

TO ALL KNOWN CREDITORS

10 December 2019

Ref: MLP/5W/SJH/BT/RF/LO3539

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Dear Sirs

**Nortel Networks S.A. (In Administration, *Liquidation Judiciaire* and subject to a Company Voluntary Arrangement) (the “Company”) (“NNSA”)**

In the High Court of Justice, Business and Property Courts of England & Wales, Companies and Insolvency List (ChD) No. 539 of 2009 / CR-2009-000048.

Incorporated in France with registered number FR62389516741/389516741. The Company's registered address is Centre d’Affaires Parc Lumiere, 46 Avenue des Freres Lumiere, F-78190 Trappes, France.

**Joint Supervisors’ Annual CVA Progress Report**

I write to provide you with the Joint Supervisors’ first annual progress report (“Annual Report”), which includes details of the progress of the Company Voluntary Arrangement (“CVA”) of the Company. This Annual Report covers the 12 month period from 5 October 2018 to 4 October 2019 and should be read in conjunction with the CVA Proposal dated 24 August 2018. The Company is also in Administration and this Annual Report should be read in conjunction with the Joint Administrators’ previous reports, the Joint Administrators’ Statement of Proposals dated 23 February 2009 and interim update dated 15 November 2016 as well as the most recent Administration progress report dated 13 August 2019.

Additional copies of this Annual Report, and the previous reports referred to, can be made available on request or can be obtained at the following address [www.emeanortel.com](http://www.emeanortel.com).

Capitalised terms used in this Annual Report shall have the same meaning as set out in Annex 1 (*Definitions and Interpretation*) of the CVA.

**Brief Background**

*Secondary Proceedings*

In order to facilitate the progress and purpose of the administration, the Joint Administrators made a request to the Commercial Court of Versailles which resulted in the placing of the Company into liquidation judiciaire on 28 May 2009 (the “Secondary Proceeding”). The conduct of the business located in France, has, since May 2009, been under the control of Maître Cosme Rogeau as Liquidateur Judiciaire (the “Liquidator”) and for the period of his appointment as such Maître Frank Michel as administrateur judiciaire (together the “French Officeholders”).

This annual CVA report does not seek to set out matters that are specific to the Secondary Proceeding, but sets out the progress of the CVA of the Company. This report does not contain details of realisation of local assets or adjudication of creditor claims by the Liquidator in the Secondary Proceeding.

This report does set out steps that are being taken to distribute the assets of the Company as being subject to the English law Administration (the “Main Proceeding”) and co-ordinate certain aspects of the final stages of the CVA and Administration with the Liquidator and the Secondary Proceeding.

#### *Company Voluntary Arrangement*

On 24 August 2018, the Joint Administrators issued the Proposal for a CVA. A CVA is a legal process often used to facilitate distributions to creditors in complex situations. The CVA also provided a mechanism to govern the treatment of admitted CVA claims which have received or are expected to receive a distribution in the Secondary Proceeding, via the principle of hotchpot, in an equitable way.

In summary the proposed CVA sought to:

- Provide a mechanism for the Joint Administrators, as Joint Supervisors, to determine creditor claims and distribute funds as quickly as possible;
- Impose a bar date, being 11 February 2019 (“the Bar Date”) by which pre-appointment claims against the Company were to be submitted to the Joint Supervisors, allowing distributions to occur in a timely manner; and
- Provide for the application of the principle of hotchpot.

On 5 October 2018, meetings of both the Company’s creditors and members were held to vote on the Proposal. The Proposal was approved by both the Company’s creditors and members and the Effective Date occurred on 6 November 2018.

The CVA is being supervised by the Joint Supervisors, being A R Bloom, S J Harris, A M Hudson and S J Taylor, who act as agents of the Company and without personal liability. J Hewitt-Schembri resigned as a Joint Supervisor on 17 July 2019 and her resignation became effective on 14 August 2019.

#### **Claim adjudication and distributions to creditors**

In accordance with the Terms of the CVA, the Joint Supervisors have adjudicated the overwhelming majority of the CVA Claims which were received in advance of the Bar Date. The total value of claims submitted was c.€3,059,843,571, of which €67,533,528 has been admitted to date, €2,985,588,708 (including a significant contingent claim submitted by the UK Pensions Regulator) has been rejected and claims of €6,721,335 remain to be adjudicated by the Joint Supervisors. Please note that these figures include a number of CVA Claims which have been determined subsequent to the period of this Annual Report.

In consultation with the Joint Supervisors, the Joint Administrators have determined the amount of cash available to be paid to the Joint Supervisors to facilitate a first interim distribution to creditors. This first interim distribution is anticipated to be made in December 2019.

