

**IN THE HIGH COURT OF JUSTICE  
THE BUSINESS AND PROPERTY COURTS OF ENGLAND AND WALES  
INSOLVENCY AND COMPANIES LIST (ChD)**

**IN THE MATTERS OF:**

|  |   |
|--|---|
| <b>NORTEL NETWORKS N.V.<br/>("NORTEL BELGIUM")</b>           | <b>No. 550 of 2009 / CR-2009-000034</b> |
| <b>NORTEL NETWORKS HISPANIA S.A.<br/>("NORTEL SPAIN")</b>    | <b>No. 535 of 2009 / CR-2009-000038</b> |
| <b>NORTEL NETWORKS PORTUGAL S.A.<br/>("NORTEL PORTUGAL")</b> | <b>No. 547 of 2009 / CR-2009-000043</b> |

**(EACH A "COMPANY" AND TOGETHER THE "COMPANIES")  
AND IN THE MATTER OF THE INSOLVENCY ACT 1986**

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**ELEVENTH WITNESS STATEMENT  
OF  
STEPHEN JOHN HARRIS**

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I, **STEPHEN JOHN HARRIS** of Ernst & Young LLP, 1 More London Place, London SE1 2AF, **DO STATE** as follows:

**INTRODUCTION**

1. I am a licensed insolvency practitioner and an Associate Partner in the firm of Ernst & Young LLP ("**E&Y**").
2. I was appointed as a joint administrator of each of the Companies on 14 January 2009 together with Alan Robert Bloom, Alan Michael Hudson and Christopher John Wilkinson Hill of E&Y pursuant to the Orders of Mr Justice Blackburne. Copies of those Orders are at **[1/1/1]** to **[1/1/10]** of SJH11.
3. In 2017 Mr Hill ceased to practice as an insolvency practitioner and on 11 September 2017 gave notice that he was to resign as a joint administrator of the Companies. Mr Hill formally resigned as a joint administrator on 20 September 2017 and notices of his resignation are exhibited at **[1/2/11]** to **[1/2/16]** of SJH11.

4. Where I use the term "**Joint Administrators**" in relation to matters or events before 20 September 2017 I am referring collectively to myself, Mr Bloom, Mr Hudson and Mr Hill. Where I use this term in relation to matters or events on or after 20 September 2017, I am referring collectively to myself, Mr Bloom and Mr Hudson.
5. Save where I indicate to the contrary, the facts contained in this witness statement are within my own knowledge and are true. Where the facts stated are not within my own knowledge I have identified my sources of information and/or belief.
6. Nothing in this witness statement is intended, nor should be taken, as a waiver of privilege in relation to matters dealt with in this witness statement.
7. There is now produced and shown to me a bundle of documents marked "**SJH11**" to which I shall refer in this witness statement. References in this document to exhibits are in the form [**Volume/Tab/Page**]. Volume 5 of SJH11 comprises a number of Schedules setting out the detail of the Joint Administrators' remuneration and CVA Supervisors' fees for which the Court's approval is sought. The Schedules are explained in detail at Section K (*Detail of the remuneration and the Schedules*) at paragraphs 126 to 134 below.

## **A. OVERVIEW**

### **(a) The Relief Sought**

8. I am duly authorised to make this witness statement on behalf of the Joint Administrators in support of their applications (the "**Applications**") for Orders in the form set out in the draft orders, being that:
  - 8.1 the appointment of the Joint Administrators in respect of each Company shall cease to have effect pursuant to paragraph 79(1) of Schedule B1 to the Insolvency Act 1986 (the "**Act**") from the time of the taking of the relevant step (as described below) to wind up each Company in accordance with the law of its jurisdiction of incorporation;
  - 8.2 the Joint Administrators of each of the Companies be discharged from liability pursuant to paragraph 98 of Schedule B1 to the Act with effect from 28 days after the date on which their appointment has been terminated in the manner set out at paragraph 8.1 above;
  - 8.3 if the relevant step required to wind up a Company (as referred to in paragraph 8.1 above) is not completed within 60 days of the date of the relevant Order the matter be re-listed for hearing within 14 days;
  - 8.4 the Joint Administrators' remuneration in relation to the Administrations of each of the Companies for the period from last approval by each Company's creditors or creditors' committee to 15 March 2019 ("**Period 1**") and for the period from 16 March 2019 to the termination of the Joint Administrators' appointment ("**Period**

2"), be fixed by reference to time properly given by the Joint Administrators and their staff and, in the case of Period 2, by reference to forecast time costs and subject to a cap, the details of which are set out in the draft orders;

8.5 the balance of fees for the period from the last approval by that Company's creditors or Creditors' Committee to the termination of that Company's CVA be approved and be paid to the CVA Supervisors; and

8.6 the costs of and incidental to the Applications be paid as expenses of the Administrations of the Companies.

9. For ease of reference, the table below is a summary of the quantum of the Joint Administrators' remuneration and the CVA Supervisors' fees for which the Court's approval is sought in the present Applications (including, insofar as the Joint Administrators' remuneration is concerned, both time costs which have already been incurred and time costs which are forecast to be incurred). Further detail is set out at Section K (*Detail of the remuneration and the Schedules*) at paragraphs 126 to 134 below.

| Company         | Period 1 dates                     | Administration |            | CVA        |                | Total       |
|-----------------|------------------------------------|----------------|------------|------------|----------------|-------------|
|                 |                                    | Period 1       | Period 2   | Period 1   | Period 2       |             |
| Nortel Belgium  | 31 March 2018 to 15 March 2019     | £325,074.79    | £18,544.13 | £34,930.52 | £2,200.00      | £380,749.44 |
| Nortel Portugal | 30 September 2017 to 15 March 2019 | £342,197.33    | £18,907.73 | £48,187.17 | £2,200.00      | £411,492.23 |
| Nortel Spain    | 30 June 2018 to 15 March 2019      | £323,730.76    | £19,871.73 | £21,618.50 | Not applicable | £365,220.99 |

**(b) The Structure of this Witness Statement**

10. This witness statement is divided into the following sections:

- 10.1 A. OVERVIEW – page 2
- 10.2 B. BACKGROUND – page 4
- 10.3 C. PURPOSE OF THE ADMINISTRATIONS – page 4
- 10.4 D. REPORTING PROGRESS OF THE ADMINISTRATIONS – page 6
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- 10.9 I. THE REASONS FOR THE REMUNERATION APPLICATIONS – page 19

- 10.10 J. COMMON ASPECTS AND PROCESSES APPLIED TO ALL COMPANIES – page 25
- 10.11 K. DETAIL OF THE REMUNERATION AND THE SCHEDULES – page 32
- 10.12 L. DETAIL OF THE REMUNERATION BY COMPANY – page 37
- 10.13 M. RELIEF SOUGHT – page 40
- 10.14 N. CONCLUSION – page 41

## **B. BACKGROUND**

- 11. In order to assist the Court in understanding the progress made by the Joint Administrators in achieving the statutory purpose of the Administrations, I briefly set out below certain background information that is relevant in the context of the present Applications.
- 12. The Nortel group was a global supplier of networking solutions (i.e. telecommunications, computer networks and software) serving customers in Canada, the US, the Caribbean, Latin America, Asia and Europe, the Middle East and Africa ("**EMEA**").
- 13. On 14 January 2009 in a series of coordinated filings:
  - 13.1 Nortel Networks Corporation (the ultimate holding company for the Nortel group) and Nortel Networks Limited ("**NNL (Canada)**") (the primary Canadian operating company and holding company for most of the Nortel global subsidiaries) together with certain Canadian subsidiaries (collectively, the "**Canadian Debtors**"), sought protection under the Companies' Creditors Arrangement Act;
  - 13.2 Nortel Networks Inc. (the primary US Nortel operating company) and Nortel Networks Capital Corporation (together with certain of their direct and indirect US subsidiaries, which I collectively refer to as the "**US Debtors**"), filed voluntary petitions in the US Bankruptcy Court for the District of Delaware pursuant to Chapter 11 of the US Bankruptcy Code; and
  - 13.3 the Companies, Nortel Networks UK Limited ("**NNUK**") and a number of other companies in the Nortel EMEA Group (together, the "**EMEA Debtors**") were placed into administration by Orders of Mr Justice Blackburne and the Joint Administrators were appointed to each of the EMEA Debtors. Each of the Administrations of the Companies is a main insolvency proceeding as defined in Article 3(1) of the Council Regulation (EC) on Insolvency Proceedings 2000 (No 1346/2000) (the "**EC Insolvency Regulation**").
  - 13.4 Corporate structure charts of the Nortel EMEA Group and the Companies are at [1/3/17] to [1/3/18] of SJH11.

## **C. PURPOSE OF THE ADMINISTRATIONS**

- 14. The Joint Administrators set out their approach for achieving the statutory purpose of administration for each of the Companies in their statements of proposals dated 25 February

2009 (the "**Statements of Proposals**") that were approved by a creditors' meeting of each Company. Copies of the Statements of Proposals for each of the Companies are at [1/4/19] to [1/4/102] of SJH11. As the Joint Administrators explained in the Statements of Proposals, the proposals for each of the Companies were:

- 14.1 to continue to manage the Company's businesses, affairs and property during the period of the administration whilst the possibilities for a global restructuring of the Nortel business and/or a global sale of all or part of the Nortel business (together defined as the "**Global Restructuring**") were considered, progressed and given effect to by the Company as appropriate;
  - 14.2 during the process of the Global Restructuring, for the Company to continue trading and paying its suppliers and employees in respect of goods or services supplied to the Company after 14 January 2009 for so long as the Company required such goods or services;
  - 14.3 to monitor the cash and asset position of the Company and the general progress and prospects of the Global Restructuring in order to be satisfied that it may still be possible to rescue the Company as a going concern and/or achieve a sale of all or part of the Company's businesses as part of the Global Restructuring and that it was appropriate that the Company continue to trade rather than cease to trade and/or be placed into liquidation; and
  - 14.4 if the Joint Administrators decided that a Global Restructuring was not in the best interests of creditors or that the cost of continuing to trade was no longer in the best interests of creditors, the Joint Administrators would seek to achieve a better result for creditors of the Company as a whole than would be likely if the Company were wound up, by seeking to realise the best price for the business and/or assets of the Company as was obtainable in the circumstances, and then would take steps to enable the assets of the Company to be distributed to its creditors.
15. The Companies' administrations shall remain main proceedings for these purposes, at least for so long as the EC Insolvency Regulation remains in force in this jurisdiction. As matters stand, in particular in light of the extension under Article 50(3) of the Treaty on European Union granted on 10 April 2019 up until 31 October 2019, it appears likely that the Companies' administrations shall remain main proceedings up until the date on which the termination of each of the administrations becomes effective. However, it remains possible that the administrations will cease to be main proceedings before they are terminated (especially noting the June "review" which has been built into the recent Article 50 extension), in which eventuality it may be that the Joint Administrators will need, at that stage, to seek further directions from the Court.

#### D. REPORTING PROGRESS OF THE ADMINISTRATIONS

16. Following their appointment, the Joint Administrators have informed creditors of the progress of the Administrations. The Joint Administrators have prepared progress reports for each of the Companies on a six monthly basis since the beginning of the Administrations. Since my ninth witness statement in these proceedings, dated 29 November 2018 ("**Harris 9**"), made in support of the Joint Administrators' application to extend the Administrations of the Companies (**[1/5/103]** of SJH11), the Joint Administrators have prepared progress reports for each of the Companies for the period 14 July 2018 to 13 January 2019 (dated 11 February 2019, **[1/6/135]**, **[1/6/153]** and **[1/6/171]** of SJH11). Rule 3.57(1)(a) of the Insolvency (England & Wales) Rules 2016 (the "**Rules**") requires the Joint Administrators to provide the Court with a report on the progress of the Administrations of the Companies since the last progress report. Accordingly, for the purposes of the Applications, the Joint Administrators have prepared an interim progress report summarising the progress for each Company covering the period from 14 January 2019 to 15 April 2019 (the "**Supplemental Progress Report**") (at **[1/7/191]** of SJH11. Owing to the complex nature of the Nortel group's internal accounting systems, production of receipts and payments accounts required by Rule 18.3(1)(e) is an expensive and time consuming process. In light of this and to minimise expense to the Companies, the receipts and payments accounts which accompany the Supplemental Progress Report are reproduced from the most recent progress reports dated 13 January 2019.
17. Harris 9 was written in support of the applications to extend our terms of office and the administration of each of the Companies by a period of 12 months. Mr Justice Snowden granted the extension such that the Administrations of the Companies shall expire at 12:01pm on 14 January 2020. A copy of the Order dated 17 December 2018 is at **[1/8/209]** and a copy of the judgment of Mr Justice Snowden dated 17 December 2018 is provided at **[1/9/213]**.
18. The Joint Administrators have also uploaded a notice addressed to all creditors of each Company onto the Nortel EMEA Administration proceedings website (<http://www.emeanortel.com>) (the "**Nortel EMEA Website**"), to inform them of the making of the Applications on 4 April 2019, a copy of which is provided at **[1/10/217]** of SJH11. An update on any responses received by the Joint Administrators in connection therewith will be given to the Court at or before the hearing of the Applications. Creditors' committees were established for each of the Companies. Following the making of final distributions to the members of those Committees, such that their claims were satisfied in full, those Committees ceased to be quorate. Notices to the former members of the Committees to inform them of the making and hearing of the Applications are due to be sent immediately after the filing of these Applications and copies will be provided to the Court at or before the hearing of the Applications.

