

**NORTEL NETWORKS UK PENSION PLAN**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2015**

**SCHEME REGISTRATION NUMBER 10092331**



**NORTEL NETWORKS UK PENSION PLAN**

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**FOR THE YEAR ENDED 31 MARCH 2015**

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# **NORTEL NETWORKS UK PENSION PLAN**

## **TRUSTEE AND ADVISERS**

**FOR THE YEAR ENDED 31 MARCH 2015**

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### **Principal Company**

Nortel Networks UK Limited (In Administration)

### **Other Participating Companies**

Nortel Networks UK Pension Trust Limited

### **Trustee**

Nortel Networks UK Pension Trust Limited

### **Trustee Board Directors**

#### **Independent**

D. Davies (Chairman)

BESTrustees plc

#### **Employer nominated**

C. Gilchrist

P. Masterson

#### **Member nominated**

N. Bowles

B. Izzard

T. Rossiter

### **Secretary to the Trustee Board**

Capita Employee Benefits Limited

### **Investment Committee**

BESTrustees plc (Chairman)

D. Davies

T. Rossiter

C. Gilchrist

### **Secretary to the Investment Committee**

Capita Employee Benefits Limited

**NORTEL NETWORKS UK PENSION PLAN**

**TRUSTEE AND ADVISERS**

**FOR THE YEAR ENDED 31 MARCH 2015**

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**Administration Discretions and Benefits Committee (ADB)**

Directors, Nortel Networks UK Pension Trust Limited  
BESTrustees plc (Chairman)  
N. Bowles  
B. Izzard

Independent committee member  
L. Hammond

**Secretary to the ADB**

Capita Employee Benefits Limited

**Registered Office of the Trustee**

Nortel Networks UK Pension Trust Limited  
1 Park Row  
Leeds  
LS1 5AB

**Actuary**

N. Mobbs of Towers Watson

**Administrators (and enquiries)**

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

**Independent auditors**

Grant Thornton UK LLP

**Legal advisers**

Pinsent Masons LLP  
Hogan Lovells International LLP  
Willkie Farr & Gallagher LLP  
Thornton Grout Finnigan LLP

**NORTEL NETWORKS UK PENSION PLAN**

**TRUSTEE AND ADVISERS**

**FOR THE YEAR ENDED 31 MARCH 2015**

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**Financial advisers**

PricewaterhouseCoopers LLP

**Investment managers**

BlackRock Advisors (UK) Limited  
Legal & General Investment Management Limited

**Global custodian**

State Street Bank & Trust Company

**Investment consultant**

Mercer Investment Consulting

**AVC providers**

The Equitable Life Assurance Society  
Winterthur Life  
London Life  
MGM

**Bankers**

HSBC plc

# **NORTEL NETWORKS UK PENSION PLAN**

## **TRUSTEE'S REPORT**

**FOR THE YEAR ENDED 31 MARCH 2015**

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### **Introduction**

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

The Trustee of the Plan presents its report together with the investment report, actuarial statements and financial statements for the year ended 31 March 2015. The Plan is currently in the assessment period of the Pension Protection Fund (PPF).

The financial statements have been drawn up in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 and the Statement of Recommended Practice, Financial Reports of Pension Schemes (2007) issued by the Pensions Research Accountants Group.

The Plan provides defined pension benefits to members (or their dependants) who were former employees of Nortel Networks UK Limited (In Administration) or other associated companies. 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 (In Administration). The Plan was closed to new entrants on 30 June 2000. All contributions and all future service accrual for active members ceased with effect from 14 January 2009 when Nortel Networks UK Limited went into administration. From that date all benefits are calculated and paid in accordance with PPF practices and procedures.

The Plan was a contracted-out scheme for the purposes of the Social Security Pensions Act 1975, and a contracting-out certificate was in force to cover the employment of members of the Plan. This meant that members did not contribute to the State Second Pension Scheme and therefore paid reduced National Insurance Contributions. The Contracting out certificate was cancelled with effect from 13 January 2009.

The Plan is a "registered" pension scheme, the effect of which is to give tax relief on members' and employer's contributions received and on the investment income and gains earned by the Plan. The Trustee knows of no reason why this registration may be prejudiced or withdrawn.

