

TO ALL KNOWN CREDITORS

19 June 2019

Ref: MLP/5W/SJH/BT/SF

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Dear Sirs

Nortel Networks S.p.A. (in Administration and subject to a Company Voluntary Arrangement (“CVA”)) (the “Company”)

In the High Court of Justice, Business and Property Courts of England & Wales, Companies and Insolvency List (ChD) No. 552 of 2009 / CR-2009-000035

Incorporated in Italy with registered number 1307425. The Company's registered address is Via Senigallia n. 18/2, Milan North Park, 20161 Milan, Italy

Joint Supervisors' Annual CVA Progress Report

I write to provide you with the Joint Supervisors' annual progress report (“Annual Report”), which includes details of the progress of the CVA of the Company. This Annual Report covers the 12 month period from 5 May 2018 to 4 May 2019 and should be read in conjunction with the CVA Proposal dated 5 April 2017. 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 11 February 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.

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

On 5 April 2017, 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 platform to resolve, in an equitable way, the threat of the Financial Support Directives (“FSD”) that had been brought by the UK Pension Regulator (the “Regulator”) against the Company and certain other EMEA entities in the Nortel group.

In summary the proposed CVA sought to:

- Resolve the FSD claim which could have otherwise significantly diluted and/or delayed returns to creditors;
- Provide a mechanism for the Joint Administrators as the Joint Supervisors to determine creditor claims and distribute funds as quickly as possible; and

- Impose a bar date, being 22 December 2017 (“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.

On 5 May 2017, 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 8 May 2017.

The CVA is being supervised by the Joint Supervisors, being A R Bloom, S J Harris, A M Hudson and J Hewitt-Schembri, who act as agents of the Company and without personal liability.

Claim adjudication and distributions to creditors

In accordance with the Terms of the CVA, the Joint Supervisors adjudicated the CVA Claims received in advance of the Bar Date. The total value of claims submitted was £2,153,275,401.54 (including a significant contingent claim submitted by the Regulator), of which £4,969,558.55 has now been admitted for payment and £2,148,283,222.65 has been rejected. One CVA Claim totalling £22,620.34 is subject to final adjudication by the Joint Supervisors and is expected to be finally determined shortly.

In March 2018, in consultation with the Joint Supervisors, the Joint Administrators determined the amount of cash available to be paid to the Joint Supervisors to facilitate a first interim distribution to creditors. Subsequently, on 16 March 2018, the Joint Supervisors gave notice of the making of a first interim distribution of 95p in the £ to creditors with Allowed claims.

The Joint Supervisors anticipate that they will make a further distribution to unsecured creditors with Allowed CVA claims in 2019.

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 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 May 2017.

The Nominees and Joint Supervisors of the CVA have incurred “Direct time costs” of £53,111.00 and £143,590.40 respectively in the CVA period to 4 May 2019, totalling £196,701.40.

In addition, during the CVA period, the Joint Supervisors have apportioned between certain other Nortel EMEA entities (which are also in a CVA process or shortly will be) certain time costs for workstreams undertaken for the benefit of the Nortel EMEA entities (“General time costs”). During the CVA period to 4 May 2019, £13,520.93 of Nominees’ General time costs and £1,145.64 of Joint Supervisors’ General time costs were allocated to the Company in respect of these apportionments.

The Nominees’ and Joint Supervisors’ total time costs, including both Direct and General time, for the period to 4 May 2019 are £211,367.97.

In accordance with Clause 30.7 of the CVA, the CVA Creditors’ Committee has previously approved certain of these time costs for the period to 4 May 2018, totalling £185,174.76. This leaves an outstanding balance of time costs to be approved of £26,193.21 for the period from 5 May 2018 to 4 May

2019. The Joint Supervisors will seek the approval of creditors or the English Court for their time costs for the period from 5 May 2018, as appropriate, in due course.

A summary of the time costs incurred for the CVA period to 4 May 2019 are appended to this Annual Report for creditors' information (see Appendix 1).

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

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

As at 4 May 2019, the Company held cash of £13,005.45 in the Joint Supervisors' bank accounts.

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

Outstanding Work and Exit Strategy

The Company has a number of assets which are yet to be realised, including the residual balances due in respect of a small number of intercompany trading claims against other Nortel group companies (including the residual balance due in respect of the Company's pre-appointment claim against Nortel Networks Limited ("Nortel Canada")) and certain potential tax assets. In respect of the intercompany receivable balances owed to the Company, the Joint Administrators are assessing the likely timing of any further dividends and are considering appropriate alternative asset realisation strategies should these funds not be realisable within the relatively near term.