## E. GENERAL EMEA UPDATE

### Progress of the Administrations

19. Following their appointment, the Administrations have proceeded successfully and various sales of the Nortel group's business lines were concluded in 2010 in pursuit of the Joint Administrators' proposal to achieve a better result for creditors of the Company as a whole than would be likely if the Companies were wound up. The sales resulted in total global realisations of approximately US\$7.3 billion (net of certain costs) (the "**Sale Proceeds**"), around \$1.35 billion of which was ultimately received by the EMEA Nortel companies. A dispute in relation to the Sale Proceeds between the EMEA Debtors, the US Debtors and the Canadian Debtors, among other creditor constituencies was the subject of proceedings before the US and Canadian Courts (the "**Allocation Dispute**"). On 12 October 2016, the various parties to the Allocation Dispute entered into four settlement agreements comprising the Global Settlement: (a) the Settlement and Plans Support Agreement between (inter alia) the US Debtors, the Canadian Debtors and the Companies; (b) the UKPI Settlement Deed between (inter alia) the Companies and the UK Pension Interests – being the Pension Trustee of the NNUK Pension Scheme (the "**NNUK Pension Scheme Trustee**") and the Board of the Pension Protection Fund ("**UKPI**") ; (c) the Deed of Release between (inter alia) the Companies and the UK Pension Interests; and (d) the NNSA Settlement Deed in respect of the affairs of the French companies on the Nortel EMEA Group.
20. Mr Justice Snowden made an Order granting the Joint Administrators liberty to perform and to procure the Companies to perform the Global Settlement on 3 November 2016 ([1/11/219] of SJH11). The judgment given by Mr Justice Snowden is provided at [1/12/223] of SJH11.
21. The Global Settlement became effective on 8 May 2017 and each of the Companies received the allocation of Sale Proceeds agreed as part of the Global Settlement in May 2017.

### Distributions to expense creditors

22. Part of the process of ensuring that creditors are paid distributions expeditiously includes the Joint Administrators continuing to ensure that they have sufficient cash to meet the potential expenses of each of the Companies (or, where there is a shortfall of cash, to continue to ensure that the maximum amount of cash remains available to pay the potential expenses). To that end on 5 April 2017, the Joint Administrators of each Company made an application for directions from the Court to the Joint Administrators to inform potential claimants that any claims which are asserted to rank as administration expenses under English law ("**Expense Claims**") which had not at that point been made must be notified to the Joint Administrators on a prescribed form (the "**Demand Form**") on or before a specified date (the "**Expense Bar Date**") (the "**Expense Application**").
23. On 9 June 2017, Mr Justice Snowden made Orders granting the Joint Administrators directions as sought regarding the Expense Claims (the "**Expense Orders**"). The Expense

Bar Date was set for 27 October 2017 in the case of each of the applicant Companies. Copies of the Expense Orders made by Mr Justice Snowden are provided at [1/13/243], [1/13/253] and [1/13/263] of SJH11 and the judgment given by Mr Justice Snowden is provided at [1/14/273] of SJH11.

24. The Joint Administrators sent explanatory letters and Demand Forms in accordance with the terms of the Expense Orders and submitted a pro forma tax calculation to the Local Tax Authorities in the jurisdiction of each of the Companies' incorporation. The Joint Administrators can confirm that the claims submitted by those Local Tax Authorities have been dealt with by the Joint Administrators.
25. The Joint Administrators consider that the process of dealing with the Local Tax Authorities has gone well and the Expense Orders, combined with the work of the Joint Administrators' team to liaise with each Local Tax Authority, have allowed distributions to be made to the Companies' creditors such that all creditors (save certain intercompany subordinated creditors at Nortel Belgium) have been paid in full.

#### **F. PROGRESS OF THE CVAS**

26. On 25 June 2015, the Joint Administrators applied to the Court for liberty to promulgate CVAs in respect of each of the Companies. In Mr Bloom's eleventh witness statement dated 25 June 2015 ("**Bloom 11**"), the Joint Administrators set out that CVAs were considered by them to be the most appropriate process by which to determine the liabilities of the Companies and effect distributions to creditors under and in accordance with local laws in line with certain assurances given by the Joint Administrators to creditors. A copy of Bloom 11 is provided at [1/15/295] of SJH11.
27. Mr Justice Snowden made an Order dated 23 July 2015 granting the Joint Administrators liberty to promulgate CVAs in substantially the outline terms summarised in Bloom 11 in respect of each of the Companies. A copy of the Order and judgment given by Mr Justice Snowden are provided at [1/16/325] and [1/16/331] of SJH11.
28. In April 2017, the Joint Administrators proposed CVAs to the creditors of each Company. Copies of the proposals for each Company's CVA are at [2/1/1], [2/2/157] and [2/3/313] of SJH11.
29. During the summer of 2017, all of the proposed CVAs in respect of those Companies were approved by the requisite majority of each Company's creditors and members without modification. In each case, I have provided a copy of the relevant Chairman's report and the Notice of Effective Date (which was sent to creditors and posted on the Nortel EMEA Website) at [2/4/471], [2/4/477] and [2/4/483] of SJH11.
30. I set out in the table below the relevant dates for each of the CVAs. The "**Effective Date**" is the business day after the creditors' meeting. The "**Implementation Date**" is the date 28



days after the Effective Date. The "**CVA Bar Date**" is the date four months after the Effective Date.

| Company         | Notice of CVA | CVA Meeting | Effective Date | Implementation Date | CVA Bar Date      |
|-----------------|---------------|-------------|----------------|---------------------|-------------------|
| Nortel Portugal | 5 April 2017  | 9 May 2017  | 10 May 2017    | 7 June 2017         | 11 September 2017 |
| Nortel Spain    | 5 April 2017  | 9 May 2017  | 10 May 2017    | 7 June 2017         | 11 September 2017 |
| Nortel Belgium  | 5 April 2017  | 31 May 2017 | 1 June 2017    | 29 June 2017        | 2 October 2017    |

31. As set out in the terms of each of the CVAs, I was appointed as a supervisor of each CVA, together with Mr Bloom, Mr Hudson and Ms Hewitt-Schembri, of E&Y. Where I use the term "**CVA Supervisors**" I am referring collectively to myself, Mr Bloom, Mr Hudson and Ms Hewitt-Schembri.

#### **CCAA Subordinated Debts**

32. At the outset of the Administrations a number of trading balances were due from certain EMEA Debtors to the Canadian Debtors, including from the Companies. On 9 July 2014, the EMEA Debtors and the Canadian Debtors entered into a settlement in respect of certain claims between the two estates including, inter alia, these pre-filing intercompany trading balances (the "**Agreement Settling EMEA Canadian Claims**") ([3/1/1] of SJH11). The terms of the Agreement Settling EMEA Canadian Claims permit some of the intercompany trading balances against the EMEA Companies (the "**CCAA Subordinated Debts**") to be assigned to NNUK. If the assignment took place the claims concerned were to be subordinated to the claims of other unsecured creditors of the EMEA Debtors.
33. The details of the Agreement Settling EMEA Canadian Claims are set out in Mr Bloom's Tenth Witness Statement dated 14 July 2014 ("**Bloom 10**", at [3/2/33] of SJH11). His Honour Judge Hodge QC made an Order granting the Joint Administrators liberty to perform and procure the EMEA Debtors perform the Agreement Settling EMEA Canadian Claims. Copies of the Order and judgment dated 17 July 2014 are at [3/3/59] and [3/4/63] of SJH11. By way of an assignment dated 14 July 2014, the CCAA Subordinated Debts were assigned to NNUK and the Companies agreed that those CCAA Subordinated Debts would be subordinated to all unsecured claims. A copy of that assignment is at [3/5/77] of SJH11 and notices from NNUK to each of the applicant Companies, countersigned to confirm each Company's agreement to the assignment and subordination are at [3/6/97], [3/6/105] and [3/6/111]. The Terms of each CVA provide that CCAA Subordinated Debts are payable only

once all provable and non-provable claims, together with Commercial Interest thereon, are paid in full.

34. The CCAA Subordinated Debts due to NNUK by Nortel Spain and Nortel Portugal were paid in full. NNUK also received its full entitlement to interest from the date of our appointment at a commercial rate of interest prescribed by the terms of the CVA ("**Commercial Interest**") from Nortel Spain. In addition, NNUK received an element of Commercial Interest amounting to £63,381 from Nortel Portugal. The assets available to the CVA Supervisors in Nortel Belgium did not allow for distributions to be made to NNUK in respect of the CCAA Subordinated Debts. There remains a claim against Nortel Belgium of £3,999,664.85 which the Joint Administrators believe will not be satisfied. There is a further subordinated intercompany claim of NNUK which will not be satisfied which is discussed at paragraph 45.3 below.

#### **Modification of the CVA of Nortel Belgium**

35. Prior to the making of final distributions to the creditors of Nortel Belgium, the CVA Supervisors became aware that certain creditors had, despite repeated requests, not provided bank account details for payment. The total value of the claims of these unresponsive creditors amounted to £93,128.26.
36. Despite numerous attempts by the CVA Supervisors of Nortel Belgium, their staff and the legacy Nortel staff to contact these unresponsive creditors, several creditors continued to fail to respond and provide bank details for payment. The CVA Supervisors of Nortel Belgium have made distributions to those unresponsive creditors by cheque, three of which remained uncashed. The Terms of the CVA provide that any unclaimed funds are to be held for a period of one year or until shortly before the final Distribution, at which point they are to be paid in accordance with the Terms of the CVA.
37. In order to avoid the cost and delay of continuing the CVA and/or the Administration of Nortel Belgium, the Joint Administrators used powers granted to them by the Terms of the CVA to modify the CVA. The modification was modelled on the provisions of the Rules and the Insolvency Regulations 1994 (as amended) and was agreed with the Joint Administrators of NNUK. The modification provides that:
  - 37.1 on the date of the termination of the CVA, Nortel Belgium will transfer any unclaimed funds in respect of cheques to NNUK;
  - 37.2 on receipt, NNUK shall hold those funds for a period of one year from the relevant distribution date;
  - 37.3 a creditor may seek payment from NNUK on provision of evidence satisfactory to the Joint Administrators of NNUK; and
  - 37.4 after a period of one year from the relevant distribution date NNUK is to donate any remaining unclaimed funds to charity.

38. Copies of the Notice of Modification of the CVA of Nortel Belgium which include the Terms of the CVA as modified are at [3/7/117] of SJH11. The Letter of Undertaking from NNUK confirming the terms on which NNUK has agreed to hold these unclaimed funds is at [3/8/171] of SJH11.
39. All creditors of Nortel Spain and Nortel Portugal provided bank details for payment or cashed their cheques and as such no modifications to those CVAs were required.