### **Management of the Plan**

The Plan is set up under a Trust which ensures that the assets are kept separate from the finances of the Principal Company, Nortel Networks UK Limited (In Administration) and other Participating Companies. The Trustee is responsible for ensuring that the Plan is operated correctly, for the benefit of all the members, in accordance with the Trust Deed and Rules of the Plan and with applicable legislation. The Trustee remains responsible for the administration and investment policy of the Plan, but from 14 January 2009, Plan rules now operate subject to PPF rules.

## NORTEL NETWORKS UK PENSION PLAN

### TRUSTEE'S REPORT

#### FOR THE YEAR ENDED 31 MARCH 2015

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##### Directors of the Trustee Board

The Trustee of the Plan is a corporate Trustee, Nortel Networks UK Pension Trust Limited. This Trust Company is governed by its Memorandum and Articles of Association and it has a fiduciary responsibility for the operation and management of the Plan. The Directors of the Trust Company are set out on page 1. The current Board is constituted as follows;

- 1 Independent Chairman
- 1 Independent Director
- 2 Company Nominated Directors
- 3 Member Nominated Directors

Each Director is eligible to vote and the Memorandum & Articles of Association permits a decision to be carried by simple majority. The Chairman has a casting vote.

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

##### Member Nominated Directors (MNDs)

Following Nortel Networks UK Limited entering into Administration on 14 January 2009, the statutory process for selecting MNDs no longer applies. The MNDs as at 14 January 2009 have continued to serve as Directors.

##### Statement of Trustee's responsibilities

The financial statements, which are prepared in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice, are the responsibility of the Trustee. Pension scheme regulations require the Trustee to make available to Plan members, beneficiaries and certain other parties, audited financial statements for each Plan year which:

- show a true and fair view of the financial transactions of the Plan during the Plan year and of the amount and disposition at the end of the Plan year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Plan year; and
- contain the information specified in the Schedule to The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the 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 financial statements and has agreed suitable accounting policies, to be applied consistently, making any estimates and judgements on a reasonable and prudent basis. The Trustee is also responsible for making available each year, commonly in the form of a Trustee's annual report, information about the Plan prescribed by pensions legislation, which it should ensure is consistent with the financial statements it accompanies.

The Trustee has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to it to safeguard the assets of the Plan and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal controls.

The Trustee is responsible for the maintenance and integrity of the financial information of the Plan included on the Pension Plan's website at [www.nortelpensions.com](http://www.nortelpensions.com). Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.



## **NORTEL NETWORKS UK PENSION PLAN**

### **TRUSTEE'S REPORT**

**FOR THE YEAR ENDED 31 MARCH 2015**

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#### **Investment Committee**

Membership of the Investment Committee is shown on page 1.

This Committee was established under Trustee authority to monitor and report on the performance of the Investment Managers and make recommendations to the Trustee. It is a sub committee of the Trustee Board, with decision making responsibilities. The Trustee is responsible for determining the Plan's investment policy but is obliged to take into account the PPF's view on investment strategy.

#### **Administration Discretions and Benefits Committee (ADB)**

Membership of the ADB is shown on page 2.

This Committee was established under Trustee authority and has prime responsibility for ensuring that the administration of the Plan is carried out in accordance with the Trust Deed and Rules as modified by PPF practices and procedures. The ADB also has responsibility for monitoring the service agreement with the Plan's external administrators and for exercising various discretions; for example, the payment of benefits to beneficiaries arising from member deaths. In addition the ADB is responsible for reviewing the first stage of any Internal Dispute Resolution. The ADB is the primary forum for discussion and interaction with the PPF on various data cleansing projects necessary to prepare the Plan for possible future entry into the PPF.

#### **Principal and Participating Companies**

**Principal Company** Nortel Networks UK Limited (In Administration) ECON: 3039077J - Reg. No. 3937799

**Other Participating Companies** Nortel Networks UK Pension Trust Limited ECON: 3039400J - Reg. No. 2091890

The contracting-out certificates for Nortel Networks UK Ltd (In Administration) and for Nortel Networks UK Pension Trust Limited were cancelled with effect from 14 January 2009.

