we opted to maintain positions in high quality, large-cap, attractively valued companies, judging these to be the best long term opportunities.

A number of stock specific issues also impacted portfolio performance however. **FNMA** fell sharply, 32.6%, following the Office of Federal Housing Enterprise Oversight's enquiry, which found Fannie Mae had used improper accounting reserves and deferred expenses to stabilise reported earnings. **Sysco**, North America's largest foodservice marketer and distributor dropped 8.2% on a weaker than expected increase in quarterly profits.

This was largely as a result of higher input costs. Meanwhile **Gannett** retreated 16% as America's largest newspaper publisher faced a slowdown in the pace of advertising revenue growth.

On a more positive note some of the key contributors to absolute portfolio performance were **Altria** which gained 13.7% as the litigation environment improved, investors focused on the prospect of break up of the company and towards the end of the period, the company planned to buy HM Sampoerna, Indonesia's third largest cigarette maker. **Johnson & Johnson** soared 29.6%, boosted by excellent results and the announcement of the acquisition of Guidant for more than \$25 billion – the company's largest acquisition in its history. Meanwhile oil companies **ENI** and **Total** benefited from oil price strength, rising 25% and 22% respectively.

Fidelity Investments (UK Equities)

The UK stock market outperformed most other major exchanges over the year amid general optimism about corporate earnings. Concerns over an economic slowdown and high oil prices led to some profit-taking in the first half of the period, but improved expectations in the second half sparked renewed rallies. Consumer spending was the main factor behind the recovery. It benefited from historically low unemployment. The Bank of England raised interest rates three times during the period in order to head off potential threats from inflation. The base rate stood at 4.75% at the end of March.

The Plan's holdings in the oil/gas and mining sectors boosted performance, as shares gained on the back of higher oil and commodity prices. Good stock selection amongst mining shares meant the portfolio benefited from its lack of exposure to sector heavyweight Anglo American, whilst its overweight stance in BHP Billiton boosted returns. The portfolio was also aided by its overweight position in Hilton Group, whose shares benefited from both a cyclical recovery in hotel-room occupancy rates and from the strength of earnings at its Ladbroke's subsidiary. However, the fund's exposure to food/drug retailers detracted from returns, particularly in Morrison (Wm) Supermarkets, as investors worried about poor sales growth and the ability of its management to successfully integrate Safeway. Elsewhere, an overweight position in AstraZeneca throughout the period detracted from fund returns after it suffered setbacks due to negative news regarding several of its drugs.

The fund manager maintained the portfolio's overweight sector positions in media/entertainment and leisure/hotels. He continued to believe that cyclical services companies would benefit from increased government and corporate spending. The portfolio's underweight stance in oil/gas was switched to overweight mainly through an investment in BG Group, which the manager liked because of the company's strong earnings-growth potential. Banks remained the fund's most underweight position, as the manager remained concerned about the high levels of UK consumer debt. The portfolio continued to have no exposure to HBOS or Lloyds TSB. The manager preferred banks, such as Standard Chartered, that were less exposed to the UK.

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

Market Review

It has been another good period for financial assets, as equity markets ended the period higher, building on last year's strong gains. Evidence of an ongoing recovery in many of the world's major economies and stronger corporate results and profitability has encouraged investors. However, as attention turned to the prospect of further US interest rate rises and the renewed strength in the price of oil, investors' appetite for risk began to weaken.

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The UK equity market produced attractive total returns as corporate profits improved. Confidence in the sustainability of economic growth waxed and waned as it became apparent that companies had to contend with new challenges, especially higher oil and commodity prices which could hurt their profitability. However, many companies signalled confidence in their future prospects by raising dividends by a larger than anticipated amount and a marked pick-up in merger and acquisition activity towards the end of the period boosted sentiment.

Portfolio Performance

The portfolio rose strongly in the 12 months to 31 March 2005 with a return of +17% and outperformed the benchmark, which rose +15.6%. In three years, the portfolio returned +4.5% p.a. against the +2.0% p.a. benchmark return, and in the five years the portfolio and benchmark returned +1.9% p.a. and -1.7% p.a. respectively.

Over twelve months, contributions to performance came from a wide range of sectors with the best performing stocks benefiting from successful execution of internal change or recognition of attractive assets and Outlook and Policy

The range of individual company valuations across the market is unusually compressed - a sign that investors are not differentiating significantly between the future growth prospects of companies and the risks associated with these. In particular, valuations imply a widespread expectation that potentially vulnerable interest rate-sensitive or consumer-related areas will prove quite resilient. We are more mindful of the risks they face and believe that their stock prices are generous in light of these. It is striking that factors that have previously concerned investors – for instance, high and rising oil and commodity prices – have recently prompted few worries, whilst investors have also taken early signs of rising repayment arrears in the banking sector in their stride.