#### **Distributions to creditors of the Companies**

40. As is set out in the sixth column in the table at paragraph 30 above, the CVA Bar Dates by which creditors were required to lodge claims in the CVA against the respective Company have all passed and the CVA Supervisors have completed the adjudication process for claims.
41. In Mr Bloom's sixteenth witness statement ("**Bloom 16**") made in support of the Joint Administrators' application for approval to procure and perform the Global Settlement dated 25 October 2016 ([3/9/179] of SJH11) and my confidential witness statement dated 1 November 2016, the Joint Administrators set out that it was our expectation that each of the Companies will return 100p in the pound to their unsecured creditors and some may also pay a commercial rate of interest. All claims submitted to the CVA Supervisors have been adjudicated and the majority of creditors of the Companies with "**Allowed Claims**", being claims which have been admitted by the CVA Supervisors, have received 100p in the pound in respect of their claims (the sole exception being NNUK in respect of its intercompany subordinated debts as described at paragraph 34 above).
42. In addition, creditors of Nortel Spain have all received payment of Commercial Interest in full for the period since our appointment as Joint Administrators on their claims in accordance with the Terms of the CVA.
43. Set out below is a summary of the progress made in relation to each of the Companies to date. Each summary sets out distributions made to the creditors of the Companies. I also address what further work is required more generally in the Administrations and the Joint Administrators' proposals for the termination of their appointment.
44. In order to allow final distributions to be made to the creditors of the Companies, while also ensuring that any small unexpected costs arising in the estates of the Companies between the making of the final distributions and the commencement of the local liquidations can be met and do not cause an otherwise solvent Company to enter an insolvent liquidation (which is likely to cause disproportionate cost to the estate), the shareholder of the Companies, NNIF, is in the process of putting in place a capped indemnity to cover such costs.
45. **Nortel Belgium**
- 45.1 The CVA Supervisors adjudicated the 46 claims received before the CVA Bar Date. The total value of claims submitted was £2,160,142,902 (including a significant

contingent claim submitted by the UK Pension Regulator), of which claims totalling £12,024,928 were admitted for payment.

45.2 A first interim distribution was made on 5 December 2017 with a second interim distribution made on 17 August 2018.

45.3 A third and final distribution was made on 2 April 2019, with the result that all unsecured, non-subordinated creditors have been paid 100% on account of the principal of their claims and 100% of their entitlement to Commercial Interest at 4.13% per annum. The only claims against Nortel Belgium which have not been satisfied in full are certain subordinated claims of NNUK. Distributions have been made to NNUK on account of certain intercompany subordinated debts (which are not CCAA Subordinated Debts) totalling £2,611,988.58, equivalent to 49.23p in the pound, leaving NNUK as the sole remaining creditor of the Company in respect of a balance of £2,693,895.39 of its intercompany subordinated debt and £3,999,664.85 of its CCAA Subordinated Debt. With no further claims to adjudicate or satisfy, on 4 April 2019 the CVA was terminated. The Notice of Termination is exhibited at [3/10/263] of SJH11.

#### 46. **Nortel Spain**

46.1 The CVA Supervisors have adjudicated the 72 claims received in advance of the CVA Bar Date. The total value of claims submitted was £2,156,940,345 (including a significant contingent claim submitted by the UK Pension Regulator), of which claims totalling £8,699,675 were admitted for payment.

46.2 A first interim distribution was made on 5 December 2017 and a second and final distribution was made on 10 August 2018 with unsecured creditors and NNUK as subordinated creditor receiving payment of 100% of the principal of their claims and Commercial Interest being paid to creditors in full at a rate of 4.15% per annum. With no further claims to adjudicate or satisfy, on 12 November 2018 the CVA was terminated. The Notice of Termination is exhibited at [3/10/265] of SJH11.

46.3 The Company holds surplus cash of approximately £4.1 million which will be available for distribution to the Company's shareholder, Nortel Networks International Finance & Holding B.V. (in Dutch liquidation) ("**NNIF**"), by way of a solvent liquidation governed by Spanish law. The only other assets of which the Joint Administrators are aware are intercompany receivables from other Nortel group entities (amounting to c.£0.5m) which will be distributed in specie to NNIF at the point of liquidation. In addition there is a potential tax receivable which it is understood may be due from the Spanish tax authority but which may in reality be time barred and expensive to pursue further. The Joint Administrators believe it may be appropriate for this potential asset to be distributed in specie to NNIF at

the point of liquidation and be pursued by the liquidators of NNIF, should they decide to do so in due course.

#### **47. Nortel Portugal**

- 47.1 The CVA Supervisors adjudicated the 33 claims received in advance of the CVA Bar Date. The total value of claims submitted was £2,148,251,658 (including a significant contingent claim submitted by the UK Pension Regulator), of which £1,111,255 was admitted for payment.
- 47.2 A first interim distribution was made on 5 December 2018 and a second interim distribution was made on 17 August 2018.
- 47.3 A third and final distribution was made on 2 April 2019, with the result that unsecured, non-subordinated creditors have received 100% of the principal of their claims and Commercial Interest in full at a rate of 4.32% per annum. In addition, NNUK as subordinated creditor received payment of 100% of the principal of its CCAA Subordinated Claim and an element of Commercial Interest. With no further claims to adjudicate or satisfy, on 4 April 2019 the CVA was terminated. The Notice of Termination is exhibited at **[3/10/267]** of SJH11.
- 47.4 The Company currently has no assets available for distribution to the Company's shareholders, NNIF and NNUK, with the exception of certain potential future nominal tax receivables not yet collected, the right to receive which can be distributed to NNIF, and ultimately NNUK, upon liquidation.

#### **Reporting on the progress of the CVAs**

- 48. The CVA Supervisors periodically inform creditors of the progress of the CVAs by way of annual progress reports in accordance with Rule 2.41(4) of the Rules and, following the termination of the CVAs, final reports have been provided in accordance with Rule 2.44(2) of the Rules.
- 49. The CVA Supervisors have prepared the following annual and final progress reports:
  - 49.1 in respect of Nortel Belgium, an annual progress report dated 30 July 2018 (**[3/11/269]** of SJH11) and a final report dated 15 April 2019 (**[3/12/275]** of SJH11);
  - 49.2 in respect of Nortel Portugal, an annual progress report dated 6 July 2018 (**[3/13/283]** of SJH11) and a final report dated 15 April 2019 (**[3/14/291]** of SJH11);
  - and
  - 49.3 in respect of Nortel Spain, an annual progress report dated 6 July 2018 (**[3/15/299]** of SJH11) and a final report dated 6 December 2018 (**[3/16/307]** of SJH11).

### **G. EXITING THE ADMINISTRATIONS**

#### **Notice of the Applications**

50. I confirm that all creditors (including for the avoidance of doubt those creditors who have been paid in full) of each Company and the directors of each Company, being the persons who made the administration applications in 2009, were given notice of the Applications by the Joint Administrators to exit the Administration and to be discharged from their liability in accordance with Rule 3.57(2). A copy of this notice is provided at [1/10/217] of SJH11. To date, the Joint Administrators have received no response from the creditors. The directors of each Company have been involved in the planning of the subsequent liquidations. In addition, notice of the Applications was also given to creditors of the CVA Companies in the Notice of Termination of each CVA. Copies of these notices are provided at [3/10/263], [3/10/265] and [3/10/267] of SJH11.
51. Following the appointment of the Joint Administrators, creditors' committees ("**Committees**") were established for each of the Companies. Following the making of final distributions to the members of those Committees, such that their claims were satisfied in full, those Committees ceased to be quorate in accordance with Rule 17.1(e) of the Rules. Additional notices to the former members of the Committees of the Companies to inform them of the making and hearing of the Applications will be sent on 16 April 2019. An update on any responses received by the Joint Administrators in connection therewith will be given to the Court at or before the hearing of the Applications.
52. Notice of the making and hearing of the Applications is also to be given to all creditors of each Company immediately following the filing of the Applications by way of the Nortel EMEA Administration proceedings website (<http://www.emeanortel.com/>). An update on any responses received by the Joint Administrators in connection therewith will be given to the Court at or before the hearing of the Applications.
53. As explained in detail at paragraph 46.3 above, there exists an equity surplus at Nortel Spain which is available to NNIF which in turn has a significant equity surplus which is available to NNUK as sole shareholder. Therefore in addition to NNUK's interest as a creditor of Nortel Belgium, in respect of outstanding subordinated intercompany debt, in the context of these remuneration aspects of the Applications, the ultimate economic interest in the surplus in Nortel Spain therefore lies with NNUK's creditors. As such notice of the making and hearing of the Applications is to be given to creditors of NNUK and members of the Creditors' Committee of NNUK following the filing of these Applications, including a link to a copy of this statement and an invitation to inspect the exhibit and Schedules. An update on any responses received by the Joint Administrators in connection therewith will be given to the Court at or before the hearing of the Applications.

#### **Achievement of the purpose of the administrations**

54. As set out in the Statements of Proposals, if the Joint Administrators decided that a Global Restructuring was not in the best interests of creditors or that the cost of continuing to trade

was no longer in the best interests of creditors, the Joint Administrators would seek to achieve a better result for creditors of the Company as a whole than would be likely if the Company were wound up, by seeking to realise the best price for the business and/or assets of the Company as was obtainable in the circumstances, and then would take steps to enable the assets of the Company to be distributed to its creditors.

55. Having terminated each of the CVAs and made final distributions in accordance with the Act and the Rules to creditors of the Companies, the Joint Administrators are of the view that the purposes of the Administrations have been sufficiently achieved.
56. In August 2018 the Joint Administrators made similar applications in respect of the six other EMEA Debtors (the "**Batch One Entities**"), supported by my eighth witness statement dated 8 August 2018 ("**Harris 8**"), a copy of which is at **[4/1/1]** of SJH11. On 24 August 2018, Mr Justice Snowden granted Orders that the Joint Administrators' appointments of the Batch One Entities terminate on the commencement of the relevant local liquidation process. Copies of the Orders and Mr Justice Snowden's judgment are at **[4/2/55]** to **[4/2/72]** and at **[4/3/74]**. While in some cases the commencement of the local liquidation processes has taken considerably longer and required significantly more work than initially anticipated, the Joint Administrators believe that the process has worked well and the transition from English law administrations to local law liquidations has been as smooth as could have been expected in the circumstances. The Joint Administrators therefore propose to take a similar approach for the Companies.
57. The Joint Administrators are mindful of their obligation to make an application to Court to terminate the Administrations of the Companies pursuant to paragraph 79 of Schedule B1 to the Act.
58. The terms of the draft orders provide that the termination of the Joint Administrators' appointment is in each case conditional on the commencement by each Company's shareholder(s) of a process to wind up the Company in accordance with the law of the jurisdiction of that Company's incorporation. The reasons for this are set out below:
  - 58.1 Solvent liquidations which enable distribution of surplus assets (where applicable) to shareholder(s) will be carried on in the cases of Nortel Spain and Nortel Portugal. Absent a solvent liquidation, on termination of the Administrations responsibility for any remaining assets would pass to the directors of Nortel Spain and Nortel Portugal. Neither the directors nor the Joint Administrators consider it appropriate for the directors to bear this responsibility for anything other than the very short period required for the liquidation and dissolution to be formally registered at the Portuguese commercial registry.
  - 58.2 Similarly, in the case of Nortel Belgium, the Joint Administrators do not consider it appropriate for the Company to be handed back to the control of the directors in

circumstances where the only task is to place the Company into liquidation / dissolution. Having managed the business and affairs of the Company for over ten years, the Joint Administrators should, in all material respects, bear the responsibility of placing the Company into liquidation / dissolution.

59. The Joint Administrators are mindful that the trigger for the termination of their appointment should be satisfied within a specified time. Given the complex nature of the various liquidation and dissolution processes due to be commenced (further details of which are provided below), and that 30 days proved not to be sufficient in the case of all Batch One Entities, the Joint Administrators consider that a period of 60 days is appropriate. Should the liquidation / dissolution of each Company not have commenced within the period specified, the draft orders require that the Joint Administrators return to this Court for further directions.