#### **Individual transfer payments**

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

#### **Pensions increases**

Since 14 January 2009 the Plan has awarded increases to pensions in payment and calculated new pensions in accordance with PPF practices and procedures. Future increases are only applied in respect of service earned from 6 April 1997 onwards and are based on increases in the consumer prices index (CPI) capped at 2.5% pa. With effect from 1 January 2015 the increase awarded was 1.5%. The Trustee has continued to award increases to pensions arising from defined contribution benefits (eg externally managed AVCs) in accordance with Plan rules since these are not subject to PPF practices and procedures. With effect from 1 April 2014 the increase awarded was 3.0%. The Trustee is no longer able to award discretionary increases to pensions in payment.

#### **Custody of assets**

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

# NORTEL NETWORKS UK PENSION PLAN

## TRUSTEE'S REPORT

### FOR THE YEAR ENDED 31 MARCH 2015

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#### Membership

Details of the membership of the Plan are given below:

The total membership of the Plan at 31 March 2015 was 33,453 (31 March 2014: 34,618).

	Deferred members	Pensioners	Dependants	Total
At 1 April 2014	14,844	14,730	5,044	34,618
Adjustments to prior year#	505	28	-	533
New dependants	-	-	287	287
Transfers out	(4)	-	-	(4)
Retirements	(798)	427	-	(371)
Deaths	(82)	(648)	(380)	(1,110)
Entitlements ceasing	(484)	-	(16)	(500)
At 31 March 2015	<u>13,981</u>	<u>14,537</u>	<u>4,935</u>	<u>33,453</u>

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

#A prior period adjustment arises where a member's status changed during the previous period but was not notified to Towers Watson in time for it to be recorded in that period's membership analysis. Included in the 505, 498 deferred members were previously omitted from the Plan.

There were 3,828 annuitants during the year (2014: 3,746).

The membership numbers above include members of the Q Scheme\*\* and EPB\* only members. As at 31 March 2015 there were 1,593 deferred members and 1,622 pensioners in the Q Scheme, and 1,723 deferred and 144 pensioners who are EPB only.

\* EPB relates to Equivalent Pension Benefit members.

\*\* The Q scheme was established by a trust deed dated 6 January 1961. It provides benefits equivalent to those that would be provided under the old State Graduated Pension scheme between 1961 and 1975. These benefits are insured with Prudential, and are sufficiently small that they are eligible for full commutation at retirement, unless they also hold benefits in the main Nortel Plan.

## NORTEL NETWORKS UK PENSION PLAN

### TRUSTEE'S REPORT

FOR THE YEAR ENDED 31 MARCH 2015

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#### Actuarial status

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

The last full actuarial valuation of the Plan was performed by Daniel Harrison of Towers Watson as at 5 April 2005. The valuation indicated a deficit of £356m assuming the Plan continued. To conform with regulatory requirements the last actuarial statements based on the 2005 valuation are reproduced on pages 15 to 17. The next full actuarial valuation as at 31 March 2008 was being undertaken by the Plan actuary, but this was not completed. However now that the Plan is in the Assessment period of the PPF a special valuation will be required by the PPF as at 13 January 2009 and this can only be done once the data verification currently underway is complete.

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

The Trustee (assisted by its legal and actuarial advisers and its financial adviser) has been cooperating with the UK Pensions Regulator (TPR) and the PPF, and is actively pursuing all avenues to maximise recovery of monies from the UK and overseas insolvency processes.

For the latest position on recovery activities members should refer to the Pension Plan's website at [www.nortelpensions.com](http://www.nortelpensions.com).

#### Financial development of the Plan

The net assets of the Plan increased by £211,005,000 over the year giving a Plan asset value of £1,876,139,000 at 31 March 2015. Further information about the financial development of the Plan is provided in the financial statements on pages 22 to 32.

An amount of £1.3m was received on 14 May 2014 from the Joint Administrators of certain Nortel EMEA entities in satisfaction of the Trustee's claim for costs incurred in previous years in connection with legal proceedings in the English Courts. In addition, on 6 October 2014, £24k was recovered in respect of a separate claim for litigation costs.