In respect of the Company's unsecured pre-appointment claim against Nortel Canada, an initial distribution from Nortel Canada of £749,027 was received by the Company on 11 July 2017, reflecting a dividend of 41.5 cents in the dollar. A second interim dividend of £77,904 was received from Nortel Canada on 11 December 2018, reflecting a dividend of 4.3 cents in the dollar (bringing the total dividends to date to 45.8 cents in the dollar). It is understood that further dividends may be received in respect of the Company's claim against Nortel Canada in 2020. The timing and quantum of these dividends is not known at the present time; however, any further receipts are not expected to be material to the Company.

The quantum of the final dividend to unsecured creditors of the Company will depend upon the remaining asset realisations set out above as well as the final costs necessary to place the Company into a local winding up procedure in Italy. As such, it will not be possible to pay the third and final dividend to unsecured creditors until the final assets have been realised and the plan for the winding up of the Company has been finalised. This planning in this regard is underway and the Joint Supervisors anticipate that they should be in a position to distribute the remaining 5p in the pound in respect of the principal element of unsecured creditors' claims before the end of 2019.

Following the making of the final distribution to unsecured creditors, the Joint Supervisors expect to terminate the CVA allowing the Joint Administrators to make an application to Court for an order to terminate the Administration of the Company and for their discharge from office subject to the winding up of the Company in Italy.

The Joint Administrators are assessing the necessary steps to liquidate and dissolve the Company in accordance with the law in Italy and continue to obtain local legal and accounting advice in this regard.

The Joint Administrators will continue to update creditors as matters progress towards a final distribution and will be updating the websites: www.emeanortel.com and <https://cva.emeanortel.com>.

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

Yours faithfully

For and on behalf of Nortel Networks S.p.A.



S J Harris
Joint Supervisor

For the Company, The Institute of Chartered Accountants in England and Wales in the UK authorises A R Bloom and S J Harris 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 Practitioner under section 390A(2)(a) of the Insolvency Act 1986. The Institute of Chartered Accountants in Scotland in the UK authorises J Hewitt-Schembri to act as an Insolvency Practitioner under section 390A(2)(a) of the Insolvency Act 1986.

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

The Company was also subject to a Company Voluntary Arrangement. The Joint Supervisors were A R Bloom, S J Harris, A M Hudson and J Hewitt-Schembri who acted as agents of the CVA Company and without personal liability.

We advise that this report is provided pursuant to our appointments as Joint Supervisors of the Company. It is provided solely for the purpose of informing creditors of certain aspects of the current status of the CVA. 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 and Joint Supervisors may collect, use, transfer, store or otherwise process (collectively, "Process") information that can be linked to specific individuals ("Personal Data"). They may Process Personal Data in various jurisdictions in accordance with applicable law and professional regulations including (without limitation) the Data Protection Act 2018.

The Joint Administrators and Joint Supervisors 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 and Joint Supervisors. Personal data will be kept secure and processed only for matters relating to the Joint Administrators' and Joint Supervisors' appointment. The Office Holder Data Privacy Notice can be found at www.ey.com/uk/officeholderprivacy.

Appendix 1

Nortel Networks S.p.A. (In Administration and subject to a Company Voluntary Arrangement (“CVA”))

Joint Supervisors’ Abstract of fees for the period to 4 May 2019

Summary of total time costs incurred for the period

Time costs for the CVA period to 4 May 2019	£
Total Nominees' direct time costs	53,111.00
Total Nominees' general time costs	13,520.93
Total Joint Supervisors' direct time costs	143,590.40
Total Joint Supervisors' general time costs	1,145.64
Total time costs for the CVA period to 4 May 2019	211,367.97
Time costs approved to date (to 4 May 2018)	
Nominees' direct time costs approved to date (to 4 May 2018)	(53,111.00)
Nominees' general time costs approved to date (to 4 May 2018)	(13,520.93)
Joint Supervisors' direct time costs approved to date (to 4 May 2018)	(117,470.00)
Joint Supervisors' general time costs approved to date (to 4 May 2018)	(1,072.83)
Total time costs approved to date (to 4 May 2018)	(185,174.76)
Total time costs for approval	26,193.21

Nominees’ Direct time cost for the period

Activity	Hours				Total sum of hours	Average hourly rate (£)	Time costs for Period to 4 May 2019 (£)
	Director / Executive Director	Assistant Director	Manager	Analyst			
Nominees' direct time	14.5	33.0	30.2	55.3	133.0	399.33	53,111.00
Grand Total	14.5	33.0	30.2	55.3	133.0		53,111.00
Average hourly rate (£)	770.00	565.00	415.00	194.72			
Time costs for the Period (£)	11,165.00	18,645.00	12,533.00	10,768.00			