#### **H. DETAILS OF SUBSEQUENT LIQUIDATIONS**

60. As with the Batch One Entities, the process required to wind up the affairs of each Company will vary in the first instance by the jurisdiction of that Company's incorporation. The type of local law process will also vary between Nortel Spain, which has sufficient assets to return a surplus to its shareholder, Nortel Portugal which has a potential right to a future nominal tax receivable to distribute in specie to its two shareholders, NNIF and NNUK, and Nortel Belgium which has made distributions to all creditors on account of their unsecured claims in full (save for the intra-group subordinated claims of NNUK) but will not be able to return any surplus to its two shareholders, NNIF and NNUK.
61. In the case of Nortel Spain and Nortel Portugal, the Joint Administrators have taken local legal and accounting advice regarding the most efficient process available to make distributions to that Company's shareholder(s) prior to having Nortel Spain and Nortel Portugal removed from the local registers of companies. As the intermediate holding company in the Nortel EMEA group and the sole shareholder of Nortel Spain and the 99.99% majority shareholder of Nortel Portugal, NNIF will be responsible for receiving distributions of any surplus from Nortel Spain and the vast majority of in specie distributions from Nortel Portugal and, in turn, making distributions of that surplus to NNUK.
62. For Nortel Belgium, the Joint Administrators have similarly taken local legal and accounting advice regarding the most efficient process available under Belgian law to have Nortel Belgium removed from the local register of companies once the administration is concluded.
63. Provided that the Court is minded to grant the relief sought, the Joint Administrators currently anticipate completing the steps necessary to commence the local liquidation / dissolution proceedings between before the start of July 2019.



64. I set out below the details of each Company's assets and liabilities, together with a brief summary of the liquidation process currently envisaged by the Joint Administrators in relation to each Company.

#### **Nortel Belgium**

65. Following distributions to creditors pursuant to the terms of the CVA and the termination of that CVA on 4 April 2019, Nortel Belgium had no more assets available for distribution to creditors but had not satisfied the entirety of NNUK's intercompany subordinated claim.
66. Notwithstanding that Nortel Belgium is insolvent, the Joint Administrators are advised that a Belgian-registered company whose only creditors are its shareholders may move into liquidation by way of a "turbo liquidation" procedure, the details of which are as follows.
- 66.1 The existing directors of the Company: (i) produce a statement of the Company's assets and liabilities produced on a realisation value at the point of liquidation (rather than a going concern basis) which is audited and (ii) prepare a special report proposing the dissolution of the Company. It must appear from the statement of the company's assets and liabilities (and confirmed by the audit) that the Company has no debts towards third parties.
- 66.2 The Company's shareholders, being NNIF for [99.99%] and NNUK for [0.01%], resolve at an extraordinary general meeting before a notary to:
- (1) approve the documents set out at para 66.1;
  - (2) dissolve, liquidate and immediately close the liquidation of the company;  
and
  - (3) discharge the directors from liability in respect of their actions during the period of appointment.
- 66.3 The liquidation is opened and concluded in the single notarial deed and no liquidator is appointed. As such the draft order in respect of Nortel Belgium provides that the Joint Administrators be discharged on the execution of the notarial deed. In addition, I am aware that there are also a number of administrative formalities which will need to be undertaken in the period following dissolution, such as certain tax filings and declarations, distribution of any nominal residual assets, closing of certain bank accounts if necessary, and the filing of the liquidation documentation with the Portuguese registry. The Joint Administrators intend to grant specific Powers of Attorney to allow these tasks to be completed.
- 66.4 The notary will then deposit the dissolution deed with the Clerk's Office of the Commercial Court and publish it in the Annexes to the Belgian Official Gazette.
67. A draft of the notarial deed in respect of Nortel Belgium is at **[4/4/84]** of SJH11.

#### **Nortel Portugal**

68. Following distributions to creditors pursuant to the Terms of the CVA and the termination of that CVA on 4 April 2019, Nortel Portugal had no remaining assets available for distribution to its shareholders, with the exception of potential right to a nominal future tax receivable not yet collected from the Portuguese Tax Authority. The Joint Administrators are advised that a Portuguese-registered company may move into a solvent liquidation through a simultaneous liquidation and winding-up of the Company, the process for which is as follows.

68.1 The shareholders of Nortel Portugal, being NNIF (99.99%) and NNUK (0.01%) pass a resolution approving the Company's balance sheet and accounts up to the date of dissolution, resolving to dissolve the company, approving the distribution of the Company's assets between the shareholders, and terminating the liquidation.

69. Drafts of the shareholders' liquidation resolution and registration of dissolution are at [4/5/90] of SJH11.

### **Nortel Spain**

70. Following distributions to creditors pursuant to the terms of the CVA and the termination of that CVA on 12 November 2018, Nortel Spain has assets of approximately £4.6 million (out of which surplus cash amounts to c.£4.1m). The Joint Administrators are advised that the most appropriate process by which a Spanish-registered company can make distributions to its shareholder(s) prior to dissolution is by way of a solvent simultaneous liquidation and dissolution of the Company, the details of which are as follows.

70.1 The sole shareholder of Nortel Spain, NNIF, passes a resolution at an extraordinary general meeting approving the "simultaneous" dissolution and liquidation of the Company, the discharge of the joint directors, declaring the effectiveness of the termination of the appointment of the Joint Administrators, the appointment of liquidators, and the approval of the final liquidation balance sheet and report on the liquidation.

70.2 It is intended that Ms Hewitt-Schembri and I will be appointed liquidators of Nortel Spain.

70.3 The assets of the Company are then distributed to NNIF as sole shareholder.

70.4 The liquidators are then required to grant a public deed, executed before a notary, regarding the dissolution and liquidation of the company. This deed is then filed with the trade registry in order that the Company is removed from the register.

71. Drafts of the shareholders' liquidation resolution and the liquidators' public deed are at are at [4/6/108] of SJH11.

### **DISCHARGE OF LIABILITY**

72. Paragraph 98 of Schedule B1 to the Act provides that the Joint Administrators will only be discharged from their liability in respect of any action as joint administrators with effect from a time specified by the Court. The Joint Administrators respectfully request that this

discharge of liability be granted and take effect 28 days after the date on which their appointment has been terminated in the manner set out above. This would give any person becoming aware of any facts or matters which might give rise to a claim, and seeking to bring such a claim against the Joint Administrators, sufficient time to do so.

73. The Joint Administrators are not aware of any claims made against the Joint Administrators which have not been dealt with during the course of the Administrations and none of the Joint Administrators is aware of any facts which would give rise to any such claim.
74. Throughout the Allocation Dispute and the pension dispute with the UKPI, certain claims have been intimated or asserted against the Joint Administrators by, among others, the US Debtors, the Canadian Debtors and the UKPI. However such claims were released pursuant to the terms of the Global Settlement. Section 8 of the Settlement and Plans Support Agreement provides that all parties release all claims against each other and covenant not to commence any litigation or file any further claims between entities in the Nortel group and others, provided that rights are reserved to enforce settlement and subject to certain intra-EMEA claims being carved out. The Joint Administrators provided the Court with the full details of the terms of the Settlement and Plans Support Agreement and the Deed of Release in Bloom 16, in particular paragraphs 118.8 to 118.19, 207 and 210 (at [3/9/211], [3/9/207] and [3/9/233] of SJH11). In addition, the terms of each CVA of each Company include releases by each creditor of the Joint Administrators. Clause 33 of each CVA provides that each creditor of a Company irrevocably and unconditionally discharges the Joint Administrators from any liability in connection with their acts, omissions or default as Joint Administrators. The relevant clause in the CVA of Nortel Belgium may be found at [2/1/60] of SJH11. Identical clauses are included in each of the CVAs of the Companies.

#### **I. THE REASONS FOR THE REMUNERATION APPLICATIONS**

75. In the Statements of Proposals sent to creditors of each Company in February 2009, the Joint Administrators asserted that where a Committee was formed, in accordance with Rule 2.106 of the Insolvency Rules 1986 (the "**1986 Rules**") the Joint Administrators would ask the Committee to determine the basis of their remuneration and would consult and agree with the Committee, from time to time, on the quantum to be drawn. In the event that a Committee could not be formed, the Joint Administrators were to conduct a creditors' meeting by correspondence to fix the basis of their remuneration and the arrangements for drawing it. Each Statement of Proposals set out that the Joint Administrators were to ask the Committees for payment of their professional fees on account on a monthly basis of 80% of time charged as agreed by the relevant Committee in accordance with Rule 2.106 of the 1986 Rules. It was stated that the residual 20% per month would be agreed by subsequent resolution of the Committee.

76. In advance of the initial meetings of creditors to approve the Statements of Proposals and the formation of Committees, the Joint Administrators made an application to Court to fix the basis of their remuneration pending approval by the Committees or the creditors. The justification for this application was set out in Alan Bloom's second witness statement dated 20 February 2009 ("**Bloom 2**", a copy of which is at **[4/7/148]** of SJH11) – time costs in the Administrations up to 27 March 2009 (the week of the last creditors' meeting) were anticipated to be £11.7 million which was an exceptional cost for E&Y to bear. It was therefore requested that the Court fix the basis of the Joint Administrators' remuneration but only for the interim period prior to its approval in accordance with the Rules.
77. By Order of Mr Justice Warren dated 23 February 2009 (a copy of which is at **[4/8/170]** of SJH11), the Joint Administrators were permitted to pay out of the assets of the Companies:
- 77.1 such sums as may amount to 80% of their fees properly chargeable by the Joint Administrators and/or E&Y for their conduct of the Administrations of the Companies for the period from 14 January 2009 up to and including 13 February 2009 (being the date of the application); and
- 77.2 such further sums as may amount to 80% of the fees properly chargeable by the Joint Administrators and/or E&Y for their conduct of the Administrations of the Companies for the period from 14 February 2009 to the date on which the Applicants' remuneration is fixed or determined pursuant to rule 2.106 to 2.109 of the 1986 Rules.
78. In the first half of 2009, the creditors of each Company approved the Statements of Proposals. The creditors or the Committees of each Company then approved resolutions (copies of which are at **[4/9/174]**, **[4/9/190]** and **[4/9/206]** of SJH11) that, inter alia:
- 78.1 the Joint Administrators' remuneration be fixed on the basis of time properly spent by the Joint Administrators and their staff in attending to matters arising in the Administration; and
- 78.2 the Joint Administrators' time costs for the period from the first period be approved; and
- 78.3 the Joint Administrators be entitled to draw 80% of the time costs on account on a monthly basis in respect of the time properly spent by the Joint Administrators and their staff, as justified to the Committee.
79. On that basis the Joint Administrators have been drawing 80% of their time costs on account on a monthly basis in advance to avoid significant cash exposure, and subsequently seeking approval of all time costs from the Committees in accordance with Rule 2.106 of the 1986 Rules and, from 6 April 2017, Rule 18.18(2) of the Rules. Where no Committee exists, the body of creditors have been approving the remuneration in accordance with Rule 2.107 of the 1986 Rules and, from 6 April 2017, Rule 18.18(3) of the Rules. In addition, and in

accordance with Rule 2.47(1) of the 1986 Rules and subsequently Rule 18.3 of the Rules, the details of the remuneration drawn have been included in each Progress Report.

80. The Joint Administrators' approach is only to seek approval for their remuneration at appropriate points in the Administrations, for example following the Global Settlement or receipt of the Sales Proceeds, such that creditors may see clear evidence of the value provided by the Joint Administrators. The Joint Administrators are conscious of the fact that, should a Committee or body of creditors refuse to subsequently approve their remuneration, they would be obliged to return some or all of the 80% drawn in advance back to the Company. Therefore the Joint Administrators have sought to ensure that fee packs are robust and detailed to avoid any risk of remuneration once drawn on account needing to be repaid.

81. During the course of the Administrations, the Joint Administrators have prepared detailed fee packs which have been provided to each Company's creditors or Committee (as the case may be). These fee packs are in a similar form as provided in the Schedules and set out the detail of work undertaken and remuneration sought. Generally, approval for remuneration has been sought some months after the period in which the time costs were incurred to allow time for preparation of the fee packs. More recently in the Administrations, the fee packs have been further simplified as a result of less centralised work being undertaken at an EMEA group-wide level following the end of the litigation in North America and the Global Settlement. Copies of the most recent fee packs are provided in SJH11:

81.1 Nortel Belgium (for the period 3 September 2017 to 30 March 2018), dated 18 July 2018 and approved on 9 August 2018, at **[4/10/222]** of SJH11;

81.2 Nortel Portugal (for the period 3 September 2016 to 29 September 2017), dated March 2018 and approved on 6 July 2018, at **[4/11/246]** of SJH11; and

81.3 Nortel Spain (for the period 30 September 2017 to 29 June 2018), dated 26 July 2018 and approved on 3 September 2018, at **[4/12/268]** of SJH11.