### *Claim Adjudication*

The Joint Supervisors took receipt of claims filed directly into the NNSA CVA and also took receipt of certain claims from the Liquidator.

In total the Joint Supervisors were in receipt of approximately some 740 CVA claims. Approximately 519 claims were from former employees, 170 were from trade creditors, 2 were from landlords, 33 were from other Nortel entities and 16 were from fiscal or tax authorities.

The Joint Supervisors were required to adjudicate the CVA Claims in accordance with the terms of the CVA. This process was supported by the residual Nortel EMEA accounting function and also by the Liquidator of the Secondary Proceedings.

The Joint Supervisors have now issued decision notices to the vast majority of the CVA Creditors along with information regarding payments to be made on account of admitted CVA Claims. If you are a CVA Creditor, please note the importance of these decision notices.

### *Estimated Outcome for the Claimants*

We also draw your attention to the Estimated Outcome Statement at Annex 6 of the CVA Proposal and the Explanatory Letter at Annex 11 of the CVA Proposal. In respect of this Lower Case Estimated Outcome Statement (“**EOS**”) for the Main Proceeding, we advise that a significant disputed creditor claim (referenced in note 12 to the Lower Case EOS) was included at a higher amount of approximately €54m. This claim has now been adjudicated and has been admitted at a level of circa €22 million towards the lower amount included in the Higher Case EOS.

The Joint Supervisors therefore believe that the Lower Case EOS, which illustrated a dividend of 43.6 c in the € is likely no longer relevant to the CVA. As a consequence of the above, the Joint Supervisors believe that it is now likely that unsecured creditors in the CVA may (without further realisations being made by the Joint Administrators or the Liquidator) receive aggregate dividends close to 70 c in the €.

The ability of the Joint Supervisors to pay a higher dividend, beyond an estimated 70 c in the €, turns on the ability of the Liquidator to agree and finalise the tax treatment of certain tax claims with the French Tax Authority, *Direction générale des entreprises* (the “**DGE**”), and potentially to give substantive effect to certain tax long period refunds in the insolvency proceedings.

The Joint Administrators and the Liquidator are carefully considering the steps that need to be undertaken in respect of the DGE, but we are hopeful further progress will be made in due course. It is possible that CVA creditors could make a recovery of 100 c in the € in the CVA on CVA Claims if the residual steps are completed successfully.

### *Timing of Distribution to CVA Claimants*

The timing of the initial distribution to CVA creditors has been governed by the following important matters.

First, the Joint Administrators and Joint Supervisors believed it was important to complete the TUP, eliminating the CVA claim of NNF into NNSA. The TUP completed at the end of October 2019. Please see the Joint Administrators latest progress report, dated 13 August 2019, for further details regarding the TUP.

Following the completion of the TUP and the successful substantial adjudication of claims in the CVA, the Joint Supervisors expect to be in a position to make the initial distribution to CVA Claimants in December 2019.

Subsequent distributions will have regard to the likely completion of all matters in the insolvency proceedings of NNSA and, in particular, the ability of the *Liquidateur Judiciaire* to take appropriate steps to finalise the taxation matters.

### **Nominees' and Joint Supervisors' time costs**

The period from which the decision was made to propose a CVA to creditors until the CVA is approved by creditors represents the period where the Joint Administrators acted as the Joint Nominees. This period, together with the period since the approval of the CVA, shall be referred to as the "CVA period" in this section.

The Nominees' costs are those costs incurred by the Nominees during the period leading up to the approval of the CVA.

The Joint Supervisors' time costs are those time costs incurred following the approval of the CVA by the creditors on 5 October 2018.

Detailed below are the Nominees' and Joint Supervisors' time costs for each of Ernst & Young LLP and Isonomy Ltd:

#### *1. A R Bloom, S J Harris and A M Hudson of Ernst & Young LLP*

A R Bloom, S J Harris and A M Hudson as the Nominees and Joint Supervisors of the CVA have incurred "Direct time costs" of £72,213.00 and £391,087.10 respectively in the CVA period to 27 September 2019, totalling £463,300.10. In addition to this amount, our local team (EY France) has incurred time costs of €88,554.00 (equating to £75,151.20 at today's exchange rate).

In addition, during the CVA period, A R Bloom, S J Harris and A M Hudson as the Joint Supervisors have apportioned between certain other Nortel EMEA entities (which are also in a CVA process) certain time costs for workstreams undertaken for the benefit of the Nortel EMEA entities ("General time costs"). During the CVA period to 27 September 2019, £158,143.87 of Nominees' General time costs were allocated to the Company in respect of these apportionments.