It is not necessary to have a very gloomy view of the world to believe that this perception of risk could change. The worst fears may not be realised but the recognition that problems could exist should alter the price investors are prepared to pay for some stocks. We expect this to lead to greater differentiation of valuations within the market and we remain comfortable with underweight positions in banking, real estate and house builders which we think could suffer in this environment.

Conversely, however, we believe that some interesting investment opportunities have been overlooked and now look attractively valued given their future earnings prospects. Excitement about potential merger and acquisition activity has meant that a number of larger companies, unlikely to be bid targets on account of their size, have received little attention. Moreover, attractive future growth has sometimes not commanded the premium it should given investors' recent emphasis on short term earnings visibility and high current yields.

Vodafone is a good example of a stock with attractive qualities; a good franchise and a highly cash-generative business with little debt and good future sales and earnings prospects. At the time of purchase the stock was selling in line with others with less attractive future growth potential and greater liabilities. In general, we have continued to find more interesting opportunities among larger companies which now offer better value than smaller sized ones.

UBS Global Asset Management (Active Bond Mandate)

As 2004 progressed, the global economy faced a number of new challenges, most notably the conflict in Iraq, rising commodity prices and the depreciation of the US dollar. Oil prices rose by around 45% in real terms as stronger global growth increased demand at a time of supply trouble related to the conflict in Iraq. However, despite higher oil prices, global inflation remained subdued and profits growth has been strong. As global growth increased to an above trend pace, Central Banks began to raise interest rates again. There are now signs that this renewed tightening, together with higher oil prices, may be having an effect, and that global growth may be slowing to more trend-like rates.

The UK economy has performed relatively well over the past few years, and is now growing at an above trend rate of around 3%. The Bank of England was the first major central bank to raise interest rates, reflecting the relatively limited spare capacity in the UK economy. However, low interest rates have encouraged the private sector to borrow heavily and the resulting high levels of indebtedness may make the economy more sensitive to rising interest rates. There are already clear signs that higher interest rates have led to a reduction in housing market activity and personal sector borrowing.

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Market Returns

Bond markets also performed well in general although an appreciation of the UK pound meant that the returns to UK investors in overseas bonds were sometimes negative. Conventional gilts returned +5.9% and index linked gilts returned +5.9%. In overseas markets, German bonds returned +10.4%, US bonds -1.0%, and Japanese bonds -4.1%.

Investment Activity

In August 2004 £199.5m of UK fixed interest assets were transferred into the fund and we commenced management.

We started our management with your fund positioned for falling yields in the UK. Investors quickly reassessed their expectations regarding interest rates, which prompted a fall in bond yields. We considered that yields had fallen too far in the near term and so positioned the fund for rising yields. We increased the size of this position three times over the next few months. As yields started to rise from their lows in early February we reduced the size of this position.

Over the course of the period we initially held some euro-denominated bonds. This exposure was subsequently reduced and finally eliminated following the euro's appreciation against sterling. We continued to believe that sterling was overvalued relative to the yen and US dollar, and so took exposure to Japanese and US bonds on an unhedged basis in anticipation of a weakening in sterling against these currencies. Towards the end of the period we added a further exposure to the Singapore dollar.

The Fund had a neutral allocation to corporate bonds for most of the period. Whilst the yield difference between corporate and government bonds was low by historical standards, we believed that demand for corporate bonds would remain strong. Towards the end of the period we increased the credit quality of the corporate bonds held and reduced the exposure to longer dated bonds, which in our view were expensive.

Performance

Your Fund returned 7.2% for the period from 3 August 2004 to 31 March 2005 compared with the benchmark return for the period of 6.8%.

Capital International (International Equities)

Global equity markets were hit by geographical events and a surge in oil prices, but ended the year up 6.6%. At its peak, the price of oil rose above US\$57 per barrel and was up 60% over the reporting period. Other factors included the continuing conflict in Iraq and fears of a rapid deceleration in Chinese growth. Currency movements were notable as burgeoning fiscal and trade deficits in the US put the dollar under pressure, although the US dollar experienced a slight rally during the first three months of 2005.

Energy was the strongest performing sector, boosted by increasing oil prices. The utilities sector also performed well, with investors attracted to these stocks for their defensive characteristics of stable earnings and solid dividend yields. Cyclical consumer goods and information technology stocks were weak. Investors questioned the sustainability of component and product demand, which dragged technology lower. Within non-cyclical consumer goods, pharmaceutical companies were hurt by concerns about patent expiries, generic competition, drug safety and possible changes to US health care policies.