Copies of the resolutions approving the Joint Administrators' remuneration as set out in these fee packs are at **[4/13/284]**, **[4/13/286]** and **[4/13/290]** of SJH11.

82. Where approval is to be sought from a Committee, the Joint Administrators' general approach is to table a fee pack at the next scheduled meeting of the Committee. After the Joint Administrators update the Committee on the business and process of the Administration, one of the Joint Administrators or a member of their staff provides a briefing to the Committee on the remuneration sought and the fee pack. The Committee are reminded of their duty to scrutinise the details of the remuneration sought. They are invited to consider the fee pack after the Committee meeting and, if they have any queries, to raise them to the Joint Administrators. If there are no queries, members are invited to sign a written resolution approving the remuneration. More recently where certain Committees have preferred not to

hold a physical meeting, fee packs have been sent to Committee members with approval subsequently provided by way of written resolution.

83. The Committees of each Company have always approved the Joint Administrators' remuneration. As described above, the Joint Administrators have made final distributions to the Companies' creditors. To limit the burden placed on the Court in having to review and, if it is so minded, approve the basis of the Joint Administrators' remuneration, the Joint Administrators sought approval from the creditors or Committees (as the case may be) at the last practicable date prior to the CVA Supervisors making final distributions to each Company's creditors. However, in the case of Nortel Spain and Nortel Portugal these final distributions have paid all creditors in full. There are therefore no creditors or Committees extant to approve the Joint Administrators' remuneration in accordance with the Rules. In the case of Nortel Belgium, only the subordinated intra-group debts due to NNUK remain partially unpaid which leaves NNUK as the only creditor capable of approving remuneration. The Joint Administrators do not feel it appropriate in their capacity as Joint Administrators of NNUK to approve their remuneration as Joint Administrators of the Companies.
84. For those reasons the Joint Administrators have made the Applications to the Court for Orders that their remuneration be fixed by reference to time properly given by the Joint Administrators for the periods:
- 84.1 from last approval by that Company's creditors or Committee to 15 March 2019 being the last practicable date prior to the filing of the applications up to which the Joint Administrators are able to provide a full breakdown in respect of their remuneration (i.e. Period 1); and
- 84.2 for the period from 16 March 2019 to the termination of the Joint Administrators' appointment subject to a cap (i.e. Period 2).
85. In addition to their Applications for remuneration as Joint Administrators, the Joint Administrators of the CVA Companies also make Applications for approval of the CVA Supervisors' outstanding remuneration. The terms on which the Supervisors are to be remunerated are set out in the CVAs, copies of which are at [2/1/1], [2/2/157] and [2/3/313] of SJH11. Clause 29.1 of the Nortel Belgium CVA provides that "*The Supervisors shall be paid in respect of their work in preparing, implementing and operating the CVA and all acts reasonably incidental thereto*" ([2/1/58] of SJH11). Clause 29.2 further provides that the basis of the CVA Supervisors' remuneration will be fixed by reference to the time properly given by them and their staff in attending to matters arising in connection with the CVA. Such time costs are to be charged at the Supervisors' rates from time to time for insolvency related work (Clause 29.2). CVA Clause 29.3 provides, relevantly, that the CVA Supervisors' fees shall be approved in accordance with CVA Clause 30.7. Incidentally, I note that CVA Clause 35.1 provides that Clause 29 shall survive the termination of the CVA. As to the approval mechanism referred to in CVA Clause 29.3 (i.e. the one provided by CVA Clause 37):

- 85.1 CVA Clause 30.7.1 provides that the CVA Supervisors fees are to be invoiced monthly (or for such other periods as the CVA Supervisors determine appropriate) to the relevant CVA Company.
- 85.2 CVA Clause 30.7.2 permits the CVA Supervisors to be paid 80% of their fees immediately (**[2/1/59]** of SJH11).
- 85.3 The balance of fees incurred by the CVA Supervisors are to be approved by the relevant CVA Creditors' Committee (CVA Clause 30.7.3).
- 85.4 CVA Clause 30.7.4 provides that if there is from time to time no CVA Creditors' Committee to assist the CVA Supervisors then the balance of their fees is to be paid "*following the approval of those fees by either the English Court or a meeting of Creditors*", whichever the CVA Supervisors deem to be the appropriate and most cost efficient process (**[2/1/59]** of SJH11).
- 85.5 Identical clauses are included in each of the CVAs of Nortel Spain and Nortel Portugal.
86. For the reasons set out at paragraph 83 above, there are no creditors or CVA Creditors' Committees extant to approve the CVA Supervisors' remuneration and so, on this basis, the Joint Administrators now seek the Court's approval for the payment to the CVA Supervisors of the balance, as contemplated by CVA Clauses 29.3 and 30.7.4.
87. As in the Administrations, the CVA Supervisors prepared detailed fee packs which have been provided to each CVA Creditors' Committee. The fee packs are in a similar form as the fee packs prepared by the Joint Administrators described at paragraph 81 above. In addition to their remuneration as CVA Supervisors, the fee packs also include remuneration as Joint Administrators in respect of their time spent as Nominees of the CVAs. Copies of the most recent fee packs setting out remuneration of the CVA Supervisors for the CVA Companies are provided in SJH11:
- 87.1 Nortel Belgium (for the period 3 September 2016 to 30 March 2018), dated 18 July 2018 and approved on 9 August 2018, at **[4/14/294]** of SJH11;
- 87.2 Nortel Portugal (for the period 3 September 2016 to 29 September 2017), dated March 2018 and approved on 6 July 2018, at **[4/15/312]** of SJH11; and
- 87.3 Nortel Spain (for the period 30 September 2017 to 29 June 2018), dated 26 July 2018 and approved on 3 September 2018, at **[4/16/330]** of SJH11.
- Copies of the resolutions approving the CVA Supervisors' remuneration set out in these fee packs are at **[4/13/284]**, **[4/13/286]** and **[4/13/290]** of SJH11.
88. The creditors or CVA Creditors' Committees (as the case may be) of each CVA Company have always approved the CVA Supervisors' remuneration.
89. The CVA of Nortel Spain was terminated on 12 November 2018. As such the Joint Administrators seek approval for the payment of CVA Supervisors' fees from 29 June 2018,

being the end of the period last approved by that Company's CVA Creditors' Committee to 12 November 2018.

90. The CVAs of Nortel Portugal and Nortel Belgium were terminated on 4 April 2019, after the last practicable date prior to the filing of the Applications up to which the Joint Administrators are able to provide a full breakdown in respect of their remuneration. The Court's approval is therefore sought for the payment of fees:

90.1 from last approval by that Company's CVA creditors or CVA Creditors' Committee in accordance with the terms of the CVA to 15 March 2019 (i.e. CVA Period 1); and

90.2 from the period from 16 March 2019 to the termination of the CVA (i.e. CVA Period 2).

91. I confirm that all creditors of each Company (including for the avoidance of doubt those creditors who have already been paid in full) were given notice of the Joint Administrators' intent to issue applications in respect of their remuneration on 4 April 2019. To date, the Joint Administrators have received no response from the creditors. Further, and in accordance with Rule 18.28(6) of the Rules, notice of the making and hearing of these Applications will be given to all creditors at least 14 days before the earliest date for a hearing of these Applications, being 1 May 2019, together with access to a copy of this statement by way of the Nortel EMEA Website, with a statement that the exhibit is available on request. An update on any responses received by the Joint Administrators in connection therewith will be given to the Court at or before the hearing of the Applications.

92. Given that the ultimate economic impact of any overpayment of the Joint Administrators' remuneration would be felt by NNUK as subordinated intercompany creditor of Nortel Belgium and the ultimate parent company in the Nortel EMEA Group entitled to any surplus, the Joint Administrators have engaged closely with the Committee of NNUK before issuing the Applications. On 11 March 2019, the Joint Administrators provided a draft of the Schedules setting out the detail of the Joint Administrators' remuneration and CVA Supervisors' fees for the period up to 8 February 2019. The Joint Administrators invited the members of the Committee of NNUK to review the Schedules in detail, invited questions from the Committee, and provided the Committee with resolutions in order to confirm their views as to the reasonableness (or otherwise) of the Joint Administrators' and CVA Supervisors' time costs and whether or not they approved of the Joint Administrators proceeding with the exit and fee application to Court.

93. A number of queries were received from PricewaterhouseCoopers ("**PwC**") as representatives of, and advisors to, the NNUK Pension Scheme Trustee. These questions focussed on the charge out rates used and how these have changed over time, the historical fee approval process, the allocation basis for reallocated time costs, a comparison of the total level costs at each EMEA Debtor, the level of legal fees as a proportion of other fees



and the recent ramp up in activity due to the liquidation and exit planning. In addition, PwC also requested additional detail around the proposed liquidation plans and processes, the final dividends to be received by NNUK as intercompany subordinated creditors from the respective CVA Supervisors and the costs of the liquidation processes. All questions raised were resolved to the satisfaction of PwC and as a result we received the resolution of the NNUK Pension Scheme Trustee confirming that the time costs set out in the fee packs and schedules provided to the Creditors' Committee on 11 March 2019 appeared fair and reasonable and that the Joint Administrators should seek the approval of these time costs from the UK High Court as part of the proposed exit and fee application on 29 March 2019. Following PwC's review of the fees packs and schedules we also received the resolutions of two of the three other members of the NNUK creditors' committee approving the same in late March and early April. Copies of these resolutions are at [4/17/348] to [4/17/353] of SJH11.

94. In relation to the fourth member of the Creditors' Committee we received a notification that the representative of Sanmina Corporation ("**Sanmina**") has recently left that business and, as such, we are liaising with Sanmina Corporation to see if an alternative representative of that company can be found to replace the previous committee member. Given this development we are yet to receive a resolution from Sanmina in respect of the above.
95. Notice of the making and hearing of these Applications will also be given to the creditors of NNUK at least 14 days before the earliest date for a hearing of these Applications, being 1 May 2019, together with access to a copy of this statement by way of the Nortel EMEA website, with a statement that the exhibit and the Schedules containing details of remuneration sought are available on request. Details of any responses received and copies of the notice will be given to the Court at, or before, the hearing of the Applications.

#### **J. COMMON ASPECTS AND PROCESSES APPLIED TO ALL COMPANIES**

96. I set out below the ways in which the Joint Administrators ensure that the remuneration incurred is fair, reasonable and commensurate with the nature and extent of the work properly undertaken. The Joint Administrators endeavour to manage the affairs of the EMEA Debtors on a group basis rather than an entity by entity basis, using a single engagement team of staff. This enables a consistent approach between EMEA Debtors and allows significant synergies to be achieved and cost savings to be made by, for example, avoiding unnecessary duplication of work. The principles and processes set out in this section therefore apply to each of the Companies both in the Administrations and in the CVAs.
97. As a general note and by virtue of the control mechanisms applied by them, the Joint Administrators are confident that work in relation to the Administrations and CVAs of the Companies has been carried out in a timely and cost-effective manner. In certain instances it has been necessary for several members of the engagement team to be present at the

same meeting or conference call, for example, because those members have different fields of expertise (for example, tax or restructuring) or because the matters discussed are common to several EMEA Debtors. In all cases, the Joint Administrators are confident that no unnecessary duplication of work has taken place.

98. I can confirm that the Joint Administrators and CVA Supervisors have carefully considered each task that has needed to be done and whether it is necessary. Consultation with third party advisors acts as an additional control on the work undertaken. HSF, as the Joint Administrators' English law legal advisors, are consulted by the Joint Administrators, CVA Supervisors and their staff as appropriate to discuss strategy and the work that may be required.