## NORTEL NETWORKS UK PENSION PLAN

### TRUSTEE'S REPORT

#### FOR THE YEAR ENDED 31 MARCH 2015

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#### Financial development of the Plan - Recoveries

The Trustee (assisted by its legal and actuarial advisers and its financial advisor) has been cooperating with the UK Pensions Regulator (TPR) and the PPF in order to pursue all avenues to maximise recovery of monies from the UK and overseas insolvency processes. During the Plan year two trials were held:

- 1) A trial to address various claims that the Trustee and the PPF had against Nortel Networks Limited (NNL) and Nortel Networks Corporation in Canada, which trial concluded in September 2014. The judge held that the Trustee's claim under a guarantee should be admitted in NNL's insolvency in the amount of £339,750,000. The amount the Trustee may actually receive under this claim will depend on the 'dividend' that is eventually declared by NNL.
- 2) A trial to determine how Nortel assets of around \$US7.3bn should be divided between the insolvent companies in Europe, the US and Canada. This was a joint trial between the relevant US and Canadian Courts. Both Courts handed down their judgments simultaneously on 12 May 2015, holding that the assets should be divided on a specific pro-rata basis. The US and Canadian Courts subsequently held a joint hearing on 25 June to address Motions brought by some parties for the Courts to clarify and reconsider their decisions in a number of respects. On 6 July, the Courts handed down decisions on those Motions, clarifying their decisions in certain respects, and denying the Motions in other respects.

Both of these above decisions are now the subject of appeals. Accordingly, the final amounts and the timing of the receipt of monies from the litigation is unknown. For these reasons, the potential recoveries are not included in the Plan's financial statements for the year.

#### Further information

Requests for additional information about the Plan generally, or queries relating to members' own benefits, should be sent to the contact at the address on page 34 of this report.

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

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

Director 

Date 12 OCTOBER 2015

Director 

Date 12 OCTOBER 2015

## **NORTEL NETWORKS UK PENSION PLAN**

### **INVESTMENT REPORT**

#### **FOR THE YEAR ENDED 31 MARCH 2015**

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

#### **Investment policy**

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

The SIP also takes account of the principles set out in the Myners Report and the Occupational Pension Schemes (Investment) Regulations 2005. During the Plan year, the Trustee Board reviewed the SIP and its investment objectives in consultation with the PPF as the Plan is in a PPF assessment period. The Trustee decided to significantly reduce the level of investment risk within the Plan to a level broadly consistent with the PPF investment strategy, using PPF level benefits to form the basis of the investment analysis. This resulted in the Plan's equity holdings reducing from 20% to 10% of Plan assets, with an additional 10% of Plan assets being invested in the Blackrock QIF. The transaction occurred on 16 September 2014. The value of assets transferred was £124,000,000. The revised SIP was signed and ratified by the Trustee Board on 3 March 2015. A copy of the SIP is available from the pensions website ([www.nortelpensions.com](http://www.nortelpensions.com)).

The Trustee holds assets invested separately from the main fund in the form of individual building society accounts and insurance policies with The Equitable Life Assurance Society, Winterthur Life, MGM and London Life, which secure additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions.

#### **Management**

The Trustee has ultimate responsibility for investing the entire assets of the Plan. It has appointed an Investment Committee which meets regularly to review investment matters in some detail and where appropriate to make recommendations to the full Trustee Board. Expert advice is sought whenever appropriate.

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

#### **Fees**

The fees paid to the Investment Managers are based on a percentage of the value of the portfolio under management. Fees to the Global Custodian are based on a percentage of the value of the assets it holds and on the transactions by the Investment Managers. Total fees paid to Investment Managers and the Global Custodian for the year ended 31 March 2015 were £1,104,000 (2014: £1,198,000). As a proportion of assets under management this was 0.06% for the year (2014: 0.07%).

#### **Employer related investments**

The Pensions Act 1995 defines the conditions under which pension plans may invest in employer-related investments, and the extent of such investments. The Trustee does not invest in the shares of Nortel Networks Corporation, any of its subsidiaries, in property occupied by, leased to, or otherwise owned or occupied by them. The lending of money to any Participating Company, their subsidiaries or holding companies is prohibited by the Trust Deed and Rules.

## NORTEL NETWORKS UK PENSION PLAN

### INVESTMENT REPORT

#### FOR THE YEAR ENDED 31 MARCH 2015

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##### Socially responsible investments

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

##### Rights attaching to investments

The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers.