Emerging markets outperformed developed markets. On a regional basis, equity markets in Latin America, Eastern Europe, the Middle East and Africa had better results than the benchmark, but Asia lagged. Financials, consumer staples, energy and industrials outpaced the broad market and technology and health care were the weakest sectors. Corporate profits were robust in many markets and industries, fuelling the stock rally.

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Investment Activities

Since inception in July 2004, the portfolio returned 10.7%, underperforming the 11.9% returned by the composite benchmark. During the reporting period, the benchmark changed at the request of the Trustee to incorporate emerging markets stocks.

Within the non-cyclical consumer goods sector, the overweight position and selection of pharmaceuticals and biotechnology companies detracted from relative returns. Shares of pharmaceutical companies have declined over the reporting period, against the backdrop of a very difficult climate. Forest Labs was the largest detractor to relative returns, hit by concerns including its anti-depressant Celexa going off patent and the earlier-than-expected approval of generic competitors to the drug. However, Forest has made significant progress in moving patients from Celexa to its newer anti-depressant, Lexapro. The underweight positions in health and tobacco stocks also proved negative for returns.

Western Asset Management Company Limited (Bond Mandate)

The year to the end of March 2005 was positive for bond markets and for the Nortel Networks UK Pension Plan portfolio relative to its respective benchmark of $\frac{2}{3}$ rds UK Non-gilts and $\frac{1}{3}$ rd Gilts.

By the start of the period, The Bank of England had already entered into a tightening phase, steadily taking the base rate up from the low of 3.5%. By the second quarter of 2004, however, the market had become too pessimistic, in our view, as to the extent of this tightening. Rate expectations as expressed by the futures markets had rates rising to nearly 6% by the end of 2005.

We took advantage of this overdone pessimism by going back overweight portfolio duration – the extent to which the portfolio is positioned to benefit from rising or falling rates. As the market's expectation of rate rises was rapidly cut back in the summer, this was a strong positive for performance.

The path of interest rates, or yield curve, in the UK remains very flat, meaning that an investor gets a similar (often lower) rate of interest for investing in a 30 year Gilt than, for example a 10 year Gilt.

Therefore a long-term theme at Western Asset has been to underweight longer-dated UK Gilts in favour of either shorter maturity Gilts or longer-dated overseas government bonds hedged back to sterling, notably US treasuries and eurozone government bonds. Both strategies added to relative performance.

Corporate bonds have been a positive for performance, although valuations in some sectors of the market have begun to look expensive. We have sought our UK non-government exposure in the financial sector, favouring strong regional bank franchises and in the asset-backed sector. Asset-backed bonds are securitised loans, such as property deals, pub securitisations and sale and leasebacks. Due to this the portfolio has been overweight the A and AA rated sectors, particularly at the expense of AAA-rated, low yielding supranational bonds such as the World Bank and EIB.

Opportunistically we have been holding some inflation-protected bonds, but not in the UK, which like the nominal market is very expensive. The Canadian and Swedish markets have been our favoured allocations and these have benefited portfolio performance.

Small allocations, as permitted by the investment guidelines, to the below investment grade sectors – high yield and emerging market bonds – have been a useful, diversifying source of performance.

Currency positions have been taken as a hedge against a weaker UK economy, the portfolio holding some euro and yen exposure. In general, however, sterling has continued to be strong on the back of the economy and there has been a small cost of this insurance to the portfolio, detracting from overall performance.

Looking forward we will maintain our modest overweight duration, as rate rises remain muted. Liability matching requirements continue to produce a strong bid for long-dated bonds, but long-dated Gilts and index-linked Gilts remain expensive, so we maintain our underweight here into higher yielding opportunistic markets such as the US, Canada, the Eurozone and peripheral Europe.

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We continue to treat the corporate bond markets with caution, but still see value in financials and asset-backed, whilst the non-investment grade arena still compensates an investor on a risk adjusted basis, hence our small, diversified allocations to high yield and emerging market bonds. Currency policy is similarly unchanged, with a diversifying allocation into euros and Japanese yen.

NORTEL NETWORKS UK PENSION PLAN

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
- 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:

Historically members contributed to London Life. There is also just one member who was part of Unitel with AVC benefits, who has benefits with MGM.

Nationwide Building Society

There were 4 active contributors to the Building Society as at 5 April 2005 and 8 deferred members.