### **Resourcing**

99. In each case, the E&Y engagement team who provide assistance to the Joint Administrators and the CVA Supervisors comprises:
- 99.1 staff from E&Y in the UK selected based on their ability, knowledge and experience of UK insolvency procedures. The E&Y team includes a billing team which is, broadly speaking, responsible for accounting for time costs and the reporting of time costs to creditors;
  - 99.2 staff from E&Y's local offices in Europe with applicable local experience and language skills to assist the Joint Administrators in liaising with creditors in those jurisdictions, in particular with local tax authorities, translating documents sent to and received from creditors, and ensuring local statutory compliance; and
  - 99.3 staff from E&Y in India from the Global Shared Services ("**GSS**") team, who undertake high-volume administrative tasks and support the billing team performing tasks such as timesheet reconciliations and fee analysis.
100. From July 2016 until August 2018, Ms Hewitt-Schembri, a Director from E&Y London was responsible for overseeing the Administrations and the CVAs. Ms Hewitt-Schembri has 12 years restructuring experience and was also appointed as a Supervisor of each of the CVAs. Since August 2018 when Ms Hewitt-Schembri commenced a period of maternity leave, Bryn Tucker, an Assistant Director from E&Y London who has 11 years of restructuring experience and who has worked with Ms Hewitt-Schembri on the Administrations since January 2017, has assisted the Joint Administrators overseeing the Administration. Together with the Joint Administrators, Ms Hewitt-Schembri and Mr Tucker, a small team of senior members of E&Y staff undertake the management of the E&Y engagement team working on the Administrations and the CVAs. Where appropriate, Ms Hewitt-Schembri, Mr Tucker and this leadership team delegate tasks to staff to ensure they are carried out in a cost effective and efficient way, but with regard to the level of skill and experience required in a particular

situation. Ms Hewitt-Schembri, Mr Tucker and this leadership team keep in touch regularly to ensure a consistency of approach and work allocation across the Companies.

101. The Schedules to this Statement group the members of E&Y staff undertaking work in the Administrations and CVAs, in order of seniority. In light of the number of team members it would be impractical to detail their experience individually. The scale of the Companies' Administrations has necessitated, in the early months, over 290 E&Y employees in Europe and the UK working on the matter. However, the Joint Administrators have kept the amount of resources deployed under continuous review and since September 2017 a core engagement team (that is, those recording more than 10 hours in a week) of around 20 people in London experienced in insolvency, restructuring, and restructuring tax matters (VAT and Corporation Tax) and valuation and business modelling have worked on the Administrations and CVAs.
102. In addition to the experience and judgement of Ms Hewitt-Schembri and Mr Tucker, there are also several formal control mechanisms to ensure that tasks are allocated to the appropriate grade of staff member and are carried out properly and in a cost effective way. These are set out in detail below.
  - 102.1 The Administration of each Company is supported by its own administration appointment checklist, which is used to provide a standardised methodology and more detailed framework with which to consider and structure the work planned for specific areas of the engagement. Once an engagement is underway, the primary responsibility for monitoring the appointment checklist resides with the engagement manager, in this case Ms Hewitt-Schembri and, since August 2018, Mr Tucker.
  - 102.2 Every formal appointment requires specific tasks to be performed which are unique to that appointment and are not included in standard appointment checklists. In such instances, engagement managers maintain their own individual task lists which supplement the standard checklists. Engagement managers review their individual task lists on a regular basis. For tasks which have been delegated to other E&Y staff, internal update meetings are held in which the engagement manager obtains updates on any progress made and reviews the work completed to date on delegated tasks. The engagement manager applies professional skill, judgement and experience of formal appointments together with his or her knowledge of the specific intricacies of the engagement to ensure that all delegated tasks are completed to a satisfactory standard and in a timely manner by engagement staff. Appointment checklists are reviewed on a regular basis by the engagement manager.

- 102.3 Internal process meetings are held amongst the relevant staff on a regular basis. This ensures that senior members of the engagement team are kept fully apprised of work being taken across the various EMEA estates. This allows for members of the leadership team to escalate or delegate work as appropriate and to minimise any duplication of efforts amongst the engagement team. In addition, the Joint Administrators, Ms Hewitt-Schembri, Mr Tucker and the engagement leadership team meet periodically to consider that each task has been delegated to the appropriately qualified members of staff.
- 102.4 In addition to their own experience, the Joint Administrators, Ms Hewitt-Schembri and Mr Tucker have the benefit of the E&Y internal risk management team, technical specialists and legislation experts providing them with advice regarding their statutory requirements, their professional requirements and best practice.
- 102.5 I have included four pie-charts for the actual costs incurred in Period 1, for each of the Companies, to show the time costs broken down in percentages, first according to different types of work activity (by hours and cost) and, secondly, by the grades of staff (by hours and cost). These pie-charts are at Schedule 5, [5/5/93] to [5/5/95] of SHJ11.

#### **Time recording**

103. The E&Y time recording system is designed to provide a detailed breakdown of the costs incurred in the conduct of the Administrations and CVAs of the Companies. Time is recorded against one of a number of different charge codes or "workstreams". The relevant workstreams in respect of each Company are listed and explained in detail in the Schedules to this statement.
104. The general practice at E&Y in respect of time recording is not to record periods of less than 6 minutes and so the minimum unit of time recording is 6 minutes. However, the E&Y time recording system allows for recording in multiples of the 6 minute unit if a large amount of time has been spent on one particular task or matter. For example, if a member of staff has worked on one particular task for one hour, that time will be recorded as one 60 minute unit as opposed to ten 6 minute units. The use of such multiples is particularly suited to longer periods of work spent on one matter and this practice has been adopted in respect of the conduct of the Companies' Administrations and the CVAs.

#### **Charge out rates**

105. Each E&Y staff member has specific hourly rates according to their level of seniority. The Schedules to this statement contain an individual listing of the hourly rates of each team member for the relevant period next to the detail of the work undertaken. In most cases rates applied to work in respect of the CVAs are the same as those applied in the Administrations.

106. Professional skill and commercial judgement are applied when determining E&Y's Corporate Restructuring staff charge out rates. This ensures that fair and reasonable staff charge out rates are set for the financial year, which generate fair and reasonable margins for E&Y's Corporate Restructuring business unit. When applying professional skill and commercial judgement to the determination of annual staff charge out rates, the following factors are taken into account:
- 106.1 overall market pressure on the level of staff charge out rates;
  - 106.2 the general level of inflation;
  - 106.3 proposed salary increases for staff in E&Y's Corporate Restructuring business unit;  
and
  - 106.4 specific increases in the level of overheads.
107. The details of the charge out rate bands for each of the different grades of seniority are set out in the Schedules 1.1 ([5/2/3], [5/3/33] and [5/4/65] of SJH11). in the case of the Administrations and Schedule 1.2 ([5/2/4], [5/3/34] and [5/4/66] of SJH11). in the case of the CVAs. Charge out rates are reviewed on an on-going basis to determine whether any increase should be applied, having regard to market conditions and the level of work being undertaken.
108. During the course of the Administrations, the Joint Administrators' UK charge out rates have changed only once. The hourly charge out rates set out in the Statements of Proposals and applied from the outset of the Administrations did not change for a number of years. The Joint Administrators, with regards to E&Y London, took the decision not to request a change to their hourly rates until after the Sale Proceeds had been received and a number of material distributions had been made to creditors, such that the Joint Administrators were in a strong position to justify the value provided to creditors. In the first half of 2018, the Companies' creditors agreed to an increase in the charge out rates set for general restructuring staff and a decrease in the higher charge out rates charged by the tax team, applied from September 2016 onwards. This change in the charge out rates better reflected the current charge out rates of E&Y's Corporate Restructuring business unit which had increased since the date of the Statements of Proposals in line with those factors set out in paragraph 106 above. Copies of the relevant resolutions approving the change in charge the Joint Administrators' rates are at [4/13/284], [4/13/286] and [4/13/290] SJH11.
109. The charge out rates applied in the CVAs have been the same as those applied in the Administrations of those same CVA Companies.
110. Charge out rates applied by staff based in E&Y's local offices are also set out in the Schedules to this Statement. Each E&Y local office determines its own hourly charge out rates in the applicable local currency. Time costs are submitted by each local office to the

Joint Administrators on a weekly basis and are converted into Sterling at the average exchange rate for that week

#### **Allocation of central costs**

111. Throughout the Administrations and CVAs, certain fees of the Joint Administrators and Supervisors have been charged centrally, for work in the Administrations and CVAs common to all EMEA Debtors. Each Company is therefore subject to both direct costs charged in respect of specific tasks undertaken for that Company alone and its allocation of central costs.
112. Appropriate apportionment rates have been applied to these fees and the costs are apportioned between the various EMEA Debtors (including the Companies) accordingly in order to ensure a proportionate and reasonable allocation of costs in accordance with the estimated benefit to each Company of the work. As a general principle, the Joint Administrators have used an allocation apportionment by reference to the value of creditors as per each EMEA Debtor's Statement of Affairs prepared at the outset of the Administration but where a task requires the same or a very similar level of work for each EMEA Debtor then an equal allocation apportionment is used. For example, billing processes and the work involved in preparing Progress Reports have been centralised and those costs apportioned equally amongst the EMEA Debtors. Further detail setting out the tasks performed centrally and the apportionment rates for each Company are at Schedule 2.5 at **[5/2/15]**, **[5/3/45]** and **[5/4/77]** of SJH11.
113. In respect of the CVA Companies, the allocation of central costs is governed by the CVA Cost Sharing Agreement dated 31 March 2017 made between the various CVA Companies. A copy of the CVA Cost Sharing Agreement is provided at **[4/18/354]** of SJH11 and sets out that:
  - 113.1 direct time costs relating to a specific CVA Company are to be charged directly to that CVA Company. Such matters include statutory requirements, adjudication of creditor claims and the making of distributions; and
  - 113.2 general costs are apportioned between CVA Companies in proportion to the assets available to each CVA Company. Those costs include central time costs which relate to general controls and processes which have been put in place for the benefit of all CVA Companies.
114. The apportionment rates agreed between CVA Companies are set out in the CVA Cost Sharing Agreement (at **[4/18/361]** of SJH11) and Schedule 5.2 (**[5/2/26]**, **[5/3/57]** and **[5/4/88]**).
115. The Joint Administrators and CVA Supervisors have periodically and regularly reviewed the apportionment rates used in order to ensure fairness and reasonableness and the resulting apportionments are set out in the Schedules to this Statement.

## Comparison

116. Schedule GEN1 (at [5/1/1] of SJH11) is a comparison table showing the total administration time costs for all EMEA Debtors from the commencement of the Administrations to 15 May 2019. The remuneration figures referred to for the EMEA Debtors not the subject of these Applications are subject to change as not all time costs have yet been submitted to the creditors or the Committees of those companies for approval. "Transaction time costs" refers to fees for work involved in the Business Sales and the IP Sale from 2009 to 2011. "Non-Transaction time costs" refers to those other fees incurred by the Joint Administrators in respect of the overall management of the Administrations.
117. When considering Schedule GEN1, the Joint Administrators believe that it is important to recognise that the overall remuneration reflects the size and complexity of the affairs of the Nortel group, and the entities within the Nortel EMEA sub-group which they have been responsible for. The immediate cross-border effort to co-ordinate a reorganisation of the Nortel group was followed by significant amounts of work to complete Business Sales and IP Sales which produced the Sale Proceeds. The Allocation Dispute in North America and the potential exercise by the UK Pensions Regulator of powers conferred on it by the Pensions Act 2004 to issue Financial Support Directions and Contribution Notices across Europe meant that the Joint Administrators were unable to make distributions to creditors and terminate the Administrations at an earlier point. Following lengthy negotiations between the various parties to the Allocation Dispute resulting in the Global Settlement, the Joint Administrators have successfully promulgated CVAs to enable distributions to creditors of certain EMEA Debtors and significant distributions have now been made to the creditors of each of the EMEA Debtors (with the exception of NNSA). In the meantime over a period of over 10 years the Joint Administrators have sought to resolve the affairs of each of the EMEA Debtors, as well as comply with their various statutory reporting and audit obligations in England as well as in the various European jurisdictions.
118. Schedule GEN2 (at [5/1/2] of SJH11) is a comparison table showing the CVA Supervisors' time costs across all CVA Companies from the approval of each CVA until the earlier of (i) its termination and (ii) 15 March 2019. Again, the remuneration figures referred to for the CVA Companies not the subject of these Applications are subject to change as not all time costs have yet been submitted to the creditors or the CVA Creditors' Committees of those companies for approval.
119. While it is difficult to make direct comparisons between EMEA Debtors, I note that in each case, the time costs incurred by the Joint Administrators or CVA Supervisors is commensurate with the nature and extent of the work required and are within the range of time costs incurred in respect of other entities in the EMEA group of similar size and complexity.