##### Review of investment holdings

Details of the Plan's investments of £1,872,865,000 are given in note 8 to the financial statements. An analysis of the asset allocation of the Plan's investments as at 31 March 2015 is provided below:

	31 Mar '15	31 Mar '14
<b>Pooled investment vehicles</b>		
- Tailored Funds	62.07	53.07
- Return Seeking	37.14	46.03
Q Scheme	0.34	0.38
	<u>99.55</u>	<u>99.48</u>
<b>Cash and cash equivalents</b>	0.00	0.01
<b>Other investments</b>	0.10	0.12
<b>AVC investments</b>	0.35	0.39
	<u>100.00</u>	<u>100.00</u>

At 31 March 2015 the pooled investment vehicle - Tailored Funds represents our ownership of a liability solutions fund designed to provide a total return which reflects that of a fixed rate deferred annuity consistent with our liability hedging mandate.

The Trustee considers that the spread of equity investments by geography enables the Plan to benefit from potentially higher rates of investment growth in different markets whilst also providing good diversification. The Plan's other asset holdings are structured to provide matching characteristics relative to the Plan's liabilities, i.e. invested in assets which move broadly in line with changes in the Plan's PPF liabilities.

## **NORTEL NETWORKS UK PENSION PLAN**

### **INVESTMENT REPORT**

**FOR THE YEAR ENDED 31 MARCH 2015**

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#### **Introduction**

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

Following entry into the assessment period, the Trustee decided to reduce the level of investment risk within the Plan to a level broadly consistent with the PPF's investment strategy. This was done in consultation with both the PPF and the Trustee's investment advisors. This de-risking involved decreasing the allocation to equities and introducing a liability hedging ("LDI") mandate.

The Plan's investments have been managed during the year under review by BlackRock and Legal & General Investment Management ("LGIM").

During the year under review, the Trustee took the decision to further reduce the level of investment risk within the Plan by reducing the allocation to global equities and increasing the allocation to liability hedging assets. A summary of the manager allocations as at the start and end of the year is provided on page 15.

#### **Investment Principles**

The Trustee has produced a Statement of Investment Principles ("SIP") in accordance with Section 35 of the Pensions Act 1995, the Occupational Pension Plan's (Investment) Regulations 2005 and subsequent legislation. The SIP has been updated over the year to incorporate the changes in the manager structure. A copy of the SIP is available on request from the contact for further information address on page 34.

The main priority of the Trustee when considering the investment policy for the Plan is to ensure that the promises made about members' pensions may be fulfilled.

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

The Trustee has also decided to allow a wide tolerance range around the major asset classes in which the Plan invests, specifically permitting the allocation to equities to reduce to 0% of the Plan's total assets, and the allocation to bonds to increase correspondingly to 100%. The wide tolerances are designed to allow the Trustee to apply all assets towards hedging the liabilities if the funding level were to rise significantly from current levels.

Changes in interest rates and inflation cause the Plan's liabilities to change in value. To reduce risk relative to the liabilities, the Trustee has chosen to invest in liability hedging assets with interest rate and inflation sensitivity, such as government bonds and interest rate and inflation swaps (derivative instruments). The liability hedging mandate is designed to match 51% of the total interest rate sensitivity and 100% of the total inflation sensitivity within the Plan (at the PPF level of benefits).

In addition, the currency risk associated with the Plan's overseas equity holdings is hedged to reduce the impact of currency movements on the funding position of the Plan. Approximately, 75% of the Plan's overseas equity currency risk is hedged back to Sterling.

## NORTEL NETWORKS UK PENSION PLAN

### INVESTMENT REPORT

#### FOR THE YEAR ENDED 31 MARCH 2015

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#### Market Background

##### Investment Markets \*

Both growth and defensive assets delivered positive returns over the 12 month period to 31 March 2015 with many of the world's central banks continuing to ease monetary policy. Strong economic growth at the start of the 12 month period slowed somewhat over the six months leading to 31 March 2015. The sharp fall in commodity prices in the second half of 2014 led to increased market volatility. Most pension schemes will have seen an increase in liability values as bond yields fell over the 12 month period.