Joint Supervisors’ Direct time cost for the period

Activity	Hours					Total sum of hours	Average hourly rate (£)	Time costs for the Period to 4 May 2019 (£)
	Director / Executive Director	Assistant Director	Manager	Executive / Assistant Executive	Analyst			
Creditor claim adjudication	8.5	12.5	64.6	-	-	40.7	126.3	382.77
Creditor correspondence	2.0	-	23.7	21.0	-	29.7	76.4	238.71
Distribution	1.2	1.2	17.1	20.0	-	19.3	54.6	324.94
Nominees' time	0.2	11.6	13.0	1.3	-	19.3	45.4	355.83
Creditors' Committee	1.5	-	1.0	10.5	-	24.0	37.0	255.51
Finance, accounting and administration	0.5	0.1	9.9	11.2	-	4.1	25.8	339.76
Fees and time costs	-	0.6	-	10.1	-	14.1	24.8	249.20
Corporation tax	-	-	18.0	-	-	-	18.0	415.00
Statutory	1.2	-	1.5	3.0	-	8.3	14.0	331.04
Annual progress report	1.5	-	2.0	7.0	-	2.0	12.5	360.80
Distribution Model	-	-	4.4	-	-	-	4.4	415.00
Legal	-	-	-	-	-	1.0	1.0	195.00
VAT	-	-	-	-	-	0.4	0.4	195.00
Grand Total	16.6	27.5	156.7	81.1	158.7	440.6		143,590.40
Average hourly rate (£)	770.24	564.98	414.92	239.17	194.41			
Total time costs for Period (£)	12,786.00	15,536.90	65,018.40	19,396.50	30,852.60			

Nominees’ General time cost for the period

Activity	Hours						Total sum of hours	Average hourly rate (£)	Total time costs for Period to 4 May 2019 (£)	Company cost percentage allocation	Time costs for the Company for the Period to 4 May 2019 (£)
	Partner	Director / Executive Director	Assistant Director	Manager	Executive / Assistant Executive	Analyst					
Total Nominees' general time	3.1	393.9	503.7	520.9	6.0	163.1	1,990.7	527.95	839,809.50	1.61%	13,520.93
Average hourly rate (£)	805.00	770.00	565.00	415.00	305.00	192.62					
Time costs for the Period (£)	2,495.50	303,303.00	284,590.50	216,173.50	1,830.00	31,417.00					

Joint Supervisors’ General time cost for the period

Activity	Hours					Total sum of hours	Average hourly rate (£)	Total time costs for the period to 03 May 2019 (£)	Company cost percentage allocation	Time costs for the Company for the period to 03 May 2019 (£)
	Director / Executive Director	Assistant Director	Manager	Executive / Assistant Executive	Analyst					
Supervisors' general time	22.5	50.0	20.0	38.9	30.4	161.8	439.79	71,157.50	1.61%	1,145.64
Grand Total	22.50	50.00	20.00	38.9	30.4	161.8		71,157.50		1,145.64
Average hourly rate (£)	770.00	565.00	415.00	291.89	195.00					
Time costs for Period (£)	17,325.00	28,250.00	8,300.00	11,354.50	5,928.00					

Appendix 2

Nortel Networks S.p.A. (In Administration and subject to a Company Voluntary Arrangement (“CVA”))

Joint Supervisors’ Abstract of Receipts and Payments from 5 May 2018 to 4 May 2019

Nortel Networks S.p.A. (In Administration and subject to a Company Voluntary Arrangement) Supervisors' receipts and payments account for the period 5 May 2018 to 4 May 2019				
Currency: GBP	Notes	Period 5 May 2017 to 4 May 2018	Period 5 May 2018 to 4 May 2019	Total to 5 May 2019
Opening balance		-	5,267	-
Receipts				
- Transfer from Administrators	1	<u>3,164,500</u>	<u>1,715,485</u>	<u>4,879,984</u>
		3,164,500	1,715,485	4,879,984
Payments				
- Distribution to creditors	2	(3,039,725)	(1,535,456)	(4,575,181)
- Joint Supervisors' fees and disbursements		(118,402)	(87,508)	(205,909)
- Legal fee recharges	3	-	(84,719)	(84,719)
- Bank charges and interest		(1,105)	(65)	(1,170)
		<u>(3,159,232)</u>	<u>(1,707,747)</u>	<u>(4,866,979)</u>
Closing balance		<u>5,267</u>	<u>13,005</u>	<u>13,005</u>
Account reconciliations:				
- Unpresented cheques	4	13,002	-	-
Joint Supervisor's Accounts		<u>18,269</u>	<u>13,005</u>	<u>13,005</u>

Notes to R&P

Note 1

The amounts reported are inclusive of sales tax where applicable.

Note 2

Distribution to creditors represents the 100p in the £ distribution to admitted Local Priority Claims and the distribution of 95p in the £ to admitted Provable Claims.

Note 3

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

Note 4

Unpresented cheques represent distributions made to creditors by cheque which have not yet been cashed.