Winterthur Life Assurance

The funds listed below have been made available to all active and deferred members. There are 13 funds available to members and the number of active and deferred accounts are as follows:

	Active	Deferred
• Cash	7	15
• Fixed Interest	12	24
• BGI Global Equity Tracker	20	24
• BGI UK Equity Tracker	14	22
• Winterthur Life with Profits	4	8
• Deutsche Managed	10	14
• Threadneedle European	6	14
• Threadneedle Property	10	20
• Fidelity American	7	22
• Fidelity SE Asia	2	8
• Fidelity Special Situations	7	19
• Credit Suisse Fellowship Ethical	1	4
• Lifestyle	12	17
	<u>112</u>	<u>211</u>

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ADDITIONAL VOLUNTARY CONTRIBUTIONS (Continued)

Equitable Life

	<u>Active</u>	<u>Deferreds</u>
• With Profits	104	381
• Managed Funds	2	22
• Lifestyle	15	43
• Unit Linked	<u>26</u>	<u>92</u>
	<u>147</u>	<u>538</u>

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.

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

NORTEL NETWORKS UK PENSION PLAN

PENSION 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 2005 guaranteed pension increases in accordance with Plan Rules were given to pensioners. A pro rata payment was made for those who retired between 6 April 2004 and 5 March 2005. 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.

Pensions for Pre 6 April 1997 Service			Pensions for Post 6 April 1997 Service		
6 April	Annual Increases	RPI Increase December To December	6 April	Annual Increases	RPI Increase September To September
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%	1998	3.6%	3.6%
1999	3.0%	2.8%	1999	3.2%	3.2%
2000	1.8%	1.8%	2000	1.1%	1.1%
2001	2.9%	2.9%	2001	3.3%	3.3%
2002	0.7%	0.7%	2002	1.7%	1.7%
2003	2.9%	2.9%	2003	1.7%	1.7%
2004	2.8%	2.8%	2004	2.8%	2.8%
2005	3.0%	3.0%	2005	3.0%	3.0%

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

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

NORTEL NETWORKS UK PENSION PLAN

REPORT ON DEFINED CONTRIBUTION SECTION

DEVELOPMENTS

A Defined Contribution section was added to the Plan, which was offered to all new members from 1 July 2000 until 30 June 2003 when this section commenced wind up. All members were offered the opportunity to transfer to a Group Personal Pension with Prudential or an alternative pension of their choice.

Over the year benefits were transferred in respect of individuals and a final group of 96 members remained with benefits in the DC section. As no contact with these members was possible the Trustee agreed to close the DC accounts and allocate the funds to the DB section as quasi AVC funds with Winterthur Life.

The Trustee signed a Deed of Variation on 24th March 2005 having taken advice from the Investment Adviser the Actuary. The DC section administrators were instructed to close the cash and investment accounts and remit the remaining unallocated cash to the DB section. This amounted to £750,503.14.

At January 2004, there were 4013 members and over the period to 5th April 2005 the following activity took place:

	Number of Members
Full Commutation	2,114
Transfers to GPP	556
Transfer out	362
Forfeiture	885
Winterthur	96

The wind up of this section was completed on 31st March 2005.

NORTEL NETWORKS UK PENSION PLAN

INFORMATION TO MEMBERS

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.

In addition to 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.

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 a Benefit Statement for the year to 5 April 2005. This illustrated the benefits they had accrued to 5 April 2005 and also projected the benefits that would be payable assuming they stayed in service on the same pensionable salary until Normal Pension Date. The statement also incorporated a projection for State Pension Benefits.

COMMUNICATIONS

EMPLOYEES

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

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

Topics for the Plan year have included:

- Results of Actuarial Valuation
- Financial Updates from Chairman regarding Funding.

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

All deferred members have recently been sent a letter about the change in third party administrators.

PENSIONERS

Newslink has been issued to all pensioners (unless declined) quarterly, although this is being reviewed and provides a valuable medium for conveying updated information. Specific updates have covered:

- Consultative Committee elections
- pension increases
- announcement of new Trustee Directors
- financial updates from Chairman of the Trustee.

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WEBSITE

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

It contains copies of:-

- Statement of Investment Principles
- Summary Report & Accounts
- Chairman's Statements

STATEMENT OF INVESTMENT PRINCIPLES

The Statement was reviewed in September 2004. It covers the implications from the Myners Report and reflects the changes implemented as a result of the Asset Liability Study which was undertaken in 2003. The Statement of Investment Principles is 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 from the website (www.nortelpensions.com).

MYNERS REPORT

In 2001 the Government published its Principles which effectively endorsed the Myners Report "Institutional Investment in the UK – a review". Since that publication the Trustee has reviewed its practice and considered the extent to which it complies. Broadly speaking the Nortel Networks Plan was compliant. In a few areas it was felt greater clarity or emphasis should be given. Any action that has been 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.

The Trustee should assess whether it has the right set of skills, both individually and collectively.

To draw up a forward looking business plan.