Performance was positive both for growth and defensive assets, with long dated government bonds outperforming the equity market. In the UK, economic growth remained strong throughout the year, as the Office for National Statistics revised the real GDP growth rate for 2014 from 2.6% to 2.8%, the fastest calendar year growth rate since 2006. The annual inflation rate fell to zero in February 2015.

Whilst economic growth in the UK has been strong, growth was strongest in the US which led to a US Dollar rally against Sterling and most other currencies. Sterling, however, appreciated against the Euro and the Japanese Yen. Emerging market assets underperformed their developed counterparts as falling commodity prices and the rising US dollar affected a number of countries in this region significantly.

##### Equity Markets

At a global level, developed market equities, as measured by the FTSE World index, returned 18.8% while a return of 16.3% was recorded by emerging market equities, as represented by the FTSE AW Emerging Markets index.

European equity markets returned 7.5%, as indicated by the FTSE World Europe ex UK index.

UK equities, as measured by the FTSE All Share index returned 6.6%. The FTSE USA index returned 26.5%, while the FTSE Japan index rose by 27.1%.

##### Bonds

Returns on fixed interest UK government bonds, as measured by the FTSE Gilts All Stocks Index, recorded growth of 13.9%, while long dated issues, as measured by the corresponding Over 15 Year Index, recorded growth of 27.0%. The yield on the FTSE Gilts All Stocks index fell over the year from 3.0% to 2.0%.

UK index linked government bonds, as represented by the FTSE All Stocks Index Linked Gilts index, returned 18.6%, with the corresponding over 15 year index also exhibiting a positive return of 28.1%.

Corporate bonds, as measured by the BofA Merrill Lynch Sterling Non-Gilts index, returned 13.3%.



## NORTEL NETWORKS UK PENSION PLAN

### INVESTMENT REPORT

#### FOR THE YEAR ENDED 31 MARCH 2015

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#### Currencies

Over the 12 month period to 31st March 2015, Sterling fell by 11.0% against the US Dollar, from \$1.667 to \$1.485. Sterling appreciated by 3.7% against the Yen, from ¥171.69 to ¥178.03, and also appreciated against the Euro by 14.3%, from €1.21 to €1.38, over the same period.

\* Statistics sourced from Thomson Reuters Datastream unless otherwise specified. Total return figures for equity and bond markets are quoted in Sterling terms for the 12 month period ending 31 March 2015.

#### Investment Performance

#### Gross of Fees

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Asset Class	12 months		3 years		5 years	
	Actual %	Benchmark %	Actual % p.a.	Benchmark % p.a.	Actual % p.a.	Benchmark % p.a.
BlackRock - Global Equity	13.3	13.5	14.3	14.2	9.8	9.8
LGIM - Sterling Non-Gilts	13.1	13.1	-	-	-	-
BlackRock - LDI	25.5	14.9	10.0	6.5	-	-
<b>Total*</b>	<b>20.6</b>	<b>26.0</b>	<b>10.5</b>	<b>9.6</b>	<b>10.5</b>	<b>n/a</b>

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

\* Total Plan returns include performance of terminated mandates. Total Plan benchmark return is the change in the value of the Plan's total PPF liabilities.

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## NORTEL NETWORKS UK PENSION PLAN

### INVESTMENT REPORT

FOR THE YEAR ENDED 31 MARCH 2015

#### Asset Allocation

Manager Asset Class	Actual Asset Allocation			
	Start of Period	End of Period	Start of Period	End of Period
	£m	£m	%	%
BlackRock - Global Equity	285.8	178.1	17.4	9.6
BlackRock - LDI	881.5	1,163.0	53.5	62.6
LGIM - Sterling Non-Gilts	478.7	517.4	29.1	27.8
<b>Total*</b>	<b>1,646.0</b>	<b>1,858.5</b>	<b>100.0</b>	<b>100.0</b>

Source: Investment Managers and Mercer.

Figures may not sum to total due to rounding.

Valuations are based on bid prices where available otherwise mid/single price values are used.

Rebalancing has been suspended and as such, the Plan does not have a strategic benchmark allocation in place.

\* Excludes cash in the Trustee Bank Account and transition accounts. Cash held by the investment managers is included in the asset values for each manager.