## **Expenses**

120. Whilst the Joint Administrators are not seeking approval of their expenses, Category 2 expenses (being those costs that are directly referable to the appointment in question but not to a payment to an independent third party, as set out in Statement of Insolvency Practice 9 and for example, printing) incurred in relation to the Administrations during Period 1 are set out in Schedule 4.2 at [5/2/24], [5/3/55], and [5/4/86] of SJH11. The Joint Administrators do not anticipate charging any Category 2 expenses during Period 2.
121. The legal fees incurred in Period 1 and prudent estimates of the legal fees expected to be incurred in Period 2 are also set out in Schedule 4.2.
122. There are a number of procedures in place to subject expenses to critical scrutiny. In particular, expenses are first subject to review by a separate billing team and must be reported to a manager on a weekly basis. The Joint Administrators' legal advisers work on a time cost basis and internal review processes are undertaken to review their invoices regularly. In addition, there is a further overarching internal E&Y audit and approval process from the senior team for engagement expenses.

## **Receipts & Payments**

123. In accordance with paragraph 21.7(a) of the Practice Direction: Insolvency Proceedings 2018, the Joint Administrators' most recent receipts and payments account ("R&P") for each Company in the Administration period to 13 January 2019, being the period covered in the latest Progress Reports, are in Schedule 1.3 to this Statement ([5/2/5], [5/3/35], and [5/4/67] of SJH11).
124. In addition, the CVA Supervisors' most recent R&P for each CVA Company in respect of the period covered in the final CVA reports prepared in accordance with Rule 2.44(2), are at Schedule 1.4 to this Statement ([5/2/8], [5/3/38], and [5/4/70] of SJH11).
125. The R&Ps are statements of cash received and cash paid out as at their date of issue and do not reflect costs incurred during the period but paid after that date. R&Ps are provided in both Sterling and local currency.

## **K. DETAIL OF THE REMUNERATION AND THE SCHEDULES**

126. Set out in the Schedules to this Statement are the details of the remuneration for which the Court's approval is sought in accordance with Rule 18.24(b) and 18.28(2)(b) of the Rules and the Practice Direction: Insolvency Proceedings 2018. The Schedules contained in Volume 5 of SJH11 are arranged by Company and their contents and structure are explained below. A single approach has been taken for the purposes of these Applications to ensure consistency between the Companies and cost efficiency.



127. **Schedule 1 (General)**, comprises the charge out rates applied in both the Administrations and the CVAs described at paragraphs 105 to 110 above. Also included at Schedule 1.3 and Schedule 1.4 are the R&Ps in both Sterling and local currency. For reference, the Joint Administrators also include an abstract of receipts and payments for each CVA Company for the period of the CVA.
128. **Schedule 2 (Period 1)**, sets out the detail of the Joint Administrators' remuneration for Period 1 and comprises:
- 128.1 a table headed "*Schedule 2.1 Administration time (direct): analysis by person by workstream and by grade*", which contains a complete listing of all the members of the E&Y UK, E&Y local and GSS teams and their grades, together with the time they have recorded against each individual workstream and (based on their hourly rate, also listed), the corresponding direct time costs charged to the relevant Company for ease these direct time costs for Period 1 are highlighted in yellow.
  - 128.2 a table headed "*Schedule 2.2 Administration time (direct): Analysis by grade and workstream*", which groups the team members in their different grades rather than listing the team members individually. The hourly rate listed for each grade is an average arrived at by dividing the total time costs by the total number of hours.
  - 128.3 a narrative summary headed "*Schedule 2.3 Administration time (direct): Summary of work completed*" which contains a detailed description of the tasks undertaken by the Joint Administrators and their staff in Period 1 directly attributable to the Company. The heading for each workstream narrative contains the total time costs incurred in respect of that workstream, corresponding to those set out in the preceding Schedules 2.1 and 2.2.
  - 128.4 a table headed "*Schedule 2.4 Administration (reallocated) time costs for all EMEA entities: analysis by grade and by workstream*", setting out the total costs recorded centrally for all EMEA Debtors during the period by workstream.
  - 128.5 a table headed "*Schedule 2.5 Administration time (reallocated) for the Company: Analysis by workstream*", setting out the allocation and resulting amount of time cost borne by the relevant Company in respect of work undertaken centrally for all EMEA Debtors during Period 1.
  - 128.6 a narrative summary headed "*Schedule 2.6 Administration time (reallocated): summary of work completed*" contains a detailed narrative description of the central tasks undertaken in Period 1, the costs of which have been reallocated to that Company.
129. **Schedule 3 (Period 2)**, sets out the detail of the Joint Administrators' estimated remuneration for Period 2. Period 2 includes time costs incurred by the Joint Administrators for work undertaken after 15 March 2019, being the last practicable date prior to the filing of the Applications up to which the Joint Administrators are able to provide information in

respect of their remuneration, but before the making of these Applications. It also includes estimated time costs for the period from the date of these Applications to 1 July 2019, being the date falling 60 days from the date listed for the hearing of the Applications and the deadline for the Administrations to be terminated on the commencement of the local liquidation process. Should the remuneration actually incurred be in excess of that amount, the Joint Administrators would consider whether to return to Court for directions. The Joint Administrators also note that they expect to be able to complete the formalities associated with placing each of the Companies into liquidation in the coming weeks. This Schedule comprises:

- 129.1 a table headed "*Schedule 3.1 Administration time (direct): Analysis by grade and by workstream*", which sets out the estimated direct time costs to the Company by workstream and groups the team members in their different grades. A complete listing of all the members of the E&Y UK, E&Y local and GSS teams is not provided as it is not possible to say with certainty which members of the engagement team will undertake the work in question.
  - 129.2 a narrative summary headed "*Schedule 3.2 Administration time (direct): Summary of work to be completed*", which contains the detailed description of the tasks to be undertaken in Period 2 and charged directly to the Company.
  - 129.3 a table headed "*Schedule 3.3 Administration time (reallocated) for the Company: analysis by workstream*", which sets out the allocation and resulting amount of time cost borne by the relevant Company in respect of work to be undertaken centrally and allocated to that Company during Period 2. The total forecasted time costs for all EMEA Debtors reflects an estimate of the Joint Administrators' costs to the termination of the Administration and commencement of the liquidation, in line with the process described at Section H (*Details of subsequent liquidations*) above.
  - 129.4 a narrative summary headed "*Schedule 3.4 Administration time (reallocated): summary of work to be completed (reallocated)*", which contained the detailed narrative description of the tasks to be undertaken centrally in Period 2, the costs of which will be reallocated to the relevant Company.
130. **Schedule 4 (Administration General)**, sets out comparative data showing the time costs incurred in the Administrations compared both between Companies and the EMEA Debtors and over the duration of the Administrations as well as the details of certain expenses incurred during Period 1 or expected to be incurred in Period 2 and certain adjustments. These Schedules comprise:
- 130.1 a graph headed "*Schedule 4.1 Weekly time costs for the Administration to end of Period 1*", showing the weekly time costs in respect of each Company's Administration from the date of their appointment to the end of Period 1. The graph illustrates, as I would expect to see, intensive time costs during the early part of

the Administration while the team worked to stabilise the business and undertake the Asset Sales, followed by a decline in the weekly fees as this work was completed. Time costs then remained broadly consistent, in line with the operations having stabilised and as the Joint Administrators focused on the Allocation Dispute, until the commencement of the CVA. Increased costs in Period 1 are the result of the Joint Administrators' efforts to bring the Administrations to a close and finalise the affairs of each Company.

- 130.2 as described at paragraphs 120 to 122 above, a list of those expenses incurred in relation to the Administration of each Company during Period 1 is set out below a heading "*Schedule 4.2 Expenses in Administration (Category 2)*". The Joint Administrators do not expect to charge any Category 2 expenses during Period 2. Legal fees for Period 1 and estimated legal fees for Period 2 for both English law and local law advisors are also included.
131. **Schedule 5 (CVA Period 1)** relates to the payment of costs to the CVA Supervisors for CVA Period 1 and for which the Court's approval is sought and follows a similar form to Schedule 2 (*Period 1*) described at paragraph 128 above. Schedule 5 (*CVA Period 1*) comprises:
- 131.1 a table headed "*Schedule 5.1 CVA Supervisors' direct time costs: by person, by grade and by workstream*" which contains a complete listing of all the members of the E&Y UK, E&Y local and GSS teams and their grades, together with the time they have recorded against each individual workstream and (based on their hourly rate, also listed), the corresponding direct CVA time costs charged to the relevant CVA Company.
- 131.2 a table headed "*Schedule 5.2 CVA Supervisors' general CVA time costs for all EMEA entities and for the Company*", setting out the total general CVA costs incurred centrally for each of the EMEA Debtors subject to a CVA for the period from approval of each CVA to 15 March 2019, each CVA Companies' allocation of those general costs and the allocation percentage agreed between the entities and used to calculate each CVA Companies' allocation.
- 131.3 a table headed "*Schedule 5.3 CVA Supervisors' general CVA time costs for the Company: by person and by grade*", which contains a complete listing of all the members of the E&Y UK, E&Y local and GSS teams and their grades together with the time they have recorded against each individual workstream and (based on their hourly rate, also listed), the corresponding general CVA time costs allocated to the relevant CVA Company in accordance with the terms of the CVA Cost Sharing Agreement.
- 131.4 a narrative summary headed "*Schedule 5.4 CVA Supervisors' time costs (both direct and general): summary of work completed*" which contains a detailed

narrative description of the tasks undertaken by the CVA Supervisors and their staff in CVA Period 1 in respect of both direct CVA work and general CVA work.

132. **Schedule 6 (CVA Period 2)**, relates to the payment of costs to the CVA Supervisors for CVA Period 2 and for which the Court's approval is sought. These costs relate to work which has already been undertaken prior to the termination of the relevant CVA but after the last practicable date prior to the filing of the applications up to which the Joint Administrators are able to provide a detailed breakdown of the CVA Supervisors' fees. Schedule [6] (*CVA Period 2*) is relevant only for the Applications made in respect of Nortel Belgium and Nortel Portugal and comprises:

132.1 a table headed "*Schedule 6.1 CVA Supervisors' forecast time costs: by grade and by workstream*" which sets out the estimated direct CVA time costs and general CVA time cost to the CVA Company by workstream and groups the team members in their different grades. As with Schedule 3.1 (*Period 2 Administration time: Analysis by grade and workstream*), a complete listing of all the members of the E&Y UK, E&Y local and GSS teams is not provided as it is not possible to say with certainty which members of the engagement team will undertake the work in question.

132.2 a narrative summary headed "*Schedule 6.2 CVA Supervisors' time costs: summary of forecast work to be completed*" which contains the detailed narrative description of the tasks undertaken by the CVA Supervisors and their staff in CVA Period 2 both in respect of direct and general CVA time.

133. **Schedule 7 (CVA General)**, sets out comparative data for the CVA Supervisors' fees, showing the time costs incurred in the CVAs compared both amongst CVA Companies and over the duration of the CVAs. This Schedule comprises a graph headed "*Schedule 7.1 Weekly CVA time costs for the period to 15 March 2019*" showing the weekly time costs in respect of the relevant CVA Company from the date of their appointment to 15 March 2019. The graph illustrates that time costs initially accrued at a very low level while claims were submitted to the CVA Supervisors, and rose following the occurrence of the bar date at which point claims began to be adjudicated. Time costs then remained broadly consistent with occasional increases reflecting the work required to effect distributions to creditors and terminate the relevant CVA.

134. Further commentary and detail for each Company is set out in Section M (*Details of the remuneration by Company*) below. In each case, a summary by period is provided of the remuneration incurred, or estimated to be incurred, and for which approval is sought.