Action

New Trustee Directors are encouraged to undertake initial training. All Members are encouraged to study for and sit the PMI Trustee Certificate (see Trustee Training).

All Trustee Directors are undertaking training and a register of training is being maintained.

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 will revisit benchmarks and consider appropriate risk criteria.

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STATUTORY REGISTRATION REFERENCES

- Statutory Registration**
- (i) *The Pensions Regulator* - The Plan is registered under Reference 10092331
 - (ii) *Data Protection Act 1998* - The Trustee is registered under Reference 70417191 (www.dpr.gov.uk)
 - (iii) *Contributions Agency* - The Plan is contracted-out under Reference 603534 - SCON S4004664B
 - (iv) *Inland Revenue Pension Schemes Office* - The Plan is registered under Reference SF14/21813

NORTEL NETWORKS UK PENSION PLAN

INTERNAL DISPUTES RESOLUTION PROCEDURE

A copy of the Internal Disputes Resolution Procedure is available from the website.

After contacting the Human Resources Department and/or Pensions Manager, any dispute which remains unresolved should be referred through the Internal Disputes Resolution Procedure to the Secretary to the ADB Committee in the first instance or to TPAS. Any disputes still unresolved following a decision by the ADB Committee 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 TPAS and then the Pensions Ombudsman as follows:

1. Pensions Advisory Service ("TPAS")

An independent voluntary organisation with local advisers who are expert in pension matters. To find out the name and address of your Local TPAS adviser, ask your local Citizens Advice Bureau (they hold a TPAS directory of advisers), or contact TPAS 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. The Pensions Regulator

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.

Napier House
Trafalgar Place
Brighton BN1 4DW
Tel: 0870 241 1144

By Order of the Trustee Board

Director

Director

NORTEL NETWORKS UK PENSION PLAN

REPORT OF THE INDEPENDENT AUDITORS TO THE TRUSTEE OF THE NORTEL NETWORKS UK PENSION PLAN

We have audited the financial statements that comprise the fund account, the net assets statement and the related notes, which have been prepared under the accounting policies set out in the related notes.

RESPECTIVE RESPONSIBILITIES OF TRUSTEE AND AUDITORS

The trustee's responsibilities for obtaining an annual report, including audited financial statements prepared in accordance with applicable United Kingdom law and accounting standards, are set out in the statement of trustee's responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board.

We report to you our opinion as to whether the financial statements show a true and fair view and contain the information required by the relevant legislation. We also report to you if, in our opinion, we have not received all the information and explanations we require for our audit.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises the Trustee's Report, the Report on the Defined Benefit Section, the Report on the Defined Contribution Section, the Investment Report, the actuarial statements and Information to Members.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with 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 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.

OPINION

In our opinion the financial statements show a true and fair view of the financial transactions of the plan during the plan year ended 5 April 2005, and of the amount and disposition as at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the plan year, and contain the information specified in Regulation 3 of and the Schedule to the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations.

Grant Thornton UK LLP
Chartered Accountants
Registered Auditors
London
7 September 2005

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

NORTEL NETWORKS UK PENSION PLAN
FUND ACCOUNT FOR THE YEAR ENDED 5 APRIL 2005

	Note	Defined Benefit Section £ 000	Defined Contributio n Section £ 000	Year Ended 05.04.05 TOTAL £ 000	Year Ended 05.04.04 £ 000
CONTRIBUTIONS AND INCOME					
Contributions receivable	2	52,637	-	52,637	64,863
Transfers-in from other schemes	3	945	-	945	1,517
TOTAL		53,582	-	53,582	66,380
BENEFITS AND OTHER PAYMENTS					
Pensions and benefits payable	4	(83,363)	(144)	(83,507)	(78,309)
Payments to and on account of leavers	5	5	-	5	(1,193)
Transfers out to other schemes	6	(1,492)	(2,657)	(4,149)	(11,396)
Administrative expenses	7	(1,436)	-	(1,436)	(1,297)
TOTAL		(86,286)	(2,801)	(89,087)	(92,195)
NET WITHDRAWALS FROM DEALINGS WITH MEMBERS					
		(32,704)	(2,801)	(35,505)	(25,815)
INVESTMENT RETURN					
Investment and other income	8	34,608	11	34,619	25,980
Change in market value of investments	9	77,716	40	77,756	193,321
Investment managers' fees & expenses	10	(3,159)	-	(3,159)	(2,985)
NET RETURNS ON INVESTMENTS		109,165	51	109,216	216,316
NET INCREASE/(DECREASE) IN THE FUND					
		76,461	(2,750)	73,711	190,501
OPENING NET ASSETS					
Transfers between sections		1,377,141	3,500	1,380,641	1,190,140
		750	(750)	-	-
CLOSING NET ASSETS		1,454,352	-	1,454,352	1,380,641