A R Bloom, S J Harris and A M Hudson as the Nominees' and Joint Supervisors' total time costs, including both Direct and General time, for the period to 27 September 2019 are £696,595.17.

#### *2. S J Taylor of Isonomy Ltd*

S J Taylor as a Nominee and Joint Supervisor of the CVA has incurred time costs of £90,504.00 and £177,840.00 respectively in the CVA period to 27 September 2019, totalling £268,344.00.

The Joint Supervisors will seek the approval of the CVA Creditors' Committee or the English Court for their time costs for the CVA period to 27 September 2019, as appropriate, in due course. A summary of the time costs incurred by the Nominees' and Joint Supervisors' EY United Kingdom team for the CVA period to 27 September 2019 is appended to this Annual Report for creditors' information (see Appendix 1). It has not been possible to provide a similar detailed breakdown of the Nominees' and Joint Supervisors' local team time or of the time costs incurred by S J Taylor /

Isonomy Ltd at this juncture, however, a full detailed breakdown will be provided to creditors in due course.

Remuneration of the Joint Supervisors is governed by the terms of the CVA. Further information is given in the Association of Business Recovery Professionals' publication 'A creditors' guide to insolvency practitioners' fees under voluntary arrangements' a copy of which may be accessed from the web site of the Institute of Chartered Accountants in England and Wales at <https://www.icaew.com/en/technical/insolvency/creditors-guides> or is available in hard copy upon written request to me.

### **Receipts and Payments Account**

Attached at Appendix 2 is the Joint Supervisors' receipts and payments ("R & P") account for the CVA period to 4 October 2019 in respect of the Company.

As at 4 October 2019, the Company held cash of €7,698.85 in the Joint Supervisors' bank accounts.

Further detailed notes in respect of the R & P account for the period to 4 October 2019 are provided at Appendix 2.

Future communications will be uploaded to the Nortel websites, the addresses of which are: [www.emeanortel.com](http://www.emeanortel.com) and [cva.emeanortel.com](http://cva.emeanortel.com).

We should like to take this opportunity to thank the creditors of the Company and the Creditors' Committee for their continued support during the Administration and CVA.

Yours faithfully  
For and on behalf of Nortel Networks S.A.



S J Harris  
Joint Supervisor

The Institute of Chartered Accountants in England and Wales in the UK authorises A R Bloom, S J Harris and S J Taylor to act as Insolvency Practitioners under section 390A(2)(a) of the Insolvency Act 1986 and the Association of Chartered Certified Accountants in the UK authorises A M Hudson to act as Insolvency Practitioners under section 390A(2)(a) of the Insolvency Act 1986.

The affairs, business and property of Nortel Networks S.A. are being managed by the Administrators, A R Bloom, S J Harris, A M Hudson and S J Taylor who act as agents of Nortel Networks S.A. only and without personal liability.

Nortel Networks S.A. was placed into French liquidation judiciaire on 28 May 2009. The business and assets of the company that are situated in France are now under the control of la liquidateur judiciaire.

The Company is also subject to a Company Voluntary Arrangement. The Joint Supervisors are A R Bloom, S J Harris, A M Hudson and S J Taylor who act as agents of the Company and without personal liability.

We advise that this Report is provided pursuant to our appointments as Joint Administrators of the Company. It is provided solely for the purpose of informing creditors of certain aspects of the current status of the Administration. As this Report is only an interim indication of the overall position of the Company, and not a valuation of the current or future value of any particular item of debt, and is liable to change, it should not be relied upon as an indication of the final return to creditors and, in particular, neither we nor the Company shall have any responsibility to any person who relies on our Report for the purpose of trading in debt of the Company.



The Joint Administrators may act as data controllers of personal data as defined by the General Data Protection Regulation 2016/679, depending upon the specific processing activities undertaken. Ernst & Young LLP and/or the Companies may act as a data processor on the instructions of the Joint Administrators. Personal data will be kept secure and processed only for matters relating to the Joint Administrator's appointment. The Office Holder Data Privacy Notice can be found at [www.ey.com/uk/officeholderprivacy](http://www.ey.com/uk/officeholderprivacy). The Joint Administrators are bound by the Insolvency Code of Ethics.