134.1 Nortel Belgium – paragraphs 136 to 140;

134.2 Nortel Portugal – paragraphs 141 to 145; and

134.3 Nortel Spain – paragraphs 146 to 149.

## L. DETAIL OF THE REMUNERATION BY COMPANY

### Summary

135. For ease, the table below is a summary of the quantum of the Joint Administrators' remuneration and the CVA Supervisors' fees for which the Court's approval is sought in the present Applications. Also included are the periods for which time costs were incurred or are forecast to be incurred.

| Company         | Period 1 dates                     | Administration |            | CVA        |                | Total       |
|-----------------|------------------------------------|----------------|------------|------------|----------------|-------------|
|                 |                                    | Period 1       | Period 2   | Period 1   | Period 2       |             |
| Nortel Belgium  | 31 March 2018 to 15 March 2019     | £325,074.79    | £18,544.13 | £34,930.52 | £2,200.00      | £380,749.44 |
| Nortel Portugal | 30 September 2017 to 15 March 2019 | £342,197.33    | £18,907.73 | £48,187.17 | £2,200.00      | £411,492.23 |
| Nortel Spain    | 30 June 2018 to 15 March 2019      | £323,730.76    | £19,871.73 | £21,618.50 | Not applicable | £365,220.99 |

### Nortel Belgium

136. The Joint Administrators seek Orders that their remuneration in relation to the Administration of Nortel Belgium for:

136.1 Period 1, being the period 31 March 2018 to 15 March 2019, be fixed at £325,074.79; and

136.2 Period 2, being the period from 16 March 2019 to the termination of the Joint Administrators' appointment, be fixed by reference to time properly given by the Joint Administrators and their staff but not to exceed £18,544.13.

137. The Joint Administrators also seek the Court's approval for the payment of the balance of the CVA Supervisors' fees in accordance with the terms of the CVA for:

137.1 CVA Period 1, being the period from 31 March 2018 to 15 March 2019, in an amount of £34,930.52; and

137.2 CVA Period 2, being the period from 16 March 2019 to 4 April 2019, in the amount of £2,200.

138. The time cost analysis by person, set out at Schedule BEL2.1 ([5/2/9] of SJH11) contains a list of all of the E&Y staff working directly on the Nortel Belgium Administration grouped in order of seniority. Similarly, the time costs analysis by person set out at Schedules BEL5.1 and BEL5.3 ([5/2/25 and [5/2/27] of SJH11) contains a list of all of the E&Y staff working directly on the Company's CVA grouped in order of seniority.

139. The charge out rates applied in the Administration are set out in Schedule BEL1.1 ([5/2/3] of SJH11). As described above at paragraph 108 above, these rates have been applied to the Joint Administrators' work since 3 September 2016 following their approval by the creditors of Nortel Belgium in August 2018. The charge out rates applied in the CVA are set out in Schedule BEL1.2 ([5/2/4] of SJH11) and are the same as those applied in the Administration, reflecting an increase in the charge out rates set for general restructuring staff and a decrease in the higher charge out rates charged by the tax team.
140. In respect of Period 2, Schedule BEL3.2 ([5/2/19] of SJH11) sets out that the Joint Administrators expect a low level of time costs to be incurred, largely relating to the remaining statutory matters in the Administration and the commencement of the Belgian liquidation. In the circumstances and having considered the detail of the estimates, the Joint Administrators believe that their fees to be drawn in respect of Period 2 should not exceed £18,544.13.

### **Nortel Portugal**

141. The Joint Administrators seek Orders that their remuneration in relation to the Administration of Nortel Portugal for:
- 141.1 Period 1, being the period 30 September 2017 to 15 March 2019, be fixed at £342,197.33; and
- 141.2 Period 2, being the period from 16 March 2019 to the termination of the Joint Administrators' appointment, be fixed by reference to time properly given by the Joint Administrators and their staff but not to exceed £18,907.73.
142. The Joint Administrators also seek the Court's approval for the payment of the balance of the CVA Supervisors' fees in accordance with the terms of the CVA for:
- 142.1 CVA Period 1, being the period from 30 September 2017 to 15 March 2019, in an amount of £48,187.17; and
- 142.2 CVA Period 2, being the period from 16 March 2019 to 4 April 2019, in the amount of £2,200.00.
143. The time cost analysis by person, set out at Schedule POR2.1 ([5/3/39] of SJH11) contains a list of all of the E&Y staff working directly on the Nortel Portugal Administration grouped in order of seniority. Similarly, the time costs analysis by person set out at Schedules POR 5.1 and POR5.3 ([5/3/56] and [5/3/58] of SJH11) contains a list of all of the E&Y staff working directly on the Company's CVA grouped in order of seniority.
144. The charge out rates applied in the Administration are set out in Schedule POR1.1 ([5/3/33] of SJH11). As described above at paragraph 108 above, these rates have been applied to the Joint Administrators' work since 3 September 2016 following their approval by the creditors of Nortel Portugal in July 2018. The charge out rates applied in the CVA are set out in Schedule POR1.2 ([5/3/34] of SJH11) and are the same as those applied in the

Administration, reflecting an increase in the charge out rates set for general restructuring staff and a decrease in the higher charge out rates charged by the tax team.

145. In respect of Period 2, Schedule POR3.2 ([5/3/41] of SJH11) sets out that Joint Administrators expect that few time costs are to be incurred, largely relating to the remaining statutory matters in the Administration and the commencement of the Portuguese liquidation. In the circumstances and having considered the detail of the estimates, the Joint Administrators believe that their fees to be drawn in respect of Period 2 should not exceed £18,907.73.

### **Nortel Spain**

146. The Joint Administrators seek Orders that their remuneration in relation to the Administration of Nortel Portugal for:

146.1 Period 1, being the period 30 June 2018 to 15 March 2019, be fixed at £323,730.76; and

146.2 Period 2, being the period from 16 March 2019 to the termination of the Joint Administrators' appointment, be fixed by reference to time properly given by the Joint Administrators and their staff but not to exceed £19,871.73.

146.3 The Joint Administrators also seek the Court's approval for the payment of the balance of the CVA Supervisors' fees in accordance with the terms of the CVA for CVA Period 1, being the period from 30 June 2018 to 15 March 2019, in an amount of £21,618.50.

147. The time cost analysis by person, set out at Schedule SPA2.1 ([5/4/71] of SJH11) contains a list of all of the E&Y staff working directly on the Nortel Spain Administration grouped in order of seniority. Similarly, the time costs analysis by person set out at Schedules SPA5.1 and SPA5.3 ([5/4/87] and [5/4/89] of SJH11) contains a list of all of the E&Y staff working directly on the Company's CVA grouped in order of seniority.

148. The charge out rates applied in the Administration are set out in Schedule SPA1.1 ([5/4/65] of SJH11). As described above at paragraph 108 above, these rates have been applied to the Joint Administrators' work since 3 September 2016 following their approval by the creditors of Nortel Spain in July 2018. The charge out rates applied in the CVA are set out in Schedule SPA1.2 ([5/4/66] of SJH11) and are the same as those applied in the Administration, reflecting an increase in the charge out rates set for general restructuring staff and a decrease in the higher charge out rates charged by the tax team.

149. In respect of Period 2, Schedule SPA3.2 ([5/4/81] of SJH11) sets out that Joint Administrators expect that few time costs are to be incurred, largely relating to the remaining statutory matters in the Administration and the commencement of the Spanish liquidation. In the circumstances and having considered the detail of the estimates, the Joint Administrators believe that their fees to be drawn in respect of Period 2 should not exceed £19,871.73.

## **M. RELIEF SOUGHT**

150. For the reasons set out in this statement, the Joint Administrators consider that the purposes of the Administrations as set out at paragraph 3(1) of Schedule B1 to the 1986 Act have been sufficiently achieved in relation to each Company. The Joint Administrators have successfully realised the property of each Company, including its allocation of the Sale Proceeds. They have dealt with the financial support directions issued under the Pensions Act 2004 in respect of each Company by way of the Global Settlement and the promulgation of CVAs. Those CVAs in respect of the Companies have been successful in providing a process for agreeing creditor claims and have allowed a quick and efficient distribution of each Company's assets.
151. All the Companies' third-party creditors have been paid in full together with their full entitlement to Commercial Interest. Creditors of Nortel Spain have received post-petition interest in full and Nortel Spain is in a position to distribute surplus assets to NNUK as ultimate shareholder in the Nortel EMEA Group. Nortel Portugal has also paid the principal CCAA Subordinated Debt due to NNUK along with an element of post-petition interest. The only claims against Nortel Belgium which have not been satisfied in full are (a) a subordinated claim of NNUK in relation to an intra-group arrangement with NNUK regarding post appointment undertakings that would normally rank as an expense of the administration but which NNUK agreed to be treated as subordinated, and (b) the claim of NNUK for CCAA Subordinated Debt.
152. The Joint Administrators have considered the process for dissolving each Company in accordance with the law in their jurisdictions of incorporation. Each Company is to be placed into a solvent liquidation. For Nortel Spain, all surplus available will be distributed to NNIF in accordance with Spanish law. For Nortel Portugal, the potential future nominal tax receivable will be distributed to its shareholders in accordance with Portuguese law.
153. Accordingly, the Joint Administrators respectfully request that the Court makes the orders for the termination of the Administrations, conditional in each case on the commencement of a local liquidation procedure.
154. For the reasons set out in this statement, the Joint Administrators also request that the Joint Administrators be discharged under paragraph 98 of Schedule B1 to the Act in respect of any action as joint administrators arising out of each Company's Administration, such discharge to take effect 28 days after the termination of the respective Administration. The Joint Administrators are not aware of any existing claims made against any of the Joint Administrators arising out of the conduct of each Company's Administration, nor is any Joint Administrator aware of any facts which would give rise to any such claims. For completeness, the Administrators would add that they have been informed that the Belgian Tax Authority's internal records continue to show a claim for interest chargeable on debts as a matter of Belgian law. These sums would not be provable under the Terms of the CVA and accordingly



Administrators that they are in the process of making changes to their systems to demonstrate a zero balance due from the Company.

155. Having made distributions to all creditors of the Companies (bar NNUK in respect an element of its intercompany subordinated debts due by Nortel Belgium), the Joint Administrators consider that, insofar as all the Companies are concerned, the only appropriate method by which their remuneration and expenses may be approved is by Order of the Court. The Joint Administrators respectfully request that the Court grants Orders in respect of the Joint Administrators' remuneration for Period 1 and those anticipated fees in Period 2 on the basis of the details set out in this statement and the Schedules.
156. Similarly, and also in accordance with the Terms of the CVAs, the Joint Administrators also respectfully request that the Court grants Orders in respect of the CVA Supervisors' remuneration for CVA Period 1 and CVA Period 2 on the basis of the details set out in this statement and the Schedules.

**N. CONCLUSION**

157. For the reasons mentioned above, I respectfully request that the Court grants the relief sought by the Applications.

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**STEPHEN JOHN HARRIS**

Date: 15 April 2019

**IN THE HIGH COURT OF JUSTICE  
THE BUSINESS AND PROPERTY COURTS OF  
ENGLAND AND WALES**

**INSOLVENCY AND COMPANIES LIST (ChD)**

**IN THE MATTERS OF:**

|   |   |
|---|---|
| <b>NORTEL NETWORKS N.V.</b>                     | <b>No. 550 of 2009 /<br/>CR-2009-000034</b> |
| <b>NORTEL NETWORKS HISPANIA S.A.</b>            | <b>No. 535 of 2009 /<br/>CR-2009-000038</b> |
| <b>NORTEL NETWORKS PORTUGAL<br/>S.A. NORTEL</b> | <b>No. 547 of 2009 /<br/>CR-2009-000043</b> |

**AND IN THE MATTER OF THE INSOLVENCY ACT  
1986**

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**ELEVENTH WITNESS STATEMENT OF  
STEPHEN JOHN HARRIS**

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**Applicants  
Stephen John Harris  
Eleventh Statement  
Exhibit "SJH11"  
15 April 2019**

**IN THE HIGH COURT OF JUSTICE  
THE BUSINESS AND PROPERTY COURTS OF ENGLAND AND WALES  
INSOVLVENCY AND COMPANIES LIST (ChD)**

**IN THE MATTERS OF:**

**NORTEL NETWORKS N.V.  
NORTEL NETWORKS HISPANIA S.A.  
NORTEL NETWORKS PORTUGAL S.A.**

**No. 550 of 2009 / CR-2009-000034  
No. 535 of 2009 / CR-2009-000038  
No. 547 of 2009 / CR-2009-000043**

**AND IN THE MATTER OF THE INSOLVENCY ACT 1986**

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**EXHIBIT "SJH11"**

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This is the Exhibit marked "SJH11" which is referred to in the witness statement of Stephen John Harris dated 15 April 2019.

.....  
**Stephen John Harris**  
15 April 2019