The Accounting Policies and Notes form part of these accounts

NORTEL NETWORKS UK PENSION PLAN

NET ASSET STATEMENT AT 5 APRIL 2005

	Notes	05.04.05 £000	05.04.04 £000
DEFINED BENEFIT SECTION			
INVESTMENTS	16		
Securities:			
- Quoted Equities			
- UK		291,458	267,063
- Overseas		206,205	171,212
- Pooled Investment Vehicles		486,706	584,310
- Bonds - UK Index Linked (Public Quoted)		-	68,209
- UK Fixed Interest (Public Quoted)		116,146	27,583
- Fixed Corporate (Public Quoted)		260,034	142,438
- Fixed Interest Overseas Government (Public Quoted)		24,486	77,890
Cash and Other financial investments		7,409	3,140
Total Securities		1,392,444	1,341,845
AVC Investments		9,500	9,687
Past Bonus Investments		21	30
Q Scheme Policy		2,761	3,359
Short-term deposits and cash		32,444	8,404
Current Assets and Liabilities	11	17,182	13,816
DEFINED CONTRIBUTION SECTION			
INVESTMENTS	16		
Managed Funds		-	4,566
Cash		5	322
Current Assets and Liabilities	11	(5)	(1,388)
NET ASSETS of the PLAN		1,454,352	1,380,641

Income and investment assets attributable to the defined benefit section are separately invested

NORTEL NETWORKS UK PENSION PLAN

and segregated from investments attributable to members' defined contribution benefits.

Approved by the Trustee on 7 September 2005.

For Nortel Networks UK Pension Trust Limited

)
) Directors
)

NORTEL NETWORKS UK PENSION PLAN

NOTES TO THE ACCOUNTS

1. 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 52 of the annual report and these accounts should be read in conjunction therewith.

The principal accounting policies of the Plan are set out below. They have remained unchanged from the previous year.

(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 - Inwards - on a cash received basis.
Outwards - on a cash payment 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 as follows:
 - Listed securities at 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.

NORTEL NETWORKS UK PENSION PLAN

Notes to the Accounts (continued)

2. Contributions Receivable

	Defined Benefit Section £ 000	Defined Contribution Section £ 000	Year Ended 05.04.05 TOTAL £ 000	Year Ended 05.04.04 TOTAL £ 000
Members' normal contributions	3,401	-	3,401	3,814
Members' AVC contributions	529	-	529	597
Company contributions	-	-	-	678
Special Company contributions	48,636	-	48,636	59,675
A.V.Cs	71	-	71	99
Total	52,637	-	52,637	64,863

As the Plan meets the Minimum Funding Requirement (MFR) the Company is not required to make regular contributions. Included in the special company contributions was an amount of £46m voluntary contribution by the company.

3. Transfers in from Other Schemes

	Defined Benefit Section £ 000	Defined Contribution Section £ 000	Year Ended 05.04.05 TOTAL £ 000	Year Ended 05.04.04 TOTAL £ 000
Individual transfers in from other schemes	831	-	831	917
Bulk transfers in from other schemes	114	-	114	600
Total	945	-	945	1,517

NORTEL NETWORKS UK PENSION PLAN

Notes to the Accounts (continued)

4. Pensions and Benefits Payable

	Defined Benefit Section £ 000	Defined Contribution Section £ 000	Year Ended 05.04.05 TOTAL £ 000	Year Ended 05.04.04 TOTAL £ 000
Pensions	76,332	-	76,332	74,475
Commutations of pensions and lump sum retirement benefits	5,328	144	5,472	2,814
Death benefits	1,703	-	1,703	1,020
Total	83,363	144	83,507	78,309

5. Payments to and on Account of Leavers

	Defined Benefit Section £ 000	Defined Contribution Section £ 000	Year Ended 05.04.05 TOTAL £ 000	Year Ended 05.04.04 TOTAL £ 000
Refunds of contributions (net)	-	-	-	14
Income tax on refunds	-	-	-	4
Trivial Commutations	-	-	-	1,201
CEPs	(5)	-	(5)	(26)
Total	(5)	-	(5)	1,193

6. Transfers out to Other Schemes

	Defined Benefit Section £ 000	Defined Contribution Section £ 000	Year Ended 05.04.05 TOTAL £ 000	Year Ended 05.04.04 TOTAL £ 000
Individual transfers out to other schemes	1,492	2,657	4,149	8,008
Bulk Transfers	-	-	-	3,388
Total	1,492	2,657	4,149	11,396