#### Investment reconciliation above and note 8 of the accounts

	31 March 2015 (£m)	31 March 2014 (£m)
Investment quoted by Mercer above	1,858	1,646
Income due from historical managers excluded from above	2	2
Q Scheme	6	6
AVC investments	6	6
Investment total per Note 8 to the financial statements	<u>1,872</u>	<u>1,660</u>

#### Custodial Arrangements

Manager	Custodian
LGIM - pooled funds	HSBC Bank PLC
BlackRock - pooled funds	Bank of New York Mellon and J. P. Morgan

Source: Investment Managers. The Plan also has a global custodian (State Street Global Advisors) to oversee assets at the total portfolio level.

All of the Plan's Investment Managers are authorised by the Financial Conduct Authority, the UK's regulator for the finance industry. They are generally acknowledged as leading companies providing investment management services. With respect to the Plan's assets invested in pooled funds, the safekeeping of the underlying assets is undertaken by custodians selected and monitored by the fiduciaries of the pooled funds.

The Trustee is responsible for ensuring the Plan's assets continue to be securely held. The Trustee reviews the custodian arrangements from time to time and the Plan's auditor is authorised to make whatever investigations it deems are necessary as part of the annual audit procedure.

## NORTEL NETWORKS UK PENSION PLAN

### ACTUARIAL STATEMENT

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

Name of scheme: Nortel Networks UK Pension Plan

Effective date of valuation: 5 April 2005

#### 1. Security of prospective rights

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

##### Description of contributions

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

#### 2. Summary of methods and assumptions used

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

Funding method : Projected unit

##### Main financial assumptions:

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

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**NORTEL NETWORKS UK PENSION PLAN**

**ACTUARIAL STATEMENT**

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

**Daniel Harrison**  
**Fellow of the Institute of Actuaries**  
**Watson Wyatt Limited**

**4 April 2006**

**Watson House**  
**London Road**  
**Reigate**  
**Surrey**  
**RH2 9PQ**

**NORTEL NETWORKS UK PENSION PLAN**

**ACTUARIAL CERTIFICATE**

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

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

*Adequacy of rates of contributions:*

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

**Daniel Harrison**  
**Fellow of the Institute of Actuaries**

26 June 2006

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

**Note:**

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

**NORTEL NETWORKS UK PENSION PLAN**

**TRUSTEE'S SUMMARY OF CONTRIBUTIONS**

**FOR THE YEAR ENDED 31 MARCH 2015**

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**Statement of Trustee's responsibilities in respect of contributions**  
(forming part of the Trustee's Report)

The Trustee is responsible for keeping records in respect of contributions received in respect of any active member of the Plan and for monitoring whether contributions are made to the Plan by the employer in accordance with relevant requirements. Where breaches occur, the Trustee is required by the Pensions Acts 1995 and 2004 to consider making reports to The Pensions Regulator and the members.

**Trustee's summary of contributions**

This summary of contributions has been prepared by, or on behalf of, and is the responsibility of the Trustee. It sets out the employer and member contributions payable to the Plan in respect of the Plan year ended 31 March 2015.

**Contributions payable under the schedule in respect of the Plan period**

After the Company's filing for Administration on 14 January 2009, all contributions ceased.

As a result no contributions were receivable for the year ended 31 March 2015.

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

Director



Date

12 OCTOBER 2015

Director



Date

12 OCTOBER 2015

## **INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF**

### **NORTEL NETWORKS UK PENSION PLAN**

#### **FOR THE YEAR ENDED 31 MARCH 2015**

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We have audited the financial statements of the Nortel Networks (UK) Pension Plan (the Plan) for the year ended 31 March 2015 which comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Trustee, as a body, in accordance with the Pensions Act 1995 and Regulations made thereunder. Our audit work has been undertaken so that we might state to the Plan's Trustee those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Plan and the Plan's Trustee as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of Trustee and auditor**

As explained more fully in the Statement of Trustee's Responsibilities on page 5, the Plan's Trustee is responsible for the preparation of financial statements which show a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Plan's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Trustee; and the overall presentation of the financial statements. In addition, we read all the financial and nonfinancial information in the rest of the annual report which comprises the Trustee's Report, the Investment Report, the Actuarial Statement and Certificate, the Compliance Statement and Further Information to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.