## Appendix 1

### Nortel Networks S.A. (In Administration and subject to a CVA)

#### Joint Supervisors' Abstract of fees for the period to 27 September 2019

#### Summary of total EY United Kingdom time costs incurred for the period

Time costs for the CVA period to 27 September 2019	£
Nominees' direct time costs	72,213.00
Nominees' general CVA planning time costs	158,143.87
Joint Supervisors' direct time costs	391,087.10
Joint Supervisors' general CVA time costs	-
<b>Total time costs for the CVA period to 27 September 2019</b>	<b>621,443.97</b>

#### Nominees' Direct time cost for the period

Activity	Hours					Total sum of hours	Average hourly rate (£)	Time costs for Period to 27 September 2019 (£)
	Director / Executive Director	Assistant Director	Manager	Executive / Assistant Executive	Analyst			
Nominees' direct time	51.0	-	54.9	-	52.1	158.0	457.04	72,213.00
<b>Grand Total</b>	<b>51.0</b>	<b>-</b>	<b>54.9</b>	<b>-</b>	<b>52.1</b>	<b>158.0</b>		<b>72,213.00</b>
Average hourly rate (£)	770.00	-	415.00	-	195.00			
Time costs for the Period (£)	39,270.00	-	22,783.50	-	10,159.50			

#### Joint Supervisors' Direct time cost for the period

Activity	Hours					Total sum of hours	Average hourly rate (£)	Time costs for the Period to 27 September 2019 (£)
	Director / Executive Director	Assistant Director	Manager	Executive / Assistant Executive	Analyst			
Creditor claim adjudication	16.5	-	129.5	50.0	331.6	527.6	277.82	146,578.10
Creditors (Mandatory)	51.5	-	55.7	-	22.7	129.9		67,215.50
Nominees' time	52.0	-	42.8	2.8	36.3	133.9	491.26	65,780.00
Creditor correspondence	1.5	-	37.2	14.0	81.4	134.1	274.29	36,781.70
Statutory	10.0	-	24.2	5.3	41.7	81.2	338.90	27,518.50
Estimated Outcome Statement	-	-	28.8	-	25.5	54.3		16,921.20
Finance, accounting and administration	-	-	4.6	4.8	47.3	56.7	222.91	12,639.20
Fees and time costs	-	-	2.0	3.5	29.5	35.0	162.51	5,688.00
Creditors' Committee	-	-	0.5	-	16.9	17.4	202.26	3,519.40
Accounting and Administration	-	-	-	1.9	14.9	16.8		3,379.90
Job Acceptance & Strategy M	-	-	0.8	0.0	11.2	12.0		2,001.40
Employee Matters	1.0	-	-	-	5.0	6.0		1,751.00
Legal Issues	-	-	-	-	4.9	4.9		960.40
Distribution	-	-	-	-	1.8	1.8	196.00	352.80
retention of Title	-	-	0.0	-	-	0.0		0.00
Annual progress report	-	-	-	-	-	-		-
Corporation tax	-	-	-	-	-	-		-
VAT	-	-	-	-	-	-		-
<b>Grand Total</b>	<b>132.5</b>	<b>-</b>	<b>326.1</b>	<b>82.3</b>	<b>670.7</b>	<b>1,211.6</b>		<b>391,087.10</b>
Average hourly rate (£)	771.00	-	414.00	294.50	193.36			
Total time costs for Period (£)	102,157.50	-	135,005.40	24,237.00	129,687.20			

#### Nominees' General time cost for the period

Activity	Hours					Total sum of hours	Average hourly rate (£)	Total time costs for Period to 27 September 2019 (£)	Company cost percentage allocation	Time costs for the Company for the Period to 27 September 2019 (£)	
	Partner	Director / Executive Director	Assistant Director	Manager	Executive / Assistant Executive						Analyst
Total Nominees' general time	3.1	416.4	553.7	540.9	44.9	1,935	1,752.5	519.81	910,967.00	17.36%	158,143.87
Average hourly rate (£)	805.00	770.00	565.00	415.00	293.64	193.00					
Time costs for the Period (£)	2,495.50	320,628.00	312,840.50	224,473.50	13,184.50	37,345.00					

## Appendix 2

### Nortel Networks S.A. (In Administration and subject to a CVA)

#### Joint Supervisors' Abstract of Receipts and Payments from 5 October 2018 to 4 October 2019

Currency: EUR	Notes	Period 5 October 2018 to 4 October 2019
Opening balance		-
<u>Receipts</u>		
- Transfer from Administrators		513,230
		<u>513,230</u>
<u>Payments</u>		
- Joint Supervisors' fees and disbursements		(497,011)
- Legal fee recharges	1	(8,520)
		<u>(505,531)</u>
Closing balance		<u><u>7,699</u></u>
Account reconciliations:		-
Supervisor's Accounts		<u><u>7,699</u></u>

#### Notes to R&P

##### Note 1

Recharges relate to legal fees which are billed to the shareholder (Nortel Networks International Finance & Holding BV (In Dutch liquidation)) and allocated to each entity respective of work completed in the period.