NORTEL NETWORKS UK PENSION PLAN

7. Administrative Expenses

	Year Ended 05.04.05 TOTAL £ 000	Year Ended 05.04.04 TOTAL £ 000
Salaries and employment costs	424	495
Actuarial Fees	107	113
Audit Fees	48	68
Legal Fees	162	79
Travel and Administrative Expenses	291	357
Temporary Support	185	20
Computer, Facility and Services Expenses	107	99
Other Fees	112	66
Total	1,436	1,297

All administrative expenses relate to the DB Section

8. Investment Income

	Defined Benefit Section £ 000	Defined Contribution Section £ 000	Year Ended 05.04.05 TOTAL £ 000	Year Ended 05.04.04 TOTAL £ 000
Fixed Interest Securities	20,842	-	20,842	13,696
Equity Dividends	14,445		14,445	12,197
Interest on Cash Deposits	242	11	253	637
Underwriting Commission	2	-	2	7
Interest on Cash Deposits Irrecoverable with holding tax on overseas investments	291 (1,214)	- -	291 (1,214)	577 (1,134)
Total	34,608	11	34,619	25,980

9. Changes in Value of Investments

NORTEL NETWORKS UK PENSION PLAN

	Defined Benefit Section £ 000	Defined Contribution Section £ 000	Year Ended 05.04.05 TOTAL £ 000	Year Ended 05.04.04 TOTAL £ 000
Securities	77,212	40	77,252	190,108
"Q" Policy issued by Prudential	(598)	-	(598)	436
AVC Accounts	574	-	574	645
Past Bonus Accounts	1	-	1	1
Change in Value of Currencies	527	-	527	2,131
Total	77,716	40	77,756	193,321

10. Investment Management Fees

	Defined Benefit Section £ 000	Defined Contribution Section £ 000	Year Ended 05.04.05 TOTAL £ 000	Year Ended 05.04.04 TOTAL £ 000
Administration and Management	2,873	-	2,873	2,792
Custodian Fees	286	-	286	193
Total	3,159	-	3,159	2,985

Investment Managers' fees are borne by the Pension 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

NORTEL NETWORKS UK PENSION PLAN

	Defined Benefit Section £ 000	Defined Contribution Section £ 000	As at Year Ended 05.04.05 £ 000	As at Year Ended 05.04.04 £ 000
Current Assets				
Contribution due from the Company	10,000	-	10,000	-
Due from Nortel Networks UK Ltd	190	-	190	-
Other Debtors	236	-	236	788
Income Tax Recoverable	48	-	48	38
Sale Proceeds from Investments Dividends Due and Interest	6,158	-	6,158	32,547
Receivable	9,669	-	9,669	9,087
Total	26,301	-	26,301	42,460
Current Liabilities				
Due to Nortel Networks UK Limited	(133)	-	(133)	(52)
Due to external pension schemes	(22)	-	(22)	(1,120)
Benefits payable	(447)	-	(447)	(332)
Other creditors	(2,292)	(5)	(2,297)	(1,440)
Purchase settlements	(6,225)	-	(6,225)	(27,088)
Total	(9,119)	(5)	(9,124)	(30,032)
Net Current Assets/(Liabilities)	17,182	(5)	17,177	12,428

NORTEL NETWORKS UK PENSION PLAN

12. Forward Exchange Transactions

At 5 April 2005 there were open forward exchange transactions outstanding, with net unrealised gains from this source of £12,591 (at 5 April 2004, there were open forward exchange with unrealised gains of £5,317).

13. Contingent Liabilities

There were no material contingent liabilities at 5 April 2005 or at 5 April 2004.

14. Commitments

- (i) There were no material capital commitments at 5 April 2005 or at 5 April 2004.
- (ii) At 5 April 2005 no calls were due on share transactions (5 April 2004 - No calls due).

15. 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.

NORTEL NETWORKS UK PENSION PLAN

16. Movements on Investments during the Year ended 5 April 2005

	Opening Market Value	% of Holding	Purchases at Cost	Sales Proceeds	Market Value Changes	Closing Market Value	% of Holding
	£000		£000	£000	£000	£000	
EQUITIES	438,275	32.15	237,731	(215,788)	37,445	497,663	34.63
UNIT TRUSTS/MANAGED FUNDS (Non Property)	584,310	42.86	195,583	(325,469)	32,282	486,706	33.86
INDEX LINKED SECURITIES	68,209	5.00	1,208,547	(1,273,144)	(3,612)	-	0.00
FIXED INTEREST SECURITIES	247,911	18.18	659,676	(518,051)	11,130	400,666	27.88
CASH & OTHER FINANCIAL INVESTMENTS	3,140	0.23	45,516	(41,214)	(33)	7,409	0.52
SHORT DEPOSITS & CASH	8,404	0.62	55,509	(31,469)	-	32,444	2.26
Q' POLICY ISSUED BY PRUDENTIAL	3,359	0.25	-	-	(598)	2,761	0.19
AVCs	¹ 9,687	0.71	681	(1,442)	574	9,500	0.66
PAST BONUS A/Cs	30	0.00	-	(10)	1	21	0.00
GRAND TOTALS	1,363,325	100.00	2,403,243	(2,406,587)	77,189	1,437,170	100.00

Notes

1 The Net Assets of the AVC

Fund were invested with:	As at 06.04.04 £ 000	As at 05.04.05 £ 000
Nationwide Building Society		
Retirement Savings Plan	178	189
Winterthur Life	3,362	3,813
Equitable Life	5,938	5,277
London Life	206	217
M.G.M Assurance	3	4
	<u>9,687</u>	<u>9,500</u>

DEFINED

NORTEL NETWORKS UK PENSION PLAN

CONTRIBUTION SECTION

	Opening Market Value	% of Holding	Purchases at Cost	Sales Proceeds	Market Value Changes	Closing Market Value	% of Holding
	£ 000		£ 001	£ 000	£ 000	£ 000	
MANAGED FUNDS	4,566	95.89	15	(4,621)	40	-	0.00
CASH & SHORT TERM DEPOSITS	322	4.11	-	(317)	-	5	0.00
GRAND TOTALS	4,888	100.00	15	(4,938)	40	5	0.00

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

The managed funds in which the Plan has invested are all operated or managed by companies registered in the United Kingdom.

STATEMENT OF THE INDEPENDENT AUDITORS 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

NORTEL NETWORKS UK PENSION PLAN

NORTEL NETWORKS UK PENSION PLAN

We have examined the Summary of Contributions payable to the Nortel Networks UK Pension Plan in respect of the plan year ended 5 April 2005 which is set out on page 51.

RESPECTIVE RESPONSIBILITIES OF TRUSTEES AND AUDITORS

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

It is our responsibility to provide a statement about contributions paid under the Schedule of Contributions 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 been paid in accordance with the relevant requirements. For this purpose, the work that we carried out included examination, on a test basis, of evidence relevant to the amounts of contributions paid to the plan and the timing of those payments under the Schedule of Contributions. Our statement about contributions is required to refer to those breaches of the Schedule of Contributions which come to our attention in the course of our work.

STATEMENT ABOUT CONTRIBUTIONS

In our opinion contributions for the plan year ended 5 April 2005 as reported in the Summary of Contributions have been paid in accordance with the Schedule of Contributions certified by the plan actuary on 11 February 2003.

Grant Thornton UK LLP
Chartered Accountants
Registered Auditors
London
7 September 2005

NORTEL NETWORKS UK PENSION PLAN

SUMMARY OF CONTRIBUTIONS PAYABLE TO THE NORTEL NETWORKS PENSION PLAN IN RESPECT OF THE YEAR ENDED 5 APRIL 2005

The contributions payable to the Scheme in respect of the year under the Schedule of Contributions:

	Year ended 05.04.05 £'000
Employer normal contributions	-
Employer special contributions	48,636
Employee normal contributions	3,401
Total contributions payable under the schedule	52,037
Other contributions:	
Employee additional voluntary contributions	600
Total contributions in respect of the year	52,637

Signed on behalf of the Trustee on 7 September 2005

Director

Director

NORTEL NETWORKS UK PENSION PLAN

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 19 July 2005 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
Partner

19 July 2005

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.

NORTEL NETWORKS UK PENSION PLAN

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

NORTEL NETWORKS UK PENSION PLAN

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, indicated 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 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 53. 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 was agreed that the financial position of the Plan should be examined at regular intervals, and interim valuations were undertaken as at 5 April 2003 and as at 5 April 2004. These calculations showed that the funding position of the Plan had deteriorated further. Following discussions between the Trustee and Nortel Networks UK Limited it was agreed that payments totalling £59 million and £46 million would be paid to meet the cost of accruing benefits in the years to 5 April 2004 and 5 April 2005 respectively and to strengthen the Plan's funding position.

Following the 5 April 2004 interim review, a revised Schedule of Contributions dated 19 July 2005 was agreed between the Trustee and Nortel Networks UK Limited which provides for contributions of at least £46 million to be paid each year from 6 April 2005 until 5 April 2007. The certificate confirming that this Schedule satisfies the statutory Minimum Funding Requirement appears on page 53.

The Schedule of Contributions will be reviewed following the actuarial valuation currently being undertaken as at 5 April 2005

Daniel Harrison FIA, Watson Wyatt
August 2005